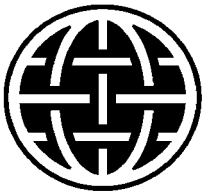

THE ATLANTIC COUNCIL

OF THE UNITED STATES

Staying the Course: Opportunities and Limitations in U.S.-China Relations

Committee on Security Issues in the U.S.-China Relationship
Gen. Jack N. Merritt, USA (Ret.), Chair

Walter B. Slocombe, Rapporteur

Policy Paper

September 2002

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THE ATLANTIC COUNCIL OF THE UNITED STATES

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FOREWORD

The advent of the new U.S. administration in 2001 brought the customary review of U.S. foreign policy broadly, and specifically of relations with the People's Republic of China (PRC) and Taiwan, as well as an early practical test of those relations. Observers and practitioners of U.S.-PRC and U.S.-Taiwan relations in Washington, Beijing, Taipei and throughout Asia watched during the year to see the impact not only of the change in foreign policy approach of the new administration, but also of events such as the mid-air collision involving a U.S. EP-3 aircraft near Hainan Island in April.

By the end of an eventful year, which included President Bush's visit to Shanghai in the aftermath of the September 11 terrorist attacks on the United States, substantial questions remained about the prospects for U.S.-China relations. These questions concerned, *inter alia,* the consequences of China's (and Taiwan's) entry into the World Trade Organization, the prospects for the PRC's economic development and reform, the implications of China's military modernization for the geopolitics of the Asia-Pacific Region, the future U.S. role in Central Asia, plans for missile defense, China's human rights practices, and, of course, the issue of Taiwan. These questions have arisen in the context of political and economic uncertainty in both Taiwan and the PRC, with the Kuomintang loss of its parliamentary majority in the legislative elections on Taiwan in December 2001 and the leadership changes in the PRC expected at the 16th Party Congress in the fall of 2002.

Against this background, the Atlantic Council sent a delegation of former military and defense policy leaders to visit Beijing and Taiwan to examine the longer-term issues in relations among the United States, the PRC, and Taiwan. This delegation followed similar visits by Council delegations in 1992, 1995, and 1999, which made significant contributions to the policy debates in Washington at the time. The delegation, headed by Gen. Jack N. Merritt, USA (Ret.), president emeritus of the Association of the U.S. Army, visited Beijing and Taipei from 5 to 12 January 2002 and held extensive talks with civilian and military officials, representatives of non-governmental institutes, and academics in both cities. The delegation also included Maj. Gen. John L. Fugh, USA (Ret.); Richard G. Kirkland, vice president of International Programs, Lockheed Martin Corp.; Adm. Charles R. Larson, USN (Ret.); W. DeVier Pierson, Verner, Liipfert, Bernhard, McPherson & Hand; Gen. Dennis J. Reimer, USA (Ret.), director, National Memorial Institute for the Prevention of Terrorism; the Honorable Walter B. Slocombe, Caplin & Drysdale; Roy A. Werner, then director of Policies and Plans, Northrop Grumman International; Bonnie L. Coe, Atlantic-Pacific program director, Atlantic Council; and myself. In both cities, the delegation also met with U.S. diplomats and attachés (officers of the American Institute in Taiwan (AIT) in Taipei) and representatives of the U.S. business community.

On return to Washington, the delegation prepared a report on its meetings, which was presented to, and discussed with, senior U.S. government officials in connection with President Bush's visit to Asia in February. The report was also distributed to, and discussed by, the Council's Committee on Security Issues in the U.S.-China Relationship. This policy paper is based on the delegation's report and on the committee's discussions. It has been circulated for comment to all committee members and, as with other Council policy papers,

is a consensus document that generally reflects the opinions of the members of the delegation and those members of the committee whose names are listed in Appendix 1. However, not every member of the delegation or the committee necessarily agrees with every statement in the paper, nor do the views expressed necessarily reflect those of the Atlantic Council as a whole.

The Council expresses its appreciation to the delegation's hosts, the China Association for International Friendly Contact in Beijing, and the Chinese Council of Advanced Policy Studies in Taipei.

I would also like to pay tribute to the contributions of time and attention by the members of the delegation, the administrative and substantive support provided by Bonnie Coe, the director of the Council's Program on Atlantic-Pacific Interrelationships, and the work of Walt Slocombe, who cheerfully took on himself the role of principal drafter of the delegation's pre-trip discussion paper, its initial trip report and this paper. His exceptional knowledge and analytical skills were indispensable to both the high quality of these documents and the remarkable speed with which they were produced and approved. We are all much in his debt.

Christopher J. Makins
President, The Atlantic Council of the United States

EXECUTIVE SUMMARY

The People's Republic of China (PRC). As of mid-2002, the PRC's policy is to emphasize the positive, stressing its desire for an improved – and hopefully more stable – relationship with the United States.[1] This policy reflects China's recognition of the need for stability at a time of many challenges. In the next few years, the PRC leadership will be seeking to extend economic reform and build prosperity beyond the limited areas in big cities and the eastern provinces that have made great strides in recent years. China will need to adjust the economy to the market-opening demands that World Trade Organization (WTO) membership will bring and it will face the problem of moving successfully over the next decade through a transition in leadership without compromising the continued power of the Party leadership group.

Against this background, Chinese government officials currently are disposed to stress, at least when they are dealing with foreigners, the common interests of the United States and China, including the fight against terrorism, stability in South and Central Asia, and expanding economic interaction. This positive attitude is not without serious reservations. While welcoming President Bush's espousal of a "cooperative, constructive" relationship between the United States and China, the Chinese leadership claims to remain skeptical of the true intentions of the Bush administration, a skepticism that may be reflected in their omission to quote the President's third "c"-word: "candid". Additionally, the PRC leadership continues to underscore the importance of the Taiwan issue. The PRC's substantive position, though stated in more measured tone than sometimes in the past, remains firm: refusal to deal directly with Taiwan president Chen Shui-bian and his government, insistence on Taipei's recognition of the "one China" principle, opposition to continued U.S. arms sales, and absolute rejection of Taiwan independence – backed by reservation of the option to use force to stop it. The basis of these positions – like the PRC's policies on human rights and ethnic strivings within China – is, at least in substantial part, a genuine (if exaggerated and potentially dangerous) conviction that any weakening on these issues would not only threaten the power of the leadership, but open the door to the chaos and disunity that have marred so much of Chinese history.

Taiwan. Taiwan is also in the midst of major, but very different, political and economic challenges. Taiwan is in the process of consolidating its political transformation – from the authoritarian, mainlander-dominated system of the past to a democratic system that will necessarily reflect the opinions of the broad population of the island. This political transition is exemplified not only by the Kuomintang's loss of the presidency and its status as the largest party in the legislature, but also by deep fissures in the Kuomintang (KMT) party organization and membership. Government leaders in Taiwan, however, have yet to find a workable mechanism for policy making in a divided government. The new,

[1] Several members of the Council delegation had been part of a similar visit in August and September 1999, and were impressed by how much warmer the reception in Beijing was on the more recent visit. In 1999 the exchanges were dominated by the aftermath of the accidental bombing of the Chinese embassy in Belgrade, the PRC's expressed concerns about U.S. "hegemony" and "containment of China," and Taiwan's then-president Lee Teng-hui's pronouncement that any talks with the PRC must be based on a "special state-to-state relationship."

Democratic People's Party-led government faces the challenge, not only of democratic transformation and a viable cross-Strait policy, but of maintaining the economic progress that has been the key to Taiwan's success. The economic challenge to Taiwan goes well beyond managing the current, and hopefully temporary, worldwide economic downturn. Economic recovery in the United States, as it comes, will help Taiwan resume growth, but it will not be sufficient to solve Taiwan's longer-term economic challenges. The progress of other Asian economies – especially China's – means that Taiwan can no longer prosper as a relatively low-wage, quality manufacturing center; it must find new niches that will secure the prosperity not only of investors, but of a population increasingly able to influence government policy and priorities.

For Taiwan, the economic and political challenges have a security dimension. An important aspect of democratic transformation is establishing the non-political character of the military and its subjection to legally-based civilian control, while at the same time modernizing military forces and improving their capability for joint operations in the face of an increasingly capable People's Liberation Army (PLA).

Additionally, most of the population of Taiwan, according to polls, identify themselves as both "Taiwanese" and "Chinese" and certainly the Taiwan elites recognize the delicacy of Taiwan's position. Nonetheless, many people on Taiwan feel a strong sense of Taiwanese identity and the Democratic People's Party (DPP) was born as a distinctly Taiwanese party, explicitly seeking not just democracy and the end of KMT power, but formal independence – a goal that Beijing insists it will block by force and that the United States has made clear it will not support. The Taiwan government accordingly, must simultaneously satisfy its core constituency and preserve and if possible extend Taiwan's distinctive international position, while avoiding excessively antagonizing either Washington or Beijing. There is a continuing risk that domestic political pressures will lead the government to statements and actions that could provoke dangerous responses from Beijing.

Taiwan's leadership recognizes (as does the PRC's) that cross-Strait investment is in the economic interest of both parties, and that economic interdependence is potentially an inhibition on Beijing forcing a crisis. At the same time, Taiwan continues to be concerned at the risk of "hollowing out," i.e., the transfer to the PRC of jobs and investment in areas of traditional Taiwan success without replacement by new activity in Taiwan itself. Additionally, there is a fear that growing dependence of Taiwan investors on their PRC operations will give the PRC leverage over the Taiwan government.

The future of the Taiwan issue. U.S.-China relations go far beyond the Taiwan question, touching on the security situation in the whole Asia-Pacific region and the character of China's future international role. Nonetheless, Beijing insists on the fundamental importance of the Taiwan issue, and for that reason, if not for its intrinsic importance, the cross-Strait problem casts a shadow over the broader relationship and over other, arguably more significant, aspects of it. Beyond questions of competing formulas for describing Taiwan's status, the character of its relationship to "China," and conditions for and subjects of cross-Strait dialogue, lie uncertainties about the long-term future. The relationship across the Taiwan Strait remains complex and filled with nuances, and the

dynamics of that relationship may be changing. Some in both capitals – more, naturally in Taipei – believe that for both parties the priority is neither independence nor unification but peace and economic development, and that the practical task is to avoid confrontation or conflict, rather than seeking a definitive solution. Paradoxically, for all that the PRC, Taiwan, the United States, and most of the rest of the world, proclaim their dedication to resolution by dialogue, peace may depend on both sides being able to find a way to avoid seeking any early resolution, including by negotiation, since, given the profound differences between the two societies, there is little basis currently for compromise on any ultimate solution, and the failure of the attempt could itself create pressures to turn to other means.

In an important sense, the issue is whether each side can have sufficient confidence that time is on its side – or at least not against it – to make possible indefinite acceptance of an uneasy and gradually shifting status quo. On the one hand, Beijing may worry that Taiwan, increasingly democratic while China remains under Party rule, will reject its Chinese identity as years of de facto separation continues – and that the United States will increasingly support Taiwan's independence ambitions. Taiwan may worry that China's increasing economic and military power will further isolate the island internationally, make it dependent economically, and overwhelm it militarily. Everyone, including the United States, may worry that continued failure to produce an agreed resolution leaves open the possibility of crisis, as one side or the other presses beyond the boundaries of what is acceptable to the other.

But, despite these dangers, there is ground for optimism. A peaceful, if evolving, status quo has in fact been good for all parties, in security terms as well as economically. Open conflict would run incalculable risks for everyone concerned, most of all for Taiwan, but also for the PRC, the United States, and the region generally. Economic growth in China may lead to a political transformation that would open opportunities for a very different political relationship than now exists, or than either side could now imagine ever accepting. And, in any event, continued economic interdependence and growing prosperity may reduce tensions, foster understanding, and make both sides less focused on abstract legalisms and principles about the relationship and more on practical cooperation and stability. In a situation where increased tensions pose huge dangers, and patience, wisdom, and finesse are essential, neither side can be confident that time is on its side but each must recognize that a continued peace, while less than wholly satisfying, is far more in its interest than confrontation and crisis.

