

China-Taiwan Relations: A Fragile Calm

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Cross-Strait relations have been buffeted by a series of strains in recent months – Washington’s announcement of a large arms sales package to Taiwan, President Bush’s statement that he would do “whatever it took” to defend Taiwan, President Chen Shui-bian’s meetings with congressional leaders during transit visits to the U.S., and former President Lee Teng-hui’s visits to Japan and the U.S. Unlike what happened in 1995, these events have not led to any increase in tensions across the Taiwan Strait. While cross-Strait relations have remained stable and calm, former President Lee’s public support for Chen will raise concerns in Beijing and potentially reignite cross-Strait tensions. Economic relations continue to develop, despite the global slowdown. However, economic and political problems have derailed the expected liberalization of cross-Strait investment restrictions.

Potential Strains

In mid-April both Japan and the U.S. issued visas to former President Lee Teng-hui. China had put on a full court press to persuade the Japanese government not to issue a visa to the man it labels as the “chief representative of the Taiwan independence forces.” In the end, the Mori government issued Lee a visa only for a medical visit to his Japanese cardiologist. China reacted by postponing a planned visit to Japan by National People’s Congress Chairman Li Peng. In late June, Lee made a return visit to Cornell University for the dedication of a research center named in his honor. The PRC did not make a major fuss about this visit.

In late April, the Bush administration announced its first package of arms sales for Taiwan. The list included four Kidd-class destroyers, eight diesel submarines, 12 P-3 surveillance aircraft, and a number of other items. The package did not include the item that Beijing had most strenuously objected to, Arleigh Burke-class destroyers equipped with the Aegis battle-management system. That said, objectively, the sum – \$5 billion – and the new and more advanced technology incorporated exceeded the quantitative and qualitative limits the U.S. had accepted in the arms sales communiqué it signed with Beijing in 1982. Nevertheless, Beijing’s reaction was limited to nearly *pro forma* diplomatic protests.

A day later in an ABC interview, President Bush stated that the U.S. would do “whatever it took” to defend Taiwan from an attack by China. Subsequently, the White House issued a release quoting Bush to the effect that the U.S. maintained its “one China” policy, opposed Taiwan’s pursuit of independence, and remained committed to the peaceful settlement of cross-Strait issues through dialogue. Although Bush summarized that therefore “nothing has really changed,” his original statement was a significant policy shift reflecting the administration’s desire to communicate with “strategic clarity” its intention to come to Taiwan’s assistance. These remarks were deeply troubling to Beijing, but again its initial reaction was limited to a sharp statement that the president’s remarks were leading Washington down a “dangerous road.”

In late May and early June, President Chen transited the U.S. on the way to and from visits in Central America. To show that, unlike the Clinton administration, it would treat the president of a friendly democracy with due courtesy, the Bush administration significantly eased the restrictions that had been put on Chen’s activities during previous transit stops, while continuing to use the terminology of “transit” rather than “visit.” Chen met with Congress members during both transit stops and engaged in a variety of other public activities. Again, Beijing’s protests were low level and *pro forma*.

Beijing’s Restrained Reaction

In 1995, the U.S. handling of then President Lee’s visa request and his subsequent visit to Cornell University provoked a significant downturn in U.S.-China relations, caused Beijing to terminate discussions between its Association for Relations Across the Taiwan Strait (ARATS) and Taipei’s Straits Exchange Foundation (SEF) concerning a second Koo-Wang meeting, and led to two rounds of provocative PRC missile tests that produced the March 1996 crisis in the Strait. If history were to repeat itself, any of this spring’s external strains might have produced a new crisis. The contrast with 1995 was striking. Not only was there no crisis, but there was no noticeable change in the pattern of calm cross-Strait relations seen since last summer.

There are several possible explanations for Beijing’s restraint. Chen’s role in these events conformed to Beijing’s assessment of Chen and hence did not require any new policy. While suspicious of Chen, Beijing remained confident that he would not take overt steps toward independence. Moreover, the PRC leadership is preoccupied with more pressing domestic challenges. Beijing was already holding in abeyance contacts with Chen’s administration, while keeping the pressure on Chen to accept its “one China” precondition for talks. The united front approach to the opposition in Taiwan may have limited Beijing’s ability to react harshly. Perhaps China, or at least some in Beijing, had learned from earlier experiences that hostility and threats toward Taiwan were counterproductive to Beijing’s goal of reunification.

