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Continuation of the Status Quo in Cross-Strait Relations: Domestic and International Consequences¹

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Introduction: peculiarities of the status quo

In the late 1980s, at a time when the domestic changes taking place both on the Chinese mainland and on the island of Taiwan were beginning to influence the relationship between the two sides of the Taiwan Strait, Thomas Gold published an analysis of these changes and the impact they might exert on the relationship between the two entities under the intriguing title 'The Status Quo is Not Static' (Gold 1987: 300-315).

Addressing different aspects of the relationship as well as its historical dimensions, Gold finally turned to a discussion of the 'Trends Affecting Reunification'. He identified five trends that appeared to be relevant: increasing people-to-people contacts, improved relations between members of divided families, growing trade between Taiwan and mainland China, the prospects for 'regional autonomy' on the mainland as a result of economic reform, and, finally, the first instance of negotiations between the two sides of the Taiwan Strait.²

Summing up the changes that had occurred over the last decade and the emerging directions of development, Gold reached a fairly optimistic assessment. Pointing out that 'status quo' does not mean 'static', he judged these developments as being favourable for a 'resolution of the Taiwan issue':

the dynamic situation presently evolving is gradually creating a material substructure and a psychological superstructure whose independent development and mutual interaction will facilitate a resolution of the Taiwan issue (Gold 1987: 315).

¹ The revision of my paper has profited immensely from the remarks of my discussant, Teng-chiao Kao. All remaining errors are, of course, solely my responsibility.

² This unprecedented act on the part of the government in Taipei was the result of the hijacking of a CAL cargo plane to China. Gold 1987: 314.

Nearly two decades after the article's publication, the Taiwan issue is still as unsettled as before. Due to changes in perception and policies both in mainland China and Taiwan, it has even turned into a major international security problem, a problem that is considered by many analysts as being the second most pressing and dangerous security issue in Northeast Asia.³

The status quo is continuing, since Taiwan is neither unified with China nor established as an internationally recognised independent nation state. Political, economic and social developments taking place in the years since 1987 have changed the relationship between the two sides of the Taiwan Strait considerably, however. Thus, the task of this paper is twofold: to analyse the perceptions, policies and major political goals that influenced the actions of the four players involved in the local status quo during the 18 years since the publication of Gold's article, and secondly, to advance some conjecture concerning the effects the continuing status quo might give rise to in the first decade of the 21st century. The perceptions, policies and major political goals of the four actors involved will be explicated with reference to Gold's article.

1 The status quo in the Taiwan Strait

Before we proceed with our analysis, the characteristics of the status quo in the Taiwan Strait need to be outlined. They came into being in the late 1970s, when the United States terminated its diplomatic relations with the Republic of China (ROC) on Taiwan and recognised the government of the People's Republic of China (PRC) as the legitimate government of China. This alteration, though a heavy blow to the government on Taiwan, did not change the "essential structure of the local complex" (Buzan 1991: 216), however: although the PRC had been recognised as the legal government of China, Taiwan and its adjacent islands remained outside its direct control, while the United States of America continued to maintain a strong interest in the situation.

The way the three sides involved in the local context – the PRC, ROC and the USA – have perceived the status quo since 1979 has been quite different, indeed even contradictory. Though no longer recognised as the legitimate government of China by the USA, the government of the Republic of China on Taiwan continued to perceive itself as the sole legal government of all of China striving for the eventual liberation of the Chinese mainland from Communist rule and subsequent reunification. To the government of the PRC, the situation was characterised by a continuing rebellion on the part of the authorities in Taiwan, who refused to reunite with the legitimate government of China. Hence, Taiwan is regarded as a renegade province. The US government recognised "the Chinese position that there is but one China and Taiwan is part of China" (Chiu 1979: 255). At the same time, the US has expressed its interest in a peaceful resolution of the Taiwan issue as well as the expectation that this issue will be solved peacefully by the two sides (Chiu 1979: 256).

³ Cf. International Crisis Group 2003b for an overview of the existing literature.

Despite the differences in perception by the three sides, two aspects are obvious: firstly, all sides accept that there is only one China and that Taiwan is part of it, i.e. the "one-China" principle, and secondly, the US professes a strong interest in the peaceful resolution of the Taiwan issue regardless of its recognition of the PRC.

Despite dealing with a similar topic to Gold's article, this paper will discuss a slightly different set of aspects in order to analyse the dynamic status quo than those originally selected by him. The following two parts of this article will be organised in a similar fashion, focusing on developments in Taiwan, comprising the problems of its international status and its identity, developments in China, analysing China's economic relationship with Taiwan as well as its Taiwan policy, and, finally, the influence the United States and the international community exert on the development of the Taiwan issue.

1.1 Changes in Taiwan's perception of its international status

Probably the most important development that has taken place in the period since the publication of Gold's article is the weakening of Taiwan's commitment to the "one-China" principle. This change can best be understood as a process that has passed through several stages, a process that is closely related to Taiwan's domestic political reforms, comprising the two major trends of democratisation and Taiwanisation. These reforms led to a Taiwanese identity emerging in Taiwan that is different from the former 'Chinese' identity and that possesses a concomitant set of concepts and expressions to describe the several stages of dissociation from the concept of one China and the policies devised for the achievement of its new aims. The three stages consist of:

- the 'Revised One China' Policy formulated by the KMT government during the years 1991-1994, followed by
- the 'Historical One China' Policy maintained during the period 1994-1999, and finally
- the 'Future One China' Policy pursued by the Democratic Progressive Party since coming into office in the year 2000.⁴

In February 1991, the 'Guidelines for National Unification' adopted by the National Unification Council recognised the 'one China' concept and referred to the 'mainland area' and the 'Taiwan area' of China. The document used the phrase 'both the mainland and Taiwan are parts of Chinese territory'. A formulation of the "one-China" principle commonly used in the early 1990s on Taiwan was 'one China, two political entities' (International Crisis Group 2003a: 11).

