

The Paradoxes in Taiwan's 'Two-Level Game' Concerning Cross-Strait Relations

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Abstract

This paper develops a model of cross-Strait relations in terms of a series of four paradoxes. The first is that China's aggressiveness in initiating the Taiwan Strait Crisis of 1995-96 set off a series of contretemps between the two sides of the Strait that almost certainly made the achievement of Beijing's objectives considerably harder. Second, the polarization in Taiwan over national identity and cross-Strait relations that erupted after the turn of the century was at least somewhat surprising, both because the partisan cleavage on these issues had noticeably de-escalated during the 1990s and because public opinion on them has always been decidedly unpolarized. Third, despite strident DPP criticism that Ma Ying-jeou, the current KMT President, has threatened Taiwan by increasing its economic dependency upon the PRC, the huge surge in Taiwan's trade and investment with China this century actually occurred during the administration of his DPP predecessor, Chen Shui-bian. Fourth, the *rapprochement* between Taiwan and China after Ma's election in 2008 is at least somewhat paradoxical because it may not presage long-term stability in cross-Strait relations. Ma's reluctance to enter into political negotiations with the PRC indicates that he agrees with the DPP to some extent about the danger of falling into China's clutches (even if this belies their charges about his motivations); and the PRC's refusal to make any concessions about Taiwan's sovereignty suggests that future conflict might be likely.

Taiwan's policies toward cross-Strait relations over the last two decades certainly constitute a "two-level game" in which domestic and foreign policy are intertwined¹ because relations with China are one of the central issues in domestic politics that divide the Democratic Progressive Party (DPP) and the Kuomintang (KMT). On the international level, China and Taiwan contend, sometimes sharply and sometimes more implicitly, over the sovereignty of Taiwan. On the domestic level, the DPP and the KMT contend almost always sharply over whether the former's policies "stand up for Taiwan" or needlessly provoke Beijing and whether the latter's bring stability to cross-Strait relations or threaten Taiwan's sovereignty and dignity.²

A little thought, furthermore, suggests that many aspects of this two-level game appear to be surprisingly paradoxical. This paper, hence, develops a model of cross-Strait relations in terms of a series of four such paradoxes. The first is that

¹Robert D. Putnam, "Diplomatic and Domestic Politics: The Logic of Two-Level Games," *International Organization* Vol. 42 (Summer 1988) pp. 427-460.

²Cal Clark, "The U.S. Balancing Role in Cross-Strait Relations: The Irony of 'Muddling Through,'" *Issues & Studies* Vol. 42 (September 2006) pp. 129-163; Yu-Shan Wu, "Strategic Triangle, Change of Guard, and Ma's New Course," pp. 30-61 in Cal Clark, Ed., *The Changing Dynamics of Relations Among China, Taiwan, and the United States* (Newcastle upon Tyne, UK: Cambridge Scholars Publishing, 2011).

China's aggressiveness in initiating the Taiwan Strait Crisis of 1995-96 set off a series of contretemps between the two sides of the Strait that almost certainly made the achievement of Beijing's objectives considerably harder. Second, the polarization in Taiwan over national identity and cross-Strait relations that erupted after the turn of the century was at least somewhat surprising, both because the partisan cleavage on these issues had noticeably de-escalated during the 1990s and because public opinion on them has always been decidedly unpolarized. Third, despite strident DPP criticism that Ma Ying-jeou, the current KMT President, has threatened Taiwan by increasing its economic dependency upon the PRC, the huge surge in Taiwan's trade and investment with China this century actually occurred during the administration of his DPP predecessor, Chen Shui-bian. Fourth, the *rapprochement* between Taiwan and China after Ma's election in 2008 is at least somewhat paradoxical because it may not presage long-term stability in cross-Strait relations. Ma's reluctance to enter into political negotiations with the PRC indicates that he agrees with the DPP to some extent about the danger of falling into China's clutches (even if this belies their charges about his motivations); and the PRC's refusal to make any concessions about Taiwan's sovereignty suggests that future conflict might be likely.

**Paradox 1:
China's Aggressiveness Appears Counterproductive**

For most of the postwar era, relations between the People's Republic of China (PRC) and the Republic of China on Taiwan (ROC) have been fairly conflictual, which is quite understandable given their mutually contradictory claims to exercise sovereignty over Taiwan. Yet from the mid-1980s to the mid-1990s, relations between Beijing and Taipei were fairly amicable as both seemed willing to accept the other, at least tacitly. Taiwan did not challenge the PRC claim of *de jure* sovereignty over the area controlled by the ROC, while China did not challenge the ROC's *de facto* exercise of sovereignty in it. The sudden eruption of the 1995-96 Crisis in the Taiwan Strait changed this dynamic greatly, setting off a series of disputes and confrontations that lasted until a KMT president committed to improving relations with the PRC was elected in 2008.³

Theseemingly stable situation in the Taiwan Strait area in the late 1980s ultimatelybroke down because of clashing perceptions between the ROC and the PRC. Both countries had fairly optimistic perspectives about their futures in the early

³ This historical sequence is modeled in Cal Clark, "The Taiwan Relations Act and the U.S. Balancing Role in Cross-Strait Relations," *American Journal of Chinese Studies* Vol. 17 (April 2010) pp. 3-18.

