

China-Taiwan Conflict: Commerce as a Catalyst for a Stable Relationship

Kathy Chen

SUID 4853982

March 14, 2003

E296b

Professor Bruce Lusignan

Introduction

The unstable relationship between China and Taiwan has been a long and complicated one. At the start of the 21st century, the single greatest threat to peace in Asia was this tense cross-Strait relationship. It was widely believed that if hostilities were to erupt in the Taiwan Strait, the United States would be drawn in, starting a military confrontation between two of the world's greatest powers. Recently, significant economic developments in both China and Taiwan have improved diplomacy and created hope that a stable, peaceful relationship is possible in the future.

General Background on China

Geographic Background

China is located between Mongolia, India, and Burma, bordering the East China Sea, Korea Bay, Yellow Sea, and South China Sea. Its total area is 9,596,960 sq km, with 9,326,410 sq km of land and 270,550 sq km of water.¹ It is the world's fourth largest country, after Russia, Canada, and United States. Its capital is Beijing.

Figure 1: Map of China



Social Background

There are about 1.3 billion people in China, with 24.3% of those less than 15 years old, 68.4% of those between 15 and 64 years old, and 7.3% of those 65 years and over. The population is continuing to grow at a rate of 0.87%. The birth rate is estimated to be 15.85 births per 1,000 persons while the death rate is estimated to be 6.77 deaths per 1,000 persons.ⁱ In order to control the population size, the government is attempting to stabilize the population in the first half of 21st century through its One Child Policy. This policy allows one child per urban family, two child children per rural family, and loose guidelines for ethnic minorities with small populations. Although enforcement varies and the government opposes forced abortion or sterilization, coercive methods are still allegedly resorted to by people living in localities that take their population growth targets more seriously. The government's strict family planning policy effects are reflected in China's high infant mortality rate of 27.25 deaths per 1,000 live births.ⁱ

The majority, 91.9%, of the people in China are Han Chinese, and the remaining people, 8.1%, are Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Buyi, Korean, and other

nationalities.ⁱ There are seven major Chinese dialects and many sub dialects. Two-thirds of the Han Chinese people are native speakers of Mandarin, the predominant dialect, which is taught throughout the schools and used as the medium in government. The rest, concentrated in the southwest and southeast regions of China speaks the six other major dialects and a smaller number speaks the local sub dialects.

Political Background

The Chinese government is dominated by the Chinese Communist Party (CCP), which has 63 million members. Due to the country's large population size, geographical vastness, and social diversity, the government must continually build consensus for new policies among party members, local and regional leaders, influential party members, and the population. Party control is tight in government offices as well as urban, economic, industrial, and cultural environments as the party committees ensure that party and state policy guidelines are observed and non-party members do not create autonomous organizations that could undermine the party rule. The primary bodies of state power are the National People's Congress (NPC), the President, and the State Council Members of the State Council including the premier, a various number of vice-premiers, five state councilors, and twenty-nine ministers and heads of State Council commissions. Recently, China underwent its largest leadership reshuffle in the last decade with nine members of the Standing Committee of the Political Bureau of the CCP Central Committee replacing the seven members. Except Hu Jintao, the other eight members are new faces to the CCP's top decision-making body. This sweeping change in leaders is unprecedented in the Party's history. The chart below lists the new members who will take office during the Tenth National People's Congress in Beijing on March 5-18, 2003.

Figure 2: China's New Leadership

	New	Old
President	Hu Jintao	Jiang Zeming
Vice President	Zeng Qinghong	Hu Jintao
Premier	Wen Jiabao	Zhu Rongji
Executive Vice-Premier	Huang Ju	Li Lanqing
NPC Chairman	Wu Bangguo	Li Peng
Chairman of Chinese People's Political Consultative Conference	Jia Qinglin	Li Ruihan
Secretary of Central Commission for Discipline Inspection	Wu Guanzheng	Wei Jianxing
Secretary of Political and Legal Affairs Commission	Luo Gan	
Member of Standing Committee of the Political Bureau	Li Changchun	
Source: 16th Congress (www.16congress.org.cn)		

Economic Background

Since 1979, China has been reforming its economy from a Soviet-style centrally planned economy to a more market-oriented system. The Chinese leaders have adopted a more pragmatic view of socioeconomic and political issues and decreased strict Communist control over economic policy. They have focused on raising personal income and consumption, introducing new management systems to increase productivity, and using foreign trade as a vehicle for economic growth. In line with these goals, they established a system of household and village responsibility for agriculture, increased authority of local officials in industry, allowed a large variety of small-scale enterprise in services and light manufacturing, and opened the economy to foreign trade and investment. These reforms were successful and resulted in a quadrupling of the GDP to its 2001 level of \$5.56 trillion with a real growth rate of 7%.ⁱ

China currently has the world's second largest economy, after the US. Its total exports amount to \$262.1 billion and total imports amount to \$236.2 billion. China is the 11th largest US export market with \$16.3 billion exported in 2000.ⁱⁱ Additionally, its industrial production growth rate was 12% in 2002, with a total value of \$362.4 billion.ⁱ China's main trading partners include the United States, Japan, EU, Taiwan, South Korea, and Hong Kong. Export growth

continues to be a focus for the Chinese government to push the economy's development. To increase exports, they have taken measures to foster rapid development of foreign-invested factories as well as liberalized trading rights.

