

China and Taiwan: Uneasy Détente

I. OVERVIEW

After drifting toward crisis for much of 2004, the outlook for stability across the Taiwan Strait has improved. Constraints on Taiwan pursuing pro-independence initiatives that risk conflict with China will likely remain strong through to the end of President Chen Shui-bian's term of office in 2008. These include a reinvigorated political opposition and Chinese initiatives that have won some popular support in Taiwan and weakened the drive for independence. Most importantly, the U.S. appears determined to deter not only a Chinese attack but also provocative Taiwan independence moves.

Election politics, personal conviction, and the drive for a political legacy were key motives prompting President Chen and his government to break with earlier moderation on cross-strait issues and, between late 2003 and late 2004, pursue pro-independence initiatives that neither Beijing's warnings of war and diplomatic pressure nor positive trade and economic relations appeared able to halt. Chen's political opponents were put on the defensive, and business people hung back despite heavy investments in China. Concerned for cross-strait stability, however, the U.S. sought to rein in Chen, issuing repeated public statements and private official comments opposed to the pro-independence initiatives.

Washington's interventions were widely credited for moderating Taiwan government policy and influencing popular opinion in the lead-up to the December 2004 legislative elections that resulted in a significant setback for President Chen and his administration. Mutually encouraged, Taiwan political opposition leaders and the Chinese leadership held meetings in Beijing in April and May 2005. The improved atmosphere that resulted from those talks and anticipated benefits from proposed new trade and exchanges offset the negative fallout from passage in March of an anti-secession law that formalised China's promise to use force against any attempt by Taiwan to separate permanently.

Taiwan politics remains sharply divided over cross-strait issues, with President Chen and his supporters unwilling to follow the example of the opposition leaders who renounced Taiwan independence and generally accepted the "One China" principle that Beijing considers a prerequisite for improved relations. U.S. officials continue

to encourage both governments to show greater flexibility in order to promote dialogue.

How far the Taiwan and China governments might go in easing tensions and resolving differences over the next few years is less clear. Chen remains strongly committed to his pro-independence agenda and somewhat encouraged by an improved performance in the May 2005 National Assembly elections. Nationalistic imperatives and leadership sensitivities constrain the Chinese leadership from initiatives toward reconciliation with him. The U.S., while favouring dialogue, is not prepared to take extraordinary measures to mediate or resolve differences. The potential costs for the leaders of all three governments seem too great to expect one of them to make major moves to change existing policies. Nonetheless, anticipated progress on some smaller steps, including enhanced cross-strait economic and personnel exchanges, could improve the atmosphere somewhat, help keep tensions under control, and perhaps lead to a revival of formal cross-strait dialogue in what remains a dangerously volatile region.

Crisis Group last reported on cross-strait issues in February 2004. At that time and in a series of earlier reports, we reiterated that the "One China" principle, which had helped stabilise the region for three decades, was moribund and the risk of war -- while not great -- was still real, and we suggested a number of strategies for maintaining peace in the short and medium term, as well as how long-term reconciliation might ultimately be achieved.¹ This briefing brings our assessment up to date, focusing on the outlook for the remainder of President Chen's term.

¹ Crisis Group Asia Report N°75, *Taiwan Strait IV: How an Ultimate Political Settlement Might Look*, 26 February 2004. See also Crisis Group Asia Report N°53, *Taiwan Strait I: What's Left of 'One China'?*; Crisis Group Asia Report N°54, *Taiwan Strait II: The Risk if War*; and Crisis Group Asia Report N°55, *Taiwan Strait III: The Chance of Peace*, all 6 June 2003.

II. THE UNDERLYING TENSIONS²

A. WHAT CHINA WANTS

The People's Republic of China's (PRC) long-term objective is reunification. Chinese leaders over the years have voiced varying degrees of urgency in achieving this goal but dealing with Taiwan remains among their top priorities and concerns. For the time frame of this assessment -- until the end of the Chen Shui-bian administration in 2008 -- Beijing's goal seems likely to focus on preventing further steps toward permanent separation. Proposals by Deng Xiaoping and Jiang Zemin that are supported by China's current leaders accept that Taipei can have a high degree of autonomy under future arrangements but insist it must recognise it is part of one China. Beijing's vision of a unified China is not clear, but it has left little room for doubt what will not be tolerated: moves toward greater separation, in particular a declaration of independence, it says, will be met with force.³

The anti-secession law, passed in March 2005, is among the recent PRC pronouncements that have mixed firmness against independence with signs of flexibility on other cross-strait issues. Notably, although enacting the law, President Hu Jintao is said to have moved away from consideration of a time-table for reunification that was discussed under Jiang Zemin, who left the last of his

² Crisis Group conducted extensive interviews while preparing this briefing, including in Taiwan with senior government officials in charge of mainland affairs, foreign affairs, defence policy and the presidential office, as well as senior ruling and opposition party figures and senior U.S. government officials there, 24-28 May 2004 and 31 May-3 June 2005; in China with mid- and senior-level officials responsible for Taiwan affairs in the Chinese Communist Party, the Taiwan Affairs Office of the State Council, the Ministry of Foreign Affairs and the People's Liberation Army, as well as senior U.S. officials there, 16-21 May 2004, and 6-10 June 2005; in the Washington DC area with mid and senior-level U.S. officials responsible for Taiwan affairs in the Department of State, the National Security Council, the Department of Defense, and U.S. intelligence agencies responsible for assessing China-Taiwan relations on 15 October, 4 November and 17 November 2004, and 28 April, 9 May, 16 May and 23 May 2005. The visits to Taiwan and China also involved numerous interviews with academic and other non-government specialists. Further interviews were conducted with mid-level Chinese, Taiwan and U.S. government and non-government specialists at conferences focused on cross-strait issues in Vail, Colorado, 23-26 October 2003, Charlottesville, Virginia, 29-30 April 2005, and Denver, Colorado, 12-14 May 2005.

³ Crisis Group interviews with Chinese officials and specialists and U.S. government officials and specialists.

major leadership posts in 2004⁴ Meanwhile some Chinese leaders also have warned that possible constitutional changes defining Taiwan as permanently separate would amount to a declaration of independence and thus a cause for war. The precise "red lines" that would prompt use of force remain vague, however, possibly even to the leadership in Beijing.

Taiwan's status is a deeply emotional national issue for many Chinese leaders and citizens. The Chinese Communist Party views its own legitimacy as entwined with its ability to show progress toward unification. It is reluctant to deviate from past positions and so sticks to an array of hard and soft tactics that on balance have driven Taiwan further away.⁵

President Lee Teng-hui's assertion in 1999 that Taiwan and China actually were separate states prompted immediate strong rhetorical and militarily symbolic reactions from China. Beijing naturally saw it as a fundamental challenge to its view of "One China" and its high priority of preventing Taiwan independence.⁶ U.S. defence and intelligence analysts subsequently detected a qualitative and quantitative increase in military preparations focused on possible Taiwan contingencies that probably reflected the seriousness with which China viewed the new situation.⁷ While Crisis Group's assessment remains that the risk of war in the strait is low, U.S. and Taiwan specialists consider the military balance in the strait to be tipping against Taiwan and that the danger of Chinese military action must be regarded as rising along with Beijing's rapidly improving capabilities.⁸

Chinese officials recently showed particular concern over Japan's closer identification with U.S. policy on Taiwan, notably a bilateral declaration on 19 February 2005 in which Tokyo for the first time joined Washington in

⁴ Crisis Group interviews in China, June 2005.

