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STRAIT TALKING: WHAT SERVES AMERICAN INTERESTS AS TIES ACROSS THE TAIWAN STRAIT EVOLVE

INTRODUCTION

"No contact, no negotiations, no compromise."

With this triptych of negation, the Republic of China on Taiwan (ROC) has tried to seal itself from its mainland communist enemies for four decades. But times pass, generations change—and even communists eventually promote economic reform. These days, those three standards of denial—Taipei's so-called "Three Noes"—increasingly seem like an ancestral heirloom in a modern Chinese home: respected as the filial legacy of departed patrons, but rapidly anomalous amid bright new decor. Taipei still chants the slogan, but qualifiers echo ever more loudly.

No contact? Since late 1987, every month some 15,000 Chinese from Taiwan avail themselves of eased travel restrictions to the mainland, bearing with them several billion dollars of foreign exchange. Taiwan tourists have overtaken the Great Wall. ROC journalists cover the motherland without restriction from Taipei. There even is a boom in cross-Strait romance, as Taiwan travel agencies offer the island's eligible bachelors \$2,500, seven-day matchmaking trips to the mainland.¹

No negotiations? Maybe not across the table. But Taipei did dispatch an official delegation to Beijing for a May 1989 Asian Development Bank meeting. The ROC's International Telecommunications Agency this past November solicited and received an invitation to a Beijing briefing for potential investors into the Japan-mainland China seabed cable now under construction. And both sides have established non-governmental institutions to manage the flood of private and unofficial contacts across the Taiwan

¹ See "Looking for Love Across the Straits," *Asiaweek*, January 24, 1992, p. 30.

Strait: Taipei's Strait Exchange Foundation was established on November 26, 1990, and Beijing's Association for Relations Across the Taiwan Strait (ARATS) opened for business this past December 16. After some compromise, each plans to locate private offices in the other's capital.

No Compromise? Taipei's ultimate fear in having any truck with the communists has been that any "compromise" between the island and the continental communist behemoth might be construed as concession. Yet look where events are heading. In cheery indifference to officialdom on both sides of the Strait, the mainland and Taiwan are being commercially stitched together ever more tightly. A ban on direct trade scarcely stopped some \$7 billion worth of raw materials and assorted products from passing through Hong Kong last year, the majority destined for the approximately 3,000 ROC-owned factories in China's southern provinces.

The trade links have multiplied so fast, in fact, that talk of a so-called "Greater Chinese Economic Zone" lured more than 100 academics, industrialists, and politicians from the mainland and Taiwan to a three-day January symposium in Hong Kong. Noted S.F. Lee, one of five ROC legislators to attend the conference: "The most important thing is to reduce the political interference to cooperation on both sides."²

Bold Strokes. Although the eventual shape of any cross-Strait comity remains to be seen, its outlines are being drafted now, with increasingly faster and bolder strokes. It is in Washington's interest that the process of reconciliation, however haphazard and informal, continue.

But it also is a process that is best determined by the Chinese themselves. In such light, the current American policy of noninvolvement toward China's reunification best serves U.S. interests and should be maintained. American policy makers should applaud any moves to relax tensions across the Taiwan Strait, but should not pressure either side toward reconciliation.

Taiwan's future relationship with the mainland hence is for the Chinese to decide. The U.S. should insist only that it be decided peacefully.

