

China-Taiwan Relations: Dialogue in Neutral; Private Sector in Gear

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With Taipei domestic politics in turmoil and Beijing fixated on its version of the one-China principle, cross-Strait dialogue has gone nowhere this quarter. While this is regrettable, tensions have not risen and are unlikely to do so in the coming months. With dialogue stalled, Taipei has taken some unilateral steps to increase cross-Strait contacts, the most important being the “mini three links” legalizing trade and travel between the off-shore islands and adjacent Mainland ports. Meanwhile cross-Strait trade and investments continue to expand rapidly with the private sector, as usual, pushing beyond the limits of official policy. In these circumstances, the new Bush administration will have time to carefully review U.S. policy on cross-Strait issues, reiterate abiding U.S. interests, and consider key decisions it will face this spring on Taiwan arms sales.

No Dialogue, but Little Tension

Despite continuing attention, no progress was made toward resuming unofficial cross-Strait dialogue this quarter. Efforts to promote dialogue ebbed noticeably, in part because of political turmoil in Taipei and in part because neither side was willing to compromise further on the conditions for dialogue. There is no indication that meaningful behind the scenes contacts have occurred to pave the way for dialogue.

Taiwan President Chen Shui-bian has repeatedly expressed his desire for dialogue with Beijing, but domestic political constraints have prevented him from moving further toward Beijing’s demand that he embrace the one-China principle. In fact, Chen has not repeated his endorsement of an interpretation of the “1992 consensus” (one-China, respective interpretations) that he had expressed in the summer, preferring instead recently to urge that dialogue should resume on the basis of the “1992 spirit,” which Beijing rejects. Chen had hoped that the Supra-party Task Force on Cross-Strait Relations led by Lee Yuan-tseh would forge consensus on Taiwan for a more forthcoming position. However, by the time its recommendations were made, no opposition party representatives were participating in the Task Force. Its recommendations, announced in late November, neither forged consensus nor helped the search for a basis for dialogue. Beijing has been content to sit back and reiterate endlessly its demand that Chen accept the one-China principle. Every suggestion on dialogue from Taipei has been turned aside almost peremptorily. When the Task Force

issued its recommendations, a spokesman from Beijing's Taiwan Affairs Office (TAO) ridiculed them as not warranting any comment.

This lack of progress is regrettable and, over time, potentially destabilizing. However, tensions remain very low, and there is no reason to expect serious friction to recur in coming months. Beijing may distrust Chen, but it appears reassured that Chen will abide by his inaugural undertakings to avoid those actions which would most provoke Beijing. Chen has taken credit for stabilizing cross-Strait relations and is trying hard to demonstrate that he can work effectively with Beijing. For its part, Beijing has eschewed threatening rhetoric and military exercises near the Strait. Observers in Taipei believe that international circumstances will constrain Beijing from launching new threats against Taiwan. They point to Beijing's end-game negotiations on World Trade Organization (WTO) accession, Beijing's bid for the 2008 Olympics (which will be decided this fall), and its preparations for the October 2001 Asia Pacific Economic Cooperation (APEC) Leaders' Meeting in Shanghai.

In November, President Chen expressed confidence to a Japanese newspaper that the situation in the Strait would remain stable for the coming year. This was too much for Beijing propagandists who do not want to let Chen claim credit for reducing tensions. In line with the constant pressure on Chen, the *People's Daily* rejoined with a long editorial arguing that Chen was "too optimistic"--but the weakness of its argument only seemed to justify Chen's assessment.

Don't Expect Dialogue Anytime Soon

Changed circumstances now make it unlikely that meaningful dialogue will take place in the coming months. These involve Chen's domestic difficulties, the growing concerns about Taiwan economic competitiveness, and the approach of Taiwan's Legislative Yuan elections in December 2001.

The Chen administration's sudden decision in October to abandon construction of Taiwan's fourth nuclear power plant provoked a domestic political crisis that has weakened Chen's position. Although the threat to recall Chen has waned, relations between his administration and the opposition parties remain severely strained, as evidenced by the debate over the shortening of the work week and the delay in passing the 2001 budget. The Kuomintang (KMT) majority in the Legislative Yuan prevailed on both issues.

