



China-Taiwan Relations:
Dialogue Resumes in Relaxed Atmosphere

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Events in cross-Strait relations have unfolded rapidly since Ma Ying-jeou's election in March. After a nine-year hiatus, formal dialogue between Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF) resumed on June 12 in Beijing. These two nominally unofficial associations reached agreements on weekend charter flights and Chinese tourism. The atmosphere of cross-Strait relations in this honeymoon period is so relaxed and consultative that it is hard to remember the bitter tensions that poisoned relations just a few months ago. However, political constraints on Presidents Hu Jintao and Ma Ying-jeou will make progress difficult, particularly on the international relations and security issues that are crucial to a lasting relaxation of tensions.

Setting the stage

Since Ma's election in March, cross-Strait rhetoric has calmed with both Beijing and Taipei utilizing opportunities to improve the tenor of relations. No time was lost, even during the two-month hiatus pending Ma's inauguration. In early April, Vice President-elect Vincent Siew announced that he would attend the Boao Forum for Asia, as he has for several years, in his capacity as chairman of the Cross-Strait Common Market Foundation. At the forum, Beijing arranged for Siew to meet CCP General Secretary Hu Jintao on April 12. While each was present in a nominally nongovernmental capacity, both sides saw benefit in what was the first meeting between a PRC president and a vice president-elect from Taipei. In this ice-breaking encounter, Hu was quoted by *Xinhua* as saying that the occasion required each side to think deeply about how to improve cross-Strait relations in these new circumstances.

The following day, Siew and PRC Commerce Minister Chen Deming presided over a roundtable discussion with Chinese business leaders in which the Chinese expressed interest in investing in Taiwan, including in Ma's program of 12 infrastructure projects. The Commerce Ministry's report of the meeting stated that both sides looked forward to resuming dialogue "under the one China principle." When Siew protested this inaccurate report, the Commerce Ministry retracted it and reissued the report without the reference. That Beijing moved so quickly to deal with the issue was a sign of the party leadership's determination to establish positive dealings with the Ma administration.

Two weeks later on April 28, Ma announced his intention to appoint Lai Shin-yuan as the new Mainland Affairs Council (MAC) chairperson. Lai has been an outspoken Taiwan Solidarity

Union (TSU) legislator and close to former President Lee Teng-hui. This appointment was criticized by many in the KMT and raised concerns in Beijing. Lai and Premier-designate Liu Chao-shiuan moved quickly to give assurances both publicly and privately that Lai supported Ma's cross-Strait policies. The belief in Taipei was that Ma had appointed Lai as a form of reassurance to opposition critics who feared he would sacrifice Taiwan's interests in pursuing improved relations with the mainland. While perplexed by Ma's choice, Beijing kept its cool, heard the assurances, and chose not to comment on the choice.

The following day, Hu Jintao received KMT Honorary Chairman Lien Chan in Beijing in his second important meeting with an emissary from Taipei. Hu used the occasion to lay out his broad principles for cross-Strait relations. He said publicly, what he had said privately earlier, that cross-Strait relations should be resumed on the basis of the 1992 consensus without defining what that consensus was in order to allow Taipei room to assert its own views on its meaning. He also coined a 16-character guideline for cross-Strait relations saying the two sides should "build mutual trust, lay aside differences, seek consensus while shelving differences, and create a win-win situation." Hu also reaffirmed that both sides should implement the five-point program in the Hu-Lien 2005 press statement. In a sign that he understood the importance of international space to Ma Ying-jeou, Hu reiterated to Lien the point in their 2005 agreement that Taiwan's international activities could be discussed once dialogue was resumed. A few days later in a May 1 interview with *Phoenix TV*, Ma agreed that dialogue could be resumed on the basis of the 1992 consensus, which he described as both sides supporting one China but with their respective interpretations of its meaning. Beijing remained silent on this. Ma also welcomed Hu's 16-character guideline for cross-Strait relations.

On May 12, the catastrophic earthquake in Sichuan Province occurred, providing an unwelcome catalyst for more cross-Strait goodwill. There was an outpouring of sympathy and support from all sectors in Taiwan. The SEF sent a formal message of sympathy. ARATS responded by formally thanking the SEF, and *Xinhua* took the unusual step of reporting the exchange. Ma Ying-jeou called on the government and private sector to provide assistance. The PRC quickly authorized flights to bring aid offered by the Taiwan Red Cross and the Tzu Chi Foundation. A few days later, when Beijing was still reluctant to allow foreign aid groups in, Beijing accepted assistance from a Taiwan Red Cross rescue team. By late June, the Tzu Chi Foundation had raised \$26.7 million for earthquake relief.

