

Taiwan and U.S. Policy Toward Stability or Crisis?

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Rapporteur's Summary

*Summary by Tamer Nagy Mahmoud
Junior Fellow
Carnegie Endowment for International Peace*

Organizers

China Program, Carnegie Endowment for International Peace
Asia/ Pacific Research Center, Stanford University

With:

Freeman Chair in China Studies, Center for Strategic and International Studies
National Committee on United States - China Relations

First Panel: The Economic Dimension

Session Chair: The Honorable Nat Bellocchi, Bellocchi & Co.
Dr. Nicholas Lardy, Brookings Institution
Mr. John Tkacik, Heritage Foundation
Discussant: Dr. Lawrence Lau, Stanford University

▪ **Summary of Dr. Lau's Remarks**

Economic Interdependence

The presentation of two different conclusions and different policy recommendations in both papers is analogous to the opposite positions found in the continuous debate on whether engagement with or containment of China is the best policy. The cross-Strait problem is mainly a function of expectations. If both sides expect a peaceful solution then the problem will end peacefully. If both sides think violence is inevitable, then violence will eventually erupt. Economic interdependence, however, can reduce the expectation of violence and usher peace in the region in the long run. The experience of Germany and France after World War II provide an illustrative example of this phenomenon.

Cross-Strait Trade

Evaluating China-Taiwan economic relations, it is possible to conclude that the trade flow is in Taiwan's favor. This is not due to Taiwan's comparative percentage of exports but due to the composition of such exports. Most of Taiwan's exports to China are intermediary products that are necessary "input" materials for Chinese industries. Therefore, it would be very costly for China to impose an embargo on Taiwan or stop its exports to Chinese markets because many Chinese industries are dependent on these products.

Foreign Direct Investments (FDI)

Taiwan's Gross National Product is growing much faster than its Gross Domestic Product. This is because of Taiwanese firms' interests in moving their production to China. Although much of the FDI in China was exported abroad, currently many Taiwanese firms produce for the Chinese market itself. Nonetheless, it is important to note that neither the Chinese nor the Taiwanese economy will stop growing if those Taiwanese investments in China stop because they represent a small percentage of the total investments in both economies.

Military Build-Up

When evaluating a country's potential for enhancing its military equipment or investing in new weaponry technology we should not depend on its economic figures. A decision to boost certain defense systems is a political one that sometimes defies economic logic. India, Pakistan, and 1964 China demonstrate that political leaders can enhance their military regardless of the financial cost. Therefore, analysts should not treat a military build-up as a commercial production.

■ Discussion*Sophisticated Adversary*

In the discussion on the security threats of trading with China, Mr. Tkacik expressed his concern over China's advancement of its military capabilities, particularly if there is no control on the military technology that the U.S. exports to the mainland, such as semi-conductor technology. The threat, Mr. Tkacik argued, is not intent-based but rather that in the case of war with China, the U.S. will have to face a sophisticated adversary. Dr. Minxin Pei from the Carnegie Endowment contended this view, however, based on U.S. military sources, which deem the Chinese defense technology to be twenty to thirty years behind that of the United States. In addition, Dr. Lardy questioned the efficacy of implementing export controls when China can also receive the same semi-conductor technology from Europe.

Free Trade Agreements

Taiwan is seeking alternatives to its trade dependence on China, hence its efforts to establish free trade agreements with Southeast Asia, Japan and the United States. Mr. Tkacik acknowledged that such agreements would not only produce economic gains for Taiwan but would also be politically beneficial in assuring its international legitimacy. This international legitimacy would reduce the risk

of China's use of force against Taiwan. Dr. Lardy, on the other hand, argued that it is in Taiwan's best interest to strengthen its economic ties with the mainland rather than with other countries.

Political Influence of Economic Policy

All the panelists agreed that although higher cross-Strait economic interdependence reduces the risk of use of force, it is not a guarantee. The economic repercussions are always calculated when considering the use of force, but if either side feels the necessity to violently escalate the conflict, the economic impact will not weigh heavily on the decision. Mr. Tkacik further argued that the Taiwanese leadership's decisions and economic initiatives have virtually no impact on China's policymakers.

