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HIGH TENSION WITHOUT WAR:

INTERPRETING TAIWAN STRAIT RELATIONS FROM 1990 TO 2005

by

YANG CAI

Under the Direction of Professor Henry F. Carey

ABSTRACT

This study interprets the puzzling absence of war among the US, China, and Taiwan from 1990 to 2005, when identity politics across the Taiwan Strait caused high tensions. The application of realist constructivism theory to this case would produce a prediction of war there resulting from conflicting identities, which produce irreconcilable conflicts of interests over territorial claims. However, the application of four other, relevant international relations theories explains this absence of war during this period. A zero-sum game of competing identities was replaced by a positive-game resulting from three liberal theories promoting inter-state cooperation: complex interdependence; state trading identities; and issue-linkage functions and one alternative realist theory, offensive realism, which shows that the balance of power deters war. Assuming China's increased defense spending does not alter the balance of power in its favor, the current relative peace will continue to prevail, at least in the short to medium term.

INDEX WORDS: China, Taiwan, the US, War, Tension, International Relations Theory

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Master of Arts

in the College of Arts and Sciences

Georgia State University

2005

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2005

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS…….. v

LIST OF TABLES……... vi

LIST OF FIGURES…….. vii

INTRODUCTION…… 1

HISTORICAL OVERVIEW OF CHINA-US-TAIWAN RELATIONS FROM 1990 TO 2005…… 10

OFFENSIVE REALISM THEORY AND ITS IMPLICATIONS FOR CHINA-US-TAIWAN RELATIONS……... 17

COMPLEX INTERDEPENDENCE THEORY AND ITS IMPLICATIONS FOR CHINA-US-TAIWAN RELATIONS…….. 26

TRADING STATE THEORY AND ITS IMPLICATIONS FOR CHINA-US-TAIWAN RELATIONS……... 42

ISSUE LINKAGE THEORY AND ITS IMPLICATIONS FOR CHINA-US-TAIWAN RELATIONS……..…… 50

CONCLUSION…… 60

REFERENCES……. 65

APPENDIX…… 75

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Yang Cai

LIST OF TABLES

Table 1: Operational Warheads Possessed by the US and China 20

Table 2: Taiwan Strait Military Balance (Ground Forces) 21

Table 3: Taiwan Strait Military Balance (Air Forces) 22

Table 4: Taiwan Strait Military Balance (Naval Forces) 22

Table 5: Balance of Power in the Taiwan Strait 23

LIST OF FIGURES

Figure 1: Cross-Strait Indirect Trade (1990-2004) (US$ Million) 30

Figure 2: Share of Cross-Strait Trade in Taiwanese Total Foreign Trade (1990-2004) (%) 31

Figure 3: Share of Cross-Strait Trade in Chinese Total Foreign Trade (1990-2004) (%) 32

Figure 4: Taiwanese Investment Value in China (1991-2004) (US$ Million) 34

Figure 5: Relative Shares of China and Taiwan Export in US Market (1992-2004) (%) 35

Figure 6: China-US Bilateral Trade Value (1993-2004) (US$ Billion) 36

Figure 7: Share of China-US Trade in Chinese Total Foreign Trade (1994-2004) (%) 37

Figure 8: Share of US-China Trade in US Total Foreign Trade (1994-2004) (%) 37

Figure 9: US Investment Value and Share in China (1990-2004) (US$ Billion, %) 38

Figure 10: China Total Trade Value and FDI (1990-2004) (US$ Billion) 46

Figure 11: Trade Value as Percentage of GDP in China (1994-2004) (%) 46

Introduction

The “Taiwan problem” arose when the Kuomintang (KMT) retreated in defeat from the Mainland to Taiwan in 1949. Since this time, Taiwan Strait relations between the Republic of China (ROC, also known as Taiwan), the People’s Republic of China (PRC, also known as Mainland China) and the United States have undergone significant changes. In the 1950s and 1960s, there was significant military conflict among the three regimes. In the 1970s and 1980s, cross-Strait relations between the ROC and PRC were relatively mitigative. The US began to develop a rapprochement policy towards the PRC in the early 1970s. At that time, the PRC also replaced the ROC in the UN seat and won diplomatic recognition by most of the key countries. The PRC in the 1970s then changed its coercive Taiwan policy into one that emphasized a peaceful reunification. The prevailing international and domestic contexts brought relative peace to the region for three decades, without any direct military confrontation among the three sides. However, since the late 1980s and early 1990s, cross-Strait political tensions surged dramatically. One major cause of this tension emerged from a national identity change in Taiwan. Beginning in the early 1990s, the Taiwanese started to shift their thinking mode from one that encompassed a Chinese identity to one that encompassed an increasingly Taiwanese-oriented identity. Parallel to this change, many Taiwanese began to view their island as a separate and sovereign state. The Taiwanese nationalist movement irritated the PRC and escalated tensions. In addition, since the 1990s, the US has adopted policies and displayed behaviors that the PRC considered pro-Taiwanese and aggressive.

Correspondingly, an anti-Americanism and Mainland Chinese nationalism caused obvious friction in Sino-US relations. Compared to the Deng period, political and diplomatic relations between the three sides were much worse during the 1990s. The 1995-1996 crisis represented the peak of that worsening. Besides this crisis, perceived provocations between Taiwan and the Mainland corresponded to increases in verbal attacks and saber rattling. In the words of a PRC statesman in 2005, "… the (recently improved) cross-Strait relations during the last ten more years was on the verge of collapse" (PRC Taiwan Affairs Office of State Council 2005a).

Despite the fact that these elements could have induced a war in the Strait during the past fifteen years, there have only been high tensions and war games, but no actual military aggressions. Confronted with Taiwanese independence efforts and what it considers America's provocative policy, China could actually, at any time, have exercised a military option, either via a full-scale military invasion, or a sea-air blockade of Taiwan. In such a scenario, the US would have been dragged into war according to its responsibilities under the *1979 Taiwan Relations Act* that allows it a military response. However, the PRC military behavior during those crises was explained as brinkmanship *per se*, rather than a real willingness to accept the risks of war. The Beijing government mitigated the anti-American nationalism in Chinese civil society to the point that Sino-US relations made positive progress despite several temporary setbacks. Why has there been no war during the past fifteen years when tensions were at their highest and the probability of war at its greatest since the 1949 revolution? This is the research question this study seeks to address.

Contemporary international relations (IR) theories provide useful analytical frameworks for understanding the complicated China-US-Taiwan relations over the past fifteen years. To begin with, realist constructivism, offers important insights regarding how national identity can contribute to either conflict or cooperation among states. Realist constructivism accepts the view that anarchy characterizes the international system, but insists that state's actions are shaped by its socially shared understandings. A core concept in realist constructivism theory is "identity," which means a collective conception of who a nation is, what it stands for, and what it should be in the current world political context (Hu 2000, p.43). An "actor identity" within the international arena is constructed and reconstructed within realist structures. Realist constructivism asserts that identity generates and shapes interests (Katzenstein 1996, p.60). Logically, it precedes preferences (Ruggie 1993, p.172). Therefore, understanding an actor's identity should provide the key to understanding conflicts, whether actual or potential. To interpret a state's foreign behavior, realist constructivism proposes to examine national interest preferences, which in turn are determined by a socially constructed national identity (Wendt 1992).

According to realist constructivism, irreconcilable nationalism and its shaping of conflicting identities make war more probable (Amstutz 1995, p.269). Specifically, the competing construction of national identity in rival regimes makes the conflicting issues between them a zero-sum game. Conflicting identities instigate rival regimes to engage in arms races, which obviously might change the balance of power between or among them and increase the probability of war (Berger 2000; Wu 2004). Empirically, the discussion focuses on the fact that diverging ethnic nationalisms were a main source of war in the

former Yugoslavia, other Balkan nations and central Asian countries (Murinson 2004; Wilson 2001). Applying realist constructivist propositions to US-China-Taiwan relations, the identity issue points to a high probability of war during the past fifteen years (Berger 2000; Wu 2004). Although most people living in either Mainland China or Taiwan are ethnically Han, the increasingly divergent constructions of national identity between Taiwan and Mainland China generated different understandings of the territory and sovereignty of the island. China has not vacillated in its intention to recover Taiwan, while Taiwan has become more and more determined to be independent.

The process of identity development on both sides of the Taiwan Strait is one possible explanation for rising conflict based on realist constructivism. Before the 1990s, the so-called Taiwan problem was primarily focused on which side represented all of China. Beginning in the middle 1980s, however, when Taiwanese President Jiang Jinguo initiated a democratization process, a new Taiwanese nationalism surged in Taiwanese society. Initially, the electoral opening provided an opportunity for the formerly excluded native Taiwanese to enter into national politics. Appealing to native Taiwanese as its social base, the Democratic Progressive Party (DPP) in the late 1980s launched a nationalist propaganda and mobilization campaign. In order to dilute the influence of the DPP, the transplanted KMT also adopted an indigenization strategy and redefined ROC's territory as only Taiwan, not the Mainland (Chu 2001). As a result, the self-conscious state-building project of *both* parties has dramatically changed the national identity in Taiwanese society. For example, in 1989, only 16 percent of interviewees self-identified as Taiwanese, while 52 percent considered themselves as Chinese, and 26 percent categorized themselves as both Chinese and Taiwanese (Lin 2001, p.61). However, since

1994, those who self-identify as Taiwanese (28 percent) have outnumbered those who identify themselves as Chinese (23 percent) (Lin 2001, p.62). The gap continues to grow, as more people begin to identify themselves as Taiwanese. In terms of the unification issue, although a majority of Taiwanese still prefers the *status quo*, an increasing number of people now support independence from the PRC, with a correspondingly decreasing number supporting unification with the PRC. In 1994, the independence supporters and unification supporters constituted approximately 12.4 percent and 27.4 percent of the population respectively, while another 44.6 percent preferred the *status quo*. In 2003, 23 percent preferred independence, while 12.2 percent preferred unification and 52.8 percent supported the *status quo* (Yang 2003, p.8).

On the other side of the Strait, Mainland Chinese leaders and most Mainland Chinese believe that Taiwan has always been part of territorial China and subject to Mainland rule. Chinese history since 1840 was characterized by repeated aggressions by Western powers. This history has contributed to the emergence and strengthening of Mainland Chinese nationalism as well as a view of international relations as an unfriendly Social Darwinian world, where the strong prey upon the weak (Hu 2000, p.46). Given this history, generations of Mainland Chinese believe that only by building a strong China can they fight successfully against foreign aggression and become independent of foreign control (Zhu 2001). In accordance with this identity that seeks self-respect, the ultimate goal of Mainland China is to obtain national unification. Its supreme national interests are to protect territorial sovereignty and to promote an image of “dignity” in the international community. To people who share these beliefs, the issue of Taiwan has become an issue of national unity, sovereignty, and territorial integration.

This involves Chinese feelings of nationalism and pride as well as feelings of shame of China's colonial history. If Taiwan cannot be unified into China, either because of the island's opposition and/or US intervention, this shameful memory of foreign colonization will remain and lead Mainland Chinese people to think that their country has failed, once again, to demonstrate strength and hold its own against the rest of the world.

This nationalistic feeling is deeply embedded in the heart of the Mainland Chinese and influences its cross-Strait policy. As a result, Mainland China reacts harshly to the Taiwanese independence movement and any American behavior perceived as facilitating that independence. Beginning in the 1990s, the PRC's hardliner military factions within the Chinese political elite, which are traditionally the most nationalistic, became more powerful, especially after the Tiananmen Square incident (Lampton 2001; Zhao 1999). The military was not satisfied with a more moderate stance vis-à-vis Taiwan, as adopted by the Mainland Chinese civilian leaders. These military people exerted pressure to force Chinese leaders to adopt a harsher military response against both Taiwan and the US. This pressure caused Taiwan to feel a deeper sense of common suffering, and in turn resulted in a stronger Taiwanese identity.

Based on realist constructivism, these developments would have produced a high probability of war. More concretely, the change of Taiwanese identity has increased insecurity on both sides. It makes both engage in an arms race and changes the balance of power across the Strait. However, war did *not* occur, as this theory would have predicted. This makes realist constructivism a puzzle as applied to the cross-Strait relations.

This study will explain this realist constructivism puzzle by examining other IR theories. The existing policy literature, especially that written since 1990, suggests three

main schools of thought on these cross-Strait tensions. The first considers the cross-Strait relations as intractable and the prospect of an imminent war involving the US inevitable (Campbell 2001). The Taiwanese identity issue introduced a security dilemma for this island by fueling ultra-nationalistic responses from the Mainland and a possible catalyst to a future war (Chu 1998; Wu 2004). Some scholars even argued that a Chinese-American war was likely to occur in the foreseeable future (Bernstein 1997, p.20). The second school of thought offers a positive view of cross-Strait relations. Advocates argue that a peaceful reconciliation between China and Taiwan will continue to come closer to fulfillment with the economic integration of the two sides (Abramowitz 2003, p.82; Tucker 2002). The third school believes that the situation could develop according to either one of the first two schools of thought (Chao 2002; Chu 2004). In this thesis, I argue that the probability of war in the Taiwan Strait is not as great as some analysts suggest. Although a war scenario is a potentiality, one should not overemphasize identity politics. Even though the possibility of war remains strong, the three sides have other incentives for peace that also must be considered. The absence of war during the past fifteen years provides strong evidence to suggest the continuing avoidance of war in the future.

