



## Prospects for Cross-Strait Relations During Ma's Second Term

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### Cross-Taiwan-Strait Trilateral Meeting Report

March 7 – 8, 2012

By Donald S. Zagoria

The NCAFP held its annual cross-Taiwan-strait trilateral meeting with an influential group of analysts from the United States, the PRC and Taiwan on March 7-8, 2012 in New York. A list of participants is included in the appendix.

This report on the meeting is divided into several sections: Introduction; The Current State of Cross-Strait relations; Prospects for Cross-Strait relations in Ma Ying-jeou's Second Term; the Limiting factors; the U.S. Role in Cross-Strait Relations; U.S.-Taiwan Relations; and a Conclusion.

This report is not a consensus document and it reflects the views of the author only. Several American participants contributed to this final report.

## **Introduction**

With the re-election for a second term of Taiwan President Ma Ying-jeou on January 14, 2012, most participants from all three sides expect that cross-Strait ties will continue to improve but that no huge breakthroughs are likely. Taipei will continue its current cross-Strait policy that emphasizes “economics first, politics later; easy things first, difficult ones later.” Most Mainland participants also expect that the PRC’s patient, pragmatic strategy of economic engagement will continue and that Beijing will not push too hard for political and security discussions in Ma’s second term.

## **The Current State of Cross-Strait Relations**

The current state of cross-Strait relations is the best it has been in decades and, as a result of the re-election of Taiwan's President Ma Ying-jeou, we can expect smooth advances along a number of lines in the near future. The PRC and Taiwan have signed sixteen agreements; trade and investment relations are growing; tourism and educational exchanges are also expanding; talks between the two sides have been institutionalized as officials from each side talk to each other under the umbrella of the quasi-official organizations—such as the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS)—as well as through direct telephonic links between the departments concerned on both sides.

In the very short term, it is likely that the two sides will sign an investment protection agreement (what the PRC calls an investment protection and promotion agreement). Wang Yi, director of the Taiwan Affairs Office of the PRC State Council, said recently that such an agreement may be signed in the first half of 2012. Wang said, too, that he hopes to promote mutual cooperation in financial sectors, including the acceleration of negotiations on a cross-Strait monetary settlement mechanism. And he called for an increase of mainland investment on the island. Finally, Wang said that the mainland will continue to support economic zones located close to Taiwan as “pilot areas” for cross-Strait communication and cooperation (Xinhua, March 15, 2012). The most recent discussions of this idea have centered on the PRC and Taiwan jointly developing Pingtan Island. The Ma administration, however, has already declared that the Pingtan Island development project must be reviewed and evaluated under the cross-Strait Economic Cooperation Framework Agreement (ECFA), and no Taiwanese is permitted, under existing laws, to assume a leadership or official position on the project team.

Economic interdependence between the PRC and Taiwan continues to grow. Mainland China and Hong Kong now account for 42 percent of Taiwan's total exports and Taiwan is the Mainland's 7<sup>th</sup> largest trading partner.

Taiwanese participants at our meeting said that Ma's margin of victory in the recent presidential elections was much bigger than expected and that the message to Ma was to stay the course in his effort to improve cross-strait relations. Taiwanese participants also indicated that engaging with the Mainland on Taiwan is no longer a political taboo, and that the Democratic Progressive Party (DPP), the main opposition party to the ruling Kuomintang (KMT), is now in the process of re-evaluating its cross-Strait strategy. One Taiwanese participant said that at least one influential group within the DPP now seeks to achieve a "mutual strategic understanding" with Beijing provided that there can be talks with no pre-conditions, but the nature of such an understanding was not defined other than to dampen talk of the Mainland as "the enemy." At present, in any case, there is no agreement within the DPP on how to proceed, and no guidelines for members wanting to participate in various kinds of cross-Strait fora.

There were disagreements among the Taiwan participants as to how much the growing cross-Strait economic interdependence would affect the political arena. Some saw this process of economic engagement as having considerable impact on the political relations between the PRC and Taiwan; others stressed the limits.

Some Taiwanese participants noted that, despite Ma's larger than anticipated margin of victory in January, it was considerably smaller than in 2008, and this reduction of popular support suggested he would be subject to pressure from both Beijing and Taipei. One said that a "post-Ma" era could begin within two years, maybe much sooner than that. Whatever happens, one participant suggested that the legislature will become much more active with respect to cross-Strait relations, including possible review of existing agreements.

PRC participants said that the “good news” from the election is that it confirms the effectiveness of China’s strategy towards Taiwan over the last four years, and this means that Hu Jintao’s patient, pragmatic approach of economic engagement—encouraging “peaceful development”—will continue. As a result, economic, cultural and educational exchanges will increase. As one PRC participant put it, there is a consensus within the leadership in Beijing that their Taiwan policy has been a success. So why change it?

