



**China-Taiwan Relations:
Beijing Prefers to Tango with the Opposition**

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The summer saw Beijing extending friendly gestures toward Taiwan – a welcome change. Beijing has worked to build on the visits by opposition party leaders in the spring, while seeking to marginalize President Chen Shui-bian's administration. Initiatives that China could implement on its own have gone ahead, while those requiring cooperation from the Taiwan government have languished. China conducted its first joint military exercise with Russia in August, and structured the exercise so that people in Taiwan would see it as threatening. Nevertheless, partisan wrangling in Taipei continued to delay a decision on adoption of the supplemental arms budget. Cross-Strait trade continued to grow, but at a relatively slow pace. Beijing's strategy to marginalize Chen will limit progress on cross-Strait functional issues and not necessarily rebound to Beijing's long-term benefit.

Follow-up on functional issues

Beijing has focused its cross-Strait work on following up on proposals made during the visits of opposition party leaders Lien Chan and James Soong Chu-yu in the spring. To recapitulate, Beijing proposed for Lien a gift of pandas, liberalization of agricultural trade, and encouragement of tourism to Taiwan. Beijing offered Soong improved treatment for Taiwanese residents in China and for Taiwan students studying and working in China. Many of these ideas had been suggested originally by the opposition. Beijing has worked with the Nationalist (KMT) and People's First Party (PFP) and groups friendly to them in trying to advance these initiatives. Thus far, it has declined to cooperate with the Chen administration or the groups Taipei has authorized to handle these issues.

In handling its offer to liberalize the importation of fruit from Taiwan, Beijing has worked with the Taiwan Provincial Farmers Association (TPFA), a trade group with links to the KMT. Taipei authorized the Taiwan External Trade Development Council (TAITRA), a semi-official trade promotion group, to handle agricultural talks. Although many thought Beijing would refuse to deal with TAITRA, Beijing has not rejected that possibility. However, after contacts with the TPFA, Beijing decided in late July to unilaterally grant duty-free entry to 15 Taiwan fruit products. The Chen administration

criticized Beijing for omitting some of Taiwan's most competitive agricultural products. President Chen has repeatedly minimized the importance of the mainland market and urged farmers to concentrate on exports to foreign markets.

Reportedly, Beijing's decision to marginalize Chen has been quietly but strongly encouraged by the opposition parties, who want political credit domestically for improvements in cross-Strait relations. To resist such marginalization, the Chen administration has urged Beijing to respond to its priorities if Beijing wants cooperation on PRC proposals. Taipei has repeatedly stated that its priority is to arrange cross-Strait cargo charter flights. It has authorized the Taiwan Airlines Association (TAA), the group that handled arrangements for the successful New Years charters, to handle talks on cargo charters. In response, Beijing has proposed arranging additional holiday charter flights first. However, in August, Taiwan Affairs Office (TAO) Chairman Chen Yunlin told a KMT party delegation that cargo and passenger charters could be discussed and implemented together and that the Macau format for talks, which was used to arrange the New Years charters, should be used again. Several delegations have gone to Beijing to discuss charters, and behind-the-scenes contacts between the designated representatives have reportedly occurred. However, as of late September no breakthrough has been achieved.

Talks on Chinese tourism to Taiwan have gone nowhere. After Beijing announced plans to encourage tourism, the Chen administration authorized the Taiwan Travel Agency Association to handle talks, noting that entry of Chinese tourists involved arrangements with several government agencies. Beijing has not shown any interest in dealing with Taipei's representative. China has invited selected zoo officials to visit China to discuss the gift of pandas. The Chen administration has stated that the import of pandas would be covered by the provisions in the Convention on the International Trade in Endangered Species (CITES) and hence would require government approval. Beijing has criticized the references to CITES as a political attempt to treat the matter as if it were between two separate states. The offer remains unfulfilled.

Beijing has moved expeditiously to implement those measures that it can do unilaterally. In July, Beijing announced eased entry and residency permit procedures for residents from Taiwan. In August, Beijing announced that the tuition paid by Taiwan students at Chinese universities would be reduced to the level paid by Chinese citizens and initiated a program of financial assistance to Taiwan students. (Interestingly, students from Hong Kong are not granted similar benefits.) Taipei responded to this gesture by stating that it was government policy not to encourage Taiwan students to study in China. President Chen stated publicly that degrees from Chinese universities would not be recognized in Taiwan so long as he is president. In August, the China Development Bank in Beijing announced a five-year program of loans to Taiwanese businesses in China totaling 30 billion RMB. In September, the TAO established a "petitions coordination bureau" to handle problems raised by Taiwan investors and traders.

