

Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



China-Taiwan Relations: Moving ahead Slowly

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Taipei and Beijing resumed progress on economic issues by completing the Memorandums of Understanding (MOUs) on cooperation in regulating the financial sector and signing three technical agreements at the fourth round of SEF-ARATS talks. Informal talks concerning an Economic Cooperation Framework Agreement (ECFA) continued but no date for starting formal negotiation has been announced. While the pace of progress is now slow largely because reaching compromises on substantive economic issues has proven to be time-consuming, these agreements further integrate the two economies. Taipei has continued to resist pressure from Beijing to address political issues about which opinion in Taiwan remains deeply divided. Cross-Strait trade has recovered quickly from the precipitous drop a year ago and should surpass its pre-recession peak in December. Slow progress is likely to continue in the coming months.

Financial MOUs signed

The Memorandums of Understanding (MOUs) on financial sector regulatory cooperation that were originally expected to be completed in June were finally signed in November. The agreements are between Taipei's Financial Supervisory Commission (FSC) and its three banking, insurance, and securities regulatory counterparts in Beijing. It is still not clear what caused the delay, though press reports indicated that market access issues were at least partly responsible. The final hurdles however were procedural – where and by whom would the agreements be signed. FSC Chairman Sean Chen had reportedly hoped to invite his three counterparts to Taipei to sign the agreement and to use his formal title in the agreement. In the end, it was decided that the MOUs should be consummated by an exchange of letters and Beijing insisted that the officials not use their titles. The MOUs will come into effect in January 2010 and clear the way for banking, investment, and insurance companies to begin operations in each other's markets.

It is significant that the exchange of letters were signed by the officials rather than by the designated representative organizations – Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF). All previous cross-Strait agreements have been between ARATS and SEF or between private bodies such as the Red Cross societies. When asked if the MOU procedure violated the premise of dealing through unofficial intermediaries, the Taiwan Affairs Office (TAO) replied that it did not because the MOUs were signed under the umbrella of the April 2009 ARATS-SEF Financial Cooperation Agreement. In keeping with the unofficial relations between Taiwan and the US, unofficial representatives from the American Institute in Taiwan (AIT) and the Taiwan Economic and

Cultural Representative Office (TECRO) have signed all US-Taiwan agreements for the past 30 years. Beijing is showing greater flexibility in its current dealings with Taipei. Whether the MOUs are an exception to the regular practice or a precedent for further agreements between officials remains to be seen.

Fourth SEF-ARATS talks

ARATS Chairman Chen Yunlin visited Taiwan Dec. 21-25 for the fourth round of formal talks with his counterpart, SEF Chairman Chiang Pin-kung. All Chen's activities took place in and around Taichung in central Taiwan. Chiang and Chen signed three additional technical agreements – on fishing vessel crew cooperation, agricultural quarantine inspection, and industrial product standards, inspection, and certification. However, the agreement on double taxation, the most important of the agreements that they were expected to sign, was postponed. Taiwan Finance Minister Lee Sush-der said differences over the definition of income, the allocation of tax revenues, and related issues needed further negotiation. Differences over how to tax income from Taiwan invested enterprises (TIEs) on the mainland were a key unresolved issue. Chiang and Chen announced that the fifth round of SEF-ARATS talks will take place near the end of the first half of 2010 and that ECFA and intellectual property would be on the agenda.

Although the three new agreements were not controversial, the visit occasioned demonstrations by the opposition Democratic Progressive Party (DPP) in Taiwan. While demonstrators dogged Chen throughout the visit, the demonstrations were smaller than during his last visit and, with one exception, peaceful. Demonstrators protested against the general direction of President Ma Ying-jeou's cross-strait policy, against ECFA, and against the lack of transparency about the ongoing negotiations. Civic groups have criticized the administration for a lack of transparency, and DPP fundamentalists fear that closed-door secret negotiations are compromising Taiwan's sovereignty. The Ma administration has tried to defuse these concerns by giving repeated assurances that there will be no talks on political issues. President Ma has said repeatedly that Taiwan's sovereignty would not be compromised and reiterated that there will be no talks on reunification during his time in office. Non-partisan polls indicate that public trust in President Ma has declined substantially and that since September for the first time those who distrust Ma exceed those who trust him.