Ma's inauguration

On May 20, Ma took office as the 12th term President of the Republic of China. While speaking frequently of the "Republic of China," Ma emphasized his Taiwan upbringing, thanked the people for "accepting and nurturing this post-war immigrant" and promised to protect Taiwan. On cross-Strait relations, Ma said Taipei was ready to resume dialogue and to reach agreements on weekend charters and tourism as first steps for promoting cross-Strait prosperity and peace. He went on to say that consultations would also be held on international space and a peace accord. Ma noted "Mr. Hu Jintao's" remarks on cross-Strait relations and his 16-character guideline and said, "His views are very much in line with our own." At the same time, Ma expressed the hope that the mainland would continue to move toward freedom, democracy, and

prosperity as that would pave the way for long-term peace in cross-Strait relations. Taiwan Affairs Office (TAO) Minister Chen Yunlin publicly welcomed Ma's remarks.

The inauguration was followed quickly by Kuomintang (KMT) Chairman Wu Poh-hsiung's visit to the mainland at General Secretary Hu Jintao's invitation. Wu met Hu on May 28 and according to *Xinhua's* extensive report, Hu said more than once that opposition to Taiwan independence and support for the 1992 consensus were the essential basis for building mutual trust. He acknowledged that issues left over from history would not be easy to resolve and, in this context, repeated that Taiwan's international space could be discussed after dialogue resumed. He avoided mentioning the one China principle, choosing instead to talk about the sons and daughters of China (*chunghua ernu*) and the Chinese nationality (*chunghua mintzu*). Whether these words are significant remains to be seen.

Wu's visit was the capstone of rapid preparation for the resumption of formal dialogue. Immediately after Ma's inauguration, Chiang Pin-kung was sworn in as SEF chairman, and MAC Chairperson Lai officially authorized SEF to open dialogue. On the Chinese side, Wang Yi was sworn in as the new TAO minister and Chen Yunlin was appointed to fill the long-term vacancy as ARATS chairman. These selections mean that two men who have considerable experience working with each other – Chen Yunlin and Chiang Pin-kung – will be the principal interlocutors in cross-Strait relations. Hu Jintao's selection of Wang Yi puts a Foreign Ministry vice minister and former ambassador in charge of cross-Strait relations. Whether this will contribute to better coordination between two elements of PRC policy – the TAO's pursuit of cross-Strait reconciliation and the Foreign Ministry's efforts to limit Taiwan international space – remains to be seen.

Dialogue resumed

Formal dialogue between ARATS and SEF resumed June 12 after a nine-year hiatus. In two days of talks, the delegations led by Chen Yunlin and Chiang Pin-kung reached agreement on implementing weekend passenger charter flights beginning July 4 and on initiating group tourism from the mainland beginning July 18. In a sign of Beijing's more flexible attitude, the two delegations included officials from both sides serving as unofficial advisors. Chen accepted an invitation to visit Taiwan, in essence reciprocating the visit the late SEF Chairman Koo Chen-fu made to the mainland in 1998. Chen Yunlin proposed that ARATS and SEF establish reciprocal offices. After first seeming to accept this, Chiang subsequently stated that he would take the proposal to Taipei, as he had no formal instructions on it.

On June 13, Chiang met Hu Jintao, who hailed the ARATS-SEF meeting and the two agreements as a good beginning and said that the opportunity to improve cross-Strait relations should be seized. Chiang, in this first meeting as an unofficial but authorized spokesman for Taiwan, used the opportunity to explain again Taiwan's desire to have a dignified profile in the international community. In a sign of the continuing sensitivity of this issue in Beijing, *Xinhua's* report of the meeting did not mention Chiang's remarks on international space.

Subsequently, both sides have rapidly announced the specific flights that will inaugurate weekend charter service in July. A large Chinese tourism delegation has visited Taiwan and

Ma's administration has taken steps to ensure that things go smoothly when the first tourism groups arrive in July. Opposition politicians have criticized the arrangements because only one of the initial weekend flights will serve southern Taiwan. Others have criticized the tourism arrangements because the stringent controls on mainland tourism groups seem inappropriate and counter-productive in Taiwan's free and open society.

International space

While these early and easy steps were being taken and created a new positive tone in cross-Strait relations, the issue of international space has been lurking in the background. As noted, President Hu Jintao has acknowledged the issue in meetings with Taiwan emissaries. However, Beijing insiders have indicated that the leadership in Beijing has not yet decided how to deal with either the diplomatic relations or international organization aspects of the issue. In the meantime, Beijing appears to be handling issues that arise with care.

