



**China-Taiwan Relations:
Progress Slow as Taiwan Campaign Begins**

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There has been some progress in implementing the Economic Cooperation Framework Agreement (ECFA) and other existing pacts, but differences continue to prevent finalization of the long-pending investment protection agreement. Beijing has criticized opposition candidate Tsai Ing-wen's cross-strait policy platform saying it would lead to a breakdown in dialogue and cooperation. Sea trials of Beijing's first aircraft carrier were symbolic of the PLA capabilities that increasingly threaten Taiwan. Reports indicate that Taipei and Washington have agreed on the program to upgrade Taiwan's existing *F-16A/B* fighters with congressional notification expected in September.

Cross-strait developments

Implementation of existing agreements between Taipei's Straits Exchange Foundation (SEF) and Beijing's Association for Relations Across the Taiwan Strait (ARATS) has been the focus of attention recently rather than the negotiation of new agreements. In May, consultations under the aviation agreement produced a program for substantially expanding the number of cross-strait flights. In June, ARATS and SEF held the first formal review of their 15 agreements and undertook 10 steps to improve implementation. Subsequently, Taipei's Prosecutor General held consultations in Beijing that led to China's sending to Taiwan in July the 14 Republic of China (ROC) citizen suspects that Manila had deported to the Mainland months earlier. The health and medical cooperation agreement came into force in June; later in the month the long anticipated but limited program for individual People's Republic of China (PRC) tourists to visit Taiwan started. Following further visits by large provincial purchasing missions, PRC Vice Minister of Commerce Jiang Yaoping led a delegation of state-owned enterprise executives to Taiwan to explore investment opportunities. Taipei reached agreements with both Hong Kong and Macau to rename and upgrade Taipei's offices in those special administrative regions. Mainland Affairs Council (MAC) Chair Lai Hsin-yuan attended the opening ceremonies of those offices in July.

In May, SEF Chairman Chiang Ping-kun made an informal visit to China and met ARATS President Chen Yunlin to begin preparations for the next, seventh ARATS-SEF meeting. During the summer, there were indications that the meeting would be held in August and include the signing of a nuclear safety agreement and the investment protection agreement, which had been deferred at the sixth meeting. However, the preparatory meeting in Shanghai ended Aug. 7 without full agreement. Reportedly, the outstanding issues concern Taipei's requirement for an independent mechanism for arbitrating investment disputes and assurances of rapid access to Taiwanese businessmen detained in China. Chiang Ping-kun visited Beijing for further

consultations but announced on Aug. 22 that the seventh meeting, to be held in Tianjin, would have to be postponed until sometime in September.

DPP platform and election campaign

Democratic Progressive Party (DPP) Chair and presidential candidate Tsai Ing-wen has moved carefully and has had considerable success in holding together the disparate elements in her party. To this end, she has studiously avoided saying much about her cross-strait policies. Pro-DPP observers have said that she will probably not reveal specific policies until she has won the election because those specifics would disappoint either party fundamentalists or moderates, both of whose support she needs to win. Sensing Tsai's dilemma, the Kuomintang (KMT) has repeatedly pressed her to explain her policy.

Most problems and criticism Tsai has faced within the DPP involve its fundamentalist wing. In May, former MAC Chair Joseph Wu predicted that it would not be possible for a future DPP government to maintain the existing mechanisms for cross-strait dialogue. The DPP spokesman clarified that Wu was not speaking for the DPP or Tsai. From jail, former President Chen Shui-bian has called on Tsai to renounce the ECFA, predicting that failure to do so would result in her losing the election. Also, the Taiwan Brain Trust, bank-rolled by independence advocate Koo Kwang-min, has resurrected proposals for a new Taiwan constitution. Tsai was criticized for placing long-time independence advocate Trong Chai so far down the DPP's party candidate list for the Legislative Yuan that he would almost certainly not be elected. Tsai held her ground. Although Tsai has not announced her running mate, speculation is that she will choose an economic or social figure rather someone with fundamentalist ties. All these are indications of a moderate and pragmatic approach.

