



# ISSUE BRIEF

THE ATLANTIC COUNCIL OF THE UNITED STATES

## Taiwan In Search of a Strategic Consensus

This *Issue Brief* is based in part on an Atlantic Council delegation trip to Taiwan in December 2005, led by Franklin D. Kramer, chairman of the Council's Committee on Asia and Global Security, and including Jan M. Lodal, president of the Council, and Council board members, Julia Chang Bloch, John L. Fugh, and Helmut Sonnenfeldt, as well as Banning Garrett, director of Asia Programs, Jonathan M. Adams, Asia Programs assistant director, and Ellen Frost, senior fellow at the Institute of International Economics.

Banning Garrett, Jonathan Adams and Franklin Kramer wrote this *Issue Brief* which was endorsed by the other members of the delegation.

At the beginning of 2006, Taiwan is confronted with difficult choices that it currently seems unprepared to face. Cross-Strait tensions have diminished in the last year and Taiwan's economy has grown at an annualized rate of about 3.6 percent, which is respectable if not robust by East Asian standards. Taiwan, however, also faces an East Asian future which likely includes an increasingly important role for its relations with the Mainland as China becomes an ever more important economic and political factor regionally and globally.

A fundamental question for Taiwan is whether it will be able to develop an internal consensus that will allow it to establish a long-term strategic approach toward the Mainland to provide both prosperity and security for its people in light of the many changes occurring in the East Asian and global environment. In today's political environment on Taiwan, partisan differences have kept such a strategic consensus from emerging. There is a nearly uniform feeling on the island that Taiwan should maintain its *de facto* autonomy, but there is no agreement on how to preserve that status, especially as economic ties with the Mainland grow, the U.S.-China relationship expands, and the cross-Strait military balance inclines in the Mainland's direction. The Taiwan polity is deeply divided on the key issues of the appropriate economic relationship with the Mainland, the correct approach to the "one China" question, and the role of military modernization.

### The Politics of Cross-Strait Political Ties

Surprisingly, however, the differences between the Pan Green camp (the ruling Democratic People's Party or DPP and its coalition partners the Taiwan Solidarity Union or TSU) and the Pan Blue (the Kuomintang or KMT and its coalition partners the People's First Party or PFP and the New Party) over the substance of Taiwan's status in the international arena are not as sharp as often perceived outside Taiwan. While there are small minorities of



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the two parties that support the extreme poles of near-term reunification or, alternatively, permanent separation of Taiwan from the Mainland, the mainstream voters of the two parties (as opposed to some of the politicians' pronouncements) seem to agree that Taiwan is *de facto* independent, that it acts as an autonomous entity (although, critically, KMT head and Taipei Mayor Ma Ying-jeou would say "government" and President Chen Shui-bian would say "state") and that any arrangement with the Mainland must be based on this "fact" of fundamental autonomy for Taiwan, especially including protection of its democratic political system. Neither the KMT nor the DPP formally rule out eventual reunification (although the terms are obscure), and both insist that reunification will not be possible until the Mainland becomes a democracy

***Neither the KMT nor the DPP formally rule out eventual reunification, and both insist that reunification will not be possible until the Mainland becomes a democracy with full respect for human rights.***

with full respect for human rights. Additionally, the KMT recently indicated that the party would not rule out independence as an option.

While the two sides both want to assert Taiwan's autonomy as a "bottom line" in dealing with Beijing, they are split on whether finding some formula regarding "one China" as a basis for government-to-government dialogue, as insisted upon by the Mainland, would constitute Taiwan's capitulation to Chinese domination. The KMT supports returning to the "1992 consensus" in which, in their view, the Mainland and Taiwan "agreed to disagree" on the meaning of "one China" as the basis for official talks. President Chen Shui-

bian has proposed alternative language, including the "spirit of 1992." But Beijing has not accepted President Chen's formula and continues to doubt whether he is committed to finding a "one China" basis for talks. Chen rejects Beijing's insistence prior to talks that Taiwan must acknowledge that Taiwan and the Mainland are part of "one China," and insists on no preconditions for cross-strait dialogue. Chen maintains that the starting point for any negotiations must be that Taiwan is an "independent and sovereign state," although he says he would not rule out any possible final arrangement with Beijing, including "political integration."

It is not clear if President Chen and the DPP government believe that formal, *de jure* independence or permanent separation from the Mainland is an achievable goal for Taiwan. In the Ten-Point Consensus with James Soong, the leader of the PFP issued February 24, 2005, President Chen said that during his administration, "he will not declare independence, will not change the national moniker, will not push forth the inclusion of the so-called 'state-to-state' description in the Constitution, and will not promote a referendum to change the status quo in regards to the issue of independence or unification." On the other hand, Chen's New Year's 2006 speech stated, "Our country, Taiwan, has a total land area of 36,000 square kilometers. The sovereignty of Taiwan is vested in its 23 million people, and is not subject to the jurisdiction of the People's Republic of China (PRC). Only the 23 million people of Taiwan have the right to decide Taiwan's future." The tone of this speech seemed to signal a move back to a harder line toward Beijing by President Chen, perhaps to shore up his weakening political base, rather than seeking common ground with the KMT to present a united front toward Beijing. In particular, Chen pointed to Taipei

## *Perspectives on 'One China'*

We believe that the leaders of both sides possess enough wisdom and creativity to jointly deal with the question of a future "one China," while upholding the principles of democracy and reciprocity, building on the existing foundations, and developing conditions for cooperation through goodwill. Actually, according to the Constitution of the Republic of China, "one China" should not be an issue. **President Chen Shui-bian: "Bridging the New Century" New Year's Eve Address, December 31, 2000**

The integration of our economies, trade, and culture can be a starting point for gradually building faith and confidence in each other. This, in turn, can be the basis for a new framework of permanent peace and political integration. **President Chen Shui-bian: "Bridging the New Century" New Year's Eve Address, December 31, 2000**

..the one China principle we stand for is that there is only one China in the world; the mainland and Taiwan all belong to one China; and China's sovereignty and territorial integrity are indivisible. **Vice Premier Qian Qichen: interview with foreign press, January 4, 2001**

