'One country, two systems': a feasible prospect for evolving relations across the Taiwan Strait?

The impact of growing Sino-Taiwanese economic interdependence since 1996

University of Groningen

Master Thesis International Political Economy

Supervisor: Dr. M. Neuman

Tijn Peeters
Rijnstraat 167-II
1079 HD Amsterdam
Student: 1723280
Tel: +31646335092

August 2015
DECLARATION BY CANDIDATE

I hereby declare that this thesis, ‘One country, two systems’: a feasible prospect for evolving relations across the Taiwan Strait? The impact of growing Sino-Taiwanese economic interdependence since 1996, is my own work and my own effort and that it has not been accepted anywhere else for the award of any other degree or diploma. Where sources of information have been used, they have been acknowledged.

Tijn Peeters

August 19, 2015
# Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Chapter One</td>
<td><em>Historical and Political Context</em></td>
<td>11</td>
</tr>
<tr>
<td>Chapter Two</td>
<td><em>Theoretical Framework</em></td>
<td>18</td>
</tr>
<tr>
<td>Chapter Three</td>
<td><em>China’s Taiwan policy</em></td>
<td>31</td>
</tr>
<tr>
<td>Chapter Four</td>
<td><em>Taiwan’s China policy</em></td>
<td>48</td>
</tr>
<tr>
<td>Chapter Five</td>
<td><em>Conclusion</em></td>
<td>66</td>
</tr>
<tr>
<td>Bibliography</td>
<td></td>
<td>80</td>
</tr>
</tbody>
</table>
Introduction

The rejuvenation of the People’s Republic of China (PRC) will be one of the major geopolitical challenges of the twenty-first century. In order to re-establish China’s international status as a great power, the Chinese Communist Party (CCP) sought to increase its national comprehensive power, accumulated out of economic, political, and military resources. China’s leadership in the post-Mao era understood that economic growth was vital to realize the nation’s re-emergence. As the directive of former President Mao Zedong (1949-1976) had led to economic downfall and international isolation, the new generation of leaders needed to adjust China’s confrontational foreign policy. Conforming to, rather than challenging, the international status quo therefore became the strategy imperative. China’s rapid integration in the international economic society commenced when Deng Xiaoping (1978-1992) introduced the policy of ‘openness and reform’ in the early 1980s. Deng understood that economic prosperity served as the foundation to accomplish the restoration of China’s rightful place in the international order. His reformist policy was therefore primarily focussed towards economic liberalization.\(^1\) The basic framework of a semi capitalist system, often referred to as ‘Sino-capitalism’, based on market economy and increased individual economic freedom became the engine of China’s impressive economic growth of the subsequent decades.\(^2\) The opening of the Mainland led to enormous foreign investments in the Chinese economy. The growing commercial interactions significantly contributed to the development of an increasingly integrated regional economy in East Asia.\(^3\)

The reformist policy of Deng Xiaoping resulted in an unprecedented annual economic growth of eight to ten per cent annually and lifted millions of Chinese out of poverty.\(^4\) As a consequence, the prospect of economic prosperity and the improvement of the wellbeing of the Chinese populace became major sources for the CCP’s legitimacy. Moreover, the communist leadership in Beijing sees the country’s economic development as the fundament to expand its political and military power too. Beijing hopes to reclaim its central position in Asia, similar to the one it fulfilled


\(^3\) Guo, “Political Legitimacy and China’s Transition,” 2, 11-14; Holslag & Geeraerts, “China en de fabel van regionale integratie in Azië,” 390.

prior to the European expansion in the latter part of the nineteenth century. Although Beijing underscores the peaceful intentions of China’s development, analysts remain divided over the question what China’s true intentions are. On the one hand, Beijing promotes multilateral cooperation and starts to act as a responsible stakeholder in intergovernmental organisations. China’s increasing cooperation with the Association of South East Asian Nations (ASEAN) and participation in intergovernmental organisations such as the United Nations (UN), the International Monetary Fund (IMF), and the World Trade Organization (WTO) underline this point of view. By highlighting the peaceful character of the Chinese development, Beijing hopes to restore China’s rightful place in a multipolar international order harmoniously. To achieve its objectives, China builds upon its ‘good neighbourhood’ policy, emphasizing the importance of improving bilateral relations and manifesting China as the engine of economic growth and integration in Asia. From this point of view, the main drivers of Beijing’s foreign policy are commercial interests and economic pragmatism. The emerging regional economic interdependence will prevent large-scale conflicts, as a stable environment is vital for China’s export driven economy.

On the other hand, China’s vast economic growth resulted in renewed political confidence. Its increasing military capabilities, rising nationalism, and growing assertiveness disturb many. Contradictory to the view of peaceful development, China’s anxious neighbours argue that the aim of Chinese foreign politics is to aggressively expand the country’s influence and underlines Beijing’s revisionist character. Indeed, over the last two decades, China’s national defence budget increased by more than ten per cent annually. This resulted in a fast modernisation and expansion of the People’s Liberation Army (PLA). China’s growing military

---

8 Huang & Li, Inseparable Separation, 4; Holslag & Geererts, “China en de fabel van regionale integratie in Azië,” 392.
11 Ibid; R.D. Kaplan, Het Aziatische Kruitvat, Het einde van stabiliteit in de Grote Oceaan (Houten, Het Spectrum, 2014), 51, 206, 211.
capabilities allowed Beijing to operate more assertively in relation to the numerous border disputes it has with numerous neighbours. The People’s Republic contested territorial claims over the sovereignty in the East and South China Seas increased tensions with Japan, Brunei, Malaysia, Vietnam, and the Philippines. These tensions threaten the fragile regional stability and could potentially have devastating global economic consequences, as key international trade routes are located in the area. In addition, the strategic waters contain rich fishing grounds and large oil and gas reserves. From a geopolitical perspective, the contested seas are arguably even more important. If Beijing is able to control the South China Sea and absorb it into its sphere of influence, China will strengthen its status as regional power. In The Clash of Civilizations and the Remaking of World Order, Samuel Huntington warns for new world wars in the 21st century. One of the disturbing possibilities is a war between China and the United States (US) concerning the status of global hegemon.

In contrast to the increasing tensions with many of its neighbours, Sino-Taiwanese relations have been remarkably stable in recent years. Ever since China was split as the result of the civil war in 1946-49 between Chiang Kai-shek’s nationalist Kuomintang (KMT) and Mao Zedong’s Communists, Beijing has asserted Taiwan as an integral part of the People’s Republic. Until the end of the 1970s, the two rivals did not interact. From then on, the hostile relationship transformed gradually. It was Deng Xiaoping who offered Taiwan the concept of ‘one country, two systems’. In this proposal, Taiwan would give up its self-proclaimed status as a sovereign nation, but maintain autonomous to a large extent. When the Taiwanese Republic of China (ROC) held its first presidential elections in 1996, a military confrontation between the PRC and the ROC was only prevented by an imminent American intervention. After the demonstration of US military superiority and commitment to Taiwan, China’s leadership altered its policy towards the island. Beijing is now aiming at unification with Taipei in the long-term by improving relations and interactions across the Taiwan Strait. The assumption that growing economic interdependence will result in political reconciliation too is in line with the premises of

12 Kaplan, Het Aziatische Kruitvat, 50-54, 201-212; Holslag, Onmogelijke Vrede, 16-17; Holslag & Geeraerts, “China en de fabel van regionale integratie in Azië,” 392-394.
14 Huang & Li, Inseparable Separation, 1.
15 Kaplan, Het Aziatische Kruitvat, 176-177.
interdependence theory. As will be exemplified in chapter two, the theoretical discussion concerning the consequences of growing economic interdependence will form this study’s theoretical framework.\textsuperscript{17}

Improving relations with China has been a central theme in Taiwan since President Ma Ying-jeou of the KMT assumed office in 2008. Whereas the stimulation of the Taiwanese economy was Ma’s primary objective, engagement with the Mainland seemed necessary. The Ma administration therefore redefined the cross-Strait relationship from an economic perspective. This resulted in the conclusion of multiple bilateral agreements, which in turn accelerated economic, social, and cultural exchanges across the Taiwan Strait.\textsuperscript{18} Besides the direct economic advantages of improving bilateral relations with Beijing, Taipei argued that it would end the island’s international isolation due to Beijing’s ‘one China’ policy. The PRC requests the recognition of the government in Beijing as the sole representative of greater China by other countries before official relations can be established. China’s leadership hereby prevents international recognition of Taiwan as a sovereign nation.\textsuperscript{19} While advocates of Ma’s politics hope to show the electorate the (economic) benefits of better ties with China, there is growing perception that the island may become too dependent on the Mainland. Many Taiwanese fear that the growing economic interdependence will weaken the island’s democratic system once political integration moves forward.\textsuperscript{20} The recent refusal of the Communist Party to cede to the demands of the pro-democracy protests in Hong Kong fuel Taiwan’s distrust of China.\textsuperscript{21}

Whereas cross-Strait tensions might have eased in recent years, the future is still uncertain. In 2016, both Taiwan and the US will hold presidential elections. Despite the fact that tensions across the Taiwan Strait have been significantly reduced due to Ma’s policy of reassurance and moderation, the electorate in Taiwan seems to be

\textsuperscript{17} Ibid; \textit{The Economist}, “Taiwan’s common-sense consensus: Economic integration is not doing what China hoped and the opposition feared,” (26 February 2011), 53.
\textsuperscript{18} Ibid, 1-3, 45; \textit{The Economist}, “Say cheese: The first island visit from a Chinese minister since 1949,“ (5 July 2014), 48; \textit{Economist}, “Symbolism as a substance,” 47.
\textsuperscript{19} Huang & Li, \textit{Inseparable Separation}, 4; \textit{The Economist}, “Taiwan’s economic isolation. Desperately seeking space. A free-trade deal is greeted by China with a surprising lack of fuss,” (13 July 2013), 43.
abandoning the incumbent KMT. Given Ma’s historically low presidential approval ratings, there is a fair chance that Taiwan’s presidential election will be won by the pro-independence Democratic Progressive Party (DPP). The DPP’s prospective candidate Tsai Ing-wen, who fears deeper economic ties with Mainland China, is leading the election polls. As the KMT candidate is likely to distance herself from Ma’s policies too, Taipei’s policy towards the Mainland would be far less accommodating than that of the current KMT. In addition, the elections in the US will bring a new president to the White House. Due to the American commitment to East Asia in general and Taiwan specifically, the US has become an inextricable part of the cross-Strait relationship. It is therefore not expected that the new US administration will restrain Obama’s policy of rebalancing in the Pacific and East Asia. On the contrary, the renewed interest of the US in Asia since 2010 will most likely be extended as a new elected president will be eager to reaffirm the nation’s prime role in the world. Consequently, the PRC’s President Xi Jinping (2013–present) will see the leadership of two of the key actors for China’s regional policy change. The possibility that these changes will result in a more confrontational environment is real.

Notwithstanding the recent improvements in bilateral relations, political leaders on both sides of the Strait continue to mistrust each other’s motives and intentions. China fears the island’s permanent separation; Taiwan fears a more assertive China and forceful subordination to an authoritarian regime. All involved actors, the US first and foremost, are anxious about disruptions to the delicate stability in East Asia. The result of this standstill is the continuation of the status quo that arose at the end of the civil war in 1949. The evolving economic and social interaction facilitated a more stable and less conflict-prone relationship over the last two decades. However, it is still uncertain if the growing social and economic interdependence since 1996 can, in the long run, overcome the political disagreements. For that purpose, this thesis will inquire to what extent cross-Strait economic rapprochement can be expected to lead towards political integration between China and Taiwan. In order to provide an answer to this main question, the framework of the interdependence

---

25 Bush, Untying the Knot, 15, 18.
theory will be assessed to specify the methodological structure. Deriving from the economic liberal doctrine, interdependence scholars argue that economic integration will result in political cooperation due to a spill over effect of increased interstate interaction.27

The thesis is structured as follows. Before a comprehensive answer to the main question can be formulated, one needs to comprehend the historical and political development between China and Taiwan. The first chapter will therefore provide a brief overview of the evolving Sino-Taiwanese relationship prior to the last military hostilities in 1996. This chapter will have a special interest in the role of the US. Because of America’s evolving China policy since the Second World War, the US has become an inextricable part of the cross-Strait dispute. While Washington emphasizes the importance of a peaceful solution of the dispute, Taiwan’s security is hugely dependent on American (military) endorsement. Besides the geopolitical significance and military superiority of the US, there are immense economic interests at stake for the world’s two leading economies.28

The second chapter provides the theoretical framework used to answer this study’s main question. The rapprochement between China and Taiwan can be divided into three main aspects: a socio-economic, a political, and a military component. All three will be part of the inquiry. First of all, the main concepts of this thesis will be defined and conceptualized. Hereafter, the chapter will provide an overview of the concept of the interdependence theory and its origins in (economic) liberalism, followed by a theoretical discussion providing a realist critique to the main theoretical assumptions of interdependency. The goal of the chapter is to provide a broader discussion that serves as a theoretical framework for the analyses in the succeeding chapters. In doing so, the discussion between the realist and liberal perspectives will be at the centre. Prominent realist scholars challenge the predominantly liberal view about the pacifying effects of (economic) interdependence. Realists argue that interdependency can also be a source of conflict, especially when relationships are characterized by asymmetry.29 Finally, this chapter will apply the concepts of interdependence theory to the situation across the Taiwan Strait.

The third chapter will survey the developments of the PRC’s Taiwan policy. This chapter will analyse Beijing’s motives for the current rapprochement between China

---

28 Bush, Uncharted Strait, 9-10; Kaplan, Het Aziatische Kruitvat, 176-177.
and Taiwan. Until the end of the 1970s, the cross-Strait relationship was characterised by straightforward hostility. From then on, interaction between the two rivals advanced gradually. Since the last hostilities in 1996, Beijing seemed to accept the US military supremacy for the time being and abandoned its confrontational politics. Instead, the Communist Party aims at improving relations and encourages cross-Strait interaction. Yet, China’s investments in its military capabilities grow each year.

This chapter will put emphasis on the nexus between liberalism and realism. Is China aiming for a spill over of the socio-economic integration to come to political rapprochement; or will Beijing (ab)use its economic power over Taipei to realize its goal of reunification with Taiwan? In other words, what are China’s intentions and what are the consequences for the long-term?

After explaining China’s Taiwan policy, the focus will shift towards the Taiwanese perspective in the fourth chapter. The survey will analyse what motivates the bilateral rapprochement between Taiwan and China from a Taiwanese perspective. Although commercial exchanges with Mainland China are hugely beneficial in the short-term, the consequences of growing economic interdependence in the long-term are highly uncertain. Taiwan’s democratization in the 1990s resulted in a new dimension in the bilateral relations between China and Taiwan. Therefore, this chapter will also address Taiwan’s domestic political situation. Special attention will be paid to the view of the two main political parties on the Mainland policy, the nationalist Kuomintang and the pro-independence Democratic Progressive Party.

In the final chapter, the conclusions of the findings in this thesis are presented. Before the answer to the main question will be formulated, the main findings of the previous chapters will briefly be summarized. Subsequently, the final answer to the question to what extent cross-Strait economic rapprochement can be expected to lead towards integration between China and Taiwan will be offered.
Chapter One

Historical and Political Context

The first chapter provides an overview of the historical and political developments between China and Taiwan. The aim of this chapter is to provide the background of the Sino-Taiwanese relationship prior to 1996. The analyses in chapters three and four will cover the recent history from both a Chinese and Taiwanese perspective. As will be exemplified later in this chapter, the relationship across the Taiwan Strait significantly altered in the second half of the 1990s. Among others, the changing international environment, democratization of Taiwan, and a renewed strategy in Beijing regarding the cross-Strait dispute had major impact. As mentioned in the Introduction, the role of the US as leading hegemon will be highlighted.

After Japan’s victory in the Chinese-Japanese war in 1894-95, Beijing had to turn over Taiwan to the emerging Japanese empire. The Japanese imperial forces regarded Taiwan as the key to controlling South-East Asia. When the Second World War was concluded with Japan’s capitulation in 1945, the victorious allied powers returned Taiwan to Mainland China.\(^{30}\) However, the defeat of Japanese armed forces in China did also mark the end of the coalition of Chiang Kai-shek’s nationalists and Mao Zedong’s communists. Increasing tensions between the two former allies resulted in the Chinese civil war in 1946. When the Soviet backed communists triumphed over the nationalists, Chiang Kai-shek fled to Kuomintang’s last remaining stronghold: Taiwan. The retreat of the KMT led to the separation of China into the communist ruled Mainland and the establishment of the Republic of China on the island of Taiwan. Both the CCP in Beijing as well as the KMT in Taipei claimed to be the representative government of whole China.\(^{31}\)

When Mao proclaimed the People’s Republic of China in 1949, he had to rebuild a war-torn country. In order to reconstruct the Chinese nation, the Communist Party developed four ‘great ambitions’. Mao’s priority was to increase the Communist Party’s legitimacy for ruling greater China. In order to preserve their legitimacy, the new elite wanted to restore stability and increase China’s standard of living. Secondly, the communists needed to regain control over the insurgent border areas Yunnan, Tibet, Xingjian, and Inner Mongolia. Thirdly, Beijing required international


recognition of the PRC’s status as sovereign nation. Fourthly, China needed to reunite the Mainland with its lost territories, particularly Taiwan. It was therefore that soon after Chiang Kai-shek’s retreat to Taiwan, Mao’s revolutionaries set their sights on seizing the island. Due to the outbreak of the Korean War in 1950, Mao had to reallocate the PLA to the Korean peninsula. Plans for an invasion of Taiwan were subsequently cancelled. Driven by the fear that the war on the Korean peninsula was a prelude of a larger communist campaign to expand their influence in Asia, the US started the policy of containment against the communist threat. President Harry Truman (1945-1953) increased the American military presence in the region by deploying thousands of troops to South Korea and Japan, building military facilities in Okinawa, sending military advisers to Taiwan, and extending the Pacific fleet.

As part of the American containment policy in Asia, the US gradually committed itself to ensuring Taiwan’s security from the 1950s onwards. This assurance was formalised in 1954, when the ROC and the US concluded a mutual defence treaty. The treaty first and foremost secured Taiwan from an invasion by the People’s Republic. Furthermore, it extended the Republic of China’s legitimacy as the sole representative of greater China until the early 1970s. It was due to the American endorsement that the ROC obtained the status of China’s representative government in the UN, as well as many other intergovernmental organisations. Washington’s firm standing in the Taiwanese issue became the principal obstacle in normalising the Sino-American relationship in subsequent decades. In addition to the military and political support to Taiwan, the US also started a program of economic aid. This development strategy was mainly focussed on modernizing the Taiwanese economy through large-scale American investments in order to stimulate economic growth. Between 1950-65 Washington injected $1.5 billion in the Taiwanese economy. Due to the process of stimulated liberalisation, Taiwan created an open economy driven by exports. These reforms resulted in fierce economic growth and political stability.

From the 1970s onwards, the Nixon administration (1969-1974) transformed the foundation of the American policy vis-à-vis Taiwan. President Richard Nixon and Secretary of State Henry Kissinger saw they could use China to counter balance the Soviet Union. This conclusion affected Taiwan’s geopolitical situation significantly.