PRC participants also said that there were debates within China over how to deal with the DPP. Some wanted to start a coordinated party-to-party dialogue with the DPP. Others say that the DPP must first renounce Taiwan independence.

There were, however, differences among the PRC participants concerning the durability of China’s “patience” on cross-Strait relations. One Chinese participant said that the Mainland’s policy towards Taiwan will “harden” after the 18<sup>th</sup> Party Conference later this year, and especially after 2014, when the new leadership in Beijing consolidates its position. There was, he said, a view in China that “we have spoiled Taiwan too much,” and Beijing will seek “clarification” of Ma’s understanding of the “one China” principle. He noted that on the important issue of “international space” for Taiwan, the Mainland wants to talk with Ma about this before taking any action to be more accommodating, but that, in any case, the pace of any liberalization in this area must accord with the pace of improvement in cross-Strait relations.

Another Chinese participant "disagreed strongly" with those who say that the Mainland has given Taiwan too much. In his view, the PRC’s opening to Taiwan has brought great benefits for the Mainland as well as Taiwan.

A third Mainland participant said there were two views in China on cross-Strait relations. Hard-liners want to push political and security issues in Ma’s second term. Moderates want to continue the policy of patience. This participant said that the moderate position prevails. He said unification is “not an urgent issue” and that the PRC leadership

recognizes the constraints on President Ma and will not “push the envelope” on political issues.

Most of the Mainland participants agreed that the current Chinese policy has been successful and there is no reason to expect any change now or after 2014. Therefore, the most likely PRC strategy towards Taiwan in the next four years will be relatively modest – i.e. to continue to try to eliminate *de jure* independence as a viable option for Taiwan. On the other hand, one Chinese participant commented that, although ultimate resolution of cross-Strait relations will take a long time, the Mainland’s goal is to change the present status quo, albeit not in a rushed or violent way. As he put it, over time the status quo “cannot be perpetuated” as it is; it must keep step with the times.

## **Prospects for Cross-Strait Relations in Ma's Second Term**

Participants from all three sides seemed to agree that economic and cultural relations would continue to grow but they had lowered expectations of talks on sensitive political issues.

An American participant said that, in the economic arena, he expected in the short term that the two sides would conclude an investment protection agreement and might even establish trade offices on both sides. But other agreements, such as those on trade in goods and services, or dispute resolution, would be more difficult. There is, he continued, a widespread concern in Taiwan regarding an overdependence on the Mainland that could create dangerous political leverage for Beijing.

Educational and cultural exchange will increase even further, the American participant said. But the greatest concern of many people in Taiwan is that Beijing may use cultural exchange agreements to highlight the common "Chinese nation" and thus try to use cultural exchange as a step towards ultimate unification.

According to this American, there is likely to be less progress in the area of international space for Taiwan because the PRC continues to fear the DPP return to power and its possible promotion of a "Taiwan independence" agenda.

The same American did not expect much progress either in military confidence-building measures or in reaching a peace accord. He thought the lack of mutual trust would inhibit reaching such agreements.

Another American participant emphasized that 55 percent of the people of Taiwan support Ma's cautious policies towards the Mainland and this caution is based on the view that the time is not yet ripe to discuss sensitive political issues. The same American pointed out that the number of Taiwanese who identify themselves exclusively as

“Chinese” is at an all time low, and those who identify themselves as “Taiwanese” is at an all time high.

The American said further that it would be very difficult to reconcile China’s concept of “one China” with Ma’s concept, given his emphasis on the “Republic of China.” Beijing, he said, will need to address the ROC issue.

Given these impediments, the American argued that it did not make sense to rush into political talks. Rather, it makes more sense to try to build a consensus in Taiwan about how to approach cross-Strait relations, and this would take time.

One PRC participant agreed with this cautious assessment of prospects for cross-Strait relations during Ma’s second term. He said that, (1) Peace and stability will continue and this is important even though it is taken for granted by many people; (2) There will be continued progress in the economic arena, including on an investment protection agreement; (3) There is a big potential for educational exchange because China has some 300,000 students studying abroad and most of them are presently in Western countries; (4) There is also a big potential for increased tourism; (5) If China moves to a consumption-oriented model of economic growth, as it needs to do, this will increase the potential opportunities for Taiwanese companies; and (6) The Chinese have lowered their expectations for progress on political and security issues during Ma’s second term. He himself did not think that it would be possible to sign a peace accord within the next four years. He also thought it would be unlikely to achieve any understanding beyond the already existing “1992 Consensus.”

Another Mainland participant agreed that China’s expectations for progress in political and security issues during Ma’s second term had been lowered. He thought China’s strategy would emphasize the rather modest goal of preventing *de jure* independence for Taiwan.