The domestic pressures that force the administration to give such assurances illustrate again how President Ma is caught between what Beijing is pressing him to do and what he needs to do to sustain domestic support for his current priorities, most importantly concluding ECFA. Beijing appears to understand this, as it has not criticized Ma for recent statements about reunification. The domestic pressure also constrains Ma's ability to seize opportunities to advance cross-strait relations. Ma did not seek to arrange a meeting with Chen Yunlin during this visit, partly out of concern that doing so would arouse suspicions as it did during Chen's visit in November 2008. By restricting Chen's activities to the Taichung area, the two sides sidestepped the issue.

Economic Cooperation Framework Agreement

While progress on these issues is significant, ECFA continued to be the main focus of government attention and opposition concern. In October, Taipei acknowledged that it had

already had three rounds of unannounced informal consultations with the mainland over ECFA. In late October, TAO Minister Wang Yi said that Beijing was ready to start the talks. In early November, Board of Foreign Trade Director General Huang Chih-peng made a secretive visit to Beijing for what was to be the last round of informal meetings with his Ministry of Commerce counterpart Director Tang Wei in preparation for an eventual announcement about initiating formal negotiations early in 2010. At the fourth round of SEF-ARATS talks, Chiang said that the negotiation of ECFA was an urgent issue and Chen agreed. Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan reiterated to Chen Taipei's hope to conclude ECFA at the fifth round. However, despite stating that ECFA would be on the agenda of the next SEF-ARATS meeting, there was no announcement on when negotiations would begin. Just why Beijing is not ready to proceed with negotiations is unclear. SEF Secretary General Kao Koong-liang cautioned that there is no assurance that ECFA can be concluded at the fifth round talks. In the meantime, with the ASEAN-China free trade agreement (FTA) coming into effect on Jan. 1, 2010, certain Taiwan products will be at a competitive disadvantage in the China market.

In the course of these developments, bits of information about preparations for the talks have been reported in the media. Beijing released an abstract of a study commissioned by the Ministry of Commerce that predictably showed that ECFA would benefit cross-Strait economic ties. Various officials in Taiwan have held public forums to provide reassurance that the government will protect Taiwan's interests in the negotiations. Opinion polls indicate that a plurality in Taiwan support the concept of an ECFA, but there is a deep division between a large majority of Kuomintang (KMT) supporters who approve and an equally large majority of DPP supporters who oppose it. While DPP economists argue the demerits of an agreement, DPP fundamentalists oppose ECFA primarily because it is seen as a step toward greater integration and eventual reunification. The secrecy surrounding the informal talks that have been held thus far has fed opposition suspicions and contributed to the declining trust in President Ma.

No political talks

While the Ma administration has been trying to deal with opposition criticism and maintain public support for the cautious steps it is taking on economic issues, Beijing has urged Taipei to begin addressing political issues. Beijing's interest appears to reflect Hu Jintao's instructions to begin laying the groundwork for political talks. Ma has resisted this and has stated several times that the time is not ripe for political talks. Presumably, Taipei has been explaining that such statements are necessary to address opposition suspicions that Ma has a secret unification agenda. The DPP gains in the December local elections have also been interpreted as likely to reinforce the Ma administration's cautious approach to cross-Strait relations. At yearend, Politburo Standing Committee member Jia Qinglin returned to this point. While reiterating the mantra on addressing "the easy first the hard later, economics first politics later," Jia called for efforts to lay the groundwork for addressing political and security issues.

The two sides did find one way to accommodate these divergent interests by agreeing to a discussion of these issues in a track-two forum. In November, the Pacific Cultural Foundation, an NGO with government ties in Taipei, organized a conference on "Sixty Years Across the Taiwan Strait." Beijing sent a delegation that was led by Hu Jintao confidant Zheng Bijian and included several senior retired diplomats and generals. Official comments by both Beijing and

Taipei indicated that this was a track-two meeting that had been endorsed by both governments. The little information available on the discussions indicates that predictable differences over “one China,” security issues, and CBMs were voiced.

