



**China-Taiwan Relations:
Beijing Keeps Its Cool**

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At the 17th Party Congress in October, Hu Jintao authoritatively reiterated Beijing's desire for a peace agreement on the basis of the one China principle. Behind this positive public posture, Beijing remains deeply concerned about the referendum on joining the UN under the name "Taiwan" that Chen Shui-bian is relentlessly promoting. Yet Beijing has kept its rhetoric under control. It has pressed the U.S. to do more to stop the referendum and has worked with some success to mobilize international criticism of it. Washington has continued to make known to the public in Taiwan its reasons for opposing this referendum and, to underline the message, Washington has put Taiwan's purchase of more *F-16* fighter jets on hold. That Chen is pushing ahead with the referendum despite international opposition only confirms that his purpose is primarily election mobilization.

17th Party Congress

In his report to the Party Congress in October, Chairman Hu Jintao said that Taiwan independence forces were stepping up their activities but avoided threatening or dramatic language. Rather, he chose to make a "solemn appeal" for the two sides to discuss, on the basis of the one China principle, a formal end to hostilities and a peace agreement to construct a framework for the peaceful development of cross-Strait relations.

The White House welcomed Hu's proposal. The reaction in Taipei was mixed. President Chen rejected the one China principle and said that an agreement reached under it would be a surrender agreement. However, Hsieh Chang-ting responded by expressing interest in a peace arrangement provided it preserved Taiwan's dignity. Ma Ying-jeou also reacted positively suggesting talks based upon "one China, respective interpretations."

Despite Hu's positive tone, the PRC remains deeply concerned by Chen Shui-bian's promotion of a referendum on joining the UN under the name "Taiwan." Hu had told President Bush at APEC in September that the coming two years would be a dangerous period, and since then many Chinese officials have privately said the UN referendum threatened a crisis. Chinese concerns have been repeatedly conveyed through high-level U.S.-China contacts in Beijing and Washington with warnings that if the U.S. could not block passage of the referendum, Beijing would be forced to take some unspecified action. Some private Chinese commentators have said that adoption of the referendum

would be a major incidence of Taiwan independence, implying the need to respond with force under the Anti-Secession Law.

Nevertheless, Beijing has controlled its public statements. Public expressions of concern have generally been limited to statements from the Taiwan Affairs Office (TAO) that mention the dangers but avoid threats. Conscious of its past mistakes, Beijing seems determined to avoid actions that would boost Democratic Progressive Party (DPP) prospects in the coming elections. In addition, the TAO has sought to generate some small but positive stories. For example, Beijing has indicated its willingness to resume exporting gravel to Taiwan and to permit films co-produced by Taiwan and mainland firms to be marketed in China – both steps sought by the private sector in Taiwan. Unfortunately, the good news of these stories was overshadowed by reports that Beijing had pressed the World Health Organization to send food safety notifications to Taiwan through Beijing and that Beijing had delayed for two weeks conveying a notification of corn contamination in Thailand.

U.S. and international views

The U.S. government's opposition to the DPP's UN referendum had been explained authoritatively by Deputy Assistant Secretary Christensen in September. DPP spin masters in Taipei had sought to downplay differences with the U.S. over the referendum and to discount U.S. opposition as just the result of pressure from Beijing. Consequently, the Bush administration has reiterated its opposition in statements that have been well publicized and widely distributed in Taiwan. American Institute in Taiwan Director Stephen Young gave a press conference in Taipei, Christensen arranged a special briefing for the Taiwan press and AIT Chairman Ray Burghardt met the press at the end of his visit to Taipei in December. The consistent message has been that the UN referendum is "unwise, provocative, and risky." To underline its message, the U.S. has placed a hold on Taiwan's request to purchase 66 *F-16C/D* aircraft, which observers in Taipei have interpreted as a response to Chen's referendum.

Not content with this U.S. effort, Foreign Minister Yang Jiechi urged President Bush to have more senior U.S. officials voice U.S. opposition. In mid-December, TAO Vice Minister Sun Yafu visited Washington to press the U.S. to do more. Consequently, in her year-end press conference reviewing U.S. foreign policy, Secretary Rice reiterated U.S. opposition to unilateral actions by either side to change the status quo and specifically criticized the UN referendum as a "provocative" step.