For the past eight years, China has been the world's second-largest recipient of foreign direct investment after the US with actual foreign direct investment exceeding \$50 billion. In 2002, foreign trade volume was over \$600 billion.ⁱⁱⁱ Since foreign-invested enterprises produce 45% of China's exports, China is also continuing to focus on opening to the outside and attract investment inflows.

According to Paul A. Laudicina, a managing director of global business policy council at A.T. Kearney, "Several factors contributed to China's number one position [No.1 FDI Attraction], include its populous market, continued economic growth, stable political situation, sound investment environment, WTO membership and successful bid for the Olympics. China has become the first choice for global manufacturers because they have strong confidence in China's raw materials and skillful personnel. In addition, China's enormous potential in the finance, service, infrastructure, telecommunications, wholesales and retail industries will also attract a great deal of foreign capital. By 2005, half of all new 10,000-US dollar annual salary earners will be Chinese." Additionally, he noted that China is not only a recipient of FDI, but also an investor. He added that, "Last year, the top 12 Chinese state-owned enterprises invested 30 billion dollars in foreign countries, an amount equivalent to the entire investment made by Latin America. Many Chinese small- and medium-sized companies also made investments in over 40 countries. In order to maintain its advantage, China needs to strengthen infrastructure construction and promote the balance of local economy."^{iv}

General Background on Taiwan

Geographic Background

Taiwan is located off the southeastern coast of China, bordering the East China Sea, Philippine Sea, South China Sea, and Taiwan Strait. Its total area is 35,9480 sq km, with 32,260 sq km of land and 3,720 sq km of water.^v Comparatively by area, it is slightly smaller than Maryland and Delaware combined. Its capital is Taipei.

Figure 3: Map of Taiwan



Social Background

There are approximately 22.5 million people in Taiwan, with 21% of those less than 15 years old, 70% of those between 15 and 64 years old, and 9% of those 65 years and over. The population is continuing to grow at 0.78%. The birth rate is estimated to be 14.21 births per 1,000 persons while the death rate is estimated to be 6.08 deaths per 1,000 persons.^v

There are three different ethnic groups in Taiwan: 84% are Taiwanese, 14% are mainland Chinese, and 2% are aborigine.^{vi} A large majority of people in Taiwan speak Mandarin Chinese, which has been taught throughout the school systems for more than four decades. Native Taiwanese and many others also speak Taiwanese, which is one of the Southern Fujianese dialects. The Hakka, who are concentrated throughout several counties in Taiwan, have their

own dialect. Due to Japanese rule during 1895-1945, many people over 60 years of age can also speak Japanese.

The three different ethnic groups in Taiwan resulted from an interesting political history. The aborigines people have lived on Taiwan for 12,000 to 15,000 years and are believed to have originated in Austronesia and southern China. Considerable migration from China to Taiwan started as early as AD 500. Dutch traders first claimed the island as a base for Dutch commerce in 1624. They administered the island and its mostly aborigine population until 1661. In 1664, a Ming loyalist Cheng Ch'eng-kung led a fleet from Mainland China to Taiwan and established Taiwan as a base in his attempt to restore the Ming dynasty, expelling the Dutch. He died shortly afterwards and his successors submitted to the Qing Dynasty. From 1680, the Qing Dynasty ruled Taiwan as a prefecture. In 1887, the island was made into a separate Chinese province. During the 18th and 19th centuries, migration from Fujian and Guangdong provinces gradually increased, and the Chinese superseded the aborigines as the dominant population. During the 1930s, a civil war was fought on mainland China between Chang Kai-shek's Nationalist (KMT) government and Mao Zedong's Chinese Communist Party. When the civil war ended in 1949, two million refugees mostly from the Nationalist community fled to Taiwan. In October 1949, the People's Republic of China was founded on the mainland by the Communist Party, while Chang Kai-shek established a "provisional" KMT capital in Taipei. Today, the 370,000 aborigines who inhabit the mountainous central and eastern parts of Taiwan are descendants of the original aborigines who occupied the island before the Dutch arrived. The 18 million "native" Taiwanese are the Chinese descendants who migrated from Fujian and Guangdong Provinces predominately during the 18th and 19th centuries. Finally, the remaining

