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# **Background Notes: Taiwan**

*August 1999*



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**OFFICIAL NAME: Taiwan**

## PROFILE

### Geography

Area: 14,000 sq. mi.; about the size of West Virginia.

Cities (1997): Capital--Taipei (pop. 2.6 million). Other cities--(Kaohsiung 1.4 million), Taichung (910,000).

Terrain: Largely mountainous.

Climate: Maritime subtropical.

### People

Population (mid-1998): 21.8 million.

Annual growth rate (1998): 0.7%.

Languages: Mandarin Chinese (official), Taiwanese, Hakka.

Education: Years compulsory--9. Attendance (1997)--99.9%.

Literacy (1997)--93%.

Health: Infant mortality rate (1996)--0.6%. Life expectancy (1997)--male 72 yrs.; female 78 yrs.

Work force (June 1997): 9.5 million.

### Political Establishment

Type: Multi-party democracy. With the direct presidential election in 1996, Taiwan completed its transition from a one-party, authoritarian system to an open, vigorous democracy with three major parties and a total of more than 70 registered parties.

Constitution: December 25, 1947; last amended 1997.

Branches (Yuan): Executive, Legislative, Judicial, Control, Examination.

Major administrative subdivisions: Taiwan Province, Fujian Province (for Kinmen and Matsu and nearby smaller islands), Taipei and Kaohsiung Special Municipalities.

Major political parties: Kuomintang (KMT--Nationalist Party); Democratic Progressive Party (DPP); Chinese New Party (CNP). Suffrage: Universal over 20 years of age.

Central budget proposed (FY 1999) (July 1999-December 2000): U.S. \$74.7 billion.

Defense (1998): 14.6% of entire budget.

Flag: Red field with white sun in blue rectangle in upper left corner.

### Economy

GDP (1998): \$261.6 billion.

Annual growth rate (1998): 4.8%; (1991-98 average 6.3%).

Per capita GDP (1998): \$12,009.

Natural resources: Small deposits of coal, natural gas, limestone, marble and asbestos.

Agriculture (2.9% of GDP): Major products--pork, rice, fruit and vegetables, sugarcane, poultry, shrimp, eel.

Industry (34.0% of GDP): Major sectors--electronics and computer products, chemicals and petrochemicals, basic metals, textiles, transport equipment, plastics, machinery.

Trade (1998): Exports--\$110.6 billion: electronics and computer products, textile products, basic metals, plastic and rubber products. Major markets--U.S. \$29.4 billion, Hong Kong (including indirect trade with the P.R.C.) \$24.8 billion, Japan \$9.3 billion. Imports--104.7 billion: electronics and computer products, machinery and electrical products, chemicals, iron and steel, transport equipment, crude oil. Major suppliers (1997)--Japan \$27.0 billion, U.S. \$19.7 billion, Europe \$20.6 billion.

Official exchange rate--January 1996: NT \$32.8 to U.S. \$1; January 1997: NT \$27.4 to U.S. \$1; January 1998: NT \$32.7 to U.S. \$1; January 1999: NT \$32.3 to U.S. \$1

Fiscal year: July 1 to June 30 prior to FY 2000.

## **PEOPLE**

Taiwan has a population of 21.5 million. More than 18 million, the "native" Taiwanese are descendants of Chinese who migrated from Fujian and Guangdong Provinces on the mainland, primarily in the 18th and 19th centuries. The "mainlanders," who arrived on Taiwan after 1945, came from all parts of mainland China. About 370,000 aborigines inhabit the mountainous central and eastern parts of the island and are believed to be of Malayo-Polynesian origin.

## **Education**

A 9-year public educational system has been in effect since 1979. Six years of elementary school and three years of junior high are compulsory for all children. About 90.7% of junior high graduates continued their studies in either a senior high or vocational school. Reflecting a strong commitment to education, in FY 1997 15% of Taiwan's budget was allocated for education.

Taiwan has an extensive higher education system with over 100 institutions of higher learning. Each year more than 100,000 students take the joint college entrance exam, about 61.9% of the candidates are admitted to a college or university. Opportunities for graduate education are expanding in Taiwan, but many students travel abroad for advanced education, including 13,000 who study in the United States annually.

