



**China-Taiwan Relations:
Toward a Crucial Election**

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The campaign leading to the Taiwan's Jan. 14 presidential election has dominated cross-strait developments. Opposition candidate Tsai Ing-wen has continued her rejection of the "1992 consensus" and criticized President Ma Ying-jeou for suggesting he might consider negotiating a peace accord with Beijing. Meanwhile, Beijing has emphasized its wish to further develop relations on the basis of the "1992 consensus," without which relations will regress. Therefore, the outcome of the upcoming elections will have a decisive impact. Ma's re-election would permit further gradual progress; Tsai's election will likely lead Beijing to suspend dialogue and domestic pressures would probably produce a tougher policy toward Tsai's administration.

The campaign and cross-strait relations

Cross-strait relations have been an issue in the Taiwan presidential campaign, but not the principal focus of media or candidate attention. Democratic Progressive Party (DPP) candidate Tsai Ing-wen has emphasized domestic economic and social justice issues. The Taiwan media has been preoccupied with tactical campaign developments and allegations of candidate impropriety. President Ma Ying-jeou has trumpeted his record of progress in cross-strait relations, while Tsai has played on public suspicions by alleging Ma would promote unification if re-elected. Ma has pressed Tsai to explain how she would maintain peaceful cross-strait relations if she refuses to accept the "1992 consensus" on the "one China" principle.

While Tsai has repeated her denials that there ever was a "1992 consensus," she has studiously avoided saying what her policy toward the mainland would be if elected. In early December, she explained that once elected she would convene a "cross-strait dialogue task force" to build the "Taiwan consensus," which she has advocated, and to explore dialogue possibilities with Beijing. Tsai has also continued to portray a moderate image, saying she is not a "provocateur" and is open to visiting China. During a visit to Kinmen in late December, Tsai claimed responsibility for improving Kinmen's relations with Xiamen and asserted that cross-strait relations "would continue to progress" if she were elected. As Tsai's statements have blurred her differences with Ma, much of the public seems to believe that Tsai's handling of cross-strait issues would largely follow the agreements Ma has negotiated. The reality that she has little prospect of being able to maintain dialogue with Beijing doesn't seem to have registered with or concerned many in Taiwan.

One cross-strait issue that has provoked controversy was President Ma's reference to the possibility of pursuing a peace agreement with Beijing. In his platform announced on Nov. 17, Ma said he would consider pursuing a peace agreement on three conditions: that an agreement

was needed, that there was strong public support for it, and that the process would be supervised by the Legislative Yuan. Although a peace agreement has long been an item on the Kuomintang (KMT) agenda, for the past year Ma has been saying that the time is not yet ripe for addressing political issues. Consequently, even his cautious, conditional statement took people by surprise and sparked concerns.

The DPP immediately seized on the issue to arouse public suspicions about Ma's intentions. The party branded the proposal as a timetable for unification. Tsai said the proposal was a dangerous initiative toward China and one that would incite division within Taiwan. A host of DPP-affiliated personalities criticized Ma. Former President Lee Teng-hui joined the fray, accusing Ma of promoting unification. Ma's campaign team went into damage control mode, and Ma had to address questions repeatedly. To deflect DPP attacks and provide further reassurance, Ma mentioned holding a referendum on a peace agreement, and he expanded his list of three conditions into 10 guarantees concerning his pursuit of an agreement. Nevertheless, the issue dominated the media for over two weeks and has lingered throughout the campaign.

In mid-November, before he mentioned the peace agreement, public opinion polls showed Ma opening a modest lead over Tsai. However, in the weeks following the remark, the gap closed, primarily because support for Tsai increased – an indication that the DPP had been successful in using the issue to garner support by creating suspicions about Ma's intentions. At the same time, Ma's talk of a referendum appears to have confused and disappointed KMT supporters who have long opposed DPP efforts to promote referenda as a means of resolving issues.

