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Where Leaders Meet

Northeast Asia Projects

Summary of the Fifth Roundtable on U.S.-China Policy and Cross-Strait Relations

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The August 1999 Roundtable on U.S.-China Policy and Cross-Strait Relations was the fifth in a series of meetings sponsored by the National Committee on American Foreign Policy. The August meeting was attended by scholars from the United States, the People's Republic of the China (PRC), and Taiwan. During the two-day Roundtable, the participants entered into candid talks about Cross-Strait issues. A summary of those discussions follows, according to the topics listed below.

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A. The Bottom Line

The "state-to-state" or "special state-to-state" formula made public by Taiwan President Lee Teng-hui on July 9, 1999, has been taken by Beijing as a virtual declaration of independence, which undermines the "one-China" principle to which Taiwan had previously adhered. This development has had several adverse consequences. First, it has increased tension in the Cross-Strait relationship, including the level of military activity. Second, it has made it quite likely that the PRC will give up on trying to negotiate with Taiwan while President Lee remains in office and will wait for a new Taiwan president after the March 2000 election. Third, it has placed the U.S. government in a very awkward position. It cannot accept the new Taiwan position without seeming to contradict its established policy not to support "one China, one Taiwan" or Taiwan independence. Fourth, the new theory has stripped away much of the ambiguity about Taiwan's status that had served all three parties so well in the past. This is likely to intensify controversy in Washington, Beijing, and Taipei about how to deal with Cross-Strait relations. In the United States there is already growing controversy between those who favor clear-cut declarations of support for Lee's position and those who see such a policy as leading to a military clash between the United States and the PRC. Similar conflicts are likely to be taking place now in both Beijing and Taipei.

There are several reasons, however, for cautious optimism about the immediate future. First,



Beijing has so far acted with considerable prudence and restraint in responding to Lee's declaration. Second, the Taiwan government has decided not to change its constitution or amend its laws to incorporate the "state-to-state" formula, thus leaving the door slightly open for a retreat back to the "one-China" stance. Third, there has been some improvement in U.S.-PRC relations since the bombing of the Chinese embassy in Belgrade that had dealt a severe blow to the relationship. President William J. Clinton is scheduled to meet PRC President Jiang Zemin in New Zealand in late September where they will undoubtedly discuss both Cross-Strait tensions and the possibility of the PRC's entrance into the World Trade Organization (WTO).

Over the long run, however, much will depend on the policies of the new Taiwanese and American presidents scheduled to take office during the next year and a half.

B. Essential Background

1. Tensions in U.S.-PRC relations and in PRC-Taiwan relations have been rising to an alarming degree. The U.S. intervention in Kosovo and the bombing of the Chinese embassy in Belgrade in May 1999 dealt a severe blow to the U.S.-PRC relationship. This relationship had already been on a downward trend after the congressional report about Chinese espionage was released and a good deal of U.S. media attention was paid to the PRC's alleged illegal political campaign contributions and to its continuing human rights violations.

The PRC condemned the United States for its intervention in Kosovo, alleging that it harbors hegemonic ambitions. Then, after the embassy bombing, it then loosed a torrent of invective against the United States. The PRC viewed the bombing as a deliberate act intended to humiliate the PRC, and mobs of students and others, some with official encouragement, damaged the U.S. embassy and consulates in the PRC.

Even before the problems between Washington and Beijing caused by the Kosovo bombing had been resolved, Taiwan President Lee Teng-hui precipitated a new crisis in Cross-Strait relations by stating on July 9 in an interview with a German radio station that Cross-Strait relations were a "state-to-state" or at least a "special state-to-state relationship," a significant shift from Taiwan's previous position that accepted the "one-China" formula, while defining "one China" in Taiwan's terms. The PRC promptly condemned Lee's statement, which it interpreted as a significant step toward its worst fear: a Taiwanese declaration of independence. The PRC warned that Lee had gone a long way down the road of playing with fire" and that he must "rein in at the brink ... and immediately halt all activities aimed at splitting the motherland."

