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Boston College  
The Graduate School of Arts and Sciences  
Department of Political Science

AN ANALYSIS OF CHINA'S TAIWAN POLICY:  
THE SUCCESS OF GRADUALISM

a thesis

by

LAWRENCE JEFFREY SMITH

submitted in partial fulfillment of the requirements

for the degree of

Master of Arts

June 1998

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# BOSTON COLLEGE

## GRADUATE SCHOOL OF ARTS & SCIENCES

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entitled: An Analysis of China's Taiwan Policy: The Success  
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approved by the Committee:

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## **Abstract**

**TITLE:       An Analysis of China's Taiwan Policy: The Success of Gradualism**

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**THESIS ADVISOR: Professor Robert Ross**

This paper begins by pointing out the need for understanding the comprehensive policy that China has formulated vis-à-vis Taiwan. Based on an in-depth reading of Chinese documents and supported by interviews with Taiwan policy experts in China, this paper provides an analysis of China's Taiwan policy. The argument is that, with the exception of minor setbacks in the area of developments in Taiwan's domestic politics, China's policy is proving to be effective in achieving the ultimate goal of reunification. Of the four components analyzed in this paper, economic dependence strategy is the most important part of China's policy.

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## I. *Taipei's Patience, Beijing's Gain: The Success of Economic Dependence Strategy*

Mao Zedong is reputed to have said that it did not matter if Taiwan required a hundred years to return to the motherland.<sup>1</sup> Ironically, Lee Teng-hui apparently agrees with Mao's assessment. "Don't hurry, be patient" (*jieji yonghuan*) is one of the more recent popular slogans to come out of Taiwan regarding the issue of cross-Strait negotiations.<sup>2</sup> Patience is certainly an option for avoiding political negotiations and hence discussions that would lead to the establishment of significantly expanded cross-Strait contact.

Patience also works in Beijing's favor, however. Beijing has implemented an economic strategy *vis-à-vis* Taiwan based primarily on the short- to medium-term objective of encouragement of direct bilateral trade and investment in the mainland. Expanded commercial ties raise the costs of a formal declaration of independence by Taiwan. Economic dependence on the mainland also renders Taiwan's claim to *de facto* independence untenable.

Beginning with Deng Xiaoping, the pursuit of economic dependence has been a consistent feature of China's Taiwan policy.<sup>3</sup> Since the ascension of Deng as pre-

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<sup>1</sup> Henry Kissinger, *White House Years* (Boston: Little, Brown, 1979), p. 1062.

<sup>2</sup> After Beijing decided to halt the planned Ku-Wang Talks in June 1995, Lee decided to retaliate by advancing his "Don't Hurry, Be Patient" policy. Taipei apparently believes that patience is the best solution to the current diplomatic impasse. Most mainland policymakers view Lee's policy as a way to resist direct cross-Strait contacts and commercial ties. See esp. "Taishang touzi zuguo dalu chaoliu nandang: Taiwan 'zongtongfu zizheng' pengji 'jieji yonghuan' zhengce," (The Trend in Taiwan Investment in the Mainland Is Difficult to Block: Taiwan's "Presidential Advisor on Investment Affairs" Attacks the "Don't Hurry, Be Patient" Policy) *Renmin ribao*, 17 Nov 97, p. 5; "Taiwan yi jingjixuejia zhichu 'jieji yonghuan' jiang chanshang zhuduo biduan," (A Taiwan Economist Points Out that the "Don't Hurry, Be Patient" Policy Will Cause Significant Problems) *ibid.*, 31 Dec 97, p. 5.

<sup>3</sup> For an excellent discussion of Deng's emphasis on the economic component of China's Taiwan policy, see Wang Shengmin, "'Yiguo liangzhi': zuguo tongyi de zuijia xuanze" ('One Country Two Systems': The Best Choice for the Reunification of the Motherland) *ibid.*, 4 Dec 97, p. 5. Wang Shengmin is a professor of

eminent leader and continuing under the Jiang Zemin regime, China has been committed to pursuing this policy.<sup>4</sup> In September 30, 1981, economic dependence strategy was officially reaffirmed by Ye Jianying, then a member of the Politburo Standing Committee. Ye enunciated nine proposals on the reunification of China, three of which include postal exchange, direct trade, and air and shipping services. In September 1982, Deng formalized these principles in the 'one country, two systems' policy. Under this approach, China not only encourages Taiwanese investment and direct cross-Strait trade by promising special protection for private investment but also provides for Taiwan's "legitimate rights" as a capitalist economy.<sup>5</sup> Despite China's efforts to promote a policy based on the promotion of direct bilateral economic ties, the reluctance of the Taiwan government under the leadership of the KMT to engage in direct cross-Strait official contacts of any kind imposes several kinds of restrictions on the development of an otherwise mutually beneficial economic relationship. The mainland offers Taiwan a market of relatively cheap labor. It also provides Taiwan with a means to ship goods manufactured in the mainland to other markets at significantly low costs. The two economies are clearly complementary.

Taiwan's reluctance stems from the fact that China's economic policy clearly has political objectives. Trade and investment in the mainland not only contribute to cross-

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<sup>4</sup> Jiang Zemin has basically followed Deng's 'one country, two systems' policy. In a high-profile speech in June 30, 1995 directly preceding China's Spring Festival, Jiang delivered his unification speech "Wei cujin zuguo tongyi daye de wancheng er jixu fendou" (To Continue the Struggle and Promote the Great Cause of the Completion of the Reunification of the Motherland). In this speech, Jiang enumerated eight points for his proposal for reunification (*baxiang zhuzhang*). With minor variation, Jiang's eight point proposal is a reiteration of Deng's 'one country, two systems' policy.

<sup>5</sup> See *Renmin ribao*, 26 Jul 91, p. 5, in Foreign Broadcast Information Service: Daily Report--China (hereafter FBIS), 31 Jul 91, pp. 61-3.

Strait economic development but also mobilize an increasing number of businesses and Taiwanese entrepreneurs who have a vested interest in expanded direct cross-Strait commercial ties. China is aware of the importance of supporting the Taiwanese business community's interests in light of the Taiwan government's reluctance to engage in direct commercial ties. Accordingly, the fundamental objective of reunification is pursued in China's economic relations with Taiwan in three basic ways: 1). reduction of barriers to direct cross-Strait trade, 2). the tying of economic development to the promotion of China's "three links," (*san tong*) (i.e., direct mail, trade and shipping, and air services) and 3). the strengthening of the investment environment in the mainland. By developing these three areas, China hopes to accomplish the intermediate goal of Taiwan's economic dependence on the mainland. Because of the increasingly limited ability of Taiwanese authorities to control the extent of trade relations and flow of investment capital in China, Taiwan stands to lose considerable political leverage in future cross-Strait negotiations. China thus intends to use this intermediate goal as a means of achieving the long-term goal of reunification.

### **Reduction of Barriers to Direct Cross-Strait Trade**

The top hierarchy of the Chinese Communist Party (CCP) has sought to build a consensus within Taiwan for reunification through the promotion of direct bilateral trade.<sup>6</sup> The two central assumptions of this strategy are 1). that *de facto* independence is

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<sup>6</sup> See esp. Yang Guoqing, "Taiwan fazhan libukai zuguo dalu" (Taiwan's Development and the Mainland Are Inseparable), *ibid.*, 17 Feb 98, p. 5; see also *Chang ming*, 1 Jun 93, pp. 17-8, in FBIS, 1 Jun 93, pp. 34-5; Chang Mu, "Deng Xiaoping Remains at the Helm of the Seventh Plenary Session," *Ching pai*, 10 Jan 91, pp. 30-3, in FBIS, 16 Jan 91, pp. 18-21; Chou Jung, "Deng Xiaoping Makes New Arrangements for Reunification with Taiwan," *Kuang chiao ching*, 16 Jan 91, pp. 10-3, in FBIS, 24 Jan 91, pp. 16-8.

unrealistic under an economically integrated Taiwan and 2). that direct economic ties eventually lead to official negotiations and consequently reunification on the terms of Deng's 'one country, two systems' policy. Currently, Taiwan does not permit direct trade with the mainland. In spite of this restriction, cross-Strait trade has grown by double digit percentages each year since 1987 with Taiwan's exports to China as a share of total exports in the double digit percentage range for each year from 1987 to the present. (See Appendix I.)

Although these figures indicate the development of a substantial albeit indirect trade dependency relationship, recent progress in trade relations by no means satisfies Taiwanese business interests in capitalizing on China as a direct trading partner having the same culture, language, and geographic proximity. From the perspective of Taiwanese business interests, the main problem of the present trade relationship arises from having to conduct trade through the Hong Kong Special Administrative Region (HKSAR). Direct mainland-Taiwan trade links would significantly reduce shipping costs for Taiwan which currently uses the HKSAR as an entrepot for approximately 80% its mainland exports.<sup>7</sup> Shipment costs, especially to areas other than Guangdong and western China, would be reduced by as much as 50% by avoiding Hong Kong.<sup>8</sup> In taking advantage of Taiwan policymakers' insistence on this cumbersome trade relationship, Beijing offers enticements to Taiwan businesses through the expansion and liberalization of mainland ports. In particular, port facilities at Fuzhou, Xiamen, and Quanzhou will be

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<sup>7</sup> See *ibid.*, 26 Nov 97, p. 5.

significantly improved over the next decade. More immediate measures include Beijing's decision to expand Xiamen into a free port thus allowing it to adopt some of the most open financial and trade-related policies of coastal China.

In the context of frequent reminders from Beijing of lost economic opportunities to Taiwanese business due to President Lee's insistence on indirect and selective economic ties with the mainland, a difference of opinion is developing between Taiwan's government and business sectors as to the soundness of continuing a policy of indirect trade.<sup>9</sup> Poll data cited by the mainland but reportedly taken in Taiwan indicate that out of slightly over 1,000 large manufacturing businesses, more than half prefer investment and trade with the mainland despite intensive efforts of the Executive Yuan's Council of Economic Planning and Development in Taiwan to encourage trade with Southeast Asia. The recent re-direction of commercial ties to Southeast Asia, which peaked in 1994, is an attempt to revive Lee's "southward" policy (*nanxiang zhengce*).<sup>10</sup> Because China views Taiwan's insistence on the illegality of direct trade as an issue dividing Taiwan authorities and the business community, China characterizes this insistence as unacceptable and in the long-term unrealistic, particularly in light of the growing momentum of indirect trade not to mention what is believed by some to be

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<sup>8</sup> See *Asian Wall Street Journal*, 3 Feb 98, p. 12; see also Koong-lian Kao, *Trade and Investment Across the Taiwan Straits: Maintaining Competitive Advantage, Pursuing Complementarity* (Taipei, Taiwan: Mainland Affairs Council Publication, 1993), pp. 14-20; see also *FEEER*, 6 Jun 91, p. 41.

<sup>9</sup> See esp. "Tai gejie yaoqiu dangju jinkuai kaifang "san tong" (Various Groups in Taiwan Appeal to Taiwan Authorities to Expedite the Opening Up of the Three Links), *Renmin ribao*, 29 Dec 97, p. 5; see also "'Jieji yonghuan' dangbuzhu taishang touzi bufu" (The 'Don't Hurry, Be Patient' Policy Cannot Block the Pace of Taiwan Development), *ibid.*, 20 Nov 97, p. 5; "Wenbu fazhan qianjing guangkuo" (Steady Development and Broad Prospects), *ibid.*, 7 Jan 98, p. 5.

<sup>10</sup> *Asian Wall Street Journal*, 14 Jan 98, p. 4; *Xinhua*, 22 Mar 92, in FBIS, 23 Mar 92, pp. 81-2; *Beijing Central People's Radio*, 8 May 91, in FBIS, 13 May 91, p. 65. The details of this policy as well as the impact of the Southeast Asian currency crisis on the reorientation of Taiwan trade and investment is discussed below in Section III.

uncontrollable illegal direct trade.<sup>11</sup> Taiwan businesses stand only to lose trade opportunities in China's potentially large market under the current prohibition on direct commercial ties.

As a further encouragement to direct cross-Strait trade relations, China outlines factors contributing to Taiwan's recent decline in its trade surplus. From China's perspective, dwindling market opportunities in the international market put Taiwan's export-oriented economy at a distinct disadvantage. In the recent past, problems such as Taiwan's large trade deficit with Japan, decline in exports to the U.S. and Europe, and any drop in Taiwan's foreign trade surplus were all areas that China exploited in order to advance its case for opening up Taiwan's trade with China.<sup>12</sup>

Cross-Strait trade constitutes a substantial part of Taiwan's exports. According to Taiwan statistics, Taiwan exports to China accounted for 27% of Taiwan's total exports last year.<sup>13</sup> Since 1986, Taiwan has exported a cumulative total of over US\$ 100 billion to the mainland in authorized indirect trade. Chinese critics point out that, although in April '92 Taiwan renounced the "Procedures for the Control of Goods from the Mainland" and the "Procedures for the Management of Goods for Indirect Exports to the Mainland," two official guidelines restricting direct trade, Taiwan's new licensing system, which imposes restrictions on many items (in particular high-tech and military-related products), still fails to meet the needs of both sides of the Strait. Furthermore, the large though unmeasurable extent of illegal direct trade has almost certainly contributed

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<sup>11</sup> See Dennis Hickey, "Will Inter-China Trade Change Taiwan or the Mainland?" *Orbis*, Fall 1991, pp. 517-31.

<sup>12</sup> See *Xinhua*, 2 Dec 93, in FBIS, 20 Dec 93, pp. 44-5; see also, Yu-Shan Wu, "Taiwan in 1993: Attempting a Diplomatic Breakthrough," *Asian Survey*, January 1994, pp. 51-2.

<sup>13</sup> See *Asian Wall Street Journal*, 3 Feb 98, p. 12.

to Taiwan's severe legal penalties for violating laws on the prohibition of direct trade. It is not clear that the Taiwan government can continue to impose economic restrictions on cross-Strait trade in order to achieve the immediate political objective of resisting economic integration, an objective which would improve its ability to bargain with China over political unification. China has thus attempted to create a situation in which only by abolishing these restrictions will narrow Taiwanese business interests be satisfied.

