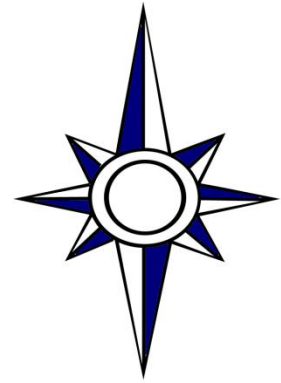


# Comparative Connections

A Triannual E-Journal on East Asian Bilateral Relations



## **China-Taiwan Relations: Steady as She Goes**

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The Cross-Strait Economic Cooperation Committee held its first meeting in February, which represents an important step in implementing the Economic Cooperation Framework Agreement. Both Beijing and Taipei believe this year will see a steady consolidation of cross-strait relations, with only a few new agreements. The backdrops of this modest prospect are the leadership transitions underway on both sides of the Taiwan Strait. Evidence of PLA modernization confirms that military capabilities threatening Taiwan continue to increase, confronting Washington with difficult decisions on future arms sales to Taiwan.

### **Cross-strait negotiations**

The establishment of the Cross-Strait Economic Cooperation Committee (CSECC) was announced in early January. Its mandate is to implement the 2010 Economic Cooperation Framework Agreement (ECFA) and to provide an overall forum for developing cross-strait economic ties. Formally, ECFA and the CSECC are creations of the quasi-official Straits Exchange Foundation and Association for Relations Across Taiwan (SEF-ARATS) negotiating forum. As such, SEF and ARATS officials are the nominal heads of the CSECC. While this political cover is particularly important to Beijing, in reality, the two CSECC delegations that met for the first time in Taiwan in late February were led by Beijing Ministry of Commerce Vice Minister Jiang Zhengwei and Taipei Ministry of Economic Affairs Vice Minister Francis Liang Kuo-hsin. Thus, the CSECC is the most senior forum for direct contact between officials from the two sides and represents a significant step forward in cross-strait cooperation.

At its first meeting, the CSECC established six working groups on merchandise trade, services trade, investment, dispute settlement, industry cooperation, and customs, each with delegations led by director general-level officials. The meeting also agreed to launch in mid-April three negotiations called for in the ECFA on merchandise trade, services trade, and dispute settlement. Although little information about these negotiations has been made public, some consultations on these issues have been held. There was also agreement to work for conclusion of investment protection and dispute settlement agreements at the next ARATS-SEF meeting. There were hints in the press that the past practice of two annual SEF-ARATS meetings would only be continued this year if the negotiation of new agreements justified holding meetings and that perhaps only one meeting would be held in 2011, in part because of the election campaign in Taiwan.

It has been clear for some time that the relatively easy cross-strait economic agreements have been concluded. Reaching agreements that affect the real interests of constituencies on both sides has been more difficult. The double taxation agreement expected in 2009 has been set aside.

Negotiating the financial sector Memorandums of Understanding in 2009 and the ECFA in 2010 both took longer than expected. The establishment of the CSECC and the launch of its sector negotiation have also been delayed. While success in reaching agreement is remarkable and most important, one should expect that progress to come slowly, particularly at a time of elections and leadership transitions. Recognizing this, both sides have modest expectations for 2011. In January, Taiwan Affairs Office (TAO) Minister Wang Yi looked forward to a year that would see “steady, orderly and sound” developments. In Taipei, government officials spoke of a year for “consolidating” recent progress.

The nuclear disaster at the Fukushima Daiichi plant following the Tohoku earthquake has created a new issue in cross-strait relations. As China has nuclear plants along its eastern coast north and south of the Taiwan Strait and as additional plants are being built and planned in that area, many in Taiwan, most importantly President Ma Ying-jeou, have called for the negotiation of a nuclear safety agreement. At first Beijing seemed to dismiss the issue saying channels for exchanging information on nuclear issues were already open. However, as concern mounted in Taiwan, the TAO indicated in mid-April that Beijing was open to discussion of such an agreement.

