

## China-Taiwan Relations: Chen Adopts A More Cautious Approach

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The first flight of a Taiwan aircraft to China in over 50 years at the time of the Lunar New Year highlighted the growing need for direct travel and the continuing political constraints on accomplishing it. Absorbed in the transition to its fourth generation leadership, Beijing has adhered to the Taiwan policy parameters set forth at the 16<sup>th</sup> Party Congress, including the active encouragement of closer economic links with Taiwan. Within Chen Shui-bian's administration, opinion has now shifted noticeably from the slogan "active opening, effective management" adopted in 2001 to a more cautious approach to policy on economic ties and direct travel to the mainland. Economic concerns and electoral positioning have played a role in this shift. Meanwhile, Taiwan's delay of major arms purchases from the U.S. is creating strains in U.S.-Taiwan relations, and these strains have become more public this quarter.

### **Cross-Strait Charter Flights**

During January, six Taiwan airlines were able to obtain approvals from both Taipei and Beijing for charter flights to Shanghai during the Lunar New Year. Taipei required the flights to take a long circuitous route via Hong Kong or Macau and required the planes to land briefly at these airports. Nevertheless, the arrival of the first China Airlines plane in Shanghai on Jan. 25 was a symbolic step after more than 50 years in which air traffic between Taiwan and the mainland had been suspended.

As the travel time and costs for these flights were essentially the same as for alternative transportation, only 16 charter flights were flown and these were only 70 percent booked. However, that these flights took place at all is evidence of the economic and social needs of growing populations on both sides of the Strait for more efficient travel. The time and political capital expended and the convoluted arrangements required are reflections of the continuing political constraints on achieving direct cross-Strait travel. What received less attention was the New Year's travel via Kinmen and Matsu. With ferry service now operating between these islands and the mainland, Taiwan business people in China were able to fly to Xiamen, ferry to Kinmen, and fly to Taiwan for the holidays.

Following the outbreak of the war in Iraq, Taiwan airlines began exploring the possibility of diverting Europe-bound flights away from the Middle East by flying through Chinese airspace. Both Taipei and Beijing authorized such flights, and a first CAL flight from Taipei to Europe over China occurred March 26. With two circumstances in which Taiwan flights have operated in China, a next step would be for Taipei to permit PRC airlines to make initial charter flights to Taipei, flying routes that do not create security concerns for Taiwan.

### **Steady Course for PRC Cross-Strait Policy**

On the anniversary of former Chinese President Jiang Zemin's Eight Points in January, Vice Premier Qian Qichen hewed carefully to the policy line adopted at the 16<sup>th</sup> Party Congress last November: peaceful unification on the basis of the "one China" principle and the "one country, two systems" formula, with no mention of time tables or threats. Qian particularly emphasized Beijing's desire to promote cross-Strait economic relations and to open direct trade and travel. During the Lunar New Year, Beijing played up the historic significance of the first charter flights and continued to press Taipei for progress on direct links.

The 10<sup>th</sup> National People's Congress (NPC) in March provided more evidence of policy continuity in a period of political transition to China's fourth generation leadership. Despite an uncharacteristic slip of the tongue reference to China and Taiwan as "two countries" rather than "two sides," outgoing Premier Zhu Rongji's last work report contained a standard restatement of PRC policy. The *People's Daily* official report on a meeting incoming President Hu Jintao had with NPC delegates similarly had him closely following the party line and emphasizing the promotion of direct ties. Incoming Premier Wen Jiabao's initial press conference at the conclusion of the NPC was noteworthy for what commentators in Taipei saw as his moderate tone. When asked the expected question on Taiwan, Wen, who was relaxed throughout the press conference, deftly quoted a poem by a mainland poet in Taipei about his longing for the motherland. This provided the backdrop for his expression of optimism about the long-term goal of unification. That Wen made no threats and set no deadlines was to be expected but was also noted and welcomed.

How Taiwan policy will be coordinated at the highest levels of the PRC leadership remains unclear. While there appears to be consensus on the party line with respect to Taiwan, it is inevitable that issues and challenges will arise. How the respective roles of Hu and Jiang will play out remains unclear. Vice Premier Qian has played a crucial role in articulating and coordinating policy. His replacement as vice chair of the Leading Small Group on Taiwan Affairs has not been announced.

