



**NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY
VISIT TO BEIJING AND TAIPEI
JANUARY 16-21, 2005**

**CROSS-STRAIT RELATIONS:
SOME RAYS OF SUNSHINE BUT CLOUDS ON THE HORIZON**

BY DONALD S. ZAGORIA

TRIP REPORT

The National Committee on American Foreign Policy (NCAFP) sent a small group to Beijing and Taipei from January 16-21, 2005 to assess the current state of cross-Strait relations after the Legislative Yuan elections in December 2004. The NCAFP has been sending such groups to China and Taiwan twice a year for the past eight years.

The participants on this trip were Dr. George D. Schwab, NCAFP President; Dr. Arnold Kanter, a former Undersecretary of State, who works closely with Brent Scowcroft; Ambassador J. Stapleton Roy, former ambassador to China and Indonesia, and an advisor to Dr. Henry A. Kissinger; Ambassador Nicholas Platt, President Emeritus of the Asia Society and former ambassador to the Philippines; Professor Robert A. Scalapino, the Berkeley professor who is the dean of Asia scholars in the U.S.; Dr. Ralph A. Cossa, the politico-military expert based in Hawaii who is president of the Pacific Forum CSIS; and Professor Donald S. Zagoria, NCAFP Project Director.

In Beijing, the group was hosted by the Taiwan Affairs Office of the State Council (TAO), which is the principal Chinese governmental office dealing with the cross-Strait issue. Our hosts told us that it is highly unusual for the TAO to host private think tanks such as the NCAFP and the fact that they were doing so was an indication of the high regard in which they held the NCAFP for its efforts to bring about a cross-Strait accommodation. The group met with high-ranking government and party leaders.

In Taipei, the group was hosted by the Foreign Ministry. It met with government and opposition leaders, including several upcoming leaders of the ruling Democratic Progressive Party (DPP) and rising stars in the Kuomintang (KMT) opposition.

In both Beijing and Taipei, the group met with American officials. Some of the members were also briefed prior to the trip by high ranking officials in Washington DC.

OPTIMISTIC TRENDS

Our overall impression was that although the fundamental division over the sovereignty issue remains unchanged – the PRC continues to insist on a “one China” principle with Taiwan as a part of China, while Taiwan’s President Chen Shui-bian and his ruling Democratic Progressive Party (DPP) reject this principle – cross-Strait relations may now be moving, at least temporarily, into a more positive phase. The unexpected failure of the Chen Shui-bian forces to get a majority in December’s Legislative Yuan (LY) elections, the surprise break-through agreement on direct charter flights between a number of Mainland cities and Taiwan over the Chinese New Year period, and greater Mainland self-confidence that Chen Shui-bian’s independence moves can be blocked have combined to soften Beijing’s position. A high ranking Chinese official, Jia Qinglin, member of the ruling Politburo Standing Committee, even suggested a few days after our return that the PRC government is willing to revive the long-stalled dialogue with Taiwan if President Chen abandons his campaign to promote Taiwan’s independence. Moreover, the Mainland sent Sun Yafu, a TAO official, to attend a memorial service in Taiwan for a former high-ranking Taiwan official in early February. The London-based *Financial*

Times reported on February 4, 2005 that Sun, Vice-Chairman of China's Association for Relations Across the Taiwan Straits (ARATS), and Johnnason Liu, Secretary General of Taiwan's Straits Exchange Foundation (SEF), met and exchanged views on the "1992 consensus", a formula drawn up in 1992 between the Mainland and Taiwan to circumvent disagreement over the island's sovereign status. Beijing has insisted that President Chen must accept the one China policy in some form before formal talks can resume. Taiwan reportedly told the Mainland visitors that the consensus formula was too abstract and ambiguous but that it hoped to create an atmosphere which would be helpful to more dialogue.

In sum, although there was no breakthrough in finding a mutually satisfactory formula to revive official talks, the conversation between ARATS and SEF officials in Taipei in early February 2005 marked the first official contacts between the two sides in the past six years. These developing official ties reflected the more positive mood in both Beijing and Taipei that we found on our visit—a mood more upbeat than we had found on previous visits.