There has also been talk about a cultural agreement to supplement the many economic agreements. At a meeting in Guangzhou in January, TAO Minister Wang Yi said a cultural agreement should be considered. The following day, Mainland Affairs Council (MAC) Chairperson Lai Hsin-yuan was quoted in the press saying there was no need for such an agreement. The Ma administration’s fear that the opposition Democratic Progressive Party (DPP) would try to portray such an agreement as promoting Chinese culture at the expense of Taiwanese appears to be behind Taipei’s reluctance to take up a cultural agreement at this time.

### **Beijing and the Taiwan elections**

Beijing has been following the run-up to the Taiwan legislative and presidential elections in January 2012 with some apprehension. Although some Chinese analysts believe that positive economic and cross-strait developments favor Ma’s re-election, there is widespread recognition that the Democratic Progressive Party (DPP) will likely improve its position in the Legislative Yuan (LY) and possibly win the presidency.

The visit of ARATS Chairman Chen Yunlin in February reflected awareness of the election. Chen took the occasion to make his first visit to southern Taiwan, the area of strongest DPP support, and used his meetings to highlight the benefits to southern Taiwan of mainland trade, tourism, and investment. In Kaohsiung, Chen talked of Beijing’s plans to authorize individual tourism and mentioned the possibility of China Ocean Shipping Co. (COSCO) investing in harbor facilities. Beijing is also reaching out to individuals in the DPP as Beijing think tank and research delegations have had increased contacts with DPP members and supporters. Indications are that some of their discussions have included how stable relations could be maintained should the DPP return to government. In January, the DPP magistrate of Yunlin County, Su Chih-fen, visited Shanghai to promote agricultural exports. Former DPP member and Kaohsiung County Magistrate Yang Chiu-hsing made a 10-day visit to China in March and was warmly received in Beijing. Kaohsiung Mayor Chen Chu said in April that she wished to join a city council delegation to China in the summer. Beijing has welcomed such visits.

In February, Tsai Ing-wen announced the reorganization of the DPP think tank, the New Frontier Foundation, in preparation for the coming elections. The foundation would have two research centers: one focusing on social and economic issues and the other on security and strategy, including “China policy.” Hsiao Bi-khim, who will lead the latter center, said that the center would prepare policy recommendations and also coordinate the increasing contacts of DPP members and supporters with people from China. Early in the year, the DPP was encouraged that some visiting delegations would come to its party headquarters. However, after the New Frontier Foundation was established and co-located with DPP headquarters, it appears that Chinese delegations have been advised not to visit the foundation or party headquarters.

### **Cross-strait issues in Taiwan campaign**

Cross-strait issues will play a major role in the Taiwan presidential and legislative elections in January 2012. Last December, President Ma fired the opening shot by challenging then DPP Chairperson Tsai Ing-wen to accept the 1992 consensus. Predictably, Tsai rejected it. Ma’s New Year’s statement entitled “Building Taiwan, Invigorating Chinese heritage” touched on a theme that Ma has mentioned several times during 2011, the Republic of China (ROC) centennial year. In February, Ma instructed his government to use the term “the mainland” or “mainland China” rather than the more colloquial usage “China.” Ma sees the use of “mainland China” as consistent with the ROC constitution and the use of “China” alone as implying that China and Taiwan are separate countries. Beijing welcomed his statement. In March, the Ma administration announced plans to make study of the four Confucian classics a mandatory subject in the high school curriculum. Ma’s advocacy of Taiwan’s Chinese heritage contrasts clearly with DPP views on Taiwan identity.

This spring, several potential DPP presidential candidates offered their own formulas for cross-strait relations. Tsai Ing-wen said that Taipei and Beijing share responsibility for maintaining peace and that cross-strait relations should be based on “peace while tolerating differences; peace while seeking commonalities.” Former Vice President Annette Lu called for a “1996 consensus” based on the idea that Taiwan has been a fully sovereign state since its first direct presidential election in 1996. Former Premier Su Tseng-chang talked of a “Taiwan consensus,” which he said should be based on the DPP’s 1999 Resolution on Taiwan’s Future, a document that explicitly rejects “one China.” None of these proposals presented ideas that might bridge the gap between Beijing and DPP views and by doing so offer a possible basis for maintaining cross-strait talks should the DPP return to government. The one DPP figure who has presented such ideas is former DPP presidential candidate Hsieh Chang-ting, who suggested a formula of “respective interpretations of the constitution,” noting that the current ROC Constitution was based on the concept of one China. The proposal was widely criticized by DPP members and as Hsieh’s poll numbers were in the single digits, he chose not to join the DPP presidential primary.

