

TAIWAN STRAIT  
DILEMMAS

CHINA-TAIWAN-U.S. POLICIES

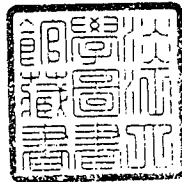
IN THE NEW CENTURY

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## CHAPTER TEN

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# CROSS-STRAIT RELATIONS AND THE PRISONER'S DILEMMA

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OVER THE PAST 50 YEARS, the relationship between Taiwan and China has been fundamentally confrontational. This confrontation reflected Cold War structural conflict. A hot war was avoided only through diplomacy. After the Cold War, international conditions changed, but the cross-strait conflict persisted. Sources of the stalemate in cross-strait relations that reflect aspects of a prisoner's dilemma in game theory are outlined here. In a game such as prisoner's dilemma, although it is not in the interest of either side, distrust and lack of mutual confidence inevitably lead both sides to confrontation.

Cross-strait dilemmas take place on three different levels: military, diplomatic, and economic. An analysis of the preference structure and rational choice considerations of both sides follows, starting with the military.

### MILITARY DILEMMA

Both Taiwan and China are caught in a military dilemma that fuels an implicit arms race. From China's perspective, maintaining the ultimate option of using force against Taiwan prevents Taiwan from declaring independence. Beijing perceives Taiwan's leaders, particularly Lee Teng-hui, as determined to lead Taiwan toward permanent separation. The threat of force is the last roadblock in Taiwan's path to independence.

China's constant threat of force prompts Taiwan to strengthen its self-defense capabilities. There is concern in Taiwan that even without a declaration of independence a PRC attack is possible. The 1995–1996 missile tests before Taiwan's presidential election only magnified that fear. Besides, in light of China's disproportional weight, without adequate military and economic might to enhance its bargaining strength, Taiwan would not dare sit at the negotiating table with China. Thus Taiwan not only aims at achieving a formidable defense force, but its political leaders also seek to participate in international security arrangements, such as theater missile defense, to increase Taiwan's self-confidence at the bargaining table. China's rapid military buildup across the strait concerns Taiwan. Fearing an imbalance in military strength, Taiwan will also increase its military spending, perpetuating a cycle of arms competition for mutual deterrence across the strait.

Ironically, to avoid losing in a confrontation, distrust and assumed negative intentions have prompted both sides to pursue a path of conflict in the form of an arms race. The threat of force protects China's claimed "territorial integrity," and the acquisition of advanced defense articles helps boost Taiwan's self-confidence at the bargaining table and in a potential military attack.

Following are the rational choice preferences for both sides in a military dilemma:

China's preferences:

1. Taiwan submits to Chinese sovereignty. (China confronts, Taiwan cooperates.)
2. China threatens to use force, engaging the United States to pressure Taiwan against independence. Taiwan responds by upgrading defense capabilities. Potential for war remains. (Mutual confrontation.)
3. China abandons the use of force, and Taiwan agrees not to declare independence. (Both compromise and cooperate.)
4. Taiwan declares independence and China accepts. (Taiwan confronts, China cooperates.)

Taiwan's preferences:

1. China forfeits the use of force and Taiwan declares independence. (Taiwan confronts, China cooperates.)
2. Taiwan upgrades defense capabilities to counter China's threat to use force. Arms race continues and potential for war remains. (Mutual confrontation.)
3. China abandons the use of force, and Taiwan agrees not to declare independence. (Mutual compromise and cooperation.)
4. Taiwan surrenders without the cost of war to China. (Taiwan cooperates, China confronts.)

Because of distrust, both sides doubt the other's sincerity to cooperate. Unilateral cooperation is ruled out, and thus both sides are left with the only rational choice of confrontation. This is the typical prisoner's dilemma, reflecting the military dilemma between confrontation and détente.

## DIPLOMATIC DILEMMA

Conventional diplomacy is the conduct of relations between sovereign states. In other words, there is no diplomacy without sovereignty. Yet sovereignty being the sore point between China and Taiwan, diplomatic confrontation has become another battleground. Many foreign observers find it difficult to comprehend Taiwan and China's obsession over relations with Tonga or Papua New Guinea when it is obvious that neither side of the Taiwan Strait has vital interests in these South Pacific nations. The problem is that official diplomatic ties with countries such as Tonga or Papua New Guinea have deeper symbolic meaning: In the eyes of Taiwan and China, they argue for Taiwan's existence as a sovereign state.

