

## **China-Taiwan Relations: Deadlocked but Stable**

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In his second inaugural address, President Chen Shui-bian explained revised plans for constitutional reform and his desire for cross-Strait dialogue without preconditions. Beijing, which had predictably reiterated its “one China” precondition for talks, criticized Chen’s speech as disguised separatism and threatened to crush Taiwan independence whatever the price. Cross-Strait political relations thus will remain deadlocked, but stable, for the rest of the year as Chen’s Democratic Progressive Party (DPP) focuses on winning a majority in the December Legislative Yuan (LY) election and Beijing delays difficult decisions on how to deal with Chen until it can assess that election outcome.

### **Chen’s Inaugural Address**

In the two months from the March 20 election to his inauguration May 20, President Chen was under immense pressure to lay out the agenda for his second term in ways that took into account the views of different factions within the DPP, former President Lee Teng-hui’s Taiwan Solidarity Union (TSU), the U.S., and Beijing. In the end, Chen chose to focus the inaugural address on domestic political issues. Importantly, in laying out plans for constitutional reform, Chen abandoned his campaign proposal to effect reform through an unconstitutional referendum procedure and instead stated explicitly that reform would be accomplished using the amendment procedures in the current constitution, which require a three-quarters majority in the National Assembly. Chen proposed that the future constitution contain a provision for amendments through referenda. Assuming Chen adheres to the current constitutional procedure – and the pressures to reverse course may increase after the LY election – the super-majority requirement will constrain Chen’s ability to pursue an independence agenda through constitutional reform.

In another important statement, Chen acknowledged that there was no consensus within Taiwan on sovereignty issues and, therefore, he proposed that such issues including the national name, flag, and territorial definition should be excluded from the constitutional reform process. This statement was clearly designed to be reassuring to Chen’s domestic opposition, Washington, and Beijing. Predictably it has been criticized by fundamentalists within the DPP and by the TSU.

However, avoiding sovereignty issues will not be easy if, as is clear, Chen's intention is to write a new constitution rather than to amend the existing one. The inaugural address avoided the term amendment, using most often the terms "constitutional review" and "constitutional reengineering." However, where the English translation intended for American audiences at one point mentions "a new version of the constitution," the Chinese text uses the term "new constitution." Since the inaugural, Chen has made clear at various times, including in an address to graduates of the military academy, that he intends, as stated frequently during the campaign, to complete a "new constitution" by 2006.

Chen also used the inaugural to reiterate his desire for cross-Strait dialogue without preconditions. He made clear that his campaign proposal for a new "peace and stability" framework for cross-Strait relations would be the focus of his efforts to restart cross-Strait dialogue. This proposal was earlier rejected out of hand by Beijing because it did not address the "one China" issue. The proposal is a wish list of things Taipei wants from Beijing – an exchange of representative offices (implying recognition), withdrawal of missiles, and renunciation of the use of force – with nothing offered in exchange of interest to Beijing. Hence, cross-Strait political talks will remain deadlocked. The three links, an issue upon which progress may be possible on a non-political basis, is mentioned in the inaugural only in passing, giving no indication that it will be a priority in the second Chen term.

### **Washington and Beijing: Contrasting Reactions**

After the election, Washington was extremely concerned about what the inaugural speech would say. Assistant Secretary of State for East Asian and Pacific Affairs James Kelly set forth Washington's concerns in remarkably straight-forward terms in congressional testimony on April 21, warning Taipei to deal with constitutional reform cautiously, not to underestimate Beijing's determination, and not to risk Taiwan's prosperity and peace. The administration reportedly was even blunter in private, warning that pursuing an independence agenda would distance Taiwan from the U.S. and risk losing U.S. support. Presidential Office Secretary General Chiou I-jen visited Washington in early May for consultation on the speech. After his departure, administration spokesmen told the press they had not been reassured.

Nevertheless, once briefed on the planned content of the inaugural address, Deputy Secretary of State Richard Armitage commented positively to *Phoenix TV* the day before that the speech would not raise cross-Strait tensions. On May 21, the White House spokesman described the address as "constructive" and subsequently administration spokesmen have praised the address and commented that it provided ideas that could provide a basis for dialogue. Reportedly, Washington was relieved that the address had avoided the most provocative language – for example it did not explicitly mention Chen's "one country on each side" theory – and was pleased that Chen had included some unspecified suggestions that Washington had made. Hence, to encourage Taipei to heed future U.S. advice, Washington chose to respond positively to the speech.

Beijing, which was even more concerned by Chen's campaign proposals and reelection, saw little positive in the address. While acknowledging that some language had not been included, Beijing viewed the address as riddled with separatist ideas, the promotion of Taiwan identity, and Taiwan's quest for international recognition. Beijing remains suspicious of Chen's plans for constitutional reform and, as expected, focused on the fact that Chen had failed again to accept the "one China" principle. The official Taiwan Affairs Office (TAO) commentary on the speech used the metaphor of Chen still "not reining in his horse at the brink of the precipice" – the metaphorical warning sent to the U.S. in 1950 before China intervened in the Korea War.

