

SECTION 2: THE CROSS-STRAIT POLITICAL AND ECONOMIC RELATIONSHIP

While growing economic and social ties between China and Taiwan have the appearance of integrating the two, different political systems and issues of self-identification tug in the opposite direction. China's leaders seek unification with Taiwan and have proffered the model of 'one-country, two-systems' that has been used to describe the political arrangement in the former European colonies of Hong Kong and Macau: offering concessions to partial Taiwan autonomy if Taiwan yields to the sovereignty of Beijing. According to former AIT head Richard Bush, Taipei authorities have rebuffed Beijing's offer because "all major forces on the island have consistently held that if unification is to occur, the sovereign character of the Taipei government must be preserved within the context of that national union."⁸⁵

The leaderships in both Beijing and Taipei are mistrustful of the other's intentions. Beijing fears that if it accedes to Taiwan's claims for status as an equal sovereign state—with, as former Taiwan President Lee Teng-hui described it, a 'special state-to-state relationship' with the mainland—Taipei may take that as an opportunity to delay discussions, or worse, to declare *de jure* independ-

ence. Taipei fears that if it accedes to Beijing's definition of one China,⁸⁶ it concedes ground that will diminish Taiwan's ability to negotiate greater political autonomy, freedoms, and international standing. As a consequence, forward political movement is at a standstill, with neither side willing to yield.

Meanwhile, Beijing is working to undermine Taiwan's standing in the international community by offering foreign aid and diplomatic recognition in an effort to lure countries away from recognizing Taiwan. Former Deputy Assistant of State for East Asia and Pacific Affairs Randall Schriver has noted that "China has arguably enjoyed some success in its campaign to isolate and coerce Taiwan—but [the strategy of buying out Taiwan's allies] may ultimately be an Achilles heel to China if it allows its emotions over Taiwan to drive decisions that are otherwise irrational in terms of China's own interests."⁸⁷ Unfortunately, Taiwan's domestic political debates also threaten to undermine its development of a cohesive cross-Strait strategy.

Taiwan domestic politics is embroiled in a major power struggle between rival political blocks Pan-Blue and Pan-Green in Taiwan's legislative body, the Legislative Yuan.⁸⁸ The leadership of President Chen Shui-bian, a member of the Democratic Progressive Party (DPP), which is the major component of the Pan-Green block, is being tested by the Pan-Blue, whose largest component is the KMT. The struggle affects a variety of important policy issues, including how Taiwan should relate to Beijing. Among the most contentious issues among the parties is the ongoing battle over the purchase of a large list of defense items, largely drawn up by the KMT in the late 1990s when it was the party in power. Regrettably, the KMT has blocked President Chen's legislative efforts to pass a special budget for defense purchases in a purely partisan move to gridlock his government, as described in section 1 of this chapter.

Visits to China by Taiwan Political Leaders Other Than Its Elected Officials

In April 2005, the Chinese government invited KMT Chairman Lien Chan to visit China. His subsequent visit made Lien the first KMT chairman to visit China since 1949. Emboldened by the KMT's strong showing in the 2004 Legislative Yuan elections, the party's leaders gambled that they could rebuff DPP accusations they were selling out to Beijing. Beijing gave the visiting KMT officials a warm welcome, arranged a series of high-level meetings, and even permitted then-party chair Lien to make a speech at Beijing University. The trip culminated in the release of a ten-point statement of consensus between the CCP and the KMT that proposed a plan to strengthen economic and cultural ties across the strait. In a symbolic gesture, Beijing also rewarded Chairman Lien by scrapping an import tariff that applied to more than ten kinds of fruit from Taiwan and allowing imports of six additional fruit species.⁸⁹ Apparently, Beijing did not require the KMT delegation to publicly address the one-China issue.

Chairman James Soong of Taiwan's second largest opposition party, the PFP, made yet another high-visibility visit to Beijing just days after his pan-Blue colleague Lien returned to the island.

As Soong ended his visit, President Hu Jintao announced that China would make several policy concessions, including easing work restrictions for Taiwan residents on the mainland, simplifying exit and entry rules, and allowing Taiwan students attending mainland universities to pay the same fees as Chinese nationals.⁹⁰

It was widely noted that China pointedly failed to invite Taiwan's current elected leadership, the DPP. Not surprisingly—in fact, many speculate that it was the intent of China's actions—there was considerable political fallout in Taiwan from the visits. The first official reaction by Pan-Green supporters in Taipei to the visit by the KMT delegation was to condemn it for negotiating as though it were the government. The repercussions were not limited to derogatory statements directed by one party toward another. According to one former high-level U.S. official, the apparent rapprochement between the KMT and CCP has undermined the likelihood that a consensus on U.S. arms purchases will emerge between the Pan-Blue and the Pan-Green.

