



**China-Taiwan Relations:
Will Cross-Strait Momentum Resume?**

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While 2005 has seen a fundamental shift toward more stable cross-Strait relations, developments were largely on hold for much of this quarter. Beijing continued to pursue cooperation with the opposition parties and to minimize dealings with the Chen Shui-bian administration. Beijing did not implement any further unilateral steps to expand cross-Strait exchanges. Economic ties continued to grow but at a slower pace. Then in November, working through private associations, Beijing and Taipei agreed to renew and expand the arrangements for charter flights at the coming Chinese New Year. With Taiwan's local elections over, Taipei and Beijing will each need to decide whether to build on that base, as was not done in 2005, to tackle the other charter and tourism issues on the table. At present, it seems Beijing may be more willing to do so than President Chen. Progress on these and other economic decisions long pending in Taipei would serve Taiwan's interests.

Courting the opposition

Beijing's attention and united front work has continued to be focused on the Taiwan opposition. In October, Kuomintang Party (KMT) Taichung Mayor Jason Hu visited Sichuan to promote his city's interest in hosting the pandas that Beijing has offered to Taiwan. KMT Honorary Chairman Lien Chan established the Cross-Strait Peace Foundation, made a two-week personal visit to China in October, and went to Hong Kong in December, where he met with Taiwan Affairs Office (TAO) Director Chen Yunlin. A KMT delegation went to Beijing in October to discuss Chinese tourism to Taiwan with the TAO. Also in October, Beijing staged its first ever high-profile ceremony to commemorate the 60th anniversary of Taiwan's retrocession to China, an anniversary that the Chen administration chose to ignore this year.

Another KMT delegation led by Vice Chairman Chiang Ping-kun visited Beijing in November and reached agreement with the TAO on a 10-point program to assist Taiwan investors. The KMT and TAO had planned to co-sponsor a high-profile conference in Taipei in December. However, the plans were postponed when the Chen administration rejected the travel application of TAO Director Chen. When Wang Daohan, the chairman of Beijing's Association for Relations Across the Taiwan Strait (ARATS), died in December, only mid-level officials of KMT governments who had worked with Wang

were invited to his funeral. The offer of the current Straits Exchange Foundation Chairman Chang Chun-hsiung to attend was rejected by Beijing.

While these activities received much attention, they could not accomplish progress on outstanding functional issues that would require agreement from the Chen administration. During these weeks, there were some discreet contacts between the private sector organizations authorized by Taipei and Beijing to deal with transportation and tourism issues. Information on these contacts is sketchy but leaves the impression that Beijing was taking positions that would not be acceptable to Taipei in order to delay progress, perhaps with the encouragement of the Taiwanese opposition parties. Then, in November, Beijing's Cross-Strait Aviation Transport Exchange Council, a new, nominally nongovernmental, organization again led by CAAC official Pu Zhaozhou, invited the Taipei Airline Association for talks. Within one-week, these two organizations reached agreement to renew and expand the arrangements for direct cross-Strait charter flights for the coming Chinese New Year. The Mainland Affairs Council (MAC) and TAO arranged nearly simultaneous announcements of the agreement.

Local elections and straws in the wind

The New Year's charter agreement came on the eve of the local elections in Taiwan. President Chen's Democratic Progressive Party (DPP) suffered a larger than expected defeat. As the elections were fought and influenced primarily by local and domestic factors, it would be a mistake to read much into them about voter sentiment on cross-Strait issues. Nevertheless, the DPP's defeat has prompted considerable speculation that the elections will generate domestic pressure on the Chen administration to take a pragmatic approach on cross-Strait issues. The TAO's analysis is that the elections reflected the Taiwanese voters' desire for stable cross-Strait relations and indicated that various factors are constraining efforts to promote Taiwan independence.

Xinhua News Agency reported TAO Vice Minister Wang Zaixi's comment in Washington after the election that the door is wide open for dialogue with the Taiwan authorities. Wang spoke enthusiastically about the various steps Beijing took earlier this year to expand cross-Strait exchanges and indicated Beijing was committed to continuing that progress. Two days later, MAC Chairman Joseph Wu, also in Washington, reiterated his desire to pursue talks on cargo and passenger charter flights and tourism issues. Their comments illustrate that both sides are rhetorically just where they had been a year earlier when the first direct New Year's charters had been concluded and both were speaking positively about building on that foundation. Unfortunately, while much positive happened subsequently, developments prevented further progress on those issues.