Second Panel: **The Diplomatic Dimension**

Session Chair: Dr. Donald Zagoria, National Committee on American Foreign Policy

Mr. Alan Romberg, The Henry L. Stimson Center

Mr. Peter Brookes, Heritage Foundation

Discussant: Prof. Nancy Bernkopf Tucker, Georgetown University

▪ **Summary of Prof. Tucker's Remarks**

Moderate Chinese Reaction

China continues to simultaneously strengthen its military preparation and heighten its pressure on Taiwan while limiting Taiwan's international space. This does not necessarily pose a threat to U.S. interests in the region. China's reaction has been fairly moderate to President Bush's increasing support for Taiwan and reinforcement of bilateral relations. The American distraction in other regions of the world ironically improves the Sino-U.S. relations.

Building Confidence

The lack of trust between China and Taiwan has been the major obstacle in the way of cross-Strait relations. Although highly unlikely at the present time, re-connecting the channels of dialogue between Chinese and Taiwanese leaders would be essential to improving the relationship between the two nations. Unilateral initiatives from China could also serve to fill the current gap in cross-Strait relations. Other measures in the security arena could help build the needed mutual confidence, such as maritime cooperation or direct military-to-military dialogue. The U.S. should also improve its communication channels with Taiwan, particularly after leadership changes. However, it is important to improve this communication with caution because it is difficult to assess the expected reaction from China, Taiwan or the American public.

U.S. Economic Role

On the economic front, the United States has to continue its efforts to remain competitive in the Taiwanese market. Otherwise, Taiwan might turn its attention to the European Union or to China for industrial supplies and potential markets for its goods. Taiwan does not need a Marshall plan but needs cooperative economic spirit from the U.S., which needs to accept that it cannot be the sole provider of supplies to Taiwan.

Shared Values

The U.S. should not interfere in China's domestic affairs. Yet, both China and Taiwan need to recognize that the shared values of democracy have been the cornerstone of U.S.-Taiwan relations. Democracy in Taiwan is strategically important and ensures stability in the region. Therefore, China should capitalize on this American interest by following the Taiwanese model of political reform.

Discussion*U.S. Diplomatic Role*

The questions and answers that followed the panelists' remarks mainly discussed the U.S. role in China-Taiwan relations. The panelists agreed that regardless of where the American interests might lie, the United States should not propose or impose any scenario on China-Taiwan bilateral relations. It is not strategically useful for the U.S. to endorse or reject a two-state solution. Limiting our support of Taiwan will not transform China into an ally because Taiwan is only one factor in Sino-U.S. relations. Any development in cross-strait relations has to come from within China and Taiwan, and the U.S. should support it as long as it is within peaceful norms. It is likely that China will not abandon its current non-violence policy, unless Taiwan heightens its movement towards independence. The U.S. role should be to encourage initiating a dialogue on issues of low sensitivity at first. The U.S. has to maintain stability in the region without attempting to influence the outcome. A U.S.-Taiwan Free Trade Agreement, for example, would not disrupt American relations with China unless the U.S. emphasizes its importance as a political break-through, which would then threaten China's interests.

Bush's Doctrine

Mr. Brookes and Prof. Tucker had different views on the effect of Bush's pre-emptive strike doctrine on the potential for instability in the China-Taiwan relations. While Tucker thought the doctrine has facilitated a justification for China to use military force against Taiwan, Brookes argued the doctrine is not likely to greatly influence Chinese leaders, as the Chinese will act upon their raw national interests as regards Taiwan. Brookes added that he believed that the idea of pre-emptive strikes was primarily directed at the threat of terrorism.