## **Languages**

A large majority of people on Taiwan speak Mandarin Chinese, which has been the medium of instruction in the schools for more than four decades. Native Taiwanese and many others also speak one of the Southern Fujianese dialects, Min-nan, also known as Taiwanese. Recently there has been a growing use of Taiwanese in the broadcast media. The Hakka, who are concentrated in several counties throughout Taiwan, have their own distinct dialect. As a result of the half century of Japanese rule, many people over age 60 can also speak Japanese. The method of

Chinese romanization most commonly used in Taiwan is the Wade-Giles system.

## **Religions**

According to Taiwan's Interior Ministry figures, there are approximately 11.2 million religious believers in Taiwan, with over 75% identifying themselves as Buddhists or Taoists. At the same time there is a strong belief in Chinese folk religion throughout the island. These are not mutually exclusive, and many people practice a combination of the three. Confucianism is also an honored school of thought and ethical code.

Christian churches have been active on Taiwan for many years, and today the island has more than 600,000 Christians, a majority of whom are Protestant.

## **Culture**

Taiwan's culture is a blend of its distinctive Chinese heritage and Western influences. Fine arts, folk traditions, and popular culture embody traditional and modern, Asian and Western motifs.

One of Taiwan's greatest attractions is the Palace Museum, which houses over 650,000 pieces of Chinese bronze, jade, calligraphy, painting, and porcelain. This collection was moved from the mainland in 1949 when Chiang Kai-shek's Nationalist Party (KMT) fled to Taiwan. The collection is so extensive that only 1% is on display at any one time.

## **HISTORY**

Taiwan's aboriginal peoples, who originated in Austronesia and southern China, have lived on Taiwan for 12,000 to 15,000 years. Significant migration to Taiwan from the Chinese mainland began as early as A.D. 500. Dutch traders first claimed the island in 1624 as a base for Dutch commerce with Japan and the China coast. Two years later, the Spanish established a settlement on the northwest coast of Taiwan which they occupied until 1642 when they were driven out by the Dutch. Dutch colonists administered the island and its predominantly aboriginal population until 1661. The first major influx of migrants from the Chinese mainland came during the Dutch period, sparked by the political and economic chaos on the China coast during the Manchu invasion and the end of the Ming Dynasty.

In 1664, a Chinese fleet led by the Ming loyalist Cheng Ch'eng-kung (Zheng Chenggong, known in the West as Koxinga) retreated from the mainland and occupied Taiwan. Cheng expelled the Dutch and established Taiwan as a base in his attempt to restore the Ming Dynasty. He died shortly thereafter, and in 1683 his successors submitted to Manchu (Qing Dynasty) control. From 1680 the Qing Dynasty ruled Taiwan as a prefecture and in 1875 divided the island into two prefectures, north and south. In 1887 the island was made into a separate Chinese province.

During the 18th and 19th centuries, migration from Fujian and Guangdong provinces steadily increased, and Chinese supplanted aborigines as the dominant population group. In 1895, a weakened Imperial China ceded Taiwan to Japan in the Treaty of Shimonoseki following the first Sino-Japanese war.

During its 50 years (1895-1945) of colonial rule, Japan expended considerable effort in developing Taiwan's economy. At the same time, Japanese rule led to the "Japanization" of the island, including compulsory Japanese education and forcing residents of Taiwan to adopt Japanese names.

At the end of World War II in 1945, Taiwan reverted to Chinese rule. During the immediate postwar period, the Nationalist Chinese (KMT) administration on Taiwan was repressive and corrupt, leading to local discontent. Anti-mainlander violence flared on February 28, 1947, prompted by an incident in which a cigarette seller was injured and a passerby was shot to death by Nationalist authorities. The island-wide rioting was brutally put down by Nationalist Chinese troops, who killed thousands of people. Until recently, accounts of this episode in Taiwan history had been suppressed by the KMT. As a result of the February 28 incident the native Taiwanese felt a deep-seated bitterness to the mainlanders. In 1995 a monument was dedicated to the victims of the "2-28 Incident," and for the first time Taiwan's leader, President Lee Teng-hui, publicly apologized for the nationalists' brutality.

From the 1930s onward a civil war was underway on the mainland between Chiang Kai-shek's KMT government and the Chinese Communist Party led by Mao Zedong. When the civil war ended in 1949, two million refugees, predominately from the Nationalist government, military, and business community, fled to Taiwan. In October 1949 the People's Republic of China (P.R.C.) was founded on the mainland by the victorious communists, several months before Chiang Kai-shek had established in December 1949 a "provisional" KMT capital in Taipei.

