

China-Taiwan Relations: Of Economics and Elections

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The stalemate in cross-Strait political dialogue has continued in large part because Beijing has no incentive to make progress with Taiwan President Chen Shui-bian that would benefit the Democratic Progressive Party (DPP) in Taiwan's December elections. Rather, Beijing has continued to indicate its preference for dealing with the opposition – a tactic that may again prove counterproductive. Taiwan's economy has slid into recession. Economic problems and pending World Trade Organization (WTO) accession have focused Taipei's attention on cross-Strait economic relations. In these circumstances, Chen overcame resistance within his own party to closer economic ties with China. The Economic Development Advisory Conference (EDAC), convened by Chen, produced a new political consensus that should mark a watershed in the development of cross-Strait economic relations. Separately, the prospect of Sino-U.S. cooperation against international terrorism is creating some anxiety in Taiwan.

No Formal Dialogue

After a period in which attention had been focused on the policies of the new Bush administration, developments in Taiwan re-emerged as the dynamic element in cross-Strait relations this quarter. Most of the action concerned economics and economic policy. But these developments did not lead to any institutional dialogue between Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF). Beijing is not willing to work with Chen Shui-bian without conditions, and Chen is not willing to accept Beijing's terms for dialogue. China's hosting of Asia Pacific Economic Cooperation (APEC) activities continued to provide venues for meetings between officials from the two sides. Finance Ministers Yen Ching-chang and Xiang Huaicheng met on the fringes of an APEC meeting in Suzhou, but when the two emerged from their meeting smiling, they told reporters they had discussed APEC and regional economic issues, not cross-Strait policy.

Taipei's New Consensus to Expand Cross-Strait Economic Ties

Evidence that Taiwan's economy was headed toward recession gradually accumulated during this quarter. In mid-August, the Directorate General for Budget, Accounts, and Statistics reported that the economy had contracted 2.35 percent in the second quarter, confirming what was widely anticipated. Facing increasing criticism of his administration's mishandling of the economy and with elections scheduled for December, President Chen proposed convening a broadly representative Economic Development Advisory Conference to chart a course for Taiwan's economic recovery. At first the opposition Kuomintang (KMT) hesitated over participating in an initiative that, if successful, would benefit the DPP. In the end, the KMT decided that the greater risk was to be perceived by voters as blocking efforts to revive the economy, and it named former premier and current KMT Vice Chairman Vincent Siew to serve as one of five vice chairmen of the conference.

The EDAC had panels dealing with finance, investment, employment, and industry, but from the beginning it was planned that cross-Strait economic issues would be a central issue handled by a separate panel. The conference leadership and membership were weighted toward business and economic figures, many of whom, like Formosa Plastics Chairman Wang Yung-ching, have long favored direct cross-Strait trade and the relaxation of investment controls. The panel on cross-Strait relations included few who were publicly supportive of the current "no haste, be patient" policy restricting the development of economic ties. Consequently, there was little surprise when the EDAC's cross-Strait panel recommended on Aug. 12 a very different approach under the new slogan "active opening, effective management." In carefully crafted language, the panel called for a deliberate policy of opening direct trade and transportation with the mainland, easing restrictions on investments in China, facilitating the repatriation of capital to Taiwan, and gradually opening Taiwan to investments and tourism from China.

President Chen had long called for moving in this direction, but his administration's consideration of specific policies had been hamstrung by opposition from within the government and DPP on a variety of security, economic, and political grounds. The Mainland Affairs Council (MAC) filed a brief with the EDAC presenting the arguments for continuing past policy. The decline of the economy apparently convinced Chen that he must take decisive action to overcome these concerns, and the EDAC became Chen's vehicle for accomplishing this. Immediately after the cross-Strait panel's recommendations were released, Chen strongly endorsed them. Almost simultaneously, Vice President Annette Lu rather emotionally criticized the panel for undercutting the development of Taiwan's economy by making it too dependent on the China market. This further example of open disagreement naturally sparked controversy, but Chen stuck to his guns. In late August, the EDAC completed its report and adopted the cross-Strait panel's conclusions. In remarks to the concluding session, Chen committed his government to implementing the conference's recommendations and called for concrete plans within two weeks.

