

## **China-Taiwan Relations: Is China's Flexibility Tactical or Significant?**

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In recent months, Beijing has taken a number of steps that show greater flexibility on issues related to Taiwan. Beijing has said that cross-Strait transportation does not have to be called "domestic"; it has agreed to a proposal from opposition members in Taipei to permit charter flights and given up its initial request that some of the charter flights be flown by PRC airlines; and, in his meeting with President George W. Bush in Crawford, President Jiang Zemin indicated that China might reduce missile deployments opposite Taiwan if U.S. arms sales were reduced. A key question is whether these and other moves are just tactical maneuvers or a significant adjustment in Beijing's approach to cross-Strait relations. Beijing's moves represent a challenge for the Chen Shui-bian administration in Taiwan but present opportunities that Taipei and Washington should consider seriously.

### **New Moves by Beijing**

This quarter has seen a remarkable number of instances in which Beijing has adopted a more flexible or less confrontational approach on issues relating to Taiwan. The first was on the issue of air routes between the mainland and Taiwan. On Oct. 17, Vice Premier Qian Qichen told a visiting Taipei editor that as cross-Strait economic issues should be separated from politics, these air routes could be called "cross-Strait" routes. As noted in last quarter's report, Beijing's willingness to drop its insistence that these air routes be treated as "domestic," a term that the Taiwanese government saw as an indirect way to obtain its acceptance of the "one China" principle, would be a key indicator of whether Beijing would be willing to put politics aside and actively promote economic ties. That Qian's announcement of this adjustment in Beijing's position came on the eve of the 16th Party Congress is an indication that consensus exists within the PRC leadership on this approach.

The Taiwan section of President Jiang's report to the 16th Party Congress on Nov. 8 sounded a noticeably soft tone. This was reflected in the absence of threatening language and in the emphasis on economic ties. Jiang's report wrote into party policy the more flexible three-part definition of "one China" first voiced by Vice Premier Qian in the summer of 2000. It expanded on China's position that anything could be discussed once

Taipei accepts “one China” by specifying that Taiwan’s international status and its representation in international social and economic forums were among topics that Beijing would discuss. (Although the report did not restate the standard language that the PRC is the sole legal government of China, this language predictably was included in the Dec. 2 Jiang Zemin-Vladimir Putin Communiqué, indicating that the omission was not significant.)

On Oct. 25, Presidents Bush and Jiang met at Bush’s ranch in Crawford, Texas. From a Taiwan perspective, the meeting was most important because Bush mentioned at the press conference that the U.S. does not support independence for Taiwan, a position that other administration officials had voiced but had not been mentioned publicly by the president before. About a month after the meeting, the press began to report that at Crawford Jiang had mentioned briefly that if the U.S. was willing to restrain its sale of advanced arms to Taiwan, Beijing would be willing to reduce its missile deployments opposite Taiwan. Just how this idea was phrased has not been made public. Nevertheless, Jiang’s suggestion is the first indication that Beijing might be willing to countenance reductions of its missile deployments opposite Taiwan.

In late October, Kuomintang (KMT) Legislator Chang Hsiao-yan proposed that direct charter flights be arranged to fly Taiwanese home from Shanghai for the Chinese New Year next Feb. 1. Not surprisingly, Beijing publicly welcomed this proposal but tacked on a proviso – that PRC airlines should participate. When Taipei balked at PRC airlines participating, Chang traveled to China and won Beijing’s agreement that on this first occasion only Taiwan airlines would participate. When Taipei then added the proviso that the flights could not be direct but must land briefly in either Hong Kong or Macau, Beijing reluctantly agreed to this as well. This was remarkable because it means China is agreeing to allow Taiwan airlines to transport passengers from one city in the PRC (Hong Kong) to another (Shanghai) and in the process to compete with scheduled flights by PRC airlines. There are still details to be worked out, and the charters may in the end not take place, but the flexibility Beijing has shown is noteworthy.