Beijing has also been working to generate wider international opposition to Chen's referendum. Over the past two months, leaders from the EU, Britain, France, ASEAN, Singapore, Belarus, Russia and probably others have spoken out against the referendum. However, on a visit to China in late December, Prime Minister Fukuda Yasuo stopped short of opposing the referendum. Japan opposes Taiwan's membership in the UN, but Fukuda sees the referendum as a domestic issue that would only be a concern should it lead to a change in the status quo. Despite international opposition, Chen has repeatedly made clear that the referendum will proceed. The DPP has submitted far more than the

required number of petition signatures, and there is no reason to expect that Chen will be deterred.

Diplomatic dimension

The DPP's UN referendum has become a link in a vicious cycle of actions and reactions between Beijing and Taipei internationally. The more Taipei promotes its separate identity, the harder Beijing works to isolate Taipei internationally. Beijing's efforts to block Taipei have been cited by DPP leaders as justification for the UN referendum. Predictably, Taipei's allies that present its application for UN membership each year are particular targets for Beijing. In early December, Taiwan Foreign Minister Huang Chih-fang visited Central America to shore up relations partly in response to reports that Beijing was making a major push to woo Panama into switching diplomatic relations. Later in the month, the press in Malawi reported that President Mutharika had decided to recognize Beijing, possibly to win a multi-billion dollar mining contract. Taipei dispatched Deputy Foreign Minister Yang Tzu-pao to Malawi with promises of further agricultural cooperation. At his year-end press conference, Foreign Minister Huang said it was likely several of Taiwan's diplomatic allies would recognize Beijing during the 2008 election period.

Presidential campaign

On Dec. 28, the Appeals Court in Taipei upheld Ma Ying-jeou's not guilty verdict in the special funds case, eliminating the uncertainty that had clouded his campaign. A guilty verdict would have made Ma ineligible to run for president. Though Beijing has carefully avoided any preferences, the course of Ma's appeal had been followed closely there as elsewhere.

The presidential campaign continues to illustrate differences in tactics and style between President Chen and DPP candidate Hsieh Chang-ting. As noted, their responses to Hu Jintao's peace agreement proposal reflected these differences. While Chen chose to reject it out of hand because of the one China premise, Hsieh's style was to appear positive by welcoming interest in talks on peace provided Taiwan's dignity was respected. The latter is a code word for Taiwan's sovereignty as Hsieh made clear during his recent visit to Japan when he was quoted as saying he would not accept one China as a pre-condition for talks.

The clearest differences between the two relate to cross-Strait economic and cultural ties. When Hsieh advocated easing the 40 percent ceiling on Taiwan firms' capital invested in the mainland, the next day Chen made clear that the ceiling would not be lifted so long as he is president. When Hsieh met Taiwan Semiconductor Manufacturing Company Chairman Morris Chang and spoke of easing restrictions on high tech investments in the mainland, Chen disparaged those comments as campaign rhetoric.

On the other hand, Chen and Hsieh can be seen as running a two-pronged campaign. Chen is focused on promoting the UN referendum as a means of mobilizing the DPP's

deep green base, while Hsieh is expressing moderate views on cross-Strait issues to appeal to independent and light green voters. Chen is the fundamentalist cop; Hsieh the moderate cop. However, Hsieh does not deny his support for mainstream DPP positions. While not enthusiastic about the referendum, he supports it and has long advocated applying for UN membership as Taiwan. The differences are more of style and personality than substance.

Hong Kong ship visit episode

On Nov. 23, Beijing abruptly cancelled the permission it had given earlier for the *USS Kitty Hawk* carrier battle group to make a Thanksgiving port call in Hong Kong. Several hours later as the ships were steaming away, Beijing just as abruptly notified the U.S. that the ships could come to Hong Kong after all, but it was too late to reverse their course. The refusal provoked a flood of speculation. Was this a sign of displeasure with the president's meeting with the Dalai Lama? Or about arms sales to Taiwan? The Defense Department had notified Congress some 10 days earlier of long-delayed plans to sell Taiwan equipment to upgrade its existing *PAC II Patriot* missiles. Beijing did not explain publicly what the message behind its denial was. Shortly thereafter, Foreign Minister Yang, in Washington for consultations, called on President Bush and described the episode as a misunderstanding, only to have Beijing state the next day that there was no misunderstanding. Just who in Beijing was making decisions was not entirely clear.

In time, most observers in Washington concluded that this was an ill conceived and poorly executed warning to the U.S. about arms sales to Taiwan. Foreign Minister Yang criticized arms sale in meeting Secretary Rice arguing *inter alia* that they conveyed mixed messages to Taipei about the extent of U.S. opposition to the UN referendum. Beijing is also seriously concerned by Taipei's desire to buy an additional 66 *F-16s*, though it understands that this sale will not occur so long as Chen is in office.

