

China-Taiwan Relations: **Relaxed, but not Re-linked**

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Cross-Strait tensions have relaxed. The pace of cross-Strait developments has slowed from the torrid period following Taiwanese President Chen Shui-bian's election, but there has been no breakthrough for dialogue. While PRC Vice Premier Qian has expounded some new ideas, Beijing remains focused on exploiting differences within Taiwan to pressure President Chen to accept its one-China principle. Under criticism from some Democratic Progressive Party (DPP) supporters, Chen has said he can go no further in accommodating Beijing. Meanwhile, problems at home are demanding more of Chen's attention. While there has been no breakthrough for dialogue, cross-Strait economic ties continue to expand, with both governments preparing for eventual World Trade Organization (WTO) membership. The good news is that tensions have eased, the situation has stabilized, and both sides want to resume dialogue. The bad news is that there has been no breakthrough on a formula for resuming dialogue and the prospects for resumption in the coming months are not bright. While there is no reason to expect a confrontation to erupt in the foreseeable future, cross-Strait political relations remain in an inherently unstable situation subject to disruption by unanticipated events.

The Search for Dialogue Stalls

President Chen's statements at his press conference and during his meeting with visiting Americans in late June that he could accept the 1992 consensus on "one-China, respective interpretations" prompted criticism both from Beijing and from DPP "fundamentalists," for whom independence is the defining issue. Beijing criticized Chen for not accepting its interpretation of the 1992 consensus, and the DPP fundamentalists charged that he had gone too far in accommodating Beijing's views. In the following weeks, Chen and others in his administration took steps to reassure DPP supporters. Chen said that in his comments he had not accepted and could not accept Beijing's view that one-China means the PRC. At the same time, Mainland Affairs Council (MAC) Chairperson Tsai Ing-wen reiterated on July 6 that the Taipei could accept the one-China, respective interpretations position.

One key element of reassurance to DPP hardliners was that Chen did not endorse the effort of some DPP moderates to modify the "Republic of Taiwan" plank in the DPP

Party Charter. At the DPP convention in mid-July, the sponsors of this modification withdrew their proposal stating *inter alia* that it would be premature to change that language until Beijing renounced the use of force. Chen told the convention that he had gone as far as he could in accommodating PRC concerns and that the ball was in Beijing's court. Since then, Chen has generally avoided floating new formulas on the one-China issue.

A host of delegations from Taiwan have visited the PRC in recent months including groups from the New Party, Kuomintang (KMT), James Soong's People First Party (PFP), media and business delegations, and several former senior KMT government officials. The PRC has used these meetings to keep up its pressure on Chen to accept the one-China principle. Following the last of the three political party visits, Chen Yali of Beijing's Association for Relations Across the Taiwan Strait (ARATS) was quoted in *People's Daily* as saying that all Taiwan's opposition parties accept the one-China principle. Chen was urged to do likewise.

After meeting Qian Qichen, the Vice Premier and Vice Chairman of the Central Leading Group on Taiwan Affairs (CLGTA), several Taiwan visitors reported that Qian had used a more flexible formula in stating that "Taiwan and the Mainland are both parts of one China"--a potentially significant formula. Interestingly, this harkens back to ideas expressed a few years ago by ARATS Chairman Wang Daohan but not then endorsed by the party leadership. Now, they are being stated authoritatively. On at least one occasion, President Jiang mentioned this formula privately to Americans. Although this formula has not been reported in the PRC media, Vice Premier Qian was asked about it in an on-the-record interview on September 11 with overseas media and explained that the accurate way of stating it is: "There is only one China; the Mainland and Taiwan both belong to one China; China's sovereignty and territory cannot be divided."

When asked about reports that Qian had used this new formula, President Chen said such reports need to be treated carefully because PRC media coverage of the meetings do not mention Qian's statements. Chen also cautioned that Beijing continues to take one line with Taiwan and another abroad. Internationally, Beijing has not deviated from the position that the PRC is the sole legal government in a one-China that includes Taiwan--a position that undercuts the appeal of Qian's new formula. Nevertheless, Qian's new language could become an important element in the search for a formula for resuming dialogue.

Beijing remains deeply suspicious of Chen because he has stopped short of endorsing the one-China principle. In Taipei, there is parallel frustration that Chen's conciliatory statements have not elicited a favorable response from Beijing. When Chen stated in August that unification was not the only option for Taiwan--a statement that indirectly acknowledged the future possibility of unification (and was therefore criticized by DPP fundamentalists)--Beijing saw this as confirmation of their suspicions that Chen has not abandoned the possibility of independence as another option. Mutual suspicion remains a fundamental impediment to cross-Strait relations.

