



**China-Taiwan Relations:
Progress in the Face of Headwinds**

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Leaders in Taipei and Beijing continue to pursue improved cross-Strait relations despite political pressures and domestic criticism. The initial agreements are being implemented and behind-the-scenes negotiations are laying the ground for a second tranche of agreements when ARATS Chairman Chen Yunlin visits Taiwan in late October or early November. The Beijing Olympics occasioned some tensions over terminology until the leadership in Beijing stepped in to craft a satisfactory solution. Taipei's modest proposal at the UN aimed at participation in UN specialized agencies was rejected by Beijing. However, a debate is underway in Beijing on how to address Taipei's demand for increased international space and the Ma administration remains hopeful that Beijing will eventually devise a more forthcoming response. On October 3, the Bush administration notified Congress of a \$6.5 billion arms package for Taiwan.

SEF and ARATS moving forward

After the resumption of dialogue in June between Taiwan's Straits Exchange Foundation (SEF) and Beijing's Association for Relations across the Taiwan Strait (ARATS), their attention focused first on implementing agreements on weekend charter flights and Chinese tourism. The weekend charters, which began July 4, have been operating smoothly, but the hoped for flood of Chinese tourists to boost the Taiwan tourism industry has not materialized and have been mainly serving Taiwan business travelers. They had set a ceiling of 3,000 tourists from China daily, but daily arrivals have been averaging about 300 until late September when they began to increase before the October 1 holiday, the People's Republic of China (PRC) National Day. Tourism has been constrained by strictures on both sides. China has complex procedures for authorizing tourists to visit Taiwan and Taipei requires PRC tour agencies to take ultimate financial responsibility for the departure of their tourists and that they follow rigid group itineraries, fearing that tourism will become a vehicle for illegal immigration. However, Beijing recently has taken some steps to facilitate the process of granting permits for tourism to Taiwan and, as Chinese tourists have not been jumping ship, Taiwan should be able to ease its restrictions.

With things going reasonably well, SEF and ARATS have turned their attention to planning for the visit of ARATS Chairman Chen Yunlin to Taiwan. As the first visit by an ARATS chairman, the visit will have symbolic significance. Taipei in particular, but also Beijing, wants to ensure that the visit results in further cross-Strait agreements. The contacts necessary to lay the groundwork for these agreements are underway and it appears that Chen will visit in late October, or possibly early November. They are expected to conclude agreements in at least three

areas: a) defining direct air routes so that planes do not have to fly through Hong Kong airspace as has been the practice thus far, b) cargo charter flights, and c) direct maritime routes between designated ports in Taiwan and China. This is in keeping with both sides' intention to begin with practical economic steps beneficial to both sides that will establish a pattern of successful negotiations and build trust. The anticipated economic benefits are also important to President Ma Ying-jeou, who campaigned on a platform of revitalizing the Taiwan economy, which has seen growth slow in the current difficult international environment.

To advance his economic goals, President Ma has also taken unilateral steps to ease Taiwan's restrictions on cross-Strait investment. In July, the Ma administration announced that the old 40 percent ceiling on the domestic capital that Taiwan companies could invest in China would be lifted. Henceforth, Taiwan companies headquartered in Taiwan will have no ceiling and those headquartered outside Taiwan will have a 60 percent ceiling. In addition, Taipei has liberalized listing terms to encourage Taiwan firms listed on foreign stock exchanges to also list on the Taipei Stock Exchange. The government has also begun small steps to open the Taipei exchange to investments by funds that include more substantial Chinese interests and simultaneously to ease the restrictions on Taiwan funds buying stock in mainland companies. Ma has also announced his intention to recognize academic degrees from China and accept Chinese students at Taiwan's universities. The opposition Democratic Progressive Party (DPP) has protested these educational plans.