Third Panel:
The Military-Political Dimension

Session Chair: Dr. Kurt Campbell, Center for Strategic and International Studies
Prof. David Shambaugh, George Washington University and Woodrow Wilson
International Center for Scholars
Dr. Larry Wortzel, Heritage Foundation
Discussant: Dr. Michael Swaine, Carnegie Endowment for International Peace

▪ **Summary of Dr. Swaine’s Remarks**

Commentary on Prof. Shambaugh’s Presentation

Prof. Shambaugh argued in his presentation that the intensifying economic and cultural ties between China and Taiwan, in addition to China’s increasing military strength, will result in a peaceful resolution between the two parties. Prof. Shambaugh also called on China to take unilateral initiatives to reduce its military deployment along the Taiwan Strait. But, according to Prof. Shambaugh’s earlier analysis, why would China take such an initiative if the status quo would benefit its interests in the long run? Additionally, Prof. Shambaugh does not enlist any demands from the United States. U.S. concessions to China, however, may present a motivation for China to consider reducing its military deployment.

Commentary on Dr. Wortzel’s Presentation

Dr. Wortzel emphasized the importance of militarily deterring China from the use of force in order for the U.S. to contain cross-Strait relations and maintain stability. Yet, this is only half of the equation. This conflict is political and not just military. The concern is not that China would unilaterally seize Taiwan by the use of force, but rather that China would feel threatened that Taiwan is moving towards final separation – China’s worst case scenario. Despite the current U.S. policy of “One-China,” the close U.S.-Taiwan military relationship is provoking China. Therefore, the U.S. has to prevent military escalation by reassuring China that Taiwan will not take any measures that will lead to permanent independence.

U.S.-Taiwan Military Ties

The United States has to be careful when increasing its military ties with Taiwan. Close U.S.-Taiwan ties might encourage the Taiwanese leadership to build its domestic support for independence and take higher risks in provoking China. Therefore, adequate communication between Washington and Taipei is essential to demonstrate to the Chinese leadership that neither the U.S. nor Taiwan intends to change the status quo. The U.S. has to also be clear on how far it is willing to support Taiwan, particularly in times of crisis. The capabilities of Taiwan’s ballistic missiles have the potential of escalating a crisis situation beyond American control.

U.S. Measures to Maintain Stability: What the U.S. Should Do

1. Demonstrate its opposition, not just lack of support, to any destabilizing behavior from either China or Taiwan
 2. Be willing to discuss mutual military restraint
 3. Clearly convey the extent of support to Taiwan, and assess the political implications of interoperability
 4. Take a strong stance on Taiwan's defense spending and military reform
 5. Encourage greater cross-Strait contact, particularly in the economic sphere
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■ Discussion

In answering questions, the panelists approached the U.S.-Taiwan military relationship from various angles to examine its effects on cross-Strait relations. Prof. Shambaugh argued that the United States should not continue to proportionally increase its military assistance to Taiwan relative to China's military build-up because it cannot match China's build-up in the long run. On one hand, Taiwan should not entirely rely on American resources. On the other hand, China also needs to stop its military build-up and recognize that it cannot coerce a military solution on Taiwan. Even if it is used strictly within a policy of deterrence, China's military build-up aggravates its bilateral relations with Taiwan. Therefore, the United States has to facilitate the necessary pre-conditions to ensure the return to dialogue between the two nations.

Dr. Wortzel and Dr. Swaine agreed with Prof. Shambaugh in affirming the importance of the United States' role in maintaining stability in the region. Although the U.S. should not impose a solution or seek to be a mediator in a dialogue, the U.S. military presence helps to maintain a stable atmosphere. Nonetheless, Dr. Wortzel also mentioned that he supported the Bush administration's military package to Taiwan. However, because the Legislative Yuan in the Republic of China has not appropriated funds for some of the most critical systems for Taiwan's defense, it is starting to look as though Taiwan's requests for more weapons are more symbolic than real. The authority in the Taiwan Relations Act to provide military support for Taiwan, he argued, is not intended by the U.S. Congress as a means for Taiwan to gain its independence, but to ensure that Taiwan can defend itself in the event of aggressive action by China. Taiwan is a democracy, and based on polling data and elections results, most of its citizens do not want to bear the high risk of disturbing the status quo. China, hence, should not be alarmed by such assistance. Yet, U.S. policy towards Taiwan should not be formulated according to China's insecurities in the first place, but rather to serve American interests. Taiwan's significance for the U.S. is not that it is militarily important, but rather that Taiwan is important for the U.S. because it is a democracy and we have to support the American values of freedom. Dr. Wortzel explained that, similar to the U.S. assistance to Israel in 1973, the U.S. can only support Taiwan by providing military equipment alone. Only the Taiwanese could undertake their own defense.