Chen's public statement that unification was not Taiwan's only option prompted a sharp warning from China's Taiwan Affairs Office (TAO) that his comments reflected a "dangerous drift toward separatism." The following day, DPP Chairman Hsieh Changting responded by stating that the DPP did not exclude unification as an option for the future provided it would be accepted democratically by the people of Taiwan. Hsieh's remarks in turn produced more criticism from DPP fundamentalists, some of whom argued that his willingness to countenance eventual unification was cause for his removal.

Building consensus on cross-Strait policy remains a daunting challenge. To this end, the Supra-party Task Force (STF) chaired by Nobel laureate Lee Yuan-tseh convened in early September, but without formal participation by the KMT or PFP. Chen continues to place considerable importance on the STF, which he has tasked with crafting a domestic consensus on ethnic harmony and cross-Strait relations. At the STF's first meeting, Chairman Lee put forward his view that the 1992 consensus on one-China, respective interpretations could form the basis for a resumption of cross-Strait dialogue--a proposal which immediately sparked controversy.

As this quarter drew to a close, Chen Shui-bian reiterated his desire to make a breakthrough on direct transport, trade, and postal contacts with the Mainland, eliciting a PRC response that the first step must be acceptance of the one-China principle. Meanwhile, Qian Qichen has proposed that direct transportation might be arranged using the "Hong Kong formula," under which private shipping representatives worked out procedures for Taiwan ships and aircraft to continue calling at Hong Kong after reversion in 1997, eliciting a response from Taipei that direct links would need to be negotiated in the established cross-Strait institutional channel.

In sum, there has been a considerable amount of megaphone diplomacy this quarter. There is no shortage of erstwhile intermediaries, most prominently Singapore Senior Minister Lee Kuan Yew. Lee, who played a key role in facilitating the 1993 Wang-Koo meeting in Singapore, has said there is an urgent need to restart cross-Strait dialogue. Though his visit was criticized by Beijing and by many in Taipei, Lee was well received by Chen and other government leaders. There have also been occasions when mid-level officials from each side responsible for cross-Strait issues have met abroad in track two (non-governmental) contexts. However, with Beijing insisting that Taipei accept the one-China principle, there has still been no direct institutional communications between ARATS and its Taiwan counterpart, the Straits Exchange Foundation (SEF). SEF has tested ARATS' boycott by sending it messages on practical cases involving Taiwanese in difficulty on the Mainland, but ARATS has not responded. Taiwan's MAC commented quite correctly in September that the situation had stabilized but that cross-Strait dialogue is in "cold storage."

Gleanings from Beidaihe Meetings

Taiwan, particularly how to handle Chen Shui-bian, was a focus of the annual Beidaihe leadership meetings in August. These meetings produce no reports, but some indications can be gleaned from Chinese statements and actions. As expected, there was no major policy shift on Taiwan. President Jiang received Congressman Archer during the meetings and told him that there would be no change in the basic policy of peaceful unification under the “one country, two systems” formula. Beijing sources report that there was consensus at Beidaihe that as long as Chen does not declare independence there would be no need to apply military pressure on Taiwan and Beijing could continue to watch Chen’s actions. PRC Defense Minister Chi told Secretary Cohen in July that, while Beijing would not give up the right to use force, it had no plan to use force against Taiwan.

During the summer, PRC leaders have expressed continuing suspicions about Chen Shui-bian. Visiting Americans have reported senior leaders’ criticism belittling Chen’s credibility--“How can we deal with someone who can’t even control the policy of his own government?”--and emotional comments--“Chen won’t even state publicly that he is Chinese!” These perceptions undoubtedly affected the debate at Beidaihe. Judging from Chinese actions, the policy appears to be to keep maximum pressure on Chen to accept the one-China principle and to undermine his standing in Taiwan. This means public criticism whenever Chen stops short of Beijing’s conditions. It means united front tactics working through opposition groups on Taiwan to pressure Chen, and it means trying to exacerbate tensions within the DPP to weaken Chen’s core constituency. All of this has been reflected in Beijing’s actions since Beidaihe. Where Qian’s new formula fits in all of this is not clear. Is it a caveated carrot dangled before Taiwan oppositionists to make Beijing appear reasonable and generate pressure on Chen, or a serious effort to find a mutually satisfactory formula on one-China?