## **Limiting Factors**

Perhaps the most critical limiting factor in the cross-Strait relationship will remain the dispute over sovereignty. Several PRC participants said that many in the Mainland were uncomfortable with President Ma's continuing emphasis on the "Republic of China." Ma continues to say that he considers the ROC to be an independent sovereign state. The Mainland participants argued that this emphasis by Ma on the ROC contradicts the "1992 consensus." Ma's response, of course, is that he accepts the "one China" concept but with a "different interpretation" from that of the Mainland. His interpretation is that the "one China" is the ROC.

These semantic battles reflect deep substantive differences and indicate that the two sides remain far apart on the sovereignty issue.

Another critical limiting factor in the development of cross-Strait relations is that some 40- 45 percent of the Taiwan electorate support the pro-independence DPP and are wary of growing economic and cultural ties with the mainland.

## **The U.S. Role in Cross-Strait Relations**

Most American participants said that the U.S. role in cross-Strait relations has been, and will continue to be, limited. The United States will continue to express support for progress in cross-Strait relations, but will leave the pace and modalities to the two parties. The U.S. will continue to sell defensive arms to Taiwan in accordance with the Taiwan Relations Act, but it will continue to act prudently.

## **U.S.-Taiwan Relations**

Several U.S. participants were concerned that Taiwan's "irrational" restrictions on U.S. beef imports were impeding the conclusion of a much needed Trade and Investment Framework Agreement (TIFA).

While acknowledging this concern, an American participant said that the U.S. had excellent relations with the Ma administration during President Ma's first term and expected this to continue. There were regular interactions and substantial progress on issues such as the visa waiver for Taiwanese citizens travelling to the United States. The United States, he said, looks forward to continuing to work with Ma in his second term and will send a senior-level delegation to the May 20, 2012 inaugural, including prominent members of Congress.

The same American participant said that Taiwan is America's 10<sup>th</sup> largest trading partner, a democracy with a strong commitment to the rule of law and to the protection of intellectual property rights. The U.S. also continues to maintain its security commitments to Taiwan as provided for by the Taiwan Relations Act and continues to support Taiwan's meaningful participation in international organizations such as the UNCC and ICAO.

Finally, he said, the U.S. continues to support progress in cross-Strait relations.

## Conclusion

With Taiwan President Ma Ying-jeou's re-election on January 14, 2012, it is likely that both Taipei and Beijing will continue their policies of the last four years which emphasize economics first and politics later, easy things first, difficult ones later.

Following Ma's re-election, Beijing's strategic objective vis-a-vis Taiwan seems to have changed to "the elimination of *de jure* independence as a viable option in the future."

Aside from economic and cultural ties that are already in place, social, cultural, economic and educational exchanges are likely to intensify and deepen in the next few years.

Following successive losses in Taiwan's presidential election, the opposition DPP seems prepared to re-assess its policy towards the Mainland. But there are no indications that such changes are immediate or imminent.

The sovereignty issues remain one of the biggest stumbling blocks to any long term solution of the cross-Strait issue. Beijing seems unsure of how to handle the issue of "Republic of China" (ROC) when and if political discussions arise. There have apparently been internal debates on the issue, but it seems views are divided and no consensus has been reached

Institutional contacts between the Chinese Communist Party and the DPP are unlikely unless the latter gives up its pro-independence position and accepts the "1992 consensus." Individual and private exchanges, however, are likely to expand and accelerate in the future.

It is in the interest of all parties concerned that the upcoming PRC power transition proceeds smoothly. Irrespective of the make-up of the new leadership, Beijing's real challenge is the increasing calls for domestic political and economic reform.

U.S.-Taiwan relations continue to be troubled by the beef controversy. Since the issue has long been politicized in Taiwan, it is very difficult to have a rational debate based on facts, not emotions. While the Ma administration would like to resolve the issue as soon as possible, the controversy will likely drag on for months because proposed amendments need to go through Taiwan's Legislative Yuan. That will likely be a long and difficult process.

There has been some interest in the so-called "Special Economic Zone on the Western Side of the Taiwan Strait." The more recent discussions center on China and Taiwan jointly developing Pingtan Island.

U.S. arms sales to Taiwan continue to be the most sensitive issue in U.S.-PRC relations. Washington will continue to provide both hardware and services to meet Taiwan's defensive needs. The objective is to help Taiwan resist any form of coercion as cross-Strait ties continue to expand.

## APPENDIX A

### THE NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY (NCAFP) PRESENTS

### “CROSS-STRAIT RELATIONS AND NORTHEAST ASIAN SECURITY”

WEDNESDAY, MARCH 7TH AND THURSDAY, MARCH 8TH, 2012

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