### **Economic Development and the Promotion of the "Three Links"**

In addition to general policy direction from the State Council and CCP Central Committee branches of the Taiwan Affairs Office, China also uses a non-governmental intermediary organization, ARATS, to pursue its reunification goal.<sup>14</sup> ARATS maintains steady pressure on Taiwan by pushing for the establishment of direct open trade, postal relations, and transportation, collectively referred to as the "three links" (*san tong*). According to mainland rhetoric, the three links constitutes the next logical and inevitable step in cross-Strait relations.<sup>15</sup>

Rhetoric aside, however, ARATS facilitates advancement of the political objective of reunification by increasing contacts in cross-Strait economic relations. Since the inception of ARATS in December 16, 1991, contacts with at least twenty-one influential cultural and economic organizations in Taiwan have been established, an

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<sup>14</sup> See Appendix II for a description of the CCP and governmental organizational structure of agencies, ministries, and authorities involved in Taiwan affairs.

<sup>15</sup> See "Liang an dou yao qieshi baohu taishang de zhengdang quanyi" (The Two Sides Should Protect Taiwanese Commercial Legal Rights), *Renmin ribao*, 4 Mar 98, p. 5; "Taiwan gejie jiji huying liang an zhengzhi tanpan zhuzhang yaoqiu Taiwan dangju zhuazhu shiji gaishan liang an guanxi" (Taiwanese from All Circles Actively Call for Political Discussions and Appeal to Taiwan Authorities to Seize the Opportunity to Improve Relations), *ibid.*, 20 Nov 97, p. 5; see also *Zhongguo tongxun she*, 8 Mar 93, in FBIS, 18 Mar 93,

achievement which has significantly broadened channels of communication with both Taiwan's authorities and people. Extensive development of communication has had a positive effect on bolstering public support among members of Taiwan's business community on the issue of direct links.<sup>16</sup> One of the responsibilities of ARATS is to discuss with "public figures" in Taiwan matters relating to cross-Strait exchanges. The benefits of a semi-official body to facilitate direct relations to Taiwan's business interests are, in the opinion of several prominent Taiwanese entrepreneurs, unmistakable.<sup>17</sup> Many business leaders in Taiwan believe that the Taiwan government should follow ARATS's advice, noting that the three links will not only reduce the cost of transshipment through Hong Kong but also reduce the overall cost of indirect trade by setting up fixed ports.

By far the most momentous, albeit symbolic, event in cross-Strait economic ties both in terms of the general mainland-Taiwan diplomacy and the particular SEF-ARATS relations was the Ku-Wang talks. On April 27, 1993, Ku Chen-fu, Chairman of SEF, and Wang Daohan, Chairman of ARATS, met in Singapore to talk on a "non-governmental, economic, routine, and functional" basis.<sup>18</sup> These talks were in large part the result of the increasing need to deal with an expanding economic relationship. Because of the highly politicized environment of these talks, the fact of the meeting itself exceeded the importance of the actual discussions. The talks concluded with an agreement to meet again to discuss five administrative problems arising from increasing cross-Strait civilian

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p. 75; *Xinhua*, 15 Jul 92, in FBIS, 21 Jul 92, p. 64; *ibid.*, 6 Mar 92, in FBIS, 9 Mar 92, p. 79; "Yang Shangkun on China's Reunification," *Beijing Review*, Nov. 26-Dec. 2, 1990, p. 16.

<sup>16</sup> See Wang Daohan, "Yi nian chunshi zao genyun" (Early Planting Yields an Early Harvest), *Renmin ribao*, 1 Jan 98, p. 2.

<sup>17</sup> *Xinhua*, 15 Jul 92, in FBIS, 21 Jul 92, pp. 62-5.

<sup>18</sup> See esp. Hungdah Chiu, "Koo-Wang Talks and the Prospect of Building Constructive and Stable Relations Across the Taiwan Straits," *Issues and Studies*, Aug 1993, pp. 1-36; see also *Xinhua* 6 Feb 94, in FBIS, 9 Feb 94, pp. 64-6.



exchanges, a pledge to find ways for joint exploration of natural resources and standardization of technical terms and product specification, and finally an agreement on three accords dealing with document verification, compensation for lost registered mail and the creation of “communication channels” between the SEF and ARATS.<sup>19</sup> In a move to advance the agenda of the discussions beyond these largely symbolic agreements, Wang Daohan proposed that both sides discuss the three links. He noted that the increasing extent of economic development and trade ties made a discussion of direct shipment, flights, and mail links a top priority. Taiwan briskly rejected Wang’s proposal on the grounds that it went beyond the understanding of the purview of negotiations reached by SEF and ARATS negotiators during preparatory consultations.<sup>20</sup>

The atmosphere surrounding the Ku-Wang talks suggests that, in spite of Taiwan’s efforts to prevent discussions of political issues, most notably the three links, China succeeded to a large extent in achieving political gains through an explicitly non-political meeting.<sup>21</sup> Although Taiwanese authorities made every effort to refuse to accept China’s position, namely that the rate of growth and extent of economic ties necessitates direct contacts, there was nevertheless talk among high-ranking Taiwanese officials of the need to make concessions in its economic policy of selective and indirect economic engagement. Less than a month before the scheduled Ku-Wang talks, for example, Chiu Chin-yi, Secretary General of the SEF, and Chiao Jen-ho, Deputy Chairman of Taiwan’s cabinet-level Mainland Affairs Council (MAC), both suggested abolishing Taiwan’s

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<sup>19</sup> *Taipei China News Analysis in English* (hereafter *Taipei CNA*), 29 Apr 93, in FBIS, 30 Apr 93, p. 68.

<sup>20</sup> *Taipei China Broadcasting Corporation*, 27 Apr 93, in FBIS, 29 Apr 93, p. 52; *Taipei CNA*, 27 Apr 93, in FBIS, 28 Apr 93, p. 52.

“three no’s” policy of no contact, no negotiation, and no compromise, a policy strongly backed by Lee’s KMT (Kuomintang; Nationalist) Party.<sup>22</sup> Chiu believed that such a policy is based on feelings of resentment over the course of past events. More importantly, the three no’s approach did not, in his view, allow Taiwan to take advantage of the opportunity of China’s developing economy.

That Taiwan would consider revising its policy underscores the success of China’s plan to encourage direct contacts through insisting on the importance of cross-Strait economic relations. Talk of policy reevaluation is clearly not the sole result of SEF-ARATS interaction. However, by persistently focusing on the need and appropriateness of direct relations, China advances its intermediate economic objective of Taiwan dependence by appealing to the short-term economic interests of the Taiwan business community, thereby undermining the long-term political objective of the Taiwan government of selective and indirect economic contact. Despite frequent exhortations by Lee for Taiwan to consider the long-term political costs of direct economic relations, insular business interests will, it is argued, in the end create a *de facto* economic dependence on the mainland.

### **Strengthening of the Investment Environment in the Mainland**

In terms of the economic component of China’s Taiwan policy, China sees the establishment of the three links as an important precursor to the long-term objective of reunification. The expansion of Taiwan’s direct trade and mainland investment are in

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<sup>21</sup> In recognition of this fact, Lee has understandably delayed the resumption of the Ku-Wang talks suspended in June 1995. Lee’s trip to the U.S. on his way to attend a ceremony at Cornell University forced Beijing to suspend talks. <sup>21</sup> *Zhongguo tongxun she*, 24 Mar 93, in FBIS, 30 Mar 93, pp. 80-1; *China Post*, 23 Mar 93, p. 4, in FBIS, 31 Mar 93, p. 65; *Taipei CNA*, 29 Mar 93, in FBIS, 29 Mar 93, pp. 72-73.

turn regarded as an inevitable consequence of the establishment of the three links. China clearly pursues its long-term political objective of reunification through a deliberate policy of attracting Taiwan investment. Numerous mainland articles point to the mutual benefit of a strong mainland-Taiwan investment relationship, emphasizing the mainland's wealth of resources, favorable tax policies, and Taiwan's technological expertise.<sup>23</sup> China emphasizes the extent to which mainland investment is essential to Taiwan's economic development. Three distinct characteristics of Taiwan investment in the mainland show how economic cooperation has become an increasingly important factor in Taiwan's economic development.

First, the geographic distribution of Taiwan investment has grown significantly since the promulgation of the State Council's 1988 "Regulation on Encouraging Taiwan Investment" and the Taiwan Economic Ministry's 1990 guidelines on mainland investment.<sup>24</sup> Initial mainland investment was conducted exclusively through companies based in Hong Kong. Areas of investment were therefore limited to the provinces of Guangdong and Fujian. Presently, Taiwan invests in every province, autonomous region, and municipality in China.<sup>25</sup> With US\$37.37 billion in contracted investment, of which \$17.57 billion has been invested, Taiwan is now the third largest investor in the mainland

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<sup>23</sup> For a classic example of this type of article, see *Xinhua*, 6 Feb 94, in FBIS, 9 Feb 94, pp. 64-6. These kinds of articles appear periodically in the 'Hong Kong, Macau, Taiwan' section of *Renmin ribao*.

<sup>24</sup> See "Liang an dou yao qieshi baohu taishang de zhongdang quanyi" (The Two Sides Should Protect Taiwanese Commercial Legal Rights), *Renmin ribao*, 4 Mar 98, p. 5.

<sup>25</sup> For a surprisingly candid account of how ties between individual Taiwan investors and mainland officials responsible for specific provincial projects are facilitated in spite of Taiwan's investment constraints, see Wei You, "Zhetai hezuo tiandi guangkuo: fang Zhejiang sheng fushengzhang Long Anding" (The Extensive Cooperation between Zhejiang and Taiwan: An Interview with the Zhejiang Vice-Governor Long Anding), *ibid.*, 20 Nov 97, p. 5. See also Appendix III.

after the HKSAR and Japan. Taiwan's investment in inland provinces, in particular Sichuan and Jiangxi, has increased substantially in the 90s.<sup>26</sup>

Second, in addition to the growth of investment throughout China, Taiwanese long-term investment has increased. Replacing labor-intensive industrial investment characteristic of the cross-Strait economic relations of the early 90s is Taiwan's investment in capital- and technology-intensive industries. In addition to directing funds and setting up joint ventures in the transportation, energy, and communication industries, Taiwan businesses have established collaborative enterprises in such high-tech industries as plasma-cutting machine manufacturing, laser products, silicon rubber, and bioengineering ventures.<sup>27</sup> Recent capital-intensive investments were prominent in, for example, Taiwan's investment in Shenzhen's financial institutions and real estate industry. The B-type shares of the Xiamen Shankun Industrial Company, a company owned solely by Taiwanese investors, was listed on the Shenzhen Stock Exchange in mid-1993. This is the first time a Taiwanese company was listed on the mainland. Beijing vigorously encourages Taiwan investment in China's burgeoning financial sector.<sup>28</sup>

Third, China has succeeded in attracting Taiwanese investment not only for capital- and technology-intensive industries but also for large and complex investment projects. Statistics released by Taiwan's Council for Economic Planning and

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<sup>26</sup> See "Sichuan yu Taiwan jiaowang riqi huoyue: liyong taizi ban taishu qiye liang qian duo jia" (Contact between Sichuan and Taiwan is Increasing Day by Day: Over 2000 Taiwan-based Enterprises Have Been Established), *ibid.*, 4 Dec 97, p. 5; Wan Hongqiang and Zhu Zhide, "The Characteristics and Trend of Taiwan Compatriots' Investment on the Mainland in 1993," *Xinhua*, 6 Jan 94, in FBIS, 25 Jan 94, p. 91. See also Appendix III.

<sup>27</sup> *Asian Wall Street Journal*, 14 Jan 98, p. 4; *Xinhua*, 6 Jan 94, in FBIS, 25 Jan 94, p. 91

<sup>28</sup> See "Liang an jingji jiaoliu fuhe liang an genben liyi" (Cross-Strait Economic Contact Is in Accord with the Basic Benefit of Both Sides), *Renmin ribao*, 13 Nov 97, p. 5.

Development show that over 50% of Taiwan's manufacturing industries have invested in the mainland with an investment volume of US\$18.5 billion for the first eleven months of last year. China cites investment statistics of Taiwanese investment, especially in Shenzhen where the density of investment is the highest, as a perfect example of the shift in the type of investment from "hit and run" investment to investment in large and medium size enterprises.<sup>29</sup> The mainland has recently widened the extent of large and complex investment projects by encouraging Taiwanese investment in the mainland's insurance, securities and banking sectors, all of which are beginning to open up to foreign investment. Large investment projects also exist in the form of opportunities to buy state enterprises, a form of investment strongly encouraged by the Department of Taiwan, HK, and Macau Affairs of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC).<sup>30</sup>

An analysis of the characteristics of Taiwan investment reveals more than China's deliberate policy of encouraging mainland investment. In addition to the obvious economic benefits achieved through increased cross-Strait investment, China also accomplishes a significant political objective. The intense influx of investment capital and projects, sometimes referred to as "mainland fever" (*dalu re*), lessens Taiwan's control over categories of investment as well as the manner in which investment is carried out. Moreover, the strategy of shifting Taiwan's mainland investment projects to the high-tech fields makes retraction of investment capital, should China call for negotiations, increasingly difficult. Since Taiwan's negotiating power depends on its

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<sup>29</sup> See esp. Jiang Dianming and Liu Yingxian, "Promote Further Development of Cross-Strait Economic and Trade Relations by Adhering to the Principle of Being Practical," *Liaowang* (overseas edition), 15 Jun 92, pp. 24-5, in FBIS, 25 Jun 92, p. 55; *Xinhua*, 6 Jan 94, in FBIS, 25 Jan 94, p. 92

economic autonomy, the less Taiwan controls the type and scope of mainland investment, the greater is China's ability to dictate the terms of future negotiations. If China succeeds in controlling the rate and extent of Taiwan investment in the mainland, this situation would then leave Taiwan with little or no leverage in future cross-Strait bargaining.

### **Evaluation**

China's economic strategy is one component of its comprehensive Taiwan policy. The goal of this policy is to persuade Taiwan to abandon its pursuit of independence and reunify with the mainland. China's political objective in cross-Strait commercial ties is to undermine Taiwan's ability to maintain its insistence on independence by substantially limiting Taiwan's future negotiating power. This objective is gradually being realized. A breakdown of data on cross-Strait trade indicates a clear trend in Taiwan's increasing economic dependence on indirect cross-Strait trade. Since 1987, when Taiwan lifted the ban on visits by Taiwan residents to relatives on the mainland, Taiwan's exports to the mainland have increased by double digit percentages annually, and its dependence on the mainland, as measured by the rate of the amount of indirect trade compared to Taiwan's total foreign exports, has risen substantially. (See Appendix I.)