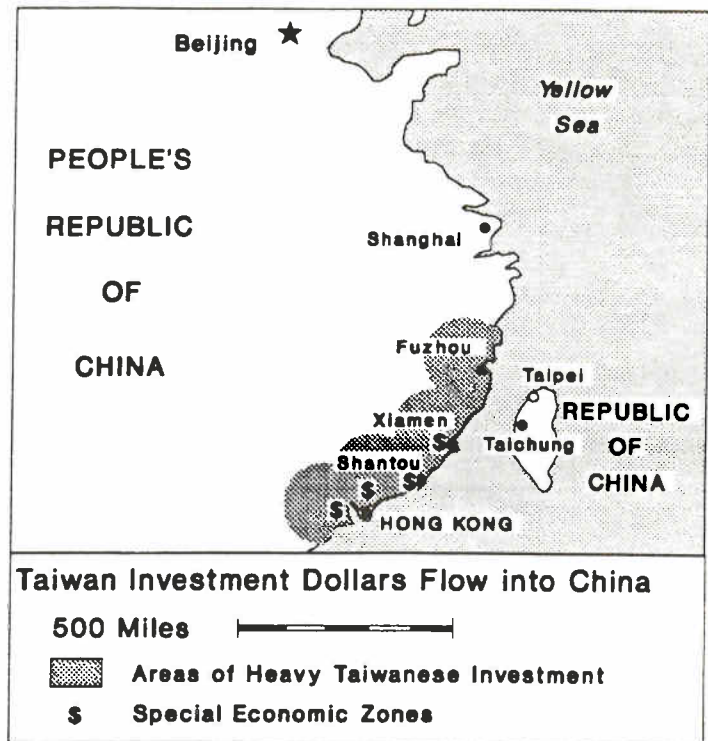
BUILDING BRIDGES ACROSS THE TAIWAN STRAIT

No more than five years ago, when mainland Chinese wanted to see their capitalist brethren in Taiwan, they had to climb a steep hill in Xiamen, a city along the coast of Fujian province, and, for about twenty cents a minute, peer through a powerful telescope trained on the enemy-held territory across the 100-mile-wide Taiwan Strait.

Today, it's easier. Indeed, in Xiamen, and all across Fujian province, the Chinese from Taiwan have landed. Making the most of relaxed attitudes at home and China's desperate need for investment and foreign exchange, over one million people have crossed the Taiwan Strait to tour, visit relatives, and most important, invest.

2 Michael Duckworth, "Political Differences Cloud Prospects for Greater Chinese Economic Zone," *The Asian Wall Street Journal Weekly*, January 27, 1992, p. 3.

Take, for instance, the story of Chen Han-fu. This 42-year-old president of the New Asia Jewelry Company shut his factory in Taiwan and moved his family and business to Xiamen from Taipei in 1987 to make seashell and jade trinkets. Today, Chen speculates in land in Xiamen. "High labor costs initially drove me here," he told The Heritage Foundation last October. "But now I hire some 150 workers at about \$40 a month—just one-thirtieth my Taiwan costs. With the savings, I buy land here in Xiamen, watch its value daily rise, then deal it for a nice profit."³



That such activity takes place in the People's Republic of China is revealing: some parts of the mainland are today more capitalist than communist. "Socialist China doesn't sell its land," clarifies one Xiamen city official, "but Xiamen does sell so-called 'land-use rights' and purchasers can resell those rights." He then adds: "The process attracts foreigners and accounts for much of our growth."⁴

He speaks the truth. In 1985, Xiamen was a dead city, with one foreign-owned factory and no street lights. Today, units in a high-rise office block still going up in the middle of town have been sold so quickly that the ROC developer never had to draw down the loan he had arranged with a Hong Kong bank to finance it.⁵

Peaceful Invasion. In one of the post-Cold War's great ironies, the small, break-away island of Taiwan, whose anti-communist Chinese rulers once devised plans for militarily retaking the mainland, now is launching a peaceful invasion that is helping prop up China's ailing socialist economy. Even when tourist revenue and foreign investment plummeted in the wake of Beijing's 1989 political upheaval following the Tiananmen Square Massacre, the flood from Taiwan continued to surge. Observed a foreign diplomat in Beijing: "Taiwan no longer tries to forcefully recover the mainland. It tries to buy it back."⁶

3 Conversation in China, October, 1991. Chen Han-fu also was featured in Adi Ignatius, "Going Home," *The Wall Street Journal*, August 2, 1990, p. A1.

4 Conversations in China, October 1991.

5 "The South China Miracle," *The Economist*, October 5, 1991, p. 19.

6 Discussions in Beijing, May 1990.

The low-tech and labor intensive ROC businesses that for years produced the clothes, shoes, and toys that carried the famous "Made in Taiwan" label are a case in point. Four decades of spectacular economic growth helped push the average income of Taiwan's some 21 million people to more than \$10,000, one of the highest levels in Asia. And it pushed the ROC's foreign exchange reserves to about \$82 billion, the world's largest reserve. But the runaway development and new-found wealth also led to steep land prices on Taiwan, rising labor costs and a strong local currency. The result: some of the industrial prosperity radiated outward, particularly toward a cheap China. Today, under the tutelage of entrepreneurs from Taiwan, goods once produced in the ROC increasingly are turned out by mainland Chinese.