In Beijing, officials acknowledged that the cross-Strait situation was "more relaxed" than it was six months ago, emphasized that the PRC objective (at least for the near term) had been scaled back from "reunification" to the more modest "negative" goal of "containing Taiwan independence," and conveyed the impression that they believed that time was on their side and that they can afford to be patient. Chinese officials also indicated that they now had a two-part strategy toward Taiwan: a harder hard-line toward Chen Shui-bian and the DPP, and a softer line toward everyone else in order to win "hearts and minds" in Taiwan. They continue to have a deep and probably irreversible distrust of Chen Shui-bian. Accordingly, one part of the strategy is to increase domestic political pressure on him not to "creep" toward independence. The second part of the strategy is to woo Taiwan businessmen, students and tourists to the Mainland by making both transit and domicile as easy and comfortable as possible. Another part of the "soft" element seems to be to renew some contact with President Chen and the DPP government in an effort to demonstrate the Mainland's flexibility and reasonableness.

In Taiwan, there are also signs of a more restrained policy toward the Mainland. President Chen named the pragmatic Frank Hsieh, Mayor of Taiwan's second largest city of Kaohsiung, to be Premier. In announcing the appointment, Chen said Hsieh will be the best person to help "open a new era of negotiations and dialogue" with both the opposition parties in Taiwan and the Mainland. Hsieh, for his part, has asserted that Taiwan must tackle the normalization of relations with China in a more pragmatic and flexible approach. "We shouldn't just aim at a target, but need to understand our range of shooting," he said. "Shooting at the moon, for instance, would be absolutely impossible."

In a meeting with us, a high level Taiwanese official was also partially upbeat on cross-Strait relations. He emphasized that Taiwan would be "an asset" for the U.S. in the next four years and it would not unilaterally change the status quo (although it would also try to avoid the status quo being changed by the other side). The official also praised the charter flights agreement as "a very good beginning" and even a "breakthrough" for

“normalizing” cross-Strait relations. Contrary to the impression given to us in Beijing (and by the KMT) that the charter flights agreement was forced on Chen, the Taiwanese took credit for it. But the official took a very hard line on China’s forthcoming Anti-Secession Law which, he said, would seek to unilaterally change the status quo and to lay “the legal basis for an invasion of Taiwan.” The Taiwanese official threatened that if the Anti-Secession Law was passed in March, Taiwan might be forced to hold a referendum to counter it.

Proponents of the Optimistic Scenario in Beijing and Taipei

Despite the potential storm cloud of the Anti-Secession Law, (which will be discussed separately) we found proponents of the optimistic scenario both in Beijing and Taipei.

In Beijing, as indicated earlier, officials were more relaxed than they were six months ago – somewhat reassured that the near term risk of Taiwan independence had gone down as a result of the failure of the DPP to gain a majority in the LY. An official in the PRC’s TAO, told us that the Pan Blue majority in the new legislature will be “very important” in checking the pro-independence activity of Chen and that the election victory for the Pan Blue had dealt a “heavy blow” to Chen’s timetable for Taiwan independence in the next three years and to the upward trend of the DPP over the past four years. He warned, however, the Chen would now seek to divide the Pan Blue by courting the People’s First Party (PFP) led by James Soong. And he also warned that there was no change yet evident in Chen’s push for Taiwan independence through “constitutional reengineering” and referenda. Thus, the cross-Strait relationship in the next three years would be turbulent and unstable because the root cause of the instability – Chen’s push for Taiwan independence – had not been eliminated.

The official went on to say that risks of Taiwan gaining independence over the next three years had, nevertheless, been “reduced to a certain level.” And he attributed this in no small measure to what he called the cooperation of China and the United States.

In discussing the proposed Anti-Secession Law, the TAO official went out of his way to give us a benign interpretation of the law. It would not, he said, change China’s policy on the Taiwan issue and China would continue “with utmost sincerity” to seek a peaceful settlement of the cross-Strait issue. But the law would “show our determination” as to “what Taiwan should not do.” Thus, it would help block Chen’s “dangerous tendencies.”

He went on to say that he was relatively optimistic about cross-Strait relations because both the U.S. and China want peace and stability in the Taiwan Straits, because China’s peace policy remains unchanged, and because the majority of people on Taiwan want to see peace and stability.

The official was also optimistic about U.S.-China relations for the next four years. Both countries had a common interest in world peace and stability; there was a considerable potential for “strategic cooperation:” and with “frank and serious exchanges” the Taiwan issue could be “properly handled.”