A vital part of China's economic strategy consists of the promotion of cross-Strait investment. China seeks to make Taiwan dependent on the mainland economy through the expansion of long-term investment throughout all of China. This kind of investment strategy promotes cross-Strait trade and in turn raises the cost to Taiwan

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<sup>30</sup> Personal communication.

investors in the event of any future Chinese political retaliation to Taiwan's declaration of independence or refusal to negotiate.

Fully aware of China's political interest in promoting economic dependence in order to deter Taiwan from declaring independence, the Taiwan government attempts to prevent China from pursuing this objective by adopting a strategy of gradual and selective indirect economic engagement with the mainland. Taiwan's insistence on indirect commercial ties, as explicitly stated in its National Unification Guidelines, constitutes a significant part of its attempt to pursue the political objective of challenging Beijing's insistence on the 'one country, two systems' policy.

The attempt of the Taiwan government to regulate legitimate cross-Strait investment and indirect trade (not to mention illegal direct trade) has not been successful, however. Despite recent statistics indicating Taiwan's attempt to reorient its investment to Southeast Asia, Beijing notes that because of similarities in language and culture as well as geographical proximity, it is unlikely that Taiwan investors will be able to significantly redirect or decelerate mainland investment.<sup>31</sup> Cultural identity and geographical proximity make it difficult for Taiwan authorities to convince Taiwan entrepreneurs of the long-term political disadvantages entailed in cross-Strait commercial ties. Enticements such as liberalized South China coastal ports, tax incentives, and special protection for Taiwan investment, all of which appeal to the insular economic

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<sup>31</sup> See Qin Hua, "Taiwan dangju zaidu tuidong "nanxiang zhengce" bieyouyongxin" (Taiwan Authorities Have Ulterior Motives in Once Again Promoting the "Southward Policy"), *Liaowang (Xinwen Zhoukan)* #10, 1998, p. 24; see also *Asian Wall Street Journal*, 14 Jan 98, p. 4; Koong-Lian Kao, *Trade and Investment Across the Taiwan Straits: Maintaining Competitive Advantage, Pursuing Complementarity* (Taipei, Taiwan: Mainland Affairs Council Publication, 1993), p. 17.

interests of Taiwanese businessmen, further undermine the farsighted political interests of the Taiwan government.

Taiwan's economic dependence on the mainland is a gradual process meant to serve as a means to the ultimate goal of reunification on the PRC's terms broadly stated in the 'one country, two systems' policy. Economic dependence exerts pressure on Taiwan to accept the mainland's terms for reunification. Gradually, business interests increasingly conflict with the political interests of Lee's agenda of decelerating investment in the mainland and re-directing investment in other countries and regions. At a point at which Taiwan must depend on the mainland for its economic development, Lee will then, it is argued, find himself in a relatively weak position to resist any negotiations with the mainland on the issue of reunification.

At a significantly high degree of economic dependence, Taiwan's *de facto* independence would no longer be an issue. This would seem to be a moot point, however, since the economic relations component is not the sole determinant in the mainland-Taiwan bilateral relationship. It is conceivable, indeed likely, that if Taiwan felt it was losing significantly on the issue of economic dependence, it would then pursue its objectives of resisting reunification on Beijing's terms by strategically exploiting other components of the cross-Strait relationship. As I will show, however, the exploitation of these policy components, namely, pragmatic diplomacy, use of force, and developments in Taiwan's domestic politics, is not at present a viable option. Consequently, there is little that Taiwan can do to resist the gradual strategy of economic dependence on the



mainland. Viewed in the context of China's overall Taiwan policy, the long-term success of this policy is not difficult to see.

## II. *Pragmatic Diplomacy: The Annoyance of "Pragmatism" and "Flexibility"*

In his memoirs, Kissinger writes: "...no government less deserved what was about to happen to it than that of Taiwan."<sup>32</sup> This observation describes the diplomatic fate of a government that should have been directly supported by the U.S. but that in the end was not. From the time that Kissinger paved the way for the normalization of Sino-U.S. relations to the present, Taiwan has been on an unrelenting campaign to gain readmission into the United Nations (U.N.). From 1949 to 1971, the Kuomintang government represented the China seat in the U.N. under the name of the 'Republic of China' (ROC; *Zhonghua Minguo*). In October 1971, after intense lobbying by the CCP and with the help of nonaligned powers, the CCP's claim as legitimate representative to the U.N. was accepted. In late October, the General Assembly voted against the U.S.-backed technical motion to allow Taiwan to keep its U.N. seat, and by a vote of 59 to 55 with 15 abstentions, the People's Republic of China (PRC; *Zhonghua Renmin Gongheguo*) became the legitimate representative for the China seat. Taiwan was then expelled from the U.N.

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<sup>32</sup> Henry Kissinger, *White House Years* (Boston: Little, Brown, 1979), p. 733.

Since the expulsion of the Taiwan delegation, the Taiwan government has made U.N. re-entry the primary objective of its diplomatic efforts to gain international legitimacy. Re-gaining its seat in the U.N. would clearly significantly advance the ROC's claim as the legitimate government of China. But because both the PRC and the ROC are vehemently opposed to a 'two Chinas' solution, there is no chance for a compromise on the issue of Taiwan's political legitimacy by means of re-entry into the U.N. or by any other means for that matter.

In light of PRC intransigence on this issue, Lee and his government have devised a strategy that allows Taiwan to pursue the ultimate objective of re-gaining political legitimacy by diplomatic means primarily through readmission into the U.N. Since Lee's presidential inauguration at the 13th KMT Party Congress in July 1988, the ROC has followed a flexible foreign policy based on "pragmatic diplomacy" (*wushi waijiao*). The tactical objective of this policy has been to gain international recognition by means of a threefold strategy: 1). advancement and strengthening of diplomatic relations; 2). development of substantive relations with countries having no official ties with Taiwan; and 3). admission or readmission into international organizations.

Pragmatic diplomacy has, in addition to the final goal of political legitimacy, the additional goal of resisting China's intermediate objective of economic dependence on the mainland. In the context of Taiwan's attempt to establish the economic autonomy that it enjoyed before the expansion of cross-Strait economic relations, it is not surprising that Taiwan would want to shift commercial ties away from the mainland. Taiwan's economic move southward is of course fraught with diplomatic implications. The

southward policy (*nanxiang zhengce*) aims to counteract the strategy of economic dependence on the mainland as well as establish a foreign presence primarily through the strategic deployment of foreign aid. Because of the Southeast Asian financial crisis, this strategy has recently taken on heightened salience from its last attempt in 1994. Taiwan has remained relatively unharmed by this crisis. It can use its massive investment capability to achieve substantial political status in any unofficially official diplomatic relations. Flexible foreign policy thus constitutes Taiwan's most viable option in actively pursuing both *de facto* and *de jure* independence.

An evaluation of China's efforts to prevent the advancement of Taiwan's pragmatic diplomacy reveals that, although Taiwan has made some progress especially in the area of consolidation of its own diplomatic ties, China has been successful in its overall aim of blocking Taiwanese participation in the international community. The pressure that China places on Taiwan to isolate it diplomatically makes it impossible for Taiwan to achieve a significantly expanded international role. The pursuit of *de jure* independence by means of readmission into the U.N. is therefore an unrealistic option. Because of the tactical limitations of pragmatism and flexibility, pragmatic diplomacy is more an annoyance than a serious diplomatic threat to the PRC's international legitimacy.

## Taiwan's Diplomatic Relations

Taiwan's current strategy for strengthening diplomatic relations is based on tactical flexibility and 'dual recognition,' two concepts introduced by Lee in his succession to the presidency in January 1988.<sup>33</sup> Diplomatic flexibility simply refers to the stress on the substance and not the form of relations with foreign countries. The dual recognition principle is based on the idea that the ROC no longer considers its contest with the PRC for diplomatic recognition a win-or-lose proposition. A country may decide to maintain recognition of the PRC while still engaging in relations with Taiwan. In reality, though, because of the CCP's insistence on the 'one China' principle, diplomatic recognition of the ROC in any form is precisely a win-or-lose proposition. Substance and form are indistinguishable. Beijing is therefore acutely aware of any attempt by Taipei to lend any semblance of officiality to unofficial substantive ties.

Taiwan currently maintains official diplomatic ties with twenty-eight countries. It boasts that its allies are distributed among four regions, Europe, the Caribbean, Africa, and the South Pacific. A wide regional distribution belies the fact that none of these countries are wealthy or powerful diplomatically. In the South Pacific region, all of Taiwan's allies are obscure island states with populations ranging from 9,000 to 11,000. Guatemala is Taiwan's biggest diplomatic link in the Caribbean with a population of 10.3 million. The rest range from populations in the tens of thousands to 7.8 million for the Dominican Republic. In Africa, Malawi at 10.8 million leads all of Taiwan's allies.

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<sup>33</sup> See Ralph Cough, *Reaching Across the Taiwan Strait: People-to-People Diplomacy*, (Colorado: Westview Press, 1993), p. 104; see also Dennis Hickey, "US Policy and Taiwan's Reintegration into the Global Community," *Journal of Northeast Asian Studies*, Spring 1992, p. 20-31.

Finally, the Vatican City, with a population of 1,000, is Taiwan's sole European ally. Clearly, Taiwan does not maintain official diplomatic links with any diplomatic heavyweights.

From 1990 to as recently as January 1998, Taiwan has lost a total of four of its allies, three of which were the most powerful countries to recognize the ROC. Saudi Arabia (1990) and South Korea (1992) renounced diplomatic relations with Taiwan in order to recognize the PRC as the legitimate government of China. The two most recent countries to follow in their path are St. Lucia in the Caribbean and South Africa. After the loss of Saudi Arabia and South Korea, South Africa, until January 1, 1998, was Taiwan's largest and most powerful ally. The severing of ties with the ROC was expected, however. Since Pretoria renounced apartheid, Beijing had been active in expressing a willingness to establish formal ties. Beijing supported the banned Communist Party and, indirectly, the African National Congress. With the renunciation of apartheid, it was only a matter of formalizing ambassadorial level contacts between the PRC and South Africa.

South Africa also had economic interests in mind in switching diplomatic recognition from Taiwan to China. Two-way trade reached US\$1.6 billion, an 18% increase over last year. South Africa also registered US\$1.4 billion in trade with the HKSAR. South African regional trade distribution in East Asia favored this move. The HKSAR and PRC combined accounted for 53% of South Africa's trade in the region while Taiwan accounted for 46%. Wang Xuequan, China's ambassador-designate to South Africa, said that the normalization of relations would be conducive to promoting

economic development with China and the HKSAR. He also noted the futility of Taiwan's pragmatic diplomacy with the loss of its most important diplomatic link.<sup>34</sup>

To be sure, Taiwan has not remained passive in the face of these recent diplomatic setbacks. In recent months, Taiwan has been on a diplomatic frenzy in part the result of the recent loss of South Africa and in part the result of increased opportunities in Southeast Asia due to the financial crisis there. After the loss of South Africa, Taiwan intensified diplomatic efforts by first consolidating relationships with the remaining twenty-eight countries. Vice-President Lien Chan made a high-profile visit to attend the inauguration of Honduran President-elect Carlos Flores. Taiwan also arranged for Costa Rica to issue a formal statement in order to confirm that the bilateral relationship was secure given the mutual recognition accord signed between South Africa and China. Chairman of the Council for Economic Planning and Development, Chiang Pinkung, actively began preparing for President Lee's visit to some of Taiwan's African allies. Also at this time, Taiwan's Lee Tung-liang, Chairman of the Taipei Imports and Exports Association, arranged for North Korea to protect the interests of Taiwanese businessmen investing in or trading with North Korea.<sup>35</sup> These instances underscore the importance that Taiwan, under the KMT government, places on opposing the diplomatic isolation imposed on it by Beijing.

The most important result of Taiwan's recent diplomatic activism is the move to play "good neighbor" to Southeast Asia. Economically, Taiwan is in a good position to benefit from the Southeast Asian financial crisis. It has remained relatively unharmed by

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<sup>34</sup> *China Daily*, 29 Dec 97, p. 1; *South China Morning Post*, 31 Dec 97, p. 8.

the crisis. In January of this year, an 80-member delegation of political officials and Taiwanese business leaders toured Southeast Asia. The explicit purpose of this visit was to explore investment opportunities in the region.<sup>36</sup> Taiwanese investors have indeed found an excellent investment environment. One of the more notable participants in this tour was China Development, which went to Southeast Asia with approximately US\$800 million in cash for investment projects.

But to characterize this excursion as purely an economic fact-finding trip would clearly be misleading. Taiwan evidently has political objectives. This investment tour has been highlighted by several high-profile visits by Taiwanese leaders who by virtue of leaving Taiwan to meet with officials of other countries provoke a swift response from Beijing. On January 13, 1998, Premier Vincent Siew returned from the Philippines after having discussions with senior officials from the central bank. Vice President Lien Chan also made a high-profile visit to Singapore where he met with senior statesman Lee Kwan Yew. Each of these visits drew a swift and unequivocal response from Beijing.

The series of high-profile visits by Taiwan officials and their attempt to redirect investment to Southeast Asia is a revival of the seemingly forgotten southward policy (*nanxiang zhengce*) spearheaded by President Lee.<sup>37</sup> Presently, however, the rival, China, still receives the overwhelming amount of investment from Taiwan. Taiwanese investment in China--over US\$35 billion--is roughly comparable to Taiwanese investment for the whole Southeast Asian region. (See Table I below.)

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<sup>35</sup> *South China Morning Post*, 29 Dec 97, p. 6.

<sup>36</sup> *Asian Wall Street Journal*, 14 Jan 98, p. 4.

**Table I: Taiwan Investment in Southeast Asia**

1993	\$752.5 million
1994	\$4.48 billion
1995	\$2.98 billion
1996	\$3.80 billion
1997	\$3.98 billion

Source: Taiwan Ministry of Economic Affairs

Note: Figures include investment in Thailand, Malaysia, Indonesia, the Philippines, and Singapore. For 1997, figures for the Philippines and Singapore are through the end of June and through the end of September for other countries.

Although investment in Southeast Asia is increasing, there is little likelihood that this policy could replace investment in China primarily because of the convenience of cultural identity and geographical proximity.