The scandal involving melamine-tainted dairy products raised serious concerns about imported Chinese products and put a new issue onto the cross-Strait agenda. Taipei called for establishing a health safety communications channel. Beijing accepted Taipei's proposal for a health safety delegation led by SEF, but including senior government health officials, to visit Beijing. On Sept. 28, the delegation's talks with officials in Beijing led to an "initial agreement" to set up direct communication channels.

Beijing Olympics

The Beijing Olympics became a significant test of mutual good will. As is so often the case, the toughest issue involved terminology: what Chinese translation to use for the English name, Chinese Taipei, under which Taiwan participates in the Olympics. The Beijing media was using the translation *Zhongguo Taibei*, rather than the less political *Zhonghua Taipei* that was used by the International Olympic Committee (IOC) and Taipei. Taipei called on Beijing to adhere to the IOC terminology. The Taiwan Affairs Office in Beijing issued a formal statement explaining that while past agreements required the Beijing Olympic Organizing Committee to use the IOC terminology, others in China were not required to use it. This statement was seen in Taipei as a sign that Beijing would use the Olympics to score political points and to denigrate Taiwan. The Kuomintang (KMT) called on Beijing to show good will and indicated that its leaders would not attend the Olympics if the offensive terminology was used and the Taipei Sports Council announced that its athletes would not participate if the offensive terminology was not dropped. A few days later, official media in Beijing began using the IOC terminology. Taipei saw this as the hoped-for sign of good will.

Thereafter, despite a few minor stories, Taiwan's participation in the Olympics proceeded without any cross-Strait political problems. KMT Chairman Wu Poh-hsiung, several other pan-blue political figures, and three Taipei Cabinet ministers traveling in nongovernmental capacities attended the opening ceremony. Wu attended the luncheon that President Hu Jintao gave for world leaders and spoke briefly with Hu.

“International space” issues

The annual meeting of the UN General Assembly forced the Ma administration to address the international space issue earlier than it might have liked. In mid-August, Taipei announced that its allies would put forward a proposal focusing on “participation” in UN specialized agencies. This represented a substantial break with Taipei's annual requests since 1993 seeking membership in the UN. Predictably, the DPP opposition criticized the proposal as sacrificing Taiwan's sovereignty and its right to be represented in the UN.

Unfortunately, Beijing's response was a hardline reiteration of Beijing's positions that showed little flexibility. The position conveyed in PRC Ambassador Wang's letter to the UN described Taipei's proposal as intended to create “two Chinas” or “one China, one Taiwan.” That language means that as a matter of principle, Ma's proposal is unacceptable to Beijing. The letter also stated explicitly that Taiwan is not qualified to “participate” in the activities of UN specialized agencies. The letter ended with a call for cross-Strait dialogue on international space issues. Even though this letter did not show the new thinking from Beijing that will be needed to address the issue, Taipei chose to downplay its disappointment. The opposition was not so generous. They saw the response as a sign of Beijing's continuing hostility and argued that the Ma administration had gotten nothing in return for its misguided proposal.

The UN General Committee decided not to put Taipei's proposal on the General Assembly agenda. A procedure was worked out in New York, with Taipei's tacit concurrence, to avoid an extensive debate in the committee as Taipei saw nothing to be gained by a contentious debate in which its views would not prevail. In exchange, the U.S. and the EU made public statements of support for Taiwan's meaningful participation in UN specialized agencies. Subsequently, Japan and the UK expressed support for Taipei's proposal.

As four months have passed since President Ma's inauguration, it is appropriate to assess whether there has been any change in Beijing's efforts to block Taiwan's participation in a whole range of international activities both governmental and nongovernmental. Beijing is not making the case that its policy has changed, and observers in Taipei are hard pressed to cite examples of a more flexible attitude on Beijing's part. One example was the simultaneous selection of private experts from China and Taiwan in August to the World Trade Organization's Permanent Group of Experts. Another positive example involved Beijing's cooperation with Taipei in hosting the Sept. 22-28 “Workshop on Large Scale Disaster Recovery in APEC.” This APEC workshop, which was originally proposed by Taipei, was expanded to include visits to Sichuan in addition to Taiwan, following the Sichuan earthquake in May. In an effort to put the best light on recent developments, the Foreign Ministry in Taipei has said only that the number of reports of PRC pressure on Taiwan has declined.