With Beijing withholding judgment on the EDAC, Taipei has moved expeditiously to implement conference recommendations, including those aspects of the cross-Strait panel's recommendations that Taiwan can carry out unilaterally. The Cabinet has presented some draft implementing legislation. Even before the EDAC had completed its work, the KMT took the initiative of proposing an intra-party meeting to coordinate passage of the needed legislation through the Legislative Yuan (LY), in which the KMT retains a majority. The heads of parties in the legislature (a formula that excludes the new Taiwan Solidarity Union [TSU]) met before the opening of the LY session in September to pledge cooperation in passing this legislation as well as 14 bills required to implement Taiwan's commitments in joining the WTO.

Nevertheless, implementing even those recommendations that do not require PRC cooperation will not necessarily be smooth because there is a tension between the "opening" and the "management" of cross-Strait economic ties that the EDAC's consensus language leaves unresolved. This tension is most apparent on the issue of relaxing restrictions on investments in the mainland. Officials from different agencies have made contradictory comments, and it is not yet clear what new policy framework or bureaucratic procedures will be devised to replace those of the discarded "no haste, be patient" policy.

Many of the EDAC's recommendations were linked to WTO accession. In mid-September, agreement was reached at the WTO on terms for China's accession. The day after, the WTO approved Taiwan's accession protocol. The way is therefore clear for the WTO ministerial to approve both membership applications in November. Once the LY passes the necessary legislation, Taiwan will be in a position to join the WTO. It is expected that both Taipei and Beijing will complete this process early in 2002. Officials in Beijing and Taipei have both said that their accessions will create new conditions favorable to expanding cross-Strait economic relations. Just how this will occur will depend on political decisions. The EDAC represents a political consensus in Taipei; Beijing's approach to negotiating economic issues with Taiwan will likely not be reviewed and decided until after Taiwan's elections.

Separate from the EDAC, Taiwan is taking a couple of other steps to loosen restrictions on cross-Strait contacts. In August, Taipei revised procedures governing the cross-Strait transshipment center in Kaohsiung to permit sea-air inter-modal transshipment of goods from China through Kaohsiung to world markets. In September, the Executive Yuan announced plans to expand the "mini three links" to include Penghu so that ships could sail directly from Penghu to ports in Fujian. Taiwan's Education Ministry announced that beginning next year Taiwan universities would be permitted to open branches and conduct extension courses in the mainland.

Business Developments

The global downturn in the information technology sector has essentially halted the expansion of cross-Strait trade in the first half of 2001. Statistics from Taiwan's Board of Foreign Trade put first half trade at \$14.4 billion, down 6 percent from a year earlier.

Figures released by Beijing put cross-Strait trade at \$14.99 billion, up 6.8 percent from a year earlier. China was Taiwan's second largest market, and Taiwan was China's third largest source of imports.

A number of new deals and discussions were reported that reflect the potential for broadening cross-Strait economic ties. In September, Taiwan's China Air Lines signed an agreement with China's China Eastern Airlines to take a 25 percent stake in the mainland's China Air Cargo Corporation. In August, the press reported that Taiwan's China Petroleum Corporation had resumed discussions, broken off several years ago, with the PRC's China National Offshore Oil Corporation concerning possible joint exploration of an area in the southern portion of the Taiwan Strait. The Taiwan Power Company (Taipower) has obtained authorization not just to purchase coal from China on the spot market but to enter into long-term contracts for Chinese coal. Following the EDAC, Morris Chang, the chairman of Taiwan Semiconductor Manufacturing Corporation (TSMC), reversed his previous views and said that the time had come for TSMC to invest in China.

In September, representatives of shipping associations from Taiwan and the PRC met in Shenzhen for the first time in four years to discuss issues related to direct sea transportation across the Strait. At about the same time an unofficial delegation from the PRC civil aviation sector was in Taipei to discuss traffic control and air safety issues.

