

China-Taiwan Relations: Strains over Cross-Strait Relations

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Taiwan President Chen Shui-bian continued to press his proposals for referenda and plans for a new Taiwan constitution in the campaign for the presidential election next March. Beijing tried to respond to his moves at a low level, but the prospect of Legislative Yuan (LY) adoption of a law permitting referenda on sovereignty issues forced Beijing to heighten its rhetoric and appeal to Washington to counter Chen's plans. Chen's decision not to keep Washington informed in advance of his moves heightened the Bush administration's concerns about Chen's long-term intentions. Washington's quiet diplomatic communications had little effect on Chen. So, when Chinese Premier Wen Jiabao visited, President Bush addressed the issue and made clear his concerns about possible steps by Chen to unilaterally change the cross-Strait status quo. Nevertheless, Chen announced he would proceed with his plan for a referendum next March. The campaign will continue to determine the temperature of cross-Strait relations and the outcome will have a major impact as the two candidates' approaches to China differ markedly.

A New Constitution: Taiwanese Nationalism and Political Reform

At the end of last quarter, President Chen had announced his goal of drafting a new constitution for Taiwan. Chen did this without consulting Washington or even his own administration. Chen said that the new constitution would transform Taiwan into a "normal, complete, and great" country. When the Democratic Progressive Party (DPP) announced its election platform, establishing a new constitution was put together with the rejection of the "one China" principle and promotion of the concept of "one country on each side (of the Strait)." The DPP subsequently outlined the procedural steps Chen envisages: an advisory committee would devise procedures for choosing a constitutional council that would meet in 2005 and complete drafting a new constitution by Human Rights Day in December 2006. The draft constitution would be submitted to a referendum in time for its implementation in May 2008 at the end of Chen's second term.

This package was designed to set forth a vision for Taiwan's future that would appeal to and mobilize support from the DPP's traditional base among "fundamentalist" advocates of Taiwan independence. Turning out these traditional supporters is essential to Chen's reelection. As many of the DPP's traditional supporters have been disappointed by Chen's performance, he cannot take their support for granted. At the same time, Chen has sought to explain and sell the need for a new constitution not explicitly in terms of

Taiwanese nationalism but as democratic political reform needed to address real problems in Taiwan's political system. This message is addressed to middle of the road voters whose support Chen needs if he is to expand his support beyond the 39 percent he won in 2000. The political reform theme resonates with these voters and builds upon the antipolitical corruption (black gold politics) theme Chen used so successfully in the 2000 presidential campaign.

Referendum Proposal ups Ante for Beijing

This summer after Beijing's callous handling of Taiwan during the SARS outbreak, Chen announced his intention to hold a referendum on World Health Organization (WHO) membership. There were both short-term and long-term goals behind Chen's push for referenda. The short-term objective was to use the referendum to play up PRC hostility toward Taiwan during the campaign. The long-term goal was to establish the practice of holding referenda so that referenda could be held in the future on sovereignty issues as the DPP had long advocated.

Having failed to get the LY to act earlier to provide a legal basis for referenda, the Executive Yuan (EY) proposed its own draft referenda legislation. As the draft had no limitation on the subjects of referenda, it accommodated both Chen's immediate and long-term goals. The opposition controlled legislature then passed a Referendum Law that strictly limited the topics and procedures for referenda, including a provision prohibiting the executive branch from initiating referenda. However, the new law did include a separate provision authorizing the president to conduct "defensive referenda" when the country faced a crisis threatening its sovereignty. With no other way for him to have the referendum he desired in March, Chen seized on this provision to announce that he would hold a defensive referendum at the time of the presidential election. After discussion within the DPP, Chen announced on Dec. 8 that the defensive referendum would call on Beijing to remove missiles opposite Taiwan and renounce the use of force in cross-Strait relations.

Throughout the summer and fall, Beijing was seriously concerned by Chen's referenda and constitutional reform proposals. Recognizing that a threatening reaction would play into Chen's hands, Beijing reacted in a restrained fashion and followed a policy of allowing no one other than the Taiwan Affairs Office (TAO) to comment on Taiwan issues. During October and November, the TAO issued a string of increasingly sharp comments and written statements warning that Chen's maneuvers would lead Taiwan to the brink of disaster.