Common Language and Culture. That the some 28 million mainland Chinese of neighboring Fujian province would become the focus of ROC commercial interests should come as no surprise. Most everyone on both sides of the Strait speaks the regionally predominant Minnanhua Chinese dialect. And local family connections, strained since 1949, when the Nationalist Chinese fled the mainland to set up a government in Taipei, remain strong.

But where common language and culture make doing business on mainland China easy, market forces make doing business there irresistible. The example of Chen Han-fu is illustrative: for most ROC entrepreneurs, the mainland's twin lures of land and labor are too promising to pass up.

For one thing, land is cheap. A Taipei businessman tells The Heritage Foundation that a square meter of land in some parts of Fujian can be rented for 35 cents a year on a 70-year lease. In Taiwan, the square meter can run a thousand times higher.

For another thing, the average factory wage in Fujian is less than \$800 a year, about one-tenth the rate in Taipei. "And it's quality labor, too," observes Kayser Sung, the publisher of *Textile Asia*. "Friends with factories all over Asia say that Thailand and Malaysia just cannot compare with China. If you want high grade products and quick delivery, you go to the mainland."⁷

Enterprising Mainland. Almost \$3 billion of ROC investment in the mainland, some by Taiwan's most prestigious businesses, confirms Sung's observation. The Hualon Group, one of the ROC's leading textile manufacturers, operates one of Shanghai's leading garment factories. Shihlin Electric and Engineering Corporation, a large Taipei-based producer of heavy electrical equipment and auto parts, sells transformers to Beijing factories. President Enterprises Incorporated, the ROC's largest food manufacturer, grows tomatoes for ketchup in China's far western Xinjiang province, along the border with Kazakhstan. Some 70 percent of the Nan Ya Plastic Corporation's output of polyvinyl chloride sheeting and almost 90 percent of its polyurethane production is sold to Hong Kong companies that ship it to China. Meanwhile, Nan Ya's parent corporation, the Formosa Plastics Group, conducts environmental studies for a spate of future projects in Fujian. Some 8 percent of the petrochemical giant's output already heads for the mainland. And its founder and Taiwan's most suc-

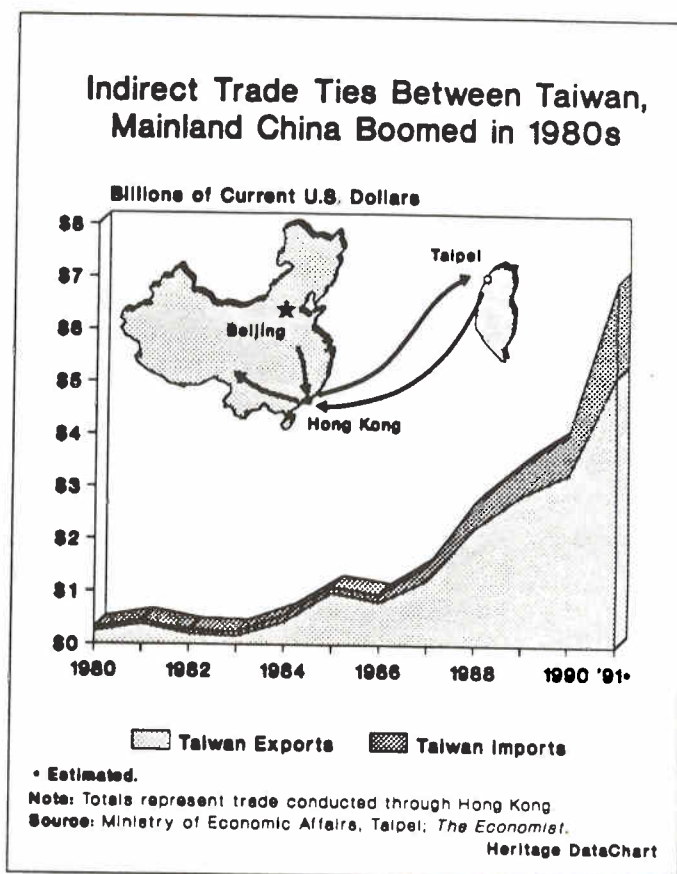
7 "Asia's Emerging Economies," *The Economist*, November 16, 1991, p. 12.

successful entrepreneur, Wang Yung-ching, even has toyed with the idea of setting up a \$7 billion petrochemical complex in Xiamen.