The only issue on which there has been some implicit cooperation concerns Taiwan aircraft overflying the PRC. In July, Taipei announced that it would for the first time authorize Taiwan airlines to overfly China. Within a couple of weeks, Beijing had granted approval for Taiwan carriers to make such overflights.

Beijing cozies up to opposition

The Chinese Communist Party (CCP) has been moving rapidly to expand constructive ties with the opposition parties. The opposition for its part wants to demonstrate that it can gain benefits for Taiwan through cooperation without sacrificing Taiwan's interests. In July, Beijing treated New Party Chairman Yok Mu-ming graciously, including a meeting with Secretary General Hu Jintao, despite the fact that the New Party has only one seat in the Legislative Yuan and is close to irrelevant within Taiwan politics. The TAO has received several delegations from the KMT and PFP and publicized the visits to highlight their roles. The PFP and TAO sponsored a forum in Shanghai in September to promote cross-strait trade and investment. Also in September, Beijing invited Li Ao, an outspoken intellectual and former presidential candidate to lecture at leading Chinese universities.

When Taipei Mayor Ma Ying-jeou was elected chairman of the KMT, replacing Lien, Hu Jintao sent Ma a congratulatory message expressing the hope that the two parties could cooperate to stabilize cross-strait relations. In August, the KMT and CCP launched the first "grassroots exchange" through visits by county-level KMT officials to China. When Lien Chan announced plans to establish a Cross-Strait Peace Foundation as a vehicle for promoting KMT contacts with the mainland, this was warmly welcomed in Beijing. The KMT has Beijing's agreement to host a conference in Beijing later in the year and is trying to organize a cross-strait peace conference in Taiwan. However, this would require cooperation from the Chen administration for Communist Party officials to participate, which seems unlikely.

In sum, Beijing's policy at this point seems to be to do as much as possible with the opposition and as little as possible with the Chen administration. Contacts with the Democratic Progressive Party (DPP) have not ceased but have been limited to occasional discussions between mainland scholars and DPP members. Some Chinese scholars have said this policy reflects a hope that an opposition leader will replace Chen in 2008 and a belief that, even if this does not occur, any future DPP leader would be easier for Beijing to deal with than Chen.

The DPP has been concerned that the "China fever" is weakening its appeal and has accused the opposition of sacrificing Taiwan's national interests. Both former President Lee Teng-hui and Chen Shui-bian have continued to speak publicly about the importance of strengthening Taiwanese identity. As part of this effort, Chen floated his "theory" that the Republic of China (ROC) had gone through four stages: the first on the mainland, the second under Chiang Kai-shek seeking reunification, the third as the "ROC on Taiwan" under Lee Teng-hui and, finally the present when the "ROC is Taiwan." Beijing predictably attacked this view.

No let-up in international sparring

While offering gestures to Taiwan and warming up to the opposition, Beijing has continued to block Taiwan internationally. In September, Beijing again got the UN to reject Taiwan's bid for participation. At the UN General Assembly (UNGA), President Hu made a significant proposal offering debt forgiveness and duty-free entry to exports from the world's poor countries – except for those countries that recognize Taipei. In late September, President Chen made an unannounced “transit” stop in the United Arab Emirates, a country that maintains diplomatic relations with the PRC.

In one minor arena, the Asian Network of Major Cities, Beijing reportedly decided not to host the group's 2005 annual meeting when the organization insisted that the following meeting would be hosted by Taipei. This obscure move may have as much to do with Sino-Japanese relations as cross-Strait tension because the Network was formed on the initiative of Tokyo Gov. Ishihara Shintaro. In any event, Taipei Mayor Ma was quick to take advantage of the opportunity by confirming his willingness to host the group's next meeting early in 2006.