There are a few straws in the wind that indicate some prospect for forward movement next spring. One was the visit by a 66-member tourism delegation led by the Chinese National Tourism Administration Director Shao Qiwei to Taiwan in October and November. While Shao was visiting in a private capacity as head of the Chinese National Tourism Association and while the trip was billed as a fact-finding, not a negotiating, visit, Beijing played up its significance. Upon his departure, Shao called for talks on

tourism, and the MAC expressed its pleasure on the constructive approach he had taken. Plans for substantial Chinese tourism in turn imply the need for an expansion of air service to Taiwan and argue for reaching agreement on new direct charter service. Reportedly, Beijing has been proposing agreement on charter flights each weekend in its discreet contacts with the TAA this fall.

There will continue to be competing pressures on President Chen with respect to cross-Strait transportation. After the election, former President Lee Teng-hui publicly urged Chen not to relax any restrictions on economic contacts with the mainland. On the other side, voices from the business community and opposition parties have been urging Chen to expand transportation links. Even within the DPP, Lin Cho-shui and others in the New Tide Faction have called for further opening cross-Strait ties. However, on Dec. 14, President Chen told a group of visiting Americans that cross-Strait ties should be pursued in a gradual manner, with sea links coming before air links and cargo charters before passenger flights. These comments were one of several indications that President Chen believes that following its electoral defeat, the DPP needs first to consolidate support from its political base – a base that is opposed to closer ties with the mainland.

Economics

Cross-Strait trade has continued to grow but at a reduced pace this year. Taipei's Board of Foreign Trade reported that January-September trade with the mainland reached \$51.8 billion, up a relatively modest 15 percent from a year earlier. Taipei's exports to China totaled \$37.3 billion, up 12.3 percent, and accounted for 27.2 percent of Taiwan's overall exports, a percentage that continues to grow. However, Taipei's Investment Commission reported that January-October investment in the mainland reached \$4.7 billion, down 13 percent from a year earlier.

One factor behind the slower expansion of cross-Strait ties is the large number of policy decisions on mainland investment issues that have long remained pending in Taipei. Two companies (Powerchip Semiconductor and Promos Technology) have had applications for the transfer of 8-inch wafer fabrication plants (fabs) to the mainland pending since late 2004. Decisions on authorizing chip packaging and testing firms to invest in the mainland were put on hold after Beijing's adoption of the Anti-Secession Law in March 2005. The business community has also been seeking an increase in the limitations on the amount of a company's capital that can be invested in China. While favorable decisions on these issues have reportedly been reached within the administration, internal differences within the DPP and the Chen administration have prevented implementation of these steps. And the government's unwillingness to move on these issues as well as its on-again-off-again approach to direct transportation have affected Taiwan's competitiveness in the China market. Although Premier Hsieh hinted, in late December, those decisions would soon be made public, the year ended without decisions being announced on these issues.

The contrast between the over-achieving and dynamic mainland economy and Taiwan's anemic economic performance in recent years continues. The American Chamber's most recent review of the Taiwanese economy describes Taiwan as a "consistent under-performer" and concludes that political rather than economic factors are the root cause of Taiwan's current economic malaise. Both the American and European Union Chambers of Commerce in Taipei continue to urge the government to open up cross-Strait economic ties to maintain Taiwan's competitiveness and its attractiveness to foreign investment.

Military developments

The PLA kept a low profile this quarter on cross-Strait issues. Nevertheless, the modernization of the PLA continues at a pace that increasingly impresses U.S. military specialists. In Taipei, the impasse over both the special and regular defense budgets continued, and Taipei's failure to invest more significantly in its own defense continued to erode support for Taiwan in the U.S. With few in Washington still believing that even the modified special defense procurement budget will ever be adopted, there has been a shift in the U.S. government's approach from one urging passage of the special budget to one calling on both the Chen administration and the opposition to show responsibility and take steps to increase Taiwan's investment in its own defense.

On the international front

There has been no let up in Beijing's efforts to undermine and block Taiwan's international relations. Beijing embarrassed the Chen administration by persuading Senegal to switch diplomatic ties back to Beijing in November. There are renewed worries in Taipei that the Vatican may soon follow suit. Perhaps as a consequence, the Taiwanese public's perception of hostility from Beijing as reflected in public opinion polls, which had reached an all-time low after the opposition party leader visits this spring, is gradually rising again.