The reaction may have been restrained because Beijing is still assessing the Bush administration and could see positive as well as negative aspects to the U.S. handling of Taiwan issues. On arms sales for example, Beijing was relieved that the Aegis-equipped destroyers were not included and may have concluded that the sale of the other most

troubling system, the submarines, might never take place because of the Dutch and German governments' unwillingness to issue needed licenses. Moreover, in his public statements, Bush had repeated U.S. opposition to independence for Taiwan (for Beijing, the most important of Clinton's "three no's"). With Sino-U.S. relations already badly strained by the aircraft collision, Beijing had multiple reasons for not wanting a confrontation with the U.S.

Cross-Strait Dealings

Whatever the reason, cross-Strait relations continued in a pattern that has become familiar since last summer. Beijing continued to reject any talks with the Chen administration and to respond to each of Taipei's overtures for talks with the standard refrain that Chen must first accept the "one China" principle. When Chen, on his tour of Central America, voiced what were termed "five new no's" to guide a policy of reconciliation with Beijing, the PRC spokesman derided Chen's statement as playing with words.

Beijing continued to cultivate the opposition, giving high-level treatment to several delegations from the Kuomintang (KMT) and People's First Party (PFP). The most prominent of these was a visit that former KMT Premier and current KMT Vice Chairman Vincent Siew undertook to promote his concept of a cross-Strait common market. Beijing gave Siew public courtesies typical of a state visit and arranged meetings with senior officials in Shanghai and Beijing, including Vice Premier Qian Qichen. In giving positive spin to the visit, Beijing omitted any public reference to aspects of Siew's positions with which it does not agree, such as his endorsement of "one China, respective interpretations." In addition, Beijing made no public comment on Siew's proposal for a cross-Strait common market, the promotion of which was the primary purpose of his trip.

The PRC chairmanship of APEC occasioned two visits by Taiwan Cabinet members to China, the first such Cabinet-level visits since then Taiwan Finance Minister Shirley Kuo attended an Asian Development Bank meeting in Beijing in 1989. Council for Economic Planning and Development (CEPD) Chairman Chen Poh-chih participated in an APEC meeting in Beijing and joined a group audience for APEC ministers with President Jiang Zemin in April. In June, Taiwan Economics Minister Lin Hsin-yi attended an APEC trade ministers meeting in Shanghai. On the fringes of the APEC gathering, Lin, a KMT member serving in the DPP-led Cabinet, had an unprecedented bilateral meeting with his Chinese counterpart Minister of Foreign Trade and Economic Cooperation (MOFTEC) Shi Guangsheng – a meeting that was not reported in the official PRC media. The two discussed cross-Strait economic issues, with Lin pressing Taiwan's case for an agreement to protect Taiwan investments in the PRC and Shi urging the opening of direct cross-Strait trade. Unfortunately, their meeting was marred by Taiwan's protest over Beijing's failure to address Lin as "minister" in its invitation to attend the APEC meeting.

During recent months, the scope of travel occurring under the "mini three links" framework has gradually expanded. In May, the first PRC cargo ship docked in Kinmen. In June, both sides authorized a ferry to bring a large group of pilgrims from Kaohsiung

to Xiamen traveling via Kinmen – the first example of Kinmen being authorized to facilitate what amounted to direct travel from Taiwan to the mainland. In May, a potentially serious incident involving PRC naval personnel detaining the Taiwan fishing boat, Tsaifu 1, off the northern coast of Taiwan for reportedly selling diesel fuel to PRC fishing vessels was defused through effective communication between the Taiwan Coast Guard vessel, which came to the scene, and PRC naval personnel. While resolved peacefully, this incident illustrates the potential for military-to-military conflict in the strait and the need for some means of communication between the two militaries. In late June, under Red Cross auspices, Beijing repatriated four criminals wanted in Taiwan and Taipei repatriated seven Chinese aircraft hijackers.

In addition, in late May and June the PRC conducted combined services exercises on Dongshan Island across the strait from Taiwan. While the PRC affiliated press in Hong Kong played up these exercises as the largest in recent years, Beijing officially described them as routine, a characterization with which both Taipei and Washington agreed. In late June, Taiwan conducted a test of its Patriot missile defense system.