Military issues

In August, China and Russia conducted their first joint military exercise. Although it had been expected that this exercise would take place in Central Asia, Beijing reportedly proposed and Russia objected to conducting it along the China coast south of Shanghai. The exercise, which ended up being conducted on the Shandong Peninsula, was designed to practice joint participation in a peacekeeping operation. Although the most likely real world place for such a joint operation would be in a land-locked Central Asian state, the exercise involved amphibious and airdrop landings along the coast. Consequently, many in Taiwan and abroad saw the exercise as in part designed to intimidate Taiwan. Perhaps predictably, the Mainland Affairs Council (MAC) in Taipei portrayed the exercise that way. In Washington, however, U.S. Defense Secretary Donald Rumsfeld's public comment was that the exercise was not something that deserved particular note.

In Taipei, the political wrangling over the special defense budget continued. In August, the government transferred the *PAC III* portion of the special budget to the regular defense budget, as a partial response to opposition requests, and resubmitted a much reduced special budget proposal totaling NT\$310 billion. Nevertheless, the PFP opposed both the revised special budget and the inclusion of *PAC III* in the regular budget, and it used its leverage on the KMT to ensure that the opposition remained united in blocking both, at least for the time being. The proposed regular defense budget figures for 2006 indicate that even with the inclusion of the *PAC III* funding, the budget increased less than needed to account for inflation and still amounted to less than 2.5 percent of GDP.

These defense budget developments prompted growing expressions of concern in Washington. A meeting of the Congressional Economic and Security Review Commission occasioned considerable criticism of Taiwan from even those in Washington most favorably disposed toward Taiwan. Washington's frustration was also evident at the

private U.S.-Taiwan defense conference in a speech read on behalf of Deputy Assistant Secretary of Defense Richard Lawless. When President Chen transited Miami, former Deputy Secretary of State Richard Armitage called on Chen and reiterated Washington's concerns about Taiwan's continuing failure to adequately invest in its own defense.

Slowing trade growth

Cross-Strait trade has continued to grow but at relatively slower rates than in recent years. Statistics from Taipei's Board of Foreign Trade indicate that cross-Strait trade increased 15.4 percent in the first half of 2005 reaching \$33.54 billion. Taiwan's exports to China grew 11.8 percent and accounted for 26.7 percent of Taiwan's overall exports, up marginally from 2004. In July, Taiwan's exports grew only 9 percent. China's imports from Taiwan have grown more slowly than overall imports, and China's Ministry of Commerce has stated that Korea has now surpassed Taiwan to become the PRC's third largest source of imports. Taiwan's imports from the mainland in the first six months grew 25.5 percent and accounted for 10.7 percent of Taiwan's world-wide imports, confirming China's place as the third largest exporter to Taiwan.

Looking ahead

Cross-Strait tensions are low and are likely to remain so. The picture of Beijing taking positive initiatives toward the people of Taiwan, if not its government, is a welcome change. It is unclear how long these gestures will receive a positive response in Taiwan while Beijing is at the same time continuing to block Taiwan internationally and threaten it militarily. Washington's urgings that Beijing deal with the elected government in Taipei have not been heeded. Beijing's apparent intention to bet that whichever leader comes next will be easier to deal with than President Chen entails real risks. If adhered to rigorously, it would require postponing for three years a number of functional issues that would be in Beijing's (as well as Taipei's) interest to implement. It seems likely that Beijing will at some point strike some deals indirectly with the Chen administration, as it did on the New Years charter flights early this year.

Chronology of China-Taiwan Relations July-September 2005

July 3, 2005: President Chen Shui-bian urges farmers to export elsewhere than to China.

July 5, 2005: TAO's Chen Yunlin receives delegation led by KMT's PK Chiang.

July 8, 2005: KMT/PFP Agricultural delegation in Beijing.

July 10, 2005: Secretary of State Condoleezza Rice urges Beijing to deal with Taiwan authorities.

July 12, 2005: CCP General Secretary Hu Jintao receives New Party leader Yok Mu-ming.

July 15, 2005: PRC Gen. Zhu Chenghu says China may use nukes against U.S. in Taiwan conflict.

July 16, 2005: Ma Ying-jeou elected new KMT chairman.

July 17, 2005: Hu sends congratulatory message to Ma.

July 19, 2005: Premier Hsieh Chang-Ting says government must have role in agricultural talks.

July 21, 2005: Ma Ying-jeou says Taiwan should pursue reconciliation with mainland.