In December, Beijing agreed to a first consultation in Geneva between the World Trade Organization (WTO) representatives of Beijing and Taipei. In one sense, this should be considered only normal as Beijing had invoked safeguards measures against steel imports from Taiwan and this action requires consultations under WTO rules. However, since the PRC and Taiwan joined the WTO last year, Beijing had been stating that it was inappropriate for cross-Strait economic issues to be dealt with via the WTO. Although Beijing’s approach came in a way that Taipei interpreted as denigrating the status of its WTO delegation, Taipei welcomed Beijing’s willingness to hold consultations between their WTO delegations.

### **What Does This Mean?**

These examples of PRC flexibility occurred after Taiwanese President Chen Shui-bian’s statement in August that there is “one country on each side” of the Strait. As noted previously, (“Chen Muddies Cross-Strait Waters,” *Comparative Connections*, Vol. 4, No.

3, October 2002) most PRC observers have interpreted these remarks as proving Chen's true colors as a "separatist." PRC propaganda has since likened Chen to former President Lee Teng-hui, and some recent PRC visitors to Washington have characterized Chen, like Lee, as a "trouble maker." Why then is Beijing prepared to show new flexibility in dealing with Taiwan?

### **Interpreting Moves on Three Links**

Beijing's motives related to the three links may be merely tactical – to exploit differences between Chen and the opposition. United front efforts to appeal to Chen's domestic opponents have been a staple element in Beijing's approach for the past two years. That KMT member Chang Hsiao-yan was the proponent of charter flights provided Beijing an opportunity to play on these inter-party differences. In turn, Beijing's flexibility on air routes has elicited pressure on the Chen administration from elements in the Democratic Progressive Party (DPP) and Taiwan Solidarity Union (TSU) who see Beijing's moves as a trap to ensnare Taiwan in closer ties with the mainland.

Beijing's actions may, however, reflect a more significant adjustment in Beijing's approach toward Taiwan. Beijing is now evincing greater self-confidence. In part, this confidence reflects a view, shared by many in the mainland and Taiwan, that long-term trends are favorable to the PRC; that time is on Beijing's side in dealing with Taiwan. This confidence also appears to reflect the improvement of U.S.-China relations this year, symbolized by President Jiang's October visit to Crawford, and Beijing's belief that the Bush administration will cooperate in checking Taiwan independence. In a seemingly inconsistent twist, Beijing is at the same time concerned about the Chen administration's continuing efforts to promote a separate Taiwanese identity and sees closer economic and social ties as the best means to counter these efforts and to promote eventual reunification. A recent visitor to China came away with the impression that Taiwan experts now understand better that the Taiwan public's preference for the status quo constrains Chen from provocative actions and that it is therefore in Beijing's interest to appeal more positively to the Taiwan public. As Jiang said in his 16th Party Congress report, "Taiwan separatist forces are unpopular ... We place our hopes on the people of Taiwan." Qian's flexibility on these issues is also consistent with the emphasis on expanding economic ties that has been apparent since his Jan. 22, 2002 Chinese New Year address. Chinese representatives have indicated that a new consensus was reached this summer within the Beijing leadership to do more to strengthen economic ties with Taiwan and that it has been decided to proceed with this policy despite Chen's August statement.

### **What of Jiang's Arms for Missiles Idea?**

In mid-November, when Taipei's Washington Representative Chen Chien-jen was back in Taipei on consultation, he stated that President Jiang had made a proposal in Crawford offering to reduce Chinese missiles aimed at Taiwan if the U.S. would reduce arms sales to Taiwan. At about the same time, former Defense Secretary William Perry heard a similar idea from Jiang and from other senior civilian and military leaders in Beijing. A

senior PRC official who was present said Jiang's proposal was that if the U.S. agreed to reduce its arms sales and eventually end them, China would consider adjusting its military deployments opposite Taiwan. U.S. officials have declined to confirm reports about the Crawford exchanges. As there is no authoritative written record, it is not clear exactly what has been proposed, but the general impression is that some "missiles for arms reductions" concept has been floated.

Here, too, Beijing's motives are subject to various interpretations. It is possible that this proposal is just a tactical effort to turn the frequently stated U.S. position – that if China continues to deploy missiles, the U.S. will have no choice but to provide more advanced defensive systems to Taiwan – around to put the ball in the U.S. court: if the U.S. stops providing advanced arms, then China can reduce its missiles. On the surface, the proposal makes Beijing appear more flexible and this appearance may have been its purpose. Perhaps Beijing's purpose is to create anxiety in Taipei that the U.S. might cut a deal behind its back to limit arms sales. If so, the tactic has worked because the story has aroused considerable concern in Taipei. The fact that Beijing has never before been willing to countenance limitations on its military modernization or on its use of force against Taiwan raises questions about the sincerity of the proposal.