The U.S. View and U.S. Policy.[2] The United States has critical interests in the Asia-Pacific region and will do what is necessary to protect them. However, the United States seeks, not confrontation or hegemony, but cooperation and good relations with everyone in the region who respects the international order, because for the United States as well as for other nations in the region, peace and security are essential to the stability that is the foundation for economic progress. On the Taiwan issue, Washington's "one China" policy is firmly based on the twin expectations that any resolution must be peaceful and that both sides will avoid actions that would unnecessarily increase tensions, specifically including a

[2] As a basis for its discussions in Beijing and Taiwan, the Atlantic Council delegation prepared a discussion paper outlining U.S. perspectives on the key issues, which was circulated in advance in both capitals. This paper is reprinted in Appendix 3 to this report.

Taiwan declaration of independence and PRC military threats. The United States is not seeking a continuation of the status quo for its own sake, but remains supportive of measures that allow both sides to find a peaceful and mutually acceptable resolution.

RECOMMENDATIONS

Against this background, the U.S. government should continue to make plain to the PRC that, in light of the continued Chinese military buildup, the United States will, consistent with the Taiwan Relations Act, continue defensive arms sales to Taiwan and that intimidation or coercion would produce a U.S. response. At the same time, the United States should urge that the PRC engage in dialogue with the elected government of Chen Shui-bian, not just with business, cultural, and opposition party contacts.

Similarly, the U.S. government should continue to affirm to Taiwan that U.S. support for Taiwan is strong and certain, but always subject to the premise that Taiwan will avoid actions that gratuitously provoke tensions. The United States should also stress to Taiwan the importance of military reform, to include both firm establishment of democratic civilian control and improvement in the capability of the Taiwan military to conduct joint defensive operations in realistic conditions.

The committee makes the following specific recommendations:

1. An agreement to resume U.S.-PRC military-to-military and defense-to-defense contacts would be in the U.S. interest. It should include regular meetings between senior defense officials and ending constraints on routine meetings between U.S. defense officials and Chinese visitors. In those contacts, the United States should continue to press for greater reciprocity and openness and for inclusion of a broader range of Chinese officers, while recognizing the real differences between practices in the two countries.

2. For the benefit of both sides, the United States should be clear on the key issues: the United States will be supportive of any cross-Strait resolution that is peacefully arrived at, has the acquiescence of the people on both sides of the Strait, and is free of coercion by any party. Taiwan should know that, while the United States will honor its obligations under the Taiwan Relations Act, it does not support a unilateral declaration of Taiwan independence. Such a declaration would be regarded as provocative and would make it extremely unlikely that the United States would come to the aid of Taiwan if a military confrontation with the PRC resulted from of the declaration. The PRC should know that, while the United States continues to support a "one China" policy and to oppose a unilateral declaration of Taiwan independence, U.S. insistence on a peaceful resolution of this issue is real and that military action by China against Taiwan would risk war between the United States and China.

3. Future arms sales to Taiwan should be consistent with these objectives, and should be based on the level of the PRC threat and the capacity of Taiwan's military to use the weapons being provided. The United States should be clear that any positions

taken by either Taipei or Beijing that contribute to tensions will affect arms sales decisions.

4. The United States should continue its unofficial, but extensive and substantive, exchanges with Taiwan. These contacts should include discussions of security-related issues, such as modernization, reform, and "nationalization" of the Taiwan military. While the PRC may object to such contacts, they in fact contribute to stability and restraint because they assure the Taiwan leadership of U.S. support and friendship, while making clear the limits of that support.

5. In U.S.-Taiwan security and political relations, the emphasis should be on substance, not form. Purely symbolic gestures, such as a visit to the United States by President Chen, however emotionally satisfying, do not produce substantive benefits commensurate with their potential for exacerbating tensions.

6. Inevitably, both Chinese and U.S. military planning will take account of the theoretical possibility of conflict. Both nations must ensure that recognition of the possibility does not increase its likelihood. To this end, it is important that both sides engage in substantive and regular dialogues at appropriate levels that move beyond past venues in terms of format, and find a way to discuss, as opposed to "lecture," the other party.

7. There is very little likelihood of any near-term progress on political status negotiations between China and Taiwan because the positions of the two parties are fundamentally inconsistent. Since such differences make real negotiations on reunification virtually impossible, U.S. policy should be calculated to keep the situation as stable as possible and to avoid miscalculations on either side that could lead to armed conflict.

8. The United States should recognize that it has an enormous stake in the maintenance of peace and stability and in the avoidance of provocative or aggressive actions by either side. Taiwan firmly believes that the United States would intervene militarily if the PRC attacked Taiwan, and it is true that for the United States to stand aside if China launched an unprovoked attack on Taiwan would not only be the abandonment of a loyal, democratic friend, but a terrible blow to U.S. credibility and influence in Asia and around the world. At the same time, military conflict in the Strait would mean incalculable risks and costs to all parties – Taiwan, the PRC, the United States, and the region generally.

9. The focus on talks between China and Taiwan in the short term should be on economic rather than political dialogue. Both have indicated that they are prepared to have a dialogue on economic issues on a basis that would avoid the sovereignty problems inherent in "government-to-government" talks. It may be possible to conduct economic dialogue through non-government entities and some trade issues might be dealt with through the WTO. There is growing interdependence between the two economies through Taiwan investment and the movement of industrial capacity and people to the PRC. Although this creates both profits and problems for

the Taiwan economy, it is possible that continuing economic interdependence – some even refer to economic integration – could ultimately lead to the resolution of the reunification issue through economic and cultural assimilation.

10. The United States should encourage China to participate in a joint effort of the nuclear powers to halt the proliferation of weapons of mass destruction and their technology and components. Inviting China to join in a serious non-proliferation program would make mutually beneficial use of the opportunity for cooperation rather than conflict.

11. The PRC has been relatively low-key in its opposition to national missile defense (NMD) and to the United States withdrawal from the Anti-Ballistic Missile (ABM) Treaty. As the United States moves forward with decisions on development and deployment of limited ballistic missile defense (BMD) systems, China should be included in consultations.

12. Areas of regional cooperation should be maintained and expanded, including the Korean Peninsula and South Asia. The United States should continue to discuss with China the nature of U.S. security alliances with Japan and other nations in the Asia-Pacific region in order to reassure China that they are not aimed at containing China. Likewise, China should fully brief the United States on the nature of its relationship with Russia and the plans and policies of the Shanghai Cooperation Organization in Central Asia.

13. The United States should continue to press China on human rights issues and make clear the U.S. view that far from threatening China's stability and progress, expansion of individual freedom, democratization and the rule of law are essential to China's long-term success.

14. The United States should also be sensitive to the fact that China's current actions take place in the context of the 2002-2003 leadership transition so that there is a significant domestic political component.

15. There is a strong and diverse Congressional interest in China policy – especially the relationship with Taiwan. Administration officials, Congressional leaders, and private groups need to be active in explaining their reasons and goals for policy recommendations. Efforts for bipartisan support are always complicated by election years, but China and Taiwan are not partisan issues and every effort should still be made to cultivate support in both parties.

Staying the Course: Opportunities and Limitations in U.S.-China Relations

The People's Republic of China

General approaches. As of mid-2002 the PRC's policy is clear: the Chinese are emphasizing, at least in addressing foreign audiences, the positive, stressing their desire for an improved, and hopefully more stable, relationship with the United States. The PRC leadership, who clearly attaches very high importance to the interaction of the U.S. and Chinese presidents, saw highly positive signs in President Bush's description, during his visit to Shanghai in October 2001, of China as a great nation and in his statement of a policy of seeking a "cooperative, constructive" relationship with China. They stress that the United States and China have many common interests and that, while serious issues still remain, there are more things on which they agree than on which they disagree.

Incidents that loomed large in the past – notably the accidental bombing of the Chinese embassy in Belgrade and the EP-3 aircraft collision – are now treated as having been relegated to history by what Chinese officials describe as, in the case of the EP-3 incident, statesmanlike efforts of the two presidents. This posture of underplaying differences while not conceding anything on substance even extends to such issues as the U.S. withdrawal from the ABM Treaty and commitment to building a national missile defense, and leaks that claim U.S. nuclear policy calls for contingency planning for strikes on Chinese targets.

This policy reflects both a sense of confidence and pride in genuine achievements, including accession to the WTO, hosting the 2008 Olympics, and, more broadly, what the Chinese see as genuine economic progress and greater acceptance of the PRC as an emerging great power rather than simply a huge developing nation. It also reflects recognition of the need for stability as the leadership seeks to extend economic reform and build prosperity beyond the East Coast, adjust to the market-opening demands that WTO membership will bring, and make a success of China's hosting of the 2008 Olympic Games.

Economic priorities and problems. The over-arching preoccupation in China is economic development. Chinese officials are remarkably candid in saying that China still has far to go before it will have brought economic progress to the mass of the population living in the interior. They stress the goal of doubling GDP in a decade and the government's commitment to the ambitious goal of abolishing poverty in China in 10 years. For that to be possible, in the official view China must achieve steady seven percent annual growth – an ambitious target for any system. There is much focus on WTO as a market-opening vehicle to make China part of the global economic community.

Despite this professed optimism, the PRC acknowledges many economic problems ahead. Economic concerns exist in many forms, including privatizing and restructuring inefficient state-owned enterprises, fighting corruption, adapting to WTO rules, reform of the banking system with its high percentage of state-mandated, non-performing loans, and potential pressure to devalue the renminbi if the Japanese yen continues to fall. Interestingly, Chinese economic officials are even saying that China's main "demand" of the United States was a rapid U.S. economic recovery that would aid Chinese exports. Accession to the rule-based WTO requires opening the Chinese market to more foreign competition through tariff reductions, loosening of restrictions on foreign banks, and other measures, which may reduce foreign direct investment and trade surpluses in the short term but increase overall economic activity. Accession also means that provincial and local party leaders will have to adapt to the rules the leadership in Beijing agreed to, an effort widely acknowledged to be "challenging." Unemployment is likely to rise, labor unrest to spread, and the agricultural economy to remain fragile. The potential challenges presented by WTO accession are in addition to existing domestic economic trends. China's ability to meet its seven percent growth target is highly suspect. There is evidently no agreement on how to proceed on the state-owned enterprises (SOEs), with some favoring the creation, using the Japan/Korea model, of 30 to 50 giant SOEs to compete with multinational corporations and others favoring a more thorough-going privatization, with the inevitable failures and closures.

The leadership transition. Less explicitly addressed, but clearly a concern giving the leadership an incentive to minimize tensions with the United States, is the imperative to move successfully through a transition in leadership without compromising the continued power of the Chinese Communist Party leadership group. While vice president Hu Jintao is widely expected to be the next president and CCP leader, it is still unclear where and for how long Jiang Zemin will retain some residual power as chairman of the Central Military Commission (as Deng Xiaoping did) and how much unofficial power Jiang will continue to wield behind the scenes.

More fundamentally, the much-heralded "transfer to the fourth generation" of PRC leadership may be not only slower but less significant than many outside China predict and would hope to see. This entire subject is off-limits for PRC officials in discussion with foreigners, but, based on media reports and the views of outside experts, there appears to be considerable second-tier jockeying among protégés of the various elders, so that Hu may have problems installing his own choices. Moreover, the idea of the arrival of the next leadership group as leading to fundamental reforms may be much over-rated, as many younger Party figures are reportedly highly nationalistic (as, apparently, are many of the

educated younger generation outside the Party ranks), poorly educated as a result of growing up during the Cultural Revolution, and, being products and beneficiaries of the existing Party system, very committed to maintaining continued Party control.

Sources of policy and conduct. China has, under the communist regime, made remarkable accomplishments, including genuine improvements in the conditions of life for millions of ordinary Chinese. It is important, however, not to have illusions about the nature of today's China. In an important sense, China is only at the first stages of economic and political transformation. The PRC system remains highly authoritarian in the political sphere. The Chinese government continues to talk about human rights primarily in economic terms – improved standards of living, better jobs, longer life expectancies, a "better and happier" life – rather than individual rights. The development of a civil society, with genuinely independent institutions outside the strictly economic sphere (and to some degree even there), will take years.

In this connection, it seems clear that Beijing will continue, despite economic pressures, to modernize its military and, in addition to acquiring new equipment, to focus on training, professionalization, and operational capability for modern warfare, not mass infantry armies.