China's Anti-Secession Law

Adopted on March 14, 2005 at the Third Session of China's Tenth National People's Congress, China's Anti-Secession Law (ASL) was established specifically for the "purpose of opposing and checking Taiwan's secession from China by secessionists in the name of 'Taiwan independence,' promoting peaceful national reunification, maintaining peace and stability in the Taiwan Straits (sic), preserving China's sovereignty and territorial integrity, and safeguarding the fundamental interests of the Chinese nation."⁹¹ At the time of issuance, Washington and other capitals characterized the ASL as "unhelpful" with respect to resolving the issue of Taiwan. As noted by John Tkacik, "the 'anti-secession law' has only two purposes: to serve as propaganda and as diplomatic leverage against the U.S. relationship with Taiwan. As propaganda, the legislation readies the Chinese people for war with Taiwan, and as a diplomatic lever it is to be trotted out and exhibited to Americans whenever the United States points to its obligation under the Taiwan Relations Act."⁹²

The law reiterates China's view that "solving the Taiwan question and achieving national unification is China's internal affair" and authorizes the use of non-peaceful means in the event China perceives that Taiwan has seceded, or is attempting to secede, or that the opportunity for peaceful unification with Taiwan is "completely exhausted."⁹³ The law is vague as to what actions might trigger a non-peaceful response.⁹⁴

Beijing's ASL announcement backfired in a number of ways. Both the U.S. Congress and the Administration condemned the enactment of this legislation. It was also met with disapproval in Europe, leading to the European Union's decision to abandon efforts to lift the EU's embargo on arms sales to China.

Cross-Strait Economics

As the Commission noted in its 2004 Annual Report, growing cross-Strait political tensions have not stood in the way of the continued rapid development of cross-Strait economic relations. That trade has been increasing steadily and substantially for the past 15

years and, according to China's Ministry of Commerce (MOFCOM), totaled \$78.3 billion in 2004, a 34.1 percent increase over the previous year.⁹⁵ This trade relationship also remains heavily tilted in Taiwan's favor with the island's exports to China totaling nearly \$65 billion against imports from China of \$13.5 billion according to MOFCOM.⁹⁶ Growing export dependence has led to expressions of concern in Taiwan, particularly in the Pan-Green camp, but beyond rhetorical urgings for businesses to diversify their export markets, this concern has not led to changes in the investment patterns of Taiwan businesses, whose desire for profit appears to outweigh security considerations.

"Economically [China] continues to maximize the interdependence between Taiwan and the mainland, and make China the destination of choice for investment, lower-end manufacturing, and alternative employment. And it is succeeding."⁹⁷ Taiwan remains the largest external investor in China, accounting for about half of total foreign direct investment (FDI) in China. Taiwan's cumulative contracted investment in the PRC was over \$78 billion in 2004, an increase of nearly \$10 billion over 2003 levels.⁹⁸ Despite its size, Taiwan's investment in the mainland remains difficult to track precisely because Taiwan's investors, like many others, have used tax havens like the Cayman Islands as a base for their investments.

Cross-Strait IT investment has grown at an impressive pace and is expanding into new sectors such as e-services, mobile telephone services, and digital media. This rapid growth was accelerated by the global downturn in IT at the end of last century, which led Taiwan-based producers to cut costs by relocating manufacturing to the mainland. WTO entry for both China and Taiwan further reduced barriers to trade while the improving quality of mainland products and China's growing domestic demand provided added incentives for Taiwan's IT firms to relocate supply lines to China.⁹⁹ The Shanghai-Suzhou-Nanjing corridor in particular has become the new critical-mass staging-point for IT investment in China. The mayor of Suzhou even visited Taiwan to encourage further Taiwan IT investment.¹⁰⁰

Having embraced the economic opportunities offered on the mainland, Taiwan tacitly supports the economic development of the country that is its primary strategic rival. The PRC has encouraged the economic exchange with Taiwan in an effort to promote unification. Beijing believes that economic cooperation will facilitate a gradual political integration, as it perceives was the experience in Western Europe when the independent nations there formed and progressively ceded considerable control to the European Union. In addition, there is an expectation in Beijing that interaction with mainland Chinese will soften the attitudes of Taiwan's people with respect to social, cultural, and political differences and foster a desire for unification.¹⁰¹ Government leaders in Taiwan have discounted China's strategy for a 'soft integration,' but fear remains that Beijing may be tempted to use sanctions in an attempt to unfairly leverage deepening cross-Strait economic ties to resolve political issues. However, Beijing understands that economic interdependence cuts both ways, as evidenced by Beijing's reluctance to employ sanctions during political tensions during the 1995–1996 and 1999–2000 periods.¹⁰² Nevertheless, the integration of these

two economies unquestionably is eroding barriers between the countries and may partly explain Taiwan's growing reluctance to further invest in its self-defense.