The sovereignty dispute is complicated and sensitive. From China's perspective, years of imperialist domination by colonial powers in the nineteenth century resulted in the country being carved up, leaving a scar of shame. The bearer of 5,000 years of civilization and the world's most populated country, China aims to reassert itself as a major world power. The reversion of Hong Kong to PRC sovereignty

was only one part of the recovery of colonial vestiges. Taiwan's separation is interpreted as a remnant of both Japanese colonialism and U.S. imperialism.

Chinese nationalism reflects fundamentally contradictory emotions. On the one hand, China is immensely insecure and shameful about its past of domination by the West. On the other hand, China is also proud of its history as one of the world's greatest ancient empires. This emotional contradiction is manifested in an outpouring of nationalistic sentiments as well as a desperate urgency to prevent Taiwan from permanent separation, even if the cost is war with the United States or Japan.

Thus China insists on a sovereign claim over Taiwan, blocking all access to diplomatic forums that may offer the slightest indication that Taiwan is a sovereign state. The PRC campaign to isolate Taiwan diplomatically has been fueled by Taiwan's assertions of its separate status. This campaign of isolation has only intensified Taiwan's desperation for inclusion in the community of states.

On Taiwan's side, Taipei's self-deception of representing sovereignty on mainland China during the Cold War was replaced by a new sense of national identity as the island democratized in the late 1980s. In the initial cross-strait contact of 1993, both Taiwan and China chose a "mutual cooperation" stance: They agreed on the "one China" principle but disagreed on its definition.

Since then, Taiwan chose to put aside the disputed definition of "one China" and to focus on other issues in cross-strait talks. It became clear that "functional issues" and a step-by-step approach were not enough, for China insisted on Taiwan's compromise on sovereignty as a prerequisite for talks. Over the years, China continued to promote a "three-part theory" on sovereignty: There is only one China, the PRC represents China, and Taiwan is part of China. Under Chinese pressure, this position has been adopted by the international community, which uses it as an excuse to deny Taiwan access to official recognition and international participation on both governmental and nongovernmental levels.

International acceptance of the PRC's interpretation of "one China" has left Taiwan with no room for alternative definitions, con-

trary to the more open interpretation of the 1993 Koo–Wang agreement. From Taiwan’s side, unilateral cooperation in the form of not disputing sovereignty has led only to more international isolation. This is unacceptable to the Taiwanese people who believe they deserve more. Therefore, in the case of losing out over a “Taiwan cooperates, China confronts” situation, President Lee saw himself with no choice but to respond by describing the cross-strait ties as a “special state-to-state relationship” in a desperate attempt to reset the agenda. In the prisoner’s dilemma parlance, Taiwan abandoned the lose-win preference in favor of a lose-lose game by confronting China on its sovereignty claims.

China’s preferences in the diplomatic dilemma over sovereignty are as follows:

1. Taiwan submits to China’s sovereignty, accepting “one China” as a precondition to talks in the direction of a “one country, two systems” formula and putting an end to wasteful spending in diplomatic battles. (China confronts, Taiwan cooperates.)

2. Neither side accepts the other’s sovereignty interpretations. The diplomatic battle continues. Taiwan struggles to gain recognition, and China exerts great energy to isolate Taiwan. (Mutual confrontation.)

3. Taiwan reverts to acceptance of the nominal “one China” with a different interpretation—the 1993 Koo–Wang agreement. China allows Taiwan more international space. (Mutual cooperation.)

4. “One China” is no longer a precondition to talks. Both sides deal with each other on an equal basis and the international community recognizes the current separation. Taiwan gains access to international governmental organizations. (Taiwan confronts, China compromises.)

Taiwan’s rational choice preference order is as follows:

1. Taiwan and China deal with each other on a special state-to-state relationship. China accepts the reality of Taiwan’s separate existence, and both sides engage in talks on an equal basis on issues of

mutual concern. China allows more international activity space for Taiwan. (Taiwan confronts, China cooperates.)

2. There is a suspension of cross-strait dialogue. (Mutual confrontation.)

3. Taiwan reverts to a nominal "one China, different interpretations" condition for talks. The sovereignty dispute is put aside and both sides discuss other issues (functional issues) of mutual concern. (Détente.)

4. Taiwan submits to China's "one country, two systems" formula and forfeits further diplomatic efforts or attempts to gain recognition for Taiwan's sovereignty. (China confronts, Taiwan cooperates.)

