



**China-Taiwan Relations:
Despite Scandals, Some Small Steps**

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The political gridlock in Taiwan caused by the scandals swirling around President Chen Shui-bian's family has overshadowed cross-Strait relations in recent weeks. Nevertheless, some small pragmatic steps have been taken by both sides. In April, despite Chen's more restrictive policy on economic ties, Taipei finally approved investments in LCD production and computer-chip packaging and testing ventures. In May, a weakened Chen publicly reaffirmed his "four noes," a step that was welcomed by Washington and to a lesser extent Beijing. In June, Taipei and Beijing announced that agreement had been reached on holiday, humanitarian, and limited cargo charter flights across the Strait, beginning later this year. In Geneva, the World Trade Organization (WTO) held its first review of Taiwan's trade policies. PRC representatives participated, and the review was completed without the usual diplomatic histrionics. Relative calm and such small steps are the most that can be expected for cross-Strait relations in the coming months.

Scandals and political gridlock in Taipei

Following the scandal that forced the resignation last fall of Chen Che-nan, one of President Chen's closest advisors, new scandals have swirled around the first family. In April, first lady Wu Shu-chen was accused of involvement in the Sogo Department Store scandal. In May, President Chen's son-in-law, Chao Chien-ming, was accused of insider trading of Taiwan Development Corporation stock and subsequently detained. In the bitter world of Taiwan politics, opposition party legislators smelled blood and called a special session of the legislature to launch a recall motion against Chen, which predictably failed. Chen's opinion poll ratings have fallen to single-digit levels, and the president has apologized publicly for his son-in-law's actions. These scandals have further weakened Chen Shui-bian, led to political gridlock in Taipei, and created uncertainty about the president's ability to complete his term of office.

The Beijing official media have gleefully reported Chen's tribulations, but otherwise Beijing has not sought to capitalize on his hardships – quite the contrary. In the midst of the recall move, Taiwan opposition politicians were reportedly urging Beijing to stay out of the fray, arguing that attacks by Beijing would only help Chen.

Modest steps on cross-Strait charter flights

This political environment was not one in which progress on cross-Strait issues was expected. Nevertheless, in June, Taipei and Beijing announced agreement on several modest steps to expand on the successful New Year's charter flights. Quiet talks between airline associations of the two sides had been occurring under government guidance for some months, and by May the content of possible agreements had taken shape. What was surprising was the timing of the announcement, which occurred June 14, the day after the start of the special Legislative Yuan (LY) session called to consider the opposition's recall motion against Chen.

The two sides agreed to permit direct two-way cross-Strait passenger charter flights around five major Chinese holidays, beginning later in 2006. In addition, agreement was reached to permit charter flights for medical emergencies and for humanitarian purposes, such as bone marrow transfers. Finally, the two sides agreed to permit cargo charter flights for Taiwan companies to ship equipment and parts to Taiwan invested enterprises (TIEs) in China. These were small but significant steps, and they were publicly welcomed by Washington.

These agreements were announced not only in the midst of the recall motion against Chen but shortly after a bitter debate in the LY in which the opposition was threatening to pass legislation that would legally force the Chen administration to permit unrestricted cross-Strait flights. When the LY session ended in May, the opposition had still not forced this legislation through. Consequently, the charter agreement not only gave Chen some positive news at a difficult moment but also took the pressure off his administration on the charter flights issue domestically. The very limited agreement allowed the Chen administration to split the difference between those in the Democratic Progressive Party (DPP) who support and those who oppose easing travel restrictions. And the agreement won Chen some praise abroad.

What was Beijing's calculation? The principal point made by the Taiwan Affairs Office (TAO) in confirming the agreement was that these steps would benefit the people of Taiwan. That is, the agreements are part of President Hu Jintao's policy since at least the March 2005 National People's Congress to reach out to the people of Taiwan. In the TAO spokesman's words, "Hu Jintao has emphasized repeatedly since last year that we should comprehensively pay attention to and support the legitimate interests of our Taiwan compatriots." Second, Beijing as expected emphasized that the agreement had been reached by private associations on the two sides, not the governments. Beijing also knew that whatever it did on flights, the recall motion was doomed to fail because the opposition did not have the votes to pass it. The limits of what was agreed allowed the opposition to continue attacking the Chen administration for partial measures that did not meet the needs of Taiwan business or open the doors to PRC tourism to Taiwan. And, Beijing criticized Taipei's unwillingness to take more comprehensive measures to expand cross-Strait transportation.