Tsai has made domestic economic and social issues the centerpiece of her electoral campaign. In late August, she unveiled the party's Program for the Next Decade, giving pride of place in its presentation to her economic, social, education, financial, and other domestic programs. When the cross-strait platform was revealed, it was conceptually embedded in a broader national security strategy. To the extent the program addresses cross-strait issues, Tsai stuck to generalities. The program states that the goal is to "construct a framework for peaceful and stable interaction between Taiwan and China" by "gradually building a multilevel and multifaceted cross-strait framework for peaceful and stable interaction." Civil society contacts are to be developed. It acknowledges growing PRC power and states that, given their differences, Taiwan's strategic approach should be to avoid provocations and to seek mutual benefit in a way that preserves peace while recognizing differences. The program acknowledged that Beijing adheres to its "one-China principle" but says that Beijing must recognize that Taiwanese are "committed to upholding the independence of their sovereignty." The Chinese original text adds that this commitment is as solid as steel, implying that the party will not compromise on this issue. Although the program does not mention the 1992 consensus, Tsai made it clear in her comments that she and the DPP do not accept there is such a consensus.

Since Tsai chose, as anticipated, to avoid specifics, the government opened its critique by having MAC Chairperson Lai pose 18 specific questions designed to highlight the program's deficiencies. Speaking the following day, President Ma Ying-jeou focused on Tsai's renewed

rejection of the 1992 consensus, saying that the consensus is the indispensable foundation for all that has been accomplished in cross-strait relations. While Tsai aims to avoid the issue, the KMT wants to make it a major part of the campaign.

PRC policy

Beijing has been following campaign developments closely. Official statements have focused on the PRC's commitment to "peaceful development," praising what has been accomplished during President Ma's tenure and emphasizing Beijing's desire to keep that process moving forward. Many have correctly read this as an implicit expression of hope that Ma will be re-elected. Paired with these positive statements have been reiterations of Beijing's position that this progress has been premised on two factors: opposition to Taiwan independence and acceptance of the "1992 consensus" on one China.

Having learned from experience, Beijing has avoided threatening statements and thus far has not criticized Tsai by name. In the spring, the Taiwan Affairs Office (TAO) spokesman said that adopting a "one country on each side Taiwan independence separatist position, no matter how cleverly packaged" would have consequences. TAO Minister Wang Yi addressed the issue in remarks made in Chicago in July, saying in restrained diplomatic language that if such a position were adopted, it would be hard to imagine how dialogue could be maintained, how the two sides could build mutual trust, or how they could continue cooperation.

In commenting on Tsai's Program for the Next Decade, the TAO spokesman said that the DPP has not changed its "one country on each side Taiwan independence" position and continues to reject the 1992 consensus. Such policies are unrealistic and unacceptable to China and, if implemented, dialogue could not be continued. On Aug. 25, Politburo Standing Committee Member Jia Qinglin said that the 1992 consensus was the premise for setting aside differences and seeking common ground in order to practically address cross-strait problems. If that premise is rejected, it would undermine the basis for dialogue, damage the atmosphere for cross-strait cooperation, and lead relations back into instability. As Jia is Hu Jintao's deputy on the party's Leading Small Group on Taiwan Affairs, the message could hardly be more authoritative.

Responding to the TAO spokesman's criticism, Tsai urged Beijing to re-examine the program saying it contained several indications of goodwill toward Beijing. This may be accurate, though the document's silence on many points creates ambiguity. The program is a more pragmatic statement of DPP policy than statements from the Chen Shui-bian era. As the program says little, it omits several past contentious issues, including a new constitution for Taiwan, changing the referendum law, and promoting Taiwan membership in international organizations. Whether these are the indications of goodwill Tsai had in mind is not clear.

US posture

As is usual, the US government has carefully avoided taking sides in an election involving a democratic partner. The State Department has not commented on the DPP program or on what should be the premises for cross-strait dialogue. That said, individuals from the administration – the State Department spokesperson, Assistant Secretary of State Kurt Campbell, Secretary of

State Hillary Clinton, and others – have repeatedly welcomed the progress in cross-strait relations under President Ma and expressed hope that progress will continue. In August, Vice President Joseph Biden visited Beijing and reiterated US non-support for Taiwan independence and the hope that cross-strait relations will continue to move forward. US interests will be well served if progress can continue, and that is more likely if the election gives Ma a new term.