At the same time, economic problems have intensified. The economic slowdown in Taiwan's major markets, particularly in the U.S. computer sector, has hurt the profitability of Taiwan's information technology (IT) companies and increased their incentives for moving production to lower cost facilities, primarily on the Mainland. An increase in non-performing loans in Taiwan financial institutions has created concern in Taiwan and abroad about the possibility Taiwan may be heading for a financial crisis. The stock market continued to fall, with the Taiex ending the year below 5,000, a level

more than 50 percent below its peak last spring. These domestic problems have weakened Chen and put him in a disadvantageous position for negotiating with the PRC.

Chen's weakness further reduces Beijing's incentives for negotiating with Taipei. The PRC seems firmly settled into a posture of demanding Chen's acceptance of Beijing's conditions for dialogue, working the Taiwan opposition parties' to isolate Chen domestically, and seeking to exploit differences between pragmatists and fundamentalists within the Democratic Progressive Party (DPP). Without any subtlety, Beijing's national United Front Work Conference in December highlighted the importance of its work on Taiwan issues. Vice Premier Qian Qichen told a group of visiting former U.S. officials in December that Beijing distrusts Chen and is not willing to work with him.

The Legislative Yuan elections next December are now playing a larger role in the tactics of cross-strait dealings. With less than a year to go, Chen is anxious to show not just that he can stabilize the Strait, but more important, make progress with Beijing. He wants to disprove the long-standing KMT campaign charge that the DPP can't be trusted with cross-strait relations. Beijing has no incentive to help Chen in the run-up to the election. Hence its active wooing of KMT visitors and propaganda attention to the KMT's (not Lee Teng-hui's) traditional adherence to the one-China principle. While the KMT must be careful not to appear to be selling out Taiwan's interests, the KMT shares an interest in not wanting the DPP to gain election advantage. Hence the KMT was pleased that one of its Vice Chairman, Wu Po-hsiung, enjoyed high-level access to PRC leaders during his private visit to China in November. This election logic will hamper the prospects for dialogue throughout 2001.

That Elusive 1992 Consensus

In November, *Xinhua* released a long article on the 1992 consensus intended to buttress Beijing's explanation of how Taipei had accepted the one-China principle at that time. The article cites portions of many of the same documents from the 1992 negotiations that Taipei's Mainland Affairs Council (MAC) has cited in the past. It is easy to see from these partial records how different people have reached different interpretations on what was agreed. Beijing's interpretation is different from that made by the MAC under the KMT government and different from the interpretation that MAC Chairperson Tsai Ying-wen makes now. As has long been asserted, the ambiguities could provide a basis for resuming talks. After his inaugural, Chen did explore those possibilities. Thus far, Beijing has shown no interest in exploiting ambiguity and has chosen to rigidly argue the case for its interpretation.

The *Xinhua* article may even reflect a hardening of Beijing's terms for dialogue. In its authoritative May 20, 2000 statement, Beijing's Taiwan Affairs Office (TAO) said dialogue could be resumed if Chen accepted the 1992 consensus. In the article, the unnamed TAO official urged Chen to endorse the 1992 consensus by "returning to the stance that both sides of the Strait adhere to the one-China principle" and by "making joint efforts to seek national reunification." This latter point on seeking national reunification was not mentioned in the May 20 statement but was a part of the record

from 1992. Endorsing it would be a much bigger problem for Chen than endorsing the ambiguous one-China principle. Although the reference to seeking national reunification has been repeated in a December 7 *People's Daily* column and in TAO Director Chen Yunlin's New Year's message, it is not clear whether it is to be an additional precondition for dialogue.

A Few Unilateral Steps

Faced with Beijing's rigid conditions for dialogue, Chen's administration has nevertheless taken a few unilateral steps to expand cross-Strait relations and respond to domestic pressures on Taiwan. In October, the government issued new more liberal regulations on extended visits by educators and science and technology personnel from the Mainland. In November, the government liberalized terms for PRC journalist travel to Taiwan and issued the first visas permitting *Xinhua* to establish a continuous presence in Taiwan. In December, the Legislative Yuan adopted a new law significantly liberalizing several aspects of cross-Strait travel and exchanges. Taipei is also considering a liberalization of the regulations governing investments on the Mainland. For its part, the PRC licensed the first school run by Taiwan teachers for the children of Taiwan residents in China's Guangdong province.