At the same time, recognizing the limits of its own influence, Beijing urged Washington to block Chen's referendum plans. Beijing's concerns were conveyed to President Bush at the October Asia-Pacific Economic Cooperation (APEC) Leaders Meeting in Bangkok, in several telephone calls to Secretary Colin Powell, and through diplomatic channels. The LY's final consideration of the Referendum Law and the lead-up to Premier Wen Jiabao's visit to Washington in early December modified the restraint in Beijing's response. In a pre-departure interview with the *Washington Post*, Wen emphasized

China's commitment to a peaceful resolution of the Taiwan issue but warned against separatist forces in Taiwan and called on Washington to block Chen's referendum plans. On Dec. 3, PLA Gen. Peng Guangqian said Beijing would "pay any price" to prevent Taiwan's independence.

Washington Grapples with its Taiwan Policy

During the summer and fall, Washington was concerned that Chen's campaign initiatives could have potential long-term implications for the U.S. interest in preserving peace in the Taiwan Strait. For its own reasons and in response to Chinese requests, the Bush administration sought through diplomacy and public statements to convey its concerns to Chen. Shortly after Chen launched his constitutional proposal, National Security Advisor Condeleezza Rice at a press conference urged both Taipei and Beijing to avoid unilateral steps that would change the status quo. She reiterated the "one China" premise of Washington's policies and called upon all parties to adhere to "one China."

Washington's efforts to get its message through were complicated by existing plans for President Chen's transit of New York in early November. Despite Chen's campaign moves, the generous transit terms agreed to earlier that allowed Chen to receive a human rights award at a gala public ceremony in New York were not changed. Chen accurately portrayed his treatment in New York as better than allowed on previous transits. In short, Washington's courtesies to the leader of a friendly democracy undercut its messages of concern about President Chen's plans. To add to the confusion about Washington's message, Chairwoman Theresa Shaheen of the American Institute in Taiwan (AIT) privately commented to Chen in New York that President Bush was his "secret guardian angel." Chen publicized this unauthorized comment to convey the image that Washington supported him, and many in Taiwan began to believe that Chen was Washington's preferred candidate, despite official U.S. statements of election neutrality.

Premier Wen's Visit to Washington

After Chen announced his intention to hold a defensive referendum, Washington redoubled its efforts to get across its message about avoiding provocative steps or actions that would unilaterally change the status quo. The White House spokesman made this point publicly and a senior NSC official was more explicit in an interview to Phoenix TV in Hong Kong. Washington dispatched NSC Asia Director James Moriarty on a discreet trip to Taipei reportedly bearing a personal message to Chen from Bush. Nevertheless, on Dec. 8, Chen announced the missile withdrawal and non-use of force issues he would put to a referendum next March. At a campaign rally that day, Chen told supporters that he had successfully managed Washington on the referendum issue.

On Dec. 9, Premier Wen met Bush at the White House. In their brief press conference, President Bush restated the U.S. "one China" policy based on the three U.S.-China communiqués and the Taiwan Relations Act and recalled that the U.S. had urged both sides to avoid unilateral steps that would change the status quo. Bush then went on to say "the comments and actions by the leader of Taiwan indicate that he may be willing to

make decisions unilaterally to change the status quo, which we oppose.” While not a change of policy, this public presidential rebuke of Chen is the sharpest criticism of Taiwan voiced by any U.S. president since diplomatic relations were broken in 1978 and a clear indication of the current strains in U.S.-Taiwan relations. At the same press conference, Wen reiterated Beijing’s pursuit of a peaceful resolution of the Taiwan issue but warned that Beijing would not tolerate Taiwan independence. Wen also thanked Bush for telling him of his “opposition” to Taiwan independence. When Wen made this statement, Bush’s head was seen nodding in agreement – a confirmation that while public policy is that the U.S. “does not support” independence, the president has been telling Chinese leaders privately that he “opposes” independence.

Bush’s unusual criticism of Chen will not be the last words on U.S. policy. Chen subsequently reaffirmed his intention to hold the defensive referendum as planned. Despite the bluntness of the president’s statement, the Chen administration has with some success tried to put a positive face on developments. They have said, accurately, that the president’s statement is not a change in policy. Chen’s campaign has emphasized that U.S. support for Taiwan’s defense remains strong and thanked Bush for telling Wen privately that the U.S. would support Taiwan if Beijing used force. Although Washington officials have said they do not support a defensive referendum because it will unnecessarily raise tension in the Strait, Chen has commented that his planned referendum does not contravene Washington’s wishes because it does not seek to change the status quo.

