

## China-Taiwan Relations: Chen Muddies Cross-Strait Waters

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On Aug. 3, President Chen Shui-bian told a video conference with independence supporters in Tokyo that there was “one country on each side” of the Taiwan Strait. Taiwan government officials, Washington, and Beijing were caught by surprise and concerned. Taipei quickly sent out assurances that policy has not changed, Washington reiterated that it did not support independence, and President Chen refrained from repeating this remark publicly. While no crisis occurred, the remarks appear in part to reflect Chen’s conclusion that Beijing’s cool response to Taipei’s goodwill offers means there is little near-term prospect for progress on cross-Strait issues. Taipei has pressed ahead with efforts to strengthen ties with the U.S., but its efforts to increase Taiwan’s international standing have suffered setbacks. Minor steps continue to be taken to ease restrictions on cross-Strait economic ties, which are again expanding rapidly.

### “Three Links” in Limbo

This quarter opened with considerable attention on both sides of the Strait to ways the recently concluded extension of the Taiwan-Hong Kong Air Services Agreement could provide a model for how private groups might handle the opening of direct travel across the Strait – the so-called “three links.” President Chen seemed intent on opening direct travel before the 2004 presidential elections in order to demonstrate his ability to successfully manage cross-Strait relations. Bureaucrats in Taipei were working on the modalities for authorizing private groups to negotiate. Beijing was continuing to state its desire to move ahead on the “three links” without requiring private groups to accept the “one China” principle, while nevertheless insisting that such air and sea connections must be considered “domestic (*guonei*)” routes. This latter point is seen by the Chen administration as a back-door way to obtain Taipei’s indirect acceptance of the “one China” principle. Chen Yun-lin, the director of the Taiwan Affairs Office (TAO) had told Taiwan visitors in July that in November, after the Communist Party Congress, there could be a turning point on these economic issues.

Then in late July and early August, President Chen made statements – reminiscent of positions taken by former President Lee Teng-hui – that have complicated the prospects for progress on cross-Strait economic issues.

## **Chen Muddies the Water**

On July 21, in one address to the Democratic Progressive Party (DPP) convention, President Chen had included a standard restatement of his administration's current cross-Strait policy based on his inaugural statement and the DPP's 1999 resolution on Taiwan's future. The following day, in his speech accepting the DPP party chairmanship, Chen took a noticeably harder line, urging Beijing to take an historic step toward better relations but threatening that, if Beijing did not respond to goodwill gestures, Taipei "would not rule out the possibility of going its own way." This harder tone sparked some comment and criticism from opposition politicians. What caused his change of tone? Many speculated that it was Beijing's signing the day before an agreement establishing diplomatic relations with tiny Nauru that had until then recognized Taipei. Chen apparently saw the timing of this announcement as a slap in the face.

Ten days later in a video conference address to independence supporters in Tokyo, Chen explained his administration's view of Taiwan's sovereignty saying that in effect "there is one country on each side" of the Strait. (In pinyin: *yi-bian, yi-guo*. In mandarin, the word *guo* was the same as used by former President Lee Teng-hui in his "state-to-state relations" statement.) Chen went on to underline the urgency of Taiwan adopting referendum legislation.

These remarks, particularly his use of the word "country," caught many by surprise and raised questions about whether President Chen was backing away from the commitments in his inaugural address to avoid actions that would increase tensions in the Strait, including holding a referendum. Mainland Affairs Council (MAC) Chairperson Tsai Ing-wen was one of those caught off-guard; President Chen's remarks had not been cleared within the government. Washington also had no advance knowledge and was concerned because it thought it had an understanding that there would be no repetition of the "surprise" former President Lee had sprung in his "state-to-state relations" statement in 1999. Washington quietly made clear its concerns and sought clarification, while publicly reiterating the U.S. "one China" policy and its non-support for Taiwan independence.

Sensing concerns from many quarters, Chen authorized MAC Chairperson Tsai to issue a four-point statement to the effect that there had been no change in policy on cross-Strait relations and that Taipei would continue efforts to open direct trade and travel. A few days later, Chen explained that all he had meant by his statement was to underscore that Taiwan and China had "equal sovereignty." Then, Tsai was hurriedly sent to explain Chen's remark to Washington, where her reception was cool. Subsequently, the DPP Legislative Yuan (LY) whip confirmed that passing referendum legislation was not one of the DPP priorities in this fall's LY session.

## **View from Beijing**

Beijing had other priorities this summer, with leadership transition maneuvering dominating the annual Beidaihe retreat and preparations for the 16<sup>th</sup> Party Congress. Beijing had little time for Taiwan issues and no interest in new tensions in the Strait.

