

A Strategic Analysis of the Taiwan Independence Issue

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No issue is more controversial and divisive in Taiwan and between the two sides of the Taiwan Strait than that of independence. The development of the movement for Taiwan independence can be divided into three periods: 1986-92, 1993-96, 1997-present. The first period started in the mid 80s. Following the implementation of democratic reforms that allowed for political opposition to the ruling Kuomintang party (KMT), the Democratic Progressive Party (DPP), Taiwan’s largest opposition party, sought to differentiate itself from the KMT by advocating “self-determination.” The salience of this issue increased further in 1991 when the DPP formally adopted a pro-independence platform. The KMT, however, was not supportive of the DPP’s independence platform. The KMT made it clear that Taiwan independence was a dangerous policy and that pragmatic diplomacy was the more practical approach. The KMT warned voters that the adoption of a policy advocating independence would undermine Taiwan’s national security to the extent that the People’s Republic of China (PRC) would feel compelled to follow through on its threats—threats buttressed by the former president of the PRC, Yang Shan-Kuan, who warned that “those who play with fire will be burned to ashes.”

The issue of Taiwan Independence has consequences not only for Taiwan and the mainland, but also for the United States to the extent that it feels compelled to fulfill its moral commitments to protect stability in this region (Wu 1995). To model this strategic interactions among Taiwan, China, and the US, we can assume that in the initial period, the voters in Taiwan move first. They were deciding between supporting a party that is for

independence or a party that is against independence. Their choices were influenced by their subjective beliefs about the answers to the following questions. If Taiwan declares independence, will the PRC attack Taiwan? Are the PRC's military threats real? Is it in the PRC's interest to implement them in the event of a military confrontation in the Taiwan Strait? Will the US assist Taiwan if China attacks Taiwan after Taiwan declares independence? As it turned out, the KMT in elections capitalized on voters' fear of a possible military attack from mainland China if Taiwan declares independence. The DPP needed to advocate Taiwan independence to solidify its electoral support, but it nevertheless failed to expand its support base. During this period, because the DPP's electoral support was around 30% and the DPP was not expected to become the ruling party in the near future, the issue of independence for Taiwan remained a merely domestic concern.

To escape from the constraint that the adoption of the Taiwan independence platform imposed on the DPP's electoral support, in 1991, the DPP started to campaign on "rejoining the United Nations" as a means of gaining recognition of Taiwan independence status. This campaign softened the DPP's stand on the Taiwan's independence issue and it successfully helped the DPP increase its popular support. In 1993, reacting to the wide popularity of this campaign, the KMT decided to coopt this issue by arguing that "rejoining the United Nations" was consistent with the "pragmatic diplomacy."

But from the view of the PRC, the KMT's decision to advocate "rejoining the United Nations" deviated from the "one China" policy. The PRC began to question

President Lee's attitude on the issue of independence for Taiwan. Later, in an interview with a Japanese writer, Shiba Ryotaro, President Lee talked about leading the Taiwanese people to a new nation. China did not regard this statement as pragmatic diplomacy, but as symbolic - to provoke the Chinese leaders.¹ The PRC realized that Taiwan under President Lee was moving toward an independent status in world affairs. President Lee Teng-hui's visit to the US in 1995 sharpened the sense of crisis in China, making real the threat of independence.² They concluded that only a sharp and hostile turn in the PRC's policy, as seen since mid-1995, would compel Taiwan's leaders to reassess their policies and refrain from deviating from the "one China" policy (Chen 1998).

To model China's decisions in this period, from 1993-1996, we assume that the first mover was the PRC, deciding between implementing military coercion or not while contemplating whether the US will assist Taiwan or not. The relevant questions were: What strategies can the PRC take to establish the credibility of threats? How does China communicate its resolve to fight against independence for Taiwan? What are the true interests of the US in this situation? Will the US assist Taiwan if it is attacked by China after Taiwan declares independence?

Despite the missile threat, President Lee won the 1996 presidential election.³ From

¹ The interview was first published by Japan's *Asahi Shimbun Weekly*, May 29-June 4, 1994.

² President Lee was invited by Cornell University to give a speech. Initially, the Clinton administration had decided not to issue a visa to President Lee. But later, under pressure by the US Congress, President Clinton reversed the decision and decided to grant Lee a visa.