There is one other important reason for some cautious optimism about the cross-Strait relationship. China’s new President, Party leader, and Military Affairs Commission chief, Hu Jintao, has apparently put his imprimatur on the idea that there is no deadline for reunification and no haste in achieving it. Mainland analysts in Taiwan told us that at a recent meeting of Beijing’s Central Committee last September, a three point plan on Taiwan was adopted. The three points were: 1. Press for negotiations; 2. Prepare for war; 3. Do not fear procrastination. The third point is a clear break with past PRC insistence on setting a deadline for reunification.

Finally, one Chinese scholar, with close ties to the TAO, told us that even if Taiwan were to declare independence, this would not necessarily and inevitably trigger military action by the PRC. Sanctions might be enough, especially if the U.S. cooperated by denying diplomatic recognition and ending arms sales.

In Taipei, both people close to President Chen and prominent opposition leaders displayed some cautious optimism. According to one person close to the President, the President has stated that he will follow the Constitutional process for amending the Constitution and there is no reason to doubt his statements. Given the composition of the new LY, he continued, it will be very difficult to make any changes that impinge on the sovereignty issue. Moreover, there is no mood now in Taiwan to confront China. This explains the results of the LY elections in which the hard-line independence forces led by former President Lee Teng-hui and the Taiwan Solidarity Union did not do as well as they expected. So, the constraints on the Constitutional process, the defeat of the hard-line pro-independence forces, the new mood in Taiwan, the appointment of Frank Hsieh as Premier, and continued U.S. pressure for Chen to move in a more moderate direction will all combine to soften Chen’s approach both to his opposition and to the Mainland in his second term.

An astute opposition leader said he, too, was relatively optimistic. The U.S. had sent a strong message to Taiwan that President Chen had gone too far and this message had been received; the charter flights agreement was a very hopeful development; the President knows that his confrontation strategy has backfired; the Pan Blue opposition parties will remain a significant constraint on the President; and, economic forces are also driving Taiwan closer to the Mainland inasmuch as trade with the Mainland is the driving force behind Taiwan’s 5.7% percent growth rate last year. So, concluded this opposition leader, although it would be unrealistic to expect the DPP government to abandon its pro-independence stance, it is now likely to be more moderate in its approach to cross-Strait relations.

On the other hand, both President Chen Shui-bian and other Taiwan government officials made clear their intention to press ahead both on “reforming” the Constitution,

and on changing the names of Taiwan's representative offices (i.e. de facto embassies) and state corporations to substitute "Taiwan" for "Republic of China" in their titles. They emphasized that the reasons for these changes were technical or administrative, not political. However sincere these explanations, they are very likely to be seen in Beijing as further evidence of the DPP's determination to "creep" toward independence and, as such, to be an additional source of cross-strait tension. The pan-Blue forces have every incentive to resist any DPP proposals that would have this result, but it remains to be seen whether they have both the political strength and skill to prevail.

An important part of the optimistic scenario centers on the recently concluded charter flights agreement and the potential for follow-up agreements. It is to this that we now turn.

The Charter Flights Agreement

The charter flights agreement was a one-time agreement authorizing direct two-way charter flights between several cities on the Mainland and Taiwan for Taiwanese businessmen and their families living and working on the Mainland who want to go home for the Chinese New Year and then return to the Mainland. For the first time since the Kuomintang (KMT) lost mainland China to the Communists in 1949, Chinese flag carriers landed at Taiwanese international airports with the consent of the Taiwan government in early February. Also unprecedented, the air routes did not require a stop in Hong Kong, only passage through its airspace en route to and from an expanded number of destinations including Taipei and Kaohsiung on Taiwan and Beijing, Shanghai and Guangdong on the Mainland.

Both sides made important concessions in order to reach this agreement. Taiwan relented on its insistence that either the Mainland Affairs Council (MAC) or the Straits Exchange Foundation (SEF) represent the Taiwan government in the talks, and Beijing acquiesced in allowing a government representative from each side to be present in an "advisory" capacity. As a result, delegations to the meeting were ostensibly led by aviation executives from the two sides and the controversial issue of whether the flights should be called "international" or "domestic" was neatly side-stepped. This represented a pragmatic solution to the thorny, ideological "one China" issue.

Moreover, officials on both sides saw the charter flights agreement as an important sign of good will from the other side. President Chen has said that the negotiations marked a beginning of the normalization of cross-Strait relations and had established a good foundation for future cross-Strait talks. Taiwan's MAC Chairman, Joseph Wu, who was in Washington when we were in Taipei, said on an earlier occasion that the PRC's positive response to calls for cross-Strait charter flights could point towards a "mood shift" in Beijing. Wu also said that the next two years will be a crucial window of opportunity.

