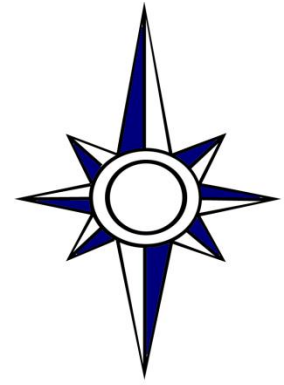


Comparative Connections

A Triannual E-Journal on East Asian Bilateral Relations



China-Taiwan Relations: A Year for Consolidation

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President Ma's inaugural mentioned no new initiatives, confirming that this would be a year for consolidating relations rather than making breakthroughs in cross-strait relations. While Beijing understands Ma's domestic position, it continues nudging Ma and Taiwan to move beyond economic issues. The 8th ARATS-SEF meeting in August finally concluded the long-stalled investment agreement – a significant step – but only by finessing key contentious issues. Debates within the DPP over its policy toward Beijing continue. However, initial decisions by new DPP chairman Su Tseng-chang indicate that the party is not yet willing to adjust its policy. President Ma has taken steps to underline the ROC claims to the Diaoyutai Islands.

Ma inaugural

As soon as Ma Ying-jeou won re-election in January attention shifted to what he would say about cross-strait relations in his second inaugural address on May 20. Four years earlier, he enunciated core aspects of his policy including his “three noes” – no independence, no unification, no use of force – and mentioned that Taipei would also enter consultations on a possible peace agreement. Knowing how important such statements are in setting future agendas, Beijing had quietly been making it known through several channels that it hoped for an indication that relations could move forward in some politically significant way. Progress on economic issues was assumed; Beijing wanted something on the political front. Specifically, Beijing communicated its hope that Ma would drop the “no unification” element of his “three noes.” Ma also got advice from an opposite quarter. Former Democratic Progressive Party (DPP) Chair Tsai Ing-wen published an open letter to Ma in which she advised that he should be careful not to say that Taiwan and the mainland are parts of one China. Given the controversy over Ma's very conditional reiteration in September that he might consider a peace agreement in the coming decade, Beijing understood it was unlikely that Ma would mention that objective.

On May 20, President Ma studiously avoided giving any indication that progress would be sought on political issues. He reiterated the “three noes” policy in standard terms, retaining the no unification element. In talking about “one China,” Ma reiterated that his policy was grounded in the Republic of China (ROC) Constitution that envisaged the ROC having two areas – a free area on Taiwan and a mainland area. Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan made it clear that this view should be summarized as “One ROC, two areas” not “One China, two areas.” The one area where Ma seemed to take Beijing's perspectives into account was when he talked of the two sides sharing a common Chinese ethnic heritage – in line with Beijing's desire to promote shared ethnic bonds. However, Ma went on to say that it was progress on democracy and human rights that would reduce the feeling of “otherness” felt by

people on Taiwan. Although his address made no mention of a peace agreement, when asked by the media, he replied there was no urgency about such an agreement. In sum, there was nothing said to give Beijing hope for any breakthrough on political issues.

Beijing's controlled frustration

While Beijing avoided public criticism of Ma's address, mainland scholars and officials indicated their disappointment in private. The address increased doubts that Ma would ever provide leadership in moving from economic to political issues. Beijing policy-makers are caught between awareness of the domestic political constraints on Ma and their awareness of latent criticisms within China that no progress is being made toward reunification. Their response has been twofold – to look for opportunities to influence the domestic political debate within Taiwan and to continue efforts to strengthen cultural affinity.

On June 29, the Chinese Integration Association, a pro-unification group in Taiwan, held a conference in Taipei and Beijing decided to accept the association's invitation to participate. Rather than just encouraging scholars to attend, Beijing chose to send three former officials led by Wang Zaixi, now an Association for Relations Across the Taiwan Straits (ARATS) vice chairman. When the MAC learned of this, they denied Wang and the others visas a few days before the conference, saying that their participation in a conference on the theme "strengthening identity and mutual trust" – the very themes Taiwan Affairs Office Minister Wang Yi had been talking of this spring – was inappropriate.

