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China-Taiwan Relations: More Small Steps

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Corruption scandals and street protests calling for President Chen's resignation have largely paralyzed policy making in Taipei. Beijing is concerned over President Chen's playing the constitutional reform card to counter the campaign for his removal. Nevertheless, Taipei and Beijing undertook more small steps to ease restrictions on cross-strait contacts. Beijing also continued active exchanges with the Kuomintang (KMT) opposition. Significant changes in Taiwan Affairs Office (TAO) personnel were announced, and the changes were viewed positively in Taipei. The PRC continued to outmaneuver Taiwan in the international arena, but at home Chen pushed his campaign for a stronger Taiwanese identity. The visit to Taipei of a Japanese vice minister of agriculture symbolized the increased contacts that have been taking place between Tokyo and Taipei. With the Democratic Progressive Party (DPP) set to release its proposals on constitutional reform, that issue is likely to reemerge as a source of cross-strait tension.

Prosecutorial investigations of President Chen Shui-bian's family and aides continued to provide fodder for a media frenzy in Taipei. Allegations about the president's possible role in the mishandling of the Presidential Office Allowance for State Affairs for the first time directly touched the president. In August, former DPP activist Shih Ming-teh launched a "depose Chen" campaign to force Chen from office. This led to repeated demonstrations and counter demonstrations, and these events largely paralyzed policy-making in Taipei and raised concerns in Beijing.

In mid-September, Chen Yunlin, minister in Beijing's TAO, made an unpublicized trip to Washington. Reportedly, he expressed concerns to U.S. officials that Chen might seek to rescue himself by provoking some incident in cross-strait relations or by reneging on his promises concerning the constitutional reform issue to regain support from the DPP's political base. The constitutional concerns were prompted by DPP plans to make public its proposals concerning a new constitution for Taiwan by the end of September. DPP Chairman Yu Shyi-kun was in Washington at the same time on a mission to reassure the U.S. that Taipei politics would remain stable and that the DPP's constitutional proposals would not touch on sovereignty issues.

While release of the DPP constitutional draft(s) has been delayed, President Chen told a DPP seminar on constitutional reform in late September that he believed the time had come to reconsider the definition of the country's territory in the constitution. Chen's

purpose was clearly to deflect attention from the scandals by making a controversial proposal that would appeal to his core DPP supporters. While there is no chance that any amendment concerning territory could actually be passed, this proposal was a clear deviation from Chen's assurances to the U.S. on constitutional reform and an example of what Beijing fears. Politburo Standing Committee Member Jia Qinglin reacted promptly, warning of the dangers Chen is creating by promoting independence under the guise of constitutional reform. In Washington, the State Department said that adherence to President Chen's commitments that constitutional reform would not touch on sovereignty issues, including the territorial definition, was very important to peace and "would be a test of the President's leadership, dependability and statesmanship." If information that has leaked out about the content of constitutional drafts under consideration by the DPP is accurate, the constitutional reform issue will soon re-emerge as a serious source of tension in cross-Strait and U.S.-Taiwan relations.

Small steps

Despite these developments, Taipei and Beijing managed again to take some small steps forward. Both sides implemented their June agreement on additional cross-Strait charter flights. In July, Taiwan Semiconductor Manufacturing Company arranged the first cross-Strait cargo charter flight to deliver computer chip manufacturing equipment to its factory under construction near Shanghai. In September, the first medical emergency charter flight flew an elderly stroke patient from Guangzhou to Taipei, and other emergency flights occurred subsequently. The arrangements for both sides' airlines to fly charters during the mid-Autumn festival began smoothly on Sept. 29.

In addition, the two sides appear to have set the stage for productive discussions concerning Chinese tourism to Taiwan. On Aug. 17, Beijing announced the formation of a new "Cross-Strait Travel Exchange Association." In announcing its formation, Shao Qiwei, director of China's Tourism Administration, stated that its formation indicated that Beijing's preparations for talks had been completed. Just as the June agreement on airline charters was announced shortly after the start of the special Legislative Yuan (LY) session to consider the recall of President Chen, Beijing's announcement came just a few days after Shih Ming-teh launched his "depose Chen" campaign. It is clear that Beijing has decided to divorce its promotion of cross-Strait functional issues from Taiwan domestic politics.

Within a week of Beijing's announcement, the Mainland Affairs Council (MAC), which had long been aware of Beijing's plans, announced the formation of a new parallel organization on its side, the "Taiwan Strait Tourism and Travel Association." While nominally private, both associations include government tourism officials serving in their private capacities. Hence, a mechanism on the "Macau model" that has successfully handled airline charter issues now exists for tourism. Beijing officials say they want agreement to be reached as soon as possible, and officials at the MAC have expressed their expectations that tourists from China will be coming by the end of the year.

