



CROSS-STRAIT RELATIONS: THE POTENTIAL FOR A WIN-WIN-WIN SOLUTION

CONFERENCE ON PROSPECTS FOR RELATIONS ACROSS THE TAIWAN STRAIT

A TRILATERAL CONFERENCE SPONSORED BY THE NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY (NCAFP)

JULY 7-8, 2009

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INTRODUCTION

The NCAFP sponsored a conference on the prospects for relations across the Taiwan Strait in New York on July 7-8, 2009. Participants included officials, former officials and scholars from the three sides – the United States, China and Taiwan. (The agenda and participant list are included at the back of the report.)

The dominant theme in the two-day meeting was a sense that the past 15 months have seen a marked and significant improvement in cross-Strait relations and that there is now an historic and strategic opportunity to lay the foundation for a permanent framework for peace and security in the Taiwan Strait. The ingredients of a win-win-win solution exist. At the same time, there was recognition on all three sides that the stability seen and welcomed today remains rather fragile. Many hurdles still stand in the way of continued progress – some quite high. All three sides should anticipate these hurdles and figure out how to avoid them.

This report is divided into three sections: the case for optimism; the potential hurdles; and some advice on what needs to be done by all three sides.

The report draws extensively on comments made by American, Chinese, and Taiwanese participants at the conference in New York, but it is not intended to be a consensus document. The views expressed are solely the views of the NCAFP.

THE CASE FOR CAUTIOUS OPTIMISM

The most important reason for cautious optimism on cross-Strait relations is that the two leaders – China’s President Hu Jintao and Taiwan’s President Ma Ying-jeou – have laid out pragmatic strategic visions for improving cross-Strait relations that are quite compatible – at least over the short and intermediate term. These visions involve putting aside the more difficult and politically sensitive issues such as sovereignty and security and concentrating instead on promoting progress on economic and cultural issues such as trade, investment, tourism, direct flights, etc. Moreover, Ma will remain president at least until 2012 and perhaps for another four years after that. And Hu will remain China’s leader for another three years. Thus the potential to build on the substantial progress made so far is considerable.

The progress achieved so far includes the following:

- The two sides have resumed their semi-annual and quasi-official dialogue through the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS). In addition to this semi-official government-to-government dialogue, there is also now a regular dialogue between the two parties – the ruling Kuomintang (KMT) in Taiwan and the Chinese Communist Party (CCP) in Beijing.
- The two sides have signed nine agreements and issued a Joint Declaration.
- They have established direct air links which now number 108 per week and are set to rise to 270 flights per week beginning in August, 2009.
- Mainland tourism to Taiwan has increased substantially.
- Trade and investment relations show a continuing increase. China is now Taiwan’s third largest trade partner and there was more than \$100 billion in trade in 2008. And Taiwan’s foreign direct investment on the Mainland is now officially \$77 billion, and a realistic estimate is closer to \$200 billion. This would make Taiwan the number one or two investor in China. Taiwan has also just recently opened the island to investment from the Mainland. Within recent weeks, Taiwan has announced that it would open 192 industries to Chinese investment.
- With regard to Taiwan’s much sought after “international space,” the two sides have reached a compromise agreement on Taiwan’s admission to the World Health Assembly (WHA). There has been an “unofficial summit” meeting between Taiwan’s former Vice Premier Lien Chan and PRC President Hu Jintao at the APEC meeting in Peru in November, 2008. And the “diplomatic truce” established between the two sides holds. Under the terms of this *de facto* truce, neither side seeks to take away diplomatic allies from the other.

- Both sides are now preparing to negotiate an Economic Cooperation Framework Agreement (ECFA) that would institutionalize their economic cooperation. Taiwan hopes to follow up this ECFA with China with Free Trade Agreements with other countries, especially in Southeast Asia. The ASEAN countries are set to sign a Free Trade Agreement with China in 2010 and Taiwan will be at a competitive disadvantage if it does not have such Free Trade agreements. A PRC participant at the conference was optimistic about the prospects for ECFA. He said that the mainstream in the PRC sees such an ECFA as beneficial to both sides. Despite concerns from some Chinese academics and others that such an agreement, if made under a WTO framework, could be generally misunderstood as state-to-state relations, the top PRC leaders want to complete such an agreement as quickly as possible and “it will happen.” Other PRC participants were more guarded in their comments on this issue.
- Last and certainly not least, both sides are beginning to consider the potential for a peace accord. As one Chinese colleague told us at the conference, this is a lively subject in Chinese think tanks.