Chinese “mainlanders” are part of the Chinese people who migrated to Taiwan with Chang Kai-shek after 1945.^{vi}

Political Background

Until 1986, Taiwan’s political system was in effect controlled by the KMT party. After 1986, the emergence of competing political powers challenged KMT’s hold on power. Around that time, candidates opposing KMT grouped together to create Taiwan’s first new political power, the Democratic Progressive Party (DPP). Although there was an official ban on forming new political parties, the government did not prohibit DPP from operating, and the party was legalized in 1989 when the Civic Organizations Law, which allowed for the formation of new political parties, passed. Since then, support and influence of DPP has increased such that in the 2001 Legislative Yuan elections, the DPP won a plurality of seats for the first time.

The DPP members are mostly native Taiwanese. Its platform includes outspoken positions on highly sensitive issues in Taiwanese politics. In contrast to the KMT members who believe that Taiwan and China are part of “one China, members of the DPP party believe that Taiwan is an entity separate from China.” Moreover, several ranking DPP officials openly support independence for Taiwan. DPP rose to prominence in March 2000 when their candidate, Chen Shui-bian, won the presidential elections and ended 55 years of KMT rule. President Chen Shui-bian is currently still the President and will end his four-year term in March 2004. His victory validated Taiwan’s democratic system.

Economic Background

During the past five decades, Taiwan has successfully transformed itself from a underdeveloped, agricultural island to an economic power as well as a leading producer of high-technology goods. Its GDP has averaged an 8% growth during the past three decades, and is estimated to be \$386 billion in 2001.^v Taiwan holds the world's third largest foreign exchange reserves of more than \$100 billion in 2001.^{vi} Due to its strong entrepreneurial strengths and conservative financial strategy, Taiwan suffered little during the Asian financial crisis in 1998-99. However, despite sustained economic growth, low inflation, and full employment for several years, Taiwan had its first-ever economic recession in 2001 due to a combination of the slowing global economy, financial sector weaknesses, and falling consumer and business confidence in the government's economic policymaking.

Foreign trade has played a predominant role in Taiwan's rapid growth over the last four decades. Taiwan's economy remains export-oriented, which means that it depends on an open trade world regime and remains vulnerable to downturns in the global economy. Export composition changed from mostly agricultural commodities to industrial goods. Particularly, the electronics sector is Taiwan's most important industrial export sector and is the largest recipient of US investment. Taiwan is also the world's fourth largest supplier of computer monitors and is a leading PC manufacturer. Imports are mostly raw materials and capital goods, and amount to a total of \$109 billion while exports amounted to \$122 billion.^{vi} Due to the replacement of traditional labor-intensive industries with more capital- and technology-intensive industries as the labor-intensive industries are moved offshore, Taiwan has become a major investor in China, Thailand, Indonesia, the Philippines, Malaysia, and Vietnam. US is Taiwan's largest trading partner, taking 27% of Taiwan's exports and supplying 17% of its imports. On the other hand,

Taiwan is US' eighth-largest trading partner with two-way trade totaling \$51.5 billion in 2001.^{vi} Imports from the US consist mostly of agricultural and industrial raw materials while exports to the US are mostly electronics and consumer goods. Taiwan's 2001 trade surplus with US was \$16.6 billion.^{vi}

Taiwan now faces the same economic problems as many developed countries. By relocating labor-intensive industries to country with cheaper workforces, their economy's future development will be dependent on transformation to a high technology and service-oriented economy. Recently, Taiwan has been successful in diversifying its trade markets. Its dependence on US should continue to decrease as they expand to European markets and continue to export to China and Southeast Asia.

History of China-Taiwan Relationship

Taiwan and China have a complicated and equivocal relationship. Since Chang Kai-shek and his troops fled the mainland and took refuge in Taiwan in 1949, China has worked persistently to settle the Taiwan issue and has striven for reunification under the "one country, two systems" policy. Despite differences between Taiwan and China, economic and cultural exchanges made significant progress through the 1980s. However, cross-Strait interaction deteriorated in 1996 when Lee Teng-hui became the first native-Taiwanese leader to be popularly elected. During this election campaign, as Taiwanese politicians stepped up calls for nationhood, China conducted missile tests and military maneuvers in the Taiwan Strait. US responded by sending two aircraft-carrier battle groups to the area to show support for Taipei. Since then, Beijing has built up short-range missile batteries along the coast. Throughout the 1990s, President Lee gradually deviated from the One-China Principle and made public