Maintaining Party control is a central priority for the regime. The leadership continues to be very conscious of what happened in the Soviet Union which, from their perspective, offers the frightening example of a one-party system that not only lost its own power, but saw its country disintegrate territorially and suffer economically because of political liberalization. Whatever the prospects, Chinese leaders are determined to avoid the fate of Gorbachev.

Nonetheless, the reasons for the government's policies, it appears, go beyond purely party interests. The Chinese historical experience of internal division and strife creates a genuine fear of disorder. PRC officials' dismissal of all ethnic stirrings – and indeed many demands for human rights in the sense of demands for democratic choice, religious freedom, and autonomy from government control – as "separatist" and even "terrorist" reflect not just a fear that any loosening of control will jeopardize the Party's power, but also a genuine fear that relaxation of central authority will threaten the unity of the nation. To understand that this is the case is not to say the regime's fears are justified, much less to excuse oppression, but only to recognize its context.

Security issues. The U.S.-China relationship encompasses a broad range of issues – economic, political, regional, and cultural – that go beyond strictly security questions. Even in the security field the relationship has many facets, and it is neither accurate nor in the U.S. interest to regard Taiwan as the sole, or even the principal important issue. Indeed, PRC officials and others currently emphasize the common interests of the United States and China, including the fight against terrorism, stability in South and Central Asia, and expanding economic interaction.

The issue of the fight against terrorism presents both opportunities and potential tensions for Sino-American relations. PRC officials declare their unqualified support for the war on terrorism, stress the promptness of Chinese expressions of sympathy after September 11,

their support in the UN, and their cooperation on information exchanges, and they proclaim a common interest in the suppression of terrorism and terrorist bases in Afghanistan and Central Asia. However, to some degree, Chinese officials, while acknowledging that global terrorism is a threat to all, seemed to consider Chinese support for the U.S. effort less as a contribution to a common struggle than as a disinterested gesture of generosity that should be matched by U.S. support for Chinese positions on issues of primary concern to China.

In any case, the PRC leadership defines terrorism to include "Islamic radicals, religious cultists, and separatists," a formula that is evidently meant to refer respectively to Uighur nationalists in Xinjiang (who, the PRC claims, use terrorist tactics for which they have received training and support from the Taliban and Al Qaeda), the Falun Gong, and Tibetan, and perhaps also Taiwan, advocates of independence. They say that it would be unacceptable for the United States to apply a "double standard," that expects Chinese support against terrorists that threaten U.S. interests and yet tolerates, and even advocates for, groups that, in China's view, use terrorism against it.

Interestingly, the discussion of the "double standard" issue seems to focus on internal Chinese security issues and not on the question of extending the U.S. war on terrorism beyond Afghanistan. Many Chinese take the view that "a stable Afghanistan is good for China" and if the PRC desires (as it almost certainly does) that the U.S. military presence in Central Asia be strictly temporary, they have not been making a major issue of it. Beijing will undoubtedly strive to maintain and expand its links to and influence in the smaller nations on its western and northern borders – from Afghanistan to Mongolia – both as part of its effort to play a growing role in the region and as a means to limit U.S. (and Russian) influence.

On a range of other security issues, Chinese officials speak in terms that are, or are calculated to appear to be, in accord with key U.S. concerns. Yet it is clear that in terms of the war on terrorism, our interests only narrowly overlap, and this will not be an issue on which we can broadly base a more productive relationship, despite the positive rhetoric on both sides.

- *South Asia.* On the looming confrontation between India and Pakistan, Chinese leaders have stressed their commitment to maintaining peace (while stating their assessment that large scale fighting was unlikely) and claimed to have pressed both sides to show "restraint." The focus on restraint, without mention of suppressing terrorist activities, is a formulation that puts most of the burden on India, but the Chinese claim they have pressed Musharraf to do what is required to defuse the crisis.

- *Russia.* On China-Russia relations, there is currently no theme of an alignment to resist U.S. "hegemony" or "containment"; instead the PRC officials describe "excellent" China-Russia relations based on the principles of no alliances, no confrontation, and no direction at any third country, while commenting that their economic relations with Russia are "very limited."

- *Korea.* PRC officials maintain that the government of North Korea is still "wary" of the intentions of the United States, but say China agrees on the importance of a stable and non-nuclear Korean peninsula and supports resumed dialogue, including through four-power talks.

- *Japan.* Chinese concerns about U.S.-Japanese security cooperation have been muted, but have not significantly diminished. Beijing does not want to be seen as opposing the U.S.-led war on terror, which is an important current focus of U.S.-Japan military cooperation. This desire to not be seen as in opposition to U.S. anti-terrorism objectives also explains why Chinese leaders have not been more vocal in their criticism of the establishment of U.S. bases in Central Asia. PRC officials focus their criticisms of Japan on what they describe as a deliberate Japanese policy of weakening the yen to seek to export their economic problems.

- *Non-proliferation.* On non-proliferation, Chinese officials repeat familiar declarations that China opposes proliferation and strictly adheres to all its commitments in that regard.[3] At the same time, they refused U.S. proposals, made during President Bush's February 2002 visit, to extend those commitments in the missile field, and they do not acknowledge China's past – and possibly continuing – role in aiding proliferators, notably Pakistan.

Military-to-Military contacts between the U.S. Department of Defense and the People's Liberation Army. On the prospects for resumed and expanded military-to-military contacts, Chinese officials appear, in the context of generally improved relations, to support the resumption of contacts between the PLA and the U.S. armed forces on a step-by-step basis consistent with the overall development of relations, and steps in this direction were agreed during vice president Hu Jintao's visit in May 2002. They believe that senior-level military exchanges have particular value. When faced with the argument that there is a different level of transparency on the two sides and that exchanges should be on a reciprocal basis, they caution that there are asymmetries in the openness of our respective societies that would limit what could be done in the short run. PLA officials say that the Defense Consultative Talks have served both sides' interests and that, therefore, resumption should be considered very seriously.

Missing-In-Action (MIA) cooperation. Senior Chinese foreign ministry officials express willingness to extend the good cooperation in the WWII context to accounting for missing U.S. military personnel in the Korean and Viet Nam conflicts, as a humanitarian matter.

Continuing problems. The generally positive attitude towards Sino-American relations is not, of course, without reservation. While welcoming President Bush's formula of a "cooperative, constructive" relationship between the United States and China, the Chinese

[3] The depth of the underlying differences on this issue are highlighted by the fact that the PRC continues to equate U.S. requests for Chinese restraint on transfers to rogue states with their complaints about U.S. arms sales to Taiwan, and by one spokesman's long disquisition on the differences between U.S. and Chinese rules regarding private possession of firearms as somehow demonstrating a superior Chinese commitment to non-proliferation.

leadership remains skeptical of the true intentions of the current U.S. administration. They have questions about past descriptions of China as a "strategic competitor," proposals to shift the emphasis of U.S. defense planning to the Pacific, the Quadrennial Defense Review's alleged identification of China as a potential U.S. adversary in war (and leaks of guidance that are said to call for contingency planning for nuclear attacks on Chinese targets), and the supposed presence within the new administration of members of a so-called "blue team" of anti-China, pro-Taiwan individuals in Washington, including in executive and Congressional staffs, and in certain media outlets and think tanks. They profess to regard President Bush's statement that the United States would use "whatever it takes" to defend Taiwan if it were attacked as a "surprise."

Military modernization. Despite the priority said to be given to economic development, China continues to modernize and upgrade its military. These efforts include not only developing new, high technology systems, both indigenously and by imports, but also improving the professionalism of personnel and adapting doctrine to reflect modern conditions and factors, rather than reliance on the mass infantry formations of the past. China's nuclear forces are being modernized to reduce their vulnerability to pre-emption and to increase their ability to penetrate missile defenses. Some, though by no means all, of this effort is aimed at increasing the PLA's potential for operations against Taiwan and for dealing with potential U.S. intervention. There has been a substantial increase in PLA forces (including missiles) in the military districts opposite Taiwan, as well as combined arms exercises evidently calculated to improve PLA amphibious potential. In addition, and presumably reflecting concern at the PLA's ability to deal with a U.S. intervention, Chinese military experts have been discussing ways to defeat a militarily superior adversary in a Taiwan-like conflict scenario, by development of strategy and concepts for "anti-access" and "area-denial" operations and use of satellites, information operations, attacks on carrier battle groups, defense against cruise missile attacks, and other tactical/operational measures to negate areas of U.S. strength. However, for the foreseeable future, the PLA will remain well behind the U.S. military in relative capability.

Taiwan. Most prominent among the continued areas of difference as far as the PRC leadership is concerned is the Taiwan issue. The PRC's substantive position remains firm: insistence on Taipei's recognition of the "one China" principle before any resumption of cross-Strait dialogue, opposition to continued U.S. arms sales, and absolute rejection of Taiwan independence backed by the option to use force to stop it. Despite the statements made early on by Taiwan President Chen Shui-bian—that he would not conduct cross-Strait relations on a "two state" basis nor modify the Republic of China constitution on reunification, he would not hold a plebiscite on independence, and he would not abolish the National Unification Council nor change its guidelines—PRC leaders and academics express continued deep suspicion of Chen, his government, and the DPP, which they view as "insincere" in abjuring Taiwan independence and as still harboring separatist ambitions. PLA officers specifically object to the proclamation of a new Taiwan defense doctrine, which they describe as "pushing to the boundaries of the mainland."

To be sure, these positions are currently stated in more measured tones than in the recent past. While underscoring that the goal is "reunification," not just "resolution," Chinese

officials repeat that China's policy is use of peaceful means and stress that the PRC has recast its position to three "simple" points – that there is only one China, that both Taiwan and the PRC are part of that one China, and that the territorial integrity of China is inviolable. They describe the "one China" principle as a matter on which "consensus" was reached in 1991 and declare that once Taiwan accepts the "one China" principle, Beijing is prepared to negotiate on its meaning and envisages an eventual "unification" on terms that would be even more generous than those given Hong Kong and that would guarantee that "Taiwan won't be swallowed up," with maintenance of Taiwan's political and economic system and even its own military forces.

PRC officials repeat the familiar theme that differences over Taiwan remain the most serious obstacle to improved U.S.-China relations. They assert that U.S. policies and actions support Taiwan independence, whatever we claim is our policy, and that U.S. arms sales to Taiwan violate the 1982 communiqué, focusing particularly on the April 2001 agreement to make it possible for Taiwan to buy diesel-powered submarines.[4] No doubt reflecting U.S. offers to assist Taiwan to improve its training and upgrade its operational capability, they warn of the dangers of "interaction by high level U.S. and Taiwan military experts" and of a "closer interface" between the U.S. and Taiwan military. Beijing also protested the meeting, at a conference outside Washington, between Taiwan's Minister of Defense and the U.S. Deputy Secretary of Defense, as inconsistent with the proposition that U.S.-Taiwan links are "unofficial."[5]

Chinese officials also repeat the well-established Chinese position on use of force: that, while it is China's policy and China's deep desire that reunification be peaceful, China regards the Taiwan matter as internal and therefore will not, as a matter of principle, rule out the use of force. Specifically, they declare that China would use force if Taiwan declared independence, there were foreign intervention, or Taiwan "indefinitely" refused to discuss reunification.

In some sense the fixation of the PRC leadership on Taiwan seems hard to rationalize. The PRC's successes both domestically and internationally are both genuine and remarkable; China's real problems lie in extending its economic progress, overcoming corruption and inefficiency, and finding some stable long-term political balance, not in changing a relationship with Taiwan that has proved beneficial to the PRC, as well as to Taiwan, the United States, and the region. The United States and China have many areas of contact and potential cooperation – and even, perhaps, of conflict – that are, in the long run, of greater intrinsic importance than Taiwan. The United States needs to guard against unquestioning acceptance of Beijing's rhetoric about the primacy of the Taiwan issue. Nonetheless, it would be wrong to dismiss Beijing's concerns about Taiwan as mere posturing. Beijing

[4] The possibility of the sale of theater missile defense (TMD) to Taiwan does not seem of particular concern to the PRC at present, perhaps because Taiwan has been widely reported to have lost interest in acquiring such a capability. There can, however, be no doubt that Beijing would strongly oppose any such assistance if it were to again seem a likely prospect.

