

TAIWAN'S CROSS-STRAIT ECONOMIC POLICY AND PROSPECTS OF CROSS-STRAIT ECONOMIC RELATIONS

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Abstract

After describing the status of cross-Strait economic exchange, this paper analyzes Taiwan's policy framework and unilateral opening measures with respect to cross-Strait economic relations between 2000 and 2005. Furthermore, this paper elaborates Taiwan's efforts to promote bilateral negotiation on cross-Strait economic exchange. Finally, this paper concludes that if both sides across the Taiwan Strait can reach agreements on regular charter flights and Chinese tourists to Taiwan in early 2006, it is very plausible that Taiwan and China can gradually establish a stable framework to facilitate and expand future cross-Strait economic exchange.

Keywords: cross-Strait economic relations, integration theory, economic development advisory conference, proactive liberalization with effective management, charter flights, Macau model.

I. INTRODUCTION

In September 1996 the Kuomintang (KMT) government of Taiwan adopted the "no haste, be patient" policy to restrict Taiwanese investment to China, particularly in the high-tech and infrastructural industries. With severe antagonistic atmosphere of China's military threat against Taiwan, Taiwan maintained many restrictive measures on cross-Strait economic exchange, at least not adopting further opening measures. The KMT government's major concern was that Taiwan would be over-dependent on China's market and production facilities and thus bear increasing national security

risk from its strong political rival China if the underlying trend of expanding economic exchange across the Taiwan Strait continued.

During the Taiwanese presidential campaign in 1999-2000, Democratic Progressive Party (DPP) candidate Chen Shui-bian advocated normalization of cross-Strait economic exchange, which was significantly deviated from the past policy approach of his affiliated party. In addition, Chen proposed to adopt an active management policy instead a passive policy like the “no haste, be patient” policy. After he was elected president in March 2000, President Chen has adopted many opening policy measures with respect to cross-Strait economic relations. Therefore, despite continuous political confrontation between Taiwan and China in the Chen Shui-bian administration from 2000 to 2005, economic relations across the Taiwan Strait have developed very rapidly.

Based on the estimates of Taiwan’s Mainland Affairs Council (MAC), Taiwan’s indirect trade with China via Hong Kong was \$25.8 billion in 1999 and \$61.6 billion in 2004, increasing by 139 percent in five years. After 2003, China became Taiwan’s largest trading partner. In addition, after 2002, China became Taiwan’s largest export market. In 2002, Taiwan’s exports to China, the United States, and Japan were \$29.4 billion, \$26.7 billion, and \$12 billion, respectively.

In comparison, between 1990 and 1999 Taiwan was China’s fourth largest trading partner, following Japan, the United States, and Hong Kong. Between 2000 and 2003 Taiwan was China’s fifth largest trading partner, following Japan, the United States, Hong Kong, and Korea. In addition, since 1993 Taiwan has become China’s second largest supplier (Japan has been its largest supplier).

According to Taiwan’s official figures, in 1991 Taiwan’s outward foreign direct investment (FDI) into China was only \$17 million. Since 1992, however, China has become the largest recipient of Taiwan’s outward investment. By the end of 1999,

Taiwan's cumulative FDI in China was \$14.5 billion; as of July 2005, Taiwan's cumulative FDI in China was as high as \$44.3 billion, or 50.3 percent of total Taiwan's outward FDI.

In comparison, according to China's official data, by the end of 1999, Taiwan's realized FDI in China was \$23.9 billion; as of July 2005, Taiwan's realized FDI in China was \$41.0 billion, or 6.9 percent of total realized FDI received by China. Taiwan was the fifth largest source of FDI in China, next to Hong Kong (42.1 percent), Japan (8.5 percent), the United States (8.3 percent), and the British Virgin Islands (7.2 percent). Please note that a very large proportion of investment from the British Virgin Island to China might actually originate from Taiwan.¹

After describing the status of cross-Strait economic exchange, the following sections analyze Taiwan's policy framework and unilateral opening measures with respect to cross-Strait economic relations between 2000 and 2005. Furthermore, this paper elaborates Taiwan's efforts to promote bilateral negotiation on cross-Strait economic exchange. Finally, this paper concludes with prospects for cross-Strait economic relations.