Contributing to Cross-Strait tensions has been a significant increase in air activity over the Taiwan Strait by both the PRC and Taiwan air forces, a development that increases the chances of a military incident. There is also a growing likelihood that the Cross-Strait dialogue will be halted. Wang Daohan, president of the PRC's Association for Relations Across the Taiwan Strait (ARATS), who had been scheduled to visit Taiwan in October, said that if Taiwan considers Cross-Strait talks as "bilateral talks between two states," then the basis for any contacts, exchanges, or talks no longer exists. The latest flare-up of tensions between China and Taiwan also has increased discussions in the United States about how far it would be willing to go if Beijing launched a military attack on Taiwan.



C. Taiwanese Perspectives

1. According to one Taiwanese participant, President Lee Teng-hui has adjusted Taiwan's stated mainland policy from "equal political entities" to "special state-to-state ties" not in order to change the status quo but to clarify the ambiguous situation across the Strait. There are several reasons for this change.

First, it is widely believed in Taiwan's ruling circles that U.S. policy on Cross-Strait relations has gradually tilted toward the PRC definition of what "one China" means, that is, that Beijing is a central government and Taipei is a local government. The United States has also become increasingly interested in encouraging Taiwan to enter into political negotiations with the PRC on what Taipei believes to be Beijing's terms. Taiwan perceives this as "pressure." For example, the United States has encouraged Taiwan to enter into "interim agreements" with the PRC. Consequently, Taiwan perceives that the United States has gradually shifted its past ambiguity on the "one-China" position to a stance that embraces the PRC position. Taiwan became especially alarmed after President Clinton publicly stated the "three no's" while visiting the PRC in June 1998. Despite subsequent U.S. explanations that Clinton's statement did not constitute a change in U.S. policy, that statement had a profound effect on Taiwan's leaders who then came to the conclusion that in order to pursue its "strategic partnership" with the PRC, the United States would do so at the expense of Taiwan's interests.

A second factor underlying President Lee's "state-to-state" theory was the perception that Beijing is stiffening its own position on "one China" by departing from its earlier view that allowed each side to interpret "one China" differently.

A third consideration was the impending visit of the PRC's Wang Daohan to Taiwan in October. Taiwan came to the conclusion that it must clarify its position before the visit. Finally, there were domestic considerations. President Lee was concerned that his presidential term would expire in May 2000, leaving unresolved or ambiguous the question of Taiwan's status vis-a-vis the PRC. He also wanted to sharpen the debate in Taiwan on Cross-Strait relations in order to force all the presidential candidates to define their positions on his formula of "special state-to-state" relations.

2. The Taiwanese participant went on to say that the "two-states" formula will not be retracted as long as President Lee Teng-hui remains in power. The Kuomintang (KMT) party congress passed a resolution endorsing the concept. Also, he said that the government had debated whether to institutionalize Lee Tenghui's "state-to-state" theory by amending the constitution and revising relevant laws. After the conclusion of the debate both inside the government and in public, the government decided that it would not pursue a constitutional amendment, revise relevant laws, or abolish the National Unification Council and the National Unification Guidelines. This decision allows for the possibility of a more flexible interpretation of Lee's formulation in the future. It also allow for negotiation with the PRC for a unified China. Nevertheless, he affirmed, Taiwan will seek equality in any political negotiation with the PRC.
3. Another Taiwan participant pointed out that Taiwan had been driven into a comer by the PRC's success in excluding it from intergovernmental organizations and in gaining increased international acceptance of its interpretation of "one China"--that Taiwan is part of the PRC. Lee was forced to act to counter this PRC policy.



