



A ROUGH ROAD AHEAD FOR U.S.-CHINA RELATIONS

**A CONFERENCE WITH THE PRC TAIWAN AFFAIRS OFFICE
SPONSORED BY THE NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY (NCAFP)**

JANUARY 21-22, 2010

BY DONALD S. ZAGORIA

The NCAFP met with a group of PRC officials and scholars led by Li Yafei, Assistant Minister of the Taiwan Affairs Office and Executive Vice President and Secretary General of the Association for Relations Across the Taiwan Straits (ARATS). Shortly after this meeting ended, the Obama Administration notified the U.S. Congress of plans to sell a package of arms to Taiwan and the Chinese government responded by suspending military exchanges with the United States and by imposing sanctions on U.S. companies involved in the arms sales to Taiwan.

A list of participants and the agenda is included in the appendix.

SUMMARY

I. Difficult Period Ahead for U.S.-PRC Relations

The year 2010 is likely to be a difficult period for U.S.-China relations. Both the American and Chinese sides said vigorously that they were disappointed by the behavior of the other side on key issues in the relationship. The Americans asserted that the Chinese response to President Obama's priorities on key global and regional challenges such as curbing Iran's nuclear ambitions, restraining North Korea, or dealing with climate change, were either rigid or tepid at best. China, they said, was not taking on its global responsibilities. Moreover, many in the United States believe that China has done well in response to the global economic crisis as a result of a mercantilist economic policy which includes an undervalued currency and subsidies to key industries. Also the imprisoning of dissidents, censorship of the internet and the quarrel with Google all indicate that the human rights situation in China is worsening. Some American businesses are getting frustrated in China. Some Americans saw evidence of Chinese "triumphalism," especially after the world economic crisis.

The Chinese asserted, often passionately and intensely, that impending U.S. arms sales to Taiwan could seriously damage relations. They see this as a violation of the spirit and letter of the Joint Statement issued after Obama's visit to China which committed the two sides to "respecting each other's core interests." They argued also that U.S. arms sales to Taiwan are unnecessary at this point when tensions between China and Taiwan are easing. Several Chinese threatened that China would take strong actions after U.S. arms sales to Taiwan, e.g. suspension of military-to-military talks for a while. One even suggested sanctions against specific U.S. companies and specific districts of U.S. congressmen. The People's Liberation Army (PLA) might also conduct tests similar to its recent anti-missile test. The Chinese also complained about

the likely meeting of the President and the Dalai Lama and worried about possible U.S. trade moves.

The Americans responded by saying that such actions by the Chinese would risk a trade war and other undesirable consequences. They appealed for more measured Chinese responses. As to why the United States needed to sell arms to Taiwan at a time of easing cross-Strait tensions, several Americans said: 1. Taiwan was asking for these arms as a sign of U.S. support, and President Ma would be seriously undercut if turned down, contrary to Chinese interests. 2. The arms imbalance across the Taiwan Strait was heavily skewed in China's favor and Taiwan needed such weapons to improve its defensive position; 3. the Chinese continued to increase the number of missiles opposite Taiwan; 4. if the U.S. suddenly stopped selling such arms to Taiwan, such action would have an adverse impact on all U.S. allies in the region. In short, it was a matter of U.S. credibility in the region. 5. Finally, the arms in question had essentially all been agreed to by the Bush Administration.

One American participant pointed out that Obama sought a positive, strategic relationship, had selected a few priorities, had low-keyed human rights publicly and had postponed a meeting with the Dalai Lama. Why then was China more shrill in its warnings to Obama than it had been to Bush?

II. Impact of the Changing Balance of Power on Cross-Strait Relations

A number of Chinese participants alluded to the changing balance of power in U.S.-PRC relations. The Chinese said this power shift would be a factor in cross-Strait relations that the United States would eventually have to take into account. One Chinese participant said that "sooner or later" the U.S. would have to adjust its Taiwan policy in order to take into account China's rising strategic importance. Already, he said, there are some American voices calling for the abrogation of the Taiwan Relations Act. The U.S. side said such persons were very rare and carry no influence. Another Chinese participant said that the U.S. had adjusted its alliances with Japan and the ROK and it also needed to adjust its relations with Taiwan by gradually reducing its arms sales. China would be patient. It did not expect such a change overnight. But change should come gradually. The present situation cannot survive for another decade or more. Other Chinese participants were more measured and less threatening, though unhappy with arms sales.