1990s *vis-a-vis* each other because they evidently believed that time was on their side in the sense that existing political and economic trends were working in their favor. Beijing thought that growing economic and social ties across the Strait would gradually undercut Taiwan's separation from the Mainland, while Taipei saw its separate international status being gradually established and consolidated through President Lee Teng-hui's "pragmatic diplomacy."⁴

By 1995, however, both began to fear that the other's positive assessments were coming true. Taiwan became increasingly worried that China was successfully isolating it diplomatically and making the island economically dependent on the Mainland, while China worried that Taiwan was on the verge of establishing Taiwan Independence. Cross-Strait relations then erupted in the summer of 1995 following a trip by President Lee Teng-hui to his *alma mater*, Cornell University, that he had pressured the United States to allow him to make. While this seemed to be simply an extension of Taiwan's existing "pragmatic diplomacy," China reacted unexpectedly and extremely strongly to Lee's visit, arguing that this represented a major change in American policy supporting Lee's alleged effort to turn

⁴Murray A. Rubinstein, "Political Taiwanization and Pragmatic Diplomacy in the Eras of Chiang Ching-Kuo and Lee Teng-hui, 1971-1994," pp. 436-480 in Murray A. Rubinstein, Ed., *Taiwan: A New History* (Armonk, NY: M.E. Sharpe, 1999).

"creeping officiality" into Taiwan Independence. Indeed, China went ballistic (almost literally) during 1995-96 with a series of war games and missile tests close to Taiwan that were clearly aimed at intimidating voters in the December legislative and March presidential elections. The United States responded with very clear military deterrence aimed at the PRC by, for example, sending aircraft carrier groups through the Taiwan Strait.⁵

The confrontation quickly de-escalated after Lee handily won re-election, but as shown in Figure 1 this set off a series of crises that erupted, on average, every two years, with Beijing and Taipei alternating in the initiation of the confrontation. For example, Lee Teng-hui enraged China and flustered the United States in 1999 by proclaiming that Taipei and Beijing were linked by "special state-to-state relations;" and China retaliated by attempting to intimidate Taiwanese voters in the 2000 presidential election and by ignoring the conciliatory policies of the new President Chen Shui-bian of the Democratic Progressive Party after the election. President Chen, for his part, set off another round of hostility when he proclaimed that there is "one country on each side of the Taiwan Strait" in July 2002. Subsequently, Chen's appeals to Taiwanese nationalism alternated with Chinese reactions such as its 2005

⁵Suisheng Zhao, Ed., *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis* (New York: Routledge, 1999).

Anti-Secession Law; and Chen retaliated with a series of nationalistic policy changes in early 2006.⁶

Figure 1 about here

Jiang Zemin, China's leader in 1995, was under pressure from the military, hardliners in the political leadership, and a growing popular nationalism to "get tough" with Taiwan. Initially, at least, China claimed to be quite happy with the outcome and with stopping a perceived movement toward Taiwan Independence. A longer-term perspective makes this conclusion quite questionable, however. In the tit-for-tat sequence outlined in Figure 1, Taiwan's leaders regularly took far stronger stances in support of Taiwanese sovereignty after the 1995-96 Crisis; and the suspicion of the PRC that grew cumulatively among Taiwanese has made political concessions by the ROC increasingly more difficult. Thus, paradoxically, the PRC's greater aggressiveness, if anything, has undermined its ability to pursue Unification with Taiwan.

⁶ Richard C. Bush, *At Cross Purposes: U.S.-Taiwan Relations Since 1942* (Armonk, NY: M.E. Sharpe, 2004); Edward Friedman, Ed., *China's Rise, Taiwan's Dilemmas and International Peace* (New York: Routledge, 2005); Jing Huang with Xiaoting Li, *Inseparable Separation: The Making of China's Taiwan Policy* (Singapore: World Scientific Publishing, 2010); Nancy Bernkopf Tucker, *Strait Talk: United States-Taiwan Relations and the Crisis Within China* (Cambridge: Harvard University Press, 2009).

Paradox 2: Polarization Despite Seemingly Mitigating Factors

Chen Shui-bian's election as President was followed by a growing bitter polarization between the DPP and KMT on the interlinked issues of national identity and cross-Strait relations. Two distinct types of issues were involved in this polarization. The first was an ongoing struggle over the "localization" or *Bentuhua* of the country's politics and especially culture which was consistently pushed by the Chen administration. The second involved cross-Strait relations with the People's Republic of China and was more episodic; and here Chen Shui-bian's policies were far from consistent over time.