During the 1950s, the KMT authorities implemented a far-reaching and highly successful land reform program on Taiwan. They redistributed land among small farmers and compensated large landowners with commodities certificates and stock in state-owned industries. Although this left some large landowners impoverished, others turned their compensation into capital and started commercial and industrial enterprises. These entrepreneurs were to become Taiwan's first industrial capitalists. Together with refugee businessmen from the mainland, they managed Taiwan's transition from an agricultural to a commercial, industrial economy.

Taiwan has developed steadily into a major international trading power with more than \$218 billion in two-way trade. Tremendous prosperity on the island was accompanied by economic and social stability. Chiang Kai-shek's successor, his son Chiang Ching-kuo, began to liberalize Taiwan's political system, a process that has continued since President Lee Teng-hui took office in 1988.

## **ADMINISTRATION**

The authorities in Taipei exercise control over Taiwan, Kinmen, Matsu, and the Penghus (Pescadores) and several of the smaller islands. Taiwan's two major cities, Taipei and Kaohsiung, are centrally administered municipalities. The rest of Taiwan and the Penghu Islands are administered together as the Province of Taiwan. Kinmen, Matsu, and smaller nearby islands are administered by the Taiwan authorities as counties of Fujian Province.

From 1949 until 1991, the authorities on Taiwan claimed to be the sole legitimate government of

all of China, including the mainland. In keeping with that claim, when the nationalists moved to Taiwan in 1949, they re-established the full array of central political bodies, which had existed on the mainland. While much of this structure remains in place, the authorities on Taiwan in 1991 abandoned their claim of governing mainland China, stating that they do not "dispute the fact that the P.R.C. controls mainland China."

The first National Assembly, elected on the mainland in 1947 to carry out the duties of choosing the president and amending the constitution, was re-established on Taiwan when the KMT moved. Because it was impossible to hold subsequent elections to represent constituencies on the mainland, representatives elected in 1947-48 held these seats "indefinitely." In June 1990, however, the Council of Grand Justices mandated the retirement, effective December 1991, of all remaining "indefinitely" elected members of the National Assembly and other bodies.

The second National Assembly, elected in 1991, was composed of 325 members. The majority was elected directly; 100 were chosen from party slates in proportion to the popular vote. This National Assembly amended the constitution in 1994, paving the way for the direct election of the president and vice president that was held in March 1996. The third National Assembly, also elected in March 1996, comprises 334 members serving 4-year terms. The National Assembly's powers now are to amend the constitution, recall or impeach the president and the vice president, and ratify certain senior-level presidential appointments.

The president is both leader of Taiwan and commander in chief of its armed forces. The president has authority over the five administrative branches (Yuan): Executive, Legislative, Control, Judicial, and Examination. The president appoints the premier, the head of the Executive Yuan. The executive yuan comprises the premier and the cabinet members who are responsible for policy and administration.

The main lawmaking body, the Legislative Yuan (LY), was originally elected in the late 1940s in parallel with the National Assembly. The first LY had 773 seats and was viewed as a "rubber stamp" institution. The second LY was elected in 1992. The third LY, elected in 1995, had 157 members serving 3-year terms. The fourth LY, elected in 1998, was expanded to 225 members. The LY has greatly enhanced its standing in relation to the executive yuan and has established itself as an important player on the central level. Along with increasing strength and size this body is beginning to reflect the recently liberalized political system. In the 1992 and 1995 elections, the main opposition party--the Democratic Progressive Party (DPP)--challenged the KMT dominance of the legislature. In both elections the DPP won a significant share of the LY seats, and the KMT held only half the seats in the LY. In 1998, however, the KMT increased its LY majority from 50 to 55%. Nonetheless, the DPP still remains a viable opposition force.

As the National Assembly took action in 1994 to allow for the popular election of the President, the LY in 1994 passed legislation to allow for the direct election of the governor of Taiwan Province and the mayors of Taipei and Kaohsiung Municipalities. These elections were held in December 1994, with the KMT winning the governor and Kaohsiung mayor posts, and the DPP winning the Taipei mayor's position. In 1998, the KMT's Ma Ying-jeou wrestled back control of the mayorship of Taipei from the opposition DPP's most prominent figure Chen Shui-bian. In the same elections, however, the DPP's Frank Hsieh managed to defeat Kaohsiung's KMT

incumbent.

