Growing Cross-Strait Cooperation Despite Political Impasse

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

Political parties in Taiwan already are preparing for the December 2001 elections for the Legislative Yuan and for mayors and county magistrates. The DPP is hoping to replace the KMT as the majority party in the Legislative Yuan, thus ending the conflict between the executive and the legislature that has hampered Chen’s ability to govern. PRC leaders probably see the sharply declining in Chen’s popularity, resulting from political turmoil and economic difficulties, as reducing the prospects for a DPP victory in December as well as Chen’s own chances to be reelected as president in 2004. If so, they may be willing to continue their watch-and-wait policy at least until the end of the year, avoiding any threatening move that would tend to unify the people of Taiwan behind their elected leader.

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

The Three Links

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

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

Tsai Ying-wen went forward with preparations for the opening of the mini-links on January 2, 2001, even though local officials in Fujian had not been authorized by Beijing to discuss the actual arrangements with their counterparts in Jinmen and Mazu. At the last minute, however, on December 28, a Foreign Ministry spokeswoman in Beijing announced that the PRC would not block the institution of the mini-links, although she criticized the plan as a piecemeal measure. Thus on January 2, 2001, boats carrying residents of Jinmen and Mazu made the first legal crossings to the mainland since 1949. Up to 700 mainland residents per day will be allowed to visit Jinmen for as long as a week, and 100 per day can visit Mazu. As of February 2001, several additional voyages had taken place, although the two sides had not yet agreed on regular scheduled crossings. In effect, the mini-links arrangement will legalize the smuggling of goods and people that had gone on for years between the offshore islands and the mainland.

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

Negotiations on the full three links are likely to be prolonged and complicated, for they involve customs, immigration, and other regulations on both sides of the Strait. Nevertheless, now that both governments have approved the idea in principle and businessmen in Taiwan will continue to press hard for opening of the links, they may be in place by the end of the year.

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

### Fiber-Optic Cables

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

Taipei has not objected, however, to being connected to international cable networks that provide a link between Taiwan and the mainland. For example, Taiwan’s state-run Chunghwa Telecom Company invested $36 million for a 2.39 percent share in the world’s longest undersea cable network, running 40,000 kilometers from Western Europe through the Mediterranean, skirting the Middle East and the Asian continent, and winding up in Australia. This submarine cable, known as the SEA-ME-WE 3 cable network, was connected to the first of two stations in Taiwan in May 1999. In June 1999,
Chunghwa signed a memorandum of understanding for developing a high-capacity fiber-optic submarine cable linking seven Asian countries and territories, the Asia-Pacific Cable Network 2 (APCN–2). It will connect Taiwan, mainland China, Hong Kong, Korea, Japan, Malaysia, and Singapore. Still another submarine cable is the America–Asia Network (ANN), which will link the United States with mainland China, Taiwan, Korea, and Japan. Construction of this cable, incorporating the most advanced technology, was agreed upon by the communications carriers concerned in October 2000 and is to be completed during 2002.

Media

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

On September 22, 2000, in the interview with Chiang Pin-kun mentioned above, Qian Qichen suggested that mainland correspondents be permitted to reside in Taiwan on the same rotating basis as Taiwan correspondents in Beijing. Three correspondents from the mainland’s Xinhua News Agency promptly applied to the government in Taiwan for permission to be stationed there for a month. On November 10, the Government Information Office and the Mainland Affairs Commission (MAC) announced that correspondents from the mainland would be admitted for one-month stays in Taipei. Each news bureau, newspaper, TV, or radio station would be limited to two correspondents at a time. Vice Chairman Lin Chong-pin of the MAC said, “This was only our first step. We will continue to take further steps if the new policy generates positive interaction across the Taiwan Strait.”

Zhongliang, deputy editor-in-chief of Xinhua’s Shanghai Bureau, welcomed Taiwan’s new measures and said that Xinhua hoped to open a branch in Taiwan in the not-too-distant future. On February 8, 2000, the first two Xinhua reporters arrived in Taipei for a month’s stay.

Cross-Strait Travel

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

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

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

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

In January 2001, Vice President Annette Lu announced that beginning on July 1, 500,000 tourists from the mainland would be allowed to visit Taiwan.

**Academic Cooperation**

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

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

**Cross-Strait Trade and Investment**

The continued growth of the Chinese economy, the probability that both the PRC and Taiwan will join the WTO during 2001, and the prospective opening of the three links have caused Taiwan’s entrepreneurs to step up their investments on the mainland. Official Taiwan statistics show mainland investment during the first 10 months of 2000 of nearly $2 billion, a 98 percent increase over the same period of 1999. Two-way trade reached $27 billion, an increase of 29 percent over the same period of 1999.

Demands by businessmen that the Chen administration ease restrictions on Cross-Strait trade and investment became more insistent as the months passed. On November 2, Wang Yung-ching, chairman of the Formosa Plastics Group, invited 10 of Taiwan’s top business leaders to dinner to discuss the state of the economy and Cross-Strait relations. The next day, Wang said that the group had agreed to hold a series of meetings with economic officials to convince them and President Chen of the need to ease Cross-Strait trade and investment restrictions in order to stimulate Taiwan’s economy.

Taiwan’s restrictions on Cross-Strait investment are only partially effective. Small- and medium-sized firms, whose proposed investments might not be approved by the government in Taipei, can usually draw on funds from abroad rather than from Taiwan, thus evading official restrictions. One analyst estimates that two-thirds of Taiwan’s mainland-bound investment is not submitted to the government for screening. It is primarily Taiwan’s large corporations that want the lifting of the $50 million cap on single investment projects and easing of the ban on high-technology investments. It was this group—the chairmen of large corporations—that Wang Yung-ching mobilized to put pressure on the government.