Cross-Strait Transport and Lunar New Year Charter Flights

Against the backdrop of these major policy issues, there was some jockeying over practical cross-Strait issues. In response to public pressure for special cross-Strait travel arrangements at the coming Chinese New Year, Taipei’s Mainland Affairs Council (MAC) made proposals for a repeat of the special lunar New Year charter flights made last New Year. Unfortunately, the MAC proposals seemed designed to be rejected by Beijing because they excluded PRC carriers from participating in the arrangement. Beijing’s TAO responded to the proposals by reiterating that this year PRC carriers should participate and by calling for negotiations between airline associations to work out the arrangements. In response, the MAC said that it could be possible for PRC carriers to participate. However, although the recently passed amendments to Taipei’s Cross-Strait Relations Statute permit the government to authorize airline associations to negotiate such arrangements, the MAC stated that arrangements for PRC carrier participation would have to be negotiated between the quasi-official Straits Exchange Foundation (SEF) and its counterpart the Association for Relations Across the Taiwan Straits (ARATS). Taipei knew that this requirement would be unacceptable to Beijing.

In late December, MAC Vice Chairman Chen Ming-tung commented that it seemed unlikely that lunar New Year charters would occur. Chen’s comment – that the basic problem was Beijing’s unwillingness to recognize Taipei – was an indication that Taipei placed more importance on pressing Beijing for political benefit than working out

practical travel arrangements and that Chen saw campaign advantage in blaming Beijing for the failure to arrange charters.

In December, the TAO published a long report on the “three links” and cross-Strait transportation issues. The report was in part a response to and critique of the report on these issues released by the MAC during the summer. The TAO report restates Beijing’s strong desire to expand cross-Strait economic relations by resolving problems affecting cross-Strait transportation. The report reiterates that SEF-ARATS negotiations on these issues will only be possible on the basis of the “one China” principle. The report is important primarily because it lays out in considerable detail Beijing’s current views on how nongovernmental airline and shipping associations could negotiate transportation issues with the involvement of government representatives on each side. Taipei’s amended Cross-Strait Relations Statute would permit Taipei to negotiate in this manner, if Taipei should choose to do so. Progress on these issues will have to await the outcome of the Taiwan election.

Continued International Competition

With a couple of SARS cases reappearing in Taiwan and China, the prospect of another bitter contest over Taiwan participation in the WHO looms ahead. PRC spokesman have continued to state Chinese opposition to Taiwan’s participation in the WHO and unfortunately have shown no indication of flexibility on an issue that has come to symbolize in Taiwan perceptions of PRC hostility and has hurt China’s international image.

In October, after the fall of the Charles Taylor government, Beijing established diplomatic relations with Liberia and Taipei announced that its diplomatic ties had ended. In November, a change of leadership in Kiribati led to Kiribati’s decision to establish diplomatic relations with Taiwan. Because China had a satellite tracking facility important for its space program in Kiribati, Beijing did not immediately break its diplomatic relations but sought to have the decision reversed. Hence for a few weeks, tiny Kiribati was the only country able to maintain diplomatic relations with both Taipei and Beijing. However, on November 29, when it was clear that Kiribati’s decision was firm and when the satellite tracking facility had been removed, Beijing broke diplomatic relations.

Economic and other Developments

As has been the past pattern, cross-Strait economic relations have continued to grow rapidly despite political frictions. According to PRC statistics, cross-Strait trade through October was up 29.4 percent over the same period last year and was on course to exceed \$50 billion in 2004. This year Taiwan’s imports from China, which were up 36 percent, have grown more rapidly than Taiwan’s exports to China. Taiwan’s Ministry of economic affairs reported that Taiwan imports through September were \$7.7 billion and were likely to exceed \$10 billion this year.

Taiwan's investments also continued to grow despite repeated rhetorical efforts by the Chen administration to discourage them. Taipei's Investment Commission reported that Taiwan investment approvals for the mainland were up 17 percent through October and accounted for about 70 percent of Taiwan's total approved foreign direct investments.

In December, the Hong Kong media ran a story, subsequently confirmed in Beijing, that the PRC had broken up a ring suspected of spying for Taiwan, arresting 24 Taiwanese, mainly businessmen, and 19 PRC citizens. The day after the arrests were confirmed, Beijing hurriedly arranged for the heads of Taiwan Enterprise Associations around China to come to Beijing for a meeting with President Hu Jintao. According to the *Xinhua News Agency*, Hu spent most of his time reassuring the Taiwanese of China's support for Taiwanese investors. This is another indication of the importance Beijing places on encouraging investments from Taiwan.