### **Taipei Adopts more Cautious Approach**

In Taipei, the year began on an auspicious note. President Chen Shui-bian's New Year statement pointedly reaffirmed the four "no's" from his inaugural address of May 2000 and spoke of building economic ties as a framework for long-term engagement with

China. The fact that these commitments were repeated and that there was no mention of Chen's August remarks about "one country on each side" of the Strait was reportedly intended to send a signal of reassurance. Beijing took notice and there was considerable speculation on how positively the signal should be interpreted.

However, this positive signal was not a harbinger of new policy initiatives from Taipei on cross-Strait relations. The charter flight arrangements were implemented but there has been no follow-up. When asked, government spokesmen say that the Mainland Affairs Council (MAC) is in the process of drafting a policy assessment on the "three links." In January, visiting Americans were told the MAC report was nearly complete and included a 40-page executive summary. At the end of March, the report had still not been released. The behind-the-scenes struggle over the report has been reflected in contradictory public statements by various officials. On the one hand, Vice President Annette Lu has been publicly quoted as saying that Taiwan would pay a huge price for opening direct links and as urging all government departments to come forward with their concerns about opening direct trade and travel so that these can be taken into account. On the other side, business community supporters of Chen and some government economic officials have continued to make the economic case for expanding ties with the mainland.

The delay of the MAC report is one sign of a shift toward a more cautious approach to cross-Strait economic ties in the Chen administration. Other signs have come in President Chen's repeated statements this winter that his goal for cross-Strait relations is to maintain the peace and stability that now exists and not to achieve new breakthroughs in what will be the final year of this presidential term. Chen has also repeatedly said that direct ties are not a cure-all for Taiwan's economic problems. Last spring, Chen indicated that Taipei could allow designated private groups to negotiate cross-Strait air links. By contrast, this winter the administration did not press for early Legislative Yuan (LY) action on the amendments to the Statute on Cross-Strait Relations that were proposed last summer and that are needed to authorize private groups to conduct those negotiations. Rather, the administration has been urging the LY to adopt a National Technology Protection Law that aims to control the flow of technology and technical personnel to the PRC.

At the same time, the implementation of cross-Strait economic policy has slowed. There is little one could cite as evidence of the "active opening" policy adopted at the 2001 Economic Development Advisory Conference (EDAC). The "effective management" part of the policy has been more apparent. The handling of the decision to authorize Taiwan firms to invest in eight-inch wafer plants in China gives indications of how the policy is being implemented. Very restrictive policy guidelines for eight-inch wafer plant investments were adopted in late 2001. In the fall of 2002, Taiwan Semiconductor Manufacturing Corporation (TSMC) applied for permission to make the first investment under the policy. Before acting on TSMC application, the government first issued fines to Taiwan companies that had jumped the gun back in 2000 and invested in eight-inch wafer plants in Shanghai. In January, TSMC was given a preliminary approval for its proposal, but with the stipulation that subsequent approvals will be required for each stage of its investment program.

Why this shift in Chen's approach? Two factors seem relevant. The continued rapid growth of Taiwanese investment in the PRC and the island's growing reliance on the mainland export market are an increasing concern for officials in the Democratic Progressive Party (DPP) and Chen's administration. Second, government officials frequently cite opinion polls commissioned by the MAC which show that, while 70 percent support opening direct travel, a majority believes the opening should be accomplished carefully. As the presidential election campaign has begun, Chen seems to be swayed by opinion among his supporters and by his reading of public sentiment.

### **International Struggle and SARS**

The flexibility the mainland has shown on some cross-Strait issues has not changed its implacable opposition to Taiwan internationally. In January, the PRC objected to NGOs from Taiwan participating in an International Telecommunication Union (ITU)-sponsored preparatory meeting for the World Summit on Information Society. When the Conference of Presidents of the European Parliament extended an invitation to Chen Shui-bian to speak, Beijing acted swiftly to oppose European governments issuing visas to Chen. This forced Chen to say that he appreciated the invitation but would be unable to attend.