Beijing's policy may be slow to change because a significant debate is occurring in China on how to respond to Taipei's demand for greater international space. The UN schedule forced the question before a consensus had formed. If this is so, it is possible that eventually Beijing will develop a more nuanced and responsive policy in line with President Hu Jintao's call for "new thinking." At least that is the hope in the Ma administration.

Taipei's real goal at present is gaining meaningful participation in the World Health Organization (WHO) when that issue is next addressed at the World Health Assembly meeting in May 2009. The food safety scandal has escalated the salience of the issue and President Ma has cited it in reiterating the importance Taiwan places on access to the WHO. Unfortunately, this "particularly deplorable" scandal has also focused attention on the strictures Beijing has forced the WHO Secretariat to accept in dealing with Taiwan. A message from the WHO on the issue highlighted Taipei's concerns. It referred to Taiwan as *Zhongguo Taipei*, the same objectionable terminology as in the Olympics context, and only sent Taipei a copy of the message that it had addressed to Beijing. Taipei protested the terminology and demanded that the WHO communicate with it directly on health and food safety issues.

The other side of the international space coin is diplomatic relations. President Ma has called for a diplomatic truce in which each side would refrain from efforts to woo away diplomatic allies of the other. Here the test case has been Paraguay whose new president was inaugurated in August. Although Paraguayan President Fernando Lugo has reaffirmed his goal of establishing diplomatic relations with China, this has not yet happened. In September, Paraguay's Parliament voted to accept a \$71 million aid grant from Taiwan to fund social projects. For its part, Beijing appears to have exercised some restraint, at least temporarily. This is the case despite the view of many Chinese observers that the proposal for a diplomatic truce is at best impractical.

In mid-August, President Ma attended President Lugo's inauguration and made stops in Panama and the Dominican Republic. While on this trip, President Ma explained his truce proposal and made clear to Taiwan's diplomatic allies that Taipei did not object to their developing economic and trade relations with China. The opposition in Taipei continues to criticize the truce concept as a form of surrender.

President Ma's statement on cross-Strait relations

On Aug. 26, in an interview with a Mexican journalist, President Ma stated that "our two sides have a special relationship, but it is not a state-to-state relationship. This is very important." While important, it is not clear what prompted Ma to make the statement. Coming just a few days after the circulation of the PRC letter rejecting Ma's proposal concerning UN specialized agencies, it was a clear reversal of former President Lee's 1999 statement that cross-Strait relations were a "special state-to-state relation" and former President Chen's 2002 statement that there was "one country on each side of the strait." Not surprisingly, both Lee Teng-hui and the DPP have forcefully condemned the statement as sacrificing Taiwan's sovereignty. Although Beijing observers are aware of Ma's statement and recognize its significance, there has been no mention of it in the official media or any comment on it from official sources.

Military developments

Four months after President Ma's inauguration, there is no evidence that Beijing has reversed the expansion of its military capabilities targeted at Taiwan. In July, Gen. Xu Caihou, a vice chairman of the Central Military Commission, stated that Ma's election had not changed the threat. Therefore, there would be no change in Beijing's military readiness posture.

In September, Taipei announced that its defense budget for 2009 would total \$10.17 billion, down slightly from the 2008 defense expenditure. This will be less than the 3 percent of GDP level that President Ma had said his government would appropriate, though the out-year projections indicate the defense budget would average about 3 percent over a period of years.

In early July, the Legislative Yuan removed its freeze on funds for initial production of the *Hsiungfeng IIE* land attack cruise missile (LACM). The 2009 budget will include funds for its continued production. In August, the Presidential Office stated that it would be Taiwan's policy to not be the first to use force and not to use force against non-military targets. In line with this latter policy, the Ministry of National Defense spokesman said that Taipei would not develop a 1,000 km range version of the *Hsiungfeng IIE* that would be capable of reaching Shanghai.