Reaction to Obama visit

US President Barack Obama’s trip to China in November sparked considerable anxiety in Taiwan. Commentators were concerned that the US-China joint statement did not mention the Taiwan Relations Act (TRA) and that it did mention support for China’s sovereignty and territorial integrity. They feared this indicated important shifts in US policy. Washington dispatched AIT Chairman Ray Burghardt to Taipei to reiterate assurances that there had been no change in US policy with respect to cross-strait issues. Burghardt noted that previous joint statements had not referred to the TRA and that Obama had specifically mentioned the TRA in his joint press conference with President Hu. Burghardt also stated that there had been no change in US policy with respect to Taiwan sovereignty, which had remained unchanged since normalization. These assurances substantially eased public concerns and the Ma administration praised the thoroughness of the US government’s consultations. Nevertheless, it is clear that the traditional concern in Taipei about US reliability is now being heightened by the perception that the US is becoming more dependent on cooperation from an increasingly powerful and influential China.

International space

In September, Taipei had announced its goal of participating as an observer in the UN Framework Convention on Climate Change (UNFCCC) and the International Civil Aviation Organization (ICAO). Prime Minister Wu Den-yih said in November that Taiwan hoped to participate in the UN climate change conference in Copenhagen as an observer and to send Environmental Protection Agency Minister Stephen Chen as its representative. That did not happen. Whatever the reason, the Ma administration has not made an issue of it in public. As in the past, several NGOs represented Taiwan in Copenhagen, led by the semi-official Industrial Technology Research Institute (ITRI). And as at past climate conferences, the UN organizers listed ITRI under China, a practice that ITRI again protested. When Taiwan’s allies urged the UNFCCC to allow Taipei to participate as an observer, a PRC delegate opposed this citing China’s one China policy. Nevertheless, Taipei said it would continue to seek observer status at future UNFCCC conferences.

While Taiwan was not officially represented in Copenhagen, the final document, the Copenhagen Accord, was not structured as a binding international agreement and contained no sanctions provision. As such, Taiwan’s economic interests do not appear to be directly affected or threatened. However, the accord’s emphasis on the “contracting parties” and “national communications” will hamper Taiwan’s ability to report and get international credit for the steps it is taking to mitigate climate change.

Security issues

The PRC's national day parade that highlighted China's advanced military technology was seen on Taiwan as a provocative action. The DPP criticized Beijing for threatening Taiwan and President Ma for not reducing these threats. The parade was a reminder that a year and a half after Ma's inauguration there has been no change in the pattern of increasing missile and other military deployments aimed at Taiwan, despite the reduction in cross-Strait tensions.

Leaks and statements by US officials have raised expectations that Washington is preparing to approve a package of long-pending arms sales to Taiwan including additional *Patriot* missiles and *Blackhawk* helicopters, though not Taiwan's request for *F-16 C/D* aircraft. However, the year ended without any announcement from the Obama administration

Trade and investment

Cross-Strait trade has recovered from the precipitous decline suffered last winter. According to Taipei's Board of Foreign Trade, Taiwan's exports to China reached \$6.09 billion in September 2009, just short of exports in September 2008, but still substantially below the \$7.4 billion exported at the previous peak in August 2008. Statistics on Taiwan's overall exports and export orders in October and November imply that exports to the mainland will likely equal that peak level by the end of 2009. According to Taipei's Investment Commission, Taiwan's investments in the mainland are also recovering to pre-recession levels. November was the first month in which investments exceeded their year earlier levels, another sign that trade is recovering.

Mainland investments in Taiwan are developing only slowly. Since they were first authorized in June, mainland firms have made just 22 investments totaling \$36.73 million. To encourage greater investment, an investment forum was held in conjunction with the fourth round of ARATS-SEF talks. One encouraging sign is that Lenovo executives have indicated that the firm plans to invest in a research and development center in Taiwan. Additionally in November, Taiwan's FSC approved the China Asset Management Corporation (China AMC) as the first mainland Qualified Domestic Institutional Investor (QDII) authorized to invest in the Taipei Stock Exchange (TSE) beginning in January when the financial MOUs come into effect.

Educational exchange

Minister of Education Wu Ching-chi announced in November that in 2010 Taiwan universities could begin accepting students from China in their undergraduate and graduate degree programs. In addition, Taiwan would recognize certain degrees earned by Taiwan students at 41 mainland universities. Legislation to implement these programs has been submitted and is expected to be approved during the current Legislative Yuan (LY) session. The announcement was long in preparation and carefully constructed to accommodate a variety of concerns raised by opponents. Nevertheless, the DPP issued a statement reiterating their opposition to admitting mainland students.