The World Health Assembly (WHA) meeting that was held in mid-May just before Ma's inauguration was not a test of Beijing's future approaches. In one of his last international acts, former President Chen Shui-bian reapplied to both for World Health Organization (WHO) membership and for observer status with the WHA using the name "Taiwan." Under Beijing's urging, the WHO Secretariat and WHA membership turned down both applications as they had done a year earlier. Shortly after Ma's inauguration, the annual meeting of the World Animal Health Organization (OIE) took place. Taipei did not press for changes in its status, which had been an issue a year earlier, and reported that Beijing did not exhibit any "hostility" toward Taiwan at the meeting. The Ma administration is now considering what steps to take at the UN General Assembly this fall, the occasion for unsuccessful bids by Taiwan for the past 15 years. Taipei has consulted Washington but not yet indicated how it will approach the issue this fall.

Sources from Beijing indicate that Beijing is not actively encouraging Taipei's remaining diplomatic allies to switch relations. Beijing recognizes that this would not be an opportune moment for a switch to occur, but mainland commentators uniformly point out that Beijing cannot prevent countries from doing so. In April, Paraguay elected a new president who had campaigned on a platform calling for recognition of Beijing. The new president's inauguration in August will present a test case.

U.S. arms sales

With Chen Shui-bian's exit, U.S. arms sales to Taiwan have again become a focus of attention. A variety of procurement projects are in the works, but the Bush administration has made no notifications to Congress of new sales this year and the U.S. continues to hold up Taiwan's long-pending request for *F-16C/D* aircraft. The press has speculated about a U.S. freeze on arms sales. President Ma has made it clear that he intends to invest in Taiwan's defense and continue with reasonable arms procurements. Taipei's new defense minister, Chen Chao-min, said on assuming office that Taiwan needs the new aircraft. Beijing, for its part, has been urging Washington not to approve the sale, arguing that this would damage U.S.-China relations and be inappropriate at a time when a budding cross-Strait dialogue is reducing the threat to Taiwan.

Just why the Bush administration is not prepared to move ahead with notifications and the *F-16* project is not entirely clear. Press reports indicate that both State Department and Defense Department support moving ahead with arms sales. On June 25, DOD Assistant Secretary James Shinn, in congressional testimony, commented that despite the improved atmosphere of cross-Strait relations, the military balance was continuing to shift in the mainland's favor and that this shift is increasing the danger facing Taiwan. It is widely believed that the arms sales hold-up comes from President Bush. Whether and on what conditions he might be persuaded to move ahead remains a matter of speculation. Meanwhile, although Beijing's rhetoric and actions are less threatening, the PLA modernization programs continue.

Trade and investment issues

More productive cross-Strait economic relations are a core element in the Ma administration's policy for strengthening Taiwan's economy. The high-profile agreements on weekend charter flights and tourism from the mainland are only the most prominent steps being taken. At the Boao Forum, mainland business leaders expressed interest in investing in Taiwan. Premier Liu Chao-shiuan has stated that Taipei would welcome PRC investment, including in the 12 infrastructure projects that Ma Ying-jeou made the centerpiece of his economic platform.

A variety of unilateral decisions are being taken by both sides to expand economic ties. In April, Beijing authorized overseas subsidiaries of Taiwan banks to invest in mainland banks. It subsequently approved Fubon Bank's Hong Kong Branch to invest 19.9 percent in Xiamen Commercial Bank. In mid-May, the outgoing Chen administration approved 20 mainland investment projects totaling \$722 million. The new Ma administration has approved regulations for initial *Renminbi*-NT\$ currency exchange in Taiwan. In late June, Taipei liberalized its regulations governing cross-Strait securities investments. The changes ease restrictions on investments by Taiwan funds in the mainland and for the first time allow limited indirect investments in Taiwan securities by mainland interests. Taipei's Minister of Economic Affairs Yiin Chii-min has announced that the ceiling on Taiwan firms' investments in the mainland would be lifted by August. In late June, President Ma said the two sides should work toward an economic cooperation agreement.

Looking ahead

Cross-Strait relations are in a honeymoon period. The progress made is the result of efforts by both sides, and has been accomplished without U.S. involvement. There is much that can be done unilaterally and bilaterally by the two sides to keep relations moving forward positively in the months ahead. Most of these potential steps involve the economic relationship; others involve educational, cultural, social and symbolic measures. There is every reason to believe progress will continue.