For years, PRC fishing personnel working on Taiwan fishing boats in waters around Taiwan were not permitted to land on Taiwan. Instead, Taiwan fishing companies contracted for floating hotels where PRC fishing personnel could spend time between jobs. A disastrous fire in one floating hotel last year led to PRC protests and calls for reform. In December, Taiwan began permitting PRC fishermen to reside in hotels on shore, resolving one small practical problem in cross-Strait relations. In November, a Taiwan court found guilty and sentenced to death a Taiwanese smuggler responsible for a tragic incident in which illegal workers from China were pushed off a smuggling boat being pursued by the Coast Guard leading to the deaths of six Chinese women.

China's first manned space flight in October was front page news in many parts of the world and a source of pride for Chinese at home and overseas. However, in Taiwan, China's accomplishment received scant attention and inside page coverage. Media commentary, to the extent it was made in Taiwan, generally accentuated negative themes such as the military's role in the space program and the diversion of resources that might have been used for poverty alleviation. In the current highly politicized context of cross-Strait issues on Taiwan, particularly after the SARS controversies, it appears difficult for people in Taiwan to identify even with China's positive accomplishments.

Policy Implications

Campaign developments will continue to determine the temperature of cross-Strait relations. President Chen has shown himself determined to use a referendum next March to heighten perceptions of PRC threats and hostility toward Taiwan. What further impact the campaign will have on cross-Strait issues remains to be seen. The election outcome will be a major influence on future developments because the two contending candidates represent very different approaches to China.

Two years ago, U.S.-Taiwan relations were at a high point. President Chen's campaign maneuvers have now subjected relations between Taipei and Washington to the greatest strains seen since relations were broken 25 years ago. Ironically, these strains have now contributed to the improvement of relations between Washington and Beijing. While

President Chen has laid out plans for constitutional reform and hinted to his fundamentalist DPP supporters that this would change Taiwan's status, he has sought to reassure the U.S., though inconsistently, that he would abide by his inaugural pledges not to change the status quo. With such uncertainty about Chen's future intentions, the Bush administration has correctly moved to warn Chen against unilateral efforts to change the status quo. Unfortunately, even after the president's personal interventions, U.S. policy is still not accurately interpreted in Taiwan. Part of the problem is that Washington's unqualified support for Taiwan's defense tends to undercut the policy message that Washington has been endeavoring to convey to the Chen administration.

Chronology of China-Taiwan Relations October-December 2003

- Oct. 1, 2003:** *Xinhua* article calls Chen a "hopeless Taiwan independence element."
- Oct. 4, 2003:** Chen says Taiwan should become a "normal, complete, great state."
- Oct. 7, 2003:** In the *Washington Post*, Chen calls for end of "one China" concept and acceptance of "one country on each side."
- Oct. 8, 2003:** TAO spokesman says Chen statements extremely dangerous.
- Oct. 9, 2003:** LY adopts extensive amendments to Cross-Strait Relations Statute.
- Oct. 13, 2003:** Beijing establishes diplomatic relations with Liberia; Taiwan's relations end.
- Oct. 15, 2003:** First PRC manned space flight.
- Oct. 15, 2003:** NSC's Rice calls on both sides to avoid unilateral steps to change cross-Strait status quo and to abide by "one China" policy.
- Oct. 17, 2003:** Chen meets AIT Chairwoman Shaheen.
- Oct. 19, 2003:** Presidents Bush and Hu meet at APEC; Bush expresses opposition to Taiwan independence.
- Oct. 20, 2003:** KMT candidate Lien Chan in Washington.
- Oct. 24, 2003:** Hu Jintao addresses Australian Parliament, asks Australia to support unification.
- Oct. 26, 2003:** TAO spokesman says pursuit of independence will bring Taiwan to disaster.

Oct. 29, 2003: Cabinet proposes referendum law with no limit on issues subject to referenda.

Oct. 31, 2003: Visiting U.S. navy group estimates cost of submarines at \$8.6-11.7 billion.

Oct. 31, 2003: Chen transits New York; receives human rights award.

Nov. 1, 2003: AIT's Shaheen tells Chen that Bush is his "secret guardian angel."

Nov. 3, 200: Chen and Secretary Powell shake hands at Panama ceremony.

Nov. 4, 200: Chinese FM Li Zhaoxing calls Powell to protest his contact with Chen.

Nov. 5, 200: Powell gives speech reiterating U.S. policy and adherence to "one China" policy.