⁵ See Crisis Group Report, *Taiwan Strait I*, op. cit., pp. 17-22, and Thomas Christensen, "China", in Richard Ellings and Aaron Friedberg (eds.), *Strategic Asia 2001-2002* (Seattle, 2002), pp. 47-51.

⁶ For a fuller account of this episode, see Crisis Group Report, *Taiwan Strait I*, op. cit., pp. 12-13, 19.

⁷ See the annual U.S. Department of Defense assessments of the Chinese military build-up and its implications for Taiwan. The most recent is "Annual Report on the Military Power of the People's Republic of China, 2005", at www.defenselink.mil/news/jul2005/d20050719china.pdf. Another perspective is provided by "Task Force on Chinese Military Power", Council on Foreign Relations, 2003, at http://cfr.org/pdf/China_TF.pdf.

⁸ Crisis Group interviews with U.S. intelligence specialists responsible for assessing Taiwan-China relations, Washington DC area, 4 November and 15 November 2004. Crisis Group interviews with Taiwan defence officials, 1 June 2005.

expressing a joint position.⁹ The Taiwan foreign minister welcomed that declaration,¹⁰ and the Taiwan government continues to seek closer cooperation with Japan in countering China's military build-up.¹¹

B. WHAT TAIWAN WANTS

President Chen Shui-bian, his ruling Democratic Progressive Party (DPP), and their more radical allies in former President Lee's Taiwan Solidarity Union (TSU) represent the "pan green" camp -- the part of the political spectrum that continues to push for strengthening Taiwan's status as a country permanently separate from China. On the other side, the "pan blue" camp, made up of the formerly ruling Kuomintang (KMT) Nationalist Party and its allies the People First Party, is generally more cautious about antagonising China.

There is general agreement between the two that Taiwan should determine its own future. The options they debate range from *de jure* independence favoured by many in the pan green camp through some type of formal accommodation with China favoured by some in the pan blue camp. The government wants to choose on its own, without bowing to pressure from China, the U.S. or others. It seeks to benefit from cross-strait economic relations and avoid military conflict with China while refusing the PRC's concept of "One China".¹²

Since the DPP emerged as the main opposition party in 1986, factions and key leaders with different views have influenced its stance on independence. At first, the Formosa Faction, led by more moderate veterans of a decades-long struggle against one-party government rule, played down pro-independence positions in favour of political reforms and ethnic justice concerns. The New Tide Faction, including younger and more assertive politicians, strongly emphasised independence in the late 1980s and early 1990s. Aided by overseas separatists allowed to return to Taiwan as part of the democratisation process, faction leaders in 1991 influenced the DPP to adopt a draft constitution for the Republic of Taiwan and further to commit the party to establish an independent

Republic of Taiwan under a new constitution to be approved by national referendum.¹³

DPP moderates tried to soften this stance immediately after its adoption. As they feared, the DPP was branded pro-independence by the KMT and fared badly in the December 1991 elections. It appeared that while pro-independence sentiment had grown since the 1980s, the view was still that of a minority. Despite feeling uniquely Taiwanese, the population seemed to disapprove of change to the status quo in cross-strait relations that could threaten the island's security. After another disastrous loss in the 1996 presidential election, the DPP began to emphasise substantive over formal independence; some hardliners quit and founded a splinter party. The DPP accepted Taiwan's existing government, the Republic of China, even though it had strong "One China" implications, and avoided mention of independence in its policy manifesto of 2000, thus setting the stage for Chen Shui-bian's narrow victory in that year's presidential election. The party fully supported his revived push for pro-independence reforms in 2003-2004 but reverted to a more moderate stance following the setback it suffered in the December 2004 legislative elections.¹⁴

As president, Chen has endeavoured to appeal to all major camps in the DPP and more broadly to the electorate. As mayor of Taipei municipality from 1994 to 1998, he won broad support by proving to be an effective administrator who focused on meeting the practical needs of his constituents rather than cross-strait or sovereignty issues beyond his jurisdiction. As president, he at times has pushed hard for pro-independence reforms and at other times has adopted a more moderate stance.

C. STORM CLOUDS 2003-2004

The intensity of the Chen administration's push has waxed and waned but was especially strong from late 2003 to late 2004. Under U.S. pressure and facing Chinese threats, the Chen government agreed not to change the country's name (Republic of China), flag, and a few provisions in the constitution that identify Taiwan with China. Nonetheless, in the months before the presidential election of March 2004, President Chen and his supporters strongly rejected the principle of "One China", condemned

⁹ This statement and other U.S.-Japan steps to strengthen the alliance, and their possible implications for China and Taiwan, are reviewed in Dan Blumenthal, "The Revival of the U.S.-Japanese Alliance", *Asian Outlook*, American Enterprise Institute, February-March 2005. "China and Japan: So Hard to be Friends", *Economist*, 23 March 2005.

¹⁰ "Taiwan's MOFA Welcomes U.S.-Japan Security Statement", Central News Agency, 20 February 2005.

¹¹ Crisis Group interviews, Taiwan, 31 May-3 June 2005.

¹² Crisis Group interviews, Taiwan, 24-28 May 2004 and 31 May-3 June 2005.

¹³ See discussion of DPP evolution in Shelley Rigger, *From Opposition to Power* (Boulder, 2001); Denny Roy, *Taiwan: a Political History* (Ithaca, 2003); John Copper, *Taiwan: Nation State or Province?* (Boulder, 2003); also Crisis Group Report, *Taiwan Strait I*, op. cit., pp. 13-16, 36-47.

¹⁴ Crisis Group interview with DPP officials, Taiwan, 2 June 2005. In the legislative elections, the pan blue candidates won 114 seats, retaining a majority in the 225-seat legislature.

Beijing's pressure tactics, and pushed hard not only for major constitutional changes but also wide-ranging legal and institutional reforms in civil service practices, education, cultural support, public information, diplomacy and other areas that would have the cumulative effect of ending past government practices identifying Taiwan with China and reinforcing its identity as a permanently separate country.¹⁵

Chinese officials appeared surprised and reacted with alarm in late 2003 when Chen and the DPP appeared to return to the pro-independence provisions of the party's 1991 platform and took an assertive stance against China in the presidential election campaign. They viewed Chen's proposed reforms, especially the constitutional changes, as steps toward independence and possible cause for war. They judged that a strident public stance probably would increase support for Chen but urged U.S. and international pressure to rein in the Taiwan leader.¹⁶ Seeing the increased danger of conflict, U.S. officials also were concerned with Chen's moves and took extraordinary steps to warn against them: standing beside Chinese Premier Wen Jiabao in Washington on 9 December 2003, President Bush publicly rebuked the Taiwan president.¹⁷

Chinese officials were deeply disappointed at Chen's re-election in March 2004, which, though narrow, showed how far Taiwan opinion had moved from the 1990s when pro-independence was a clear electoral liability. They were pleased that the U.S. had sought to curb Chen's flirtation with *de jure* independence but they pushed for more overt U.S. pressure, including curbs on arms sales.¹⁸ U.S. officials continued to press Chen to avoid provocative actions but remained firm in maintaining military support for Taiwan as a deterrent to China's possible use of force.

¹⁵ David G. Brown, "China-Taiwan Relations: Campaign Fallout", Comparative Connections, January 2005 at <http://www.csis.org/pacfor>; David G. Brown, "China-Taiwan Relations: Strains over Cross-Strait Relations", Comparative Connections, January 2004 at <http://www.csis.org/pacfor>.

¹⁶ Crisis Group interviews with Chinese government officials and specialists, Vail, Colorado, 23-26 October 2003 and Beijing, 16-21 May 2004. Also see Brown, "Campaign Fallout" and "Strains over Cross-Strait Relations", both *op. cit.*; "Beijing's lack of sufficient deterrence to Taiwan leaves a major danger", *Ta Kung Pao*, (Hong Kong), 23 June 2004.

