The Taiwan Strait has been calm in recent months. Even though the Taipei–Beijing interaction through the quasi-official SEF–ARATS channel— which the PRC suspended in July 1999, after Lee Teng-hui characterized Cross-Strait relations as “state-to-state”—has not been restored, both governments have pursued moderate policies toward the other. The PRC has turned away from harsh rhetoric and military threats in favor of a united front policy, using political and economic means to influence the people of Taiwan. Chen Shui-bian has sought to reassure PRC leaders that he will avoid actions that would be interpreted in Beijing as moves toward independence for Taiwan. Both governments are making preparations for membership in the World Trade Organization (WTO), which will require increased economic interaction between the two sides of the Strait.

The political impasse continues. The PRC has refused to negotiate with the Chen Shui-bian administration unless Chen accepts the PRC definition of the “one-China” principle, which Chen has refused to do. Beijing probably is awaiting the results of the December 2001 elections for the Legislative Yuan and for mayors and county magistrates before considering whether any softening of its hard line toward Chen is called for. The entry of both parties into the WTO early in 2002 will increase pressures for some form of Cross-Strait talks between representatives of the two governments.

The political scene in Taiwan has become more complicated as elections draw closer. Lee Teng-hui has established the Taiwan Solidarity Union (TSU), which will run 30 or 40 candidates for the Legislative Yuan. Lee has expressed the hope that cooperation between newly elected TSU legislators and an increased number of DPP legislators will enable Chen Shui-bian to govern effectively. Lee’s pro-DPP stance and his harsh public criticism of the KMT have resulted in his being expelled from the party. The KMT, the People First Party (PFP), and the New Party (NP) have agreed on a single candidate to challenge the incumbent DPP magistrate of Taipei county. They have discussed possible cooperation elsewhere to improve prospects for ousting DPP legislators or mayors and magistrates, but how much cooperation will be agreed on is unclear. Chen has declared his willingness to form a coalition government after the election.

In spite of the political impasse over the issue of “one China,” the governments and people on both sides of the Strait have been finding ways to increase Cross-Strait cooperation. In particular, the trend toward economic cooperation has picked up speed. Examples of increasing cooperation are described below.

The Three Links

Unlike Lee Teng-hui, who held that the time was not ripe for the establishment of the three links (communication, travel, and shipping), Chen Shui-bian has favored going ahead. In September 2000 he said, “It is about time to have direct shipping links and we must seriously face the issue. We can no longer act like an ostrich and use national security as an excuse.” He added that ending the ban on direct links would require
negotiations with the mainland. He also instructed Tsai Ying-wen, the chairwoman of the Mainland Affairs Council, to work out plans for opening the “mini-links” between the offshore islands of Jinmen and Mazu and the mainland.

Despite Chen’s willingness to move ahead with the three links, the PRC’s insistence on clear-cut acceptance by him of the one-China principle as a precondition for Cross-Strait talks on any subject seemed for a time to block progress. On September 22, however, PRC Vice Premier Qian Qichen told Chiang Pin-kun, a former head of the Council on Economic Planning and Development in the Lee Teng-hui administration, that the three links issue was not too complicated but, because it involved the one-China issue, the Taiwan–Hong Kong aviation rights model might be adopted technically to solve the matter. Airlines could negotiate with airlines.

Tsai Ying-wen went forward with preparations for the opening of the mini-links on January 2, 2001, even though local officials in Fujian had not been authorized by Beijing to discuss the actual arrangements with their counterparts in Jinmen and Mazu. At the last minute, however, on December 28, a Foreign Ministry spokeswoman in Beijing announced that the PRC would not block the institution of the mini-links, although she criticized the plan as a piecemeal measure. Thus on January 2, 2001, boats carrying residents of Jinmen and Mazu made the first legal crossings to the mainland since 1949.