Chu Shulong article

Chu Shulong, the deputy director of the Institute of International Strategic and Development Studies at Beijing's Tsinghua University, published a thoughtful article in June discussing how to build upon the progress that has been made in the past three years. To do so, cross-strait dialogue needs to move beyond the easy economic matters to address the more difficult political and security issues. Chu suggested that the goal of future political talks should be to stabilize cross-strait relations while avoiding discussion of either unification or independence. Therefore, the two sides should work toward a shared understanding of "one China," a step that would be particularly difficult for Taiwan since it has not reached a domestic consensus on that issue. In addition, the two sides should find a way to legally recognize each other's governments, a step that would be particularly difficult for Beijing. Chu asked whether each side could eventually recognize the other as a government within some shared understanding concerning "one China." Some have interpreted this as advocacy of a "one China, two governments" approach, though the article does not say this and Chu denies that was his intention.

A few days later the TAO spokesman commented that the article reflected only Chu's personal views. That said, it is a welcome attempt by an important Chinese scholar to address key issues between Beijing and Taipei.

Security issues

The US Department of Defense's 2011 *Annual Report to Congress on the Military and Security Developments Involving the People's Republic of China* concludes that, "Although cross-strait ties have improved steadily since 2008 and the prospect of a near-term crisis appears low, the PRC remains focused on developing the military capabilities to eventually settle the dispute on Beijing's terms." Evidence of improved capabilities has continued. In May, *Defense News* reported on the PLA's development of new air-to-air missiles. The Director of Taiwan's National Security Bureau reported that the PLA's Second Artillery Corps was building a new base in southern Guangdong province that reportedly would deploy the *DF-21C* "carrier killer" missile. In a series of official reports in July, Beijing unveiled China's first aircraft carrier. Although earlier reports from Taiwan indicated that the carrier might be named for a 17th century admiral who helped reunite Taiwan with the Qing Dynasty, no Chinese name for the carrier has yet been revealed. On the day that the carrier began its trials, Taipei displayed for the first time its *Hsiungfeng III* anti-ship missile, with graphics portraying it being used against a carrier.

These increased PLA capabilities provide the backdrop for Washington's consideration of arms sales to Taiwan. The Obama administration is caught between its Taiwan Relations Act responsibilities and political pressure from Congress on one side and opposition from Beijing on the other. Successive Chinese visitors, including PLA Chief of the General Staff Gen. Chen

Bingde in May and TAO Minister Wang in July, have warned about arms sales in general and the sale of *F-16C/D* aircraft in particular. Meanwhile, the administration has been working on a separate program to upgrade Taiwan's existing *F-16A/B* aircraft. Reports indicate that, following Washington's release of price and availability (P&A) information, a US delegation visited Taipei in mid-August and reached agreement on the details of a \$4.2 billion upgrade program. Chairman of the Joint Chiefs of Staff Adm. Mike Mullen revealed that the administration had made a commitment to Congress to reach a decision on the *F-16s* by Oct. 1. In an effort to mitigate Beijing's reaction to the sale, it is possible that the *F-16A/B* program may be termed a "retrofit" rather than "upgrade" and may be split into a couple of smaller congressional notifications to reduce its visibility. It appears the announcement will be made soon, well before President Obama's next meeting with President Hu and Vice President Xi's expected visit to the US. It appears the decision on the sale of *F-16C/Ds* will be postponed. Experts aware of the upgrade program have differing opinions on differences between the capabilities of the upgraded A/B and new C/D versions. Nevertheless the difference appears politically important to Beijing.

International issues

Progress in Taiwan's quest to create international space for itself was not significant in mid-2011. On May 4, President Ma again made his point that with greater international space Taiwan's people would be more willing to see cross-strait relations deepen. When KMT Honorary Chairman Wu Poh-Hsiung met General Secretary Hu Jintao a few days later, Wu reportedly raised the issue. Although there had been speculation that Beijing might make some gesture on this issue to help President Ma's re-election, nothing has happened.

In May, Taiwan's Health Minister Chu Wen-ta attended the annual World Health Assembly meeting in Geneva as an observer and addressed the meeting. Unfortunately, his attendance was preceded by a story, made public by a DPP legislator, that World Health Organization (WHO) internal documents referred to Taiwan as a province of the PRC, which included documents related to Taipei's participation in the WHO's international health regulations. This embarrassing story led to a public protest by President Ma and a letter from Minister Chu insisting that the WHO at least use the "Chinese Taipei" designation in its internal documents.