More than a decade earlier, the ministry had proposed similar policies only to have them vetoed by then President Lee Teng-hui. President Chen Shui-bian had vowed that mainland students

would not be admitted so long as he was in office. Now, Taipei is moving ahead with policies that hold promise for contributing to better mutual understanding among societal leaders in the next generation. At a yearend forum in Beijing, Jia Qinglin called for concluding a cross-Strait cultural and education agreement.

Looking ahead

Further slow progress but no major breakthroughs are likely in early 2010. Beijing and Taipei plan to reciprocally open unofficial tourism offices in January. After the financial MOUs come into effect in mid-January, the reciprocal opening of banking, insurance, and securities markets will begin. The passage of education legislation expected at this LY session will clear the way for Chinese students to pursue degrees in Taiwan.

However, progress will continue to be slow. As the negotiation of the financial MOUs, the taxation agreement, and ECFA illustrate, concluding agreements that impact the two sides' real economic interests has not been easy. Differences in the two economies' sizes, systems, and power complicate the effort to accommodate each side's interests and priorities. On top of that, domestic political constraints lead both Taipei and Beijing to proceed cautiously.

Chronology of China-Taiwan Relations October - December 2009

Oct. 1, 2009: People's Republic of China (PRC) National Day parade is held in Beijing.

Oct. 2, 2009: Democratic Progressive Party (DPP) criticizes Beijing's "intimidating" display at the National Day parade.

Oct. 4, 2009: Panamanian ship sinks near Penghu Islands. Taiwan and China cooperate in the search and rescue response.

Oct. 5, 2009: US Supreme Court dismisses Roger Lin's lawsuit regarding the sovereignty of the Republic of China over Taiwan.

Oct. 5, 2009: Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan says the Economic Cooperation Framework Agreement (ECFA) will be a catalyst for free trade agreements.

Oct. 8, 2009: Taiwan's Ministry of Economic Affairs (MOEA) acknowledges three rounds of discreet, informal ECFA talks with counterparts from the mainland.

Oct. 9, 2009: Taiwan media report plans for reciprocal opening of tourism offices by yearend.

Oct. 10, 2009: In national day address, President Ma Ying-jeou speaks of Chinese culture with Taiwanese characteristics.

Oct. 12, 2009: Taipei says Falungong leader Li Hongzhi is not welcome in Taiwan at this time.

Oct. 13, 2009: President Ma observes missile tests at Chiu-peng test range.

Oct. 14, 2009: Straits Exchange Foundation (SEF)-Association for Relations Across the Taiwan Straits (ARATS) preparatory meeting are held in Hangzhou.

Oct. 14, 2009: Taiwan Affairs Office (TAO) says certain Kaohsiung officials are to blame for the decline in tourists from the mainland to Taiwan.

Oct. 16, 2009: Pro-independence groups in Taiwan launch an anti-ECFA campaign.

Oct. 17, 2009: Kuomintang (KMT) holds its Congress; Ma Ying-jeou assumes chairmanship.

Oct. 19, 2009: MOEA sets up an NT\$100 million fund for ECFA-affected industries.

Oct. 19, 2009: PRC Ministry of Commerce (MOC) releases summary of a report on ECFA.

Oct. 20, 2009: Taiwan Ministry of National Defense (MND) releases its 2008 National Security Report.

Oct. 20, 2009: DPP urges President Ma to require destruction of Chinese missiles in exchange for a peace treaty.

Oct. 23, 2009: Taiwan joins the International Association of Prosecutors as “Chinese Taipei.”

Oct. 25, 2009: TAO Minister Wang Yi says Beijing is ready for trade talks with Taiwan under the SEF-ARATS framework.

Oct. 26, 2009: Central Military Commission (CMC) Vice Chairman Gen. Xu Caihou visits Washington.

Oct. 27, 2009: MND Vice Minister Andrew Yang visits Washington for Defense Review Talks.

Oct. 28, 2009: SEF Chairperson Chiang Pin-kung leads media delegation to Beijing, meets ARATS Chairperson Chen Yunlin, and announces four agreements to be completed at the fourth SEF-ARATS meeting.

