

# Comparative Connections

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## China-Taiwan Relations: Moving Relations toward a New Level

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Beijing and Taipei made significant progress in improving cross-Strait relations this quarter. In May, “Chinese Taipei” participated for the first time as an observer in the World Health Assembly. In April, the third round of ARATS-SEF talks produced three new agreements and an understanding to open Taiwan to investors from the mainland. These developments have been well received in Taiwan. The progress over the past year has produced increasing de facto dealings between government officials from the two sides. The recent precipitous decline in cross-Strait trade appears to be bottoming out and Beijing has taken steps to help Taiwan economically. Although there is still no indication that Beijing has reduced the military forces targeted at Taiwan, Hu Jintao has called for preparations concerning a peace agreement and confidence building measures.

### Taipei’s international space

In line with recent signals, a mutually acceptable arrangement was worked out for Taipei to participate for the first time in the annual World Health Assembly (WHA) meeting as an observer using the name “Chinese Taipei.” This was a major accomplishment. President Ma Ying-jeou announced this breakthrough, noting that the invitation had come from World Health Organization Director General Margaret Chan and was addressed to “Minister of Chinese Taipei’s Department of Health.” Beijing’s Taiwan Affairs Office (TAO) did not comment about the basis for the invitation but did say that Taiwan’s participation followed consultations held in accordance with the 2005 Hu-Lien Joint Statement and that Taiwan’s participation was in accord with Hu Jintao’s six points of Dec. 31, 2008. Health Minister Yen Ching-chuan led Taipei’s delegation, addressed the Assembly, and met other delegation heads. Delegates from the U.S., European Union, Japan, and other countries welcomed Taipei’s participation.

The invitation to Taiwan came, not on the basis of a vote or resolution in the WHA, but from consultations between Taipei and Beijing. Just what channel was used for these consultations remains unclear. In a meeting with Kuomintang (KMT) Chairman Wu Poh-hsiung a few days after the WHA meeting, General Secretary Hu Jintao cited this outcome as an example of Beijing’s sincerity and of the two sides’ ability to solve issues related to Taiwan’s international participation. The opposition Democratic Progressive Party (DPP) criticized the arrangement saying that the WHO invitation must have been issued on the basis of an authorization from Beijing and was only applicable for one year. Consequently, the DPP charged that these terms denigrated Taiwan’s sovereignty and should have been rejected by the government. Overall, opinion polls in Taipei showed substantial public support for Taiwan’s participation.

With the annual UN General Assembly just three months away, Taipei has indicated that its focus will remain on seeking participation in UN specialized agencies rather than on UN membership. Taipei is now particularly interested in the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO).

### **Third ARATS-SEF meeting**

The third meeting between Straits Exchange Foundation (SEF) Chairman Chiang Pin-kung and Association for Relations across the Taiwan Strait (ARATS) Chairman Chen Yunlin was held in Nanjing on April 25-27. The meeting reached three agreements. A Supplementary Air Transport Agreement provides for launching scheduled air service, establishing additional direct flight routes and expanding passenger and freight service. The Financial Cooperation Agreement creates a framework under which the two sides' will negotiate memorandums of understanding (MOUs) on regulatory cooperation concerning banking, securities, foreign exchange, and insurance. The MOUs are needed to reciprocally open markets to each other's firms and provide for regulation of their operations. Third, there was an Agreement on Fighting Crime and Mutual Legal Assistance. Limited anti-crime cooperation had been occurring on an ad hoc basis in the past, partially under a 1991 agreement between the two sides' Red Cross societies. The new agreement provides a basis for actively expanding law enforcement cooperation. A delegation of judicial and prosecutorial officials from the mainland visited Taiwan in June. The three agreements came into force on June 25. However, the two sides have yet to reach agreement on an initial package of scheduled flight service and Taipei has indicated concluding the financial MOUs will take additional time.

Finally, the third meeting reached a "consensus" to open Taiwan to investment from the mainland. Although this was the least formal agreement, both sides have proceeded expeditiously to implement it. Beijing almost immediately published regulations that People's Republic of China (PRC) firms must follow in investing in Taiwan. Taipei published in early June a list of sectors in which investment by the PRC firms will be permitted, including manufacturing, services, and infrastructure. On June 30, Taipei formally published the regulations governing mainland investments, the list of authorized investment sectors, and related regulations. The regulations were crafted in a way that significantly opens opportunities for mainland firms but gives Taipei tight control over the approval process. Although Taipei began accepting investment applications from mainland firms on July 1, it will probably be many months before significant mainland investments are realized. Yet, both sides recognize the potential role such investment will play economically and politically.