III. Joint Statement Led to Exaggerated Expectations on Both Sides

Several participants concluded that the Joint Statement issued by the two sides after Obama's visit to Beijing had led to exaggerated and unrealistic expectations on both sides. The U.S. side came away with hopes that China would play a more positive role on a variety of regional and global challenges. The Chinese side came away with hopes that Obama would show greater respect for China's "core interests" such as Taiwan. An American participant concluded that both sides need to develop more realistic expectations about what the other side can or will do on key issues. U.S. arms sales to Taiwan, he and other Americans said, were in the U.S. interests, consistent with our past policies, and should not be a surprise to Chinese leaders. Also the United States, he said, should not be surprised that the Chinese leaders are not yet prepared for a "true strategic relationship" involving such issues as Iran, Afghanistan, etc. Most

Americans, however, stressed that progress on these issues and others, like climate change and a rebalanced world economy, were in China's self interest. They were not a favor to the U.S. though progress would strengthen our partnership. China needed to assume some of the responsibilities for the world system, not just derive benefits. Also, if progress could be made in the short run on a key issue, it might offset the coming turbulence in relations. Iran was suggested as being one such key issue.

IV. Much Progress on Cross-Strait Issues

Both sides agreed that there had been much progress on cross-Strait relations during the past two years since Ma Ying-jeou was elected president. According to one Chinese participant, positive interaction between the CCP and the KMT had brought about "continuous improvement" on the basis of opposition to Taiwan independence and recognition of the "1992 consensus." The two sides have signed 12 agreements and will soon begin negotiations on an economic cooperation framework agreement which will be helpful to Taiwan's economic relations with other countries. They have established direct mail and transportation exchanges and the normalization of economic relations has "picked up pace." Cultural and educational exchanges are being explored and tourism has gained ground. Last year approximately 930,000 mainlanders visited Taiwan, over 600,000 of whom were tourists. Also the mainland helped alleviate the impact of the financial crisis on Taiwan and provided aid to Taiwan after the recent typhoon. In sum, the "peaceful development" of cross-Strait relations is "developing strong momentum". Finally, said the Chinese participant, the PRC noticed that both the U.S. government and the majority of U.S. scholars welcome the improvement of cross-Strait relations. And, he concluded, despite "deep regrets" that the U.S. government has approved arms sales to Taiwan, he hoped that the United States would handle the cross-Strait issue from a "strategic and long range perspective," respect China's sovereignty and territorial integrity, and expand common ground on opposing Taiwan independence. The United States, he concluded, should "discard its Cold War mentality" and "get rid of the Taiwan Relations Act."

Several American participants observed that China and the United States share a common interest in Ma's reelection in 2012. Indeed, some American analysts have written that Ma's reelection is probably Beijing's highest priority in cross-Strait relations at this point. One observed, however, that given the nature of Taiwan's politics, it would be premature to rule out the return of the DPP in 2012. If this is the case, Beijing has an interest in dealing with Ma in an increasingly flexible manner on issues such as Free Trade Agreements and international space, not to mention being restrained on arms sales. On the other hand, hardliners on the mainland appear increasingly skeptical of Hu Jintao's relatively permissive approach to Taiwan and some critics fear that allowing Taiwan more international space will lead to a *de facto* separation of the two states that could complicate long term reunification efforts. This caution was reflected in the statements of several Chinese participants who warned that any additional international space for Taiwan would have to be decided on a "case by case" basis. The U.S. participants underscored the importance of this issue for Ma as well as Chinese tolerance of Taiwan's negotiating free trade agreements with other countries in the wake of ECFA.

Both sides recognized that the "easier" economic and exchange issues had yielded progress which will be much more difficult as political and security issues are addressed.

In discussions about Taiwan's domestic scene both sides saw a significant decline in Ma's popularity.

V. Both Sides Want Better Relations

Despite the acrimony on key issues of the relationship, both sides expressed an interest in damage control and in continuing to improve relations. A Chinese participant said that the "mind set" of the Chinese leaders was to develop better relations with the United States. And he said that the Chinese recognize that U.S.-China relations can have both very very good and very very bad periods. But they will "never let the relationship go backward." An American pointed out that the complex relationship would always have ups and downs and was never as good or bad as it might seem.

Another Chinese participant also noted that for the first time in many decades, China policy had not been a political football during the 2008 presidential elections. There was little difference in the China policies of Obama and McCain. This demonstrated that there was a greater consensus on U.S.-China relations now being established in the United States.

Yet another Chinese participant agreed with the Americans that China shares an interest with the United States in a nuclear free Korean peninsula, stable oil supplies from the Persian Gulf, a reduction of the terrorist threat, a low carbon economy and an international environment conducive to growth. In many cases the two sides share goals but differ on tactics. For this reason, he said, China will do its best to stabilize U.S.-China relations. And it will try to do more to share international responsibilities. Already, he went on, there is more and more "new thinking" in Chinese think tanks about how to assess the situation in Afghanistan. This situation is, he said, closely related to China's core interests. China cannot afford a NATO failure in Afghanistan.