On October 3, the Bush administration notified Congress of a \$6.5 billion arms package for Taiwan including *Patriot PAC-III* anti-ballistic missiles, *E-2T* anti-submarine aircraft retrofit, *Apache* helicopters, *Harpoon* anti-ship missiles, *Javelin* anti-vehicle missiles, and spare parts for *F-5* and *F-16* aircraft. Funds for conventional submarine design work, *Blackhawk* helicopters and additional *Patriot PAC-III* missiles were omitted from the package. Taipei welcomed the announcement. Beijing denounced it, even though (or perhaps because) it made no mention of the most important system currently being sought by Taipei – *F-16C/D* aircraft. As expected, a decision on the latter was postponed until after the inauguration of the new U.S. administration.

Cross-Strait trade

Despite the turmoil in global financial markets, cross-Strait trade continued to grow rapidly in the first half of 2008. According to statistics from Beijing's Ministry of Commerce (MOFCOM), total cross-Strait trade grew 23 percent in the first six months to total \$68.0 billion. Taipei's Board of Foreign Trade (BOFT), whose figures are typically lower, portrayed a similar picture reporting that trade grew 22.1 percent to reach \$56.76 billion. According to BOFT, Taiwan's exports to China grew 21.7 percent in the first half and the percentage of Taiwan's total exports sent to the mainland reached a new high of 30.2 percent.

Looking ahead

SEF and ARATS are working together productively following their shared approach of focusing on the easier economic issues first in order to build trust. The visit of ARATS Chairman Chen Yunlin will be a test of their ability to keep this process moving ahead as both sides are confronting significant domestic resistance. Beijing's inability to respond more constructively to Taipei's modest UN proposal on participation in specialized agencies reflected the resistance President Hu confronts in addressing Taiwan's demands for greater international space. In

Taipei, The DPP is criticizing every move and statement President Ma makes on cross-Strait relations, and Ma's approval rating has fallen to new lows.

The melamine-tainted food scandal in China has created new strains, which Beijing has taken steps to contain in a cross-Strait context. However, Beijing's continuing restrictions on WHO contacts with Taiwan during the scandal has renewed the perception of Beijing's hostility toward Taiwan and underlined the importance of Beijing allowing Taiwan more meaningful participation in the organization next spring, when both parties in Taiwan will be preparing for the local elections scheduled for late 2009. If a breakthrough is not possible then, the DPP will be in a position to effectively attack Ma and the KMT and would hand the DPP an issue upon which to build a resurgence of party morale and influence.

Chronology of China-Taiwan Relations July-September 2008

July 2, 2008: Central Military Commission Vice Chairman Xu Caihou says there will be no change in People's Liberation Army readiness toward Taiwan.

July 2, 2008: Foreign Minister Francisco Ou says Taipei will pursue "participation" in World Health Organization as a priority issue.

July 3, 2008: Legislative Yuan unfreezes funds for production of *Hsiungfeng IIE* land attack cruise missile (LACM).

July 4, 2008: Weekend charter flights begin, bringing first tourists from China to Taiwan.

July 7, 2008: Association for Relations across Taiwan Straits (ARATS) Deputy Wang Zaixi arrives in Taipei for 10-day visit.

July 9, 2008: Taiwan Affairs Office (TAO) spokesman explains why Chinese media are free to use term *Zhongguo Taipei* to refer to Taiwan participants in the Olympics.

July 9, 2008: Ministry of Foreign Affairs explains importance Taipei places on using *Zhonghua Taipei* translation of Chinese Taipei during Olympics.

July 9, 2008: TAO Chairman Wang Yi urges seizing opportunity for peaceful development of cross-Strait relations.

July 10, 2008: Straits Exchange Foundation (SEF) Chairman Chiang Pin-kun says economic agreement with China would help Taiwan negotiate free trade agreements.