The most significant unilateral step launched by Taipei was the so-called "mini three links" legalizing trade and travel between the off-shore islands, Quemoy and Matsu, and adjacent ports on the Mainland. Throughout the fall, Taipei was carefully planning these steps, which in large part would only decriminalize activities that are already occurring. For months, Beijing avoided official comment on the mini three links. Beijing was caught in a dilemma. If Beijing openly endorsed the initiative, Chen would garner credit. However, if Beijing sought to block this initiative, it would have to stop the existing unauthorized trade and travel, which Beijing has favored for two decades. When the cabinet in Taipei announced its regulations for the mini three links in mid-December, there was no official comment from Beijing. Then in late December, a week before the planned launch Beijing took two steps to deal with its dilemma. First, it banned reporters from visiting the Mainland ports in order to minimize publicity and then it authorized a Fujian provincial official to indicate that Beijing would support the initiative. [On January 2, ferries from Quemoy and Matsu made round trips to nearby Xiamen and Fuzhou--the first legal transits since 1949.]

Economic Ties Booming

Despite the absence of political dialogue and concerns about sustaining Taiwan's international competitiveness, cross-Strait economic relations have continued to expand rapidly, driven forward by economic logic. The most recent Taiwan statistics indicate that cross-Strait trade registered its thirteenth consecutive month of double digit growth in October and would easily exceed \$30 billion in 2000. Taiwan's investment commission reported that investments in the Mainland had nearly doubled in the first ten months of the year, to reach almost \$2 billion. The slow down in global computer sales is actually forcing Taiwan's electronics and information industries to move more rapidly

to take advantage of economic production conditions in the PRC to remain competitive. For the first time, investment in the Mainland this year will likely account for half of Taiwan's total foreign investment. More than half of investments are made by high tech companies, and according to Taiwan's Institute for Information Industry (III), over 70 percent of IT hardware produced in the Mainland is from Taiwan invested plants. In late December, III announced that the PRC would surpass Taiwan in 2000 to become the third largest IT hardware producer after the U.S. and Japan.

This economic logic has produced intense pressure from the affected industries for Taipei to liberalize restrictions on investments. Taiwan Semiconductor Manufacturing Corporation's Morris Chang and Acer Computer's Stan Shih have been in the forefront of the electronics industry lobbying effort. Taiwan's Economics Minister Lin Hsin-yi has indicated that the government hopes to complete its review of the investment regulations by the end of the year. While there is considerable concern in the DPP and bureaucracy that the liberalization not undermine Taiwan's security or lead to a decline in investments in Taiwan, President Chen said in a New Year's television address that investment restrictions would be substantially revised.

As usual, the private sector is moving ahead of policy. Although Taiwan firms are prohibited from producing laptops on the Mainland, all but one of Taiwan's major laptop manufacturers have parts plants there and several of these companies are booking export orders to be filled in 2001. Grace Semi-Conductor Manufacturing, a Taiwan-PRC joint venture that broke ground for an eight inch fab plant in Shanghai this November, involves investments that go well beyond the capital and technology ceilings authorized by Taiwan. Formosa Plastics tycoon Wang Yung-ching is reviving plans for a major petrochemical plant in Ningbo. Wang organized a dinner of leading industrialist in November to orchestrate pressure on Chen to liberalize the investment rules.

Implications for the New Administration

Attention is already focused on the incoming Bush administration's policies on cross-strait issues. President Chen told a group of prominent American visitors in December that he hoped the new administration would not endorse Clinton's "three no's," particularly the third "no" on not supporting Taiwan's membership in international organizations that require statehood as a criteria for membership. In Beijing, Vice Premier Qian told the same group that the incoming administration should adhere to all of Washington's previous pledges on Taiwan.

Communication was poor and trust was lacking between the Clinton and Lee Teng-hui administrations. President Chen has already done much to restore both. The new Republican team will include senior officials who have long-standing ties in Taipei and who will give Taiwan's interest due weight, which was often not done under Clinton. At the same time, basic U.S. interest--the maintenance of beneficial relations with both Beijing and Taipei, the peaceful settlement of differences between them, Taiwan's democracy, and the credibility of U.S. commitments in the region--have not changed. As such, continuity in core U.S. policies is to be expected.

