

China-Taiwan Relations: Economics is Still the Story

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Taiwan's Dec. 1 legislative elections have brought dramatic changes in Taiwan politics, but their implications for cross-Straits relations are not yet clear. Both China and Taiwan have said the elections do not change their basic policies, but whether a coalition will be built with Taiwan President Chen Shui-bian, who may participate in it, and Beijing's reassessment of Chen's longer term prospects remain uncertain. Meanwhile, despite the absence of institutional dialogue, Taipei has gradually implemented a range of measures to expand cross-Straits economic relations, and both Taipei and Beijing have been admitted to the World Trade Organization (WTO). Economic interdependence's potential to shape cross-Straits relations is symbolized by the pending, but not yet approved, joint venture between Chinese Petroleum Corporation and China National Offshore Oil Corporation for exploratory drilling in the Taiwan Strait.

Election Campaigning

Cross-Straits relations and the identity issue played significant roles in the often vituperative campaigning for the Legislative Yuan (LY) and County Magistrate elections on Dec. 1. Former President Lee Teng-hui reasserted himself by fostering the development of a new political party, the Taiwan Solidarity Union (TSU), dedicated to promoting his "Taiwan first" policies. Lee campaigned actively, identifying himself with the aspirations of Taiwanese for a new national identity. He bitterly attacked the Kuomintang (KMT) as an "alien regime" and KMT Chairman Lien Chan for allegedly "selling out" Taiwan to the PRC. The KMT suffered from these attacks and tried without much success to parry them by charging Lee with inciting inter-communal tensions. Lee's actions eventually forced the KMT to formally expel him from the party. During the campaign, President Chen chose to emphasize his differences with the PRC by reiterating categorically that he would never accept its definition of "one China" and asserting that acceptance of the "1992 consensus" would be tantamount to treason.

Less noticed, the moderate chairman of the Democratic Progressive Party (DPP), Hsieh Chang-ting, maneuvered a resolution through the party convention in October that stated that party resolutions bore equal weight with the party's charter. This arcane maneuver was intended to play down the significance of the "independence" clause in the DPP Charter without removing that clause. Hsieh underlined his purpose by saying

afterward that the more recent moderate resolutions were more important reflections of current policy than the older charter.

Post-Election Dynamics

The LY election produced a major setback for the KMT and the virtual disappearance of the pro-unification New Party (NP), while the DPP and the Peoples First Party (PFP) made significant gains and the TSU won more seats than expected. President Chen made clear throughout the campaign that his intention was to form a coalition after the election that would give him a majority in the LY. He has pursued two different approaches to achieve this. First, he has proposed a “national stabilization alliance” and the negotiation of a formal coalition agreement with opposition parties willing to join him. At the same time, he has talked of building an LY majority by cooperating with the TSU, with like-minded independents, and with disaffected KMT members whom he might lure into defecting. In the latter case, he has not talked of a coalition agreement, presumably on the assumption that the DPP would dominate such a grouping. These two approaches would have quite different implications for cross-Straits relations.

Thus far both the KMT and the PFP have declined to join Chen’s alliance and there have been no defections from KMT ranks. Consequently, it is not clear how Chen will achieve a majority in the LY or what impact that political constellation would have on cross-Straits relations. As his initial efforts have not borne fruit, Chen’s close advisors have said the coalition-building effort will have to wait until mid-January.

Recognizing that there would be concerns in Beijing and elsewhere about cross-Straits relations, President Chen soon after the election stated that there would be no change in his administration’s cross-Straits policies.

Beijing’s Role and Reaction

In contrast with the last two presidential election campaigns, Beijing kept a remarkably low profile during this campaign. It was hardly a secret that Beijing hoped the opposition parties would do well, but Beijing generally avoided actions and statements that might have been interpreted as interference. The Taiwan Affairs Office’s (TAO) regular monthly news conference that would have occurred in late November was postponed so that questions about the election would not have to be answered on the record.

Privately, TAO officials told visiting Americans that they were not concerned about the election. Before the election, they voiced what was then close to the conventional wisdom that the DPP would get about 80 seats and the TSU only a handful. Therefore, they opined that Chen would remain well short of an LY majority. This judgment implicitly reflected Beijing’s tendency to be overly optimistic about the prospects of those it views favorably. It was two days after the event before the first reports on the election outcome appeared in the official Chinese media. Beijing could not have been happy with the results. The two parties that had been the focus of its united front work over the past 18 months suffered: the KMT retained only about half the seats it had won

in the previous LY election and the pro-unification New Party won only one seat and essentially disappeared as a significant factor in Taiwan politics. To make matters worse from Beijing's perspective, the TSU did better than expected, in effect ensuring that its old nemesis, Lee Teng-hui, would continue to play a significant political role.