July 23, 2005: Chen Shui-bian expresses hope to attend APEC and meet Hu.

July 26, 2005: Chen holds video conference with Japanese correspondents.

July 27, 2005: Chen opens annual *Hanguang* military exercise.

July 28, 2005: Beijing announces 15 Taiwan fruits to enjoy duty-free entry.

July 28, 2005: MAC designates Taiwan Travel Agency Association to handle tourism talks.

July 30, 2005: Presidential Office adds word "Taiwan" to its website.

Aug. 1, 2005: Chen Shui-bian expounds theory on four stages of ROC.

Aug. 3, 2005: Premier Hsieh says Taiwan carriers to be permitted to overfly PRC.

Aug. 5, 2005: PRC charges Singaporean Ching Cheong with spying for Taiwan.

Aug. 6, 2005: Chen Shui-bian explains new guidelines for cross-Strait relations.

Aug. 9, 2005: MAC states the Penghus (Pescadores) to be included in "mini three links" (direct trade, travel, and postal links) on trial basis.

Aug. 11, 2005: Chen and Annette Lu announce formation of Democratic Pacific Union.

Aug. 12, 2005: Taiwan's friends present annual draft UN General Assembly resolution on Taiwan.

Aug. 14, 2005: MAC says Taipei Airline Assoc. authorized to handle passenger and cargo charter talks.

Aug. 15, 2005: TAO's Chen says passenger and cargo charter issues could be arranged together.

Aug. 17, 2005: Beijing says Taiwan aircraft overflights will be approved soon.

Aug. 18, 2005: Sino-Russian *Peace Mission 2005* military exercise begins.

Aug. 20, 2005: Taiwan Coast Guard announces program to counter PRC ship intrusions.

Aug. 22, 2005: TAO's Chen meets PFP delegation.

Aug. 23, 2005: Taichung KMT delegation visits Xiamen to start "grassroots" KMT-CCP exchanges.

Aug. 24, 2005: Beijing announces reduced tuition and financial aid for Taiwan students.

Aug. 26, 2005: KMT establishes services center for businesses investing in China.

Aug. 27, 2005: Taipei Zoo delegation attends Panda conference in Sichuan.

Aug. 29, 2005: KMT's Lien Chan announces plans for Cross-Strait Peace Foundation.

Aug. 30, 2005: SEF establishes services center for businesses investing in China.

Aug. 31, 2005: Executive Yuan (EY) submits trimmed down arms procurement package.

Sept. 2, 2005: Civil Aviation of China (CAAC) approves regular overflights by Taiwan airlines.

Sept. 4, 2005: President Chen says PRC academic degrees will not be recognized.

Sept. 7, 2005: Secretary General Yu Shyi-kun attends private security forum in Tokyo.

Sept. 7, 2005: TAO announces 30 billion RMB loan program for Taiwan investors.

Sept. 7, 2005: Taipei agrees to host Asian Network of Cities conference after Beijing withdraws.

Sept. 9, 2005: Hu Jintao tells Canadian PM Paul Martin unification will take a long time.

Sept. 12, 2005: Taiwan Provincial Farmers Association signs contract with PRC.

Sept. 13, 2005: UN General Committee declines to consider Taiwan participation issue.

Sept. 15, 2005: Jia Qinglin and James Soong attend TAO-PFP sponsored conference in Shanghai.

Sept. 15, 2005: At UNGA, Hu Jintao offers duty-free trade to poor countries, except those that recognize Taipei.

Sept. 16, 2005: U.S.-China Economic and Security Review Commission holds hearing on Taiwan.

Sept. 19, 2005: U.S.-Taiwan Defense Industry Conference in San Diego.

Sept. 21, 2005: President Chen transits Miami en route Central America.

Sept. 21, 2005: Outspoken Taiwan scholar Li Ao speaks of freedom of speech at Beijing University.

Sept. 24, 2005: Chen in Santo Domingo repeats call for a cross-Strait peace mechanism.

Sept. 27, 2005: Chen in Managua expresses confidence U.S. will prevent China's annexation of Taiwan.

Sept. 28, 2005: TAO establishes office to handle problems raised by Taiwan investors.

Sept. 30, 2005: Chen makes unannounced "transit" stop in the United Arab Emirates.