July 12, 2008: President Ma expresses hope U.S. arms sales will proceed as originally planned.

July 13, 2008: Foreign Minister Ou says Paraguay will be test case on diplomatic truce.

July 15, 2008: SEF Chairman Chiang hosts dinner for ARATS Deputy Chairman Wang Xiaizi.

July 15, 2008: KMT reiterates importance of Beijing using *Zhonghua Taipei* terminology.

July 16, 2008: U.S. Pacific Command Commander Adm. Keating confirms arms sales freeze.

July 17, 2008: Official media in Beijing continue using term *Zhongguo Taipei*.

July 17, 2008: Special Investigation Unit (SIU) lists former President Chen and Madame Wu as defendants in money laundering case.

July 18, 2008: KMT states Chairman Wu will not attend Olympics unless Beijing adheres to *Zhonghua Taipei* terminology.

July 18, 2008: SEF Chairman Chiang holds first meeting with Hong Kong Chief Executive Donald Tsang.

July 18, 2008: Taipei approves raising investment ceiling to 60 percent and exempting all firms with headquarters in Taiwan.

July 20, 2008: President Ma tells *CNN* that Taipei can't negotiate peace agreement under missile threat.

July 21, 2008: SEF Chairman Chiang speaks of an eventual Comprehensive Economic Cooperation Agreement (CECA) with the mainland.

July 23, 2008: TAO spokesman's statement explains narrow limits of Beijing's commitment to use *Zhonghua Taipei* in Olympics context.

July 23, 2008: Mainland Affairs Council (MAC) urges China to display good will on terminology issue.

July 24, 2008: Sports Minister Tai Shia-ling says teams will withdraw if Beijing Olympics organizers downgrade Taiwan using *Zhongguo Taipei*.

July 25, 2008: *Xinhua*, *CCTV* other official media begin using *Zhonghua Taipei*.

July 26, 2008: KMT Chairman Wu announces that he will attend Olympics.

July 27, 2008: Legislative Yuan (LY) Speaker Wang Jin-pyng arrives in Washington for consultations and reiterates Taipei's need for *F-16* aircraft.

July 28, 2008: Foreign Minister Yang Jiechi meets Secretary Rice in Washington.

July 29, 2008: President Ma visits MAC and urges more effort to bring PRC students to Taiwan.

July 30, 2008: President Bush meets international media and expresses pleasure at development of cross-Strait relations.

July 31, 2008: Taiwan Caucus sends letter to Bush urging end to the arms freeze.

Aug. 1, 2008: President Ma welcomes Beijing's use of *Zhonghua Taipei*.

Aug. 1, 2008: Taiwan's postal service votes to restore China Post name.

Aug. 1, 2008: Taiwan and PRC experts are simultaneously elected to World Trade Organization's Permanent Experts Group

Aug. 4, 2008: President Ma visits Foreign Ministry and says priority is on participation in WHO.

Aug. 8, 2008: KMT Chairman Wu and others attend President Hu Jintao's luncheon for world leaders, then attend Olympics Opening Ceremony.

Aug. 9, 2008: DPP Chairperson Tsai says diplomatic truce equals unilateral surrender.

Aug. 12, 2008: President Ma transits Los Angeles.

Aug. 13, 2008: President Ma meets President Martin Torrijos in Panama.

Aug 14, 2008: President Ma meets Paraguay President-elect Fernando Lugo.

Aug. 14, 2008: Chinese Petroleum Company of Taiwan says cooperation with China National Offshore Oil Company on oil exploration in Taiwan Strait to resume.

Aug. 15, 2008: Taiwan MOFA announces bid for participation in UN specialized agencies.

Aug. 16, 2008: President Ma attends inauguration of President Leonel Fernandez in the Dominican Republic.

Aug. 17, 2008: President Ma transits San Francisco.

Aug. 18, 2008: PRC Ambassador to the UN Wang Guangya sends letter saying Taiwan not qualified to participate in UN specialized agencies.