Politburo Standing Committee member Jia Qinglin addressed the eighth Kuomintang-Chinese Communist Party (KMT-CCP) Forum in Harbin on July 28. In discussing Beijing's current cross-strait priorities, Jia again gave pride of place to political issues repeating Beijing's desire to build mutual political trust and to strengthen cultural affinity. He stated that the core of the "one China framework" was that both the mainland and Taiwan belong to "one country." The use of "one country" was new; since the 16th Party Congress the usual wording was that the mainland and Taiwan belong to "one China." Was Jia's wording just a different way of expressing "one China?" Or did this signal a significant shift in emphasis or policy? Was it a message for Ma or for the DPP? Regardless, Jia's wording provoked considerable discussion in Taipei. Some pro-KMT commentators said it means that Taipei must be firm in insisting that the basis for cross-strait cooperation is the 1992 consensus, under which each side has its own interpretation of the meaning of "one China." DPP officials said Jia's remarks require stronger reaffirmation that Taiwan and China are separate countries; otherwise Taiwan will be swallowed up in the PRC. Thus far, Jia's wording has not been repeated. Generally, Beijing has tried to convey a sense of policy continuity in the period leading up to the 18th Party Congress. On Aug. 28, Wang Yi told the media that he and Jia Qinglin had reiterated Beijing's Taiwan policy several times, noting its "stability and continuity."

At consultations in Beijing in July, Beijing continued to press Taipei to negotiate a cultural agreement. For the mainland, the ideal agreement would enshrine broad principles and general commitments to promote shared Chinese culture. Agreeing to that would be political suicide in Taiwan. What Taipei might consider is a concrete agreement that would reduce specific barriers

to cultural cooperation and protect artist's intellectual property rights. Despite Beijing's interest in an agreement, no progress was made on those concrete issues.

At the Harbin forum, Jia Qinglin also repeated the attention to grassroots contacts that TAO Minister Wang Yi had mentioned earlier in the year. Jia said that Beijing would encourage people on the mainland and Taiwan to join hands, to do more for the benefit of Taiwan people and together contribute to the great renovation of the Chinese nation (*中华民族 zhonghua minzu*). In August, Wang Yi further elaborated on this grassroots policy in speaking to a cross-strait forum for local officials in Chengdu. Recently, this approach has led to an intensified and coordinated effort by different mainland groups to contact an ever-wider range of local civic organizations in Taiwan offering cooperation, often financial. One Taiwan official characterized this strategy as being "to use the countryside to surround the city." In essence, if Beijing cannot move beyond economics at one level, it will try to make progress on another.

Cross-strait developments

The two sides agreed last fall that the twice-postponed investment agreement would be signed at the next ARATS-SEF (Straits Exchange Foundation) meeting. Differences concerning an independent dispute resolution mechanism and notifications about the detention of businessmen continued to delay the agreement. The eighth meeting finally took place on Aug. 9 in Taipei and saw the signing of the Investment Protection and Promotion Agreement and a Customs Cooperation Agreement. As the negotiations had taken over two years, the ability to conclude the investment agreement did represent a significant accomplishment. The agreement addresses the resolution of investment disputes with government agencies and commercial partners, but it does not identify an independent body to which difficult disputes can ultimately be referred. Rather, it lays out principles and procedures that may be followed to resolve disputes and creates a cross-strait resolution mechanism as one alternative.

The relevance of the issue concerning notification of the detention of businessmen was underlined when it became known that Taiwan businessman Bruce Chung had been detained June 18 on the grounds of national security. Taipei had been seeking a binding requirement for notification within 24 hours whenever a businessman was detained. It was much longer before Chung's detention was confirmed. It turned out that he had been detained because of his Falun Gong affiliation, making his case a clear example of the gulf in the two sides' conceptions of national security. In the end, agreement on a binding 24-hour notification requirement could not be reached. Instead, the issue was dealt with in a side "consensus" document which states that both sides' public security authorities "should" make such notifications and committing the SEF and ARATS to cooperate in dealing with detentions. As an example that such cooperation can work, Bruce Chung was released the day after the agreement was signed.

Predictably, the Taiwan government was criticized by the opposition for not getting these two issues resolved in fully satisfactory ways. Former DPP MAC Chairman Joseph Wu was one who made such charges. The business community in Taiwan welcomed the agreement. For its part, Beijing put most weight on the investment promotion aspects of the agreement, as it committed Taipei to reduce restriction on People's Republic of China (PRC) investment in Taiwan. In

August, President Ma called for further opening of Taiwan to PRC investment, which remains at very low levels in comparison to PRC investment elsewhere.

Beyond the two agreements, negotiations have been continuing in working groups of the Economic Cooperation Framework Agreement (ECFA) Cross-Strait Economic Cooperation Committee (CSECC) on trade in goods, services trade, and dispute resolution more broadly. On Aug. 31, Taipei and Beijing signed the long-awaited Memorandum of Understanding (MOU) on currency settlement. The MOU will provide for the direct settlement of Renminbi and New Taiwan dollar accounts between designated mainland and Taiwan banks and regulate banks use of the two currencies. The implications of this agreement will depend on implementation details that are yet to be worked out.