In a move to streamline the administration, the position of elected governor and many other elements of the Taiwan Provincial Government were eliminated at the end of 1998. In November 1997 local elections, the DPP won 12 of the 23 county magistrate and city mayor contests to the KMT's 8, outpolling the KMT for the first time in a major election.

The Control Yuan(CY) monitors the efficiency of public service and investigates instances of corruption. The 29 Control Yuan members are appointed by the president and approved by the National Assembly; they serve 6-year terms. In recent years, the Control Yuan has become more activist, and it has conducted several major investigations and impeachments.

The Judicial Yuan (JY) administers Taiwan's court system. It includes a 16-member Council of Grand Justices (COGJ) that interprets the constitution. Grand Justices are appointed by the president, with the consent of the National Assembly, to 9-year terms.

The Examination Yuan (ExY) functions as a civil service commission and includes two ministries: the Ministry of Examination, which recruits officials through competitive examination, and the Ministry of Personnel, which manages the civil service. The President appoints the Examination Yuan's head.

### **Principal Leaders**

President--Lee Teng-hui

Vice President--Lien Chan

Premier--Vincent Siew (Hsiao Wan-chang)

Vice Premier--Liu Chao-shiuan

### **POLITICAL CONDITIONS**

Lee Teng-hui succeeded Chiang Ching-kuo as president when Chiang died on January 13, 1988. Lee was elected by the National Assembly to a 6-year term in 1990, marking the final time a president was elected by the National Assembly. In 1996, Lee Teng-hui was elected president and Lien Chan Vice president in the first direct election by Taiwan's voters.

This change in the political process is the result of the liberalizing trend that began in the 1980s under President Chiang Ching-kuo. In 1987, he lifted the emergency decree, which had been in place since 1948 and which had granted virtually unlimited powers to the president for use in the anti-communist campaign. This decree provided the basis for nearly four decades of martial law under which individuals and groups expressing dissenting views were dealt with harshly. Expressing views contrary to the authorities' claim to represent all of China or supporting independent legal status for Taiwan was treated as sedition.

Since ending martial law, Taiwan has taken dramatic steps to improve respect for human rights and create a democratic political system. Most restrictions on the press have ended, restrictions on personal freedoms have been relaxed, and the prohibition against organizing new political

parties has been lifted.

Until 1986, Taiwan's political system was effectively controlled by one party, the KMT, the chairman of which has also been Taiwan's President. Many top political officials are members of the party's Central Standing Committee, which is the most influential organ within the party. The KMT claims 2.1 million members, about two-thirds of whom are of Taiwanese origin. The party's net assets are reputed to total more than NT \$61.2 billion, and profits from KMT-operated businesses help fund party organizations and operations. As the ruling party, the KMT was able to fill appointed positions with its members and maintain political control of the island.

Since 1986 the KMT's hold on power has been challenged by the emergence of competing political parties. Before 1986, candidates opposing the KMT ran in elections as independents or "nonpartisans." Before the 1986 island-wide elections many "nonpartisans" grouped together to create Taiwan's first new political party, the Democratic Progressive Party (DPP). Despite the official ban on forming new political parties, Taiwan authorities did not prohibit the DPP from operating, and in the 1986 Island-wide elections DPP and independent candidates captured more than 20% of the vote.

The Civic Organizations Law passed in 1989 allowed for the formation of new political parties, thereby legalizing the DPP, and its support and influence increased. Currently, it has approximately 90,000 members. In the 1992 Legislative Yuan elections, the DPP won 51 seats in the 161-seat body. While this was only half the number of KMT seats, it made the DPP's voice an important factor in legislative decisions. Winning the Taipei mayor's position in December, 1994, significantly enhanced the DPP's image. The DPP continued its strong showing in the 1995 LY race winning 45 of the 157 seats to the KMT's 81. The DPP for the first time succeeded in outpolling the KMT in the November 1997 local elections, gaining 12 of the 23 magistrate and mayoral seats as opposed to the KMT's 8 and winning 43% of the vote versus the KMT's 41%. Although, they were outdone by the strong KMT showing in the 1998 election, the DPP remains a visible and strong opposition force.