---

The ROC had to abandon its position in the UN at the expense of the PRC in 1971. In the following years, many states closed their embassies in Taipei and established diplomatic relations with Beijing.\(^\text{38}\) Taiwan’s international position deteriorated further when the US resumed their efforts to create a geopolitical alignment with China in 1978. Beijing demanded that if Washington wanted to instigate diplomatic relations, it would have to cut its ties with Taipei. As mentioned, this is known as the ‘one China’ principle. Washington agreed, and thus the Sino-American rapprochement resulted in the re-establishment of diplomatic relations between China and the US in 1979. Washington terminated diplomatic relations with Taipei and abandoned the Taiwanese-American mutual defence treaty of 1955.\(^\text{39}\) Yet despite the downgraded official relations, the US continued its political commitment and military support to Taiwan. The structure for post-normalization relations between the US and Taiwan was formalised by drafting the Taiwan Relations Act in 1979.\(^\text{40}\)

When Deng Xiaoping assumed presidential office in 1978, China was destabilised, internationally isolated, and economically diminished. Deng intended to restore social stability and preserve the Communist Party’s political legitimacy through economic prosperity. Deng realised that the restoration of China’s international position - similar to the position before the ‘age of humiliation’ - could only be realised with a solid economic foundation. He therefore started a process of gradual economic liberalization. Breaking the international isolation and initiating diplomatic and economic relations were a prerequisite for Deng’s economic reforms.\(^\text{41}\) Allowing foreign investments in the Chinese economy stimulated the process of modernisation, efficiency, and economic growth. Especially Hong Kong, Taiwan, Japan, South Korea, and Thailand wanted to profit from the Mainland’s cheap and vast labour force.\(^\text{42}\) Increasing and improving the production in the agricultural and industrial sectors were the primary objectives. Subsequently, the military and scientific sector needed to be reformed and modernised.\(^\text{43}\) The economic results speak for themselves. Since the initiation of Deng’s reformist policy, China has been one of the world’s fastest growing economies. In the first two decades after the opening, China’s economy grew between eight and ten per cent annually.\(^\text{44}\) While the opening

---


\(^{40}\) Ibid.


\(^{43}\) Ibid.

\(^{44}\) Y. Sung, *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong*, (New York: Palgrave MacMillan, 2005), 7.
of the Chinese economy was proposed to attract foreign investment and technology, the consequences were more fundamental. As a result of the success and scale of the reforms, the Chinese society transformed from a communist state led plan economy towards a semi capitalist system.\textsuperscript{45} In addition, the development led to a substantial increase in the Chinese welfare and standard of living. In the 1980s, China’s average income almost doubled, lifting an astonishing 125 million Chinese out of poverty.\textsuperscript{46}

Notwithstanding China’s integration in the international economy and participation within multilateral intergovernmental organizations, the CCP’s main goals remained unaltered. Mao’s four ambitions continued to guide China’s foreign policy orientations. The Chinese reforms did thus not lead to a revision of Beijing’s position regarding Taiwan.\textsuperscript{47} China’s leaders hoped that Taiwan’s deteriorated international position in the 1980s would push Taipei to agree on unifying with the Mainland. China had to find a peaceful settlement as it both lacked the military means to enforce reunification and Deng was not willing to risk the renewed relationship with the US. Therefore, the PRC announced a new policy of ‘peaceful unification’ to end the cross-Strait confrontation. Deng proposed to open direct economic links, welcome Taiwanese investment, and respect the \textit{status quo}.\textsuperscript{48} When Taipei held off, Beijing revealed the concept of ‘one country, two systems’ in 1981. Beijing offered Taiwan - once officially reunited with the Mainland - a high degree of autonomy as a special administrative region of China. Taipei would preserve its economic and social system, nongovernmental ties with foreign countries, and even its armed forces. Furthermore, Taiwanese leaders would able to take positions in the PRC’s government.\textsuperscript{49} The government in Taipei responded by declaring that there would be “no contact, no negotiations, and no compromise with the PRC”.\textsuperscript{50}

Economic developments gave new impetus to the cross-Strait relations in the mid-to-late 1980s. In addition to the geographical proximity and cultural affinity, the two economies across the Strait were highly complementary. From an economic perspective, the completion of a so-called ‘greater China’ circle was a natural

\textsuperscript{48} Bush, \textit{Untying the Knot}, 3-4, 22-23.
\textsuperscript{49} Ibid; Bush, \textit{Uncharted Strait}, 9-10.
\textsuperscript{50} Ibid, 22.
process. The initiation of commercial activities between China and Taiwan foreshadowed increasing economic interdependence between the two rivals. In the early 1990s, the deeper cross-Strait economic ties generated the need for interaction on basic economic matters between Taipei and Beijing. China and Taiwan therefore created official organizations that operated as the focal point for cross-Strait policy: the Taiwan Affairs Office for the PRC and the Mainland Affairs Council for Taiwan. In 1992, China and Taiwan reached a compromise, known as the ‘1992 Consensus’, in which each orally expressed its views on the subject of ‘one China’ in a way that allowed the other to preserve its position. The lack of agreement between Taipei and Beijing on the 1992 Consensus continues to exist until now.

The changing international environment at the end of the Cold War had profound impact on the relations across the Taiwan Strait. The decline and fall of the Soviet Union radically changed the international geopolitical situation. As the containment of the Soviet Union was no longer required, it removed Washington’s initial rationale for Sino-American rapprochement in the early 1970s. Additionally, the trend towards political separation in Eastern Europe inspired those in Taiwan favouring independence. Meanwhile, Taiwan successfully completed its transition to democracy after half a century of authoritarian rule under the KMT. With the implementation of a new constitution, Taiwanese former president Lee Teng-hui (1988-2000) turned democracy into a new and decisive factor influencing cross-Strait relations. Firstly, it meant a considerable improvement of Taiwan’s profile on the international scene; at the very time that China suffered opprobrium for the violent suppression of the Tiananmen Square student protests movement in 1989. Secondly, the political liberalization and revival of indigenous culture - long repressed by the KMT - led to the emergence of a distinct Taiwanese identity. While this tendency will be inquired extensively in chapter four, it is important to mention the foundation of the Democratic Progressive Party in 1986. This native Taiwanese party openly favoured independence from Mainland China and unleashed strong international scene; at the very time that China suffered opprobrium for the violent suppression of the Tiananmen Square student protests movement in 1989. Secondly, the political liberalization and revival of indigenous culture - long repressed by the KMT - led to the emergence of a distinct Taiwanese identity. While this tendency will be inquired extensively in chapter four, it is important to mention the foundation of the Democratic Progressive Party in 1986. This native Taiwanese party openly favoured independence from Mainland China and unleashed strong

---


52 Bush, *Uncharted Strait*, 10-12; Bush, *Untying the Knot*, 27.


popular support for a separatist Taiwanese identity. According to the DPP, Taiwan’s international position would significantly improve as a *de jure* independent state.\(^{55}\)

Traditionally, the KMT had been committed to the one China principle, and thus favouring the unification of Taiwan with the Mainland. The changing international environment in the early 1990s, however, offered the Lee administration a ‘window of opportunity’. In reaction to Beijing’s ‘one country, two systems’ formula, Taipei proposed a ‘divided nation’ model, asking the PRC to recognize the island’s government as ‘an equal political entity’.\(^{56}\) This formula of dual recognition was an attempt to breach the country’s international isolation. In trying to obtain international recognition for its status as a sovereign nation, Taiwan bid for UN membership in 1993.\(^{57}\)

Because of Lee’s shift towards separatism, cross-Strait bilateral relations deteriorated significantly from 1993 onwards. When Washington allowed Lee to visit the US in the run-up to Taiwan’s first presidential elections in 1996, Beijing concluded that the tendency towards Taiwanese independence required a coercive response. Containing the Taiwanese independence had become the ‘main strategic direction’ for both Chinese political policy-making and military planning.\(^{59}\) Beijing feared the permanent separation of the island with rising popular support for the DPP and responded with fierce threats of force. Among the measures taken were military exercises and missile tests conducted in the waters near Taiwan in late 1995 and early 1996. Only an imminent American military intervention halted the Chinese aggression when President Bill Clinton (1993-2001) decided to deploy forces to the Taiwan Strait in 1996.\(^{60}\)

---

57 Ibid, 1; Chu, “Taiwan’s mainland policy,” 248-251, 253
The militarization of the cross-Strait dispute in the 1990s had profound consequences for the relationship of the US with both Taiwan and China. Washington feared that unilateral actions by Taiwan’s political leaders would prompt a violent reaction by the PRC, which would demand an American intervention. Washington’s point of departure in handling the cross-Strait dispute in the 1990s was the preservation of peace and security. It therefore adopted the approach of ‘dual deterrence’.\textsuperscript{61} On the one hand, the US cautioned China not to use force against Taiwan; at the same time it offered the Mainland the reassurance that it would not support Taiwan independence. On the other hand, Washington emphasized that Taipei should not take actions that might provoke Beijing to use force.\textsuperscript{62}

Before focussing on the current Sino-Taiwanese relations from the mid-1990s onwards, the next chapter will first provide the theoretical framework of this thesis. Because the cross-Strait relationship since the 1990s is characterized by increasing cooperation and economic interdependence, it is essential to understand the essence of interdependence theory. Additionally, it will inquire the expanding economic interdependent relationship between Taiwan and China. Hereafter, the third chapter will continue with an analysis of Beijing’s Taiwan policy.

\textsuperscript{61} Bush, \textit{Uncharted Strait}, 15, 18.

\textsuperscript{62} Ibid.
Chapter Two

Theoretical Framework

In the second chapter of this thesis, the focus will shift to the theoretical discussion concerning interdependence in the field of international political economy. This chapter aims to provide the broader theoretical discussion that will shape the framework for the analysis in the subsequent chapters. As interdependence theory is mainly built upon the premises of liberalism, it is important to understand its ideological liberal roots. Therefore, the premises of liberalism will firstly be addressed. This is followed by the concept of interdependence theory itself and its critiques. The most relevant critiques derive from the perspective of economic realism. Finally, this chapter will conclude with a survey of the economic interdependent relationship across the Taiwan Strait. However, it is important to first define the main theoretical concepts of this chapter.

Before the liberal perspective will be addressed, the conceptualization of ‘interdependence’ needs to be clarified. As Robert Gilpin noted in *The Political Economy of International Relations*, market or economic interdependence is a highly ambiguous term. Gilpin favoured the *Oxford English Dictionary* definition of economic interdependence, which defines interdependence as “the fact or condition of depending each upon the other; mutual dependence.” 63 This definition of interdependence leads to the succeeding question how one should define ‘dependence’. According to Robert Keohane and Joseph Nye, “dependence means a state of being determined or significantly affected by external forces. Interdependence, most simply defined, means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.” 64 As interdependence is not necessarily symmetrical or mutually beneficial, Keohane and Nye continue, economic interdependence can refer to a power relationship. 65 The concept of ‘power’ is defined as “the ability of an actor to get the other to do something they otherwise would not do (and at an acceptable cost to the actor).” 66

Liberalism

The foundations of contemporary liberalism were laid in the eighteenth and nineteenth centuries. Emerging from the European Enlightenment, liberal theorists proposed preconditions for a peaceful world. Their preferences for democracy over aristocracy and free trade over autarky came to dominate much of the political and economic thought in subsequent centuries. The spread of democracy after the Cold War and the globalization of the world economy affirm liberalism’s status as influential philosophical tradition.⁶⁷ Although these trends tend to appear together in the modern world, classical liberal theorists made a clear distinction between the political and economic values of liberal theory.⁶⁸ As economic liberalism stresses the importance of free markets, capitalism and minimal state intervention; political liberal theory emphasizes individual rights, constitutionalism, democracy and limitations on the powers of the state. As the goal here is to provide the ideological origins of the interdependence theory, this chapter is primarily concerned with the economic component of liberalism.⁶⁹

The theory of economic liberalism sees the market and the price mechanism as the most efficient means for organizing the economy. Gilpin defined economic liberalism as “a doctrine and set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth, and individual welfare.”⁷⁰ The rationale for a capitalist market system in economic liberalism is that it increases efficiency and maximizes growth, which will in turn result in an improvement of human welfare. The fundamental premise of liberalism is that the individual is the basis of society. Individuals are free and equal, and behave rationally in trying to attempt to maximize wealth. Although liberals agree with realists that economics contribute to the power and security of the state, they see the benefit of the individual as the primary objective of economic activity.⁷¹

It was Adam Smith who applied the principles of (domestic) economic liberalism to the international realm. In Wealth of Nations, Smith argued that national wealth was dependent on economic growth.⁷² His argument rests upon the belief that economic specialization produces gains in productive efficiency and national income. According to Smith’s theory, trade enlarges consumption possibilities due to the

---

⁶⁹ Ibid, 27; Burchill & Linklater, Theories of International Relations, 57.
⁷⁰ Ibid.
⁷¹ Ibid, 27, 44-45; Burchill & Linklater, Theories of International Relations, 57.
⁷² Ibid, 178-179.
enlargement of the market scale. Smith argued that free trade would upsurge wealth on a national and global scale, as the international division of labour would increase efficiency. The advantages of a territorial division of labour based on absolute advantage formed the foundation of his theory of trade. In *Principles of Political Economy and Taxation*, David Ricardo’s law of comparative advantage confirmed the liberal assumption that international trade is mutually beneficial. In a development of Smith’s survey, Ricardo focussed on relative - instead of absolute - international advantages.

As international political economy is concerned with the nexus between international politics and economics, it is valid to question the political implications of economic liberalism. Theorists of different schools of thought have profoundly conflicting views concerning the political consequences of open markets and free trade. Immanuel Kant combined the assumptions of economic liberalism with its political counterpart. According to Kant, the combination of the liberal principles of democracy and free trade would overcome anarchy in the international society and result in ‘perpetual peace’. The establishment of democratic forms of government would have a pacifying effect on international relations as rulers would be constrained and the ultimate consent for war would rest with the citizens of the state. Subsequently, liberal theorists believe trade and economic intercourse contribute to peaceful relations among nations. The mutual benefits of trade and the therefrom-expanding interdependence among national economies will tend to foster cooperative relations. More generally, a liberal international economy will thus have a moderating influence on international politics as it creates ‘bonds of mutual interests’. Because trade creates relations of mutual dependence, nations have a commitment to the *status quo*. From an individual perspective, interaction as a result of the developing mutual relations creates understanding between peoples. In addition, economic self-interest would be a main incentive for a reduction of conflict. From the liberal perspective, it is “the nature of state and society of the political and economic regime and the ideas underpinning them that are responsible...

---

74 Ibid, 178-179.
for increasing or decreasing the likelihood of war.”\textsuperscript{80} This fundamental premise of liberalism serves as the foundation of Interdependence Theory.

**Interdependence Theory**

The core concepts of economic liberalism - free trade and open markets - resulted in the development of interdependence theory. Interdependence theory has its foundations in the devastations of post-war Europe. The (economic) rebuilding of Western Europe after the Second World War was seen as a humanitarian and political priority. The fear was that a failure to rebuild Europe would give ground to political extremism, which could in turn create political unrest. In order to preserve the political stability, statesmen proposed a process of economic integration.\textsuperscript{81} The rise of regional economic integration was inspired by the belief that trade could serve as an ‘engine of growth’ for European economies.\textsuperscript{82} Furthermore, the common interest in trade and economic collaboration could contribute to a reduction of conflict between states. As exemplified hereafter, interdependence theorists hoped that a “rebuilt and interdependent Europe would encourage states to cooperate within a commonly agreed economic and political framework.”\textsuperscript{83}

The first scholar to explicate the logic of integration was David Mitrany. Mitrany reasoned that initial cooperation between states in technical areas could lead to further cooperation in other (related) fields. When states recognized the advantages of cooperation, this could ‘spill over’ into other functional areas where states found that collaboration could be mutually beneficial. Economic integration could thus engender closer economic and political cooperation. In addition, as states and societies became increasingly integrated, the vast economic costs of breaking ties would discourage states to do so.\textsuperscript{84} In addition to Mitrany, Karl Deutsch reasoned that economic interdependence contributes to the creation of a ‘security community’. The establishment of interdependence and interconnectedness across an increasingly integrated Europe would foster peaceful relations due to increased shared values.\textsuperscript{85}

\textsuperscript{80} Ibid.
\textsuperscript{82} Rosecrance, The Rise of the Trading State, 138; Gilpin, The Political Economy of International Relations, 14.
\textsuperscript{83} Burchill & Linklater, Theories of International Relations, 65-66; Viotti & Kauppi, International Relations Theory, 125-126; Rosecrance, The Rise of the Trading State, 136-137.
\textsuperscript{84} Ibid; D. Mitrany, “The Functional Approach to World Organisation,” International Affairs, vol. 24, no. 3 (July 1948), 357-360; Viotti & Kauppi, International Relations Theory, 125-127.
\textsuperscript{85} Viotti & Kauppi, International Relations Theory, 126; Oneal & Russet, “The Classical Liberals Were Right,” 270.
Ernst Haas added that for interstate integration to occur successfully, it is vital that cooperation and integration among states is in the interest of the political elites.\(^\text{86}\)

In *The Rise of the Trading State*, Richard Rosecrance inquires the correlation between the growth of global economic interdependence and the corresponding decline in the value of territorial conquest for states. Rosecrance argues that the benefits of military competition and territorial control are greatly exceeded by those of trade and cooperation among states.\(^\text{87}\) Furthermore, the expanding global interconnectedness would have a moderating effect on international politics. As other members of the international community can easily impose economic sanctions due to the economic interdependent relations, acts of aggression would have severe economic consequences for the aggressor. According to Rosecrance, the process of deepening economic interdependence was accelerated because of the growth of foreign direct investment since 1945. This development resulted in what he referred to as a growing ‘interpenetration of economies’.\(^\text{88}\) Because domestic economic growth is increasingly dependent on foreign markets and investments, economic interdependence contributes to international stability. Arthur Stein further develops the argument that economic dependence dampens interstate conflict. As international trade encourages specialization, state and non-state actors become dependent on foreign markets. This ‘binding commercial liberalism’ serves as a strong incentive to avoid conflicts, since disruptions in commercial relations would be costly for all involved actors.\(^\text{89}\) The assumption that economic interdependence ensures peaceful relations among states is widespread in liberalism. Rosecrance, however, notes that theorists should not focus on the existence of interdependence per se. State policy is only constrained by interdependent relations when states agree to work within its framework. This does not imply that the economic ties - how profitable they might be - cannot be broken.\(^\text{90}\) Moreover, he acknowledged that for some countries, especially developing ones, “nationalism and territoriality may trump economic interdependence.”\(^\text{91}\)

---

\(^\text{86}\) Ibid.
\(^\text{88}\) Ibid, 141, 143-147.
Robert Keohane and Joseph Nye add another dimension to economic interdependence. In *Power and Interdependence*, Keohane and Nye describe the evolvement of ‘complex interdependence’ wherein the interstate relations are characterized by “multiple channels of communication, an absence of hierarchy among issues, and a diminished role for military force.”

In their analysis, Keohane and Nye found a close relation between ‘patterns of interdependence’ and ‘patterns of potential power resources’. As a result, the theoretical focus of the international economic concepts of trade and commerce expand into the domain of strategic understandings and (power) politics.

According to Keohane and Nye, “interdependent relations involve costs, since interdependence constrains the autonomous position of a state. Whether or not the benefits of a relationship will exceed the costs will depend on the values of the actors involved as well as on the nature of the relationship.” As exemplified before, liberalism adopted the view that undistorted international trade will provide overall net benefits for the parties involved. One of the limitations of the liberal perspective is, critics argue, that it does not incorporate a second issue, namely the division of the gains between the involved actors. Yet, Keohane and Nye stress that many of the “crucial political issues of interdependence revolve around the old question of politics: ‘who gets what?’ and focus on relative gains and distributional issues.”