Implications for the United States

China's Military

Many of China's military modernization efforts—supersonic ASCMs, stealthy submarines, TBMs, possibly with terminal guidance, and nuclear force modernizations—are aimed specifically at combating U.S. forces and bases. While the near-term focus unquestionably is Taiwan, it is noteworthy that many of China's new lethal weapons are applicable to a wide range of potential operations beyond the Taiwan Strait. The rapid growth in China's military power not only threatens Taiwan—and by implication the United States—but also poses threats to U.S. friends and allies throughout the western Pacific and Southeast Asia. Unanswered, China's military rise could lead to a major reordering of relationships and alliances throughout the Pacific.

Taiwan

The government gridlock in Taiwan that has resulted from the political in-fighting over national security issues sends a signal of weakness to Beijing and endangers U.S. security interests in the Pacific. As Princeton political scientist Thomas Christensen pointed out, any weakening of the security relationship between Washington and Taipei diminishes the deterrence presented to Beijing, and this is true whether or not Beijing seeks to avoid a conflict across the Taiwan Strait.¹⁰³ China's growing military force, coupled with Taiwan's weak response, have greatly complicated U.S. efforts to deter a cross-Strait conflict and manage its interests and relationships in the region.

Beijing is dually deterred from seeking a military solution to the Taiwan situation by the risk of failure and the confidence that unification can be achieved by exercising restraint. Beijing's calculus is substantially influenced by the strength of U.S.-Taiwan relations and the possibility of a strong U.S. response in the event of military attack against Taiwan. Beijing perceives efforts to strengthen the U.S.-Taiwan security relationship as an indication that Taiwan is moving toward independence or making unification more difficult to realize. Yet, as Dr. Christensen pointed out, Taiwan and the United States have no recourse but to present the threat of a credible and effective response to a provocation or attack by China.¹⁰⁴ To do otherwise would invite aggression.

The United States must seek ways to enhance the credibility of Taiwan's defensive capability. Adjustments to the deployment of U.S. forces in the Pacific are already underway and some efforts, such as assignment of active-duty military officers to the American Institute in Taiwan and increased discussions between Taiwan defense forces and U.S. Pacific forces, are being undertaken to strengthen the security relationship between the United States and Taiwan.

Additional efforts are needed to eliminate obstacles that impede the United States from effectively engaging in cooperative defense

with Taiwan and persuading Taiwan to accelerate acquisition of defense items that will complement the capabilities of U.S. forces in the region. Visits to Taiwan by higher-level U.S. officials will also demonstrate the solidarity of U.S.-Taiwan security arrangements and dissuade Chinese provocation. In addition, the United States must ensure its ability to respond rapidly in a crisis. Contingency plans in the Pacific hinge on the support of U.S. friends and allies in the region and this may necessitate obtaining approvals in advance for basing and access rights needed to support a Taiwan contingency. As Kurt Campbell testified, it will be very difficult to move quickly if the first-time conversations are taking place during an emerging crisis. Additionally, the United States needs to communicate to Taiwan's Pan-Blue opposition leaders that they are alienating friends in the U.S. Congress, from whom Taiwan will need support in the case of a crisis, and with whom Pan-Blue will have to work were it to regain political power in Taiwan.¹⁰⁵

Figure 3.1 China's Official Defense Expenditures, 1997–2004

Year	Defense Spending	Percentage Increase	Percentage GDP Growth	CPI Rates
1997	80.57	12.7	8.80	2.80
1998	90.99	12.7	7.80	– .80
1999	104.65	15.1	7.10	– 1.30
2000	120.75	12.7	8.00	.40
2001	144.20	17.7	7.30	.70
2002	169.44	17.0	8.00	– .80
2003	185.30	9.6	9.10	.50
2004	207.00	11.6	9.50	1.10
2005	244.66	12.6	9.20	2.50
Total	1347.56			
Average	137.86	13.5	8.31	.56

Legend: All figures are in billions of PRC Yuan.

China's defense budget has experienced double-digit growth for over 15 years.¹⁰⁶ The 2005 budget increased by 12.6 percent during a year in which GDP grew 9.2 percent.¹⁰⁷