

THE HERITAGE LECTURES

No. 600

An Asian Studies Center Symposium

Taiwan–Hong Kong–PRC–United
States: The New Quadrille

*Edwin J. Feulner, Jr., Jason Hu,
Richard Solomon, and Vincent Wang*



Founded in 1973, The Heritage Foundation is a research and educational institute—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

Heritage's staff pursues this mission by performing timely and accurate research addressing key policy issues and effectively marketing these findings to its primary audiences: members of Congress, key congressional staff members, policy makers in the executive branch, the nation's news media, and the academic and policy communities. Heritage's products include publications, articles, lectures, conferences, and meetings.

Governed by an independent Board of Trustees, The Heritage Foundation is a non-partisan, tax exempt institution. Heritage relies on the private financial support of the general public—individuals, foundations, and corporations—for its income, and accepts no government funds and performs no contract work. Heritage is one of the nation's largest public policy research organizations. More than 200,000 contributors make it the most broadly supported in America.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
202/546-4400
<http://www.heritage.org>

Heritage Foundation Lectures

Taiwan–Hong Kong–PRC–United States: The New Quadrille

Dr. Edwin J. Feulner, Jr.
President, The Heritage Foundation

Honorable Jason Hu
Taipei Economic and Cultural Representative Office

Ambassador Richard Solomon
President, United States Institute of Peace

Professor Vincent Wei-Cheng Wang
University of Richmond

The Lehrman Auditorium
The Heritage Foundation
July 31, 1997

Taiwan–Hong Kong–PRC–United States: The New Quadrille

Dr. Edwin J. Feulner, Jr.: Ladies and gentlemen, it is a very great pleasure to welcome you to this very important session examining Taiwan's relations with Hong Kong, mainland China, and the United States after the hand-over of Hong Kong.

My colleagues on The Heritage Foundation's Board of Trustees recently returned from a 17-day tour of Asia that included observing and actually participating in part of the hand-over of Hong Kong to the People's Republic of China (PRC). Following that, we spent several days in the Republic of China (ROC, or Taiwan) meeting with high-level political, governmental, and business leaders, as well as academics in that country. I would say that from our own observation, judgments are being withheld and everyone is waiting to see what happens next.

With the hand-over of Hong Kong and Chinese sovereignty now complete, attention has turned quickly to Taiwan to see whether it will follow suit. We believe it is far too early to judge the success or failure of China's "one country, two systems" model of government in Hong Kong.

PRC President Jiang Zemin has suggested, and the ROC's President Lee Teng-hui has rejected, the idea that "one country, two systems" is an appropriate model for the eventual reunification of Taiwan with the mainland. The clear message from the government and the people of Taiwan is that Taiwan is not Hong Kong. Indeed, one key difference is that any proposed arrangement to redefine sovereignty over Taiwan must meet with the approval of the more than 21 million residents of Taiwan who directly elect their executive and legislative leaders. The 6 million residents of Hong Kong had no such role in negotiating the terms of their reunification with China.

Regarding the policy of the United States, U.S. relations with Taiwan are governed in a way far different from U.S. relations with Hong Kong. The difference in treatment is due in part to Hong Kong's long history as a British colony and Taiwan's distance from the mainland across the Taiwan Strait. Both are viewed as part of greater China and dealt with in the context of U.S.–China relations, but Taiwan is a major focus of the three joint communiqués signed by the United States and the PRC and, of course, is also the titled focus of the Taiwan Relations Act of 1979. And that act is more specific and far-reaching than is the U.S. Hong Kong Policy Act.

Although journalistic and diplomatic attention appropriately remains focused on the transition in Hong Kong, the intensity of coverage inevitably will wane and greater pressure will be applied to Taiwan to accept a Hong Kong-type deal. Before this shift in media/diplomatic coverage occurs, it seems to us that U.S. policymakers should be reminded of the unique history and obligations that the United States has with respect to Taiwan. Taiwan is not another Hong Kong. Although the government and people of Taiwan will monitor the implementation of "one country, two systems" in Hong Kong with great interest, Taiwan is unlikely to move toward reunification with the mainland at any time in the near future.

Thus, U.S. policy should follow to the letter the prescriptions of the Taiwan Relations Act (TRA). These prescriptions, not the communiqué signed with Beijing, are the law of the land. And these prescriptions correspond to important, indeed vital, U.S. interests.

The United States should promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people of Taiwan. The United States should consider any efforts to determine the future of Taiwan by other than peaceful means a threat to peace and security in Asia and of grave concern to the United States. Finally, the President of the United States and the U.S. Congress should assess Taiwan's self-defense needs and continue to provide arms required to defend Taiwan as provided for under the TRA.

We have a stellar panel to discuss this important topic. We are privileged to have with us the Honorable Jason Hu, representative of the Taipei Economic and Cultural Representative Office; Dr. Richard Solomon, president of the United States Institute of Peace and former assistant secretary of state for East Asia and the Pacific; and Dr. Vincent Wang, assistant professor of political science at the University of Richmond.

Ambassador Jason Hu: What is next after Hong Kong? The answer is not Taiwan. The "one country, two systems" formula should not and cannot be applied to Taiwan. Taiwan is just not Hong Kong.

To begin with, it is quite obvious that Taiwan is very different from Hong Kong in terms of international identity. Hong Kong was a colony governed by a colonial authority for many years. Taiwan, on the other hand, is administered by the government of the Republic of China, a country that was established in 1912. A sovereign state from the beginning, the ROC has its own constitution, armed forces, financial system, defined territory, and directly elected leaders. Taiwan has official diplomatic relations with approximately 30 countries around the world and substantive unofficial relations with over a hundred others. Our status as a sovereign country is irrefutable. So Taiwan's situation—at least in terms of international identity—is completely different from Hong Kong's.

I think it is obvious that Hong Kong has no alternative to the "one country, two systems" formula, except for immediate reversion to a communist system. As for Taiwan, we have the power to say "No!" to the "one country, two systems" formula, which will lead eventually, I think, to a "one country, one system" consequence. And if the present Beijing leadership has anything to say about it, that system probably will have to be a communist system. We must ask ourselves: If people in Taiwan decided to accept a "one country, two systems" arrangement, what would they get out of it? Would they get more security? More democracy? More prosperity? More dignity? The answer to all these questions probably is "no." So there is no need or real incentive for people in Taiwan to accept "one country, two systems" or "one country, one system." This is why we say that if you want to talk about "one country, two systems," we would like to talk about one country with one *good* system—democracy. Nothing short of that is acceptable.

It is obvious that when you talk about Taiwan objectively, it represents the hope for the future of the entire Chinese nation. Hong Kong probably has never sought such a symbolic status, either subjectively or objectively. Taiwan has always had it. Like it or not, we represent a legitimate challenge to the authority of the old men in Beijing. We have always been an alternative to the Chinese communist system. As you know, China is divided into two parallel entities, and we are one of them. In the capitals of many countries, when you talk about an alternative to diplomatic recognition of Beijing, they immediately think of Taiwan, certainly not Hong Kong. People in Taiwan like their role as representatives of a better future for China. We look forward to sharing what we have today with the people of mainland China. And that, I think, basically differentiates Taiwan from Hong Kong.

As I mentioned briefly at the outset, the ROC on Taiwan has a constitution. And, more than that, we have a constitutional democracy. This means, in effect, that any decision regarding the future of Taiwan must respect the democratic system and spirit in Taiwan. We must accept the fact that when London and Beijing held negotiations over the future of Hong Kong, they did not take into account the desires of the Hong Kong people. There were probably no adequate or proper channels for them to express their concerns. But in the case of Taiwan, this could never be done. A Hong Kong-like deal to be worked out on Taiwan without the consent of the people in Taiwan simply is unthinkable and would be impossible to enforce. This is an unalterable fact of life.