The Chen administration has undertaken a review of Lee Teng-hui’s “go slow, be patient”
Growing Cross-Strait Cooperation

Some relaxation is probable, although key government officials are divided as to how far to go. Tsai Ying-wen, head of the MAC, sees Taiwan entering a new phase of outward investment, with a large increase in the number of investment cases and investment amounts. Economic Minister Lin Hsin-i has said that some local businesses need to seek opportunities on the mainland to revitalize themselves, and the government should adopt measures to help those companies carve niches in the mainland market. Expressing no fear that such companies would uproot themselves from Taiwan, he stated, they “are merely shifting their investment projects from Taiwan to the mainland under a strategy to increase competitiveness in the global market.” He pointed out that the mainland’s “overall investment environment—market, land, natural resources, and power supply—is better than Taiwan’s at present.”

At a seminar in December, the deputy governor of the Central Bank of China proposed lifting the ban on mainland investment in Taiwan. He maintained that allowing the entry of mainland capital under well-designed regulations would provide useful stimuli to certain local industries.

Chen Po-chih, chairman of the Council on Economic Planning and Development, took a more cautious view: “We have utilized the opportunities in China enough,” he said. “We have to limit, if possible, the unlimited increase of economic ties with China.”

Two Taiwan food companies have been leading the charge to take advantage of mainland China’s market. Ting Hsin, with 90 instant noodle factories in eight production complexes on the mainland manufacturing its widely known “Master Kang” brand, holds 26 percent of the mainland instant noodle market. It is branching out into a line of bakery items and beverages. Uni-President, with 30 factories and 50 distribution centers on the mainland, holds an estimated 18 percent of the instant noodle market. Uni-President, which first earned a profit from its mainland operations in 1999, predicts that by 2005 its mainland earnings will exceed those from Taiwan. Ambitious to use mainland China as a base from which to become the principal food supplier to Chinese throughout the world, Uni-President has invested in Indonesia, Vietnam, Thailand, and the Philippines.

Information Industry

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

The heads of Taiwan’s leading information industry companies acknowledged the government’s concern that the excessive transfer of manufacturing to mainland China would endanger Taiwan’s economy. They declared, however, that in order to be successful in the fiercely competitive global market, some of them had to shift the manufacturing of increasingly advanced technology to the mainland. For example, although the government banned production of notebook computers on the mainland by Taiwanese companies, all of the leading producers of notebook computers have invested in mainland factories to turn out computer components. They have urged the government to lift the ban on notebook production on the mainland; some of them already are expanding their facilities there in the expectation that the ban will be lifted. Increasing worldwide demand for notebook computers has put heavy pressure on the Taiwanese sup-
pliers of OEM notebooks to companies such as Dell, Sharp, and Compaq to increase production and reduce costs.

Even the producers of semiconductors, who have no present plans to shift their capital-intensive, high-technology production to the mainland, foresee a time when that will be necessary. Morris Chang, chairman of the Taiwan Semiconductor Manufacturing Company (TSMC), told a seminar in November that the global marketing strategies of Taiwan’s semiconductor manufacturers make inevitable their eventual investment in the mainland. If they do not extend their business network into the mainland, Chang said, they will gradually lose their international competitiveness.9

The involvement of Taiwanese businessmen in integrated circuit manufacturing on the mainland has already begun. This project, involving the building of a $1.6 billion computer chip plant in Shanghai, has attracted much attention because it is a joint venture. Its vice chairman is Jiang Mianheng, the son of Jiang Zemin, and the president and CEO is Winston Wang, the son of Wang Yung-ching, head of Taiwan’s Formosa Plastic Group. Winston Wang has declared that no Taiwan money is going into this plant and that he has no personal financial stake in it. The plant will produce 8-inch silicon wafers with 0.25-micron circuitry, technologically well behind the 12-inch, 0.13-micron circuitry, the standard for the latest wafer fab plants being built by TSMC and United Microelectronics Corp (UMC).10

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

Cross-Strait Common Market

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

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

Conclusions

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

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

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

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

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

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

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

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

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

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

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

**About the Author**

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**Notes**

1. During the first 10 months of 1999, 1,400 voyages between Kaohsiung and Xiamen and Fuzhou carried 284,000 TEUs (20-foot equivalent units), an increase of 37.8 percent over the same period of 1998 (*Xinhua*, November 21, 1999). During 2000, shipments between Xiamen and Kaohsiung rose to 1,060,000 TEUs, with an average of 14 sailings daily between the two ports (*Central Daily News*, February 3, 2001).


H.E. Chen Shui-bian, president of the Republic of China, welcoming Professor George D. Schwab, president of the NCAFP, to Taipei in December 2000.

H.E. Annette Lu, vice president of the Republic of China, receiving members of the NCAFP's sponsored Roundtable. From left to right: Professors Donald S. Zagoria, Robert A. Scalapino, the Honorable Douglas H. Paal, the Honorable Kenneth Lieberthal, Vice President Lu, Ambassador Winston Lord, and Professor George D. Schwab.

Wang Daohan, president, Association for Relations Across the Taiwan Strait (ARATS), presenting a gift to Professor George D. Schwab in Shanghai in December 2000. Looking on are Ambassador Winston Lord (center) and Dr. Kenneth Lieberthal (extreme left), both members of the NCAFP’s Roundtable on U.S.–China Policy and Cross-Strait Relations.