But, said the Chinese participant, there are severe restraints on China's ability to assume more international responsibilities. Chief among these is its fragile domestic situation. Last year, he said, there were 100,000 incidents of social unrest related to corruption, environmental issues, the rural-urban and income gap, etc. These domestic challenges are bound to be first on the agenda of the Chinese leaders. He concluded by arguing that the United States needed to be patient. Dragons, he said, are a big snake. They move very slowly. But once China is determined to carry out a policy, it will move with great determination.

Several Americans also expressed a desire for improved relations with China but worried that lack of Chinese action on key issues and an excessive reaction by Beijing to U.S. arms sales to Taiwan and the Dalai Lama could lead to a very stormy period in the relationship this year. Also there was a great deal of speculation on the American side as to why the Chinese were issuing such dire warnings at this time. Some saw it is a sign of rising Chinese assertiveness; others as a dangerous kind of overreaching; and still others as an indication of rising Chinese nationalism.

CONCLUSIONS

- 1) As always, the two sides were not monolithic. But there was a clear sense on the American side that China was not responding to Obama and living up to its global role, and we were headed for a rough patch.
- 2) The Chinese side in turn was united in strong rhetorical reactions to Taiwan arms sales (and to a lesser degree to the Tibet issue), though there were varying estimates of concrete Chinese reactions. This was one meeting where the scholars as well as officials seemed under instructions to make a point and toe the same line.
- 3) In sum, the U.S. side expressed dissatisfaction on a wider range of issues while the Chinese were sharp on one or two issues but less downbeat generally.
- 4) The Chinese angst on arms sales was clearly directed at Washington, not Taipei. It was clear that these sales would not change their basic cross-Strait policies and that Beijing would continue to be sensitive to Ma's needs so as to head off any DPP resurgence.
- 5) Although the Chinese side generally acknowledged broad shared interests on regional and global issues, there was no real evidence that China was likely to be forthcoming in action. Their domestic challenges, as well as specific concerns like oil and dislike of sanctions, suggest incremental progress on these issues at best.
- 6) In general, there seemed to be a more assertive and feisty mood on the Chinese side, perhaps reflecting a sense that leverage in the relationship is shifting toward the PRC.

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AGENDA

THURSDAY, JANUARY 21, 2010

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| 8:45 a.m. - 9:00 a.m. | <i>Registration and Breakfast Buffet</i> |
| 9:00 a.m. - 9:15 a.m. | <p><i>Welcoming Remarks</i></p> <ul style="list-style-type: none"> - Dr. George D. SCHWAB, National Committee on American Foreign Policy - Assistant Minister LI Yafei, Taiwan Affairs Office of the State Council, PRC and Secretary-General of ARATS |
| 9:15 a.m. - 12:00 p.m.* | <p><i>SESSION ONE: Perspectives on U.S. - China Relations after Visit by President Obama</i></p> <p>Moderator: Professor Donald S. ZAGORIA, National Committee on American Foreign Policy</p> <p>Speakers:</p> <ul style="list-style-type: none"> - The Honorable Winston LORD, International Rescue Committee - PRC Perspective |
| *10:30 a.m. - 10:45 a.m. <i>(Coffee and Tea Break)</i> | Discussion |
| 12:00 p.m. - 2:00 p.m. | <i>Luncheon and Addresses by Assistant Minister Li Yafei, Taiwan Affairs Office of the State Council, PRC and Secretary-General of ARATS & Ambassador Raymond Burghardt, American Institute in Taiwan</i> |

THURSDAY, JANUARY 21, 2010 CONTINUED

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| 2:15 p.m. - 4:30 p.m. | <p><i>SESSION TWO: Scholars' Views of Cross-Strait Relations Including an Assessment of Developments in Taiwan</i></p> <p>Moderator: The Honorable Nicholas PLATT, Asia Society</p> <p>Speakers:</p> <ul style="list-style-type: none"> - Dr. Richard BUSH, The Brookings Institution - Mr. Alan D. ROMBERG, Stimson Center - PRC Perspective #1 - PRC Perspective #2 <p>Discussion</p> |
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FRIDAY, JANUARY 22, 2010

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| 9:00 a.m. - 9:15 a.m. | <i>Registration and Breakfast Buffet</i> |
| 9:15 a.m. - 10:15 a.m. | <i>SESSION THREE: Policy Recommendations</i> Moderator: Mr. Evans J.R. Revere , The Korea Society Speakers: - Mr. Ralph A. COSSA , Pacific Forum CSIS - Ms. Bonnie GLASER , Center for Strategic & International Studies - PRC Perspective #1 - PRC Perspective #2 |
| 10:15 a.m. – 10:30 a.m. | <i>Break</i> |
| 10:30 a.m. – 12:00 p.m. | <i>Discussion</i> Moderator: Professor Donald S. ZAGORIA , National Committee on American Foreign Policy |
| 12:00 p.m. – 2:00 p.m. | <i>Luncheon and Continuation of Discussion</i> |

END OF CONFERENCE