In April, the DPP held four televised debates among its primary candidates: Tsai Ing-wen, Su Tseng-chang and Hsu Hsin-liang. The latter admitted that he had no chance of being nominated but wanted his voice heard. Neither Su nor Tsai provided a detailed exposition of what cross-strait policies they would pursue if elected. It appears that both concluded that discussing specifics would inevitably alienate either party fundamentalists or independent voters, both of

whose support was essential to defeating Ma. This rationale was buttressed in the final debate when all three candidates said that the first concern must be to maintain party unity in the campaign. In April, Tsai was chosen as the DPP standard bearer. Whether Tsai will be more explicit in her campaign platform remains to be seen.

Beijing of course followed the DPP debates closely. The TAO repeated time and again this spring that the current progress in cross-strait relations has been based on two premises: the 1992 consensus concerning “one China” and opposition to Taiwan independence. When asked for comments on statements by Chairperson Tsai and other DPP figures, the TAO spokesman said on April 13 that persisting in a separatist agenda and a “one country on each side” approach would create obstacles for maintaining stability, make it difficult to continue cross-strait dialogue, and harm the peaceful development of relations. In case this low-key message was missed, the spokesman repeated it two weeks later after Tsai was nominated saying that adopting a “one country on each side Taiwan independence separatist position, no matter how cleverly packaged” would have such consequences.

### **China’s Taiwan policy**

By the time of the National People’s Congress (NPC) annual meeting in March, the political jockeying in preparation for the 18<sup>th</sup> Party Congress in the fall of 2012 was also well underway. Premier Wen Jiabao’s NPC work report was a predictable reiteration of Hu Jintao’s cross-strait policy. Although there have been hints of leadership differences on issues such as economic development, inflation, foreign policy, and political reform, there have been no visible signs of leadership differences over Taiwan policy.

Nevertheless, observers in Taiwan are nervous about the implications of the leadership transition. Observers note that there will be large-scale changes in the State Council, the party Politburo and the Central Military Commission (CMC), the key institutions affecting Taiwan. While Xi Jinping, the likely new party general secretary, was associated with the economic aspects of cross-strait policy while serving in Fujian, his overall views on cross-strait issues are not known. Nor are the views of most of the others likely to emerge in these key institutions. Will the fifth generation leaders be as patient? How would new leaders react should the DPP return to government? What will be the attitudes of the new military members of the CMC, at a time when the PLA is becoming more assertive? Such unknowns naturally create anxiety, despite the clear impression that Hu Jintao will likely continue to exercise a strong influence over cross-strait policy even for a period after the formal transfer of leadership to the fifth generation.

### **Security issues**

Progress in PLA modernization continues to increase Chinese military capabilities that are seen as threatening in Taiwan. In January, on the eve of US Secretary of Defense Robert Gates’ visit to Beijing, Chinese media published photos of the *J-20*, China’s first stealth fighter, preparing for a test flight. In March, Taipei’s National Security Bureau director informed the LY of the initial deployment of the PLA’s *DF-16* missile. US defense experts have reported that the PLA’s Second Artillery Corp is expanding bases opposite Taiwan. In April, Chinese media carried pictures of China’s first aircraft carrier and the *J-15 flying shark* aircraft destined in the future to

fly from the carrier. The press reported speculation that the carrier would be named “*Shi Lang*” after a Qing Dynasty admiral, who conquered Ming loyalists and reunited Taiwan with the mainland in the 17<sup>th</sup> century. While not exclusively focused on cross-strait contingencies all this information was seen by those concerned as increasing Taiwan’s military vulnerability.