Whether and to what extent the proposed Economic Cooperation Framework Agreement (ECFA) would be discussed at the meeting created what controversy there was at the third meeting. In recent months, President Ma has become increasingly active in calling for conclusion of ECFA this year even though the proposal continues to generate considerable controversy and opposition within Taiwan. In June, the DPP launched a signature drive as the first step toward a possible referendum on ECFA and the Taiwan Solidarity Union (TSU) published a pamphlet attacking ECFA on economic and political grounds. The Ma administration has been conducting internal policy coordination and some public consultations on the content of its proposal for an ECFA but

has not yet released its conclusions. Given the controversy, ECFA was not on the agenda for the third meeting. Nevertheless, President Ma instructed Chiang Pin-kung to raise the issue, and the meeting did reach a tacit agreement to begin negotiation this year. Nevertheless, ECFA was not among the tentative agenda items announced for the fourth ARATS-SEF meeting planned for later this year even though Ma has continued to call for reaching agreement this year. When Chinese Communist Party (CCP) General Secretary Hu Jintao met KMT Chairman Wu in late May, Hu said that the crux of the matter was defining provisions that would benefit both sides and that the two sides should endeavor to start talks about an agreement in the second half of the year. In June, Mainland Affairs Council (MAC) Chairperson Lai Shin-yuan indicated that preparation delays meant it was unlikely that an ECFA could be concluded this year.

### **Relations moving toward a new level**

The nine SEF-ARATS agreements concluded thus far are creating a framework within which officials of the two governments are now dealing with each other directly and openly. The earlier agreements brought about de facto direct dealings between food safety officials, postal officials, and air traffic controllers under the two sides' aviation authorities. The new Financial Cooperation Agreement has led to negotiation between financial regulatory officials on both sides, and the financial MOUs will establish procedures for future regulatory cooperation between these officials. The Agreement on Fighting Crime and Mutual Legal Assistance moves these dealings beyond technical and economic areas into the more sensitive realm of judicial and law enforcement cooperation. After 60 years of no direct dealings, the past year has seen the rapid evolution of de facto direct dealings between officials of the two sides, conducted under the rubric of quasi-official agreements between ARATS and SEF.

Some scholars on the mainland are now saying that relations between the two sides are being conducted at three levels: at the ARATS-SEF level, at the party level between the KMT and CCP, and pragmatically at the governmental level. The development of these ties has not sparked noticeable controversy in China, in part because President Hu has repeatedly emphasized his adherence to the one China principle. If these de facto direct contacts had developed while Chen Shui-bian was in office, the DPP would likely have claimed they represented Beijing's acknowledgement of the existence and even legitimacy of the government in Taipei. Out of office, the DPP has criticized President Ma for sacrificing Taiwan's sovereignty and criticized the PRC for continuing to adhere to the one China principle. The KMT too has done little to draw public attention to these direct de facto governmental dealings, recognizing that doing so could undermine its effort to build trust with Beijing.

### **Ferment in DPP**

The DPP has continued to relentlessly attack President Ma, primarily over his mainland policies. On May 17, the party organized major anti-Ma demonstrations in Taipei. Party activists in the south chose to organize a separate demonstration in Kaohsiung rather than join the Taipei rally. The DPP is aware of the considerable public support for policies that have stabilized cross-Strait relations and benefited Taiwan, but the DPP does not have agreement on how to respond. One sign of ferment was the decision of Kaohsiung Mayor Chen Chu to visit Beijing and Shanghai to promote attendance at the 2009 World Games in Kaohsiung. Chen, who has long-standing pro-

independence credentials, went ahead with her trip despite criticism from DPP fundamentalists. Likewise, Tainan Mayor Hsu Tian-tsair plans to visit Xiamen in connection with a cross-Strait yachting competition, despite efforts to persuade him to drop the trip.