Beijing's Olympic Committee has proposed that an Olympic torch route pass through Taiwan in the run-up to the 2008 Olympics in Beijing. However, since this torch would not be on an international route but one exclusively within China, the Chen administration rejected the proposal. Beijing's proposal that Taipei host some Olympic events, such as baseball, is pending with the Olympic Committee in Taipei, but may also be rejected, perhaps for a reason attributed to an anonymous Chen administration official – that there is no precedent for Olympic events being held in "two different countries."

Concerns about a potential avian flu pandemic have again focused attention on Taiwan's relations with the World Health Organization (WHO). New rules adopted in 2003 created room for the WHO staff to have contacts with Taiwan. In May this year, the PRC signed a memorandum of understanding (MOU) with the WHO setting guidelines for WHO contacts with Taiwan. While critical of Beijing's role in deciding this framework, officials in Taipei have commented cautiously that the current technical level contacts are adequate. The head of Taiwan's Center for Disease Control attended a WHO-sponsored international conference on avian flu in Geneva in October as well as an APEC-

sponsored regional conference in Australia. However, Taiwan was not included in the U.S.-sponsored International Partnership on Avian and Pandemic Influenza (IPAPI) launched at the UN this summer.

Looking ahead

2005 has witnessed a substantial reduction in tensions in the Taiwan Strait. The crucial turning point was the December 2004 Legislative Yuan election in which President Chen failed to obtain a legislative majority. Since launching its Anti-Secession Law one week later, Beijing, under President Hu Jintao's leadership, has pursued a more creative and sophisticated united front approach to expanding cross-Strait ties in a way that would appeal to Taiwanese and build ties to specific constituencies on the island. With the exception of agreements on two rounds of New Years charters, Beijing has preferred to deal with the opposition and to marginalize the role of the Chen administration. However, there are limits to what can be accomplished without the involvement and cooperation of the authorities in Taipei. Will Beijing continue to marginalize Chen for the remainder of his term or find ways to reach agreements to expand cross-Strait relations over the coming months? Hopefully, the tentative indications that Beijing may be willing to work through private organizations designated by the Chen administration to make progress on cross-Strait transportation and tourism issues will be borne out in the coming months.

Despite reduced cross-Strait tensions, there is no prospect of any progress on the fundamental political issues. President Chen continues to emphasize the importance of strengthening Taiwanese identity. However, there are mixed signals from various quarters in the DPP and government about the Chen administration's approach to functional issues. Progress on the outstanding transportation and tourism issues would be very much in Taiwan's own interest. These steps and decisions on the cross-Strait investment liberalization issues long pending in Taipei would both strengthen the competitiveness of Taiwan firms and contribute to economic performance and foreign investor confidence in Taiwan. Unfortunately, the signals coming from President Chen indicate that he will move cautiously and continue to place more importance on his political goals related to Taiwanese identity than on pragmatic economic steps that would strengthen Taiwan.

Chronology of China-Taiwan Relations: October-December 2005

Oct. 10, 2005: KMT Taichung Mayor Hu departs for PRC visit.

Oct. 11, 2005: Taipei MND announces computer simulation in Hawaii postponed.

Oct. 12, 2005: Former President Lee Teng-hui begins two-week U.S. trip.

Oct. 13, 2005: LY Speaker Wang Jin-pyng selected as Chen's APEC representative.

Oct. 14, 2005: PRC MOFA says Wang's appointment inappropriate.

Oct. 14 2005: KMT's Lien Chan begins two-week private visit to PRC.

Oct. 17, 2005: Taipei MOFA joins criticism of Japanese PM Koizumi's visit to Yasukuni Shrine.

Oct. 19, 2005: In DC, Lee Teng-hui advocates offensive missiles to deter PRC and adopting name "Republic of Taiwan."

Oct. 19, 2005: State Department says Taiwan should not change its official name.

Oct. 19, 2005: President Hu Jintao receives U.S. Defense Secretary Donald Rumsfeld; PRC official reporting does not indicate Hu raised Taiwan issue.

Oct. 20, 2005: KMT delegation meets with Taiwan Affairs Office (TAO) to discuss tourism.