¹⁷ Crisis Group interviews with twenty U.S. officials with responsibility for assessing Taiwan-China relations and their implications for U.S. interests, 15 October, 4 November and 17 November 2004. The State Department spokesman in the last days of the December 2004 campaign publicly criticised some Chen proposals, while Taiwan media reported that President Bush had referred to Chen Shui-bian with an epithet. Brown, "Campaign Fallout", *op. cit.* On President Bush's rebuke of President Chen, see Brown, "Strains over Cross-Strait Relations," *op. cit.*

¹⁸ Crisis Group interviews, Beijing, 16-21 May 2004.

Beijing cancelled a planned military exercise and avoided an escalation of military pressure lest it increase support for Chen in the lead up to the December 2004 legislative elections, and it dismissed overtures for improved relations in his May 2004 inauguration and subsequent speeches. U.S. leaders were more positive about those overtures. Nonetheless, they, like their Chinese counterparts, were concerned about what the Taiwan leader would actually do and intervened repeatedly in the lead-up to the legislative elections to highlight differences between their policy and his assertive positions.

In the face of U.S. pressure and the Chinese mix of economic incentives, proposals for talks, military threats, and coercive diplomacy threats, Chen at various times in 2004 reaffirmed his promise to avoid some constitutional changes likely to provoke Beijing, but he continued a wide range of policies strengthening Taiwan's permanent separation, as well as pro-independence rhetoric during the campaign for the legislative elections in December 2004.¹⁹

III. DRIVERS AND BRAKES IN TAIWAN'S MOVES TOWARD INDEPENDENCE

The Chen administration's push for reforms strengthening Taiwan's status as a country separate and independent from China has been driven by a mix of factors, including internal political dynamics, the president's desire for a legacy, and the public's growing sense of a separate national identity. However, since late 2004, several constraints have emerged, including external pressure from Washington and Beijing and internal pressure from the pan blue political opposition and business groups seeking more harmonious relations with China.²⁰ In general, while drivers that push the Chen administration toward independence have remained strong, the brakes that were weak in 2003-2004 have been strengthened, notably as a result of U.S. intervention against Chen's perceived provocations.

¹⁹ Crisis Group interviews with U.S. officials, 15 October, 4 November and 17 November 2004. Brown, "Campaign Fallout", *op. cit.*, "Strains over Cross-Strait Relations," *op. cit.*

²⁰ For background see Crisis Group Report, *Taiwan Strait I*, *op. cit.* The framework for this analysis came from Crisis Group interviews with twenty U.S. government officials responsible for assessing trends in Taiwan and their implications for the U.S., 15 October, 4 November and 17 November 2004, and subsequent interviews.

A. KEY DRIVERS

1. Internal politics

As an elected government, the Chen administration is highly sensitive to popular opinion in Taiwan's vibrant democracy. Polls show conflicting tendencies. There is strong popular opposition to China's coercive diplomatic and military moves, little support for China's positions on unification, and strong support for maintaining Taiwan's current status in the face of Chinese pressure. However, the public also wants to benefit from cross-strait economic and other exchanges and to avoid confrontation with China and tensions in relations with the U.S.²¹ Many pan green leaders and constituencies favour bold steps towards permanent separation, involving constitutional reforms by means of popular referendum and other changes that would seriously antagonise China and worry the U.S. The "radicals" are widely seen to include former President Lee, as well as Vice President Annette Lu and Foreign Minister Mark Chen. Other pan green leaders and constituencies are considered more cautious. They include presidential policy advisers Chiou I-jen and Tsai Ing-wen.²² The latter advisers endeavoured repeatedly to assuage U.S. anxiety over Chen's more separatist stance in 2003-2004 through private conversations with trusted interlocutors.²³ During the presidential and legislative campaigns, President Chen's focus on constitutional reforms mobilised pan green supporters and put pan blue opponents on the defensive. Pan blue leaders were forced to back away from historic KMT positions identifying Taiwan with the Chinese mainland and their more accommodating positions on cross-strait relations. The results of the legislative elections in December 2004 changed this. Pan blue leaders were emboldened to attack Chen's handling of cross-strait issues while pursuing overtures from China to engage in high-level dialogue with Beijing.

Pan blue leaders, nonetheless, may remain vulnerable on the separation issue. The KMT based its claim to govern Taiwan legitimately on a "One China" principle from

the 1940s until the Lee presidency (1988-2000). During its long struggle against the KMT's authoritarian rule, the DPP endeavoured with varying degrees of success to use separation to undercut that legitimacy.

KMT and other pan blue arguments that Chen's stance risked Chinese military attack were relatively ineffective in the presidential campaigns of 2000 and 2004, when the electorate apparently discounted the possibility given Beijing's internal and international priorities and strong U.S. military support for Taiwan. However, voters seemed to recalculate in December 2004, presumably in response to the repeated U.S. interventions against the pro-independence agenda.²⁴

President Chen and his close advisers at times appear to try to use a strong separation stance against China to split the opposition and win over pan blue politicians who identify with Taiwan and may find their camp's positions on China personally unappealing and politically unpopular. Chen reached an understanding in February 2005 with People First Party leader James Soong.²⁵ However, it seemed to unravel following Soong's renunciation of Taiwan independence during a visit to China three months later.²⁶

2. Chen's legacy

President Chen Shui-bian and his pan green supporters believe to varying degrees that DPP control of the national government is an historic opportunity to solidify Taiwan's sovereignty and permanent separation from China. They are unsure who will lead Taiwan after 2008, and some are concerned that China's rising power eventually will preclude moves toward separation. As a result, they want to accomplish an extensive array of measures before Chen leaves office that are widely seen as intended to block future moves toward unification. Meanwhile, reforms that deepen Taiwan-centred identity undercut

²¹ "Poll Shows Great Consensus Among Taiwan People in Maintaining Status Quo", *Lien-Ho Pao*, 21 May 2005. The Taiwan government's Mainland Affairs Council regularly reports public opinion polls on these issues. See also John Fuh-sheng Hsieh and Emerson M.S. Niou, "Measuring Taiwanese Public Opinion on Taiwanese Independence", *The China Quarterly*, no. 181, March 2005, pp. 158-168.

²² Crisis Group interviews, Taiwan, 24-28 May 2004, and 31 May-3 June 2005.

²³ Tsai Ing-wen in particular came to Washington at various key points in the crisis to explain Taiwan government policies. Tsai Ing-wen briefing, Brookings Institution, Washington DC 12 January 2005.

²⁴ There is debate, discussed below, over the impact of the U.S. interventions on the elections. For those who highlight their importance in moderating the electorate, resulting in a setback for Chen Shui-bian, see Thomas Christensen, "China's Anti-Secession Law and Developments Across the Taiwan Strait", testimony before the U.S. House Subcommittee on Asia and the Pacific, House International Relations Committee, 6 April 2005, p. 3; Donald Zagoria, "Cross Strait Relations: Some Rays of Sunshine but Clouds on the Horizon", New York, National Committee on American Foreign Policy Visit to Beijing and Taipei, 16-21 January 2005, p. 4.

²⁵ "Chen defends reconciliation with Soong after criticism", *China Post*, 27 February 2005.