Discussions have also been continuing, likewise behind closed doors, concerning the reciprocal exchange of offices between SEF and ARATS. This too is an issue that Beijing has been promoting and Taipei has been handling cautiously. When President Ma officiated at the opening of the new SEF office in Taipei on May 18, he endorsed the goal of exchanging offices. However, this issue too is politically charged. Some DPP officials have compared an ARATS office in Taipei to the PRC's Central Government Office in Hong Kong, through which Beijing exercises its role in Hong Kong. When ARATS Chairman Chen Yunlin called on MAC Chairwoman Lai Shin-yuan on Aug. 9, he raised the proposal. In reporting to the press afterward, Lai said that for the moment the two sides had only agreed to "separately plan, study and evaluate" the issue. She also noted that the exchange of offices would require amendments by the Legislative Yuan to the basic statute on cross-strait relations.

DPP developments

On May 27, Su Tseng-chang won the DPP election for party chairman. The outcome reflected the divisions within the party. Su, who won with 50.47 percent of the vote, was running against three avowed fundamentalists who were concerned about possible changes in the DPP's cross-strait policy. Together, the three garnered 47 percent. The remainder went to moderate Hsu Hsin-liang. Not only had the fundamentalists shown considerable grassroots support, but Su himself had avoided clarifying his policy toward Beijing.

In an initial interview after his election, Su commented that the DPP had its own China policy and should not feel that the policy had to be changed because of an election loss. In a subsequent interview with the *Wall Street Journal*, Su told US audiences that he would be flexible. The first test of his intentions came on the question of whether the DPP would establish a department to coordinate more active contacts with Beijing and what it should be called. Recall that five years ago, the DPP had merged its former "China Affairs Department" into its "International Affairs Department." The moderates advocated re-establishing a separate department but using the word "mainland" in its title.

In June, Su stated that the party would re-establish the separate department and also create a high-level policy commission. On July 25, he announced the re-establishment of the "Department of China Affairs" and the party's decision to establish a "China Affairs Committee" to act as the party's highest China policy-making body. Su explained that the party was only

using “China” as a geographic term. However, his choice of terminology indicated that the party had decided not to adjust policy, which remains based on the 1999 Resolution on Taiwan’s Future that views Taiwan and China as two separate countries. At least, that was the way Beijing viewed the decision. The TAO spokesman welcomed the DPP’s interest in contacts with China but added that Beijing opposed its advocacy of a “one country on each side” viewpoint.

Su subsequently appointed economist Hong Tsai-lung to head the China Department. There were reports in the media that Su had offered the China Affairs Committee chairmanship to Frank Hsieh, but that Hsieh had said that he would only accept the position if the party endorsed his advocacy of the “constitutional one China” view. After these press reports, Su said that the party was in no hurry to establish the committee.

DPP mainland visits

There is a consensus within the DPP that the party needs to expand contacts with China, in part to deny the KMT the ability to monopolize contacts and misrepresent DPP views. For its part, Beijing sees opportunities to influence the internal DPP debate and has made it clear that the door is open for DPP members to visit China in appropriate capacities, meaning not in their party capacities. Facilitating visits by DPP members is one element in the broader policy of reaching out more widely to engage people in Taiwan.

Many party members have been invited to events in China in recent months. In June, several DPP members attended a forum in Fujian sponsored by the TAO. In July, the Chinese Academy of Social Sciences (CASS) invited Hong Chi-chang, who was the SEF chairperson during the Chen Shui-bian administration, to Beijing. Former DPP official and current legislator Hsiao Bi-khim attended a conference in Shanghai. Five DPP local councilors attended a large cross-strait conference of local officials in Chengdu. This is just to mention a few examples. The results have been mixed. On his return, Hong Chi-chang concluded that the time is not ripe for party-to-party contacts because of the gulf between DPP and CCP views. Hsiao Bi-khim similarly commented that views of the two sides are “worlds apart.”

An article in *People’s Daily* in August expressed some frustration over these visits commenting that the DPP visitors seemed motivated by a quest for votes in future elections rather than in transforming DPP policy. Nevertheless, in late August, TAO Minister Wang Yi reiterated that the door was open for DPP leaders to visit China in appropriate capacities and appropriate circumstances. However, he reiterated that party-to-party contacts could not take place as long as the DPP adhered to its Taiwan independence stance. A few days later, Wang Yi, echoing the *People’s Daily*, expressed the hope that the DPP would adjust its mainland policy.