We also must recognize that, in terms of international recognition, international activities, and foreign relations, Hong Kong is very much different from Taiwan. My country, the Republic of China on Taiwan, needs space in the international community in order to survive and develop. Five million tourists from Taiwan travel around the world each year. We are the world's 14th largest trading economy. We have very substantial relationships and interactions with more than 100 countries worldwide. Hong Kong used to have the British to deal in this respect for them, and perhaps now the PRC will represent them in many regards. The ROC on Taiwan is a sovereign state, however, and it needs to deal with the international issues itself. It also needs plenty of space and a proper status in the international community for its own survival and development. Without that space, Taiwan would be isolated and suffocated and could not survive, let alone develop. In my estimation, these are all major differences between Hong Kong and Taiwan that never should be ignored.

What is our policy, then, toward the transition in Hong Kong? Some misinformed individuals have suggested that we do not hope for the best to happen in Hong Kong. These cynics insinuate that we would welcome disruptions, hope things would not work, and cheer for the collapse of the "one country, one system" formula so that it cannot be applied to Taiwan. Such rhetoric, I think, is far from realistic. In fact, we hope there will be a smooth transition in Hong Kong. We would like to see prosperity and democracy maintained there. We also hope that the current ways in which we interact with Hong Kong and even mainland China will not be affected, much less damaged. We will continue to be present in Hong Kong and continue to interact with Hong Kong, at least in terms of economic and investment activities, educational and cultural exchanges, and tourism. So we need effective representation there. We had unofficial governmental representation in Hong Kong under the British colonial government, and so far this arrangement is still functioning in Hong Kong. Now we are just hoping that it will be maintained.

Against such a background, we have several principles that we think should guide our operations in Hong Kong. We wish to see, as I said, first and foremost, the current mode of interaction maintained. In other words, what is going on now is workable and should be saved. We certainly would not relish a reversal in Taiwan-Hong Kong relations or cross-Strait relations. We would like to see an increase in interactions between Taiwan and Hong Kong and, as I have said repeatedly, between Taiwan and the mainland. We want to see not just an increase in interactions, but also improved understanding and, in the end, the emergence of some form of cooperation.

We have made it known that we will not be involved in the local politics of Hong Kong, that we will not criticize local authority in Hong Kong, and that we will not violate any local laws. But this, of course, creates a situation about which we need to be very clear and forthright: Our respect for local law does not mean we are unconcerned about democracy in Hong Kong. The fact that we will not allow ourselves to be involved in local politics and will not violate the law does not mean that we will turn a blind eye toward the devel-

opment of democracy in Hong Kong. We remain very concerned, and we will let our concerns be known. This will be a real challenge in the near future. While we have to let people know how much importance we attach to the maintenance of democracy in Hong Kong, we do not wish either to create a difficult situation between our representatives in Hong Kong and the local authorities there or, worse yet, to further complicate cross-strait relations. This is challenging, but we still will try our best to manage this tricky situation.

In the end, I must say that, at least with regard to our Hong Kong policy, we have tried not to be antagonistic or confrontational. Certainly, we would not like to see any unnecessary difficulties arise. However, we still insist upon freedom, democracy, and prosperity in Hong Kong. We welcome the opportunity to work with like-minded people, people who would also like to see freedom, democracy, and prosperity in Hong Kong maintained or improved.

Bearing this in mind, we also must insist, however, upon putting the interest of the 21 million people in Taiwan first. We never will do anything contrary to the interests of the people in Taiwan. You know, we do encourage further investment into Hong Kong, or even to mainland China, so long as that investment does not affect economic development in Taiwan. These, I think, are some of the salient points concerning the relationship between Hong Kong and Taiwan.

It is also important to note, however, that we have conducted talks on shipping links and aviation links with Hong Kong, which seem to have progressed well. There was a question about flags, but both sides have now agreed not to fly national flags on their ships, but rather flags that represent the identity of either the port or the area from which the vessel originates so that shipping links can be maintained.

I would like to take time here to explain how we hope to improve cooperation between Taiwan and Hong Kong in the future. I think most of you already know that general international trade with mainland China has increased tremendously. I heard somewhere that, in the past five years, the volume of mainland China's international trade has increased by approximately 100 percent. And that means, of course, a lot of imports and exports and a lot of maritime activity along the shores of mainland China.

This has created tremendous pressure on the loading and unloading facilities in Hong Kong. People have told me that there is sometimes a waiting line for vessels entering Hong Kong. We think that once we open up Taichung—a port that has a large capacity, deep berths, and a favorable location for shipments between the American continent and mainland China—it can serve as a very useful connection between mainland China and the outside world. This would ease the pressure on shipping activities in Hong Kong. We have calculated that, if you are shipping to Nanking via Taichung, costs are reduced by about 40 percent. If you go to Fuzhou, costs fall by about 30 percent. So my government's efforts to make Taichung an offshore transshipment center are beneficial not only to us and to Taichung, but also to Hong Kong, to mainland China, to many shipping companies, and to Asian-Pacific trade in general.

How do we view the transition in Hong Kong so far? A month—31 days, to be precise—has passed since July 1. I have a report right in front of me from our Mainland Affairs Council, which says “so far, so good.” Things have progressed smoothly, and the signs have been encouraging. It is also said that the communications between our representation and the local authorities in Hong Kong have become easier in a sense, more frequent, more intensive, very useful. And I think people generally are satisfied with the situation in Hong Kong, relatively speaking, although I also must stress the fact that no

one can be certain—100 percent absolutely certain—of what is going to happen next year, next month, or even tomorrow.

We hope the situation in Hong Kong can remain relaxed and benefit all the parties involved. Many people have asked us whether the transition in Hong Kong will put pressure on Taiwan because of questions, as I said in the beginning, about what will happen after Hong Kong. In other words, after Hong Kong, what's next? If you look at the situation from certain perspectives that have not been publicly discussed very frequently in this part of the world, you will find that this is the first time in history that the PRC government has directly controlled a real, working, free-market economy. And this is also the first time in history that the PRC government has had a piece of real, working democracy in its grasp. Much remains to be said about the kind of democratic system in Hong Kong, what the PRC did before the transition about the legislature, the media, and all that. Hong Kong does have a relatively democratic system, however, and this is the first time in the past 50 years that the PRC has had a real working democracy on its hands.

In closing, I would like to point out that this is also the first time in history that the PRC has had to deal with effective representation from Taiwan. So, looking on the bright side, there might not be that much pressure on us after all—at least not for a year or two. We hope that the authorities in Beijing will discover that it is not all that terrible to experience democracy, a free-market economy, and representation from Taiwan. They might just discover that our representatives are actually nice people, even nicer than we are in Washington, D.C. You never know.

And so, when people ask me, “What is going to happen after Hong Kong? Will Taiwan be next or Macao?” I say, wait maybe 10 or 15 years. Maybe mainland China will be next. At least we hope so.

Ambassador Richard Solomon: China's determination to reunify with Taiwan is one of the most important issues affecting U.S. foreign policy today, but it is not an issue that we have thought about very clearly.

In a November 1995 panel discussion here at Heritage, I stirred up some interest on this issue with my estimate that, within a decade, the United States and China would be involved in some sort of military confrontation over Taiwan. Some people thought I was being rather extreme in this prediction; but, in fact, such a confrontation occurred just five months later, when the United States deployed two carrier battle groups to the Taiwan Strait region in response to Beijing's “missile diplomacy.”

Were people really surprised by these events? What surprises me is that, even in the United States, informed observers of the Asian scene had not thought very deeply about the implications of the current situation across the Taiwan Strait, how it might evolve, and how it affects U.S. interests. My objective here today is to try to clarify thinking about this situation and point to some important implications for U.S. foreign policy.