Neither single individual nor political party can make the ultimate choice for the people. If both sides are willing, on the basis of goodwill, to create an environment engendered upon "peaceful development and freedom of choice," then in the future, the Republic of China and the People's Republic of China-or Taiwan and China-can seek to establish relations in any form whatsoever. We would not exclude any possibility, so long as there is the consent of the 23 million people of Taiwan. **President Chen Shui-bian: Inaugural Speech "Paving the Way for a Sustainable Taiwan" May 20, 2004**

It is the common proposition of the two parties to uphold the "Consensus of '92", oppose "Taiwan independence", pursue peace and stability in the Taiwan Strait, promote the development of cross-strait ties, and safeguard the interests of compatriots on both sides of the strait. **CCP-KMT Joint Communiqué, June 29, 2004**

Adherence to the "one China" principle serves as the cornerstone for developing cross-Straits relations and realizing peaceful reunification of the motherland. Although the mainland and Taiwan are not yet reunified, the fact that the two sides belong to one and the same China has remained unchanged since 1949. This is the status quo of cross-Straits relations. This is not only our stand, but also what can be found in the existing regulations and documents in Taiwan. Since Taiwan and the mainland belong to one and the same China, there shall be no such question as who annexes whom between the mainland and Taiwan. **President Hu Jintao's Four Points Concerning Taiwan Relations, March 5, 2005**

There is only one China in the world. Both the mainland and Taiwan belong to "one China". China's sovereignty and territorial integrity brook no division. **The Anti-Secession Law, March 14, 2005**

We can understand why the government on the other side of the Strait, in light of historical complexities and ethnic sentiments, cannot relinquish the insistence on the "one China" principle. By the same token, the Beijing authorities must understand the deep conviction held by the people of Taiwan to strive for democracy, to love peace, to pursue their dreams free from threat, and, to embrace progress. **President Chen Shui-bian: Inaugural Speech "Paving the Way for a Sustainable Taiwan", May 20, 2005**

Mayor Ma's views on the eventual reunification of Taiwan with the Mainland in order to highlight the differences between the two parties' vision for the future cross-Strait relationship:

Perhaps some people are not fully satisfied with such an assertion of Taiwan's sovereignty; nevertheless, I continue to believe, we must 'keep a firm stance while moving forward pragmatically.' Not long ago, during an interview with the international media, a party chairman explicitly conveyed that 'unification' is his party's ultimate goal. Though many find his position hard to accept, it is important for all of us to be tolerant and understanding.

In another apparent effort to play to his pro-independence political base and highlight differences between the DPP and KMT, on January 29, 2006, President Chen proposed three initiatives to be completed by the end of his presidency, including abolishing the National Guidelines for Unification, applying for United Nations membership under the name 'Taiwan,' and holding a referendum on a revised constitution. Most recently, President Chen announced on February 27, 2006 that the National Unification Council and the National Unification Guidelines would cease to function. This new step has been justified by the Chen Administration as an attempt to maintain the status quo in light of Taiwan's democratic development and continuing military and political pressure from China.<sup>1</sup> While this step does not represent a fundamental change

in the DPP position on an eventual relationship with China, it has exacerbated tensions with the KMT.

Both parties, regardless of their perspectives on the ideal relationship with China, support increased international space for Taiwan. The proliferation of regional and international organizations in number and activity over the last few years has increased public awareness in Taiwan of its diplomatic isolation from the rest of the world. This isolation was highlighted in late 2005 when Taiwan's donation of relief supplies to the victims of the earthquake in Pakistan was rejected. Although there is little expectation in either camp that Taiwan will achieve membership in international organizations as a sovereign state, both the KMT and the DPP strongly support greater Taiwan participation in international bodies that do not require statehood status and hope for increased U.S. assistance in this effort. They are committed especially to expanding Taiwan's participation in international health, trade, economic, and cultural organizations.

One of the key strategic questions for Taiwan is whether there is the possibility of a common approach to the Mainland among the parties on the issue of "one China" as the Chen-Soong agreement suggested or whether, because of internal Taiwan politics, this is a split that cannot be overcome even though there is basic agreement on the issue of autonomy.

## The Politics of National Security

The strains created by island politics have also had implications for Taiwan's national security questions. The \$18 billion package of U.S. arms requested by Taiwan and approved for sale to the island by President Bush in April 2001 was put forward by the Chen government after the 2004 election as a "special budget" request to the Legislative Yuan. The arms package immediately became embroiled in partisan wrangling. The KMT, which was in power when the Taiwan government

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<sup>1</sup> The State Department responded immediately by criticizing Chen's January statement and restating U.S. "one China" policy and opposition to any unilateral changes in the 'status quo'. The State Department Spokesperson indicated that the U.S. concern that these initiatives could be an attempt by Taiwan to alter the status quo unilaterally. In response to the President Chen's February announcement the State Department Spokesman confirmed that the Taiwan government had clarified that the Unification Council and Guidelines were not being abolished, but rather that its functions would cease and that the commitment to not take unilateral steps to alter the status quo and honor Chen's inaugural pledges had been reaffirmed.

requested permission to buy most of the arms, struggled against the deal as part of its bitter opposition to the Chen administration since the disputed Presidential election in 2004.

The KMT has offered many arguments against the particular items included in the arms package, ranging from the high cost of the weapons and more pressing budget priorities to the need to balance any new arms purchase with positive political gestures toward the Mainland to avoid unnecessarily provoking Beijing. KMT leaders have opposed purchase of the PAC III missile defense system on the grounds that Taiwan voters' rejection of the "defensive referendum"

***Both sides are convinced, for different reasons, that arms are not really an urgent requirement for Taiwan – especially the original \$18 billion package.***

on missile defense held at the time of the 2004 Presidential election reflected the "will of the people of Taiwan" that must be respected. The DPP has similarly marshaled arguments in support of the arms purchase from the United States, especially the need to counter the threat posed by the Mainland's military modernization and to demonstrate to the United States that Taiwan is willing to do what is necessary to provide for its own defense. The DPP has been particularly concerned to respond to criticism from Washington that Taiwan's failure to buy the arms reflected a lack of resolve that would weaken U.S. support for Taiwan. DPP leaders have also countered the KMT's position on the missile defense referendum by maintaining that the failure of the referendum was due to a lack of voter turnout rather than public opposition to missile defense.