Politics May Reignite Tensions

In June, former President Lee Teng-hui made public his political support for President Chen in the run-up to the December Legislative Yuan elections. First, Lee gave an interview suggesting that as many as 35 independent and KMT legislators might cooperate with the DPP after the election to give Chen a majority in the new legislature. Then on June 16 Lee joined Chen on the podium of a public ceremony to launch the “Northern Taiwan Society,” a group of pro-independence academics and leaders. The charter of the society endorsed Lee’s view of cross-Strait relations as state-to-state relations and Lee’s “no haste” policy for restricting Taiwan investments on the mainland.

Lee’s embrace of Chen will be seen in Beijing as a potentially troubling development. An internal debate on the implications of this is already occurring. If – and at this point it is a big if – after the election Chen is able to organize with Lee’s help a majority in the Legislative Yuan, Beijing’s current confidence that Chen will not take steps in the short term toward independence would be shaken. Beijing would have to recognize that its united front tactics to isolate Chen had failed and would then be concerned that a more secure Chen, influenced by Lee, might deviate from the “five no’s.” Chen needs to recognize the dangers that Lee’s embrace represent for his own management of cross-Strait relations. Timely reaffirmation of his inaugural and cross century statements are the minimum that should be done to give Beijing some reassurance that Lee will not gain influence (surely one thing Lee seeks) over the direction of cross-Strait policy.

Economic Developments

The growth of cross-Strait trade has slowed considerably this year. Taiwan’s Board of Foreign Trade has reported that cross-Strait trade grew a mere 2 percent in the first quarter, down from the 25 percent growth rate of the year 2000. The principal influence behind this deceleration has been the world-wide downturn in the information technology

(IT) sector, particularly in the U.S. Over half of Taiwan's global exports are in electronics and other high-tech products.

Nevertheless, economic factors continue to stimulate Taiwan investments in the mainland, which are heavily focused in the IT sector. Putting numbers to pervasive anecdotal information, Taiwan's Investment Commission has reported that Taiwan investments in the mainland increased by one-third to reach just over \$1 billion in the first five months of 2001 and that 45 percent of these investments were in electronics. In April, PRC Ministry of Foreign Trade and Economic Cooperation officials said that 70 percent of PRC computer products were manufactured by Taiwan invested enterprises (TIEs). In May, a high-powered PRC IT delegation, including Ministry of Information Industry officials and executives from Legend and other leading PRC IT firms, went to Taiwan for an annual trade show and announced a number of major new deals. As has so often been the case, the private sector is ahead of Taiwan's official policy on cross-Strait economic issues.

Despite the economic logic behind this investment drive, the long awaited liberalization of the investment restrictions in Lee Teng-hui's "no haste, be patient" policy has still not been concluded by the Chen administration. In April, the Mainland Affairs Council (MAC) reported that it had completed its review and forwarded it to the Cabinet where it languishes. Although Chen himself repeated early this quarter that the policy would be liberalized, the decision to do so has been delayed. Insiders report that security concerns related to opening direct travel are one factor delaying the review. Intra-DPP differences and economic factors are also involved. Some in the DPP continue to be concerned about PRC economic leverage over Taiwan. The economic downturn in Taiwan and rising unemployment have been cited publicly by CEPD Chair Chen Poh-chih as a reason for discouraging investment in the mainland. In late June, MAC Deputy John Teng warned Taiwan investors about the dangers of investing in the mainland. Delay has also affected the plans announced last October to authorize group tours from the mainland beginning in June. Those plans have not been implemented and in late June, Premier Chang said discussions with the PRC would be needed to address some aspects of the plan.

While many businessmen chose to circumvent the investment controls through a variety of financing maneuvers, the restrictions still frustrate the business community. This frustration was manifested in criticism of government policy by Formosa Plastic Chairman Wang Yung-ching and others. In late June, Wang went so far as to call on Chen to accept the "one China" principle as a basis for resuming cross-Strait dialogue. As a partial measure, the Executive Yuan announced in late May that Taiwan banks would be allowed to open representative offices in the mainland. Now that the U.S.-PRC consensus on agricultural subsidies has restored momentum to China's WTO accession, the prospect of Taiwan and China's accession will increase pressure on the Chen administration to move ahead on cross-Strait economic issues.