I might begin by mentioning one slight difference of perspective with that of Jason Hu. Dr. Hu stated in his opening remarks that Taiwan has the ability to say “no” to Beijing about approaching the future from a “one country, two systems” perspective. That's only partly true. I might also mention statements from some of the leaders of Taiwan's Democratic Progressive Party to the effect that Taiwan today is a sovereign country.

It is quite true that, from 1950 to this day, Taiwan has been an autonomous political entity, managing its own domestic affairs. The one crucial element of sovereignty that is not quite there, however, is Taiwan's ability to defend itself autonomously, to provide for its own security—although the 90 miles of water between the mainland and Taiwan certainly

helps in that regard. No matter how Americans, and Chinese on both sides of the Strait, speak about this situation, the reality is that the United States has played, and continues to play, a fundamental stabilizing role in this part of East Asia and in the security of Taiwan.

In terms of U.S. policy toward China and Taiwan—the issue I was asked to address today—let me begin by looking at a bit of history. When I assess the dealings of the United States with East Asia in the 20th century, I find that we have not demonstrated a great deal of forward thinking and smart strategic planning. I have never forgotten a Chinese aphorism I learned in Taiwan years ago when I was a Chinese language student: “If you know yourself and you know your adversary, in a hundred battles you will have a hundred victories.” If you look at U.S. involvement in East Asia throughout this soon-to-be-concluded century, we have not done very well in either knowing and pursuing our own interests or understanding our adversaries in the region.

We have fought three major wars in East Asia this century, and China was an important factor in each one. In the Pacific theater of World War II, we were allied with China against Japan. We entered the Korean War to prevent the global expansion of communism in the form of a North Korean–Chinese–Soviet alliance. And in Vietnam, we again fought against the threat of a similar expansion, this time in the form of North Vietnam’s ties to the PRC and the Soviet Union. In all three cases, the record of history suggests that we did not understand the circumstances or our adversaries very well; and in the last two instances, we did not prevail.

We did not have a clear perspective on what was happening on the Korean Peninsula or in Northeast Asia during the first half of this century. Under the administration of President Theodore Roosevelt, we acceded to Japan’s colonization of Korea. We didn’t know how to respond to Japan’s invasion of Manchuria through Korea in 1932; we simply adopted a policy of “nonrecognition” toward the Manchukuo regime. Subsequently, we imposed an embargo on Japan when it invaded China proper in 1937, but without assessing the implications of this deepening crisis for our own defense preparations. The consequence was Pearl Harbor, which led to our becoming an ally of China against Japan. In other words, while Americans were very disturbed about the rise of Japan as an imperial power, we did not undertake the defense preparations required to deal with that situation.

Recall that, in late 1949 and early 1950, Secretary of State Dean Acheson proclaimed that Korea was outside the U.S. defense perimeter in East Asia. That declaration may have misled the communist forces in the North about our intentions; and when the North invaded the South in June 1950, we, the United States, suddenly realized how much our strategic interests in East Asia were affected by stability on the Korean Peninsula. We quickly changed our position and sent ill-prepared U.S. troops stationed in Japan to defend the Republic of Korea. That war, of course, escalated with China’s involvement, leading first to a stalemate, then to a division of the peninsula that exists to this day.

In Vietnam, I think we understood our interests but probably not the complexities of Sino–Soviet and Sino–Vietnamese relations, much less the challenge of waging guerrilla warfare to defend the Republic of Vietnam during the 1960s and 1970s.

In short, if we as Americans take a hard look at our own history in East Asia this century, we have to conclude that—recalling that bit of Chinese wisdom I cited earlier—we have not always assessed our interests well enough to prepare for an effective defense, and we have not done a very good job of understanding our potential adversaries.

As we approach the new century, the question is whether we can do a better job of crafting foreign policy—in East Asia and elsewhere. The tendency of the United States in international affairs is to assert our values, but then fail to prepare for the power consequences of our position. Today, we are asserting a values-led foreign policy in the wake of the Cold War's passing, with an emphasis on human rights concerns. Our tendency is to stick out our chin, get angry when somebody takes a swing at us, and belatedly make preparations to do battle. Then we fight to the end. We believe in moral crusades; we want our foreign policy to be based on moral imperatives. Armed with such justification, we fight with massive effort for unconditional surrender. Yet we have cut our defense budget back by well over a third and slashed our foreign affairs spending by almost half. Hence, our values on the one hand and our defense commitments on the other are in danger of becoming seriously out of balance.

The Persian Gulf War in the early part of this decade serves as a contemporary model of this classic tendency. The preponderance of military power in that conflict was overwhelmingly in our favor. We fought to a position in which we dominated the military outcome—although today it is unclear whether the political outcome served our national interest. Our lingering fear from the wars in the last half of the 20th century is that we will end up in another Korean War stalemate or Vietnam quagmire.

What does this history imply for the current mix of factors that are shaping U.S. policy toward both China and Taiwan? Clearly, we are in a troubled relationship with the PRC today. There is much going on in China that offends our values—particularly in the area of human rights—and, to some degree, our interests. Our economic relationship is burdened by a growing trade imbalance and problems of market access and intellectual property protection. We are worried about the country's weapons proliferation activities. The U.S. agenda of concerns about the PRC is well-known.

Yet if you go to Capitol Hill and survey the attitudes of our legislators toward China—specifically, whether they are prepared for the consequences of a confrontation with China over the range of issues that includes the security of Taiwan—I think you will find that a majority in Congress would say that they do not believe U.S. interests are served by a prolonged period of confrontation, much less a military conflict, with the PRC. Americans really have not thought through the implications for U.S. defense capabilities in Asia of that complex mix of concerns about Chinese actions and our own national interests in a stable East Asia and a peaceful future for Taiwan.

We are generally aware of the PRC's deeply held objectives regarding national reunification and its security interests in such peripheral areas as Korea and the East and South China Seas. We are aware of China's unhappiness with our approach to foreign policy. The Chinese talk about their opposition to a single-superpower world and to what they claim—erroneously—is our policy of constraining China's emergence as a world power.

A few people in Washington, D.C., are aware that Moscow and Beijing recently signed an agreement to establish what they call a "strategic partnership" as a way of addressing their concerns about U.S. objectives in both Europe and East Asia. Beijing complains about a purported U.S. policy of "containing China," despite the fact that no such policy formally exists, and Moscow is concerned with the enlargement of the North Atlantic Treaty Organization.

The United States and China certainly have very different perspectives on the future of Taiwan. There is another Chinese expression that I find helpful in summing up these differences: We (China and the United States) are "sleeping in the same bed but dreaming different dreams." We both speak of "one China" but have conflicting views on how to ap-

proach the reunification issue. To use a distinctly American metaphor, we are on the same ball field, but we are playing different games—baseball, football, soccer, or whatever. We are not connecting well. We have some conflicting interests and are playing the game of statecraft by different rules, or certainly with different objectives.

In its foreign policy, China is approaching the 21st century with a 19th century agenda. We all know the impact on China's development of the Ching dynasty's collapse in 1911 and the subsequent warlord period, foreign invasion, and Mao Zedong's revolution. China has been struggling and slipping for more than a century in its effort to do what the United States, Japan, and much of the rest of the world have done gradually from the mid-19th century on; that is, to develop modern industrial—and now post-industrial—economies and societies. China began its sustained economic and social takeoff with Deng Xiaoping's reforms of 1979. The pent-up pressure for change in China is evident in the fact that, since the Deng reforms were initiated, the country's economy has been growing at upwards of 10 percent a year. The country had a tremendous unrealized development potential that has taken off now.

That growth has been facilitated to no small degree by the normalization of U.S.–China relations and the stable environment that the political and military engagement of the United States in East Asia has maintained for decades. China probably will never acknowledge that the United States has played a helpful role in its own national development, nor will it thank us for maintaining a stable strategic environment in the region. As countries pursue their own interests, they do not generally thank other countries. They assume that no favors have been granted, but that others are simply pursuing their own interests.