Theoretically, this thesis will contribute to the existing literature by applying relevant IR theories to interpreting cross-Strait relations. Theory driven analysis makes this study different from many existing foreign policy studies, which have not applied these relevant theories and methods to their analyses. This study chooses four international relations theories (offensive realism theory, complex interdependence theory, trading state theory, and issue linkage theory) and uses propositions from them to

interpret the absence of war during the past fifteen years across the Taiwan Strait. I chose these four theories for several reasons. A war between the PRC and Taiwan that includes direct US involvement would be a war between great powers. Offensive realism offers applicable propositions to this case. The two liberal theories (complex interdependence theory and trading state theory) help to clarify how the positive-sum game inhibits the zero-sum game of realist constructivism and reduces tensions. Finally, the issue-linkage theory helps to explain how the issue linkage is used as a tool to fulfill foreign policy goals and induce peace. I argue that the balance of power in the Strait, the economic interdependence between China and Taiwan, between China and the US, the trading priorities of China, Taiwan and the US, plus the issue-linkage strategy of the US, all have reduced the chances of war. If these factors continue to prove relevant in the future, they will help to facilitate more positive China-US-Taiwan relations.

Although other theories might also be useful, I have not included them in this study. However, I will refer to them briefly here. The first is functionalism, which emphasizes the “spill-over” effects of economic interdependence into the political arena. According to functionalism, the integration process might produce an identity change and mitigate confrontations. Currently, the “spill-over” effect into the political arena is limited but might become significant in the future if economic and political integration continues. The second theory, neo-liberal institutionalism, suggests that membership in international organizations contributes to stability when states realize the importance of their reputations in the organization and the costs of violating its rules. Thus far, this theory has not been proven very relevant when applied to cross-Strait issues. There are, to date, no important, binding institutions in Asia requiring formal commitments from their

signatories. In addition, Taiwan is excluded from most international institutions and is not even a party in the ASEAN regional forum. The possible application of neo-liberal institutionalism to this case is the mutual membership in the World Trade Organization (WTO). Since Taiwan, China and the US want the WTO to mandate free trade, the three regimes must cooperate in this organization. However, membership for China and Taiwan did not occur until 2001. Neo-liberal institutionalism needs further observation in the future on whether and how the mutual membership in the WTO constrains the three sides' foreign policies on war.

The following is a roadmap of this thesis. The rest of the paper begins with a historical overview of cross-Strait relations during the past fifteen years. Then, it will present and apply these four theories as alternatives to the realist constructivist view that would predict war. I will discuss, respectively, offensive realism theory, complex interdependence theory, trading state theory, and issue linkage theory, in the four sections. In analyzing each theory, I will (1) state the general propositions in each theory, (2) provide operational definitions for each of the key variables in the propositions, (3) apply the propositions to cross-Strait relations, using data from the past fifteen years. The paper's conclusion will then assess these four theories' ability to explain this case, evaluating their strengths and weaknesses. The purpose of this paper is to apply the propositions of different IR theories to help interpret the absence of war and answer the puzzle which realist constructivism has failed, thus far, to answer.

Historical Overview of China-US-Taiwan Relations from 1990 to 2005

To describe how cross-Strait relations during the past fifteen years have been characterized by high tension and continuing crises without an actual war, I will now briefly review some key incidents. Chronologically, I divide the era into four periods. First, relations from 1990 to early 1995 were characterized by the germination of Taiwanese identity and the suspicion of the PRC leadership towards the Taiwanese independence movement. The second period was the acute 1995-96 crisis. The third period, between March 1996 and 2000, was characterized by post-crisis peace, followed by two new crises in 1999, the first between the PRC and the US regarding the bombing of the Chinese Embassy in Belgrade and the second with Lee Teng-hui's "two states" theory. The fourth and final period, from 2000 to the present, is characterized by the new, complex foreign relations that resulted from DPP policies in Taiwan.

I. 1990 to Early 1995

The end of the 1980s and the beginning of the 1990s was a watershed in Taiwan's political development. The government initiated a democratization process and permitted partial economic integration with the Mainland. After Lee Teng-hui became president in the early 1990s, he sought to construct a new Taiwanese identity through a series of political and cultural policies that shifted away from Taiwan's one-China stance. In February 1991, his government re-defined cross-Strait relations as "one country, two equal political entities." In April, that government indirectly recognized the legitimacy of the PRC's jurisdiction over the Mainland. During the early 1990s, the Lee administration also adopted a "pragmatic diplomacy," trying to gain diplomatic recognition by courting

some small states in Africa, South America and the Caribbean. In 1993, Lee introduced concepts such as the "ROC on Taiwan," "mutual life community," and separate United Nations membership. In addition, Lee identified with indigenous Taiwanese ethnicity. In an interview with Japanese writer Ryotaro Shiba in March 1994, for example, Lee spoke of the "sorrow of being Taiwanese;" how "the KMT is an alien regime;" and why "Taiwan is Taiwanese Taiwan." He even compared himself to Moses, who would lead his followers to escape the PRC and build another country in another place (Zhao 1999). In 1995, Lee proposed a slogan: "operating a large Taiwan, setting up a new China." Culturally, the Lee Administration launched a de-Sinicization movement, such as revising Taiwan's textbooks, in order to cultivate a separate identity from China (Liu 2003).

The PRC, in turn, responded by effectively blocking Taiwan from joining intergovernmental organizations that require state membership. Mainland China's mainstream media also reacted harshly in words to these domestic political changes in Taiwan. Still, the PRC leadership remained hopeful that a peaceful reunification policy could still work. In mid-1993, Beijing issued a white paper regarding the Taiwan issue, *The Taiwan Problem and China's Unification*. This document includes a sprinkling of positive words regarding cross-Strait relations. In early 1995, PRC president Jiang Zemin issued Taiwan policy guidelines called the "Eight Points," which was widely viewed as conciliatory towards Taiwan (Lampton 2001; Zhao 1999).

In August 1992, President Bush announced that the US would sell 150 F-16 fighter jets to Taiwan. This decision violated the Sino-US 1982 communiqué and revived the weapons-sale issue that had been dormant for ten years. However, compared to France's

weapons sales to Taiwan in the same year (Qian 2003), China's response to the US decision was again mainly rhetorical. Although Mainland China's media criticized the US, it did not take strong actions to demonstrate. Similar moderate reactions in Mainland China followed other US policies, such as the (September 1993) US inspection of the Chinese *Yinghe* shipment. At that time, the US also revived the issue of linking China's human rights violations with Most Favored Nation (MFN) trading status. The US also sabotaged China's bid to host the 2000 Olympic Games and frustrated China's attempt to enter into the World Trade Organization. In 1994, the US further upgraded its Taiwan relationship by allowing officials of US commercial and cultural agencies to visit Taiwan or meet Taiwanese counterparts in their US offices in an open manner (Sheng 2001, p.64). US-PRC tensions surged because of these perceived provocations. At the same time, there emerged a strong voice from the Chinese military, which apparently began to advocate a war with Taiwan (Suettinger 2003; Whiting 1995). However, milder PRC factions again prevailed, and no war occurred.

II. 1995-1996 Crisis

In mid-1995, the US granted a visa to President Lee. The event reversed a 16-year ban by the US on visits by high-ranking ROC officials. In June, Lee gave a speech at Cornell University, his alma mater, in which he repeatedly said that, "the ROC on Taiwan is a sovereign state." This statement was viewed by many as the first formal deviation from the "one China" principle formerly advocated by Taiwanese leaders. Lee's visit and speech finally convinced China that he was indeed moving Taiwan towards independence (Qu 1995).

In Beijing's eyes, Lee's visit to the US signified the failure and insufficiency of its moderate and peaceful policy. Beijing believed that, supported by the US, Taiwan could be lost forever if Mainland China did not act decisively. Acrimonious words from most of Mainland China's media sent a loud message: the PRC was very determined to defend its sovereignty and territorial integrity. Consequently, previously scheduled cross-Strait semi-official negotiations were suspended. From July 21 to 28, Beijing conducted a missile test in the Strait, causing a huge fall in Taiwanese stock markets and sowing widespread panic. In response, the US repeatedly notified China that it had no intention of departing from its official "one China" commitment made in the early 1970s.

In late 1995, the situation in the Straits was volatile. In November 1995, Beijing decided to launch another missile test. Many observers explained it as an attempt to influence Taiwanese votes during the ROC's scheduled parliamentary elections in December of 1995 and its Presidential election scheduled for 1996. On November 25, 1995, the PRC's People's Liberation Army (PLA) conducted a mock amphibious attack on the island of Dongshan. This military action significantly affected the Taiwanese parliamentary elections of the same year. Taiwan's New Party, which supported unification, gained 14 more seats, while the KMT lost 5 of its 89 seats. In December, the US decided to react to the missile test by sending two carrier battle groups to the Strait. In March 1996, with the Taiwanese presidential election pending, Beijing conducted its third wave of military exercises. Ultimately, the crisis ended without war, even though Lee was re-elected as President. However, nationalism was particularly widespread in Mainland Chinese society. Most of the Chinese people were very emotional (Shih 1996).

The nationalist book *China Can Say No* (Song 1996), published during this period, became very popular among Mainland Chinese people.

III. March 1996 to 2000

After the missile test crisis, China began to resume its policy of peaceful re-unification with Taiwan. Beijing made clear that the conciliatory Jiang doctrine remained the guidelines for the PRC with respect to cross-Strait relations (Swaine 2001, p.328). In October 1998, Beijing and Taipei resumed semi-official dialogue, and Sino-US relations improved as well. Jiang visited the US in September 1997, and President Clinton visited China in June 1998. Beijing worked to cool nationalist passions among Mainland Chinese. Public opinion polls indicated that more Mainland Chinese people now supported more positive relations with the US.

Overall, China-US-Taiwan relations improved until 1999. However, less than a year after President Clinton's trip to China, new tensions emerged. On May 7, 1999, the US bombed the Chinese Embassy in Belgrade. Although the US claimed it was a mistake, the Chinese government and people insisted that it was deliberate. A strong wave of anti-American nationalism reached its peak in the Mainland. People protested in city streets against this bombing. Opinion polls then showed that over 90 percent of Chinese considered the US the most disliked country in the world (Zhao 2004). A number of new nationalist books were published, and Sino-US relations suffered their most damaging blows since the Tiananmen Square days.

Two months after the Embassy bombing, Lee Teng-hui made a bold speech. On July 9, 1999, when he met with radio reporters on the Voice of Germany Network, he

said: “since Taiwan’s 1991 constitutional amendments (in effect) renounced the ROC’s claim of sovereignty over the Mainland, cross-Strait relations have been replaced by a state-to-state relationship.” Lee’s statement added a new wild card to the PRC-ROC-US triangular relationship. The PRC’s military vocally advocated firm actions against any claim by Taiwan of outright independence (Suettinger 2003). In August of 1999, two US aircraft carriers conducted missile tests in the South China Sea. By the end of August, the KMT officially adopted the “two-states” theory as its guideline. In September, the PRC again conducted some small-scale missile tests, causing further tensions.

Before and after the 2000 Taiwan presidential election, a spate of Chinese magazines wrote about the looming possibility of a Sino-US war over Taiwan. Most indicated that the US would enter a cross-Strait war between Taiwan and China (Garver 2003). However, the crisis finally dissipated in the eventual adoption of moderate postures by all three actors. The US reiterated and assured Beijing that it did not support the policy changes that Lee was proposing (Suettinger 2003, p.382). Taipei ensured it would not introduce the “two-states” theory into its Constitution. Also, Presidents Jiang and Clinton mutually agreed to mitigate the confrontation during a summit meeting in September.

IV. 2000 to 2004

In the 2000 Taiwan presidential election, the DPP replaced the KMT as the incumbent Party. Because of the DPP’s commitment to independence, its victory generated fears that another crisis might erupt (Clark 2003, p.207). In his inaugural speech, however, President Chen adopted a moderate stance by promising five “no’s.” In

the beginning of 2001, Chen changed the 1995 “no haste, be patient” economic policy that was designed to reduce Taiwan’s economic independence on the Mainland to one which emphasized openness and effective business management.

However, in the summer of 2002, the “cold peace” was endangered by Chen’s sovereignty claim. In August, Chen proclaimed that there were two countries on each side of the Taiwan Strait, which was very similar to Lee’s state-to-state theory. However, Chen’s provocation did not generate as major a military confrontation as did the 1995 crisis. While the PRC uttered verbal attacks, its actions were mild this time. Before and during the 2004 Taiwan presidential election, Chen went further by calling for new legislation that would allow a referendum to change Taiwan’s legal status. Later, his policies, such as an “independent timetable,” “de-Sinicization,” and “revision of the Constitution” resulted in a furious Mainland response. In response to the increasing development of Taiwanese identity, the PRC passed an “Anti-Secession Law” on March 14, 2005, in order to “prevent Taiwanese independence” (PRC Taiwan Affairs Office of State Council 2005b).

Sino-US relations were also challenged by several incidents. In 2001, a US aircraft collided with a Chinese fighter jet and killed the PRC pilot near Chinese territorial waters, creating a crisis in Sino-US relations. As in the case of the US bombing of the Chinese embassy in 1999, nationalism in Mainland China again surged dramatically. The crisis was eventually mitigated by bilateral negotiations and PRC’s efforts to calm its domestic nationalism. In the same year, the Bush Administration agreed to sell advanced weaponry to Taiwan. Although the sale was criticized by the PRC, it did not cause a harsh military confrontation.

In all, China-US-Taiwan relations during the past fifteen-year period have been characterized by general tensions and several acute crises that reflected the three regimes' pursuit of their incompatible interests. However, despite these elements conducive to war, all three regimes were eventually constrained by other factors. Although challenged by the competing identities of the island, the PRC was willing to avoid an escalation from high tensions into actual war. Taipei rephrased its words at just the right time. The US managed to avoid a war, although its China policy was often viewed as aggressive. In the following four sections, I will apply the four theories to explain why the three actors were unwilling to risk war despite high incentives.