However, that the proposal was made privately at the highest level and that Beijing maintained its confidentiality for almost a month may be an indication that the proposal should be taken seriously. Why might Beijing now be reconsidering its policies on military deployments opposite Taiwan? Experts in the PRC widely believe that the military balance is tipping inexorably in Beijing's favor. With confidence that its broad-based military modernization program is and will continue to intimidate Taiwan, Beijing may believe that there is little marginal benefit from additional deployments opposite Taiwan. Some in Beijing are aware that the missile deployments are alienating opinion in Taiwan in a way that is undermining united front efforts to appeal to opinion on Taiwan and isolate Chen. Since October, President Chen has orchestrated a major campaign against Chinese missile deployments in order to gain support at home and abroad. If there is a new awareness that additional missile deployments are not useful and possibly counterproductive, a proposal to get something in return for limiting them would be understandable.

### **Reactions in Taipei and Washington**

The leak of the "missiles for arms" idea elicited a prompt negative reaction in Taipei from Foreign Minister Eugene Chien who described the idea as a "ploy" which is both "unreasonable and unfair." Even with an administration in Washington that is firmly committed to the Taiwan Relations Act (TRA) and former President Ronald Reagan's six assurances, there is an almost visceral fear in Taiwan that Washington might cut a deal with Beijing behind its back. Nevertheless, some in Taipei are considering the implications of the proposal. For example, DPP Legislator Lee Wen-chung said in a *Taipei Times* commentary that Taipei should develop a response to the proposal lest it be left on the sidelines.

U.S. government officials have thus far evinced no interest in the proposal. The State Department's press guidance did not go beyond repeating that U.S. arms sales would be guided by the TRA. One unnamed senior U.S. official told the press that the issues involved were ones that should be addressed between Beijing and Taipei. Given the other urgent international priorities of the Bush administration, whether Jiang's proposal will get serious consideration is uncertain.

### **Economic Ties Expanding**

Economic ties have continued to expand rapidly. Beijing's Taiwan Affairs Office (TAO) put total trade in the first three quarters at \$32 billion. Taiwan's Board of Foreign Trade (BOFT) reported that cross-Strait trade in the first 10 months of 2002 grew by 34.5 percent to reach \$33 billion. BOFT said Taiwan's 10-month exports were \$26.67 billion and account for 24.9 percent of Taiwan's total exports, confirming the mainland as Taiwan's largest export market. Both Beijing and Taipei expect cross-Strait trade to exceed \$40 billion in 2003.

Taiwan's Ministry of Economic Affairs investment statistics, which are indicative of trends, show Taiwan investment in the PRC up 35 percent during January through November 2003. In sharp contrast, Taiwan's overall outward investment, excluding that to the PRC, fell 25 percent in the same period. This quarter, Taiwan's largest chip maker, Taiwan Semiconductor Manufacturing Company applied for approval in Taipei for a near \$1 billion investment in an eight-inch wafer plant in Shanghai, the first application under Taipei's new policy on such investments.

### **Policy Implications**

Beijing appears to have made a significant adjustment toward a more flexible approach to promoting the three links and cross-Strait economic ties. It seems significant that this policy is being pursued even after Chen's "one country on each side" statement. This shift represents an opportunity for Taiwan, but it is a personal challenge for President Chen because of the contradictory domestic pressures he is under on cross-Strait issues.

Jiang's arms-for-missiles proposal is not workable as proposed, in part because it does not include a role for Taiwan. Nevertheless, the kernel of the idea deserves serious consideration. For Washington, whose basic interest is in a peaceful resolution of cross-Strait issues, the possibility of limiting an unproductive cross-Strait arms race should be seen as in its interest. In Taiwan, those who are deeply concerned about PRC missiles or who believe longer-term trends are gradually tipping the military balance in Beijing's favor should see that reducing the military threat and reducing the role of military factors in cross-Strait relations is in Taipei's interest. However, for its part, Beijing should understand that it is politically impossible for this or any other U.S. administration to limit arms sales to Taiwan without the involvement of Taiwan in the discussions and without a real reduction in the military threat to Taiwan.