New PRC flight route in Taiwan Strait

In early December, Beijing informed the International Civil Aviation Organization (ICAO) of its plan to establish a new over-water flight path along the mainland coast. This first ever PRC route over the Taiwan Strait is in the Shanghai Flight Identification Region (FIR) that includes airspace over the western side of the Taiwan Strait. This set off alarms in Taipei. Taipei said the route would pass at one point within 4.2 nautical miles of the mid point in the Strait, near Taipei's Air Defense Identification Zone (ADIZ), and would cut across the flight paths of planes flying from Taiwan to the offshore islands, Jinmen and Matsu, though presumably at very different altitudes. Press reports indicate that Beijing justified its request on the need for additional traffic from Shanghai to Hong Kong and Guangzhou during the Olympics. However, it also allows Beijing to assert a greater presence over the western half of the Strait in ways Taiwan sees as threatening. As Taiwan is blocked from membership in ICAO, Taipei has appealed to its friends to present its objections to Beijing's plans in that forum.

Cross-Strait trade

Cross-Strait trade in the first nine months of 2007 reached \$74.1 billion, according to Taipei's Mainland Affairs Council (MAC). Taipei's exports to the mainland were \$53.6 billion, up 14.6 percent and accounted for 30 percent of Taiwan's worldwide exports. Statistics from Beijing Ministry of Commerce, which are always higher, put Taiwan's Jan.-Sept. 2007 exports to China at \$72.5 billion, up 13.7 percent. According to MAC statistics, Taiwan's imports from the mainland were \$20.5 billion up 13.3 percent. With Taipei's exports booming in recent months, export growth exceeded import growth, reversing the trend for the past couple of years.

Despite this steady and rapid growth of cross-Strait trade and the current boom in Taiwan's export orders from the mainland, economic circles in Taiwan have been expressing nervousness. Taiwan banks that provide financing to Taiwan invested enterprises (TIE) in the mainland have expressed concern that China's reduction of export subsidies is hurting the profitability of TIE exporters. There have also been reports of TIE concerns about China's new Labor Contract Law that will come into effect on Jan. 1, 2008. Like other firms in China, the TIEs are concerned that the law, which is designed to protect workers, will increase costs and affect profitability. Whether these factors will actually affect Taiwan's exports and TIE profits or are just corporate gripes remains to be seen.

Looking ahead

The DPP's referendum will likely remain the focus of cross-Strait attention in the months ahead. As Chen is determined to proceed and more than the requisite number of signatures have been collected, there is no reason to expect that the referendum will be cancelled. Whether one threshold for the referendum's adoption – participation by half the eligible voters – will be achieved next March is the principal uncertainty with respect to the referendum. Until then, it appears that Beijing will remain focused on preventing its adoption. This will require Beijing to continue keeping its cool in public and continuing to pressure the U.S. to voice its own concerns. In this environment, it is not surprising that there have been no talks this quarter on charter flights, tourism or other cross-Strait functional issues and no talks are likely until after the presidential election next March.

China-Taiwan Chronology October-December 2007

Oct. 4, 2007: KMT's Vincent Siew in Washington for consultations.

Oct. 8, 2007: ARATS sends SEF sympathy message over Typhoon Krosa.

Oct. 10, 2007: In National Day address, President Chen for first time does not use term "Republic of China."

Oct. 11, 2007: President Chen accepts chairmanship of DPP and announces that priority will be on passage of referendum on joining UN.

Oct. 15, 2007: Chinese Communist Party 17th Congress opens; Chairman Hu Jintao's report calls for peace agreement with Taiwan.

Oct. 15, 2007: President Chen criticizes Hu's one China premise; Hsieh Chang-ting expresses interest in peace agreement; Ma Ying-jeou proposes talks on basis of "one China, different interpretations."

Oct. 16, 2007: 13th cross-Strait financial seminar opens in Taipei with large PRC Representation.

Oct. 17, 2007: Legislative Yuan committees cut *Hsiungfeng IIE* missile budget by one-third.

Oct. 18, 2007: Hsieh Chang-ting supports permitting PRC investments in Taiwan.

Oct. 21, 2007: President Chen says passage of UN referendum will force U.S. to review its one China policy.

Oct. 22, 2007 *Liberty Times* reports WHO sent a food safety notification to Taiwan via China.

Oct. 23, 2007: Taipei criticizes China for delaying two weeks in notifying Taiwan about corn contamination in Thailand; calls on WHO to notify Taiwan directly.

Oct 24, 2007: Executive Yuan eases restrictions on investments in Chinese stock markets.