### **Beijing's Interim Policy**

With no expectation that the inaugural address would be positive, Beijing chose to enunciate its policy in advance. On May 17, the TAO issued a policy statement that was said to reflect the views of the party's central leadership. The statement had a soft side embodied in seven points on which cross-Strait progress could be made if Taipei accepted the "one China" principle and a hard side threatening that Beijing would pay any price if necessary to crush Taiwanese separatism. The statement focused more on deterring separatism than on promoting unification. Jiang's eight points and the "one country two systems" formula, both of which relate to unification, were not mentioned. On June 17, Politburo Standing Committee member Jia Qinglin said explicitly that deterring separatism and preserving peace in the Taiwan Strait are Beijing's current priorities.

The hard aspect of the statement seemed aimed at pan-green leaders in Taipei who believe that internal and external constraints will prevent Beijing from using force against Taiwan regardless of what Taiwan does to achieve *de jure* independence. The harsh rhetoric in the statement appears to be part of Beijing's effort to persuade them of Beijing's willingness to use force if necessary. While the soft aspect of the statement contains moderate formulations that might be useful in cross-Strait dialogue, the expected firm reiteration of the "one China" precondition means that a basis for conducting negotiations does not exist. As such, the statement is not a practical guide for Beijing's policy in the months ahead. Where the policy statement may be useful is domestically within China, where advocates of a harder line on Taiwan and those favoring greater flexibility seem to be contending for influence. The statement gives each side something but appears to postpone real decisions on how to deal with Chen until after the LY elections.

Another indication of the domestic debate on Taiwan policy underway in China was Premier Wen Jiabao's statement in London that China was considering adopting a Unification Law. The current status of this law is uncertain. TAO officials state that they do not have a draft of the law. Its purpose is reportedly two-fold: to deter Taiwan separatism and to deal with the promotion of separatism domestically. What such legislation may contain is a matter of concern in Washington, Hong Kong, Taiwan, and elsewhere. If it contained language establishing timetables or deadlines for unification or

setting conditions for the use of force, the legislation could exacerbate cross-Strait tensions or create new nationalistic pressures on the Beijing leadership.

In late May, the TAO also stated that Taiwan businessmen who support Chen's independence agenda are not welcome in China. Beijing had made similar statements in 2000 after Chen's first election. At that time, the attention to pro-independence businessmen petered out quickly as China's interest in Taiwan investment took precedence. This year, the TAO statement was followed by a front-page *People's Daily* personal attack on Hsu Wen-lung, president of Chi Mei Industries. How far the campaign will go is uncertain. The TAO recently clarified that few businessmen would be affected and that the PRC still actively encourages Taiwanese investment.

## **Economics**

Cross-Strait trade and investment have continued to grow at double digit rates this spring. Taipei's Board of Foreign Trade has reported that cross-Strait trade increased 33.5 percent during January-April 2004. The PRC campaign to moderately cool China's overheated economy does not yet affect the sectors of the Chinese economy in which Taiwan is active. With strong growth in the U.S. and Japan economies, the prospects for the continued expansion of cross-Strait trade and investment appear good.

The dichotomy between the domestically focused Chen administration and Taiwan's globally focused business leadership became more evident. Pan-green leaders are focused on domestic political issues. President Chen's inaugural barely mentions economics; promoting economic growth is the fourth and last of the president's priorities for his second term. The administration did give approval in June for TSMC's investment in an 8-inch wafer plant in China. However, negotiating direct cross-Strait transportation was mentioned only in passing in the inaugural, and many pan-green leaders, deeply skeptical about the effects of increased cross-Strait economic ties, are more interested in the "effective management" than in the "active opening" of cross-Strait trade and investment.

By contrast, Taiwan's business leadership is globally focused and acutely aware of the mutual benefits of closer cross-Strait economic ties. *Business Week's* listing of the 100 leading global information technology companies included 15 companies from Taiwan, including Quanta Computer (3), Hon Hai Precision Industries (4), Acer (25) and TSMC (55) and three PRC companies, headed by China Mobile (12). In May, the Chinese Ministry of Commerce published a list of the 200 largest exporting firms in China: 28 of the 200 were Taiwan affiliates, including the top three export firms, which were the local affiliates of Taiwan's Hon Hai Precision Industries, Quanta Computers, and ASUSTEK Computers. The Taiwan business community has long been the strongest advocate of expanding cross-Strait economic ties. Vincent Siew, the chairman of the cross-Strait Common Market Foundation, authored an article in May calling on the administration to develop a strategy for strengthening Taiwan's global competitiveness, a part of which would be closer cross-Strait economic ties. In May, the Taipei American Chamber of Commerce's annual White Paper stated that Taipei's reluctance to open direct transport links with China is harming the Taiwan economy. AMCHAM leaders have said that in

the past year many U.S. firms in Taiwan have shifted the focus of their operations to the Taiwan domestic market because the absence of direct travel and transport links with China has made it inefficient to run regional operations from offices in Taiwan.