### **Substantive Relations**

Another significant part of Taiwan's diplomatic pragmatism and flexibility is the fostering of substantive relations. Substantive relations are unofficial bilateral relations that are maintained on the basis of pragmatism. Taiwan's substantive relations consist of informal ties with over 120 countries. Most of these are in the form of representative offices in Taipei. Substantive relations facilitate the maintenance of cultural, technological and economic exchange. The most notable examples of this kind of relationship include the United States' Coordinating Council for North American Affairs, the American Institute in Taiwan, and Canada's Taipei Economic and Cultural Office. Taiwan vigorously pursues the development of substantive relations because the

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<sup>37</sup> For interesting comments on this policy by Lee Teng-hui after his return from his Southeast Asian tour in 1994, see *Chung yang jih pao*, 18 Feb 94, p. 3, in FBIS, 24 Feb 94, pp. 58-63.



maintenance of these kinds of ties generally depends on Taiwan's economic status, an area in which it can exert significant influence.

Taiwan's most powerful substantive ties are with the U.S. In his trip to Panama in September 1997 to attend an international conference on the Panama Canal, President Lee stopped in Honolulu to hold private meetings with Richard Bush, who was appointed by President Bill Clinton as Chairman of the American Institute in Taiwan, a U.S. government sponsored organization that deals with ties to Taiwan in the absence of official diplomatic relations. Mr. Bush did not comment on the meeting because of Washington's directive to keep the meeting low-key. The low profile of the Lee-Bush meeting is characteristic of the way substantive relations are conducted. The host country cannot officially invite Taiwan officials without inciting strong protests from Beijing. This pressure is a procedural tactic of cross-Strait diplomacy. Beijing maintains unrelenting pressure on the given country engaged in unofficial contact with Taiwan officials. Taiwan thus cannot use these types of meetings to bolster official diplomatic relations.

Taiwan's substantive relations can, in some sense, be construed as a compromise by Beijing. The maintaining of liaison offices, though on the unofficial level, does nevertheless provide Taipei with the flexibility it needs to resist complete international isolation. Lee's trip to the U.S. provides Taipei, if only indirectly, with the opportunity to impart unofficial relations with the semblance of officiality which in turn helps him bolster domestic political support. But relying on substantive relations to pursue an agenda based on an expansion of Taiwan's political role in the international community

is a precarious tactic. Beijing could intensify pressure on countries that grant Lee transit visas which are needed to further develop substantive ties and to consolidate official contacts. But this compromise in the end does not incur any significant costs to Beijing. Substantive ties are more an annoyance than a real diplomatic threat. And although it is in Beijing's interest to isolate Taiwan diplomatically, it is not necessary, in light of the current status of Taiwan's pragmatic diplomacy, to intensify pressure to this degree. Primarily because of Beijing's persistent pressure, it is unlikely that by using substantive relations, Taiwan can add to its already unimpressive list of countries having official diplomatic relations with Taiwan. Although Taiwan can engage in economic, cultural and technological exchanges, it cannot advance the cause of gaining political legitimacy by using substantive ties. Unofficial substantive relations are, as Beijing laboriously points out, not inconsistent with the 'one China' policy, since in its view so-called substantive ties are perfectly consistent with the kind of relations that Taiwan as a province of China would maintain.

### **Admission into International Organizations**

Taiwan pursues its ultimate goal of re-entry into the U.N. by constantly trying to expand its international prestige by means of obtaining membership in international organizations. Lee has publicly stated his intention of having Taiwan enter or re-enter international organizations.<sup>38</sup> Although Taiwan belongs to eleven governmental organizations and continues to make efforts to participate in significant international

organizations, China has either prevented the ROC from joining international associations in any capacity whatsoever or has severely limited the ROC's chances of participating in the most notable ones, namely the International Monetary Fund (IMF), the World Trade Organization (WTO), the World Bank, and the U.N. Under no circumstances has the ROC as a separate political entity made progress in entry or re-entry into international organizations under its pragmatic diplomacy. Taiwan's prospects for entering or re-entering the two most influential international organizations, the U.N. and the WTO, do not look promising. Its present diplomatic situation is best described not as a realistic aspirant to re-entry in the U.N. but rather as a government aggressively resisting diplomatic isolation.

### **The WTO and the U.N.**

Taiwan's application for entry into the WTO began with its application to the General Agreement on Tariffs and Trade (GATT), the WTO precursor. Taiwan's application for entry into GATT was unsuccessful, since the conditions for entry were essentially those stipulated by China. In a candid interview with China's Foreign Minister, Qian Qichen stated that it would be perfectly acceptable for Taiwan to join

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<sup>38</sup> See esp. Lien Chan, "The Republic of China on Taiwan Belongs in the United Nations," *Orbis*, Fall 1993.

GATT but only as a separate tariff territory.<sup>39</sup> Although Taiwan's application to GATT was well-received in 1993, formal terms of the acceptance were subject to Taiwan's use of the name "customs territory of Taiwan, Penghu, Kinmen, and Matsu."<sup>40</sup> China maintained this position throughout the period in which Taiwan advocated its GATT entry initiative.

In the latest attempt to enter the WTO, Taiwan presented its bid in a conference initiated by the European Union held in Singapore on December 1996. Taiwan argued that because it is the 14th largest trading economy in the world and the seventh largest investor in other countries, it has legitimate reasons for applying for entry in the WTO. At this conference, the European Union, the U.S., and Japan had held discussions with Taiwan regarding its bid to enter the WTO, and all had expressed interest in the prospect. Once Beijing learned of this move by Taiwan, it immediately protested on the grounds that the PRC's entry must precede that of the ROC. The present situation remains unchanged. In any event, both the ROC and PRC will most likely not enter the WTO in the near future.

Taiwan's much vaunted pre-PRC WTO entry is highly unlikely and ultimately not that meaningful. Although it is true that WTO participation would mean that Taiwan could participate in a truly international organization commanding a certain degree of international prestige, pre-PRC entry will not provide Taiwan with the means it needs to gain political or international legitimacy. U.N. re-entry is another matter, however.

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<sup>39</sup> *Tzu li wan pao*, 12 Sep 92, p. 2, in FBIS, 21 Sep 92, pp. 38-9.

As explicitly stated on numerous occasions by President Lee and Premier Vincent Siew, Taiwan's goal of readmission into the U.N. is a foreign policy issue essentially agreed upon by both the KMT and the Democratic Progressive Party (DPP), the two most powerful parties in Taiwan. Re-entry is an issue receiving the strong backing of the Taiwan electorate. In this respect, Taiwan's tactical persistence for readmission is a feasible strategy, since popular support on this issue warrants such a strategy. Certainly, history plays an important role in Taiwan's U.N. re-entry initiative. Since expulsion from the U.N. in 1971, Taiwan has continually claimed that it is the legitimate government of China and should therefore be allowed to resume its seat in the U.N. This claim to legitimacy based on historical reasons is amply reflected in Taiwan's popular support on this issue. Approximately 20,000 Taiwanese in 1991 marched in Taipei to rally for re-entry into the U.N. In September at the convocation of the 46th Session of the General Assembly, a 50 member group led by DPP legislator Hsieh Chang-ting lobbied in New York for Taiwan's membership. Also at this time, US\$30,000 worth of advertisements in *The New York Times* and the *Washington Post* were purchased.<sup>41</sup> There have been several recent instances of mainly Central American countries assisting Taiwan by submitting letters to the U.N. Secretary-General on behalf of the ROC asking for inclusion of the ROC's bid for re-entry on the General Assembly agenda. China's permanent representative to the U.N. and Foreign Ministry officials are outspoken in their opposition, and these letters are always rejected. Beijing's sensitivity on the issue

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<sup>40</sup> *China Post*, 1 Jun 93, p. 4, in FBIS, 7 Jun 93, p. 74; Yu-Shan Wu, "Taiwan in 1993: Attempting a Diplomatic Breakthrough," *Asian Survey*, January 94, p. 54; *Taipei CNA*, 27 Sep 91, in FBIS, 27, p. 81; *Agence France Presse* in English, 25 Sep 91, in FBIS, 25 Sep 91, p. 70.

<sup>41</sup> *Taipei CNA*, 14 Sep 91, in FBIS, 16 Sep 91, p. 55.

of sovereignty makes it virtually impossible for Taiwan to make even minimal progress in the fundamental objective of its pragmatic foreign policy.

### **China's Response to "Pragmatic Diplomacy"**

The PRC is uncompromising in its opposition to Taiwan's struggle for political legitimacy through diplomatic means. The principle of 'one China' is a forgone conclusion in Beijing's view. Any Taiwan-foreign contact that calls into question this principle or threatens the mainland's claim to political legitimacy is of course firmly opposed by Beijing. Consequently, the core of Taiwan's diplomacy, pragmatic diplomacy and tactical flexibility, is directly opposed by the PRC government.

Given present PRC intransigence on the issue of the ROC's objective of U.N. re-entry, pragmatic diplomacy is the only feasible diplomatic option available to Taiwan. According to the strategic logic of diplomatic pragmatism, Taiwan is willing to forego form for substance. Willingness to avoid using the official name, "Republic of China," creates a marginally favorable environment for participation in the international community. Under the strategy of diplomatic flexibility, Taiwan has averted direct confrontation over the sensitive issue of state sovereignty by adopting titles that are not politically controversial. Under the name "Taipei, China," for example, Taiwan resumed participation in the Asian Development Bank in 1988. In 1991, it became a member in APEC under the name of "Chinese, Taipei." And in 1993, the ROC's GATT application did make some progress, because Taiwan eventually agreed to use the name "customs

territory of Taiwan, Penghu, Kinmen, and Matsu.” Rather than exclude itself altogether from the international community by refusing to compromise on *de jure* independence, Taiwan has instead strengthened, if only marginally, its *de facto* independence by accepting these concessions in name for the sake of pursuing an active engagement with foreign countries.

However, tactical flexibility and pragmatic diplomacy have not advanced Taiwan’s primary goal of political legitimacy by means of U.N. readmission and the fostering of substantive ties, the two main areas in which Taiwan strives to make diplomatic progress. Well aware of Taiwan’s intention to re-enter the U.N., Beijing doggedly monitors any advances that Taiwan attempts to make in this regard. Under constant and severe diplomatic pressure from Beijing, Taiwan has been unable to make any progress in its U.N. initiative. A look at the twenty-eight countries that maintain official diplomatic contact with Taiwan does not bode well for Taiwan’s prospects for re-entry.

Beijing’s response to Taiwan’s fostering of substantive relations consists of continuous monitoring and evaluation of what Taiwan tries to exact out of these ties. Even under the guise of unofficial inter-liaison meetings, the presence of Taiwanese officials in foreign countries is a provocative action in Beijing’s view. Such meetings prompt Beijing to issue diplomatic warnings to the given host country not to interfere in China’s domestic affairs by in any way advancing what Beijing views as separatist activities. Beijing is adamant on the ‘one China’ principle and insists that any attempt by Taiwan to seek diplomatic recognition through its tactical flexibility is bound to fail.

This uncompromising position does not mean, however, that Beijing opposes Taiwan's contact with foreign countries. Almost as a matter of procedure, Beijing seeks clarification of Taiwan-foreign contact to ensure that such contact is not inconsistent with what would be expected from Taiwan as a province of the PRC.

Finally, Taiwan's attempt to take advantage of the Southeast Asian financial crisis by fostering diplomatic relations has also prompted a swift response from Beijing.<sup>42</sup> Consolidation of regional ties does not in itself constitute a diplomatic threat to Beijing, despite ROC rhetoric to the contrary.<sup>43</sup> Instead, the risk to Beijing is that Taiwan will use its investment capability and trade ties to develop comprehensive diplomatic relations, a tactic derisively referred to by Beijing as "money" diplomacy (*jinqian waijiao*). With this tactic, Taiwan seeks to establish sufficiently extensive diplomatic contacts in the region thus enabling it to increase the chances for success of its U.N. initiative. A handful of Caribbean and Central American countries pose no threat to Beijing. If, however, Taiwan added to these two regional diplomatic links allies from Southeast Asia, Taiwan's prospects may increase.

Although Taiwan's southward policy seeks to undermine Beijing's intermediate objective of effecting economic dependence on the mainland, there is little likelihood that Southeast Asia could replace the mainland as the primary destination for Taiwan investment and trade. In order for Taiwan to change normal Southeast Asian commercial

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<sup>42</sup> See Bo Houmin, "Taiwan dangju chongti "nanxiang zhengce" de beihou" (The Reason Behind the Taiwan Authorities' Revival of the Southward Policy) *Renmin ribao*, 8 Jan 98, p. 5; Qin Hua, "Taiwan dangju zaidu tuidong "nanxiang zhengce" bieyouyongxin" (Taiwan Authorities Have Ulterior Motives in Once Again Promoting the "Southward Policy"), *Liaowang (Xinwen Zhoukan)* #10, 1998, p. 24.

<sup>43</sup> See esp. *President Lee Teng-hui's International Press Conference* (Taipei, Taiwan, Kwang Hwa Publishing Co., 1993), pp. 17-8.



ties to diplomatic ones, a considerable amount of investment is needed.<sup>44</sup> The disadvantages of money diplomacy are apparently the source of domestic criticism in Taiwan, according to mainland reports. Any diplomatic gains to Taiwan come at considerable economic and political cost.

Since money diplomacy is based on the purchasing of diplomatic loyalty, it is an easily manipulated strategy. As China becomes more powerful economically, it will be able to raise the costs to Taiwan of engaging in money diplomacy. The loss of St. Lucia is a perfect example. Beijing beat Taiwan at its own game by essentially out-bidding Taiwan. Beijing offered St. Lucia US\$1 million in aid for textbooks for high school students. Within days, Taiwan fought back by offering St. Lucia more financial assistance than it had previously promised. St. Lucia accepted Beijing's offer and eventually severed ties with Taiwan. The "ally" basically goes to the highest bidder. Moreover, countries that Taiwan in money diplomacy can easily exploit this precarious relationship. Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—all essential to Taiwan's U.N. bid—have required Taiwan to raise its contribution to a regional development fund from US\$100 million to US\$240 million.<sup>45</sup> As Nicaragua's Vice-President, Enrique Bolanos, said in an address to a Nicaraguan mission to Taiwan: "They need friends...and we need money."<sup>46</sup>

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<sup>44</sup> Qin Hua "‘Jinqian waijiao’ nenggou tuozhan ‘guoji kongjian’ ma?" ("Can "Money Diplomacy" Expand "International Space"?), *Liaowang (Xinwen Zhoukan)* # 38, 1997, p. 47.

<sup>45</sup> *South China Morning Post*, 1 Sep 97, p. 8.