East China Sea tensions

Activists from all sides have inflamed passions over the Senkaku/Diaoyu/Diaoyutai Islands in recent weeks. Beijing and Taipei have separate claims to the islands. Beijing would prefer to cooperate with Taipei in contesting Japan’s claims, but Taipei insists that it acts only in support of the ROC claim. President Ma has to walk a tight rope in balancing cross-strait, Japan, US,

and domestic factors in shaping his policy on an issue that China and Japan are the major players. This summer he apparently decided Taipei should do more.

Taipei has generally discouraged activists, as their actions complicate Taiwan's important relations with Japan. However, on July 4, Taiwan Coast Guard ships escorted a vessel carrying Taiwan protestors to the islands. A Coast Guard spokesman described the action as a "no conflict, no avoidance" policy in the Diaoyutai Islands.

President Ma launched an East China Sea Peace Initiative on Aug. 5. He called on all parties to exercise restraint, maintain dialogue, abide by international law, develop a "code of conduct," and establish mechanisms to cooperate in resource development. Ma's statesman-like and constructive initiative has focused attention on the ROC claim.

On Aug. 15, the Taiwan Coast Guard ferried supplies to a boat that was taking activists from Hong Kong and Macau to the islands. While providing supplies, Taipei prevented the boat from entering Taiwan ports and did not accompany it to the islands. Furthermore, efforts by some Taiwanese to join the protests ended when the activists could not obtain a boat, perhaps because of government influence. Japan detained several of the activists, who had displayed both the PRC and ROC flags. However, as the Coast Guard's very limited aid to Hong Kong activists raised questions about the policy of not cooperating with the PRC, Taipei reiterated that there had been no change in that policy. A few days later, a large group of Japanese activists, including some Diet members, went to the islands, with a dozen or so swimming ashore. This inflamed sentiments and led to anti-Japanese demonstrations in many Chinese cities. On Aug. 20, President Ma explained his peace initiative in an interview with Japan's *NHK* and reiterated that Taipei does not cooperate with Beijing against Japan.

Economic issues

The formal launch of trade agreement talks between China, Japan, and South Korea continues to concern Taipei. In response, President Ma has said on more than one occasion that Taiwan must speed up trade liberalization measures, in part to avoid becoming overly dependent on economic ties with China. Ma succeeded in pushing legislation on US beef imports through the Legislative Yuan in July and has since called for holding Trade and Investment Facilitation Agreement (TIFA) talks with Washington. Taipei has said that progress is being made in negotiating a "high quality" FTA-like economic cooperation agreement with Singapore. Consideration of other bilateral economic agreements is underway with New Zealand, India, Malaysia, and the Philippines. Taipei has also repeated its interest in eventually joining the Trans-Pacific Partnership (TPP) process.

According to the Taiwan statistics, cross-strait trade totaled \$59.5 billion dollars in the first half of 2012. Taiwan's exports to China in the first half declined 8.8 percent from a year earlier and Taiwan's export dependency ratio on the China market fell from 40.2 percent to 38.8 percent. As China's worldwide imports in this period grew by 6.8 percent, Taiwan's share of China's imports fell from 7.4 percent to 6.8 percent, according to Beijing statistics.

Looking ahead

The CCP's 18th Party Congress in October will begin a process in which the leadership will pass from Hu Jintao to Xi Jinping and a new line-up of senior officials. There is no indication that this will lead to significant changes in Beijing's policy toward Taiwan in the coming months, though events need to be watched carefully. Against that background, no major developments are likely in cross-strait relations in the coming months.

At the implementation level, talks will continue on trade issues in sub-committees under ECFA's Cross-Straits Economic Cooperation Committee (CSECC). Beijing will continue to cultivate influence among civic groups in Taiwan and to press the DPP to adjust its mainland policy.

Chronology of China-Taiwan Relations May – August 2012

May 6, 2012: Second Democratic Progressive Party (DPP) chairmanship election debate focuses on cross-strait issues.

May 10, 2012: Frank Hsieh calls for a new cross-strait forum with DPP participation.

May 13, 2012: Macau opens an Economic and Cultural Office in Taipei.

May 14, 2012: Tsai Ing-wen's writes an open letter to President Ma Ying-jeou.

May 15, 2012: Hong Kong's Financial Secretary John Tsang opens a representative office in Taipei.

May 16, 2012: TAO comments on Tsai's open letter to Ma.