Although President Hu included quite hardline language on the DPP in his six points, the TAO has in fact been reaching out to DPP members in a pragmatic manner. Beijing allowed Chen Chu to visit even though she refused to obtain the usual Taiwan compatriot entry permit. The TAO announced in June that it had established a new Department for Political Party Affairs, which the TAO spokesman explained in the context of the expanding KMT-CCP relationship while reiterating that China would not deal with the DPP as a party until it had renounced the goal of independence. Nevertheless, the press in Taiwan has interpreted the new department as further evidence of Beijing reaching out to individuals in the DPP.

### **Culture and identity**

Beijing and Taipei will be placing greater emphasis on cultural and educational ties. One of President Hu's six points calls for the promotion of Chinese culture as a common bond. One goal is to counteract the rise of a separate Taiwanese consciousness over the last two decades. In June, President Ma made several suggestions concerning the use of simplified and traditional Chinese characters, including a proposal that the two sides collaborate in producing a dictionary of simplified and traditional characters.

Taipei's Ministry of Education has developed plans to gradually open Taiwan universities to mainland students and to recognize some degrees and credits earned by Taiwan students at mainland universities. These proposals have been attacked by the DPP and TSU, and the relevant legislation has not yet been adopted by the Legislative Yuan (LY).

The KMT and CCP have announced that their fifth forum to be held July 11-12 in Changsha will be devoted to cultural and educational exchange issues. Taipei's Council on Cultural Affairs has said that officials from the two sides would meet for a "cultural summit" in Beijing in September to discuss exchanges, intellectual property protection, and promotion of Taiwan's art and culture.

### **Cross-Strait trade**

The precipitous decline in cross-Strait trade experienced at the end of 2008 is slowing and, from the partial data now available, cross-Strait trade appears to be resuming growth from a much lower base. A rapid decline in Taiwan's exports to China began last September and accelerated until January. In January, exports were down 58.6 percent from a year earlier. According to statistics from Taipei, in April exports to China were down over 30 percent from a year earlier but up slightly from March 2009. In May, it appears that this trend continued with exports to China down less from a year earlier and up by a larger amount from April 2009. While exports to China were declining late last year faster than Taiwan's global exports, in April and May exports to China were declining less than exports to the rest of the world. Officials in Taipei attribute the month-on-month growth in exports to China primarily to China's allowing firms in Taiwan to participate in PRC government stimulus programs subsidizing "home appliances for rural areas" and similar programs for Chinese urban residents.

Beijing was concerned about the precipitous decline in cross-Strait trade and began developing responses. At the Boao Forum in April, Premier Wen Jiabao stressed the need to cooperate in responding to the global financial crisis and laid out five broad steps the mainland would take: invest in Taiwan, extend loans to Taiwan-invested enterprises (TIEs), encourage tourism to Taiwan, expand Taiwan's access to the mainland market, and sign an economic cooperation agreement. Beijing is implementing these plans. As noted, the understanding reached on mainland investment in Taiwan is being implemented, loans have been extended to TIEs and both Beijing and Taipei have taken steps to encourage mainland tourists. In April, the number of PRC tourists finally reached the level planned when the program was launched last July, though a seasonal dip has occurred in June. Beijing has also taken steps to include firms in Taiwan and TIEs in aspects of its stimulus plan designed to expand home appliance and other sales. Finally, Beijing has for the first time sent purchasing missions to Taiwan. A large delegation in May reportedly signed contracts for \$2.2 billion in purchases.

### **Security issues**

Although there has been no change in the deployment of People's Liberation Army (PLA) forces targeting Taiwan, public discussion of confidence-building measures (CBMs) and a peace agreement continue. In his meeting with Wu Poh-hsiung, Hu Jintao acknowledged that these were difficult issues. While reiterating that the easy should be done before the difficult, Hu said "the two sides should be prepared and create conditions for solving these problems." This was a more positive statement than had been included in his six points. What steps Beijing will take remains to be seen. *Xinhua* reported that a golf tournament among retired mainland and Taiwan military officers had been held in Xiamen in May.

When U.S.-China defense talks resumed in June, Lt. Gen. Ma Xiaotian the PLA deputy chief of staff predictably urged the U.S. to halt arms sales to Taiwan. At the same time, TAO Minister Wang Yi was in Washington for consultations. Press reports indicate that arms sales were a central focus of Wang's presentations and that he left "disappointed" with Washington's response. A few weeks earlier, Taipei National Security Council Secretary General Su Chi had made a discrete visit to Washington for consultations, which undoubtedly included arms sales issues. Whether this flurry of activity portends anything positive remains to be seen.