The World Health Organization (WHO) emergency alert concerning Severe Acute Respiratory Syndrome (SARS) came in the midst of Taiwan's annual campaign for observer status at the WHO. The PRC, a member of the WHO, handled the outbreak last fall of what the WHO now confirms is the same disease in Guangdong province with typical secrecy – a secrecy that deprived other WHO members of the advance medical information needed to undertake protective measures against the spread of an infectious disease. Health emergencies in Guangdong are of particular concern to Taiwan because of the large number of Taiwanese businesspersons there. When SARS cases occurred in Taiwan, the WHO had to work directly with health authorities in Taiwan. It did so by asking the U.S. Centers for Disease Control and Prevention (CDC) to dispatch personnel to Taiwan on its behalf. When the WHO published information on the global spread of SARS, it chose to refer to Taiwan as “Taiwan (China),” terminology that was acceptable to Beijing but politically offensive to Taipei. The ironies of these circumstances have not changed the politics of the issue. The spread of SARS to Taiwan has not ameliorated Beijing's opposition to any Taiwan involvement with the WHO. Nor is the outcome of this year's debate likely to be any different.

### **Strains in U.S.-Taiwan Relations**

President George W. Bush's strong support for Taiwan's security has led many to say that U.S.-Taiwan relations have never been better. While accurate, signs of friction in this relationship have emerged, for example over trade and intellectual property and on cross-Strait economic issues. Most recently, U.S. concern and frustration over the slow pace of Taiwan's arms purchases has moved from private consultations into open public discussion.

Administration concerns were voiced publicly at the United States-Taiwan Defense Industry Conference Feb. 12-14, 2003 in San Antonio, Texas. DoD Deputy Assistant Secretary for Asia and the Pacific Richard Lawless told the conference that Taiwan should not consider U.S. support “a substitute for investing the necessary resources in its own defense.” Lawless commented that Taiwan is losing its qualitative edge as PRC military modernization proceeds. State Department Deputy Assistant Secretary Randall Shriver expressed U.S. hopes that both Beijing and Taipei would expand ties and reduce cross-Strait tensions. At the same time, he urged Taipei to take the necessary steps to acquire defensive weapons sufficient to address the growing PRC threat. Subsequently, former American Institute in Taiwan (AIT) Chairman Richard Bush was more direct in telling an audience in Taipei that the LY should move faster to procure the weapons needed for Taiwan’s defense. In mid-March, one of Lawless’ subordinates visited Taiwan for a week of discussion on defense issues, including Taiwan’s procurement of radars and anti-missile systems authorized by Washington several years ago.

### **Economics**

Cross-Strait economic ties continue to expand rapidly. Beijing’s statistics show cross-Strait trade for January through November 2002 up 38 percent over the previous year. Taiwan was the second largest source of PRC imports, after Japan, and those imports from Taiwan represented 14 percent of total PRC imports for that period. Full year statistics from Taiwan’s Board of Foreign Trade show cross-Strait trade increased 37 percent in 2002 to reach \$41 billion. Taiwan’s exports to the PRC were \$33.1 billion and Taiwan’s export dependence on the mainland increased from 19.6 percent in 2001 to 25.3 percent in 2002. The surge in Taiwan exports to the PRC last year was part of a regional pattern that saw the PRC become the largest export market for Japan and South Korea, as well as for Taiwan.

According to Taiwan statistics, which are indicative of trends, Taiwan investment in the mainland grew 35 percent in the first 11 months of 2002. In January 2003, these investments jumped an astounding 120 percent.

### **The War in Iraq**

President Bush’s decision to go to war in Iraq without UN Security Council support is already reshaping attitudes in Asia toward the U.S. Beijing has criticized Bush’s decision; Taipei has cautiously offered its endorsement. The way the U.S. prosecutes the war and the shape of postwar Iraq will undoubtedly influence the international context in which cross-Strait relations occur, but just how will only be apparent with time.