Even though representatives of the two governments have not been able to sit down together to work out a detailed agreement on the operation of the mini-links, the number and scope of such exchanges have gradually increased. According to Taiwan’s Mainland Affairs Council, as of September 6, 2001, 110 crossings had taken place, 88 by vessels owned by Taiwan companies and 22 by mainland ships. Taiwan residents made 653 visits to Xiamen and Fuzhou, and Chinese from the mainland made 490 visits. On September 5, 2001, the cabinet in Taipei approved expanding the operation of the mini-links to the Penghu Islands in the middle of the Taiwan Strait.

Among those making the direct voyage to Jinmen from the mainland was a 112-member delegation headed by the deputy mayor of Jinjiang to attend the first Jinjiang Trade Fair in Jinmen. In a breakthrough, one ship sailed from Kaohsiung to Xiamen on June 8, with only a brief stop at Jinmen. It carried 363 adherents to a temple in Yunlin county, Taiwan, who took with them to Taiwan the icon of a folk deity that had been taken from a temple in Quanzhou nearly 300 years ago.

The opening of the mini-links is an important step toward the establishment of direct travel and shipping between Taiwan and the mainland. As Qian Qichen has indicated, arrangements can be negotiated between government surrogates such as shipping associations and airlines. A precedent exists in the successful negotiations for the uninterrupted continuation of shipping and air travel between Taiwan and Hong Kong after Hong Kong became part of the PRC on July 1, 1997. Another precedent was the establishment in 1997 of a transshipment center in Kaohsiung as the result of negotiations between shipping associations in Taiwan and on the mainland. This arrangement allows direct shipments between Kaohsiung and the mainland ports of Xiamen and Fuzhou of goods originating in or destined for third areas—not passing through Taiwan customs. In August 2001, the ROC government approved the transshipment by air to third countries overseas of goods arriving at the transshipment area from the China mainland.

In preparation for the establishment of the three links, a 12-member delegation of civil aviation administrators headed by Yeh Igan, director of the Huadong Civil Aviation Bureau under the Civil Aviation Administration of China, arrived in Taiwan in December 2000 for a 10-day fact-finding visit in preparation for the establishment of direct air links. The principal Taiwan air carriers have already opened liaison offices on the mainland and formed close ties with their mainland associates. Once the two governments have reached agreement on the three links, airlines
on both sides of the strait will be prepared to move quickly to take advantage of the potentially highly lucrative Cross-Strait routes.

In August 2001, work began on the Gaoqi airfreight terminal in Xiamen, in which four Taiwan air companies have agreed to invest $14 million, 49 percent of the cost of the terminal. Operations will start in 2003. The Xiamen government will provide the other 51 percent.

In September 2001, Taiwan’s China Airlines bought a 25 percent stake in the PRC’s first specialized air cargo company, China Cargo Airlines, Ltd.

A biennial seminar on Cross-Strait shipping services, which was established in 1991 by the mainland’s China Association for Shipping Across the Taiwan Strait and Taiwan’s Chinese Maritime Transportation Research Association but suspended after 1997, was resumed in September 2001. A 50-member Taiwan delegation—including shipping executives, harbor officials, and scholars—took part in the seminar held in Shenzhen. Two officials of Taiwan’s Ministry of Transportation and Communication attended as advisers.

Fiber-Optic Cables

The least discussed of the three links is Cross-Strait communication. PRC officials have proposed setting up a fiber-optic cable across the Strait, but the government in Taiwan has maintained its position that communication must be indirect. Consequently, mail, telephone, and fax messages are routed through Hong Kong or other places, requiring extra payments for this indirect service.

Taipei has not objected, however, to being connected to international cable networks that provide a link between Taiwan and the mainland. For example, Taiwan’s state-run Chunghwa Telecom Company invested $36 million for a 2.39 percent share in the world’s longest undersea cable network, running 40,000 kilometers from Western Europe, through the Mediterranean, and winding up in Australia. This submarine cable, known as the “SEA–ME–WE 3” cable network, was connected to the first of two stations in Taiwan in May 1999. In June 1999, Chunghwa signed a memorandum of understanding for developing a high-capacity fiber-optic submarine cable linking seven Asian countries and territories, the Asia–Pacific Cable Network 2 (APCN–2). It will connect Taiwan, mainland China, Hong Kong, Korea, Japan, Malaysia, and Singapore.