In a meeting, an official with close ties to President Chen called the charter flights agreement “a very good beginning,” even a “breakthrough,” and a “good start for the normalization of cross-Strait relations.” Despite the Chinese insistence that the charter flights agreement was forced on him, the Taiwanese official gave President Chen credit for the flights. The official insisted that the President had initiated the idea but that he had not gotten a positive response from China at that time. Against this background, the official went on to say, “We see light in the negotiation of the charter flights agreement.” He was particularly pleased that the head of the Taiwan Civil Aviation Bureau participated in the negotiation inasmuch as this was an implicit recognition by the PRC of the Republic of China (ROC) government. Moreover, the agreement was reached because there was “sincerity on both sides of the strait.” But, as indicated earlier, the official warned that the passage of China’s Anti-Secession Law in March would almost certainly darken the now positive atmosphere.

In sum, although both sides spoke positively about the charter flights agreement and both hinted at possible follow-on charter flights agreements for air cargo flights and other forthcoming Chinese holidays, both sides also expressed apprehension about the other’s future intentions. Chinese officials expressed their concern to us that although the charter flights agreement was a positive step, we should not exaggerate its significance because nothing fundamental had changed. Chen, according to Beijing, continues on his independence path. And Taipei, for its part, seems to believe that although the charter flights agreement represents a potential breakthrough; its positive impact on Taiwan could be nullified by the Anti-Secession law.

POSSIBLE DISRUPTIONS

While overall trends lead toward optimism, there is an upcoming confluence of events that could dramatically increase the near term risks. On the PRC side, there is the likely passage of the Anti-Secession Law at the next National People’s Congress (NPC) in March. This will be followed shortly by the National Assembly elections in Taiwan to take place in May. Finally, the U.S. is likely to announce an arm sales package to Taiwan in the next month or so. This U.S. arms package follows on the heels of an unprecedented U.S.-Japan announcement that the two allies share a common security concern about the future of Taiwan. The arms sale package and the U.S.-Japan announcement are sure to stir up increased concern in Beijing that Washington is once again sending mixed signals to the advocates of Taiwan independence. The future looks somewhat brighter if all three sides are able to get past this confluence of events.

The Anti-Secession Law

Passage of the Chinese Anti-Secession Law in March could lead to a potentially adverse Taiwan reaction in the form of an anti-annexation referendum. Some on both sides of the Strait fear that President Chen might exploit the Anti-Secession Law in an effort to increase the flagging momentum of the DPP.

A TAO official told us that the Anti-Secession law was first of all a response to the Chinese public's popular will and, secondly, a response to President Chen's "intensified secessionist activities" in the past few years. It was a response, in particular, he said, to the anticipated start of "constitutional reengineering" in May of this year. He went on to say that since President Chen says that Taiwan is already an independent sovereign state, an extremely dangerous statement, it was necessary for the PRC to declare that Taiwan is an "inseparable part of Chinese territory." But, said the official, the law would not change PRC policy on the Taiwan issue. China would still pursue "with the utmost sincerity" a peaceful resolution of the issue. But China would use the law to "show our determination," i.e. to show "what Taiwan should not do." He insisted that the law would have a positive effect because it would clarify what Chen must not do. Therefore it would curb his dangerous tendencies.

Pressed on what specific steps he wanted President Chen to take, the official said: President Chen should halt statements and actions in pursuit of Taiwan independence; abandon the campaign for name changes of Taiwan state corporations and overseas offices; and end the Constitutional reform process.

Despite the arguments that several of us advanced to the TAO official and other officials in Beijing – namely that the Anti-Secession Law was likely to have counter-productive effects both in Taiwan and in the U.S. and that the timing was particularly poor because of the positive momentum generated by the charter flights agreement – we gained the clear impression that Beijing intended to go ahead with the law at the NPC session in March.

If the Mainland goes ahead with this law, there is the danger that President Chen will respond with a referendum in Taiwan designed to exploit anti-reunification sentiment. In his meeting with us, President Chen suggested that this idea was under consideration.

In sum, if, as seems likely, the Mainland goes ahead with an Anti-Secession Law in March and Taiwan responds in May (in conjunction with the National Assembly elections) with an anti-annexation referendum, the fragile positive mood that now exists in both Beijing and Taiwan could be sharply set back.