KMT and DPP legislators maintain that a compromise agreement may be achievable before the middle of 2006 that would include a smaller price tag than the original \$18 billion special budget request and some of the arms purchases being shifted to the regular defense budget. Even this compromise appears in doubt, however.

There has been an undercurrent to the arms package debate that suggests that neither the KMT nor the DPP believes that Taiwan will be called on to defend itself and that much of the posturing on the issue is politically motivated on both sides. The KMT thinks that the Mainland will not attack Taiwan if Taiwan does not step over

the red line of permanent separation, and also that Taiwan will not go that far. There is, therefore, no urgency to engage in a major arms buildup. The primary argument for buying the arms, as some in the KMT maintain, is simply to strengthen Taiwan's bargaining position vis-à-vis the Mainland. There are many in the DPP who also maintain that the Mainland will not attack Taiwan – but

they say this would be the case even if Taiwan declares independence. And if the Mainland does attack Taiwan, they believe, the United States will defend the island even if Taipei is responsible for provoking Beijing. Consequently, for many in the DPP, arms purchases from the United States are not primarily to bolster Taiwan's defense capability but rather to ensure that the United States will defend Taiwan. In short, there is a certain unreality to the public terms of the political struggle over the arms purchases from the United States. Both sides seem convinced, for different reasons, that the arms are not really an urgent requirement for Taiwan – especially the original \$18 billion package – since they believe that war is not likely or, if it occurs, the United States will defend Taiwan anyway. If the situation were reversed with the KMT the ruling party and the DPP in opposition, the two parties might take opposite positions, perhaps with the KMT arguing that Taiwan needs to show the United

States it is determined to defend itself in order to retain good ties with Washington and the DPP arguing that the arms were an unnecessary waste of funds at a time when Taiwan faces pressing social needs.

### **Economic Integration and Taiwan's Future**

While the parties continue to disagree over the “one China” and arms modernization issues, an equally divisive issue that may be even more determinate of Taiwan's future is what to do about increasing integration of the island's economy with that of the Mainland. The Mainland has become Taiwan's top export market with about \$34 billion in 2004 and estimates of \$45 billion in 2005,<sup>2</sup> and Taiwan now exports more to Hong Kong and the Mainland together than it does to the United States, Japan and Europe combined. There is a high degree of uncertainty in the figures of Taiwan investment since much is believed to go through third party entities like Hong Kong or the Cayman Islands, but cumulative foreign direct investment (FDI) on the Mainland is variously estimated at between \$45 billion and \$180 billion. Taiwan business leaders and economic researchers privately estimated in December 2005 that about 70 percent of Taiwan's foreign investment ends up in the Mainland. Data on enterprises are somewhat better, and there are estimated to be more than 70,000 Taiwan enterprises on the Mainland employing about ten million Chinese. In addition, the Mainland is now home, at least part-time, for an estimated one million or more of Taiwan's 23 million citizens. People from Taiwan made more than three million trips to the Mainland in 2005; although without a cross-strait tourism agreement, fewer than 150,000 people from the Mainland visited Taiwan that same year.<sup>3</sup>

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2 Statistical Yearbook of the Republic of China 2004, Edited 2005, and statements by Ma Ying-jeou.

3 Mainland Affairs Council of the Republic of China (Taiwan), Preliminary Statistics of Cross-Strait Economic Trade December 2004 & January 2005.

Like much of the rest of Asia, Taiwan has become increasingly dependent on the Mainland for its economic prosperity. Although the Mainland has been significantly dependent on Taiwan for investment, management, and know-how to sustain its rapid economic development in the last two decades, the extent of China's dependence on Taiwan investment has diminished as capital, technology and management expertise have increasingly flowed into China from the United States, Japan, South Korea, and Europe. Moreover, the Mainland itself provides a growing source of capital and know-how. Taiwan business leaders are acutely aware of this shifting environment, including the growing number of highly-competitive students graduating from Chinese as well as foreign universities who are reducing the relative importance of Taiwan-trained engineers and managers.

***Many business people in Taiwan insist that to remain competitive, Taiwan must establish the “three links.”***

Many business people in Taiwan insist that, to remain competitive, Taiwan must establish the “three links” – direct sea, air and communications – with the Mainland. The government would like to establish the island as a “regional operations center” for business throughout East Asia, but the KMT and at least some Taiwan business leaders maintain this is virtually impossible without establishing direct transportation and communications between Taiwan and the Mainland. A senior KMT official noted privately in December 2005 that it currently takes seven hours for what would be a 90-minute direct flight to travel from Taipei to Shanghai via Hong Kong or Macao, making Taipei effectively farther away from Shanghai than Jakarta. For at least some Taiwan businesses (particularly manufacturing), the lack of direct links, for travel as well as cargo, is increasingly viewed as requiring a shift of their headquarters to the Mainland to manage effectively their operations.

## The Politics of Cross-Strait Economic Ties

The issues surrounding policy toward economic ties with the Mainland have become increasingly divisive in Taiwan politics. The KMT supports reaching agreement with the Mainland on the three links and ideas such as developing a “common market” with the Mainland. Although Taiwan business people generally seek to stay out of politics, there appears to be at least some strong criticism of the government’s position on the three links and other issues that affect the ability of Taiwan to conduct business with the Mainland. This includes not only the question of whether to conclude an agreement on the three links but many other restrictions on doing business with the Mainland. One prominent Taiwan banker pointed out that Taiwan has two major competitive industries, high-tech and financial services. While Taiwan has been successful in the Mainland in the high-tech area, including in providing management as well as technical know-how, Taiwan government policy has excluded Taiwan businesses from participating in financial services in the Mainland, with far-reaching implications for Taiwan’s economic future. According to this view, these government restrictions have prevented Taiwan banks from providing loans to Taiwan businesses operating on the Mainland, which has encouraged capital flight since they have had to take their money with them. Of greater concern to Taiwan business leaders is that Taiwan banks will lose out to foreign investors as the Mainland opens up its financial sector to foreign investors by the end of 2006 according to China’s terms of accession to the WTO.