Economic issues

Cross-strait trade and investment have grown at double-digit rates this year, aided in part by the ECFA. Chinese Customs statistics indicate that imports from Taiwan during January-July 2011 totaled \$61.56 billion. While overall imports from Taiwan grew 10.53 percent from a year earlier, China's imports of products benefiting from the ECFA tariff reductions increased by 13.27 percent. Seeking to illustrate the benefits of the ECFA, Taiwan officials have trumpeted the 61.9 percent increase in machine tool exports to China and the 345 percent increase in exports of the 18 agricultural products included in the ECFA's early harvest list. Officials also reported that Taiwanese firms are repatriating funds to invest in Taiwan to take advantage of the ECFA tariff reductions.

Critics of the ECFA are less impressed and argue that one impact of the agreement has been to encourage the export of manufacturing and jobs to China. Taiwan Investment Bureau statistics

do indicate that investment approvals directed toward China have grown rapidly since January. This continues a trend that began, before the ECFA, when the global economy began to recover in 2009. By contrast, Chinese investment in Taiwan remains stubbornly low, amounting to only \$29 million in the first seven months of 2011.

On May 22, Taipei and Singapore announced that informal consultations had led to a decision to begin negotiations of an economic cooperation agreement. Taiwan's Ministry of Economic Affairs has said that progress is being made, but it remains uncertain whether the agreement will be concluded this year. Taipei is also conducting joint academic studies with India and the Philippines concerning possible FTA-like trade agreements.

Looking ahead

The January 2012 presidential election continues to be too close to call. Some independent polls indicate that President Ma may have a slight lead, but about 20 percent of respondents remained undecided. The undecided are mainly independent voters and their decisions will have a decisive and still uncertain impact. The Center for Prediction Markets run by National Chengchi University gave Ma a razor-thin lead in its August report. Beijing has done little to bolster Ma's position. There has been no significant development on expanding Taiwan's international space, addressing Taiwan's security concerns, or improving trade benefits under the ECFA. Whether Washington's expected announcement on *F-16A/B* upgrade will be seen in Taiwan as a plus for Ma or as a disappointment because it does not include the sale of *F-16C/Ds* is uncertain. As the election approaches, it will be difficult for either the Mainland or the US to take actions without seeming to interfere in the campaign.

The outcome of the presidential election will have important consequences for the future of cross-strait relations. Should Ma be re-elected, the prospects for further, though certainly modest, progress will be good. If Tsai wins, the gap between the DPP and Beijing positions on sovereignty, international status, and security issues will be very wide and their positions will be firmly held, giving little hope that those differences can be bridged or finessed. Direct dialogue would likely end for at some time, and cross-strait relations would enter a hiatus, if not retrogression and renewed tension.

Chronology of China-Taiwan Relations May – August 2011

May 3, 2011: Taiwan Tourism Bureau Director Janice Lai visits Beijing.

May 3, 2011: Former Mainland Affairs Council (MAC) chairman Joseph Wu discusses China policy issues at the Johns Hopkins School of Advanced International Studies (SAIS).

May 6, 2011: Democratic Progressive Party (DPP) says Joseph Wu doesn't speak for party.

May 7, 2011: Cross-Strait Economics, Trade and Culture Forum is held in Chengdu.

May 8, 2011: DPP's Kuan Bi-ling's reveals that World Health Organization (WHO) internal documents refer to Taiwan as a province of China.

May 10, 2011: General Secretary Hu Jintao receives Kuomintang's (KMT) honorary Chairman Wu Poh-hsiung in Beijing.

May 11, 2011: President Ma protests terminology used by WHO.

May 11, 2011: Taiwan Affairs Office (TAO) spokesman denies Chinese involvement in WHO terminology issue.

May 13, 2011: Straits Exchange Foundation (SEF) President Chiang and Association for Relations Across Taiwan Straits (ARATS) President Chen Yunlin meet.

May 14, 2011: Vice President Vincent Siew attends Paraguay's 200th anniversary of independence.

May 16, 2011: Taiwan Health Minister Chu Wen-ta attends World Health Assembly (WHA) as observer.

May 18, 2011: People's Liberation Army (PLA) Chief of General Staff Gen. Chen Bingde visits Washington.

May 21, 2011: Chen Bingde says reaction to arms sales would depend on what was sold.

May 22, 2011: Ministry of Economic Affairs (MOEA) says Singapore and Taipei trade talks have begun.

May 23, 2011: Sichuan Governor Jiang Jufeng leads large delegation to Taiwan.

May 26, 2011: TAO spokesman praises progress in cross-strait relations under Ma.

May 26, 2011: Forty-five senators send a letter to President Obama supporting the sale of *F-16s* to Taiwan.