Transit controversy and Chen's four noes

The shadow of the National Unification Council (NUC) controversy continued to hang over cross-Strait relations this quarter. As the U.S. had been unsuccessful in its efforts to get a clear reaffirmation of the other "four noes" from President Chen during that controversy, Washington remained deeply concerned about what steps Chen might take to threaten cross-Strait peace during the remainder of his term. Consequently, when Taipei asked in April for permission for President Chen to transit the U.S., Washington decided to send a clear message by only authorizing brief refueling stops in Alaska or Hawaii rather than the transit visits to New York and Los Angeles that had been requested. Chen found this demeaning and made last-minute decisions to travel via other countries. The DPP ascribed Washington's harsh transit conditions to PRC pressure to deny Taiwan its international space. But many in the media and opposition in Taiwan correctly saw the U.S. decision as a sign of the damage caused by Chen's policies and harshly attacked Chen for undermining U.S.-Taiwan relations.

A few weeks later a much-weakened president apparently decided to make up with Washington. When AIT Chairman Raymond Burghardt visited Taipei in early June, President Chen publicly reaffirmed the "four noes," reiterated his commitment to ensure that the constitutional reform process would not touch upon sensitive name, flag, and territorial issues that would affect the cross-Strait status quo, and said that these commitments would not change during the remainder of his term. The State Department immediately welcomed Chen's statement and commented that the U.S. attaches "profound importance to these pledges, which are a cornerstone of cross-Strait peace." Beijing was somewhat encouraged by Chen's statements, particularly those related to constitutional reform which Chinese analysts see as the potentially most dangerous issue. Yet the ambivalence of Beijing's reaction was shaped by its underlying suspicion of Chen and concern that Washington's pressure on him might soften.

Other pragmatic steps

On April 27, Taipei unexpectedly announced approval for investments in China in the fields of small LCD screen production and computer-chip packaging and testing. These steps were amongst a longer list of investment liberalizations that Taiwan investors in China had been seeking for almost two years. These measures had been postponed repeatedly and seemed doomed after Chen announced on Jan. 1 his new policy to more "actively manage" cross-Strait investments. It is not entirely clear what led to this unexpected announcement. Hard-to-discern differences over investment policy within the Chen administration and DPP probably played a role. Specific pressure from Taiwan investors for approvals of pending investments may also have triggered the decision. For example, on May 18, Taipei's Investment Commission approved Toppoly Optoelectronics Corporation's plan to purchase Royal Philips Electronics small LCD screen manufacturing facilities in China. In explaining this decision implementing the April 27 announcement, Mainland Affairs Council (MAC) officials said that Toppoly had agreed to take specific steps to increase its investments and employment in Taiwan and that the government's insistence on these conditions reflected President Chen's "active

management” policy. Regardless of what prompted them, these decisions reflected a welcome pragmatic step to ease burdensome restrictions on cross-Strait investment.

In June, Taipei and Beijing announced the launch of new ferry service between the offshore island Jinmen and the Fujian provincial city Quanzhou. This very minor step deserves note because it represents the pragmatism that has characterized contacts between the offshore islands and Fujian province. The opening of the “mini three links” between the offshore islands and Fujian was on the initiative of the Chen administration in January 2001. Since then, this travel has expanded rapidly with about half a million transits taking place in 2005. These contacts flourish in an environment that is largely shielded from the vicissitudes of other cross-Strait developments. The islands are not a central concern of the DPP administration and others promoting Taiwan identity. For Beijing, these contacts can be seen differently because there is no issue of separatism with respect to these small islands, which both sides consider geographically part of Fujian and because the two offshore counties are in the hands of Kuomintang and People’s First Party local administrations. Consequently, Beijing allows discreet direct contacts between officials from Fujian and the islands without requiring public pronouncements of support for its “one China” principle. Pragmatism benefits both sides.

In April, the KMT and CCP co-sponsored a conference in Beijing on cross-Strait economic issues. Beijing used the occasion to announce more unilateral measures to expand ties with Taiwan. Beijing expanded the number of Taiwanese fruits approved for duty-free import from 18 to 22. In addition, Beijing announced new procedures under which PRC tourism firms could facilitate tourism to Taiwan. The latter announcement was designed to keep pressure on Taipei to authorize tour groups coming directly from China, which the Chen administration has been reluctant to do without a negotiated agreement. Whatever inter-association contacts have occurred on tourism is not clear; in any event, no agreement has been reached.

WTO contacts

There has been no slackening of the struggle between Taipei and Beijing in the international arena. Taipei’s 10th application for observer status at the WHO’s World Health Assembly (WHA) was rejected in May. When President Chen opted not to refuel in the U.S. on the way to visits to Paraguay and Costa Rica, Taipei scrambled to arrange transit stops on his return trip in Libya and Indonesia, both of which occasioned protests from Beijing.