Offensive Realism Theory and Its Implications for China-US-Taiwan Relations

Understanding balance of power is the method by which some realists understand war and peace (Doyle 1997, p.161). Here, I utilize the offensive realism version of "balance of power" theory for two reasons. First, neo-realism does not explain foreign policy, while offensive realism can. Second, offensive realism centers on politics between or among the great powers. As an area of potential conflict, the Taiwan Strait component is better understood in the context of a major power struggle involving the US, China, Japan and South Korea. This section examines the impact of the balance of power in the Taiwan Strait on the absence of war.

General Propositions of Offensive Realism Theory

Mearsheimer's account of offensive realism is considered one of the most detailed and authoritative (Mearsheimer 2001). Basically, offensive realism asserts that states'

first priority is survival. Acutely sensitive to the balance of power, states seek opportunities either to increase their own power or to weaken the power of their rivals. Contrary to Waltz's defensive realism, which assumes that states prefer maintaining the *status quo*, offensive realism argues that great powers are always searching for opportunities to gain more power over their rivals, with regional hegemony status as their final goal (Mearsheimer 2001, p.29).

Several arguments address a correlation to the great power war in this theory. First, the overall distribution of power in each area is significant. Bipolarity produces the most stable structure, while multipolarity is less stable, particularly unbalanced multipolarity. A multipolar system is more prone to conflict since it presents more opportunities for conflict, especially power is distributed unevenly among the leading states. Second, unbalanced multipolarity, which implies a potential hegmon in the system, is much more dangerous than balanced mulitpolarity (Mearsheimer 2001, p.336). Peace is more likely if there is no preponderant power in the system (Mearsheimer 2001, p.345). On the one hand, a potential hegemony aims to acquire more power and eventually gain regional hegemony status. It has the capability to push for supremacy, which inherently makes it a dangerous threat to peace. On the other hand, a potential hegemony is more likely to cause trouble by generating high levels of fear among the great powers (Mearsheimer 2001, p.345). Third, nuclear weapons make war less likely, as the danger of mutual annihilation will cause great powers to consider options very carefully before they attack one another (Mearsheimer 2001, p.129). Fourth, large bodies of water limit an army's power-projection capability and thereby tend to prevent conflict (Mearsheimer 2001, p.114). When great powers are separated by large bodies of water, they usually are

limited in their offensive capability against one another, regardless of the relative size of their armies (Mearsheimer 2001, p.44). Fifth, when an offshore balancer is confronted with a potential hegemony, it is less likely to directly confront the threat itself (Mearsheimer 2001, p.264).

Mearsheimer applies these propositions to analyze the stability in Northeast Asia. Northeast Asia is a balanced multipolar system, with China, Russia, and the US as the relevant great powers. It is less stable than bipolarity. However, several factors support the current relative peace. First, China, Russia, and the US all have nuclear arsenals, which make them less likely to initiate war with one another. Second, the US is an offshore balancer without territorial aspirations. Third, neither the Chinese nor the Russian military is a potential regional hegemony, which makes it difficult for them to behave aggressively toward other states in the area (Mearsheimer 2001, p.384).

Mearsheimer presents useful structural propositions to analyze the cause of or prevention of war. Since a cross-Strait war is substantially related to the two great powers, China and the US, his propositions help to explain the absence of war.

Proposition 1: The possession of nuclear weapons among states deters a war.

Proposition 2: The existence of some/large body of water deters war.

Proposition 3: The absence of a regional hegemony and a potential regional hegemony decreases the possibility of war.

In this paper, “nuclear power” is measured by the number of nuclear warheads possessed by China and the US. The “stopping power of water” is defined as the deterrence a body of water provides by rival states separated by water. In this case, it is measured by the size of the Taiwan Strait and the weapon system capabilities of both

Mainland China and Taiwan. “Regional hegemony” is defined as a state possessing much more power than other great powers in the region. In this case, it is measured by the military expenditures, GDP, GDP per capital, and the populations of the US, China, Japan, and South Korea. The implication of this theory to this case is that the possession of nuclear weapons by the US and China, the absence of a potential hegemony, and the stopping power of the Taiwan Strait inhibited war between the great powers there.

Application of Offensive Realism Theory to Cross-Strait Relations

Measuring the Nuclear Weapons in East Asia

China and the US both have nuclear arms power capabilities. Table 1 lists the nuclear warheads possessed by the two countries.

Table 1: Operational Warheads Possessed by the US and China

Country	Strategic				
	ICBM	IRBM	SLBM	Delivery system	Strategic total
USA	2,079		3,616	1,318	7,013
China	20	108	12	120	260
	Sub-Strategic				
	SSM	Navy /SLCM	Delivery System	Sub-Strategic total	Grand Total
USA		320	1,350	1,670	8,683
China	120		30	150	410

Notes: This table only includes Operational Warheads aligned to an In-Service Delivery System, excluding Artillery Shells and Mini-Nukes.
Strategic missiles with a range of over 5,000km, or air-launched from long-range aircraft
ICBM intercontinental ballistic missile
IRBM intermediate-range ballistic missile
SLBM submarine-launched ballistic missile
ALCM air-launched cruise missile
SSM surface-to-surface missile
SLCM sea-launched cruise missile
Source: *The Military Balance 2002-2003*, published by Oxford University Press for The International Institute for Strategic Studies, p.222.

Measuring the Stopping Power of Water in Taiwan Strait

Taiwan's security depends heavily upon the sea. This island is geographically located about 120 miles to the east of the southeast of the Chinese Mainland. The Taiwan Strait is no more than 100 nm wide and 300 nm long (Edmonds 2003b, p.53).

The Taiwan Strait constitutes a critical physical barrier that separates Taiwan from the Mainland. This is the first line of Taiwan's defense against PRC invasion. Its rapid tidal flows, in addition to harsh climate, combine to make a potential amphibious invasion very difficult. Compared to the weapon system capabilities of both sides (See Tables 2, 3, 4), it is doubtful that the PRC could mount a successful invasion of Taiwan without extremely huge costs (Office of the US Secretary of Defense 2005).

Table 2: Taiwan Strait Military Balance (Ground Forces)

	China		Taiwan
	Total	Taiwan Strait Area	Total
Personnel (Active)	1.6 million	375,000	200,000
Group Armies	18	9	0/25
Infantry Divisions /Brigades	20/20	9/11	0/25
Armor Divisions /Brigades	10/10	4/4	0/5
Mech infantry Divisions /Brigades	5/5	3/1	0/3
Artillery Divisions/Brigades	5/15	3/5	0/0
Marine Divisions/Brigades	0/2	0/2	1/3
Tanks	6,500	2,500	1,900
Artillery Pieces	11,000	5,500	4,400

Source: Office of the Secretary of Defense. 2005. Annual Report to Congress: The Military Power of the People's Republic of China.

Table 3: Taiwan Strait Military Balance (Air Forces)

Aircraft	China Total	China Within Range of Taiwan	Taiwan Total
Fighters	1,500	425	420
Bombers	780	280	0
Transport	500	50	40

Table 4: Taiwan Strait Military Balance (Naval Forces)

	China Total	China East and South Sea Fleets	Taiwan Total
Personnel	290,000	140,000	60,000
Destroyers	21	13	6
Frigates	43	34	21
Tank Landing Ships	20	20	12
Medium Landing Ships	23	15	4
Diesel Submarines	51	29	4
Nuclear Submarines	6	0	0
Coastal Patrol	51	34	50

Although the PRC holds a quantitative advantage in weaponry, the ROC enjoys the edge via the better quality of its military equipment (Lasater 2000, p.334). The ROC Navy is among the largest and best equipped in the world (Edmonds 2003b, p.xxiii). The ROC Air Force has remained dominant over the Strait since the two sides were separated (Edmonds 2004). Generally, China has three options to pose coercive threats to Taiwan: invasion, blockage, and missile attack. However, it is estimated that China's threats are unlikely to coerce Taiwan. A PRC missile attack would have little effect on Taiwan's core military capabilities, and the ROC's modern air defense systems have vast back-up power generation (Edmonds 2004, p.101). In terms of the PRC invasion, China's problem is to keep air superiority over the Strait long enough to allow a large-scale amphibious assault to succeed (Edmonds 2004, p.98). According to a 1999 US Department of

Defense report, by 2005 Beijing would not possess the capability to conduct a multi-faceted campaign, involving air assault, airborne insertion, special operations raids, amphibious landings, maritime area denial operations, air superiority operations and conventional missile strikes (Lasater 2000, p.25).

Measuring Regional Hegemony in Taiwan Strait

China, Japan, and the South Korea are the relevant great powers near the Taiwan Strait. Table 5 presents the average GDP, military expenditures, and populations in the past fifteen years that help assess the power possessed by each major state in the region.

Table 5: Balance of Power in the Taiwan Strait

Country	GDP (US$ Billion)	Population (2005)	Military Expenditure (US$ Billion)
USA	7932.37	295,734,134	281.2
China	1043.18	1,306,313,812	19.1
Japan	2964.1	127,417,244	45.2
South Korea	631.62	48,422,644	12.30
Taiwan	293.5	22,894,384	9.14

Source: 1. The average GDP of the US, Japan, and South Korea is counted from 1990 to 2003, in current prices and PPPs. Data is from the OECD statistics. The average GDP of the PRC is counted from 1994 to 2001. Data is from *China Statistical Yearbook*. The average GDP of Taiwan is counted from 1997 to 2004. Data is from Ministry of Economic Affairs, ROC. See: http://2k3dmz2.moea.gov.tw/gnweb/statistics/statistics01/reports/A03.xls
2. The populations are from the CIA website, counted by the year 2005.
3. The average military expenditures are counted from 1993 to 2002. Data is from *SIPRI (Stockholm International Peace Research Institute) Yearbook 2003, Armaments, Disarmament, and International Security*, Oxford University Press, p. 345-348.

Implications of Offensive Realism Theory for Cross-Strait Relations

The overall distribution of power is critical to the understanding of why the great powers did not engage in a war from 1990 to 2005. First, according to the distribution of power among the great powers, the US has preponderant power in the region. However, it

is also an offshore balancer without territorial aspirations and is not a regional hegemony. The US has repeatedly declared that it does not want a war in the Taiwan Strait. A cross-Strait peace is clearly its major goal. The US effort to reduce the cross-Strait tensions and to prevent a potential war coincides with the predictions of offensive realism.

Second, none of the other states in this region has emerged as a preponderant power over the others. Japan is the wealthiest nation in this region. However, it is not in a position to convert its wealth into military advantage that might be exerted to threaten nearby countries (Mearsheimer 2001, p.396). Currently, China is not a potential hegemony, since its wealth still far lags behind the US and Japan in terms of GDP. The gap is larger if one considers the GDP per capita. Thus, the Taiwan Strait region has managed to position itself as a balanced multipolar system. The absence of a potential hegemony makes it difficult for one state to opt for war in the area. The PRC leadership constantly emphasizes that China will not pose any obstacle to or threaten any other states (Kuhn 2004; PRC State Council Information Office,2004).

Third, both China and the US have nuclear weapons, making them less likely to initiate a war with one another. During the 1995-96 crisis, former Clinton Administration official Chas Freeman had conversations with PRC military leaders. The PRC military told Freeman that, “the US cares more about Los Angeles than you do about Taiwan.” Those words were interpreted as an implicit threat to use nuclear weapons against an American city. Freeman suggested to the US government that the PRC’s point should be taken as an indicator of the unrealistic mindset of senior PLA leaders and their fixation on Taiwan, and the PRC’s stance needed to be seriously considered (Suettinger 2003, p.248). This story shows that despite high tensions across the Strait, nuclear weapons

have contributed to the absence of war because the leadership had to consider prudently the potential mutual annihilation caused by a possible nuclear confrontation.

Fourth, the Taiwan Strait practically protects Taiwan from invasion by most combinations of PRC forces. This is not an absolute stopping power of water, but the Strait increases the difficulty for PRC armies to invade because they need to traverse a body of water in harsh weather conditions. According to a Taiwan Military Purchase Evaluation Report, if the ratio of the military capability between the invasion side and the defensive side is over 3:1, the invasion side will achieve success. If the ratio is lower than 1.5:1, the defensive side will achieve success (Voice of Taiwan Straits 2004). By 2005, the ratio of the navy and air force capability between the PRC and the ROC was about 1.5:1. The PRC so far has not had significant leverage over Taiwan, which has constrained its war options (Edmonds 2004, p.98). In the 1995-96 crisis, for example, President Lee boasted that China would not dare to attack Taiwan because of the PRC's difficulty to cross the Strait, as well as the island's defensive prowess (Suettinger 2003, p.243).

In summary, little change has occurred in the Taiwan Strait military balance during the past fifteen years. Although the PRC and the ROC have been in an arms race, so far their balance of power has not obviously changed compared to that of fifteen years ago. The existence of nuclear weapons has functioned as deterrence to war. Also, Taiwan and the US have not become very insecure in their relations with each other. As long as Taiwan and the US maintain discussion, they should be able to avoid any imminent threat of war launched by the PRC. Although tensions became acute, the relative balance of power in Taiwan Strait has contributed to the absence of a Chinese invasion in this Strait.

Complex Interdependence Theory and Its Implications for China-US-Taiwan Relations

The most significant change across the Taiwan Strait during the past fifteen years is the increasing economic and social ties between China and Taiwan, as well as between China and the US. This section examines the impact of the complex interdependence with respect to the probability of war.