The DPP membership is made up largely of native Taiwanese. Its platform includes outspoken positions on some of the most sensitive issues in Taiwan politics. For example, the DPP maintains that Taiwan is an entity separate from mainland China, in contrast to the KMT position that Taiwan and the mainland, though currently divided, are both part of "one China." In sharp contrast to the tenets of both KMT and P.R.C. policy, a number of ranking DPP officials openly advocate independence for Taiwan. The recent downplaying of Taiwan independence by the DPP as a party, however, led to the formation by hard-line advocates of a new political party called the Taiwan Independence Party in December 1996.

The second major opposition party, the Chinese New Party (CNP), was formed in August 1993, by a group made up largely of second-generation mainlander KMT members who were unhappy both with corruption in the KMT and with what they saw as the "Taiwanization" of KMT ideology and leadership. The CNP emphasizes "clean government" and the original KMT focus on reunification with the mainland. CNP influence remains modest and seems on the wane; it won 21 of the 164 LY seats in the 1995 elections but only 11 of 225 seats in 1998.

In March 2000, Taiwan plans to hold only its 2nd ever direct Presidential election. The race looks to be close. The KMT-backed Vice President Lien Chan will face DPP candidate and former Taipei Mayor Chen Shui-bian. The independent candidacy of former Provincial Governor James Soong will also be a major factor.

Although some friction between mainlanders and native Taiwanese still exists, it has abated with time and there has been a gradual melding of the two communities. In 1972, then Premier Chiang Ching-kuo began a concentrated effort to bring Taiwanese into more senior position in the central administration and the KMT. Since his accession to the Presidency in January 1988, Lee Teng-hui, who is a native Taiwanese, has continued this process. Recent steps by the authorities to redress past wrongs such as setting up a memorial to the victims of the February 28 Incident have contributed to this process.

## **ECONOMY**

Through nearly five decades of hard work and sound economic management, Taiwan has transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods. Taiwan is now a creditor economy, holding one of the world's largest foreign exchange reserves of more than \$100 billion in 1999. Despite the Asian financial crisis, the economy continues to expand at about 5% per year, with virtually full employment and low inflation. The population also enjoys an annual average income equal to U.S. \$12,009 (1997).

In the 1960s, foreign investment in Taiwan helped introduce modern, labor-intensive technology to the island, and Taiwan became a major exporter of labor-intensive products. In the 1980s, focus shifted toward increasingly sophisticated, capital-intensive and technology-intensive products for export and toward developing the service sector. At the same time, the appreciation of the New Taiwan Dollar (NT\$), rising labor costs, and increasing environmental consciousness in Taiwan caused many labor-intensive industries, such as shoe manufacturing, to move to the Chinese mainland and Southeast Asia.

Taiwan has transformed itself from a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, especially in Asia. Private Taiwan investment in the P.R.C. is estimated to total more than \$30 billion, and Taiwan has invested a comparable amount in Southeast Asia.

## **Foreign Trade**

Foreign trade has been the engine of Taiwan's rapid growth during the past 40 years. Taiwan's economy remains export-oriented, so it depends on an open world trade regime and remains vulnerable to downturns in the world economy. The total value of trade increased more than five-fold in the 1960s, nearly ten-fold in the 1970s, and doubled again in the 1980s. The 1990s has seen a more modest, slightly less than two-fold, growth. Export composition has changed from predominantly agricultural commodities to industrial goods (now 98%). The electronics sector is Taiwan's most important industrial export sector and is the largest recipient of U.S. investment. Taiwan is the world's largest supplier of computer monitors and is a leading PC

manufacturer. Textile production, though of declining importance as Taiwan loses its competitive advantage in labor-intensive markets, is another major industrial export sector. Imports are dominated by raw materials and capital goods, which account for more than 86% of the total. Taiwan imports most of its energy needs.

The United States is Taiwan's largest trading partner, taking 26% of Taiwan's exports and supplying 19% of its imports. Taiwan is the U.S.'s seventh-largest trading partner and seventh-largest export market. In 1998, Taiwan's two-way trade with the U.S. amounted to about U.S. \$51.0 billion. Imports from the U.S. consist mostly of agricultural and industrial raw materials. Exports to the U.S. are mainly electronics and consumer goods.