statements that enraged China such as “Taiwan is already a state with independent sovereignty,” and referred to China and Taiwan as “two reciprocal political entities.”^{vii} In July 1999 on German radio, President Lee stated that Taiwan would treat contacts with China as “state-to-state” relations.^{viii} In response to these statements as well as to prevent the DPP candidate, Chen Shui-bian, from winning the March 2000 presidential election, China issued a white paper entitled “The One-China Principle and the Taiwan Issue” in February 2000. In this paper, the Chinese government stated that “Lee Teng-hui has become the general representative of Taiwan’s separatist forces, a saboteur of the stability of the Taiwan Straits, a stumbling-block preventing the development of relations between China and the United States, and a troublemaker for the peace and stability of the Asia-Pacific region.”^{vii} Furthermore, in this paper, China repeatedly emphasized its desire to resolve the Taiwan issue since with the recent return of Hong Kong in 1997 and Macau in 1999, no part of China was under foreign control for the first time in 500 years. Government leaders felt that with the return of Taiwan, the country would be whole again. Additionally, for the first time Beijing stated that, “if a grave turn of events occurs leading to the separation of Taiwan from China in any name, or if Taiwan is invaded and occupied by foreign countries, or if the Taiwan authorities refuse, the peaceful settlement of cross-Straits reunification through negotiations, then the Chinese government will only be forced to adopt all drastic measures possible, including the use of force, to safeguard China's sovereignty and territorial integrity and fulfill the great cause of reunification. The Chinese government and people absolutely have the determination and ability to safeguard China's sovereignty and territorial integrity, and will never tolerate, condone or remain indifferent to the realization of any scheme to divide China. Any such scheme is doomed to failure.”^{vii} However, these warning were futile and the election of DPP’s Chen in March 2000

marked a watershed in Taiwan's political history as it was the first time power had passed from one political party to another through an election in any Chinese society.

In the weeks following his election, President Chen attempted to placate Beijing and reestablish dialogue by stating that he would not declare Taiwan as an independent republic, but Beijing declared that it would talk only when Taiwan accepted the "One China" principle. From Beijing's perspective, it has taken a highly flexible position: if Taiwan accepts the one-China formula, everything else is negotiable. However, Taipei's perspective is that accepting the one-China formula is conceding sovereignty to Beijing. Taiwan is interested in negotiations only if it is conducted on the basis of equality. Moreover, since President Chen's election, Taiwanese leaders have preferred to wait until the mainland become democratic before conducting any type of reunification negotiations.

China-Taiwan Economic Relationship

Economic Ties before WTO Memberships

As a result of the political hostility, there has been little formal direct dialogue between Taipei and Beijing. Since Taiwan switched to democratic elections, its leaders have been supporting a future that is increasingly independent of China. In general, the Taiwanese public supports this view although the feelings range from people advocating formal independence to people opposing allowing Beijing to control Taiwan. After Chen's election, Beijing threatened to boycott Taiwanese companies that supported Taiwanese independence; however those threats seem to have abated. Despite the standoffish political environment, commerce between the two has been escalating due to cultural, geographic, and economic realities. Indirect cross-Strait trade has grown significantly after Taiwan and China began to allow more direct commerce in

1987. As shown in Table 1, total indirect trade between Taiwan and China for 2000 was estimated to be \$31,252.8 million with imports of \$6,223.3 million and exports of \$25,029.5 million. Total indirect trade was more than five times larger in 2000 than it was ten years ago.

Table 1: Estimation of Indirect Trade between Taiwan and China (in US\$ million)

Period	Transit trade from Taiwan to Mainland China via HK	Taiwan Exports HK (F.O.B.)	HK. Imports from Taiwan (C.I.F.)	Difference between (2) and (3)	Estimation of Taiwan Exports to Mainland China	Taiwan Imports from Mainland China	Estimation of Total Indirect Trade between Taiwan and Mainland China
1990	3,278.3	8,556.2	7,439.9	1,116.3	4,394.6	765.4	5,160.0
1991	4,667.2	12,431.3	9,605.0	2,826.3	7,493.5	1,125.9	8,619.4
1992	6,287.9	15,416.0	11,156.3	4,259.7	10,547.6	1,119.0	11,666.6
1993	7,585.4	18,454.9	12,047.2	6,407.7	13,993.1	1,103.6	15,096.7
1994	8,517.2	21,263.0	13,757.7	7,505.3	16,022.5	1,858.7	17,881.2
1995	9,882.8	26,123.6	16,572.6	9,551.0	19,433.8	3,091.4	22,525.2
1996	9,717.6	26,804.8	15,795.1	11,009.7	20,727.3	3,059.8	23,787.1
1997	9,715.1	28,707.7	15,967.6	12,740.1	22,455.2	3,915.4	26,370.6
1998	8,364.1	24,819.7	13,342.9	11,476.8	19,840.9	4,110.5	23,951.4
1999	8,174.9	26,012.7	12,875.2	13,137.5	21,312.5	4,522.2	25,834.7
2000 1-12月 Jan.-Dec.	9,593.1	31,355.9	15,919.5	15,436.4	25,029.5	6,223.3	31,252.8
12月 Dec.	765.5	2,579.7	1,313.3	1,266.4	2,031.9	474.8	2,506.8
Source: (1)and(3)are from HK Customs Statistics,(2) from ROC Customs Statistics. (6)used HK Customs statistics before 1993;changed to ROC Customs statistics since 1994.							