## **Chronology of China-Taiwan Relations January - March 2003**

**Jan. 1, 2003:** Taiwan President Chen Shui-bian reiterates “Four No’s” from 2000 inaugural statement.

**Jan. 2, 2003:** State Department confirms U.S. has told Israel to limit strategic sales to PRC.

**Jan. 6, 2003:** Vice President Annette Lu says direct travel to PRC will harm Taiwan.

**Jan. 11, 2003:** Mainland Affairs Council (MAC) Chair Tsai Ing-wen calls for caution on three links.

**Jan. 12, 2003:** Former President Lee Teng-hui calls for a new constitution for Taiwan.

**Jan. 14, 2003:** PRC blocks Taiwan NGO participation in International Telecommunication Union-sponsored meeting.

**Jan. 15, 2003:** Vice Premier Qian Qichen addresses national conference on Taiwan affairs.

**Jan. 17, 2003:** At inter-parliamentary meeting in Taipei, Chen urges Asian cooperation to promote democracy in China.

**Jan. 17, 2003:** Taipei fines three companies for computer chip investments in Shanghai.

**Jan. 18, 2003:** Democratic Progressive Party (DPP) official Chen Chung-shin begins private trip to China.

**Jan. 20, 2003:** President Chen tells U.S. visitors not to expect early progress on three links.

**Jan. 23, 2003:** Taiwan Semiconductor Manufacturing Company gets preliminary approval for investment in PRC.

**Jan. 24, 2003:** Vice Premier Qian urges early opening of direct travel.

**Jan. 25, 2003:** China Airlines makes first Taiwan charter flight to Shanghai.

**Jan. 25, 2003:** Washington nixes Taiwan invitation to U.S. Under Secretary of State John Bolton.

**Jan. 27, 2003:** President Chen urges business to invest in Taiwan before mainland.

**Jan. 27, 2003:** PRC dissident seeks asylum in Taiwan.

**Jan. 30, 2003:** Chinese Petroleum Corp. and China National Offshore Oil Corporation report both government's approval of oil exploration plan.

**Feb. 6, 2003:** MAC Vice Chair Liu Johnnason Liu warns against risks of direct travel.

**Feb. 12-14, 2003:** United States-Taiwan Defense Industry Conference 2003 is held in San Antonio, Texas.

**Feb. 14, 2003:** Kuomintang (KMT) and People's First Party (PFP) sign agreement to cooperate in presidential election.

**Feb. 14, 2003:** MAC welcomes Singapore University's joint invitations to Straits Exchange Federation's (SEF) Koo Chen-fu and Association for Relations Across the Taiwan Straits (ARATS) Wang Daohan for a conference on 10<sup>th</sup> anniversary of Koo-Wang talks.

**Feb. 27, 2003:** President Chen tells DPP group that full-fledged direct travel is out of question.

**Feb. 27, 2003:** Former American Institute in Taiwan (AIT) Chairman Richard Bush's speech questions Taiwan's delay in arms purchases.

**March 4, 2003:** Chinese Premier Zhu Rongji's final National Petroleum Council (NPC) report repeats standard PRC policy on Taiwan.

**March 4-18, 2003:** The 10<sup>th</sup> National People's Congress (NPC) convenes in Beijing to approve the new leadership, including incoming President Hu Jintao and new Prime Minister Wen Jiabao.

**March 9, 2003:** Press reports DoD official Mary Tighe, National Intelligence Officer for East Asia, in Taipei for talks on missile defenses.

**March 11, 2003:** Chinese Vice President Hu Jintao discusses Taiwan issue with NPC delegates in standard terms.

**March 15, 2003:** Former President Lee proposes changing name to "Republic of Taiwan."

**March 15, 2003:** Beijing protests European Parliament invitation to Chen Shui-bian.

**March 16, 2003:** President Chen expresses appreciation but declines invitation.

**March 17, 2003:** Taipei Board of Foreign Trade expresses concern that 25 percent of Taiwan's exports went to PRC and Hong Kong in 2002.

**March 18, 2003:** Chinese Premier Wen adopts moderate tone on Taiwan in his first press conference.

**March 18, 2003:** Premier Yu Shyi-kun tells Legislative Yuan (LY) that changing name would be destabilizing.

**March 20, 2003:** Taipei criticizes World Health Organization (WHO) for not aiding Taiwan with Severe Acute Respiratory Syndrome (SARS) emergency.

**March 22, 2003:** *Taipei Times* says PRC adopts new regulations requiring Taiwan Association officials in China to support “one China” principle.

**March 25, 2003:** SEF Chairman Koo says he will attend Singapore anniversary conference if Beijing permits ARATS Chairman Wang to attend.

**March 27, 2003:** PRC authorizes overflights by Taiwan airlines during war in Iraq.

**March 30, 2003:** Lien Chan accepts KMT nomination; says, if elected, he will open direct trade and make “journey of peace” to mainland.

**March 31, 2003:** President Chen says a trip by Lien would be a “journey of surrender.”