The understandable consequence of such enterprise is that business booms across the Taiwan Strait. Cloth, machinery, electronics, chemical fiber, and raw materials for chemical industries constitute the principal Chinese mainland imports from Taiwan. The mainland exports large amounts of coal, petroleum, cotton, and minerals like mercury, tin, and tungsten to Taiwan. Traditional Chinese medicinal herbs and animal and plant products used in Chinese art supplies, many of which can only be found on the mainland, also do brisk business in Taipei.⁸

Obviously, the formal ban on direct dealings scarcely impedes indirect trade between the mainland and Taiwan. Expanding at an average of 40 percent a year each of the past four years, trade through Hong Kong between the mainland and Taiwan unofficially reached \$7 billion last year. In 1979, ROC trade with China accounted for less than one quarter of one percent, or some \$80 million, of Taiwan's \$31 billion trade pie. Now it is 5 percent of \$138 billion—and growing.⁹

Taipei Concerns. Equally startling is the fact that the ROC's \$2.8 billion trade surplus with China in the first ten months of 1991 represents nearly one-third of the \$9 billion global surplus chalked up by the island over that period. Under normal circumstances, such a competitive edge in trade would delight most governments. But this trade boom actually troubles some in Taipei. The reason: it could create a commercial dependence on the mainland that one day might make Taipei a hostage to the old men in Beijing. The Taiwan Institute for Economic Research, a government think tank, predicts the mainland's share of Taiwan's exports in 1992 will exceed 10 percent. At this level, says the Institute, Beijing would be in a position to derail the ROC's economy by applying sudden trade sanctions.¹⁰



⁸ See Mitchell A. Silk, "Special Report: China-Taiwan Commercial Links," *The China Business Review*, September-October 1990, p. 32.

⁹ Statistics provided by ROC and PRC governments. See also "China's Snare," *The Economist*, January 4, 1992, p. 30.

Such lamentations, however, fall on deaf ears in the island's business community. "Why buy coal from Indonesia or Australia, when I can get it from China at a fraction of the price?" a manager of a brickworks in central Taiwan recently told the *Economist* magazine. The *Economist*, in fact, reports that of the top twenty items coming into Taiwan from the mainland, fifteen have not been approved by the ROC's Board of Foreign Trade and thus compete directly with Taiwan's own products. The ROC officially allows only 164 items, mostly foodstuffs and industrial raw materials, to be imported from China.¹¹

TAIPEI'S POLICY OF CONSTRUCTIVE ENGAGEMENT

The enthusiasm for the renewed contacts is not easily contained on either side of the Strait. When proposals to set up free-trade zones (FTZ) along Taiwan's west coast for mainland trade recently surfaced in the ROC press, the idea, though quickly shunned by official Taipei, gained immediate favor among local politicians, shippers, and businessmen not only on Taiwan but also on the mainland. In an FTZ, Chinese traders would agree to eliminate restrictions, such as tariffs, that impede free trade. ROC shippers happily identified Taichung harbor on Taiwan's west coast as an ideal FTZ prospect. Mainland businessmen meanwhile suggested Meizhou Bay just south of Fuzhou in Fujian province. "If it were ever allowed," a senior executive at Evergreen Marine Company recently observed, "direct shipping via an FTZ would reduce costs up to fifty percent simply because it would avoid Hong Kong."¹²

The growing trade links obviously are giving rise to ideas and expectations once considered heretical in the region. The links also are challenging some hallowed truths. Principal among them for the Chinese of Taiwan may be the notion that the government in Taipei is really the sole legitimate government of all China, temporarily prevented from exercising its authority by a communist rebellion. Foreigners, in fact, who speak of Taiwan as an independent country separate from China rather than as a province of China are still chided by ROC government officials for their ignorance.

Dramatic Action. But the notion that there is a communist rebellion was officially ended by ROC President Lee Teng-hui on April 30, 1991. He ended the so-called Period of Mobilization for Suppression of the Communist Rebellion which had been declared in 1948. Lee's dramatic action signified the ROC's desire to formally halt the state of cold war across the Taiwan Strait that began in 1949 when communist forces drove then-ROC President Chiang Kai-shek and his government from the mainland into their island enclave.