General Propositions of Complex Interdependence Theory

Complex interdependence theory presents an optimistic view regarding the consequences of these growing economic and social linkages. Central to the theory is that interdependence lowers the likelihood of war by increasing the value of trade over aggression (Doyle 1997; Keohane 1977; Rosecrance 1986).

This argument first became popular in the 1850s, when Richard Cobden, argued that free trade makes states equally anxious about their own prosperity (Cobden 1903, p.205). The book *Power and Interdependence,* by Keohane and Nye, is widely regarded as a statement on the peace-inducing effects of interdependence. In this book, interdependence is defined as situations characterized by reciprocal effects among different countries (Keohane 1977). The authors describe three characteristics of complex interdependence, the first of which is that multiple channels connect societies in an interdependent world. Actors in world politics include not only state actors, but also transnational actors. Second, the agenda of interstate relationships consists of multiple issues that are not arranged in a clear or consistent hierarchy. Issues interact, which

means that there is no distinct boundary between domestic and foreign affairs. Third, the absence of hierarchy among issues indicates that states will not always allow for military domination as a policy priority. In fact, military force is irrelevant when considering how to resolve disagreements on economic issues. Since domestic issues and foreign issues are often blurred in states that are interdependent, military force is less likely to be used by these states (Keohane 1977). Keohane and Nye demonstrate that the long-lasting peace between Canada and the US has resulted from the complex interdependence between them, where military force plays only a minor role in bilateral relations.

Keohane and Nye do not provide causal arguments on the correlation between complex interdependence and the likelihood of war. Rather, the peace-inducing effects of interdependence are more assumed than tested in their book (Copeland 1996, p.9). Other liberals introduce a number of causal variables in support of this hypothesis. The main argument addresses the cost of war between interdependent states. Since trade generates benefits for both interdependent states, the anticipation that war will harm trade and damage economic benefits reduces the willingness of the respective national leaderships to accept the risks of war (Doyle 1997; Polachek 1980; Russett 2001). In other words, interdependent states would rather trade than invade, because economic dependence motivates the national leaders to satisfy material needs via trade, and the opportunity cost of war restricts leaders who consider the military option (Copeland 1996, p.5).

The second argument also concerns the opportunity cost of war but focuses mainly on the sub-national level as an intervening variable. By liberating groups engaged in commerce, governments actually created interest groups that depend on foreign markets. Thus, in order to avoid the damage to trade caused by political antagonism, these interest

groups will exert pressure on the government to maintain a peaceful business environment. In liberal states, public officials who rely on societal actors for support have reasons to accede to such demands (Mansfield 2003). Etel Solingen, for example, explained how internationalization affects domestic coalitions and how, in turn, the coalitions affect conflict and cooperation (Solingen 2003). Rosecrance and Stein examined domestic factors such as interest groups and societal ideas and their influence on great powers' grand strategies (Rosecrance 1993). This sub-national level argument suggests the pacifying effects of interdependence have a significant impact on domestic politics (Solingen 2003).

The liberal "trade breeds peace" arguments are strongly supported by empirical evidence. Many studies have found that high levels of trade have inhibited conflict since World War II, as well as the periods during the nineteenth and twentieth centuries (Gasiorowski 1986; Mansfield 1994; Oneal 1997; Oneal 2001). Oneal and Bruce, for example, used "pooled-regression" analyses of politically relevant dyads during the Cold War era. They found that the pacifying benefit of interdependence alleviates international conflict. After controlling for potential influence such as geographic contiguity, balance of power, alliance bonds, and economic growth rates, they found that higher levels of economically important trade, as indicated by a bilateral trade-to-GDP ratio, are associated with lower incidences of militarized interstate disputes and war (Oneal 1997).

According to the complex interdependence theory, this proposition is:

Proposition 4: The higher the level of complex interdependence between dyads, the less willingness there is by national leaders to accept the risks of war.

In this paper, I define the term “complex interdependence” as mutual dependence indicated by trade, investment and other social transactions. With respect to the interdependence between China and Taiwan, the level of “complex interdependence” is measured by three indicators: a) the amount of transactions between China and Taiwan since 1990, including the amount of trade, investment, travel, electronic communication, and cultural communication; b) the ratio of bilateral trade to total foreign trade; and c) the ratio of Taiwanese investment in China’s overall foreign investment. The same indicators will be applied to the complex interdependence between China and the US. The willingness of national leaders to risk war will be measured by their speeches and policy-making decisions. These variables, in this case, imply that such a high level of complex interdependence between the three sides served to reduce the probability of war across the Taiwan Strait.

Application of Complex Interdependence Theory to Cross-Strait Relations

Measuring Economic Interdependence between Mainland China and Taiwan

Cross-Strait economic integration has progressed increasingly since the early 1990s (See Figure 1). Taking 1995 as an example, the amount of total cross-Strait trade reached $22.5 billion (All figures in US Dollars unless otherwise indicated). This number increased into $61.6 billion in 2004. Since the beginning of economic integration, Taiwan has enjoyed an increasingly larger trade surplus. In 1990, Taiwan exported $4.39 billion worth of goods to the Mainland and imported only $0.76 billion worth of goods from the Mainland, giving Taiwan a $3.62 billion surplus. In 2004, Taiwan’s cross-Strait exports and imports jumped to $44.9 billion and $16.6 billion respectively, with a net Taiwan

surplus of $28.2 billion. Taiwan's trade surplus with Mainland China amounted to 226% of Taiwan's global trade surplus in 2000. In other words, without the huge trade surplus with Mainland China, Taiwan's international trade balance would have resulted in a $10.4 billion deficit.

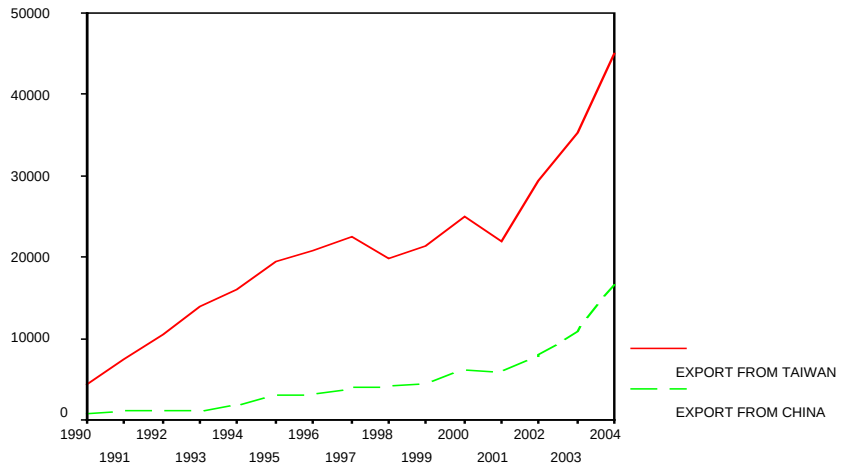

Figure 1: Cross-Strait Indirect Trade (1990-2004) (US$ Million)

Sources: Data are adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Besides the huge trade surplus of Taiwan over the Mainland, Taiwan's export dependency on the Mainland increasingly surged during the past fifteen years (See Figure 2). Mainland China has become Taiwan's largest export destination. In 1990, Mainland China accounted for 6.54 percent of Taiwan's overall exports. In 2004, the number reached 25.83 percent. Taiwan's import dependency on the Mainland has also increased from 1.40 percent in 1990 to 9.93 percent in 2004, although the import dependency rate was far smaller than the export dependency rate. Counting total trade share, Taiwan's trade dependency on the Mainland reached 18.03 percent in 2004, about 14 percent higher than in 1990.

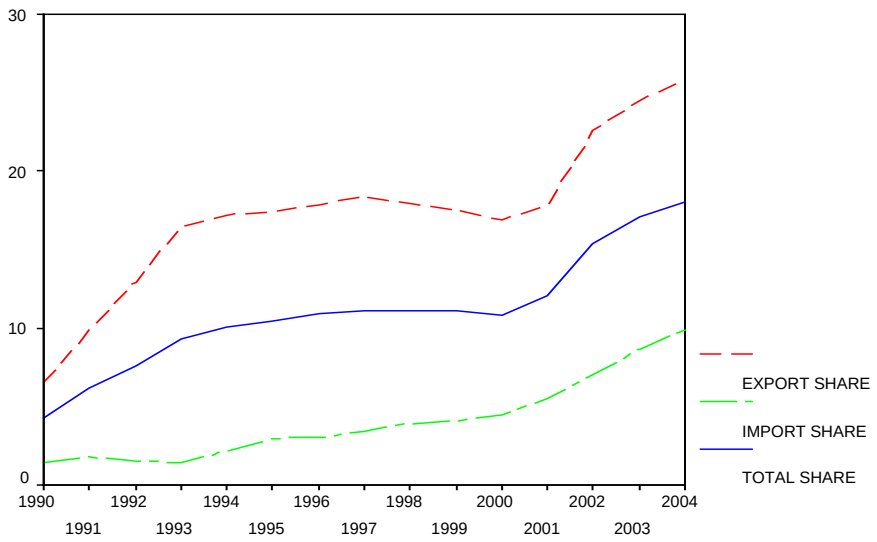

Figure 2: Share of Cross-Strait Trade in Taiwanese Total Foreign Trade (1990-2004) (%)

Note: The denominators indicate Taiwan's trade volume to the world; the numerators indicate Taiwan's trade volume to Mainland China.
Sources: Data are adapted from Cross-Strait Economic Statistics Monthly No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Statistics also reveal the level of Mainland China's dependence on trade with Taiwan (see Figure 3). In 1990, Taiwan accounted for 1.23 percent of the Mainland's overall exports, with this number rising to 2.81 in 2004. Changes also occurred with respect to the Mainland's import dependency on Taiwan. In 1990, Taiwan's share of the Mainland's overall imports was 8.24 percent; this number grew in subsequent years and reached its peak in 1997. More recently, China's total trade dependence on Taiwan has changed slightly from 4.47 percent in 1990 to 5.35 percent in 2004.

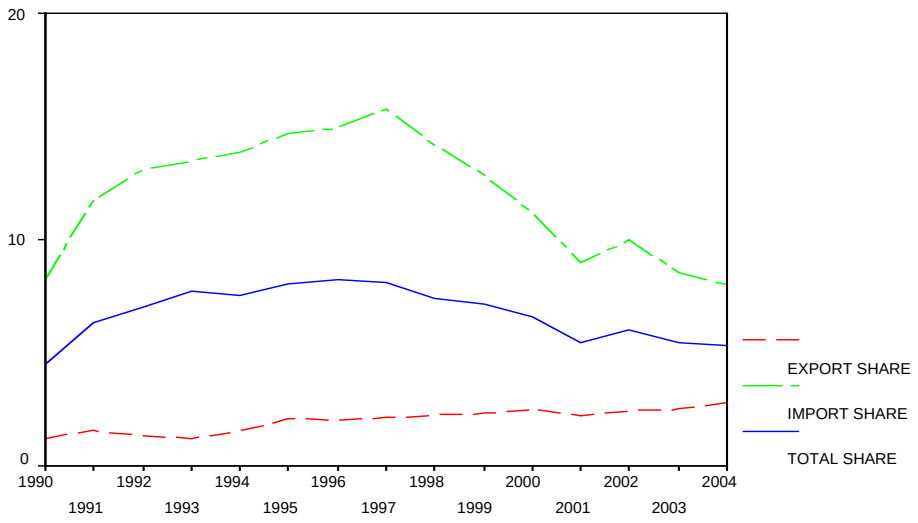

Figure 3: Share of Cross-Strait Trade in Chinese Total Foreign Trade (1990-2004) (%)

Note: The denominators indicate Mainland China's trade volume to the world; the numerators indicate Mainland China's trade volume to Taiwan.
Sources: Data are adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Although from a purely trade statistical perspective, Taiwan is more dependent on the Mainland, Chinese economic dependency on Taiwan needs to be evaluated carefully. The significance of Taiwan's huge trade surplus needs to be clarified. Taiwanese exports to Mainland China are largely investment-driven (Leng 2002, p.263). It is estimated that 54 percent of the materials and 75 percent of the machinery and equipment needed by Taiwanese companies operating in China were imported from Taiwan (Wu 1994, p.29). Since most Taiwanese firms are export-oriented firms based in Mainland China, those exports from Taiwan actually contributed to China's foreign exchange and export boom. Furthermore, although Taiwan's share of the Mainland's total foreign trade has not increased significantly since the 1990s, Taiwan is one of the PRC's most profitable trade

partners. According to statistics for 2004, Taiwan ranked as China's fifth largest trading partner, its eighth largest export destination, and its second largest import supplier.

In addition to this trade interdependence, Taiwan has been one of the major sources of outside investment in the Mainland. According to investment statistics for the period 1979-2004, as estimated by the ROC Mainland Affairs Council, Taiwan's investments in China accounted for the third largest of all the investments on the Mainland, occupying 7.25 percent of China's overall agreed capital inflow value. In total, the Mainland approved over 64,000 projects, with their contracted value exceeding $79 billion (see Figure 4). The investment surge was not even affected by the Tiananmen Square incident, after which many foreign investors withdrew from China. In 1993, Taiwanese investment reached $10 billion, making Taiwan the third largest foreign investor in the Mainland, ranking behind only Hong Kong and Macao. Most Taiwanese firms are export-orientated and contribute to a large portion of China's trade surplus with the US while also creating employment, promoting know-how technologies, and boosting Mainland China's economic prosperity.

Besides cross-Strait trade and Taiwanese investment with China, other social and economic integrations have rapidly developed (see Appendix). Social and economic integration has created mutual dependence.