³ Beginning in early March 1996, China conducted three military exercises in areas near Taiwan. The first exercise consisted of missile tests near Taiwan's two port cities -- Keelung and Kaohsiung from March 8 to 15. The Chinese People's Liberation Army, later, conducted live ammunition naval and air exercises in an area between Penghu and Kinmen from March 12 to 20. China conducted a large-scale

the missile crisis China and the US learned that Taiwan's drive toward independence can be destructive to the stability in East Asia. So in the third period, to lower the tension in the Taiwan strait, both China and the US are making efforts to contain the movement for Taiwan independence. To ensure that Taiwan is not moving further toward independence, China seeks cooperation from the US by asking the US to take a more explicit anti-independence position and to put pressure on Taiwan to agree to a new round of political negotiation with China.

To understand the role and the impact of the issue of Taiwan independence on peace and stability in the Taiwan Strait since mid 1980s, in this paper, I construct game-theoretic models to capture the strategic relationship among the PRC, the ROC, and the US. In Section 1, I specify an extensive-form game designed to identify the conditions under which it is in Taiwan's interest to declare independence. In Section 2, I study China's decision to take military actions to check Taiwan's move toward independence. In Section 3, I explain why the US and China are working together to contain Taiwan independence. Furthermore, I offer some assessments of the prospects for the new round of political negotiations between China and Taiwan. In Section 4, I conclude the paper by arguing that a peaceful resolution of the Taiwan issue depends on whether China is willing to delink pragmatic diplomacy with Taiwan independence.

1: Taiwan Independence as a Domestic Issue: 1986-1992

amphibious landing in the islands and sea areas near Matsu from March 12-20.

In the first twenty years after the Nationalist government withdrew to Taiwan, with the backing of the United States, the ROC's formal relationships with other countries and its memberships in most international organizations were unchallenged. Under the "one China" policy followed by both the PRC and the ROC, the PRC was not formally recognized by most nations then. But the situation began to change when the United States decided to play the China card to balance the Soviet Union. First, in 1971, the ROC lost its seat in the United Nations. Subsequently, it lost most of its diplomatic ties with other nations and its membership in many major international organizations. The major blow came in 1979 when the United States withdrew its recognition of the ROC and established formal diplomatic relation with the PRC.

To break away from its continuing isolation in the international system, the ROC government began to practice "pragmatic diplomacy," under which Taiwan tries to maintain, strengthen, and expand its informal and substantive relations with other countries, rejoin international organizations under names different from the national title, and establish formal diplomatic ties with other nations regardless of whether the ROC is recognized as the sole legitimate government of China. However, pragmatic diplomacy has not been very successful in terms of obtaining formal recognition from any major powers. To take advantage of the KMT's setbacks in the international system, the DPP offers the alternative of total independence from the mainland China. Advocates of Taiwan independence contend that by declaring independence Taiwan can gain recognition in the international community, which then will help Taiwan secure its survival from the

threats of foreign countries.

Beijing refuses to recognize the ROC as an independent political entity and opposes any activities which aim at the creation of “one China, one Taiwan” or “one China, two governments.” It has repeatedly warned Taiwan that Peking would feel obliged to undertake military action against Taiwan in some situations, including a unilateral declaration of independence by the island, a strategic alignment between Taipei and some unfriendly foreign power, serious political instability on Taiwan, or a protracted refusal to negotiate. (Harding 1992, Hickey 1997) In recent years, “it is evident in the repeated confirmation that Beijing will not use military force to attack Taiwan unless Taiwan declares formal independence.” (Zhao 1992, p.18)

Choosing a viable policy that takes full account of Taiwan’s security entails a number of complex matters, including the mainland’s incentives to carry out threats, the tradeoffs the mainland perceives between increased Taiwanese investment in their economy and fulfilling its goal of unifying China under its authoritarian regime, the incentives of the United States to intervene if Taiwan’s security is materially threatened, the domestic politics of Taiwan, and the economic gains and losses to Taiwan of declaring independence.

The complex nexus of domestic and international forces, as well as the inherent ambiguity of the situation render the usual methods of policy evaluation inadequate. To disentangle this complexity requires an analysis that not only keeps careful account of all relevant actions and sequences of actions, but also permits us to infer the decision that

others might make on the basis of initial beliefs and observed actions. To better analyze issues with such complexity, we turn to game theory.