The fundamental question I want to raise in these remarks is whether the United States will maintain the necessary political, economic, and military capabilities to continue to pursue its own interests in East Asia as we enter the 21st century. China's immediate objectives are to sustain its economic modernization and to realize its goal of national reunification. The recent hand-over of Hong Kong to Chinese control and the approaching reversion of Macao back to China's dominion represent the partial completion of China's 19th century agenda. Taiwan, Premier Li Peng tells us, is next on this list; and one of my friends from academia who recently was in Shanghai heard a Chinese scholar also include on Beijing's agenda of territorial objectives the recovery of the islands in the East and South China Seas that are claimed not only by Beijing, but by Japan, Taiwan, and a number of countries in Southeast Asia as well.

I think we have heard here today a very clear expression of Taiwan's official perspective on the reunification issue. From an American perspective, we are proud and supportive—indeed, protective—of the great successes that have been achieved in the island's political and economic evolution since 1950. At the same time, debates in the United States regarding Taiwan's future and its security have not been entirely clear about the implications of the island's political transformation for its future status and the U.S. role in Taiwan's defense. Those of us who are now old enough to be called veteran China watchers remember clearly the Kuomintang's policy under Chiang Kai-shek: to recover the mainland in the framework of a “one China” policy.

From a U.S. policy perspective, Chiang's desire to recover the mainland raised the following issues: Whose interests would be served by reunification through military action? Who would take the initiative? Would Chiang drag the United States into a full-scale war with mainland China without allowing us to go through our constitutional processes regarding war and peace? Recall the debate in the Eisenhower Administration about

whether we should “unleash” Chiang at some point to put more pressure on the mainland’s communists as they sought to foment revolution abroad.

Today, of course, we have a transformed Kuomintang and a pluralistic political environment in Taiwan that fosters a much more complex domestic debate and set of cross-pressures regarding the island’s decision-making process and future status. If you listen to the discussions about the island’s future in Taipei’s policy circles, there are some who say there should be a “two China” policy: mainland China and the Republic of China on Taiwan. Others advocate continuation of a “one China” policy: one China, but not under current circumstances. It is very clear, as Jason Hu indicated, that Beijing today gives Taiwan little incentive for reunification, even under a “one country, two systems” formula. And then there are the positions of those at the extremes of Taiwan’s political spectrum, with some advocating talks with Beijing and some form of reunification at one end and some calling for Taiwan’s formal independence at the other.

What does all this mean for U.S. policy? Our own thinking about this very complex situation ranges from ambiguous to muddled to contradictory. And even if we can clarify our policy, will we sustain the capabilities to pursue our interests in the situation?

As was demonstrated during the two official U.S. visits to Beijing and Taipei in spring 1997—first by Vice President Albert Gore, who went only to Beijing, and then by Speaker of the House Newt Gingrich, who went to both Beijing and Taipei—the U.S. political leadership on both sides of the aisle is basically committed to a “one China” position, as it has been essentially throughout this century. I think most political leaders in the United States also would say that the time is not ripe, the terms are not right, for reunification. Indeed, even Beijing has had the sense until recently that reunification was something to be achieved in the relatively distant future. In 1972, Chairman Mao told President Richard Nixon in Beijing that China could wait 100 years to resolve the Taiwan issue.

Today, of course, there is a new generation of leaders in Beijing, just as there is in Taipei, and it is not clear whether restraint will endure on both sides of the Strait. From an American perspective, we are not fully in control of the situation’s course. Either side could force our hand, and I’m not sure that we are fully prepared for the consequences of unilateral initiatives from either Beijing or Taipei.

People in the United States really are not attuned to the dangers in the current situation, as was evident in the surprise at my November 1995 statement that the United States and China were likely to be engaged in some kind of military confrontation over Taiwan. The dangers today are, again, that officials in one or more of the three capitals will be forced to act prematurely, or that over time the United States will draw down its political and military engagement in East Asia in a way that creates a serious imbalance between our objective of a peaceful resolution of Taiwan’s future and our ability to maintain stability in the region.

In such a context, I see three possible outcomes for the current situation. These scenarios are simplified, and I attach no probabilities to them.

The first outcome is that, over time, Beijing and Taipei will reach some form of political accommodation at their own initiative. I could add a layer of complexity by detailing the alternative forms of such an accommodation, but at a minimum, it presumably would reflect the complex forces of attraction and repulsion that exist today between the mainland and the island. There is a very strong economic attraction between the two, and that is likely to grow. Yet, from a political point of view, Taiwan has no current interest in reunification as its democratization progresses and its integration with the world increases.

The second outcome envisions the PRC coercing Taiwan into some kind of settlement, presumably in the “one country, two systems” model, but perhaps in an even less attractive formulation. For that scenario to develop, I suggest that it would reflect a substantial weakening, if not the disappearance, of the U.S. security role in East Asia.

The third outcome, which the carrier deployments at the time of the PRC’s missile diplomacy suggest should be taken as a serious possibility, is that the PRC and the United States, in time, will confront each other militarily over the issue of Taiwan’s status.

What do these three scenarios mean for U.S. policy? It is clear that the U.S. national interest remains clearly on the side of ongoing stability in East Asia, a peaceful evolution of the situation across the Taiwan Strait, and Beijing’s honoring its commitments to enable Hong Kong to maintain its own separate economic system and values for at least the next 50 years.

For such a future to be realized, the United States not only must be clear-sighted about the objectives of the other players, but also must maintain the capability to sustain a stabilizing military and political presence in the region. This certainly will be good for Taiwan, and I would say it also will be good for Beijing, even though China’s leaders would be very reluctant to say so. From the viewpoint of fulfilling and protecting the national interests of the United States, the evolution of East Asia since the mid-1970s—shortly after the end of the Vietnam War—has been remarkably beneficial from a political as well as from an economic point of view.

So the question for U.S. foreign policy is whether we will clearly realize the relationship between our national objectives and our security and political presence in the region and make sure that the gap between the two does not grow so large that we no longer can help shape a peaceful future for all the countries of East Asia.

Professor Vincent Wei-Cheng Wang: The recent hand-over of Hong Kong from the United Kingdom to the PRC ushers in a new era in Taiwan–China relations. It is a new era because of the obvious fact that the ROC government, for the first time, is dealing directly with, and has presence on, a part of the PRC—the PRC’s Hong Kong Special Administrative Region (HKSAR). Taipei tries to maintain the fig leaf of its “three no” policy—no direct trade, communication, and transportation links—vis-à-vis Beijing by maintaining an “unofficial” representative office in Hong Kong, the Chung Hwa Travel Service, and by enacting laws that will treat Hong Kong and Macao as “special areas” distinct from the mainland. Nevertheless, the fact of the matter is that Taipei is dealing with Beijing, albeit through Hong Kong for now.

But more important, the new status of Hong Kong can contribute to either an improving or a deteriorating relationship between Taipei and Beijing. I seek to provide a very preliminary assessment, or educated guess, on Hong Kong’s role in Taipei–Beijing relations, taking into consideration that the new Hong Kong is only one month old. My focus is on an examination of the political implications of the economic ties among Taiwan, Hong Kong, and China. Before I can make some informed speculations, however, a brief background on the historical (that is, pre-hand-over) role Hong Kong had played in Taiwan–China relations can serve as a useful context.

Prior to the hand-over, Hong Kong had served as a valuable link between China and Taiwan. Because the two contestants of the unfinished Chinese civil war lacked direct contacts and were often in a stalemate, Hong Kong provided a bridge that drew Taiwan and the mainland toward greater economic integration, yet at the same time also created a buffer that allowed the two sides (especially Taiwan) to retain their political separation.

Hong Kong's role as an economic bridge between Taiwan and China can be seen in two areas in particular: trade and investment, both important to the economic health of all three parties.

