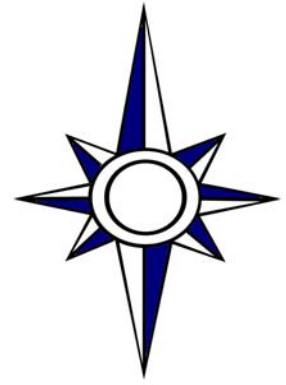


Comparative Connections

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China-Taiwan Relations: Temporarily in the Doldrums

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Beijing and Taipei made little progress in cross-Strait relations this quarter. Typhoon *Morakot* and other extraneous factors combined to frustrate progress but did not change the positive momentum. Preparations are underway for talks on an Economic Cooperation Framework Agreement (ECFA) and the fourth round of SEF-ARATS talks later this year. Cross-Strait trade is beginning to recover from the precipitous decline caused by the great recession and the first mainland investments in Taiwan, although small, have been approved. There were no significant developments on security issues. Progress in better relations should resume in the months ahead.

ARATS-SEF

Taipei and Beijing have had mixed results in implementing agreements reached at the third meeting between the Association for Relations Across the Taiwan Straits (ARATS) Chairman Chen Yunlin and Straits Exchange Foundation (SEF) Chairman Chiang Ping-kun in April. Aviation issues have moved smoothly. In July, the two sides agreed on two new direct air routes and on Aug. 31, the first scheduled, as contrasted with charter, air service began. However, negotiations over the memorandums of understanding (MOUs) covering banking, insurance, and securities, which were to have been completed in late June, are still pending. The financial regulatory systems to be defined in the MOUs must be in place before the two sides can reciprocally approve operations by financial services firms. During the summer, sources in Taipei indicated that agreement was close – an assessment that Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan recently repeated. The most recent information attributed to Taiwan Affairs Office (TAO) officials is that the MOUs may be signed in October and that the remaining issues are procedural. There have been no noteworthy developments regarding the Agreement on Fighting Crime and Mutual Legal Assistance.

Taipei's attention remains focused on the proposed ECFA agreement. In late July, the Ma administration released the report assessing the implications of an ECFA agreement, which was prepared by the pro-government Chunghua Institute of Economic Research. It portrayed the net benefits of an agreement, recognized that some sectors would be disadvantaged, and recommended ways to maximize benefits and mitigate negative effects. Economists affiliated with the opposition Democratic Progressive Party (DPP) predictably criticized the report as too favorable and issued a more critical report of their own. Public opinion remains divided about the desirability of an ECFA, especially since its contents remain undetermined.

Informal contacts about initiating ECFA talks have continued largely out of public view. However, People's Republic of China (PRC) Minister of Commerce Chen Deming did hold an unprecedented face-to-face meeting with Republic of China (ROC) Minister of Economic Affairs Yiin Chii-ming at an Asia Pacific Economic Cooperation (APEC) meeting in Singapore. A few days later, Yiin reported it had been agreed that ECFA negotiations would start in October. The Singapore meeting was another sign of Beijing's willingness to deal directly with Taipei officials, although it was not reported in Beijing's official media. The new Minister of Economic Affairs Shih Yen-shiang has also said ECFA talks would start in late October, however, Taiwan Affairs Office (TAO) Minister Wang Yi's most recent statement was more cautious, indicating that talks would begin when both sides were ready. For his part, President Ma Ying-jeou has implicitly acknowledged the delay by saying in September that he looked to reach agreement early in 2010, rather than his earlier goal of agreement this year.

It is largely extraneous developments, rather than policy changes, that have impeded progress. Typhoon *Morakot* consumed public and government attention on Taiwan for three weeks in August and then led to Cabinet changes affecting some of the senior officials handling cross-strait economic issues. At the same time, *Morakot* occasioned two positive developments. First, Beijing was prompt and generous in providing financial and practical aid. Second, the U.S. also provided aid, which included the first deployment of U.S. military aircraft to Taiwan since 1979. This potentially sensitive action was handled discreetly, with Beijing portraying it as a humanitarian action, the U.S. planes leaving as soon as their humanitarian work was concluded, and neither Taipei nor Washington gave the action any broader significance.

Kaohsiung Mayor Chen Chu's decision to invite the Dalai Lama to console *Morakot* victims presented a dilemma for President Ma and for Beijing. In the end, both sides handled the issue in a way that delayed some minor cross-strait events but did not significantly disrupt relations. On its side, Beijing held the current Central Committee's fourth plenum in September and made preparations for the lavish and imposing celebration of the 60th anniversary of the PRC on Oct. 1. Despite these distractions, the direction of policy has not changed and plans are proceeding for the fourth SEF-ARATS talks between Chiang and Chen in Taiwan in December.