In sum, there has been a dramatic and substantial improvement in cross-Strait relations during the past 15 months and both sides seem very pleased by this development and want to see the momentum maintained. Several PRC participants reiterated the theme that the PRC leaders are now much more patient and realistic than they were previously; they understand that there is a long way to go, but they are satisfied with the status quo.

Apart from the substantial improvement in cross-Strait relations over the past 15 months, the other two legs of the triangle (U.S.-Taiwan and U.S.-PRC) are also strong and stable. Ma is determined to rebuild U.S.-Taiwan relations after a rocky period during the Chen Shui-bian years. He wants to promote a surprise-free relationship in which Taiwan acts as a peacemaker, and not a trouble-maker in the region. And substantial progress is being made on the major issues – trade, beef imports, a visa waiver for Taiwanese tourists to the United States, etc.

U.S.-PRC relations are also in good shape. Presidents Obama and Hu had a good meeting at the G-20 meeting in London in April and Secretary Clinton’s visit to Beijing was quite successful. The United States and China are now major trade and investment partners. There is significant strategic cooperation on issues such as the denuclearization of the Korean peninsula. And there are now several important sets of dialogue between the two sides, including a Strategic and Economic Dialogue. Also military-to-military dialogue has been resumed but at a lower level than the Strategic and Economic Dialogue.

WHAT COULD GO WRONG?

All of the conference participants recognized that there had been remarkable progress in cross-Strait relations over the past 15 months as outlined above. However, there was also a general sense that the stability we now see may be more fragile than we now think.

One U.S. participant spelled out the following concerns.

- The PRC could become increasingly impatient that the incremental path to progress on which the two sides are now embarked could lead to a semi-permanent state of affairs and ultimately to peaceful separation rather than peaceful unification. Thus there could be counter-productive PRC pressure on Taiwan to move faster than Taiwan is prepared to move.
- China's impatience is also manifest in its attitude towards U.S. arms sales to Taiwan which it calls "out of step" with improvement in cross-Strait relations. If China becomes shrill on U.S. arms sales to Taiwan, this could be dangerous. Many Americans and Taiwanese might conclude that China's hidden agenda is to weaken Taiwan's defense capability and coerce it into capitulation.
- There is also a danger of impatience on the part of the Taiwanese people. If they come to the conclusion that Ma's policies of accommodation with the PRC are jeopardizing Taiwan's sovereignty – a charge that the DPP is vociferously pushing – Ma could lose public support for his policy of engagement with the Mainland.
- Finally, there is a danger that the United States might not give Taiwan the military support it needs.

In sum, concluded the U.S. participant, this is a delicate situation for all three parties and it requires a careful balancing act on the part of all three. So far, the three sides have each played their roles with skill. But the balancing act will become increasingly more difficult as the agenda moves from easier to more difficult issues.

Several U.S. participants spelled out other issues which emerged from the conference discussions that could spell trouble in the weeks and months ahead.

- First, Mainland participants at the conference had differing assessments about the impact of an ECFA. Some saw difficulties in implementing it and more downsides to it from the Mainland perspective. Others were more positive. Also, a U.S. participant concluded that the Mainland has not yet made up its mind regarding Taiwan's potential FTAs with ASEAN countries. Mainland participants expressed differing views on this subject.