Taipei's rulers now recognize what few ever doubted: that the Middle Kingdom, indivisible motherland though it may be, has been divided politically since 1949 into thirty poor communist-ruled provinces and one Nationalist-ruled province that has become rich and successful—Taiwan.

10 *Ibid.*

11 *Ibid.*

12 Conversations in Taipei and Taichung, March 1990 and October 1992. Also see Julian Baum, "Strait Expectations," *Far Eastern Economic Review*, June 6, 1991, p. 40.

Lee's ending the state of war with the communists has caused problems for Taipei's ruling elite. Debate has arisen among some government officials and intellectuals about accepting dual recognition of Taipei and Beijing and acknowledging the reality of the long forbidden expression "the two Chinas." By casting relations across the Taiwan Strait roughly in the same light as those between East and West Germany from 1945 to 1990, advocates contend that the one state/two governments approach is the only way that Taipei can break its diplomatic isolation. Today, only 29 countries have formal diplomatic ties with the ROC.

Even more troubling for Taipei has been the opposition Democratic Progressive Party's (DPP) call for an independent Republic of Taiwan. Inspired, in part, by the break-up of the Soviet empire, DPP candidates ran for office in the December 21 National Assembly election on a platform that advocated Taiwan's independence. The DPP won 24 percent of the vote in that election.¹³

Alarm in Beijing. Beijing, whose communist rulers share with their Nationalist Taipei counterparts the conviction that Taiwan and the mainland belong together, watches all this with growing alarm. Beijing has said that it will use force to stop Taiwan from becoming independent. In recent months it repeatedly has warned the Nationalist government to silence the calls for independence. In early October, mainland China's President Yang Shangkun bluntly threatened: "Those who play with fire will be burned to ashes."¹⁴

But what surely scares the old guard in Beijing the most is Taipei's amazing success. Unlike the mainland, the ROC is an example of a dictatorship that grew up. Even the harshest critics of Taipei's political past readily acknowledge that the island's authoritarian concentration of power is being diluted rapidly under the influence of a successful, market-based economy. "China has 4,000, maybe 5,000 years of history, but it has never had an era like Taiwan today," observes the renowned Chinese social critic Bo Yang, who once spent a decade in a Taiwan prison for promoting democracy in the ROC. "There has never been a time when [the Chinese] people were so wealthy or so free. Living conditions are so great!... It is a golden age."¹⁵

In the past few years alone, the ROC's leadership has permitted the formation of new political parties, freed the press, relaxed foreign exchange controls, allowed strikes and the formation of unions, and lifted all bans on its citizens' travel. Measured even against the frantic change of 1991's global democratic revolution, the speed of Taiwan's passage into democracy is equaled by few countries. And none have so successfully combined their political miracles with economic ones.

Inescapable Taiwan. For Chinese on either side of the Taiwan Strait, it is this mixture of economic and political miracles that matters most. "It used to be laughable to think of Taiwan as a beacon of hope for the mainland," recently observed a mainland Chinese academic in conversations with The Heritage Foundation. "But that proposi-

13 Public Opinion and the Mainland Policy, October 1991, Mainland Affairs Council, The Executive Yuan, Taipei, ROC. Government polls indicated that 12 percent of the ROC populace approved Taiwan's independence.

14 See *Renmin Ribao*, October 3, 1991, in *Foreign Broadcast Information Service (FBIS)*, October 20, 1991, pp. 31-32.

15 Nicholas D. Kristof, "A Dictatorship That Grew Up," *The New York Times Magazine*, February 16, 1992, p. 16.

tion is no longer a fantasy. You go to the Great Wall and all you see are well dressed Chinese from Taiwan. You go to any mainland hotel, and it is filled with successful Chinese businessmen from Taipei. Their freedom and prosperity simply is inescapable.”¹⁶

Inescapable as well is the force of the Taiwan example. In southern China, local officials seem to measure their progress against Taiwan’s 7 percent annual growth rate and 1.4 percent unemployment. When one Xiamen city official recently was asked about Taipei’s plans to spend \$300 billion over the next six years on infrastructural projects ranging from highways, railroads and subways to power plants and sewage systems, he succinctly responded: “Awesome.”¹⁷

Studying Taipei’s Example. There also is growing, though understandably discreet, interest among some mainland officials in Taipei’s experience in making the transition from an authoritarian system, in which bureaucrats hold sway over the economy, to a more freewheeling, less regulated system. Taipei’s ruling Kuomintang, while anti-communist, for years built its power on Leninist principles of dictatorship and party organization. For some mainlanders, particularly governing officials on China’s economically booming east coast, Taiwan is a working example of how communist China might transform itself into a market economy based on small enterprises.