<sup>46</sup> Quoted in *ibid.*, 6 Sep 97, p. 10.

## Evaluation

Pragmatic diplomacy does not pose a significant threat to China's legitimacy. The monitoring of Taiwan's attempts to advance its diplomatic status requires vigilance, but since pragmatic diplomacy has not led to any palpable results since its inception in 1988, prospects for success remain grim. Nevertheless, the current ineffectiveness of pragmatic diplomacy does not mean that Taiwan's approach has no hope for success, hence the need for vigilance.

Taiwan must realize that in the long term, pursuit of *de facto* independence by means of pragmatic diplomacy is bound to fail. As China becomes more powerful economically, it will challenge the very basis of Taiwan's fostering of official diplomatic ties, i.e., money diplomacy, either by outbidding Taiwan (e.g., St. Lucia) or by raising the costs of establishing ties with Taiwan by threatening to deny market access to the country in question (e.g., South Africa). Therefore, Taiwan can only expect to see the number of its official diplomatic links decrease. Taiwan may still be in a position to maintain substantive ties, but this will not advance its goal of U.N. readmission. For this, Taiwan relies on official diplomatic links, primarily Central American countries, to pursue *de jure* independence by means of U.N. re-entry. Pursuit of *de jure* independence by this means, the only means currently available, is thus untenable.

Beijing also uses its power within the U.N. to check the progress of pragmatic diplomacy. As a permanent member of the U.N. Security Council, Beijing wields considerable power. It recently prevented U.N. missions to Haiti and Guatemala, two of

Taiwan's allies. Taiwan's strongest allies in Central America are always susceptible to this kind of pressure.

Finally, Beijing's economic dependence strategy has taken on heightened prominence in light of Taiwan's limited ability to realize diplomatic objectives by means of pragmatic diplomacy. Taiwan has tried to use diplomatic efforts both to strengthen its political status through participation in international and regional arrangements and to counteract Beijing's attempts to effect Taiwanese economic dependence on the mainland. However, with the possible exception of the maintaining of substantive relations, an unimportant objective when compared to the primary goal of re-entry into the U.N., Taiwan has been unable to establish a significantly expanded political role in international affairs. Without the support of an international body, such as the U.N., to recognize Taiwan, its claim to independence is meaningless.

### III. *The Issue of the Right to Use Force: A Matter of Legitimacy*

It is easy to misconstrue China's persistent claim to the right to use force as simply an example of the mainland's belligerence toward Taiwan. Recent military exercises off the coast of Taiwan would certainly seem to confirm this point of view. With these exercises, China seemingly contradicts the main thrust of the cross-Strait initiative of peaceful reunification (*heping tongyi*) by refusing to renounce the use of force against Taiwan. Indeed, that Deng had made great efforts to achieve the goal of

peaceful reunification makes the CCP's insistence on the use of force all the more perplexing.<sup>47</sup> When viewed in the context of the military option, however, the use of force serves strategic interests that help advance China's overall Taiwan policy.

Alongside China's persistent call for peaceful reunification is its insistence that it possesses the right to use force to resolve the Taiwan problem. In resolving the Taiwan problem, China has always maintained that it has the right to use force under certain conditions: a declaration of independence, acquisition of nuclear weapons, domestic insurrection, foreign intervention, or an unnecessarily long delay in reunification. The existence of any one of these conditions warrants, China argues, military intervention in Taiwan. It is generally agreed by analysts of Taiwan's national security policy that the existence of these conditions is unlikely, and therefore the use of force is remote.<sup>48</sup> Nevertheless, China continues to use the military option as a fundamental component of its comprehensive Taiwan policy.

In analyzing the military option, it is necessary to distinguish between the right to use force and the threat of force. In the context of cross-Strait relations, this difference is particularly important. The right to use force is a matter of legitimacy for the mainland. Because the CCP is the legitimate government of China, under no conditions can the terms of the use of force with respect to Taiwan be negotiated. In the mainland's view, Taiwan has only local political legitimacy. (It is, for example, often referred to as a

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<sup>47</sup> See Andrew Nathan, *China's Crisis* (New York: Columbia University Press, 1990), p. 154.

<sup>48</sup> See esp. Paul H.B. Godwin, "Force and Diplomacy: Chinese Security Policy in the Post-Cold War Era," in *China and the World: Chinese Foreign Relations in the Post-Cold War Era* (Colorado: Westview Press, 1994), p. 182; Parris H. Chang and Martin L. Lasater, *If China Crosses the Taiwan Strait: the International Response* (Maryland: University Press of America, 1993); Jen-kun Fu, *Taiwan and the*

“renegade province.”) As a result, the CCP does not heed the call of external parties, including those in Taiwan, to renounce the use of force.

The threat of force, on the other hand, is primarily not an issue of legitimacy. It is instead a tactic used mainly to coerce pro-independence political groups, such as the DPP, the New Party, and factions within the KMT, into abandoning their claim to Taiwan’s independence. Until recent changes in Taiwan’s domestic political situation (the main subject of Section V below), military coercion was used primarily to ensure the dominance of the KMT, which in turn ensured that any cross-Strait negotiations would take place on the inter-party level. In this way, politically controversial inter-governmental negotiations may be avoided. In the most recent instance of military coercion against Taiwan, Beijing used fairly extensive military exercises, including ground-to-ground missile launching training, troop mobilization, and air force exercises, to attempt to sway the Taiwan electorate in the landmark presidential elections held on March 23, 1996.<sup>49</sup>

The two aspects of the military option, namely the right to use force and the threat of force, are discussed below. But at this point, it is important to note that the military option should not be misconstrued as merely a tactical issue. Beijing has clear security interests in mind in exercising the military option as a significant part of its Taiwan policy. Because the prospects of foreign intervention, a formal declaration of

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*Geopolitics of the Asian-American Dilemma* (New York: Praeger Publishers, 1992), pp. 83-91 and Conclusion.

<sup>49</sup> This election was singular in Taiwan’s history. In past presidential elections, the president was elected by the National Assembly, one of three central representative organs (the other two being the Legislative and Control Yuans). Taiwan’s ‘96 presidential election was a popular election. The next presidential election is to be held in the year 2000.

independence, or the acquisition of nuclear weapons are all potential security threats, military intervention is always a possibility. It is therefore necessary to consider the prospect of the actual use of force in addition to the right to use force and the threat of force.

### **The Right to Use Force**

The CCP's vehement refusal to renounce the right to use force is directly related to the issue of political legitimacy. In the CCP's view, there is only one China. The mainland is the legitimate government of China. According to the one China principle (*yige Zhongguo de yuanze*), Taiwan is a local government subsumed under the national sovereignty of the mainland government. The specific way in which Taiwan is considered a part of the mainland government is explicated in the 'one China, two systems' policy. According to this policy, Taiwan is granted certain freedoms such as the right to preserve its local political system, conduct trade with foreign countries, and even maintain its own military. The CCP's main condition is that Taiwan must end its pursuit of national political legitimacy and affirm the national sovereignty of the mainland government.

Presently, this condition is difficult to realize. Taiwan politicizes Beijing's sovereign claim to the right to use force by insisting that for any official cross-Strait negotiations to occur, Beijing must first renounce the right to use force. President Lee opposes what he considers to be the belligerence of the mainland because of its insistence on preserving this right. In spite of whatever objections Lee may have on the use of force, his insistence that Beijing relinquish the right to use force clearly serves as an effective tactic. By linking Beijing's insistence on the right to use force to the issue of cross-Strait talks, Taipei can evade such negotiations. Aware of the implications of Taipei's response were Beijing to renounce the right to use force, Beijing has little choice but to persist in its claim to this right. Bowing to Taipei's pressure to renounce the right to use force would present Taipei with an open opportunity to question China's sovereignty.

Recognizing the impasse caused by the two sides' uncompromising position on the right to use force, former President Yang Shangkun attempted to moderate this persistent difficulty in cross-Strait diplomacy. In May 30, 1992, President Yang gave the first official response to Taiwan's proposal for a "nonaggression" treaty. He argued that China could not sign a mainland-Taiwan treaty since such an act would imply that China recognizes two national governments. Yang closed his remarks by "resolutely affirming" the CCP's stand on holding talks only between the CCP and the KMT.<sup>50</sup>

This position was moderated considerably in subsequent policy pronouncements, however. Nearly one year later, at a Taiwan policy conference attended by Wang

Zhaoguo, CCP Central Committee Politburo member, and Wang Daohan, Chairman of ARATS, Yang was entrusted by Jiang Zemin to deliver “important instructions” on cross-Strait relations.<sup>51</sup> In addition to reiterating the rhetoric characteristic of Deng’s policy on Taiwan (e.g., oppose “two Chinas” (*fandui liangge Zhongguo*), affirm “one China, two systems” (*jianchi yiguo liangzhi*), uphold the long-term “peaceful reunification” (*weihu changyuan heping tongyi fangzhen*), Yang offered a significantly revised position on the right to use force. He assured Taiwanese authorities that although China could not renounce the use of force, it would not resort to force “to solve temporary obstacles and difficulties in the reunification of the two sides.” Yang’s assurance implied that the actual use of force would be a viable option only in the case of major disruptive events in cross-Strait relations. Regarding Taiwan’s hope for a nonaggression treaty, Yang said that China would be willing to study a “declaration or accord ruling out hostilities.” This concession was made in the context of a direct mention of China’s need to “give ground...on anything that helps move relations between the two shores forward and achieve an early unification.” Although these concessions clearly did not indicate any change in China’s refusal to involve itself in talks which advance the notion of two governments, Yang’s virtual reversal from his position a year earlier was a notable shift in attitude. This concession, if only in attitude, is the only time that the CCP has made anything close to a compromise on the issue of the right to use force. Since then, China has maintained the uncompromising position characteristic of the pre-Yang concession.

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<sup>50</sup> Chen Chien-ping, “President Yang Shangkun Comments on Taiwan Authorities’ Proposal,” *Wen wei pao*, 30 May 92, p. 2, in FBIS, 1 Jun 92, pp. 12-3.

<sup>51</sup> Ming Li, “New Elements in the CPC’s Taiwan Policy,” *Ching pao*, 5 May 93, pp. 82-3, in FBIS, 12 May 93, pp. 66-7.



## **The Tactical and Political Significance of the Threat of Force**

The CCP's threat of force is a coercive tactic meant to put pressure on the Taiwan government to enter into cross-Strait negotiations. In general, the threat of force exists, it is argued, primarily because the peaceful reunification approach is not sufficient to account for certain contingencies that might arise during the implementation of this approach. The peaceful reunification policy cannot by itself guarantee that in the course of cultivating a more economically integrated Taiwan, events will not transpire that would significantly disrupt expanded integration into the mainland. As a result, the threat of force is used to dissuade Taiwan from declaring independence, acquiring nuclear weapons, or being subjected to foreign military intervention. In addition to this objective, Beijing's threat of force clearly has another tactical objective, namely the influence that Beijing can exert on Taiwan's domestic politics. Use of this tactic can be seen in the military exercises held off the Taiwan coast in mid-1995 and early 1996.

In mid 1995, Beijing began military exercises in the Taiwan Strait. The culmination was the military exercise that began on March 8, 1996 and ended days after the presidential elections in Taiwan on March 23rd. At the beginning of these exercises, the People's Liberation Army (PLA) tested missiles launched about 30 miles west of Taiwan at the southern tip of the Taiwan Strait. The second missile testing area was approximately 12 miles off the northeast coastline of Taiwan. From March 12th to the 20th, the PLA intensified the exercise by conducting "live fire" naval and air force exercises in the Taiwan Strait. These exercises effectively blockaded Taiwan's northern

and southern harbors, Keelung and Kaohsiung, respectively. In addition, approximately 150,000 PLA troops were amassed on the mainland's southeastern coastline opposite Taiwan.

Taiwan labeled these exercises "war games" and "missile diplomacy", criticizing Beijing for trying to intimidate Taiwan and influence its presidential elections. In fact, these exercises represent only the most recent instance of the mainland's military coercion against Taiwan. Beijing has actively been involved in influencing elections in Taiwan by means of military coercion. Independence forces in Taiwan are seen by Beijing as a direct threat to reunification. Because of the political dynamics of party elections in Taiwan in the past, it was possible for Beijing to influence election results by warning Taiwan of the use of force should Taiwan's elections lead to a declaration of independence. It is not surprising then that the Taiwan electorate does not vote for candidates running on a publicly known pro-independence platform.<sup>52</sup> As a result of this dynamic, the KMT has had until recently a built-in advantage in elections which enabled it to use China's threat as a means to dissuade the Taiwan electorate from supporting ardent pro-independence candidates.<sup>53</sup>

Beijing's attempt to influence the most recent presidential elections proved to be at best only marginally successful, however. Taipei's political manipulation of Beijing's attempt to coerce Taiwan, international criticism, the hastening of arms sales as well as the sale of new arms, and the subsequent retaliation of Taipei by holding its own military

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<sup>52</sup> See for example, *Taipei CNA*, 3 Apr 91, in FBIS, 4 Apr 91, p. 81; *ibid.*, 1 Jul 91, in FBIS, 5 Jul 91, p. 55; *ibid.*, 21 Oct 91, in FBIS, 22 Oct 91, p. 60.

exercises one week before the handover of Hong Kong taken together seriously undermined Beijing's attempt to influence Taiwan's elections by means of military coercion. The result of Beijing's military coercion was that Lee Teng-hui, an ardent opponent of the CCP, was elected president by a popular vote. Lee also craftily used the exercises to his advantage by bolstering support for his election bid. On one occasion he even traveled to the remote island of Penghu at the edge of the exercises and proclaimed "no one is scared."

Beijing's military exercises also drew swift criticism from the international community, particularly from the U.S. The U.S., Japan, and France were the most vocal in their respective criticisms of the act, calling it highly provocative and not conducive to peace and stability in East Asia. Meanwhile, President Clinton ordered the deployment of the U.S.S. Independence and the U.S.S. Nimitz to the region. Beijing immediately protested Washington's response, claiming that it was an interference in China's internal affairs. Washington countered by saying that it retained the right to move through international waters, and that this was a move to defuse, not raise, tensions there.