While working out these arrangements indirectly with the Chen administration, Beijing has kept up active contacts with the opposition KMT and private business groups. Meetings between visiting KMT delegations and the TAO have been used to portray the KMT as actively involved in negotiations on charter and tourism issues. In July, Beijing announced a new program of loans to small and medium enterprises from Taiwan. President Hu Jintao received Evergreen Group Chairman Chang Yung-fa in July, and Jia Qinglin met with a large delegation from Taipei's Chinese National Federation of Industries in August. The Chinese Communist party (CCP) and KMT announced plans for TAO Minister Chen Yunlin to participate in an agricultural forum in Taiwan in October. When the MAC made it clear that it would only approve Chen's participation if a way could be found for him to meet with the administration as well as the opposition, Beijing dropped plans for the visit. The KMT-CCP agricultural forum is being moved to Hainan.

Politics impedes investment policy

Given the clear economic benefits to the tourism industry in Taiwan, planning for Chinese tourists has not evoked effective opposition among DPP supporters. However, economic policy on investments in China has continued to be a divisive issue for the Chen administration and its supporters. These divisions were on view during the Sustainable Economic Development Conference (SEDC) that President Chen convened in July. Business community participants worked hard behind the scene in advance to build consensus on several issues: easing the 40 percent limit on capital invested in China, regular direct cross-Strait air service and approval of the export of 0.18 micron chip technology. These proposals were opposed by pro-independence elements in the DPP and by Lee Teng-hui and his Taiwan Solidarity Union (TSU) supporters. When Premier Su Tseng-chang met with business representatives before the conference, he was attacked in the pro-DDP press for caving into the "pro-China" elements. The following day, the Cabinet formally decided that the SEDC would not deal with these issues, and Su had to assure the media that the government remained committed to President Chen's restrictive policy of "actively managing" cross-Strait economic ties.

Personnel changes at the TAO

In July, Beijing announced that two TAO vice ministers, Wang Zaixi and Li Bingcai, had retired. Both men were made vice chairmen of Beijing's Association for Relations Across the Taiwan Strait (ARATS). Reportedly, these were routine retirements of vice ministerial level personnel who had turned 60 and therefore had to retire under age guidelines that are now being more systematically enforced. That said, both these officials were Jiang Zemin-era appointees who were associated with relatively hardline positions on cross-Strait issues. With their departure, Zheng Lizhong, has moved up to be the TAO principal vice minister. Zheng is well known in Taipei from his service as CCP Party Secretary in Xiamen and is seen as a pragmatic individual with whom Taipei can work. The speculation is that Zheng will replace Chen Yunlin as TAO director next year when Chen reaches 65, the age for retirement of minister level officials. In addition, with their departure, Ye Kedong was promoted from within the TAO as a new vice minister.

Ye worked as a secretary to Hu Jintao in earlier years in the Communist Youth League. These personnel changes therefore seem to strengthen Hu's hand in managing cross-Strait relations.

Diplomatic struggle

Despite progress on functional issues in recent months, the diplomatic struggle continued unabated. Taipei's annual application to the UN played out as expected with the UN General Committee, under pressure from Beijing, voting again not to consider the issue. The new feature this year was the Taipei seriously considered applying to the UN under the name of "Taiwan" rather than the "Republic of China." In August, President Chen publicly advocated applying as Taiwan. However, for reasons that are not clear, in the end the decision was to apply as the "Republic of China (Taiwan)."

In August, Chad suddenly announced it was shifting recognition from the Republic of China to the People's Republic of China. As the announcement came just as Premier Su Tseng-chang was about to depart for an official visit to Chad, the switch was seen in Taipei as an intentional slap in the face to Taiwan and to Su personally. At the UN General Assembly (UNGA) in September, PRC Foreign Minister Li Zhaoxing met with Costa Rican President Arias and the foreign minister of Guatemala. These meetings were seen as signs that two more of Taiwan's diplomatic partners might be considering recognizing Beijing. Neither Costa Rica nor Guatemala joined in cosponsoring Taiwan's UNGA resolution this year.

