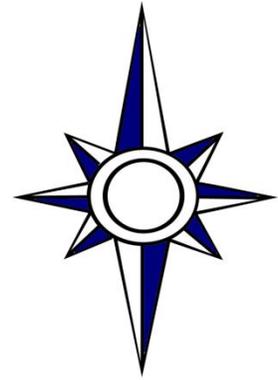


# Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



## China-Taiwan Relations: Looking ahead to 2012

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The pace of progress in cross-strait relations has slowed as agreement continues to take longer than anticipated. A medical and healthcare agreement was signed in December, but consensus on an investment protection agreement was not reached and establishment of the Cross-strait Economic Cooperation Committee (CECC) has been delayed. The mayoral elections in November saw the opposition Democratic Progressive Party (DPP) receiving more votes than the ruling Kuomintang (KMT). Both parties are now gearing up for the presidential election in March 2012. Consequently, campaign politics in Taiwan and jockeying in preparation for the 18<sup>th</sup> Party Congress in Beijing will dominate the way Beijing, President Ma Ying-jeou, and the opposition in Taiwan approach cross-strait issues in the year ahead.

### Cross-strait negotiations

The most important goal for cross-strait relations this fall was to move ahead with implementing the Economic Cooperation Framework Agreement (ECFA) by establishing the Cross-strait Economic Cooperation Committee (CECC) and launching the four sets of negotiations on commodities trade, services trade, investment protection, and dispute resolution called for in ECFA. Procedural rather than substantive issues have delayed establishment of the CECC into the new year, making it impossible to launch the four negotiations within the six months stipulated in ECFA.

Nevertheless, information about the CECC leaked out in Taipei during the fall. It was said that consensus had been reached that the CECC would be led by vice ministers – China’s Vice Minister of Commerce Jiang Zhengwei and Taiwan’s Vice Minister of Economic Affairs Francis Kuo-hsing Liang. It was also leaked that the committee would have seven sub-committees to deal with commodities, services, financial services, intellectual property, economic cooperation, dispute settlement, and investments. Each of the sub-committees would be co-“convened” by bureau director-level officials from each side. Then in December, after the DPP’s strong showing in the local elections in Taiwan, rumors were that the CECC would be co-chaired by Association for Relations Across the Taiwan Strait (ARATS) Vice President Zheng Lizhong and Straits Exchange Foundation (SEF) Deputy Chairman Kao Kong-lian. The vice ministers would be the CECC’s “general conveners” under the SEF-ARATS umbrella. Presumably, this extra level of non-official cover was needed by Beijing. SEF Chairman Chiang Pin-kung indicated in late November that the CECC would be established before the sixth SEF-ARATS meeting in December. Subsequently, the SEF indicated that it would be established at the sixth meeting. Then, on the eve of that meeting, it was announced that CECC establishment would not occur at

the meeting after all. Press reports indicate that one of the remaining issues is how government officials will be referred to in CECC documents to avoid sovereignty recognition implications.

The other main goal this fall was to hold a successful ARATS-SEF meeting. The meeting was to be the occasion for signing two agreements – one on investment protection and the other on medical cooperation. However, in early December, Taipei announced that unresolved differences would prevent signing the investment agreement. The most important difference was said to involve identifying a neutral arbitration body for investment disputes. Taipei proposed using the World Bank's International Center for the Settlement of Investment Disputes, which was unacceptable to Beijing because it was seen as a venue for dealing with "international" disputes.

This lack of consensus meant that the sixth meeting would be the least productive thus far. ARATS President Chen Yunlin and SEF Chairman Chiang Pin-kung met in Taipei on Dec. 21 and signed the "Cross-Strait Medical and Health Cooperation Agreement." The two sides trumpeted the health and economic benefits of the agreement and expressed hope that the investment protection agreement would be signed in 2011. At the meeting, the two sides also agreed to increase the quota for Chinese tourists visiting Taiwan and to begin authorizing individual Chinese tourism to Taiwan in addition to current arrangements for group tours.