Yet another effect of the exercises was the hastening of arms sales orders from the U.S. and France as well as arms purchases by Taiwan from the U.S. Arms sales to Taiwan constitutes the most tangible violation of China's restriction on international intervention, one of several conditions warranting military intervention in Taiwan. Under the Bush administration, the U.S. signed an agreement in September 1992 to sell 150 F-16s as well as to transfer technology allowing Taiwan to construct Perry-class

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<sup>53</sup> See Thomas Metzger, *The Unification of China and the Problem of Public Opinion in the Republic of*

frigates with upgraded anti-submarine capabilities. The French government decided to continue its commitment to sell Taiwan 60 Mirage 2000-5s despite severe protests from Beijing. After the missile exercises, Taiwan pushed for the delivery of these orders, which began in 1997. In addition, the U.S., under extreme protests from Beijing, agreed to sell Taiwan the Avenger anti-aircraft missile system. China's Ministry of Foreign Affairs claimed that this sale was a direct violation of the "Communiqués" governing relations between the U.S. and China.<sup>54</sup> The U.S. State Department argued that the sale was consistent with U.S. policy on arms sales to Taiwan. In any event, that Taiwan was able to exploit the political and strategic security opportunities that emerged as a result of the military exercises is clear.

Finally, perhaps the most damaging action to result from the mainland's tactic of threat of force by means of the military exercises was the tit-for-tat response of Taiwan to hold military exercises of its own one week before the handover of Hong Kong to China. On June 23rd and 24th of 1997, Taiwan held major military exercises in the Taiwan Strait. The timing of these exercises was quite intentional. With just one week before the Hong Kong handover, Taiwan was telling Beijing that it was not Hong Kong. That is, it is not possible to adopt the 'one country, two systems' approach, as was agreed to by the Chinese and British governments, in Taiwan's case, since Taiwan is not the result of colonization but rather maintains its claim to national political legitimacy. The exercises

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*China in Taiwan* (Stanford University Press, 1992), p. 5.

<sup>54</sup> The "Communiqués" here refers to the 1972 Shanghai Communiqué which was signed by the U.S. and China and which recognizes Taiwan as a part of China. The U.S. frequently invokes the subsequent Taiwan Relations Act signed in April 1979. The Taiwan Relations Act, which abrogated the 1954 Mutual Defense Treaty with Taiwan, contains "defense articles" pertinent to the continued defense of Taiwan. This Act allows the U.S. to "provide Taiwan with arms of a defensive character" (Taiwan Relations Act Section

by Taiwan were also clearly meant to serve as a retaliation for previous military exercises by Beijing. Once it was clear that Taiwan would not back down from its commitment to go ahead with the exercises, both Washington and Beijing tried to dissuade Taipei from holding the exercises. Washington was worried that this highly provocative action would escalate cross-Strait tensions, providing the CCP with the excuse it needed to take the ultimate step in the military option. Tactically, Taiwan's retaliation clearly undermined China's previous attempt at military coercion. Because the issue of the right to use force is highly politicized, neither side was willing to back down. Beijing had to respond to Taipei's retaliation by either resuming its own military exercises or disengaging from such exercises. It chose the latter option, saying however that it reserved the right to continue exercises in the future as needed.

On balance, Beijing's coercive military tactic *vis-à-vis* Taiwan is neither a complete success nor a complete failure. On the one hand, Taiwan's retaliation, international opposition, the popular election of Lee Teng-hui, and the sale of arms to Taiwan were all, to varying degrees, the result of Beijing's decision to hold military exercises. In light of these setbacks, Beijing's own attempt to politicize the whole affair by claiming that because the exercises prevented the independence of Taiwan the tactic was therefore successful, did not seem to have many supporters.

On the other hand, in terms of the political impact of the military exercises on the mainland, the exercises were a success. During virtually every day of these exercises, the CCP broadcasted updates on the state controlled television stations. Vivid images could

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2(b)(5) of Public Law 98-8). China has always maintained that the Taiwan Relations Act is an interference

be seen of tactical attack aircraft, missile launches, and troop mobilization exercises. Because the content of these broadcasts were thick with ideological rhetoric, the broadcasts had the effect of strengthening nationalist fervor for the reunification cause.<sup>55</sup>

Moreover, Jiang seems to have used the Taiwan Strait war games as a way of keeping the military loyal to the Party. In a speech to the air force delegation of the Communist Party's 15th Congress, Jiang emphasized the need for the military to remain under the "absolute authority" of the Party.<sup>56</sup> As the first Chairman of the CCP's Central Military Committee without military experience, Jiang has had difficulty asserting control over the military on the issue of Taiwan.<sup>57</sup> As head of the campaign to reunify Taiwan, Jiang has appointed more military officers to the Leading Group on Taiwan Affairs (LGTA) which is chaired by Jiang. (For the LGTA's position in the mainland government structure, see Appendix II.) With the retirement of Liu Huaqing, who was the highest ranking military official in the Politburo Standing Committee and who was often outspoken in his disagreement with Jiang during standing committee meetings, Jiang is eager to consolidate his political power in the military. He is therefore considering appointing vice-chairman of the Central Military Commission, Zhang Wannian, as well as Zhang's predecessor, Chi Haotian, to the LGTA. Both Zhang and

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in its internal affairs.

<sup>55</sup> I followed these broadcasts closely in Beijing. The rhetoric seemed to reach a climax when it was broadcasted that the "Taiwan compatriots" showed their love of the motherland by not opting for independence despite the fact that Lee Teng-hui was elected "president" of Taiwan.

<sup>56</sup> *South China Morning Post*, 30 Jan 98, p. 5.

<sup>57</sup> Jiang has only recently been able to keep high-ranking military officials from voicing their own opinions on the Taiwan problem (personal communication).

Chi are Politburo members.<sup>58</sup> The military option may thus serve Jiang's political interests of consolidating his power among the military elite.

### **Evaluation**

The use of the military option in China's Taiwan policy is complicated by the struggle for legitimacy between the ROC and the PRC, the tactical intricacy and politicization of the threat of force and the ever-present possibility of the actual use of force. Under the framework presented here (see Table II below), renunciation of the right to use force is unlikely. Were China, for instance, to bow to international pressure to renounce the right to use force or renounce the use of force in order to advance cross-Strait negotiations, Taiwan would most certainly exploit this opportunity by calling into question the PRC's right to assert national sovereignty based on its renunciation of a sovereign right. Moreover, there is no historical precedent to suggest that China would renounce the right to use force. With the possible exception of former President Yang Shangkun's attitudinal shift on this matter, China has never compromised on this issue. Therefore, China's insistence on the right to use force as an immutable part of the military option will most likely continue to be a significant component of China's Taiwan policy.

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<sup>58</sup> *Ibid.*, 31 Dec 97, p. 15.

**Table II: Framework for Military Option**

<u>Type</u>	<u>Main Goal</u>	<u>Current Status</u>
Right	Assertion of Legitimacy	Unchanged
Threat	Political Coercion/Tactical Complement to Peaceful Reunification	Constant Revaluation
Use	Subjugation of Taiwan by means of physical control	Ever-present Possibility

The threat of force is difficult to predict, because its status depends on several highly unpredictable variables, including the progress of the peaceful reunification effort and the domestic political situation of Taiwan. As a result of this unpredictability, the tactic of the threat of force undergoes constant revaluation based on changes in these variables. In general, it is safe to assume that the pressure on Taiwan to avoid independence is a constant characteristic of this tactic. However, even this changes, as for instance with initiatives by Beijing to effect détente when tensions are high in the Strait in order to promote negotiations. This is in fact the present state of affairs in cross-Strait diplomacy.

An evaluation of the decision to use force reveals that this is a highly unpredictable element in the military option. The built-in ambiguity in the list of conditions under which the mainland would use force against Taiwan stems from inclusion of the condition that China will intervene militarily in Taiwan if there is an unnecessarily long delay in reunification. With the inclusion of this condition, it is impossible to determine whether or when China would use force.



Yet despite this ambiguity, it is possible to view the prospect of the use of force as unlikely. When viewed in the broader context of China's overall Taiwan policy, the use of force is unnecessary.<sup>59</sup> The success of the economic strategy of dependence on the mainland together with the diplomatic isolation of Taiwan makes Taiwan's independence, both in the *de facto* and *de jure* sense, unattainable. As these two components of China's policy make further progress, the futility of Taiwan's attempts at independence and hence national political legitimacy will only become more apparent.

To be sure, this does not mean that China will not use force against Taiwan. The use of force is a prerogative of the mainland government. Yet to use military intervention to compel Taiwan to reunify with the mainland would incur more costs than it would create benefits. First, physical control of Taiwan by means of military subjugation would come at great economic costs. And the invasion of Taiwan would only threaten the progress of China's economic development.<sup>60</sup> Second, military control of Taiwan would cause significant long-term political problems. Assuming that the Taiwanese people could be controlled militarily by the mainland, this physical subjugation would most certainly strengthen pro-independence sentiment among the Taiwanese people. Even if it is assumed that in the near-term China could regain momentum in its economic development, the resolution by military means of the problem of Taiwan's defiance of the mainland would only exacerbate separatist feelings.

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<sup>59</sup> In fact, the use of force is counterproductive to China's economic dependence strategy. With the "missile blockade" of Taiwan, trade and investment fell precipitously. It is interesting to note though that in spite of Beijing's military exercises, trade with the mainland still registered positive monthly increases in the beginning of 1996. See Appendices I and III.

<sup>60</sup> See Bonnie S. Glaser, "China's Security Perceptions: Interests and Ambitions," *Asian Survey*, March 93, p. 264.

Third, an unprovoked act of aggression by Beijing could lead the U.S. to support Taiwan. The U.S. has clarified its position on this issue many times. It supports the peaceful settlement of the Taiwan problem. During Beijing's military exercises, Clinton's decision to deploy the largest naval force to Asia since the Vietnam War was a clear sign to Beijing. For these reasons, the use of force is not the preferred solution to the reunification of Taiwan, but it is always considered by Beijing to be an option.

In spite of these reasons, Beijing will continue to use military coercion as a complement to the peaceful reunification policy. Jiang's speech at a meeting of the 15th National People's Congress sums up the CCP's attitude on this point. During this meeting, Jiang proclaimed in a solemn tone: "Taiwan's fate is to be reunited with the motherland. Separation is simply not an option. On this, we are completely resolved. And we have the ability *in the end* to solve the Taiwan problem."<sup>61</sup>

#### *IV. Recent Developments in Taiwan's Domestic Politics and the End of Prospects for Inter-Party Negotiations*

Recent developments in the democratization of Taiwan's political system present several new challenges to China's Taiwan policy. In the context of an unfinished ideological and political rivalry dating back to the civil war (1927-1949) between the

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<sup>61</sup> Quoted in "'Yiguo liangzhi': züguo tongyi de zuijia xuanze" ('One Country Two Systems': The Best Choice for the Reunification of the Motherland), *Renmin ribao*, 4 Dec 97, p. 4. Emphasis in the quote above has been added.

CCP and the KMT, Beijing could reasonably insist on an inter-party cross-Strait negotiations framework. This strategy sought to ensure that any cross-Strait negotiations could proceed as long as Taiwan did not challenge the national political legitimacy of the mainland government. According to the rationale of this strategy, inter-party talks would avoid the problem of presenting Taiwan with the opportunity to legitimize its claim to national sovereignty.

Recent changes in Taiwan's politics mean that the CCP can no longer pursue this strategy. Specifically, the ascendance of the DPP and its push for independence mean effectively that Beijing can no longer insist on the strategy of inter-party negotiations with the KMT to reunify Taiwan. The change in negotiation dynamics has important implications for China's Taiwan policy. The democratization of Taiwan poses significant challenges to Beijing's attempt to effect cross-Strait negotiations. Taiwan's political changes do not, however, threaten the success of China's comprehensive Taiwan policy.

### **The Ascendance of the DPP**

Taiwan's political accomplishments are perhaps just as remarkable as its economic ones. From 1950 to 1986, Taiwan had gradually accomplished the seemingly impossible. Through the reform of its political system, it has successfully formed an

opposition party under a Leninist style political system.<sup>62</sup> Because of structural problems in Taiwan's political system and the fact that until 1987 the DPP was a banned organization operating under martial law, the DPP's rise to power is indeed a significant political accomplishment. Its ascendance to become the main opposition party to the KMT is an indication of the emergence of an increasingly powerful Taiwan electorate. The DPP's political success creates an element of uncertainty in mainland-Taiwan affairs. The DPP's rise to power complicates cross-Strait negotiations because it raises the question of who is the interlocutor on the Taiwan side. The answer to this question, the DPP claims, is that the Taiwan people should serve as the interlocutor. Accordingly, the DPP calls for a democratic unification. An analysis of the rise to power of the DPP shows that in fact its claim is legitimate.

### **Taiwan's 1997 Local Elections**

The DPP's resounding success in Taiwan's most recent local elections points to the rising popularity of the DPP. Election results show that the DPP has become a full-fledged opposition party primarily because of its popular support and not, as some argue, because of KMT intra-party factionalism. In November 29, 1997, Taiwan held local elections for a total of twenty-three seats on the county and city levels. The DPP won twelve seats, the KMT eight, and independent candidates three. (See Table III below.)

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<sup>62</sup> For a discussion of the liberalization and subsequent reform of Taiwan's political system, see Andrew

**Table III: Taiwan City and County Election Results**

<u>Electoral District</u>	<u>Winner (Incumbent)</u>
Ilan County	DPP (DPP)
Keelung City	DPP (KMT)
Taipei County	DPP (DPP)
Taoyuan County	DPP (DPP)
Hsinchu County	DPP (DPP)
Hsinchu City	DPP (KMT)
Miaoli County	Ind (KMT)
Taichung City	DPP (KMT)
Taichung County	DPP (KMT)
Changhua County	KMT (KMT)
Nantou County	Ind (KMT)
Yunlin County	KMT (KMT)
Chiayi County	KMT (KMT)
Chiayi City	Ind (Ind)
Tainan County	DPP (DPP)
Tainan City	DPP (KMT)
Kaohsiung County	DPP (DPP)
Pingtung County	DPP (KMT)
Taitung County	KMT (KMT)
Hualien County	KMT (KMT)
Penghu County	KMT (DPP)
Kinmen County	KMT (KMT)
Lienchiang County	KMT (KMT)

Source: Taiwan's China News

Note: "Ind" refers to independent candidates or candidates running without party nomination.

These results mean that at the local government level, the KMT is supported by only 22% of the Taiwan population while the DPP is supported by over 70%. A closer look reveals the extent to which the DPP succeeded in capturing the local popular vote. First, the DPP commanded a substantial majority of the vote in eight of the twenty-three electoral districts: Tainan County, Taoyuan County, Pingtung County, Taichung County, Tainan City, Kaohsiung County, Taipei County, and Taichung City (listed in descending order).