II. TAIWAN'S POLICY FRAMEWORK

In his White Paper on China policy unveiled on November 15, 1999, DPP presidential candidate Chen Shui-bian stressed the need to establish normal relationship between Taiwan and China, while the normalization of cross-Strait ties should begin with economic and trade relations. He suggested that developing cooperative economic and trade relations between Taiwan and China should be based

¹ Chen-yuan Tung, *China's Economic Leverage and Taiwan's Security Concerns with Respect to Cross-Strait Economic Relations* (Diss., School of Advanced International Studies, Johns Hopkins University, 2002), pp. 25-27.

upon three principles: balance between national security and economic interest, a comprehensive strategy of economic security and development by replacing passive policy with active management, and negotiation with China over cross-Strait economic issues.²

After Chen Shui-bian was elected president in March 2000, the most salient feature of Taiwan's cross-Strait economic policy is the so-called "integration theory." On December 31, 2000, President Chen pronounced that the integration of bilateral economies, trade, and culture across the Taiwan Strait should be a starting point for gradually building faith and confidence in each other. This, he suggested, could be the basis for a new framework of permanent peace and political integration.³

President Chen explained the "integration theory" on many occasions over the next four years. For instance, on May 10, 2002, President Chen reiterated that the normalization of cross-Strait relations must begin with the normalization of economic and trade relations. He emphasized that the first step toward political integration across the Taiwan Strait was economic and cultural integration.⁴ On January 1, 2003, President Chen urged both sides to strive towards building a framework of interaction for peace and stability. Particularly, he stressed consultation and promotion of direct transportation links, as well as exchange on other relevant economic issues, which could constitute a first step forward and set the stage for further economic and cultural interaction.⁵

Since the second half of 2003, Taiwan has indicated an increased commitment to

² "Kua Shiji Zhongguo Zhengce Baipishu"[Across-Century China Policy White Paper], in Mainland Affairs Council, Executive Yuan, Republic of China (ed.), *Zhengfu Dalu Zhengce Zhongyao Wenjian* [Important Documents of the Government's Mainland Policy] (Taipei: Mainland Affairs Council, 2004), p. 157.

³ "President Chen's Cross-century Remarks," Mainland Affairs Council, <http://www.mac.gov.tw/english/english/macpolicy/ch9001e.htm>, accessed May 7, 2004.

⁴ "President Chen's Remarks during His Stop on Titan Island," Office of the President, Republic of China, May 10, 2002.

⁵ "President Chen's New Year Day's Message (excerpt: cross-strait relations)," Mainland Affairs Council, <http://www.mac.gov.tw/english/english/macpolicy/ch9211e.htm>, accessed May 7, 2004.

the negotiation of direct transportation links. On August 15, 2003, the Taiwanese government issued a policy paper called “The Assessment of the Impact of Direct Cross-Strait Transportation.” The assessment stressed that the effects of cross-Strait direct transportation links would be extensive and far-reaching; there would be advantages and disadvantages. The assessment concluded that both parties should sit down and negotiate on the direct transportation links as soon as possible in order to maximize advantages and minimize disadvantages for Taiwan.⁶

On October 9, 2003, Taiwan’s parliament, the Legislative Yuan, passed the revisions to the Statute Governing the Relations between the People of the Taiwan Area and the Mainland Area. According to the revisions, the Taiwanese government will be able to entrust, on its behalf, private organizations to engage in cross-Strait negotiation. That is, Taiwan has agreed to China’s preference for the negotiation channel through private organizations over direct transportation links.

In terms of concrete policy measures, the Chen Shui-bian administration formally adopted a new approach of cross-Strait economic relations after the Economic Development Advisory Conference (EDAC) held on August 26, 2001. Particularly, the Chen Shui-bian administration discarded the long held “no haste, be patient” policy and adopted a new policy of “proactive liberalization with effective management”. Key conclusions reached during the meeting include:⁷

1. “Taiwan first,” “global management,” “mutual benefits,” and “risk control management” are the pivotal principles regarding trade and commercial activities across the Taiwan Strait;
2. Adopt a “proactive liberalization with effective management” policy to

⁶ “Trade and Economic Category,” Mainland Affairs Council, <http://www.mac.gov.tw>, accessed April 16, 2005, p. 1.