[5] The protests probably have less to do with the intricacies of "unofficial" contacts than with Beijing's desire to remind both Washington and Taipei that it pays close attention to the substance and symbolism of U.S.-Taiwan security relations. Only a specialist can readily appreciate whether the Minister of Defense-Deputy Secretary of Defense meeting outside Washington in 2002 was less "unofficial" than the meetings between the Taiwan Chief of Staff and the Secretary of Defense in Washington in prior years.

regards the Taiwan issue as the last remaining "unfinished business" of the communist victory in the Chinese civil war, and continuing commitment to eventual reunification in some form as an absolutely indispensable principle for any Party leadership and, indeed, a test of Chinese nationalism.

At the same time, the PRC leaders appear prepared to be relatively patient. The likelihood that the PRC would force the issue to a confrontation – by, for example, setting a deadline – seems much lower than even two years ago. Their reservation of the use of force is tempered by the declared preference for peaceful means, and their stated conditions for using force are ones that are unlikely to come to pass (while remaining sufficiently ambiguous to support periodic threats). If, as seems likely, the PRC leadership has high confidence in its ability to produce continuing economic growth without compromising its power position, it may well conclude that Taiwan will eventually accept that some form of unification is inevitable, if only on economic grounds. In other words, the general mood in Beijing has shifted from believing that time was on the side of Taiwan, to believing that time is on their own side and that the current flow of Taiwan business people to the coastal parts of the PRC is only the beginning of what will become a flood of economic activity leading to functional integration. (The converse is, of course, the Taiwan hope that eventually the Chinese political system will change sufficiently to transform or submerge the question of re-unification.)

Taiwan

Taiwan is also in the midst of major, but very different, political and economic challenges. Taiwan is in the process of consolidating its political transformation from the authoritarian, mainlander-dominated system of the past to a democratic system that will necessarily reflect the choices of the actual population of the island. This political transition is exemplified by the KMT's loss not only of the presidency and its status as the largest party in the legislature but also by deep fissures in the party organization and membership. Dismantling the long-standing "leading role" of the KMT in economic and military, as well as political, matters and transforming the KMT into a "normal" political party (or replacing it as the chief opposition to the DPP by one or more of the other significant political parties on the island) represent major tasks for the coming years – not just for the government, but for the other parties, including the KMT, and for the military, the business community, and the society at large.

The economic challenge. The new DPP-led government faces the challenge, not only of democratic transformation and a viable cross-Strait policy, but of maintaining the economic progress that has been the key to Taiwan's success. The economic challenge to Taiwan goes well beyond managing the current worldwide economic downturn, or even coping with the opening of its (and China's) economy to world market forces that will come with WTO membership. The progress of other Asian economies – including China's – means that Taiwan can no longer prosper as a relatively low-wage, quality manufacturing center; it must find new niches, presumably based on a highly educated, well-trained, hard-working work force and the application of technology and the abilities of that work force to improve

productivity in order to secure the prosperity not only of investors, but of a population increasingly able to influence government policy and priorities.

International Standing. While paying substantial financial costs to maintain formal recognition from a handful of mostly small nations, Taiwan's main "diplomatic" relationships are conducted through more than a hundred "unofficial" missions, comparable to the Taiwan Economic and Cultural Representative Office (TECRO) in the United States, and through government-supported NGOs that carry on humanitarian and economic assistance functions throughout the world. Taiwan's striving for international acceptance has focused on entities – like the WTO – which it can plausibly argue are of a technical, non-political character.

Military reform. An important aspect of democratic transformation is establishing the non-political character of Taiwan's military and its subjection to legally based democratic control, while at the same time modernizing the forces and improving their capability for joint operations in the face of an increasingly capable PLA. Taiwan military officers and civilian national security officials proclaim their commitment to both "nationalization" of the military, i.e., its non-political character and divorce from its past KMT links and the development of effective civilian-military relations based on democratic civilian control, and to greatly improving the capability of the services for effective joint operations. Taiwan is in the midst of major organizational reforms in its national security and defense institutions that will strengthen the role of the civilian leadership, clarify lines of command, and emphasize jointness in planning, procurement, training, command, and operations. Until these issues of de-politicization and operationalization are resolved, there will be continuing questions as to mutual respect and confidence between military and government, and between the military and the democratic population on which it depends not only for manpower and resources, but, ultimately, for sacrifice and resolve in the event of a crisis.

Many of Taiwan's military officers are candid in acknowledging serious deficiencies in training, operational capability, and jointness. Recognizing the difficulty of transforming any military, and the formidable task of deterring a growing PLA capability, they appear to be genuinely committed to the task in conditions in which both economic difficulties and a more open political system will limit the resources available. Of course, they emphasize that Taiwan will continue to look to the United States for access to the equipment needed for a modernized, effective force,[6] and for support in mastering the "software" of training, intelligence, planning, operational emphasis, and jointness that military reform will require. In some areas, notably diesel submarines, they appear not to have thoroughly thought through the strategy, doctrine, requirements, personnel, and resource issues raised by proposals that they acquire expensive new weapons systems from the United States.

In response to questions concerning the proclaimed doctrine of "defense extended beyond borders," both civilian and military officials state that, while the doctrine is still in the

[6] The Council delegation in January 2002 heard virtually nothing of any intent to acquire a TMD system, which was a major – and highly controversial – project in recent years. The explanations for this shift varied from a desire not to antagonize Beijing, to cost, technical performance, and doubt that any plausible TMD system could match the rapidly growing PRC short-range missile capability.

process of development, it definitely does not imply any intention to attack the PRC. They describe the new formulation as simply a recognition that defeating an all-out attack geared to an amphibious invasion of the island is not sufficient; Taiwan also needs to be able to counter more likely and less total, but potentially still very dangerous, threats. These include blockade, interference with normal air and maritime traffic, and limited missile or aircraft attacks designed to disrupt the economy and sow panic among the civilian population. For these missions – as indeed in some sense also for defense against an actual invasion – the Taiwan military will need to be able to operate at a distance from the island and in a flexible manner, utilizing all services in a coordinated manner.

Balancing political imperatives. The issue of Taiwan's self-identity is a complex one. Taiwan is culturally Chinese and most of the population of Taiwan, accordingly to polls, identify themselves as both "Taiwanese" and "Chinese." Nonetheless, from 1949 until very recent years, political and economic power was predominately in the hands of people identified with the KMT regime who (or whose parents) had fled the mainland after the communist victory, and there are still significant tensions between these "mainlanders" – barely ten percent of the population – and the "native Taiwanese" (a term which does not include the real natives, the Aboriginals.) Moreover, fifty years of separate and very different development since 1949, coming almost immediately after nearly as long as a Japanese colony, have tended to underscore the distinctiveness of Taiwan relative to the PRC.

The Taiwan elites in all parties recognize the delicacy of Taiwan's position and the need to avoid either needlessly provoking Beijing or alienating the United States. Nonetheless, the DPP was born as a distinctly Taiwanese party, explicitly seeking not just democracy, justice for native Taiwanese, and the end of KMT power, but formal independence – a goal that Beijing insists it will block by force and that the United States has made clear it will not support.

Taiwan officials give every indication of realizing that Taiwan's security ultimately depends on U.S. backing. Although some on Taiwan seem to imagine that Taiwan's friends in Congress would somehow assure that the United States would have no choice but to defend Taiwan whatever it does, most military and government officials acknowledge that U.S. support is conditioned on Taiwan avoiding actions that unnecessarily provoke PRC responses. Moreover, many frankly acknowledge that the Taiwan public has no enthusiasm for martyrdom and that the task is to avoid and deter conflict by a combination of prudence and resolve, since, even with U.S. backing, a war would be a disaster for Taiwan.

The new Taiwan government, nevertheless, must simultaneously satisfy its core constituency and preserve and if possible extend Taiwan's distinctive international position, while simultaneously avoiding excessively antagonizing either Washington or Beijing. Under its new president, Taiwan has shown a considerable measure of self-restraint. In his inaugural address, Chen Shui-bian, seeking to reassure Beijing (and Washington) and exemplify his policy of "pragmatism," declared, in the "Four Noes Plus One," that, in effect, he would not press the issue of independence or attempt to change the legal status of Taiwan relative to China.

Taiwan and "One China." On the much-debated "one China" principle, Taiwan's position is that it is prepared to discuss, as part of a broader dialogue on both political and other issues, the meaning of the principle, but it rejects Beijing's demand for prior acceptance as an ill-disguised effort to impose the PRC position on Taiwan. The Taiwan response to Beijing's argument that it is asking only that Chen Shui-bian accept what his KMT predecessor accepted in 1992 is that, quite apart from the DPP government's disinclination to be bound to long-past actions of the KMT, there never was a "consensus" on the principle in 1992, but only an oral acknowledgment that while the two sides both declared support for "one China," they had disagreed profoundly on what it meant.

The DPP government seeks to side-step the issue of Chinese sovereignty and Taiwan's status by saying that it acknowledges that the government in Beijing is the government of the PRC, while the government on Taiwan is the legal successor to Sun Yat Sen's Republic of China which has had an uninterrupted independent existence since 1912, albeit reduced in jurisdiction to only one province.

Simultaneously with these gestures to mollify Beijing, Chen Shui-bian and his DPP colleagues state positions designed to emphasis Taiwan's distinctive status.[7] For example, President Chen outlined to the Atlantic Council delegation in January 2002 (in the presence of the media) what he described as the key points of difference with the PRC: that Taiwan is democratic and respects human rights, that in Taiwan the government is chosen by the people, that he was so chosen and must be respected and dealt with by the PRC as such, and, probably most significant and most jarring from the point of view of avoiding unhelpful rhetoric, that "the Republic of China on Taiwan" is a "sovereign, independent country and not part of any other country, or a local administrative unit of any other country." The term the "Republic of China on Taiwan" was one often used by former president Lee Teng-hui, but this was apparently the first instance in which Chen Shui-bian had employed it in public.[8]

This use of terminology in the effort to establish distinctiveness, while not crossing Beijing's redlines, has many aspects. President Chen has at times spoken of "one future China." The vice president of Taiwan, during a visit to the United States in January 2002, spoke of preferring the term "one Chinese" to "one China." Shortly afterward, Taiwan's Foreign Ministry added "Issued on Taiwan" to the labeling of the "Republic of China" passports it issues. There is a continuing risk that domestic political pressures, coupled perhaps with over-confidence in U.S. backing, will lead the government to statements and actions that could provoke dangerous responses from Beijing. Beijing's reaction to these and other Taiwan government statements has been relatively muted in recent times, but, because they

[7] The efforts of the PRC to use contacts with the KMT and the mainland-oriented business community as a way to marginalize the elected government do nothing to reduce the pressures, or incentives, for the DPP to do things that maintain its distinctively Taiwanese identity. Important as unofficial contacts are, they are no substitute for dialogue between the two governments. Qian Qichen recently issued invitations to visit the PRC to a number of DPP representatives – identified as not among "the extremely small number" of DPP members who are actually pro-independence.

[8] Interestingly, although the DPP-leaning *Taiwan News* reported the "ROCOT" formula, it was apparently not used in the official government posting on its web site, which spoke in more traditional terms simply of the "Republic of China." For whatever reason, publicly the PRC has apparently not reacted at all to Chen's statement.

are in fact intended to emphasize Taiwan's separate status, they provide a potential pretext for Chinese reactions that would increase tensions.

The security dimension of economic issues. Economic issues also have a critical security dimension. Taiwan's leadership recognizes (as does the PRC's) that cross-Strait investment is in the economic interest of both parties. Taiwan investment in China is estimated at US$30-100 billion,[9] up 20 percent in 2001 alone. Hundreds of thousands of people from Taiwan – perhaps a million – live in the PRC, managing and operating Taiwan-owned enterprises financed with Taiwan investment funds. Joint ventures between Taiwan-based enterprises and PRC banks, oil and gas producers, and airlines continue to grow. The personal and economic links thus established are a significant and growing element in the actual, as contrasted to official, relationships across the Taiwan Strait. The Taiwan government, moving from the previous administrations' "go slow" policy to one of "active opening" and pushing for establishing the "three links" of direct contact in trade, communications, and transportation with China, has largely abandoned any hope that limiting such investment would restrain PRC economic growth, limit Taiwan's dependence on China, or deflect investment to elsewhere in Asia as a means of building influence there. The Taipei government does, however, intend to maintain restrictions on PRC investment in Taiwan, which is likely to be limited in any event for purely business reasons.