⁴ Cf. the recently published study by the International Crisis Group 2003a: 9-16.

In the year 1992, the government in Taipei proclaimed: "Both sides of the Taiwan Strait agree that there is only one China. However, the two sides of the Strait have different opinions as to the meaning of 'China'" (Mainland Affairs Council 1997). The government in Taipei considered 'one China' to designate the Republic of China, a state established in 1912 and wielding *de jure* sovereignty over the whole territory of China. The government recognised, however, that it currently only exerted jurisdiction over the areas of Taiwan, Penghu, Jinmen and Mazu. Nevertheless, Taiwan was considered a part of China, the same holding true for the Chinese mainland.

This understanding was modified a year later, however. In 1993, during a series of informal talks between delegations from China and Taiwan, the representatives from Taiwan upheld the principle of parity, based on the fact that the ROC was an equal political entity, i.e. equal to the PRC (Mainland Affairs Council 1993). The hidden message of *de facto* recognition of the existence of the PRC was made more explicit later the same year when the ROC's Minister of Economic Affairs, P.K. Chiang, declared that the "ROC government was now pursuing a transitional 'Two Chinas Policy'". According to this understanding, two sovereign nations existed on the Taiwan Strait (China Times, 22.11.1993: 1).

The white paper that was published by the government in Taipei in July 1994 demonstrated that the authorities in Taiwan had formulated a two-level approach in dealing with the China problem. While maintaining the idea of eventual unification of the two parts of China as its long-term political objective, Taipei's short-term policies sought to demonstrate Taiwan's separateness from China and to underline the equality of the two parts of China as far as sovereignty was concerned. Thus, the white paper continued to express support for 'one China', but added the proviso that "at the same time, given the political realities, the two political entities should coexist as two legal entities in the international arena" (Mainland Affairs Council 1994).

This reorientation of the relationship reached its apex with an interview that President Lee Teng-hui gave to a journalist working for the German radio station 'Deutsche Welle' in July 1998. During this interview President Lee pointed out that the amendment of the ROC's constitution in 1991 had added a new quality to the relations between China and Taiwan. In his view, the revised constitution provided the basis for a special form of state-to-state relations. From that point on, the relations between the two sides of the Taiwan Strait should be characterised as 'one nation, two states'.⁵

The reinterpretation of Taiwan's status and its relationship with China was not limited to the KMT and its government, however. In the same year, the National Congress of the Democratic Progressive Party (DPP) adopted a 'Resolution Regarding Taiwan's Future'. Concerning the status of Taiwan, this resolution declared:

⁵ 'One Nation, Two States: Taiwan Clarifies Chinese Relations', *Associated Press*, 15 July 1999.

Taiwan is [already] a sovereign independent state; any change in the status quo (sic!) regarding independence has to be decided by a referendum among the entire population of Taiwan (DPP Policies).

This new interpretation of Taiwan's status vis-à-vis China found its practical expression in a revised foreign policy. In conformity with its interpretation that Taiwan was an independent state, the government in Taipei put great effort into enlarging Taiwan's international space and acquiring membership in international organisations. The United Nations constituted the most important arena where this new policy was to be implemented. Since late 1993, the government in Taipei has undertaken yearly campaigns calling for renewed membership of the ROC in this body (Hu 1993).

1.2 Identity and political culture on Taiwan

Under the martial law regime of the KMT during the years 1949-1987 there existed little official doubt that Taiwan's identity was Chinese. The government in Taipei considered itself to be the legitimate government of China, waiting for the opportune moment to liberate the mainland from Communist rule. After years of Japanese colonial rule, the island of Taiwan and its inhabitants became the object of a Sinification policy that sought to implant the concepts and values of the nationalist revolution through specially designed educational and cultural policies (cf. Wilson 1970 and Tozer 1967: 81-99). The socioeconomic changes taking place in the decades since 1949 set limits on the efficacy of the policy, however, since it provided the Taiwanese population with opportunities and resources to thwart the impact of governmental policies. Since the 1980s, efforts by the younger generation of Taiwanese to promote their local culture and confront the official policy have become more pronounced (cf. Halbeisen 1982: 206-220).

The lifting of martial law in 1987 and the accompanying liberalisation of contacts with China provided a number of hitherto unknown opportunities to re-establish contacts with the mainland. Numerous inhabitants of Taiwan used the opportunity to visit relatives who had been left on the mainland or to satisfy their curiosity about a place that had been off limits for more than forty years. For several years, the island was afflicted by a strong dose of China fever.

Contrary to Gold's expectation, the intensification of social and economic contacts between China and Taiwan has not led to a growing identification with China on the part of Taiwan's inhabitants, however. A number of factors, including the continuing political disputes between the two sides and the character of the Chinese government's policies regarding Taiwan as well as the day-to-day experiences of numerous travellers, have, in fact, led to a growing sense of alienation from China on the part of the people living on Taiwan. According to one observer, the concepts of 'China (*Zhongguo*)' and 'Chinese (*Zhongguo ren*)' are increasingly being regarded as irrelevant or even 'alien' by the people of Taiwan (Chao 2003: 280-304).

Concomitantly, the attitude of Taiwan's population towards unification with China and the perception of Taiwan's identity have changed considerably since the

late 1980s. These changes find their expression in the opinion surveys charting the perceptions of the inhabitants of Taiwan concerning the state of cross-Strait relations and their identification as Taiwanese or Chinese that have regularly been undertaken by Taiwan's leading newspapers as well as public institutions such as the Mainland Affairs Council since the late 1980s.

According to the findings of these surveys, the number of persons in favour of unification with China has dropped by nearly half over the past decade. The number of people in Taiwan having a negative perception of cross-Strait relations has actually tripled. A similar development has occurred regarding the way the Taiwanese perceive their identity: the percentage of people who identify themselves as 'Taiwanese' has increased from about 20% to nearly 50%. Finally, the share of Taiwanese people acknowledging themselves as 'Chinese' has decreased from around 30% to less than 10% (Chao 2003: 289).