Other specific steps were also accomplished this fall. In late October, the two sides jointly identified five service industry sectors that each would liberalize under ECFA's early harvest provisions. In late December, both sides announced an additional six service sectors that would be opened, importantly including banking. Also in October, Taiwan's National Police Agency director led an inaugural delegation to China for consultations under the Judicial Cooperation Agreement. In December, Beijing authorized the first two Taiwan-based banks to open branches in Shanghai. On Jan. 1, both sides began implementing the early harvest tariff reductions and service sector opening under ECFA.

### **Political issues remain on hold**

There has been no movement toward talks on political or security issues, and none is likely in the coming months. Beijing continues to understand the domestic constraints on President Ma Ying-jeou, which were only strengthened by the KMT's poor showing in the mayoral elections. In reporting an interview with Ma in November, the *Associated Press* said that he envisaged the possibility of political talks if re-elected. This provoked a storm of controversy in Taipei and Ma reacted quickly reaffirming that he had no intention of holding political talks and releasing the verbatim text of the interview to show that *AP* had misinterpreted his remarks. However, this did not calm the suspicions of many in the opposition.

In October, the Taiwan Affairs Office (TAO) spokesman responded to a question about Premier Wen Jiabao's earlier remark that People's Liberation Army (PLA) missiles would eventually be removed. The spokesman said that at an appropriate time and in an appropriate forum the "deployments on both sides of the Taiwan Strait" could be discussed. In December, Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan cited two preconditions for talks on security issues – namely domestic consensus and cross-strait mutual trust – neither of which exists. While Beijing is showing patience about dealing with the core political difficulties, TAO Minister

Wang Yi said in December that these issues will have to be addressed and that for the two sides should build mutual trust and create the conditions for addressing them at an appropriate time.

### **Arms sales**

Beijing continues to signal its opposition to US arms sales to Taiwan, particularly of *F-16C/D* aircraft. This issue was raised in the meeting between US Defense Secretary Robert Gates and Chinese Minister of Defense Liang Quangle in Hanoi in October and again when Deputy Chief of Staff Ma Xiaotian visited Washington in December for defense talks. Moreover, in the preparations for President Hu Jintao's January state visit to the US, Beijing has made it crystal clear that arms sales are one of the things they do not want to see before the visit.

No arms sales notifications have been sent to Congress this quarter. However, Washington is working on a separate request from Taipei to upgrade its existing *F-16A/B* aircraft. It is possible this multi-year and multi-billion dollar upgrade program could be notified in 2011.

In Taipei, it is becoming increasingly clear that the Ma administration is not appropriating enough money for the timely purchase of the \$13 billion of weapons approved for Taipei in the 2008 and 2010 arms packages. Although President Ma's campaign platform called for defense spending equal to 3 percent of GDP, both the 2010 and 2011 defense budgets are well below this target and provide only about \$1.5 billion for procurement of equipment from the US. KMT legislator Lin Yu-fang has focused public attention on this and indicated that Taipei may soon ask Washington to delay the purchase of the *PAC-III* anti-missile batteries and *Blackhawk* helicopters. In the meantime, weapons prices are increasing, further complicating Taiwan's willingness to purchase the approved systems.

### **International issues**

At the Tokyo International Film Festival in October, Jiang Ping, the head of the People's Republic of China (PRC) delegation protested the organizer's listing of the Taipei delegation as "Taiwan." Jiang's unexpected protest provoked an outburst of criticism in Taipei both from the government and opposition. Beijing moved quickly to defuse the issue. TAO Deputy Minister Sun Yafu said that efforts should be made to avoid such frictions, and the Foreign Ministry quoted Hu's Six Points on Beijing's reasonable and flexible approach on international space issues. Jiang's protest appears to have been an anomaly. However, some Beijing diplomats continue to act in a manner inconsistent with the current state of cross-strait relations. In November, Missouri Gov. Jay Nixon publicly postponed a trade delegation to Taipei. The press reported that PRC consular officials had threatened his office that the visit to Taipei could damage Missouri's economic interests in China. There have reportedly been other similar cancellations that have not been mentioned in the media.