June 3, 2011: Legislative Yuan (LY) passes legislation needed for Taiwan to be founding member of South Pacific Regional Fisheries Management Organization (SPRFMO).

June 4, 2011: Retired Gen. Hsu Li-ning leads delegation to seminar in Beijing.

June 8, 2011: SEF and ARATS conduct first formal review of cross-strait agreements.

June 8, 2011: Prosecutor General Huang Shih-ming begins visit to mainland.

June 9, 2011: President Ma instructs Ministry of National Defense (MND) on "code of Conduct" for retired officers.

June 12, 2011: Jia Qinglin addresses third cross-strait forum in Xiamen.

June 12, 2011: Taiwan Brain Trust seminar advocates a new constitution to save Taiwan.

June 13, 2011: ARATS Deputy Zheng Lizhong visits Ping-tung county in southern Taiwan.

June 15, 2011: President Ma orders use of traditional characters in all official documents.

June 16, 2011: US House holds a hearing on “Why Taiwan Matters.”

June 17, 2011: Taiwan Ministry of Education (MOE) promulgates requirements for Confucian classics in high schools.

June 19, 2011: President Ma chooses Premier Wu Den-yih as his running mate for the 2012 presidential elections.

June 26, 2011: Medical and Health Cooperation Agreement takes effect.

June 28, 2011: President Ma receives American Institute in Taiwan (AIT) Chairman Raymond Burghardt; asks for *F-16s*.

June 28, 2011: First individual People’s Republic of China (PRC) tourists visit Taiwan.

June 29, 2011: Deputy Assistant Secretary for East Asian and Pacific Affairs-designate Kin Moy visits Taiwan.

June 30, 2011: Taiwan National Security Council (NSC) Secretary General Hu Wei-jen visits Washington.

July 6, 2011: Fourteen Manila fraud suspects are repatriated to Taiwan by China.

July 7, 2011: Mainland Affairs Council (MAC) Chair Lai Hsin-yuan visits Washington.

July 11, 2011: Shandong Governor Jiang Daming leads a large delegation to Taiwan.

July 12, 2011: Hu Jintao meets the delegates to cross-strait youth meeting in Beijing.

July 18, 2011: PRC Vice Commerce Minister Jiang Yaoping leads delegation to Taiwan.

July 19, 2011: Taiwan MND rules out cooperation with China in South China Sea dispute.

July 19, 2011: MND release Taipei’s *2011 Defense White Paper*.

July 20, 2011: MAC Chair Lai Shin-yuan opens renamed Taipei representative office in Hong Kong.

July 21, 2011: Beijing MOD spokesman says exchanges of bands/music groups possible; MND responds Taipei has no plans for military exchanges.

July 25, 2011: US Chairman of Joint Chiefs of Staff Adm. Mike Mullen says F-16 decision will be made by Oct. 1.

July 27, 2011: TAO Minister Wang Yi visits Washington.

Aug. 1, 2011: Total of 181 US House of Representative members send a letter to President Barack Obama calling for the sale of F-16s to Taiwan.

Aug. 3, 2011: Tsai Ing-wen at first campaign rally focuses on social/economic issues.

Aug. 7, 2011: ARATS-SEF preparatory talks on seventh meeting conclude in Shanghai.

Aug. 9, 2011: DPP accuses *Xinhua* of hacking into its campaign e-mails.

Aug. 10, 2011: China's first aircraft carrier begins sea trials from Dalian; *Hsiungfeng III* is displayed at Taipei Aerospace and Defense Technology Exhibition.

Aug. 12, 2011: Hu Jintao receives Lien Chan in Beijing; expresses hope for investment protection agreement

Aug. 13, 2011: US defense delegation in Taipei for talks on *F-16A/B* upgrade program.

Aug. 21, 2011: Legislator Lin Yu-fang reveals info on Taipei's counter-strike missile.

Aug. 22, 2011: DPP Chair Tsai Ing-wen unveils Platform for Next Decade.

Aug. 24, 2011: TAO spokesman says DPP political platform is unrealistic and unacceptable.

Aug. 28, 2011: President Ma presses Tsai to explain her "Taiwan consensus."

Aug. 29, 2011: Taiwan's Mega Bank is first to get Beijing approval for Yuan transactions.

Aug. 30, 2011: Beijing publishes 36-volume history of the Republic of China (ROC).