The effects of the growing identification with Taiwan are intensified by the development of a specific political culture in Taiwan. According to Chao Chien-min,

the different ideologies and strategies for economic development that China and Taiwan adopted after 1949 led to the development of two deviating political cultural identities across the Taiwan Strait. Even the regime transitions that started in both places during the 1980s resulted in the creation of two dual societies afflicted by a torn cultural identity (Chao 2003: 289).

In the course of Taiwan's democratisation process, a new cultural identity has been created. According to Chao's analysis, this new cultural identity is the result of the interplay of a number of factors, such as the effects of a multi-ethnic society and the various influences that the island has been exposed to in its history, i.e. Chinese, Japanese and traditional Taiwanese influences, as well as by the strong Western influences the island encountered during the phase of its rapid development. As a result, Taiwan's society today is strongly characterised by individualism combined with an embrace of local values as opposed to those imported from mainland China, as well as a growing identification with Taiwan as a political community (Chao 2003: 303-304).

1.3 China's strategy with respect to Taiwan

While both the political actors and the general public on Taiwan have been moving away from the "one-China" principle, for the government of the PRC this concept remains the basis of its strategy of national unification and its policy towards the island.

While the concept continues to serve as the basic orientation, there have been changes affecting both the approach and the means chosen to further its aims in the period since 1979. In the late seventies, the Chinese government abandoned its policy of 'liberating' Taiwan in favour of a policy of 'peaceful reunification' without, however, relinquishing its threat of an eventual use of force against the island. The basis for this switch in policy was Taiwan's continuing acceptance of the "one-

China" principle, even though the government in Taipei clung to the notion that the true 'one China' was the ROC. In its own interpretation of the "one-China" principle the government in Beijing mirrored that of Taiwan until the beginning of the 1990s: the PRC is the entity referred to as 'one China' and Taiwan is a part of that China (International Crisis Group 2003a: 17-18).

Reacting to the new interpretations of Taiwan's status formulated by the political authorities in Taipei, the government in Beijing adopted a new policy towards the island. It abandoned the 'peaceful unification' approach and adopted a coercive strategy instead. This new coercive policy comprised three major goals:

- preventing the authorities on Taiwan from transforming the island into an independent state;
- ensuring that the majority of states, especially the major powers, understood that the granting of formal diplomatic recognition to Taiwan as a sovereign independent state could provoke unpredictable military consequences; and
- containing international support for Taiwan on political and security issues in order to discourage public support on Taiwan for the government to assert its stance concerning independence (International Crisis Group 2003a: 18).

This new approach did not yield the results expected by the Chinese leadership, however. By early 2000, Chinese politicians involved in Taiwanese affairs had come to the conclusion that a negotiated settlement between the two sides could only be achieved with greater reliance on the threat of using force. A new policy was supposed to guarantee the attainment of a number of goals that went beyond those formulated in 1995. Its main aim was to reverse the trend of an incremental establishment of an independent Taiwan, to force the authorities on Taiwan to take steps towards reconciliation with China on the basis of the "one-China" principle and, finally, to ensure that Taiwan started to undertake practical moves leading to reunification (International Crisis Group 2003a: 19-20).

The 'White Paper on Taiwan' published by the Chinese government in the year 2000 also expressed these intentions, in addition to a number of new and more strident demands. Trying to prevent what it considered as Taiwan's strategy of 'creeping independence', the Chinese authorities threatened to use force not only if Taiwan declared independence, but also if it indefinitely delayed reconciliation on the basis of the "one-China" principle. As a consequence of this new approach, the Chinese government began to develop a number of contingency plans to deal with the developments on Taiwan.

The benchmark of China's new approach can be described as follows: a peaceful settlement of cross-Strait conflict through reunification achieved by negotiations. This approach comprises three operational elements:

- the government on Taiwan must accept the "one-China" principle;

- the government on Taiwan must start serious talks with its Chinese opposite number with the aim of reunification; and
- progress on practical issues of reunification has to be achieved, for example by establishing comprehensive direct transport links.

These three aims are considered as being interrelated. According to one observer, a move by the authorities in Taipei in any one of the three areas would probably satisfy the government in Beijing for a time. On the other hand, any move by the government in Taiwan that would represent a substantial rejection of these Chinese demands could trigger the use of military force (International Crisis Group 2003a: 20).

1.4 Level of military threat

As the foregoing paragraph has shown, the threat of using military force to achieve its political aims has become an integral part of the Chinese government's approach to resolving the Taiwan issue. While these kinds of threats have always formed a part of the relationship between the two sides of the Taiwan Strait in the past, the PLA's level of readiness and capability has increased considerably over the last decade, a development greatly aided by the rapid economic growth of China that has provided the necessary resources. This increase in military capabilities combined with the likely results of further efforts undertaken in the coming decade have given the military threat to Taiwan a new quality, in effect reversing the situation of the last few decades that was characterised by the military superiority of the Taiwanese armed forces.

This change in the military balance of power in the Taiwan Strait and the growing vulnerability of Taiwan to Chinese military undertakings has been recognised by a number of observers. In its recent report on the development of cross-Strait security issues (July 2002 Report), the U.S.-China Security Review Commission identified three broad classes of military contingencies available to the government in Beijing to impose its will on Taiwan:

- an invasion of Taiwan or an offshore island using amphibious or other sea or air-transported forces;
- air or missile strikes on its industrial infrastructure or commercial assets; and
- a naval blockade (July 2002 Report 8: 3).

A detailed discussion of these scenarios would go beyond the scope of this paper, but several points highlighted in the report nevertheless merit some comment. One point concerns the ability of the PLA to carry through an amphibious operation. In its assessment of the invasion scenario, the report states that Beijing has increasingly focused on advanced training methods to demonstrate joint-service war-fighting skills that are steadily altering the balance of power with Taiwan. Over the past several years, PLA exercises have shifted from intimidating Taiwan to a more serious

effort to prepare the PRC's military forces for an invasion of the island. However, serious doubts remain as to whether the PLA actually commands the forces and equipment needed for a sustained amphibious operation against Taiwan.