⁷ “Jingfahui Lianganzu Zungjie Baogao” [Conclusion Report of the cross-Strait Session at the EDAC], in Mainland Affairs Council, Executive Yuan, Republic of China (ed.), *Zhengfu Dalu Zhengce Zhongyao Wenjian* [Important Documents of the Government’s Mainland Policy] (Taipei: Mainland Affairs Council, 2004), pp. 25-28.

replace the previous “no haste, be patient” policy regarding China-bound investment;

3. Set up flexible mechanisms to monitor movements of capital between the two sides;
4. Introduce Chinese capital to Taiwan’s real estate market at the first stage, the manufacturing sector at the second stage, and the financial market at the third stage.
5. Establish the three links (direct trade, postal, and transportation links between Taiwan and China);
6. Gradually expand Chinese imports to Taiwan;
7. Under the principle of national security, actively open up the local tourist market to Chinese visitors.

The following section lists the opening measures of the cross-Strait economic policy adopted by the Chen Shui-bian administration between 2000 and 2005.

III. TAIWAN’S UNILATERAL OPENING MEASURES

A. Mini Three Links

On January 1, 2001, the Chen Shui-bian administration opened up the “mini three links,” which legalized trade and travel between Taiwan’s offshore islands, Quemoy (Kinmen) and Matzu, and adjacent ports in China. Thereafter, Taiwan has been gradually expanding bilateral flows of commodities, people, ships and financial exchange. As a result, cross-Strait exchange through the mini three links increased exponentially over the last four years. Based on Taiwan’s statistics, the number of Taiwan’s ships to China increased from 137 in 2001 to 1,221 in 2004; the number of Taiwan’s people to China increased from 11,729 in 2001 to 202,371 in 2004. In addition, the number of China’s ships to Taiwan increased from 45 in 2001 to 1,808 in

2004; the number of China's people to Taiwan increased from 1,041 in 2001 to 12,409 in 2004 (See Table 1).

Table 1. Mini Three Links between Taiwan and China

Period	2001	2002	2003	2004	Total
Taiwan's Ships to China	137	435	776	1,221	2,569
Taiwan's People to China	11,729	28,087	81,759	202,371	323,946
China's Ships to Taiwan	45	158	567	1,808	2,578
China's People to Taiwan	1,041	1,358	3,760	12,409	18,568

Source: Mainland Affairs Council (Taiwan), <http://www.mac.gov.tw>, accessed April 19, 2005.

B. Liberalizing Chinese Exports to Taiwan

Taiwan has gradually but surely come to relax its regulation on China's exports to Taiwan after 2000. For December 2000 only 53.9 percent of trade commodities were permitted as imports from China to Taiwan whereas this figure jumped to 77.5 percent by September 2003 and 78.2 percent by October 2004.

C. Liberalizing Taiwan's Investment to China

After the EDAC, the Taiwanese government relaxed restrictions on Taiwan's investment in China's high-tech industry, except for items like wafer and upstream petrochemical products. It also did away with the investment ceiling of \$50 million. Instead, it established a review commission with clear standards on investment projects of over \$20 million and Taiwanese investing an amount lower than \$200,000 may register by declaration procedures. Finally, it allowed Taiwanese enterprises to directly engage in its investment in China.

D. Opening Up Chinese Investment to Taiwan

Taiwan has put forward a three-stage schedule that allows for Chinese investment in Taiwan: Taiwan has allowed Chinese investment in Taiwan's real estate sector for the first stage on August 8, 2002. In addition, Taiwan plans to open up to Chinese investment in the manufacturing industry for the second stage, and in the capital market for the third stage.