Domestically, Chen displayed a strong commitment to pursuing *Bentuhua* to create a "Taiwan-centric paradigm" for the nation.⁷ This, in turn, stimulated substantial opposition and pushback from the old guard KMT. Wei-chin Lee, for example, argues that Chen promoted a Cultural Reconstruction Movement that included such initiatives as changing the name of many agencies and organizations to stress "Taiwan," promoting Islander dialects in language policy, revising the official policy toward the mass media to reverse the previous KMT

⁷John Makeham and A-chin Hsiau, Eds., *Cultural, Ethnic, and Political Nationalism in Contemporary Taiwan: Bentuhua*. (New York: Palgrave Macmillan, 2005).

domination of outlets (including the encouragement of underground radio stations), and changing the focus from Chinese to Taiwanese history in education policy.⁸ Thus, Daniel Lynch concluded that Chen and his "Green" bloc (named for the primary color of the DPP flag) were trying to create a new nation rooted in Taiwanese history and culture.⁹

Relations with China were much more volatile, despite Chen Shui-bian's image as a zealot in promoting the declaration of *de jure* Taiwan Independence. Chen's pushing the envelope on the Independence issue commenced in the summer of 2002 when he proclaimed the theory that "one country on each side of the Taiwan Strait" existed, provoking significant unhappiness in both Beijing and Washington. After that, he periodically set off contretemps with Beijing and Washington until he left office in 2008, as he challenged China's "red lines" on Taiwan Independence by, for example, proposing or holding referenda on issues that might affect Taiwan's international status and by advocating fundamental change to the country's Constitution. Yet, there were also signs of pragmatism in Chen's policies toward cross-Strait relations. He was fairly conciliatory

⁸Wei-chin Lee, "Taiwan's Cultural Reconstruction Movement: Identity Politics and Collective Action since 2000," *Issues & Studies* Vol. 41 (January 2005) pp. 1-51.

⁹Daniel C. Lynch, "Taiwan's Self-Conscious Nation-Building Project," *Asian Survey* Vol. 44 (July/August 2004) pp. 513-533.

toward an unresponsive PRC for his first two years in office and negotiated a "Ten Point Consensus" with the widely perceived pro-China James Soong in early 2005. More broadly, he followed a pattern of being aggressive toward China during electoral campaigns to appeal to the "deep Green" Taiwanese nationalists and then sounding much more conciliatory after the election was over. Indeed, he only became stridently pro-Independence consistently in 2006 when burgeoning scandals deprived him of support from almost everybody except the deep Greens.¹⁰

For their part, the KMT and its "Blue" coalition (named for one of the colors in the KMT flag) returned to a much more "China-centric" stance after Lee Teng-hui left the party following its defeat in the 2000 presidential election. According to the model developed by Yu-shan Wu, this represented a direct response to their electoral situation. During elections, Wu argues that the KMT acts like a catch-all party and appeals to moderate voters with centrist policies. Between elections when the party is out of power (as it was from 2000 to 2008), in contrast, it focuses its appeals on keeping the support of the pro-China "deep Blues," while acting in a more pragmatic or "realist" manner when it controls the government.¹¹

¹⁰ Cal Clark and Alexander C. Tan, *Taiwan's Political Economy: Meeting Challenges, Pursuing Progress* (Boulder, CO: Lynne Rienner, 2011) Chapter 6.

¹¹ Wu, "Strategic Triangle, Change of Guard, and Ma's New Course."

By the middle of the first decade in the 21st century, therefore, a harsh and viciously divisive debate over cross-Strait relations and national identity had come to dominate Taiwan's politics. The Greens argued that they must "stand up for Taiwan" and accused the Blues of selling Taiwan out to China. In stark contrast, the Blues contended that the Greens were needlessly provocative and that a more accommodating policy could defuse the threat from China. Taken to the extreme (which they often were), these positions implied that one side was the savior and the other the destroyer of Taiwan and its statehood. Unfortunately, both critiques seem to have had some merit. President Chen's periodic appeals to his pro-Independence "base constituency" for primarily domestic purposes both infuriated China and at times strained relations with the United States, thereby threatening to undermine Taiwan's position in the Taipei-Beijing-Washington "triangle." Conversely, the Blue attempts to "do business" with Beijing undermined Chen's ability to deal with China; and there were even fairly credible rumors that Blue leaders had urged both the PRC and US to "get tough" with the Chen administration which in itself might have created a security threat to Taiwan.¹²

¹² Clark and Tan, *Taiwan's Political Economy*, Chapter 6; Dennis Van Vranken Hickey, "Complicating the Complicated: The Role of Societal Actors in Taiwan's External Relations," Paper presented at the Conference on Taiwan Issues, University of South Carolina, 2006; Shelley Rigger, "The Unfinished Business of Taiwan's Democratization," pp. 16-42 in Nancy Bernkopf Tucker,