Beijing's approach

Although it clearly hopes for Ma's re-election, Beijing has maintained a low profile and avoided threatening actions or rhetoric. Beijing has also avoided mentioning Tsai by name while occasionally criticizing DPP policies. For example, when Tsai made a rare reference to the Republic of China (ROC) (Tsai said that "Taiwan is the ROC, and the ROC is Taiwan"), the spokesman of Beijing's Taiwan Affairs Office (TAO) commented that the statement was but a backdoor way of advocating Taiwan independence.

Beijing's constant refrain has been that adherence to the "1992 consensus" on the "one China" principle is the essential basis for the "peaceful development" of cross-strait relations. Beijing has consistently emphasized the positive things that have been accomplished by adhering to the "92 consensus" before talking in general terms about what would happen if it is not maintained. Most official comments have come from the TAO; central leadership comments have been rare. Hu Jintao's only publicized comment came when he met Lien Chan during the APEC meeting in mid-November. *Xinhua* reported that Hu said the two sides should consolidate "opposition to Taiwan independence and adherence to the 92 consensus" as the basis for promoting the peaceful development of relations. Hu stated that the "92 consensus" was the "essential precondition" for maintaining dialogue and urged adherence to the consensus to promote cross-strait stability and prosperity.

Beijing has endeavored to avoid perceptions of interference recognizing that its actions during previous elections had been counterproductive. Nevertheless, the DPP has alleged PRC

interference citing *inter alia* Beijing's provincial purchasing missions, its invitations to DPP local officials, reports that Beijing had encouraged Soong Chu-yu not to run for president, and alleged threats to pro-DPP businessmen in China. Beijing has been concerned about Soong, who some in Beijing satirize as "outside blue, inside green." His formal registration as a candidate increased those concerns.

By mid-December there were indications that Beijing was becoming more concerned that Tsai might win the election. On Dec. 12, Li Yafei, a deputy director of Beijing's Association for Relations Across the Taiwan Strait (ARATS), met Taiwan reporters in Beijing to dangle potential future benefits before Taiwan voters. Li explained Beijing's plans for improving cross-strait relations in the coming year, mentioning increased purchases from Taiwan, expanded tourism, expedited paperless travel procedures for Taiwan travelers, enhanced access for Taiwan financial companies, a direct currency settlement system, and increased issuance of patents for Taiwan brands. Li noted that Beijing had helped lobby for Taipei's successful bid to host the 2017 Universiade and hinted at possibilities for greater international space for Taipei. His implicit message was clear – if Taiwan voters opt for someone who will adhere to the "92 consensus," many benefits will follow.

Two days later, The TAO spokesman opened his press conference by announcing an expansion of fruit imports from Taiwan. Two days after that, Politburo Standing Committee Member Jia Qinglin spoke at the ARATS 20th anniversary celebration and said that on the basis of the "92 consensus" Beijing would increase economic benefits, expand educational and cultural opportunities, and heed Taipei's interest for increased international space. However, if the "92 consensus" is denied, Jia said it would be "hard to see how" dialogue could be continued, agreements could be implemented, or a return to past instability could be avoided. On the same occasion, TAO Minister Wang Yi was more explicit, stating not only that dialogue would be suspended but that Taiwan's interests would suffer and relations would regress. However, many Taiwan papers and TV stations chose not to highlight these messages from Beijing.

US posture

The US has generally adhered to its policy of not favoring one candidate over another in the presidential election. However, US government officials from President Barack Obama on down have repeatedly expressed support for the improvements in cross-strait relations that have occurred during Ma's presidency and expressed hope that those improvements would continue.

Tsai Ing-wen visited Washington in mid-September and held discussions with individuals of the Obama administration. The day following those discussions, the *Financial Times* reported that a senior administration official had commented that Tsai left the administration with "doubts about whether she is both willing and able to continue stability in cross-strait relations." The senior official was reportedly National Security Council Advisor Tom Donilon, whose remarks were said to reflect accurately administration concerns.