Both theorists thus find the liberal assumption that interdependence creates cooperation and peaceful relations short sighted. Interdependence, they stress, should not be defined in terms of evenly balanced mutual dependence. On the contrary, Keohane and Nye found that interdependence is ‘frequently asymmetrical and highly political.’ The asymmetries in interdependence can provide sources of influence for actors in their relations with others. Consequently, the less dependent actor can (ab)use the interdependent relationship as a source of power over the more dependent actor.

---

96 Ibid.
Realist critique

The view Keohane and Nye illustrated in their analysis broadens the theoretical discussion to the concept of power, a core concept in realist theory. As mentioned before, realists have been sceptical of the liberal claim that economic interdependence pacifies international relations. Realism emphasizes the importance of the primacy of politics over economics; political arguments should thus determine how economic relations evolve.\(^9^9\) Since realism tends to focus on the tension between national interest and economic interest, it is crucial to realists how the gains of mutual beneficial relations are divided. The emphasis on relative gains - instead of absolute - results in the argument that international politics and state interest are determinant for the evolvement of international economic relations. In realist thought, states are first and foremost concerned about their survival; policies that maximize wealth and short-run economic growth will therefore never take precedence over national security or state interest. On the contrary, realists believe that the pattern of international economic relations will be shaped by international politics.\(^1^0^0\)

In *Theory of International Politics*, Kenneth Waltz led the premises for the neorealist ‘systemic level of analysis’. Given the anarchical nature of international (economic) relations, (neo)realists argue that conflicts among states over both economic resources and political superiority are inevitable. The evolvement and spread of economic interdependence does not change the conflictual nature of the international system.\(^1^0^1\) At the systemic level, Gilpin has emphasized the importance of the ‘dynamics of power relations over time.’ From his perspective, “changes in relative power, which ultimately derive from changes in economic growth over time, are the mainspring of interstate conflict.”\(^1^0^2\) In other words, Gilpin argues that the process of uneven growth contributes to political conflict because it affects the relative position in the international political hierarchy and hereby undermines the international status quo. The redistribution of wealth and power through uneven economic growth stimulates conflict between rising and declining states.\(^1^0^3\)


\(^1^0^1\) Ibid; Gilpin, *The Political Economy of International Relations*, 13, 54, 57, 183; Kirshner, “Realist political economy,” 36, 42.

\(^1^0^2\) Kirshner, “Realist political economy,” 42.

\(^1^0^3\) Gilpin, *The Political Economy of International Relations*, 54-55; Kirshner, “Realist political economy,” 42-43.
In addition to Keohane and Nye, the concept that asymmetrical interdependence is a source of power and influence can be found in Albert Hirschman’s *National Power and the Structure of Foreign Trade* as well as in Waltz’ *The Myth of National Interdependence.* Hirschman reasons that, although inefficient from an economic perspective, the strategic use of asymmetries enhances the dominant state’s autonomy and leaves the dependent state in a vulnerable position. The costs of ending a bilateral relation would - given the relative stake in the relationship - be more costly for the dependent state. The disproportional relative gains create a ‘dominance-dependence relation’, which provides the dominant actor with a method of coercion as it has leverage over the dependent actor. Hirschman emphasizes that the dominant state not only enhances its autonomous position and coercive leverage *vis-à-vis* the dependent state; it could also purchase greater political influence within those states. Hirschman’s survey of economic coercion manifests that, “if conditions are such that the possible loss from a stoppage of trade would fall with special weight upon certain groups within the country, these groups are likely to form a sort of ‘commercial fifth column.’” This implies that those businesses that profit from commercial interstate interaction will put pressure on the national government to accommodate their interests. In this sense, it is likely that the private sector aims to moderate foreign policy in order to preserve a stable business environment. In a more general consideration, Jonathan Kirshner argues that Hirschman’s inquiry shows that international economic relations affect domestic politics, which in turn shape foreign policy. This pattern, Kirshner continues, can have a profound effect on the international behaviour of small states in asymmetric relations, as the dependent state is forced to behave ‘friendly’ to the dominant state. From the realist perspective, it is assumed that states will, both offensively and defensively, “make economic sacrifices in an effort to secure state interest and enhance their political influence in this fashion.”

In sum, this broader theoretical discussion provides a noteworthy insight in the different opinions of various scholars concerning the political consequences of interstate economic integration. From a liberal point of view, the mutual benefits of

110 Kirshner, “Realist political economy,” 37.
trade and the therefrom-expanding interdependence have, on various ways, a stabilizing and moderating impact on interstate political relations. In a development of this argument, interdependence scholars argue that the common interest in economic collaboration could lead to further cooperation. In turn, expanding economic integration could thus engender closer economic and political cooperation. Still, realists have been sceptical about the pacifying effect of economic interdependence. From a realist perspective, states are first and foremost concerned about their survival; policies that maximize wealth and short-run economic growth will therefore never take precedence over strategic security considerations. As economic interactions are frequently asymmetrical and highly political, states are concerned about relative gains. Additionally, economic asymmetries are sources of political power and influence. However, before it can be decided which aspects of this broader theoretical discussion are useful to serve as the theoretical framework for this study, it is important to focus on the crucial aspects of the growing interactions between China and Taiwan. Therefore, the final part of this chapter will inquire the characteristics of the cross-Strait economic relationship.

Characteristics of the Sino-Taiwanese economic relationship

The evolving economic relationship between Taiwan and China was mentioned briefly in chapter one and will be the subject of the next chapters. It is therefore essential to survey the characteristics of this relationship more profoundly. Prior to late 1980s, cross-Strait commercial activities were almost non-existent as a result of political unwillingness. This changed when Taiwan’s international competitiveness deteriorated due to rising labour costs, stricter environmental legislation, and appreciation of its currency. At the same time, Deng Xiaoping’s economic reforms offered an opportunity to initiate mutually beneficial commercial activities. From then on, cross-Strait trade and investment increased significantly.\(^\text{111}\) In the early 1990s, the accumulated volume of Sino-Taiwanese trade in 1991 was $293 million.\(^\text{112}\) In 2013, Taiwan exported for $81,8 billion to China; Taiwanese imports from China were $42,5 billion. The total volume of bilateral trade between Taiwan and China in 2013 was thus almost $125 billion.\(^\text{113}\)


\(^{112}\) National Development Council, “Taiwan Statistical Data Book 2014.” *Republic of China (Taiwan)*, 228.

\(^{113}\) Ibid, 228, 230, 232.
From an economic perspective, China and Taiwan have thus become more important for one another. Yet, the question arises how symmetrical the Sino-Taiwanese relationship is. A first step in understanding the differences between Taiwan and China is to take the sheer size of both countries into account. The PRC is the world’s most populated country with 1.3 billion citizens, Taiwan is inhabited by 23.5 million people. Economically, China’s gross domestic product (GDP) was $16.42 trillion in 2013, second only to the United States. In that same year, the GDP of Taiwan was $987.2 billion. So, China’s economy is almost seventeen times as large as Taiwan’s. Furthermore, China’s economic growth rate of 8 to 10 per cent annually widens the gap between the Chinese and Taiwanese economy each year. Although the current Chinese growth rate of approximately 8 per cent declined slightly, it is still more than twice that of Taiwan. Yet, with less than two per cent of the Mainland’s population, Taiwan’s GPD per capita of $44,000 in 2013 is significantly higher than that of China, which was $12,000. The bilateral trade relations manifest another interesting comparison. China is now Taiwan’s most important trading partner. The Mainland is Taiwan’s largest export destination and the island’s second largest source of imports. Of the Taiwanese exports, almost 27 per cent is directed towards China, and 16 per cent of Taiwan’s imports originate from the Mainland. In contrast, only 8 per cent of China’s total imports are derived from Taiwan. Furthermore, Daniel Rosen and Zhi Wang found that an astonishing 80 per cent of Taiwan’s outward foreign direct investment in 2008 was directed to China. This made Taiwan the biggest external investor in China, constituting 15 to 17 per cent of China’s inward foreign direct investment. The accumulated Taiwanese direct investments in China were valued at over $58 billion as of July 2013. Richard Bush concluded that since the early 1990s, trends in exports, imports, two-way trade, and China’s share of Taiwan’s trade represent an overall growth.

But still, this does not answer the question of how all this relates to the degree of cross-Strait interdependence. One way of analysing economic interdependence is to

---


115 Ibid; Central Intelligence Agency (CIA), “Taiwan.”

116 Ibid; Central Intelligence Agency (CIA), “Taiwan.”


119 Bush, Uncharted Strait, 139; Meltzer, “Taiwan’s Economic Opportunities and Challenges.”
look at Taiwan’s trade linkage with China. According to Bush, the “trade linkage represents the average of Taiwan’s exports to China as a percentage of Taiwan’s total exports and Taiwan’s imports from China as a percentage of Taiwan’s total imports.”\textsuperscript{120} As the data above showed, Taiwanese exports and imports depend on China for 27 and 16 per cent respectively.\textsuperscript{121} When taking Bush’ definition into account, Taiwan’s trade linkage with China in 2013 was over 21 per cent.\textsuperscript{122} At that same year, China surpassed the US as the world largest trading nation. As a result of China’s leading international trading position, its trading linkage with Taiwan in 2013 was only 3 per cent.\textsuperscript{123} Taiwan’s dependence on the Mainland’s markets is even larger the trading figures of China, Hong Kong, and Macau are taken together. Almost 40 per cent of the Taiwanese exports are directed to the island’s trading partners across the Taiwan Strait.\textsuperscript{124} As a consequence, the trading linkage between Taiwan and greater China is thus even larger, around 28 per cent.\textsuperscript{125}

While these statistics manifest that there is a distinctive tendency towards deeper economic interdependence between Mainland China and Taiwan, it does not assert the vital aspect concerning the applicability of the theoretical discussion earlier. In other words, what questions do, according to the theoretical framework, need to be inquired in the subsequent analysis of the emerging cross-Straits interdependence? Obviously, there are clear economic incentives on both sides of the Straits to pursue mutually beneficial commercial relations. Along the lines of classical economic liberalism, the complementarity of the Chinese and Taiwanese economies led to economic exchanges, which in turn resulted in economic interdependency. Liberals and realists differ fundamentally about the question what the political consequences of growing economic interdependence are. In order to be able to provide an answer to the main question of this thesis, it is therefore important to inquire if, and if so how, the evolving economic interactions across the Taiwan Strait influence the political orientations in Beijing and Taiwan respectively. As is argued by economic liberalism, the growing economic interactions do also increase the need to cooperate on - at least - a basic level to manage trade and investment flows. More important,

\footnotesize{\textsuperscript{120} Ibid. \\
\textsuperscript{121} Ibid, 230, 232. \\
\textsuperscript{122} Ibid, 232; Meltzer, “Taiwan’s Economic Opportunities and Challenges.” \\
\textsuperscript{125} Bureau of Foreign Trade. “ROC Trade Statistics.”}
however, is to survey to what extent cooperation across the Strait did occur, and if it did result in closer ties, social, cultural, and political, between Beijing and China. These ties could in turn lead to better mutual understandings and shared values across the Strait. If so, there could be the possibility that this, as interdependence scholars argue, could spill over into political cooperation as well. Moreover, as Haas has stressed, political support for further integration, both economic and political, of the elites on both sides of the Strait is therefore essential.

As a consequence, it is vital to take the domestic political situation into account. Especially given the historical and political context of the Taiwan Strait, it can be expected that the relationship is highly politicized. So, the subsequent analysis will inquire which actors and motives influence and shape the making of foreign policy in China and Taiwan in general, and more specifically their policies vis-à-vis the other. On both sides of the Strait, economic incentives are expected to push for the establishment of a stable business environment. It is arguable that non-state actors with a presence across the Strait will seek ways to accommodate their interests. Given the relatively large role of foreign direct investment, this could intensify the interdependence along what Rosecrance refers to as a growing interpenetration of the economies. From his (liberal) perspective, this enforced the moderating effect of economic exchanges. Yet as Hirschman points out, the private sector could also serve as a commercial fifth column. As a result, it is important to analyse what the intentions of both sides of the Strait are. In fact, Rosecrance argues that the benefits of open markets and free trade exceed those of military adventurism. Meanwhile, he also argues that nationalism and territoriality may overrule the beneficial trading relations. From a realist perspective, it can be argued that due to the unequal trade linkage, Taiwan has relatively larger economic interests at stake than China. Subsequently, the interaction between Taiwan and China is occurring as China’s power is rapidly growing. It could thus be that cross-Strait economic activities resulted in what Hirschman defined as a dominance-dependence relation.

As a result of the asymmetrical economic interdependent relationship, it is important to incorporate realist considerations into the theoretical framework, too. As asymmetrical relations can result in a position wherein China has coercive leverage over Taiwan, realists argue that the latter should be concerned about the relative gains in its relationship with the Mainland. As a matter of fact, they stress that states should be willing to make economic sacrifices to increase political autonomy. This forces the analysis to incorporate a whole new range of questions concerning the Taiwan dispute. Among others, is the cross-Strait economic integration part of an
economic strategy wherein Beijing attempts to use its economic relations with Taipei in a way to exert political influence, or even power, over Taiwan? And if so, in what ways? Does the communist leadership attempt to influence Taiwanese politics through Hirschman’s commercial fifth column, or will it manifest its growing economic power through coercive measures on a macroeconomic level? And more importantly, would Beijing be able to use its economic leverage in the asymmetrical relationship to exert political influence or power over Taipei? And if so, to what extent? Additionally, the realist doctrine assumes that in a dominant-dependent relationship, the dependent state is forced to behave friendly towards the dominant state. These assumptions imply that, as a result of economic integration, Taiwan’s policy options concerning the Mainland are limited. This raises the fear that - as often expressed by pro-independence advocates - the island has become too vulnerable to Chinese pressure. In turn, this constrains Taipei to resolve the fundamental political dispute of sovereignty on equal terms. Hypothetically, this could increase the chance that China might try to achieve its ultimate objective of unification with Taiwan through intimidation, using its growing economic influence as a source of power to exert leverage over Taiwan.

On the basis of the broader theoretical discussion and the specific characteristics of the increasing economic interdependence between Taiwan and Mainland China, this chapter provided a theoretical framework for the analysis in the subsequent chapters. While emphasizing the economic aspects of the bilateral Sino-Taiwanese relations, this is not to deny the importance of other highly influential aspects such as the impact of the domestic political situations on both sides of the Strait. On the contrary, numerous studies have underpinned the importance of democratic and autocratic regimes in interdependent relations. At the same time, their outcomes do not necessarily contradict the premises of interdependence theory. In fact, the dynamics of economic interdependence is an understudied aspect in the evolving cross-Strait relations. Therefore, this study is intended to fill this analytical gap by focussing on possible political consequences of the economic integration between Taipei and Beijing based on the framework of interdependence theory.
Chapter Three

China’s Taiwan policy

The third chapter will survey the evolvement of the People’s Republic of China’s policy towards Taiwan. Until the 1970s, the cross-Strait relationship was characterised by hostility. From the reform era onwards, interaction between the two rivals advanced gradually. Since the conflict in 1996, Beijing seemed to accept the US military supremacy for the time being and abandoned its confrontational politics. Instead, the Communist Party aimed at improving relations and encouraged interconnectedness across the Taiwan Strait. In tandem with the continuing reassurance of China’s peaceful intentions and emphasizing its interests in stabilizing its surrounding environment, however, Beijing started an extensive modernisation programme in order to increase the military capabilities of the People’s Liberation Army. This chapter will therefore continue on the theoretical discussion as provided in the previous chapter, and focus on the nexus between liberalism and realism in the cross-Strait relationship. On the basis of the theoretical framework, it will be assessed whether China aims for a spill over of the socio-economic integration to come to political rapprochement; or intends to use its increasing economic power over Taipei as leverage to realize the reunification of the island with the Mainland. This chapter will start with a general analysis of China’s foreign policy. Despite the fact that China still refers to the ‘Taiwan issue’ as an internal Chinese dispute, it is - as will be exemplified later on - increasingly embedded in the nation’s foreign policy. Before the focus of this chapter will shift to the evolvement of and the motives behind China’s Taiwan policy, it is important to inquire the PRC’s foreign policy more broadly first. More precisely, this chapter will answer two essential questions: on the basis of the theoretical framework provided in the previous chapter, what motivates Chinese foreign policy and what are the goals of this policy?

It can be argued that, in general, foreign affairs are subordinate to internal political interests. One of the primary objectives in the making of foreign policy is the maintenance of the existing domestic political order. In applying this to Beijing’s international orientations, the autocratic nature of the PRC’s domestic political order should accordingly be taken into account accordingly.\(^{126}\) As Joanne Gowa points out,

“authoritarian regimes must, albeit more informally than democracies, be subject to domestic restraints in order to survive. Regardless of regime type, domestic politics thus plays an equally decisive role in the state’s foreign policy making.”  

Ever since Mao Zedong proclaimed the PRC in 1949, the Chinese Communist Party has - as sole political entity in power - played a dominant role in the making of China’s foreign policy. As a consequence, the ideological principles of communism, the political preservation of the communist regime, and China’s national interests together influenced the making of Chinese foreign policy.

The reform era

The rejuvenation of the motherland has always been the ultimate objective of Mao’s ambitions. The concept of ‘comprehensive national power’ - build upon economic, military, and political power - has been central in realizing the restoration of China’s position in both regional and international affairs. Although Deng did not abandon the four ambitions, he stressed that Mao’s revisionist politics made China “backward economically and weak internationally”. In contrast to his predecessors, Deng saw economic growth as the most important foundation of the enlargement of the nation’s material capabilities and hard power. In the early 1980s Deng stated:

“How much role we can play in international affairs depends on how much achievement of our economic construction. If our country developed and became more prosperous, we would play a larger role in international affairs. Our current role in international affairs is not small; but if our material basis and material capabilities are enhanced, [our] role will be even larger.”

As the link between economic power and international influence became a major theme, China thus needed to become a strong and independent economic player. The opening of China to the international economy has been an important aspect of Beijing’s economic strategy under Deng’s reformist leadership. The initiation of the Four Modernisations and the Open Door Policy in 1978 marked the abandonment of

---


the revolutionary, revisionist political and autarkic economic policy that characterized Chinese foreign affairs for most of Mao’s period. Instead, the post-Mao leadership sought to link economic modernisation with the opening of the economy to foreign investment and trade. Still, notwithstanding the important role foreign companies and foreign direct investment played during the reform era, the goal was that China should become less dependent economically. The reforms were aimed to provide an economic basis sufficient for China’s long-term strategic ambition, to become a leading power both regionally and beyond. Interestingly, the communist regime hereby implicitly acknowledged the argument of classical liberals as Smith and Ricardo who stressed that national wealth was dependent on economic growth. The opening of China to the international economy enabled the Chinese to profit from the country’s relative advantage of cheap labour, which in turn resulted in the accumulation of Chinese national wealth, or comprehensive national power.

