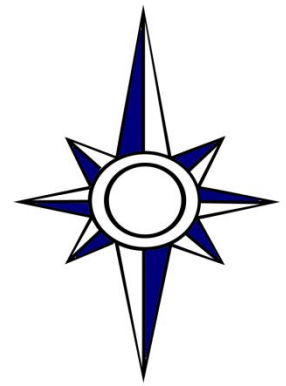


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China-Taiwan Relations: Post-Election Continuity

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In January, President Ma Ying-jeou won re-election and the KMT retained its majority in the legislature. Voters endorsed Ma's gradual approach to developing constructive relations with the Mainland. In Beijing, the outcome validated President Hu Jintao's "peaceful development" policies. Both sides have indicated that there will be continuity in cross-strait relations with a focus on a busy economic agenda. While understanding the domestic factors constraining Ma's willingness to discuss political issues, Beijing has emphasized the importance of building political trust and strengthening a common Chinese heritage. Meanwhile, the DPP's defeat has provoked an internal debate on the party's policy toward Beijing but no clear picture has emerged on whether or how party policy might eventually change.

Ma is re-elected

In the Jan. 14 presidential election, Ma Ying-jeou won re-election with 51.6 percent of the vote. While the margin was larger than had been predicted, Ma's 6 percent margin of victory was much below his 17 percent margin in 2008. In the Legislative Yuan (LY) elections, the Kuomintang (KMT) retained its absolute majority, but with a reduced majority and a much more complicated multi-party lineup. In the absence of exit polls, observers generally concluded that voters had opted to support Ma's predictable economic and cross-strait policies over the uncertainty associated with Democratic Progressive Party (DPP) candidate Tsai Ing-wen and her poorly articulated cross-strait policies. Ma's support for and Tsai's rejection of the "1992 Consensus" as a basis for conducting cross-strait relations was seen as playing an important role in the outcome. The strong public reaction to Ma's comments in November about a possible future peace agreement combined with the reduced mandate contributed to a view that Ma will have to be very cautious in considering steps toward cross-strait discussion of political issues.

One interesting sidelight on the campaign and election was Beijing's relatively open approach to coverage of it. The Communist Party Propaganda Department did issue guidelines to the print and TV media to limit coverage to reporting by the official *Xinhua News Agency*. However, Beijing did not block online coverage or shutdown Internet commentary. Consequently, netizens in China had access to considerable news about what was a model peaceful, democratic election, with some favorable comments and comparisons to politics on the mainland.

Election presages continuity

In an early-January article, Taiwan Affairs Office (TAO) Minister Wang Yi foresaw that Beijing's efforts would remain focused on economic issues. The idea of addressing economics

first, politics later and easy issues first, hard ones later would continue to guide policy. In its statement on the election, the TAO said that Hu Jintao's policy on "peaceful development" of cross-strait relations was correct, that it had been supported by the Taiwan people and would continue. Beijing saw a busy schedule of economic issues including: commodity and services trade talks under the Economic Cooperation Framework Agreement (ECFA), preparations for an exchange of trade organization offices, negotiation of a Yuan Settlement Agreement, negotiation of the Investment Protection Agreement and a Customs cooperation pact, a meeting of the Cross-strait Economic Cooperation Committee (CSECC) and eventually the eighth Straits Exchange Foundation-Association for Relations Across the Taiwan Straits (ARATS) meeting.

Spokesmen for President Ma gave very similar descriptions of what Taipei foresaw for the coming year. KMT Vice Chairman John Chiang visited Washington in late January and stressed that the economic agenda would consume the coming year and contained many issues that would take protracted and difficult negotiations.

US position

The White House issued a statement congratulating President Ma and praising the election as another sign of Taiwan's vital democracy. On substance, the statement said "Cross-strait peace and stability, in an environment free from intimidation, are of profound importance to the United States. We hope the impressive efforts that both sides have undertaken in recent years to build cross-strait ties continue."