At the National People’s Congress (NPC) in March, Beijing announced a 12.6 percent increase in China’s published 2011 defense budget to \$91.4 billion. Fifteen years ago, the defense budgets of Taiwan and China were about equal; in 2011, Beijing’s published defense budget is more than nine times larger than Taiwan’s and growing faster. Beijing’s 2010 *Defense White Paper* published this spring notes that “significant and positive progress” has been made in promoting the “peaceful development” of cross-strait relations and notes that the international community has welcomed the many constructive developments. This picture contrast sharply with the PLA’s continual development of military capabilities threatening the regime with which Beijing wishes to build mutual trust. The most noteworthy statement in the *Defense White Paper* was, “The two sides can hold contacts and exchanges on military issues at an appropriate time and talk about a military security mechanism of mutual trust, in a bid to act together to adopt measures to further stabilize cross-strait relations and ease concerns about military security.” However, Taipei is not ready for such talks at this time given the anticipated impact the initiation of military dialogue might affect the election campaign. The MAC urged China to first remove its missiles targeting Taiwan.

Continuing evidence of the increasing military threat to Taiwan confronts Washington with difficult decisions on arms sales. No arms sales have been notified to Congress yet this year. Washington is considering a request from Taipei to upgrade its existing *F-16 A/B* aircraft and a separate request to purchase 66 *F-16 C/D* aircraft. Press reports indicate that the administration has delayed providing Taipei with price and availability (P&A) data on the upgrade project. The administration seems to be weighing how to move ahead with arms sales while minimizing damage to US-China military-to-military talks, which are an administration priority. However, treating the P&A data in this way has converted what should be a routine administrative step into an important political decision, and in the process appears to give Beijing additional leverage over US arms sales decisions. Other reports allege that the administration has also delayed the transmission to Congress of a classified report on Taiwan’s air defense reportedly because it makes the military case for the sale of *F-16 C/D* aircraft. At a congressional hearing in March US Pacific Command Commander Adm. Robert Willard stated that Taiwan would need to make additional investments (meaning arms acquisitions) if it wished to maintain a credible air deterrent into the future.

During military exchanges with Beijing, Washington often makes the point that as its arms sales are based on Taiwan security requirements, changes in the PLA threat to Taiwan would have an influence on Washington’s decisions. At the press roundtable at the end of his trip to Beijing in January, Secretary Gates commented that if the relationship between the China and Taiwan continued to improve and the security environment for Taiwan changed, then perhaps that would create the conditions for reexamining arms sales. Unfortunately, such remarks have not led to any change in Chinese policy.

## **International issues**

The de facto diplomatic truce is holding; no new issues have arisen to sour the atmosphere in the international arena. In January, Taipei became a member of the Civil Air Navigation Services Organization (CANSO), an international nongovernmental organization affiliated with the International Civil Aviation Organization (ICAO). Taipei is represented in CANSO by the Air Navigation and Weather Services, a unit of its Civil Aviation Administration. Taipei views its membership as a step toward meaningful participation in ICAO. Beijing does not have a member organization in CANSO. In March, Taipei's Financial Supervisory Commission (FSC) became a member of the International Organization of Securities Commissions (IOSCO). In April, Taipei announced that it had again received an invitation to send observers to the World Health Assembly meeting. Such modest positive steps in the international area are a by-product of the Ma administration's cross-strait policies.

## **Economic issues**

Cross-strait trade recovered in 2010 from the global recession. According to Taipei's statistics, total cross-strait trade reached \$152 billion in 2010 easily surpassing the previous annual high set in 2008. Taipei's exports to China including Hong Kong were \$114.7 billion and its imports from China were \$37.5 billion. Exports to China represented 41.8 percent of Taiwan's global exports. The Ministry of Economic Affairs has reported that Taiwan's share of China's imports increased in the January-February 2011, the first two months following the implementation of ECFA's early harvest provisions, reversing what had been a gradual decline in Taiwan's share of China's imports in recent years. Statistics from Beijing's Ministry of Commerce indicate that cross-strait trade has continued to expand rapidly during the first three months 2011.