## **Chronology of China-Taiwan Relations October-December 2002**

**Oct. 1, 2002:** Premier Zhu Rongji's National Day speech repeats policy and calls Taiwan's President Chen Shui-bian a separatist.

**Oct. 3, 2002:** Premier Yu Shyi-kun orders formation of center to coordinate Taiwan's nongovernmental organization diplomacy.

**Oct. 10, 2002:** President Chen's National Day message launches campaign for withdrawal of PRC missiles opposite Taiwan.

**Oct. 17, 2002:** Chinese Vice Premier Qian Qichen proposes use of term "cross-Strait" for air routes.

**Oct. 19, 2002:** President Chen welcomes Qian's remarks.

**Oct. 21, 2002:** U.S. International Trade Commission publishes report on U.S.-Taiwan Free Trade Agreement implications.

**Oct. 25, 2002:** Presidents Bush and Jiang meet in Crawford, Texas.

**Oct. 28, 2002:** Taiwan Legislator Chang Hsiao-yan proposes direct charter flights for next Lunar New Year.

**Oct. 29, 2002:** PRC spouses living in Taiwan demonstrate against proposed new regulations on work eligibility.

**Oct. 30, 2002:** Taiwan Semiconductor Manufacturing Company announces plans for \$1 billion investment in PRC.

**Nov. 3, 2002:** Taiwan protests PRC spy ship intrusion into territorial waters east of Taiwan.

**Nov. 8, 2002:** President Jiang's Party Congress report adopts softer tone on Taiwan issues.

**Nov. 12, 2002:** Executive Yuan (EY) endorses charter flights that are "indirect."

**Nov. 14, 2002:** Japan denies former Taiwanese President Lee Teng-hui visa to visit Japan.

**Nov. 15, 2002:** Taiwan World Trade Organization (WTO) delegation requests consultations with PRC on steel safeguards.

**Nov. 19, 2002:** Former President Lee calls for new constitution for Taiwan.

**Nov. 21, 2002:** Taiwan's Washington Representative Chen Chien-jen tells legislature that Jiang proposed to Bush a deal on missile and arms sales reductions.

**Nov. 22, 2002:** President Jiang meets former Defense Secretary William Perry, mentions missile-arms sales idea.

**Nov. 22, 2002:** Taiwan's Foreign Minister Eugene Chien says this proposed deal is an "unfair" "ploy."

**Nov. 27, 2002:** Beijing official says PRC can accept indirect charter flights.

**Dec. 2, 2002:** Beijing publishes new regulations easing restrictions on Taiwan reporters.

**Dec. 4, 2002:** EY formally approves indirect charter flights proposal.

**Dec. 5, 2002:** Press reports PRC WTO delegation proposes steel safeguards talks.

**Dec. 6, 2002:** Unnamed U.S. official says "missiles for arms sales" deal is "unthinkable."

**Dec. 7, 2002:** Taipei Mayor Ma Ying-jeou wins re-election decisively.

**Dec. 9, 2002:** Taipei releases human rights report asserting relations with PRC cannot improve until China democratizes.

**Dec. 10, 2002:** PRC 2002 Defense White Paper continues softer tone on Taiwan.

**Dec. 11, 2002:** U.S.-PRC Defense Consultative Talks in Washington.

**Dec. 12, 2002:** PRC and Taiwan WTO delegations hold first consultations on steel safeguards.

**Dec. 14, 2002:** Chen cancels plans to visit Indonesia after press leak and PRC protest.

**Dec. 18, 2002:** Unnamed U.S. official tells press Taipei and Beijing should negotiate on arms.

**Dec. 19, 2002:** U.S.-Taiwan Business Council urges faster opening of cross-Strait economic ties.

**Dec. 29, 2002:** *People's Daily* reports PRC has accepted charter flight applications from three Taiwan airlines.

**Dec. 30, 2002:** Taiwan Vice President Annette Lu urges caution in responding to PRC pressure to open direct travel.