- An American participant also concluded that within the Mainland's policy circles, there are also disagreements regarding the nature and length of the period of "peaceful development." Some are more flexible than others. Related to this, there are also debates about the nature and content of the possible peace agreement between the two sides.
- On the Taiwan side, Ma and the KMT government are still facing big challenges in building a domestic consensus on their Mainland policy. Both KMT and DPP participants at the conference agreed that Ma has to do a better job of communicating his cross-Strait policy to the Taiwanese public. The DPP participants at the conference argued that Ma has moved too fast in cross-Strait relations and they were asking for a return to the policy line of Chen Shui-bian's first term in order to form a policy consensus.
- Beijing and Taipei also have some significant differences regarding the next step in cross-Strait relations. The differences concern sequencing. For Taipei, goodwill gestures from Beijing include reductions in missile deployments as part of military CBMs. For Beijing, reductions in missile deployments will be the result of military CBMs or a peace agreement, not the pre-condition for it. The two sides also have different views on the proper U.S. role in military CBMs. For Beijing this is strictly a matter for the two sides, but some in Taipei believe the U.S. should be involved.
- On international space, there is recognition by China of the significance of this issue to Taiwan but there were differences among the Chinese participants on what next steps should be taken and lingering concerns about making overtures which could be viewed as potentially precedent-setting. Thus there is the risk of PRC foot-dragging on this issue which could undercut support for Ma's cross-Strait policies. Also the current tacit diplomatic truce has not been institutionalized (and as many Chinese participants opined, it most likely won't be). Finally, there is a serious issue regarding PRC treatment of Taiwanese officials and representatives in international organizations and forums in which they are already members. It appears as if some Chinese are still treating their Taiwanese counterparts poorly and in a less than dignified manner in international settings.
- Finally, U.S. arms sales to Taiwan could still be a significant roadblock in stabilizing the trilateral relations. There is a significant gap between the U.S. and China on this issue. American participants argued that if Ma is to ease tensions across the Strait, he needs to persuade the Taiwanese people that he is not selling out Taiwan's security in the process. And he cannot do that if he is deprived of the means of maintaining a strong defense. Mainland participants, on the other hand, still see the arms sales as a destabilizing factor in trilateral relations and at odds with the overall trend of improvement of cross-Strait relations.

WHAT NEEDS TO BE DONE

American participants offered the following advice to the three sides.

China

- The PRC should reaffirm its basic position that it is prepared to accept a long period prior to reunification in which the two sides work together to stabilize the status quo. China should also continue to demonstrate that it is prepared to live with ambiguity on key issues such as “one China” and sovereignty by continuing to use such formulas as the “1992 consensus.”
- The PRC should not be excessively timid in making concessions to Ma’s government out of fear that such concessions will set a precedent for some future government in Taiwan that may not be as friendly. If the PRC is too timid, this could undercut Ma’s policy of engaging China. The PRC should understand that once cross-Strait relations are placed on a more solid foundation, it will be very difficult, if not impossible, for any future Taiwan government to unravel these arrangements.
- The PRC should engage in a dialogue with the DPP.
- The PRC should move forward with an ECFA with Taiwan and make clear that it will not seek to block Taiwan’s efforts to sign FTAs with other countries once an ECFA is in place.
- On security issues, the PRC should keep its rhetoric down on U.S. arms sales to Taiwan. Above all, it should not respond to such arms sales by cutting off military-to-military dialogues with the United States. The PRC should also consider reducing the number of missiles it has opposite Taiwan. And it should consider military-to-military confidence-building measures with Taiwan designed to avoid accidents.
- The PRC should demonstrate continued flexibility on Taiwan’s “international space.” It should maintain the diplomatic truce. It should consider Taiwan’s admission to other UN- related organizations. It should treat Taiwan with respect in organizations to which Taiwan already belongs. And it should show greater flexibility in Track II organizations such as the Council for Security Cooperation in the Asia Pacific (CSCAP).
- China should move to a more open and liberal political system both for its own reasons and to attract the 23 million people of Taiwan.

Taiwan

- Ma should continue his efforts to improve relations with the Mainland while maintaining his essential posture of the Three No's (no independence, no reunification, and no use of force).
- The KMT should do a better job of reaching out to the DPP in an effort to reach some consensus on cross-Strait issues.
- The DPP should develop a more realistic policy on cross-Strait relations. So far its policy seems to be one of just saying no to all of Ma's initiatives.
- Ma should continue his efforts to rejuvenate the Taiwan economy because domestic support for his cross-Strait initiatives will to a large degree be driven by his ability to improve the economy.
- Ma should continue his efforts to rebuild relations with the United States by maintaining a surprise-free relationship based on greater consultation.

United States

- The United States should maintain continuity in its cross-Strait policy and in particular continue to express opposition to any unilateral changes in the status quo.
- The United States should continue to welcome the progress in cross-Strait relations and stress that it can live with any outcome so long as it is the result of a peaceful process and reflects the will of the people on both sides. Under no circumstances should the U.S. be a mediator.
- The United States should continue its strategic dialogue with the PRC and seek to get meaningful military-to-military dialogues that are on a par with its political and economic dialogues.
- The United States should strengthen its ties with Taiwan by moving forward on the key issues – trade, visa waiver agreements, etc. It should continue to support Taiwan's efforts to improve its "international space." And it should continue to supply Taiwan with defensive arms. The United States should also consider Cabinet-level visits to Taiwan by economic officials which were common during the first Bush administration.