Although the Taiwanese government originally encouraged Taiwanese companies to invest in Southeast Asia rather than the mainland, many Taiwanese people prefer to do business on the mainland due to cultural similarities and the common language. The two economies are complementary in that Taiwan benefits from access to the mainland as a market and production

base, while China benefits from the capital, technology, and market skills offered by the Taiwanese companies. China is Taiwan's third-largest trading partner, and Taiwan is China's fourth-largest. Taiwanese investment in China is almost \$60 billion, making Taiwan the third-largest investor after Hong Kong. As shown in Table 2, both countries import and export heavily with exports being a little higher.

Table 2: Comparison of Taiwan and China Foreign Trade (US\$ million)

Period	Taiwan			Mainland China		
	Exports	Imports	Total	Exports	Imports	Total
1989	663.0 (9.3)	552.7 (5.2)	1,185.7 (7.5)	525.4 (10.6)	591.4 (7.0)	1,116.8 (8.6)
1990	672.1 (1.4)	547.2 (4.7)	1,219.3 (2.8)	620.9 (18.1)	533.5 (-9.8)	1,154.4 (3.34)
1991	761.8 (13.3)	628.6 (14.9)	1,390.4 (14.0)	719.1 (15.8)	637.9 (19.5)	1,357.0 (17.6)
1992	814.7 (7.0)	720.1 (14.5)	1,534.8 (10.4)	849.4 (18.3)	805.8 (26.4)	1,655.3 (22.1)
1993	850.9 (4.3)	770.6 (7.0)	1,621.5 (5.6)	917.4 (8.0)	1,039.6 (29.0)	1,957.0 (18.2)
1994	930.5 (9.3)	853.5 (10.8)	1,784.0 (10.1)	1,210.1 (31.9)	1,156.2 (11.2)	2,366.2 (20.9)
1995	1,116.6 (20.0)	1,035.5 (21.3)	2,152.6 (20.6)	1,487.8 (22.9)	1,320.8 (14.2)	2,808.6 (18.7)
1996	1,159.5 (3.9)	1,012.8 (-2.2)	2,172.3 (1.0)	1,510.5 -1.5	1,388.3 -5.1	2,898.8 -3.2
1997	1,221.0 (5.3)	1,144.3 (11.8)	2,365.2 (8.3)	1,827.9 -21.0	1,423.7 -2.5	3,251.6 -12.1
1998	1,105.8 (-9.0)	1,046.7 (-8.0)	2,152.5 (-8.0)	1,837.1 -0.5	1,402.4 (-1.5)	3,239.5 (-0.4)
1999	1,215.9 (10.0)	1,106.9 (5.8)	2,322.8 (7.9)	1,949.3 -6.1	1,657.0 (18.2)	3,606.3 (11.3)
2000 Jan-Dec.	1,483.9 (22.03)	1,400.3 (26.51)	2,884.2 (24.16)	2,492.1 (27.99)	2,251.0 (35.78)	4,743.1 (31.40)

Note: 1. Figures in () are year-on-year growth rates.
2. A positive figure indicates trade surplus, whereas a negative figure stands for trade deficit.

Source: PRC Customs Statistics & "Monthly Statistics of Exports and Imports, Taiwan Area, ROC", Ministry of Finance, ROC.

Both governments indirectly support these exchanges since it boosts the economy. In January 2001, after a 51-year ban, Taiwan formally allowed the “three mini-links” of direct trade, travel, and postal links, from Quemoy and Matsu Island to Fujian Province. Taiwan business representatives, who are excited about the commercial opportunities in China, have been strong proponents to revise the “no haste, be patient” policy regarding Taiwan mainland investment to prevent over-dependence on China. In August 2001, President Chen accepted the recommendation to set aside this policy.

Entry into WTO

WTO Background

The World Trade Organization (WTO) is an international trade group that was formed in 1995 in Geneva, Switzerland as the successor to the General Agreement on Tariffs and Trade (GATT). It is composed of a council of representatives from all member countries and a bureaucratic organization that is responsible for appointing panels and holding regular meetings on current trade issues. It has the power to enforce any decisions or agreements made by the council through sanctions and fines. Additionally, the WTO assists other international organization in helping the economies of Third World countries.