Still another submarine cable is the America–Asia Network (ANN), which will link the United States with mainland China, Taiwan, Korea, and Japan. Construction of this cable, incorporating the most advanced technology, was agreed on by the communications carriers concerned in October 2000 and is to be completed during 2002.

Media

For several years the two principal privately owned newspapers in Taiwan, the China Times and the United Daily News, have stationed correspondents in Beijing, rotating them every two or three months, but correspondents from mainland newspapers (all government-owned) have visited Taiwan only occasionally, for not more than a week or two at a time.

On September 22, 2000, in the interview with Chiang Pin-kun mentioned above, Qian Qichen suggested that mainland correspondents be permitted to reside in Taiwan on the same rotating basis as Taiwan correspondents in Beijing. Three correspondents from the mainland’s Xinhua News Agency promptly applied to the government in Taiwan for permission to be stationed there for a month. On November 10, the Government Information Office and the Mainland Affairs Commission (MAC) announced that correspondents from the mainland would be admitted for one-month stays in Taipei. Each news bureau, newspaper, TV, or radio station would be limited to two correspondents at a time. Vice Chairman Lin Chong-pin of the MAC said that “this was
only our first step. We will continue to take further steps if the new policy generates positive interaction across the Taiwan Strait.” Zhu Zhongliang, deputy editor-in-chief of Xinhua’s Shanghai Bureau, welcomed Taiwan’s new measures and said that Xinhua hoped to open a branch in Taiwan in the not-too-distant future. On February 8, 2000, the first two Xinhua reporters arrived in Taipei for a month’s stay.

Cross-Strait Travel

The growing economic integration of the two sides of the Strait has led to visits back and forth by senior government officials and former officials, despite the political impasse. In early December 2000, a group headed by Zhang Qi, a senior official of the PRC’s ministry of information industry, visited Taiwan to promote exchange and cooperation in that industry. Later that month, a 39-member delegation headed by Zhang Jining, director of the China Torch High Tech Development Center under the Ministry of Science and Technology, attended a two-day seminar in Taipei. Zhang told the seminar that joint development of technology and new products would ensure a “win–win” situation for the mainland and Taiwan.

In December, Shih Yen-hsiang, director of Taiwan’s Industrial Development Bureau of the Ministry of Economic Affairs, made a fact-finding tour of southeastern China arranged by Taiwanese investors on the mainland. Also in December, John Chang, a former secretary general of the KMT and now head of a recently established association to promote Taiwan business on the mainland, made an eight-day visit there.

John Chang’s visit, although aimed at furthering Cross-Strait economic cooperation, also had a political purpose. He exchanged views with Wang Daohan, chairman of ARATS, on Cross-Strait relations. Chang was one of several former high KMT officials whose visits were encouraged by the PRC government because, unlike Chen Shui-pien, they had declared support for the eventual unification of Taiwan with mainland China. The most prominent of such visitors was Wu Po-hsiung, a vice president of the KMT and a former secretary general of the president’s office and minister of interior. In November 2000, Wu met with Qian Qichen, CCP Politburo member Huang Ju, as well as Wang Daohan. Another November visitor was Liang Su-yung, a KMT member and former speaker of the Legislative Yuan.

In January 2001, the vice mayor of Shanghai, Feng Guoqin, visited Taipei. The mayor of Taipei, Ma Ying-jeou, proposed that the two cities hold regular meetings between officials to expand exchanges and expressed the hope that the Taipei city government might later set up a representative office in Shanghai. Feng said that the PRC authorities would study these proposals, and he invited Ma to visit Shanghai. In a prompt response to Feng’s visit, Taipei’s deputy mayor, Pai Hsiu-hsiung, visited Shanghai in February 2001.

In January 2001, Vice President Annette Lu announced that, beginning on July 1, 500,000 tourists from the mainland would be allowed to visit Taiwan. By June 30, 2001, the MAC had completed the planning and the drafts of laws and regulations concerning the travel of mainland tourists to Taiwan. On July 9, however, the MAC said that detailed arrangements would be “subject to Cross-Strait negotiations, which we cannot make public for the time being.” As of October 1, 2001, mainland tourist travel to Taiwan had not yet begun.