Oct. 20, 2005: KMT Chairman Ma Ying-jeou calls for direct transportation to spur Taiwan's economic competitiveness.

Oct. 25, 2005: PRC stages ceremony on 60th anniversary of Taiwan's return to China.

Oct. 25, 2005: President Chen questions use of term "retrocession" when referring to Taiwan and China.

Oct. 25, 2005: Senegal switches diplomatic recognition to PRC; Taipei severs ties.

Oct. 27, 2005: European Chamber in Taipei calls for direct transportation links.

Oct. 28, 2005: PRC Tourism Association head Shao leads large delegation on 10-day exploratory visit to Taiwan.

Oct. 29, 2005: Two *Kidd*-class destroyers handed over to Taiwan in a ceremony; as one of the speakers Brig. Gen. John Allen, principal director for Asian and Pacific Affairs in the Office of the Secretary of Defense, comments on lack of progress in the passage of Taiwan's arms budget.

Nov. 1, 2005: Opposition parties move cross-Strait peace bill through LY Procedures Committee.

Nov. 1, 2005: KMT delegation and TAO reach agreement on facilitation for Taiwan investors.

Nov. 3, 2005: PRC airline association requests consultations on New Year's Charter flights.

Nov. 6, 2005: PRC Tourism Association head Shao departs, calls for tourism talks. MAC commends delegation for constructive visit.

Nov. 7, 2005: Taiwan CDC head attends WHO avian flu conference in Geneva.

Nov. 8, 2005: Chen appoints former Vice Premier Lin Hsin-yi as APEC representative.

Nov. 9, 2005: In *Asahi* interview, President Chen urges Japan to play larger security role.

Nov. 14, 2005: SEF sends ARATS message requesting consultation on TAO Chairman Chen Yunlin's proposed visit to attend KMT conference in Taipei.

Nov. 15, 2005: Premier Hsieh says Taiwan not interested in being on China's domestic route for 2008 Olympic torch.

Nov. 16, 2005: President Bush's speech praises Taiwan democracy, criticizes China.

Nov. 17, 2005: MAC denies request for Chen Yunlin's visit.

Nov. 18, 2005: Agreement on 2006 New Year's cross-Strait charter flights announced.

Nov. 19, 2005: President Hu and Lin Hsin-yi have brief exchange at APEC.

Nov. 20, 2005: Presidents Hu and Bush meet in Beijing. The two reaffirm the cross-Strait status quo.

Nov. 30, 2005: PRC Olympic Committee sends letter to Taipei about co-hosting a 2008 Olympic event and being a part of the China's Olympic torch route. Taipei has passed on being on the torch route and is also expected to decline co-hosting an event.

Dec. 1, 2005: USTR's Stratford says U.S.-Taiwan FTA not likely in coming years.

Dec. 3, 2005: DPP suffers setback in local elections.

Dec. 4, 2005: Pro-democracy demonstration in Hong Kong.

Dec. 5, 2005: MAC Chairman Wu says no change in cross-Strait policy; Taipei will pursue agreements on further charter flights and tourism.

Dec. 9, 2005: MAC says those with PRC passports or household registry will lose ROC citizenship.

Dec. 11, 2005: Lee Teng-hui criticizes Chen for failing to fulfill promises on new name and new constitution.

Dec. 13, 2005: Taiwan Defense Vice Minister Tsai in Washington for annual Defense Review talks.

Dec. 14, 2005: President Chen tells Atlantic Council group that three links must develop gradually, cargo must come before passenger charters.

Dec. 16, 2005: MAC Chairman Wu says he will try to negotiate cargo charters after Chinese New Year.

Dec. 17, 2005: At *Kidd* Commissioning Ceremony, President Chen says defense budget to be increased to 3 percent of GDP by 2008.

Dec. 19, 2005: Taipei rejects KMT appeal of MAC rejection of visit by TAO's Chen.

Dec. 22, 2005: MAC Chairman Wu says clearance agreement a prerequisite for yuan exchange on Taiwan.

Dec. 23, 2005: PM Hsieh hints moves to liberalize mainland investments coming soon.

Dec. 24, 2005: Association for Relations Across the Taiwan Strait Chairman Wang Daohan passes away.

Dec. 28, 2005: SEF chairman Chang Chun-hsiung's offer to attend Wang's funeral rejected by Beijing.

Dec. 30, 2005: Wang Daohan's funeral in Shanghai.