²⁶ "Full text of communiqué on the talks between CPC General Secretary Hu Jintao and People First Party Chairman James Soong", Xinhua, 12 May 2005.

pan blue support and strengthen the DPP as Taiwan's dominant party.²⁷

Some pan green leaders, headed by former President Lee, members of his Taiwan Solidarity Union, and senior DPP figures, favour rapid movement leading to *de jure* independence. Others within the DPP leadership are more wary of alarming the U.S., prompting Chinese attack, or alienating important segments of Taiwan voters who favour the status quo.

President Chen favours Taiwan's permanent separation from China but he avoids extreme positions; he manoeuvres carefully and endeavours to lead public opinion in order to make often incremental progress toward this goal amid domestic and international constraints. Chen sometimes publicly favours pro-independence positions and at other times speaks cautiously. These tactics contribute to the perception of poor policy coordination within the government that frustrates U.S. officials and prompts Chinese officials to regard his administration as unpredictable and unreliable.²⁸ Nevertheless, since 2003, the Chen government has advanced reforms in political, educational, cultural and other areas²⁹ that have moved Taiwan further from China while stopping short of the constitutional changes that both Washington and Beijing most strongly oppose. These reforms are affected by domestic politics, however, and Chen's setback in the December 2004 legislative elections has slowed their pace and narrowed their scope.³⁰

3. Taiwan identity

Its leaders and citizens believe Taiwan is entitled to legitimate standing in the international community on account of its economic and political accomplishments.³¹ They deeply resent China's increasingly effective campaign

to isolate them. Beijing's mishandling of the 2003 SARS epidemic on the mainland (which led to infections and economic dislocation in Taiwan) and its continued refusal to allow Taiwan any role in the World Health Organisation (WHO) elicit widespread anti-China sentiment.³² While the Chen administration has had little success internationally, popular frustration has reinforced its determination to carry out domestic reforms strengthening Taiwan's status as a country permanently separate from China.³³ Beijing's treatment of Hong Kong under the rubric of "one country-two systems", which it has said should also apply to Taipei, has not been popular on Taiwan. Chinese specialists on Taiwan affairs noted that Hu Jintao recently has avoided reference to that unpopular formula.³⁴

4. Views of the military threat

Although Taiwan military and national security officials are concerned, public and elite opinion appears broadly confident that China will not attack under current circumstances. This allows the government to pursue separation from the mainland without eliciting major public concern. Pan blue arguments that Chen's moves were risky failed to prevent DPP victories in the presidential elections of 2000 and 2004, though they may have had more effect in the December 2004 legislative elections.

U.S. and some Chinese officials and specialists tend to highlight the importance of the public U.S. interventions in 2003-2004 for causing Taiwan elite and public opinion to take the China military threat more seriously. The possibility of more conditional support from Washington is thought to be why the electorate was cautious on cross-strait issues, resulting in the setback for Chen Shui-bian in the legislative elections.³⁵ On the other hand, some U.S., Taiwan and Chinese government and non-government specialists alike judged that voters were not very influenced by the U.S. interventions, though the cumulative effect of the critical statements may have been to reduce confidence in Washington's support.³⁶ The actual impact of these developments on overall Taiwan concern for an attack may not have been great. In particular, pan blue leaders appear to discount the military threat as they continue

²⁷ Taiwan officials and specialists offered various versions of this assessment during Crisis Group interviews in Taiwan, 24-28 May 2004, and 31 May-3 June 2005. U.S. government specialists were more uniform on the motives and intentions of Taiwan government and other pan green leaders during interviews 15 October, 4 November, and 17 November 2004, and 28 April, 9 May, 16 May and 23 May 2005.

²⁸ Crisis Group interviews in Washington, Taiwan and China, during May-June 2005.

²⁹ See Chinese media coverage of this issue in "Taiwan's Cancellation of Exams on Chinese History, Geography Triggers Indignation", *People's Daily*, 8 March 2005 (internet version).

³⁰ "Taiwan President Quits Party Post", CNN.com, 14 December 2004. Crisis Group interviews, Taiwan, 31 May 31-3 June 2005.

³¹ This belief is a driving force behind Taiwan's seemingly quixotic efforts to regain a seat in the UN and related international bodies. Crisis Group Report, *Taiwan Strait III*, op. cit., pp. 33-36. Melissa Brown, *Is Taiwan Chinese: the impact of culture, power, and migration on changing identities* (Berkeley, 2004).

³² "Taiwan Blames China for Failed WHO Bid", Reuters, 18 May 2005; "Chen: Taiwanese have Awakened to China's Hostility", *Taipei Times*, 24 May 2005, p. 1.

³³ Crisis Group interviews, Taiwan, 24-28 May 2004, and 31 May- 3 June 2005.

³⁴ Crisis Group interviews, China, 6-10 June 2005.

³⁵ See Thomas Christensen, testimony, op. cit.; Donald Zagoria, "Cross Strait Relations", op. cit.

³⁶ Crisis Group interview with a U.S. government specialist, 23 May 2005; Crisis Group interview with Professor John Hsieh, Denver, 13 May 2005; Crisis Group interviews, Taiwan, 31 May-3 June 2005, and China, 6-10 June 2005.

to block the Chen administration's efforts to increase defence spending.³⁷

Private assessments of the China threat within the Chen government seem varied. Some officials appear to believe that bolder moves toward separation carry little risk in present circumstances. Others adhere to ex-President Lee's view that the rise of Chinese power eventually will preclude moves toward separation, so reforms should be pressed now in order to preclude later unification. President Chen recently has urged greater military spending and preparations, suggesting more concern for the long-term military balance.³⁸

Taiwan, with U.S. support, has been altering its forces to complicate Beijing's military planning, although its actual defence spending has declined significantly in recent years. The Chen administration in the past two years has tried in vain to promote major military spending increases. It is endeavouring to persuade an electorate less concerned about the military threat than other priorities, while pan blue leaders have joined popular opposition to defence spending increases. This trend has frustrated U.S. officials.³⁹ The U.S. Department of Defense acknowledges some improvements in Taiwan defence capabilities and judges that the current balance, with the U.S. counted in, deters China's use of force, but it worries about the imbalance in defence preparations, which, it argues, is tipping increasingly in China's favour.⁴⁰

5. Assurance of U.S. backing

The Chen administration appears relatively confident of continued U.S. support as it pursues greater separation, so long as it avoids constitutional and other dramatic changes. At times, it even acts as if it believes it has room for manoeuvre on those changes because the U.S. government is divided. It welcomes growing U.S. military cooperation and the many Department of Defense teams active in Taiwan, and cultivates broad support in the Congress⁴¹

and media, which it judges can be used to offset possible administration receptivity to Beijing's concerns. In 2003 and 2004, President Chen was prepared to risk increased friction with the U.S. as he pursued steps toward separation that antagonised China and worried U.S. leaders.⁴²

B. KEY BRAKES

1. U.S. coolness

Despite their confidence in military and other support, President Chen and his administration remain very sensitive to public displays of friction and a possible decline in U.S. backing. Such displays have included President Bush's 9 December 2004 rebuke of the Chen cross-strait policies, Secretary of State Colin Powell's admonition in October 2004 that the U.S. did not regard Taiwan as an independent state, and Deputy Secretary of State Richard Armitage's assertion that Taiwan was "a landmine" for U.S. policy.⁴³ Signs of decline in U.S. support or friction in bilateral relations upset public opinion in Taiwan.

The Chen administration recognises U.S. support could decline if Taiwan is seen to be provoking serious tensions with China. Continued U.S. preoccupation with the conflict in Iraq and U.S. reliance on China in dealing with North Korea are recognised as limiting tolerance of measures that upset Beijing. Officials also worry that the U.S. administration may again apply pressure for resumption of the cross-strait dialogue on terms Taiwan is reluctant to accept or seek arrangements to avoid war or other understandings with China that are adverse to Taiwan's interests.⁴⁴

2. Chinese pressures and incentives

Chen administration officials have tended to discount Chinese warnings that Beijing has little room for manoeuvre in the face of continued Taiwan moves toward separation. They have judged that China is likely

³⁷ S.C. Chang, "DPP Lawmakers Walk Out of Meeting After Major Bills Blocked", Central News Agency, 24 May 2005.