In terms of trade, because Taiwan still maintains a ban on direct trade with the mainland, most of its trade with the mainland has gone through Hong Kong. And this indirect trade has changed from a trickle to a flood. In 1985, Taiwan-China trade via Hong Kong was less than Taiwan's trade with K-Mart. But barely a decade later, it rose to over US\$21 billion in 1996. According to Taiwan's official figures, trade between mainland China and Taiwan via Hong Kong in the first four months of this year amounted to \$3.56 billion. Hong Kong's—or rather, China's—importance as Taiwan's export destination has risen rapidly. In 1986, Taiwan exported 6.55 times more to the United States (\$19.0 billion), its largest export market, than to Hong Kong (\$2.9 billion). In 1995, Taiwan exported almost as much to Hong Kong (\$26.1 billion) as to the United States (\$26.4 billion). Hong Kong is expected to become Taiwan's largest export market, dethroning the United States. In the first five months of 1997, approximately 22.4 percent of Taiwan's exports were shipped to Hong Kong. Meanwhile, imports from Hong Kong accounted for only 1.7 percent of all incoming goods during the same period. The latest trade figures make Taiwan the fourth largest trading partner of Hong Kong, and China the third largest trading partner of Taiwan.

Taiwan enjoys a huge surplus in this trade. In fact, Taiwan's trade surplus with China has replaced its once-celebrated surplus with the United States—and by a wide margin. For example, for the first five months of 1997, Taiwan's trade surplus vis-à-vis China reached \$6.28 billion: Taiwan exported \$7.76 billion worth of goods to China (or about 15.9 percent of its total exports) while it imported \$1.48 billion (or 3.2 percent of its total imports) from China, according to government figures.

It should be pointed out, however, that even though Taiwan's trade with China via Hong Kong still is growing in absolute numbers, Hong Kong's relative importance (that is, its share of total China-Taiwan trade) has declined over the years. Before 1988, virtually all mainland-bound Taiwan products were transshipped through Hong Kong. In 1991, the figure fell to 70 percent. In 1993, Taiwanese exports to mainland China first broke the \$10 billion mark, but the cross-Strait transshipment rate through Hong Kong also dropped to below 60 percent for the first time. The figure further slipped to a record low of 49.8 percent in the first four months of 1997. The officials attribute this decline to Taiwanese companies that use Japan and South Korea as entrepôts for their products destined for the northern part of mainland China, and an increasing number of firms that also use ports in places other than Hong Kong to transship their products to the southern part of the mainland.

One other development that may erode Hong Kong's role as the transshipment port of Taiwan-China trade concerns the recently launched "direct" shipping service between Taiwan and the mainland. In April 1997, six Taiwanese and six Chinese firms were approved to run direct cargo services between an "offshore transshipment center" in the southern Taiwan port of Kaohsiung and the Chinese ports of Xiamen (Amoy) and Fuzhou in Fujian. Aimed at lowering the shipping costs, this transshipment center technically does not constitute direct transportation links between Taiwan and China, because cargoes on the route cannot enter Taiwan but must be shipped to a third destination. Kaohsiung's mayor, Wu Den-yih, said that he expected the mainland to open more ports, such as Dalian, Tianjin, Qingdao, and Shanghai, to the service from Kaohsiung this year. "It costs ships from these ports 40 percent less to come to Kaohsiung than to go to Hong Kong," Wu said. This represents Kaohsiung's modest attempt to compete with Hong Kong on

transshipments from China. In 1996, Kaohsiung handled 5.06 million teu (20-foot equivalent units), 42 percent coming from transshipments. In contrast, Hong Kong, which gets the lion's share of transshipments from China, handled 13 million teu.

Some expect to see declining importance for Hong Kong in China-Taiwan trade after future direct shipping links between Taiwan and China are established. But others doubt that the establishment of direct cross-Strait links will have a significant impact on Hong Kong. "Even if complete and unrestricted direct shipping between Taiwan and the PRC were allowed, the impact on Hong Kong would still be limited," a recent Bank of America Greater China report asserts. The report estimates that, even if all containers involved in the PRC-Taiwan-Hong Kong triangular trade were now delivered directly, "it would probably cause a loss of about 8 percent of Hong Kong's total port turnover—a significant figure, but hardly disastrous."

As an old saying goes, "trade follows investment." One other area in which Hong Kong has played a crucial role in China-Taiwan economic ties is investment—both as a leading investor itself in China and as a conduit of Taiwanese investments in China. Various sources estimate that since Taipei approved indirect investment via Hong Kong and other third areas in 1987, some 35,000 Taiwanese companies so far have invested more than \$30 billion in the mainland. Huge discrepancies exist among various estimates. Beijing claims that Taiwanese companies have poured about \$16 billion into Chinese ventures, with a further \$19.6 billion pledged for further projects, according to its Ministry of Foreign Trade. Taiwan's Ministry of Economic Affairs disputes these numbers, however, claiming that, by the end of 1996, accumulated Taiwanese investment in China stood at \$6.9 billion. Officially approved investment in mainland China totaled \$1.3 billion in 1996, up 12 percent from 1995. The official figures understandably underestimate the actual magnitude (and momentum) of Taiwanese firms' investment in China, because these firms can circumvent official restrictions by channeling capital through subsidiaries in third places, chiefly Hong Kong and the United States.

Investing in the mainland is important to Taiwan's economic survival. Despite efforts to develop a technology-intensive, high-value-added economy to remain competitive in the global market, Taiwan has had limited success. To Taiwan's many small and medium-sized firms, searching for cheaper labor is an easier solution than investing in expensive research and development. The mainland, which offers cheap labor and land, linguistic affinity, and geographic proximity, is simply a more attractive investment site than other countries in Southeast Asia or Latin America.

The Taipei government is concerned that increasing economic dependence on the mainland may jeopardize Taiwan's national security. Hence, it has tried to encourage Taiwanese businessmen to "go south" (Southeast Asia) or "go east" (Latin America and the Caribbean) while discouraging them to "go west" (the mainland). So far, this policy has met with little success. Still, Taiwanese investments keep pouring into the mainland. What is more worrisome to Taipei is that spearheading the new exodus are such heavyweights as the Formosa Plastics Group, which are signing mega-deals involving infrastructure projects. Consequently, Taipei recently imposed a cap of \$50 million on investments in China. Under the new policy, projects topping the \$50 million cap need special approval, and 32 categories are still banned, including reservoirs, electric power plants, airports, railways, roads, and port facilities.

Despite these brakes set by the government, Taiwanese firms keep marching into the mainland. Taiwan's mainland investment rush still trails Hong Kong's, however. Ever since China adopted the open-door economic policy in 1978, Hong Kong has been the most important source of foreign capital to China. Much of Hong Kong's manufacturing

base has since transferred to Shenzhen, just north of Hong Kong, and other places in Guangdong and southern China. Today, Hong Kong and Taiwan are the largest and second largest “foreign” investors in China, and together provide 67 percent of the total average. In fact, it is reasonable to say that China’s phenomenal export-led growth in the past decade was achieved mainly with investments from, and trade with, Hong Kong and Taiwan. It is also fair to say that Hong Kong’s and Taiwan’s continued economic prosperity also depends heavily on the mainland. These extensive commercial ties contribute to greater economic integration among the three, lending some credence to the so-called Greater China concept.

The fact that most of the foreign direct investment (FDI) flowing into China comes from Chinese overseas, rather than foreigners, also sets the Chinese case apart from other FDI darlings of the 1980s, such as Mexico. With the evolving product cycles and shifting comparative advantages in the Asian regional political economy, an elaborate network of division of labor and intra-firm trade has been established among the three, with the mainland providing the manufacturing base, Hong Kong providing the service, and Taiwan providing the capital and technical know-how. These developments have political consequences that are beyond the scope of this discussion. One immediate result, however, is that Taiwan and Hong Kong have seen their trade surpluses with the United States decline, whereas China has seen its trade surplus with the United States skyrocket. This imbalance, now at over \$40 billion a year, is sometimes even larger than Japan’s, and has become an irritant in relations between Washington and Beijing.