Chen’s Domestic Problems

At home, domestic problems are demanding more of Chen’s attention. The administration’s inability to arrange a *modus vivendi* with the KMT majority in the Legislative Yuan is viewed as a problem that could paralyze the administration’s ability to govern. The annual budget has been presented to the Legislative Yuan, but consideration of it has been delayed by KMT procedural motions. Controversial policy issues lie on the horizon. The most complex and important is whether to continue construction of Taiwan’s fourth nuclear power plant. With the KMT in favor and the DPP opposed, the government is badly split.

While Taiwan’s economy has continued to do well by many indicators, including strong gross domestic product and export growth, public concern about the economy has been reflected in the stock market decline. Despite administration efforts to prop up the market, the TAIEX stock index was down more than 25 percent in late September from where it stood on Chen’s inauguration. The KMT has been quick to criticize the administration’s “mismanagement” of the economy.

These domestic problems cut two ways. On the one hand, they are making growing demands on President Chen's attention, which was heavily focused on cross-Strait issues in the first months after his election. On the other hand, they increase his incentive to achieve a breakthrough on cross-Strait issues to counterbalance his domestic difficulties.

Cross-Strait Economic Ties Continue to Grow

Despite the very considerable tension in cross-Strait relations earlier this year, economic ties grew apace. In August, Taiwan's Board of Foreign Trade announced that cross-Strait trade had increased 29 percent in the first half of 2000, reaching \$15.3 billion. Statistics released by Beijing's TAO portray the same picture and indicate that Taiwan was the PRC's second largest source of imports. Taiwan investment in China continues strong although the usual differences between PRC and Taiwan statistics obscure the picture. PRC figures indicate that contracted investment increased 32 percent in the first half, but that actual investment declined by a small amount. Cross-Strait travel has also increased substantially with the PRC reporting that Taiwanese made 1.3 million trips to the Mainland in the first six months.

There is considerable evidence that firms on both sides are positioning themselves for eventual WTO membership. With Taipei's Information Industry Institute reporting that the percentage of Taiwan's production of personal computers that are assembled on the Mainland increased in the first half to 50 percent, it is not surprising that the Taiwan Electric Equipment Manufacturers are urging Taipei to ease investment restrictions. A new period of investment fever is underway with many prominent Taiwan companies exploring investments that go beyond the limits currently authorized by Taipei. Taipei has been considering to what extent to ease the current investment restrictions, which still embody Lee Teng-hui's "be patient, go slow" policy. While speculation is rife, decisions on easing restrictions are still pending.

The Taipei press reported that Chinese and Taiwanese firms have been actively discussing a common standard for third generation mobile phones for use on both sides of the Taiwan Straits. The Shanghai press has reported that the PRC has approved Taiwan's China Air Lines acquisition of a 25 percent stake in Shanghai-based China Cargo Airlines, a deal that would also require approval in Taipei. Taipei is considering authorizing Taiwan banks to establish representative offices on the Mainland.

The unusual threats made earlier this year that Beijing would not permit Taiwan firms that support independence to profit from Mainland trade appear to have subsided. In August, Vice Premier Qian told visiting Taiwan industrialists that the PRC would continue to encourage cross-Strait economic ties, assist Taiwan investors, and work for direct trade, postal, and transportation links. One economic issue on which politics did intrude involved the PRC position on Taiwan's entry into the WTO. In July, Beijing's negotiator Long Yongtu told the WTO Working Party that Beijing wished to include in its accession protocol a statement that Taiwan would be granted admission to the WTO as a separate customs territory "of China." Washington promptly stated that the

introduction of such political statements would be inappropriate. Under pressure from the U.S. Senate, which was debating Permanent Normal Trade Relations (PNTR) legislation in September, the White House went on record that it would not accept such language in the PRC accession arrangements. Although this statement prompted a PRC Foreign Ministry reiteration of Beijing's position, the U.S. administration believes Beijing recognizes that it will not be possible to get such language through the WTO.

MAC chairperson Tsai has stated publicly that Taipei is preparing to ease restrictions on imports from the Mainland after WTO entry. She has described China and Taiwan's WTO entry as being a turning point in cross-Strait relations as it will require both governments to adjust their institutions and create a new model for interaction. Both Taipei and Beijing are considering opening quasi-official trade promotion offices across the Strait after entry. In September, the MAC released a study which concluded that opening direct trade and travel between the offshore islands and Mainland, the "mini three links," was feasible. On September 14, Tsai announced Taipei's desire to begin gradually implementing the "mini-three links" this year by legalizing the existing unauthorized small-scale trade between the offshore islands and Mainland.