Election Impacts

As noted above, election politics had a great deal to do with the dynamics behind the EDAC, the consensus reached there on measures to revitalize Taiwan's economy, and the multi-partisan cooperation in the LY on implementing legislation. Despite some criticisms from his own party and from former President Lee Teng-hui, Chen's new policy for encouraging cross-Strait economic relations has been generally welcomed in Taiwan.

Taiwan's election also continues to be an important tactical consideration shaping current PRC policy toward Taiwan. Not surprisingly, there has been no authoritative policy response from Beijing to the EDAC recommendations. Beijing does not want to give Chen any credit that would benefit the DPP's electoral prospects. One focus of the PRC's limited public commentary on the conference has been criticism of the EDAC's failure to reach agreement on using the "1992 consensus" concerning "one China" as the basis for resuming dialogue with the PRC. These are the standard points that Beijing has been using for over a year to pressure Chen to accept its terms for reopening dialogue. The understandings in 1992 that formed the basis for the first Wang-Koo talks in 1993 contain enough ambiguity and flexibility that they could be used a basis for resuming dialogue if both sides were politically ready to do so. However, events this quarter illustrate that this is not the case: Beijing continues to insist rigidly on its interpretation of the "1992 consensus" and there is no political agreement in Taiwan about whether and what consensus was reached on "one China" in 1992. The political will to resume dialogue is still lacking and is unlikely to develop until after the elections. (For

background on recent discussion of the “1992 consensus” see “Groping for a Formula for Cross-Strait Talks,” *Comparative Connections*, Vol. 2 No. 2.)

This quarter, Beijing has continued to indicate rather crudely its preference for working with the opposition in Taiwan. Delegations from the New Party and KMT continue to be received warmly in Beijing. For example, in September, Vice Premier Qian Qichen told a visiting KMT delegation that China would approve a request from the KMT to set up a party office in China to provide assistance to Taiwan businesses. By contrast, there has been no contact with the DPP.

The formation of the Taiwan Solidarity Union, the new political party sponsored by Lee Teng-hui, prompted a stream of negative commentary from Beijing. From Beijing’s propaganda perspective, this was another effort by Lee to stir up separatist sentiment. Politically, observers in Beijing were concerned that Lee’s efforts would weaken the KMT and benefit the DPP, which is the opposite of what Beijing desires. Nevertheless, Beijing publicly welcomed the KMT’s decision in late September to expel Lee because of his sponsorship of the TSU. The bad news for Beijing is that Lee has been attracting large crowds at TSU campaign rallies. The good news is that even though Chen is holding open the possibility of cooperating with the TSU after the election, he has rejected Lee’s “no haste” policy on cross-Strait economic relations.

Reverberations from the Sept. 11 Terrorist Attacks

The tragic events of Sept. 11 prompted President Chen to call upon Beijing to cooperate in maintaining peace in the Taiwan Strait. Subsequently, the Foreign Ministry spokesman in Beijing commented that in supporting the fight against terrorism, Beijing would look for understanding from the U.S. in its own struggle against “terrorism and separatism.” When Foreign Minister Tang met Secretary of State Powell in Washington later in September he reiterated China’s desire to cooperate against terrorism and said publicly that Beijing would not link its cooperation on terrorism to the Taiwan issue. The Taiwan press reported later that the spokesman for the Taiwan Affairs Office (TAO), Zhang Mingqing, had told reporters in Beijing that it remained to be seen how the U.S. response to the Sept. 11 tragedy would affect arms sales to Taiwan. These comments were not included in the *People’s Daily* version of Zhang’s meeting with reporters. Nevertheless, Beijing’s mixed messages created anxiety in Taipei. Both Prime Minister Chang Chun-hsiung and Foreign Minister Tien Hung-mao have sought to reassure the Taiwan public that relations with the U.S. would not change. In these circumstances, it would not be surprising if Taipei was privately pressing Washington for evidence of its willingness to sustain the arms sales relationship.