Taiwan officials are at pains to make the point that the economies are not "integrated" in the sense of approaching a single system. Most Taiwan investments in the PRC, and most exports from Taiwan to the PRC, are oriented not to production for the Chinese market as such, but for re-export to third countries. This strategy for investment in the mainland, combined with import controls, has maintained a degree of inequality in the cross-Strait economic relationship.

Officially, Taiwan expresses the hope that economic interdependence is potentially an inhibition on Beijing forcing a crisis. At the same time, Taiwan continues to be concerned at the risk of "hollowing out," i.e., the transfer to the PRC of jobs and investment in areas of traditional Taiwan success without replacement by new activity in Taiwan itself. For example, Taiwan's leading semi-conductor manufacturer recently was granted the right to make certain computer chips in the PRC rather than in Taiwan, with specific conditions attached. The Legislative Yuan is creating policies controlling the volume, expertise, personnel, and technology involved in such investments.[10] Additionally, there is a fear that growing dependence of Taiwan investors on their PRC operations will give the PRC leverage over the Taiwan government by creating a powerful lobby inclined to accommodation with Beijing.

The United States of America

The United States should not unquestioningly accept Beijing's insistence that the Taiwan issue dominates and defines our relationship, but it does have a critical interest in the Taiwan

[9] The very size of this huge range of uncertainty in a critical economic measure suggests the difficulty of assessing the actual economic relationship across the Strait.

[10] Statement by Premier Yu Shyi-kun, 29 March 2002.

issue. A crisis over Taiwan is the only foreseeable issue with a potential for direct military conflict between China and the United States. For the United States to stand aside if China launched an unprovoked attack on Taiwan would not only be an abandonment of a loyal, democratic friend, but a terrible blow to U.S. credibility and influence in Asia and around the world. Yet a war over Taiwan against a China with an increasingly sophisticated military capability and world position, and with nuclear weapons, would be an enterprise compared to which any U.S. conflict since 1945 and certainly the Gulf War and the war on terrorism – and even its expansion to the "axis of evil" – would seem simple, low risk, low cost skirmishes. For the two direct parties, China and Taiwan, a war would be a military, diplomatic, and economic disaster, whether or not the United States intervened.

Accordingly, for the United States the objective is that the problem be managed, not to seek permanent resolution. This will not be an easy task. Beyond questions of competing formulas for describing Taiwan's status, the character of its relationship to the "one China" of the formulas, and both conditions and subjects of discussion, lie profound uncertainties about the long-term future. Some people in both Beijing and Taipei – more, naturally in Taipei – express the view that the priority for both parties should be neither independence nor unification but peace and economic development, and that the task is to avoid confrontation or conflict, not to press for early definitive resolution, given that resolution seems highly unlikely under current conditions.[11] Paradoxically, for all that the PRC, Taiwan, the United States, and most of the rest of the world, proclaim their dedication to "dialogue," peace may depend on both sides being able to find ways to avoid promising any early resolution, even by negotiation, because, given the profound differences between the two societies, there is little basis for compromise on any ultimate solution, and the failure of the attempt could itself create pressures to turn to other means.

In an important sense, the issue is whether each side can have sufficient confidence that time is on its side – or at least not against it – to make possible indefinite acceptance of an uneasy, gradually changing, and less than fully satisfactory status quo. The uncertainty inherent in any effort to sustain the current unresolved but relatively non-confrontational situation is whether the status quo can be adapted to changing conditions without breaking down over irresolvable differences. The PRC may worry that Taiwan, increasingly democratic as China remains under Party rule, will reject its Chinese identity as years of de facto separation continue, and that the United States will increasingly support Taiwan's independence ambitions. Taiwan may worry that China's increasing economic and military power will further isolate the island internationally, make it dependent economically, and overwhelm it militarily. Everyone, including the United States, may worry that continued failure to produce an agreed resolution leaves open the possibility of crisis, as one side or the other presses beyond the boundaries of what is acceptable to the other.

Despite these dangers, there is ground for optimism. The always evolving status quo has in fact been good for all parties, in security terms as well as economically, and it would serve all

[11] According to the memoirs of Mao Zedong's doctor, Mao himself declared in the late 1950s that an unresolved Taiwan problem "keeps the pressure on us [and] helps maintain our internal unity." It is possible that hard-liners in Beijing today also regard reunification with Taiwan as more useful as a rallying call, rather than a practical objective.

their interests to maintain a dynamic stability that adapts to changing conditions, but does not meet – nor require abandonment of – anyone's maximum preferences. Open conflict would run incalculable risks for everyone concerned. China, for all its leaders' periodic bluster and insistence on reunification as a goal, has accepted a DPP-led government, avoided setting any deadline, and has limited its reservation of use of force to contingencies that are unlikely to happen. Taiwan, for all its leaders' toying with new "sovereignty" formulas, has been willing to forego most of the formalities of sovereignty and to accept the indignity of lack of official recognition by most of the world, and seems to understand fully that a formal declaration of Taiwan independence is not an option.

Economic growth in China (and, conceivably, the Taiwan example of a democratic system in a Chinese culture) may lead to a political transformation that would open opportunities for a very different political relationship than now exists, or than either side could now imagine ever accepting. And, in any event, continued economic interdependence and growing prosperity may reduce tensions, foster understanding – and make both sides less focused on abstract legalisms and principles about the relationship and more on practical cooperation and stability. In a situation where increased tensions pose huge dangers, and patience, wisdom, and finesse are essential, neither side can be confident that time is on its side – but each must recognize that a continued peace, while less than wholly satisfying, is far more in its interest that confrontation and crisis.

In sum, for the United States the objective should be that both sides – though neither will openly admit it – be willing to live with the gradually evolving status quo, hoping that time is on its side, or that time will bring changes that make today's "sides" irrelevant. The appropriate U.S. role is to make clear that:

- Taiwan must understand that, while the United States will honor its obligations under the Taiwan Relations Act, it does not support Taiwan independence and a declaration of independence would make it highly unlikely that the United States would come to the aid of Taiwan if the PRC attacked.

- China must understand that, while the United States continues to support a "one China" policy and to oppose Taiwan independence, U.S. insistence on resolution of the issue by peaceful means is real and that military action by China against Taiwan would risk war with the United States and would in any event totally disrupt U.S.-China relations and leave China isolated from the world community.

Conclusions and Recommendations

1. Current prospects for good relations between the United States and China are the most promising in recent years: the Chinese leadership has made a conscious decision to minimize areas of conflict and seek areas of cooperation.

   A. The events of September 11 and making common cause in the war on terrorism contribute to this promising environment as a catalyst for aligning China with the United States and most of the global community. However, China and the United States have significantly different perspectives on what constitutes terrorism, and the war on terrorism is not likely in itself to be a major area of practical cooperation. For example, Beijing seems increasingly wary of where the next phase of the war on terrorism will be.

   B. The greater factor is avoiding controversy with the United States, which would interfere with China's economic development. China also seeks freedom to burnish its credentials as a responsible emerging regional – and eventually global – power.

   C. China is highly preoccupied with managing its economic development in the context of accession to WTO membership and extending economic growth to the interior of the country. China faces many challenges in maintaining target rates of growth, spreading prosperity from the east coast to the interior, fighting unemployment, protecting the fragile agricultural economy, privatizing inefficient state-owned enterprises, reforming the banking system, dealing with corruption, and many other systemic problems. All of this makes it less likely that China's leaders, in the near term, will take political or military actions that would put China at odds with the United States and other important members of the global economic community.

   D. China's economic development is in the U.S. interest because, as well as making increased trade and commercial interaction possible, it is deemed more likely to promote peace and stability in the region.

   E. China's current major focus on its economy and WTO, and the prelude to leadership transition, along with concerns about terrorism, create a desire for a stable environment. While possibly a transient condition, it affords the United States an opportunity to further bilateral cooperation.

   F. An agreement to resume military-to-military and defense-to-defense contacts would be in the U.S. interest. It should include regular meetings between senior defense officials and ending constraints on routine meetings between U.S. defense officials and Chinese visitors. In those contacts, the United States should continue to press for greater reciprocity and openness and for inclusion of a broader range of Chinese officers, while recognizing the real differences between practices in the two countries.

2. There is very little likelihood of any near-term progress on political status negotiations between China and Taiwan because the positions of the two parties are so fundamentally inconsistent.

   A. While China says it would be willing to make substantial concessions with respect to political and economic autonomy for Taiwan under the "One Country, Two Systems" formula, the PRC is unwilling to initiate political dialogue unless Taiwan accepts the "one China" principle as a pre-condition for the talks. Taiwan's position is that the "one China" principle would be an issue at the talks, not a pre-condition. Domestic politics on both sides of the Strait make it highly unlikely that either side would retreat from its position.

   B. Even if there were political dialogue, a formula for resolution of political issues on the basis of reunification or otherwise is not in sight. The PRC will not agree to a formula short of reunification because it will not accept the loss of its claim to sovereignty over Taiwan. Taiwan, now a democracy, will not agree to reunification in the absence of political change in the PRC and ratification by a vote of the Taiwan people.

   C. Since these fundamental differences make real negotiations on reunification virtually impossible, U.S. policy should be calculated to keep the situation as stable as possible and to avoid miscalculations on either side that could lead to armed conflict.

3. While neither the PRC nor Taiwan will say so publicly and while there are inevitable risks of one or both sides escalating tensions, both sides appear willing to maintain the current situation for an indefinite period of time, as long as the situation across the Strait remains peaceful.

   A. China's concentration on economic development, its accession to the WTO, its hosting of the 2008 Olympics, and its desire to be a respected member of the world community make it less likely that the PRC would take military action to force reunification for some time. Nevertheless, the People's Liberation Army is working to develop credible military options should the national leadership want them.

   B. Taiwan takes understandable pride in its democratic political system and the fact that it had a peaceful change of political power from the KMT to the DPP. While it considers its government that of a sovereign country – the Republic of China – and chafes at the lack of formal political and diplomatic recognition from the world community, Taiwan currently seems reconciled to its current legal status and is prepared to concentrate on improvement in its global economic position, including use of its WTO membership, rather than provoking a confrontation with the PRC.

   C. Even so, the one event that would clearly disrupt the peace and stability across the Taiwan Strait would be a declaration of independence by Taiwan.

It would become a political imperative for China's leadership to take all available action, including military force, to block this action by Taiwan.

D. As a result of the sensitivity of the "independence" issue on both sides of the Strait, particularly with the pro-independence history of the DPP and President Chen's needs to find ways to underscore Taiwan's distinctive (if not independent) status for domestic political reasons, the situation remains very delicate. On the one hand, ill-advised Taiwan rhetoric or the pursuit of purely symbolic gains like a visit to the United States by President Chen could provide excuses for PRC belligerence if a confrontation were to become politically attractive in the future. On the other, the PRC leadership may choose to force the Taiwan issue as a result of pressures within their political system or an assessment that cross-Strait trends are working against eventual unification. The PRC leadership remains distrustful of Chen Shui-bian and believes that his strategy is to change the status quo slowly and imperceptibly. Beijing calls this strategy one of seeking "incremental independence."

E. The United States has an enormous stake in the maintenance of peace and stability and in the avoidance of provocative or aggressive actions by either side. Taiwan firmly believes that the United States would intervene militarily if the PRC attacked Taiwan, and it is true that for the United States to stand aside if China launched an unprovoked attack on Taiwan would not only be the abandonment of a loyal, democratic friend, but a terrible blow to U.S. credibility and influence in Asia and around the world. At the same time, military conflict in the Strait would mean incalculable risks and costs to all parties – Taiwan, the PRC, the United States, and the region generally.