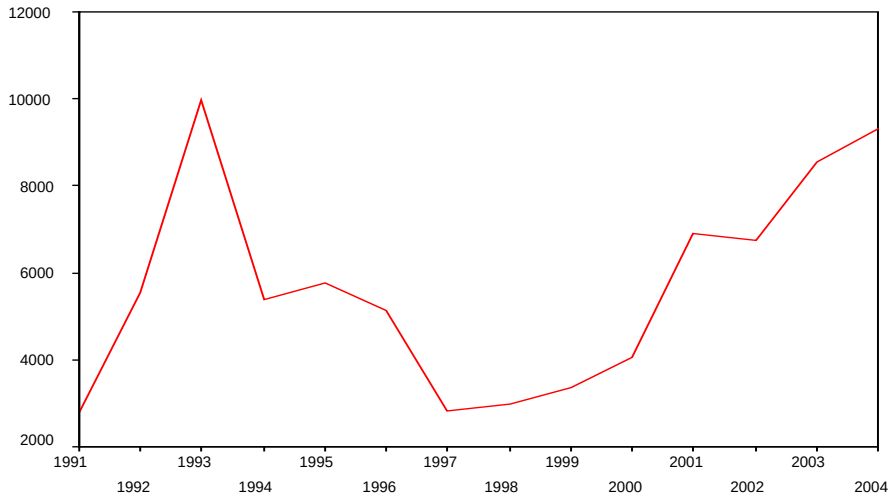

Figure 4: Taiwanese Investment Value in China (1991-2004) (US$ Million)

Note: Values represent Taiwanese investment approved by Mainland China. The number for 1991 includes all investment before 1991.
Sources: Data are adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Measuring Economic Interdependence between China and the US

China's open door policy from the end of the 1970s has attracted investment from the US and facilitated bilateral trade (See Figure 5). This bilateral trade value in 1993 was $40 billion. This value has increased to $231 billion in 2004, with a net growth rate of 477 percent. According to the 2004 statistics of the US-China Business Council, the US ranked first among China's top trading partners, with $35 billion of exports to China and $197 billion of imports from China (The US-China Business Council 2003).

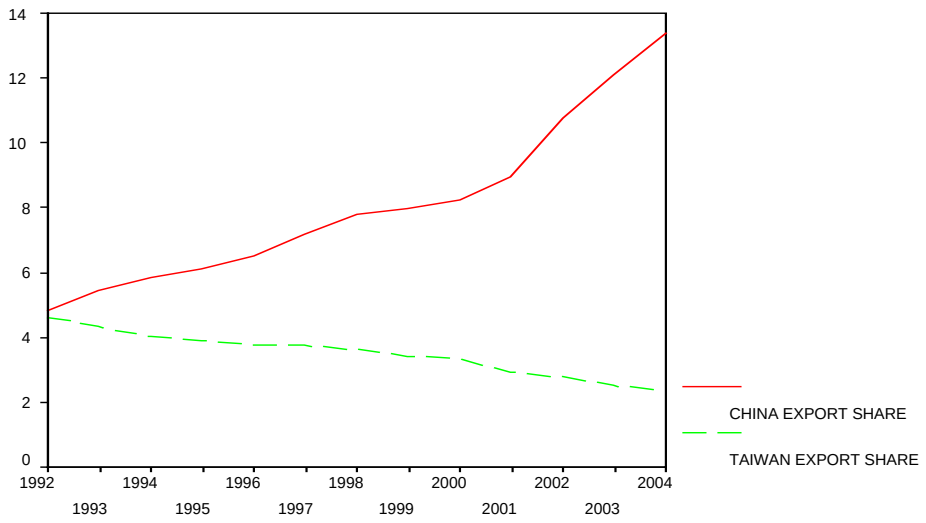

Figure 5: Relative Shares of China and Taiwan Export in US Market (1992-2004)(%)

Sources: Data are adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

With the development of an enhanced Chinese competitive advantage, the US has become China's largest export market. According to US Customs Statistics, in 1994 exports from Mainland China shared 5.85 percent of the total US import market, while in 2004 this percentage increased to 13.38. In other words, goods from Mainland China occupied more than one tenth of the total US import market, an 8 percent increase during the last 11 years. In terms of bilateral trade value, China was earning an overwhelmingly larger trade surplus vis-à-vis the US (see Figure 6). The $23 billion Chinese trade surplus with America in 1993 increased more than 600 percent, to $162 billion by 2004.

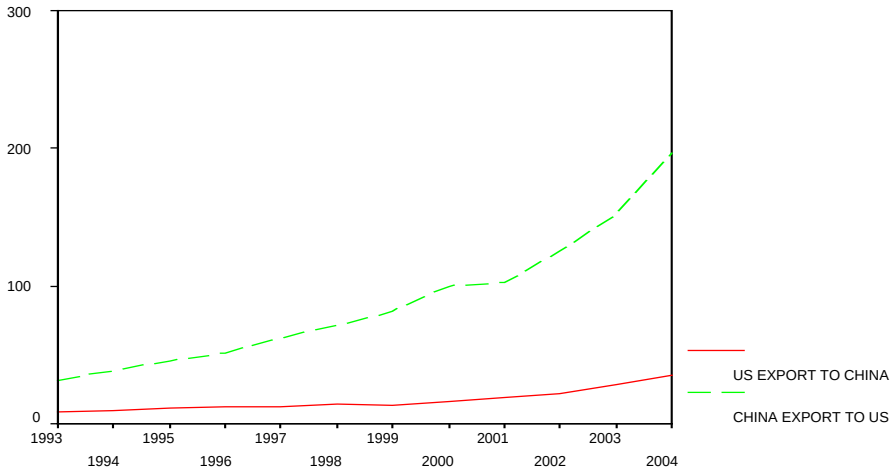

Figure 6: China-US Bilateral Trade Value (1993-2004) (US$ Billion)

Sources: Data are adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

In terms of trade interdependence, China could be said to be much more vulnerable to the US economy. This can been seen by comparing the Chinese dependency rate to the US (see Figure 7) and the US's dependency rate to China (see Figure 8). Bilateral trade on average accounted for 23 percent of China's overall trade, while it only occupied 6 percent of the USA's overall trade from 1994 to 2004. China's exports to the US in the same period were about 35 percent of its overall exports to the world, while the US's export to China totaled only 3 percent of its total exports.

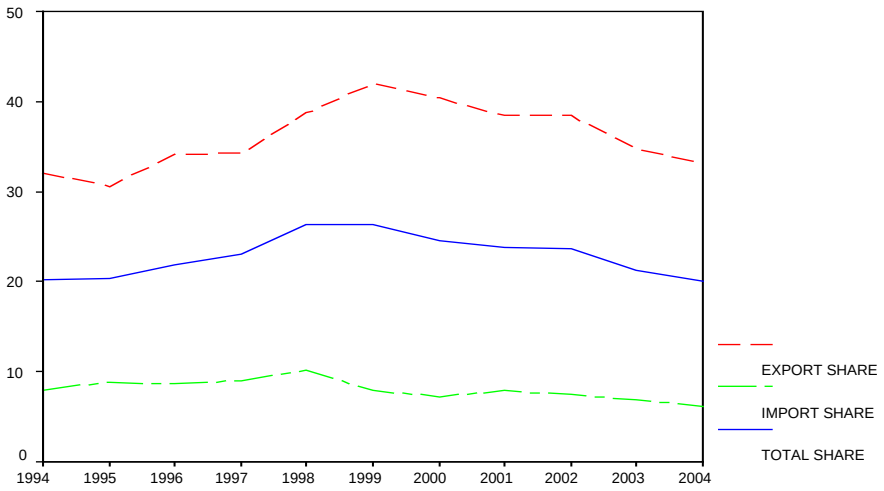

Figure 7: Share of China-US Trade in Chinese Total Foreign Trade (1994-2004) (%)

Sources: Data of China-US trade value and China's trade value with the world are adapted from the US-China Business Council (USCBC) statistics. *See:* http://www.uschina.org/statistics/tradetable.html.

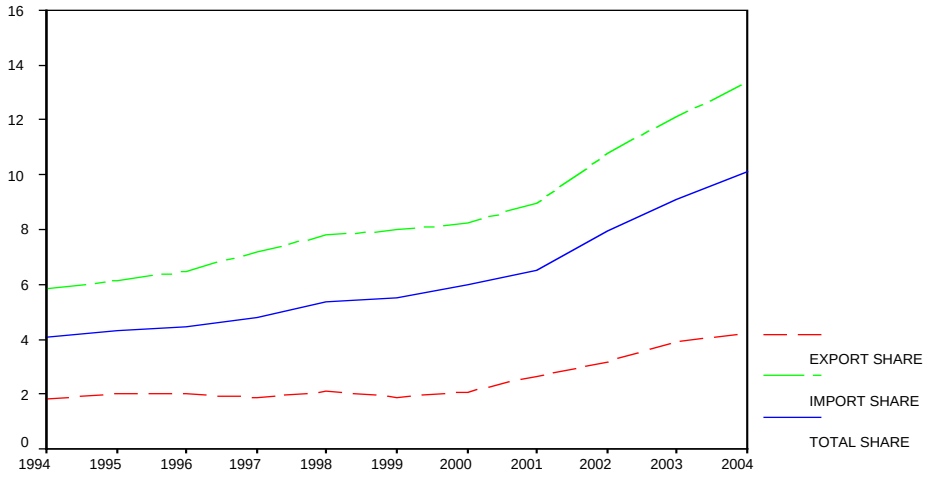

Figure 8: Share of US-China Trade in US Total Foreign Trade (1994-2004) (%)

Sources: Data of US-China trade value and US trade value with the world are adapted from the US-China Business Council (USCBC) statistics. *See:* http://www.uschina.org/statistics/tradetable.html.

The US has also been China's key foreign investor. From 1979 to 2004, the US was, on average, China's second largest investment source, occupying 9 percent of the total contracted Chinese capital inflow value. In 1990, the US made 375 investment

contracts with China, with the contracted value as $0.46 billion. This number has continued to increase. In 2004, the US had 3,925 contracts with China, with the value reaching $3.94 billion, thereby occupying a 7.93 percent share of China's overall contracted investment (see Figure 9). It became the fifth largest foreign investment source to China during that year (The US-China Business Council Statistics). The FDI has provided China with large dollar reserves, advanced technologies, and greater R&D capacity (US-China Security Review Commission 2002).

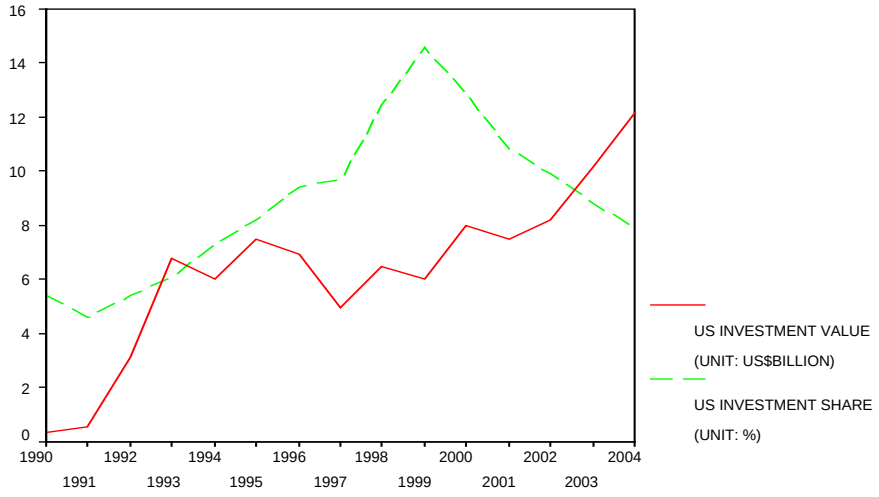

Figure 9: US Investment Value and Share in China (1990-2004) (US$ Billion, %)

Source: US Military of Commerce (MOFCOM), See http://www.uschina.org/statistics/fdi_cumulative.html

According to the statistics presented above, it is obvious that China is heavily dependent upon the US market for trade as well as investment. One should not omit that the US is also dependent upon China's economy. The US is now concerned that its reliance on Chinese imports might in time undermine the US defense industrial base (US-China Security Review Commission 2002, p.37). In addition, the US is highly dependent on China to finance its large debts. China uses its huge US trade surplus dollars to buy

American government's securities and bonds, which helps the US finance its large international debts and lower interest rate. According to a famous American economist Paul Krugman, in 2003 the US financial deficit was as high as 5 percent of its GDP, about $1 billion per day. In 2004, China bought $200 billion worth of US bonds that help fund the US financial deficits. If China stops buying US government bonds, he said, the US economy would be in chaos (Xinhua News 2005).

Implications of Complex Interdependence Theory for Cross-Strait Relations

The above data indicates the high complex interdependence among the US, China and Taiwan. Evidence of the decision making process suggests that complex interdependence has reduced the cross-Strait tensions and the probability of war. Given the economic ties with the US, China's business interest groups have suggested that their governments should avoid war. During the 1995-96 crisis, Chinese provincial leaders in the southern coastal regions warned Beijing against policies that could both ruin China's image as a place for secure investment and also undermine its economic rise (Friedman 1999, p249). Because of their growing economic ties with China, US businessmen also lobbied the US government to adopt a benign policy toward China. For example, from 1992 to 1994, top Fortune 500 companies, such as AT&T, led the fight for unconditional renewal of China's MFN status (Sutter 1998, p.48). In May 1992, some 800 companies and business councils wrote letters to President Bill Clinton to lift the human rights conditions on the MFN for China. In 1991, 75 major trade groups and companies formed the Business Coalition for US-China Trade to support President George Bush's stance in favor of the unconditional extension of China's MFN status (Sutter 1998, p.57). During

the 1995-96 crisis, Jiang and Clinton held a private summit in New York City, where Jiang also attended a banquet organized by IBM, Ford, Boeing, Hughes Aircraft, and Merrill Lynch, with the hope that these major business forces would be able (and willing) to influence American policy-making decisions with respect to China (Guo 2003, p.63).