This polarization is now so prevalent that many, if not most, observers consider it "natural." Yet, it can be considered surprising or paradoxical for two distinct, though interlinked reasons. First, although political science theory posits that the positions of political parties reflect the distribution of public opinion in democratic societies,¹³ this does not appear to be the case in Taiwan. For the last two decades, for example, public opinion surveys have asked whether people identify themselves as Chinese, Taiwanese, or a combination of both. Table 1 shows that national identity clearly possessed a normal distribution in 1992 as just over half the population (52%) expressed a dual identity, while Chinese identifiers slightly outnumbered Taiwanese ones (28% to 20%). This changed dramatically in just eight years. In 2000, about half the population (47%) still had dual identification, but Taiwanese identifiers outnumbered Chinese ones 39% to 14%; and the trend toward greater Taiwanese identification continued apace in the new century. By 2010, 55% of the population identified solely as Taiwanese versus a minuscule 3% Chinese identifies, with 42% dual identifies. Interpreting these data

Ed., *Dangerous Strait: The U.S.-China-Taiwan Crisis* (New York: Columbia University Press, 2005).

¹³Anthony Downs, *An Economic Theory of Democracy* (New York: HarperCollins, 1957); Giovanni Sartori, *Parties and Party Systems: A Framework for Analysis* (Cambridge: Cambridge University Press, 1976).

is at least a little ambiguous. On the one hand, the rapid growth to dominance of Taiwanese identifiers is consistent with growing polarization and the DPP's ability to create a new Taiwanese nation. On the other hand, the strong minority who continue to express a dual identification is inconsistent with the image of a new totally "Taiwanese" nation, as is the DPP's poor performance at the polls in the 2008 legislative and presidential elections.

Table 1 about here

There is no ambiguity, however, in public opinion about cross-Strait relations. This can also be seen in how the citizenry views the best option for Taiwan's international status: 1) Taiwan Independence, 2) the current *status quo* of an uncertain sovereignty, or 3) Unification with the PRC. Table 2 demonstrates that over the last two decades marked majorities of about 60% have supported the diplomatic *status quo*, ambiguous and even ridiculous as it may be. This distribution is not fully normal, though, because the two extremes are not balanced. In particular, between 1994 and 2010 the relative support for Independence and Unification flip-flopped from 14% - 25% to 24% - 12%. Overall, though, popular opinion is certainly dominated by the moderate middle, perhaps because both the extreme positions are viewed as extremely dangerous.

Table 2 about here

A second paradox is that the eruption of polarization over national identity at the beginning of the 21st century followed a de-escalation of conflict about the issue in the 1990s. Following the evacuation of the Chiang Kai-shek regime to Taiwan in 1949 at the end of the Chinese Civil War, the island has suffered from a clear ethnic cleavage between the Mainlanders who came with Chiang (a little under 15% of the population) and the long-time residents of Taiwan or Islanders who also were almost all ethnically Han Chinese. The Mainlanders dominated the government and imposed a harsh and repressive rule termed the "White Terror" until the country's democratic transition in the late 1980s and early 1990s.¹⁴

Consequently, it was widely expected that Taiwan's democratic transition in the late 1980s and early 1990s would unleash previously repressed ethnic tensions and frustration. Political forces soon began to push both parties away from these stark alternatives, as sketched in Figure 2. In the KMT, Islander Lee Teng-hui, who as Vice-President succeeded Chiang Kai-shek's son Chiang Ching-kuo as President after his death in 1988, responded to this opportunity with what appeared to be inspired statesmanship on the national identity question. As Lee consolidated his power, he managed to straddle the national

¹⁴ Makeham and Hsiau, *Bentuhua*; Douglas Mendel, *The Politics of Formosan Nationalism* (Berkeley: University of California Press, 1970).

identity issue quite astutely, implicitly portraying himself as a moderate between the pro-Independence DPP and the pro-Unification members of the KMT and (after 1993) the New Party who tended to be Mainlanders. While retaining a commitment to Unification with China in the indefinite future, he aggressively began to pursue the "pragmatic diplomacy" of trying to upgrade Taiwan's international status. Furthermore, the victory of Lee's "Mainstream" faction clearly promoted the "Taiwanization" of the party -- which made it hard to blame it for the repression of the "old" KMT.¹⁵

Figure 2 about here

For its part, the DPP began to moderate its position on Taiwan Independence in the early 1990s after the inclusion of a pro-Independence plank in the party charter cost it significantly at the polls in 1991. In particular, the Chinese military threats during the 1996 presidential elections and the woeful showing of the pro-Independence DPP candidate evidently convinced most of its leaders that Taiwan Independence was simply unfeasible. Consequently, the DPP began to downplay Independence without ever formally renouncing it. For example, some (but far from all) DPP leaders began to argue that Taiwan

¹⁵ LindaChao and Ramon H. Myers, *The First Chinese Democracy: Political Life in the Republic of China* (Baltimore: Johns Hopkins University Press, 1998); Steven J. Hood, *The Kuomintang and the Democratization of Taiwan* (Boulder, CO: Westview, 1997).

already was an independent country, so there was no need for a formal declaration of Independence.¹⁶ Similarly, the threat from China made advocating Unification politically untenable for the New Party and old guard KMT.