In September 2001, the PRC’s finance minister met in Suzhou with Taipei’s finance minister to discuss preparations for the APEC meeting scheduled for October in Shanghai. Cooperation in petroleum exploration between the two state oil companies—the mainland’s China National Offshore Oil Company (CNOOC) and Taipei’s China Petroleum Corporation (CPC)—which began in 1996 near Pratas Island in the South China Sea, was suspended after Liu Teng-hui announced his “two-states theory” in July 1999. Wei Liucheng, chairman and CEO of CNOOC, disclosed in Hong Kong in August 2001 that he
planned to visit Taipei in November to finalize details of an agreement to resume the joint exploration project.

**Academic Cooperation**

In 1997, the Ministry of Education proposed recognizing the degrees earned by students from Taiwan at selected mainland universities. At that time the Executive Yuan shelved the proposal. Now, with more than 10,000 students from Taiwan in mainland universities, demands for the recognition of mainland degrees have grown louder. Many Taiwan students believe that their chances for a job with a Taiwan-invested company on the mainland will be better if they have a mainland degree. The current minister of education, Ovid Tzeng, agreeing that the time is ripe for change, has revived the proposal and set in motion the preparation of detailed regulations.

In another move to increase Cross-Strait academic cooperation, the Legislative Yuan has authorized mainlanders to accept teaching positions in Taiwan. In October 2000, the MAC relaxed restrictions on mainland educational, cultural, and high-tech visitors, allowing them to reside in Taiwan as long as three years.

**Cross-Strait Trade and Investment**

The expected entry into the WTO in early 2002 by both the PRC and Taiwan have caused Taiwan’s entrepreneurs to step up their investment in the mainland. Mainland investment, which had doubled in 2000 over the previous year, continued to grow strongly in 2001. The Ministry of Economic Affairs reported an increase in the first six months of 23 percent over the same period in 2000, to $1.4 billion.

Demands by businessmen that the Chen administration ease restrictions on Cross-Strait trade and investment became more insistent as the months passed. Responding to these pressures, which were intensified by a severe slump in Taiwan’s economy, the Economic Development Advisory Commission (EDAC) in August 2001 recommended replacing Lee Teng-hui’s “go slow, be patient” policy on mainland investment with a policy of “active openness and effective management,” intended to expand Cross-Strait economic relations. The recommendations of the commission—which included top business leaders, government officials, and scholars—reflected a consensus between the ruling party and the opposition that a more robust Cross-Strait economic relationship was needed to revive economic growth in Taiwan. Chen Shui-bian and leaders of the opposition parties expressed support for the EDAC recommendations, which included ending the ban on direct postal links, taking steps to permit the establishment of direct shipping and air travel, easing restrictions on Taiwan investment on the mainland, and permitting mainland investment in Taiwan real estate.

**Information Industry**

During 2000, the integration of information-industry manufacturing between Taiwan and mainland China proceeded apace. According to Taiwan’s Institute of Information Industry, during 2000 38.6 percent of Taiwan companies’ information technology hardware was produced in mainland China. The institute predicted that the ratio would rise to 51 percent in 2001. The institute also noted that mainland China in 2000 edged out Taiwan for the first time as a global producer of information-industry hardware (25.5 billion versus $23.2 billion), but 72 percent of that total came from Taiwan companies’ manufacturing bases on the mainland.

The heads of Taiwan’s leading information-industry companies acknowledged the government’s concern that the excessive transfer of manufacturing to mainland China would endanger Taiwan’s economy. They declared, however,
that in order to be successful in the fiercely competitive global market, some of them had no choice but to shift increasingly advanced technology manufacturing to the mainland. For example, although the government banned production of notebook computers on the mainland by Taiwan companies, all of the leading producers of notebook computers have invested in mainland factories to turn out computer components. They have urged the government to lift the ban on notebook production on the mainland, and some of them are already expanding their facilities there in the expectation that the ban will be lifted. Increasing worldwide demand for notebook computers has put heavy pressure on the Taiwan suppliers of OEM notebooks to companies such as Dell, Sharp, and Compaq to increase production and reduce costs.