Although the State Department and the American Institute in Taiwan (AIT) have reiterated that the US government does not play favorites, the DPP has remained concerned that the Obama administration is taking steps designed to support President Ma. The most important step was

the approval of another major arms sale. Other recent administration actions include allowing Taiwan Economic and Cultural Representative Office (TECRO) to use the Twin Oaks estate for its ROC 100th anniversary celebration in October and visits by Agency for International Development Administrator Rajiv Shah and, most importantly, Deputy Secretary of Energy Daniel Ponemon, the most senior US official to visit Taipei in over a decade. In late December, AIT announced that Taiwan had been nominated as a candidate for the US visa waiver program, a step that Foreign Minister Timothy Yang described as the best Christmas present. While the State Department could explain these actions as steps to strengthen ties with Taiwan, their timing is interpreted by some as designed to show support for President Ma, who has been describing current US-Taiwan relations as the best ever. In December, Taipei's Foreign Ministry ran advertisements touting these developments as indications of support for Ma's candidacy. Some friends of the DPP in the US Congress have written to Secretary of State Hillary Clinton urging the Obama administration not to take steps favoring Ma; Taipei media coverage of their letters has contributed to public awareness of the US actions.

Cross-strait developments

As would be expected, cross-strait negotiations have slowed in these months. The seventh meeting between ARATS Chairman Chen Yunlin and Straits Exchange Foundation (SEF) President Chiang Ping-kun had been expected in the summer, but was delayed because of continuing difficulties in negotiating an investment protection agreement. Eventually, it was announced that despite an inability to conclude that agreement, the seventh meeting would be held on Oct. 20 in Tianjin. At that meeting, a Nuclear Safety Cooperation Agreement was signed and both sides committed to concluding an investment protection agreement at their next meeting which is to be held in 2012.

On Nov. 1, the second meeting of the Cross-strait Economic Cooperation Committee (CSECC) was convened in Hangzhou. The two delegations were again led by PRC Vice Minister of Commerce Jiang Yaoping and Taipei's Vice Minister of Economic Affairs Liang Kuo-shin. The meeting endorsed an agreement on cross-strait industrial cooperation negotiated by the CSECC's subcommittee on that issue. In addition, the two sides agreed that trade associations could establish reciprocal offices early in 2012.

Arms sales

On Sept. 21, the Obama administration notified the US Congress about a package of arms sales worth \$5.85 billion, including a program to "retrofit" 145 of Taiwan's existing *F-16A/B* aircraft. The administration did not announce a decision on Taipei's longstanding request for 66 *F-16C/D* aircraft and carefully noted that approval for the upgrade of *A/Bs* did not preclude a future decision to sell *C/Ds*. US officials commented that the upgraded *A/Bs* would have essentially the same capabilities as the *C/D* version. In Washington, the administration faced some criticism for not approving *C/Ds*. However, an amendment by Sen. John Cornyn that would have required the sale of the *C/Ds* was turned down by the Senate.

President Ma welcomed the decision but reiterated Taipei's desire to purchase *C/Ds*. The DPP described the *A/B* upgrades as a consolation prize for Ma. KMT spokesmen emphasized that

Washington had approved over \$18 billion of sales during Ma's presidency, more than under any of his predecessors.

In January 2010, Beijing talked about imposing sanctions on companies selling arms to Taiwan. This new notification sparked considerable criticism in the Chinese media and internet with calls for Beijing to take actions against the US. However, Beijing reacted relatively mildly with rhetoric and by suspending some military contacts. US Secretary of Defense Leon Panetta commented that Beijing had handled the issue diplomatically and expressed appreciation for that. Several factors may have contributed to Beijing's mild reaction: the US did not approve the *F-16 C/Ds* which were of greatest concern to Beijing, the dollar value was somewhat less than the previous arms sales package, President Hu Jintao's commitment to stable US-China relations, Beijing's understanding that US failure to approve any arms sales would have hurt Ma's re-election bid, and perhaps Beijing's appreciation of Tom Donilon's comments about Tsai Ing-wen. In December, Beijing and Washington held their regular Defense Consultative Talks, a sign that mil-to-mil relations were back on track.