The specification of a game-theoretic model requires the following components:

1. the relevant decision makers
2. the alternatives available to each decision maker each time he must act
3. the sequencing of these decisions
4. the outcome that follows from any particular sequence of decisions
5. the alternative evaluations of outcomes by the relevant decision makers
6. the beliefs and uncertainties that each decision maker confronts at the time of initial actions.

After the game is appropriately specified, we solve the game by finding the *equilibrium strategies* -- plans of action such that, even if an opponent anticipates his opponent's choice, he will have no incentive to alter his plan.

To begin the construction of a game-theoretic model of ROC-PRC relations with respect to the specific issue of Taiwan independence, suppose there are three players—mainland China, Taiwan (voters), and the United States. The game begins with Taiwanese voters first choosing between voting for the DPP (supporting Taiwan independence) and the KMT (maintaining the status quo), followed by a decision by mainland China on whether or not to respond militarily if the DPP becomes the ruling party and declares independence. Finally, the U.S. decides between rendering and not rendering Taiwan assistance if mainland China chooses to attack Taiwan.

If everyone knows everyone else's preferences, we can easily deduce the eventual outcome. But the heart of the problem of strategic analysis in this game is that Taiwan, mainland China, and the US are uncertain about each other's preferences and actions. For examples, although the PRC says it will take aggressive action if Taiwan declares independence, it is not clear that it will in fact do so and jeopardize the stability of its regime. Moreover, mainland China values the technological and financial resources that Taiwan possesses, but those resources have value only in a peaceful environment. Thus, the weight it gives to its own economic development versus forcing a reunification with the smaller player is unknown. These uncertainties generate an inability on the part of Taiwan to predict with certainty the willingness of mainland China to use force to achieve its objectives. As to the third player in the game—the U.S.—would it sit by idly and watch the PRC strangle Taiwan's economy with a naval blockade? The Taiwan Relations Act does not commit the U.S. in any way to Taiwan's defense, so Taiwan would be foolhardy to plan on any certain response by the U.S.. Indeed, that response remains a "wild card" that both Taiwan and mainland China must take into account somehow in any strategic analysis.

The analysis of this strategic interaction is made difficult by the inherent uncertainties and reputational dynamics of the situation. To capture this uncertainty in their interactions and to determine how the structure of information affects optimal strategies, we assume that Taiwan does not know how the PRC will respond to its action, and neither Taiwan nor mainland China knows how the US will respond to this regional

conflict.

To complete the specification of our game, we need to determine the outcomes and payoffs for each strategy profile. There are four possible outcomes:

- O1: Taiwan declares independence, mainland China chooses not to attack;
- O2: Status Quo: Taiwan does not declare independence;
- O3: Taiwan declares independence, mainland China attacks, and the U.S. helps Taiwan;
- O4: Taiwan declares independence, mainland China attacks, and the U.S. does not help Taiwan.

We assume that those who advocate independence for Taiwan prefer $O1 > O2 > O3 > O4$. For the PRC, if the hardliners are in power, unification will be regarded as more important than economic development. Thus, we assume that hardliners prefer $O2 > O4 > O3 > O1$. If the reformers are in power, they will be reluctant to engage in a war against the US over Taiwan. Hence, we assume that they prefer $O2 > O4 > O1 > O3$. For the US, we assume that a strong American government prefers $O2 > O1 > O3 > O4$, and a weak American government prefers $O2 > O1 > O4 > O3$. Table 1 summarizes the outcomes and payoffs for all three players.