Even the producers of semiconductors, who have no present plans to shift their capital-intensive, high-technology production to the mainland, foresee a time when that will be necessary. Morris Chang, chairman of the Taiwan Semiconductor Manufacturing Company (TSMC), told a seminar in November that the global marketing strategies of Taiwan’s semiconductor manufacturers make inevitable their eventual investment in the mainland. If they do not extend their business network into the mainland, Chang said, they will gradually lose their international competitiveness.

The involvement of Taiwanese businessmen in integrated circuit manufacturing on the mainland has already begun, in a $1.6 billion computer chip plant being built in Shanghai. This project has attracted much attention because it is a joint venture, the vice chairman of which is Jiang Mianheng, the son of Jiang Zemin, and the president and CEO is Winston Wang, the son of Wang Yung-ching, head of Taiwan’s Formosa Plastic Group. Winston Wang has declared that no Taiwan money is going into the plant and that he has no personal financial stake in it. This plant will produce 8-inch silicon wafers with 0.25 micron circuitry, technologically well behind the 12-inch, 0.13 micron circuitry, the standard for the latest wafer fab plants being built by TSMC and United Microelectronics Corp (UMC).

The growing Cross-Strait cooperation in the information industry was highlighted by the presence of a strong mainland China delegation at the Computex Taipei 2001 computer exposition in June. The mainland delegation included Yang Yuanqing, president of the PRC’s leading computer company, the Legend Group; Yang Yuhang, director of Great Wall Broadband Network Service Co.; Yin Yiping, director of China Telecom’s Telecommunication Department; Zhang Daming, director of China International Electronic Commerce Center; and Lin Li, director of the Economic Information Center of the State Economic and Trade Commission.

Legend president Yang Yuanqing told the press that Legend would increase its cooperation with its Taiwan business partners: First International Computer (FIC), Compal, and Mitac. Legend expects to more than double its production of notebook computers in 2001 to 250,000, outsourcing most of it to these Taiwan companies. Yang said that the Taiwan partners provide good product design, manufacturing, and services, while Legend focuses on the marketing of its name-brand products in mainland China’s rapidly growing market for notebook computers. Legend is establishing a notebook computer assembly plant in Shanghai to facilitate cooperation with Taiwan companies.

Yang Yuhang—president of Great Wall Broadband Network Service Co., which is setting up a broadband network in the PRC—said that his company expected to purchase most of its local area network equipment from Taiwan companies such as D-Link Corp. and Accton Technology Corp.

Taiwan’s business leaders recognize that in order to exploit the advantages of operating in mainland China but to avoid being absorbed by that giant economy, they must keep their most technologically advanced production and their design and marketing centers in Taiwan. They also can maintain their global leadership in certain branches of the information industry by col-
laborating with technologically advanced companies elsewhere. For example, UMC is not only building new 12-inch wafer fab plants in Taiwan, but it also has two joint-venture wafer fab plants in Japan and has just announced plans to build a $2 billion, 12-inch chip foundry in Singapore, in a joint venture with a European chipmaker. TSMC also has built a foundry in Singapore in a joint venture with Philips Semiconductor.

Cross-Strait Common Market

Vincent Siew, a former premier of the ROC and current vice chairman of the KMT, has advanced a striking new proposal: the establishment of a Cross-Strait common market that would lead in time to the political integration of Taiwan and mainland China. He made this proposal in an article in the Asian Wall Street Journal in November 2000 and elaborated on it in a speech at the American Enterprise Institute in Washington, D.C., on January 22, 2001.

Mr. Siew noted that, by setting the goal of a Cross-Strait common market, the two sides could take full advantage of the complementarity of the two economies and move step by step toward that goal, which also would pave the way for political integration. He called attention to the similarity between his proposal and President Chen Shui-bian’s New Year’s speech, in which Chen referred to the integration of the two economies as a basis for “a new framework of permanent peace and political integration.” Siew called on Americans to support this endeavor strongly. Asked whether the PRC had responded to his proposal, as presented in the Asian Wall Street Journal in November, Siew said that so far there had been no negative response.