Cross-strait developments

Two important cross-strait meetings took place this spring. On March 22, KMT Honorary Chairman Wu Poh-hsiung met General Secretary Hu Jintao in Beijing. On April 1, Vice President-elect Wu Dun-Yih met Li Keqiang, the presumptive next Peoples Republic of China (PRC) Premier at the Boao Forum. Wu participated in Boao in his capacity as head of the Cross-strait Common Market Delegation and Li met Wu wearing his Communist Party hat. There were brief reports about each meeting, predictably focusing on economic issues and mentioning some specific issues that had been raised, including Wu Dun-yih's raising the issue of Taiwan's international space. However, most of what was discussed has as usual not been revealed.

These are far more than symbolic encounters. As Ma Ying-jeou has said repeatedly that he would only meet PRC leaders in his capacity as president of the Republic of China (ROC), there is no prospect of Ma meeting Hu or Xi Jinping in the coming years. Consequently, these meetings represent the highest level direct contacts that occur. Given the importance of personal relations, particularly in China, they are crucial to the management of cross-strait relations and the development of greater political trust between leaders in Taipei and Beijing.

At the working-level, Taipei and Beijing announced in mid-April guidelines for the reciprocal establishment of trade organization offices. This exchange will implement a provision of ECFA. In Taipei, the Mainland Affairs Council (MAC) reported that the Taiwan External Trade Development Organization (TAITRA) had been authorized to apply in Beijing to open offices in Beijing and Shanghai, using the name "Taiwan Trade Office".

The Cross-Strait Economic Cooperation Committee (CSECC) formed under ECFA held its third meeting in Tamsui on April 26. As earlier, the delegations, meeting under the SEF-ARATS umbrella, were led by Beijing's Vice Minister of Commerce Jiang Yaoping and Taipei's Vice Minister of Economic Affairs Liang Kuo-shin. It was announced that the committee had reached "consensus" on the Investment Protection Agreement and on the "basic principles" of a Customs Cooperation Agreement. Both sides expressed "optimism" that these two agreements would be signed at the eighth ARATS-SEF meeting. Sources in Taipei predicted that meeting would be held in Taipei before June 15. In addition, the two delegations formally endorsed the procedures for the reciprocal establishment of trade organization offices. It was announced that the China Chamber of Commerce for Import and Export of Electronics Products would be the organization applying to establish an office in Taipei. Finally the meeting reviewed progress in the discussions being held in CSECC sub-committees for goods trade, service trade, dispute resolution, standards, and industrial cooperation.

Beijing's proposal to establish the Pingtan Comprehensive Experimental Zone has been a source of cross-strait controversy this spring. For over a decade, Beijing has been promoting proposals for a "Western Taiwan Strait Economic Zone" to help Fujian Province compete more effectively for investments from Taiwan, most of which has gone elsewhere in China despite Fujian's propinquity to Taiwan. The brief section on Premier Wen Jiabao's National People's Congress (NPC) work report relating to cross-strait relations included a sentence calling for accelerated development of the zone. The most recent proposal, dubbed the Pingtan Comprehensive Experimental Zone, envisages a zone on Fujian's Pingtan Island that would be jointly designed and operated by people from Taiwan and the Mainland. There has been criticism in Taipei of the idea that Taiwanese would be hired as government employees in China to help run the zone. (This has also focused attention on the broader issue of other Taiwanese who are working in various government capacities in China.) Some see this as indicating a political rather than economic purpose. Elements in the DPP have viewed it as a step toward implementing Beijing's "one Country, two systems" proposal. Taipei government spokesmen have also voiced some of these concerns. On the Mainland, TAO Minister Wang Yi has expressed surprise at the negative reactions to the Pingtan proposal. Officials from Fujian have been in Taiwan attempting to explain the concept. To help manage the issue, Premier Sean Chen has said that the government's official position is that the Pingtan proposal should be discussed in ECFA channels.

What about political talks?

After Ma's election in 2008, there was considerable speculation that the period between Ma's re-election in 2012 and the 18th Party Congress in the fall would present a window of opportunity for Presidents Hu and Ma to take steps toward a peace agreement, which each had separately endorsed. There is no talk of such a possibility now as domestic politics in Taiwan are setting the pace for cross-strait developments. The negotiation of the existing agreements, particularly ECFA, has strained domestic politics and the reaction to Ma's November suggestions about talks on a peace agreement has reinforced a very cautious approach to political talks within the Ma administration.