So it is clear that Hong Kong has served historically as a crucial bridge between China and Taiwan, and that such economic links have benefited all three, so that all three presumably will want to maintain such links. In addition to being a valuable economic bridge, Hong Kong, as a British colony, also provided a buffer for China’s and Taiwan’s diplomatic and intelligence activities. Hong Kong offered a venue for officials and businessmen to meet. Furthermore, a majority of the hundreds of thousands of Taiwanese visitors to the mainland went through Hong Kong, injecting an enormous amount of money into the local economy. Both Beijing and Taipei tried to understand, and arguably to influence, each other through Hong Kong.

Now that this “buffer” is gone, will both Taiwan and China become more exposed and thus desperate? Hong Kong’s role in cross-Straits relations is entering uncharted waters. What should, or can, Hong Kong become? Is Hong Kong to take a relatively passive role, a sort of “status quo ante,” offering a disguised “buffer” or “third place” until Taipei and Beijing can deal with each other on their own? Or is Hong Kong to take a more active role? What will that be? To facilitate further economic integration of Greater China? Or to facilitate national reunification at Beijing’s behest? To attempt to explore answers to these questions, I first will analyze the goals or objectives of the three parties involved. Then I will discuss the various scenarios, or contingencies—some benign, others detrimental—for the triangular relationships. To do so, I will enlist help with some insights from rational choice theory to illuminate the three parties’ considerations and ranking of their goals and their strategic interactions.

Ironically, the reverted Hong Kong can portend either better or worse ties between Taipei and Beijing, depending on how these three actors reconcile their various goals, some of which are irreconcilable. Here I will make three important assumptions.

- First, each actor is assumed to be a unitary rational actor. Naturally, in such pluralist societies as Taiwan and Hong Kong, this unrealistic assumption does not claim that each actor speaks as if with only one voice. It means that government policies, or leaders’ decisions, reflect an equilibrium of a two-level game, satisfying

simultaneously domestic constituencies and external demands. Therefore, we can infer from an actor's choice as if the actor is a unitary rational actor.

- Second, each actor is assumed to care about absolute gains. In other words, if actor A can gain more from X than from Y, A will choose X over Y. This is also known as the pareto-superior condition.
- Third, in an asymmetrical game, the party with the stronger bargaining position is also assumed to care about relative gains. In other words, A is concerned about not just whether he is doing better than before, but also how much better than his opponent B. Therefore, a (10, 10) result in which A gets 10 points (called payoff) and B gets 10 points may be just fine. But in an asymmetrical game, the stronger party A may prefer (9, 1) over (10, 10), or even (6, 1) over (9, 8), because he is more concerned about how much better he is doing than B, even at the expense of hurting his own interests.

This last assumption is especially relevant in understanding the dynamics of the diplomatic tug-of-war between Beijing and Taipei. While Taipei urges Beijing to accept a "win-win" solution (absolute gains concern), Beijing prefers to tighten up Taipei's diplomatic isolation (relative gains concern) even at the expense of fueling independence sentiment. These three assumptions are plausible, and offer insights into the analysis that follows.

In the context of Hong Kong's role in China-Taiwan relations, Beijing hopes to achieve three goals. The first goal is to foster economic integration (or interdependence) among China, Hong Kong, and Taiwan. As has been noted, Hong Kong and Taiwanese trade and investments are crucial to China's continued growth and modernization. As this goal is in Beijing's self-interest, China is expected not to disrupt these economic ties, hence preserving Hong Kong's role as a bridge within the Greater China.

Despite these material incentives, however, Beijing is likely to interfere. Here a peculiar "Hong Kong model" offers a disturbing lesson for Taiwan. After the mid-1980s, and especially after Beijing and London started clashing over the democratic reforms of Governor Christopher Patten, "Beijing lured in the Hong Kong tycoons and ignored the territory's government, with the result that Hong Kong has moved all its industries to mainland China," as Willem van Kemenade points out in his new book, *China, Hong Kong, Taiwan, Inc.: The Dynamics of a New Empire*. In fact, many of these tycoons are within the inner circle of Hong Kong's chief executive, Tung Chee-hwa. He also opines that China will intensify the policy it adopted toward Taiwan years ago of sowing dissension between the Taiwanese business community and the government, as it has done very effectively in Hong Kong.

Beijing's second goal is national reunification. Barely moments after Hong Kong came under Beijing's control, Chinese leaders like Jiang Zemin and Li Peng proclaimed that the "one country, two systems" design—Deng's grand vision—had worked in Hong Kong and thus would be applicable to Taiwan as well. Beijing has offered Taipei no other creative proposal for reunification than a "Hong Kong-plus" model of "one country, two systems," namely everything Hong Kong keeps plus Taiwan's military and a ceremonial state vice presidency. The government and people in Taiwan have rejected it firmly. Nevertheless, if "one country, two systems" should work in Hong Kong, no doubt pressure would mount for Taiwan to consider Beijing's "generous" offer. So far, the first month has not been that bad for Hong Kong, but whether Hong Kong can retain its autonomy in the long run remains to be seen.

Beijing's third goal is to use Hong Kong as a diplomatic weapon to isolate Taiwan further. Even before assuming control of the former British colony, Beijing had pressured those countries recognizing Taiwan with consulates in Hong Kong to break off diplomatic ties with Taipei or close their consulates. South Africa, Taipei's most important ally, decided to transfer diplomatic recognition to Beijing after 1997 while keeping its consulate in Hong Kong. Beijing also forced Taiwan's Latin American allies, like Panama, Haiti, and the Dominican Republic, to exchange commercial missions with Beijing. In fact, with Hong Kong as its ally, Beijing has launched its most aggressive diplomatic assault to uproot Taipei's stronghold in Central America and the Caribbean. Beijing's bullying tactics, however, also have caused rising resentment in the region.

Moreover, Hong Kong has memberships in many international organizations, including the World Trade Organization (WTO), World Health Organization, Asia Pacific Economic Cooperation (APEC) forum, and International Olympic Committee. It is conceivable that Beijing can influence or control how Hong Kong votes in these bodies regarding Taipei's participation.

In sum, Hong Kong's reversion offers Beijing a card to promote economic integration and political reunification with Taiwan, as well as to isolate Taiwan.

By contrast, Taiwan's goals are more limited and defensive. First, Taipei seeks a buffer in Hong Kong in its dealings with China. As stated before, the official line is that Hong Kong and Macao are "special areas distinct from the rest of the mainland" in Taiwan's eyes because China has promised them a high degree of autonomy. As one commentator put it, "In effect, Taiwan is taking China at its word." This uncomfortable position—namely, using Beijing's promise to fathom Taipei's "three-no" policy—was forced on Taiwan by the need to maintain commercial arrangements with Hong Kong.

These economic links are important to Taiwan. Taiwan's annual growth rates have slowed to 6 or 7 percent per annum in recent years from the breakneck pace of 9 or 10 percent of earlier decades. Because industrial upgrading is difficult while "going west" is easy for Taiwanese businessmen, the mainland is important to Taiwan's economic survival. Yet, at the same time, an economy overly dependent on the mainland may threaten Taiwan's national security. Taipei seeks to prevent repeating some of the "mistakes" Hong Kong made in its economic integration with the mainland—for example, its deindustrialization and Beijing's "divide-and-conquer" tactics. Treating Hong Kong as a buffer is a necessary evil in Taipei's delicate strategy of seeking economic survival while safeguarding national security in its economic ties with China.

Taiwan's second goal, ironically, is symbolic diplomatic gains. While Chinese leaders kept trumpeting the "Hong Kong model" for Taiwan, Taipei officials were busy getting across their message: "Taiwan is not Hong Kong."