4. The focus on talks between China and Taiwan in the short term should be on economic rather than political dialogue.

A. Both the PRC and Taiwan have indicated that they are prepared to have a dialogue on economic issues on a basis that would avoid the sovereignty problems inherent in "government-to-government" talks. It may be possible to conduct economic dialogue through non-government entities and some trade issues might be dealt with through the WTO.

B. Both sides now appear ready to use "unofficial" channels to discuss investment, trade, transportation, and communications issues -- to talk about the "three links." Dialogue calculated to stimulate more contact between the people in the PRC and people on Taiwan is less fraught with political sovereignty considerations.

C. There is growing interdependence between the PRC and the Taiwan economies through Taiwan investment and the movement of industrial capacity and people to the PRC. Although this creates both opportunities and challenges for the Taiwan economy, it is possible that continuing economic interdependence (some even refer to economic integration) could ultimately

lead to the resolution of the reunification issue through economic and cultural assimilation.

5. To make its position clear to both sides, the United States should be clear on the key issues.

   A. The United States will be supportive of any cross-Strait resolution that is reached peacefully, has the acquiescence of the people on both sides of the Strait, and that is free of coercion by any party.

   B. Taiwan should know that, while the United States will honor its obligations under the Taiwan Relations Act, it does not support a unilateral declaration of Taiwan independence. A declaration of independence by Taiwan would be regarded as a provocative act that would make it extremely unlikely that the United States would come to the aid of Taiwan if a military confrontation with the PRC resulted because of the declaration.

   C. The PRC should know that while the United States continues to support a one China policy and to oppose a unilateral declaration of Taiwan independence, U.S. insistence on a peaceful resolution of this issue is real. Military action by China against Taiwan would risk war between the United States and China and would in any event wholly disrupt political, diplomatic, and economic relationships between the United States and China, force reassessment of U.S. Asia-Pacific policy, and likely leave China isolated from the world community.

6. Future arms sales to Taiwan should be consistent with these objectives, and should be based on the level of the PRC threat and the capacity of Taiwan's military to utilize the weapons being provided. The United States should be clear that any positions taken by either Taipei or Beijing that contribute to tensions will affect arms sales decisions.

   A. The apparent waning of interest in Taiwan in theatre missile defense removes a contentious issue. Future proposals for major arms acquisitions should be made by Taiwan, and evaluated by the United States, in terms of contribution to Taiwan's ability (in terms of strategy, doctrine, personnel, training, C3I, and resources) to use the weapons to meet a plausible threat, rather than for their symbolic value.

   B. The United States should, within the established parameters of the unofficial relationship, support the efforts of the Taiwan government and military to both establish clear democratic civilian control of the military and to improve the capacity of the Taiwan military for joint operations.

   C. In deciding on arms sales to Taiwan, the United States (and, indeed, Taiwan as well) should continue the policy of recent years of focusing not on the political symbolism of sales agreements, but on their contribution to an

effective Taiwan self-defense, taking into account the need to integrate acquisitions with a workable overall strategy, development of capability for joint operations, and requirements for personnel, training, and maintenance.

7. The United States should continue its unofficial, but extensive and substantive, exchanges with Taiwan.

   A. These contacts should include discussions of security-related issues, including modernization, reform, and "nationalization" of the Taiwan military. While the PRC may object to such contacts, they in fact contribute to stability and restraint, because they assure the Taiwan leadership of U.S. support and friendship, while making clear the limits of that support.

   B. In U.S.-Taiwan security and political relations, the emphasis should be on substance, not form. Purely symbolic gestures, such as a visit to the United States by President Chen, however emotionally satisfying, do not produce substantive benefits commensurate with their potential for exacerbating tensions.

8. Inevitably, both Chinese and U.S. military planning will take account of the theoretical possibility of conflict between the two countries. Both nations need to ensure that recognition of the possibility does not increase its likelihood.

   A. China is very sensitive about official U.S. statements that it perceives as characterization of China as an emerging threat.

   B. Conversely, Chinese statements that treat the United States as implacably hostile and seeking to "contain" China generate reactions in the United States that foster the very "China threat" analysis Beijing finds so objectionable.

   C. Both countries need to distinguish between military planning for a possible, but unlikely and unwelcome contingency, and a political assessment that such a contingency is likely. To this end, it is important that both sides engage in substantive and regular dialogues at appropriate levels that move beyond past venues in terms of format, and find a way to discuss as opposed to "lecture" the other party.

9. The United States should encourage China to participate in a joint effort of the nuclear powers to halt the proliferation of weapons of mass destruction and their technology and components.

   A. As one of the five recognized nuclear powers under the Nuclear Non-Proliferation Treaty (NPT), China should join with the United States and the other nuclear powers (especially Russia) in a high priority program to halt the spread of weapons of mass destruction (WMD). If the United States is serious about clamping down on the WMD capability of rogue states, suppliers as well as users are part of the problem.

B. China is very sensitive about its own proliferation role and tries to link it to U.S. arms sales to Taiwan, a linkage the United States must continue to reject.

C. Inviting China to join in a serious non-proliferation program would make mutually beneficial use of the opportunity for cooperation rather than conflict.

10. The PRC has been relatively low key in its opposition to national missile defense and to the U.S. withdrawal from the ABM treaty. As the United States moves forward with decisions on development and deployment of limited ballistic missile defense systems, China should be included in consultations.

11. Areas of regional cooperation should be maintained and expanded.

A. The United States should continue to encourage Chinese participation in efforts to promote stability on the Korean peninsula through its ties with North Korea. In that connection, the Four-Power framework may be an avenue worth exploring as a way of dealing with problems presented by North Korea's WMD programs.

B. China should be encouraged to use its good offices for peace and stability in South Asia, especially in connection with the confrontation between India and Pakistan in Kashmir. As a nuclear power with strong links with Pakistan, China should make clear to Pakistan the unacceptability of conflict between nuclear powers and should be a participant in helping to resolve the issues between India and Pakistan by peaceful means.

C. The United States should continue to discuss with China the nature of U.S. security alliances with Japan and other nations in the Asia-Pacific region in order to reassure China that they are not aimed at containing China. Likewise, China should fully brief the United States on the nature of its relationship with Russia and the plans and policies of the Shanghai Cooperation Organization in Central Asia.

12. China's progress in the area of individual freedoms and human rights is still extremely slow: the challenge for the United States is upholding its values while seeking economic cooperation and understandings on security issues.

A. China continues to view human rights primarily in terms of economic progress, e.g. job opportunity, improvement in standards of living, social mobility, etc. Chinese leaders are very proud of their reforms and progress in the past twenty years since Deng began to open up the economy.

B. Although there are glimmering hopes in the area of religious tolerance, China remains obsessed with the need for "stability" and the subversion of individual rights to that goal. It will be a long time before China adopts

sufficient respect for the individual, effective rule of law, and pluralistic institutions needed to become a civil society.

C. The United States should continue to press China on human rights issues and make clear its view that far from threatening China's stability and progress, expansion of individual freedom, democratization and the rule of law are essential to China's long-term success.

13. The United States should also be sensitive to the fact that China's current actions take place in the context of the 2002-2003 leadership transition which brings a significant domestic political component.

A. The much heralded transfer of power to the "fourth generation" is about to occur, although Jiang may retain some transitional authority and Hu Jintao is likely to move slowly to consolidate his power so that abrupt changes of policy are unlikely. Domestic pressures and the need to forge internal leadership consensus present an ongoing constraint to PRC leaders; these constraints are intensified during a leadership transition.

B. The conventional wisdom that a new generation of Chinese leadership is likely to moderate the Chinese position on thorny issues – Taiwan, human rights, attitudes toward the West in general – may be overstated. While generational change is likely to be positive over time, there is a strong nationalistic sentiment among younger Chinese and a commitment to continued Party control among the younger Chinese Communist Party leaders who constitute the "next generation" that may cut against drastic changes in policy. But continued differences in interests and values between the United States and the new leaders in China, including over human rights and Taiwan, should not be permitted to overshadow their mutual interest in a constructive, not a conflictual, relationship.

14. Obviously, there is a strong and diverse Congressional interest in China policy, especially the relationship with Taiwan. Administration officials, Congressional leaders, and private groups need to be active in explaining their reasons and goals for policy recommendations. Efforts for bipartisan support are always complicated by election years, but every effort should still be made to cultivate support in both parties.

APPENDIX 1

Committee on Security Issues in the U.S.-China Relationship Policy Paper Participants

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APPENDIX 2

Committee Comments

Joseph A. Bosco
Georgetown University

While there is much of value in the committee's draft statement, I cannot endorse the thrust and tone of the document as a whole. I believe the distinguished participants who compose the committee are missing a strategic opportunity to make an important statement on U.S.-China-Taiwan relations, free of the constraints imposed on incumbent government officials. The failure to do so reflects a methodological inhibition that flows from several of the committee's premises, explicit and implicit, with which I respectfully disagree: (1) that the present course of events is essentially benign, (2) that the three parties bear roughly equal responsibility for whatever risks and dangers exist; worse, that Taipei deserves more severe admonition against "provocation" than does Beijing for "aggression" (both terms ill-defined), (3) that China is the least likely of the three to be influenced by reports such as this and therefore that excessive candor regarding Beijing's greater responsibility for tensions is to be avoided, (4) that the Bush administration's policy toward China, despite some initial "missteps," does not differ fundamentally from the Clinton approach and comparison of the policies and their consequences is not worthy of serious discussion beyond passing reference in the cover letter, (5) indeed, that thirty-year old assumptions underlying American policy toward China since the Nixon opening constitute holy writ that is not to be questioned or reexamined.

Though the paper purports "to examine the long-term issues" in U.S.-China relations, that important goal is diminished by a more limited ambition, captured in the opening words: "As of mid-2002, the PRC's policy is . . ." Even assuming the validity of that snapshot of Chinese policy at a particular moment in the bilateral relations, the picture could change dramatically within months given the occurrence of new events, domestic or international, as has occurred several times in recent years. Far more useful would be an open-minded look – both backward and forward – at the long-term trends in relations resulting both from changes within China and Taiwan and U.S. policies, and also from what has *not* changed. E.g., while "economic growth in China may lead to a political transformation" that could foster peaceful resolution of the Taiwan and other issues – the fundamental premise of the entire engagement policy – the results have not been encouraging so far. What if, instead, economic power brings greater militarization, assertive nationalism, and perpetuation of the Communist Chinese/PLA mindset of the United States as the ultimate enemy?

Beyond disappointment that the paper is not as relevant for U.S. government officials as it might be, I am concerned that it actually may make a negative contribution by encouraging Chinese intransigence and tactical posturing. That can occur if Beijing harbors an unrealistic view that sympathetic influences in American academic/think tank circles will "educate" the Bush administration to more accommodationist policies. To the extent such misperceptions undermine the new, long-overdue, strategic clarity, it can return relations to the earlier period characterized by U.S. inconsistency and dangerous PRC miscalculation.

APPENDIX 3

Working Paper Drafted in Advance of the Atlantic Council Delegation Visit to Beijing and Taipei, 5-12 January

Issues in China-U.S. Relations

This paper outlines the issues the delegation hopes to discuss during its meetings, and that it expects to address in its report to be prepared after its return.

- The overall relationship
- The U.S.-China relationship in the Asia-Pacific context
- Areas of common interest
  - The threat of terrorism
  - Proliferation of weapons of mass destruction
  - Regional security
  - Economic relations
  - Other global problems
- Areas of disagreement
  - Taiwan
  - Missile defense
- Defense-Defense and Military-Military contacts and cooperation

The Overall Relationship

Discussion of particular issues in U.S.-China relations and cooperation on international issues should proceed from an understanding of our overall view of the international situation. Based on the delegation's understanding of U.S. policy, both historically and under the new administration, the following principles apply:

- Both globally and in the Asia-Pacific region specifically, the United States seeks stability and security for all nations, large and small, that respect the principles of a peaceful international order.
- The United States, like China, has worldwide interests and will protect them, but we understand that in today's deeply interdependent world, international cooperation in security as well as economics is not a choice but a necessity.
- In the aftermath of September 11, China and the United States, as well as all other civilized nations, must work together to defeat the common enemy of global terrorism.
- For all the challenges international terrorism presents and the many problems in international relations, the general trend in the world is toward peace and development – greater political openness, rule of law, democracy, and market-based economic relations.
- The United States continues to see a need for institutions and practices that promote peace and development. These include:
  - — Dialogue and constructive relations with all nations willing to join in the effort.