A second point concerns the deployment of a growing number of short- and intermediate-range missiles positioned at bases near the Taiwan Strait. While the overall strategic use of these missiles appears to be limited due to their limited impact and the high political risks involved in their use, the report stresses one important aspect that might enhance the vulnerability of Taiwan: its lack of preparedness concerning new kinds of military challenges from the PRC. According to the report,

Taiwan is virtually defenceless against a ballistic missile attack. Taiwan's missile defence forces are vulnerable and China's ever-strengthening ballistic missile capability can cause severe destruction. [...] A few ballistic missiles would be enough to destroy most of Taiwan's civilian oil reserves stored in the event of war (July 2002 Report: 5).

Since Taiwan will continue to maintain significant qualitative and technological advantages over Chinese forces in the near future, the capability of the Chinese naval forces to enforce a blockade is likely to become the most important defence issue in the coming decade, according to the report's analysis. The primary objective of a blockade would be to cripple Taiwan economically and isolate it internationally. The report concludes:

barring third-party intervention, the PLA Navy's quantitative advantage over Taiwan's Navy in surface and sub-surface assets would probably prove decisive. Taiwan's military forces probably would not be able to keep the island's key ports and sea-lanes of communication (SLOC) open in the face of concerted Chinese military action.

Seeing as Taiwan is dependent on the freedom of sea cargo transport, which accounts for almost 99 per cent of its total cargo transport, a blockade of the SLOCs would have an immediate effect. According to an estimate by Ministry of National Defence officials, Taiwan would only be able to endure a blockade for 120 days before needing a resupply of materials (July 2002 Report: 5).

The commission's assessment is considered to be overly pessimistic by some observers, however. While not denying the increase in China's military capabilities, a group of European experts reached a different conclusion concerning both China's intentions to use force against Taiwan and its ability to use this potential in order to subdue the island. China's ongoing defence modernisation is not necessarily threatening, according to their assessment, since some modernisation of its armed forces is to be expected anyway because the PLA is a large organisation with superannuated equipment (International Crisis Group 2003b: 5).

According to the assessment by the same group, the government in Beijing has not changed its basic strategy with regard to Taiwan, but is still pursuing "a 'grand strategy' of war avoidance". The leading actors in Beijing only have a few credible options for employing military force in a war against Taiwan that also conform to their political goal of reunification. They cannot seriously believe that they can in-

vade and conquer Taiwan without massive mobilisation and massive economic and political costs. There may be contingency plans for use of force against Taiwan, but it is quite likely that the Chinese side has formulated contingency plans for an invasion and the ensuing military occupation of the island (International Crisis Group 2003b: 16).

1.5 The economic relationship between China and Taiwan

The degree of economic integration that has taken place between the two sides of the Taiwan Strait would have been beyond imagination in the late 1980s. Economic linkages in both investment and trade between China and Taiwan have expanded dramatically over the past decade. Largely unaffected by the quality of the political relations between the two governments, economic interaction between the opposite sides of the Taiwan Strait has intensified steadily (July 2002 Report 5: 3).

China has turned into Taiwan's third-largest market, with the total value of two-way trade surpassing US\$ 30 billion. The island's exports to China increased from about US\$ 6 billion in 1990 to over US\$ 26 billion in 2000, while its imports from China expanded from approximately US\$ 342 million in 1990 to US\$ 6.2 billion in 2000, resulting in significant yearly trade surpluses for Taiwan.

The Chinese mainland has also become the favourite place for investment by Taiwanese entrepreneurs. It is difficult for an external observer to gauge the whole extent of these investments, since there is a great disparity between official and unofficial estimates concerning their total sum. Although the government in Taipei has placed – and continues to place – significant restrictions on investments in China, Taiwanese companies have found numerous ways to circumvent these, primarily by investing in the mainland via third-party countries. Official Taiwanese government figures put the amount of Taiwanese corporate investment in mainland China at US\$ 17 billion at the end of the year 2000. Other sources quote actual investment figures in the range of US\$ 60-70 billion, with some estimates even reaching US\$ 100 billion (Eyton 2005). This would account for more than 40% of Taiwan's outward investment. There is no comparable amount of Chinese investment in Taiwan, however, due to strict prohibitions on such investment by the government in Taipei.

Lately, China has become the biggest recipient of Taiwan's outward foreign direct investment. In 2002, investment in China exceeded 50% of Taiwan's overall outward investment for the first time – 53.3% in 2002, up from only 38.8% in 2001 (July 2002 Report: 11).

The growing amount of total investments has been accompanied by a considerable change in the nature of those industries deciding to relocate to or invest in China. In the early phase of the process, the majority of these companies belonged to the group of 'sunset industries', i.e. companies that could no longer operate profitably on the island. In recent years, an increasing number of companies producing high-technology products began investing on the mainland. Trade with and investment on the mainland are now seen by many companies in Taiwan as the key to

their future economic growth, particularly with regard to high-technology goods. China is regarded as a low-cost production centre for manufactured goods – an essential need for Taiwanese companies in order for them to stay competitive internationally – as well as an enormous potential market for these goods. These combined appeals have resulted in the establishment or relocation of more than 70,000 Taiwanese factories on the mainland (Eyton 2005).

The growing attractiveness of China in the eyes of high-technology firms has been remarkable: in this sector, about 30% of Taiwan's 411 high-tech companies have undertaken major investments in mainland China. Moreover, nearly 90% of these 411 companies planned to make investments in China by the end of 2001. As a result of the steadily growing Taiwanese presence on the mainland, China was able to occupy the number three position in world IT production volume for the first time in 2000 (July 2002 Report: 4).