When confronted with what it perceived as provocation, China's leadership was constrained by this complex interdependence. As an example, during the 1995-96 crisis, there was a consensus among the Chinese leadership that military and diplomatic pressures should be applied in order to weaken Lee's position and deter further US support for him (Ji 1999; Swaine 2001, p.322). However, divergence between the civilian and military leaders in China existed over the *timing* and *nature* of the measures to be employed and the type and degree of toughness displayed (Swaine 2001, p.322). Swaine examined Beijng's decision-making process based on interviews with some PRC leadership:

> "Many (civilian) individuals were concerned that an overly harsh military reaction would dampen the Sino-US relations, which will negatively affect Sino-US political and economic ties and weaken Chinese growth and stability. These individuals pointed to China's greatly increased dependence on the US market as a primary reason for restraint. In contrast, other leaders, including military figures such as Liu Huaqing and Zhang Zhen, suggested the need for a significant military dimension to any response, possibly including missile test. Supporters of this view reportedly argued that any possible US response to such actions would *not* seriously threaten the Sino-US economic relationship given Washington's apparent desire to protect major US business interests in China." (Swaine 2001, p.323, 458)

China's senior leaders, both civilian and military, aimed to reduce further provocative actions from the US and Taiwan while avoiding war. Due to the perceived economic opportunity costs of a Sino-US war, civilian leaders proposed to use diplomatic means in order to avoid direct military confrontation. Military elites proposed to use war games to warn the other two adversaries, with the perception that the US would not

involve itself in that kind of war because of the damage the US economy would then suffer. Similarly, in terms of the 1992 US weapons sales to Taiwan and the 1999 “two states theory” crisis, analysts suggested that the reason for Beijing’s absence of direct counteraction was its consideration of the possible damage to its trade with the US (Montaperto 1995).

Available evidence suggests that complex interdependence contributed to business interest groups lobbying for international cooperation. Political leaders also understood the consequences of war with respect to their economic interdependence on each other. In general, the level of interdependence between China and the US, and China and Taiwan during the past fifteen years is higher than it had been. This increasing interdependence has clearly reduced the probability of war when high tensions occurred. However, this interdependence is actually not as high as it could be. Worried about the negative effect of this dependence on its security, the Lee Administration introduced a “no haste, be patient” economic policy, and established some restrictions to cross-Strait economic integration. Although the subsequent Chen Administration changed this policy in 2001, Taiwan continued to impose constraints on its own business people who were investing in the Mainland. For the same reason, the Taiwanese government has continued to block Chinese investment in Taiwanese markets. Additionally, the US has been setting restrictions on Chinese state-owned businesses buying American companies. Because of those restrictions, China’s interdependence with Taiwan and the US is not as complex as it may seem on the surface. From the available data, relatively high complex interdependence is high enough to hinder the outbreak, but not the threat, of war. The

three regimes could become, in the future, more interdependent, which could work more effectively to mitigate any new tension and constrain the probability of war.

Trading State Theory and Its Implications for China-US-Taiwan Relations

The US, Taiwan, and China are all trading states, since each concentrates on trade as its political priority. This section examines the impact of a trading state identity on states' war options. I focus particularly on China's perspective, given that the trading identity of the US and Taiwan is already widely known or assumed.

General Propositions of Trading State Theory

Complex interdependence theory is a structural theory, emphasizing the constraints of economic interdependence on policy choices of states. However, as an argument at international level, it is insufficient for predicting the behavior of a specific state. In contrast, trading state theory offers more fine-tuned predictions and argues that although the incentives to use force in a complex, interdependent world are not necessarily declining in general, they are declining among industrially advanced and liberal societies.

Rosecrance argues that complex interdependence theory applies in cases of liberal states that seek economic gain rather than glory (Rosecrance 1986). He describes the world as consisting of two polar types: the military-political world and the trading world. The military-political world is composed of states ranked in the order of their power and territory. This type of world involves the continual recourse to war because the units within it are constantly seeking to increase the size of their respective territories. In contrast, the trading world is composed of nations with different functions, characterized

by their reciprocal exchanges and divisions of labor among states. The incentive to wage a war is absent in this system because war interrupts trade. In Rosecrance's view, during most of world history the first method has been dominant, since the benefits of war were greater than the benefits of trade (Rosecrance 1986). However, especially since 1945, with the rising cost of war and the attractions of economic specialization, there are fewer incentives for states to meet their needs through military conquest (Rosecrance 1986).

Rosecrance further suggests that territorial acquisitions and economic developments constitute two different means by which each state can improve its security and strength. Some states may rely primarily on military force and only incidentally engage in trade. Some states, such as Iceland and Austria, may devote little attention to defense. Other states, such as Sweden and Switzerland, may decide to rely militarily almost entirely on allies, or to adopt a stance of armed neutrality. Commerce with other nations may be nearly all-important, as in the case of Japan, or it may be a significant addition to the resources of their respective national markets, as in the case of China and the US. According to this theory, "whenever balance is chosen, a new *trading posture* could not offer military incentives to aggressive powers." (Rosecrance 1986)

Rosecrance further presents the factors shaping a state's balance between exercising its military and trading options. He argues that the comparative cost and benefit of either force or trade will influence the balance, which in turn is shaped by degree of economic and military interdependence, the depth and scope of ideological conflicts between states, the openness of the international economy, the political mobilization of the populace, and the degree of social learning.

Other liberals use similar arguments. Michael W. Doyle calls this view "commercial pacifism," which sees market societies as being fundamentally opposed to war (Doyle 1997, p.230). R.J. Rummel also argues that a free state enjoying political and economic freedom has less reason to initiate conflict than does the non-free state (Rummel 1983). Similarly, Schumpeter argues that capitalism and democracy are forces for peace (Schumpeter 1951). For him, capitalism produces an unwarlike disposition in which people are democratized, individualized and rationalized. The disciplines of industry and the market train people in economic rationalism, therefore, capitalistic societies are interested in pacifism.

In summary, the degree to which a state's identity is as a liberal trader influences its policies in conflict and war. Given the arguments presented above, these liberal propositions could be generalized as follows:

Proposition 5: If a state chooses trade as its primary strategy, there is less likelihood for that state to go to war.

In this paper, "the choice of trading strategy" is defined as the decisions of a state to prioritize trade and foreign investments over aggression. In this case, the proposition mainly applies to China. Whether China is a trading state or not is measured by three indicators: a) the ratio of trade to its GDP; b) the amount of foreign investment it has attracted; and c) the discourse of PRC elites about the priority of trade and foreign investment in its grand strategies. The implication is that China's shift in strategy to emphasize international market and economic development has lessened the likelihood of war.

Application of Trading State Theory to Cross-Strait Relations

Measuring Trading Strategy Priority in China

China experienced a dramatic strategic policy change after the late 1970s. Before the 1970s, China was excluded from the world economy, since it was pursuing a self-reliance developmental strategy. In 1978, Deng Xiaoping decided to change this policy priority to one of economic development by initiating deep economic reforms. One of the strategies of this economic reform was to open China to global trade and investment. In the spring of 1992, Deng made an important trip to southern China, sending a loud message that the Chinese leadership was willing to accelerate economic reforms. This trip also indicated that China had accepted market economics as its guideline for development. In consequence, thirty Chinese cities were authorized to open up sectors of their economies. In 1994, China enacted its first ever *Foreign Trade Law*. Many related laws as well as regulations about foreign direct investment were promulgated during the following ten years.

China's deep and broad engagement in international commerce can be seen in the increasing flow of goods and capital to China. Since the mid-1990s, China has become one of the world's largest recipients of FDI. Its FDI value has increased from $6.6 billion in 1990 to $153.47 billion in 2004, an increase of 2225 percent (see Figure 10). Foreign trade also surged dramatically. In 2000, Mainland China was the world's seventh largest exporter of goods, with a value of $249.2 billion; and the world's eighth largest importer, with a value of $225.1 billion. Foreign trade represents a greater proportion of China's GDP. In 1994, foreign trade accounted for 42 percent of China's GDP (Zweig 2003, p.5). In 2004, this percentage reached 70.21 (see Figure 11). Foreign trade of China represents

a greater proportion of China's GDP than it does of US GDP and Japanese GDP. Besides trade and investment, China also has loans owed to other governments and international organizations. In 2004, its foreign loan debt reached $228 billion, a dramatic reversal from its pre-1980s policy of avoiding any long-term debt.

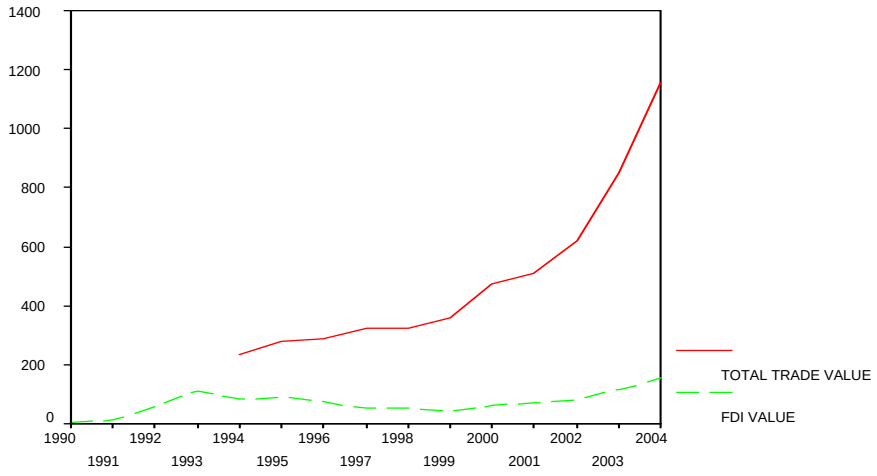

Figure 10: China Total Trade Value and FDI (1990-2004) (US$ Billion)

Source: Data of China total trade value trade are from the US-China Business Council (USCBC) statistics. *See:* http://www.uschina.org/statistics/tradetable.html. Data of FDI are from US Military of Commerce (MOFCOM). See: http://www.uschina.org/statistics/fdi_cumulative.html

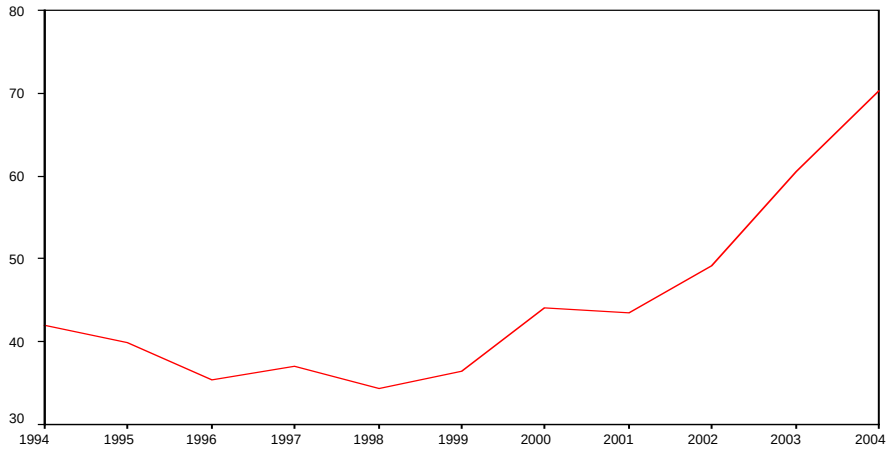

Figure 11: Trade Value as Percentage of GDP in China (1994-2004) (%)

Source: Data of China's total trade value are adapted from PRC General Administration of Customs, China's Customs Statistics. See http://www.uschina.org/statistics/tradetable.html. GDPs in China are from China Statistical Yearbook, 1994-2004.

Overall, since the end of the 1970s, China's previous "classic struggle" centered strategy has been replaced by an emphasis on trading and economic development as a central state priority. Its engagement in international economy accelerated in the 1990s. This policy won support from China's highest officials and general population, both of which considered it an effective way to increase China's economic and political power. Recent Chinese leaders have repeatedly emphasized their fundamental goal of economic growth and the need for a peaceful international context. In March 1999, the National People's Congress amended the Chinese Constitution and added Deng Xiaoping Theory as the state's guiding ideology. This made the economic development legally a fundamental principle of Chinese society. The *2000 PRC White Paper on National Defense*, for example, says,

> "China is engaged wholeheartedly in its modernization drive. A peaceful international environment and a favorable surrounding environment serve China's fundamental interests… Economic development, scientific and technological innovation, and the growth of aggregate national strength remain the priorities for many countries. Worldwide, the forces for peace are prevailing over the forces for war. A new world war will not break out for a fairly long time to come." (PRC State Council Information Office)

Implications of Trading State Theory for Cross-Strait Relations

Given China's trading state identity, strengthening China's peaceful development with Taiwan and the US is needed. First, China's emphasis on peaceful unification with Taiwan through economic integration is driven by its identity as a trading state. It believes that trade rather than military power will fulfill the goal of unification. Jiang's

"Eight Points" and other Taiwan principles and policies incorporated many of these gradualists' views. The PRC leadership believes that the two sides will become unified in the long run, and is not willing to sacrifice trade benefits by launching military attack.