  - — Strong bilateral relationships, including alliances in Europe and Asia, and other security relationships around the world.
  - — Particularly in the aftermath of September 11, ad hoc coalitions and cooperation on specific critical issues.
  - — Military presence, for stability and reassurance.
  - — Promoting open trading systems, notably through World Trade Organization (WTO).
  - — Strong cooperation on arms control issues that are relevant to today, including both informal arrangements like the 2000 People's Republic of China (PRC) nonproliferation undertakings and formal bilateral and multilateral international agreements.
  - — Multilateral institutions, including the United Nations (UN), though recognizing the right of nations and groups of nations to act in collective and individual self-defense.
- The United States is a global power with worldwide interests, the protection of which will sometimes require the projection of military force, as in the Gulf, the Balkans, and now, Afghanistan.

The U.S.-China Relationship in the Asia-Pacific Context

- As permanent members of the UN Security Council and as acknowledged nuclear weapons states, the United States and China have global responsibilities, and our relationship has a global character, but the Asia-Pacific context is of particular importance, because it is in that region that our interaction is most intense.
- In the Asia-Pacific region in particular, we share a common interest in security as the essential pre-condition for peace and economic development, both within nations and internationally, in a part of the world where nations have very different sizes, cultures, internal arrangements, and stages of economic and political development.
- We also share common interests on security issues such as fighting terrorism, stopping the proliferation of weapons of mass destruction, and promoting stability on the Korean peninsula (as well, of course, as on other issues such as protection of the environment).
- The United States is a part of, and has vital national interests in, the Asia-Pacific region, and will do what is necessary to protect them, but we recognize that, for the most part, that can be done only by working with others to advance mutual interests.
- Despite real and significant differences of views on important issues, the United States and China share fundamental common interests that require that we have a constructive, not a hostile, relationship. As China develops its economy and its global role, this relationship will be increasingly important. Accordingly, the building and maintenance of a constructive relationship with China is a key element of U.S. policy in the region, along with active engagement, security cooperation with allies and others, promotion of open markets and economic development, and the building of multilateral institutions.
- The United States views such a constructive relationship with China as one based on realism, mutual respect for each others' interests, cooperation in those areas where we can agree, and dialogue and discussion about those areas (missile defense, human rights, and Taiwan) where we have differences.
- The United States seeks good relations, and security cooperation, particularly against global terrorism, with all nations in the region. That cooperation represents no threat to PRC interests.

- Similarly, the United States recognizes that China will seek constructive and cooperative relationships with other nations in the region and regards that effort, not as a threat, but as a contribution to security and stability.
- The United States will continue to maintain a forward military presence and security alliances in the region, as factors for stability and security for all nations in the region, and a threat to none except those who would disrupt that stability and security.
- The United States, like China, will continue to modernize its military forces and maintain the capabilities it regards as necessary to deal with contingencies. However, these military programs do not mean that either nation should regard the other as an enemy. Discussion in the United States of our relationship in terms of a "China threat" is neither accurate nor helpful. Conversely, it is important that China recognize that the United States does not seek hegemony in the Asia-Pacific region or elsewhere and does not follow a policy of "containment" of China.
- In both China and the United States, U.S.-China relations are a matter of great public concern and considerable misunderstanding. For that reason, leaders in both nations have an obligation to counter deliberate or intentional efforts to distort the actions, policies, and motives of the other nation.
- The Asia-Pacific region involves a multiplicity of nations and presents a working case of "multipolarity." For that reason, increased multilateral contacts and dialogue should be encouraged. In that connection, the United States and China would both benefit from regular consultations that include Japan, Russia, and the Republic of Korea (and, if it were willing, the Democratic People's Republic of Korea) on issues of North East Asia security.

Areas of Common Interest

The Threat of Terrorism

- The attacks on the United States on September 11, and on targets in the United States and elsewhere before that date, have underscored the threat we all face from terrorism, and the need for cooperation against it.
- The U.S. public welcomes China's expressions of sympathy for the victims and its extending concrete support for U.S. efforts – actions which, we recognize, involved difficult decisions for China.
- The fight against terrorism is far broader than Usama bin Laden and al Qaeda; it encompasses opposing all use of terrorist tactics, whatever the cause they ostensibly advance, and it also encompasses stopping the actions of nations that support or harbor terrorists or facilitate their efforts.
- While the United States will use military force as necessary to defend itself and its allies and friends against the terrorist threat, other instruments, including intelligence, law enforcement, diplomacy, and financial and economic means, will be even more important in the long run, and effective use of all these instruments will require international support and cooperation.
- Although a large element of the terrorist movement seeks to exploit and abuse Islamic belief and identity for its nefarious purposes, the fight against terrorism is not a conflict with the faith of Islam and must not be allowed to be portrayed as such.

- Similarly, terrorists seek to exploit nationalist movements and economic and social grievances. The international struggle against terrorism does not excuse the nations concerned and the international community from addressing those grievances – or condemning all who share these grievances as terrorists.
- The common danger opens opportunities for new areas of cooperation between China and the United States. These areas include intelligence sharing; cooperation on cutting off terrorist financial and communications networks; and political, economic, and diplomatic pressure on states that support terrorists. In addition, we should be able to cooperate on improving the ability of our military, public health, information technology, and law enforcement communities to cope with the consequences of terrorist attacks, building on the work we have already done on response to natural disasters.

Proliferation of Weapons of Mass Destruction

- There can be no doubt that terrorists are seeking weapons of mass destruction (WMD) capabilities and would use them if available. Terrorists have already mounted chemical and biological attacks (in France and Japan, as well as in the United States). The reaction to the still-untraced anthrax attacks in the United States indicates the potential of WMD attacks to disrupt civil society, even if the attacks themselves are relatively ineffective in absolute terms. And the damage done in New York and Washington on September 11, terrible as it was, would be dwarfed by the consequences if terrorists obtained and used WMD on a significant scale.
- The WMD problem is not limited to terrorists. Potential regional aggressors like Iraq and Iran are actively seeking WMD and the means for long-range delivery. Such states could attempt to use those capabilities to shield their regional aggression or share them with terrorist surrogates.
- Acquisition of WMD and effective means of delivering them by states like Iraq, Iran, or North Korea would inevitably increase the pressure on responsible nations in their respective regions to acquire matching capabilities. And every new state that acquires such capabilities is one more potential source of WMD for terrorists, whether by diversion or a change in regime.
- The international community cannot ignore the terrible consequences if tensions in South Asia, which have already produced three India-Pakistan wars, led to nuclear conflict.
- The proliferation of WMD poses a direct threat to the security of all nations that, like China and the United States, have an interest in a stable world. In particular, the further proliferation of WMD and their delivery means to the unstable Middle East/Southwest Asia region threatens the long-term interests of nations like China and the United States that are dependent on secure and stable access to oil imports.
- We have a powerful common interest in curtailing Iran's acquisition not only of WMD but of military equipment that would enhance its position as the dominant regional power in the Persian Gulf region.
- In this connection, continued Iraqi defiance of clear UN mandates that it accepted as conditions of the cease-fire in 1991 pose a major threat. We realize that China does not want to see renewed U.S.-led military action against Iraq. That position, however, logically implies need for strong support on securing Iraqi compliance with its UN

obligations by other means, which would moot the question of U.S. use of force against Iraq's WMD facilities.

- The U.S. role in mutual defense of the Persian Gulf states also makes the United States particularly concerned about the acquisition by Iran or Iraq of advanced conventional weapons or their technology that could directly threaten U.S. forces in that region.
- The more acute realization of the scale and urgency of the danger requires stronger U.S.-China cooperation against WMD proliferation.
- China has voluntarily undertaken a range of commitments regarding transfer not only of weapons, but of dual use equipment and technology, including with respect to certain advanced conventional weapons technology to Iran.
- Implementing these commitments and in general controlling technology transfers in these sensitive areas and to these sensitive countries will serve U.S.-China common interests and strengthen the overall relationship. It is for China to decide on the appropriate balance of participation in formal multilateral international structures, like the Wassenaar Arrangement, and less formal, bilateral, or declaratory actions.

Regional Security

- That Afghanistan was allowed by the international community to deteriorate to the point of becoming a haven for Usama bin Laden highlights the international interest in avoiding more "failed states," where out of control internal conflict threatens international interests and leads to humanitarian crisis. There are all too many other potential problems like this: Somalia, Sierra Leone, the Congo. A robust, realistic UN peacekeeping effort can contribute importantly to dealing with the failed state problem and deserves the support of countries like the United States and China that, as a matter of national policy, would not contribute troops directly to the effort.
- The United States and China need to continue to work together for a peaceful, non-nuclear Korean peninsula. The ROK's "Sunshine Policy" has faced difficulties, but it is still the best course and deserves support. We believe the U.S. government is now ready to pursue agreements on stopping all DPRK missile programs, and to maintain the Agreed Framework on nuclear issues, pending more fundamental agreements.
- The United States and China also share a common interest in ensuring that the India-Pakistan tension over Kashmir not descend into violence that could potentially turn nuclear and that would in any event involve terrorism. Our two nations should work to encourage the parties to take steps to reduce tensions and move the Kashmir problem toward resolution.
- In Southeast Asia, the United States and China both support economic development and development of regional institutions, including the ASEAN Regional Forum (ARF). The United States and China share an interest in seeing Indonesia restore its economic condition and consolidate its political transition in ways that maintain national unity while recognizing the interests of all ethnic groups. Territorial disputes in the South China Sea should be resolved without use of force and with maintenance of freedom of navigation for all nations.
- In Central Asia (to include Mongolia), our common interests are in fighting terrorism, maintaining national independence, promoting political, social, and economic development, and securing trade on a fair and secure basis in oil and other resources and products. The recently increased U.S. military presence in certain Central Asian

countries is related to the terrorism fight, and no threat to China (or anyone else). Both countries should take steps to insure that our respective efforts in these nations are not misperceived as directed at each other (or at Russia or anyone else).

- In Europe, the United States expects that NATO will further develop a new security role in a very different post-Cold War world. As a part of the long-term process of integrating all European states into European and Atlantic institutions, NATO will add new members. The prospect of a broadened cooperative relationship of NATO with Russia is also a very important step. NATO will, however, remain focused on European security; the European allies would not let NATO become a global policeman, even if United States wanted it, which it does not. At the same time, there should be increased contacts between NATO and China in the security area, reflecting the increasingly global character of key security challenges like terrorism and proliferation, comparable to existing EU-China contacts on economic issues.

Economic Relations

- The United States and China are major trading partners. U.S. investment in China helps PRC development and both countries gain from trade.
- WTO accession, and the concomitant establishment of permanent normal trade relations at a bilateral level, is a major step forward in our relationship, not just on the economic front.
- Securing congressional approval for these steps took major effort by supporters of a good U.S.-China relationship in both parties. We recognize it also took difficult decisions by the Chinese leadership.
- It is essential for China to implement the commitments undertaken as part of WTO accession and to manage inevitable problems of WTO implementation and other economic/trade issues in constructive way that recognizes our broad common interests.

Other Global Problems

- The United States and China also can work together on a range of transnational problems: drug trafficking, organized crime, piracy, and environmental abuses.

Areas of Disagreement

We need to acknowledge frankly that there are still important areas of disagreement between the United States and China.

Taiwan

- The U.S. position is well-known and broadly supported in U.S. public and political leadership. Its key elements are:
  - — The "one China" policy, stated in three communiqués, reiterated by President Bush, premised on any resolution being peaceful.
  - — Support for cross-Strait dialogue.
  - — Meeting requirements of the Taiwan Relations Act to provide Taiwan access to a sufficient self-defense capability.
  - — Settlement is ultimately decided by the Chinese people on both sides of the Strait and not the U.S. government.

