
TAIWAN'S LEGISLATIVE ELECTIONS LIKELY TO FURTHER DELAY U.S. ARMS DEAL

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The failure of Taiwan President Chen Shui-bian's political party to take control of Taiwan's Legislative Yuan (LY) in the Dec. 11 election is likely to further delay Taiwan's approval of a deal to purchase about \$18 billion worth of U.S. military equipment, according to U.S. sources. In addition, the election result is likely to make it generally tougher for Taiwan to meet U.S. demands to ease trade barriers in certain sectors, and free up investment rules in the telecommunications sector.

Rupert Hammond-Chambers, president of the U.S.-Taiwan Business Council, said these setbacks are a likely result of the failure of the so-called pan-green coalition that supports Chen to secure a majority in the LY over the so-called pan blue alliance of the Kuomintang and the People's First Party. The pan-blue alliance has been hostile to Chen's administration, in large part because it supports a united China while Chen has advocated an independent Taiwan in recent years.

The ability of the pan-blue alliance to hold onto a narrow majority in the LY was a surprise to most observers, many of whom had predicted that Chen's so-called pan-green coalition would win a clear majority. Many expected that outcome to result in a relatively easy passage of a package to finance the arms deal with the U.S., possibly by the end of the LY's lame duck session in late January.

Instead, Hammond-Chambers said it is now very doubtful that the financing package would be approved by January, and indicated that it may take some time yet to finalize the agreement "Pan-blue has demonstrated that it wants to undermine Chen's rule," he said. "It's hard to imagine everyone putting aside the animosity and the LY and the executive working together."

The arms package is comprised of eight diesel electric submarines, six patriot missile batteries (PAC-III) and 12 anti-submarine aircraft (P-3C) from the United States. These items are seen as a strategic purchase meant to counter the buildup of Chinese military strength along the Taiwan Strait.

The U.S. announced plans to sell these items to Taiwan last March, and most recently, a debate in the LY about U.S. Secretary of State Colin Powell's comment that Taiwan should not be a sovereign nation was seen as the latest factor slowing down the deal (Inside US-China Trade, Nov. 3).

In addition to slowing down consideration of the arms package in Taiwan, the legislative election is expected to slow Taiwan's progress in addressing four major U.S. trade complaints. As part of the newly reconstituted talks under the auspices of the bilateral trade and investment framework agreement (TIFA), the U.S. has said Taiwan needs to increase U.S. market access for rice, end policies that discriminate against U.S.-made pharmaceuticals, and reduce barriers to U.S. investment in Taiwan's telecommunications sector (Inside US-China Trade, Dec. 15).

Hammond-Chambers said many elements of Chen's macro-economic reform proposals are likely to continue to be stalled in the new LY next year, and said the pan-blue alliance has generally opposed efforts to privatize companies and to liberalize the economy.

Specifically, the pan-blue alliance held 115 seats in the 225-seat LY, but lost only one seat in the Dec. 11

election, and was thus able to keep a hold on its narrow majority. Conversely, Chen's Democratic Progressive Party (DPP) increased from 87 to 89 seats earlier this month, while the entire pan-green coalition that supports Chen gained one seat and now controls 101 votes in the LY.

Hammond-Chambers said the election is seen as a loss for Chen because of the expectation that the pan-green coalition would seize a majority in the LY. However, he noted that the trend in Taiwan in the past few elections has favored the pan-green coalition, and predicted that the 2008 election could be the one in which the pan-green breaks through and wins a majority.

He also noted that the 2008 election will result in a LY that is comprised of only 113 seats -- half its current size -- as the result of an agreement to reduce the size of the legislative body.

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