Whereas the ultimate goals remained unaltered, Deng’s reformist policy did result in a considerable modification of China’s international strategic orientations. Since the reform era, economic growth has been Beijing’s principal objective. As a consequence, conforming to - rather than challenging - the existing international economic order became the strategic course under Deng’s leadership. According to the party doctrine of the CPP, the current international order is structured along two lines. From a political perspective, the anarchic nation-state system dominates the international system. The international economic order is organized through the principles of a capitalist free market economy. Before China would be able to integrate into the international order, the reforms were directed to accommodate China to these systems. Inspired by the economic successes of the ‘newly industrialised countries’ in East Asia, China unfolded its own version of the Asian development model by emphasizing trade as a key driver of its strategic economic development. Deng breached the PRC’s international isolated position and commenced diplomatic and economic relations with other states. Beijing now had to secure a peaceful international environment to safeguard its economic interests. As international stability was - and is - a main prerequisite for China’s export-led economic growth, China’s integration into the international economy and participation in multilateral intergovernmental organizations was necessary. Indeed,

133 Chambers, “Rising China,” 65, 67, 69-70; Deng & Wang, China Rising, 9; Holslag, Onmogelijke Vrede, 66-68.
136 Ibid; Wang, “Preservation, Prosperity and Power,” 672; Deng & Wang, China Rising, 12.
domestic reforms and economic growth have proceeded in tandem with China’s deepening integration into the world economy. Engagement with and conformity to the norms of regional and international institutions became the fundament of China’s economic strategy. In subsequent years, China gradually integrated into the existing international economic order. The participation in the international governmental organisations sophisticated the diplomatic abilities of Chinese officials. In turn, this further increased China’s international influence. The PRC’s accession to the World Trade Organization (WTO) in 2001 can be seen as Beijing’s major step in recognizing the current international economic framework.137

Preservation, prosperity, and power

China’s leadership has become increasingly dependent on the promise of economic prosperity in order to legitimate and preserve its political monopoly. Ever since the 1980s, the CCP has been focussing on promoting the nation’s economic development while maintaining domestic political and social stability. Although these three objectives are closely interrelated, they are not equal. The preservation of the political system is the top priority of the CCP leadership, but it is the continued economic growth that allows the regime to govern through performance.138 The regime’s concerns about maintaining its one-party monopoly, sustained economic growth, and domestic stability are therefore critical sources of PRC’s foreign policy orientations. Beijing’s integrationist and low-profile policy of ‘hiding its capabilities and biding for time’ evolved in the early 1990s as a response to the PRC’s economic and political vulnerability in the wake of Western sanctions after the Tiananmen massacre and the collapse of the communist regimes in Eastern Europe. These developments required an insecure CCP to focus on its immediate interest of preserving its political power and avoid taking a lead on controversial global issues.139 As Fei-ling Wang points out, the interests of the CCP explain China’s “conservative, economically oriented, largely risk-averse foreign policy from the early 1990s onwards.”140

A growing sense of nationalist feelings came to influence Chinese policymaking since the latter half of the 1990s. The construction of a ‘victimization narrative’ of the Chinese suffering at the hands of Western and Japanese imperialists during the

138 Wang, “Preservation, Prosperity and Power,” 669, 682-686, 691; Sutter, Chinese Foreign Relations, 2; Deng & Wang, China Rising, 8.
century of humiliation, created a strong and widespread desire to erase the national disgrace by restoring China’s leading role in regional and world affairs. The nationalist aspirations to strengthen the nation are widely supported in China. Many view the regime’s policy of enhancing the nation’s comprehensive national power through economic growth as an essential aspect to realize the rejuvenation of Chinese. As the PRC seeks to restore its rightful place internationally, the quest for more power is seen as natural. In effect, the rapid development of China’s comprehensive national power in recent decades accompanied by increased nationalism highlights the common desire among large segments of Chinese society to realize the historical mission of reunification with Taiwan. Indeed, this development seems to underpin Rosecrance’s study wherein he stressed that, for developing countries, nationalism and territoriality are principal grounds for their policy orientations.

With the fading communist ideology, the CCP leadership has placed greater emphasis on nationalism as a source of legitimacy. The CCP invoked nationalism by associating the successful rise of China in a globalizing and interdependent world with the underlying goal of making China ‘rich and strong’. In turn, advocating nationalism and national revival became a crucial method of the CCP in uniting its people. The growing sense of nationalist aspiration and ambition became a new element that influenced the making of foreign policy, as it demanded a more assertive and ambitious Chinese foreign policy. So far the CCP leadership took a two-pronged posture towards the rising nationalist sentiments. On the one hand, it embraced nationalism in order to strengthen its own political justifications, especially on issues involving China’s vital interests. This resulted in a reinforcement of nationalist influence on the making of Taiwan policy. On the other hand, Beijing was aware that a confrontational foreign policy based on nationalism could easily

---

143 Rosecrance, The Rise of the Trading State, 42, 204-207.
144 Zheng, “A Rising China,” 200-201; Deng & Wang, China Rising, 9; Sutter, Chinese Foreign Relations, 2-3; Moore, “Chinese Foreign Policy in the Age of Globalization,” 130.
escalate, which would in turn cause a backlash to the PRC’s strategy of modernisation and national rejuvenation.\textsuperscript{146}

In sum, the preservation of the communist one-party legitimization has been the CCP’s priority ever since Mao developed China’s four ambitions. Yet, despite their efforts, the legitimacy of the communists has been constantly challenged. Due to the fading communist ideology since the end of the Cold War and the authoritarian nature of the PRC’s political system, the CCP lacked input legitimacy. This has forced the communist leadership to reclaim the legitimization of their one-party monopoly through the governance through performance, or output legitimacy, in the reform era. The promise of economic prosperity and stimulation of nationalistic feelings or ‘patriotism’ became vital in order to increase the communist regime’s in- and output legitimacy.\textsuperscript{147}

**The historical mission of reunification**

It is, however, important to realize that Beijing’s acceptance of and integration in the current international order does not imply that the PRC’s international ambitions and aspirations are fulfilled. Although China’s foreign orientations in the post-Mao period have a clear new focus, the ambitions Mao revealed in order to accomplish China’s rejuvenation remain unaltered.\textsuperscript{148} The most pressing one is the inability of the regime to resolve the lasting historical mission of reunification with Taiwan. Increasing nationalist demands make this issue even more tenacious. Ever since the proclamation of the PRC, the Taiwan issue is regarded as a domestic issue over which the PRC must make its own internal decisions as a sovereign state. Since 1996, Beijing’s policy orientations towards Taipei carry two seemingly contradictory characteristics. On the one hand, the Taiwan issue has tremendous weight in determining the hierarchical order within the CCP elite. As reunification is seen as one of the regime’s core objectives, China’s subsequent generations of communist leaders intend to leave their personal footprint in the cross-Strait dispute. In addition to the symbolic weight, Taiwan has immense strategic significance. The Taiwan issue directly threatens CCP’s political preservation, China’s national power and prestige, and its economic growth.\textsuperscript{149} On the other hand, however, the Taiwan issue has become increasingly subordinated to the broader pragmatic considerations shaping

\begin{flushleft}

147 Wang, “Preservation, Prosperity and Power,” 676.


\end{flushleft}
Chinese foreign policy; more precisely, the objective to establish a peaceful and stable environment in order to stimulate China’s economic development. As aforementioned, two fundamental principles have constituted Beijing’s overarching guideline for the resolution of the Taiwan issue, namely the ‘one country, two systems’ formula and the preference for peaceful reunification with Taiwan over the liberation of the island.\(^\text{150}\) In an attempt to end the cross-Strait confrontation, Deng laid down the proposal to open direct economic links, welcome Taiwanese investment, and respect the *status quo*. Over the years, Beijing has altered its peace overture with different proposals that allegedly guarantee Taiwan’s high degree of political autonomy under the ‘one country, two systems’ formula.\(^\text{151}\)

In the 1990s, the new generation of communist leaders headed by President Jiang Zemin (1993-2003) continued the post-Mao policies. This approach was based on the assumption that political negotiations were the only route to peaceful reunification. Under his leadership, Beijing’s Taiwan policy was aimed at a two-sided strategic objective: “to preserve the prospect for peaceful reunification and to persuade Taipei to the negotiation table”.\(^\text{152}\) More specifically, Jiang continued on Deng’s concept of ‘one country, two systems’ with eight proposals for peaceful reunification. Jiang’s eight-point proposal was significant in a number of ways. To begin with, he placed more emphasis on concrete proposals for stepwise rapprochement between Taipei and Beijing during the pre-unification period. Instead of aiming for short-term reunification, the third-generation leadership gave priority to reaching a bilateral cross-Strait agreement under a ‘transitional framework’. This framework should “uphold the long-term prospect of peaceful reunification, facilitate bilateral economic exchange, stabilize status quo and pre-empt the independence option”.\(^\text{153}\) In addition, the proposal suggested that the new communist leadership was ready for a political bargain. If Taipei was willing to come to the negotiation table and establish high-level political contact, Beijing stands ready to address Taipei’s preconditions for lifting the ban on the three direct links - direct trade, transportation, and communication. If Taiwan could agree with the one China principle, China’s leadership was willing to discuss Taiwan’s status in the international community.\(^\text{154}\)


\(^{154}\) Chu, “*The Evolution of Beijing’s Policy*,” 256-257, 260.
The dynamics of asymmetrical economic interdependence

The third generation’s pragmatic and comprehensive policy towards Taiwan in the second half of the 1990s fitted within the more general trend of Chinese renewed orientation towards East Asia. Beijing’s ‘good neighbourhood’ policy is primarily based on its strategic desire to create a stable and peaceful regional security environment in which China is able to pursue its economic development. In Beijing’s foreign policy orientations, Michael Chambers argues, this entails that there is a “close interrelationship between economic development and security, with each dependent on the other.” From Chambers’ point of view, the Chinese economic strategy actively seeks to develop economic interdependent relations with its neighbouring countries. China’s leadership sees the development of this regional ‘web of interdependence’ as a way to draw its neighbours closer to China, not only economically but also politically.

As revealed in the previous chapter, the assumption that economic interdependence will engender economic and political cooperation is at the core of interdependence theorizing. Mitrany emphasizes that, in an interdependent relationship, the vast economic costs of breaking ties would discourage states to do so. Because trade creates relations of mutual dependence, nations will have a commitment to the status quo. However, given the growth of regional economic interdependence and China’s central role herein, breaking ties with Beijing would have severe economic consequences for its neighbouring countries. As Keohane and Nye stress, asymmetries in interdependence can provide sources of influence in interstate relations. As many of its neighbours will be reluctant to jeopardize the benefits of trade with the PRC, this could enhance Beijing’s sphere of influence in East Asia. It seems that at this point, the analysis of Beijing’s economic orientations starts to provide similarities with the realist critique to liberal interdependence theory. From the realist perspective, trade is seen as a ‘strategic instrument’ that imposes...

---


156 Chambers, “Rising China,” 65.


159 Keohane & Nye, Power and Interdependence, 9.
limitations on the freedom of action of China’s regional adversaries through the rationale of the liberal interdependence theory.\textsuperscript{160}

Regarding Taiwan, Beijing continued along this same line. Jiang encouraged the development of economic interactions across the Taiwan Strait by emphasizing that the political dispute should not influence the initiation of cross-strait economic cooperation. This renewed Chinese posture towards Taiwan was facilitated by the realization of an intra-party consensus among different layers of the CCP over the ‘basic foreign policy formulations’.\textsuperscript{161} As a consequence, the construction of China’s Taiwan policy became subordinate to ‘higher-level national strategic priorities’, mainly the creation of a stable regional environment to stimulate China’s economic development. As Yun-han Chu points out, “it has been widely shared among the CCP leadership that, as long as the prospect of peaceful reunification is effectively preserved, there is neither the urgency nor the strategic imperative to force a final resolution of Taiwan issues before China accomplishes its modernization task.”\textsuperscript{162} In the second half of the 1990s, the policy of stimulating cross-strait economic exchange was primarily focused on pressuring the Taiwanese leadership to loosen restrictions on commercial interaction with the Mainland. Beijing was particularly keen to persuade Taipei abandon its ban on the three links. When the Taiwanese government agreed to allow direct trade, transportation, and communication stepwise at the turn of the twenty-first century, the CCP regarded it as a breakthrough in its goal of reunifying with Taiwan under the ‘one country, two systems’ formula.\textsuperscript{163}

Beijing’s strategy of encouraging cross-strait economic cooperation thus fitted in the larger picture of China’s attempts to create a framework of regional economic interdependence. Interestingly enough, Beijing has been remarkably open about the (political) objectives of its economic cross-strait strategy with officials referring to it as: “to peddle the [domestic] politics through business; to influence the [Taiwanese] government through the people.”\textsuperscript{164} The initiation of Sino-Taiwanese economic linkages in the last decade of the twentieth century has thus been intended not only to stimulate Chinese economic growth but also to influence Taiwan’s political decision-making. This line of reasoning, too, finds its roots in the theoretical

\begin{itemize}
\item \textsuperscript{162} Ibid, 43.
\item \textsuperscript{163} Ibid, 256-257, 260; Kahler & Kastner. “Strategic Uses of Economic Interdependence,” 534; Holslag, Onmogelijke Vrede, 79, 93.
\item \textsuperscript{164} Chu, “The Evolution of Beijing’s Policy,” 257.
\end{itemize}
discussion concerning economic interdependence. The economic liberal doctrine stresses that interdependence and interconnectedness among individuals increases mutual understanding and enhances common values. In addition, liberals regard the economic self-interest as a main incentive for stable relations. Especially Taiwanese companies with a presence on the Mainland have an interest in the preservation of the status quo. As their numbers and interests grow due to the expansion of commercial exchanges, pressure on the government to accommodate a stable business environment would rise, too. In this sense, China’s economic strategy might indeed stimulate the creation of what Hirschman describes as a commercial fifth column. However, as Beijing intends to influence Taiwan’s behaviour through its economic strategic policy, the assumptions of realism have to be taken into account too. More specifically, Beijing regards trade as a ‘strategic instrument’ to achieve political objectives. China’s leadership thus stresses the primacy of politics over economics, which is an essential element of realist philosophy. As Keohane and Nye stressed, asymmetries in interdependence can provide sources of influence for actors in their relations with others. Because of the asymmetrical cross-Strait relationship, Beijing’s strategy of encouraging economic cooperation can be conceived to create growing sources of influence and power over Taipei. Sources that the PRC could in turn imbed as leverage over Taiwan to achieve its long-term goal of reunification.

As Taiwan’s democratic transition unfolded during the 1990s, Beijing became increasingly alarmed by the meaning and implications of the island’s democratization. Democracy enforced Taipei’s position in world affairs as it boosted the island’s governing party’s legitimacy. In addition, the rising sentiment among the Taiwanese populace in favour of separation from the Mainland now started to influence Taiwanese political orientations. Through Taiwan’s democratic institutions, these broader trends in Taiwanese society resulted in the growing electoral strength and influence of the pro-independence Democratic Progressive Party (DPP). At first, China’s leadership judged that the concurrent growth in cross-Strait trade and the initiation of other exchanges would counter-balance the Taiwanese separatist and

nationalist sentiments. When it turned out that these developments did not halt the perceived movement towards political independence, the CCP became increasingly concerned. Moreover, it questioned the liberal assumption that the initiation of commercial activities and economic cooperation would foster rapprochement. These developments profoundly affected Beijing’s Taiwan policy as they dampened the prospect for peaceful reunification in the long-term. In the short-term, China’s primary concern was to prevent further Taiwanese steps towards permanent separation, which caused a substantial setback in Beijing’s Taiwan policy.170

**China’s peaceful development**

As a rising power with increasing global influence, China not only felt more secure and confident, but also aspired to fulfil a more active, not to say assertive, role in world affairs. Consequently, China’s leadership became the leadership became increasingly dissatisfied with Deng’s low-profile and reactive foreign policy under Hu Jintao’s presidency (2003-2013). As exemplified earlier, the low-profile policy was never simply meant as a passive posture. It was designed as a dynamic process to hide China’s ambition and bide for time. While continuing its predecessors’ policies, the Hu leadership continued efforts to enhance the PRC’s national strength, focussing on both soft and hard power.171 China’s emergence as a global and regional power and growing nationalist pressure - who demanded that the CCP should fulfil its promise of defending China’s national interests - forced the fourth generation leaders to expand China’s interests beyond the narrow confines of the immediate defence of its land mass.172

In tandem with China’s more active foreign policy orientations, other nations became increasingly worried about the PRC’s intentions. Hu repeatedly tried to ease the growing fear of the ‘China threat’ by asserting that China’s ascendancy would be peaceful. Through this doctrine of ‘peaceful development’, Beijing carefully tried to construct an image of a responsible power that was willing to contribute to stability and cooperation in the region. Hu even argued that China’s development could serve as the engine of further regional economic growth. The objectives of these formulations were to increase confidence and continue the policy of economic interdependent relations with its neighbours.173 Beijing is thus using interdependence in an attempt to foster cooperative, peaceful, and friendly relations with its

---

171 Zhao, “Chinese Foreign Policy under Hu Jintao.” 357, 360, 362.
172 Ibid, 364.
neighbouring countries. This is what economic liberals refer to as ‘bonds of mutual interest’ or ‘binding commercialism’. Interdependence serves as a strong incentive to avoid conflicts, as disruptions in commercial relations would be costly for all involved actors. In this sense, the increasing economic interdependence in East Asia is not only essential for China’s domestic economic development, it is constructed as a strategy to realize its desire for a peaceful and stable security environment to pursue economic development. Furthermore, the promotion of economic cooperation will, according to interdependence theory, in turn contribute to political and security cooperation.174

At first, Hu continued the policy as constructed Jiang’s leadership. However, when the doctrine of ‘peaceful development’ increasingly started to shape Beijing’s foreign affairs, Hu posited a more pragmatic position towards Taipei. In order to further stabilize the cross-Strait relationship, Hu unrolled a twofold strategy wherein Chinese hard power - based on diplomatic isolation and military power - was more expressively combined with the use of the soft power components of China’s foreign policy - the prospects of negotiations with the pro-Chinese KMT and increase of economic exchange.175 This comprehensive policy manifested itself in the entry into force of the Anti-Secession Law in 2005. This legislation reconfirmed the one China principle, referred to openings for more exchanges, but also established the legal basis to reunify with Taiwan through the use of military force if peaceful means became non-existent.176 While both Deng and Jiang’s Taiwan-policies were seeking reunification; Hu’s policy was focussed on the prevention of Taiwanese unilateral independence and maintenance of the status quo, effectively summarised as ‘no independence, no war’.177 This comprised a significant shift in China’s Taiwan policy. This was partly due to Washington’s still incumbent policy of ‘dual deterrence’. Ever since the skirmishes in 1995-96, Beijing was highly aware that the change in the status quo would bring up the possibility of a conflict between China and the US. As long as Taipei did not pursue independence and the prospect of long-term peaceful reunification was effectively preserved, Beijing would not risk jeopardizing its peaceful development. In essence, the Hu leadership accepted the current standing and would not aggress the island unless provoked or threatened. Instead of

174 Chambers, “Rising China,” 101; Burchill & Linklater, Theories of International Relations, 65-66; Viotti & Kauppi, International Relations Theory, 122, 125-126.
enforcing a final solution to the Taiwan issue, China was more willing to rely on the US to pressure Taiwan not to seek independence and maintain the status quo.\textsuperscript{178}

When Xi Jinping assumed the presidential office in 2013, China acquired new confidence regarding the possibilities to conclude the Taiwan issue on Beijing’s terms. In contrast with Hu, Xi stressed that he regarded the current economic cooperation with Taiwan as prelude to political rapprochement between Taipei and Beijing.\textsuperscript{179} China’s Taiwan policy under Xi is still constituted on the prospect for peaceful reunification under the premise of the ‘one country, two systems’ formula. In addition, China’s Taiwan policy appears to be driven by the logic of integration as defined in interdependence theorizing, wherein Beijing intends to spill over interstate economic cooperation to political cooperation.\textsuperscript{180} Internal pressure on the CCP leadership to accelerate the initiation of negotiations grew, as many Chinese became increasingly dissatisfied with the lack of progress in addressing negotiations with Taipei concerning the fundamental political differences.\textsuperscript{181} At the same time, however, there is growing perception among the CCP leadership that China’s growing comprehensive national power could be projected in the context of the cross-Strait relationship. Beijing appears to be increasingly self-assured in the prospects of the evolving relations with Taiwan as ‘time is on its side’.\textsuperscript{182} Because of the PRC’s enhanced capabilities to maintain Taiwan within its political and economic sphere of influence, China’s new leadership “can afford to be more flexible and patient, more reticent about Taipei’s diplomatic venture, and more tolerant of stalemate or even short-term setbacks.”\textsuperscript{183} The roots of this renewed confidence on the Chinese side can be found in three underlying developments.