TABLE 1

Outcomes and Payoffs for Taiwan, Mainland China, and the U.S.

| <u>Outcome</u> | <u>ROC</u> | <u>CHINA</u> | | | <u>US</u> |
|----------------|------------|---------------|---------------|----------------|--------------|
| | | <u>Barney</u> | <u>Dragon</u> | <u>Chicken</u> | <u>Eagle</u> |
| O1 | T1 | r3 | R4 | a2 | A2 |
| O2 | T2 | r1 | R1 | a1 | A1 |
| O3 | T3 | r4 | R3 | a4 | A3 |
| O4 | T4 | r2 | R2 | a3 | A4 |

Figure 1 portrays the extensive form game of this three-player two-sided incomplete information game. Clearly, the U.S. would not help Taiwan if the U.S. is weak and would help if strong. Further, if mainland China is weak, then the decision to attack Taiwan or not to attack Taiwan depends on whether the U.S. is weak or strong. But if mainland China is strong, then to attack is the dominant strategy. After deleting these dominated strategies, we can solve the game by constructing its normal form using the following strategies for Taiwan and mainland China. First, for Taiwan, its strategies are either declaring independence or maintaining the status quo. For mainland China, its strategies are conditional on its type. Thus:

AA: attack Taiwan regardless of type

A~A: attack Taiwan if strong, do not attack if weak

To see how the payoffs in each cell of the game's normal form are determined, for example, suppose Taiwan declares Taiwan independence (TI) and mainland China decides to attack Taiwan regardless of its type if Taiwan declares independence (AA). Then the probability that both mainland China and the U.S. are weak is pq , and the outcome is T4

for Taiwan and r_2 for mainland China. The probability that the U.S. is weak but mainland China is strong is $p(1-q)$, and the outcome is T_4 for Taiwan and R_2 for mainland China. The probability that the U.S. is strong and mainland China is weak is $(1-p)q$, and the outcome is T_3 for Taiwan and r_4 for mainland China. The probability that the U.S. is strong and mainland China is also strong is $(1-p)(1-q)$, and the outcome for Taiwan is T_3 and the outcome for mainland China is R_3 . Thus, with (TI, AA) , the expected payoff for Taiwan is $(pT_4 + (1-p)T_3)$, and for mainland China it is $(pqr_2 + p(1-q)R_2 + (1-p)qr_4 + (1-p)(1-q)R_3)$.

TABLE 2

The Normal Form Representation of the Extensive Form Game

| | | PRC | |
|-----|----|--|--|
| | | AA | A~A |
| ROC | TI | $pT_4 + (1-p)T_3$ $pqr_2 + (1-p)qr_4 + p(1-q)R_2 + (1-p)(1-q)R_3$ | $qT_1 + p(1-q)T_4 + (1-p)(1-q)T_3$ $qr_3 + p(1-q)R_2 + (1-p)(1-q)R_3$ |
| | SQ | T_2 $qr_1 + (1-q)R_1$ | T_2 $qr_1 + (1-q)R_1$ |

Among these four strategy profiles, clearly (TI, AA) cannot be an equilibrium, because Taiwan prefers T2 over $pT4 + (1-p)T3$. This implies that (SQ, AA) is a Nash equilibrium, which means that Taiwan will not declare independence and the mainland China will always attack regardless of its type if Taiwan declares independence. But for this strategy pair to be a sub-game perfect equilibrium, the condition that $r3 \leq pr2 + (1-p)r4$ has to be satisfied.

For (TI, A~A) to be an equilibrium, the following two inequalities have to be satisfied:

$$qT1 + (1-p)(1-q)T3 + p(1-q)T4 > T2 \quad (1)$$

and

$$r3 > pr2 + (1-p)r4 \quad (2)$$

Inequalities (1) and (2) specify the conditions under which Taiwan independence is a reasonable bet. These conditions are:

1. Taiwan believes that the probability that the US will help is high.
2. The probability that mainland China will not attack is high.
3. Taiwan Independence is preferred to the status quo by people in Taiwan.
4. If the PRC attacks Taiwan, the loss is low.
5. Taiwan independence is not a big loss for the PRC,
6. Mainland China considers the costs of military confrontation with the US too high.

An objective assessment of these conditions is not possible. But if we use election outcomes as an indicator of the likelihood that these conditions could be satisfied, assuming that the salience of Taiwan independence outweighs all other issues, the DPP's difficulty in expanding its vote share in the 1989, 1991, and 1992 elections showed that a majority of the voters did not support the DPP probably because they thought that the conditions stated above were unlikely to be satisfied. The KMT capitalized on these popular beliefs by playing up the salience of the Taiwan independence issue and by convincing voters that the outcome of supporting the DPP would be disastrous. In short, Taiwan independence was not a serious policy alternative prior to 1993. The issue of Taiwan independence was largely for domestic consumption before China began to believe that president Lee's pragmatic diplomacy was a disguise for pursuing Taiwan independence.