Second, since trade and investment have moved towards the center of China's policy agenda, China's policy with respect to both the United States and Taiwan has been influenced by its trading state concerns. For instance, after the 1999 bombing of the Chinese Embassy when die-hard militarists advocated a more direct confrontation with the US, Jiang repeated in virtually every speech that, "only through economic development, could China be truly strong. Even military strength required economic strength, which in turn required trade, investment, and technology---all of which were impossible without decent relations with the United States" (Kuhn 2004, p.382). After the 1995-96 crisis, PRC Foreign Affairs Minister Qian Qichen and other civilian leaders focused on the need to promote economic cooperation and exchanges and called on Mainland officials to effectively protect Taiwanese investors' legitimate rights and interests (Suettinger 2003, p.264). When faced with surging nationalism during these crises, the Chinese government has also made attempts to calm it, since it has feared that extreme forms of nationalism and nationalistic backlash might jeopardize both peace and prosperity. Pragmatic Chinese leaders have expressed the idea that nationalism must be "channeled" in its expression, including restraining students from holding anti-American demonstrations (Zhao 2003, p.70). After the Embassy bombing crisis, Jiang told China's citizenry to convert the "energy" of its "justifiable rage" into the "glorious work" of building the country (Kuhn 2004, p.382). During the 2001 Spy Plane crisis, pragmatic

Chinese leaders again made efforts to control the expression of nationalism, afraid that it would undermine China's national interests (Zhao 2003, p.70).

Although this paper emphasizes China's trading identity, the US and Taiwan trading state identities have also inhibited their war inclinations. The US has been the world's largest trading state. In 1990, its trade deficit was $102 billion; this number has continued to increase and reached $650 billion in 2004. As a small island, Taiwan's economy overwhelmingly relies on the international market. In the late 1980s, Taiwan had already become the world's fifteenth largest trader (Cho 2002, p.2). Its trade surplus has remained at a high level. In 2003, its trade surplus with the world reached $16.9 billion (ROC Mainland Affairs Council Statistics).

The difference between an ideal type of trading state and a hybrid type in reality should also be noted. In the real world, many states are both trading states and nationalist states. The US, China and Taiwan are all halfway en route to the ideal type of trading states. In other words, they are all influenced by the ideology of realism as well as liberal trading. However, the important point to remember is that a trading state in the real world is influenced by the idea of being a trading state. Because of the huge benefits of trade and higher cost of war, the US, China and Taiwan are downplaying the use of military means to resolve disputes between them. The US frequently emphasizes peaceful resolution of the problem by gradually promoting cross-Strait relations. The Taiwanese leadership also expressed their preference to use peaceful means to solve the Taiwan problem (PRC Mainland Affairs Council). They hope that economic integration will bring a prosperous future to the two sides.

In summary, China's foreign policy is currently intended primarily to create a hospitable international environment for economic growth. Its ideology of being a trading state, formed from the 1980s, has influenced China's Taiwan policy with peaceful principles as its overriding objective. This ideology has also lowered cross-Strait tensions and the probability of war. Evidence suggests that China continues to strengthen this trading state identity. If China maintains its belief that an economically and politically prosperous China will ultimately convince Taiwan of its goal of unification, its trading state identity will help to reduce cross-Strait tensions.

Issue Linkage Theory and Its Implications for China-US-Taiwan Relations

The goal of the US is to maximize the deterrence of a PRC invasion of Taiwan while minimizing any risk of emboldening Taiwan to take what China would consider provocative actions (O'Hanlon 2001). As a powerful state, the US is able to fulfill this foreign policy goal by linking issues together in order to constrain the foreign policy choice of other states subject to these issues. This section examines the impact of issue linkage by the US on the war options of China and Taiwan.

General Propositions of Issue Linkage Theory

International relations researchers have voiced concern about the impact of issue linkage on foreign policy. The central argument of issue linkage theory is that state's foreign policy choices are constrained and are a consequence of linkages between or among issues (Morgan 1990, p.311). Linkage phenomena are all too plentiful, however, and in this paper, I will analyze only two relevant theoretical linchpins. The first is the use of international organization membership as a means for a linker to constrain a

candidate state's foreign policy. The second is the use of foreign aid by a potential donor state to link and/or constrain the aid recipient state's foreign policy.

It is generally agreed that a cross-issue linkage strategy is the instrument of diplomacy most often chosen to project influence (Oye 1979). James N. Rosenau, a pioneer of linkage politics, systematically treats linkage phenomena as a source of foreign policy (Rosenau 1969). Other students of foreign policy have recognized the importance of "tactical linkage" in resolving international disputes. They have shown that issue linkages can improve the probability of cooperation and inhibit war (Morrow 1986; Tollison 1979). Keohane and Nye, for example, argue that linking issues is a means of resolving conflicts (Keohane 1977). Morgan argues that some inter-state crises were resolved peacefully when the participants included additional issues that led to an exchange of benefits (Morgan 1990, p.311-313). Similarly, Tollison and Willett argue that most of the highly publicized cases of proposed issue linkages have been motivated by attempts of individual countries or groups of countries to extend their dominant bargaining or veto power in one particular issue area into other areas so as to achieve a maximum advantage (Tollison 1979). In all, foreign policy choice is widely recognized as a function of "tactical linkages" (Hass 1980; Keohane 1977; McGinnis 1986). In other words, the linker deliberately uses the cross-linkage between issue areas to influence the linkee's foreign and domestic policies. The linkee, lacking leverage power, is then forced to change its foreign policy in accordance with the expectations of the linker, thus behaving cooperatively.

Existing case studies on intergovernmental Organization membership linkage are numerous. Recent evidence can be widely seen in literature concerning EU enlargement.

Over the past two decades, the EU has had a very impressive record in pushing liberal democratization, rule of law reforms, and economic system reforms on its candidate states (Dimitrova 2004). The conditionality of the EU's pre-accession process has acted as a catalyst for the dramatic domestic policy changes in those states. In addition to the impact of the EU leverage on domestic politics, the EU has also succeeded in changing candidates' foreign policies by linking this issue with their membership prospects.

Turkey's process in pursuing its membership bid provides a strong case to illustrate this argument. Given the potential benefits in joining the EU, Turkey has made a huge effort to comply with EU member states' conditions for its entrance. The EU made Turkey's negotiations conditional on a resolution of the Cyprus issue, since the EU considers the tensions between Turkey and Greece a danger to European security. The EU linkage strategy proved effective: Turkey and Greece steered into a cooperative mode in the middle of 1999. Since then, they have signed several agreements addressing economic and social communication. On December 17, 2004, the EU and Turkey reached a deal that allowed Turkey to begin negotiations in 2005 on full membership in the EU if Turkey recognizes the Greek Cypriot-led government of Cyprus (CNN News 2004).

Similar cases support the linkage function of an IGO membership application. For example, Romania was forced to negotiate a 1995 normalization treaty with Hungary and to cooperate with sanctions against Yugoslavia during the 1990s war perpetrated by the NATO. Those two signals affected Romanian foreign policy during the 1990s because of Romania's goal of joining the NATO and the EU.

Foreign aid is another mechanism with which donor states link issues and attempt to influence the targeted country's foreign policy. It has been generally argued that donor

states employ foreign economic and military aid as a foreign policy tool (Oakman 2000; Palmer 2002, p.7; Singer 1972). The effect of the foreign aid on the recipient's foreign behavior can be robust. Wang, for example, provided evidence that the US has successfully used foreign aid to induce compliance among aid recipient states during UN voting (Wang 1999). In 1966, Keohane argued that the more dependent a state is on a great power for trade, aid, or protection, the more responsive it is likely to be to pressure (Keohane 1966). Similarly, Singer argues that weak states that cannot protect themselves on their own have been compelled to seek military assistance and protection from more powerful states. Since every economic or military aid package comes with political strings attached to them, it is likely that such packages constrain the foreign policy choices of weaker states (Singer 1972, p.273, 319).

The above observation on the presumed linkage between foreign policy conditionality, membership in international organizations, and foreign aid provide two workable propositions:

Proposition 6: The more a state desires to obtain IGO membership, the more likely it will be to change its foreign policy or behavior to meet the requirements of IGO membership;

Proposition 7: The more a state is dependent upon foreign aid, the more likely it is to alter its foreign policy to conform to the donor state's expectations.

The two propositions are both related to issue linkage theory, providing a theoretical framework to interpret how Chinese and Taiwanese war options have been constrained by linkage issues. The "Desire of states to join an IGO" is defined as the efforts or actions of political elites to engage positively with an IGO. In this case, the

evaluation is measured by the time and effort spent by China to bid for GATT/ WTO membership. “Requirements of IGO membership” refers to the requirements that the IGO sets for a candidate state wishing to become a member of the IGO. In this case, it is measured by those requirements set by WTO member states for China’s entry, including the policy implied by the US that WTO membership is impossible if a war erupts between China and Taiwan. The “dependence on foreign aid” phrase refers specifically to Taiwan’s dependence on US military aid. This is measured by the amount of weapons sales between the US and Taiwan, and the probability of Taiwan’s inability to defend itself against the PRC without US military aid. This theory implies that, in this case, the US linked the PRC’s WTO membership as well as ROC’s demands for its military assistance with the two sides’ policy choices in order to achieve more peaceful behavior by both sides.

Application of Issue Linkage Theory to Cross-Strait Relations

Measuring China’s Desire to Join the WTO

The PRC traveled a long road before it finally entered the WTO in 2001. In 1950 both the ROC and the PRC were excluded from the GATT when the ROC withdrew its membership. The PRC submitted its request to resume its status as a GATT member in 1986. By April 1989, a GATT working party had completed its assessment of China’s foreign trade regime and economic reform programs. However, because of the 1989 political and economic upheaval in China, the working party decided to halt the process temporarily. During the fall of 1990, negotiations on China’s accession resumed. By participating in the Uruguay Round negotiations, China was eager to complete its quest to

become an original member of the WTO. However, China did not successfully complete its negotiations prior to the commencement of the WTO, mainly because of its failure to reach an entrance agreement with the US (The Law Offices of Stewart and Stewart Report 2002). In 1995, China submitted an application for accession to the WTO. After a lengthy and difficult bargaining process, China and the US reached a commercial agreement at the end of 1999. China finally became a WTO member in November 2001, ending its fifteen-year effort for accession.

Although the domestic scene featured strong debates on the benefits and costs of China's accession into the WTO, the Chinese paramount leadership believed in the necessity of its WTO membership to promote its exported-oriented economy. In 1998 and 1999, the leadership was committed to entering the WTO quickly (Lampton 2001, p.20). One factor was the 1997 Asian financial crisis, which exposed some fundamental weaknesses of the Chinese economy. Premier Zhu Rongji suggested that joining the WTO was one of the means needed to induce Chinese enterprises to reform and improve their competitiveness (Suettinger 2003, p.328). Subsequently, Zhu became a firm supporter of WTO membership. In 1999, Zhu told the Politburo, "We have been negotiating for thirteen years…Black hair was turned white. It is time to conclude the negotiations." (Kuhn 2004, p.386) Jiang, by 1999, was also committed to entering the WTO quickly (Lampton 2001, p.29).

Sensing an opportunity to impose their own terms, the US and other WTO members put tremendous pressure on the Chinese government to reform both its economic system and its legal system in order to meet the requirements of its entry. By December 2001, China had reformed, abolished or revised 1,413 related laws and

regulations. After its accession, it was compelled to keep reforming its domestic regime in order to fulfill the obligations of being a member. Observers who followed the process estimated that China would abolish another 624 laws or regulations and revise another 66 laws or regulations after its entry.

Measuring Taiwan's Military Dependence on the US

The US has remained committed to supporting Taiwan's security by providing it with military aid. Although the Sino-US Joint Communiqué in 1982 regulated the US to gradually reduce its arms sales to Taiwan, the US has, in fact, not stopped its sales of advanced weaponry to Taiwan, especially since the 1990s.

Taiwan has relied heavily on acquiring weapons from the US in order to maintain a military balance with the Mainland. Between 1979 and 2000, the US and Taiwan signed 47 weapons contracts, with a value over $40 billion. If one factors in cooperation on military technology, the amount of military aid flowing between the two sides exceeds, on average, $3 billion per year (People.com.cn News 2001). In 1992, the Bush Administration sold 150 F-16 aircraft fighters to Taiwan. Before 1995, the American arms sales to Taiwan included modified air defense systems, *Hawk* missiles, *Stinger* anti-aircraft missiles, and the *Avenger* mobile anti-aircraft defense missile system. Other weapons leased to Taiwan included armed helicopters, anti-electronic-interference equipment, AGM-84 Harpoon missiles, launchers for Hellfire anti-tank missiles and Knox class anti-submarine frigates (Sheng 2001, p.64). In 2001, the Bush Administration agreed to sell Taiwan high quality weaponry, including 8 diesel-electric submarines, 4 Kidd-class guided missile destroyers, and 12 P-3C patrol and anti-submarine aircraft,

along with 155 mm howitzers, minesweeping helicopters, torpedoes, Harpoon anti-ship missiles, and amphibious assault vehicles.

Since the PRC strongly opposes military sales to Taiwan, the unfavorable international political environment has made it difficult for Taiwan to obtain foreign arms from sources outside of the US. Statistically, weaponry from the US accounts for 60 percent of Taiwan's total of 430 fighter planes, 60 percent of its marine frigate, and 70 percent of its armour-clad tanks. The majority of its missiles were also acquired from the US (China.com.cn News 2001). Military assistance from the US has contributed to Taiwan's weaponry superiority over the Mainland, making it possible for Taiwan to resist China's terms for unification, as well as increasing US leverage over Taiwan not to start a war with China.