D. PRC Perspectives

1. According to one PRC participant, the "state-to-state" theory made public by Lee Teng-hui on July 9 has "seriously damaged the very foundation of the Cross-Strait relationship [and] the one-China principle," and it has "undermined" the PRC policy of "peaceful reunification." Before Lee Teng-hui's statement, Cross-Strait relations had been "heading for a better and more hopeful future." But Lee's "sudden renunciation" of the "one-China" principle to which he had committed himself has "destroyed" those hopes.
2. Unless Lee "retracts" his "state-to-state" remarks, the Cross-Strait relationship cannot be put back on track. Moreover, "turbulence" and "even crisis" cannot be avoided across the Strait.
3. Whether President Lee "goes farther along the road of separation" and puts his "special state-to-state" remarks into the Taiwan constitution or into legislation is important. If that happened, it would be a "naked declaration of independence," and "the consequences would be most disastrous."
4. Although the PRC reaction to Lee Teng-hui's "two-states" theory is strong its actual policies are "measured." The PRC government "makes a strict difference between Lee Teng-hui and the Taiwanese people, between political condemnation and commercial activities, between the short-term reaction and long term responses." The PRC will "leave the door open" for Lee to return to the "one-China" principle and to resume the Wang Koo talks.
5. The PRC participant said that the United States has a key role to play in the Cross-Strait issue. Although the Taiwan issue is entirely an internal matter of the PRC, "it is well known" that without American intervention, there would have been no "Taiwan problem." It is also "well known" that the Taiwan authorities regard the United States as their "protector," the only external power they can rely on. Lee deliberately made his statement at a low point in U.S.-PRC relations. The United States needs a "stable and farsighted policy" toward the Taiwan problem. Any policy that "cherishes the illusion" of "permanently obstructing the PRC's reunification" will not help America's main strategic goal in the Asia-Pacific region, that is, the maintenance of peace and stability. It also runs the risk of the United States getting "dragged into a conflict passively." It is particularly important that the United States not give even its tacit consent to the so-called state-to-state relationship and not accept it as a *fait accompli*.
6. Another PRC participant observed that an injured Sino-U.S. relationship would exert a negative impact on the Cross-Strait relationship. PRC-U.S. relations, however, are "too important to spin out of control." The two countries "are doing repair work." They have reached agreement on U.S. compensation for the families killed in the bombing of the Chinese embassy in Belgrade. It is encouraging that the two presidents exchanged "damage control" talks after the bombing and after Lee Teng-hui's two-states remarks. The PRC and the United States are "slowly but surely" moving beyond the bombing and "working toward a normal relationship." The impending meeting between President Jiang and President Clinton at the A[sian] P[acific] E[conomic] C[operation] meeting in September will restart negotiations on WTO accession and improve Sino-U.S. coordination in global and regional affairs.



7. Generally speaking, the initial U.S. response to Lee's two-states theory was "constructive." President Clinton and the executive branch reaffirmed their commitments to "one China" and the "three no's" policy toward Taiwan.
8. The Chinese mainland still "adheres to the principle of peaceful reunification." Only if Lee Teng-hui "insists on splitting the country" will the PRC government have no choice but to look for a nonpeaceful alternative.
9. To a certain extent, the outcome of the impending election on Taiwan will decide future interaction between the two sides across the Taiwan Strait. Therefore, "it becomes even more important that Lee Teng-hui's successor be clear-minded and prudent on the Cross-Strait relationship."
10. With all its complications the Taiwan issue "is extremely difficult to solve." Therefore, "prudence and patience are needed." Because of accelerated separatist moves by Lee Teng-hui, however, the Taiwan issue cannot drag on indefinitely.