Taiwan's negotiations with Singapore on a free trade agreement (FTA)-like agreement were set to start in February. Although no information has been released, and none is expected until agreement is reached, negotiations are underway. In March, New Delhi announced that designated Indian and Taiwan research institutes would conduct a feasibility study on a bilateral FTA agreement. This move was significant because India is the first major power without an FTA with China to show a willingness to consider such an agreement with Taiwan.

## **Looking ahead**

The cross-strait negotiating agenda for the coming months will focus primarily on the work of the CSECC and preparations for the 7th ARATS-SEF meeting. It is likely that some progress will be made in these forums because further concrete accomplishments would be in both parties' interest before the coming Taiwan elections. Whether Beijing will take other steps with respect to Taiwan's international space or place in regional trade liberalization remains to be seen. It seems quite unlikely that Beijing will take steps to ease the military threat to Taiwan in circumstances in which the DPP may return to government, the PLA is becoming more assertive and a leadership transition is underway in Beijing. For their part, Tsai Ing-wen and the DPP are working on a campaign platform, which may include some specifics about cross-strait policy should the DPP return to power. Washington will continue to consider pending arms sales.

## **Chronology of China-Taiwan Relations**

### **January – April 2011**

**Jan. 1, 2011:** Hu Jintao's New Year address calls for holding fast to "peaceful development and one country two systems."

**Jan. 1, 2011:** President Ma Ying-jeou's New Year message calls for "Building up Taiwan, Invigorating Chinese Heritage."

**Jan. 1, 2011:** Taipei ceremony launches the Republic of China (ROC) 100<sup>th</sup> anniversary year.

**Jan. 3, 2011:** Photo of China's *J-20* stealth fighter at Chengdu airbase is published.

**Jan. 4, 2011:** Taiwan Ministry of Education (MOE) says People's Republic of China (PRC) educational degrees are now recognized by Taiwan.

**Jan. 6, 2011:** Cross-strait Economic Cooperation Committee (CSECC) is established.

**Jan. 10, 2011:** Defense Minister Liang Guanglie tells US Secretary of Defense Robert Gates that US arms sales to Taiwan would jeopardize US-China military ties.

**Jan. 10, 2011:** Frank Hsieh proposes "respective interpretations of the constitution" as a formulation for characterizing cross-strait relations.

**Jan. 11, 2011:** Secretary Gates holds a press roundtable in Beijing.

**Jan. 13, 2011:** Association for Relations Across the Taiwan Straits (ARATS) Chairman Chen Yunlin reiterates that the 1992 consensus and opposition to independence are premises for cross-strait relations.

**Jan. 13, 2011:** Taiwan Affairs Office (TAO) spokesman says that the Democratic Progressive Party (DPP) needs to address reality of the 1992 consensus.

**Jan. 14, 2011:** Taipei becomes a member of the Civil Air Navigation and Services Organization (CANSO).

**Jan. 18, 2011:** TAO Minister Wang Yi says a cross-strait cultural pact should be considered.

**Jan. 19, 2011:** Mainland Affairs Council (MAC) Chair Lai Shin-yuan says there is no need for cross-strait cultural agreement.

**Jan. 20 2011:** During his visit to the US, President Hu Jintao reiterates that Taiwan and Tibet are China's "core interests."

**Jan. 25, 2011:** President Ma tells visiting American Institute in Taiwan (AIT) Chairman Ray Burghardt that *F-16s* are needed to support cross-strait talks.

**Jan. 26, 2011:** Legislative Yuan (LY) Speaker Wang Jin-pyng raises *F-16* sale with US House of Representatives Speaker John Boehner.

**Jan. 28, 2011:** Democratic Progressive Party (DPP) Yunlin County Magistrate Su Chih-fen visits China.

**Feb. 2, 2011:** Taipei protests Manila's deportation of 14 ROC citizens to China.

**Feb. 7, 2011:** President Ma says the government will use "Mainland" or "Mainland China" and not "China" when referring to the PRC.