Although some opinion leaders in the West may admit to being influenced by Beijing's innocuous "what is good for Hong Kong is also good for Taiwan" argument, most do recognize the differences between Taiwan and Hong Kong: the former a sovereign and de facto independent state, the latter a colony; the former uninterested in Beijing's offer, the latter resigned to fate; the former with a military and defense from the Taiwan Strait, the latter defenseless.

Taiwan did not come away empty-handed. The Clinton Administration avowed that Hong Kong's reversion would not affect U.S. policy toward Taiwan. Reflecting the new reality that Hong Kong is now part of the PRC, the United States adjusted the place of issuance to "Taipei" from "Hong Kong" on visas issued by the American Institute in Taiwan to Taiwanese applicants. Several other countries followed suit. Although the U.S.

Department of State stressed that this change was due merely to administrative needs and did not change the "one China" policy of the United States, this event was not insignificant to Taiwan's international status. One U.S. official professed this jaundiced conclusion: "Here is the deal. After July 1 we pretend that Hong Kong isn't part of China, even though it is. And we still insist that Taiwan is still part of China, even though it isn't."

Taiwan's third goal is more problematic. Officially, Taipei goes out of its way to assure Beijing that it will not involve itself in Hong Kong's political development. Taipei's hope is like that of some Western countries, however: namely, that Hong Kong can serve as a role model for China and instigate China's democratization. Commenting on Beijing's promise to maintain the status quo in Hong Kong during his meeting with the visiting Speaker of the U.S. House of Representatives, Newt Gingrich, ROC Vice President and Premier Lien Chan used a saying now popular in the mainland to describe the sentiment of residents of other parts of the mainland to call for the same treatment as enjoyed in Hong Kong: *shenzhen xiangganghua, guangdong shenzhenhua, dalu guangdonghua*. ("Making Shenzhen like Hong Kong, Guangdong like Shenzhen, and China like Guangdong.") In sum, Taiwan hopes Hong Kong can remain an economic bridge and a political buffer for Taiwan.

Hong Kong also has three goals. The first is to retain a high degree of autonomy. This is reflected in Tung's penchant to stress "two systems" as much as "one country." Naturally, the success of this aim depends largely on Beijing's self-restraint. But it also calls for the HKSAR government to stand up to the interference from Beijing or other parts of the mainland. So far, Tung is elated that the changeover has been successful precisely because little has changed. "There are demonstrations as usual, lawsuits as usual, media scrutiny as usual," Tung says. Prudence calls for reserving judgment, however, because China is, after all, busy preparing the Communist Party's 15th Congress, to be held in the fall, and thus prefers to live a period of honeymoon with Hong Kong.

Hong Kong's second goal is to maintain close economic links with China and Taiwan. Hong Kong has excelled as an economic go-between, and has prospered as such. Hong Kong will be hurt if a political row emanates between Beijing and Taipei that can seriously disrupt these beneficial ties. Therefore, it will work hard to prevent that from happening. This is related to its third goal.

The third goal to which Hong Kong can aspire is to serve as a political go-between. Although the leaders of both Beijing and Taipei have both expressed willingness to meet with one other, they have disagreed vehemently over how such meetings should take place. Lee Teng-hui has suggested to meet Jiang Zemin in a third country or under the aegis of international organizations or meetings (for example, the APEC forum). Jiang has refused because this would be seen as treating the ROC as an equal political entity. Jiang has suggested that he and Lee meet as the heads of their respective ruling parties, the Chinese Communist Party (CCP) and the Kuomintang (KMT). Lee has refused, because in a pluralist Taiwan, other parties, such as the Democratic Progressive Party (DPP) and the New Party (NP) are deeply suspicious that any party-to-party negotiations between the KMT and the CCP may "sell out" Taiwan. So the deadlock continues, and the chance for meetings of top leaders from Beijing and Taipei is slim. Hong Kong, however, has the potential to provide a venue for such meetings that both Beijing and Taipei can accept. For Beijing, such meetings will take place on Chinese soil, thus forestalling the internationalization of the Taiwan issue. For Taipei, Hong Kong is a third place distinct from the mainland, thus preserving some parity in bargaining. How much role Hong

Kong can play as a matchmaker between Taipei and Beijing, however, would be determined mainly by Beijing's needs and willingness.

Hong Kong's chief executive, Tung, got a quick reality check after his meeting with Koo Chen-fu, Taiwan's top China negotiator, that was hailed as important in forging new ties between two traditional trading partners, Hong Kong and Taiwan. Shortly after the meeting, Beijing's Foreign Ministry made clear that any dealings between the two sides needed Beijing's approval. Taipei fired back by saying that the mainland was trying to squeeze the island by requiring all Hong Kong-Taiwan contacts be vetted. Although Beijing clearly seeks to set the parameters on future Hong Kong-Taiwan ties, Hong Kong still can serve as a liaison for political dialogue between Taipei and Beijing.

What will be the contours of future Beijing-Taipei-Hong Kong relationships? The next section explores several possible scenarios that are deduced from recent examples. These cases illustrate certain important characteristics, and they range from mutually beneficial to potentially mutually destructive.

This section presents a preliminary taxonomy of models for China-Taiwan-Hong Kong relationships, with particular emphasis on three aspects of the cases: economic stakes involved, contribution to reunification, and balance of political leverage.

The first model is exemplified by the recently concluded WTO bilateral agreement between Hong Kong and Taiwan. Hong Kong is a member of the WTO, whereas both Taiwan and China are still seeking accession. Although there was speculation that the changeover may create obstacles in Hong Kong's WTO talks with Taipei, Hong Kong officials insisted that the change in sovereignty made no difference to such talks. "We support the membership by all trading partners of the WTO, and Taiwan is our fourth largest." Taiwan and Hong Kong on July 22 signed a draft agreement granting Hong Kong the initial negotiation rights to protect Hong Kong's textile and garment exports to Taiwan while also giving Hong Kong the same treatment as any other foreign country (that is, no foreign firm is permitted to enter Taiwan if its founding capital is more than 20 percent mainland Chinese).

The "WTO model" shows that both Hong Kong and Taiwan can deal with one another in a fair and business-like manner and act to enhance their mutual absolute economic gains. But this model also reveals three characteristics. First, the economic stakes involved are so high as to override political motivations. Hong Kong and Taiwan are important to one another's economic survival. Trade and investments between them can be expected to increase further after they can work with one another on removing trade barriers under the WTO framework.

The second characteristic of the WTO model is that it has little impact on national reunification, at least in Beijing's view. For Taipei, however, this model may have positive implications because it bolsters its position as an equal party before it can talk with Beijing. The WTO is an international organization, and Beijing loathes most any semblance of parity with Taipei in international bodies. Beijing permits Hong Kong's continued seat in the WTO, but asks that the name be changed to "China, Hong Kong" to indicate sovereignty. Taipei applied for WTO membership as "Taiwan, P'enghu, Kinmen, Matsu Separate Customs Territory" (rather than "Taiwan" or the "ROC"), and the WTO gave a "Chinese Taipei" short form. Beijing tacitly accepted this arrangement, because it does not challenge Beijing's sovereignty.

The third characteristic of the model is that Beijing has little political leverage to force Taipei into concessions. This is mainly because Beijing is not yet a WTO member. Furthermore, even after Taipei and Beijing both have joined the WTO and thus must deal

with one another (for example, in direct trade and transportation), Taipei still has the option of invoking the “mutual exclusion” clause regarding its trade relationship with the mainland. In other words, Taiwan’s “three-no” policy in theory does not automatically have to end with the day on which Taipei and Beijing enter the WTO.