Implications of the Issue Linkage Theory for Cross-Strait Relations

China's desire to join the WTO as a full member provided the US with a useful linkage issue to exert its influence on China's Taiwan policy. The formal and public goal of Sino-US negotiations was to reach an economic agreement that would lead to China's full ascension to the WTO. However, the actual negotiations often went beyond economic issues and also involved more sensitive political topics. In such cases, China usually moderated its stance in the face of various cross-Strait crises in order to resume the WTO-related negotiations.

The 1999 crisis provides a clear example of such issue linkage bargaining. In April 1999, Premier Zhu made a trip to the US for the purpose of WTO negotiation (Suettinger 2003, p.363). However, the WTO negotiation was suspended because of the Embassy

bombing in May of that year. Less than one month after the Embassy bombing, Beijing restrained itself from vetoing the G-8 proposal in the UN to end the Kosovo crisis. Political observers have argued that the Chinese decision to not exercise its veto in this case was made as a political tradeoff for getting its WTO membership negotiations back on track (Marsh 2003, p.73). In September, the WTO negotiations were resumed at an APEC summit meeting. At that time, the cross-Strait relations were under stress because of Lee's "two states" statement. In that meeting, Clinton expressed his commitment to the "one China" policy and his support for China's entry into the WTO. He further said (paraphrasing), "Lee's 'two states' theory brought trouble to Sino-US relations…however, if the Mainland were to attack Taiwan, the consequence would be serious" (Lu 2000). Analysts argued that those words implied that PRC's WTO membership would be impossible if China launched a war with Taiwan (Lu 2000). In 1999 two crises ended without extreme military confrontation. Two months after the summit, China and the US reached an agreement for China's entry into the WTO.

Similarly, the US used its position as a major provider of military aid to prevent Taiwan from becoming what China might consider provocative. According to the *1979 US-Taiwan Relation Act*, the guiding principle of US military sales to Taiwan was to maintain peace in this Strait by ensuring an adequate defense for Taiwan. To prevent a potential war, the US carefully maintained a balance by offering Taiwan the opportunity to purchase naval vessels and superior aircraft, while being careful not to provide equipment that could, in turn, be seen as constituting a threat to Mainland China (Edmonds 2003b, p.xxi). Thus, from 1945 to 1996, US military assistance to Taiwan helped to keep the balance of power across the Strait at roughly 50:50 (Edmonds 2003a).

Stability in the Taiwan Strait serves US interests and the US has continually reminded the Taiwan government of this fact and has asked that it not to incur trouble by demanding independence. It has also warned the Taiwanese leadership that the US is not responsible for assisting Taiwan in a conflict over sovereignty issues with the PRC. The Taiwan government has also known that it would be unable to resist an attack from the Mainland without US assistance. In the 1995-96 crisis, for example, Ding Mou-Shih, secretary general of Taiwan's National Security Council, met with US Deputy Assistant to the President for National Security Affairs Sandy Berger, and Undersecretary of State for Political Affairs Tarnoff. Ding told them that Taiwan very much appreciated US support, and that Taiwan would cooperate with Washington fully in its efforts to ease tensions (Suettinger 2003, p.258). After the US decided to send two carriers to deter China, high-level Taiwanese officials were urged by the US not to take advantage of the enhanced US response to Beijing (Suettinger 2003, p.257). According to Washington's suggestions, Taipei canceled military exercises meant to respond to China's missile test (Suettinger 2003, p.260).

Similarly, each time when Taipei's behavior or actions irritated the PRC, it pulled back at American's request. For example, after Lee declared the "two states theory" and brought about a shrill reaction from the PRC, Washington informed Lee of its concerns and asked him to clarify his points. On the following day, Lee declared that what he said did not mean independence, and that the cross-Strait relations constituted a "special" state-to-state relationship (Guangzhou Daily 1999). During the 2004 Presidential election, Chen Shui-bian called for a revision of the Constitution and a timetable for independence, thereby increasing tensions. Beijing sought to preempt Chen's May 20 inaugural address

by warning of the consequence of Taiwan's "pursuit of a separatist agenda." In order to lower the cross-Strait tensions, the US asked Chen not to include such issues as Constitutional revision, state sovereignty, and territory in his May 20 address. In consequence, Chen opted not to provoke the PRC (Guo 2004).

Overall, through various behind-the-scenes means, the US has signaled its intention for both the PRC and the ROC to cooperate more with each other. During the past fifteen years, when China has been more interested in international business, it has relied upon the US, which has more power to set the international political and economical rules. Since 1949 Taiwan has heavily relied on US security support. Even those who support Taiwanese independence understand that this goal could not be achieved without US backup. In both the case of China's campaign to join the WTO and the case of US military aid to Taiwan, the US exerted pressure on the Taiwan issue to constrain both Chinese and Taiwanese behavior that would lead to war.

Conclusion

This study has focused on interpreting the absence of war among the US, China, and Taiwan during the past fifteen years, when identity politics across the Taiwan Strait has increased tensions. Realist constructivism theory would predict war in the Taiwan Strait, given the nationalist identity issues for China and Taiwan. Based on four international relations theories, this study argues that war has been avoided by the three regime's rational calculations of balance of power; their complex economic interdependence; their trading state identities; and US pressure on issue-linkages. Even if identity issues were to worsen, the relative peace is likely to continue for the near future,

assuming China's increased defense spending does not dramatically alter the balance of power in its favor.

These four IR theories disconfirm the prediction of war in applying realist constructivism to the cross-Strait case. Complex interdependence among the three regimes certainly has grown enormously in the past fifteen years. The leaderships' consideration of the high opportunity cost of war, as well as the benefits of continuing trade, has reduced tensions and the probability of war. The PRC, which is most likely to start a war, has signaled its desire to be a participant in international trade and a peaceful state in international politics. The PRC's adoption of a trading identity also has lowered cross-Strait tensions. The PRC leadership believes that an economically and politically prosperous China might eventually induce Taiwan to merge with the PRC. The US, with a shorter-term perspective, has influenced China and Taiwan to not go to war. Additionally, the prospect of war has been lessened, as offensive realism suggests, by the existence of nuclear weaponry in China and the US, the stopping power of water across the Taiwan Strait, and the absence of a regional hegemony.

In evaluating the strengths and weaknesses of these four theories, offensive realism theory and issue linkage theory are more effective at explaining the absence of war, while the other two liberal theories are better for explaining the decreased tensions among all three regimes. Decision-makers faced a complex set of variables when considering security in the Taiwan Strait. The identity issue has *increased* tensions, but state trading identity and the calculation of the benefits of interdependence *decreased* tensions. However, as to explaining the absence of war, the two liberal theories do not offer more focus on decision-making in foreign policy than offensive realism and issue linkage

theories do. Offensive realism and issue linkage theories explain the environment in which political military decisions are taken. The decision to go to war is based on calculations about the balance of power. A growing sense of security of great powers and issue linkages have led all three sides to seek alternatives to war when tensions have arisen.

Yet, both complex interdependence and trading state theories will continue to explain why there is a tendency toward decreased tensions because of the opportunity cost of war. Currently, Chinese economic interdependence with Taiwan and with the US is not as high as it *could* be, since both Taiwan and the US have deliberately set their own self-interested restrictions to hinder the speed of economic interdependence. However, the economic trends reveal that the scope and degree of interdependence continues to increase despite these restrictions. If higher levels of interdependence can be achieved, then the negative effects of competing identities across the Strait would constrain the levels of tensions there.

Furthermore, in future studies, how the leaderships of the three regimes view interdependence shall continue to play an important role in the equation. To put it more concretely, the three regimes' foreign policy behaviors will continue to be influenced by each of their differing identities as a trading state. The PRC's trading identity is an especially important variable. Today, China faces a strategic crossroad: i.e., it can choose either a pathway of peaceful integration or one that exerts dominant influence in an expanding regional sphere (Office of the US Secretary of Defense 2005). According to the evidence of the PRC's recent development priorities, it is foreseeable that China's continuous learning and adaptation of trading will become, if it is not one already, a

valued goal of its national development worthy of military concessions. China's growing commitment both to participation in the world economy and to benign competition will be the best guard against Beijing's becoming a source of instability in East Asia.

In future cross-Strait relations studies, offensive realism theory should be applied to assess China's role as a potential hegemony. If China does not become a regional hegemony, then the relative peace will likely continue. Recently, as a result of China's increasing military expenditures and capability, the cross-Strait balance of power has been shifting towards Beijing. As a result, the possibility that the stopping power of the Taiwan Strait will no longer restrain a PRC invasion must be further explored and evaluated.

Issue linkage provides bargaining leverages for the US. In the future, the linkage issue would still prove helpful, if both China and Taiwan depend on US cooperation in the international arena. It is predictable that Taiwan's security will continuously rely on US's military aid. Although China is already a member of the WTO, it still needs US cooperation in kinds of international economic issues. Therefore, both China and Taiwan will lend the US bargaining powers to pursue relative peace by linking those issues with the two sides' cross-Strait policies.

Furthermore, the theory of functionalism might provide useful variables in future studies, although this theory is not included for my study of the recent past. Currently, the "spill-over" effects of economic integration into political integration are quite limited; however, it is quite possible that in the long run, growing economic and social ties across the Taiwan Strait might lead to initial stages of formal, regional integration including the PRC and Taiwan. At this writing, one can identify positive signs of cross-Strait

cooperation, including the KMT visit to the Mainland in May 2005, the First People's Party visit in June, and the New Party visit in July. However, linkages between economic integration and political integration as indicated by functionalism would pose more potential problems than the integration in the EU, where states have similar economic and political systems. The two sides across the Taiwan Strait remain two different political regimes, as China is not a democracy. If the two sides continue to have only the same economic identity without the willingness or capability to understand and integrate each other's political systems, the outlook for a functional relationship would be highly problematic. However, if China's political system becomes more democratically oriented in the future, then functionalism will produce a useful framework to analyze a stable peace in this region, despite the increasing PRC military development.

In summary, the probability of war in the Taiwan Strait proved not to be as dire as inferred from realist constructivism. During the past fifteen years, the three regimes survived several acute crises without resorting to war. Right now, Taiwan is an arena where competing political forces strive to impose their own visions of nation building in the direction of either independence or Sinicization. Therefore, the identity issue in Taiwan will continue to vacillate back and forth as a possible war catalyst. The most likely scenario in the near future is that this region will continue to avoid war, unless the balance of power shifts dramatically to the PRC's advantage.

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Appendix

Indirect Letter Delivery Between Taiwan and Mainland China from 1991 to 2004

Year	Letters to Mainland China		Letters to Taiwan	
	Total Letters	Percentage	Total Letters	Percentage
1991	6,109,466	-	9,088,143	-
1992	6,383,427	-	10,465,149	-
1993	7,104,266	-	10,627,895	-
1994	6,877,026	4.17	12,224,631	2.64
1995	6,714,489	4.86	10,943,909	2.72
1996	6,532,580	5.33	11,510,345	2.56
1997	6,018,077	6.00	10,283,669	2.32
1998	5,751,680	6.49	8,930,255	2.76
1999	5,031,834	7.89	8,492,073	3.19
2000	5,409,559	8.01	8,577,556	2.95
2001	5,004,283	9.40	7,626,377	3.32
2002	9,224,488	5.03	7,045,970	4.01
2003	10,268,325	4.57	7,698,078	3.51
2004	9,280,017	4.85	6,907,013	4.06

Note: The Directorate General of Posts (DGP) of ROC began to process letters sent to Mainland China at April 18, 1988, and began to process letters from Mainland China at Mach 19, 1988.
Sources: Adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Number of Taiwanese Tourists to Mainland China from 1990 to 2004
(Unit: Persons)

Year	Persons	Year-on-Year Growth Rate (%)	Cumulation
1990	948,000	75.23	1,926,700
1991	946,632	-0.14	2,873,332
1992	1,317,770	39.21	4,191,102
1993	1,526,969	15.88	5,718,071
1994	1,390,215	-8.96	7,108,286
1995	1,532,309	10.22	8,640,595
1996	1,733,897	13.16	10,374,492
1997	2,117,576	22.13	12,492,068
1998	2,174,602	2.69	14,666,670

1999	2,584,648	18.86	17,251,318
2000	3,108,650	20.27	20,359,968
2001	3,441,960	10.72	23,801,928
2002	3,660,570	6.35	27,462,498
2003	2,731,900	-25.37	30,194,398
2004	3,685,310	34.90	33,879,708

Note: Taiwan residents have been allowed to visit Mainland China since November 1987.
Sources: Adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.

Number of Chinese Visitors to Taiwan from 1990 to 2004
(Unit: Persons)

Year	Economic and trade activity	Tourism	Others	Cumulation
1990	-	-	7,524	7,524
1991	-	-	11,116	11,116
1992	-	-	13,177	13,177
1993	-	-	18,445	18,445
1994	-	-	23,654	23,654
1995	158	-	42,137	42,295
1996	1,144	-	55,401	56,545
1997	2,576	-	71,272	73,848
1998	4,119	-	86,268	90,387
1999	5,359	-	100,895	106,254
2000	5,896	-	110,415	116,311
2001	9,874	-	124,114	133,988
2002	15,729	2,151	136,890	154,770
2003	10,811	12,768	110,131	133,710
2004	13,264	19,150	106,930	139,344

Note: Mainlanders have been allowed to visit Taiwan since January 2002.
Sources: Adapted from *Cross-Strait Economic Statistics Monthly* No. 148, Mainland Affairs Council of the Executive Yuan in Taipei.