**Feb. 8, 2011:** Gen. Lo Hsien-che is arrested for espionage.

**Feb. 10, 2011:** MAC Chair Lai calls for a review of joint crime fighting agreement.

**Feb. 16, 2011:** Candidate Su Tseng-chang proposes a "Taiwan consensus" based on the DPP's 1999 Resolution on Taiwan's Future.

**Feb. 22, 2011:** First Cross-Strait Economic Cooperation Committee (CSECC) convenes in Taoyuan.

**Feb. 23, 2011:** Chair Tsai Ing-wen opens DPP's New Frontier Foundation think tank.

**Feb. 24, 2011:** ARATS President Chen Yunlin visits Kaohsiung.

**Feb. 24, 2011:** Taipei approves an expanded list of sectors open to PRC investment.

**Feb. 25, 2011:** Beijing agrees to family visits to Manila deportees.

**Feb. 28, 2011:** Beijing Public Security officials pledge cooperation on deportee case.

**March 1, 2011:** Taipei announces that Confucian classics will again be required in high school curriculum.

**March 1, 2011:** Premier Wu Den-yih says that Straits Exchange Foundation (SEF) and ARATS are consulting about opening liaison offices.

**March 4, 2011:** Beijing announces 12.7 percent increase in 2011 the PRC defense budget.

**March 5, 2011:** Premier Wen Jiabao delivers government Work Report to National People's Congress (NPC).



**March 7, 2011:** Kuomintang (KMT) Legislator Chang Hsien-yao questions the adequacy of Taiwan's defense budget.

**March 7, 2011:** At NPC, Foreign Minister Yang Jiechi reiterates opposition to US arms sales to Taiwan.

**March 7, 2011:** New Delhi and Taipei agree to jointly fund a Free Trade Agreement (FTA) feasibility study.

**March 8, 2011:** Taipei eases restrictions on Liquid Crystal Display (LCD) investments in PRC.

**March 9, 2011:** Secretary of State Hillary Clinton expresses hope Trans-Pacific Partnership (TPP) will eventually include all of APEC.

**March 15, 2011:** Taiwan's Financial Supervisory Commission (FSC) becomes a member of International Organization of Securities Commissions (IOSCO).

**March 16, 2011:** National Security Bureau (NSB) Director General Tsai De-sheng confirms deployment of China's new *DF-16* ballistic missile.

**March 17, 2011:** MAC announces that it is considering a nuclear safety agreement with Mainland China.

**March 18, 2011:** Mainland repatriates fugitive Sung Nai-ju, former Ministry of Transportation and Communication (MOTC) chief secretary.

**March 21, 2011:** Former Kaohsiung Magistrate Yang Chiu-hsing visits Beijing.

**March 24, 2011:** President Ma calls for cross-strait nuclear safety cooperation.

**March 28, 2011:** Wu Poh-hsiung says KMT will not commemorate ROC's centennial in China.

**March 29, 2011:** President Ma calls for the sale of *F-16C/Ds* in meeting with former Deputy Secretary of State Richard Armitage.

**March 30, 2011:** Press reports that Mainland Chinese delegations are avoiding contact with DPP's New Frontier Foundation.

**March 31, 2011:** Beijing releases its 2010 Defense White Paper.

**March 31, 2011:** President Ma receives Singapore Minister Mentor Lee Kuan Yew.

**April 6, 2011:** *People's Daily* website publishes a story on China's first aircraft carrier.

**April 7, 2011:** DPP's Hsu Hsin-liang floats the idea of "One China ala EU."

**April 10, 2011:** TAO official Liu Jianzhong visits Kaohsiung.

**April 13, 2011:** TAO spokesman comments on DPP policy and says nuclear safety agreement can be discussed.

**April 15, 2011:** Hu Jintao briefly greets Taiwan's delegation to Boao Forum.

**April 25, 2011:** Beijing and Taipei bank regulators meet in Taipei.

**April 25, 2011:** Beijing official media carry first photos of new *J-15 flying shark* fighter.

**April 27, 2011:** Tsai wins DPP presidential primary; KMT nominates Ma for re-election.

**April 29, 2011:** Minister of Economic Affairs (MOEA) Minister Shih Yen-shiang states Taipei's desire to join TPP.

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