E. Expanding Offshore Transshipment Center

The Taiwanese government continued its support for the offshore transshipment center of Kaohsiung harbor after 2000 and further announced the Cross-Strait Sea Freight Facilitation Measures on May 7, 2004. As a result, the amount of offshore transshipment almost doubled from 365,879 cargos in 1999 to 674,775 cargos in 2004 (See Table 2). In addition, the government expanded the application of the Facilitation Measures from Kaohsiung harbor to Taichung harbor and Keelung harbor.

Table 2. The Operation of the Offshore Transshipment Center of Kaohsiung Port

Unit: cargo

Period	Unloading	Loading	Total Loading/Uploading Operation	Growth Rate
1998	151,872	120,893	272,765	n.a.
1999	204,047	161,832	365,879	34.1%
2000	227,682	204,986	432,668	18.3%
2001	270,318	237,924	508,242	17.5%
2002	282,123	292,328	574,451	13.0%
2003	312,159	318,179	630,338	9.7%
2004	343,469	331,306	674,775	7.1%

Source: Mainland Affairs Council (Taiwan), <http://www.mac.gov.tw>, accessed April 19, 2005.

F. Facilitating Air Links

Taiwan and China reached agreements on passenger charter flights during the lunar new-year holidays in 2003, 2005 and 2006. For 2003, it was operated only by Taiwan’s airlines, two routes between Taipei and Kaohsiung on the Taiwan side and Shanghai on the China side, with a stopover in Hong Kong. For 2005 and 2006, it was operated by both Taiwan and China airlines, multiple airports and nonstop between Taiwan and China. The arrangement negotiation is elaborated in detail in the section below.

In addition, the Taiwanese government announced the policy on Cross-Strait Air Freight Facilitation Measures on September 10, 2003. It promoted one-way (Taiwanese carriers operate the flights first) “restricted” and “indirect” cargo charter flights to solve the urgent demand of Taiwan businesspeople for freight transportation. In January 2004, President Chen announced that Taiwan would expand the current

uni-directional cargo charter flights into bi-directional charter flights through bilateral negotiation.

G. Facilitating Financial Transaction

After July 2001, Taiwan allowed offshore banking units (OBUs) of Taiwanese banks to engage in direct trading with Chinese financial institutions. Between July 2001 and August 2004, financial transaction across the Strait through OBUs amounted to \$110.4 billion.

H. Allowing Taiwan's Financial Sector to Establish Branches in China

Since 2001, Taiwan has gradually allowed Taiwan's banks, securities firms and insurance companies to set up branch offices or subsidiaries in China. As of mid-2004, Taiwan's Ministry of Finance has approved 17 securities firms, 15 family insurance companies, and 10 banks to set up offices in China. Nevertheless, China only approved insurance companies to set up branch offices in China because both sides have not signed bilateral financial supervisory agreements.

Furthermore, on April 19, 2004, Taiwan allowed its insurance companies to invest in Chinese local companies. On March 3, 2005, Taiwan allowed overseas subsidiaries of its financial holding companies to establish representative offices in China.

I. Opening Chinese Tourists to Taiwan

Since January 1, 2001, Taiwan allowed 600 and 80 Chinese people to visit Kinmen and Matsu for sightseeing everyday, respectively. However, by mid-2004, there were only 165 and 283 Chinese people traveling to Kinmen and Matsu as tourists due to China's restriction on its people. By the end of September 2004, the

Chinese government began to allow people from Fujian Province to traveling to Kinmen and Matsu for sightseeing.

In addition, since January 1, 2002, Taiwan allowed category-3 Chinese people, which refer to those residing abroad, to visit Taiwan for sightseeing. The second-phase relaxation was implemented on May 10, 2002, which allowed Chinese people who have resided abroad for at least four years and who have acquired a work permit at his place of residence abroad, and their spouse and direct relatives to visit Taiwan for sightseeing. This relaxation also automatically applied to the residents of Hong Kong and Macao and Chinese people who have been approved to go abroad for sightseeing or for business trips. From the start of the trial implementation to the end of October 2004, the number of Chinese people visiting Taiwan for sightseeing amounted to 29,599.