CONCLUSION

In conjunction with the cautious optimism expressed by nearly all participants, there was a clear counterbalance; namely that we are entering a crucial and delicate phase in cross-Strait relations over the next two to three years.

In light of this fact, there are two major points which should be highlighted. First, there was a general agreement that these two days of conversation were unusually candid, concrete and helpful. In fact one of the American participants said, "This was the best, most productive and most candid dialogue to date." There was a consensus that this mechanism could play an important role in what is bound to be a difficult road ahead and that this trilateral should continue.

Second, agendas for future Track II meetings should include sessions on "unfinished business" as well as a greater articulation of future obstacles and roadblocks. This would undoubtedly mean that greater attention should be paid to security issues.

AGENDA

TUESDAY, JULY 7, 2009

12:00 p.m. - 12:15 p.m.	<p><i>Welcoming Remarks & Luncheon</i> - Dr. George D. SCHWAB, National Committee on American Foreign Policy - Professor Donald S. ZAGORIA, National Committee on American Foreign Policy</p>
12:15 p.m. - 1:30 p.m.	<p><i>Luncheon and Keynote Address by Dr. Sun Zhe, Tsinghua Center for U.S.-China Relations, titled "Recent Policy Debates about the Peaceful Agreement"</i></p>
1:30 p.m. - 4:00 p.m.*	<p><i>"Easy Things Come First.."</i> <i>A discussion of Ma Ying-jeou's first year in office, economic and cultural exchanges, international space, etc.</i> Moderated by: The Honorable Nicholas PLATT, Asia Society</p>
*2:45 p.m. - 3:00 p.m. <i>(Coffee/Tea Break)</i>	<p>Presenters: - Dr. Raymond R. K. WU, Fu-jen University - Mr. LIU Shih-chung, The Brookings Institution - Professr YIN Cunyi, Tsinghua University - Mr. WANG Wenfeng, China Institutes of Contemporary International Relations</p>

WEDNESDAY, JULY 8, 2009

9:15 a.m. - 9:30 a.m.	<p><i>Arrival and Breakfast Buffet</i></p>
9:30 a.m. - 12:00 p.m.*	<p><i>"... Then Difficult Ones"</i> <i>A discussion of what happens next in cross-Strait relations; including the continuation of the diplomatic truce, military CBMs, questions of sovereignty and political issues, etc.</i> Moderated by: Mr. Ralph COSSA, Pacific Forum CSIS</p>
*10:45 a.m. – 11:00 a.m. <i>(Coffee/Tea Break)</i>	<p>Presenters: - Dr. HUANG Kwei-Bo, Ministry of Foreign Affairs - Ms. HSIAO Bi-Khim, Democratic Progressive Party - Dean HAO Yufan, University of Macau</p>
12:00 p.m. - 1:30 p.m.	<p><i>Luncheon and Keynote Address by Ambassador Raymond Burghardt, American Institute in Taiwan</i></p>
1:30 p.m. - 4:00 p.m.*	<p><i>"Creating the Win-Win-Win Triangle"</i> <i>How do we continue to create a positive sum game and what are potential barriers to progress?</i></p>

*2:45 p.m. - 3:00 p.m. <i>(Coffee/Tea Break)</i>	<p>Moderated by: Mr. Evans REVERE, The Korea Society</p> <p>Presenters:</p> <ul style="list-style-type: none"> - Dr. CHU Shulong, Tsinghua University - Dr. YANG (Philip) Yung-ming, National Security Council & National Taiwan University - Ms. Bonnie GLASER, Center for Strategic & International Studies - Mr. Alan D. ROMBERG, Stimson Center
4:00 p.m. - 4:30 p.m.	<p><i>Concluding Remarks and Looking Ahead</i></p> <ul style="list-style-type: none"> - The Honorable Winston LORD, International Rescue Committee - Professor Donald S. ZAGORIA, National Committee on American Foreign Policy

END OF CONFERENCE

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