### **Taiwan's Defense Procurement Issues**

On June 2, the Executive Yuan approved the long-anticipated NT\$610.8 billion (\$18.35 billion) 15-year defense supplemental procurement bill and forwarded it to the Legislative Yuan. The supplemental would cover the purchase of Patriot PAC III missiles, *P3-C* aircraft, and eight submarines, all systems approved by the Bush administration in 2001. The supplemental predictably ran into a storm of opposition from members of the DPP and its TSU allies, from the KMT-PFP opposition, and from a wide range of civic leaders. The criticisms were that the prices were too high, that the systems and terms were being dictated by the U.S. rather than by Taiwan's defense needs, and that the proposal was an expensive "insurance policy" being bought to assure Washington's continued support for Taiwan's defense. President Chen has publicly called for passage of the supplemental.

In late June, LY President Wang Jin-pyng led a multi-party LY delegation to the U.S. to discuss the supplemental and review the systems to be purchased. On leaving for Washington, Wang urged the U.S. "not to treat us as rich dupes." The delegation was well received in the U.S., as Washington's main goal is to persuade the LY to approve the supplemental. In meeting the group, Deputy Defense Secretary Paul Wolfowitz reportedly said that the U.S. could not take Taiwan's defense seriously if Taiwan did not demonstrate that it took its own defense seriously by procuring needed systems. On returning to Taipei, Wang told the press that the fate of the supplemental depended upon new price quotations from the U.S. Others in the group acknowledged that Taiwan would need to change its insistence that six of the eight submarines be built in Taiwan if that aspect of the package was to go ahead.

A few days before the EY approval of the defense procurement supplemental, the U.S. Department of Defense released its annual report on PRC military power. The report documented the improvement of PLA capabilities and concluded, "The cross-Strait balance of power is steadily shifting in China's favor." The report was critical of Taiwan's declining defense spending and opined that the level of defense spending would be the best indicator of Taiwan's commitment to addressing its own defense requirements.

In discussing Taiwan's options for countering PRC capabilities, the report states that the Taiwan Air Force already has the ability to conduct air strikes against China and says that proponents of strikes against "urban population" or "high-value targets, such as the Three Gorges Dam" believe that the credible threat to conduct such operations will deter PRC military coercion. This inflammatory language was offered without any qualifying comments, leaving the impression that the report's authors at least sympathize with such reasoning. Given the overall U.S. interest in deterring military solutions to Taiwan Strait

issues, it is irresponsible and contrary to U.S. interests to include such speculation in an official U.S. government document.

Recently, Beijing has been expressing increasing concern about U.S. military ties with Taiwan. In its internal debate, the view is reportedly growing that Chen's separatist agenda will eventually force Beijing into a military response. PRC officials have repeatedly expressed concern that U.S. military ties with Taiwan are encouraging President Chen's separatist agenda or, at a minimum, are conveying mixed messages that contradict Washington's stated opposition to independence. Against this background, the DOD report was interpreted by some Beijing scholars as U.S. encouragement of Taiwanese attacks on China and fed an increasingly jingoistic tone of some media commentary.

### **Policy Implications**

The fundamental differences between Beijing and the Chen administration over the "one China" principle will prevent the resumption of political dialogue for at least the remainder of this year. Similarly, there is no evidence that President Chen will invest the political capital needed to overcome resistance within the DPP to opening talks on cross-Strait transportation issues this year. Hence, cross-Strait issues will remain deadlocked. Nevertheless, while concern continues about whether the constitutional reform process will increase tensions next year, the situation in the Strait will likely remain stable in the coming months. After the December LY election, Beijing will need to thoroughly reassess its approach to Taiwan issues, and there is evidence of considerable debate within China on how to deal with a DPP government that will likely be strengthened in those elections.

## **Chronology of China-Taiwan Relations April-June, 2004**

**April 1, 2004:** In *Wall Street Journal* interview, President Chen calls for more active U.S. role in promoting cross-Strait dialogue.

**April 1, 2004:** Pentagon announces sale of \$1.8 billion Pave Paws radar to Taiwan.

**April 2, 2004:** Taiwan court rules President Chen and opposition leader Lien Chan must agree to terms for a recount of the presidential election ballots.