President Ma and others in his administration continue to talk of the pre-conditions needed for political talks: consensus within Taiwan, public support, and oversight by the legislature – none of which is in place. Following the election, Ma said that the further accumulation of functional cross-strait agreements would be useful in consolidating cross-strait peace, even absent a specific peace agreement. Accordingly, Taipei's efforts will remain focused on economic and functional issues.

Beijing's posture appears more complicated. On the one hand, TAO Minister Wang Yi has expressed patience with respect to political talks, saying that Beijing will let Taipei set the pace in cross-strait relations. TAO officials appear to have a good understanding of the constraints on President Ma and appreciate that if Ma moves too quickly he will lose public support and potentially open an opportunity for the DPP to return to power. On the other hand, there have been indications of growing doubts in Beijing about Ma's willingness to make significant steps forward. Ma's comment that peace could be consolidated by functional agreements was interpreted as one sign of Ma's reduced commitment to move toward a peace agreement. While patient in the short-term, over the longer-term, Beijing will need progress on political issues to blunt criticism that Hu's peaceful development policy is not making progress toward the eventual goal of reunification. In April, there were indications that Beijing was conveying its view that it would like to see comments on political issues in President Ma's May 20 second inaugural address.

In February and March, references to political aspects began to appear in Beijing statements on cross-strait relations. In his NPC work report, Premier Wen Jiabao stated that Beijing sought to “strengthen the political, economic, and cultural foundation and public support for growing cross-strait relations.” How did putting politics first mesh with an agenda that would remain focused on economic issues? A few days later at a major conference in Yunnan, TAO Minister Wang Yi explained the political element, saying Beijing aimed to strengthen the basis for cross-strait political trust and to deepen the two sides' common identification as belonging to one China. Cultivating increased mutual trust was the key to eventually addressing cross-strait differences. Cultivating a stronger sense of both sides belonging to one family would create a firm basis for resolving difficult issues. Wang Yi spoke of strengthening emotional bonds and a sense of common ethnic Chinese identity (*zhonghua minzhu rentong*). In other words, at a time when there is little prospect of progress on political issues, the leadership needs to explain to domestic audiences and potential critics what it is doing to lay the ground for eventually progress on those issues.

Debate within the DPP

The electoral defeat in January has led to soul searching within the DPP. Tsai Ing-wen sparked this by suggesting in her concession speech that the party might need to reconsider its cross-strait policies. Generally, moderates in the party have acknowledged that Tsai's rejection of the “1992 Consensus” contributed to her defeat and several, including Frank Hsieh, Hsu Hsin-liang, and Tung Chen-yuan, have suggested a need to reconsider party policy. Fundamentalists have avoided saying that Tsai's cross-strait policy contributed to her defeat because they do not want to see any change to the DPP's basic pro-independence position. Trong Chai, Wu Rong-yi, and Joseph Wu have opposed suggestions for changing the party's “China” policy. The party's

formal report on the election focused on campaign technicalities and avoided any mention of Tsai's cross-strait positions. That report promoted another round of comments from party moderates. In late April, the TAO spokesman made a statement that seemed to be a response to the ongoing DPP debate saying that "as long as the DPP makes any move toward abandoning their Taiwan independence stance, we will make a direct response."

On Feb. 29, Chen Chu became acting DPP chairperson pending a chairmanship election in May. Both Tsai and Chen Chu have said publicly that the DPP should increase its contacts with Beijing to promote better two-way understanding. This is one issue on which there appears to be wide agreement within the party. In March, DPP Secretary General Lo Chih-cheng and former party official Tung I-wen attended the 10th Cross-strait Conference in Yunnan at the invitation of its TAO sponsors. Lo and Tung attended in non-DPP capacities. There has been no change in Beijing's policy that it welcomes contacts with DPP members, in appropriate capacities, but will not have party-to-party contact so long as the DPP rejects the "1992 Consensus" and promotes Taiwan independence. In late April, the TAO spokesman emphasized that even DPP leaders would be welcome to visit "in appropriate capacities."