International space

This year for the first time since 1993, Taipei did not ask its diplomatic allies to present a resolution on its behalf at the opening of the UN General Assembly. Taipei did indicate that the Ma administration's attention would remain focused on participation in specialized agencies. In mid-September, the Foreign Ministry explained that Taipei's next goals are to participate as an observer in the International Civil Aviation Organization (ICAO) and the UN Framework Convention on Climate Change (UNFCCC), the organization under whose aegis the current negotiations on a follow-on agreement to the Kyoto Protocol are being conducted. Beijing's public response thus far has been only to state that participation in those organizations is something that needs to be discussed bilaterally.

In keeping with the saying that no news is good news, it should be noted that the H1N1 pandemic has not produced public controversy or anger, as was the case six years ago during the

severe acute respiratory syndrome (SARS) pandemic. Taipei's contacts with the World Health Organization about H1N1 have been working smoothly.

Cross-Strait economic ties

Cross-Strait trade, which began a precipitous decline a year ago, appears to have bottomed out early this spring and has been recovering gradually since then. According to Beijing's Ministry of Commerce, total cross-Strait trade was \$62.29 billion during January-August 2009, down 33.1 percent from a year earlier. According to the Ministry of Finance in Taipei, Taiwan's exports to the mainland were down 58.6 percent from a year earlier in January, down 33.8 percent in May and down just 18.5 percent in August. Month-on-month, Taiwan's exports to the mainland have been increasing each month since April. One encouraging indicator is that mainland orders from Taiwan in August were 7 percent above August last year. Taiwan's exports have grown in part because Beijing has allowed Taiwan firms to participate in its domestic economic stimulus programs and sent procurement missions to Taiwan. If current trends continue, monthly cross-Strait trade may reach pre-recession levels by the end of the year.

In June, Taipei announced the sectors and procedures for mainland investment in Taiwan. A few small investments have already been made, beginning with the opening of mainland airlines offices on the island. Taipei's Investment Commission has reported that eight mainland investments totaling \$769,000 were made during July and August with Fujian Newland Computers making the largest single investment. In line with overall FDI trends in China, the Investment Commission also reported that Taiwan's investment in the mainland declined 52 percent in the first eight months, but was growing in recent months.

Security issues

Officials in the Ma administration have privately expressed concern that Beijing is pressing Taipei to move beyond economics and to begin addressing political and security issues. When meeting KMT Chairman Wu Poh-hsiung in May, CCP Chairman Hu Jintao did say that the time had come to begin making preparations for dealing with political issues. Domestically, the Ma administration, which is being criticized for promoting ECFA, continues to place priority on economic issues and is reluctant to take on the more sensitive political issues. Maintaining domestic support is essential and President Ma continues to assure critics that he does not plan to address political issues until after the next presidential election.

There is no indication that there has been any reduction in the People's Liberation Army's (PLA) deployments facing Taiwan. To the contrary, the evidence is they are increasing. The Ministry of National Defense's report on the PLA released Aug. 31 stated that Beijing now deploys more the 1,500 short- and medium- range missile across the Strait from Taiwan. President Ma has reiterated that removal of these missiles is a precondition for reaching a peace agreement. In Beijing, some scholars have indicated that changes in Chinese deployments and implementation of military confidence building measures would flow from the conclusion of a peace agreement.

The Obama administration has not yet notified Congress of even routine arms sales to Taiwan, despite the fact that Assistant Secretary of State Kurt Campbell and the other members of the

administration's East Asia team have been in office for several months. Most notably, no action has been taken on the long-standing and less sensitive sale of *Blackhawk* helicopters. This does not appear to reflect any basic shift in U.S. policy, but rather involves decision and timing considerations. Press reports indicate that the administration is conducting a review of arms sales. At the U.S.-Taiwan Defense Industry Conference in late September, Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace "Chip" Gregson firmly stated the administration's intent to meet Taiwan's self-defense needs and argued that a strong Taiwan was in Beijing's interest as well as being in Taipei's and Washington's. Taipei has made it clear that its highest priority remains acquisition of *F-16C/D* aircraft and it continues to work discreetly with the U.S. on that and other arms sales issues. For its part, Beijing has used opportunities such as the visit of U.S. Army Chief of Staff George Casey to forcefully remind Washington of their opposition to arms sales, particularly *F-16s*.