**April 3, 2004:** Chen and Lien agree to presidential ballot recount.

**April 7, 2004:** NPC Standing Committee releases interpretation of Hong Kong Basic Law.

**April 7, 2004:** American Institute in Taiwan Chairperson Theresa Shaheen submits resignation.

**April 8, 2004:** Mainland Affairs Council and Democratic Progressive Party spokespersons denounce PRC for constraining Hong Kong's democratic development.

**April 12, 2004:** Mark Chen Tan Sun named Taipei's foreign minister.

**April 13, 2004:** Vice President Cheney in Beijing; host Vice President Zeng Qinghong urges Washington not to send wrong signals to Taiwan separatists.

**April 15, 2004:** Taiwan Affairs Office's Li Weiyi blasts Chen's plan for new constitution as a timetable for independence.

**April 21, 2004:** Assistant Secretary James Kelly gives congressional testimony on Taiwan policy.

**April 23, 2004:** DoD Deputy Assistant Secretary Richard Lawless testifies on PRC military threat.

**April 27, 2004:** Presidential Office Secretary General Chiou I-jen in Washington for consultations on inaugural.

**April 27, 2004:** NPC Standing Committee issues decision denying Hong Kong direct elections in 2007.

**April 30, 2004:** Executive Yuan (EY) gives TSMC approval to export 8-inch wafer plant to PRC.

**May 2, 2004:** First PRC naval flotilla visits Hong Kong.

**May 11, 2004:** In London, PRC Premier Wen Jiabao says PRC considering a Unification Law.

**May 14, 2004:** *Far Eastern Economic Review* reports senior U.S. official has given Taipei a stern warning concerning inaugural.

**May 14, 2004:** Taipei announces its strongest growth in over three years during the first quarter of 2004, due to strengthened domestic demand and a rapid rise in exports; GDP expanded 6.28 percent over last year.

**May 17, 2004:** TAO issues policy statement on Taiwan.

**May 17, 2004:** World Health Organization again votes not to consider Taiwan's application for observer status; U.S. and Japan vote for consideration.

**May 18, 2004:** U.S. delegation led by Rep. Leach arrives in Taipei for Chen inaugural.

**May 20, 2004:** President Chen's inauguration and second inaugural address.

**May 21, 2004:** White House spokesman describes Chen's address as "constructive." Chinese state media rejects Chen's conciliatory remarks as "a sham" and denounces Chen as a "slippery politician."

**May 24, 2004:** TAO spokesman criticizes Chen's address as disguised separatism; says PRC will "pay any price" to block independence.

**May 24, 2004:** TAO spokesman says pro-independence Taiwan businessmen not welcome.

**May 28, 2004:** *People's Daily* article attacks Taiwan businessman Hsu Wen-lung.

**May 28, 2004:** Vice President Lu transits Las Vegas.

**May 29, 2004:** DoD releases annual report on PRC military power.

**May 31, 2004:** Taipei Amcham White Paper says delay in direct links hurting Taiwan.

**June 2, 2004:** EY sends \$18.35 billion defense supplemental bill to Legislative Yuan.

**June 3, 2004:** Presidential Office tells Taipei press Brig. Gen. Allen will visit Taiwan in July.

**June 7, 2004:** Vice President Lu transits San Francisco.

**June 7, 2004:** State Dept. spokesman says U.S. supports Taiwan membership in OAS.

**June 11, 2004:** *Taiwan Daily* editorial attacks AIT representative Douglas Paal as Beijing mouthpiece.

**June 12, 2004:** *Liberty Times* editorial attacks AIT's Paal as a pro-Beijing representative.

**June 14-19, 2004:** Taiwan military holds six-day computer-simulated war game of possible Chinese invasion. According to the defense ministry approximately 60 U.S. military officers and experts monitored the exercise.

**June 15, 2004:** TAO spokesman says PRC still encourages Taiwan investment.

**June 16, 2004:** U.S.-China Economic and Security Commission Annual Report released.

**June 17, 2004:** Jia Qinglin of PRC Politburo Standing Committee says curbing separatism is highest priority.

**June 20, 2004:** LY delegation led by Wang Jin-pyng in Hawaii; visits *Aegis*-equipped frigate; tells press U.S. considering sale of *Aegis* system.

**June 21, 2004:** President Chen awards medal to former AIT Chairperson Shaheen.

**June 21, 2004:** People First Party Chair James Soong ridicules Chen for giving medal to an “arms broker.”

**June 21, 2004:** Taiwan announces it will hold its annual “*Han Kuang*” (“*Chinese Glory*”) exercises in August to test Taiwan’s combat readiness.

**June 22, 2004:** Wang’s LY delegation meets Defense Deputy Secretary Paul Wolfowitz.

**June 24, 2004:** FM Mark Chen visits New York.

**June 28, 2004:** FM Chen in Rome.

**June 29, 2004:** Wang Jin-pyng says fate of defense supplemental hinges on new price quotes from U.S.