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Nathan, *China's Crisis* (New York: Columbia University Press, 1990), Ch. 8.

In each of these eight districts, the DPP led the KMT by over 30,000 votes.<sup>63</sup> Second, the victories of the KMT were unimpressive. In the eight districts won by the KMT, the largest margin of victory was relatively small. And in two of these eight districts, Kinmen and Lienchiang, there was no DPP opposition. Finally, another sign of the DPP's power can be seen in its ability to oust KMT incumbents. Half of the DPP's victories were the result of the DPP's unseating of the KMT incumbent. By contrast, the KMT was only able to replace one DPP incumbent.

This clear grassroots support prompted Beijing to issue a warning to the DPP. Spokesmen from both ARATS and the Taiwan Affairs Office warned that the pro-independence party could never succeed in separating Taiwan from the mainland.<sup>64</sup> Beijing's strategy was to downplay the DPP's success and focus instead on the KMT's loss by criticizing the KMT for corruption and the inability to solve Taiwan's public safety and social problems. Yet despite Beijing's low-key reaction to the DPP's success, the question remained of how the issue of effecting cross-Strait talks with an increasingly pro-independence Taiwan electorate would be resolved.

### **The DPP's Flexibility and the Independence Referendum Issue**

The ascendance of the DPP has forced the CCP to understand how to deal with a political party which employs a flexible political strategy by running on a pro-independence platform but which at the same time significantly moderates its unification

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<sup>63</sup> See *Renmin ribao*, 1 Dec 97, p. 5.

agenda. Although most DPP leaders occasionally openly advocate Taiwan's independence, most DPP leaders now recognize that an explicit, pro-independence platform is impolitic. Public opinion polls taken in Taiwan reveal two constants. First, the majority of Taiwanese are against declaring independence for fear of the consequences from the mainland. Second, most Taiwanese do not support imminent reunification with the mainland.<sup>65</sup> Taking into account these two constants, the DPP has decided to listen more closely to the electorate by shifting the focus of its political agenda. In the past, the DPP hoped to avoid the CCP's notice by replacing talk of independence with "self-determination." Thus, while not openly pushing for a "Taiwan independence" agenda, the DPP effectively advanced this agenda by means of a more indirect method of sustained and gradual consolidation of electoral support. The ultimate goal in moderating its pro-independence platform in this way was to generate support for democratization sufficient to overcome the need to negotiate for reunification.

This tactical readjustment has not escaped Beijing's notice. China noted the change as early as 1986.<sup>66</sup> China also pointed to the change in the DPP's tactic from the failed slogan "Taiwan Independence" used in the National Assembly elections to the supposedly less controversial banner used in the 1992 Legislative Yuan elections.<sup>67</sup> The CCP condemned pro-independence forces within the DPP for seeking to mobilize public

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<sup>64</sup> *South China Morning Post*, 1 Dec 97, p. 8.

<sup>65</sup> Personal communication; see *Taipei CNA*, 3 Apr 91, in FBIS, 4 Apr 91, p. 81; *ibid.*, 1 Jul 91, in FBIS, 5 Jul 91, p. 55; *ibid.*, 21 Oct 91, in FBIS, 22 Oct 91, p. 60. For a patently Chinese yet nonetheless revealing interpretation of these results, see *Renmin ribao*, 5 Oct 91, p.2, in FBIS, 8 Oct 91, pp. 63-5.

<sup>66</sup> See Andrew Nathan, *China's Crisis* (New York: Columbia University Press, 1990), p. 147.

<sup>67</sup> See Wang Zaixi and Li Shuiwang, "1992 Cross-Strait Relations and Taiwan's Situation," *Liaowang* (Overseas Edition), 11 Jan 93, pp. 9-10, in FBIS, 2 Feb 93, p. 76; see also Wen Di, "'One China, One Taiwan' Trends in Taiwan Warrant Attention," *ibid.*, 21 Dec 92, pp. 21-3, in FBIS, 29 Jan 93, p. 53.

support by altering its position, claiming that the Taiwan people could easily see that “self-determination” is in fact nothing more than another pro-independence slogan.

Because of the failure of the tactic of moderating its pro-independence agenda, the DPP’s response to mainland warnings over the ‘97 local elections suggests that the DPP is trying to optimize its election victory by openly declaring its pro-independence stance. In response to the CCP’s warnings, Taipei Mayor Chen Shui-bian and DPP Secretary-General Chiou I-jen, the two most prominent members of the DPP, stated that they were committed to the call for a Taiwan independence referendum. In the words of Mayor Chen: “The Democratic Progressive Party’s platform states that it should let Taiwan people decide whether they want to declare independence.”<sup>68</sup> This bold statement certainly caught Beijing’s attention, not least because Mayor Chen is widely believed to be the DPP candidate in the 2000 presidential elections. The DPP has clearly complicated the already complex and sensitive issue of cross-Strait negotiations.

## **Evaluation**

Because the strategy of pursuing KMT-CCP negotiations is no longer a viable option, Beijing must readjust this part of its Taiwan policy. The emergence of a two-party system in Taiwan is a political reality. The DPP’s strong showing on the grassroots level is a perfect indication of genuine movement in the direction of democratization. In effecting any future cross-Strait negotiations, it is clear that the DPP is a political force

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<sup>68</sup> *South China Morning Post*, 4 Dec 97, p. 9.



that must be reckoned with. Aware of this fact, the CCP's top hierarchy has reportedly discussed the prospects of dealing with pro-unification oriented DPP members.<sup>69</sup>

The decision to adopt a more open forum for possible negotiations reflects China's willingness to accept the political reality of Taiwan. To be sure, it can be argued that precisely because of Taiwan's democratization, China is compelled to negotiate with the party in power. Taiwan's political changes necessitate policy readjustment, and China's willingness does not factor into any readjustments to its negotiation tactic. Equally true, however, is the fact that China has never maintained that the KMT is the only political party in Taiwan. This is precisely the point of acknowledging that the mainland cannot expect to have its system of government adopted by Taiwan and vice versa. Hence the appropriateness of the 'two systems' part of the 'one country, two systems' policy. But as a condition of working with various parties, Taiwan must acknowledge that the mainland government is the sovereign government of China. This position is not negotiable.

In its past strategy, China insisted on dealing only with the KMT primarily for historical and tactical reasons. China could maintain its claim to national sovereignty by negotiating on the inter-party level. Inter-governmental negotiations risk the politicization of talks by Taiwan. China seeks to avoid entangling itself in any semblance of inter-governmental negotiations. Because of the political danger of adopting a more open forum for political negotiations, Beijing is understandably proceeding cautiously. While signs of strategy readjustment can begin to be seen, it is

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<sup>69</sup> *Ibid.*, 21 Feb 98, p. 8; *ibid.*, 1 Dec 97, p. 8; *Kuang chiao ching*, 16 Feb 94, pp. 6-8, in FBIS, 8 Feb 94, p.

too early to tell what specific tactic Beijing will take in dealing with the problem of facilitating cross-Strait negotiations. Clear signs of a negotiation tactic will most likely emerge after the cabinet reshuffling of the Ninth National People's Congress.<sup>70</sup>

Taiwan's current political situation relates to only one part of China's multi-faceted policy. The strategy of peaceful reunification through inter-party negotiations is evidently no longer realizable, but this does not seriously threaten the efficacy of China's policy. The consequence of the current inappropriateness of inter-party negotiations simply means that reunification is not likely to come soon. Because of the success of the economic dependence strategy, Beijing can afford to proceed cautiously on the issue of negotiations. Accordingly, emphasis is placed on the other three parts of its comprehensive policy, namely, effecting Taiwan's economic dependence on the mainland, isolating Taiwan diplomatically, and refusing to renounce the right to use force.

In a series of telltale speeches at a national meeting for directors of Taiwan affairs held in Xiamen in December 1993, Qian Qichen, then deputy head of the Taiwan Working Group of the CCP Central Committee,<sup>71</sup> and Wang Zhaoguo, Director of the

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<sup>70</sup> For preliminary signs of a negotiation tactic, see *China Daily*, 20 Mar 98, p. 3. It appears that one part of this tactic is to appeal to the various parties in Taiwan. By working with these parties as well as coalitions within them, China has the advantage of playing one party or coalition off the other, thus strengthening its party or coalition building through leverage. It is conceivable that under pressure from Beijing, the KMT would begin to consider relaxing some of the restrictions associated with its mainland strategy of indirect commercial ties, for example. The State Council has invited the New Party, a party consisting of pro-independence coalitions, to Beijing to assist in the drafting of Taiwan indirect mainland investment legislation. State Council officials have all but given up on the prospects for negotiations with the KMT. This development suggests that a new negotiation tactic is already emerging (personal communication).

<sup>71</sup> After the first session of the Ninth National People's Congress, Qian Qichen was moved from his position as Foreign Minister to Vice-Premier in the State Council. This move will have important policy implications, since Qian is now an integral part of Zhu Rongji's economic policy advisors. See Appendix II.

Central Office for Taiwan Affairs, delivered speeches reaffirming the importance of stressing the economic, diplomatic and “military” components of China’s Taiwan policy.<sup>72</sup> Qian emphasized China’s long-term commitment to reunification especially in light of the “KMT’s Taiwanization process” and the development of the strength of the DPP. Qian intimated that the economic dependence component of China’s policy would best be implemented by wherever possible bypassing the Taiwan authorities altogether in favor of furthering ties between individual Taiwan investors and officials responsible for specific provincial projects.<sup>73</sup> Thus, China will continue to pursue reunification through advancing the economic, diplomatic, and military parts of its policy while at the same time continuing to refuse to make any concessions whatsoever on recognizing the national political legitimacy of Taiwan. The strategy intimated at in these speeches continues to prove effective today.

## V. Conclusion

A cursory look at cross-Strait diplomacy would seem to suggest that Beijing’s efforts have not yielded any palpable results. In terms of the current status of cross-Strait negotiations, Beijing seems to be making little progress in getting Taipei to come to the negotiating table. Almost three years have passed since the two sides have held negotiations. Furthermore, previous negotiations were held between the ARATS and SEF, two semi-official organizations created as a compromise intended to facilitate

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<sup>72</sup> *Lien ho pao*, 14 Jan 94, p. 2, in FBIS, 21 Jan 94, pp. 74-5.

<sup>73</sup> Cf. footnote 25 above for a description of how Taiwan investment in provincial projects is facilitated.

cross-Strait talks by avoiding sensitive political issues. Clearly, the resumption of informal talks is a laborious task bearing little fruit. The current impasse in cross-Strait negotiations makes the prospect for official political discussions even more remote. President Lee's firm rejection of Jiang's offer to resume discussions on the political level means that it may be some time before mainland-Taiwan negotiations can resume.

Yet despite the impasse in cross-Strait negotiations, Beijing's Taiwan policy, when viewed comprehensively, has made progress toward the ultimate goal of reunification. As emphasized throughout this analysis, the cornerstone of this policy is the strategy of promoting the expansion of mainland-Taiwan commercial ties. As a way of seriously weakening Taiwan's power to resist official negotiations, the general strategy of effecting Taiwan's economic dependence on the mainland serves as the basis of an intermediate objective in China's overall aim of reunification. Progress toward this intermediate objective is evident. Indirect cross-Strait trade and investment statistics indicate a clear trend in favor of economic dependence. Taiwan's response of adamantly adhering to an indirect and selective economic relationship in order to avoid dependence will soon be impractical. Insistence on indirect and selective economic ties is an inadequate response primarily because Taiwan has been unable to devise a solution to China's appeal to the economic interests of Taiwan's businesses and entrepreneurs. Based on political motives, the rationale of Taiwan's policymakers for indirect economic relations is much less immediate and persuasive than the arguments made by Beijing that emphasize a clearly mutually beneficial economic relationship.

Because of the gradual success of the economic component of China's policy and also because of the unpredictability in Taiwan's domestic political situation, Taiwan's only realistic option for resisting reunification is its flexible foreign policy. Without this option, Taiwan would have to either depend on changes in the economic development of the mainland or make significant advances in party reform and pluralism. However, Taiwan could not, by relying on these conditions, base its policy on such an open-ended foundation, especially in light of China's progress in creating Taiwan's economic dependence on the mainland. Consequently, President Lee has essentially pursued the only choice available, namely, the establishment of an expanded political role in international affairs.

An analysis of the diplomatic component in cross-Strait relations suggests that Taiwan cannot succeed in its endeavor of expanding its political role in international affairs. Although Taiwan is able to engage in "money" diplomacy by essentially purchasing the loyalty of a small group of countries in an attempt to assist Taiwan in promoting its U.N. readmission initiative, China continues to enjoy complete international legitimacy. Taiwan may continue to cultivate substantive relations with countries willing to jeopardize relations with China, but formal diplomatic relations with countries of significant international status will not sacrifice relations with China to pursue official diplomatic relations with Taiwan. Taiwan may thus continue to validate its status as a *de facto* independent state by placing a veneer of officiality on substantive relations. But Taiwan's claim to *de facto* independence will appear increasingly irrelevant as it becomes economically dependent on the mainland. Moreover, Taiwan's

flexible foreign policy will not win the support of countries with diplomatic status significant enough to gain Taiwan *de jure* independence through re-entry into the U.N. By failing to make a significant breakthrough in pragmatic diplomacy beyond the realm of substantive relations, Taiwan will then lack the means necessary to enter into official negotiations from a position of strength.