E. United States Perspective

1. An American participant observed that President Lee Teng-hui's statement of July 9 on "state-to-state relations" across the Strait interrupted a period of positive momentum in Cross-Strait relations during the last year or so. This positive momentum had been based on the "flexibility of both sides" and the continuation of contacts across the Strait.
2. There has been no change in official U.S. policy. The United States aims to calm tensions to salvage the Cross-Strait dialogue and to achieve a peaceful resolution of the dispute.
3. After the July 9 statement, President Clinton called PRC President Jiang Zemin and reiterated the "three pillars" of U.S. policy: peaceful resolution of the Cross-Strait dispute, continued U. S. adherence to the "one China" policy, and support for continued Cross-Strait dialogue. The United States also dispatched parallel missions to the PRC and Taiwan to listen, to encourage dialogue, and to reiterate U.S. policy.
4. The United States is "modestly optimistic." Both sides have shown restraint so far. The United States is particularly impressed with the PRC's reaction, which shows an understanding that any use of force would be counterproductive. Also, there are no serious preparations for hostilities.
5. The United States wants to make clear that any use of force by the PRC against Taiwan "runs the risk of a U.S. reaction."
6. The United States is very concerned about increasing air activity in the Strait and the possibility of accidents. Both sides need to pull back and fly fewer sorties.
7. The United States hopes that after Taiwan's presidential election in March 2000, the PRC will develop a more flexible policy toward Taiwan that will offer the Taiwanese people some "carrots." Taiwan is a democracy, and its Cross-Strait policy will be driven by the Taiwanese people. Some of the positive signals that the PRC could send Taiwan include the following: Allow greater Taiwanese participation in international



organizations that do not require statehood; show flexibility in drawing up the agenda; and make it clear that Taiwan is accepted as an equal partner in dialogue.

8. Both the PRC and Taiwan want to achieve their goals through Washington and want the United States to change its policy in their favor. But U.S. policy remains unchanged.
9. There are important areas for productive U.S.-PRC cooperation, including the Korean Peninsula, South Asia, and even the Persian Gulf, where both the PRC and the United States--both of whom are oil importers--seek stability.
10. The United States hopes that both the PRC and Taiwan will enter the World Trade Organization this year.
11. There was some discussion of the impending American national election campaign and its likely impact on U.S.-PRC and Cross-Strait relations. There was general agreement that the likely Republican candidate, Texas Governor George W. Bush, would not depart from the "one-China" policy that has been accepted by six American presidents during the past two decades and that has served American interests well.

F. The Military Situation

1. An American participant made the following sobering points about the military trends in the Taiwan Strait. First, the critical need is to prevent a "train wreck" from happening sometime in the future.
2. The "one-China" doctrine seems to be eroding at the same time that the PRC, as a result of its military modernization, has an increasing number of military options.
3. The balance of power in the Taiwan Strait has been roughly maintained over the past two decades, and the United States has been careful in its arms sales to Taiwan. Observers should note not so much what weapons systems the United States has sold to Taiwan but what it has not sold. For example, the F-16 fighter aircraft sold to Taiwan constitute the lowest quality U.S. fighter. More sophisticated fighters have not been sold.
4. The trends in military doctrines on all three sides are conducive to crisis instability. In Taiwan, pressure will grow for instant U.S. involvement in any crisis. That is why Taiwan will continue to seek some operational link to the U.S. military. It is also one of the important factors behind Taiwan's expressed interest in theater missile defense (TMD). In the PRC, the "lesson" of Kosovo is not to give the United States time to react with its superior military power but to preempt, that is, to strike first. In the United States, the doctrine dictates caution and standing at a distance. Thus in a crisis Taiwan has an incentive to bring the United States in quickly, the PRC has an incentive to strike quickly, and the United States is likely to be extremely cautious. This is a formula for instability.
5. The potential for an arms race is growing. The PRC military will use Kosovo and the "two-states" theory to ask for and get more money for military modernization, and we will likely see an increase in PRC military spending. Moreover, any military can improve in a hurry when it has only one major problem to focus on, and so a breakthrough for the PRC military is possible. Yet rapid growth in the PRC's military



expenditures is not in United States, PRC, or Taiwanese interests. Moreover, rapid growth will invite not only a U.S. reaction but also a reaction in Japan and Southeast Asia. Therefore, the consequences of not coming to grips with the problem would be enormous.