On March 22, DPP Secretary General Lo Chih-cheng stated that Taiwan's official name is the Republic of China. On March 29, Acting Chairperson Chen Chu used the term "mainland China" rather than the standard DPP term "China." Both these statements have been interpreted within DPP circles as signs of new flexibility. Whether these statements become part of regular party rhetoric remains to be seen.

In mid-April, five candidates registered for the DPP chairmanship election. Three are fundamentalists: Wu Rong-yi, head of the Taiwan Brain Trust, former Tainan Mayor Su Huan-chih and legislator Trong Chai. Former Premier Su Tseng-chang has only said policy should be based on the DPP's 1999 resolution on Taiwan's future. Former party chair Hsu Hsin-liang has called for a new resolution to update party policy. As Su Tseng-chang is the front-runner, there has been talk that the three fundamentalist candidates should join forces to prevent his election.

In sum, there has been a lot of attention to cross-strait policy within the DPP. However, none of the mainstream party leaders (i.e., Su Tseng-chang, Chen Chu, and Tsai Ing-wen) clearly indicated views on future cross-strait policy. How DPP policy will evolve is unclear and will depend on a variety of still uncertain factors.

US arms sales

On April 27, the White House sent a letter to Sen. John Cornyn on the sale of advanced fighter aircraft to Taiwan. Cornyn had put a hold on the nomination of Mark Lippert as assistant secretary of defense for East Asia as a means of forcing the administration to address the perceived deficiency in Taiwan's fighter aircraft inventory. The letter said the White House shared Cornyn's concern about Taiwan's growing shortfall in fighter aircraft and that the administration would be deciding "on a near-term course of action on how to address Taiwan's fighter gap, including through the sale to Taiwan of an undetermined number of new US-made fighter aircraft." The Senate confirmed Lippert's appointment on April 26. It had been assumed

recently that there would be no major arms sales decisions during 2012. Although there are caveats in the letter, this deal raises the possibility of a decision this year.

Cross-strait trade

According to Taipei's Ministry of Finance, cross-strait trade grew 11.5 percent to reach \$134.7 billion in 2011. Taiwan's exports to China grew 7.4 percent to \$91.1 billion and Taiwan's imports for the mainland grew 21.3 percent to \$43.6 billion. Exports and imports of products covered by the early harvest tariff reductions under ECFA grew more rapidly than overall exports and imports. Additional products on the early harvest list became eligible for reduced tariffs from Jan. 1, 2012. Cross-strait trade growth began to slow in late 2011 and that trend has continued in the first months of 2012, reflecting the economic slow-down in China and in China's developed country markets.

Since Taipei first opened the door to Mainland investment in 2009, Mainland investors have committed only \$272 million to Taiwan, a paltry sum when compared to the \$68 billion Chinese firms invested abroad in 2010. In March, Taipei announced the third liberalization of sectors open to mainland investment. As a result, 97 percent of manufacturing, 51 percent of service, and 51 percent of infrastructure sectors are open. Nevertheless, no rush of Chinese investment is expected. This is primarily because a variety of ownership percent, land purchase, and other restrictions continue to inhibit Mainland investments.

Looking ahead

The continuity agenda for the coming months include the conclusion of a Yuan Settlement Agreement and the eighth SEF-ARATS meeting in Taiwan at which the twice-deferred Investment Protection Agreement is expected finally to be signed. President Ma's second inaugural address on May 20 will be watched carefully for anything it may say about the prospects for beginning to address political issues during his second term.

Behind the scenes there will likely be further talks about the possibility of SEF and ARATS agreeing to establish reciprocal offices in Taipei and Beijing. ARATS President Chen Yunlin has urged progress on this, but the MAC has said there continue to be significant differences on related issues. If achieved, the exchange of offices would represent a significant forward step in institutionalizing de facto cross-strait relations.

Chronology of China-Taiwan Relations January – April 2012

Jan. 2, 2012: Taiwan and Israel sign a Civil Air Agreement as part of their efforts to establish closer ties between the two countries.

Jan. 3, 2012: Evergreen Corp. Chairman Chang Yung-fa announces his support for the "1992 Consensus" in the lead-up to Taiwan elections.