The second model is in the mid-range. Two cases exemplified this model. One was the Tung–Koo meeting, as discussed earlier. The meeting created a liaison channel: Cheng An-kuo, the director of Taiwan’s Chung Hwa Travel Service, and Paul Yip Kwok-wah, Tung’s special adviser, were appointed intermediaries for Taiwan–Hong Kong affairs. Second was the shipping accord reached by Hong Kong and Taiwan earlier this year. Under the agreement, which was widely seen as a compromise, Taiwan ships entering Hong Kong ports would hoist neither the PRC flag nor the ROC flag, whereas Hong Kong ships entering Taiwan ports would fly only the HKSAR flag. These two HKSAR cases reveal the following characteristics. First, the economic stakes involved are high. Because shipping, trade, and other commercial ties are critical to both Hong Kong and Taiwan, and presumably also China, all sides realize the need to install proper arrangements for these ties. Second, this model’s contribution to reunification is relatively high, at least as Beijing sees it, because Beijing has set the parameters: any future talks between Hong Kong and Taipei must be conducted under the “one China” principle and must have Beijing’s endorsement. In this regard, there is very little Taipei can do. It should expect protracted negotiations with Hong Kong on every major issue in the future (starting with the talks on the status of Taiwan’s representative office in Hong Kong), with attempts by Beijing to define the political ramifications of such talks. Third, in terms of political leverage, this model shows that Beijing has considerable leverage vis-à-vis Taipei. Beijing should keep its use of such leverage to a minimum, however, because a brazen use of influence in every case seriously would undermine Beijing’s pledge of autonomy to Hong Kong, and may so frustrate Taiwan as to fuel the independence sentiment in Taiwan.

The third model is the most undesirable. The violent July coup led by Hun Sen, Cambodia’s co–prime minister, to oust his rival, Prince Ranariddh, created terrible fallout in Beijing–Taipei relations. Alleging that Taiwan was involved in aiding his rival, Hun Sen ordered the closure of Taiwan’s ostensibly unofficial representative office in Phnom Penh. While still trying to woo Taiwanese to invest in his war-torn country (because Taiwan is the top foreign investor in Cambodia), Hun Sen asked Taiwanese businessmen to seek help if necessary from Beijing’s embassy. Taipei charged that China was the “black hand” that was deliberately damaging Taipei’s strong economic links with Phnom Penh.

This case set a bad precedent in two respects. First, Beijing has tried to persuade countries around the world to cut diplomatic ties with Taiwan by promising that it would not oppose their unofficial commercial and cultural ties with Taiwan. Beijing raised eyebrows on July 24 when it openly welcomed Hun Sen’s move against Taipei’s office. Second, Beijing brazenly drove a wedge between Taiwan businessmen and their government by forcing the former to pledge allegiance to Beijing’s embassy. Whether this tactic will work remains an open question.

But a more important issue is whether Beijing’s move in Cambodia heralds a new and tighter diplomatic squeeze against Taiwan, or is just an isolated case. Nevertheless, this move reveals three characteristics. First, the economic stakes involved are relatively low. Although investments from Taiwan are important to Cambodia, Cambodia is perfectly substitutable as an investment site for Taiwan firms. In fact, Taiwan’s already strong links with Vietnam, a PRC nemesis, probably will benefit from capital relocated from Cambodia. Second, the case’s contribution to reunification is extremely dubious. Although Beijing may see this as one more successful move to isolate Taiwan and force it to accept

Beijing's terms for reunification, this may backfire by boxing Taipei into a corner. From Taipei's standpoint, this case has vividly exposed Beijing's "hegemonic mentality" and thus it is even less likely to negotiate with Beijing from a position of weakness. Third, Beijing has not hesitated to exert its enormous political leverage in this case. But Beijing's short-term gains may not be enough to offset certain long-term costs, such as Taiwan's increasing resentment and resolve.

Table 1 summarizes the essential characteristics of these cases and serves as a highlight of several plausible models of China-Taiwan-Hong Kong relations.

Table 1

China-Hong Kong-Taiwan Interactions: Various Scenarios

	Economic Stakes Involved	Implications for Reunification	Beijing's Political Leverage	Outcome*
WTO Model	high	low, but positive	low	mutual absolute gains, relatively equitable, (10, 10)
HKSAR Model	high	high, can be either positive or negative	high, should be used sparingly	mutual absolute gains, relative gains favoring Beijing, (9, 7)
Cambodia Model	low	low, and negative	high, but badly used	extreme relative gain differentials, favoring Beijing, (5, 0)

Note: * The first number in the bracket is Beijing's payoff, the second Taipei's. So a (9, 7) outcome means that Beijing gets 9 points and Taipei 7—both gaining absolutely, although Beijing gains more relatively.

Hong Kong's reversion adds an entirely new dimension to the decades-old wrangling between China and Taiwan. It either can contribute to a steady rapprochement between China and Taiwan, leading to a mutually acceptable *modus vivendi*, or can cause their contest to escalate into a zero-sum duel. Although it is too early to determine which tendency is prevailing, one can ponder the answer based on the models I presented above.

It seems that the WTO model, which gives the highest absolute gains (but also equivalent relative gains—(10, 10))—to both Beijing and Taipei, is the most desirable model. It also will be the exception, however, rather than the rule, because China will work diligently to define cross-Strait talks in a "domestic," rather than an international, context. The Cambodia model gives Beijing the highest relative-gain differential, but also the lowest absolute gain—(5, 0). In other words, sensible leaders in Beijing should question the wisdom of an all-out strategy to isolate Taiwan because it hurts Beijing's own interests. Taiwan can hope only that the Cambodia case is just the exception, rather than the rule, with respect to Beijing's fundamental policy toward Taipei.

The HKSAR model is interesting in many ways. It offers both Beijing and Taipei relatively high absolute gains (although not as high as under the WTO model), yet it also gives Beijing an edge in terms of relative gains—(9, 7)—without incurring an inferior result as seen in the Cambodia model. Hence, it probably will be Beijing's most preferred

mode of interaction with Taipei in the future. This basically is a modified *status quo modus vivendi*. To Taipei, its lower relative gains reflect its inferior position in the asymmetric game with China. This outcome still is much better, however, than that under the Cambodia model. In fact, some Taiwan officials publicly have expressed their hope that Hong Kong's reversion can provide a chance to improve cross-Strait relations. Chiao Jen-ho, vice chairman of Taiwan's Straits Exchange Foundation, said that, if Hong Kong remains prosperous over the next two or three years, it will help ease tension between Taiwan and mainland China. As is well known and illustrated in my presentation of various models, however, such an outcome will depend on Beijing's ability to restrain itself from interfering in Hong Kong's affairs. In the meantime, one would expect to see Beijing's continued use of a mixed strategy: using Hong Kong as both an economic bridge and a political pawn in its efforts to bring Taipei toward reunification.

The *status quo* is not perfect, but it does benefit the trio of Beijing, Taipei, and Hong Kong. Furthermore, the status quo is not static; it is dynamic. Ultimately, China's "one country, two systems" will evolve into "one country, one system" because the mainland will become more like Hong Kong, and vice versa. The fundamental issue is: whose system? On the one hand, it indeed would be tragic if Hong Kong should experience reduced prosperity and liberty (that is, the one system being socialism)—gradually or suddenly. But, on the other hand, it is not quite likely that the entire mainland could move up to Hong Kong's standards (that is, the one system being capitalism). Moreover, because there exist so many political uncertainties in China (for example, the future of communism and the Communist Party), the possibility of a change in Beijing's policy toward Hong Kong cannot be ruled out. Meanwhile, although now Taipei has every reason to reject Beijing's "Hong Kong model," should this model work in Hong Kong, it could have an impact on Taipei's attitude toward Beijing.

Hopefully, the trio can start discarding their discordant tunes and attempt to play like a true trio—however inexperienced. The first month of the new Hong Kong has not been too bad. But the jury on the old man's (who is now dead) "one country, two systems" is still out.