Policy Implications

Although cross-Strait relations have remained calm despite potentially disruptive developments, those relations will remain fragile and vulnerable absent productive dialogue between Beijing and Taipei. U.S. Assistant Secretary of State James Kelly was correct in congressional testimony when he stressed the importance of resuming a dialogue that is productive and the wisdom of further developing mutually beneficial economic relations.

Chronology of China-Taiwan Relations April - June 2001

Apr. 2, 2001: Mainland Affairs Council (MAC) sends report on “no haste” policy to Cabinet for review.

Apr. 4, 2001: People’s First Party (PFP) delegation is received by PRC Vice Premier (VP) Qian in China.

Apr. 13, 2001: Premier Chang says there is no timetable for revising “no haste” policy.

Apr. 14, 2001: Taiwan FM Tien says Taipei could understand U.S. decision to defer sale of Aegis.

Apr. 20, 2001: U.S. and Japan issue visas to former Taiwan President Lee Teng-hui.

Apr. 22, 2001: Lee Teng-hui arrives in Japan for medical treatment.

Apr. 23, 2001: White House releases list of arms sales approved for Taiwan totaling about \$5 billion.

Apr. 24, 2001: President Bush states the U.S. would do “whatever it took” to help defend Taiwan.

Apr. 25, 2001: White House releases statement reiterating U.S. “one China” policy and opposition to independence for Taiwan.

Apr. 26, 2001: PRC Foreign Ministry says Bush taking U.S. down “dangerous road.”

Apr. 26, 2001: Lee postpones visit to U.S.

Apr. 27, 2001: For anniversary of 1993 meeting, SEF’s Koo Chen-fu invites counterpart to Taiwan; Beijing reiterates Taipei must accept “one China.”

May 10, 2001: President Chen says Taiwan values Washington ties but does not wish to provoke PRC.

May 11, 2001: Former KMT Premier Vincent Siew meets VP Qian; Beijing does not comment on Siew's cross-Strait common market proposal.

May 14, 2001: World Health Organization again rejects Taipei's bid for observer status.

May 14, 2001: Taipei Council for Economic Planning and Development head attends APEC meeting in Beijing.

May 15, 2001: Taiwan fishing boat incident with PRC Navy is defused.

May 17, 2001: PRC indicts U.S. academic Li Shaomin on charges of spying for Taiwan.

May 18, 2001: Chen expresses hope to attend APEC, meet Jiang: PRC rejects idea.

May 21, 2001: Chen in transit through New York; meets U.S. congressmen.

May 24, 2001: Former KMT Secretary General John Chang meets VP Qian.

May 27, 2001: In Guatemala, Chen states conciliatory "new five no's."

May 29, 2001: PRC Foreign Ministry dismisses Chen's remarks.

May 29, 2001: Chen again rejects "one country, two systems" formula.

May 29, 2001: High-level PRC IT delegation visits Taipei for trade show.

May 30, 2001: Taipei authorizes Taiwan banks to establish representative offices on mainland.

June 4, 2001: Chen transits Houston; is hosted by congressmen.

June 5, 2001: Economics Minister Lin has meeting with MOFTEC Minister Shi at APEC.

June 8, 2001: Ferry takes pilgrims from Kaohsiung via Kinmen to Xiamen.

June 16, 2001: Lee Teng-hui publicly supports Chen Shui-bian.

June 18, 2001: Macedonia shifts diplomatic relations from Taipei to Beijing.

June 19, 2001: Taiwan test fires Patriot missiles.

June 26, 2001: PRC Foreign Ministry describes Lee Teng-hui as “chief representative of Taiwan independence forces.”

June 27, 2001: Lee Teng-hui attends dedication of research center at Cornell University in the U.S.

June 27, 2001: MAC Deputy Teng urges business to see risks of investing in mainland.

June 27, 2001: Taipei and Beijing repatriate criminals and hijackers under Red Cross auspices.

June 28, 2001: Beijing says DPP Chairman Hsieh can not visit Hong Kong until DPP accepts “one China” principle.

June 29, 2001: Draft KMT platform advocates goal of cross-Strait “confederation.”