It is mainland China’s transformation into a successful, market-oriented economy that immediately is most important to Taipei. Like the other so-called Asian “miracle” economies of Singapore or South Korea, the Chinese from Taiwan well know that economic freedom leads to political freedom. A dedication to free markets and trade increases prosperity; prosperity diffuses economic power and thus challenges dictatorial authority. This then brings popular demands for democracy.

So, where possible, Taipei encourages its entrepreneurs to do business with their mainland counterparts. It does so because it knows that the mainland, for all its fits and starts, is committed irreversibly to economic reform. China’s economy simply is outgrowing communism, even if China’s leaders are not. There are no models of successful centrally planned economies anywhere; China’s economy will never again be commanded from Beijing.

Instead, Taipei—like the rest of Asia—is betting that economic reform will continue spontaneously to rise through local initiatives in provinces and special economic zones, like Fujian and Xiamen. Reinforced by a cross-pollination of ideas and wealth among the people who work there, the Chinese thus naturally will draw together. And the local government the mainlanders will be most eager to listen to will be the province of Taiwan.

¹⁶ Conversations in Hong Kong, October 1991.

¹⁷ Conversations in China, October-November 1991.

CHINA'S REUNIFICATION AND U.S. POLICY

The implicit message from Taipei to Washington thus is clear: Where possible, let China grow. Treat Beijing in as hard-headed a manner as a good Shanghai businessman, but keep in place policies of constructive engagement. It is absurd for the United States to put obstacles in the way of rapprochement.

This especially is so if that rapprochement is between Taipei and Beijing. Though the situation between the two sides of the Taiwan Strait has not, and likely will not, remain static, American policy, for now, should remain constant. Meaning: The pace and content of reunification should be determined by the Chinese themselves, free of outside pressure. Washington should insist only that the issue of China's future be decided peacefully.

And this has been American policy for two decades. The U.S. wisely has disclaimed a role in China's reunification and left the matter to the Chinese to decide. Considerable evidence suggests that this policy of noninvolvement has been sound and remains so. For one thing, the policy allows Washington simultaneously to pursue constructive relations both with Beijing and Taipei. American businessmen actively trade with and invest in both the mainland and Taiwan. The U.S. did some \$25 billion worth of business with mainland China last year and some \$36 billion with the ROC. Almost 80,000 Chinese students and scholars from both sides of the Taiwan Strait, meanwhile, routinely meet on U.S. campuses and in American research institutions.

For another thing, the policy is both firm in principle and flexible enough to respond to threatening security changes in the Taiwan Strait. By insisting that American interests are tied to a peaceful settlement of the differences between Beijing and Taipei, the U.S. deters China's proclaimed option to use force to resolve the issue of Taiwan's future.

In such light, the Bush Administration should reaffirm those American assurances that Taipei sees as essential to defend its interests. Specifically, Washington must continue to uphold strictly the 1979 Taiwan Relations Act (TRA).

Commitment to Taipei. For decades, as the ROC has feared invasion from the mainland, American support has been key in ensuring the island's security. From 1954 until 1979, Washington gave Taipei almost \$4 billion in military aid and stationed some 3,700 American troops under the terms of the 1954 U.S.-ROC Mutual Security Treaty. When Jimmy Carter unilaterally renounced this treaty, the Senate on April 10, 1979, enacted and forced Carter to accept the Taiwan Relations Act. Under it, though no U.S. forces remain on Taiwan, Washington is committed to assisting Taipei in maintaining its defense against possible threats from mainland China.

Moreover, the TRA makes clear that the U.S. decision "to establish diplomatic relations with the People's Republic of China rests upon the expectation that the future of Taiwan will be determined by peaceful means." States the TRA: "It is the policy of the United States to maintain the capacity...to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people of Taiwan."¹⁸