The growing volume of Taiwanese investments in China and China's growing importance as a market for Taiwanese goods have given rise to a number of fears. Critics point to a growing Taiwanese dependency on China's economic development that might lead to security risks. The new economic strategy mentioned above involves many risks, since it links Taiwan's economic well-being to the shifting currents of cross-Strait relations. In the Security Review Committee's own words:

Deterioration in these relations could lead China to exercise economic leverage over Taiwan by threatening to restrict or cut off Taiwan's trade and investment with the Mainland. China might even take (or threaten to take) the provocative step of seizing Taiwan assets located on the Mainland. It is more likely, however, that China will seek to exercise its economic leverage in indirect ways, including attempting to influence the Taiwan business community (which wields substantial political cloud in Taipei) (July 2002 Report: 9; see also Istenic 2004).

While Taiwan's dependence on the PRC is increasing, a growing economic dependency with regard to Taiwanese investments is also developing on the part of China. The PRC reaps substantial economic benefits from this trade and investment relationship. Taiwanese investment is increasingly focusing on the production of high-technology products. Reports state that 70% of China's US\$ 25.5 billion information technology production value in the year 2000 was attributable to Taiwan-invested firms. An increasing number of Chinese companies are developing a vested interest in the cross-Strait economic relationship, thereby creating a growing force with an interest in diminishing the tension with the island state within China. This interest extends to those provinces where Taiwanese investment is concentrated, namely Fujian, Guangdong and Jiangsu.

Faced with demographic developments, the Chinese government is confronting the necessity of creating sufficient numbers of jobs for its young generations. Estimates of the number of jobs created by Taiwanese investment vary, starting with the creation of at least three million jobs to estimates that Taiwanese firms have created between five and ten million jobs there (July 2002 Report: 12).

Another significant result of cross-Strait economic linkages has been a growing number of Taiwanese businessmen residing and travelling to the mainland. There are estimates that about 400,000 to 700,000 Taiwan nationals live and work on the mainland continuously, which would represent 7-10% of Taiwan's entire labour force. The majority of these Taiwanese are concentrated in the high-technology and high economic growth areas of Shanghai and Shenzhen (July 2002 Report: 5).

1.6 The role of the United States

In spite of its derecognition of the government of the ROC and its recognition of the government of the PRC as the legal government of China in 1979, the United States has remained a major player in the Taiwan Strait. American involvement is guided by several orientations that sometimes conflict with one another. On the one hand, the policy of the American government is based on the "one-China" principle, while on the other, the United States has declared its keen interest in a peaceful settlement of the Taiwan issue.

Since the termination of diplomatic relations between the US and the ROC, American policy with respect to Taiwan has been based on a domestic law – the Taiwan Relations Act – and the three US-PRC Joint Communiqués – the Shanghai Communiqué of 1972, the communiqué on the normalisation of relations issued in 1979, and the US-China Joint Communiqué of 1982 (cf. Kan 2001). The Taiwan Relations Act provides the legal basis for continued American relations with Taiwan. In this law, the US expressed its opposition to any attempt to use force in order to solve the Taiwan question. It declared its intention to provide Taiwan with defensive weapons and its determination to resist any use of military force against the island. In the three communiqués, the US government acknowledged the Chinese position that there is only one China and that Taiwan is a part of it. It also promised not to support any attempts to create a 'two Chinas' or 'one China, one Taiwan' solution to the Taiwan problem. This solution was considered a matter for the Chinese on both sides of the Taiwan Strait to decide peacefully (cf. Hickey 2004).

There are a number of ambiguities in the relationship, however, which are the result of shifting domestic and international pressure. Thus, the 1982 US-China Joint Communiqué that contained an American pledge to reduce US arms sales to Taiwan was supplemented by the 'Six Assurances' given to Taiwan by President Reagan, assuring the Taiwanese side among others that the US had not agreed to a date for the ending of arms sales to Taiwan, that it would not act as a mediator between the PRC and the ROC and that it would not exert any pressure on the ROC to enter into negotiations with the PRC (July 2002 Report: 3).

These basic declarations have influenced the policy of consecutive American administrations regarding the Taiwan issue. The US stance was reaffirmed by President Clinton's statement on the 'Three Noes' made in Shanghai in 1998, in which he stated that the United States did not support independence for Taiwan, nor a 'two Chinas' or a 'one Taiwan, one China' policy. In addition, it would not support Tai-

wan's membership of any organisation in which statehood was a requirement (cf. Clough 2001: 35-39).

This approach is actually only followed by the present Bush administration, which declared its opposition to any unilateral change in the status quo by either the PRC or the ROC. According to Peter Brookes, this policy comprises three elements:

Taiwan should not declare independence; there should be no use of force by either side; and Taiwan's future should be resolved in a manner mutually agreeable to the people on both sides of the Strait (Brookes 2003: 3).

1.7 Support of the "one-China" principle by the international community

Contrary to developments in Taiwan, where the concept of 'one China' is continually losing support among the government and the population, the majority of the members of the international community continue to support this principle. They have followed the formal diplomatic requirements of the 'one China' policy as they are interpreted by Beijing: full diplomatic relations only with the PRC, whereas relations with Taiwan have to be confined to the areas of cultural and economic affairs.

In view of these limitations, the number of countries with which Taiwan maintains formal diplomatic relations declined to 27 in 2003, but it was able to establish representative offices without any formal diplomatic status in 62 countries (International Crisis Group 2003a: 29).

Under the cloak of observing a 'one China' policy, the relations of many states with Taiwan have been characterised by important modifications concerning the scope and intensity of the exchanges, however. In some cases, relations with Taiwan have been enlarged to such an extent that the idea of 'unofficial relations' appears more and more difficult to sustain. Taiwan's successful democratisation and its continuing economic importance have increased pressure on states and international organisations to find creative, new approaches in dealing with the island. As for the European nations maintaining unofficial relations with Taiwan, visits by high-level officials – i.e. ministers and senior civil servants – have become a routine affair, although these visits are normally restricted to officials belonging to the 'technical' ministries. In addition, several parliaments have become increasingly active in pushing for more formal relations with Taiwan, in particular those of the EU, Japan and Russia (International Crisis Group 2003a: 30).