The United States, Hong Kong (including indirect trade with the P.R.C.), and Japan account for two-thirds of Taiwan's exports, and the U.S. and Japan provide 45% of Taiwan's imports. As Taiwan's per capita income level has risen, demand for imported, high-quality consumer goods has increased. This trend has driven imports to rise faster than exports and has cut into Taiwan's global trade surplus. Another important factor in the substantial increase in Taiwan's imports has been industrial upgrading, which has pushed up imports of capital goods, raw materials, parts, and components. Taiwan's 1998 trade surplus with the United States was \$14.9 billion, a significant amount, but a decline from a high of \$17 billion in 1987.

The lack of formal diplomatic relations with all but 28 of its trading partners appears not to have seriously hindered Taiwan's rapidly expanding commerce, and Taiwan is currently the world's 14th-largest trading economy. Taiwan maintains trade offices in more than 60 countries with which it does not have official relations. Taiwan is a member of the Asian Development Bank, and it is engaged in negotiations to join the World Trade Organization (WTO) as a special customs territory. In 1991 Taiwan, under the name "Chinese Taipei," became a member of the Asia-Pacific Economic Cooperation (APEC) forum. These developments reflect Taiwan's economic importance and its desire to become further integrated into the global economy.

## **Agriculture**

Although only about one-quarter of Taiwan's land area is arable, virtually all farmland is intensely cultivated, with some areas suitable for two and even three crops a year. However, increases in agricultural production have been much slower than industrial growth. Agriculture only comprises approximately 2.9% of Taiwan's GDP. Taiwan's main crops are rice, sugarcane, fruit, and vegetables.

Although self-sufficient in rice production, Taiwan imports large amounts of wheat, mostly from the United States. Meat production and consumption are rising sharply, reflecting a rising standard of living. Taiwan has exported large amounts of frozen pork, although this was affected by an outbreak of hoof and mouth disease in 1997. Other agricultural exports include fish, aquaculture and sea products, canned and frozen vegetables, and grain products. Imports of agriculture products are expected to increase due to the approaching WTO accession, which will open previously protected agricultural markets.

## **Economic Outlook**

Taiwan now faces many of the same economic issues as other developed economies. With the prospect of continued relocation of labor-intensive industries to countries with cheaper work forces, Taiwan's future development will have to rely on further transformation to a high-technology and service-oriented economy. In recent years, Taiwan has successfully diversified its trade markets, cutting its share of exports to the U.S. from 49% in 1984 to 26% in 1998. Taiwan's dependence on the U.S. market should continue to decrease as its exports to Southeast Asia and the P.R.C. grow and its efforts to develop European markets produce results. Taiwan's bid to join the WTO and its desire to become an Asia-Pacific "regional operations center" are spurring further economic liberalization.

## **DEFENSE**

Taiwan maintains a large military establishment, which will absorb about 2.86% of the GNP and accounted for 21.0% of the central budget in FY 1999. The military's foremost mission is the defense of Taiwan, a defense primarily against the P.R.C., which is seen as the predominant threat and which has not renounced the use of force against Taiwan. Taiwan's armed forces number approximately 430,000, and reserves reportedly total 3,870,000. Taiwan has implemented a force reduction program to scale down its military to a level of 400,000 by FY 2001. Conscription remains universal for qualified males reaching age 18.

Taiwan's armed forces are equipped with weapons obtained primarily from the United States. In recent years, however, Taiwan has also procured some weapons from other Western nations and has stressed military "self-reliance," which has resulted in the growth of indigenous military production in certain fields. Taiwan adheres to the principles of the Nuclear Nonproliferation Treaty and has stated that it does not intend to produce nuclear weapons.

## **FOREIGN RELATIONS**

The People's Republic of China replaced Taiwan at the United Nations in 1971, and Taiwan's diplomatic position eroded, as many countries changed their official recognition from Taipei to Beijing. In mid-1999, Taiwan had formal diplomatic ties with 28 countries.

At the same time, Taiwan has cultivated informal ties with most countries to offset its diplomatic isolation and to expand its economic relations. A number of nations have set up unofficial organizations to carry out commercial and other relations with Taiwan. Between its official overseas missions and its unofficial representative and/or trade offices, Taiwan is represented in 149 countries. Recently, Taiwan has lobbied strongly for admission into international organizations such as the UN. The P.R.C. opposes Taiwan's membership in such organizations, most of which require statehood for membership, because Beijing considers Taiwan to be a province of China, not a separate sovereign state.