However, without progress on international relations and security issues, which have damaged relations in the past, a lasting relaxation of cross-Strait relations will not be possible. The international space issue cannot be ducked for long. Beijing's handling of relations with a new government that takes office in Paraguay in August and Taipei's decisions on its approach to the UN in September are specific pending issues. In Taipei, Ma needs progress on international

space if he is to sustain public support for his cross-Strait policies. The opposition is complaining, until now ineffectually, about some specifics in the weekend charter arrangement, and tensions have emerged between the Legislative Yuan, particularly Speaker Wang Jin-pyng, and the Executive Yuan over negotiating further cross-Strait agreements. However, if Beijing is to compromise significantly on international space and diplomatic relations, Hu Jintao needs political assurance that his compromises will somehow lead toward progress on the long-term goal of unification, which Ma has said he will not discuss during his term in office. Both leaders have domestic imperatives. These are not easy issues.

U.S. arms sales to Taiwan are the only aspect of the sensitive trilateral security relationship that has been in focus recently. Both Hu Jintao and Ma Ying-jeou have spoken ambitiously about a cross-Strait peace agreement, but neither has done much to define what such an agreement might entail. Striking a balance between Beijing's desire for firm assurance against future moves toward independence and Taiwan's desire for a renunciation of force by Beijing may be possible but certainly not easy. A more promising approach would be to pursue gradual cross-Strait military confidence building measures – an approach that would be consistent with both leaders' emphasis on the need to gradually build trust. Some unilateral adjustment of the PLA missiles aimed at Taiwan would be a good first step.

Having held up congressional notifications on pending arms sales, Washington now faces the sensitive task of choosing an appropriate time to resume those notifications. As usual, there is no good time for such decisions, which is the argument for making notifications as routine as possible. Because maintaining credible air defense is the highest security priority for Taiwan, the *F-16C/D* aircraft are essential to Taipei's efforts to counter the modernization of PLA air capabilities. With a government in Taipei that is moving as Washington has long wished to pursue constructive cross-Strait relations, President Bush should approve this sale so that Taiwan can sustain the confidence in its own security needed to negotiate core issues with the mainland.

Chronology of China-Taiwan Relations April-June 2008

April 4, 2008: President-elect Ma Ying-jeou hopes for weekend charter flights by July.

April 4, 2008: President-elect Ma favors applying for World Health Organization (WHO) observership as “Chinese Taipei.”

April 7, 2008: Vice President-elect Vincent Siew says he will attend Boao Forum.

April 9, 2008: President-elect Ma's *Financial Times* interview.

April 10, 2008: President Chen decides to reapply for WHO membership as “Taiwan.”

April 10, 2008: PRC defense minister urges Secretary of Defense Gates to end U.S. arms sales to Taiwan.

April 10, 2008: PRC bank regulator (CBRC) authorizes Taiwan branch banks on the mainland.

April 12, 2008: General Secretary Hu Jintao meets Vincent Siew at Boao Forum.

April 13, 2008: Vincent Siew attends seminar with PRC economic leaders who express interest in investing in Taiwan infrastructure.

April 13, 2008: PRC Commerce Ministry reports then retracts statement that Vincent Siew accepts “one China principle.”

April 14, 2008: Chiang Pin-kung chosen as new Straits Exchange Foundation (SEF) chairman.

April 16, 2008: Taiwan Affairs Office (TAO) spokesman expects progress on charter flights and tourism and announces Taiwanese may take PRC bar exams.

April 20, 2008: Paraguay elects first leftist pro-China president.

April 21, 2008: Group of Chinese real estate tycoons arrives in Taipei.

April 23, 2008: SEF Chair-designate Chiang predicts weekend charters to begin July 4.

April 23, 2008: Deputy Secretary of State John Negroponte says U.S. will engage with Ma only after inauguration.

April 23, 2008: President Chen’s letter to WHO returned to Taiwan.

April 28, 2008: Lai Shin-yuan chosen as new Mainland Affairs Council (MAC) Chairwoman.

April 29, 2008: General Secretary Hu receives Kuomintang (KMT) Honorary Chairman Lien Chan; Hu proposes 16-character guideline for cross-Strait relations.

April 30, 2008: TAO avoids commenting on Lai’s appointment as MAC chairwoman.

May 1, 2008: President-elect Ma’s interview with *Phoenix TV*.

May 1, 2008: Premier-designate Liu Hsiu-chuan welcomes Chinese investment in Taiwan infrastructure projects.