Cross-Strait trade and investment

Cross-Strait trade and investment continued to increase rapidly in the first half of 2006. This was despite President Chen's new policy to "actively manage" cross-Strait economic ties and despite the continuing political differences within his administration over cross-Strait economic policy. According to statistics from Beijing's Ministry of Commerce, cross-Strait trade in the first half of 2006 totaled \$50.2 billion, a 22.2 percent increase over the first half of 2005. Figures from Taipei's Board of Foreign Trade (BOFT), which are always lower, put total first half cross-Strait trade at \$41.0 billion, up 15 percent. The BOFT said Taiwan's exports were \$29.6 billion, up 13.6 percent and Taiwan's imports were 11.5 billion, up 18.9 percent. In its annual report listing leading export firms, Beijing's Ministry of Commerce again listed Hon Fu Jin Precision Inc., a subsidiary of Taiwan's Hon Hai, as China's largest exporting firm by value. The Ministry of Commerce said that approved investments from Taiwan totaled \$5.5 billion in the first half up 15.6 percent. With both Taiwan's and China's exports booming at the present time, this strong trade and investment growth is set to continue in the second half.

Increasing Japanese contacts with Taiwan

On Aug. 15, Japan's vice minister of agriculture quietly visited Taipei and was received by President Chen. He was the most senior Japanese official to visit Taiwan since Tokyo

recognized Beijing in 1972. His visit symbolizes the quiet improvements that have been occurring in Japan's relations with Taiwan.

Taipei's National Security Report published last quarter identified Japan's drive to become a "normal country" as a key long-term trend important to Taiwan's security. Consequently, the DPP administration has been actively cultivating closer ties with Japan. In an interview with *Fuji TV*, President Chen described Japan-Taiwan relations as the best in 30 years. Despite the absence of diplomatic ties, Chen said he hopes to develop a "military partnership" with Japan.

In March, journalists in Taipei reported that a retired Japanese general had recently been assigned as the first defense attaché in the Interchange Association, Tokyo's unofficial representative office in Taipei. In August, the Japanese press reported that Taiwan's Army Commander-in-Chief Hu Chen-pu was in Japan to observe a Ground Self-Defense Force exercise, despite protests from Beijing. Sources in Taipei state that this was not the first time a Taiwanese officer had observed exercises in Japan. Needless to say, these improvements are taking place at a time of deteriorating Sino-Japanese relations and are themselves contributing to that deterioration.

Looking ahead

Impasse on fundamental political issues; agreement on some small pragmatic steps on functional issues; a basic stability in cross-Strait relations, but concerns that DPP proposals on future constitutional reform are reigniting cross-Strait tensions; continuing rapid growth of trade and investment ties, despite continuing internal debate on investment policy in Taipei; further setbacks for Taipei in the international arena, but closer unofficial ties with Tokyo; a gradual shift in the cross-Strait military balance in Beijing's favor. This mixture, hard to capture in a sound bite, characterizes current cross-Strait relations and is likely to continue to do so in the months ahead.

Chronology of China-Taiwan Relations July-September 2006

July 3, 2006: *Defense News* reports "Monterey" talks were held June 28-29 in Quantico.

July 6, 2006: President Hu Jintao meets Evergreen Chairman Chang Yung-fa and promises more support for Taiwan investors.

July 7, 2006: TAO Minister Chen Yunlin receives KMT delegation.

July 10, 2006: Taipei Mayor Ma Ying-jeou begins Japan visit.

July 10, 2006: PRC's Huaxia Bank announces 20 billion RMB program for Taiwan firms.

July 12, 2006: In Japan, Ma Ying-jeou urges Japanese PM Koizumi to take broader view of history and reconsider visits to Yasukuni.

July 16, 2006: Presidents Bush and Hu meet at G-8 Summit.

July 17, 2006: President Chen emphasizes Chinese threat to visiting Japanese delegation.

July 19, 2006: TSMC charters first cargo flight to take equipment to Shanghai.

July 25, 2006: In Taipei, USTR's Bahtia urges removal of cross-Strait trade barriers.

July 25, 2006: Executive Yuan decides Sustainable Development Conference (SEDC) will not address cross-Strait economic issues.

July 27, 2006: *Hanguang-22* live fire exercise.

July 27, 2006: At SEDC, President Chen calls for investment in Taiwan.

July 30, 2006: Lee Teng-hui says Taiwan must not become more dependent on China market.

July 31, 2006: MAC Chairman Wu says PRC tourists may be coming by end of year.

Aug. 1, 2006: Premier Su says pragmatism will guide handling of cross-Strait issues.

Aug. 1, 2006: MAC Chairman Wu says restrictions on visits by PRC employees of multinational firms will be eased.

Aug. 1, 2006: KMT announces invitation to TAO Minister Chen Yunlin.

Aug. 2, 2006: Premier Su says no plans to change 40 percent ceiling on China investment.

Aug. 2, 2006: President Chen urges Formosa Foundation to push for change in U.S. "one China" policy.

Aug. 2, 2006: TAO requests Taiwan to facilitate visit by Chen Yunlin.

Aug. 4, 2006: MAC Chairman Wu says negotiations needed on Chen Yunlin's visit.