Policy Implications

The good news is that tensions have eased, the situation has stabilized, and both sides want to resume dialogue. The bad news is that there has been no breakthrough on a formula for resuming dialogue and the prospects for resumption in the coming months are not bright. While there is no reason to expect a confrontation to erupt in the foreseeable future, cross-Strait political relations remain in an inherently unstable situation subject to disruption by unanticipated events. The Clinton administration's view that Chen's pragmatic approach has created opportunities for dialogue has been made amply clear to Beijing, including most recently at the Clinton-Jiang meeting in New York. Many Americans in and out of government will continue to urge both sides to resume dialogue. Meanwhile, the continued growth of economic ties is encouraging, and the prospect of entry into the WTO is seen by many on both sides as opening up new possibilities for dealing with the economic aspects of cross-Strait relations.

Chronology of China-Taiwan Relations July- September 2000

July 1, 2000: President Chen reiterates he cannot accept Beijing's definition of one-China.

July 3, 2000: Chen endorses Beijing's bid to host 2008 Olympics.

July 4, 2000: Premier Tang Fei says National Unification Guidelines need updating.

July 6, 2000: Mainland Affairs Commission (MAC) Chair Tsai reaffirms "one-China, respective interpretations" position.

July 8, 2000: U.S. Under Secretary of State John Holum tells PRC that the U.S. will not rule out providing Taiwan with theater missile defense (TMD).

July 12, 2000: PRC Defense Minister Chi tells U.S. Defense Secretary Cohen PRC will not attack Taiwan; Cohen urges dialogue with Taipei.

July 15, 2000: Democratic Progressive Party (DPP) Convention decides not to change “Republic of Taiwan” plank in DPP charter.

July 18, 2000: Chen says he has made all the concessions he can on cross-Strait issues.

July 26, 2000: *Xinhua* commentary calls MAC Chair Tsai a “separatist.”

July 27, 2000: At World Trade Organization, PRC proposes Taiwan accession as a “separate customs territory of China” provision, U.S. objects.

Aug. 3, 2000: People’s Liberation Army (PLA) begins major military exercise on China coast.

Aug. 4, 2000: Taipei’s supporters renew Taiwan’s UN bid.

Aug. 14, 2000: President Jiang tells Congressman Archer that the PRC’s Taiwan policy remains unchanged.

Aug. 19, 2000: While abroad, Chen says unification is not Taiwan’s only option.

Aug. 22, 2000: Taipei press reports that PLA SU-27 fighter aircraft crossed mid-line in Strait.

Aug. 26, 2000: Taiwan delegation reports Vice Premier Qian used flexible formula that “Taiwan and Mainland are both parts of one China.”

Aug. 28, 2000: *Xinhua* criticizes Chen’s reluctance to chair National Unification Council.

Sept. 2, 2000: Supra-party Task Force chaired by Lee Yuan-tseh convenes.

Sept. 5, 2000: Taiwan Affairs Office (TAO) criticizes Chen for a “dangerous drift toward separatism.”

Sept. 6, 2000: DPP Chairman Hsieh says DPP doesn’t rule out eventual unification.

Sept. 8, 2000: UN again sets aside resolution on Taiwan’s participation.

Sept. 8, 2000: U.S. President Clinton and PRC President Jiang meet in New York on the sidelines of the UN Millennium Summit.

Sept. 11, 2000: Vice Premier Qian repeats, in an on-the-record interview with overseas media, that “there is only one China, the Mainland and Taiwan both belong to one China, China’s sovereignty and territory cannot be divided.”

Sept. 14, 2000: MAC announces intention to open “mini three links” from this year.

Sept. 16, 2000: Chen says the time to normalize cross-Strait trade relations has come.

Sept. 21, 2000: Qian suggests “Hong Kong Formula” for arranging direct transport links.

Sept. 23, 2000: Chen says “three links” must be negotiated through Straits Exchange Foundation and the Association for Relations Across the Taiwan Straits.

Sept. 23, 2000: Taiwan Foreign Minister Tien Hung-mao returns from WTO-related European tour.

Sept. 25, 2000: Singapore’s Lee Kuan Yew arrives in Taipei to discuss cross-Strait issues.

Sept. 28, 2000: U.S. notifies of \$1.3 billion arms sale to Taiwan.