J. Expanding Chinese Businesspeople and Technical Professionals to Taiwan

Since January 2002, Taiwan has significantly simplified and relaxed measures for applications of businesspeople and technical professionals from China to Taiwan. In particular, the total period of stay for a Chinese technical specialist applying to come to Taiwan to participate in technical research was extended from three years to six years. Moreover, in November 2004, Taiwan further relaxed the restrictions of Chinese people coming to Taiwan to engage in commercial activities.

Although Taiwan has been adopting many opening policy measures with respect to cross-Strait economic exchange, Taiwan has strong negative concerns to move ahead with rapid economic integration between Taiwan and China, which should be addressed through bilateral negotiation. In July 2005, President Chen Shui-bian stressed that “only under the condition of effective management will we consider to

actively open up to China.” He explained that China was hostile toward Taiwan and intended to swallow up or annex Taiwan at any time, thus Taiwan must take “effective management” more seriously than “proactive liberalization.”⁸ Moreover, he had concerns that China would downgrade Taiwan’s sovereign status through bilateral negotiation and economic arrangement.

Even Taiwan has adopted many pragmatic unilateral opening measures to promote cross-Strait economic exchange, the progress was very incremental. The most important issue for both sides is to figure out a feasible bilateral negotiation model for economic issues, including the direct links, to reach agreements facilitating and liberalizing cross-Strait economic exchange. The following section elaborates Taiwan’s efforts to promote bilateral negotiation with China and presents a flexible negotiation model with effective official participation for cross-Strait charter flights arrangement after three-year bilateral bargaining between late 2002 and early 2005.

IV. TAIWAN’S PROMOTING BILATERAL NEGOTIATION

In late October 2002, Taiwanese legislators proposed lunar new-year charter flights between Taiwan and China to both governments. On November 12, Taiwanese Premier Yu Shyi-kun said that the opening of cross-Strait direct air links, such as point-to-point charter flight services, was technically feasible anytime and only required negotiations.

MAC Vice Chairman Chen Ming-tong said that Taiwan welcomed cross-Strait negotiations and was ready to begin talks anytime on the charter flights arrangement with China. Furthermore, Taiwan also showed its flexibility and pragmatism. Without bilateral official negotiations, Chen said, Taiwan would only allow its airlines to file

⁸ “President Chen Attends a Videoconference with Journalists of the Foreign Correspondents’ Club of Japan,” Office of the President, Republic of China, July 26, 2005.

applications with the Chinese government to obtain permission for indirect charter flights between Taiwan and China by stopover in Hong Kong or Macao during lunar new-year holidays in early 2003.

However, China requested Taiwan negotiate with China through authorized private organizations on the details of charter flights. In response, Taiwan emphasized that Taiwan was ready to send representatives of the Strait Exchange Foundation (SEF) to negotiate with their counterparts of the Association of Relations across the Taiwan Strait (ARATS). But China refused to resume SEF-ARATS dialogues. Without Taiwan's authorization of private organizations to negotiate with China, on January 7, 2003, China finally approved the first indirect charter flights by six Taiwanese airlines to China.

In mid-November 2003, Beijing announced that its position on the 2004 new-year charter flights was "direct, nonstop and reciprocal." In response, Taipei said that official negotiations were necessary if Chinese air carriers wanted to operate charter flights between Taiwan and China during lunar new-year holidays. Nevertheless, Beijing insisted that both sides authorize airline companies to negotiate with each other. At the end, Taiwan did not agree upon China's proposal and thus there were no charter flights across the Taiwan Strait during the 2004 lunar new-year holidays.

In early October 2004, in order to promote the 2005 charter flights arrangement, Taiwan further showed its flexibility. Premier Yu instructed the MAC to actively promote the charter flights arrangement based on the following principles -- "bilateral, reciprocal, and non-stop" with a flexible negotiation approach. In fact, Taiwan agreed upon all China's previous conditions on the arrangement.