Taiwan's political dynamics in the late 1990s, therefore, suggested that partisan differences over national identity were narrowing and losing their intensity. The result on the right side of Figure was a series of events that would have been considered quite remarkable just a few years earlier. First, in terms of national identity, Lee Teng-hui's concept of a "New Taiwanese" identity that was open to both Islanders and Mainlanders proved to be very popular. Second, the National Development Conference of 1996 produced a consensus among the DPP, KMT, and New Party on the previously highly contentious issue of cross-Strait relations. Finally, this growing moderation on national identity and cross-Strait relations carried over into the extremely competitive presidential campaign of 2000. Although the three major candidates certainly criticized each other (and especially caricatures of each other), they all really advocated the moderate position of

¹⁶ Shelley Rigger, *From Opposition to Power: Taiwan's Democratic Progressive Party* (Boulder, CO: Lynne Rienner, 2001); T.Y. Wang, "One China, One Taiwan: An Analysis of the Democratic Progressive Party's China Policy," pp. 159-182 in Wei-chin Lee, Ed., *Taiwan in Perspective* (Leiden: Brill, 2000).

toning down hostilities with Beijing, while strongly protecting Taiwan's sovereignty.¹⁷

Paradox 3: Trade Statistics and the DPP's Charge that Ma is Selling Out Taiwan

By the end of his second term, President Chen Shui-bian had become highly unpopular for a combination of reasons: fears that he had unduly provoked the PRC, growing economic problems in Taiwan, and burgeoning political scandals. Thus, it was not surprising that the KMT candidate, Ma Ying-jeou, won the 2008 presidential election easily with 58% of the vote. Ma proposed a *rapprochement* with China and, in particular, argued that expanding economic relations with the PRC was vital for Taiwan's economic recovery. To allay fears that he might be perceived as "selling out" Taiwan, he also advocated a set of "Three Nos" that pledged commitment to the *status quo* in cross-Strait relations: No Unification, No Independence, and No use of force.¹⁸

¹⁷Clark and Tan, *Taiwan's Political Economy*, Chapter 3; Dafydd Fell, *Party Politics in Taiwan: Party Change and the Democratic Evolution of Taiwan, 1991-2004* (London: Routledge, 2005).

¹⁸John F. Copper, *Taiwan's 2008 Presidential and Vice Presidential Election: Maturing Democracy* (Baltimore: University of Maryland Series in Contemporary Asian Studies, 2008).

Still, Ma's Mainlander status made many Greens quite suspicious of his intentions. Thus, his promotion of cross-Strait economic ties, in particular the agreement on the "Three Direct Links" in November 2008 and the much broader free trade agreement or Economic Cooperation Framework Agreement (ECFA) in June 2010, prompted massive popular demonstrations and, in the case of ECFA, a major brawl in the Legislative Yuan.¹⁹ Critics felt that Ma was putting Taiwan's sovereignty and dignity at risk by giving the PRC substantial economic leverage over it and was leading the country to economic decline because the growing economic integration with China was undercutting the viability of important Taiwanese industries and tended to benefit a fairly narrow business and professional elite.²⁰

One would expect, therefore, that Ma's economic deals with China would have set off a huge surge in trade and investment across the Taiwan Strait that would present a stark contrast to what happened under his predecessor, Chen Shui-bian, who "stood up" for Taiwan and had fairly frosty relations with Beijing. The

¹⁹Thomas B. Gold, "Taiwan in 2008: My Kingdom for a Horse," *Asian Survey* Vol. 49 (January-February 2009), pp. 88-97; Hung-Mao Tien and Chen-Yuan Tung, "Taiwan in 2010: Mapping for a New Political Landscape and Economic Outlook," *Asian Survey* Vol. 51 (January-February 2011) pp. 76-84.

²⁰Thomas B. Gold, "Taiwan in 2009: Eroding Landslide," *Asian Survey* Vol. 50 (January-February 2010), pp. 65-75; Chung-Hsin Hsu, "ECFA: The Emerging Crisis Facing Taiwan," pp. 240-254 in Cal Clark, Ed., *The Changing Dynamics of Relations Among China, Taiwan, and the United States* (Newcastle upon Tyne, UK: Cambridge Scholars Publishing, 2011).

data on trade and investment flows between Taiwan and China present a much different picture, however. In general and quite surprisingly perhaps, they rapidly expanded during most of Chen's administration and have remained fairly stable during the first three years of Ma's presidency.

A surge in economic interactions across the Strait commenced in the early 1990s due to the confluence of the political relaxation at that time between Taipei and Beijing noted in the first section and the complementary economic change that was occurring in the two countries (i.e., China was developing the very industries that were leaving Taiwan). Furthermore, the two sides went well beyond simple trade or the exchange of goods and services. Rather, Taiwan's businesses set up integrated production networks across the Strait in which different stages (e.g., design and the manufacture of advanced components in Taiwan and final assembly in China) were conducted in the ROC and PRC,²¹ creating what Gary Gereffi has called "commodity chains."²²

²¹ Barry Naughton, Ed., *The China Circle: Economics and Electronics in the PRC, Taiwan, and Hong Kong* (Washington, DC: Brookings, 1997); Yu-Shan Wu, "Economic Reform, Cross-Straits Relations, and the Politics of Issue Linkage," pp. 111-133 in T.J. Cheng, Chi Huang, and Samuel S.G. Wu, Eds., *Inherited Rivalry: Conflict Across the Taiwan Straits* (Boulder, CO: Lynne Rienner, 1995).