China’s WTO Entry Process

After fifteen years of bilateral and multilateral negotiations, China’s WTO membership was formally approved in November 2001, and China formally entered on December 11, 2001.^{ix}

China persisted in its WTO membership due to the following reasons:

- 1) It would represent China’s growing economic power.

- 2) It would allow China to play a large role in developing new international rules for trade in the WTO.
- 3) It would reduce the threat of unilaterally imposed restrictions on Chinese exports.
- 4) It would help reformers in China push for liberalization policies if they could argue that such steps were need to fulfill international obligations.
- 5) It would hopefully help China induce the US to grant China permanent normal trade relations (PNTR), or most-favored (MFN), status which would eliminate the annual trade status renewal process and subsequent debate over US-China relations.

US played a large role in China's accession into the WTO. US officials insisted that China's entry be based on terms that would require China to significantly reduce trade and investment barriers within a relatively short period of time. For many US firms, China's market is difficult to penetrate because of their government policies designed to protect domestic industries. These policies encourage imports of products that are considered beneficial to China's economy, such as high technology and machines and raw materials used by export-oriented industries, while blocking goods and services that compete directly with Chinese domestic firms. In order to gain market access, foreign firms are forced to invest in China despite facing restrictions in doing so. US trade analysts hoped that China's WTO accession will allow greater access to the Chinese market by requiring it to lower trade barriers and subjecting its trade regime to review by the WTO dispute resolution process.

China's potential WTO membership invoked conflicting views among Americans. The supporters argued that increasing trade and opening China to the rest of the world would improve human rights by enhancing the rule of law for business activities, decreasing central

government's control over the economy, and promoting private sector expansion in China. On the other hand, opponents argued that WTO membership would support the repression of hundreds of thousands of people and give Beijing no incentive to reform their human rights issues. Additionally, they argued that the economic benefits would widen the gap between the rich and the poor because the farms, which are the weakest link the Chinese economy, will take the hardest hit.

Since Tianmen Square, the US government attempted to link China's human rights issues to the annual renewal of their most-favored-nation (MFN), now normal trade relations (NTR), trade status. During the beginning of Clinton's presidency in 1993, he announced that he would not renew China's MFN trade status in 1994 unless they made significant progress in human rights. However, although China clearly did not make an overall progress in human rights, President Clinton announced in 1994 that he would de-link human rights from trade as he realized the ineffectuality of this policy. He realized that the US could only do so much to change China, and down the line trade sanctions would hurt both China as well as the US.

In April 1999, Premier Zhu paid an official visit to Washington and announced that China would be willing to make major concessions in exchange for US agreement on Beijing's admission to the WTO. President Clinton miscalculated the degree of congressional support for this deal, and refused it. Shortly afterwards, President Clinton realized his mistake and tried to save the deal after Zhu returned to China. However, American bombing of China's embassy in Belgrade that following month caused Sino-American relations to drop to the lowest point since 1979 and suspended WTO negotiations by China. Negotiations did not resume until September 1999 when President Clinton met President Jiang Zemin in New Zealand during the Asia-Pacific Economic Cooperation forum's leadership meeting. After much heated debate among Congress,

the NTR bill was signed into law by Clinton on October 10, 2000. Although Clinton had de-linked human rights from trade, he still expressed American hopes that the impact of WTO membership would reach beyond the Chinese economy in his words: “Opening trade with China will not, in and of itself, lead China to make all the choices we believe it should. But clearly, the more China opens its markets, the more it unleashes the power of economic freedom, the more likely it will be to more fully liberate the human potential of its people...Open markets will accelerate the information revolution in China, giving more people access to more sources of knowledge. That will strengthen those in China who fight for decent labor standards, a cleaner environment, human rights and the rule of law.”^x

Taiwan’s WTO Entry Process

Similar to China, Taiwan waited more than a decade for its WTO membership. In contrast to China’s membership issues, Taiwan was considered qualified for membership by all WTO members. It agreed to all the trade disciplines applied to developed countries, systematically negotiated bilateral agreements addressing key concerns with interested WTO members, and even attempted to diminish diplomatic tensions by applying as the “customs territory of Taipei” rather than as the Republic of China. However, Taiwan’s membership was still delayed due to the sole reason that Beijing opposed its membership based on its “one China” policy. Although China was not yet a WTO member, WTO yielded to China’s demand that they join before Taiwan because Beijing appeared ready for membership. Unfortunately, the deal was not as complete as it seemed and Taiwan’s accession was delayed for almost two years. In December 2001, Taiwan formally joined the WTO a few minutes after China’s accession.

