

China-Taiwan Relations

~~(S/NF)~~ Both China and Taiwan have modified their overall approach to the Taiwan issue in the past year. Taipei has condoned a broad range of unofficial contacts with the mainland. Public opinion polls in Taiwan consistently show a high level of interest in further relaxation of restrictions in dealing with the mainland.

- o ~~(S/NF)~~ Taiwan has allowed family visits to the mainland, indirect trade, and investment. Financial contacts, including private loans, are also under consideration. Calls continue for permitting sports, cultural, academic and journalistic exchanges and tourism.
- o ~~(S/NF)~~ However, in order to mollify hardliners in Taipei, the policy of "three no's" -- no contact, no negotiations, and no compromise -- has not been formally relaxed by Taiwan. Taiwan's leaders are debating the extent to which increased contacts will affect the ability of the Kuomintang to maintain its preeminent political position on the island, insure continued economic prosperity, and redefine Taiwan's relationship with the mainland on acceptable terms.

~~(S/NF)~~ Beijing has welcomed Taiwan's willingness to widen contacts. We expect Chinese leaders to encourage further contact, expanded trade, and greater investment in the mainland. Beijing hopes to build a web of relationships that will induce Taipei to reconsider its refusal to discuss political ties leading toward reunification.

- o ~~(S/NF)~~ Beijing continues to adhere to the reunification formula of "one country, two systems," which promises a degree of autonomy to Taiwan. Beijing's leaders, however, conceive of a long term reunification scheme in which Hong Kong, Hainan Province, and Taiwan would eventually form an economic entity to serve as a center

for trade and finance in South China. Trade and investment between Taiwan and the mainland would provide the bridge for integration in this concept. Accordingly, Beijing has condoned increasing exchange with Taipei. In 1987 bilateral trade through Hong Kong reached a record 1.56 billion USD, a 63 percent increase over the 1986 level.

- o ~~(C/NF)~~ However, the trend toward "Taiwanization" of the ruling KMT, which is intended to insure the continuing existence of the Party, worries Beijing. There is concern that such a trend will strengthen popular support for the status quo--de facto Taiwan independence--and complicate Beijing's efforts to promote reunification. Beijing remains wary of a declaration of independence by Taiwan or instability that could spark the emergence of groups unwilling to continue the present level of contacts. To counter this development Beijing will likely continue its public calls for reunification talks while probing privately for opportunities to initiate a dialogue with an emerging new leadership.
- o ~~(C/NF)~~ Despite the changed atmosphere since last year and the movement toward increased communication, Taiwan continues to see a security threat implicit in the reunification issue. China continues to refuse to renounce the use of force as a means of reunification. Taiwan is still suspicious of China's motives and intentions. President Lee Teng-hui recently called for caution on the question of contacts, noting that this is a serious issue, not a "romantic illusion."

~~(C/NF)~~ Precisely because China has refused to renounce the use of force to settle the Taiwan issue, Taipei's military programs designed to counter this threat continue on schedule.

- o ~~(C/NF)~~ The Indigenous Defensive Fighter (IDF) program, the frigate program, the tank improvement program, and other hardware improvements in the Army and Navy are being counted on to retain the qualitative edge in military capabilities Taiwan has traditionally possessed. Manpower is being further reduced in favor of hardware upgrades, defense industry enhancements, and military infrastructure improvements.

~~(S/NF)~~ China will continue trying to enlist US support for reunification.

- o ~~(S/NF)~~ It will continue to insist on maintaining the principle of qualitative restraints on the flow of military equipment and technology to Taiwan.
- o ~~(S/NF)~~ In Beijing's view, expanded contacts between the mainland and Taiwan, together with a commitment by the United States to do nothing which impedes further progress, would ameliorate the Taiwan issue as an irritant in US-China relations.