Policy Implications

Economic developments have been the dynamic element this quarter, and they hold considerable potential for improving cross-Strait relations next year after Taiwan’s elections and after both sides join the WTO. Military developments have been occurring, principally the continuation of PRC military exercises around Dongshan Island and

announcements of various U.S. arms transfers to Taiwan. But these have been less prominent publicly. At an international conference in Beijing in early September, Vice Premier Qian and Vice Chief of the General Staff Xiong Quangkai repeated familiar formulations on cross-Strait issues without issuing ultimatums or threats. Qian said the PRC could be patient in pursuing its peaceful reunification policies – if Taiwan adheres to the “one China” principle. Tensions in the Strait remain relaxed as both sides focus on their domestic challenges and Washington adjusts its priorities in response to the tragic attacks on Sept. 11.

Chronology of China-Taiwan Relations July-September 2001

July 5, 2001: Mainland Affairs Council (MAC) unveils plan for tourism from China; says talks needed for implementation.

July 11, 2001: Vice Premier Qian and New Party delegation agree on “one China.”

July 13, 2001: Chairman Lien proposes KMT adopt confederation proposal.

July 20, 2001: Dept. of Defense spokesman confirms U.S.-Taiwan defense officials meet in Monterey, California.

July 24, 2001: Beijing convicts Gao Zhan, a U.S. green card holder, and others of spying for Taiwan.

July 26, 2001: Lien decides not to press confederation proposal at KMT congress.

Aug. 7, 2001: Press reports PRC participants boycott meeting with Taiwan counterparts sponsored by National Committee on American Foreign Policy.

Aug. 12, 2001: Economic Development Advisory Conference (EDAC) panel recommends opening direct trade and easing investment restrictions with PRC.

Aug. 12, 2001: Taiwan Solidarity Union (TSU) is inaugurated with former President Lee Teng-hui’s support.

Aug. 13, 2001: *People’s Daily* article attacks Lee for creating new party to promote separatism and nativism.

Aug. 14, 2001: Chen publicly supports call to open direct trade and ease investment limits.

Aug. 15, 2001: Direct cross-Strait sea-air transshipment service is inaugurated in Kaohsiung.

Aug. 21, 2001: *People's Daily* reports new military exercises on Dongshan Island.

Aug. 22, 2001: PRC trade official Long Yongtu says joint WTO accession will spur cross-Strait trade.

Aug. 22, 2001: Taiwan pop star A-Mei performs at opening of University Games in Beijing.

Aug. 26, 2001: EDAC concludes; recommends liberalizing cross-Strait economic relations; Chen calls for prompt implementation.

Aug. 29, 2001: Education Minister Tzeng says Taiwan universities will be authorized to establish branches and offer extension courses in PRC next year.

Aug. 31, 2001: China disqualifies CSFB (Credit Suisse First Boston) from bidding on government board placements because it organized an investment seminar in Europe involving Taiwan officials.

Sept. 4, 2001: KMT expels former President Lee Teng-hui in response to his support for TSU.

Sept. 5, 2001: Taipei announces plans to expand "mini three links" to permit ships to sail directly from Penghu to nearby mainland ports.

Sept. 6, 2001: China Air Lines signs deal with China Eastern Airlines to acquire a 25 percent stake in China Air Cargo.

Sept. 8, 2001: Finance Ministers Yen and Xiang meet on fringes of APEC Finance Ministers' Meeting.

Sept. 10, 2001: Private shipping associations from Taipei and Beijing meet in Shenzhen.

Sept. 11, 2001: PRC civil aviation delegation in Taipei for exchanges.

Sept. 11, 2001: KMT announces desire to establish business facilitation office in China.

Sept. 13, 2001: Taiwan stock exchange falls below 4,000 mark, the lowest point in eight years, and 60 percent below its high in 2000.

Sept. 14, 2001: UN again decides not to put Taiwan issue on UN General Assembly agenda.

Sept. 17, 2001: WTO reaches agreement on China accession protocol.

Sept. 18, 2001: WTO approves Taiwan accession protocol.

Sept. 20, 2001: PM Chang reassures public there will be no change in U.S.-Taiwan ties.

Sept. 21, 2001: FM Tang meets Secretary Powell; states PRC will not link anti-terrorism and Taiwan issue.

Sept. 26, 2001: Taiwan Affairs Office spokesman criticizes EDAC for talk without action.