In May, President Ma told the *Straits Times* that he did not rule out holding political talks (meaning talks on a peace agreement) with Beijing if he won a second term. In June, Ma reiterated that the withdrawal of PRC missiles was a precondition for such talks. With Ma's announcement that he intends to seek election as KMT chairman, the press is speculating about when Ma might visit the mainland with the focus on the period between the spring 2012 Taiwan election and General Secretary Hu's retirement at the 19<sup>th</sup> CCP Congress in the fall of 2012. This is seen as a narrow window of opportunity for signing a peace agreement while both are still in office.

## Looking ahead

ECFA and arms sales are likely to be the most significant areas of activity in the months ahead. While both sides are on record as expecting ECFA negotiations to begin later this year, many things remain uncertain. Just when and in what detail Taipei will reveal to the public in Taiwan its specific goals for the ECFA agreement remains to be determined. What Beijing will seek in reciprocal benefits has not been clarified publicly. How successful the DPP will be in arousing opposition to an agreement and promoting its proposal for a referendum on ECFA are also uncertainties. It is certain that an agreement will not be ready for signature when the next SEF-ARATS meeting occurs in Taipei probably around October. How quickly an agreement can be concluded and signed remains open.

With the appointment of Kurt Campbell as assistant secretary for East Asia and the Pacific at the State Department, the Obama administration's East Asia team is now in place. Therefore, it is probable that Washington will move ahead with routine arms sales, including the sale of *Blackhawk* helicopters which was deferred by the Bush administration. How more sensitive sales will be handled is the challenge. Arms sales involve a complex set of interrelated positions and actions by Beijing, Taipei, and Washington. To vastly oversimplify, if Beijing were to make significant adjustments in its missile and air forces targeted at Taiwan, that could lead Taipei to adjust its arms procurements requests and those developments could influence Washington's decisions on what arms sales are needed for Taiwan's defense. A multitude of political barriers complicate working out any such scenario. Although their content has not been revealed, TAO Minister Wang Yi's consultations in Washington are an intriguing development. He has the intellect to understand the issue and his consultations may prove to be significant if they are linked in some way to Hu Jintao's instruction that the two sides prepare to deal with the difficult political and military aspects of cross-strait relations.

## Chronology of China-Taiwan Relations April-June 2009

**April 1, 2009:** Presidents Barack Obama and Hu Jintao meet at the G20 summit in London.

**April 6, 2009:** Association for Relations across the Taiwan Straits (ARATS) Deputy Chairman An Min leads 7-member delegation to Taiwan.

**April 7, 2009:** Mainland Affairs Council (MAC) releases "policy explanation" of Economic Cooperation Framework Agreement (ECFA).

**April 8, 2009:** Straits Exchange Foundation (SEF) Secretary General Kao Koong-lian visits Shanghai for consultations.

**April 12, 2009:** President Ma makes a public address commemorating the Taiwan Relations Act.

**April 13, 2009:** Taichung mayor Jason Hu visits Hong Kong for the Hong Kong-Taiwan Forum.

**April 13, 2009:** Incident near Pratas Reef between U.S. Navy vessel carrying Taiwan scientists and PLA Navy ship.

**April 17, 2009:** ARATS Deputy Zheng Lizhong arrives in Taipei for preparatory meeting.

**April 18, 2009:** Premier Wen meets former Control Yuan President Fred Chien at Boao Forum.

**April 24, 2009:** Deputy Minister of National Defense Minister Chang Liang-jen tells the Legislative Yuan that Taipei will seek consensus with US before requesting *F-16s*.

**April 26, 2009:** Third ARATS-SEF Meeting is held; three agreements are signed and consensus is reached on Mainland investment in Taiwan

**April 28, 2009:** President Ma says the 1952 Japan Peace Treaty implies transfer of sovereignty to the Republic of China.

**April 28, 2009:** Beijing publishes regulations for PRC firms investing in Taiwan.

**April 29, 2009:** President Ma announces that “Chinese Taipei” has been invited to the World Health Assembly (WHA) as an observer.