³⁸ Crisis Group interviews with Taiwan and U.S. government and non-government specialists, Taiwan, 24-28 May 2004 and 31 May-3 June 2005.

³⁹ Frustration among U.S. military and national security planners with Taiwan's defence efforts was evident in an off-the-record seminar with 30 U.S. government and non-government Taiwan specialists, Washington DC, 9 May 2005.

⁴⁰ U.S. Department of Defense, "Annual Report", op. cit.; Michael Chase, "U.S.-Taiwan Security Cooperation: Enhancing an Unofficial Relationship", in Nancy Bernkopf Tucker (ed.), *Dangerous Strait: The U.S.-Taiwan-China Crisis* (New York, 2005), pp. 162-164.

⁴¹ Congress reacted promptly and nearly unanimously to China's anti-secession law with a resolution, H. Con. Res. 98.

⁴² U.S. officials responsible for assessing trends in Taiwan strongly adhered to this view of the Chen administration's assessment of the U.S. during Crisis Group interviews 15 October, 4 November and 17 November 2004.

⁴³ Brown, "Campaign Fallout", op. cit.

⁴⁴ Crisis Group interviews with U.S. government specialists on Taiwan, 28 April, 9 May, 16 May and 23 May 2005; Crisis Group interviews with Taiwan and U.S. government and non-government specialists, Taiwan, 31 May-3 June 2005. Some specialists in Taiwan alluded to the fact that President Lee Teng-hui worked against what he perceived as U.S. pressure to ease tensions and come to terms with China through interim agreements that would have restricted Taiwan's freedom of manoeuvre.

to be constrained at least through the Olympic Games it will host in 2008.⁴⁵ However, Chinese military options range from sabre rattling to focused military operations against specific targets. Economic options include trade and investment restrictions.⁴⁶ Taiwan officials assert that Chinese authorities frequently exert subtle pressure on Taiwan business people to adhere to positions on cross-strait issues favoured by China.⁴⁷ Political options include increasing Taiwan's international isolation⁴⁸ and pushing the U.S. and other powers to pressure Taiwan. Military aggression risks conflict with the U.S., and other options often have important negative consequences but Chinese officials have repeatedly insisted they would have no choice but to take harsh action if Taiwan crossed vaguely defined red lines in pursuit of separation.

It is unclear how a more moderate Chinese stance might affect Taiwan's push for separation. The leadership transition has resulted in some modifications in China's position on cross-strait issues. Harsh rhetoric subsided in the lead up to the December 2004 legislative elections but the anti-secession law of March 2005 increased overt pressure.⁴⁹ China offered a positive image in welcoming pan blue leaders in 2005⁵⁰ but those leaders publicly disavowed Taiwan independence and endorsed interpretations of the "One China" principle unacceptable to the government at home.

President Hu Jintao is said to have moved away from consideration of the time table for unification that was discussed under Jiang Zemin and to be focused on stabilising the status quo in cross-strait relations by halting Taiwan's movement toward greater political

independence.⁵¹ If China under Hu Jintao were to adopt a more flexible stance on the "One China" principle or other sensitive matters, Chen Shui-bian might be inclined to respond in kind.⁵² But if Chen interpreted such changes as a sign of weakness, he might pursue reforms more aggressively, with increased confidence that China would do little of consequence in response.

China's recent positive initiatives -- allowing more Chinese tourists to visit, Taiwan farmers to sell fruit in Chinese markets, and other increased exchanges and contacts -- have been well received in Taiwan and have met with a positive response from the government. There appears to be ample common ground to allow further progress on these practical measures that would improve the atmosphere in cross-strait relations, even if obstacles to formal government-to-government dialogue remained.⁵³

3. Regional views

Japan, Singapore and governments of other Asian countries that are important Taiwan trading partners have weighed in publicly or privately against moves toward separation that would antagonise China. Whatever moderating effect they have on Taiwan, however, is offset by popular and leadership anger with foreign powers seen as willing to sacrifice Taiwan's interests to appease China.⁵⁴

Taiwan businesses depend on trade and investment in China,⁵⁵ which is Taiwan's largest economic partner. Trade heavily favours Taipei, which continues to restrict Chinese imports as well as travel by Chinese business people. The U.S. Congressional Research Service said in April 2005 that Taiwan businesses had invested \$70 billion to \$100 billion in China -- about half total overseas

⁴⁵ Crisis Group interviews, Taiwan, 31 May-3 June 2005. U.S. government specialists also judge that Taiwan leaders assess the military situation this way. Crisis Group interviews, Washington DC area, 15 October, 4 November and 17 November 2004, and 28 April, 9 May, 16 May and 23 May 2005.

⁴⁶ Hsu Wen-long, founder of Chi Mei Optoelectronics Corp., whom China singled out in 2004 as the kind of pro-independence businessman whose investments were not welcome, issued a statement in March 2005 warning Taiwan against seeking independence. The statement was widely seen as a response to Chinese pressure. "Chi Mei Founder Says Taiwan Independence Would Court 'Disaster'", Bloomberg, 26 March 2005.

⁴⁷ Crisis Group interviews with Taiwan officials concerned with cross-strait business relations, Taiwan, 1-2 June 2005.

⁴⁸ Elisabeth Rosenthal, "Hints of Thaw Between China and Vatican", *International Herald Tribune*, 21 May 2005.

⁴⁹ Bruce Klinger, "The Dragon Squeezes Taiwan", *Asia Times*, 15 March 2005.

⁵⁰ Joseph Kahn, "Old China Foes Make Peace", *The New York Times*, 30 April 2005; "Beijing to Make It Easier for Taiwan Residents to Study and Work on Mainland", *China Post*, 14 May 2005.

⁵¹ Bonnie Glaser, "The Anti-Secession Law and China's Evolving Taiwan Policy", Taiwan Perspective-Paper, Institute for National Policy, Issue No. 67, 21 March 2005; Donald Zagoria, "Cross Strait Relations", op. cit., pp. 2-4; "Do Best to Seek Peaceful Reunification, But Never Tolerate Taiwan Independence: President", Xinhua, 4 March 2005.

⁵² U.S. government officials said that President Bush telephoned Hu Jintao on 5 May 2005 in part to encourage him to reach out flexibly to the Taiwan government as well as political opposition leaders so as to produce a cross-strait dialogue between the two governments. Some U.S. officials judged that President Chen would respond constructively. Other U.S. government specialists were more uncertain. Crisis Group interviews, Washington DC area, 28 April, 9 May, 16 May and 23 May 2005.

⁵³ Crisis Group interviews, Taiwan, 31 May and 3 June 2005; China, 6-10 June 2005.

⁵⁴ Crisis Group interviews, Taiwan, 24-28 May 2004; 31 May and 3 June 2005.

⁵⁵ "Taiwan-China Trade Up 33.1 per cent in 2004", Agence France-Presse, 1 March 2005.

investment⁵⁶ and that by 2003, 60 per cent of Taiwan's information technology hardware was produced there. Based on Taipei's figures, it valued exports to China at \$34 billion⁵⁷ and imports at \$17 billion in 2004. One million Taiwan citizens reside in China, and there have been more than 210,000 marriages since relations opened in the late 1980s, with 90,000 PRC spouses living in Taiwan.⁵⁸ Estimates of trips to China are over four million a year. As a result, Taiwan businesses and broader public opinion oppose policies that would result in significant increases in cross-strait tensions. The government is expected to manage relations without jeopardising economic development and security. Chinese military or strong economic pressure could undermine support for the Chen government among important business and other constituencies. For now, however, business leaders with a large stake in cross-strait stability have adopted a low political profile.