6. There is a big danger of miscalculation in the near term. The PRC is caught in a dilemma. To do nothing in response to the "two-states" theory would send a signal to Taiwan that the new theory is without cost. Yet to overreact by doing something big, as the PRC did in March 1996, would be to invite a U.S. and Japanese response and to risk a Taiwanese domestic political reaction that would play into the hands of the independence movement. Therefore, the PRC is looking for ways to react that would be somewhere in between doing nothing and reacting in a big way. This is the explanation for the growth in the PRC's air sorties around the middle line of the Strait. Taiwan's air sorties have also been growing. Consequently, there is a serious danger of miscalculation.
7. Finally, the Taiwanese elections in March 2000 will not provide a "miraculous solution" to the Taiwan issue. The path that all three sides take between now and March is critical. The PRC and Taiwan as well as the United States should consider a variety of military confidence-building measures and a variety of steps to avoid a new round in the arms race. For example, the United States could limit the transfer of TMD technology to Taiwan in exchange for a cap on PRC missile deployment. The PRC could cap its missiles unilaterally, and Taiwan could make some reciprocal unilateral gesture, for example, offer reassurance that it is not moving toward independence. There could be a dialogue between the PRC and Taiwan military authorities on increasing transparency and reducing the risk of accidental conflicts. The two sides could establish communication links such as hot lines, conduct regular military exchanges, give advance notice of military exercises, exercise unilateral military restraint, for example, limit air sorties, limit the scale of military exercises, and so on.

G. The Economic Factor

Although political and military tensions across the Strait remain high, trade, investment, and economic relations among Taiwan, Hong Kong, and the rest of the PRC have been closing the gap between the two sides. Economic development will be a driving force toward integration and interdependence. There already is considerable interdependence between the two sides. For example, one week after President Lee's "special state-to-state" statement, Taiwan's stock market dropped 14 percent while Shanghai's B-share market, reserved for foreign investors, fell 8.8 percent.

According to Taiwan's Mainland Affairs Council, from 1987 to May 1999 Cross-Strait trade reached U.S. \$173.3 billion. Taiwan's exports totaled U.S. \$150.1 billion, while imports totaled only \$23.2 billion. This gave Taiwan a U.S. \$126.9 billion trade surplus. In terms of investment on the mainland, the *Asian Wall Street Journal* estimates that Taiwanese have invested about \$U.S. 30 billion on the mainland. In addition to trade and investment, personal visits are increasing each year. From 1988 to April 1999 about 14 million visits to the mainland by Taiwanese people took place, and from 1988 to May 1999 approximately 400,000 visits to Taiwan by mainland residents took place.

Taiwan's exports to the PRC are investment driven, that is, they support Taiwanese



investment in the PRC. Rather than commodity goods, the majority of Taiwanese exports to the PRC consist of semifinished material and equipment used by Taiwanese firms in the PRC's coastal areas and then reprocessed for export to the world market. From this perspective, Taiwan's large trade surplus with the PRC is a part of the PRC's dynamic export-oriented industries, which have supported the PRC's sustained growth since the 1980s. In general, Taiwanese trade and investment have made the following contributions to the PRC's economic development.

1. Taiwanese investment has created at least four million job opportunities, or about 2.2 percent of the PRC's nonagricultural employment sector.
2. The manufacturing output of Taiwanese firms has reached \$U.S. 34 billion, or about 3.1 percent of the PRC's gross industrial output.
3. Taiwanese enterprises have created an export value of \$U.S. 21.4 billion, or about 14.4 percent of the PRC's total export value of \$150 billion.
4. Taiwanese investment has brought intangible influences such as marketing and management skills to mainland industries.

Participants from all three sides expressed optimism about economic relations between the PRC and Taiwan. An American participant noted that economic development is paramount for the PRC and that the Taiwan business community has a very strong interest in increasing economic relations with the mainland. If the new president of Taiwan accepted the "three links," including direct trade and air communication, and the PRC in turn strengthened the protection of Taiwanese investment and if the two sides were admitted to the World Trade Organization and moved forward on WTO compatibility, such developments would constitute a good opening step toward improved relations. Another American participant agreed that progress on economic relations could provide an opening for the new president of Taiwan. He said that cooperation on information technology is a particularly important area for progress. Taiwan is the third largest producer of information technology (after the United States and Japan), and Taiwan is producing more of its hardware on the Chinese mainland. Some Taiwanese information companies want to transfer more production to the mainland. American companies purchase large amounts of the final products of Taiwan's companies. The year 2000 will provide a great opportunity to publicize growing cooperation among the United States, the PRC, and Taiwan because Taiwan is going to be the host for an international conference on information technology at which the American businessman, Bill Gates, will be the principal speaker.