Beijing's initial reaction to Chen's Aug. 3 statement came at a relatively low level from a TAO official who sharply criticized Chen for leading Taiwan toward disaster. The propaganda barrage that followed from a wide variety of official publications for the first time criticized the president by name and likened him to China's *bête noire*, former President Lee. However, this initial reaction subsided quickly once Beijing had accepted assurances from Washington that it was not associated with nor supportive of Chen's remarks. Most Chinese observers commented that Chen's remarks only revealed his true colors as a "separatist." Privately, Chinese told visiting U.S. observers that henceforth Beijing would put pressure on Washington to restrain the president, promote closer economic ties to bind Taiwan to the PRC, and continue modernizing the People's Liberation Army (PLA). Once convinced that no immediate challenge was involved, the Beijing leadership has since devoted scant attention to Taiwan.

### **What Does it Mean?**

It appears in retrospect that Chen's remarks do not represent a radical change in his policy toward the mainland. While the president has explained in press backgrounders that his remarks were deliberate, thus far he has chosen not to repeat the "*yi-bian, yi-guo*" phrase in public, perhaps a tacit acknowledgment that his choice of words was impolitic. This restraint is quite different from 1999 when former President Lee repeatedly explained his concept of "state-to-state" relations. Privately, Chen continues to assert that his statement accurately describes reality.

However, these remarks are consistent with a harsher tone that has surfaced in Chen's public posture toward the PRC and appear to reflect his growing frustration that the PRC has not responded positively to his goodwill gestures, including his important indication in May that private groups could play a role in negotiating the three links. Even before the Nauru episode, Chen had revived government promotion of former President Lee's 1990s "Go South" policy, a hortatory effort to encourage Taiwanese businessmen to invest in Southeast Asia rather than in the PRC. This is responsive to the concern of many in the DPP that Taiwan is becoming too dependent on the PRC market. Around the anniversary of Sept. 11, Chen gave speeches in which he tried to portray PRC military threats against Taiwan as a form of terrorism. At an Asian Democracy conference in Taipei, Chen called for Asian governments to join Taiwan in an effort to promote democratic change in China. The president has expressed his frustration privately to visiting Americans and indicated that his administration will continue with steps to strengthen Taiwan's identity and promote its place in the international community. At the same time, he has continued to pursue the goal of opening direct cross-Strait travel, though apparently with lower expectations of success. Chen used the anniversary of the Economic Development Advisory Conference (EDAC) to reiterate his commitment to expanding cross-Strait economic ties.

## **International Competition**

The PRC agreement with Nauru reflects Beijing's determination to do everything possible to constrain Taipei's international space, particularly because of what Beijing sees as President Chen's efforts to promote "creeping independence." For the 10<sup>th</sup> year, Beijing easily blocked the inclusion on the UN General Assembly agenda of an item on Taiwan's participation. Likewise, Beijing ensured that Taiwan's large delegation to the UN summit on Sustainable Development in South Africa only participated in the unofficial activities on the margins of the conference. As if to underline how far the PRC is going to constrain Taiwan, Beijing successfully persuaded Lions International to unilaterally change the name of the ROC Lions organization as the price for the establishment of Lions chapters in China.

Taiwan did make some progress in expanding its ties with the U.S. The visit of Vice Minister of Defense Kang Ning-hsiang to Washington was the first such visit by an official in this sub-Cabinet position. In September, Madame Chen Wu Shu-chen was issued a visa for a first private visit to the U.S., which included a stop in Washington and meetings with members of Congress. President Chen has frequently underlined the importance he places on concluding free trade agreements with the U.S., Japan, and other major trading partners.

## **Defense Issues**

U.S. contacts with Taiwan in the defense area continued actively. A U.S. team was in Taipei in July for consultations on the submarine deal. A session of defense consultations was held in Monterey in August. Vice Minister of Defense Kang visited Washington and CINCPAC in September.

One message from Washington in these meetings has been that Taipei needs to make a deeper commitment to respond to the growing challenge of PRC military modernization. One public expression of this concern was provided in a talk by David Cole of the National Defense College, who criticized the Chen administration and the LY for not appropriating adequate resources for defense and asked whether Taiwan had the will to resist PRC military pressure. In a move that could help explain such concerns, Taipei released in September the proposed defense budget for 2003, which totaled about \$7.6 billion at current exchange rates. In contrast to Beijing's published defense budget which has been rising at double digit rates in recent years, Taipei's 2003 budget declined again and was the lowest proposed appropriation in eight years. The budget included only \$510 million for new procurement, including a initial payment of four Kidd-class destroyers but no funds for any of the systems offered in the Bush administration's \$4 billion 2000 arms sales package.