4. Taiwan military

Taiwan's military has many leaders critical of Chen's separation policies, hostile to the DPP in general, and fearful of becoming embroiled in a shooting war. Long a KMT bastion and loyal to the "One China" principle, the high command remains influenced by mainlanders, descendants of the KMT loyalists who followed Chiang Kai-shek when he retreated to Taiwan in 1949 and crushed moves toward Taiwan independence. The Chen administration is appointing more sympathetic senior officers but faces an uphill task in winning military support for a separatist agenda that might provoke China to attack.⁵⁹

IV. A KIND OF DETENTE

A. DEVELOPMENTS DURING 2005

U.S. officials and non-government specialists and their counterparts in China and Taiwan credited repeated public U.S. interventions against Chen Shui-bian's pro-

independence rhetoric in the 2004 legislative election campaign with helping to turn public opinion away from the president and his party. The DPP's poor showing was seen by President Chen as a public rebuke, and he and his party reverted to a lower profile on cross-strait issues. Chen endeavoured to pursue openings with the pan blue camp, notably through a ten-point agreement with People First Party leader James Soong in February 2005. Beijing's insistence on following through with its anti-secession law at the annual meeting of the National People's Congress in March angered public opinion but President Chen maintained a low public profile.

The dramatic visits of KMT Chairman Lien Chan and James Soong to China in April and May 2005 saw President Hu Jintao and other officials mute China's past insistence on unification under the one country-two systems formula that has long been rejected by large majorities in Taiwan. He and other Chinese officials and commentators also avoided discussing a possible unification timetable. Instead, they focused on the need to avoid further steps toward Taiwan independence and promised economic, cultural, education and other benefits for the Taiwanese.⁶⁰

Amid favourable publicity for the Lien and Soong visits, President Chen for a time appeared to vacillate about renewing contacts with China but soon reverted to familiar positions. He and a number of independent commentators regarded the much improved DPP performance in the 14 May 2005 National Assembly elections as a sign of public support for existing policies, though low voter turnout raised a question of how valid an indicator this actually was.⁶¹ Some U.S. government and other specialists viewed Chen's rhetoric following the National Assembly elections as reflecting renewed determination to seize the initiative in cross-strait relations with steps opposed by China.⁶² Other U.S. government specialists pointedly disagreed, judging that he had been chastened by events over the past year, remained constrained by domestic and international forces, and would be open to compromise.⁶³

⁵⁶ U.S. officials in Taipei believe the actual figure is \$150 billion. Crisis Group interview, Taiwan, 2 June 2005. Figures denoted in dollars (\$) in this report refer to U.S. dollars.

⁵⁷ China's own figures valued those exports at \$65 billion. "The Rise of China and Its Effect on Taiwan, Japan, and South Korea: U.S. Policy Choices", The Congressional Research Service, CRS Report for Congress RL32882, 12 April 2005, pp. 11-12.

⁵⁸ Ibid.

⁵⁹ Michael Swaine, "Taiwan's Defence Reforms and Military Modernisation Program: Objectives, Achievements, and Obstacles", in Tucker, *Dangerous Strait*, op. cit., pp.132-135.

⁶⁰ See the comprehensive reviews of cross-strait relations by David G. Brown in the quarterly e-journal *Comparative Connections*, <http://www.csis.org/pacfor>.

⁶¹ Chih-jen (Emile) Sheng, "President Chen's New Lease on Power -- How the National Assembly Election Affects Cross-Strait Future", *Taiwan Perspective e-Paper*, Issue No. 77, 23 May 2005. In the National Assembly elections, the DPP won 127 seats, its pan green ally the TSU won 21 seats, while the opposition pan blue KMT and PFP won 117 seats and eighteen seats, respectively. "Chen's DPP Wins Taiwan Vote for National Assembly", *Agence France-Presse*, 15 May 2005.

⁶² "Chen: Taiwanese Have Awakened to China's Hostility", *Taipei Times*, 24 May 2005, p. 1.

⁶³ Crisis Group interview, Washington DC, 28 April 2005.

Overall, knowledgeable U.S., Taiwan and Chinese officials and specialists are divided in assessing President Chen's current motives. Some argue that changed circumstances compel him to seek improved contacts with China.⁶⁴ They believe that if Beijing shows flexibility on the "One China" principle or another important area of disagreement, the Chen administration would be receptive to talks and exchanges that would ease tensions and improve chances for a possible accord on managing cross-strait issues. This line of thinking found support in President Bush's phone call to Hu Jintao on 5 May 2005 asking that China reach out to the Taiwan government at the same time as it was improving relations with the Taiwan opposition. U.S. government officials followed up in Taipei and Beijing, urging flexibility and renewed dialogue. More optimistically yet, Professor Kenneth Lieberthal, a leading U.S. policy maker on China during the Clinton administration, called for an interim agreement freezing movement toward Taiwan independence for a set period in return for China's agreement not to use force and so preserving the status quo.⁶⁵

Other specialists and officials in Washington, Taipei and Beijing view the moves of both Chen and China as largely tactical and self-serving and hold out little hope for meaningful dialogue or reconciliation. They cite Chen's renewed confidence following the May 2005 National Assembly elections and consider that the drivers and brakes affecting his policies have not changed to the degree that would prompt him to seek significant compromise.⁶⁶ Some U.S. specialists suspect Chen will once again revive strong pro-independence initiatives prior to leaving office in 2008.⁶⁷ Officials and specialists

in Washington, Taipei and Beijing attribute China's seemingly more confident position regarding Taiwan in 2005, compared to 2004, to Beijing's belief that its openings to pan blue leaders have isolated President Chen, and it can anticipate the election of a more amenable Taiwan president in 2008. Alternatively, they say, Chinese leaders are weakening Chen in anticipation that he will be forced to come to terms with Beijing before the end of his term.⁶⁸

B. PROSPECTS TO 2008

Chen Shui-bian is likely to face strong constraints on resumption of pro-independence initiatives through the remainder of his time in office.⁶⁹ Among the drivers and brakes affecting his policy and overall cross-strait relations, the U.S. will continue to loom large. Bush administration policy can be expected to continue to emphasise efforts to deter China from attacking Taiwan and to deter Taiwan from unilaterally disrupting the status quo with provocative moves toward independence.⁷⁰ This dual deterrence policy is balanced with reassurances to Beijing of support for a "One China" policy as defined by Washington and opposition to Taiwan independence, and reassurances to Taiwan of continued support and protection.⁷¹ Although the Chinese military build-up opposite Taiwan continues, U.S. policy is seen as providing effective deterrence to an attack.⁷² The more recent U.S. efforts to curb pro-independence moves by the Chen administration also are widely viewed as effective. In general, U.S. policy is considered probably the main reason why cross-strait tensions will remain within bounds until 2008. China appears to have no good reason to confront the U.S. militarily barring a provocation from Taiwan. President Chen might otherwise believe his interests would be served by reviving pro-independence initiatives but the prospect of renewed U.S. interventions like those

⁶⁴ Jianwei Wang, "Chen Shui-bian Could Be Taiwan's Nixon", Pacnet Newsletter No. 19, 2 May 2005; "Chen Shui-bian Marks Sixth Year in Office Quietly", Associated Press, 21 May 2005.