But quite apart from the Anti-Secession Law and its potential consequences, there is another pessimistic scenario that is more fundamental—that is, the continuing clash between China's stated intention not to allow Taiwan independence and Chen Shui-bian's desire to consolidate some form of Taiwan independence during his remaining term in office. In this reading of the situation, the current thaw in cross-Strait relations may be no more than the lull before the storm. A recent article by a well-informed Chinese academic from Shanghai says that the growth of the independence movement in Taiwan has increased the danger of Taiwan breaking away from China, that "the Taiwan Strait has now entered into a period of high risks and frequent crises," and that "the prospects of a new war are increasing." As a matter of fact, the author says, "both sides of

the Strait are preparing for a possible war.” (See Chen Qimao, “The Critical Taiwan Strait Situation: In a Lull between Two Crises”, forthcoming in the April 2005 issue of *American Foreign Policy Interests*.)

Although we did not hear as much war talk from Beijing on this trip as we had heard on previous trips, the warnings were still there. A TAO official told us that although cross-Strait relations had eased “to a certain extent,” cross-Strait tension had not altered in any fundamental way, that there had been no change in Chen’s timetable for Taiwan independence, that the next three years in cross-Strait relations would be “turbulent and unstable” because of this, and that, if Chen continues to “go his own way,” a military confrontation “is inevitable.” He also said he did not think that any resumption of the dialogue with Chen would lead to results because Chen was “not sincere.” On the contrary, said the official, if Beijing were to resume the dialogue with Chen before he recognizes the One China principle, this would increase his pro-independence activities. In concluding, the official warned that Chen was “exploiting” China’s desire for peaceful reunification. He also implied that China might in the end have no alternative but to go to war with Taiwan. The official used the example of Saddam Hussein. Like Saddam Chen Shui-bian was a “double dealer” and a politician who “lacked credibility.” Moreover, concluded the official, “Many issues cannot be solved by negotiations alone.”

A PLA officer also had some harsh things to say about Chen. He said that Chen had a “newly acquired arrogance” that emboldened him to “dish out” a timetable for Taiwan independence which would be complete in 2008. The setback in the LY, he continued, had set Chen back “to some extent,” but this was only a tactical change and he would still continue to push for Taiwan independence during the next four years. Then the officer pulled out the Chinese Defense White Paper issued, he said, last month. The paper emphasized peaceful reunification but it also said that Beijing would not tolerate Taiwan independence. The White Paper stated: “Should Taiwan authorities go so far as to pursue Taiwan independence, the Chinese people and armed forces will fight resolutely against it at whatever cost.”

OTHER TRIP HIGHLIGHTS

The Cross-Strait Peace Promotion Draft Law

James Soong and the People’s First Party (PFP), with whose leaders we spent some time (Soong was in Washington but we met with other leaders of the party) have written a Cross-Strait Peace Law that they hope to submit to the Legislative Yuan and then, assuming they can get consensus, discuss with Beijing. Although the Draft Law is a long way from obtaining a consensus in Taiwan, much less of being accepted by Beijing, it does represent a badly needed effort on the part of Taiwan’s political parties to seek a consensus on relations with China.

The Law’s goal is to stabilize cross-Strait relations for 50 years by “maintaining the status quo of the ROC’s sovereignty,” avoiding unnecessary military conflict,

promoting the practical measures of cross-Strait relations and providing a guarantee for Taiwan's interests and peace.

The law has eight points: first, to help form a consensus between the ruling party and the opposition parties on cross-Strait peace; second, to be sure that "the sovereignty of the Republic of China" and the "Taiwan people's right of autonomy" is ensured; third, putting aside long-term political controversies; fourth, making the Chinese authorities understand that "Taiwan's democratic development is an indispensable national value for the whole of China;" while, at the same time making Taiwan understand that "Chinese authorities will not tolerate Taiwan independence;" fifth, getting Chinese authorities to acknowledge that Taiwan is a democratic society and that any change of Taiwan's status quo must win the support of the Taiwan people; sixth, creating a special committee in the LY with delegates from different political parties in an effort to start cross-Strait peace dialogues with their counterparts on the Mainland; seventh, to pursue a number of confidence-building measures such as signing an agreement on the "three links;" developing cross-Strait military confidence building measures; signing an agreement to protect Taiwan businessmen on the Mainland; establishing a Cross-Strait Free Trade Area; allowing Taiwan's farmers to find a market in China; signing an agreement on medical care for Taiwan businessmen on the Mainland; signing an agreement on cross-Strait financial exchanges; pushing for two seats in international political organizations; holding cross-Strait summits; and signing a cross-Strait peace agreement on the basis of the "five no's, "no independence for Taiwan," and no use of force for China; eighth, to obligate the LY cross-Strait committee to report to the LY.

