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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: U.S. Policy Toward Taiwan (S)

Taiwan's economic dynamism, political liberalization and relationship with the PRC present important opportunities and substantial challenges for the United States. As part of the Administration's review of key foreign policy issues, we plan to examine U.S. policy objectives and strategy toward Taiwan. Our purpose is to design a comprehensive and coherent framework to guide future policy. EO 13526 1.4d (S)

In preparation for a Deputies or Principals Committee meeting, a policy paper should be provided by the State Department by September 10 which addresses the questions listed below in Parts I and II. No presumptions should be made about limitations on policy. Possible conflicts among different policy options should be part of the analysis. (S)

BACKGROUND

Taiwan policy has been a major success for the U.S. over the last three decades, in terms of the island's economic and political development and our management of its impact on U.S.-PRC relations. (S)

In 1949, Taiwan was an impoverished island with an authoritarian one-party government and futile claims to rule all of China. With U.S. economic assistance and political support, it undertook difficult structural reforms that laid the basis for its economic take-off, followed by progressive democratization. (U)

Today, Taiwan is an emerging democracy and an economic powerhouse. For the first time in its history, Taiwan has a democratically elected National Assembly which actively participates in policy-making, challenges executive authority and includes a sizeable opposition party to the ruling Kuomintang

(KMT) government. It is the thirteenth largest trading power in the world, our sixth largest trading partner and holds the world's largest foreign exchange reserves (\$84 billion). Taiwan imports more from the U.S. than from any other country except Japan. (S)

Although Taiwan's economic and political development creates an environment for closer U.S. ties, U.S.-Taiwan relations are inextricably linked to the mainland. Any change in U.S. policy toward Taiwan will affect directly our ability to pursue U.S. interests with the PRC. (S)

Both Taipei and Beijing claim sovereignty over all of China. However, the PRC is recognized by the UN, U.S. and other major countries as the sole legal representative government of all of China. The PRC continues to claim the right to use force in the event Taiwan declares independence. (U)

Despite the PRC government's success in obtaining recognition, Taiwan has successfully developed a web of unofficial ties with foreign governments and the PRC itself. Taiwan has mapped out an aggressive two-track strategy toward the mainland of: (1) improving unofficial ties by easing travel restrictions, facilitating investment in the PRC and establishing direct, unofficial contact through non-governmental organizations; and (2) enhancing its international stature vis-a-vis the PRC by leveraging its economic strength in order to cultivate more official ties with developing countries and participate in international organizations. Thus, Taiwan seeks to rejoin the UN even as it increases ties to China. (S)

The United States "acknowledges the Chinese position that there is but one China and Taiwan is part of China," as expressed in the three Joint Communiques between the U.S. and the PRC. However, our consistent position has been that it is up to the PRC and Taiwan to work out their future relationship. EO 13526 1.4d

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EO 13526 1.4d We have maintained "extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan" as provided by the Taiwan Relations Act. We have done so through a unique framework that includes AIT Washington and procedures governing contact, visits and agreements. (S)

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EO 13526 1.4d Interpretation of the Joint Communique has caused friction between the U.S. and PRC as U.S. weapons sales to Taiwan continue, including the last Administration's decision to sell Taiwan 60 F-16 A/Bs. (S)

EO 13526 1.4d

PART I: ASSESSMENT OF THE SITUATION

Overarching U.S. Interests

1. What are the fundamental U.S. economic, political and security interests in Taiwan? ~~(S)~~
2. What are the key political, economic and financial elements of U.S. policy toward Taiwan? Will this framework continue to serve U.S. interests in Taiwan and the region? Will it help or hurt the U.S. in our competition with third countries for business or investment in Taiwan? ~~(S)~~

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Level of Contact

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7. What is Taiwan's strategy for increasing its foreign contacts with international organizations and third countries? What international organizations is Taiwan seeking to enter and why? What organizations are most likely to accept either formal or informal participation by Taiwan? ~~(S)~~

Economic Relations

8. Will Taiwan's economic success continue? What challenges does Taiwan face and what is its capacity to meet these challenges? What role will foreign interests generally, and U.S. companies in particular, play in Taiwan's economic development? What are the implications of future developments in financial market liberalization in Taiwan? Is Taiwan serious about becoming a regional financial center? ~~(S)~~

9. How will Taiwan's economic relationships with the PRC and Southeast Asia evolve? Will Taiwan continue shifting labor-intensive manufactures and polluting industries? Is there some "natural limit" to this trend? ~~(S)~~

10. What are the implications for U.S. interests if the economic integration of the PRC, Hong Kong and Taiwan continues? ~~(S)~~

11. How has the PRC responded to Taiwan's bid for GATT accession, participation in APEC? How were problems resolved? ~~(S)~~

12. How will Taiwan's commitment to GATT and other standards for international economic activity develop? How will this affect U.S. trade and investment with Taiwan? ~~(S)~~