Cross-strait trade

Cross-strait trade slowed substantially in November, after growing at double-digit rates through the first nine months of 2011. Taipei statistics indicated that in September Taiwan investments in China fell 25 percent year-on-year, a sign of trade troubles to come. In October, Taiwan export orders from China grew only 5.6 percent. In November, Taiwan exports to China of \$9.2 billion registered a decline of 3.3 percent year-on-year and export orders from China were up a mere 0.14 percent. The sharp slowdown in November reflected reduced growth in China's domestic economy and export markets, particularly in Europe. Mainland exports to Taiwan have also slowed but have continued to grow at double-digit rates.

Looking ahead

For the past 16 years, Taiwan's democratic elections have been the prime variable determining the course of cross-strait relations. The Jan. 14 election promises to continue this pattern. Given the clear differences between the two presidential candidates' policies and Beijing's very different view of each, the outcome – which remains too close to call – will set the course for the coming four years.

If Ma wins, Beijing and Washington will be relieved. Ma's victory would be seen in Beijing as a vindication of Hu Jintao's "peaceful development" policies toward Taiwan. As Ma will have won by a narrow margin rather than in a decisive victory as in 2008, he would not have a strong mandate. It is likely that he would continue in 2012 to focus on economic issues, seeking to conclude the important but elusive investment protection agreement, to expand benefits under Economic Cooperation Framework Agreement (ECFA), and to negotiate the exchange of trade association offices, which would likely be staffed by seconded government officials. Ma's inaugural address in May could provide some indication whether he feels confident enough to begin discussing political confidence building measures. As during the past three years, the US would need to play only a very limited role.

If Tsai wins, Beijing will face many difficult decisions, and Washington would need to be actively involved to help avoid steps by either side that could exacerbate tensions. During the four months before her inauguration, Tsai would as foreshadowed set up a cross-strait task force and extend some feelers to Beijing. Tsai would be constrained by her narrow margin of victory, by the KMT's likely continued control of the Legislative Yuan, by the need to maintain good relations with the US, and by the PLA's increasing deterrent capabilities.

Even if Tsai avoids specific steps that would provoke Beijing, her basic positions – that Taiwan and China are separate sovereign countries and rejection of both “one China” and the “92 consensus” – represent direct challenges to Beijing. While Beijing would likely give Tsai some time to explain the policies that she has refused to clarify during the campaign, Hu Jintao would be under considerable pressure to react strongly to her election. His policies have been criticized as too generous to Taiwan and too understanding of the domestic factors that have constrained Ma. The same self-confident and nationalistic elements that have advocated more assertive foreign policies will likely press for action against Tsai. These could include suspending most SEF-ARATS dealings, ending Beijing's tacit diplomatic truce, and shrinking Taipei's international space. Beijing would likely return to a practice of differentiating between DPP leaders and the Taiwan people. Hu Jintao would likely seek to maintain elements of his “peaceful development” economic policies that benefit Taiwan's economy and exporters. Hu's ability to manage the policy adjustment in response to Tsai's election could break down if policy toward Taiwan becomes an issue in the political jockeying leading up to the 18th Party Congress in the fall of 2012. If that occurs, cross-strait relations could rapidly become dangerous.

In sum, the outcome of the Jan. 14 election matters a great deal and will shape the environment of cross-strait relations going forward.

Chronology of China-Taiwan Relations September – December 2011

Sept. 1, 2011: Soong Chu-yu launches signature drive for his presidential campaign.

Sept. 6, 2011: Hong Kong Tourism Bureau establishes an office in Taipei.

Sept. 9, 2011: *Global Times* article warns that the US sale of *F-16s* to Taiwan would be viewed as damaging to Chinese core interests.

Sept. 12, 2011: Kuomintang (KMT) delegation visits Washington.

Sept 14, 2011: Democratic Progressive Party Chair Tsai Ing-wen visits Washington; *Financial Times* story reports US concerns regarding Tsai winning the presidential election.

Sept. 19, 2011: DPP legislator reveals that World Health Organization (WHO) documents continue to refer to Taiwan as a province of People's Republic of China (PRC).

Sept. 19-20, 2011: US-Taiwan Defense Industry Conference is held in Richmond, VA.