For a change, the WTO, which has been a venue for similar diplomatic sparring in the past, provided a locus for some business-like contacts on trade issues. As new WTO members, both Beijing and Taipei were subject to their first formal trade policy reviews this year. Beijing’s review took place in April. The trade policy review for the “Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu (Chinese Taipei)” occurred June 21-22 in Geneva. Despite fears, the review took place in a business-like fashion with active PRC participation. Because cross-Strait trade is such a large factor in Taiwan’s trade and economy, cross-Strait issues were a prominent part of the Taipei review. Taipei

was criticized by a number of participants for continuing to prohibit imports from China of 2,200 tariff items, contrary to its WTO obligations. Participants also urged Taipei to ease restrictions on cross-Strait trade that were affecting their companies. The diplomatic language of the WTO staff report said, "The growing importance of cross-Strait movement of goods in Chinese Taipei's economy would seem to indicate the need for further liberalization of cross-Strait traffic; such liberalization would contribute to improving the efficiency of the Chinese Taipei economy and its attractiveness to inbound direct investment." This was not the first time that the Chen administration had been advised of the deleterious effects of its restrictions on cross-Strait trade.

In late May, Taipei imposed 237 percent anti-dumping duties on cloth towels from China. In June, Beijing for the first time acquiesced in the visit of Taiwanese auditors, including a staff member from the Ministry of Finance, to conduct the normal investigation into the cost structure of towel production. On the margins of the WTO review of Taiwan's trade, trade officials from the two sides held consultations on the issue. While such consultations are routine between other WTO members, this was the first time Beijing has agreed to consultation on a cross-Strait trade issue in the WTO context.

Security issues

Beijing has maintained a low profile on military issues while continuing to expand its capabilities for dealing with Taiwan contingencies. In Taipei, the opposition parties have continued to block any expenditures on major new arms procurement either through the regular or special budget mechanisms. In Washington, the Defense Department's annual report on the PLA again made the case for Taiwan investing more in its own defense to counter growing PLA capabilities.

In May, the Chen administration published Taiwan's first National Security Report. The document sees the PRC military threat to Taiwan's national identity and Japan's quest to be a normal country as the two principal regional factors affecting Taiwan's long-term security. The report is a rather academic and analytical document reflecting DPP perspectives. It does not lay out a comprehensive set of policies for dealing with the challenges facing Taiwan.

Looking ahead

Given the political turmoil in Taipei and divisions within the Chen administration, it is remarkable that anything constructive has been possible in cross-Strait relations. President Chen's commitment to forswear the more provocative steps he might take is important, but there is always the question of whether changed political conditions will lead Chen to change his policies. The charter flights agreement lays out a framework for more direct cross-Strait flights to be arranged in the months ahead. It also holds out the possibility for further agreements on flights and Chinese tourism to Taiwan.

How the political confrontation in Taipei will unfold remains uncertain. There are recurring rumors of more damaging charges involving the first family. Maneuvering

within the DPP for future leadership is already underway and can be expected to have a growing impact on policy, both in Taipei and in Beijing. Neither confrontation nor political breakthroughs are anticipated. In the months ahead, the best that can be expected is relative calm and very modest policy steps.

Chronology of China-Taiwan Relations April-June 2006

March 31, 2006: Taipei announces Taiwan cannot accept pandas offered by Beijing.

April 5, 2006: Premier Wen Jiabao announces \$12 billion aid for South Pacific islands.

April 7, 2006: President Chen repeats pledge for new constitution by 2008.

April 8, 2006: Taiwan Fruit Sale Center opens in Xiamen.

April 12, 2006: MAC Chairman Wu says charter and tourism agreements possible in six months.

April 12, 2006: Taiwan National Security Council conducts war game *Yushan 2* on decapitation scenario.

April 13, 2006: KMT's Lien Chan leads 50-member economic delegation to China.

April 13, 2006: Asian Network of Major Cities conference in Taipei; Beijing boycotts.

April 15, 2006: CCP-KMT Economics and Trade Forum opens in Beijing; Jia Qinglin attends opening; urges breakthroughs on direct transportation.

April 16, 2006: PRC President and Secretary General Hu Jintao meets KMT's Lien Chan; Beijing announces 15 measures to facilitate cross-Strait ties.

April 17, 2006: Beijing announces new measures for group tours to Taiwan.

April 17, 2006: MAC Chair Wu says charter flights for Dragon Boat festival a possibility.

April 18, 2006: President Chen says KMT-CCP forum has created the illusion of peace.

April 20, 2006: Premier Su says KMT-CCP items that are in Taiwan's interest can be implemented.

April 20, 2006: Bush-Hu summit in Washington, D.C.

April 21, 2006: Beijing announces expansion of fruit imports from Taiwan from 18 to 22 types.

April 21, 2006: Taipei requests transit stops in New York and Los Angeles during President Chen's trip to Latin America in early May.