China's preference in cross-strait dialogue is naturally a full and legitimate claim to sovereignty and Taiwan's submission. When Beijing interacts with Taiwan, the more it insists on "one China" as a precondition, the stronger will be Taiwan's resistance to talks. But here is the dilemma: China fears that, if it does not insist on its "one China" preference strongly enough by isolating Taiwan internationally, Taiwan's separate sovereignty will gain legitimacy. Taiwan is equally suspicious: Any talk of "one China" could end Taiwan's international existence. Therefore, as long as China sets the agenda for talks based on "one China," Taiwan will choose a noncooperative path. President Lee's two-state theory is a perfect example. With a complete lack of mutual confidence, both sides will continue to take suspiciously cautious strides when interacting with the other, preferring to suspend talks rather than give in to the other's agenda.

## ECONOMIC DILEMMA

Many observers, especially those promoting a globalist perspective, argue that close economic engagement is the greatest positive sum, mutual interest area in cross-strait relations. Indeed, business relations have built bridges of mutual interest across the strait and serve as a strong incentive against confrontation. A dilemma also exists in the cross-strait economic relationship: Even as mutual economic in-

terests are found, competitive and even confrontational economic interests are also generated.

The early stages of cross-strait interaction took place in the 1980s in the midst of China's opening and economic reform. The capital market in China was far from mature at the time, and Taiwan business investment in China not only brought in desperately needed foreign capital but also provided Taiwan with an opportunity to upgrade industrially. The labor-intensive, export-oriented manufacturing on which Taiwan relied throughout the 1960s and 1970s faced a bottleneck as Taiwan's labor costs started to rise. Furthermore Taiwan's export quotas were reaching saturation, and Taiwanese businesses gleefully exploited the export quota allotted to Chinese-made products through Taiwan-run companies in China. Gradually, MIT (made in Taiwan) toys and shoes became "made in China," and MIT labels shifted to semiconductors and computers.

The low-skill manufacturing that Taiwanese companies initiated was swiftly adopted by Chinese companies, and these Chinese domestic companies became the chief competitors of Taiwan-owned companies for the Chinese export quota. The PRC government, to protect Chinese companies, established new barriers so that Taiwan lost its comparative advantage over other foreign multinationals.

As mutually complementary manufacturing was replaced by mutual competition, the capital market faced a similar problem. As China developed its own socialist-flavored market economy, and more capital flowed out of Taiwan, China became Taiwan's chief competitor for capital. This competition was apparent during the Asian economic crisis when both sides adopted strategies of domestic spending as a means for recovery. The dramatic increase in domestic capital need revealed the competitive nature of cross-strait capital. The capital shortage for the Taiwan High Speed Rail is an example of how such competition has negatively affected Taiwan's economy.

Besides, increasing and speeding up economic interaction between Taiwan and China have other side effects. Economic growth on both sides will also contribute to the ability of either side to procure or develop more advanced weapons. Thus the potential confrontation across the strait will continue.



Furthermore increasing interaction between both sides in the past decade has spurred development of separate identities. Contact has revealed historical and cultural schisms between the two sides. Polls by various survey centers in Taiwan consistently portray the changing notions of identity in Taiwan. Even as cross-strait business and travel increase, more and more people are identifying themselves as Taiwanese, not Chinese.

Given the above, direct links (or the so-called three links) with China contain a clear dilemma. On the positive side, direct links expand business opportunities and both sides earn the benefits of profits and growth. But, when the cost of business interaction is lowered through direct links, the cost of maintaining national security rises because of heightened mutual suspicion. Furthermore, direct links and increased economic interaction also increase the number of issues to be worked out between the two sides. On the economic side, there are matters such as capital and information flow and means of dispute arbitration to negotiate. On the other side, there are issues related to complicated sovereignty and identity problems, such as tariffs and national flags attached to transportation lines. Political and military dilemmas prevent both sides from negotiating on these purely economic matters. Ultimately, the economic dilemma also results in stalemate.

## OVERCOMING THE DILEMMAS

Given the current preference structure of cross-strait interaction, three sets of dilemmas, in military, diplomatic, and economic arenas, all lead to the same result: confrontation. Although confrontation does not necessarily mean military conflict, the possibility exists. From the outside, it is easy to imagine the benefits of mutual cooperation. Both sides can also appreciate those benefits, whether in the form of trade profits, military confidence building to reduce the arms race, or saving dollars through a truce on the diplomatic battlefield. From the inside, on both sides of the strait, internal insecurities, suspicions, and emotional contradictions prevent both sides from reaching the trust needed for mutual compromise.