Oct. 26, 2007: Vice Minister Ko Cheng-heng in U.S. for defense review talks.

Oct. 29, 2007: President Chen says vote for UN referendum is a vote against unification.

Nov. 1, 2007: Ma Ying-jeou denies report that KMT has scraped 1992 consensus.

Nov. 2, 2007: TAO Vice Minister Sun Yafu thanks ASEAN for firm support on Taiwan issues.

Nov. 5, 2007: Secretary Gates visits Beijing; Taiwan a major issue in talks.

Nov. 5, 2007: Hsieh Chang-ting suggests easing 40 percent cap on funds invested in China.

Nov. 6, 2007: President Chen says 40 percent cap will not be eased while he is president.

Nov. 7, 2007: TAO spokesman says UN referendum is a step toward independence.

Nov. 8, 2007: U.S. House members propose resolution supporting Taiwan's UN bid.

Nov. 9, 2007: AIT Director Young's press conference.

Nov. 9, 2007: Hsieh Chang-ting meets Morris Chang; talks of easing IT restrictions.

Nov. 12, 2007: UMC Chairman Robert Tsao runs ad calling for peace accord.

Nov. 12, 2007: Delegation of PRC real estate firms visits Taiwan.

Nov. 13, 2007: DOD notifies Congress regarding sale of upgraded *Patriot II* to Taiwan.

Nov. 14, 2007: TAO confirms that letters with "UN for Taiwan" stamp cancellation are being returned to Taiwan.

Nov. 15, 2007: Taiwan Post says "UN for Taiwan" cancellations will be voluntary.

Dec. 16, 2007: CEC adopts voting procedures for LY election and referendum.

Nov. 17, 2007: TAO Vice Minister Ye in Washington DC for National Association for China's Peaceful Unification (NACPU) meeting.

Nov. 19, 2007: Taiwan places hold on appointment of PRC judge to WTO appellate court.

Nov. 21, 2007: Ma Ying-jeou begins three-day visit to Japan.

Nov. 21, 2007: *USS Kitty Hawk* is denied entry into Hong Kong port.

Nov. 23, 2007: *Kitty Hawk* goes through Taiwan Strait after being denied port call in Hong Kong.

Nov. 26, 2007: President Sarkozy in Beijing expresses opposition to UN referendum.

Nov. 26, 2007: Foreign Minister Yang Meets Secretary Rice in Washington.

Nov. 26, 2007: Taipei drops its opposition to PRC judge at WTO.

Nov. 28, 2007: Defense Minister Lee Tien-yu says Taiwan could not prevent invasion without U.S. help.

Nov. 28, 2007: EU-China summit in Beijing, EU opposes Taiwan referendum on UN.

Dec. 1, 2007: Foreign Minister Komura visits Beijing and says Japan does not support

Taiwan joining UN.

Dec. 2, 2007: MAC Chairman Chen accuses Beijing of pressuring Taiwan businessmen to oppose UN referendum.

Dec. 3, 2007: PLA delegation in Washington DC for consultations.

Dec. 6, 2007: Presidents Bush and Hu hold phone conversation.

Dec. 6, 2007: DAS Christensen's Press conference for Taiwan Press and says UN referendum is "unwise, provocative, and risky."

Dec. 6, 2007: Taipei expresses deep concern over PRC plans to establish a new flight route in western half of Taiwan Strait.

Dec. 10, 2007: AIT Chairman Burghardt in Taipei for consultations.

Dec. 16, 2007: Hsieh Chang-ting begins four-day Japan visit.

Dec. 17, 2007: Moscow says UN referendum would destabilize area.

Dec. 18, 2007: TAO Vice Minister Sun Yafu in Washington DC for consultations.

Dec. 18, 2007: TAO Minister Chen Yunlin pens article in *Qiushi* attacking referendum.

Dec. 18, 2007: Hsieh Chang-ting in Tokyo: "I won't accept one China."

Dec. 20, 2007: LY approves 2008 budget including funds for *Patriot PAC III*.

Dec. 21, 2007 Secretary Rice reiterates U.S. opposition to referendum as provocative and Secretary Gates says U.S. will provide arms in keeping with Taiwan Relations Act.

Dec. 24, 2007: Singapore expresses opposition to UN referendum.

Dec. 28, 2007: Appeals Court upholds Ma Ying-jeou's not guilty verdict.

Dec. 28, 2007: Japanese PM Fukuda visits Beijing; expresses concern about UN referendum.

Dec. 29, 2007: National People's Congress Standing Committee decision on Hong Kong nixes universal suffrage in 2012.