Aug. 18, 2008: LY Vice Speaker Tseng Yung-chuan leads delegation to Thailand seeking closer ties with ASEAN.

Aug 22, 2008: President Ma receives U.S. visitors and urges notification of arms packages.

Aug. 24, 2008: Minister of National Defense Chen says *F-16s* needed to replace aging *F-5s*.

Aug. 26, 2008: SEF Chairman Chiang visits Japan.

Aug. 26, 2008: President Ma, in an interview with Mexican daily says cross-strait relations are “special non-state-to-state relations.”

Aug. 28, 2008: MAC Chairman Lai visits Washington.

Aug. 28, 2008: Presidential Office says PRC reaction should not be seen as rejection of UN specialized agencies proposal.

Aug. 28, 2008: PRC Vice Premier Wang Qishan meets Taiwan business delegation and says Beijing willing to consider common market proposal.

Aug. 29, 2008: Taipei sets 2009 defense budget at NT\$315.2 billion (\$10.17 billion).

Sept. 1, 2008: Presidential Office sets policy of no first strike, no attack on non-military targets.

Sept. 1, 2008: MND says *Hsiungfeng IIE*'s range will not be extended to 1,000 km.

Sept. 3, 2008: In *China Review Monthly*, PRC scholar Xu Shiquan calls for pragmatic case-by-case approach to UN specialized agencies.

Sept. 4, 2008: Taipei liberalizes visas for Chinese visitors to Kinmen & Matzu.

Sept.5, 2008: Press reports that Taiwan's National Security Council Secretary General Su Chi has been in the U.S. for talks.

Sept. 6, 2008: Lee Teng-hui criticizes Ma for paving way to unification.

Sept. 7, 2008: TAO Chairman Wang Yi in Xiamen announces easing of controls on tourists and says Chen Yunlin will visit Taiwan in late October.

Sept. 7, 2008: Taipei says PRC students to be allowed one-year stays for studies.

Sept. 10, 2008: DPP releases statement condemning Ma's definition of cross-Strait relations.

Sept. 10, 2008: President Ma makes surprise visit to Pratas Reef.

Sept. 10, 2008: TAO spokesman uses *Zhongguo Taipei* in referring to Taiwan in APEC.

Sept. 11, 2008: MOFA says *Zhonghua Taipei* is name in APEC.

Sept. 14, 2008: Taipei issues ban on import of Sanlu dairy products.

Sept. 14, 2008: MAC proposes establishing food safety communications channel.

Sept. 16, 2008: Speaker Wang in Japan says relationship is a “special partnership.”

Sept 17, 2008: UN General Committee declines to put Taiwan proposal on UNGA agenda.

Sept. 17, 2008: Vice President Siew is appointed to lead economic advisory group.

Sept 21, 2008: Taipei bans all milk, dairy, and protein products from China.

Sept. 22, 2008: “Workshop on Large Scale Disaster Recovery in APEC” opens in Taipei.

Sept. 22, 2008: President Ma announces plans to recognize PRC academic degrees and to accept PRC students from 2009.

Sept. 23, 2008: MOFA protests WHO reference to “Taiwan, China” in a report.

Sept. 23, 2008: Premier Liu proposes sending health safety delegation to PRC.

Sept. 23, 2008: ARATS and SEF officials meet in Xiamen to plan Chen visit.

Sept. 25, 2008: Five fraud suspects repatriated under Kinmen Agreement.

Sept. 26, 2008: APEC Disaster Recovery Workshop moves to Sichuan.

Sept. 27, 2008: Taiwan Health Safety Delegation arrives in Beijing.

Sept. 28, 2008: Defense Minister Chen attends U.S.-Taiwan Defense Industry Conference.

Sept. 29, 2008: Speaker Wang again calls for LY review of cross-Strait agreements.

Sept. 30, 2008: Premier Liu says China should apologize for tainted dairy exports.

Oct. 3, 2008: The Bush administration notifies Congress of a \$6.5 billion arms package for Taiwan.