²² Gary Gereffi, "More Than the Market, More Than the State: Global Commodity Chains and Industrial Upgrading in East Asia," pp. 38-59 in Steve Chan, Cal Clark, and Danny Lam, Eds., *Beyond the Developmental State: East Asia's Political Economies Reconsidered* (New York: MacMillan, 1998).

Because of the large amounts of goods sent from Taiwan to China for final processing, exports are a key indicator of how cross-Strait economic integration is proceeding. Table 3 shows that exports from Taiwan to China jumped sharply during the first half of the 1990s and then stabilized during the second half of the decade. A new surge began in 2001, Chen's second year in office. Overall, the share of Taiwan's exports going to China rose by three-quarters from 17% in 1999 (the year before Chen took office) to 30% in 2007 (his last full year in office). For Ma's first three years in office through the first quarter of 2011, in contrast, this level remained almost constant at about 30%. The corresponding data on imports in Table 4 show a fairly similar pattern. Goods from China jumped dramatically from 4% to 13% of Taiwan's import mix between 1999 and 2007 but then only increased to 14%-15% in 2010-11.

Tables 3 & 4 about here

Critics of the ROC's close economic relations with the PRC raise several major concerns. Taiwan's businesses will become dependent on the Mainland, making them vulnerable to economic pressure; import surges from China will destroy important economic sectors in Taiwan; Taiwan's economy will "hollow out" as even its most advanced industries migrate across the Strait; and the country will lose its sovereignty as China gains

leverage.²³ The trade data in Tables 3 and 4 are not necessarily inconsistent (or consistent, for that matter) with these arguments. What is totally inconsistent with the data, though, is the image that the KMT promotes and the DPP retards these economic trends. The data on investment in Table 5, in contrast, are more consistent with the fears that Taiwan's advanced industries are leaving since both total investment and the average size of the projects jumped by 40% to 60% between 2007 and 2010 here. Both of these substantial increases, though, were continuations of trends under the Chen administration. Overall, therefore, this discussion suggests two conclusions. First, cross-Strait trade and investment appears to respond primarily to economic, not political, factors;²⁴ and, second, political rhetoric on the issue departs substantially from recent economic history.

Table 5 about here

²³Peter C.Y. Chow, "The Emerging Trade Bloc Across the Taiwan Strait: The Implications of ECFA and Its Aftermath for U.S. Economic and Strategic Interests in East Asia," pp. 255-276 in Cal Clark, Ed., *The Changing Dynamics of Relations Among China, Taiwan, and the United States* (Newcastle upon Tyne, UK: Cambridge Scholars Publishing, 2011).

²⁴Steve Chan, "The Political Economy of *Détente*: Taiwan's Economic Integration with China," pp. 68-87 in Seyom Brown, Cal Clark, Hiroki Takeuchi, and Alexander Tan, Eds., *Taiwan at a Turning Point* (Baltimore: Maryland Series in Contemporary Asian Studies, School of Law, University of Maryland, 2009); Clark and Tan, *Taiwan's Political Economy*, Chapter 4.

**Paradox 4:
The Ma *Rapprochement*: Current Stability
Masking the Threat of Future Instability?**

Ma Ying-jeou immediately implemented a much more conciliatory policy toward China in order to reduce the Chinese threat in general and to promote Taiwan's economic recovery in particular. Hu Jintao responded quite favorably continuing a policy that placed its central emphasis on deterring Taiwan Independence rather than pushing for immediate Unification.²⁵ The result was a rapid de-escalation of tensions in the Strait that evidently pleased Washington as well as Beijing and Taipei.²⁶

In the period since Ma came to office in Taiwan, the Hu administration's cross-Strait policy has included: a *de facto* diplomatic truce ...; acceptance of a modest expansion of international space for Taiwan (including, most notably, "Chinese Taipei's" participation as an observer at the World Health Assembly meetings beginning in 2009); and ECFA and other cross-Strait economic arrangements that have been, in narrow economic terms at

²⁵Huang with Li, *Inseparable Separation*.