When the initial official reaction came five days after the elections, TAO spokesman Zhang Mingqian said very little about the election. Zhang matter-of-factly reaffirmed standard Beijing policy including the call for Chen to accept the "one China" principle as the basis for renewed dialogue. Dec. 16 was the 10th anniversary of the founding of the PRC's Association for Relations Across the Taiwan Strait (ARATS). Beijing used the occasion to have TAO director Chen Yunlin and ARATS Chairman Wang Daohan reiterate its willingness to resume dialogue on the basis of the "one China" principle. As has been the case for the past year, these points were made without any threats or sense of urgency. President Jiang's New Year's remarks struck the same tone.

Removing Barriers to Economic Expansion

Throughout this quarter, Taipei has moved expeditiously and unilaterally to remove some of the barriers that have impeded the expansion of cross-Strait trade and investment ties by implementing recommendations from the Economic Development Advisory Conference (EDAC) and preparing for WTO accession. The most significant steps, announced in November, concerned investments in China. Taipei ended the requirement that Taiwan firms set up companies in third countries as vehicles for their investments in China – in effect authorizing direct investments. Offshore Banking Units (OBU) in Taiwan were authorized to deal directly with banks in China. In addition, Taipei lifted the *de facto* ceiling of \$50 million on individual investments, stated that investments under \$20 million would be handled through simplified screening within 30 days, and significantly reduced the number of sectors in which investments were prohibited. A new government-industry commission has begun reviewing and expanding the list of approved investment categories, making the decision to authorize manufacture of notebook computers in China. A decision to authorize investments in eight-inch wafer fabrication plants is expected soon. As is so often the case, some of these changes merely legalize investments already underway; nevertheless, the decisions are significant.

Taipei also took a number of other less important steps, which together reflect the momentum behind the new "active opening, effective management" policy adopted at the EDAC. In October, Taipei substantially liberalized the conditions governing travel and residence by business visitors from the mainland. It announced new regulations for the naturalization of the roughly 60,000 mainland spouses of Taiwan citizens. It liberalized the functions of the "offshore transshipment center" in Kaohsiung by permitting for the first time transshipped raw materials and intermediate goods to be used at designated manufacturing areas within Taiwan. In October, Taipei authorized certain banks to open representative offices in China; in December, Beijing approved the first two such offices. In November, Taipei announced plans to begin accepting PRC tourist groups in January, starting with PRC citizens residing outside China. The Mainland Affairs Council (MAC) announced that athletes from Taiwan would be permitted to pursue their careers in

professional sports leagues in China. Needless to say, the aim of all these actions is to benefit Taiwan in hard economic times.

For the past six months, negotiations have been underway between Taipei's Chinese Petroleum Corporation and Beijing's China National Offshore Oil Corporation. In 1995-96, these companies jointly conducted seismic studies for oil and gas in the Tainan Basin, an area in the southern portion of the Taiwan Strait. Subsequently, cooperation went into abeyance. Following visits to Beijing in October and negotiations in third countries, it was reported that a \$20 million joint venture deal to conduct exploratory drilling in the Tainan Basin was near. This long discussed deal has not yet received official approval, but a MAC official told the media in December that the proposal was under "final review." Such a deal between these two state-owned corporations in the sensitive Strait area would represent a significant development reflecting the growth and potential of cross-Strait economic interdependence. Its approval would represent significant political decisions by Taipei and Beijing.

WTO Accession, Finally, but What Next?

The accession of China and Taipei to the WTO was finally approved at the ministerial meeting in Doha in November. Beijing completed the ratification process and became a full WTO member on Dec. 12; Taipei's membership was finalized on Jan. 1. Accession will facilitate the further expansion of cross-Strait economic ties as Taiwan firms take advantage of the gradual liberalization of the China market and as Taipei takes steps to dismantle the special restrictions it imposes on imports and investments from China. However, implementation will present problems for Beijing and Taipei. For example, how many restrictions will Taipei be willing to remove unilaterally without consultations with Beijing? MAC Chairperson Tsai Ying-wen has said that some product restrictions can be lifted unilaterally but that other issues such as service sector access and some standards will require consultations. Would Beijing agree to such consultations without political conditions? Taiwan can use specific WTO safeguards provisions to deal with import surges and will have access to countervailing duty mechanisms, but these procedures also involve consultations and fact-finding procedures that China may or may not agree to implement with Taiwan.

Beyond these WTO-specific questions, there is the possibility that the WTO could be a venue for broader economic talks between Beijing and Taipei. President Chen and other Taipei officials have repeatedly stated their hope that the WTO could be used in this way. However, consistent with earlier indications, Beijing's minister for foreign trade and economic cooperation and other officials have said that it would not be appropriate to deal with cross-Strait economic issues at the WTO. Just what can be done through the WTO remains to be seen.

Trade and Investment

The slump in major international markets has had an impact on cross-Strait trade, much of which is tied to Taiwan-invested enterprises manufacturing in China for global

markets. Consequently, Taiwan's exports to China declined during the summer and fall. However, since Taiwan's exports to other major markets have fallen more rapidly than those to China, the importance of the China market has increased. In August, China was for the first time Taiwan's largest export market, accounting for 21.5 percent of Taiwan's global exports that month. Total cross-Straits trade during the first 10 months reached \$24.6 billion, up slightly over last year because China's exports to Taiwan increased.