Sept. 21, 2011: The Obama administration formally notifies US Congress of the \$5.8 billion arms package to Taiwan.

Sept. 22, 2011: President Ma Ying-jeou welcomes the US arms sale, and reiterates the request for the sale of *F-16C/Ds*.

Sept. 22, 2011: Taiwan and Japan sign a bilateral investment agreement.

Sept. 22, 2011: Sen. John Cornyn's proposed amendment to sell *F-16 C/D* to Taiwan fails to pass in Senate.

Sept. 24, 2011: At the DPP's 25th anniversary rally in Taichung, candidate Tsai asks if President Ma will sell out Taiwan.

Oct. 3, 2011: Presidential candidate Tsai visits Japan.

Oct. 9, 2011: Working-level Straits Exchange Foundation (SEF)-Association for Relations Across the Taiwan Straits (ARATS) talks on an investment agreement are held in Taiwan.

Oct. 10, 2011: The 100th anniversary of the Republic of China (ROC) is celebrated; President gives the address. Candidate Tsai avoids the celebration in Taipei but attends an event in Tainan.

Oct. 11, 2011: US-China hold talks on Asia; China protests Taiwan arms sales.

Oct. 12, 2011: Mainland Affairs Council (MAC) and Taiwan Affairs Office (TAO) announce a delay in the negotiation of the investment protection agreement.

Oct. 12, 2011: TAO spokesman criticizes candidate Tsai's comments on Taiwan and ROC.

Oct. 17, 2011: President Ma's campaign platform mentions the possibility of a peace agreement.

Oct. 18, 2011: Candidate Tsai says Ma's proposed peace accord is dangerous.

Oct. 20, 2011: Seventh ARATS-SEF meeting is held in Tianjin; the Nuclear Safety Agreement signed.

Oct. 25, 2011: Taipei and Wellington announce joint trade agreement study.

Oct. 29, 2011: Economic Cooperation Framework Agreement's (ECFA) Industrial Cooperation Subcommittee meets and issues joint statement on cross-strait industrial cooperation.

Nov. 1, 2011: Cross-Strait Economic Cooperation Committee (CSECC) holds its second meeting in Hangzhou.

Nov. 8, 2011: Chen Shui-bian criticizes Tsai for not highlighting ethnic issues.

Nov. 10, 2011: Japan and Taiwan conclude a new aviation agreement with open skies.

Nov. 11, 2011: Hu Jintao and Lien Chan meet at the APEC forum in Honolulu.

Nov. 12, 2011: Lien Chan meets President Obama at the APEC leaders' dinner.

Nov. 19, 2011: Lee Teng-hui attacks Ma's peace accord as a step toward unification.

Nov. 23, 2011: Candidate Tsai tells business groups she denies existence of 1992 consensus.

Nov. 23, 2011: Financial Supervisory Commission (FSC) Chairman Chen Yuh-chang visits Beijing.

Nov. 24, 2011: Candidate Soong registers for presidential election.

Dec. 1, 2011: US Agency for International Development (AID) Administrator Rajiv Shah visits Taiwan.

Dec. 13, 2011: US Deputy Energy Secretary Daniel Ponemon visits Taiwan.

Dec. 16, 2011: Jia Qinglin speaks at ARATS 20th anniversary celebration.

Dec. 22, 2011: American Institute in Taiwan (AIT) announces Taiwan's candidacy for US Visa Waiver program.

Dec. 22, 2011: Taipei approves Bank of China and China Construction Bank branches.

Dec. 26, 2011: Politburo Standing Committee (PBSC) Member He Guoqiang urges Xiamen to do more to help Taiwan.

Dec. 28, 2011: Tsai visits Kinmen, claims cross-strait relations will improve if she is elected.

Dec. 28, 2011: TAO spokesman says DPP's policies will set back relations.

Dec. 29, 2011: Ministry of Foreign Affairs (MOFA) runs ad touting US support for Ma administration.

Dec. 30, 2011: AIT says US is neutral on election.

Dec. 30, 2011: Taiwan and Hong Kong sign a new Civil Air agreement.