A PRC participant said that he was optimistic about economic relations between the two sides because "with or without" Taiwan's "go slow" policy, economic relations will expand. He noted that Taiwan's Commission for Economic Planning and Development has formulated a 10-year plan for structural change in Taiwan's economy in which the idea is to make Taiwan a service center for high technology and the mainland a product center. This highlights the fact that if Taiwan wants to remain competitive in international markets, it will need to forge closer economic cooperation with the mainland.

A Taiwanese participant also noted that Cross-Strait economic exchanges are increasing and are mutually beneficial.



H.

Conclusions

1. One American participant summed up his impression of the Roundtable in the following terms. The underlying assumption prevailing in the United States is that engagement with the PRC is the only realistic policy. The assumption is that as the PRC becomes increasingly interdependent both economically and culturally, it will see that it is in its own interests to retain a prudent and cooperative foreign policy. With respect to Taiwan, the United States maintains a balance of power in the Asia-Pacific region and tries to maintain the status quo in the Taiwan Strait. The United States dilemma is that both the PRC and Taiwan want to jiggle the status quo to their own advantage. This is what Taiwan's President Lee Teng-hui has tried to do with his "special state-to-state" formula. The U.S. problem is how to make it clear to Taiwan that it does not want policies that raise tensions. The best approach in the short term is to recognize that there is no political solution to the problem at the moment and expand cooperation in economic and cultural realms where both sides have common interests.

In the economic area, the PRC is working to protect growing Taiwan investment in the mainland, and Taiwan is receptive to increasing economic interaction. If both the PRC and Taiwan enter the World Trade Organization soon, as is likely, that will have a positive effect because of the need to establish compatibility. In the cultural realm, there should be more cultural exchanges and reciprocal visits as well as more frequent Track II dialogues. The idea should be to keep, broadly speaking, the status quo and to play for time so that the PRC can gradually move toward the rule of law and pluralism. On the central political problem of "one China," the policy should be "one China but not now." We should try to get across the idea that we all have to work in order to achieve "one China," which does not now exist. There is a general recognition that Lee Teng-hui's "special state-to-state" formula makes the situation more difficult. The best way to deal with this is through conscious obfuscation and a return to the 1992 understanding in which both the PRC and Taiwan agreed on the "one-China" principle and further agreed that each side would define its understanding of "one China" in its own way.

There also needs to be a recognition of the dangers inherent in the present military situation. It is desirable to reach agreement on some way to halt the arms race. Finally, domestic politics complicates the situation for all three sides. The next six months will be very crucial. Preventing the intensification of existing tensions is important.

2. Many participants from all three sides agreed that one of the bright spots is that Lee Teng-hui's "special state-to-state" formula was not incorporated into the Taiwan constitution or into Taiwanese law. Nor is it likely to be. Therefore, it remains simply a presidential policy statement. Consequently, future presidents of Taiwan can choose to interpret it or to obfuscate it in ways that are compatible with a "oneChina" policy.
3. An American participant noted that one key problem is to "reinforce Taiwan's stated commitment to an eventually unified China." One way to do this is to stress the "special relationship" between Taiwan and the PRC called for by President Lee while omitting the "state-to-state" part of the formula. The American noted that Koo Chen-



fu, president of the Straits Exchange Foundation, advanced three reasons for the "special relationship between Taiwan and the PRC. First, there are strong historical and cultural ties. Second, there is a growing economic relationship. Third, there is a commitment to unify China at some future date.

4. Two other American participants concluded that the United States should take a strong stand against any effort by either the PRC or Taiwan to change the status quo unilaterally. This means continued strong opposition to the use of force by the PRC along with continued acceptance by both Taiwan and the United States of the "one-China" formula that has served both parties so well in the past.