However, China added one more political condition on the charter flights arrangement that Taiwan had to obey the principle of "internal affairs of one country"

and China accused that Taiwan did not follow the principle. Furthermore, Beijing asked Taipei to authorize a private organization to negotiate the charter flights arrangement. In turn, Taipei reiterated its previous position and welcome China to authorize appropriate persons to negotiate with Taiwan.

On November 10, President Chen proposed a concrete negotiation model to China that both sides across the Taiwan Strait should follow the Taiwan-Hong Kong aviation right model to settle passenger and cargo charter flights. The model meant that, without any precondition, Taiwan authorized a private association with official participation to negotiate with Hong Kong's counterpart on Taiwan-Hong Kong aviation right in 2002.

However, China's ARATS pointed out that functional talk across the Strait had to insist on the one-China principle. In addition, China's Taiwan Affairs Office (TAO) of the State Council accused that President Chen's statement "China is not our country, but an enemy" created tensions and thus China would not like to negotiate with Taiwan on the charter flights arrangement. Finally, China defined charter flights as "internal affairs of one country." Generally speaking, in the second half of 2004, China set up many obstacles regarding the charter flights negotiation.

Suddenly, on January 2, 2005, Beijing changed its policy position. In an interview by the Xinhua News Agency, the TAO spokesman emphasized that China would work hard to promote the launching of charter flights across the Taiwan Strait during the lunar new-year holidays. Beijing suggested that airlines across the Strait communicate directly over technical and business details and make arrangements. In the interview, the TAO spokesman neither mentioned the one-China principle as a precondition of the talk, nor defined the charter flights arrangement as internal affairs

of one country.⁹

On January 4, Taipei immediately authorized the Taipei Airlines Association (TAA) to conduct talks on the charter flights arrangement with Beijing. Three days later, the TAA president met in Macau with Pu Zhaozhou, a senior official of the General Administration of Civil Aviation of China and executive director of the China Civil Aviation Association.

On January 15, spending just two hours, both sides reached an agreement on the charter flight issue based on the two-way, reciprocal, and non-stop principle by Taiwan's Chang Kuo-cheng, director of Civil Aeronautic Administration, and China's Pu Zhaozhou. Forty-eight flights would connect Taipei and Kaohsiung on the Taiwan side with Beijing, Shanghai, and Guangzhou on the China side from January 29 to February 20, 2005.

Negotiation over the charter flights (the Macau model) serves a very good example to show Taiwan's pragmatism on a feasible negotiation model of bilateral economic issues. In the very beginning, Taipei agreed to accept cross-strait charter flights arrangement through semi-official negotiation of SEF-ARATS dialogues, but the Chinese government rejected this semi-official negotiation model, insisting on the "private" negotiation channel.

In late 2004, Taiwan accepted China's previous conditions on the charter flight arrangements and proposed a flexible negotiation model with official participation from both sides. Then, China set up two extra political conditions for the negotiation: the one-China principle and internal affairs of one country. Nevertheless, China gradually realized that additional political conditions for the negotiation on charter flights arrangement would break down the bilateral agreement. At the end, Beijing

⁹ "Chinese Mainland to Work for Launching Charter Flights Across Straits," Xinhua General News Service, January 3, 2005.

pragmatically accepted Taipei's proposal. Both sides swiftly reached the agreement on the charter flights arrangement for lunar new-year holidays in 2005.

With the Macau model, it was not controversial at all for both sides to conduct the negotiation on the charter flights arrangement for lunar new-year holidays in 2006. On November 18, 2005, Taipei and Beijing announced simultaneously the agreement with a very short period of negotiation. A total of 72 flights will be offered by the six Chinese and six Taiwanese airlines involved in the scheme, compared to 48 flights in 2005. In addition, the number of Chinese cities to be linked with Taiwan's Taipei and Kaohsiung by the charter flights will be increased by one, with Xiamen added to Beijing, Shanghai and Guangzhou. Finally, the flight services will run for 25 days, two more days compared to 2005.