April 23, 2006: Boao Forum includes roundtable on cross-Strait economic ties.

April 24, 2006: *Hanguang* 22 exercise begins; retired U.S. Adm. Blair observes.

April 25, 2006: President Chen says KMT-CCP agreements are sugar-coated poison.

April 25, 2006: Beijing invites TPFA and other NGOs to talks on zero tariffs.

April 27, 2006: MAC announces approval for low-end packaging and testing investment and small LCD manufacture in China.

April 28, 2006: Taiwan FM Huang concludes visit to UAE.

April 29, 2006: Haiti withdraws inaugural invitation for Premier Su under PRC pressure.

May 1, 2006: Beijing announces that all 22 fruit imports from Taiwan will be duty-free.

May 2, 2006: Chen summons AIT's Young to express his dissatisfaction over transit conditions after Washington reportedly offers only brief stops in Hawaii or Alaska.

May 3, 2006: FM Huang expresses dissatisfaction with Alaska transit arrangements; Premier Su blasts Beijing for blocking Taiwan's international space.

May 4, 2006: President Chen opts not to transit the U.S. en route to Paraguay.

May 8, 2006: *China Daily* says U.S. snubbed Chen; mocks his travel as a "trip to nowhere."

May 8, 2006: FSC Vice chair tells LY ceiling on investments in China will be loosened.

May 8, 2006: In Singapore, Ma Ying-jeou urges focus on a peace agreement, not unification.

May 9, 2006: U.S. representatives at Costa Rica inaugural meet President Chen; Chen sees Laura Bush at reception; invites her to Taiwan.

May 9, 2006: PRC vice minister of information industry in Taipei for meeting on technology standards.

May 10, 2006: President Chen transits Libya en route home: meets Gadhafi's son.

May 10, 2006: During Congressional testimony, Deputy Secretary Zoellick warns that Taiwan independence means war.

May 11, 2006: President Chen overnights in Batam Indonesia en route home.

May 12, 2006: First LY confrontation over charter flights legislation.

May 16, 2006: Second LY confrontation over charter flights legislation.

May 17, 2006: TAO urges inter-association talks on tourism and charter flights.

May 18, 2006: Taipei approves Toppoly purchase of Phillips LCD plants in China.

May 18, 2006: President Chen presides over NSC meeting on National Security Report (NSR).

May 18, 2006: PRC resumes permitting fishermen to work for Taiwan's fishing industry.

May 20, 2006: Taiwan's first National Security Report released.

May 22, 2006: World Health Assembly again rejects Taiwan request for observer status.

May 24, 2006: KMT's Ma Ying-jeou opposes ramming charters bill through LY.

May 26, 2006: Deputy U.S. Trade Representative Karan Bhatia in Taipei calls for Taiwan to lift restrictions on trade with mainland.

May 27, 2006: National Museum of Taiwan-Fujian relations opens in Quanzhou, Fujian.

May 29, 2006: Taipei imposes 237 percent duty on Chinese towel imports.

May 30, 2006: Annual Taipei American Chamber of Commerce White Paper reiterates call for direct links.

May 30, 2006: LY fails to pass charter flights bill on last day of session.

May 31, 2006: TAO criticizes NSR as compendium of independence views; TAO also announces plans for expanded ferry services.

June 1, 2006: Premier Su says wider exchanges possible under "active management."

June 2, 2006: MAC says Taipei is ready for talks on links and tourism.

June 4, 2006: World Health Organization says Taiwan will be able to participate in all WHO sponsored Asia Pacific technical meetings.

June 8, 2006: Chen receives AIT's Burghardt; reiterates "four noes;" State Dept. welcomes Chen's statement as profoundly important.

June 8, 2006: Jinmen-Quanzhou ferry service is inaugurated.

June 9, 2006: Burghardt meets press in Taipei; says NUC issue is over.

June 12, 2006: Hong Kong implements easier entry provisions for Taiwanese traveling to mainland.

June 13, 2006: Special LY session opens.

June 13, 2006: Eva Air announces plans to buy 25 percent stake in Shanghai Airways Cargo.

June 13, 2006: Taipei finance official to China for a WTO dumping investigation.

June 14, 2006: MAC Chairman Wu announces agreement on charter flights; Beijing's Cross-Strait Aviation Committee makes parallel announcement.

June 22, 2006: WTO panel concludes review of Taiwan trade policy; Taiwan and China hold first consultation at WTO.

June 23, 2006: Presidents of 12 airlines meet in Kunming to discuss charter flights.

June 27, 2006: LY fails to pass recall resolution on President Chen.

June 28, 2006: House passes bill lifting restrictions on contacts with Taiwan.

June 29, 2006: PRC Foreign Ministry protests House action.