²⁶Shelley Rigger, "Accentuating the Positive and Eliminating the Negative in Taipei, Washington, and Beijing," *Foreign Policy Research Institutes Notes*, February 2011, www.fpri.org.

least, fairly generous to Taiwan. Such measures have seemingly helped to calm the fear or sense of desperation in some quarters in Taiwan that had generated support for Chen Shui-bian's more confrontational and risky policies. And they helped to flesh out a scenario in which stability and ongoing improvements in cross-Strait relations offer a significant upside for Taiwan.²⁷

The long-term stability of this *rapprochement* can certainly be questioned, however. The Beijing's and Taipei's views about Taiwan's sovereignty remain totally incompatible. In particular, while the PRC has seemingly deferred demands for Unification, it has not exhibited any willingness to compromise its long-term principles and objectives regarding Unification. Consequently, the potential for the eruption a more conflictual relationship in the near future remains significant.²⁸ More ominously perhaps, fears of and proposals for a decrease in America's security commitment to Taiwan are now appearing, based on some combination of China's increasing economic and military leverage, the U.S.'s entanglements elsewhere in the world, ill

²⁷Jacques de Lisle, "Strait Ahead? China's Fifth Generation Leaders and Beijing's Taiwan Policy," *Foreign Policy Research Institutes Notes*, July 2011, www.fpri.org.

²⁸ Elizabeth Hague, "China Debates the Way Forward for Cross-Strait Relations," pp. 155-174 in Cal Clark, Ed., *The Changing Dynamics of Relations Among China, Taiwan, and the United States* (Newcastle upon Tyne, UK: Cambridge Scholars Publishing, 2011); Huang with Li, *Inseparable Separation*.

will toward Taiwan left over from the Chen administration, the State Department's long-standing tilt toward Beijing, and fears that Taipei will embrace China.²⁹

This creates the paradox that the current stability in cross-Strait relations may well be a harbinger of future tensions and instability. Indeed, the very success of economic negotiations over the past few years, regardless of their ultimate effects on Taiwan's economy, may be destabilizing because they create pressure and momentum to move on to political issues where the positions of the two sides remain irreconcilable. This also produces a paradox in the domestic debate in Taiwan over cross-Strait relations. Clearly, Ma has been quite reluctant to engage the PRC on political questions. This strongly suggests that he agrees with his DPP critics about China's ultimate intentions about Taiwan and the dangers that they create for his country. Conversely, Ma's actions (or in this case inactions) cast some doubt about the DPP charges that the KMT is destroying Taiwan's sovereignty.

²⁹John Copper, "Could US Policy Abandon Taiwan?" *Taipei Times*, May 11, 2011; Charles Glaser, "Will China's Rise Lead to War?" *Foreign Affairs* Vol. 90 (March/April 2011) pp. 80-91.

Figure 1

CHALLENGE AND COUNTER-CHALLENGE ACROSS THE TAIWAN STRAIT

Date	Event
1995-96	China's "missile diplomacy" in response to Taiwan President Lee Teng-hui's visit to Cornell University
1999	Lee Teng-hui's concept of "special state-to-state relations"
2000	Chinese Premier Zhu Rongji threatens Taiwan voters against electing a pro-Independence candidate; after election PRC demands Taiwan accept "one China" principle
2002	President Chen Shui-bian of Taiwan warns that Taiwan "will go its own way" and states that there is "one country on each side of the Strait"
2003-04	Chen Shui-bian's presidential campaign appeals strongly to Taiwanese nationalism: holding a referendum, plan for a new Constitution, and February 28 th hand-in-hand rally
2005	PRC's Anti-Secession Law
2006	Chen Shui-bian orders the National Unification Council and the <i>National Unification Guidelines</i> to "cease to function"

Table 1

ETHNIC IDENTIFICATION OF TAIWAN'S CITIZENS

	Taiwanese	Both	Chinese
1992	20%	52%	28%
1996	24%	56%	20%
2000	39%	47%	14%
2004	43%	51%	6%
2008	51%	45%	4%
2010	55%	42%	3%

Source:

Election Study Center, National Cheng Chi University, Mucha, Taiwan. Results from Election Surveys. 1992, 1996, 2000, 2004, 2008, 2010.

Table 2**PREFERENCE FOR TAIWAN'S INTERNATIONAL STATUS**

	Independence	<i>Status Quo</i>	Unification
1994	14%	61%	25%
1996	17%	56%	27%
2000	18%	59%	23%
2004	24%	61%	15%
2008	26%	63%	11%
2010	24%	64%	12%

Source:

Election Study Center, National Cheng Chi University, Mucha, Taiwan. Results from Election Surveys. 1992, 1996, 2000, 2004, 2008, 2010.