## **THE U.S. AND TAIWAN**

On January 1, 1979, the United States changed its diplomatic recognition from Taipei to Beijing. In the U.S.-P.R.C. Joint Communiqué that announced the change, the United States recognized the Government of the People's Republic of China as the sole legal government of China and

acknowledged the Chinese position that there is but one China and Taiwan is part of China. The Joint Communiqué also stated that within this context the people of the United States will maintain cultural, commercial, and other unofficial relations with the people on Taiwan.

On April 10, 1979, President Carter signed into law the Taiwan Relations Act (TRA), which created domestic legal authority for the conduct of unofficial relations with Taiwan. U.S. commercial, cultural, and other interaction with the people on Taiwan is facilitated through the American Institute in Taiwan (AIT), a private nonprofit corporation. The institute has its headquarters in the Washington, DC area and has offices in Taipei and Kaohsiung. It is authorized to issue visas, accept passport applications, and provide assistance to U.S. citizens in Taiwan. A counterpart organization, the Taipei Economic and Cultural Representative Office in the United States (TECRO), has been established by the Taiwan authorities. It has its headquarters in Taipei, the representative branch office in Washington, DC, and 11 other Taipei Economic and Cultural Offices (TECO) in the continental U.S. and Guam.

Following derecognition, the United States terminated its Mutual Defense Treaty with Taiwan. However, the United States has continued the sale of appropriate defensive military equipment to Taiwan in accordance with the Taiwan Relations Act which provides for such sales and which declares that peace and stability in the area are in U.S. interests. Sales of defensive military equipment are also consistent with the 1982 U.S.-P.R.C. Joint Communiqué. In this communiqué, the United States stated that "it does not seek to carry out a long-term policy of arms sales to Taiwan" and that U.S. arms sales would "not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years," and that the U.S. intends "gradually to reduce its sale of arms to Taiwan." The P.R.C., in the 1982 communiqué, stated that its policy was to strive for a peaceful resolution of the Taiwan question.

U.S. commercial ties with Taiwan have been maintained and have expanded since 1979. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation guarantees, normal trade relations (NTR) status, and ready access to U.S. markets.

In recent years, U.S. Government economic dealings with Taiwan have focused on expanding market access for American goods and services. AIT has been engaged in a series of trade negotiations which have focused on protection of intellectual property rights, and issues relating to Taiwan's accession to the WTO. In February 1998, the U.S. completed a bilateral market access agreement with Taiwan, an important step forward in Taiwan's WTO accession process.

Maintaining diplomatic relations with the P.R.C. has been recognized to be in the long-term interest of the United States by six consecutive administrations; however, maintaining strong, unofficial relations with Taiwan is also in the U.S. interest. The United States is committed to these efforts because they are important for America's global position and for peace and stability in Asia. In keeping with its one-China policy, the U.S. does not support "two Chinas," "one China, one Taiwan," or Taiwan independence. Nor does the United States support Taiwan's efforts to become a member of the UN or other organizations in which membership is limited to states. The U.S. does support Taiwan's membership in other appropriate international organizations, such as the APEC forum and the Asian Development Bank, in which statehood is not a requirement for membership. In addition, the U.S. supports appropriate opportunities for

Taiwan's voice to be heard in organizations where its membership is not possible.

## **Trade and Investment**

Over five decades, Taiwan transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods. Taiwan has moved from being a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, especially in Asia.

U.S. commercial ties with Taiwan have expanded since derecognition. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation guarantees, most-favored nation (MFN) status, and ready access to U.S. markets.

In recent years, U.S. economic dealings with Taiwan have focused on expanded market access for American goods and services. AIT has been engaged in a series of trade negotiations which have focused on protection of intellectual property rights and issues relating to Taiwan's accession to the WTO, as well as other market access issues. Taiwan's bid to join the WTO and its desire to become an Asia-Pacific regional operations center are spurring economic liberalization. As noted, Taiwan is a member of APEC, to which the U.S. also belongs.

The United States is Taiwan's largest trading partner, absorbing 26% of Taiwan's exports and supplying 19% of its imports. Taiwan was the seventh-largest trading partner of the U.S. and seventh-largest export market. In 1998, Taiwan's two-way trade with the U.S. was about \$51 billion. Imports from the U.S. consisted mostly of agricultural and industrial raw materials. Exports to the U.S. were mainly electronics and consumer goods. Electronics is Taiwan's most important industrial export sector and is the largest recipient of U.S. investment.