- This overall framework does not satisfy anyone completely, but it has served all parties and the region well because it has allowed peaceful development on both sides of the Strait, and fostered stability in the region generally.
- It is important to emphasize that U.S. policy is based on the understanding that it continues to be China's fundamental policy, as it is that of the United States, to seek peaceful resolution.
  - — Any use of force would have incalculable consequences for everyone.
  - — U.S. actions in 1996 and President Bush's statements make clear that the United States would respond to a threat or use of force.
  - — The situation has eased with cooling of rhetoric on both sides.
  - — Taiwan is a political, not a military, problem, and can only be solved by negotiation.
  - — The United States has urged Taiwan to be restrained in its postures and its rhetoric and Taiwan has responded.
  - — The Taiwan government under Chen Shui-Bian has made clear it does not seek formal independence, and the United States has made clear it does not support that goal.
  - — China has shown restraint in accepting the results of Taiwan elections, despite reservations.
  - — The U.S. Congress has not passed the Taiwan Security Enhancement Act (TSEA), and the Bush administration does not support it.
- As a practical matter, any resolution must have the support of the people of Taiwan.
  - — The people of Taiwan are proud of their economic success and democratic progress. They do not want to see military threats or challenges to their way of life.
  - — Our impression is that the overwhelming majority of Taiwan's political leaders and populace have no desire to be, or be seen as being, provocative or radical, but rather to be careful and cautious.
  - — Taiwan has taken steps to open up links to the mainland.
  - — Opportunities exist for greater cross-Strait dialogue.
- With respect to arms sales to Taiwan:
  - — The United States will continue to meet the requirements of the Taiwan Relations Act and provide Taiwan access to arms needed for its self-defense.
  - — U.S. sales, including those announced last spring, are consistent with that policy and with the 1982 communiqué – and have in fact been marked by caution and restraint.
  - — Given that the U.S. guideline is what is needed for Taiwan's self defense, PRC actions are an important factor in Taiwan's interest in acquiring military equipment and in our responses.
- With respect to the issue of theatre missile defense (TMD):
  - — The equipment that been agreed so far is not TMD in any meaningful sense.
  - — The ultimate decision on TMD for Taiwan will depend in substantial part on PRC actions.
  - — The United States does not question China's sovereign right to do whatever it judges right in developing and deploying its military forces, but decisions on how to exercise that right have consequences.

Missile Defense

- The danger of missile proliferation (and WMD as warheads) is real, and has profound implications for the security of the U.S. population and for the danger of regional aggression.
- The United States is using the full range of instruments to deal with the problem, including diplomacy, strengthening controls on technology transfer, and deterrence.
- Direct defenses can play a legitimate role at the tactical, theater, and ultimately national, levels.
- The program to develop and eventually deploy a limited defense of U.S. territory against long-range ballistic missile attack has strong support, both from the administration and the Congress, and from the American people.
- The administration has made clear that the U.S. withdrawal from the ABM Treaty will not be a barrier to continued efforts to work with Russia and other countries to further reduce strategic nuclear forces and insure that our programs do not disrupt the overall strategic relationship, and, in general, to agree on measures on strategic stability that correspond to post-Cold War conditions. It appears that Russia will, however reluctantly, acquiesce in the U.S. withdrawal and continue to work with the United States on these issues.
- Because the threat applies to other countries, as well as the United States, the United States has indicated its willingness to cooperate with other nations, including Japan, that seek to explore the possibility of various forms of missile defense for themselves and their forces.
- The program is not directed against China.
- The United States has no plans to develop an integrated regional missile defense.
- China is in the process of developing and testing new long range missiles for its nuclear deterrent that appear to be designed to preserve the effectiveness of that deterrent, whatever other countries do about their own forces.
- In any event, we do not expect that relations between the United States and China would ever be such that a question could arise of the United States defending against a PRC missile attack.
  - — The United States, under the Bush administration, is genuinely committed to moving beyond Cold War models of the nuclear relationship, involving not just limited defenses, but also reduced offensive force levels, increased transparency, and better safety and security for nuclear materials stockpiles and technology in light of proliferation dangers.
  - — It would serve both bilateral and broader interests for China, as a permanent member of the UN Security Council and NPT-recognized nuclear weapons state, to take a more active role in bi- and multilateral discussions of these issues.

Defense-Defense and Military-Military Contacts and Cooperation

- These contacts are an important part of the overall relationship, and should be expanded, in coordination with the overall development of our relationship.
- After initial hesitations, the reasons for which are well known, the Bush administration is prepared to move forward to resume progress in this area.

- Exchanges of high level visits, contacts between military educational institutions, ship visits, functional contacts, and consultation under the Maritime Cooperation framework are useful and should be continued.
- To realize the full potential of defense to defense and military to military contacts:
  - — Participation by officers of the two countries in military and security education programs, both official (as in the case of the Asia-Pacific Center) and private sector (as in the case of the Atlantic Council) should be expanded.
  - — Exchanges and contacts should move into additional functional areas, including counter terrorism, counter drug, piracy, and military medicine.
  - — Fully respecting the requirements of security, there should be opportunities for visits and exchanges at lower, more operational exercises and facilities.
  - — Contacts between veterans groups and retired officers should be expanded.
  - — Greater transparency and consultation on strategic perspectives and on long-term defense programs and policies can reduce tensions and misunderstandings.
  - — Insofar as such steps, on a reciprocal basis, would require changes in the laws, regulations, and practices of the two countries, those changes should be made, and can be made, fully consistent with legitimate security concerns.
  - — The Defense Consultative Talks should continue on an annual basis, and should be expanded in scope to insure that all security issues of concern to the two nations can be addressed. Insofar as this would entail including representatives from other ministries and agencies, while maintaining defense ministry leadership, it should be done.

APPENDIX 4

Atlantic Council Delegation to Beijing and Taipei
5 January to 12 January 2002
List of Contacts

Beijing

Host: Chinese Association for International Friendly Contact (CAIFC)

Government

Mr. Jonathan ALOISI, Minister-Counselor For Political Affairs, United States Embassy, Beijing
Gen. CHI Haotian, Vice Chairman, Chinese Communist Party Central Military Commission
Mr. LI Zhaoxin, Deputy Minister of Foreign Affairs
Mr. LIU Huaqiu, Minister of Foreign Affairs Office and CAIFC
Mr. John Mark POMMERSHEIM, First Secretary, Political Section, United States Embassy, Beijing
Col. Susan M. PUSKA, Army Attaché, United States Embassy, Beijing
Gen. TANG Tianbiao, Deputy Director-General, General Political Department, PLA
Mr. Christopher F. WURZEL, First Secretary, Economic Section, United States Embassy, Beijing
Gen. XIONG Guangkai, Deputy General Chief of Staff, PLA

Non-governmental

Mr. Michael T. BYRNES, Chief Representative, Rockwell China; Vice President, Rockwell Automation
Gen. CHEN Kaizeng, Senior Consultant, China Institute for International Strategic Studies (CIISS)
Mr. DING Bangquan, Senior Fellow, Institute for Strategic Studies, National Defense University
Amb. DING Yuanhong, Senior Consultant, Ministry of Foreign Affairs
Mr. FU Chengli, Director of First Office, Foreign Military Studies, Academy of Military Science
Mr. FU Mengzi, Director of American Studies Office, China Institute for Contemporary International Relations (CICIR)
Gen. GONG Xianfu, Vice President, CIISS
Mr. LI Bin, Arms Control Specialist, Institute for International Studies, Tsinghua University
Mr. LI Xiao gang, Vice Director of Department of Foreign Affairs, Chinese Association for American Studies, Chinese Academy of Social Sciences (CASS)
Mr. LIU Xuecheng, Senior Fellow, China Institute for International Studies (CIIS)
Mr. LIU Huaqiu, Minister of Foreign Affairs Office and CAIFC
Ms. LU Wei, Deputy Department Director, CAIFC
Mr. REN Qimin, Deputy Secretary General, CAIFC

Mr. SHI Lei, CAIFC
Mr. SU Ge, President, CIIS
Mr. TAO Jian, Vice President, CICIR
Dr. Tianyi WANG, Assistant President, CIIC Group Ltd.
Mr. WANG Xiao Wei, CAIFC
Mr. YAN Xuetong, Director, Institute for International Studies, Tsinghua University
Mr. YANG Mingjie, Director of Arms Control & Security Office, CICIR
Ms. YAO Yunzhu, Director of Third Office, Foreign Military Studies, Academy of Military Science
Mr. YE Ruan, Secretary General of Arms Control Association, CIIS
Mr. YU Jiafu, Chief of Foreign Affairs Bureau, Xinhua News Agency
Mr. YUAN Peng, Deputy Director of American Studies Office, CICIR
Mr. ZHANG Ye Bai, Senior Fellow, Chinese Association for American Studies, CASS
Mr. ZHANG Wu, CAIFC
Ms. ZHAO Yue, CAIFC

Taipei

Host: Chinese Council of Advanced Policy Studies (CAPS)

Government
Mr. Leonard CHAO, Director-General, The First Bureau, Office of the President
Lt. Gen. Jia-lim CHEN, Ministry of National Defense (MND)
Mr. Michael CHEN, Deputy Director, Strategic Planning Department, MND
Dr. Ming-tong CHEN, Vice Chairman, Mainland Affairs Council, Executive Yuan
President CHEN Shui-bian
Mr. Antonio CHIANG, Deputy Secretary General, National Security Council
Mr. John C.C. DENG, Vice Chairman, Mainland Affairs Council, Executive Yuan
Mr. Tyson FU, Deputy Commandant of the War College, National Defense University
Mr. James C.F. HUANG, Deputy Director, Dept. of Information and Liaison, Mainland Affairs Council, Executive Yuan
Dr. Michael Ying-mao KAU, Senior Advisor, National Security Council
Mr. Gary Kuang-Yueh KO, Director of Political Warfare, Department General HQ, ROCAF
Mr. LIN Chia-Lung, Senior Advisor, National Security Council
Mr. Shih-Chung LIU, Office of the President
Mr. Kwan-Yuk NOAN, Legislator, Legislative Yuan
Mr. SHI Chi-liang, Officer, Strategic Planning Department, MND
Gen. Yiao-min TANG, Chief of the General Staff, MND
Hon. Hung-mao TIEN, Minister of Foreign Affairs
Mr. Elliot Y.L. WANG, Desk Officer, Department of Information and Cultural Affairs, Ministry of Foreign Affairs
Hon. Shih-wen WU, Minister of National Defense

Non-governmental
Mr. King-yuh CHANG, Chairman, Chinese Eurasian Education Foundation

Amb. Stephen S.F. CHEN, Foundation Fellow, National Policy Foundation
Mr. Arthur S.F. DING, Director, Division IV, Institute of International Relations
Mr. Joseph R. DONOVAN Jr., Chief, General Affairs (Political) Section, American Institute in Taiwan (AIT)
Mr. Alexander HUANG, Vice President, Chinese Eurasian Education Foundation
Mr. Richard M. HUTCHINSON, Chief, Technical Liaison Section, AIT
Mr. I YUAN, Associate Research Fellow, Institute of International Relations
Mr. Peter KURZ, CEO, Insightpacific
Dr. LIN Cheng-Yi, Director, Academia Sinica
Mr. James LIU, Research Fellow, Division IV, Taiwan Research Institute
Mr. SHUAI Hua-ming, Foundation Fellow, National Policy Foundation
Ms. Pamela J. SLUTZ, Deputy Director, AIT
Dr. SU Chi, Professor, Tamkiang University
Mr. Ming-yen TSAI, Associate Research Fellow, Taiwan Research Institute
Mr. Robert H. VAN HORN Jr., Technical Section, AIT
Dr. Richard R. VUYLSTEKE, Executive Director, American Chamber of Commerce in Taipei
Dr. WEI Yung, President, Vanguard Foundation
Dr. Joseph WU, Research Fellow, Division IV, Institute of International Relations
Mr. Chih-heng YANG, Deputy Director, Division IV, Taiwan Research Institute
Dr. Philip YANG, Associate Professor, National Taiwan University
Dr. Richard H. YANG, Chairman, CAPS
Dr. Andrew N.D. YANG, Secretary General, CAPS
Mr. Robert F. YOUNG, President, Asia Pacific, Lockheed Martin Global, Inc.
Mr. Jeffrey M. ZAISER, Deputy Chief, Economic Section, AIT