As the foregoing analysis has demonstrated, although the status quo has persisted with regard to Taiwan's international status, Gold's dictum concerning the dynamic nature of the status quo has, by and large, been confirmed. Considerable changes have been made in a number of policy and issue areas.

2 Continuation of the status quo: major trends

There are many indications that the status quo in the Taiwan Strait will prevail for the next five to ten years. In this section of the paper, an analysis will be made of the trends likely to manifest themselves in major policy areas such as Taiwan's international status, its China and security policies, economic co-operation between China and Taiwan, China's Taiwan policy and, finally, the roles played by the USA and the international community.

2.1 Taiwan's interpretation of its international status

It seems highly unlikely to this observer that the authorities in Taiwan will return to the "one-China" principle in the years ahead. Instead, the understanding of Taiwan being an independent sovereign state will probably continue to be promoted with considerable vigour both nationally and internationally. This policy orientation will be supported by several domestic developments.

The continuing debates concerning Taiwan's identity as well as the calls for making the right to self-determination reality provide those political actors who are in favour of a more visible international role for Taiwan and the formation of a specific Taiwanese identity with powerful tools for influencing and guiding public opinion and formulating a vision of a future Taiwan. In coming years the two issues of a new constitution for Taiwan and the legal provision for a popular referendum as an instrument with which to shape Taiwan's future are likely to dominate the debates on the direction of domestic politics due to their populist appeal and the widespread perception among the electorate that they might provide a solution to Taiwan's present international problems.

Under the indirect leadership of and vocal support from Lee Teng-hui, the nativist Taiwan Solidarity Union (TSU) with its political credo of 'priority for Taiwan' will make it difficult for the DPP as an organisation and for its elected representatives to support a more level-headed approach to the problem of national identity for fear of losing electoral support. Lee Teng-hui still enjoys significant support from certain parts of the population. Demands and suggestions by the TSU that seem to be favourable to Taiwanese interests appeal to the more independence-orientated section of DPP supporters and will force the party leadership to stay clear of any policy or concept that might be interpreted as giving in to demands from China.

Since the 1990s, both KMT and DPP governments have vigorously pursued a policy of enlarging Taiwan's international space, often in disregard of Chinese reactions and potentially negative repercussions on relations between Taiwan and China. This policy will continue, since it enjoys considerable support among the island's population (compare the analysis made by Su in 2002).

Support for DPP and TSU policy positions will continue to dominate public debates for another reason: there is – to the best of my knowledge – no alternative intellectual endeavour to articulate a concept of a Chinese identity for Taiwan, a concept that provides a different perspective for the island's future than that of

reunification. The mainland policies advocated by the KMT and the PFP mainly consist of pragmatism, proposing concrete suggestions for the solution of concrete problems. Neither party – and none of their individual members – has developed a vision that conceives Taiwan as being more than a place and a society that has been separated from China and is destined to be reunified with it, however (cf. Pomfret 2003: A18).

2.2 Taiwan's China policy

A discussion of Taipei's policy towards China has to include several aspects, reflecting the differences in magnitude of the problems that have to be addressed by such policies. Since it is almost certain that the disagreement between Taipei and Beijing over Taiwan's international status will continue and a return of the government in Taipei to the "one-China" principle is highly unlikely, there is little opportunity for progress to be made in the search for solutions to the substantial issues in the relationship.

The electoral competitions – the presidential elections in March 2004 and Legislative Yuan elections in December of the same year – were not favourable to the provision of an atmosphere conducive to devising a more dispassionate approach to identifying policy areas and methods that might facilitate the achievement of a common understanding or to identifying solutions acceptable to both sides. Though advocating a more conciliatory and pragmatic approach in dealing with China than the incumbent president, even a Lien/Soong team would have enjoyed limited latitude for action as a consequence of the predominant sentiment in Taiwan. Except for some minority parties like the Workers' Party (Lao-dong-dang), there is not enough popular support for any of the larger opposition parties to win an election with a reunification platform.

A number of policy areas exist, however, that are less fraught with status considerations and in dire need of regulation. These are concerned with the after-effects of the deepening economic integration taking place between China and Taiwan, and will be dealt with in another section of this chapter. A further policy area that the government in Taipei will have to deal with concerns the social consequences of increasing economic and societal interaction among the people on both sides of the Taiwan Strait. This area covers various aspects; the growing number of Taiwanese professionals – businessmen, managers, engineers – who decide to stay on the mainland for considerable periods of time, quite often taking their families and children with them, creates quite a number of problems (attenuated links with their place of origin, various social problems as well as problems for the Taiwanese labour market), and Taiwan has to compensate the outflow of a considerable part of its highly qualified workforce. Furthermore, a growing number of young Taiwanese are going to mainland China for their tertiary education, with the intention of staying there and finding employment subsequently.⁶

⁶ See the articles by Schüller and Schucher in this volume.

2.3 Taiwan's security policy

Security seems to be the one policy area where substantial changes in Taiwan's policies are most urgently needed. For decades Taiwan's armed forces enjoyed military superiority over the PLA, but now a combination of financial, organisational, political and technological deficiencies have seriously weakened Taiwan's defence capability. After years of continuous reductions in its defence budget, substantial political and financial efforts concerning the amelioration of the forces' structure, the enhancement of military capability and the strengthening of civil defence have to be undertaken.

There are several reasons for this assessment. Firstly, Taiwan will have to deal with the long-term implications of China's armament policy. The continuous modernisation of the Chinese armed forces and the expansion of their military capabilities may not pose an immediate threat to the security of Taiwan if one excludes the two scenarios of a surprise attack by rockets stationed in Fujian or that of a decapitation strike against the political and command centres (International Crisis Group 2003b: 23). In the course of time, the continuously growing capabilities of the PLA will demand an adequate – and costly – response from the Taiwanese side, however.