While gauging cross-Straits investment is always harder, Taiwan's statistics indicate that investments in China increased about 16 percent during the first 10 months. Anecdotal reports indicate that many information technology (IT) sector companies are aggressively making the investments needed to profit from the next IT expansion. In October, Taiwan Semi-conductor Manufacturing Company (TSMC) Chairman Morris Chang, long a critic of investing in the mainland, announced that the time had come for TSMC to consider investing there.

Policy Implications

Despite the uncertainties remaining after the election, it seems clear that tensions will remain low in the Taiwan Straits at least in the short term. Both Beijing and Taipei are preoccupied with more pressing domestic concerns. For the time being, Beijing continues to appear relaxed that Chen will not make moves toward independence and confident that long-term trends are in its favor. After Chen's relations with the LY become clearer, Beijing will undoubtedly reassess the pros and cons of negotiating with him. Like political leaders in Taipei whose eyes are already on the 2004 presidential election, Beijing will need to assess the implications of Chen's prospects for winning a second term.

Taipei's earlier fears that Sino-U.S. cooperation in the war against terrorism would undermine Taiwan's ties with the U.S. have eased. This seems to reflect Taipei's awareness that U.S. support has not diminished and that the extent of U.S.-China cooperation has been limited.

Chronology of China-Taiwan Relations October – December 2001

Oct. 3, 2001: U.S. Secretary of State Powell states the U.S. will make no deals on terrorism at Taiwan's expense.

Oct. 11, 2001: On the 1911 anniversary of the founding of the Republic of China, President Jiang Zemin repeats standard positions on Taiwan.

Oct 12, 2001: Taipei civil aviation executives meet counterparts in Beijing.

Oct. 15, 2001: Beijing objects to Taipei's selection of Li Yuan-zu for Asia Pacific Economic Cooperation Leaders' Meeting.

Oct. 17, 2001: Taipei economic ministers attend APEC ministerial meeting in Shanghai.

Oct. 18, 2001: Beijing Foreign Minister Tang Jiaxuan humiliates Taipei Economic Minister Lin at APEC ministerial press conference.

Oct. 19, 2001: President Chen announces Taipei will not participate in APEC Leaders' Meeting.

Oct. 19, 2001: Presidents Bush and Jiang meet at APEC and reportedly exchange standard views on Taiwan.

Oct. 20, 2001: DPP convention adopts resolution reducing importance of "independence clause" in the DPP Charter.

Oct. 23, 2001: On campaign trail, Chen equates acceptance of "1992 consensus" with treason.

Oct. 29, 2001: Mainland Affairs Commission (MAC) eases restrictions on PRC business visitors.

Oct. 29, 2001: Taipei says China was Taiwan's largest export market (21.5 percent) in August.

Oct. 31, 2001: Premier Chang announces liberalization of "offshore transshipment center" functions.

Oct. 31, 2001: Beijing states cross-Straits trade issues should not be resolved via WTO.

Nov. 7, 2001: Taiwan's Executive Yuan (EY) announces broad liberalization of investments in mainland.

Nov. 8, 2001: Beijing calls for removal of all Taiwan restrictions on investments in PRC.

Nov. 10, 2001: WTO approves PRC accession.

Nov. 11, 2001: WTO approves Taiwan's accession.

Nov. 11, 2001: After UN General Assembly speech, FM Tang calls Chen "a liar."

Nov. 16, 2001: Seven companies submit proposals to U.S. Department of Defense for constructing submarines for Taiwan.

Nov. 23, 2001: EY announces plans to begin accepting PRC citizen tourist groups.

Nov. 26, 2001: MAC lifts ban on Taiwan athletes pursuing careers in mainland leagues.

Dec. 1, 2001: Taiwan holds legislative elections; the DPP becomes largest party.

Dec. 3, 2001: Chen says elections do not change his cross-Strait policy.

Dec. 5, 2001: Beijing official comments moderately on election results, says no change in Beijing's policy toward Taiwan.

Dec. 6, 2001: PRC invites elected officials from offshore islands to visit China.

Dec. 10, 2001: Taiwan police delegation begins two-week tour of PRC.

Dec. 12, 2001: China's WTO membership process is completed.

Dec. 16, 2001: TAO and ARATS leaders repeat call for cross-Strait dialogue based on "one China" principle.

Dec. 18, 2001: Press reports PRC is censoring textbooks used in Taiwan schools in China.

Dec. 20, 2001: Organization for Economic Cooperation and Development (OECD) announces observer status for Taipei and Beijing in its committees.

Dec. 20, 2001: Press reports Chinese Communist Party establishes first overt party cell in a Taiwan-invested enterprise.

Dec. 25, 2001: TAO says no contact with the DPP until independence clause removed from its charter.

Dec. 31, 2001: President Jiang's New Year's statement contains standard statements on Taiwan.

Jan. 1, 2002: President Chen welcomes Taiwan's membership in WTO, calls for "constructive cooperation" with China.