The DPP government and many party members, however, are wary of the political and security implications of greater economic integration with the Mainland and thus are reluctant to move forward rapidly in expanding cross-Strait economic

ties. They hope to slow the process of economic integration while expanding Taiwan’s economic relations with other countries. The government advocates directing Taiwan investment toward Southeast and South Asia, and Central and South America rather than toward China. This objective, in

**Taiwan’s Exports to China and Hong Kong**

| Year | Rank** | Amount*   | Share (%) |
|------|--------|-----------|-----------|
| 2000 | 8      | 4,217.43  | 2.844     |
| 2001 | 4      | 5,232.07  | 3.947     |
| 2002 | 4      | 9,944.92  | 7.615     |
| 2003 | 3      | 21,416.89 | 14.855    |
| 2004 | 1      | 34,012.92 | 19.547    |
| 2005 | 1      | 36,958.25 | 21.461    |

\*Figures in \$U.S. million

\*\*Among export destinations.

Source: R.O.C. (Taiwan) Bureau of Foreign Trade

essence is a revision of Lee Tung-hui’s “Go South” policy of the late 1990s. Officials highlight Taiwan’s investment in Vietnam as well as the Free Trade Agreement (FTA) Taiwan has signed with Panama as evidence of this strategy’s success. Additionally, the government is seeking to assist companies to re-invest outside China in some manufacturing industries. These initiatives, facilitated through offices such as the Bureau of Foreign Trade and the Taiwan External Trade Development Council (TAITRA), are difficult to track and thus do not clearly demonstrate the success with which Taiwan is seeking to diversify its trading relationships.

The Taiwan government has also sought to negotiate an FTA with the United States, hoping that if the United States and Taiwan concluded an FTA,

other countries in East Asia would follow the U.S. lead and defy the Mainland, which opposes such official-level agreements with Taiwan. One U.S. official said privately, however, that despite some support in Congress for a bilateral FTA with Taiwan, the U.S. government is unlikely to negotiate a free trade agreement with Taiwan although other types of trade accords with the United States are not ruled out. The official also asserted that an informal survey of other East Asian countries concluded that none would follow the U.S. lead in negotiating an FTA with Taiwan. Some Taiwan business leaders and economists maintain that the best way for Taiwan to benefit from the FTAs in Asia, especially China's with other countries in the region, is to further expand economic ties and investment in the Mainland and thus participate in the FTAs through the "back door" of their Mainland operations. According to the Institute of International Economics, economists agree that a U.S.-Taiwan FTA is likely to divert more trade than it creates and that it would favor sunset industries over more competitive sectors.<sup>4</sup>

The DPP and the KMT are deeply divided over whether Taiwan's political future will be compromised by closer economic ties with the Mainland. The DPP fears that economic integration will lead to some sort of "One Country Two Systems" outcome similar to Hong Kong's relationship with Beijing that will not only compromise Taiwan's independence but also its "Taiwan identity." The KMT seems more confident that Taiwan can retain its substantive independence and sovereignty as well as political system as the two sides of the Strait become more and more integrated economically and culturally. President Chen's 2006 New Year Address highlights the perspective of his administration and many in the DPP in the clearest language:

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<sup>4</sup> Prospects for a U.S.-Taiwan Free Trade Agreement, Nicholas R. Lardy and Daniel H. Rosen, Institute for International Economics, December 2004.

Over the past few years, our government's cross-Strait economic and trade policies have always upheld the fundamental principle of 'proactive liberalization and effective management'... Whether it is liberalization or management, the overarching objective has always been to safeguard Taiwan's overall national interests, and it subscribes to neither China's pressure nor individual interests of enterprises. The complex cross-Strait economic and trade policies should not be simplified as a dichotomy of either 'opening up' or 'tightening up'; nor should 'proactive liberalization' be given much emphasis while neglecting the more important 'effective management.'...

To put it more specifically, the government must 'proactively' take on the responsibility of 'management' in order to 'effectively' reduce the risks of 'liberalization.' The administration focuses on our long-term developments, assume the role of a gatekeeper to guard our nation's economic security against foreseeable risks, and resist making ingratiation or taking shortcuts. Therefore, 'proactive management

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and effective liberalization' represents the new mindset and course of action for our future cross-Strait economic and trade policies.

Taiwan business leaders do not dispute the trend of migrating capital, jobs and operations to China. They insist, however that tighter restrictions will not halt this trend, but will likely accelerate it as it will force more businesses to move their entire operations to the Mainland rather than try to manage their operations within a new system of regulations on Taiwan.

The KMT, like many business leaders, supports closer economic integration with the Mainland, including establishing the three links. As the new head of the KMT, Taipei Mayor Ma has commented that Taiwan's economic future is linked to the Mainland and that a KMT administration in 2008 would seek to open the Taiwan economy to more trade, travel and communication with China and would explore the possibility of establishing a cross-Strait 'common market'.

The Chen administration has pursued a policy that would seek to limit dependence on China as a business partner and as a major factor in the health of the Taiwan economy. The DPP points to a "hollowing out" of the Taiwan economy as many manufacturers have moved their operations to the Mainland and that Taiwan has been unable to collect all the taxes owed by Taiwan companies based on their earnings from their Mainland operations.

Under the Chen Administration, Taiwan has embarked on an economic restructuring that has at its core the further development of Taiwan as a service economy. A key question is the relationship between this restructuring and facilitation of economic ties with the Mainland where Taiwan will have a significant market and competitive advantage

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for its service industries. One of the differences in perspectives of Taiwan's political parties seems to be whether Taiwan's role as a facilitator for business on the Mainland can be maintained and whether many Taiwan companies and multinational corporations are moving or considering moving their entire operations to China to avoid the government's

restrictions on economic ties with the Mainland. A further important factor is whether Taiwan's advantages on the Mainland will be offset over time as other businesses from East Asia, Europe and the United States that do not face restrictions imposed by their governments are moving to seize the opportunities in the Mainland.