An uncertain opposition

Public opinion polls in Taiwan show continuing support for the agreements the Ma administration has made thus far with Beijing and mixed views on the still not well-defined ECFA agreement that has been proposed. In these circumstances, the DPP has had difficulty both in mobilizing opinion against Ma's cross-Straits initiatives and in defining a policy of its own. Party Chairperson Tsai Ing-wen has started a policy review process within the party, but where it will lead is not yet apparent. In July, two prominent DPP members defied party instructions by attending the Kuomintang (KMT) and Chinese Communist Party (CCP) Forum on Economics and Culture in Changsha and both were expelled from the party. The DPP did succeed in getting the initial quota of signatures needed for its draft proposal calling for a referendum on ECFA. However, the Executive Yuan's Referendum Review Committee rejected the proposal as vague and premature. While the ruling is being appealed, the party has yet to reach consensus on a viable strategy for blocking the administration's plans for ECFA.

Chen Chu, the DPP mayor of Kaohsiung, won plaudits for successfully hosting the World Games in August and she strengthened her support in the DPP with her initiative to invite the Dalai Lama. However, the plan to screen Rebiya Kadeer's film "The 10 Conditions of Love" at the Kaohsiung Film Festival proved more problematic as Beijing took steps to show Kaohsiung the practical costs of its decision. Tour groups cancelled thousands of rooms, ships were diverted to other ports, an exhibit of Jingdezhen ware was canceled, and a proposal for a Kaohsiung tourism fair was turned down. The Kaohsiung tourism industry appealed to Chen Chu who announced a compromise arrangement for screening the film – a compromise that disappointed her deep green supporters without softening Beijing's anger. Disappointed pro-independence advocates responded by inviting Kadeer to Taiwan. Chen Chu then reversed her earlier decision and Kaohsiung announced that Kadeer's film would be shown at the film festival in October. The mayor was saved from decisions on how to treat a visit by Kadeer when the national government announced that it would not allow her to come. The longer-term impact on mainland tourism to Kaohsiung and other DPP-led cities showing the film remains to be seen.

Looking ahead

Progress in improving relations should resume in the coming months. However, it seems clear that the easy agreements were concluded at the first three ARATS-SEF meetings. More difficult issues involving the usual balancing of interests in bilateral trade negotiations have affected the pace of talks on both the financial MOU and ECFA. Nevertheless, it is likely that the MOU will be signed before the end of the year. Taipei believes that ECFA talks will begin in late October and hopefully be concluded by early next year, not long after the China-ASEAN free trade agreement (FTA) comes into effect on Jan. 1, 2010. The fourth round of SEF-ARATS talks is scheduled to be held by the end of the year and should result in additional agreements possibly including ones on fisheries, agricultural product standards, product testing and double taxation, as well as discussion of ECFA.

When cross-Strait relations are moving constructively, the U.S. government's role is limited. Arms sales are one important exception that needs to be handled in a sophisticated way to support the long-term U.S. interest in a peaceful resolution of cross-Strait issues. It is in the U.S. interest to support a government in Taiwan that is working constructively to consolidate a stable, peaceful cross-Strait relationship. Taipei is requesting arms so it can maintain a credible deterrent position from which to negotiate. Furthermore, as the Ma administration is being criticized at home for not doing enough for Taiwan's defense, the fact that there has been little concrete evidence of support for Taipei from the Obama administration is calling into question Ma's ability to successfully manage the all important U.S.-Taiwan relationship. With Beijing's deployments growing, there is a sound case for the U.S. to move ahead with the *Blackhawk* sale and to respond favorably to Taiwan's request for the *F-16C/D* aircraft, which are increasingly seen as a litmus test of U.S. support.

Chronology of China-Taiwan Relations July-September 2009

July 1, 2009: President Ma Ying-jeou attends the inauguration of President Ricardo Martinelli in Panama.

July 3, 2009: China Southern Airlines is first People's Republic of China (PRC) company to apply to establish a branch office in Taiwan.

July 5, 2009: President Ma in Honolulu reiterates that removal of missiles from across the Taiwan Strait is a precondition for talks with the PRC on a peace agreement.

July 11, 2009: Kuomintang (KMT) and Chinese Communist Party (CCP) Forum on economics and culture opens in Changsha; two Democratic Progressive Party (DPP) members attend.

July 13, 2009: Mainland purchasing delegation attends a food show in Taipei.