Nov. 6, 2003: Beijing gives four PRC banks approval to set up offices in Taiwan.

Nov. 7, 2003: Taiwan establishes diplomatic relations with Kiribati; PRC does not immediately break relations until removal of satellite tracking station is complete.

Nov. 11, 2003: Chen tells Brookings delegation he hopes to draft constitution by 2006, and submit it to referendum and implement by 2008.

Nov. 12, 2003: TAO spokesman repeats that Chen is leading Taiwan to disaster.

Nov. 13, 2003: MAC's Tsai Ing-wen in Washington, describes democratic rationale for new constitution.

Nov. 15, 2003: *Agence France Presse* reports U.S. delivers *AIM-120* air-to-air missiles to Taiwan.

Nov. 17, 2003: TAO issues strong written statement warning Chen against separatism.

Nov. 18, 2003: Taiwan expels visiting PRC documents authentication delegation.

Nov. 19, 2003: State Dept.'s Randall Schriver repeats U.S. policy urging both sides to avoid unilateral steps to change status quo.

Nov. 21, 2003: Premier Yu Shyi-kun authorizes SEF to negotiate charter air flights for lunar New Year.

Nov. 22, 2003: MAC announces proposals for Taiwan carriers to fly lunar New Year charter flights.

Nov. 23, 2003: In *Washington Post*, Premier Wen calls on U.S. to block referenda in Taiwan.

Nov. 25, 2003: DPP publishes procedures for drafting new constitution.

Nov. 26, 2003: Taiwan court sentences to death human smugglers responsible for deaths of Chinese illegal workers.

Nov. 26, 2003: TAO says airline associations should negotiate lunar New Year charter flights.

Nov. 27, 2003: LY adopts restrictive Referendum Law proposed by KMT and PFP.

Nov. 29, 2003: Beijing officially ends relations with Kiribati.

Dec. 1, 2003: NSC's James Moriarty makes discreet visit to Taipei with message from Bush.

Dec. 2, 2003: Taipei permits PRC fishing personnel to reside in on-shore hotels.

Dec. 3, 2003: PLA Gen. Peng Guangqian says Chen is taking Taiwan "to brink of war," says PRC will "pay any price" to prevent independence.

Dec. 3, 2003: Vice FM Zhou Wenzhong calls on U.S. to stop upgrading relations with Taiwan.

Dec. 4, 2003: White House spokesman calls on both sides to avoid steps to change cross-strait status quo.

Dec. 5, 2003: Chen tells Sen. Jeff Bingaman (D-NM) he will abide by his inaugural pledges.

Dec. 8, 2003: Chen announces topics for "defensive referendum" to be held on March 20.

Dec. 9, 2003: Bush meets Wen, says U.S. opposes Taipei's effort to unilaterally change status quo.

Dec. 10, 2003: Chen says he will proceed with referendum as planned.

Dec. 10, 2003: ARATS calls for association negotiation on lunar New Year charter flights; says PRC air carriers must participate.

Dec. 11, 2003: MAC says PRC carriers can join lunar New Year charter flights, but SEF must be involved in negotiating arrangements.

Dec. 11, 2003: DPP Convention; campaign theme “Believe in Taiwan, Insist on Reform”; Annette Lu chosen as running mate.

Dec. 12, 2003: Chen calls on U.S. to adhere to its values and support Taiwan democracy.

Dec. 15, 2003: U.S.-Taiwan joint war game begins in Hawaii.

Dec. 17, 2003: TAO releases report on “three links.”

Dec. 18, 2003: Taiwan Vice Minister of Defense Lin Chong-pin visits Washington.

Dec. 19, 2003: DPP commissioned report recommends Taiwan develop missiles.

Dec. 22, 2003: KMT Chairman Lien says “one country on each side” an accurate description.

Dec. 22, 2003: President Chen comments that his “five noes” have ceased to exist.

Dec. 22, 2003: Cabinet Commission publishes “Taiwan in 2010” defense report.

Dec. 24, 2003: *Xinhua* announces arrest of 24 Taiwanese for spying.

Dec. 25, 2003: President Hu meets Taiwanese investor association representatives, gives reassurances on support for Taiwan investments.

Dec. 26, 2003: Former Japanese PM Mori Yoshiro conveys message from PM Koizumi Junichiro to Chen that Japan does not wish to see referenda in Taiwan.

Dec. 30, 2003: Taipei press reports TAO’s Zhou Minghui removed from office.