⁶⁵ These lines of thinking were debated in an off-the-record seminar of 30 U.S. government officials and non-government specialists in Washington DC, 9 May 2005. Charles Snyder, "Lieberthal Sees Potential for Chen-Hu Agreement", *Taipei Times*, 6 May 2005, p. 3; "5 May White House Press Briefing on Bush-Hu Phone Call", White House Press Office, Washington DC, 5 May 2005; Daily Press Briefing, Adam Erel, deputy spokesman, Department of State, 29 April 2005; Kenneth Lieberthal, "Preventing a War in the Taiwan Strait", *Foreign Affairs*, March/April 2005.

⁶⁶ "Chen's DPP Wins Taiwan Vote for National Assembly", Agence France-Presse, 15 May 2005; Keith Bradsher, "Few in Taiwan Bother to Vote on Constitutional Assembly", *The New York Times*, 15 May 2005; Sheng, "President Chen's New Lease on Power", op. cit.; "Chen: Taiwanese Have Awakened to China's Hostility", *Taipei Times*, 24 May 2005, p. 1. "The DPP is Back on the Right Track", *Liberty Times* (editorial), 22 May 2005, p. 8.

⁶⁷ Crisis Group interviews, Washington DC, 14 August 2005.

⁶⁸ Joseph Kahn, "China Seeks to Isolate Taiwan's President", *The New York Times*, 26 April 2005; Glaser, "The Anti-Secession Law", op. cit.; Zagoria, "Cross Strait Relations", op. cit.

⁶⁹ His term of office ends in May 2008.

⁷⁰ The deliberations of 30 U.S. officials and non-government specialists at an off-the-record seminar in Washington DC on 9 May 2005 underlined this point.

⁷¹ U.S. officials refer to Congressional testimony of Assistant Secretary of State James Kelly on 21 April 2005 as a detailed and authoritative accounting of policy. The testimony is reviewed in David G. Brown, "China-Taiwan Relations: Deadlocked but Stable", Comparative Connections, July 2004 at <http://www.csis.org/pacfor>.

⁷² Victor Mallet, "Fears of Attack on Taiwan Increase", *Jane's*, 6 April 2005.

experienced in 2003-2004 suggests that such a course would be politically damaging.⁷³

President Bush appears comfortable with the policy toward China and Taiwan, which has been followed with greater consistency and rigour over the past year than in the first part of his administration.⁷⁴ U.S. goals are limited to preserving stability by maintaining a rough status quo in cross-strait relations.⁷⁵ Officials would like to see dialogue between the Taiwan and China governments as a means to reduce misunderstanding and ease tensions and would welcome it if dialogue produced agreements.⁷⁶ However, the Bush administration sees no need to mediate between the two governments or to undertake other extraordinary efforts to "fix" the Taiwan problem. It appears content to manage cross-strait tensions so they do not escalate and perceives risks in any deeper involvement or attempt to chart a new policy, including serious complications in relations with China, Taiwan, and the Congress while foreign policy remains heavily focused on Iraq and the war on terrorism.

Despite continued wrangling between the governments in Taipei and Beijing over China's recent trade and exchange initiatives, there appears to be some common ground to allow for cross-strait progress or at least improved atmospherics. Following Chinese overtures to open markets to Taiwan fruit farmers and promises of positive treatment to Taiwan students in universities, possible additional steps include a grant of equal rights to Taiwan workers in the country, contacts between the Chinese Communist Party and the DPP, visits by Chinese Communist Party delegations to Taiwan reciprocating those of the pan blue leaders, and forums of Chinese and pan blue leaders on improvements in cross-strait relations. China's trade and some other initiatives have been popular in Taiwan, even though the government argues with Beijing over how they should be implemented.⁷⁷

Washington seeks flexibility from both the Taiwan and China governments to resume a formal dialogue, and President Chen also faces considerable domestic pressure to revive cross-strait talks. Chinese leaders have little similar domestic pressure to resume talks with Chen but

may calculate their long-term interests are best served by doing so while he is on the defensive.

Nevertheless, circumstances -- prevailing and anticipated -- make it hard to be optimistic about further improvements in cross-strait relations. China's military build-up opposite Taiwan continues at a rapid pace.⁷⁸ Purchases of sophisticated arms from Russia have advanced markedly since the late 1990s.⁷⁹ U.S. leaders and military planners are not persuaded that this is mainly designed only to intimidate Taiwan, and Beijing has no intention of using those forces.⁸⁰ They prepare to fight China over Taiwan if necessary, building up U.S. strength in the region to deter and if needed engage the Chinese forces, and working closely with Taiwan counterparts to encourage Taipei to build stronger defences against the contingency of an attack.⁸¹

U.S. defence officials have registered public disappointment with Taiwan's preparations, especially the decline in defence spending. They have watched with dismay as Taiwan legislators for over a year have criticised and delayed passage of a special budget

⁷³ Crisis Group interviews, Washington DC area, 28 April, 9 May, 16 May and 23 May 2005; Taiwan, 31 May-3 June 2005; and China, 6-10 June 2005.

⁷⁴ Crisis Group interviews with U.S. official knowledgeable of President Bush's views on this issue, 30 March and 9 May 2005.

⁷⁵ Crisis Group interviews with U.S. officials responsible for China-Taiwan issues, Washington DC, 9 May 2005; Taiwan, 2 June 2005; and China, 6 June 2005.

⁷⁶ Ibid.

⁷⁷ Crisis Group interviews, Taiwan, 31 May-3 June 2005, and China 6-10 June 2005.

⁷⁸ Michael O'Hanlon, "The Risk of War Over Taiwan is Real", *Financial Times*, 2 May 2005. See Chinese media reaction to a recent RAND assessment of the Chinese military build-up, Wang Xinjun, "What is the U.S. Intention in Overestimating China's Military Strength", *People's Daily*, 24 May 2005.

⁷⁹ U.S. concern is registered authoritatively each year in the Department of Defense assessments of the Chinese military that devote particular attention to the build-up opposite Taiwan. Those reports require U.S. government coordination that at times leads to news reports of internal differences. During Crisis Group interviews in China on 6-10 June 2005, Chinese officials and specialists repeatedly asked about the coordination and release of the 2005 report. The 2005 report is U.S. Department of Defense, "Annual Report", op. cit. On U.S.-Taiwan cooperation over the China build-up, see Michael Chase, "U.S.-Taiwan Security Cooperation: Enhancing an Unofficial Relationship", in Tucker, *Dangerous Strait*, op. cit., pp. 162-185. As noted earlier, some U.S. government specialists told Crisis Group they were impressed by the rapid advances in Chinese military capabilities in a wide range of areas over the past five years. They assessed that prospects for conflict over Taiwan were still low but higher than at any time since normalisation of U.S.-China relations.

⁸⁰ A version of the more sanguine view of the Chinese build-up is in Crisis Group Report, *Taiwan Strait II*, op. cit.