May 3, 2008: President-elect Ma welcomes Hu’s 16-character guideline.

May 6, 2008: Vice Premier Chiou I-jen and others resign over Papua New Guinea scandal.

May 8, 2008: Singapore’s Lee Kwan Yew says a Singapore-Taiwan free trade agreement hinges on better cross-Strait relations.

May 10, 2008: President-elect Ma reiterates call for a diplomatic truce with China.

May 12, 2008: Earthquake in Sichuan Province; Taiwan offers aid.

May 13, 2008: ARATS thanks SEF for concern and aid; TAO publishes text.

May 15, 2008: Humanitarian charter flight takes Red Cross & Tzu Chi aid to Sichuan.

May 15, 2008: President Ma tells *Associated Press* that unification unlikely “in our lifetimes.”

May 15, 2008: Taiwan’s Investment Commission approves 20 mainland investments.

May 17, 2008: TAO announces Chairman Hu’s invitation to KMT Chairman Wu Poh-hsiung.

May 19, 2008: WHA again rejects “Taiwan” observer application.

May 20, 2008: Ma Ying-jeou inaugurated as president of the Republic of China.

May 20, 2008: U.S. delegation meets with President Ma; praises inaugural address.

May 21, 2008: Minister of Defense Chen Chao-min says Taiwan needs *F-16s*.

May 21, 2008: TAO Minister Chen Yunlin comments positively on Ma’s inauguration.

May 23, 2008: MAC Chairwoman Lai envisages SEF and ARATS exchanging offices.

May 26, 2008: MAC authorizes SEF to resume dialogue on basis of 1992 consensus.

May 28, 2008: General Secretary Hu receives KMT Chairman Wu Poh-hsiung.

June 3, 2008: Wang Yi appointed new TAO minister; Chen Yunlin assumes chair of ARATS.

June 4, 2008: Minister of Defense Chen says no change in development of *Hsiung Feng IIE* surface-to-surface cruise missile.

June 4, 2008: In *Yomiuri* interview, President Ma repeats that removal of missiles from China’s coastal region immediately across the Taiwan Strait is a precondition for peace accord.

June 4, 2008: ARATS supports idea of reciprocal visits by ARATS and SEF chairmen.

June 9, 2008: President Ma meets SEF Chair Chiang; hopes for institutionalized talks.

June 10, 2008: *People’s Daily* reports vice ministers to advise SEF and ARATS delegations.

June 10, 2008: Japanese frigate hits and sinks Taiwan fishing boat near Diaoyutai; Taipei and Beijing protest the incident.

June 11, 2008: Taipei press reports *Defense News* story that U.S. has frozen arms sales.

June 12, 2008: Chen Yunlin-Chiang Pin-kung meeting marks resumption of SEF-ARATS dialogue; Chen accepts invitation to visit Taiwan.

June 12, 2008: ARATS proposes exchange of offices.

June 12, 2008: Legislative Yuan (LY) holds special session to authorize currency exchange.

June 13, 2008: ARATS and SEF sign agreements on weekend charters and tourism.

June 13, 2008: General Secretary Hu receives SEF Chairman Chiang.

June 15, 2008: President Ma calls for acceleration of SEF-ARATS talks.

June 16, 2008: Taiwan Coast Guard escorts boats to assert Taiwan sovereignty over Diaoyutai.

June 16, 2008: LY Speaker Wang Jin-pyng asserts LY role in cross-Strait issues.

June 16, 2008: Chinese tour operators visit Taiwan to survey market.

June 18, 2008: President Ma proposes signing economic cooperation pact with mainland.

June 18, 2008: President Ma explains cross-Strait goals in *New York Times* interview.

June 19, 2008: Tzu Chi Foundation has raised US\$26.7 million for Sichuan relief.

June 23, 2008: *Hanguang 24* military exercise begins.

June 23, 2008: Paraguay FM-designate says relations with Taiwan to be reviewed.

June 25, 2008: Minister of Economic Affairs Yiin Chii-min says investment ceiling for Taiwan companies investing in the mainland to be raised in August.

June 25, 2008: Deputy Assistant Secretary of Defense James Shinn says military balance continues to shift toward mainland increasing danger to Taiwan.

June 26, 2008: President Ma observes *Hanguang 24* exercise.

June 26, 2008: Taipei liberalizes regulations on cross-Strait securities investments.

June 30, 2008: *Renminbi*-NT\$ exchange begins in Taiwan.

June 30, 2008: Taipei lifts ban on *Xinhua* and *People's Daily* reporters.