In addition to strengthening its conventional forces, China is thought to be putting increasing effort into developing 'unorthodox' methods for dealing with its adversaries and potential enemies. Among these methods, information warfare and psychological warfare are the two options that might be used against the Taiwanese side – options that call for appropriate countermeasures (for a detailed analysis, see Bolt and Brenner 2004: 129-150).

The deepening defence relationship with the United States of America is an additional source of pressure for increased defence spending by Taiwan. Under the administration of President George W. Bush, Jr., Taiwan's demands for an adequate supply of armaments have met with a much more favourable reception than under any former administration. An array of powerful advanced weapons systems was offered to Taiwan that seemed to be out of reach for Taiwan under earlier administrations.⁷

As a by-product of the deepening defence relationship, American criticism of the size of Taiwan's defence budget and the priorities of its armament policy has become more outspoken, however. Among the points criticised by the American side are the structure of the Taiwanese armed forces and the professionalism of Taiwan's armament policy. The increased willingness of the Americans to come to Taiwan's aid in the event of a military emergency – helpful as it is in heightening the island's security – has been accompanied by demands for the burden to be shared adequately (Eyton 2003a; Wang 2003).

Taiwan's military strategy in dealing with the possibility of Chinese military attacks also has to be reconsidered. As a legacy of the policy of 'liberating the mainland' (*Guangfu dalu*), Taiwan's armed forces are dominated by the army and its

⁷ A list of recent acquisitions is included in the July 2002 Report 8: 10.

military requirements. Although the new military doctrine of offshore defence requires the air force and the navy to be strengthened, the necessary readjustments face strong internal opposition. Thus, Taiwan's ability to deal with submarines and sea mines is seriously deficient. The same holds true for the capability of the armed forces with regard to inter-service co-operation (cf. McDevitt 2004: 411-425).

In addition, there are a number of internal weaknesses that Taiwan will have to deal with in order to prepare for a possible military conflict. These are its vulnerability to Chinese psychological warfare, the lack of consensus concerning Taiwan's identity that also implies a lack of consensus on what military means are appropriate to use against China, and finally, possible tensions and distrust between a Taiwanese-dominated political leadership and a mainlander-dominated officer corps in the armed forces (Roy 2003).

2.4 The economic relationship between China and Taiwan

The trade and investment relationship between Taiwan and the mainland will in all likelihood continue to grow and intensify. Contrary to a number of assessments, this observer does not see a concomitant increase in security problems for Taiwan, however. The intensifying economic relationship between the two sides of the Taiwan Strait will also increase the degree of dependency on both sides. While the international competitiveness of Taiwanese companies may be at stake, the PRC is dependent on continuing trade with and investment by Taiwanese companies in order to create employment opportunities and increase its earnings of foreign currency.

The often touted danger of Taiwan being hollowed out industrially seems to be fairly limited. Although it is true that numerous small enterprises closed down their operations in Taiwan and relocated to the mainland, the majority of medium-sized and large enterprises continue to be active – and invest – on both sides of the Strait. Whether the membership of China and Taiwan in the WTO will be conducive to better relations and provide a forum for reaching bilateral agreements remains to be seen. There are indications that it may prove to be of benefit as well as being a nuisance (Eyton 2003b; cf. also Skanderup 2004).

There is one area, however, where Chinese membership of the WTO may actually lessen Taiwan's economic dependency on the mainland. If China is really going to comply with WTO regulations, it will have to cease providing favourable conditions to Taiwanese compatriots. The small-scale Taiwanese entrepreneurs who have relocated to the mainland exactly because of this kind of preferential treatment might be forced to relocate again and leave mainland China altogether as a result.

The intensifying economic relationship over the Taiwan Strait will certainly influence political relations, but in a positive way. On the one hand, it will increase the demand for regulations in the various fields of economic activity, thus putting pressure on both governments to achieve solutions and agreements. Secondly, the growing importance of these economic interests on both sides will lead to restraint in bilateral political relations as neither side will wish to endanger its economic growth.

2.5 China's Taiwan policy

Given the predominant domestic political attitudes on Taiwan regarding the understanding of Taiwan's status and the methods with which to achieve its adequate international expression, Beijing's policy towards Taiwan will continue to be characterised by mistrust about the intentions of Taiwan's leadership and its policies in the foreseeable future. The policies formulated by Beijing in response to Taiwan's persistent assertion of statehood, comprising various degrees of coercion, will therefore remain in place. Yet even within the perimeter of the rather strict demands formulated in the Taiwan White Paper there seems to be room for accommodation. One area that comes to mind would be an agreement on the establishment of the 'Three Links'.

Although Beijing is unlikely to change its course vis-à-vis Taiwan, its options to achieve a change in Taiwan's attitude towards its own policy preferences are – and continue to be – fairly limited. Any intensification of the threat scenarios is likely to conflict with the demands for a continuing rapid economic development, namely a secure political and economic environment in the Northeast Asian region. The growing dependence on Taiwanese investment will also force the Chinese government to conceive of ways to find solutions that will not endanger this source of investment and will also allow Beijing to maintain its basic approach to the Taiwan problem.

The current leadership of the PRC has shown little willingness to adopt new approaches in dealing with Taiwan. Constrained by the aspirations of popular nationalism and the demands of the Chinese Communist Party's nationalist project, there seem to be few options for a new approach that might lead to a *rapprochement* between the two sides. Thus, in his year-end speech for 2004, President Hu Jintao vowed never to allow Taiwan to become independent. Hu stressed that China will try to achieve peaceful unification, but will be absolutely opposed to any form of splitting Taiwan from China. His offers to reopen the dialogue between the two sides of the Taiwan Strait were again accompanied by the precondition that Taiwan acknowledged that it was part of 'one China' (Hoo 2005).