As Taiwan's income level has risen, demand for imported, high-quality consumer goods has increased. In recent years, Taiwan has successfully diversified its trade markets, cutting its share of exports to the U.S. from 49% in 1984 to 26% in 1998. Taiwan's 1998 total trade surplus with the United States was \$14.9 billion, down from a high of \$17 billion in 1987. Taiwan's dependence on the U.S. market should continue to decrease as its exports to the P.R.C. and elsewhere in Asia grow and its efforts to develop markets in Europe and other areas produce results.

As the Asian financial turmoil is gradually subsiding, Taiwan's business performance is improving in the first half of 1999. Exports to Asia have increased substantially, and most economic forecasts anticipate GDP growth at over 5% this year.

## **TAIWAN AND THE MAINLAND**

Despite the differences between Taiwan and the P.R.C., contact between the two sides of the Taiwan Strait has grown significantly over the past decade. Taiwan has continued to relax restrictions on unofficial contacts with the P.R.C., and cross-Strait interaction has mushroomed. Since 1987, when the ban on travel to the P.R.C. was lifted, Taiwan residents have made more than 10 million trips to the mainland. Taiwan's Board of Foreign Trade estimates that indirect

trade between Taiwan and the P.R.C., including Hong Kong, reached about \$22.5 billion in 1998. This indirect trade runs heavily in Taiwan's favor, providing another outlet for the island's booming economy. In an attempt to facilitate trade, in 1995 the Executive Yuan approved the construction of an offshore transshipment center at the port of Kaohsiung through which direct shipping with the P.R.C. would be permitted. In April 1997 the first sanctioned direct cross-Strait shipping began between selected P.R.C. ports and Kaohsiung for cargo being transhipped through Taiwan.

The Taiwan authorities have indicated they hope that the message of Taiwan's political and economic success will influence the pace and character of change in the P.R.C., and thus hasten the day when the reunification of China will take place on terms acceptable to Taiwan.

Beijing has expressed a mixed view of these developments. P.R.C. leaders are pleased at the development of economic ties and exchanges, which they believe helps their cause of reunification. However, the increase in contacts, combined with domestic political liberalization on Taiwan, has also resulted in more open discussion in Taiwan of the future of Taiwan, including the option of independence, to which Beijing is strongly opposed.

The trend in cross-Strait interaction is one of steady growth with, so far, only temporary setbacks due to political factors such as Lee Teng-hui's private visit to the U.S. in 1995. Taiwan business representatives have concerns about issues such as safety, corruption, and contract disputes, which have led to increased caution and a search for alternative investment venues, but not to pulling out from the mainland altogether. President Lee has called for a "no haste, be patient" policy regarding Taiwan mainland investment to prevent over dependence on the P.R.C. As a result of this policy Taiwan has placed restrictions on large-scale infrastructure investments on the mainland in 1997. Despite this, billions of dollars have been invested in the mainland by smaller firms.

The development of semi-official cross-Strait relations has been incremental. Prior to April 1993, when talks were held in Singapore between the heads of two private intermediary organizations, Taiwan's Straits Exchange Foundation (SEF) and the P.R.C.'s Association for Relations Across the Taiwan Strait (ARATS) there had been some lower-level exchanges between the two sides of the Strait. The April 1993 SEF-ARATS talks primarily addressed technical issues relating to cross-Strait interactions. Lower-level talks continued on a fairly regular basis until they were suspended by Beijing in 1995 after President Lee's U.S. visit. 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 visited the Mainland in October 1998. A planned visit by ARATS chairman Wang Daohan to Taiwan in the fall, however, has come into doubt following statements made by President Lee Teng-hui. On July 9, 1999, President Lee, in an interview with German radio, stated that relations between the PRC and Taiwan should be conducted as "state-to-state" or at least as "special state-to-state relations." Subsequently, Lee said that his remarks were not a change in Taiwan's mainland policy. However, his comments were characterized by the PRC as a "dangerous step" and a threat to the idea of "one China" that was the basis for relations across the Taiwan Strait.

The U.S. has welcomed and encouraged the cross-Strait dialogue as a process which contributes to a reduction of tension and to an environment conducive to the eventual peaceful resolution of the outstanding differences between the two sides. The United States believes that differences between Taipei and Beijing should be resolved by the people on both sides of the Strait themselves. The U.S. has consistently stated that its abiding interest is that the process be peaceful.

## **REPRESENTATIVE OFFICES**

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