### **China's Policy and Posture Toward Cross-Strait Ties**

The cross-Strait crisis that was widely expected to follow the Mainland's adoption of the "Anti-Secession Law" (ASL) on March 14, 2005, failed to materialize. Taiwan, China and the U.S. government all managed this potentially destabilizing event in a manner that actually produced a period of relative stability. The text of the ASL, while far from helpful, was less harsh than some predicted. Since passing the law, Beijing has apparently concluded that the ASL laid down a legal red line of PRC willingness to consider use of force to prevent permanent, legal separation of Taiwan from the Mainland. Although the United States and Taiwan objected to the ASL, both Washington and Taipei were relieved that the law was not as controversial as many thought it might be since it did not include the highly-provocative formulation of "One Country Two Systems" that people in Taiwan view

as the Hong Kong formula (a key negative being that the Mainland has ultimate authority over Hong Kong, which it has exercised) nor did the ASL define Taiwan as part of the PRC, but rather part of a "one China" that includes both China and Taiwan. Further, China did follow through on the positive initiatives identified in Article Six of the law and

extended some practical cooperation to Taiwan through modest, unilateral economic gestures like easing restrictions on fruit imports to China from Taiwan and, much more significantly, by inviting Lien Chan, head of the KMT, and James Soong, leader of the PFP, for visits to the Mainland and discussions with top leaders of the PRC.

The Chinese approach to cross-Strait relations that has continued over the past year was outlined by President Hu Jintao to the National People's Congress ten days before the ASL was approved. In his speech Hu stated:

We will further adopt, step by step, policies and measures to resolve problems which the Taiwan compatriots are concerned about, and to safeguard the legitimate rights and interests of the Taiwan compatriots. Anything beneficial to the Taiwan compatriots and conducive to the promotion of cross-Strait exchanges, to the maintenance of peace in the Taiwan Strait region and to the motherland's peaceful reunification, we will do it with our utmost efforts and will do it well. This is our solemn commitment to the broad masses of the Taiwan compatriots.

Hu also held out something of an olive branch to President Chen and the DPP, suggesting that the past positions taken by Chen on independence would not be an obstacle to opening cross-Strait talks between the two sides — although the offer should not be overstated since the requirement of agreeing to the “one China” principle was not changed:

We welcome the efforts made by any individuals or any political parties in Taiwan toward the direction of recognizing the ‘one China’ principle. No matter who he is and which political party it is, and no matter what they said and did in the past, we are willing to talk with them on issues of developing cross-Strait relations and promoting peaceful reunification as long as they recognize the ‘one China’ principle and the ‘1992 Consensus’.

As noted, Hu's Four-Points were followed up with the invitations to Lien and Soong for separate visits to the Mainland. The KMT's support of the “1992 Consensus” and its opposition to

Taiwan independence qualified Lien Chan for a meeting in Beijing where he received head-of-state treatment for the historic first meeting of the KMT and Chinese Communist Party leaders since the 1930s.<sup>5</sup> But these visits have generated differences rather than strategic consensus among the Taiwan political parties.

Rather than providing a breakthrough in cross-Strait relations, the Lien and Soong visits to the Mainland and China's new cross-Strait

***Some Chinese diplomats and analysts maintain that the Mainland is not following a “united front” policy but rather hopes to establish direct talks with the DPP government.***

policies have created deep suspicions in the DPP government that Beijing is seeking to isolate President Chen and his government and deal only with the opposition parties and hope for a KMT victory in the 2008 presidential elections. This is a widespread sentiment expressed by Taiwan government officials.

Some Chinese diplomats and analysts maintain that the Mainland is not following such a “united front” policy but rather hopes to establish direct talks with the DPP government. China's muted

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<sup>5</sup> Hu Jintao and Lien Chan's historic meeting resulted in a joint Communiqué by the heads of the Chinese Communist Party and the KMT released June 29, 2004. In it, both sides reconfirmed their opposition to Taiwan independence and support of the ‘1992 Consensus’ as a basis for dialogue between the two sides. Furthermore, the two party leaders stated their commitment to promote the resumption of dialogue and regular exchanges across the Strait, to end hostilities between the two sides, and to continue regular party-to-party discussions in order to promote improvement in the cross-Strait relationship.

response to President Chen's 2006 New Year's address contrasts with Beijing's sharp response to earlier such pro-independence statements by Chen. In fact, China responded with "panda diplomacy," announcing that it had selected a pair of pandas to be sent to Taiwan.<sup>6</sup> A senior Chinese source close to the Taiwan Affairs Office insisted privately in Beijing in November 2005 that "we have no intention to

wording could be worked out with the DPP and we can reach a compromise on the "one China" principle, we would like very much to talk with the DPP." He added that the Mainland is "prepared to deal with a reelection of the DPP in 2008," noting that even if the KMT wins, the DPP supporters would be a sizable segment of the population potentially opposed to the government on any agreement with the Mainland and thus would have to be won over by both the KMT and the Mainland.

***"Peaceful reunification does not mean that one side 'swallows' the other, but that the two sides confer on reunification through consultation on an equal footing."***

***-Chinese President Hu Jintao***

isolate the DPP." He noted that "many scholars have the impression that our policy is to form a united front with the KMT / PFP / New Party to isolate the DPP and do everything to help the Pan Blue come back to power in 2008. But I don't think this is the policy of the Mainland. Hu said as long as you recognize the '1992 Consensus', no matter what you did in the past, we are ready to talk with you and talk about everything. In my view, to isolate the DPP is not a wise policy. It commands about 30 percent of the public. To ignore the DPP is stupid. You cannot isolate 30-35 percent of voters in Taiwan."

The Chinese Taiwan expert recognized that it was not likely that the DPP would agree to the formula of the "1992 Consensus" since the term "is sort of 'patented' by the KMT." But "if alternative

also complain that they do not trust Chen Shui-bian because he zigzags between positive steps and pro-independence statements and actions.