**April 29, 2009:** China Mobile signs an agreement to invest in Taiwan’s EasTone Telcom.

**April 30, 2009:** Taiwan Affairs Office (TAO) issues a statement on Chinese Taipei at the WHA.

**April 30, 2009:** Taipei issues regulations on PRC Qualified Domestic Institutional Investors (QDII) investment in the Taiwan stock market.

**May 1, 2009:** Japan Interchange Association Representative Saito says Taiwan’s status is still unresolved; Taipei Ministry of Foreign Affairs (MOFA) summons Saito to lodge a protest.

**May 5, 2009:** PRC MOFA expresses discontent over Saito’s remarks.

**May 5, 2009:** DPP Chairperson Tsai Yng-wen visits Washington DC for consultations.

**May 8, 2009:** President Ma’s holds an interview with Singapore’s *Straits Times*.

**May 13, 2009:** Beijing’s Supreme People’s Court publishes regulations on enforcing Taiwan civil judgments.

**May 13, 2009:** *Liberty Times* criticizes President Ma for sacrificing sovereignty.

**May 14, 2009:** President Ma signs two UN Human Rights Covenants.

**May 15, 2009:** Strait Forum is held in Fujian May 15-22.

**May 17, 2009:** DPP holds rallies in Taipei and Kaohsiung to protest Ma policies.

**May 18, 2009:** Minister of Health Yen Chiang-chuan attends WHA as observer.

**May 20, 2009:** President Ma says the future of Taiwan should be decided by the next generation.

**May 21, 2009:** Kaohsiung Mayor Chen Chu visits China and meets Beijing Mayor Gao.

**May 22, 2009:** Taiwan External Trade Development Council (TAITRA) announces its participation in Shanghai World Expo.

**May 24, 2009:** President Ma expresses hope ECFA will be signed by the end of the year.

**May 26, 2009:** Hu Jintao receives KMT Chair Wu Poh-hsiung in Beijing; *Xinhua* reports extensively on Hu's remarks

**May 27, 2009:** President Ma transits Los Angeles.

**May 31, 2009:** President Ma attends President Francisco Flores's inauguration in El Salvador.

**May 31, 2009:** *Xinhua* reports retired military officers from Taipei and Beijing had a golf tournament in Xiamen May 26-29.

**June 1, 2009:** Taipei press reports National Security Council Secretary General Su Chi visited Washington DC during the week of May 25.

**June 1, 2009:** A large mainland procurement mission arrives in Taiwan.

**June 2, 2009:** President Ma transits Seattle.

**June 4, 2009:** Taipei announces sectors to be open to mainland investment.

**June 5, 2009:** Hong Kong Secretary Lam Sui-lung visits Taiwan.

**June 6, 2009:** Taiwan Foreign Minister Francisco Ou says focus will remain on specialized agencies not on general UN membership.

**June 8, 2009:** Delegation of mainland legal officials visits Taiwan for consultations on judicial agreement.

**June 9, 2009:** The Legislative Yuan adopts amendments easing work, residency, and citizenship for mainland spouses.

**June 10, 2009:** Ma Ying-jeou announces his candidacy for Kuomintang (KMT) chairmanship.

**June 10, 2009:** TAO Deputy Zheng Lihong visits Taipei; KMT and CCP announce the Fifth Forum to be held in Changsha July 11-12.

**June 14, 2009:** DPP launches signature campaign for referendum on ECFA.

**June 18, 2009:** MAC-sponsored ECFA symposium is held in Chiayi: Chairperson Lai says negotiation may start this year with agreement next year.

**June 19, 2009:** President Ma proposes Taiwan and mainland co-edit dictionary of traditional and simplified characters.

**June 24, 2009:** Deputy Chief of Staff Lt. Gen. Ma Xiaotian asks U.S. to stop arms sales.

**June 24, 2009:** TAO minister Wang Yi meets Deputy Secretary of State James Steinberg.

**June 25, 2009:** Three SEF-ARATS agreements signed in April formally come into effect.

**June 25, 2009:** Financial Supervisory Commission Chair Sean Chen acknowledges delays in financial MOUs.

**June 27, 2009:** Taichung Mayor Jason Hu opens central Taiwan trade fair in Beijing.

**June 30, 2009:** Taipei formally publishes regulations related to mainland investment.