⁸¹ Briefing by U.S. military officer responsible for relations with Taiwan and subsequent discussion at off-the-record meeting of 30 U.S. government and non-government specialists on Taiwan, 9 May 2005. The findings of this briefing were confirmed during Crisis Group interviews with U.S. officials in Taiwan, 2 June 2005.

provision for purchase of about \$18 billion of advanced U.S. equipment, mainly for the navy and air force.⁸²

Concern over the Chinese military build-up also affects U.S.-European relations. Washington reacted strongly to European Union plans in 2005 to lift its embargo on arms to China. Among the reasons for bipartisan concern was worry that despite European assurances, China would receive technology and equipment that would enhance the ability of forces the U.S. might face in a Taiwan conflict. Beijing's March 2005 anti-secession law led to an EU decision to delay any action.⁸³

Meanwhile, the China-Taiwan diplomatic rivalry continues without let-up. Despite the bad publicity associated with its refusal to allow Taiwan representation of any sort in the WHO during the 2003 SARS epidemic originating in China, Beijing continues to block Taiwan from interacting with the body, even as a "health entity".⁸⁴ Over the past year, China out-manoeuvred Taiwan to gain diplomatic recognition from two Caribbean micro states, Dominica and Grenada, while Taiwan won over tiny Nauru, which had switched to Beijing's side only three years earlier. Panama, Haiti and the Vatican are being wooed by China and are thought to be wavering in their alignment with Taiwan.⁸⁵

Hu Jintao continues to consolidate his power but appears wary of taking positions at odds with longstanding nationalistic positions that have powerful supporters and involve popular sensitivities. Thus, in a related area, Hu's administration yielded to popular anti-Japanese sentiments, allowing the trashing of Japanese diplomatic and business properties before gingerly moving to

re-establish calm.⁸⁶ The anti-secession law appeared counterproductive following Chen Shui-bian's setback in the December 2004 legislative elections but Chinese officials repeatedly claimed that nationalistic sensitivity made it difficult to oppose.⁸⁷ In this atmosphere, it appears unlikely that the Hu administration will make significant overtures to Chen without first receiving a sign of readiness to make important compromises from the Taiwan leader.

It is plausible that President Chen has so altered his position after the legislative elections and the pan blue visits to China that he is prepared to moderate his policies enough to become a more attractive partner for Beijing. He may calculate that domestic opinion has changed so much that he must move closer to China in order to keep the DPP a viable contender for political leadership in Taiwan in the years ahead.⁸⁸ However, polling data and the results of the May 2005 National Assembly elections show a continued sharp split between pan green and pan blue adherents over cross-strait and other issues.⁸⁹ This may compel Chen to stay with his political base in opposition to China's "One China" policy. If Beijing makes no significant overtures and continues strong military and diplomatic pressure, he may conclude his best course is to stimulate public sentiment against China and those pan blue leaders who collaborate with it.

V. CONCLUSION

Current circumstances provide important assurances that cross-strait tensions can be kept within bounds and military conflict avoided through the end of President Chen's term in 2008. Chinese leaders remain reluctant to

⁸² Chase, "U.S.-Taiwan Security Cooperation", op. cit.; "Warning on Arms Purchase Angers Taipei Opposition", Reuters, 7 October 2004. Officials said privately in May 2005 that the U.S. government would refrain from further public comment about the twists and turns in the Taiwan legislature on the special budget provision. Crisis Group interview with U.S. Department of Defense official, Washington DC, 9 May 2005.

⁸³ For a basic overview, see Steven Weisman, "European Union Said to Keep Embargo on Arms to China", *The New York Times*, 22 March 2005; Judy Dempsey, "In Europe, Public Turns Toward U.S. on China", *International Herald Tribune*, 25 March 2005; Valerie Leroux, "French Prime Minister Backs China Anti-Secession Law, Vows to Push for End to Arms Embargo", Agence France-Presse, 21 April 2005.

⁸⁴ Charles Snyder, "Lone Letter Supports WHO Bid", *Taipei Times*, 15 May 2005, p. 2; "Taiwan Blames China for Failed WHO Bid", Reuters, 18 May 2005.

⁸⁵ These diplomatic changes are tracked by David G. Brown in the quarterly e-journal *Comparative Connections* <http://www.csis.org/pacfor>. See more recently, Elisabeth Rosenthal, "Hints of Thaw Between China and Vatican", *International Herald Tribune*, 22 May 2005.

⁸⁶ The growing tensions between Japan, China and Korea will be the subject of a forthcoming Crisis Group report. See Joseph Kahn, "Beijing Finds Anti-Japan Propaganda a 2-Edged Sword", *The New York Times*, 3 May 2005.

⁸⁷ Glaser, "The Anti-Secession Law", op. cit.

⁸⁸ "Taiwan's Ruling Party Debates Changing China Stance", *The Globe and Mail*, 18 May 2005; "Chen Shui-bian tells German Paper Unification, Independence Both Possible for Taiwan", Central News Agency, 10 May 2005; Peter Goodman, "Chen Tests Patience of Loyalists in Taiwan", *The Washington Post*, 9 May 2005, p. A 17; Wang, "Chen Shui-bian", op. cit.; "Chen Shui-bian Marks Sixth Year in Office Quietly", Associated Press, 21 May 2005.

⁸⁹ "Taiwan's Chen Wins Poll, Boost on China Stance", Reuters, 14 May 2005; Philip Bowring, "Taiwan Rejoining China? Not Just Yet", *International Herald Tribune*, 3 May 2005; Sheng, "President Chen's New Lease on Power", op. cit.; "Chen: Taiwanese Have Awakened to China's Hostility", *Taipei Times*, 24 May 2005, p. 1; "The DPP is Back on the Right Track", *Liberty Times* (Editorial), 22 May 2005, p. 8.

confront the U.S. militarily, unless provoked by egregious Taiwan moves toward independence. Taiwan leaders may revive their pro-independence agenda and take major risks in the process, but U.S. intervention has proven effective in turning back such initiatives, and Washington remains prepared to act again.

There is more uncertainty in assessing how far the Taiwan and China governments might go in easing tensions and resolving differences. Taiwan politics are sharply divided, with the Chen administration still strongly committed to a pro-independence agenda despite recent setbacks. The Chinese leadership, while flexible in certain respects on some cross-strait issues, remains constrained by nationalism and leadership sensitivities from attempting reconciliation with Chen. The U.S. favours cross-strait dialogue in order to ease tensions, ensure regional stability, and preserve the status quo in China-Taiwan relations. In general, the potential costs and risks for all three governments seem too great to expect one of them to make major moves to change existing policies.

However, there are possibilities for progress on smaller steps, including enhanced exchanges, improved atmospherics, and perhaps a revival of formal cross-strait dialogue. On the latter point, though they differ on "One China" and related matters, both the Chen Shui-bian and Chinese governments over the past year at times have shown some flexibility in referring to the conditions that led to a so-called understanding in 1992. That understanding opened the way for an important and generally constructive round of cross-strait talks the following year. China interprets this understanding as a "consensus"; the Chen government denies this but at times is willing to accept the conditions that ultimately led to the successful round of talks. Given continued strong U.S. encouragement to resume cross-strait dialogue, perhaps a way can be found around this semantic and substantive impasse to allow forward movement and resumed talks. Even if such a dialogue accomplished little, it would provide more accurate communication between the two governments and perhaps a means to ease misunderstanding and miscalculation in what remains an uncertain and potentially quite dangerous situation.

Seoul/Brussels, 21 September 2005

APPENDIX A

MAP OF TAIWAN AND ADJACENT AREAS

Taiwan Strait Area



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APPENDIX B

ABOUT THE INTERNATIONAL CRISIS GROUP

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Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

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Crisis Group's international headquarters are in Brussels, with advocacy offices in Washington DC (where it is based as a legal entity), New York, London and Moscow. The organisation currently operates fifteen field offices (in Amman, Belgrade, Bishkek, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Pretoria, Pristina, Quito, Seoul, Skopje and Tbilisi), with analysts working in over 50 crisis-affected countries and territories across four continents. In Africa, this includes Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, the Sahel region, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Indonesia, Kashmir, Kazakhstan,

Kyrgyzstan, Myanmar/Burma, Nepal, North Korea, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia, the Andean region and Haiti.

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