The Mainland showed little interest in this proposal, and is reportedly unhappy with its provisions concerning the ROC's "sovereignty," and at least one person close to President Chen regarded the law as a usurpation of the right of the Executive Branch to make cross-Strait policy. However, the discussion of the law in the LY and in the Taiwan media over the coming months and years will be a significant indicator of prospects for an "Interim Agreement" between the Mainland and Taiwan that many analysts have been discussing for some time. It will also be an indicator of the prospects for a cross-Strait consensus between the ruling DPP and the opposition parties. Finally, there are persistent rumors that President Chen is considering the appointment of James Soong to head the Cross-Strait Peace Commission that he is planning to appoint.

Intriguing Distinctions

A Chinese official made the following intriguing distinctions:

- "One China" is a principle. It therefore can never be negotiated or compromised.
- "Peaceful reunification" is only a guideline.
- "One Country, Two Systems" is merely a PRC proposition and, like all propositions, it can be discussed and debated.

In short, the official seemed to be leaving the door open for Taiwan to probe PRC flexibility on how to define the “One Country, Two Systems” approach.

CONCLUSIONS

Regarding the PRC

1. The PRC mood on cross-Strait relations has turned slightly more positive as a result of the failure of the DPP to gain a majority in Taiwan’s Legislative Yuan (LY). Beijing thought the DPP would win, and that this victory would clear the way for constitutional changes amounting to a declaration of *de jure* independence. In addition, the charter flights agreement was well received in Beijing. It went beyond the agreement of two years ago, and both sides made important concessions in order to get it.

2. The general mood in the PRC on cross-Strait relations can be described as cautious realism. Beijing is now more confident that Chen Shui-bian will have great difficulty in implementing an independence agenda during his second term both because his political position in Taiwan is not strong enough and because the U.S. has taken such a clear position against independence and against any unilateral efforts to alter the status quo. Statements by then Secretary Powell and then Deputy Secretary Armitage – that Taiwan is not a sovereign independent nation and that Taiwan is a part of China – stretched previous statements of U.S. policy, but were not corrected.

3. Although China thinks independence moves by Chen Shui-bian are blocked for the time being, it continues to have little or no trust in Chen. Nor does Beijing have much faith in Chen’s Pan Blue opposition, which it regards as divided and under weak leadership. Beijing therefore does not have much confidence that the more positive mood will last.

4. Nevertheless, Beijing is positioning itself for a renewal of cross-Strait dialogue. Jia Qinglin, a high ranking Party leader, recently suggested that a dialogue with Chen Shui-bian is now possible if he accepts the ’92 Consensus.

5. Beijing is also now saying explicitly that reunification can be put off to the future and that the immediate problem is to maintain the status quo. It is also suggesting that its One China-Two Systems formula is a “proposition” that can be discussed. Although Beijing is not backing away from its One China precondition for dialogue, the suggestion about the ’92 Consensus indicates greater flexibility.

6. There is an interesting degree of flexibility that is new at the academic think tank level in Beijing. In the past, the standard China position on how they would react to a Taiwan declaration of independence was saber rattling. If Taiwan declared independence, China would go to war. But some of the think tankers are obviously worried by such an inflexible position and now seem to be providing the Party leadership with additional options (of course, the new leadership may have invited such options).

One scholar with close ties to the Taiwan Affairs Office (TAO) told us that even if Taiwan declared independence, China could employ measures short of war such as embargo or boycott. Moreover, he said, if the U.S. and other countries did not recognize such a declaration of independence, it would not amount to much. Another Chinese scholar who is well plugged-in to the elite told us in a room full of other Chinese that China has two core issues. Taiwan is one of them but so is maintaining a strong and prosperous China. And the second should not be sacrificed for the first.

7. Despite these signs of flexibility in Beijing, there are no grounds for excessive optimism. Beijing's Anti-Secession Law does not seem to be stoppable. It is likely to be passed at the NPC meeting in March and then there is almost certain to be a negative reaction in Taiwan.