The drafting of the new 'Anti-Secession Law', which has already been accepted by the Standing Committee of the Chinese National People's Congress (NPC) and will be voted upon by the NPC's plenum in March 2005, may represent a significant change in China's approach to the Taiwan issue. According to some observers, the Chinese will use this law to pre-empt certain policy changes in Taiwan. At the same time, the passing of the law also demonstrates the realisation by the Chinese leadership that no progress on unification is likely to be made in the foreseeable future (Wang 2005; cf. also Cossa 2005).

Barring a drastic change in Taiwan's policies, i.e. the declaration of independence or the establishment of a Republic of Taiwan, both of which are rather unlikely developments, the relationship between Beijing and Taipei will stay at its present level.

2.6 Relations with the United States

Taiwan's relations with the government of the United States have improved under the Bush, Jr., administration. In addition to support by the President due to ideological reasons, an improved consultation process between the White House and Congress in assessing the situation in the Taiwan Strait, the result of new legal requirements for periodic consultation between both institutions, has helped considerably in improving American support for Taiwan (July 2002 Report 8: 11). The long-term prospects of the relationship between Taiwan and the USA will probably not remain as good, however, depending on the ideological orientation of future American administrations. Under a Republican administration, Taiwan may rely on continuous support. The platform of the Republican Party, ratified in August 2000, states quite unambiguously:

Our policy is based on the principle that there must be no use of force by China against Taiwan. We deny the right of Beijing to impose its rule on the free Taiwanese people. All issues regarding Taiwan's future must be resolved peacefully and must be agreeable to the people of Taiwan. If China violates these principles and attacks Taiwan, then the United States will respond appropriately in accordance with the Taiwan Relations Act. America will help Taiwan defend itself (cited in Brookes 2003: 1-2).

Under a Democratic administration, support for Taiwan will most probably be less unqualified.

The future position of the United States regarding the Taiwan issue will be the result of competing interests – on the one hand, those in economics and common security concerns with the government in Beijing, and on the other hand, its obligations towards Taiwan resulting from the Taiwan Relations Act and other American declarations. The support from the US might well be different in differing policy areas. A kind of bipartisan consensus seems to prevail among political circles to support Taiwan against military threats from the PRC, provided these actions are not perceived as a Chinese reaction to reckless action on the part of the Taiwanese.⁸ With respect to Taiwan's future, any future US government will most likely continue the present approach, which Ralph Clough, a long-time observer, has characterised as follows:

The U.S. Government has expressly rejected support for an independent Taiwan and for Taiwan's membership in international organisations for which statehood is required. It has never taken a position on what the nature of the relationship between mainland China and Taiwan should be – only that it should be worked out between the governments on the two sides of the Strait (Clough 2001: 38).

Up till now Taiwan has proven to be quite adept in playing off different institutions of the American political system against each other, namely Congress against the

⁸ Problems of this kind marred the relations between Taipei and Washington during the first term of the Chen administration. Cf. Shih 2004.

White House, the most famous example being the invitation of President Lee Teng-hui to visit Cornell University. The government in Taipei will certainly continue this approach, since it might reap quick results that can be exploited in Taiwan's domestic politics. This approach is fraught with inherent dangers, however. While these activities have resulted in some spectacular decisions that put Taiwan and its demands into the international spotlight for a period of time, they have not led to any enduring improvement in the nature of its relations with the US or support for Taiwan's policies.

2.7 Attitudes of the international community

The antagonism between Taiwan's sustained interest in an improvement of its international position and the unwillingness of the international community to formulate a substitute for its 'one China' policy is set to continue. The growing sympathy with Taiwan's struggle – the result of both Taiwan's democratisation and its positive role in global economic affairs – is unlikely to lead to an accommodation to its demands for enhanced status and recognition of its independent statehood, at least not as long as China continues to be perceived as a major growth market and a major location for profitable investment by the industrialised nations, who are unwilling to endanger this opportunity through activities that might offend Beijing. Quite to the contrary, the government in Taiwan will have to take precautions to prevent itself from being cast in the role of a troublemaker that will only endanger stability and progress in the region.

In East Asia, Taiwan is faced with growing isolation and has experienced little positive response to its demands, which are generally perceived as being of a destabilising nature (Teo 2004). The only exception to this trend may well be Japan, a nation that is reassessing its role in the Taiwan Strait from a security perspective.

Support from European governments for Taiwan's membership in organisations that do not require statehood as a criterion of membership may be more benign. Whether they will be willing to confront a Chinese government determined to deny Taiwan any international space whatsoever remains to be seen. In all likelihood, an intervention by the United States in favour of Taiwan will be the decisive factor.

Summary

Thomas Gold's dictum made 18 years ago on the characteristics of the status quo in the Taiwan Strait has turned out to be quite discerning. Looking at the developments that have taken place in the period since its publication, both the status quo in the Taiwan Strait and the development of the Taiwan issue have proven to be quite dynamic. Although the status quo concerning Taiwan's international position has essentially remained unchanged, considerable changes have taken place in other closely related fields.

The character of the status quo is not likely to be altered in the coming decade. Though there is a likelihood that Taiwan will enhance its international position by

obtaining membership of certain international organisations and by intensifying its non-official relations, little progress will be made in the core area of the status quo, viz. the modification of the "one-China" principle. Both China and the USA display a strong interest in maintaining the present configuration of the status quo, an interest that will set limits on the achievement of Taiwan's aims.

A solution to the Taiwan issue is equally unlikely to be achieved in the next decade. The dynamics of domestic politics in both China and Taiwan is likely to prevent fundamental solutions. The growing military potential concentrated in the Taiwan Strait is likely to turn Taiwan into a hotspot of security concerns, however.

Taiwan is likely to receive continuing support from the US government in its efforts to enlarge its international space, though this support will be limited by competing American interests in the region like economic and security co-operation with the PRC. Neither the European states nor the nations belonging to ASEAN are likely to support Taiwan's efforts. Therefore "Taiwan will need to remain an anomaly in the international system for some years yet" (International Crisis Group 2003c: II).

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