

WHEN TAIWAN MET CHINA

AVIVA INVESTORS
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Key points

The significance of this month's meeting between China and Taiwan should not be underestimated

Taiwan is set to elect a new leader in January and the ruling party is behind in the polls

While China is keen to keep relations harmonious, Taiwan's next government is likely to push for independence

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Ed is responsible for emerging market and Asia Pacific equity strategies, having joined Aviva Investors in 2001 to manage quantitative equity strategies. Prior to that he managed passive strategies for State Street Global Advisors and was a marketing assistant at PanAgora Asset Management. Ed joined the industry in 1994.

An historic meeting between China and Taiwan marks a notable shift in their diplomatic relations, says Ed Wiltshire.

The etiquette of first dates is always tricky. Where should we meet? How formal should we be? And, perhaps most importantly, who should pay?

When Xi Jinping shook hands with Ma Ying-jeou earlier in November it was the climax of a courtly diplomatic dance. The venue was neutral Singapore. The table was round to save the awkwardness of deciding who should sit at the head. Neither party referred to the other as 'President'. And, having brought their own booze, they split the bill.

Historic meetings don't come much more stage-managed, but that shouldn't obscure the significance of contact between two countries that officially refuse to acknowledge the other's existence.

Fractious history

Taiwan came to exist in fairly unique circumstances. In 1949, having lost the Chinese Civil War on the mainland, the nationalists retreated to the island of Formosa where the Republic of China – never to be confused with the *People's Republic of China* – has remained ever since. The United Nations has only ever recognised 'China' as a single country. Prior to 1971 that was Taiwan. Subsequently it has been the mainland. Though Taiwan declared the civil war over in 1991, no treaty or agreement between the two countries to that effect has ever been signed.

Conditions on the ground belie this fractious history. These close neighbours – the Taiwan Strait is only 180km wide – have edged towards peaceful co-existence by tactfully colluding in a policy of 'deliberate ambiguity'. China is willing to tolerate other countries unofficially treating Taiwan as a separate state, as long as they do not support it in making a formal declaration of independence.

Given this context, it is unsurprising how much care went into organising the meeting or how many column inches were devoted to analysing the warmth and duration of the two leaders' handshake. For the record: cordial and 81 seconds.

The timing is, of course, not coincidental. Ma is nearing the end of his second and final term as Taiwan's president. The election for his successor will take place in January and opinion polls show the candidate from Ma's own party lagging by some way. This after their previous candidate was hastily replaced in October for appearing too pro-Beijing. Cross-strait relations remain a politically loaded issue.

The presidential front runner, Dr Tsai Ing-wen, has called foul. As leader of the independence-leaning Democratic Progressive Party, she was quick to condemn the timing of the meeting, fearing it gives the Chinese a chance to influence the election outcome. If that is the case, it is certainly being done with a deal more subtlety than the Chinese used to apply to 'cross-strait' relations.

Back in 2000, with the Taiwanese apparently about to choose a president not to Beijing's liking, the then Chinese premier harangued Taiwan's electorate: "Do not just act on impulse ... you won't get another opportunity to regret". Such tactics proved counterproductive and the anti-China pro-independence candidate was duly elected. The consequence was eight years of stalemate and wintery relations that only started to thaw once Ma had come to power.

Cannier approach this time

The Chinese seem cannier in their approach this time around, never daring to overtly interfere in Taiwanese internal politics. Probably resigned to co-existing with Dr Tsai for the next four years, their main concern is to ensure the continuity of cross-straits relations.

For her part, Dr Tsai is also treading carefully. Although her party officially supports independence, she has vowed to uphold the status quo in relations with China. Indeed, she hasn't ruled out the possibility of eventually meeting President Xi herself, provided there are no pre-conditions.

So mission, probably, accomplished. This strangely, and deliberately, ambiguous relationship should continue peacefully for the next few years. But despite the smiles, the warm handshakes and the blushing platitudes, neither side will be waiting impatiently by the phone. It'll probably be some time before they have to face the anxieties of that second date.

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