Regarding Taiwan

1. A huge shift in the Bush Administration's thinking about cross-Strait relations has quietly taken place over the past four years. When it first came to office, the Bush Administration regarded China as the primary source of the cross-Strait problem. Since 2003, the Administration has concluded that Taiwan is more inclined to rock the boat. President Bush himself has been increasingly irritated by Chen Shui-bian's willingness to disregard Administration messages, to put his own electoral fortunes above U.S. interests, and – despite U.S. warnings – to steadily push the envelope on Taiwan independence.

2. Chen Shui-bian has two conflicting goals for his second term. One is to repair the frayed relationship with the Bush Administration and to try to stabilize the cross-Strait relationship. The other is to lay the groundwork for some kind of *de jure* independence for Taiwan. It is still not clear which of these two goals has the higher priority.

3. How Taiwan reacts to Beijing's Anti-Secession Law in March 2005 will provide some part of the answer. If Taiwan reacts mildly to the law, that will gain Chen a good deal of credibility in the Bush Administration and it will go a long way to restoring the U.S.-Taiwan relationship. If, on the other hand, Chen seeks to exploit the Anti-Secession Law as a golden opportunity to revive the flagging momentum of the DPP – by, for example, holding an Anti-Annexation Referendum in response – that will almost certainly inflame the cross-Strait relationship and confront the U.S. with difficult choices.

4. In sum, although several of our interlocutors in Taiwan were optimistic that Chen – in his second term – would be compelled to pursue a more moderate policy on cross-Strait relations, the evidence is hardly compelling.

Regarding the United States

Since 9/11, the Bush Administration, and the President in particular, have paid much more attention to the cross-Strait issue than was apparent in previous years. In part, this has come about because of the U.S. preoccupation with Iraq and the Middle East and the desire not to be distracted by problems elsewhere. It is also a result of the U.S. need to involve China in its anti-terrorism campaign and in its efforts to get a negotiated solution to the North Korean nuclear problem.

President Bush has now on several occasions pledged to continue the U.S. One China policy, he has reiterated several times that the U.S. does not support Taiwan independence, and issued personal warnings to Chen to be prudent. He has also dispatched several emissaries to Taiwan with the same message. Further, the Administration has come up with a new formula which calls on both sides not to seek unilateral changes in the status quo. The Administration is also now encouraging a revival of the stalled cross-Strait dialogue. Finally, the Administration is now actively seeking to engage all the branches of the U.S. government in formulating a consistent policy on cross-Strait issues in order to avoid the mixed messages of the past. It remains to be seen how successful these efforts will be.

RECOMMENDATIONS

1. Both sides need to lower their rhetoric.
2. More creative thinking is needed on both sides to develop a formula that would permit a resumption of dialogue. As our Track Two efforts have suggested for years, nimble interpretations of the '92 consensus by both sides might get things started.
3. Both Beijing and Taipei need to take steps to follow up the recent Chinese New Year charter flights agreement with more such confidence-building measures. They could reach agreement on air-cargo charter flights or on charter flights for future Chinese holidays. This would give confidence to both sides that the initial agreement might be the beginning of a genuine breakthrough.
4. Ideally, Beijing should drop or postpone its Anti-Secession Law but if Beijing insists on going ahead with it, it should make it as moderate as possible. Taiwan, in turn, should be moderate in its response and not use it as a pretext for provocative moves.
5. Taipei needs to develop a more realistic long range strategy for dealing with the mainland in a manner that is in accordance with current international power realities. The first step would be to create a consensus within the DPP on such a strategy. The second step would be to create a cross-party consensus within Taiwan. The recent Peace Promotion Plan drafted by the PFP and now before the Legislative Yuan would be a good place to start. Track Two efforts could help play an important role in this process.

6. Beijing needs to assure Taiwan that once a cross-Strait dialogue begins in earnest, Beijing will be more tolerant in granting Taiwan greater international space—e.g. approving observer status for Taiwan in the World Health Organization.

7. The U.S. should continue its current policy of watchful monitoring of the cross-Strait situation, of encouraging both sides to resume their official dialogue, and of warning both sides against any unilateral changes in the status quo.

8. Finally, there are three principles that need to be observed by the three parties:
a) The United States needs to keep its One China policy; b) China needs to understand that the U.S. is very serious in its insistence that only a peaceful solution to the problem is possible; c) Taiwan must understand the need for restraint. If these principles are observed, a gradual evolution to talks and a peaceful solution is possible.