China's harsh condemnation and reaction to the Norwegian Nobel Committee's award of the 2010 Peace Prize to human rights and democracy advocate Liu Xiaobo included an unanticipated cross-strait element. On Dec. 9, a little known group in Beijing awarded the first-ever "Confucius Peace Prize" to KMT Honorary Chairman Lien Chan. Lien's spokesman said he was completely uninformed about the award, and no representative turned up to accept it. The

award was an awkward embarrassment for Lien and the KMT because it risked making them look like pawns in Beijing's anti-democratic rant against the award of the Peace Prize to Liu.

In other respects, international issues have been handled more constructively. As has been the practice since Ma's inauguration, Lien Chan was appointed Ma's representative to the annual APEC Leaders Meeting. In Seoul, Lien had another of his now annual meetings with General Secretary Hu Jintao. In December, the press reported that El Salvador President Carlos Funes was exploring a shift of diplomatic relations to Beijing. In an unusual move, both the TAO in Beijing and Ministry of Foreign Affairs (MOFA) in Taipei almost simultaneously denied the press report.

### **Other economic issues**

Singapore and Taipei have successfully concluded preliminary talks on an economic cooperation agreement. On Dec. 15, the two trade representative offices jointly announced that after New Year they would begin formal negotiation of the "Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership" (ASTEP).

Cross-strait trade and investments continue to recover from their dramatic decline in late 2008 and early 2009. According to Taipei statistics, cross-strait trade during January-October 2010 reached \$125 billion. Taiwan's exports were \$95 billion, up 42 percent from the same period in 2009, and Taiwan's imports were \$30 billion, up 51 percent. At this pace cross-strait trade for 2010 will easily exceed the pre-recession level. According to Taipei's Investment Commission, Taiwan-listed companies had invested \$10 billion in China during the first 10 months of 2010, up 114 percent from the recession levels in 2009. In December, Taipei approved a major investment by AU Optronics in a flat panel-display plant in Kunshan, Jiangsu province.

### **Mayoral elections**

The Taiwan mayoral and related elections in November were important because they covered 60 percent of Taiwan's population and were seen as a barometer of support for President Ma's policies. The KMT won the mayoral races in Taipei, Xinbei, and Taichung; the DPP won the races in Tainan and Kaohsiung. More importantly, the DPP garnered 49.95 percent of the mayoral election votes, outpolling the KMT by 400,000 votes. This strong showing was a wake-up call for any who thought the DPP might never win the presidency again. As the mayoral elections focused on local issues and candidates generally did not comment on cross-strait issues, including ECFA, it would be a mistake to read much into them about public attitudes on cross-strait relations.

Beijing's official media only reported what the party considered good news – that the KMT had won three of the five mayoral contests. However, the pro-China media in Hong Kong described the outcome as a catastrophic victory for the KMT. This conclusion more closely reflects the concern that Chinese commentators expressed privately about the outcome and its possible implications for the 2012 presidential election.

When asked immediately after the elections, President Ma said the outcome would not lead to any change in the pace or content of his cross-strait policy. His subsequent statements have been consistent with that assessment. However, after the sixth SEF-ARATS meeting, Ma commented that cross-strait relations should be pursued cautiously and that the pattern of semi-annual SEF-ARATS meetings should shift to a more flexible schedule consistent with progress in negotiations that were already dealing with more difficult, time-consuming issues such as investment protection.

The elections results buoyed the DPP. Chairperson Tsai Ing-wen has announced that the party will establish a think tank to deal inter alia with cross-strait issues. The press has reported that Wu Nai-jen will head the new organization and that Bi-khim Hsiao will be its research director. Party officials have indicated that the new think tank will help prepare the party for the 2012 election and that its research will focus primarily on two areas – domestic socioeconomic policies and international issues including “China policy.” Furthermore, as it is clear that PRC scholars have been given more leeway to contact DPP members, the new think tank, which will be collocated with the party headquarters, will strengthen the DPP’s capability for coordinating party members’ responses to invitations to visit China and requests to receive visitors from China.