Dr. Swaine explained that the China-Taiwan problem is not a military one, but a political one. However, military opportunities and insecurities may perhaps provide the leverage for either side to consider the use of force. In fact, it is the political nature of the conflict that might encourage either side to use its military to attain political goals regardless of potential economic losses. Furthermore,

Dr. Swaine maintained that the U.S. should not be drawn to provide any assistance that would include direct interaction between American and Taiwanese forces. This would provoke China, unless the Chinese threat to American interests requires such direct involvement. All efforts should aim to discontinue the escalation of the military build-up in China and Taiwan to ensure preferred stability. Dr. Swaine acknowledged that there are limitations to what the U.S. government can do in facilitating dialogue because both Beijing and Taipei are constrained by their domestic politics

Fourth Panel: **The Role of Domestic Politics**

Session Chair: Prof. David Lampton, SAIS, Johns Hopkins University
Prof. Shelly Rigger, Davidson College
Dr. Minxin Pei, Carnegie Endowment for International Peace
Mr. Peter Yeo, House Committee on International Relations

▪ **Discussion**

Unlikely Change

In his responses to audience questions, Dr. Pei argued that changing either China's or Taiwan's current policy is highly unlikely. He explained that the Chinese leadership is locked in a 53-year old 'One-China' policy that is extremely difficult to start altering. From Taiwan's perspective, it is not ready to accept any policy that would not indicate any potential for future independence. There is not much that any party can do to encourage a creative solution. Even changes in the Taiwan Legislative Yuan are not likely to bring about any imaginative solutions because independence has a considerably low priority on the list of issues that concern the average Taiwanese citizen. Therefore, the costs of disrupting the status quo render any creative solution very risky and more unlikely. Prof. Rigger agreed with this assessment, but also added that the only chance a cross-Strait agreement could be reached is if Chen Shui-bian is re-elected because he is the only leader who can garner broad consensus amongst the Taiwanese public. However, Prof. Rigger was also skeptical of how much support he would really get today. He has lost a considerable support-base, so even if he was re-elected, he might be wary of providing China with any concessions due to fear from reaction in Taipei.

'One-China' Principle

Prof. Rigger further explained the popularity of the 'One-China' principle in Taiwan. The issue, she claimed, is often discussed in Taiwan, but the principle itself is controversial. Taiwan views China's stance on the 'One-China' principle as duplicitous. While domestically China treats the 'One-China' principle as an issue of equal status and rights, internationally it interprets the principle to mean one country with Beijing as its capital. As a result, there is wide rejection for the principle from many

Taiwanese politicians. The 1992 consensus, however, is where potential lies. Chen Shui-bian's experimentation with the 1992 consensus is an indicator of that potential, although members of his own administration turned that down. Mr. Yeo then advised Taiwanese-Americans not to challenge the 'One-China' policy in Congress. His recommendation explained that such a move would challenge the U.S. policy towards China, which might backfire against Taiwanese interests. Instead, he argued, they should maintain the status quo because Taiwan currently has the support of the United States.

Chen Shui-bian

Evaluating the prospects for potential success of Chen Shui-bian, Prof. Rigger stated that he still has a chance to win in the next elections. Despite his weakness, she argued, he still has some popularity, but his chances for re-election are higher because of the disarray among his opponents. They have great political ambitions but not much ideological coherence between them. As a result, if the situation remains the same until the elections, Chen Shui-bian might have a chance for re-election.