One could look at the Chen-Soong Ten-Point Consensus and aspects of what Hu Jintao said in his Four-Points and conclude that there could be a basis for an agreement. Without trying to overstate the degree of consensus, for example as noted above, the Ten-Points have some important language about "no independence." From the Mainland side, Hu sought to reassure the Taiwan population that the Mainland did not envision forceful annexation of Taiwan or reunification through absorption. "Peaceful reunification," Hu insisted, "does not mean that one side 'swallows' the other, but that the two sides confer on reunification through consultation on an equal footing." Hu's statement and the decision not to include the "One Country Two Systems" formula in the Anti-Secession Law suggests that Beijing may have adjusted its policies to take into account fears in Taiwan regarding China's rule over Hong Kong and that the Mainland did not intend to apply the same formula for reunification of Taiwan with the Mainland as it had for Hong Kong's

<sup>6</sup> China's official response was delivered February 8, 2006 by the Taiwan Affairs Office Spokesman Li Weiyi. The remarks were consistent with previous statements in which President Chen is characterized as the provocateur leading the people of Taiwan down a dangerous path to independence. In the statement Chen was said to have reversed his 'four no's and one will not' pledge, further validating China's suspicions of Chen's ultimate intentions toward permanent separation.

return from British rule. This is a proposition that could be tested in negotiations between the two sides if there was ever an agreement to enter into dialogue, but until that time it will be questioned by Taiwan.

Differences remain. For example, Chen's 2006 New Year's speech, which included strong assertions of Taiwan identity and independence and a call for tightened restrictions on economic ties with the Mainland, suggested that he was moving away from any effort to find a way to talk with the Mainland. Likewise, the Mainland's significant build-up of military forces, and the focus of those forces on a Taiwan scenario makes clear that the use of force cannot be written off. Indeed, according to the U.S. Department of Defense, "Beijing is developing military capabilities that will enable it to pursue several courses of action against Taiwan, allowing Chinese leaders more flexibility to apply pressure against the island and minimize the risks of a military confrontation with the United States. The PLA is simultaneously developing the capability to deter and/or slow a potential U.S., or U.S.-led, response to defend Taiwan."<sup>7</sup> To be sure, force does not seem to be in the forefront of the Mainland's policy — but miscalculation or circumstance change could make the issue more immediately trenchant.

Whatever the Mainland's actual intentions are toward finding common ground with the DPP, so far no common ground has been reached, in significant part because of the internal split among Taiwan parties. As noted, China's gestures have exacerbated the deep rift between the Pan Blue and Pan Green parties' positions on negotiating with China and has resulted in a common perception that, rather than deal with the DPP government, Beijing wants to wait for the election of the KMT in 2008.

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7 2005 Annual Report of the Military Power of the People's Republic of China, Department of Defense, p.39. The report also asserts that "although the costs of the use of force against Taiwan would be high, Beijing leaders might use force if they believed they had no other way to prevent Taiwan independence or, as implied in its 'anti-secession law,' to guarantee reunification over the long term."

Without resolving the differences among the Taiwan parties, there seems little likelihood that much will be accomplished toward resolving any significant issues with the Mainland. Beijing appears to have become more confident in the success of its policy of deterring Taiwan independence, especially since the United States has indicated its support for the status quo and its strong opposition to unilateral steps by Taiwan toward permanent separation from the Mainland. As a consequence, Hu's Taiwan policy seems to represent a calculation by the leadership that, for now, deterrence has prevented Taiwan from going too far toward independence and the Mainland can concentrate on "smile diplomacy" to "win the hearts and minds" of the people in Taiwan to at least not support independence, if not edge toward reunification. So, without a change in Taiwan politics, this circumstance of short-term, status quo stability may continue until underlying factors compel Taiwan or Beijing to make a significant change in policy. Whether there could be an accommodation probably depends mostly on political will rather than on whether a particular formulation of words can be found.

### **U.S. Policy Toward Cross-Strait Relations**

George W. Bush took office as President in January 2001 as perhaps the strongest supporter of Taiwan in the White House since President Nixon's opening to China in 1971. President Bush vowed the United States would do whatever it takes to help Taiwan defend itself<sup>8</sup> and, as noted, he agreed to allow Taiwan to buy some \$18 billion in arms, including submarines, destroyers, and missile defense.<sup>9</sup>

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8 It is not often noted, however, that within hours of making that often-quoted commitment, President Bush reiterated the U.S. "one China" policy, which, in effect, underscored the fundamental U.S. position opposed to unilateral changes that could upset stability in the Taiwan Strait.

9 Taiwan's failure to consummate the purchases has been a source of frustration for the administration, especially the

Despite this early support that seemed to give a boost to Taiwan independence advocates in Taiwan and the United States, the Bush Administration has taken a tough stand against unilateral steps toward permanent separation. President Bush has maintained continuity, by reiterating the U.S. “one China” policy, which includes support for the three joint communiqués with China and the Taiwan Relations Act. He has said privately to Chinese leaders that he “opposes” unilateral Taiwan independence and publicly he has criticized President Chen for taking steps that threatened to unilaterally change the status quo (as defined by the United States). At the same time, however, the President has consistently and strongly voiced his support for Taiwan’s democracy.

***While U.S. policy toward Taiwan and cross-strait relations is likely to remain relatively constant, U.S. strategic focus on Taiwan, with the obvious exception of its potential flashpoint status, may diminish in the future.***

President Bush has also strongly warned the PRC against taking any unilateral steps to change the status quo. Perhaps surprisingly for Taiwan however, anxiety in the Bush administration about the rise of China has not led to increased tolerance, much less support, for unilateral Taiwan independence. The United States has instead offered to facilitate cross-strait dialogue to ease tensions and foster reconciliation.

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Department of Defense, which strongly supports the arms package and has indicated concern that U.S. support for the island would diminish if it did not demonstrate that it was willing to defend itself by purchasing the arms.

## The Strategic Context of Cross-Strait Ties

U.S. Taiwan policy is not likely to change significantly in coming years. The United States will likely continue to unequivocally back Taiwan’s democracy and autonomy and to strongly oppose any use of force by the PRC to coerce or attack the island. At the same time, the United States will continue to oppose either side taking unilateral steps to change the status quo, including opposition to unilateral Taiwan independence, and encourage Taiwan and the Mainland to begin dialogue and the process of reconciliation.