Aug. 4, 2006: Xiamen announces new air service via Xiamen-Jinmen.

Aug. 5, 2006: Chad switches diplomatic relations from Taipei to Beijing.

Aug. 8, 2006: China repatriates 11 fugitives via Jinmen.

Aug. 9, 2006: Beijing says private law enforcement officials have agreed to increase cooperation on fighting crime, extraditing criminals.

Aug. 10, 2006: Taipei's allies submit annual resolution to UN on Taiwan participation.

Aug. 12, 2006: Shih Ming-teh launches his campaign to oust President Chen. The monies collected will be used for a massive sit-in campaign Sept. 9.

Aug. 15, 2006: Japan's vice minister of agriculture makes highest-level visit to Taiwan since normalization in 1972.

Aug. 16, 2006: TSMC Chairman Chang urges approval for export of 0.18 micron technology.

Aug. 17, 2006: Beijing announces formation of "Cross-Strait Travel Exchange Association."

Aug. 17, 2006: TAO announces personnel changes.

Aug. 21, 2006: Taipei approves mid-Autumn Festival charters to start Sept 29.

Aug. 22, 2006: PRC's Jia Qinglin receives large Taiwan trade delegation.

Aug. 23, 2006: EY adopts proposed 2007 budget with NT\$323.5 billion for defense.

Aug. 24, 2006: DPP has parliamentary exchange with Japan LDP.

Aug. 25, 2006: Departure ceremony for last two *Kidd* destroyers from Charleston.

Aug. 25, 2006: PRC protests ROC army commander visit to Japan.

Aug. 25, 2006: MAC announces formation of "Taiwan Strait Tourism & Travel Association."

Aug. 26, 2006: *Kyodo* reports ROC army commander in Japan observing GSDF exercise.

Aug. 28, 2006: Beijing's ARATS spokesman urges Taipei to approve Chen Yunlin's visit.

Aug. 29, 2006: MND releases National Defense Report mentioning "Special Operations Missiles."

Aug. 30, 2006: *Defense News* says U.S. recommending against approving *F-16* sale to Taiwan.

Aug. 31, 2006: Beijing convicts Ching Cheong, Hong Kong-based *Strait Times* reporter, of spying for Taiwan.

Sept. 4, 2006: President Chen signs partnership agreement with six allies in Palau.

Sept. 4, 2006: AMCHAM visits Premier Su; urges easing cross-Strait restrictions.

Sept. 6, 2006: EY adopts act to rename CKS as “Taiwan Taoyuan International Airport.”

Sept. 6, 2006: MAC Chairman Wu in Washington, D.C. for consultations.

Sept. 7, 2006: KMT and CCP announce agricultural conference being moved to Hainan.

Sept. 9, 2006: Tens of thousands of protesters gather in front of the Presidential Office for an open-ended sit-in campaign to oust President Chen.

Sept. 10, 2006: On *Fuji TV*, Chen calls for Japan-Taiwan military cooperation.

Sept. 11, 2006: TAO Minister Chen Yunlin in Washington, D.C. for consultations.

Sept. 11, 2006: U.S.-Taiwan Defense Industry Conference in Denver.

Sept. 12, 2006: DPP Chairman Yu Shyi-kun in Washington, D.C. for consultations.

Sept. 12, 2006: In Helsinki, Premier Wen Jiabao declines to comment on the news report; says Taiwan politics are for Taiwanese people to decide.

Sept. 12, 2006: UN decides not to consider Taiwan’s UN bid.

Sept. 14, 2006: First cross-Strait medical charter flight.

Sept. 15, 2006: Some 300,000 protesters call for President Chen’s resignation as they march in front of the president’s office and home.

Sept. 18, 2006: KMT delegation led by Chiang Ping-kun meets TAO’s Zheng Lizhong.

Sept. 20, 2006: Foreign Minister Li Zhaoxing meets Costa Rican President Arias at UN.

Sept. 24, 2006: President Chen calls for reconsideration of territory defined in constitution.

Sept. 26, 2006: Jia Qinglin warns of danger from Chen’s promotion of independence under guise of constitutional reform.

Sept. 27, 2006: TAO’s Li Weiwei criticizes Chen for violating his “four noes.”

Sept. 28, 2006: President Chen declares that “Taiwan is Taiwan, China is China, and Taiwan and China are totally different countries,” drawing protests from Beijing and a reminder that Washington expects Chen to honor his previous commitments.

Sept. 28, 2006: U.S. State Department spokesman says abiding by his commitments will be a test of President Chen’s “leadership, dependability, and statesmanship.”

Sept. 29, 2006: Mid-Autumn festival cross-Strait charter flights begin.