Oct. 30, 2009: Taiwan Grassroots Alliance for Peace launches a effort to draft a consensus NGO proposal for a peace agreement.

Nov. 4, 2009: Taiwan’s Bureau of Foreign Trade (BOFT) Director Huang Chih-peng visits Beijing for informal ECFA talks.

Nov. 6, 2009: US National Security Council Asia Director Jeff Bader reaffirms the Taiwan Relations Act and US arms sales policy.

Nov. 9, 2009: Jiangsu Party Secretary Liang Baohua leads a large purchasing delegation to Taipei; delegation later signs \$4 billion in contracts.

Nov. 12, 2009: MND explains plans to establish a think tank to study cross-Strait issues.

Nov. 13, 2009: Taipei's Pacific Cultural Foundation hosts a conference in Taipei with a delegation of retired diplomats and generals from the PRC led by Zheng Bijian.

Nov. 14, 2009: Lien Chen attends the Asia-Pacific Economic Cooperation (APEC) leaders meeting in Singapore representing President Ma.

Nov. 15, 2009: Chinese Communist Party (CCP) General Secretary Hu Jintao meets Lien Chan in Singapore.

Nov. 15, 2009: PRC Minister of Commerce Chen Deming meets MOEA Minister Shih Yen-hsing in Singapore.

Nov. 16, 2009: Taipei and Beijing exchange letters to complete the Memorandums of Understandings (MOUs) on regulatory cooperation in the financial sector.

Nov. 16, 2009: PRC tour group visits Kaohsiung, ending a de facto boycott.

Nov. 17, 2009: President Obama meets President Hu in Beijing. They hold a joint press conference and Obama mentions the TRA.

Nov. 17, 2009: Taiwan Education Minister Wu announces plans for accepting mainland students at Taiwan universities and recognition of degrees from 41 PRC universities.

Nov. 17, 2009: DPP issues a statement opposing the opening of Taiwan universities to PRC students.

Nov. 18, 2009: President Ma reiterates that Taipei will not rush into political talks with the PRC.

Nov. 21, 2009: Gen. Luo Yuan at a Beijing seminar criticizes Ma's three noes as an attempt to peacefully split China.

Nov. 22, 2009: American Institute in Taiwan (AIT) Chairman Ray Burghardt visits Taipei to brief on President Obama's trip to China.

Nov. 25, 2009: TAO spokesman says financial MOUs were done within framework of SEPARATS Financial Cooperation Agreement.

Nov. 30, 2009: People's Bank of China Deputy Governor Hu Xiaolian leads delegation to Taipei.

Dec. 2, 2009: Taiwan Stock Exchange approves China Asset Management Company as the first mainland Qualified Domestic Institutional Investor in Taiwan.

Dec. 5, 2009: Local elections are held in Taiwan.

Dec. 7, 2009: President Ma reiterates no ECFA negotiation will take place at the fourth round of SEF-ARATS talks.

Dec. 9, 2009: ARATS and SEF officials meet in Fuzhou to finalize preparations for fourth round meeting.

Dec. 9, 2009: Taiwan magazine reports National Security Council Deputy Ho Szu-yin recently visited Washington for arms talks.

Dec. 11, 2009: US official leaks comments on pending arms sales to Taiwan.

Dec. 15, 2009: President Ma reiterates there will be no talks on unification with the mainland during his tenure in office.

Dec. 17, 2009: President Ma states that agreements with the PRC will not weaken sovereignty.

Dec. 18, 2009: In Copenhagen, PRC delegate objects to calls for Taiwan to have observer status at the climate change conference.

Dec. 20, 2009: DPP leads a peaceful demonstration against ARATS Chair Chen Yunlin's visit.

Dec. 21-25, 2009: Chairman Chen Yunlin visits Taiwan for fourth round of SEF-ARATS talks.

Dec. 21, 2009: SEF and ARATS announce the postponement of a reciprocal taxation agreement.

Dec. 22, 2009: SEF and ARATS sign three agreements at fourth round meeting.

Dec. 26, 2009: President Ma reassures farmers no additional mainland agricultural imports will be authorized under an ECFA.

Dec. 30, 2009: Jia Qinglin chairs a Beijing forum on anniversary of Hu's six points.