2. Internationalization of the Taiwan Independence Issue: 1993-96

Since 1993, Taiwan has taken many actions to raise the international visibility of the island and to strengthen non-diplomatic relations in the international community. Through moves toward gaining a seat in the UN, vacation diplomacy (e.g., playing golf with heads of state in S.E. Asia), and participation in APEC negotiation, Taiwan sought to improve the image of President Lee and to encourage people in other countries to pay attention to Taiwan and to support Taiwan. The strategy of pragmatic diplomacy reached a breakthrough in 1995, when the US House and the Senate voted by a count of 233:1

and 96:2, respectively, to permit President Lee Teng-hui to come to the US to give a talk at his alma mater Cornell University.

Concerned about Taiwan's growing assertiveness in world affairs, symbolized by President Lee Teng-hui's June 1995 visit to the United States, Beijing adopted a harder line toward Taiwan. After President Lee's trip to Cornell, Beijing suspended high-level exchanges with Taiwan and conducted provocative military exercises near Taiwan. A *New York Times* article on January 24, 1996 by Patrick E. Tyler reported that "The Chinese leadership has sent unusually explicit warnings to the Clinton administration that China has completed plans for a limited attack on Taiwan that could be mounted in the weeks after Taiwan's president, Lee Teng-hui, wins the first democratic balloting for the presidency in March." More specifically, Chas Freeman Jr. was quoted in the article, saying that "the People's Liberation Army had prepared plans for a missile attack against Taiwan consisting of one conventional missile strike a day for 30 days." Beijing's actions appear to have been designed to convince Taiwan to refrain from international assertiveness as well as to influence U.S. policy toward Taiwan.

The US has important interests at stake with the sharp turn toward hostility and tension in the Taiwan Straits. In the early 1970s, strategic considerations led the US to seek a rapprochement with China. The U.S. officials viewed the mainland government more as a strategic asset against the USSR than as an adversary. With the collapse of the Soviet Union, the US interest in the PRC as a strategic asset in global politics declined. The escalation of cross Strait tensions contributes to an already contentious US political debate over policy toward Taiwan and the PRC. In particular, many in the Republican

controlled 104th Congress favor formal support for Taiwan or criticism of Beijing that go beyond the US Administration policy and could exacerbate cross-Strait tensions.

So from 1993-96, Taiwan independence was no longer just a domestic issue affecting the KMT and the DPP's vote shares in elections. It became an issue affecting the stability in the Taiwan Strait because of China's concerns about whether President Lee Teng-hui's "pragmatic diplomacy" was really a cover-up for pursuing "Taiwan independence" and about the US's changing attitude toward China and Taiwan. After President Lee visited Cornell University, China was contemplating whether it should take military measures to signal its resolve on the Taiwan independence issue. If China were to take military actions to check Taiwan's moves toward independence, the US would have to decide whether to help defend Taiwan. If the US chose to assist Taiwan, China then would have to decide whether to escalate the conflict. The strategic interactions between China and the US can be represented by the following extensive-form game.

The game begins with China first choosing between conducting missile exercise and not conducting missile exercise. If China decides to launch missiles, the US then decides between assisting Taiwan or not. Finally, if the US chooses to assist Taiwan, China chooses between escalating the conflict or not.

To capture the uncertainty in their interactions and to determine how the structure affects optimal strategies, our game-theoretic model assumes that the US assesses probability p that China is a dragon and probability $1-p$ that it is a Barney, while China assesses probability q that the US is an eagle and probability $1-q$ that the US is a chicken.

There are four possible outcomes:

- (M, \sim A): China decides to conduct missile exercises and the US decides not to assist Taiwan;
- (ME, A): China decides to conduct missile exercises, the US decides to assist Taiwan, and China decides to escalate the conflict;
- (M \sim E, A): China decides to conduct missile exercises, the US decides to assist Taiwan, and China decides not to escalate the conflict;
- (\sim M): China decides not to conduct missile exercises.

From China's perspective, (M, \sim A) is the best outcome for China regardless of its type. If China is a dragon, China prefers (ME, A) to (M \sim E, A) to (\sim M). If China is a Barney, China prefers (\sim M) to (M \sim E, A) to (ME, A).