Economic Effects on Cross-Strait Relationship after WTO

China and Taiwan's WTO memberships have improved the cross-strait economic relationship because it serves as a new institutional means of discussing economic issues without raising questions of sovereignty. Currently, Taiwanese businesses have invested around \$100 billion on the mainland and an estimated 1 million Taiwanese citizens have moved to China.^{xi} This is a significant number compared to Taiwan's total population of 22 million and estimated labor force of 9.8 million in 2001.^y Recognizing the large economic impact of cross-Strait businessmen, China and Taiwan began direct air links between Taipei and Shanghai at the end of January 2003. This marked a break-through in cross-Strait relations as direct air links have been severed since the end of the Chinese civil war in 1949. According to trade officials, in the long run Taiwan's WTO membership will have a greater impact on China than on Taiwan since Taiwan is already sufficiently open to the world.^{xii} Additionally, they predict that along with the expansions and investments by foreign businesses in the Chinese market, the purchasing sources in China available to Taiwanese businesses will increase while the boost in trade by existing investments will gradually decrease. Eventually, although Taiwan's dependence on cross-strait trade will slow, its dependence on Chinese imports will increase as they lift restrictions on such imports.

Commerce as a Vehicle for Improved Relations

The growth of cross-strait commerce has changed political realities in both Taipei and Beijing. Although economic issues often receive less attention than political and military issues, they seem to have greater potential in transforming the relationship between Taiwan and China.

It is possible that commerce can serve as a vehicle for establishing a stable and peaceful relationship between Taiwan and China.

US & Taiwan Parallel Model

According to Greg Mastel, the chief trade counsel and chief economist for the minority staff of the US Senate Finance Committee, the commercial policy situation in Taiwan parallels that in US. Over the last ten years in the US, political parties began supporting expanded commerce with China despite many bilateral tensions including human rights abuses and a rising US trade deficit with China. In a surprising political reversal, Bill Clinton delinked human rights from trade and went from advocating the denial of China's NTR trading status to welcoming China into the WTO and granting them permanent NTR status. This remarkable change was notably driven by the US business community who lobbied for improved economic relations with Beijing. Consequently, "lobbying by the US business community turned a US president once committed to imposing economic sanctions on China into an advocate for expanded US-China commerce."^{xiii}

Similarly, the Taiwanese business community has become a powerful supporter for improved cross-Strait relations as they are seeking the opportunity to expand investment in the mainland and gain access to a low-cost labor pool that speaks the same language. Business connections with China have forced politicians to adjust their positions. Additionally, leaders see growing economic ties as a disincentive for military action on Taiwan by Beijing. President Chen, who was a strong advocate for Taiwan's independence from Taiwan, has begun to support cross-Strait direct commerce. It is more difficult to measure the commercial impact on political leaders in Beijing because China's political process is more opaque. However, it seems like

more moderate Chinese thinkers are supporting commercial engagement with Taiwan as an alternative to military action. Thus, although tensions are still high and direct negotiations are limited, growing economic ties have started incentives for peaceful cooperation between Taiwan and China.

Economic Solution over Military Solution

Despite recent positive economic developments, there is still significant risk that China will use military force on Taiwan. Recently, Taiwanese officials expressed concern over China's annual double-digit growths in their military spending during 1990-2002. In their 2002 budget, China increased military spending 17.6% to \$20 billion. This military budget is expected to grow 15-17% annually between 2001 and 2005. China has at least 300 ballistic missiles along its southeast coast trained on Taiwan and Taiwanese defense ministry expect this number to increase to 800 by 2006.^{xiv} In contrast, Taiwan's military is largely supported by the US in accordance with the Taiwan Relations Act passed by the Congress in April 1979. However, due to constant objections from China, US has been forced to gradually reduce its sales of arms to Taiwan.

Given the recent economic and political developments between China and Taiwan, the possibility of China making a military attack on Taiwan seems small and likely to decrease. With its WTO membership and win in hosting Olympics 2008 in Beijing, China's global position has become prominent and is now closely watched by other countries. Beijing has too much at risk to make a brash military move against Taiwan. Its future economic growth is largely dependent on both US and Taiwan. If they are to make a move against Taiwan, they will not only lose all Taiwanese business investments, but also lose US investments as US maintains to

seek a peaceful environment in the Taiwan Straits. As stated by Secretary of State Colin Powell to the Asia Society in June 2002, US's stance on Taiwan is clear and will not change: "We will uphold our 'one China' policy and we continue to insist that the mainland solve its differences with Taiwan peacefully. Indeed a peaceful resolution is the foundation on which the breakthrough Sino-American communiqués were built, and the United States takes our responsibilities under the Taiwan Relations Act very, very seriously."^{xv}

Similarly on Taiwan's side, although there may still be political support for independence, Taiwan cannot risk breaking its economic ties with China. With current weak economy and Asian flu, Taiwan needs China to support its economy. In this way, Taiwan actually has more economic risk than China due to its much smaller and saturated market. In the long run, it seems like the economic factors will play a larger role than the political factors as the political leaders are supported by the Taiwanese businessmen, who will want to maintain civil connections with China. The political leaders will not get enough support to make an outright break for independence from China.