Jan. 9, 2012: Taiwan's Ministry of National Defense reports Beijing has tested the *Julang-2* Submarine-Launched Ballistic Missile.

Jan. 10, 2012: Lee Teng-hui and Lee Yuan-tseh endorse Tsai Ing-wen for president.

Jan. 11, 2012: United Microelectronics Corporation Chairman John Hsuan and other entrepreneurs announced their support for the "1992 Consensus."

Jan. 14, 2012: President Ma Ying-jeou wins re-election; Kuomintang (KMT) retains legislative majority.

Jan. 14, 2012: In her concession statement, Democratic Progressive Party (DPP) candidate Tsai Ing-wen mentions the need to re-examine DPP's cross-strait policy.

Jan. 17, 2012: Frank Hsieh states that the DPP must frankly address its cross-strait policy.

Jan. 25, 2012: President Ma reiterates goal of Taiwan joining Trans-Pacific Partnership (TPP).

Jan. 27, 2012: Sean Chen is named Taiwan's premier.

Jan. 30, 2012: Taiwan Affairs Office (TAO) Minister Wang Yi publishes an article that sets China's agenda with Taiwan for 2012.

Jan. 31, 2012: KMT Vice Chairman John Chiang leads a delegation to Washington DC.

Feb. 1, 2012: President Ma receives American Institute in Taiwan (AIT) Chairman Raymond Burghardt.

Feb. 8, 2012: President Ma says cross-strait peace can be institutionalized without a formal peace agreement.

Feb. 12, 2012: Association for Relations Across the Taiwan Straits (ARATS) Deputy Chairman Zheng Lizhong leads a delegation on a visit to southern Taiwan.

Feb. 13-17, 2012: China's Vice President Xi Jinping visits the US.

Feb. 16-20, 2012: Beijing Mayor Guo Jinlong visits Taipei.

Feb. 22, 2012: Tsai Ing-wen advocates greater contact with the Mainland.

Feb. 29, 2012: Chen Chu is named acting chairperson of the DPP and advocates increased contact with the Mainland.

Feb. 29, 2012: TAO Spokesman encourages more visits to the Mainland by DPP grassroots representatives.

Feb. 29, 2012: DPP Secretary General Lo Chih-cheng calls for talks without preconditions.

March 5, 2012: Premier Wen Jiabao's work report opens the National People's Congress.

March 10, 2012: ARATS Chairman Chen Yunlin mentions exchanging SEF-ARATS offices.

March 15, 2012: Tenth Cross-strait TAO-sponsored Conference is held in Yunnan; TAO Minister Wang Yi addresses the group.

March 16, 2012: Premier Chen says the Pingtan Comprehensive Experimental Zone appears to be politically motivated.

March 21, 2012: Taipei announces third liberalization of sectors for Mainland investors.

March 22, 2012: Wu Poh-hsiung meets Hu Jintao in Beijing.

March 22, 2012: DPP Secretary General Lo Chih-cheng states that Taiwan's official name is the Republic of China (ROC).

March 28, 2012: Fujian Governor Su visits Taiwan to discuss the Pingtan Comprehensive Experimental Zone.

March 29, 2012: Acting DPP Chair Chen Chu uses the term "Mainland China."

April 1, 2012: Wu Den-yih meets Li Keqiang at the Boao Forum.

April 1, 2012: At Boao Forum TAO Minister Wang Yi talks of deepening political mutual trust.

April 7, 2012: President Ma departs for 12-day trip to visit African diplomatic allies.

April 9, 2012: Taipei delegation visits Shanghai for ECFA talks.

April 12, 2012: TAO Minister Wang Yi visits Washington for consultations.

April 15, 2012: Frank Hsieh's book urges dialogue with the Mainland based on the constitution.

April 18, 2012: Guidelines for the reciprocal opening of trade offices is released.

April 24, 2012: Cross-Strait Economic Cooperation Committee (CSECC) Sub-Committee on Standards meets in Hualien.

April 26, 2012: CSECC Meets in Tamsui.

April 27, 2012: White House sends letter to Sen. John Cornyn regarding his concerns over fighter aircraft for Taiwan.