The preference orderings can be assigned in a similar fashion for the US. The US always most prefers (\sim M) regardless of its type. If the US is an eagle, it prefers (M \sim E, A) to (ME, A) to (M, \sim A), whereas a chicken would prefer (M, \sim A) to (M \sim E, A) to (ME, A). Table 3 summarizes the outcomes and payoffs for the two players.

TABLE 3

Outcomes and Payoffs for China (Dragon or Barney) and the US (Eagle or Chicken)

| <u>Outcome</u> <u>Chicken</u> | CHINA | | US | |
|----------------------------------|---------------|---------------|--------------|----------------|
| | <u>Dragon</u> | <u>Barney</u> | <u>Eagle</u> | <u>Chicken</u> |
| (M, ~A) | w1 | x1 | y4 | z2 |
| (ME, A) | w2 | x4 | y3 | z4 |
| (M~E, A) | w3 | x3 | y2 | z3 |
| (~M) | w4 | x2 | y1 | z1 |

Figure 2 portrays the extensive form game of this two-player game with two-sided incomplete information. Given the preference rankings and looking backwards from the game tree, if China is a dragon, its dominant move is to conduct a missile exercise and escalate the conflict if the US assists Taiwan. If China is a Barney, its decision to conduct a missile exercise or not depends on whether the US will assist Taiwan or not. But if China decides to conduct missile exercise and the US decides to assist Taiwan, then its dominant move is not to escalate the conflict. Further, we can see that if the US is an eagle, then it is always in its interest to assist Taiwan, and if the US is a chicken, it is always in its interest not to assist Taiwan. After reducing the extensive-form game by eliminating the dominated actions, the complicated incomplete information game of the missile crisis can be converted into a simple decision problem: China is deciding whether to conduct a missile exercise or not. It can be shown that if $qx3 + (1-q)x1 > x2$, even a Barney prefers to conduct a missile exercise.

This inequality suggests that China's military coercion would be an effective strategy if the following conditions are satisfied:

1. If the US is likely to be a chicken.
2. If the cost to China of not escalating the conflict after the US chooses to assist Taiwan is relatively low compared to not conducting a missile exercise ($x_2 - x_3$ is low).
3. If the gain to China is relatively high ($x_1 - x_2$ is high) if the US decides not to assist Taiwan after China chooses to conduct missile exercise.

It is difficult to assess the relative values that China places on different outcomes. But as Chinese analysts try to estimate the probability that the US is an eagle or a chicken, they can draw inferences from many cases that the probability that the US is a chicken is high. First, in reaction to Russia's invasion of Chechnya, the US considered this to be Russia's domestic affair and chose not to intervene. Chinese analysts might extrapolate this to the case of China. Second, the US took a long time to do anything about Bosnia. After a long delay, the US acted, but only in concert with its allies. China might take this as a cue that a US reaction will be so slow that they can move before the US reacts. It is generally agreed that, given the current sentiment in the US, the American public does not want a major involvement in the Taiwan issue.

3. Containment of the Movement for Taiwan Independence:1997-present

After the 1996 presidential election in Taiwan, for two years, China and Taiwan had no contacts with each other. Two recent events, however, might have motivated China to resume contacts with Taiwan in March 1998. First, in the 1997 county-level elections in Taiwan, the DPP for the first time since its establishment in 1986 won more than one half of the total county magistrate/city mayor positions: DPP won 12 seats, KMT 8 seats, and independents 3 seats. The DPP's vote shares, in fact, have been rising consistently since 1986. This trend of increasing popular support escalates the concern of the PRC and the US over the issue of Taiwan independence, because it seems that the DPP finally has a realistic chance of becoming the ruling party in the coming presidential election in year 2000. Once the DPP becomes the ruling party, its position on Taiwan independence might become a destabilizing factor in the Taiwan Strait. Therefore, China feels the need to contain the movement for Taiwan independence.

Second, Chairman Jiang's visit to the US in October 1997 and Clinton's scheduled visit to China in June 1998 all manifest the engagement policies adopted by the US and China. The US's engagement policy toward China creates opportunities for China to ask the US to help contain Taiwan independence. China can link issues of importance to the US with the Taiwan issue. By doing that, China can ask the US to explicitly communicate to Taiwan that the US does not support Taiwan independence and that the US is not obligated to assist Taiwan if China attacks militarily following a declaration of independence.