First of all, the renewed political confidence among CCP’s leadership stemmed from the recognition that in recent years, the cross-Strait military balance has moved into Beijing’s favour. When comparing the national defence budgets in Asia, China’s share raised from 4 per cent in 1990 to 35 per cent in 2013.\textsuperscript{184} The PRC’s military expenditures are now higher than those of Japan, India, and South Korea combined. China’s high-paced modernisation and expansion of the PLA resulted in a firm and undeniable movement towards the status of a great regional power. Moreover, the

\textsuperscript{179} Holslag, Onmogelijke Vrede, 177-178, 191.
\textsuperscript{180} Mitrany, “The Functional Approach to World Organization,” 357-360; Burchill & Linklater, Theories of International Relations, 65-66; Viotti & Kauppi, International Relations Theory, 125-127.
\textsuperscript{181} Wang, “Preservation, Prosperity and Power,” 673; Holslag, Onmogelijke Vrede, 177-178, 191.
\textsuperscript{182} Chu, “The Evolution of Beijing’s Policy,” 269.
\textsuperscript{183} Ibid.
\textsuperscript{184} Holslag, Onmogelijke Vrede, 143.
military build-up towards Taiwan continues to grow rapidly. The increased military capabilities of the Chinese armed forces now give its leaders an increasing number of coercive options in case Taipei strives towards independence.\textsuperscript{185} Although China’s leaders have become increasingly convinced that the US will condemn Taiwanese steps towards independence, Beijing believes that maintaining credible military deterrence is an indispensable element in the triangular Beijing-Washington-Taipei relationship.\textsuperscript{186}

China’s integration in the international society provides the basis for the subsequent two developments. The reform era has shown that the more China integrated into the international economy, the more it started to act as a stabilizing actor. The 2008 financial crisis increased China’s global economic lead, and showed Beijing was able to assume greater responsibilities through further engagement in international institutions. Because of China’s domestic reforms towards a semi-capitalist system and integration in the international economic system, it became the world’s second largest economy and the leading global trading nation. Beijing has consequently acquired a central role in the international economic system. According to the IMF, China is the largest source of trade for 140 countries, contributing nearly 23 per cent of the global economic growth between 2000 and 2013.\textsuperscript{187} Especially since the turn of the twenty-first century, the prescribed trends in China’s surrounding environment and its growing comprehensive power have considerably improved the PRC’s regional strategic position. In recent years, China became the major export market for Japan, South Korea, and practically all other East Asian economies.\textsuperscript{188} Beijing’s policy of peaceful development aimed to encourage economic cooperation created a growing web of regional interdependence wherein China operates at the core. With the enormous economic interests at stake, China’s neighbours will become increasingly reluctant to jeopardize its beneficial relationship with Beijing. Realists argue that a situation of economic influence can become a direct source of power as asymmetrical relations force dependent states to behave friendly to dominant states.\textsuperscript{189} In this sense, it can be argued that China’s objective in encouraging regional interdependence is to establish a regional web of dominant-dependent relations with its East Asian neighbours. According to realism, the economic asymmetry ensures that these states are forced to behave friendly towards Beijing. In turn, this enables


\textsuperscript{186} Chu, “The Evolution of Beijing’s Policy,” 269.


\textsuperscript{188} Ibid, 11-12; Chu, “The Evolution of Beijing’s Policy,” 269-270.

\textsuperscript{189} Kirshner, “Realist political economy,” 37.
China to secure a stable environment wherein it can purchase its economic development. Additionally, China’s growing participation in intergovernmental organizations made its leadership more capable in using the gained strategic leverage in strengthening their hand in relation to its national interests.\textsuperscript{190}

More important, however, is the trend of deepening cross-Strait economic interdependence and the deriving political implications hereof. When Ma Ying-jeou won the Taiwanese presidential election in 2008, Sino-Taiwanese economic cooperation accelerated. Taiwan’s incumbent president intends to improve relations across the Strait as a means to stimulate the island’s economic growth. In Beijing, it is believed that the KMT’s return to power is crucial for the promotion of unification with the Mainland. In close cooperation with the Ma administration, China did therefore constructively engage to enhance the success of Ma’s presidency. From 2008 through 2012, Beijing and Taipei concluded sixteen major agreements. Most significant was the establishment of a cross-Strait free trade agreement through the initiation of the Economic Cooperation Framework Agreement (ECFA) in June 2010.\textsuperscript{191} Beijing’s appearance in negotiating these agreements in general and ECFA specifically was remarkably flexible. The Chinese willingness to accomplish the free trade agreement resulted in Beijing not minding the sacrifice of short-term economic interests so as to gain more in the long-term.\textsuperscript{192} The communist leadership’s most important asset for establishing the ECFA was the preservation of cross-Strait stability and consolidation of its efforts to conserve Taiwan into the PRC’s economic and political orbit by deepening the economic ties. Besides the Chinese political intentions, economically, the ECFA also ensures a continuation of Taiwan’s investment flows to the Mainland, hereby supporting China’s export-driven economy.\textsuperscript{193} Again, this underpins the argument made earlier, that Chinese leaders subordinate the PRC’s economic strategy to their political objectives. In contrast to liberalism, Chinese international economic relations will thus be shaped by the objectives of Beijing’s international political orientations.\textsuperscript{194}

As demonstrated in the closing paragraphs of the previous chapter, the Taiwanese and Chinese economies have become increasingly interconnected. From a realist.

\textsuperscript{190}Chu, “The Evolution of Beijing’s Policy,” 269-270.
\textsuperscript{191}Chiang, “Managing Cross-Strait Economic Relations,” 488; Bush, Uncharted Strait, 45-49; Holslag, Onmogelijke Vrede, 118-120.
\textsuperscript{192}Tsai, “Cross-Taiwan Straits Relations,” 132; Holslag, Onmogelijke Vrede, 119-120.
\textsuperscript{193}Bush, Uncharted Strait, 45-49; Chiang, “Managing Cross-Strait Economic Relations,” 488.
\textsuperscript{194}Burchill & Linklater, Theories of International Relations, 68; Viotti & Kauppi, International Relations Theory, 138; Keohane & Nye, Power and Interdependence, 16; Kirshner, “Realist political economy,” 36-37, 40.
perspective, it is noticeably more important that the bilateral economic interdependent relationship can be defined as asymmetrical given the unequal and widening cross-Strait trading linkage. Over the years, China evolved into Taiwan’s largest export market, the most important source of its trade surplus, and the top recipient of the island’s outward investment flow. The Taiwanese private sector has invested at least $58 billion in China, equal to 80 per cent of the island’s total outbound capital. Taiwan’s enormous financial commitments to the Mainland may have well resulted in what Rosecrance refers to as the interpenetration of Taiwanese capital into China. From Rosecrance’s point of view, the increasing role of foreign investment contributes to a stable international economic environment. However, given the asymmetrical interdependent relationship between China and Taiwan, it could foster Taipei’s dependence on the Mainland. Furthermore, Taiwan’s international comparative advantage is heavily dependent on Chinese cheap labour. As a consequence, the PRC has become an indispensable part of Taiwan’s export-oriented economy. In 2014, 88,000 Taiwanese firms employed an astonishing 15.6 million Chinese workers on the Mainland. Subsequently, more than half the Taiwanese private companies have set up subsidiaries in the Mainland. Many of these businesses will soon generate bigger revenues in the Chinese market than in the Taiwanese. As a matter of fact, those companies will thus become more acceptable, if not susceptible, to Beijing’s highly politicized regulatory, legislative, and decision-making authorities.

In retrospect, the aim of this chapter was twofold. On the one hand, it surveyed the general orientations of the PRC’s foreign policy. Herein, special emphasis was given to the relationship between China and Taiwan. Consequently, the study sought to apply the complexity of the international geopolitical situation to the cross-Strait context. On the other side, this analysis was grounded in and intertwined with the theoretical insights as exemplified in chapter two. Both the liberal premises of interdependence theory as its realist critics approved to be useful in guiding the study above and enabled it to acquire deeper and thorough insights. In addition, the insights of this analysis also contributed to the important discussion regarding the spill over effect as formulated in interdependence theory. One of the major weaknesses of interdependence scholars derives from their inability to formulate an

---

197 *The Economist*, “East Asian firms in China. Taiwan, Japan and South Korea employ huge number of Mainland Chinese.” (8 November 2014), 50.
answer to the question how the ‘natural’ evolvement from economic to political cooperation unfolds. In the context of the Taiwan dispute, it does indeed seems vital that without political consent of the elites on both sides of the Strait - especially those in Taipei - the spill over effect will not occur. Indeed, the realist critics on the liberal theoretical premises of economic interdependence proved to be of value. Given the asymmetrical relationship across the Strait, the strategic political implications of the growing commercial exchanges turned to be of importance to Beijing. In the concluding section of this study, chapter five, these findings will be more thoroughly demonstrated. However, before a comprehensive answer to the main question can be formulated, it is important to inquire the Sino-Taiwanese relationship from the other side of the Taiwan Strait first. Chapter four will therefore survey the Taiwanese motivations for the current rapprochement towards Mainland China.
Chapter Four

Taiwan’s China policy

The inauguration of President Ma Ying-jeou as President of the Republic of China in 2008 led to a significant improvement of the Sino-Taiwanese relationship. But still, the political relations across the Strait remain tensed. Chapter three found that reunifying Taiwan with the motherland remains a top goal for the leadership of the People’s Republic of China. Beijing still regards Taiwan as an indispensable part of China. The inquiry of China’s Taiwan policy provided that the government in Beijing continues to decline to rule out the use of force when bargaining over Taiwan’s position in the international system. At the same time, however, a situation of rapidly growing economic interdependence emerged. This interdependence stabilized cross-Strait relations and led to bilateral cooperation in order to regulate the growing commercial exchanges. Yet, the study showed that Beijing attempts to use the deepening economic integration as a strategic asset to limit Taipei’s foreign policy options and determine the political future of Taiwan. This has provided the Taiwanese government with a political rival that is both militarily threatening and economically dynamic.199

In this second part of the analysis, the focus will shift towards the Taiwanese perspective on the evolving Taiwan Strait dynamics by a survey of the Taiwanese motives of its ‘Mainland policy’. This chapter will be broadly structured along the same lines as chapter three. Firstly, Taiwan’s position in the changing international environment in the post-Cold War will be surveyed. Herein, Taiwan’s domestic political situation will receive special emphasis. Taiwan’s democratization in the 1990s resulted in a new dimension of the bilateral relations between China and Taiwan. In turn, it highly affects cross-Strait stability.200 Special attention will go to the view of the two main political parties on the Mainland policy, the nationalist Kuomintang and the pro-independence Democratic Progressive Party. Secondly, the Taiwanese evolving regulatory politics of the economic relations with Mainland China will be analysed. Thirdly, the political consequences of the irreversible trend of narrowing economic integration will be assessed.

199 Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 533.
200 Bush, Uncharted Strait, 10-12; Bush, Untying the Knot, 27.
Changing international environment

Before focussing on the internal Taiwanese political debate, it is important to understand the changing international environment at the end of the Cold War. Two seemingly contradictory developments provided Taiwan with new opportunities and constraints in shaping its Mainland policy. On the one hand, a trend toward political separation emerged with the collapse of the Soviet Union. The developments in Eastern Europe inspired advocates of Taiwanese nationalism to pressure for independence too. The growing separatist sentiments in Taiwan were fostered by the island’s successful transition towards democracy in the early 1990s.201 The political liberalization and revival of Taiwan’s indigenous culture led to the emergence of a distinct Taiwanese identity. As will be exemplified at the end of this chapter, the development towards a growing sense of ‘Taiwanism’ is interlinked with rising popular support for a separatist Taiwanese identity.202 Under the changing international environment in the early 1990s, the Lee administration pressed to enhance Taiwan’s international space. In reaction to Beijing’s ‘one country, two systems’ formula, Taipei proposed a ‘divided nation’ model, asking the PRC to recognize the island’s government as ‘an equal political entity’. Lee’s attempts to obtain international recognition for Taiwan’s status as a sovereign nation resulted in the 1995-96 Taiwan Strait crisis.203

On the other hand, there was the trend towards regional interstate integration with the formation of the European Union (EU), the North Atlantic Free Trade Association (NAFTA), and the Asia-Pacific Economic Cooperation Forum (APEC). The trend towards an increasing interdependent East Asia required Taipei to reorient its foreign economic relations. Taiwan risked being marginalised if it failed to incorporate itself into the emerging intraregional division of labour. In the cross-Strait context, the emerging trend towards regional economic integration offered enormous economic opportunities for the Taiwanese private sector. In addition to the geographical proximity and cultural affinity, the two economies across the Strait

201 Ibid; Bush, Untying the Knot, 25.
202 Ibid, 12-13; Tian, Interdependence and Conflict across the Taiwan Strait, 1, 87; Tsai, “Cross-Taiwan Straits Relations, Policy Adjustment and Prospects.”; 131; Zhao, “Economic interdependence and political divergence,” 184-185.
203 Ibid, 13-15; Tian, Interdependence and Conflict across the Taiwan Strait, 18, 22, 31, 87; Tsai, “Cross-Taiwan Straits Relations,” 131; Zhao, “Economic interdependence and political divergence,” 184-185; Chu, “Taiwan's mainland policy,” 248-251, 253.
were highly complementary. From an economic perspective, the completion of a so-called greater China circle was a natural process.204

In the post-Cold War era after 1989, the Taiwanese economy was experiencing a gradual but structural slow down. As a result of the country’s successful export-led economic growth, Taiwan’s supply of labour grew short. Consequently, labour wages, land costs, and pollution-control expenses increased sharply, which in turn led to the appreciation of the Taiwanese national currency.205 This changing macroeconomic situation affected the island’s international competitive position, resulting in a decline of investments and shrinking economic growth. In essence, Taiwan faced the fundamental problem of restructuring its economy to meet the alterations in the comparative advantage in the international division of labour. Given these circumstances, many of the Taiwanese export oriented companies were forced to cut costs in order to rehabilitate their threatened competitiveness in the world market.206 In addition to the internal economic situation, the US showed increasing dissatisfaction with the continuing trade deficits in its bilateral trade with Taiwan throughout the 1980s and early 1990s. In order to prevent Washington to impose protective measures to correct the Taiwanese-American trade balance, Taipei needed to find alternative markets to diversify its exports.207

As mentioned in the Historical and Political Context, Deng Xiaoping’s domestic reforms and China’s subsequent opening to the international economy in the post-Mao era resulted in incentives on both sides of the Strait to pursue mutually beneficial economic relations. These changes resulted in growing pressures on the Taiwanese government, both domestic and foreign, to open economic and commercial ties with the Mainland. Following David Ricardo’s classical liberal theory of international comparative advantage, the economic differences on both sides of the Strait have led to profitable economic exchanges since the 1980s.208 Taiwan’s trade with the Mainland has been mainly investment-driven from the beginning. Yet, due to Taiwanese restrictions on outward direct investment in China, there are no official records of Taiwanese investments into the Mainland prior to the

204 Tian, Interdependence and Conflict across the Taiwan Strait, 1, 85-86; Chu, “Taiwan’s mainland policy,” 230-231; Chiang, “Managing Cross-Strait Economic Relations,” 483; Bush, Uncharted Strait, 49.
205 Ibid, 64-67; Sung, The Emergence of Greater China, 62; Bush, Uncharted Strait, 10-11, 45-46; Bush, Untying the Knot, 27.
206 Ibid.
207 Ibid.
As a consequence of the Taiwanese legislative proscription, commercial activities between Taiwan and China advanced predominantly through indirect trade via Hong Kong. The gradual development of economic exchanges foreshadowed increasing economic cross-Strait interdependence from the early 1990s onwards. By the end of 1992, Taiwanese investments amounted to $9 billion, making Taiwan the second largest foreign investor in China at the time.

Politics of cross-Strait economic interdependence

As mentioned above, economists justifiably argued that greater China is a natural and complementary economic region. However, it is evident that more than ‘natural economic forces’ have been at work in the development of cross-Strait economic interdependence. On both sides of the Strait, governments have been deeply involved in promoting or regulating economic relations. As the inquiry in the previous chapter presented, Beijing has actively encouraged economic exchanges in the hope that increased economic interdependence will constrain the separatist movements in Taiwan and facilitate reunification. While China has been more than willing to open its markets to Taiwanese investors, Taipei has been cautious to deregulate commercial activities with the Mainland. Given the asymmetrical cross-Strait situation, Taiwan fears that the advancing economic integration will increase dependence on the Mainland and will eventually jeopardize Taiwan’s autonomous political position. Additionally, the large-scale reallocation of Taiwanese production facilities to investments in the Mainland could, as some argue, eventually ‘hollow out’ the island’s economy. In this sense, the effects of growing trade and investment linkages across the Strait directly affects Taiwan’s security as Beijing could, at some point in the future, use the asymmetrical interdependence as political leverage to bring Taipei to the negotiation table under its terms. Critics of the advancing interconnectedness with China argue that Taipei’s leaders have to be concerned about relative gains in dealing with China, both politically and economically.