Conclusions

Will the relatively moderate policies of the two governments and the trend toward greater Cross-Strait cooperation continue during the remainder of 2001, even though the political impasse remains unresolved?

In his speech of January 22, 2001, on the sixth anniversary of Jiang Zemin’s “eight-point” proposal on reunification, Vice Premier Qian Qichen adopted a moderate tone, indicating that the PRC would press ahead with its united front policy, even offering to work with former proindependence individuals to improve Cross-Strait relations, if they abandoned their separatist stance. Nowhere in the speech did Qian repeat the mantra that the PRC reserved the right to use force to accomplish reunification. He did, however, demand that Chen Shui-bian specifically acknowledge the one-China principle and the 1992 consensus on that principle between SEF and ARATS. He also said that in Taiwan since March 2000, “the struggle between separatism and anti-separatism has become sharper and more complex,” and he called for a “sense of urgency” in order to accomplish reunification at an early date.

The PRC’s Defense White Paper of October 2000 took a harder line on the Taiwan issue, asserting that “The Taiwan Straits situation is complicated and grim.” The White Paper concluded that, because “hegemonism and power politics still exist and are further developing, and in particular the basis for the country’s peaceful reunification is seriously imperiled, China will have to enhance its capability to defend its sovereignty and security by military means.”

Although Chen Shui-bian tried in his inaugural address to assure the PRC that he would not make any move toward independence and his administration has taken various steps to improve Cross-Strait interaction, a specific acceptance by him of the one-China principle as demanded by the PRC seems unlikely. In his effort to win a maximum number of Legislative Yuan seats in December, Chen cannot afford to alienate irrevocably the significant segment of the DPP that is firmly proindependence.

Thus it seems probable that the political impasse will not be resolved this year. The PRC will maintain pressure on Chen, while waiting to see
whether changes in Taiwan politics and the results of its united front policy will improve prospects for reunification.

Meanwhile, Cross-Strait economic integration and other forms of cooperation will continue. The two governments will be compelled to find ways of dealing with each other in order to make progress toward opening the three links and to make the adjustments required by membership in the WTO.

The stress on economic cooperation by Qian Qichen, Chen Shui-bian, and Vincent Siew suggests a growing Cross-Strait consensus on this trend. As Qian put it,

As we enter the new century, faced with the trend of economic globalization and fierce competition, and faced with the progress of science and technology which is changing with each passing day, the compatriots on both sides of the strait should all the more link hands in cooperation to meet the challenges together and make both of them winners in mutual benefit in the economy and in science and technology.

Vincent Siew’s common market proposal also cited economic globalization as creating a strong incentive for both sides of the Strait to cooperate in the progressive integration of their economies, which in turn could lead to a step-by-step integration of politics. Chen Shui-bian’s New Year’s speech referred to the integration of the two economies, trade, and culture as a starting point for creating the basis for a new framework of permanent peace and political integration.

Despite the apparent consensus on the inevitability of a trend toward economic integration, leading to eventual political integration, the two sides differ on the pace of that process. Qian calls for reunification at an early date, whereas Chen and Siew clearly envision a prolonged, step-by-step process. It seems probable, however, that as long as the PRC perceives the general trend as moving toward eventual unification and Taiwan’s leaders make no move toward independence, the PRC will not try to impose a solution by military force.

An important external factor is the policy of the United States. As Qian declared, “We resolutely oppose all intervention by foreign forces in China’s settlement of the Taiwan problem.” It would be highly desirable for the new U.S. administration to express support for the trends toward cooperation between the two sides of the Strait, aligning itself with the powerful forces arising from the globalization of the world economy that are drawing mainland China and Taiwan together. To overemphasize the balance of military forces in the Taiwan Strait would be, in the long run, a losing game for Taiwan. Taiwan’s security is best ensured by the growing network of economic interdependence and other forms of Cross-Strait cooperation that people on both sides of the Strait perceive as mutually beneficial.

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Notes

11. Ibid., 53.