At the press conference held in the White House during Jiang's visit to the US in October 1997, President Clinton urged China and Taiwan to resume contacts and begin political negotiations as soon as possible. For China and Taiwan to move forward toward resolving their differences and finding a compromise solution, however, they need to make sure that the zone of agreement is not empty.

China's preferred policy on the Taiwan issue is the "one country, two systems" formula.⁴ Under this formula, the ROC would cease to exist and the PRC would give the Taiwan authority some autonomy in governing the region. From Taiwan's point of view, the "one country, two systems" formula is not an attractive offer because it is worse than the status quo. Under the status quo, people in Taiwan have their own government, their own economic system, social, political, military, tax structure, etc., and the freedom to deal with other countries, even if not in formal diplomatic relations. So "one country, two systems" does not give Taiwan more than what Taiwan receives under the status quo. If China cannot come up with a proposal better than the status quo, efforts to initiate a political negotiation between China and Taiwan will be futile because the zone of agreement between China and Taiwan is empty (Wu 1995).

What are the options if the "one country, two system" formula is not feasible? To visualize the differences among different possible solutions to the Taiwan issue, in Figure 3, I label their positions in a two-dimensional graph. Clearly, Taiwan independence is not acceptable to the PRC. Unification under the ROC will not be acceptable to the PRC

⁴ See the August 1993 White Paper, "The Taiwan Question and Reunification of China," *China Daily*, September 1, 1993.

either, although it is consistent with the “one China” principle. Another possibility is the “one country, two governments” formula, or equivalently, the German or Korean model, proposed by the ROC. Under the “one country, two governments” formula, both sides of the Taiwan Strait have rights to participate in the international community in a parallel pattern. Although the ROC’s proposal reflects the reality that Taiwan is an independent and separate government, it is opposed by the PRC because it asks the PRC to concede all the advantages it enjoys as the dominant player between the two sides of the Taiwan Strait.

After the elimination of all the proposals discussed above as possible solutions to the Taiwan Strait question, the only option left is the status quo. But it seems that China and Taiwan even disagree on how the status quo should be maintained. China prefers a *static* status quo. That is, if Taiwan stops bidding for more international space, China will allow Taiwan to keep what it currently has in the international system. Taiwan, however, is unlikely to agree on the *static* status quo. If Taiwan accepts the *static* status quo, Taiwan is allowing China to define the limit of Taiwan’s international living space, which is not much different than that under the “one country, two systems” formula. Instead, Taiwan prefers a *dynamic* status quo. Under the *dynamic* status quo, the two sides still compete internationally. Taiwan may do better or may do worse in the future. But Taiwan feels it has more control of its own destiny under the *dynamic* than the *static* status quo.

The most destabilizing factor under the *dynamic* status quo is China’s uncertainty

over Taiwan's political objectives behind its pragmatic diplomacy (Wu 1996). In recent years, the dynamic status quo has been unstable because China has difficulty differentiating between policies for pragmatic diplomacy and policies for Taiwan independence, and so interprets any moves by Taiwan to secure its survival by expanding its living space in the international system as moves toward Taiwan independence. China's view, however, is not consistent with what most people in Taiwan believe. Most people in Taiwan think that pragmatic diplomacy is not aimed at achieving Taiwan independence. After witnessing the rapid growth of Chinese economic and military power, and the strong emphasis on Chinese nationalism in the PRC without any sign of democratization, people in Taiwan are becoming more concerned about the position of Taiwan vis-a-vis China and of the inevitability of future negotiations with China. To gain some leverage against the PRC, which treats Taiwan as a province, they support the government's pragmatic diplomacy. In a survey conducted in 1995, around 60% of the respondents did not agree that the goal of pragmatic diplomacy is Taiwan independence (Bau 1997).

To maintain stability in the Taiwan Strait, therefore, requires a decrease China's uncertainty over Taiwan's political objectives behind its pragmatic diplomacy. To achieve this goal, the US can play a constructive role. Without assistance from the US, Taiwan will not pursue independence because of China's military threat. So if the US explicitly states that it does not support Taiwan independence, China need not worry about the political objective of pragmatic diplomacy because position taken by the US makes Taiwan independence infeasible.