While U.S. policy toward Taiwan and cross-strait relations is likely to remain relatively constant, U.S. strategic focus on Taiwan, with the obvious exception of its potential flashpoint status, may diminish in the future (though not its importance to the United States as a new legitimate democracy) as the imperatives of globalization increasingly shape the strategic environment. Globalization has

created new strategic realities facing globalizing states that are shaping their foreign and security policies. For example, the United States and China have a common interest in enhancing their bilateral and multilateral cooperation to defend and maintain the largely mutually beneficial global system despite differences they have on specific issues and continued economic and political competition within that system. China, the United States, and the other major powers also face common threats and challenges from failing states and transnational threats, ranging from terrorism and proliferation to global pandemics and environmental degradation – challenges that cannot be met unilaterally but rather call for international cooperation. They also have common interests in cooperating to maintain global energy security – to ensure secure and adequate supplies of energy at sustainable

prices to fuel their economies and international trade. These challenges are an important strategic focus of U.S. policy toward China, although there are also significant concerns in the United States about China's growing economic, military and political strength, possibly growing conflicts over economic issues, U.S. concern about human rights in China and continuing suspicions about Chinese strategic intentions. In response to this uncertainty

***The United States is likely to continue to “hedge” against the possibility that China may emerge as a hostile power as well as to cooperate with Beijing on issues of strategic importance to both countries.***

about China's future, the United States is likely to continue to “hedge” against the possibility that China may emerge as a hostile power as well as to cooperate with Beijing on issues of strategic importance to both countries.

Deputy Secretary of State Robert Zoellick's September 21, 2005, speech in New York outlined a comprehensive view of U.S. policy that reflects this view of the need for strategic engagement and cooperation as well as concern about “hedging” in U.S. strategy.<sup>10</sup> Zoellick asserted:

- The United States “welcomes a confident, peaceful and prosperous China, one that appreciates that its growth and development depend on constructive connections with the rest of the world.”

- The United States does not seek to fence in or contain China as it did with the Soviet Union but rather to “draw out” the PRC. Nor does the United States seek to pursue a balance of power strategy toward China. Zoellick noted that China is not the Soviet Union: it is not seeking to spread anti-American ideologies, to struggle against democracy around the globe, to oppose capitalism or to overturn the international system.

- China's “national interest would be much better served by working with us to shape the international system.”

Zoellick went on to lay out the challenge for China that will likely be the centerpiece of U.S. policy toward China in the coming years. The Deputy Secretary called on China to become a “responsible stakeholder” that

not only benefits from the international system but also works with the United States “to sustain the international system that has enabled its success.”

Zoellick made a simple but compelling case for comprehensive U.S.-China cooperation: “Picture the wide range of global challenges we face in the years ahead – terrorism and extremists exploiting Islam, the proliferation of weapons of mass destruction, poverty, disease – and ask whether it would be easier or harder to handle those problems if the United States and China were cooperating or at odds.”

Zoellick also indicated that uncertainty about China's intentions and behavior as it rises will lead the United States and other powers to hedge against the possibility that China will be more threatening in the future by maintaining strong alliance relationships and U.S. military presence in the Asia Pacific region. Zoellick elaborated that the United States and other powers are concerned about some of China's recent international actions,

<sup>10</sup> Robert B. Zoellick, Deputy Secretary of State, “Whither China: From Membership to Responsibility?,” Remarks to National Committee on U.S.-China Relations, New York City, September 21, 2005.

especially its mercantilist approach to supplying its rapidly growing economy with energy and other commodities that has led it to support governments in Iran, Sudan, Zimbabwe and other countries acting in defiance of the international community. Moreover, Zoellick said, the United States will continue to press China to strengthen the rule of law and develop democratic institutions. Administration officials have emphasized that the notion of “responsible stakeholder” also applies to how China deals with Taiwan.

***For China, the strategic imperatives of globalization are constraining its options toward the United States and Taiwan.***

For China, the strategic imperatives of globalization are similarly constraining its options toward the United States and Taiwan, as military conflict and even confrontation with the United States and other major powers would be highly costly, perhaps undermining the Chinese economy and the rule of the Communist Party. These constraints appear well understood by Chinese leaders who have continued to make strategic decisions to further integrate China into the global economy and thus deepen its strategic interdependence with the United States, Japan, Europe, and other advanced countries.

As one element of this strategy, Chinese leaders realize that any use of military force against Taiwan – even if it did not lead to war with the United States – would put China’s economic and political future in jeopardy. This does not mean that they would not use force under any circumstances – they have paid and continue to pay a high political price for refusing to rule out the use of force against Taiwan – but that they are not likely to do so except under what they perceive to be the

most extreme case of Taiwan crossing red lines to achieve permanent separation from the Mainland. It is, however, worth noting again that China is building its military capabilities with a focus on a Taiwan scenario increasing the possibility and potential destructiveness of a miscalculation.

Beijing and Washington are likely to continue to manage carefully their differences over Taiwan. Beijing is likely to adhere to its stated position to forego use of force to reunify Taiwan with the Mainland while reserving the option of force to prevent permanent separation. At the same time, the United States is likely to maintain its commitments to Taiwan’s security, democracy and autonomy while continuing to oppose unilateral Taiwan independence and to encourage cross-Strait dialogue and reconciliation.

### **Taiwan’s Room for Maneuver**

This context provides Taiwan with room for maneuver but also limits Taiwan’s options. The key issue facing Taiwan is how to maximize its future prosperity while protecting its security and political autonomy within the context of no unilateral declaration of independence and no Mainland war of unification. The different perspectives on this conundrum appear to lie under the surface of the current highly-partisan political struggle between the political parties and the often-sharp differences within the Pan Blue and Pan Green camps.

Now Taiwan needs to fashion a strategy for its future in a new and challenging – but also hopeful – strategic environment. This will take bipartisan statesmanship on the part of Taiwan leaders and may require a common position on the terms of discussions with Beijing – some finessing of the “one China” problem that will allow both sides to save face and to provide the basis for constructive dialogue. They will have to forge a consensus on

how to move forward in economic ties with the Mainland to ensure Taiwan's future economic prosperity and its participation in the regional as well as global economy.

Taiwan may also want to consider a new international strategy that begins to refocus away from expensive and endless competition with Beijing for diplomatic ties with small countries and for presence in international institutions. The new agenda could emphasize Taiwan as a provider of international public goods, perhaps initially in three areas:

***Taiwan may also want to consider a new international strategy that begins to refocus away from expensive and endless competition with Beijing for diplomatic ties with small countries and for presence in international institutions.***

- Supporting development of the global public health infrastructure through assistance to developing and developed nations in combating disease.
- Expanding assistance to developing nations to help them bridge the “digital divide” and develop their high-tech infrastructures.
- Supporting development of “good governance” in weak and failing states, drawing on its own successful experience in moving from authoritarian to democratic government.