## **Economic Ties Expanding**

First-half trade figures show that in 2002 cross-Strait economic relations have resumed their rapid expansion, despite the lack of cross-Strait dialogue. According to PRC figures, cross-Strait trade reached \$19.6 billion in the first half, with PRC imports from Taiwan of \$16.8 billion, up 33 percent from the first-half of 2001. Taipei figures for the first five months report trade of \$14.9 billion, with Taiwan exports up 26 percent from a year earlier and accounting for 23.5 percent of all Taiwan exports. The initial indications last fall that the PRC had become Taiwan's largest market have been convincingly confirmed by these first half trade figures. This export growth in turn has been an important factor in the recovery of the Taiwan economy. Seen from Beijing's perspective, Xinhua reported that Taiwan is now the PRC's second largest source of imports.

Taiwan investment in the PRC continues apace. Beijing reported actual investment from Taiwan reached \$1.9 billion in the first half, up 47 percent from a year earlier. Taiwan's Ministry of Economic Affairs reported that investment approvals in the first eight months totaled \$2.3 billion, an increase of 35 percent over the same period last year, and this increase occurred in a period when Taiwan's other foreign direct investment declined 34 percent. Several recent surveys indicate that the overwhelming majority of Taiwanese firms planning overseas investment are planning to invest in China.

These trends have heightened concerns among some in Taiwan about over-dependence on the PRC market and lie behind the Chen administration's revival of the ineffectual "Go South" policy. Douglas Paal, the director of the American Institute in Taiwan, gave a speech in September urging Taiwan to overcome its phobia about economic ties with mainland China saying that these fears were hampering Taiwan's ability to compete effectively in the global economy.

In the absence of meaningful negotiations, Taipei has continued to take minor steps to ease restrictions on cross-Strait economic ties. Taipei and Beijing have adopted measures that will permit direct remittances between banks in the PRC and the off-shore banking units of banks in Taipei. Taipei has authorized investments in many service industries in the PRC and has issued new regulations that will make it easier for multinational firms to employ PRC citizen technical personnel in Taiwan. Under the "mini three links" program, a direct shipping route was opened between the Penghus and a port in Fujian. Both Taipei and Beijing have taken steps related to the opening of representative offices of Taiwan banks in the PRC. A further sign of change was the announcement in late September of a joint venture to produce Tsingtao Beer on Taiwan, with hopes that this famous Chinese beer would gain 20 percent of the beer market in three years.

In late September, the Executive Yuan completed draft legislation that will, if adopted, substantially liberalize the statute governing cross-Strait relations. The draft would shift from an approach of permitting only those activities which are explicitly authorized to one permitting all activities that are not specifically prohibited. In addition, the draft provides for authorizing organizations other than the Strait Exchange Foundation (SEF) to handle aspects of cross-Strait relations.

## **Policy Implications**

There is no prospect of significant movement toward cross-Strait dialogue on economic issues until after the 16<sup>th</sup> Party Congress in November. Beijing officials state that, despite President Chen's recent remarks, Beijing still wishes private groups to negotiate the opening of direct trade and travel. After November, the question will remain whether Beijing will place higher priority on the economic benefits of strengthening cross-Strait economic relations or the political goal of getting Taipei to treat direct trade and travel as a "domestic" matter.

## **Chronology of China-Taiwan Relations July-September 2002**

**June 29, 2002:** Taipei and Hong Kong sign aviation agreement extension.

**July 2, 2002:** New American Institute in Taiwan Director Douglas Paal arrives, thanks Taipei for reducing cross-Strait tension.

**July 5, 2002:** Chinese Vice Premier Qian Qichen calls for progress on "three links" as "domestic" routes.

**July 9, 2002:** Fire on floating dormitory dramatizes plight of PRC fishermen working for Taiwan.

**July 10, 2002:** Taiwan Ministry of Education announces decision to use *Tongyong Pinyin* romanization.

**July 12, 2002:** Department of Defense releases *2002 Annual Report on the Military Power of the People's Republic of China*, which highlights threat to Taiwan.

**July 15, 2002:** PRC repatriates shipwrecked Taiwan soldier to Matsu.

**July 16, 2002:** Taiwan Foreign Ministry says addition of words "issued in Taiwan" to passports will be postponed in response to Democratic Progressive Party (DPP) criticism.