V. CONCLUSION AND PROSPECTS

From Taipei's perspective, economic integration should be a starting point of cross-Strait normalization and the basis for a new framework of permanent peace and political integration. As a result, in the last five years, Taiwan has been adopting an increasingly opening approach on its economic relations with China in terms of two-way mobility of commodities, capital, people, and other facilitation arrangement. Particularly, with respect to Taiwan's outward investment to China, Taiwan replaced the "no haste, be patient" policy with a "proactive liberalization with effective management" policy.

Although Taiwan has been adopting many opening policy measures with respect to cross-Strait economic exchange, Taiwan has strong negative concerns to move ahead with rapid economic integration between Taiwan and China, which should be addressed through bilateral negotiation. Even Taiwan has adopted many pragmatic unilateral opening measures to promote cross-Strait economic exchange, the progress

was very incremental. The most important issue for both sides is to figure out a feasible bilateral negotiation model for economic issues, including the direct links, to reach agreements facilitating and liberalizing cross-Strait economic exchange. After three-year bargaining between Taiwan and China, the flexible negotiation model with effective official participation (the Macau model) for cross-Strait charter flights arrangements could be a viable model for future negotiation on economic issues.

Since mid-2004, the MAC has proposed a long list of economic issues to negotiate with China, including currency clearance, investment protection, financial supervision, avoidance of double taxation, product importation, protection of intellectual property rights, judicial assistance, commercial arbitration, fisheries dispute arbitration, personal security, charter flights and direct transportation links, tourism, repatriation of illegal migrants, joint crime prevention, marine pollution, and fisheries labor negotiations.¹⁰ However, China's response to Taiwan's concrete proposals, including charter flights negotiation, was extremely cold before Taiwan's Legislative Yuan election of December 2004 and suddenly changed by early January 2005.

In early March 2005, Chinese President Hu Jintao responded to Taiwanese President Chen's proposal that both sides could gradually develop cross-Strait passenger charter flights during festivals into a regular practice as well as negotiate over the issue of cross-Strait cargo charter flights through private civil aviation organizations. Ten days later, Chinese Premier Wen Jiabao proposed negotiations with Taiwan over passenger charter flights, Taiwan's agricultural exports to China, and China's fishery workers to Taiwan. Nevertheless, the Chinese government

¹⁰ Jaushieh Joseph Wu, "The Opportunity for Cross-Strait Charter Flights Talks: Reflections and Prospects on the Sixth Anniversary of the Koo-Wang Talks," Mainland Affairs Council, Executive Yuan, Republic of China, October 14, 2005, <http://www.mac.gov.tw/english/english/macpolicy/wu931014.htm>, accessed April 20, 2005.

promulgated the so-called anti-session law on March 14. The law provoked strong negative reaction of the Taiwanese people and thus the Taiwanese government did not respond to Chinese proposals.

Three months later after the promulgation of the anti-session law, on June 13, the Taiwanese government appointed the TAA to contact its Chinese counterpart and arrange talks over cargo charter flights between Taiwan and China, and named the Taiwan External Trade Development Council to arrange talks over Taiwan's exports of fruit to China. On August 2, the Taiwanese government further authorized Taiwan's Travel Agent Association to negotiate with its Chinese counterpart over China's tourists to Taiwan. Parenthetically, Taiwan referred to the Macau model for the negotiation of all the three issues and China showed no opposition. Despite Taiwan put priority on the negotiation of cargo charter flights across the Taiwan Strait, on August 4, Taiwan agreed to open talks with China simultaneously on cargo and passenger charter flights due to China's insistence.

Since mid-2004, Taiwan has proposed many pragmatic issues of cross-Strait economic exchange to be negotiated by both sides across the Taiwan Strait and both sides have agreed upon the formality of negotiation. Both sides have been negotiating over cross-Strait charter flights and China's tourists to Taiwan in the second half of 2005. The successful agreement on November 18, 2005, on charter flights during the 2006 lunar new-year holidays seems a good signal that both sides would put political controversies away and focus on negotiation over bilateral economic issues. If both sides can reach agreements on regular charter flights and Chinese tourists to Taiwan in early 2006, it is very plausible that Taiwan and China can gradually establish a stable framework to facilitate and expand future cross-Strait economic exchange.