May 17, 2012: US House of Representatives passes Granger Amendment mandating the sale of 66 *F-16s* to Taiwan.

May 18, 2012: President Ma speaks at the inauguration of the new SEF building.

May 20, 2012: President Ma is inaugurated for a second term as president of the Republic of China.

May 21, 2012: Taiwan Affairs Office (TAO) Deputy Chair Ye Kedong arrives in Taiwan for 5-day visit.

May 22, 2012: DPP's David Huang warns against exchange of Straits Exchange Foundation-Association for Relations Across the Taiwan Straits (SEF-ARATS) offices.

May 23, 2012: Taiwan Health Minister Chiu Wen-ta addresses the World Health Assembly.

May 24, 2012: Taiwan Culture Minister Lung Ying-tai proposes a cross-strait cultural forum.

May 24, 2012: Malaysian and Taiwan think tanks agree to study trade agreement prospects.

May 27, 2012: Su Tseng-chang wins DPP chairmanship election.

June 3, 2012: Joseph Wu is named head of DPP Central Policy Committee.

June 6, 2012: DPP Chairman Su says party will have a “China” Department and “China” Commission.

June 7, 2012: Taiwan’s Financial Supervisory Commission approves branches for the Bank of China and the Bank of Communications in Taipei.

June 17, 2012: A cross-strait forum is held in Fujian.

June 17, 2012: Beijing approves a second Taiwan tourism office in Shanghai.

June 18, 2012: Taiwan businessman and Falun Gong practitioner Bruce Chung is detained in the mainland.

June 19, 2012: Jia Qinglin addresses peaceful unification conference.

June 25, 2012: Taipei denies entry to an ARATS delegation led by Wang Zaixi.

June 28, 2012: Bank of China opens its Taipei branch.

June 29, 2012: Chinese Integration Association Conference in is held in Taipei.

July 4, 2012: Taiwan Coast Guard escorts activists to Daioyutai Islands.

July 6, 2012: Tianjin Mayor Huang Xingguo leads a large delegation to Taiwan.

July 12, 2012: Talks on increasing cross-strait flights are postponed.

July 15, 2012: DPP Party Convention is held in Taipei.

July 21, 2012: Indian economists visit Taipei for study on an economic agreement.

July 22, 2012: Chung-hua Institution for Economic Research says Taipei and Manila will undertake parallel private studies on economic agreement.

July 24, 2012: Chinese Academy of Social Sciences (CASS) invites former DPP SEF chair Hong Chi-chang for a conference in Beijing.

July 25, 2012: DPP Chair Su announces the re-establishment of China Affairs Department.

July 27, 2012: Jia Qinglin meets Wu Poh-hsiung in Harbin.

July 28, 2012: The eighth KMT-CCP Forum is held in Harbin.

Aug. 5, 2012: President Ma proposes the East Sea Peace Initiative.

Aug. 6, 2012: ARATS Vice Chair Zhang Mingchuan visits Taipei to attend the Peace and Prosperity Forum.

Aug. 8, 2012: Annual Cross-strait Tourism Promotion Conference is held in Kaohsiung.

Aug. 8, 2012: Chinese Vice Minister of Commerce Jiang Yaoping leads large purchasing mission to Taiwan.

Aug. 9, 2012: Eighth SEF-ARATS meeting held in Taipei; investment and customs agreements are concluded.

Aug. 9, 2012: ARATS Chairman Chen Yunlin meets MAC Chairwoman Lai Hsin-yuan.

Aug. 10, 2012: Taiwan Businessman and Falun Gong practitioner Bruce Chung is released from prison in the mainland.

Aug 13, 2012: DPP Legislator Hsia Bi-khim attends conference in Shanghai.

Aug. 15, 2012: Japan arrests Hong Kong activists on one of the Senkaku Islands.

Aug. 18, 2012: Large Japanese group including Diet members visits the Senkakus.

Aug. 19, 2012: Third cross-strait local government forum is held in Chengdu.

Aug. 21, 2012: First cross-strait Kinmen-Xiamen fiber optic cable inaugurated.

Aug. 26, 2012: Cross-strait media forum is held in Fuzhou.

Aug. 28, 2012: Cross-strait marriage and family association is inaugurated in Beijing.

Aug. 30, 2012: Third coordinated search and rescue operation is held between Kinmen and Xiamen.

Aug. 31, 2012: Cross-strait Currency Settlement Memorandum of Understanding is signed.

Aug. 31, 2012: National Security Council Advisor Hu Wei-chen leads a delegation of officials to Taiping Island in the Spratly Islands.