The campaign jockeying for 2012 has already begun. In late December, President Ma fired the first shot by urging Tsai Ing-wen to accept the 1992 consensus. The DPP spokesman Lin Yu-chang responded saying that the party had never accepted the 1992 consensus and that there was “one China.” A few days later, Tsai added her voice saying the party did not agree there was such a consensus. Soon thereafter, TAO spokesman Yang Yi was asked for comment on the DPP’s rejection of the consensus. Yang reiterated Beijing’s now standard position that, “Opposing independence, upholding the 1992 consensus is the important basis for establishing political trust across the strait and also the premise and basis for improving and developing cross-strait relations.” By implying that this two-element basis for Beijing’s cooperation with the KMT would also be the basis for cooperation with a future DPP government, Beijing is setting a threshold, at this point in time, that it knows the DPP cannot reach. Yang also reiterated that Beijing was open to visits by DPP members in an appropriate capacity. Contacts have been occurring between Chinese scholars and DPP individuals in recent months, and these contacts have begun exploring whether there could be a basis for dialogue between Beijing and the DPP.

### **Looking ahead**

The cross-strait agenda for the coming months will primarily be the completion of tasks left over from 2010, namely gradual implementation of ECFA, establishment of the CECC, the launch of the sector negotiations identified in ECFA, and conclusion of an investment protection agreement. That no new agenda has been announced is another sign that the pace of cross-strait economic negotiations is likely to remain slow.

In the spring of 2011 two presidential election-related areas are likely to be the focus of considerable behind the scenes work and public attention. One area will involve Beijing and the KMT, both of which have an interest in some progress on issues that would strengthen public support for President Ma. Potential areas for progress would include additional economic

measures to benefit specific sectors in Taiwan, progress on international space issues, other steps related to Taiwan's place in regional trade liberalization and possible unilateral PRC moves to reduce the military threat to Taiwan. The second area is the internal work within the DPP to produce a new statement on "China policy" in the context of Chairman Tsai's plan for a new 10-year party platform. At the same time, the DPP process for nominating its presidential candidate will proceed and that process will involve candidates commenting on cross-strait issues. Meanwhile political maneuvering in advance of the 18<sup>th</sup> Communist Party of China Congress in 2012 is evident in Beijing. Developments in all these areas could have important implications for future cross-strait relations.

### **Chronology of China-Taiwan Relations October – December 2010**

**Oct. 1, 2010:** On the People's Republic of China (PRC) National Day, Politburo Chairman Jia Qinglin reaffirms the theme of peaceful development.

**Oct. 2, 2010:** A business delegation led by Ministry of Economic Affairs (MOEA) Minister Shih Yen-shiang returns to Taiwan from Indonesia.

**Oct. 3-5, 2010:** Annual US-Taiwan Defense Industry Conference is held in Cambridge, MD.

**Oct. 10, 2010:** On the Republic of China (ROC) National Day, President Ma Ying-jeou again welcomes indications that Beijing will remove missiles from China's East Coast.

**Oct. 11, 2010:** Democratic Progressive Party (DPP) legislators call for a Chinese missile withdrawal timetable.

**Oct. 12, 2010:** President Ma again appoints Lien Chan as his Asia Pacific Economic Cooperation (APEC) representative.

**Oct. 12, 2010:** US Defense Secretary Robert Gates and Chinese Defense Minister Liang Guanglie meet in Hanoi and discuss US arms sales to Taiwan.

**Oct. 17, 2010:** Deputy Minister Lin Tsong-ming says the Ministry of Education (MOE) is considering a Memorandum of Understanding (MOU) on education with China.

**Oct. 18, 2010:** Communist Party of China (CPC) Central Committee meeting concludes; Xi Jinping is promoted to Central Military Commission (CMC) vice chairman.

**Oct. 21, 2010:** Minister Wang Yi of the Taiwan Affairs Office (TAO) of the State Council visits Washington for consultations.

**Oct. 27, 2010:** National Police Agency (NPA) Director General Wang Cho-chiun meets Minister of Public Security Meng Jianzhu in Beijing.