210 Ibid; Bush, Uncharted Strait, 10-11; Bush, Untying the Knot, 27.
211 Tian, Interdependence and Conflict across the Taiwan Strait, 38-39, 56; Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 533-534.
213 Tian, Interdependence and Conflict across the Taiwan Strait, 56, 87; Zhao, “Economic interdependence and political divergence,” 184-185; Tsai, “Cross-Taiwan Straits Relations,” 131.
argument shows interesting similarities with the essential premises of realism, as they are first and foremost concerned about the survival and security of the state.\textsuperscript{215}

Taiwan’s Mainland policy was initially based to project its economic power to gain major political concessions from Beijing.\textsuperscript{216} Until recently, Taiwanese leaders have consistently resisted pressure to lift the ban on the three links, prohibiting direct trade, transportation, and communication. In this regard, Taipei pursued a ‘conditional engagement’ Mainland policy, aimed to let Beijing meet several Taiwanese preconditions before it would consider removing the ban on the three links. For decades, Taiwan demanded that Beijing must renounce the use of force against Taiwan, end the efforts to isolate Taiwan internationally, and recognize Taiwan as an equal political entity before Taipei would allow direct contacts across the Strait.\textsuperscript{217} Indeed this strategy is applicable to the realist doctrine whereas the short-term economic benefits of economic cross-Strait cooperation were subordinated to national interests. As a matter of fact, Taipei did intend to project its economic power to enhance political influence.\textsuperscript{218}

When Taiwan’s conditional engagement proved to be unsuccessful, the government gradually resorted to regulate the pace of economic integration. Alarmed by the rapid growth of cross-Strait economic exchanges during the 1990s, the Lee administration adopted new policies to decelerate the fostering economic integration.\textsuperscript{219} The ‘go south’ strategy - launched in 1993 - attempted to encourage the Taiwanese private sector to invest in Southeast Asia as an alternative to China.\textsuperscript{220} In 1996, Lee announced the ‘go slow, be patient’ policy to prevent Taiwan from becoming over dependent on the Chinese economy. The legislation was primarily designed to restrict Taiwanese investment in China. Taipei aimed to contain the large-scale outflow of financial capital to China, and to safeguard the development of high-tech and other strategic sectors.\textsuperscript{221}

\textsuperscript{216} Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 3, 18; Zhao, “Economic interdependence and political divergence,” 183-184.
\textsuperscript{217} Ibid, 22-23; Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 534.
\textsuperscript{219} Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 3, 18; Zhao, “Economic interdependence and political divergence,” 183-184.
\textsuperscript{220} Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 535.
\textsuperscript{221} Chiang, "Managing Cross-Strait Economic Relations," 485.
The Taiwanese efforts to deploy its economic strategy for political purposes were doubtful from the beginning for several reasons. To begin with, the pace of cross-Strait economic interdependence has been only partially affected by Taiwan’s Mainland policy. While Taipei has been relatively effective in restricting the inbound flows of Chinese investment, it could exert only limited control over the outward flows of Taiwanese investment into the Mainland. Moreover, the natural economic incentives to invest in the Mainland that derived from the complementarity of the greater China area were reinforced by the Chinese authorities. Both the local and national authorities stimulated the economic exchange across the Taiwan Strait through the implementation of favourable conditions for Taiwanese companies.\(^{222}\) Furthermore, Taiwanese businesses proved to be quite successful in undermining the restrictions imposed by their government. Indeed, the Mainland had become an ‘irresistible economic hinterland’ for Taiwanese companies, offering them the opportunity to triplicate their profits.\(^{223}\) As a result, subsequent policies aimed to reduce the outward flow of goods and capital into China were mainly ineffective. The advancing economic integration and emerging interdependence across the Strait did occur due to profitable business opportunities and despite Taiwan’s continued implementation of restrictive legislation.\(^{224}\) This indicates that the realist argument that the pattern of interstate economic relations is framed through politics needs modification. While government policies affected cross-Strait economic interactions, their influence is far from determining. Consequently, governmental attempts to regulate the pace of the Sino-Taiwanese exchanges have proved to be ineffective.\(^{225}\)

In contrast to the fruitless Taiwanese attempts to impose regulatory legislation, the theoretical assumptions underpinning Beijing’s economic strategy turned out to be partially successful. As exemplified in the previous chapter, the PRC reasoned that increasing economic interactions across the Strait would foster the Taiwanese business to increase pressure on Taiwan’s government to loosen restrictions on economic exchanges with Mainland China. As Suisheng Zhao points out, “Taiwan’s political leadership would have to worry about a gradual emergence of interest-based, rather than ethnicity-based, ‘China Lobby’ inside Taiwan.”\(^{226}\) In his evaluation of economic coercion, Albert Hirschman referred to the possible creation of a commercial fifth column. As certain groups in a given country have a special interest

---

\(^{222}\) Chu, “Taiwan’s mainland policy,” 239-240; Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 534.

\(^{223}\) Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 433-434.

\(^{224}\) Chu, “Taiwan’s mainland policy,” 485, 533-534; Bush, Untying the Knot, 35.

\(^{225}\) Ibid, 245

\(^{226}\) Zhao, “Economic interdependence and political divergence”, 185.
in trade, they could, according to Hirschman, exert their influence to accommodate their concerns.²²⁷

Indeed, there is credible evidence that representatives of Taiwan’s private sector attempted to influence the decision making of the Mainland policy. Scott Kastner’s detailed study of the Lee and Chen presidencies found that economic interdependence probably moderated the political dispute.²²⁸ Both the KMT and the DPP were presented with a growing lobby from the Taiwanese business community to remove the ban on the three links.²²⁹ Whereas small and medium-sized firms are a major source of the DPP’s financial support, their migration to the Mainland has put increasing pressure on this political fraction to adopt a less confrontation position vis-à-vis China. Interestingly, the DPP has - since the KMT took over the presidential office in 2008 - been taken a more flexible and moderating stance in its policy towards economic and trade relations with the Mainland.²³⁰ It thus seems that, Beijing’s policy of ‘influence government through business’ does - albeit indirectly - exert influence over Taiwan’s domestic politics. Although it might not neutralize the popular tendency towards independence, it does strengthen the efforts to stabilize cross-Strait relations through the interests of the Taiwanese private sector.

**Taiwanese electoral politics**

As mentioned at the beginning of this chapter, Taiwanese domestic politics became a factor of growing importance - if not the major - in influencing cross-Strait relations. In the run-up to the presidential election in 2000, relations across the Taiwan Strait worsened. Lee’s redefinition of cross-Strait relations as a relationship between two separate states in 1999 was an implicit challenge to Beijing’s one China principle.²³¹ For the first time, Beijing tried to assert direct influence over Taiwanese domestic politics by warning not to vote for the DPP candidate, Chen Shui-bian, in the 2000 elections. In spite of such objections, Chen won the election and the pro-independence DPP became Taiwan’s ruling party.²³² Despite his reputation, President Chen Shui-bian (2000–2008) declared that as long as Beijing had no intention of using

---

²²⁹ Tian, *Interdependence and Conflict across the Taiwan Strait*, 38-39; Zhao, “Economic interdependence and political divergence”, 185; Chu, “Taiwan’s mainland policy,” 245;
²³¹ Tsai, “Cross-Taiwan Straits Relations,” 120; Sutter, “Taiwan’s Future,” 6-7; Kahler & Kastner, “Strategic Uses of Economic Interdependence,” 535; Bush, *Untying the Knot*, 54.
²³² Ibid, 121; Sutter, “Taiwan’s Future,” 7; Bush, *Untying the Knot*, 61.
military force against Taiwan, he would not alter Taiwan’s Mainland policy towards a more confrontational one in favour of independence from the Mainland.\textsuperscript{233}

For the most part, Chen continued Taiwan’s policy of reluctance towards economic interactions with the Mainland. However, unlike Lee, he realised the difficulty of effectively restricting investment in China. The Chen administration therefore adopted a relatively open and more realistic Mainland policy of ‘active opening, effective management’.\textsuperscript{234} Arguably, Chen’s liberalization in developing the Mainland policy was the result of mounting domestic political and economic problems, as well as growing influence of the Taiwanese business community. The lack of economic expertise within the DPP cabinet made Chen unable to avert Taiwan’s severe economic recession. As a consequence, the Chen administration became more susceptible to pressures from the Taiwanese private sector. Despite Chen’s increasing flexibility and easing of restrictions on Taiwanese outward investments into the Mainland, investing in high-tech sectors and direct transportation was still prohibited. Nonetheless, overall investments during Chen’s presidency from Taiwan into the Mainland continued to increase steadily. Especially after both China and Taiwan joined the WTO in 2001 and 2002 respectively, economic exchanges across the Strait accelerated.\textsuperscript{235}

Chen’s re-election campaign in 2003-04 caused a significant deterioration of cross-Strait relations. Because of Chen’s reputation of poor governance and apparent personal involvement in corruption, the probability of getting re-elected diminished. Chen therefore took a more confrontational standing towards the Mainland. Ignoring the economic importance of cross-Strait stability, the DPP administration increasingly pursued a Mainland policy that was designed for domestic political considerations. Chen reverted to nationalist rhetoric, inciting anti-China sentiment, and promoting ‘de-Sinification’, a separate Taiwanese identity and independence from the Mainland. Among his controversial policies and practices were the proposal for a new constitution - wherein would be referred to Taiwan’s status as a sovereign state - and a referendum concerning Taiwanese independence.\textsuperscript{236}

\textsuperscript{233} Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 45-46; Bush, \textit{Untying the Knot}, 58-60, 62.
\textsuperscript{234} Ibid, 122-123.
\textsuperscript{236} Tsai, "Cross-Taiwan Straits Relations," 121-124; Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 49-50; Lee, "Cross-Taiwan Straits Economic Relations and the ECFA,” 167; Hickey, \textit{Foreign Policy Making in Taiwan}, 8; Sutter, “Taiwan’s Future,” 7; Bush, \textit{Untying the Knot}, 68-70.
It is evident that China’s leadership viewed Chen’s separatism as a direct threat to its interests. As aforementioned, Beijing does not have the incentive to force reunification as long as the prospect of unification in the long-term remains feasible. The Chinese have learned to deal with Taiwan’s *status quo*, but have been explicit that it will not “tolerate any move that carries the implication that Taiwan enjoys *de jure* independent sovereignty”. Beijing’s immediate response to Chen’s re-election campaign was a perfect example of former president Hu Jintao’s two-folded Taiwan strategy. On the one hand, the PRC strengthened the impressive military build-up focused on Taiwan and fostered efforts to isolate Taiwan internationally. On the other hand, and looking beyond the Chen administration, the CCP built increasingly positive connections with both the KMT leadership and broader segments of the Taiwanese business elites, fostering prospects for beneficial economic exchanges. Subsequently, the CCP turned to Washington on the basis of the US-Sino common interest to prevent Taiwanese independence. Although President George Bush (2001-2009) was initially supportive of Taiwan, the steps taken in Taipei were also seen as dangerously provocative. Bush therefore gradually turned against Chen as his presidency disturbed the stability in the Taiwan Strait.

**Reassurance and moderation across the Strait**

In the end, Chen’s poor governance shattered the DPP’s prospects to remain in power after the legislative and presidential elections in 2008. Along with the continuing corruption scandals and the deteriorated relations with both Beijing and Washington, this was mainly due to a considerable decrease of the wellbeing of the Taiwanese people. In the run-up to the presidential election in 2008, the prospective KMT candidate Ma Ying-jeou understood the importance of economic growth and the increasing dependence of Taiwan on Mainland China for its economic prosperity. During his campaign, Ma therefore redefined cross-Strait relations from an economic perspective and repeatedly stressed the importance of economic cooperation with China. This liberal oriented point of view resulted in an overwhelming electoral triumph for the KMT, providing the new President Ma Ying-jeou (2008-present) with a strong mandate to execute his policy of ‘reassurance and moderation’ in cross-Strait relations. Both Washington and Beijing welcomed

---

239 Ibid; Sutter, “Taiwan’s Future, Narrowing Straits,” 7;
240 Hickey, *Foreign Policy Making in Taiwan*, 8; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA.” 167.
Taipei’s new policy direction under the assumption that it would contribute to stable relations across the Strait.241

Given Ma’s priority of economic growth and the mounting economic dependence on the Mainland, he stressed that relations with China should be regarded as Taiwan’s first priority. As Ma points out, “improving relations with the Mainland aimed at establishing better economic cooperation is not only possible, but also necessary.”242 Ma intends to improve Sino-Taiwanese relations on the basis of closer economic, social, and cultural contacts.243 From the perspective of an interdependence theorist, it is arguable that Ma’s policy demonstrated similarities with Karl Deutsch’s security community. As both argue that interconnectedness would foster shared values, which would in turn improve interstate relations.244 The Ma administration sees that Taiwan’s foreign and Mainland policy are two sides of the same coin and could therefore not be dealt with separately. The concept of ‘no unification, no independence, and no use of force’ became the main guideline underpinning both.245 Unlike Chen, Ma did not seek independence for Taiwan. Instead, his administration would take a “cautious but friendly and conciliatory approach to deal with China based on the 1992 Consensus so as to help keep regional stability and prosperity”.246 On the whole, the improvements in cross-Strait relations since Ma assumed office in 2008 have been rapid and impressive. Taiwan has acted as a responsible stakeholder and stabilizing actor in handling regional tensions, resulting in a significant improvement of cross-Strait relations.247

On the one hand, the governmental efforts are thus aimed to accommodate Beijing and avoid the confrontational approach that characterised the Mainland policy under Chen’s presidency.248 On the other hand, however, Ma emphasizes that he will, while improving relations with the Mainland, not compromise on the ‘dignity, pride, and principles’ of the ROC.249 Ma believes that he can find a balanced cross-Strait policy

241 Tsai, “Cross-Taiwan Straits Relations,” 125-126; Hickey, Foreign Policy Making in Taiwan, 8; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 167-168; Holslag, Onmogelijke Vrede, 118; Sutter, “Taiwan’s Future,” 5-6; Bush, Uncharted Strait, 49.
242 Ibid.
243 Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 167-168; Bush, Untying the Knot, 3-4; Hickey, Foreign Policy Making in Taiwan, 8.
244 Viotti & Kauppi, International Relations Theory, 126; Oneal & Russet, “The Classical Liberals Were Right,” 270.
246 Tsai, “Cross-Taiwan Straits Relations,” 125.
247 Ibid, 125-129; Bush, Uncharted Strait, 1-3, 45; Sutter, “Taiwan’s Future,” 5-6; Hickey, Foreign Policy Making in Taiwan, 8; Economist, “Say cheese,” 48.
249 Ibid; Economist, “Symbolism as a substance,” 47.
based on increasing mutual trust and understanding. In order to avoid the highly sensitive political aspects of the cross-Strait dispute, the Ma administration adopted the policy of ‘economics first, politics later’. This allows Taipei to proceed gradually through a bottom-up process from ‘low’ or non-political matters to the negotiations concerning the fundamental or ‘high’ political hurdles. Indeed, this policy shows parallels with the premises of liberal interdependence theory. David Mitrany argued that collaboration on basic, functional aspects could spill over to political cooperation. Inspired by the belief that economic integration and cooperation would foster economic growth, the Ma administration intends to boost the Taiwanese economy through improved relations with Beijing. The initial cooperation on the basis of economic, social, and cultural matters could, if successful, advance to political areas in the long-term. Closer economic and political cooperation would have positive effects on stabilizing cross-Strait relations. At the same time, it also underpins Ma’s essential objective concerning relations with the Mainland, as it ensures the prevalence of the status quo by preventing both Taiwanese independence and the Chinese to compel reunification. Despite the fact that this policy has proved to be successful until now, it remains uncertain to what extent Beijing will accept the postponement of political negotiations concerning reunification.

Institutionalizing cross-Strait economic relations

When Ma took office in 2008, economic relations across the Taiwan Strait changed in three ways. First of all, relations were partially normalized by the removal of past policy and ideological barriers. Second, the Ma administration began to liberalize restrictions on market entry. Third, Beijing and Taipei institutionalized their bilateral relations by creating mechanisms for policy implementation and management. Specifically, Taiwan’s Strait Exchange Foundation (SEF) and China’s Association for Relations across the Taiwan Strait (ARATS) were authorized to resume negotiations, which had halted for nine years after Lee made the special ‘state-to-state’ announcement and throughout Chen’s entire presidency. As both sides were eager to strengthen cross-Strait relations, Beijing and Taipei concluded sixteen agreements

253 Tsai, "Cross-Taiwan Straits Relations," 130-131; Lee, "Cross-Taiwan Straits Economic Relations and the ECFA," 176; Bush, *Uncharted Strait*, 45-49.
in a wide spectrum from 2008 through 2012.\textsuperscript{254} Starting with economic and social areas first, the SEF-ARATS consultations - or Chiang-Chen summit - led to the long prolonged establishment of the three links in November 2008. As more direct connections across the Strait became available, people-to-people contacts grew significantly. On both sides, this is seen as an important step to accommodate trade by saving time and reducing costs. Since early 2009, commercial flights are regularly and directly crossing the Taiwan Strait, carrying a growing number of Chinese tourists and Taiwanese businessmen.\textsuperscript{255}

Since the inauguration of the Ma administration, economic relations across the Taiwan Strait have grown enormously in multiple dimensions, including transportation, tourism, investment, finance, culture, and education. Regarding investments, the Ma administration liberalised restrictions for Taiwanese investment in China and gradually opened the island to Chinese investment. As a result, investment flows shifted from one-way movement of investment from Taiwan to China into two-way investment flows across the Strait.\textsuperscript{256} As mentioned before, the goal of President Ma in fostering economic ties with the Mainland is to boost Taiwan’s struggling economy by creating a more stable business environment across the Strait. On the whole, the bilateral SEF-ARATS negotiations resulted in effective channels of direct communication between Beijing and Taipei. The majority of the bilateral interactions and agreements were focused on managing the bilateral economic exchanges. The most significant development in executing his economic strategy was the implementation of the Economic Cooperation Framework Agreement (ECFA).\textsuperscript{257} The establishment the ECFA effectuated a bilateral free trade agreement between Taiwan and China. This provided the Taiwanese private sector with privileged access to Chinese markets and other important economic beneficial arrangements. Ma pointed out that the establishment of a cross-Strait free trade agreement is expected to improve Taiwanese business opportunities in the Mainland, strengthen Taiwan’s international economic competitiveness, and enhance cross-Strait economic cooperation and reciprocity. Negotiations on the ECFA were mainly focused on two aspects: tariff reductions, and the protection of Taiwanese investment

\textsuperscript{254} Ibid; Chiang, “Managing Cross-Strait Economic Relations,” 486; Huang & Li, Inseparable Separation, 4; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 167-170; Economist, “Taiwan’s economic isolation,” 43.

\textsuperscript{255} Ibid, 130-132; Chiang, “Managing Cross-Strait Economic Relations,” 486; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 167-170; Hickey, Foreign Policy Making in Taiwan, 9; Bush, Uncharted Strait, 49; Holslag, Onmogelijke Vrede, 118.

\textsuperscript{256} Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 169-170, 178; Bush, Uncharted Strait, 53; Holslag, Onmogelijke Vrede, 118.

\textsuperscript{257} Ibid, 170-173; Bush, Uncharted Strait, 45-49; Hickey, Foreign Policy Making in Taiwan, 9; Chiang, “Managing Cross-Strait Economic Relations,” 487-488; Holslag, Onmogelijke Vrede, 118-120.
and intellectual property rights in China. Taiwanese officials estimated that the initiation of the ECFA would, in the short-term, significantly lift exports, provide overall economic growth of 1.65-1.72 per cent annually, and create approximately 260,000 new jobs. In a study for the Peterson International Institute for Economics, Daniel Rosen and Zhi Wang estimated that Taiwan would increase its GDP in 2020 by about 4.4 per cent, or $20.6 billion.\textsuperscript{258}

In addition to the direct advantages for Taiwan’s economy, the conclusion of the ECFA reflects Taiwan’s desire for meaningful participation in the international (economic) order. Although Taiwan’s accession to the WTO in 2002, and the World Health Assembly (WHA) in 2008 indicated that Beijing has become more acceptable to accommodate Taipei’s aspirations; Taiwan has been excluded from the growing number of regional free trade agreements.\textsuperscript{259} Taipei feared that the effectuation of the free trade agreements between China and the Association for South East Asian Nations (ASEAN) in 2010, and the ‘ASEAN Plus Three’ free trade agreement - involving China, Japan, and South Korea - in 2013, would further diminish Taiwan’s economic regional significance.\textsuperscript{260} As a Taiwanese official puts it: “Taiwan risks being marginalized if it cannot participate. This is why the signing of an ECFA with China is so urgent at this moment, since it will allow Taiwan to compete with other countries on an equal footing.”\textsuperscript{261} The threat of marginalisation provided a major incentive for both the KMT administration as well as the Taiwanese private sector to pursue an economic free trade agreement with the PRC. Moreover, Ma argued that the establishment of a bilateral free trade agreement between Taipei and Beijing could serve as a precedent by which it can conduct free trade agreements with other nations.\textsuperscript{262} It seems that the Ma administration acknowledged Taiwan’s vulnerable economic position in the changing international economic environment.

In this sense, Taipei recognized that rapidly expanding cross-Strait economic interactions are part of the aforementioned broader trend of increasing regional and global interdependence.\textsuperscript{263} As Ma indicated, the ECFA is not an attempt to lean towards China. Instead, signing free trade agreements with Taiwan’s major trading

\textsuperscript{258} Ibid, 173; Hickey, \textit{Foreign Policy Making in Taiwan}, 9; Bush, \textit{Uncharted Strait}, 52-53.