**July 17, 2002:** U.S.-Taiwan defense talks in Monterey conclude.

**July 21, 2002:** PRC establishes diplomatic relations with Nauru.

**July 21, 2002:** Taiwan President Chen Shui-bian becomes chairman of DPP, gives speech saying that if PRC does not respond to overtures, Taiwan may have to "go its own way."

**July 23, 2002:** U.S. Navy delegation begins consultations on submarine sale in Taipei.

**July 24, 2002:** Press reports U.S. DoD has expressed concern to visiting Taiwan delegation that Taipei is not doing enough for its own defense.

**July 25, 2002:** Taipei Ministry of National Defense releases white paper on defense policy.

**July 30, 2002:** President Chen speech reiterates that Taipei won't change island's status if Beijing stops its threats.

**July 31, 2002:** U.S. Secretary of State Colin Powell and Chinese Foreign Minister Tang Jiaxuan meet in Brunei at ASEAN Regional Forum.

**July 31, 2002:** *People's Daily* commentary urges Taipei to begin talks on "three links."

**Aug. 2, 2002:** Taipei Ministry of Finance approves rules for cross-Strait financial transfers.

**Aug. 3, 2002:** President Chen makes video conference remarks about "one country on each side."

**Aug. 5, 2002:** Taiwan Affairs Office (TAO) official warns Chen is leading Taiwan to disaster.

**Aug. 5, 2002:** Mainland Affairs Council (MAC) Chairperson Tsai Ing-wen issues four-point statement that cross-Strait policy has not changed.

**Aug. 5, 2002:** Taiwan Premier Yu transits U.S. through Los Angeles and New York en route to Latin America.

**Aug. 6, 2002:** After DPP meeting, Chen says Taipei and Beijing have "equal sovereignty."

**Aug. 6, 2002:** Various PRC publications criticize President Chen by name.

**Aug. 7, 2002:** State Department reiterates U.S. "one China" policy and non-support for independence.

**Aug. 9, 2002:** MAC Chairperson Tsai meets U.S. officials in Washington to explain Chen's remarks.

**Aug. 11, 2002:** Chen and former President Lee Teng-hui attend first anniversary celebration of Taiwan Solidarity Union (TSU).

**Aug. 14, 2002:** Taiwan Vice President Annette Lu, denied entry to Jakarta, flies to Bali.

**Aug. 16, 2002:** VP Lu flies back to Jakarta for private meetings, returns to Taipei.

**Aug. 20, 2002:** MAC eases regulations allowing multinational corporations in Taiwan to hire PRC nationals.

**Aug. 21, 2002:** Chinese VP Qian criticizes Chen by name and likens him to former President Lee.

**Aug. 25, 2002:** President Chen's strategy review at Tashee calls for free trade agreements (FTAs) with U.S. and Japan and for renewed effort to achieve "three links."

**Aug 26, 2002:** At Asian democracy forum in Taipei, Chen calls for promoting democracy in China.

**Aug. 29, 2002:** Chen says he is determined to normalize cross-Strait economic relations.

**Sept. 2, 2002:** Taiwan and Mongolia exchange unofficial offices.

**Sept. 4, 2002:** Taipei's 2003 draft defense budget released, shows lowest in eight years.

**Sept. 9, 2002:** Vice Minister of Defense Kang Ning-hsiang in Washington for talks.

**Sept. 9, 2002:** Taiwan press reports Chinese VP Qian has been in Fujian for Taiwan work conference.

**Sept. 11, 2002:** Chen describes PRC military threat to Taiwan as a form of terrorism.

**Sept. 12, 2002:** UN General Committee votes not to include Taiwan issue on UNGA agenda.

**Sept. 13, 2002:** FM Tang vows before the U.N. General Assembly that China will never allow Taiwan to become independent.

**Sept. 14, 2002:** PRC Ministry of Foreign Trade and Economic Cooperation Minister Shi warns Singapore against signing FTA with Taiwan.

**Sept. 17, 2002:** Singapore's Lee Kuan Yew in Taipei for meetings with President Chen and others.

**Sept. 20, 2002:** MAC orders visiting PRC delegation to curtail visit.

**Sept. 20, 2002:** Taipei Ministry of Foreign Affairs announces that next printing of passports will not have words "issued in Taiwan."

**Sept. 23, 2002:** *Taipei Times* reports Singapore will move some military training from Taiwan to Hainan.



**Sept. 24, 2002:** Beijing accuses hackers in Taipei of hacking into TV broadcasts for Falun Gong.

**Sept. 25, 2002:** Executive Yuan drafts major changes to statute on cross-Strait relations.