**Oct. 27, 2010:** Beijing and Taipei announce reciprocal opening of five service sectors under the Economic Cooperation Framework Agreement (ECFA).

**Oct. 29, 2010:** Boeing wins the contract to provide spare parts for Taiwan's *Apache* helicopters.

**Oct. 31, 2010:** President Ma receives former Japanese Prime Minister Abe Shinzo in Taipei.

**Nov. 2, 2010:** Two Taiwan firms are approved as the first Taiwanese Qualified Foreign Institutional Investor (QFII) in China.

**Nov. 3, 2010:** Straits Exchange Foundation (SEF) spokesman says consensus has been reached on establishment of the Cross-strait Economic Cooperation Committee (CECC).

**Nov. 9, 2010:** At APEC, Lien Chan promotes Taiwan's interest in joining Trans-Pacific Partnership (TPP).

**Nov. 12, 2010:** At the Asian Games in Guangzhou, Premier Wen Jiabao receives Kuomintang Honorary Chairman Wu Poh-hsiung.

**Nov. 13, 2010:** President Hu Jintao meets Lien Chan at the APEC Forum.

**Nov. 15, 2010:** President Ma receives former President Bill Clinton in Taipei; Clinton applauds cross-strait progress including ECFA.

**Nov. 22, 2010:** US Air Force task force visits Taiwan to consult on *F-16A/B* upgrades.

**Nov. 22, 2010:** Beijing and Taipei refute press reports that El Salvador President Carlos Funes is discussing diplomatic relations with Beijing.

**Nov. 27, 2010:** Municipal elections are held in Taiwan.

**Nov. 29, 2010:** SEF Chairman Chiang Pin-kung says the CECC will be formed before sixth SEF-Association for Relations Across the Taiwan Strait (ARATS) meeting.

**Dec. 1, 2010:** ARATS Deputy Chairman Zheng Lihong visits Taipei for consultations.

**Dec. 1, 2010:** President Ma receives American Institute in Taiwan (AIT) Chairman Ray Burghardt and reiterates the request for the sale of *F-16s*.

**Dec. 6, 2010:** Mainland Affairs Council (MAC) and MOEA announce investment protection agreement will not be signed at sixth SEF-ARATS meeting.

**Dec. 8, 2010:** Lien Chan denies any knowledge of "Confucius Peace Prize."

**Dec. 9, 2010:** Chairman Jia Qinglin receives Taiwan delegates to a financial conference in Beijing.

**Dec. 10, 2010:** Missouri Gov. Jay Nixon acknowledges canceling a trade mission to Taiwan.

**Dec. 10, 2010:** People's Liberation Army (PLA) Deputy Chief of staff Ma Xiaotian visits Washington for talks.

**Dec. 15, 2010:** Taipei and Singapore trade offices announce formal negotiations on a trade agreement will begin in 2011.

**Dec. 17, 2010:** AU Optronics gets ROC approval for flat panel plant investment in China.

**Dec. 21, 2010:** The sixth SEF-ARATS Meeting is held in Taipei.

**Dec. 21, 2010:** ARATS President Chen Yunlin calls on MAC Chair Lai Shin-yuan.

**Dec. 22, 2010:** MAC Chair Lai enunciates preconditions for political talks; TAO Minister Wang Yi says time not ripe for political talks.

**Dec. 22, 2010:** President Ma urges DPP to acknowledge the 1992 consensus.

**Dec. 23, 2010:** DPP Spokesman Lin Yu-chang reiterates party's rejection of the 1992 consensus.

**Dec. 27, 2010:** DPP Chair Tsai reiterates that DPP cannot accept the 1992 consensus.

**Dec. 29, 2010:** TAO Spokesman reiterates that the 1992 consensus and opposition to independence are the basis for cross-strait relations.

**Dec. 30, 2010:** Taipei and Beijing announce additional service sectors to be liberalized under ECFA.

**Jan. 1, 2011:** President Ma delivers his New Year's message "Building up Taiwan, Invigorating Chinese Heritage."

**Jan. 1, 2011:** Taipei ceremony kicks off ROC's 100<sup>th</sup> anniversary year celebrations.