Absent an early crisis--and none is expected--the administration should have the time to carefully formulate and articulate its policies. Its initial public statements will be crucial to setting the tone for U.S. policy on cross-Strait issues. The first challenge for the new team will likely be the annual arms sales meetings that usually occur in April. As would be expected, Taipei put forward an ambitious wish list at the preliminary talks held in Washington in mid-December. The challenge will be to meet Taiwan's real defense needs in a timely fashion, but to do so in a manner that will slow down the competitive build-up of arms that only heightens the military aspects of cross-Strait relations. As the main officials who will be dealing with arms sales issues will not likely be confirmed in their new positions by April, some key decisions may be postponed.

Chronology of China-Taiwan Relations October-December 2000

Oct. 2, 2000: Taipei's Mainland Affairs Council (MAC) reiterates that "three mini links" are to be implemented in mid-December.

Oct. 3, 2000: Taiwan Premier Tang Fei resigns to be replaced by Chang Chun-hsiung.

Oct. 6, 2000: Democratic Progressive Party (DPP) Chairman Hsieh states that the DPP doesn't rule out unification.

Oct. 10, 2000: Taiwan President Chen Shui-bian reiterates desire for talks based on "1992 spirit."

Oct. 16, 2000: President Chen tells *Der Spiegel* he is proud of his Chinese heritage.

Oct. 16, 2000: PRC Defense White Paper reiterates strong position on Taiwan.

Oct. 18, 2000: Taiwan opposition Kuomintang (KMT) Chairman Lien advocates "one-China, respective interpretations" formula.

Oct. 21, 2000: PRC Prime Minister Zhu Rongji dismisses Chen's comments on his Chinese heritage.

Oct. 27, 2000: Premier Chang announces decision to cancel Taiwan's fourth nuclear plant.

Oct. 30, 2000: MAC announces new regulations on educational and technical visitors from China.

Oct. 31, 2000: KMT launches presidential recall drive.

Nov. 6, 2000: Taipei says it will liberalize visits by PRC journalists.

Nov. 9, 2000: PRC President Jiang Zemin calls for strengthening military to resist separatism.

Nov. 11, 2000: Three opposition leaders urge return to “one-China, respective interpretations” formula; momentum for presidential recall dissipates.

Nov. 14, 2000: *People’s Daily* praises three leaders support for “1992 cross-Strait common views.”

Nov. 16, 2000: Clinton and Jiang meet in Brunei on the sidelines of the APEC Leaders’ Meeting.

Nov. 18, 2000: Ground-breaking for Grace Semiconductor wafer fab plant in Shanghai.

Nov. 23, 2000: Formosa Plastics tycoon Wang Yung-ching presses Chen to liberalize cross-Strait economic restrictions.

Nov. 27, 2000: Sixteen Taiwanese councilors and government officials begin five-day trip to Beijing, as Task Force on Cross-Strait Relations issues its recommendations.

Nov. 29, 2000: *Xinhua* commentary details PRC views on “1992 consensus.”

Dec. 1, 2000: Beijing’s Taiwan Affairs Office (TAO) ridicules Taipei’s Task Force recommendations.

Dec. 4, 2000: Premier Chang says implementation of “mini three links” will pave way for dialogue.

Dec. 4, 2000: United Front Work Conference convenes in Beijing; highlights Taiwan work.

Dec. 5, 2000: Legislative Yuan adopts law, easing restriction on PRC visitors for implementation in 2001.

Dec. 6, 2000: Chen tells former U.S. officials new administration should change “three no’s.”

Dec. 10, 2000: PRC Ministry of Information Industry delegation visits Taiwan.

Dec. 13, 2000: Cabinet announces regulations for implementation of “mini three links.”

Dec. 14, 2000: Former U.S. officials meet Vice Premier Qian and report PRC unwillingness to work with Chen.

Dec. 15, 2000: PRC Foreign Minister Tang urges new U.S. administration to abide by pledges on Taiwan.

Dec. 15, 2000: Taiwan Deputy Chief of Staff Admiral Miao in Washington for preliminary arms sales talks.

Dec 22, 2000: Beijing bans reporters from Xiamen during planned launch of “mini three links.”

Dec. 27, 2000: Fujian TAO official states willingness to help implement “three mini links.”

Dec. 31, 2000: Chen’s New Year’s message mentions “political integration” with the Mainland.