\textsuperscript{261} Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 176-177.


\textsuperscript{263} Hickey, \textit{Foreign Policy Making in Taiwan}, 14-15.
partners is a necessity for the development of Taiwan. The KMT government understood that direct unilateral Taiwanese attempts to partake in the process of regional trade liberalization would be vetoed by Beijing. In other words, for Ma, the conclusion of the ECFA is thus not merely a means to serve Taiwan’s immediate economic interests. It is essential to serve the island’s long-term interests of preserving its participation in regional economic affairs so as to avoid being marginalized and isolated from the on-going tendency of deepening regional economic integration.264 Although this line of reasoning received initial support when Japan, Singapore, India, the Philippines, and New Zealand were willing to negotiate trade liberalization with Taiwan, it remains uncertain whether Beijing will allow Taipei to sign free trade agreements with third countries. The DPP has justifiably been arguing that without signing free trade agreements with other countries at the same time, Taiwan may lose its leverage in negotiating with China in the future. Still, it is unlikely that Taiwan will be able to complete such negotiations with its other major trading partners while China has yet to do so.265

Notwithstanding Ma’s efforts to counter criticism from the oppositional DPP, his Mainland policy caused domestic political tensions. In light of the enormous disparity in the size of Taiwanese and Chinese economies and Taiwan’s highly asymmetrical economic dependence on China, Taipei has traditionally been very wary of Taiwan’s economic interactions with China. The outflow of investment and departure of Taiwanese companies could ‘hollow out’ the Taiwanese economy and accelerate Taiwan’s economic integration in the greater China area. To accommodate the anxiety of getting too dependent on the Mainland, subsequent Taiwanese administrations imposed restrictive policies.266 Albeit the DPP has moderated its policy of openly favouring Taiwanese independence, it still opposes many aspects of the closer cooperation under Ma’s presidency. Given the asymmetric relationship, stronger cross-Strait economic relations indicate an increasing economic dependence of Taiwan on the PRC rather than vice versa. The DPP accused the ruling KMT of compromising Taiwan’s sovereignty, selling out national interests, and affecting the island’s economic security. From this perspective, economic interdependence

264 Tsai, “Cross-Taiwan Straits Relations,” 133; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 173-174, 176-178; Tian, Interdependence and Conflict across the Taiwan Strait, 85-86; Hickey, Foreign Policy Making in Taiwan, 17-19; Chiang, “Managing Cross-Strait Economic Relations,” 487-488, Bush, Uncharted Strait, 63.
266 Tsai, “Cross-Taiwan Straits Relations,” 131-133; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 178; Tian, Interdependence and Conflict across the Taiwan Strait, 86-87; Chu, “Taiwan’s mainland policy,” 232.
expands the island’s vulnerability in the face of a fast rising and increasingly powerful neighbour.\(^{267}\) Despite fierce criticism, the exodus of Taiwanese companies to China did not ‘hollow out’ Taiwan’s economy. According to the *American Chamber of Commerce*, manufacturing as a share of Taiwan’s GDP was 25.2 per cent in 1991; it was 24.8 per cent two decades later.\(^{268}\)

While the Taiwanese business community has been pressuring to lift the restrictions on commercial interactions with the Mainland, the expanding economic integration resulted in growing domestic resistance too. The ‘great migration’ of Taiwanese investment, firms, employment, and other business activities to the other side of the Strait has antagonized groups with limited mobility. The major consequence of the growing economic integration is the tendency of Taiwanese companies outsourcing low-skilled labour to the Mainland. To the segments of Taiwan’s labour force that face unemployment as a result of this pattern, investments in the Mainland amounts to a sell-out of Taiwan and the main cause of their hardships. This tendency has made them perceptive to pro-independence politicians pleading to prevent further economic integration with the Mainland.\(^{269}\) In Spring 2014, students protesting against Ma’s policy of engaging with the Mainland occupied Taiwan’s legislative Yuan for several weeks. The massive popular support of the student-led separatist ‘Sunflower Movement’ underlines the sensitivity of relations with China.\(^{270}\) Still, the DPP’s weakness derives from the fact that it has so far been unable to provide an alternative to Ma’s policy of engagement with China.\(^{271}\)

**The Taiwan Paradox**

However, the social and political effects of the growing interactions across the Taiwan Strait remain complicated. Liberal theorists believe that trade and economic intercourse contribute to stable interstate relations due to the mutual benefits of economic interdependence. Additionally, according to the liberal premises, growing interaction creates mutual understanding among the people.\(^{272}\) In a development of liberalism, Karl Deutsch argued that the establishment of interdependence and

---


\(^{269}\) Tian, *Interdependence and Conflict across the Taiwan Strait*, 39-40.


\(^{271}\) Tsai, “Cross-Taiwan Straits Relations,” 134; Hickey, *Foreign Policy Making in Taiwan*, 17.

interconnectedness would foster peaceful relations due to the development of shared values.\textsuperscript{273} It goes without saying that after the ban on traveling to the Mainland was lifted in 1987, large numbers of Taiwanese have been visiting the Mainland and \textit{vice versa}. As mentioned before, due to Taiwanese investments and commercial activities on the Mainland, over one million Taiwanese are currently working and living in Mainland China.\textsuperscript{274} Moreover, since the establishment of direct transportation across the Strait in 2008, increasing numbers of Chinese have been visiting Taiwan. Currently, over two million Chinese tourists are visiting the island annually, up from 300,000 in 2008.\textsuperscript{275} According to the hypotheses of the liberal doctrine, these increased contacts should improve mutual understanding and foster cross-Strait interconnectedness. Yet, whereas the economic differences across the Strait were the main incentive for growing contacts between China and Taiwan, these same contacts did also lead to a growing awareness of the social, cultural, and political differences between both sides of the Strait. This awareness has been manifested in a growing ‘Taiwan consciousness’, especially \textit{vis-à-vis} Mainland China. The tendency towards a distinctive Taiwanese identity has reverberated in the dynamics of both Taiwan’s domestic politics and Taiwanese aspirations for state sovereignty.\textsuperscript{276} As mentioned earlier, the pro-independence DPP used its power as ruling party to actively stimulate the tendency towards separatism, both culturally and politically. Especially during Chen’s presidency, the sense of ‘Taiwanism’ has been used to promote the nation-building process. This has been manifested in growing support for ‘Taiwanese consciousness’.\textsuperscript{277} In line with his policy of improving relations with the Mainland, Ma placed greater emphasis on ‘Chinese ethnicity’ and ‘cross-Strait unification’.\textsuperscript{278} Still, the policies of the KMT administration did not break the long-term trend. Over the years, this has been manifested by the annual surveys of the \textit{National Cheng-chi University’s Election Study Center} in Taipei. Their findings provided that the number of people who would identify themselves as Chinese has dropped


\textsuperscript{274} Hickey, \textit{Foreign Policy Making in Taiwan}, 17.


\textsuperscript{276} Tsai, “Cross-Taiwan Straits Relations,” 149; Chiang, “Managing Cross-Strait Economic Relations,” 486; Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 39-40; Bush, \textit{Untying the Knot}, 150.

\textsuperscript{277} Ibid; Chiang, “Managing Cross-Strait Economic Relations,” 486; Tian, \textit{Interdependence and Conflict across the Taiwan Strait}, 39-40; Bush, \textit{Untying the Knot}, 150.

\textsuperscript{278} Chiang, “Managing Cross-Strait Economic Relations,” 486.
from 25.5 per cent in 1992 to 3.5 per cent in 2014. In the same period, those identifying themselves as Taiwanese rose from 17.6 per cent to 60.6 per cent.

More importantly, besides Taiwan’s electoral politics and along its political democratization, the cultivation of ‘Taiwanese consciousness’ has become an inevitable factor affecting the construction of Taiwan’s Mainland policy. The sentiments of Taiwanese consciousness are often intertwined with the desire for Taiwanese independence. As a consequence, the growing tendency towards ‘Taiwanism’ proceeds in line with those favouring government efforts to assert Taiwan’s autonomy and demand international recognition of its de facto independent status, if not outright independence. The Election Study Center found that overall support for Taiwanese independence rose from 11.1 per cent to 22.7 per cent from 1994 to 2014. The survey manifested that popular support for unification with the Mainland dropped from 14.2 to 9.2 per cent. That having said, an overwhelming majority of the Taiwanese population still prefers the preservation of the status quo. The survey provided that accumulated support for the maintenance of the status quo in the short-term were respectively 66.1 per cent in 1994 and 84.4 per cent in 2014. While other surveys executed over the same timespan provided minor differences in the data, all surveys underpinned the clear and broad trend towards a stronger and exclusive Taiwanese identity, a declining Chinese identity, growing support for Taiwan’s independence and decreasing support for unification among the Taiwanese population.

Albeit Sino-Taiwanese relations have much improved since Ma has taken office, the data presented above show that the broader trend towards independence has not been reversed. The process of deepening economic integration has thus not resulted in growing popular support for unification. Yet, it is questionable if this is what the...
KMT is intending to achieve. As previously mentioned, Ma’s concept of ‘no unification, no independence, and no use of force’ has the clear objective to preserve the current cross-Strait status quo. Taipei’s strategy of ‘economy first, politics later’ allows the incumbent administration to adopt a bottom-up approach in its relationship with Beijing. As a matter of fact, Ma’s primary concerns in improving relations with Beijing are for the sake of deepening economic ties with the Mainland in order to lift Taiwan’s stalled economy. At the same time, however, he is cautious in entering into political contact.286 It is therefore unlikely that, even as Ma has been labelled as ‘pro-Chinese’, the current government has the intention to resolve the unification question. Chinese officials blame Ma that his Mainland policy is “nothing more than peaceful separation - that is, just another form of Taiwan independence.”287 By postponing the political negotiations concerning reunification with the Mainland, the KMT accommodates the overwhelming majority of the Taiwanese favouring status quo in which Taiwan enjoys a de facto autonomous position.

In line with chapter three’s analysis, chapter four first executed an inquiry of the motivations of Taiwan’s policy orientations. The inquiry found that the Taiwanese domestic political situation was heavily influenced by the changing characteristics of the international environment. As in chapter three, both the liberal premises of interdependence theory as well as the realist critique guided the analysis and offered a broad range of interesting insights. Whereas the international macroeconomic situation fosters the rapid growth of commercial exchanges across the Strait, bilateral relations remain highly politicized. At the same time, however, the policies of Beijing and Taiwan respectively turned out to be only partly effective. In addition, the analysis contributed to the broader theoretical discussion concerning the political consequences of economic interdependence. As Taiwan and China become increasingly interconnected economically, this trend is not reflected politically. In the following concluding chapter, this - for interdependence theorists - paradoxical trend will be inquired more comprehensively.

286 Tsai, “Cross-Taiwan Straits Relations,” 152.
287 Ibid, 141.
Chapter Five

Conclusion

This final chapter will provide the findings of the analyses completed in the previous chapters. The analyses in chapters three and four have sought the motivations for the economic rapprochement since 1996 on both sides of the Taiwan Strait. Grounded in the theoretical framework as provided in chapter two, this concluding section aims to formulate a comprehensive answer to the main question to what extent cross-Strait economic rapprochement can be expected to lead towards political integration between China and Taiwan. Chapter five will first provide a brief retrospect to the findings of the previous chapters. Hereafter, it will proceed to the offer the main conceptual and theoretical linkages of this study with interdependence theory. On the basis of these findings, the final conclusion of this thesis will be formulated.

China’s motivations for rapprochement with Taiwan

In general, Chinese leaders are seen to be focused on promoting China’s economic development while maintaining domestic political and social stability. These efforts undergird a fundamental determination of China’s leadership to preserve and reinvigorate the CCP as the sole political entity in China. In addition, the regime intends to restore China’s international position prior to the century of humiliation. The rejuvenation of China is essential to maintain the communist party’s legitimacy, especially to address the growing nationalist sentiments among the Chinese populace. Since the reform era, Chinese leaders emphasize the importance that the goal to become a great power is rooted in a strong and prosperous economy. The development of China’s comprehensive national power - which combines economic and military capabilities for overall political influence - has become its principal objective. The best way for China’s leaders to achieve these strategic priorities is to govern through performance. Continued economic growth will increase prosperity for the Chinese people and thereby strengthen popular support for the communist leadership, which in turn enhances the legitimacy of continued CCP rule. As Chambers argues, there is thus a “close interrelationship between economic development and security” in Chinese policy-making.288 In line with previous Asian development models, China’s economic export-led growth in the post-Mao era is hugely dependent on foreign trade and investment as key drivers for the development of its economy. A foreign policy that sustains an international

environment supportive of economic growth and stability in China serves these objectives. Accordingly, the reformist policies of the PRC are aimed to conform to, engage with, and participate in the existing international economic order.

Through its economic strategy, China encourages the development of economic interdependent relations with its neighbouring countries. In stimulating economic cooperation and interdependence, Beijing tried to achieve what economic liberals refer to as ‘bonds of mutual interest’ or ‘binding commercialism’. In this sense, the increasing economic interdependence in East Asia is not only essential for China’s domestic economic development, it is constructed as a strategy to realize its desire for a peaceful and stable security environment to pursue economic development. Furthermore, the promotion of economic cooperation will, according to interdependence theory, in turn contribute to political and security cooperation. In the post-Mao era, China’s Taiwan policy is constituted on the prospect for peaceful reunification under the premise of the ‘one country, two systems’ formula. As long as this long-term prospect is effectively preserved, it is not in the PRC’s interest to enforce a final solution of the Taiwan issue. Notwithstanding the positive effects on China’s economic growth, the initiation and encouragement of Sino-Taiwanese economic linkages in the last decade of the twentieth century have undeniably been intended to influence Taiwan’s political decision-making. China’s Taiwan policy appears to be driven by the logic of integration wherein initial economic interstate cooperation would foster both economic and political rapprochement. Indeed, the initiation of cross-Strait economic cooperation expanded into an extensive economic interdependent bilateral relationship. In line with the assumptions of liberal interdependence theory, the sharp increase of commercial activities resulted in the evolvement of a regulatory framework for basic cross-Strait economic cooperation: Taiwan’s Strait Exchange Foundation and China’s Association for Relations across the Taiwan Strait.

As exemplified at the beginning of chapter three, the long-term Taiwanese trend towards greater independence from the Mainland seriously challenges the core concerns of the CCP. The communist leadership has demonstrated on numerous occasions in recent history that Beijing’s accommodating and cooperative strategy aimed at the preservation of the cross-Strait stability and economic integration could change quickly and sharply towards a confrontational and threatening one, especially in times when Taiwan’s leadership is inclined to separatist influences.\(^\text{289}\) As the Taiwan issue is inextricably related to the regime’s survival, the CCP leadership

stressed that - if it concluded that all other alternatives were non-prevalent - it would be ‘forced’ to use coercive means to prevent Taiwan’s independence. The modernisation of the PLA and the large-scale build-up of Chinese military forces directed at Taiwan and its possible allies accentuate this line of reasoning. As a large majority of the Chinese population supports the use of military force in order to defend China’s territorial claims, the regime will not be tempered in order to maintain domestic or regional stability. On the contrary, no Chinese leader can afford to be seen as weak in dealing with the Taiwan issue. The growing nationalist ambitions could therefore catalyse tensions in the fragile and explosive cross-Strait situation.

In an anomaly from the perspective of liberal interdependence theory, Beijing thus appears to be willing to put all economic achievements of the last three decades at risk if necessary to prevent Taiwanese secessionism. As exemplified before, this response derives from complex political considerations, from which the preservation of the CCP regime is the most important one. The moderating and pacifying consequences attributed to deep economic interdependence by liberal thought appear to be at conspicuous risk at least as far as this contingency is concerned. Yet, it were liberal scholars who emphasized that one should not solely focus on the existence of interdependence. As Richard Rosecrance points out, interdependent relations only constrain states in their behaviour if they agree to accept the boundaries provided by the economic framework. This does not imply that these economic ties cannot be broken. Moreover, he acknowledged that for some countries, especially developing ones, “nationalism and territoriality may trump economic interdependence.” Given the trend of emerging Chinese nationalism - including the heavy emphasis on territorial integrity and sovereignty - combined with the increasing role of nationalism in the legitimization narrative of the CCP, the ‘loss’ of Taiwan could quite possibly mark the end of the CCP’s rule in China. In other words, even from a liberal perspective and despite the existence of economic interdependence, the possibility of a cross-Strait military confrontation could not be ruled out.

294 Ibid, 43, 204-207; Chambers, “Rising China,” 96.
Justifiably, these findings are in line with realist thought, which argues that states are first and foremost concerned with their survival. Due to the Chinese authoritarian domestic political situation, ‘survival’ in the Chinese context refers to both the state as well as the communist regime. However, the argument that China’s rapprochement to Taiwan is founded on realist principles is based on broader aspects of the theoretical discussion. As Jonathan Holslag stresses, communist leaders see the current international structure as composed of an anarchic nation-state political system and an international market economy. This combination does not only highlight Beijing’s realist perspective - as realism asserts that economic interdependence does not alter the nature of the international system - it does also explain China’s focus on the doctrine of comprehensive national power. The enforcement of Chinese national power is primarily derived from the regime’s insecurity and the aim to restore the nation’s international position. Again, survival of the state and attempt to increase relative gains are at the core of the realist doctrine.

China’s policy of encouraging economic cooperation did result in an advancing interdependence between the Taiwanese and Chinese economies. As Robert Keohane and Joseph Nye stress, asymmetries in interdependence can provide sources of influence for actors in their relations with others. In addition to Keohane and Nye, Kenneth Waltz and Albert Hirschman argue that foreign trade in a situation of asymmetrical interdependence can become a direct source of power and influence. Hirschman reasons that, although inefficient from an economic perspective, the strategic use of asymmetries enhances the dominant state’s autonomy and leaves the dependent state in a vulnerable position. In line with realist political philosophy, it is indeed reasonable to hypothesize that Beijing deliberately aims to increase its economic leverage to, in the long-term, secure through pressure what it cannot get from Taipei through persuasion. Indeed, given the asymmetrical Sino-Taiwanese relationship, Beijing’s strategy of encouraging economic cooperation can be conceived to create growing sources of influence and power over Taipei. Sources the PRC could in turn imbed as leverage over Taiwan. As Michael Chambers and Robert Sutter note, Beijing intends to influence Taiwan’s behaviour through its economic strategic policy as it regards trade as a ‘strategic instrument’ to achieve political objectives.

Continuing along this line of reasoning, the establishment of the Sino-Taiwanese free trade zone can be viewed accordingly. From the realist economic perspective, it is

295 Hirschman, National Power and the Structure of Foreign Trade, 14.
arguable that Beijing intentionally allows the significant trade deficit with Taipei to exist because it intends to use the Taiwanese private sector to bring the island closer to the motherland. The bilateral trade agreement across the Taiwan Strait will serve as an additional instrument to enhance and deepen the economic integration of Taiwan into China.\textsuperscript{296} As mentioned in chapter two, realists assume that states will make economic sacrifices to secure - or increase - state security. Chapter three found that Beijing was willing to adopt a flexible stance in concluding the free trade agreement with Taiwan at the expense of short-term economic gains, so that it could consolidate its long-term goal of regional stability. Furthermore, and in line with Hirschman’s argument, the costs of ending the Sino-Taiwanese bilateral relation would - given the relative stake in the relationship - be more costly for Taiwan as the dependent state. When taking the analysis of chapter three into account, it could indeed be Beijing’s intention to create a ‘dominance-dependence’ relation \textit{vis-à-vis} Taiwan. In this case, Beijing could use trade strategically as a method of coercion over Taiwan as the dependent actor. According to Hirschman, China - as the dominant state - does not only enhance its autonomous position and coercive leverage over Taiwan, it could also purchase greater political influence within Taipei. In addition to Hirschman, Jonathan Kirshner argues that the pattern of asymmetry forces the dependent state to behave ‘friendly’ to the dominant state.\textsuperscript{297} In the Sino-Taiwanese context this would imply that the asymmetrical relationship in relation to the Mainland would constrain Taipei’s policy options. This situation could be even worse when taking the content of the cross-Strait economic interdependence into account. The enormous investments of the Taiwanese private sector in the Mainland result in what Rosecrance defines as interpenetration of China’s economy. As his framework is based on mutual (symmetric) dependence, Rosecrance assumes that the increase of foreign direct investment fosters international stability. However, given the unequal division of investment, it enforces the dominant-dependent cross-Strait relation, enhancing Taiwan’s dependent position.