China's intention to cooperate with the US to contain Taiwan independence also matches the interest of the US. The policy of "strategic ambiguity" designed by President Eisenhower and Secretary of State John Foster Dulles successfully prevented China and Taiwan from taking risky moves to resolve the Taiwan issue. In responding to the military threat toward Taiwan from China, by sending two aircraft carriers to the Far East in March 1996, the US deviated from this policy by giving a stronger guarantee of a US military defense of Taiwan if the island should be attacked by China. This change of the US policy, on the one hand, might have successfully deterred China from taking military actions against Taiwan but, on the other hand, the show of force by the US in the Far East made many people in Taiwan believe that China will not attack Taiwan even if Taiwan takes a bolder move toward independence, because the US will come to its defense. This belief could cause grave danger for Taiwan if the US is actually not willing to defend Taiwan.

After observing the outcome of the 1997 local elections, the US decided to preempt Taiwan from pursuing independence if the DPP becomes the ruling party in the future elections by sending a clear signal to Taiwan that the US will not support Taiwan independence and that Taiwan "does not have a blank check that it can fill out in American blood" (Freeman 1996). In early 1998, many former American government officials, such as the former Secretary of Defense William Perry, former assistant Secretary of Defense Joseph Nye, and the former National Security Advisor Anthony Lake visited Taiwan. The message they brought to Taiwan was that the US would not support Taiwan

independence.⁵ The US policy toward the Taiwan Strait, thus, was changed from “strategic ambiguity” to “strategic transparency.” This new policy is designed to influence the supporters of Taiwan independence that they should not count on the US for defense if they continue to push for independence. Also this new policy helps ease China’s suspicion that the US is assisting Taiwan in its pursuit of independence.

4. Conclusion

Since the late 1980s, economic integration and cultural exchanges have developed rapidly between China and Taiwan. Politically, in April 1993, the heads of the Straits Exchange Foundation (SEF) from Taiwan and the Association for Relations Across the Taiwan Strait (ARATS) from the mainland -- unofficial institutions authorized officially by the two sides -- held their first meeting.⁶ It seemed that the political, economic, and cultural ties between the two sides were all very positive and growing stronger till this point. But since then, the conciliatory atmosphere between the two sides gradually changed. The change of atmosphere is due to two reasons. First, China started to believe that President Lee Teng-Hui is for Taiwan independence. Second, China often find it difficult to differentiate between Taiwan’s policies for pragmatic diplomacy and for Taiwan independence. Although the missile crisis ended in 1996, these two causes of cross-Strait tensions remain. To maintain stability and to prevent another crisis between the two sides of the Taiwan Strait from occurring in the future, China, Taiwan, and the US

⁵ For example, see Nye (1998).

⁶ This was the first negotiation between the two sides since 1949.

need to find ways to deactivate these two causes of instability in the Taiwan Strait.

Since pragmatic diplomacy and Taiwan independence are often not differentiable, China's solution to this problem is to equate pragmatic diplomacy with Taiwan independence and to threaten to use force if Taiwan continues to move toward independence. The side effect of this policy is that, while China might have dissuaded Taiwan from pursuing greater recognition and independence in world affairs, it also deepened Taiwan's resolve to remain separate from China. In other words, China's policy to deter Taiwan independence actually contributes to the growth of independence sentiment in Taiwan (Achen, Hsu, Kuo 1997).

A more indirect but more effective strategy for China to deal with the two causes of instability in the Taiwan Strait is to seek cooperation from the US to help contain Taiwan independence. As long as the US does not support "one China, one Taiwan", China needs not worry whether President Lee Teng-hui's political objective is independence because that objective cannot be realized without the US support.

It might be in China and the US's common interest to contain Taiwan independence, however, Taiwan's practice of pragmatic diplomacy should not be limited. By compressing Taiwan's international living space, Taiwan will become more and more reluctant to move forward toward unification because of its increased fear of being eliminated by China. However, if Taiwan has more international living space and greater recognition, Taiwanese may gain more confidence in negotiating with China over the unification issue. A peaceful resolution of the Taiwan issue will then become possible.

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