Democratization

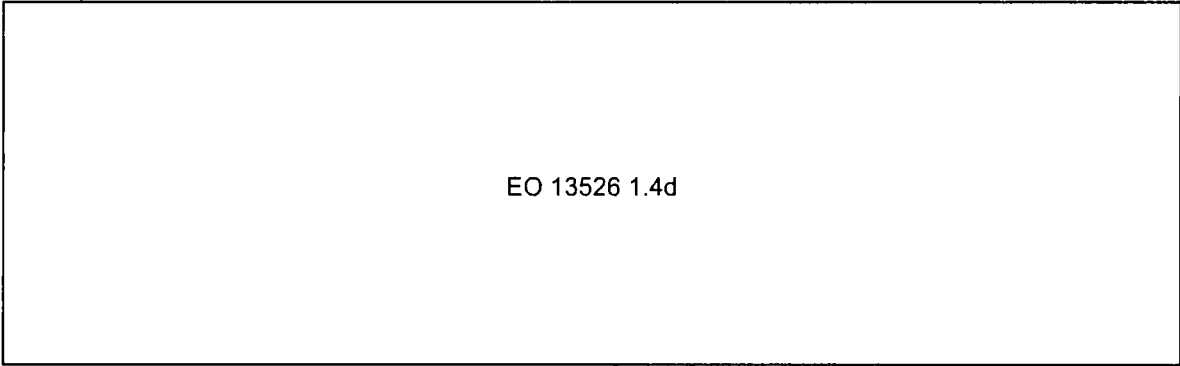
13. What are the prospects for continued political liberalization in Taiwan? How best can the U.S. encourage further democratization? ~~(S)~~

14. How will internal political changes (Taiwan democratization and PRC succession uncertainties) affect the development of EO 13526 1.4d relations? ~~(S)~~

15. What effect will Taiwan demographic changes -- especially the passing of the revolutionary generation -- have on prospects for reunification with or independence from the mainland? ~~(S)~~

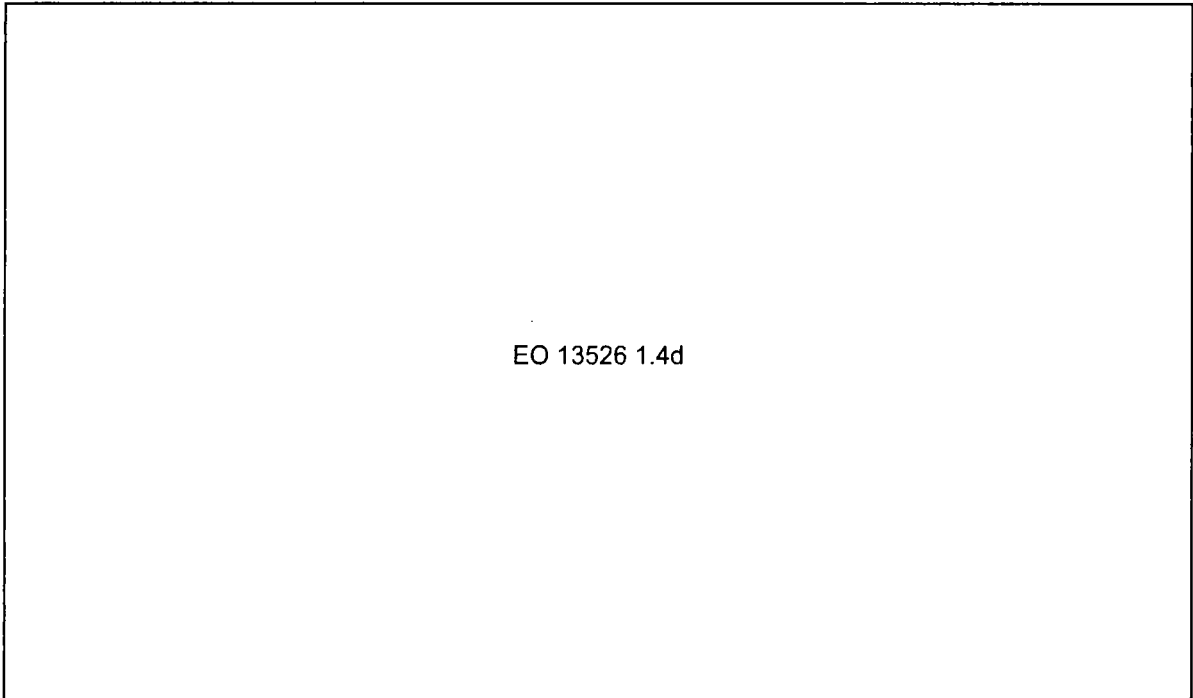
Political/Security Issues

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PART II: OPTIONS FOR POLICY



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Economic Relations

6. How can the U.S. most effectively encourage Taiwan's commitment to honor international trade norms, including intellectual property rights protection? ~~(S)~~

7. Should the U.S. take any steps to alter its trade approach to "Greater China" if the economic integration of the PRC, Hong Kong and Taiwan continues to move forward?

~~(S)~~

U.S. Response to Taiwan Domestic Issues

8. How should the U.S. respond to the increasing debate in Taiwan about its status vis-a-vis China? Should we attempt to influence that debate either by public or private statements? ~~(S)~~

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10. How can the U.S. encourage further democratization in Taiwan?

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Political/Security Issues

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PART III: TASKING

The Assistant Secretary of State for East Asian and Pacific Affairs will convene an Interagency Working Group, task specific drafting responsibilities, and set deadlines for drafts. Any differences of opinion should be clearly stated rather than compromised for the sake of an agreed product. A final paper is due to the NSC Executive Secretary no later than September 10, 1993. ~~(S)~~



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