Conclusion

The current status between China and Taiwan from the Taiwanese perspective is well summarized by the following statement made by Andrew Yang, who is head of the Chinese Council: "The consensus is that nobody really prefers to unify with China under Chinese 'One Country, Two Systems' terms, and further nobody wishes to unify with China in the near future. They want to remain in their autonomous status, however whether people are really supporting outright independence or replacing their current nationality with some other national names, it still remains to be seen."^{xvi} Recent developments strengthening economic ties between China

and Taiwan give hope that commerce can serve as a vehicle in establishing a peaceful, stable cross-Strait relationship. However, based on the political factors, it doesn't seem likely that the status of "One Country, Two Systems" will change anytime soon.

Works Cited

-
- ⁱ The World Factbook 2002: China. 13 Feb. 2003. Central Intelligence Agency. 9 March 2003 <<http://www.odci.gov/cia/publications/factbook/geos/ch.html>>.
- ⁱⁱ Morrison, Wayne M. "China and the World Trade Organization." CRS Report for Congress. 17 Jan. 2002. p.2
- ⁱⁱⁱ "China's GDP Hit 1.23 Trillion US Dollars in 2002." Embassy of the People's Republic of China in Australia. 30 Dec. 2002. Embassy of the People's Republic of China in Australia. 11 March 2003 <<http://www.chinaembassy.org.au/eng/39896.html>>.
- ^{iv} "China, No.1 FDA Attraction." Embassy of the People's Republic of China in Australia. 24 Sept. 2002. Embassy of the People's Republic of China in Australia. 11 March 2003 <<http://www.chinaembassy.org.au/eng/35151.html>>.
- ^v The World Factbook 2002: Taiwan. 13 Feb 2003. Central Intelligence Agency 9 March 2003 <<http://www.odci.gov/cia/publications/factbook/geos/tw.html>>.
- ^{vi} "Taiwan." Background Note: Taiwan. Nov 2002. US Department of State. 22 Feb. 2003 <<http://www.state.gov/r/pa/ei/bgn/2813.htm#defense>>.
- ^{vii} "White Paper – The One-China Principle and the Taiwan Issue." The Taiwan Affairs Office and the Information Office of State Council. 21 Feb. 2000. Embassy of the People's Republic of China in the United States of America. 9 March 2003 <<http://www.china-embassy.org/eng/7128.html>>.
- ^{viii} Faison, Seth. "Taiwan President Implies His Island is Sovereign State." New York Times on the Web. 13 July 1999. New York Times. 1 March 2003 <<http://www.taiwandc.org/nyt-9909.htm>>.
- ^{ix} Morrison, Wayne M. "China and the World Trade Organization." CRS Report for Congress. 17 Jan. 2002.
- ^x Ching, Frank. "China and Taiwan: what role for US?" Great Decisions 2001. p. 27
- ^{xi} "Cheers for Taiwan-China Flight." 26 Jan. 2003. CNN Online. 15 Feb. 2003 <<http://edition.cnn.com/2003/WORLD/asiapcf/east/01/26/china.taiwan/index.html>>.
- ^{xii} Heineman, Ashely. "WTO Opens Doors to China, Taiwan." Pulse Online 3.2 (2001) 5 March 2003 <<http://pulse.tiaonline.org/article.cfm?id=687>>.
- ^{xiii} Mastel, Greg. "China, Taiwan, and the World Trade Organization." The Washington Quarterly 24:3 (2001) pp. 51.
- ^{xiv} "Taiwan Worried about China's Increased Military Budget." 8 Mar. 2002. Space Daily. 4 March 2003 <<http://www.spacedaily.com/news/china-02p.html>>.
- ^{xv} Chung, Nelson. "US Lawmakers Say Taiwan Deserves Unwavering Support." 13 June 2002. Central News Agency. 10 March 2003 <http://www.taiwanstudies.org/issues/view_story.php3?598>.
- ^{xvi} "Taiwan: New Party Alliance." Asia Pacific. 13 Feb. 2003. ABC Online. 11 March 2003 <<http://www.abc.net.au/ra/asiapac/programs/s784010.htm>>.