These cross-strait dilemmas are structural. Assuming that both sides act rationally, there is no internal solution to the preference structure of the prisoner's dilemma. Also, expectations are problematic that the results of Taiwan's presidential election will somehow change the preference order on Taiwan's side, for any rational national leader of Taiwan must consider popular public sentiments. These sentiments become rational as soon as the legitimacy of political leadership depends on them. They are molded by decades of historical differences and will not change in the immediate future. Beyond popular emotions, practical interests also come into conflict, in military, diplomatic, and economic dilemmas.

Since the cross-strait dilemma is structural, avoiding confrontation requires either negotiations in which both sides compromise or outside intervention. The negotiation option is nearly impossible on an official level, because basically even with a negotiated agreement there is no guarantee that both sides will comply; the prisoner's dilemma of mutual suspicion perpetuates this difficulty. For example, Taiwan thinks that agreements in the historic 1993 Koo-Wang talks were not respected.

The other option for changing the preference structure of the dilemma is external intervention, to change the priority order of the rational choices of both sides. The only party capable of playing any intervening role is the United States.

The current policy of the United States is not to mediate or intervene in cross-strait relations. As long as Taiwan and China are unable to break the current stalemate, and as long as the stalemate could result in potential war, U.S. strategic interests in the region may ultimately require the United States to take a more active role in cross-strait relations. Sending envoys to China and Taiwan, following President Lee's description of the state-to-state relationship, as well as high-profile "second track" diplomacy efforts, indicates increasing activity on the part of the United States to prevent a cross-strait conflict. Such activity will continue, whether or not Taiwan and China like it, and such activity will be heightened as long as influencing the rational choices of both sides is deemed necessary to change the current preference structure from conflict to *détente*.

Some U.S. scholars have presented proposals on interim agreements, specifying a set period of time in which China renounces the use of force and Taiwan forfeits the declaration of independence. In other words, these proposals aim to prolong the status quo until a time when changes on both sides enable mutual compromise. Because of the prisoner's dilemma, agreement is unlikely without an external guarantor.

To begin, both sides will resist agreement for it means significant compromise. Taiwan fears being swallowed up and ceasing to exist internationally, and China fears giving Taiwan an open ticket toward formal separation. Any interim structural agreement must alleviate these fears to be effective. In other words, the interim agreement proposals create new frameworks and opportunities, but there is no guarantee that either side will follow the rules.

Acknowledging that in the near future both sides will adamantly oppose a U.S.-brokered political agreement on "no force, no independence," here I propose that the United States gradually take the guarantor role without specifying the terms on paper. More specifically, the United States must continue defense cooperation with Taiwan and even elevate the level of military contacts and cooperation. Taiwan's increased reliance on the United States for security needs could offer the United States more leverage over Taiwan's decisions in cross-strait relations. Naturally, Taiwan would have more incentive to cooperate with the United States on U.S. interests in China. A better U.S.-Taiwan security relationship would also help to alleviate Taiwan's fears of being swallowed up, while at the same time making the use of force an even more costly option for China.

Beyond strategic power incentives, the United States may gain an opportunity to promote liberal democracy and human rights now. With the collapse of the USSR, the United States became the sole global superpower, making Washington less concerned with the balance of world power but giving it more moral responsibility, as it has shown in Kosovo.

On the economic side, to resolve the dilemma, international intervention is equally important. The best way to govern the cross-strait economic relationship is through international norms and regula-

tions based on market functions, not politically motivated blockades. Only with both sides joining international trade organizations such as the World Trade Organization will their economic and trade interests be regulated by market norms and will Taiwan's insecurities find comfort by joint international efforts at enforcement. The normalization and internationalization of cross-strait trade based on market principles would also help Taiwan gain the confidence to lift the current political- and security-motivated barriers to normal trade.

In conclusion, there is genuine interest in lowering tension and avoiding confrontation. But suspicions overwhelm incentives for cooperation. Outside intervention in changing the preference structure of the prisoner's dilemma provides both cookies and poison: The poison will be accepted only if the cookies are large enough to dilute its effects. The United States is in a difficult position, but global interests also bring global responsibilities.