**Appendix I: Cross-Strait Trade**

Unit: US\$1,000,000

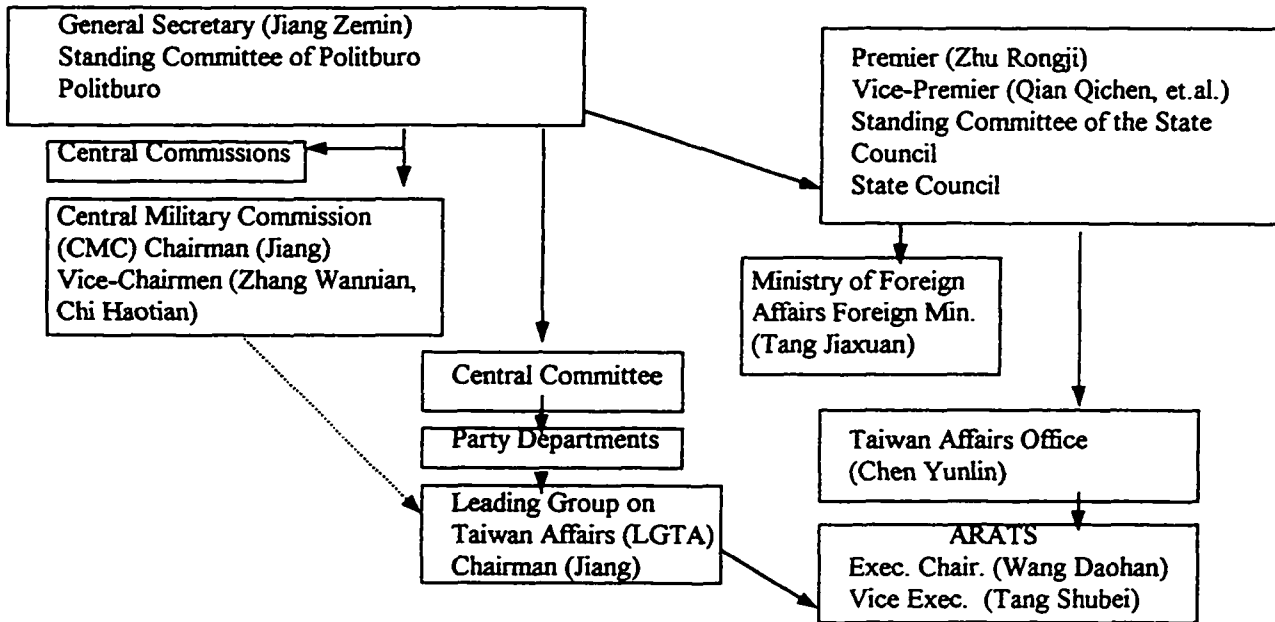
<u>Year</u>	<u>Total Taiwan Exports</u> (approx.)	<u>Annual Percent Increase</u>	<u>Transshipment Export Total</u>	<u>Annual Percent Increase</u>	<u>Total Indirect Exports as a Percentage of Total Exports</u>
1986	811.3	-17.8	811.3	-17.8	2.0
1987	1226.5	51.2	1226.5	51.2	2.3
1988	2224.2	81.3	2242.2	82.8	3.7
1989	3244.8	45.9	2896.5	29.2	4.9
1990	4171.3	28.6	3278.3	13.2	6.2
1991	6928.3	66.1	4667.2	42.4	9.1
1992	9696.8	40.0	6287.9	34.7	11.9
1993	12727.8	31.3	7585.4	20.6	15.0
1994	14653.0	15.1	8517.2	12.3	15.7
1995	17898.2	22.1	9882.8	16.0	16.0
1996	19148.3	7.0	9717.6	-1.7	20.5
1997	20535.0	7.2	9715.1	0.0	27.0
1996 Jan	1695.5	47.8	931.1	33.9	unavailable
Feb	1002.8	-26.1	538.8	-20.4	
Mar	1437.6	-2.9	771.9	-10.3	
Apr	1706.2	-0.1	909.9	10.8	
May	1582.7	-8.2	852.4	-10.7	
Jun	1571.5	9.3	742.1	-13.3	
Jul	1471.6	-7.1	877.5	5.2	
Aug	1583.6	14.2	772.0	-4.6	
Sep	1589.0	15.3	772.9	-6.1	
Oct	1633.0	8.7	872.4	1.5	
Nov	1853.2	15.4	803.8	0.8	
Dec	2063.4	27.4	869.8	-2.8	
1997 Jan	1627.1	-3.7	828.7	-11.0	unavailable
Feb	992.1	-0.5	546.0	1.3	
Mar	1721.4	20.2	772.6	0.1	
Apr	1706.8	0.2	861.7	-5.3	
May	1725.3	9.3	838.3	-1.7	
Jun	1766.1	12.0	784.6	5.7	
Jul	1762.4	19.8	882.3	0.5	
Aug	1507.2	-4.4	779.7	1.0	
Sep	1828.1	16.2	756.4	-2.1	
Oct	1792.2	10.2	964.2	10.5	
Nov	2071.4	12.1	843.7	5.0	
Dec	2063.6	0.0	857.0	-1.5	

 Source: Taiwan Ministry of Economic Affairs<sup>75</sup>

## Appendix II: PRC Government and Party Structure Involved in Taiwan Affairs

### Communist Party

### Government



Note: Only institutions above the provincial level are included here. ARATS is influenced by the LGTA and the Taiwan Affairs Office. CMC Vice-Chairmen are actively involved in the LGTA (personal communication).

<sup>75</sup> These statistics are in part derived from the Hong Kong Customs' "Cross-Strait Indirect Transshipment Statistics" publication and in part from the Taiwan Ministry of Economic Affairs. Column four, "Transshipment Export Total," represents the amount of exports originating from Taiwan and transshipped to the mainland via Hong Kong. These statistics are from Hong Kong Customs. Column two, "Total Taiwan Exports," is an approximation meant to reflect the actual total amount of exports destined for the mainland. The derivation of the statistics in this column is somewhat convoluted. Column two, based on a calculation of Taiwan's Ministry of Economic Affairs, is derived thus:  $0.80 \times (\text{Taiwan's total indirect exports [a Taiwan statistic]} - \text{Taiwan's total indirect imports transshipped through Hong Kong [a Hong Kong Customs' statistic]}) + \text{indirect exports transshipped through Hong Kong [a Hong Kong Customs' statistic]} + \text{indirect exports to the mainland through ports other than Hong Kong [a Taiwan Ministry of Economic Affairs' statistic]}$ . The last part of the equation is significant since it indicates the amount of indirect trade that took place between Taiwan and other ports, e.g., Macau. Also, ships bearing a foreign (non-ROC) flag were allowed to carry exports to the mainland after 1989.



**Note: Only institutions above the provincial level are included here. ARATS is influenced by the LGTA and the Taiwan Affairs Office. CMC Vice-Chairmen are actively involved in the LGTA (personal communication).**

**Appendix III  
Taiwan Indirect Mainland Investment (1991-1996)**

Unit: (US\$1,000)

Guangdong												
	Guangzhou		Dongwan		Shenzhen		Zhuhai		Others		Sub-total	
Year	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount
1991	18	8,441	7	3,123	50	43,386	4	936	30	17,439	109	73,325
1992	29	18,572	14	8,820	45	37,528	6	5,560	33	41,558	127	112,038
1993	374	128,259	665	251,340	743	234,852	83	32,965	1,189	400,395	3,064	*****
1994	35	48,593	62	47,034	53	33,218	7	3,918	79	98,164	236	230,927
1995	14	49,571	33	61,391	26	20,910	2	9,500	39	81,376	114	222,748
1996	10	44,504	34	99,244	17	44,775	3	13,580	29	80,713	93	282,816

Fujian													Guangxi		Hainan	
	Fuzhou		Xiamen		Others		Sub-total		Case	Amount	Case	Amount				
Year	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount				
1991	14	10,242	25	37,657	20	8,062	59	55,961	-	-	3	412				
1992	14	4,538	24	19,985	9	5,071	47	29,584	2	2,143	3	1,536				
1993	309	91,439	495	173,967	724	208,394	1,528	47,800	87	14,764	149	61,954				
1994	28	24,750	34	43,516	46	28,358	108	96,524	7	2,347	8	9,115				
1995	7	34,568	25	31,433	20	55,655	52	121,656	-	-	1	649				
1996	21	42,513	19	28,410	26	39,961	66	110,884	1	850	-	-				

Jiangsu													Zhejiang		Hubei	
	Shanghai		Nanjing		Others		Sub-total		Case	Amount	Case	Amount				
Year	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount				
1991	19	21,138	3	1,528	6	1,732	28	24,398	3	193	1	800				
1992	17	15,596	4	1,434	21	17,369	42	34,389	10	16,756	-	-				
1993	*****	410,698	181	45,800	789	376,809	2,017	833,307	485	124,843	98	35,931				
1994	141	157,671	23	26,501	100	207,842	264	391,814	62	62,802	21	8,093				
1995	89	224,160	2	1,212	72	169,400	163	394,772	27	57,425	7	24,436				
1996	65	243,843	5	14,200	59	283,948	129	541,991	21	32,754	4	4,069				

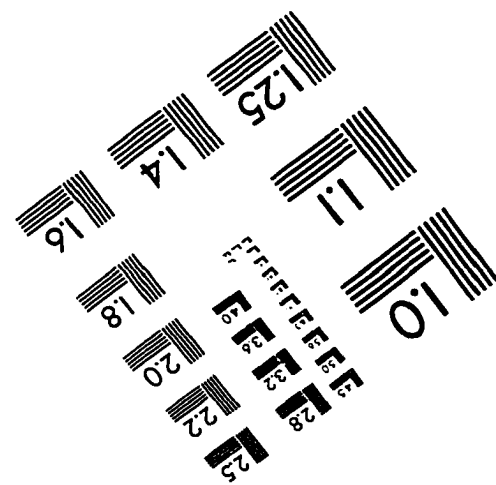
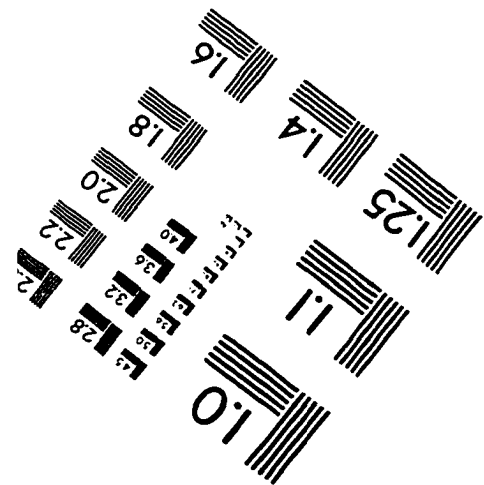
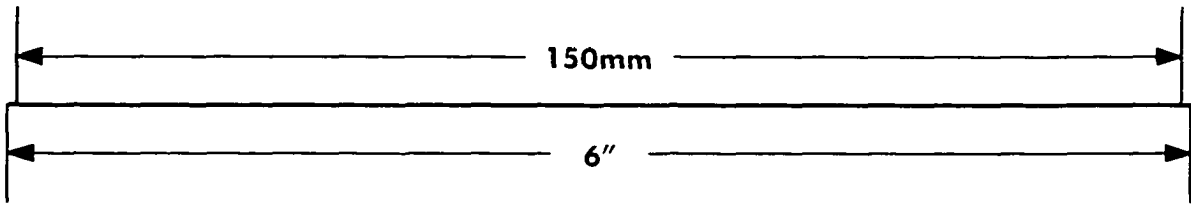
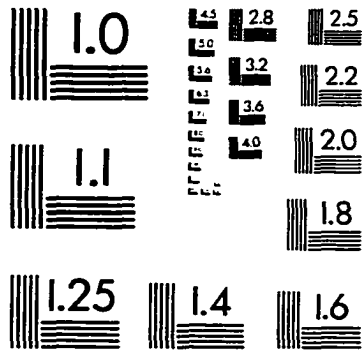
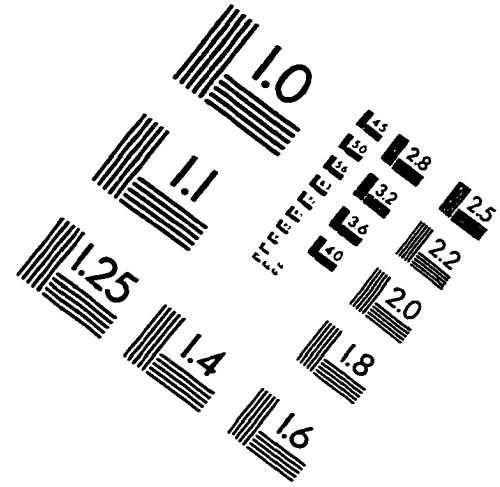
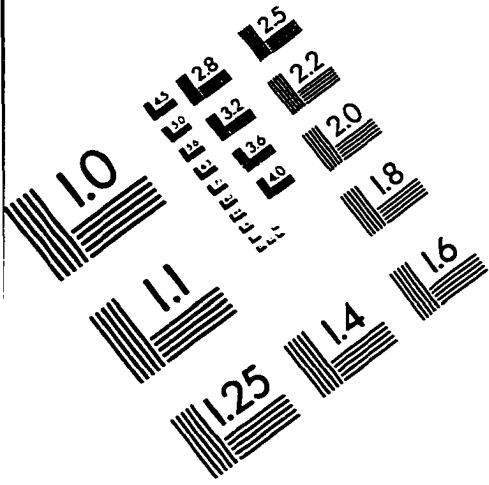
Year	Hunan		Sichuan				Hebei									
	Case	Amount	Case	Amount	Case	Amount	Sub-total	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Sub-total
1991	2	138	-	-	2	170	2	170	3	5,975	4	990	2	510	9	7,475
1992	3	8,048	-	-	1	428	1	428	8	5,612	8	16,239	1	420	17	22,271
1993	102	21,925	49	9,048	109	52,622	158	61,670	289	77,234	198	71,213	136	49,852	623	194,299
1994	11	4,241	3	1,655	15	30,860	18	32,515	50	24,522	21	23,890	17	8,502	83	58,814
1995	29	31,563	2	4,200	1	2,300	3	6,500	73	19,380	16	53,311	9	10,503	48	83,194
1996	3	15,064	1	1,200	4	11,170	4	12,370	9	18,864	13	96,704	4	17,835	26	132,903

Year	Henan		Shandong		Dongbei				Heilongjiang		Others		Sub-total	
	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount	Case	Amount
1991	1	248	9	1,099	3	308	-	-	-	-	1	147	2	455
1992	-	-	5	1,983	3	15,598	-	-	1	241	-	-	4	15,839
1993	121	17,094	303	96,029	192	49,318	32	9,825	11	1,955	37	7,549	272	68,345
1994	18	6,838	31	24,580	15	5,908	5	1,482	2	3,281	3	817	25	11,459
1995	4	2,902	8	24,043	10	36,607	-	-	5	6,932	-	-	15	43,539
1996	1	600	10	43,198	8	26,269	-	-	-	-	-	-	8	26,759

Year	Other		Total	
	Case	Amount	Case	Amount
1991	7	8,524	237	#####
1992	3	1,980	264	#####
1993	332	117,839	###	#####
1994	44	74,214	934	#####
1995	19	79,286	490	#####
1996	17	29,473	383	#####

Source: Taiwan Ministry of Economic Affairs.

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