Such a strategy could enhance Taiwan's role as a provider of international public goods in an increasingly globalized and interdependent world. This could lead to increased appreciation of Taiwan

as a contributor and valuable political entity in the international system.

### **Long-Term Costs of Inaction**

The current period would be an especially promising time to make progress in cross-Strait relations. Complacency and internal differences, however, may lead to a missed opportunity in the short term and a worsening situation in the long term damaging to Taiwan, China and the United States. The political antagonisms within the Taiwan polity seem for now to rule out forging a strategic approach toward the Mainland that would include a unified position on the critical issues of economic ties, “one China”, and national defense. This political stalemate within Taiwan may remain after the election of a new president in 2008, which could continue to hamper forging a political consensus necessary to move forward on any or all of these issues even if a new administration seeks to do so. Failure to forge a consensus for policy and action could weaken Taiwan's economy, lead to greater international isolation, and jeopardize Taiwan's strategic position. In short, Taiwan could fail to capitalize on the strongest position it has for dealing with the Mainland.

A protracted stalemate also could produce an “unstable stability” in cross-Strait relations with the possibility of miscalculation sparking renewed conflict and even military confrontation – a confrontation that could lead to a military conflict between the United States and China. Although a military conflict seems highly unlikely – the United States and China would both seek to prevent a crisis from getting out of hand – the continuation of this “status quo” could prove to be costly for both the United States and China. China's so-far unabated military buildup seems intended not only to deter Taiwan from crossing the red line of permanent separation, but also to be prepared to deter or fight

the U.S. military should deterrence fail. If this buildup continues, it is likely to elicit even greater U.S. military preparation, which will continue the action-reaction spiral in arms competition. This competition is likely to deepen mutual suspicions of strategic intentions, including U.S. concerns that China's military buildup is aimed at larger strategic

to prove increasingly harmful to the overall Sino-American relationship. There could also be a large opportunity cost for the United States and China if their ability to cooperate on a wide range of issues of strategic importance to both countries were seriously impaired. Looking forward at ten to 15 years of the "status quo" continuing U.S. and Chinese military

preparations for possible conflict with each other should provide a sobering perspective on the need for leaders in Washington, Beijing and Taipei to find another path to manage the critical and dangerous cross-strait relationship. Despite the low probability of China and the United States engaging in a military conflict in the Taiwan Strait, no

other potential military conflict holds more danger for the United States and the world.

***Failure to forge a consensus for policy and action could weaken Taiwan's economy, lead to greater international isolation, and jeopardize Taiwan's strategic position.***

goals at U.S. expense. Not only will this increase the danger of miscalculation and misperception between the United States and China, it is also likely



## The Free Trade Agreements of East Asia

S = Signed  
 P = proposed, pondered, discussed, etc.  
 (listed with country that proposed it)

N = Currently in negotiation  
 N/S = Agreed but not signed

| Country   | Partner       | Status              |
|-----------|---------------|---------------------|
| Taiwan    | Panama        | S (2003)            |
|           | Guatemala     | S (2005)            |
|           | Paraguay      | N                   |
|           | U.S.          | P                   |
|           | Japan         | P                   |
|           | New Zealand   | P                   |
|           | Nicaragua     | P                   |
| China     | ASEAN         | S (2005)            |
|           | Thailand      | S (2003)*           |
|           | Chile         | S                   |
|           | Australia     | N                   |
|           | New Zealand   | N                   |
|           | India         | P/N (investigation) |
| Japan     | Malaysia      | S (2005)            |
|           | Philippines   | N/S                 |
|           | Thailand      | N/S                 |
|           | Singapore     | S (2002)            |
|           | Mexico        | S (2004)            |
|           | Indonesia     | N                   |
|           | Brunei        | N                   |
|           | Vietnam       | N                   |
|           | China         | P                   |
|           | India         | P                   |
|           | Korea         | P                   |
|           | Australia     | P                   |
|           | ASEAN         | P                   |
| Korea     | Chile         | S                   |
|           | Singapore     | S                   |
|           | ASEAN         | N                   |
|           | Australia     | N                   |
|           | United States | N                   |
| Australia | New Zealand   | S (2005)            |
|           | Singapore     | S (2000)            |
|           | Thailand      | S (2004)            |
|           | U.S.          | S (2004)            |
|           | China         | N                   |
|           | Korea         | N                   |

\*date FTA took effect, not date signed

| Country     | Partner          | Status    |
|-------------|------------------|-----------|
| Singapore   | ASEAN FTA        | S (1992)  |
|             | Australia        | S (2003)  |
|             | Euro Free Tr Asc | S (2002)  |
|             | India            | S (2005)  |
|             | Japan            | S (2002)  |
|             | Jordan           | S (2004)  |
|             | New Zealand      | S (2000)  |
|             | South Korea      | N (?)     |
|             | United States    | S (2003)  |
|             | P4**             | S (2005)  |
| Philippines | ASEAN FTA        | S (1992)  |
|             | Japan            | N         |
|             | U.S.             | N         |
| Thailand    | ASEAN FTA        | S (1992)  |
|             | Australia        | S (2004)  |
|             | China            | S (2003)* |
|             | Japan            | N/S       |
|             | New Zealand      | S (2005)* |
|             | United States    | N         |
| Indonesia   | ASEAN FTA        | S (1992)  |
|             | Japan            | N         |
|             | China            | P         |
|             | India            | P         |
| Malaysia    | ASEAN FTA        | S (1992)  |
|             | Japan            | S (2005)  |
|             | U.S.             | N         |
|             | India            | N         |
|             | Pakistan         | N         |
| Brunei**    | ASEAN FTA        | S (1992)  |
|             | P4**             | S (2005)  |
|             | Japan            | N         |
| Vietnam     | ASEAN FTA        | S (1992)  |
|             | Japan            | N         |
| New Zealand | Australia        | S (2005)  |
|             | Singapore        | S (2000)  |
|             | P4**             | S (2005)  |
|             | China            | N         |

\*\* P4 = Trans-Pacific Strategic Economic Partnership Agreement (Brunei, NZ, Chile, and Singapore)

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