As the inquiry of the Chinese motivations behind the initiation of engaging in economic cooperation with Taiwan showed, this realist line of reasoning could very well be Beijing’s intention. As the CCP intends to increase its political influence through the deepening of the economic cross-Strait integration, Taiwan - as the weaker actor in the asymmetrical interdependent relationship - should be reluctant in extending economic cooperation with the Mainland as it increases vulnerability to

\textsuperscript{296} Zhao, “Economic interdependence and political divergence,” 183-184.
\textsuperscript{297} Kirshner, “Realist political economy,” 37.
Beijing. In chapter four, the Taiwanese motivations behind cross-Strait rapprochement were analysed.

**Taiwan’s motivations for rapprochement with Mainland China**

On the surface, Taiwan’s ruling KMT and oppositional DPP differ on economic issues. Yet, the discussion derives from the two parties’ conflicting views over the fundamental issue of how to deal with the rise of China while preserving Taiwan’s national interests. The essential question is whether Taiwan’s Mainland policy should be shaped to oppose the ‘China threat’ or as an opportunity to benefit from China’s self-proclaimed ‘peaceful rise’. More specifically, whether Taipei should cooperate with Beijing so as to benefit from the opportunities provided by China’s economic growth, or treat the PRC’s leadership as a hostile regime and restrict social, economic, and political exchanges. To some, the benefits of trade with the Mainland and the therefrom-expanding cross-Strait interdependence will tend to foster cooperative relations with Beijing. They argue that Taiwan cannot afford to keep ignoring China’s growth and huge markets. Additionally, the bilateral trade relation between Taiwan and China does indeed create an economic interdependent relationship. Albeit asymmetrical, it is still a relation of mutual dependence. It will therefore improve mutual understanding across the Strait and contribute to stable and predictable bilateral relations with Beijing. However, for the pro-independence DPP and the majority of its supporters, China is and will always be a threat. During their period as ruling party, the DPP has demonstrated that its Mainland policy is formulated on the basis of political and security considerations. Concerned about the relative gains in the relationship vis-à-vis China, they are willing to make economic sacrifices in order to secure national interests.

As a matter of fact, strategic and security considerations have been heavily influencing Taiwan’s foreign policy for quite some time. Ensuing Taiwanese governments have put enormous efforts in order to regulate economic exchanges with Mainland China. Driven by the fear that the advancing economic integration of the island into the Mainland will jeopardize Taiwan’s de facto independent and autonomous position, Taipei has been cautious to loosen restrictions on commercial interactions across the Strait. To prevent Taiwan from becoming too dependent on Beijing, the Lee administration implemented the policy of conditional engagement with the PRC. In this sense, Taiwan attempted to develop a comprehensive strategy

---

298 Tsai, “Cross-Taiwan Straits Relations,” 133.
to use its economic power to achieve political objectives. Despite the implementation of restrictive policies aimed at regulating the pace of growing economic interdependence across the Taiwan Strait and at protecting vital sectors of the Taiwanese economy, the tendency towards further economic interdepend relations was not decelerated. As Taiwan’s policies turned out to be largely ineffective, it can be concluded that Taipei’s legislative influence has limited impact on the evolving economic interactions across the Strait. This indicates that the realist argument that the pattern of interstate economic relations is framed through international political considerations needs modification. Or is, at least, not fully applicable to the cross-Strait context. Additionally, these policies constrained the private sector, which in turn affected Taiwan’s economic prosperity. Taiwan’s struggling economy allowed Ma to redirect to cross-Strait relations from an economic perspective from 2008 onwards.

Unlike his predecessors, Ma prioritized the restructuring of Taiwan’s economy over the classic security considerations. Ma understood that Taiwan was dependent on China for realizing his primary goal of economic growth. Ma therefore redefined cross-Strait relations from an economic perspective and repeatedly stressed the importance of economic cooperation with the Mainland. As stable and predictable relations with Beijing were a main precondition for improving the business environment, normalizing, liberalizing, and institutionalizing relations across the Strait was necessary. In this regard, the conclusion of the ECFA between China and Taiwan was a controversial but decisive step in improving bilateral relations based on closer economic, social, and cultural contacts. This conviction shows remarkable similarities with some of the essential premises of liberalism. As in liberalism, Ma’s strategy incorporates trade and economic intercourse to contribute to prosperous relations across the Strait. The benefits of trade and the therefrom-expanding interdependence among national economies will tend to foster cooperative relations. In order to realize the resumption of cross-Strait negotiations, Ma implicitly recognized the ‘one China’ principle by reaffirming the ‘1992 Consensus’. In doing so, Ma showed that he was willing to compromise in order to achieve economic prosperity. In an extension of liberalism, this could be interpreted as the moderating influence of the economic self-interest. Moreover, it is arguable that Ma’s policy demonstrated similarities with Karl Deutsch security community. As both argued

308 Ibid, 485; Chu, “Taiwan’s mainland policy,” 239-240; Kahler & Kastner. “Strategic Uses of Economic Interdependence,” 533-534; Bush, Untying the Knot, 35.
309 Chu, “Taiwan’s mainland policy,” 245.
301 Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 167-168; Bush, Untying the Knot, 3-4; Hickey, Foreign Policy Making in Taiwan, 8.
that interconnectedness would foster shared values, which would in turn improve interstate relations.\textsuperscript{302}

In regard to the political objectives of his presidency, Ma adopted the guideline ‘no unification, no independence, and no use of force’. Unlike Chen, Ma did thus not seek independence; instead he aimed to preserve the \textit{status quo}. As in interdependence theory, the expanding and deepening economic cooperation would contribute to the stabilization and moderation of political relations. In line with the global tendency towards regional economic integration, the growing Sino-Taiwanese commercial interactions served as an ‘engine of growth’ for both Beijing and Taipei. As exemplified in chapter two, the foundations of regional economic integration lay in post-war Europe. David Mitrany was the first to explicate the logic of integration. According to Mitrany, the common interest in trade and collaboration could contribute to a reduction of conflict between states. Furthermore, he argued that the initial cooperation to manage basic economic exchanges could spill over to other ‘functional areas’ where interstate collaboration could be mutually beneficial. Interdependence theorists thus assume that economic integration and cooperation could foster further cooperation, both economic and political. In the cross-Strait context, Ma proceeded along this same line of reasoning. In order to avoid the highly sensitive political aspects regarding Taiwan’s international position, Ma stressed the importance of ‘economics first, politics later’. As mentioned above, the SEF-ARATS negotiations were mainly aimed to regulate and improve the management of the bilateral economic exchanges between Taipei and Beijing. This strategy allowed the KMT to proceed gradually through a bottom-up process from ‘low’ or non-political matters on the short-term and to postpone the debates regarding the fundamental aspects of the cross-Strait dispute.\textsuperscript{303} Yet notwithstanding the parallels with the interdependence theory, it too underpins Ma’s essential political objective concerning relations with the Mainland, as it ensures the prevalence of the \textit{status quo} by preventing both Taiwanese independence and the Chinese to compel reunification.\textsuperscript{304}

In the end, the establishment of the Sino-Taiwanese free trade agreement contributed to the rapid institutionalization of cross-Strait economic interdependence. Albeit the ECFA is an economic agreement by nature, it is essentially a political decision that will in turn have profound political impacts on the Sino-Taiwanese bilateral

\textsuperscript{302} Viotti & Kauppi, \textit{International Relations Theory}, 270.
\textsuperscript{304} Tsai, “Cross-Taiwan Straits Relations,” 126, 129-132; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 178-179; Bush, \textit{Uncharted Strait}, 1-3, 45; Hickey, \textit{Foreign Policy Making in Taiwan}, 8.
relationship. As Chiang Pin-kung, chairman of the SEF, argued, the conclusion of the “ECFA was not only an economic agreement but also a political symbol of peaceful cross-Strait development.” ³⁰⁵ From a Taiwanese perspective, this development is in accordance with the current administration’s Mainland policy to turn the cross-Strait dispute into a “win-win scenario of peaceful coexistence.” ³⁰⁶ If Ma succeeds to create sustainable economic growth subsequent to the deepening of economic relationship with China, this will benefit the KMT to maintain its ruling political power on the island. Certainly, the DPP’s inabilities to move the island’s economy forward and accommodate the needs of the Taiwanese business community during Chen’s presidency were the main reasons why the DPP lost the 2008 presidential election to the KMT. This failure has provided Ma with considerable room in promoting economic cooperation with China.³⁰⁷ As an increasing number of individuals and firms now have a direct stake in the preservation of stable economic relations across the Strait, it becomes increasingly important to meet their demands. Whereas Chen designed his Mainland policy primarily on the basis of political and security considerations, Ma has carefully cultivated the support of the companies with an interest in China by assuring to safeguard their interests and to pursue a less confrontational policy towards Beijing. In other words, the growing cross-Strait economic ties have thus given rise to a new and powerful constituency in Taiwan that has sought to protect their interests in the Mainland and that tends to oppose destabilizing and confrontational policies vis-à-vis Beijing - such as Chen’s separatist Mainland policy.³⁰⁸

Besides the more general indirect electoral influence of the expanding economic interdependence between Taiwan and Mainland China, this is also manifested in growing pressure from the private sector to deregulate commercial interactions with the PRC. In analysing the motivations of Taiwan’s rapprochement to China, it became valid to argue that Taiwanese businesses created what Albert Hirschman refers to as a ‘commercial fifth column’. Hirschman argued that in the case certain groups have a special interest in trade, they could exert their influence to accommodate their interests.³⁰⁹ As pointed out earlier, Taiwanese companies with a

³⁰⁵ Bush, Uncharted Strait, 67.
³⁰⁶ Tsai, “Cross-Taiwan Straits Relations,” 132; Lee, “Cross-Taiwan Straits Economic Relations and the ECFA,” 178.
³⁰⁹ Hirschman, National Power and the Structure of Foreign Trade, 29; Bush, Uncharted Strait, 148; Bush, Untying the Knot, 34-35.
presence in Mainland China did indeed start a fierce lobby to pressure both the DPP and KMT to adopt moderating and stabilizing stances vis-à-vis the Mainland.

This tendency can be interpreted in different ways. On the one hand, this is in line with the liberal assumption that economic exchanges create ‘bonds of mutual interest’ or ‘binding commercialism’. This has, in turn, a moderating, not to say pacifying, influence on interstate political relations. On the other hand, realists have been arguing that relations of economic interdependence are rarely symmetric. On the contrary, they are often asymmetrical and highly political. In fact, Kenneth Waltz and Albert Hirschman argue that, due to the dominant-dependent relationship, asymmetrical economic interdependence becomes a source of influence and power.310

In a development of this perspective, Jonathan Kirshner argues that asymmetric relations significantly constrain the behaviour of the dependent state. Given its larger relative stake in the economic relationship, it will be more costly for the dependent state to end economic exchanges with the dominant state. This economic leverage can in turn be projected as a coercive measure to exert political influence or power by the dominant state over the dependent state. In this sense, economic interdependence forces the dependent state to behave ‘friendly’ in relation to the dominant state.311 States should therefore not only be concerned about the relative gains vis-à-vis their trading partners, they are expected to make economic sacrifices to enforce their autonomous position internationally. In this sense, Beijing’s Taiwan policy ‘influencing politics through business’ should be seen as an economic strategy with clear political objectives, which will, in the long-term, contribute to the reunification of Taiwan with the motherland.

Although liberalism and realism differ fundamentally on the political implications of economic interdependence, the analysis of the cross-Strait economic interdependence along both lines of theorizing manifested some interesting similarities. Reasoning along the lines of economic liberalism and the interdependence theory, it is expected that due to the growing economic interdependence across the Strait, the political bilateral relationship will stabilize. Moreover, as the relationship is beneficial for both sides of the Strait, economic cooperation will expand to other areas where collaboration will be mutually beneficial. According to interdependence theory, this economic cooperation will spill over to political cooperation as well. When taking realist critics into account, the asymmetrical cross-Strait economic interdependent relationship enables Beijing to assert political influence and power over Taipei. This

310 Keohane & Nye, Power and Interdependence, 269; Hirschman, National Power and the Structure of Foreign Trade, 14.
311 Kirshner, “Realist political economy,” 37.
forces Taiwan as the dependent actor to moderate its policies towards the dominant Mainland. As a result, either through a coercive economic policy or through the creation of shared values due to mutual beneficial interactions, it should be expected that the political divergences across the Taiwan Strait narrow as a consequence of deeper economic integration.

Yet surprisingly, the analysis executed before contradicts the theoretical assumptions of both theories. Beijing’s strategy of ‘peddling politics through business’ has only produced mixed political results. The analysis has indeed found convincing evidence that the Taiwanese private sector has been operating as a commercial fifth column, as it pushed the Taiwanese government to accommodate their interests in the Mainland. However, it is questionable to what extent these pressures have had profound impact in the policy behaviour of Taiwan, let alone that China can execute a successful coercive economic policy regarding the island. As Miles Kahler and Scott Kastner noted, there is little evidence that economic interdependence has acted as a tight constraint on Taiwan’s policies. While the rapid growth of economic ties has resulted in the emergence of asymmetrical dependence of Taiwan on the Mainland, Taiwan has continued to adopt policies that were seen as highly provocative by China’s leadership. 312 Recent examples include the aforementioned formulations of presidents Lee’s ‘special state-to-state’ relationship in 1999 and Chen’s ‘one country on each side of the Taiwan Strait’ in 2002, and the latter’s decision to hold a national referendum concerning independence in 2003.

According to the hypotheses of the liberal doctrine, the increased contacts between the Mainland and the island should improve mutual understanding and foster cross-Strait interconnectedness. Yet, whereas the economic differences across the Strait were the main incentive for growing contacts between China and Taiwan, these same contacts did also lead to a growing awareness of the social, cultural, and political differences between both sides of the Strait. The cultivation of this ‘Taiwanese consciousness’ has become an inevitable factor affecting the construction of Taiwan’s Mainland policy. The sentiments of Taiwanese consciousness are often intertwined with the desire for Taiwanese independence. As a consequence, the growing tendency towards ‘Taiwanism’ proceeds in line with a trend towards a stronger and exclusive Taiwanese identity, a declining Chinese identity, growing support for Taiwan’s independence, and decreasing sentiments favouring unification. In sum, where the complementarity of greater China has fostered integrative economic forces across the Strait, these same forces have been working alongside significant

312 Kahler & Kastner. “Strategic Uses of Economic Interdependence,” 536.
disintegrative political tendencies. Or as Yun-han Chu argues, “the emerging patterns of the cross-Strait interaction present a perplexing duality, revealing both the trends toward closer economic convergence and greater political divergence”.

This seemingly contradictory development is most clearly exemplified in the acknowledgement of Taiwan’s economic dependence on Mainland China and the increasing institutionalizing of cross-Strait economic relations under the Ma administration on the one hand; and growing popular support for Taiwan’s independence movement and Beijing’s continuing military deterrence on the other hand.

The above study of the evolving cross-Strait economic interactions reveals interesting similarities with the broader international trends of economic integration and political separation as described at the beginning of chapter four. In contrast to the premises of interdependence theory, the intensified economic interactions have not led to political rapprochement or collaboration. On the contrary, political relations across the Taiwan Strait remain tensed as both sides disagree fundamentally about the possible conclusion of the political dispute. In addition, it is evident that the growing economic interdependence across the Strait has been a function of political interests. This has been manifested by the analysis of the motives for economic rapprochement on both sides of the Taiwan Strait. Beijing’s objective in the evolving economic interaction across the Strait is twofold. In the short-term, it contributes to the establishment of a stable regional environment wherein China can complete its modernisation task and enlarge its national comprehensive power. In the long-term, growing economic interdependence is believed to facilitate the political reunification of Taiwan with the motherland. Peaceful reunification remains Beijing’s ultimate goal and Deng Xiaoping’s formula of ‘one country, two systems’ is seen as the only viable formula to achieve this objective. In contrast, in Taipei the process of deregulating economic restrictions is seen as leverage to accomplish political concessions from Beijing. While Taiwan attempts to maintain the status quo in the short-term, it has adopted a de facto ‘two China’ policy as it stresses that the starting point for reunification is the recognition of Taipei’s view of the present reality: one divided nation ruled by two equal governments. As this perspective is a reflection of the longer fundamental trend of diminishing support for unification within the Taiwanese electorate, it is unlikely to change in the near future. The heavy involvement of governments in Beijing and Taipei respectively has turned out to be a decisive factor preventing the evolving economic interdependence from bringing a

313 Chu, "Taiwan's mainland policy," 229.
political spill over effect to ease political tension, not to mention rapprochement or collaboration. According to the inquiry in this study, it is thus indeed vital that - as Ernst Haas argued - for political integration to occur successfully, interstate cooperation and integration should be in the interest of the political elites involved. To conclude, the economic disparities in greater China have created the incentives to initiate mutual beneficial economic relations leading towards deeper cross-Strait economic interdependence. The current process of rapprochement between Beijing and Taipei serves the desire of both states to preserve the increasingly institutionalized economic relationship. As the growing commercial exchanges across the Strait accommodate both Taipei’s and Beijing’s interests in the short-term, this trend is likely to continue in the near future. Meanwhile, however, the growth of cross-Strait economic interconnectedness manifested the enormous political and cultural differences between Taiwan and Mainland China. It can therefore be concluded that the intensified economic interdependent relations across the Strait have not resulted in a spill over effect to overcome the pattern of political disintegration. On the basis of this thesis’ analysis, it is not expected that the growing economic interdependence between China and Taiwan will result in political collaboration, not to mention integration, in the near future. The reunification of Taiwan with China under the formula of ‘one country, two systems’ should therefore not be regarded as a feasible resolution for the political dispute across the Taiwan Strait.
Bibliography


Economist, the. “Taiwan’s economic isolation: Desperately seeking space. A free-trade deal is greeted by China with a surprising lack of fuss.” (13 July 2013).

Economist, the. “Symbolism as a substance: Chinese and Taiwanese government officials meet for the first time, but China worries about the future.” (15 February 2014).

Economist, the. “Say cheese: The first island visit from a Chinese minister since 1949.” (5 July 2014).

Economist, the. “Told you so: The Protests in Hong Kong fuel Taiwan’s distrust of China.” (1 November 2014).
Economist, the. “East Asian firms in China: Taiwan, Japan and South Korea employ huge number of Mainland Chinese.” (8 November 2014).


Garschagen, O. “Vrouwen bepalen toekomst Taiwan.” NRC Handelsblad (12 July 2015).


Sung, Y. *The Emergence of Greater China: The Economic Integration of Mainland China, Taiwan and Hong Kong* (New York: Palgrave MacMillan, 2005).