July 15, 2009: DPP votes to expel two members who attended KMT-CCP Forum.

July 16, 2009: Ma Ying-jeou, as the president of the Republic of China (ROC), opens the World Games in Kaohsiung; mainland athletes do not attend the opening ceremony.

July 20, 2009: Chiang Kai-shek Memorial Hall name plaque is restored.

July 20, 2009: Blatant stereotyping in cartoon characters used in a Ministry of Economic Affairs (MOEA) pamphlet promoting the Economic Cooperation Framework Agreement with China provokes controversy in Taiwan.

July 22, 2009: Minister of Commerce Chen Deming meets MOEA Minister Yiin Chii-ming at Singapore at the Asia Pacific Economic Cooperation forum.

July 23, 2009: Taipei announces two new direct flight routes to the mainland.

July 24, 2009: MOEA Minister Yiin states that agreement has been reached to begin ECFA talks in October.

July 26, 2009: Ma Ying-jeou is elected KMT chairman.

July 26, 2009: Kaohsiung Mayor Chen Chu includes pro-independence remarks in her address at the closing ceremony of the World Games; mainland athletes do not attend.

July 29, 2009: MOEA releases Chunghua Institute of Economic Research report on ECFA.

July 30, 2009: Taiwan Institute of Economic Research releases more critical analysis of ECFA.

Aug. 3, 2009: Chinese Academy of Social Sciences Institute of Taiwan Director Yu Keli article in *China Review* calls for an early negotiation of a peace agreement.

Aug. 7, 2009: SEF Chairman Chiang says the fourth SEF-ARATS talks to be held in December.

Aug. 8, 2009: Typhoon *Morakot* hits Taiwan causing extensive flooding and hundreds of deaths.

Aug. 12, 2009: ARATS and PRC Red Cross provide generous financial aid for *Morakot*.

Aug. 16, 2009: U.S. military aircraft delivers aid in Taiwan; TAO says this is humanitarian aid delivered under civilian auspices.

Aug. 17, 2009: U.S. military helicopters and crews begin week-long emergency operations.

Aug. 19, 2009: Third mainland procurement mission arrives in Taipei.

Aug. 20, 2009: U.S. Army Chief of Staff Gen. George Casey visits Beijing and is berated on arms sales.

Aug. 24, 2009: Officials from the UN Office for Humanitarian Affairs visit Taiwan.

Aug. 26, 2009: Kaohsiung Mayor Chen Chu invites Dalai Lama.

Aug. 27, 2009: TAO statement opposes Dalai Lama visit and criticizes DPP.

Aug. 27, 2009: Referendum Review Committee rejects DPP ECFA referendum proposal.

Aug. 30, 2009: Dalai Lama arrives in Taiwan.

Aug. 31, 2009: First “scheduled” cross-Strait flights begin; ceremonies are cancelled due to Dalai Lama visit.

Aug. 31, 2009: Taiwan Ministry of National Defense releases its report on the PLA.

Sept. 1, 2009: Minister of the Financial Supervisory Commission Sean Chen says financial supervisory MOU will be signed by yearend.

Sept. 2, 2009: Raytheon Corp. wins a contract to upgrade Taiwan’s *Patriot* missiles.

Sept. 4, 2009: SEF Chairman Chiang meets Bank of China President Li Lihua’s delegation.

Sept. 5, 2009: KMT Vice Chairman Wu Den-yih visits Hong Kong.

Sept. 7, 2009: Wu Den-yih named premier replacing Liu Chao-shiuan.

Sept. 7, 2009: People’s Bank of China Deputy Governor Su Ning leads a delegation to Taipei.

Sept. 10, 2009: New Cabinet takes office in Taipei; President Ma instructs Premier Wu to get cross-Strait negotiations back on track after *Morakot*.

Sept. 11, 2009: Taipei Court convicts Chen Shui-bian and sentences him to life in prison.

Sept. 17, 2009: Organizers announced that the Kaohsiung Film Festival will screen Rebiya Kadeer’s film.

Sept. 18, 2009: MAC Chair Lai says financial MOU nearly complete.

Sept. 21, 2009: DPP announces plans to show Kadeer film in several cities on Oct. 1.

Sept. 21, 2009: TAO Minister Wang Yi says ECFA talks will begin when both sides are ready.

Sept. 25, 2009: Taiwan’s Ministry of Interior states Rebiya Kadeer will not be allowed to visit.

Sept. 26, 2009: Kaohsiung reinstates plan to screen Kadeer film at its film festival.