Figure 3.8

How Democratization Moderated the National Identity and Cross-Strait Relations Issues

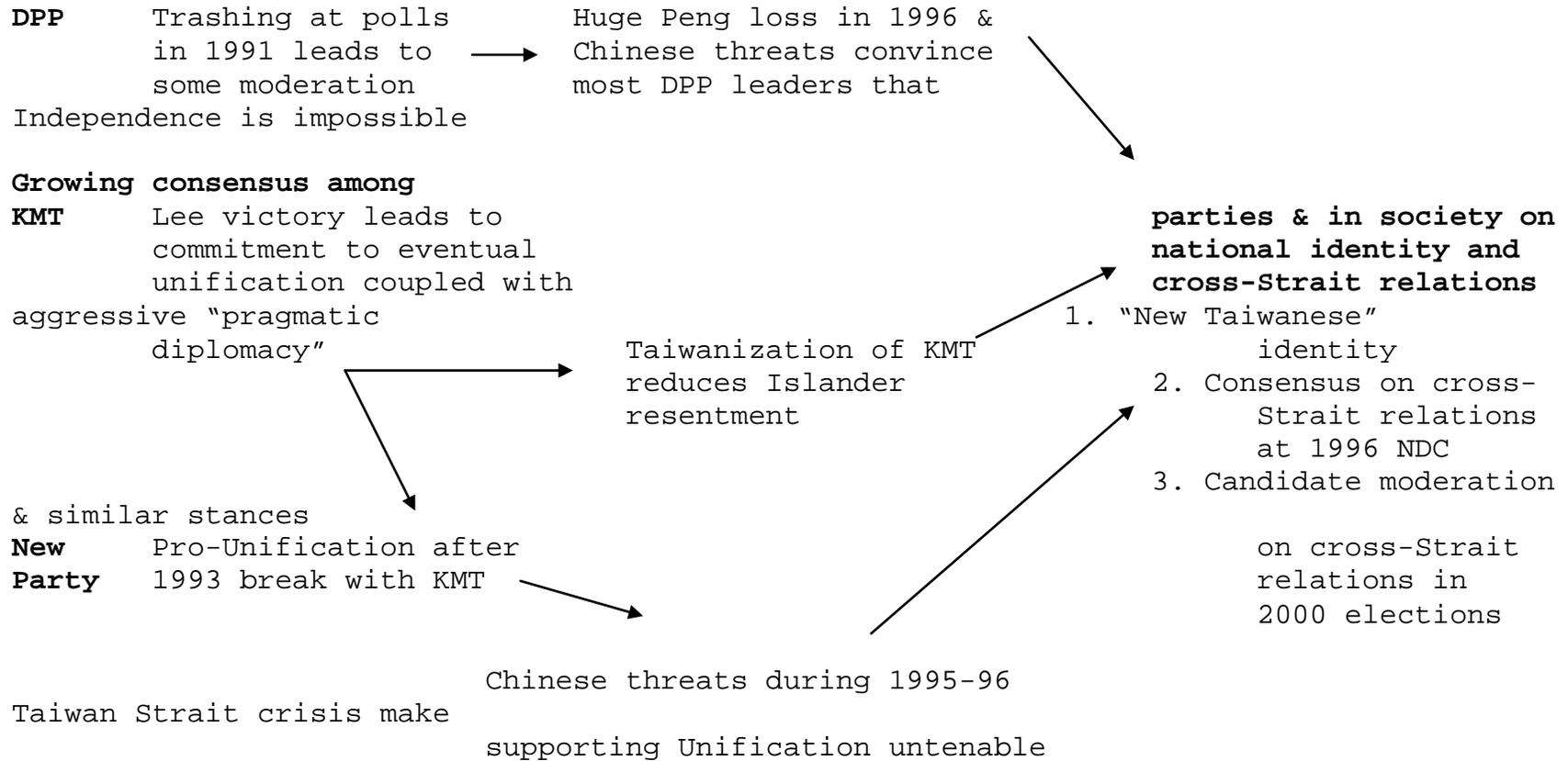


Table 3

TAIWAN'S EXPORTS TO CHINA
(estimated by the Mainland Affairs Council, ROC)

	VALUE OF EXPORTS (\$US bil)	PERCENT OF TAIWAN'S TOTAL EXPORTS
1984	--	1%
1985	--	3%
1986	--	2%
1987	--	2%
1988	--	4%
1989	--	5%
1990	\$4.4	7%
1991	\$7.5	10%
1992	\$10.5	13%
1993	\$14.0	16%
1994	\$16.0	17%
1995	\$19.4	17%
1996	\$20.7	18%
1997	\$22.5	18%
1998	\$19.8	18%
1999	\$21.3	17%
2000	\$25.0	16%
2001	\$25.6	20%
2002	\$31.5	23%
2003	\$38.3	25%
2004	\$48.9	27%
2005	\$56.3	28%
2006	\$63.3	28%
2007	\$74.2	30%
2008	\$74.0	29%
2009	\$62.1	30%
2010	\$84.8	31%
2011*	\$21.9	30%

*January through March only.

SOURCE:

Cross-Strait Economic Statistics Monthly, Number 220. Taipei:
 Mainland Affairs Council, www.mac.gov.tw, 2011, pp. 24&26.

Table 4

TAIWAN'S IMPORTS FROM CHINA
(estimated by the Mainland Affairs Council, ROC)

	VALUE OF IMPORTS (\$US bil)	PERCENT OF TAIWAN'S TOTAL IMPORTS
1985	--	1%
1986	--	1%
1987	--	1%
1988	--	1%
1989	--	1%
1990	\$0.71%	
1991	\$0.3 1%	
1992	\$0.71%	
1993	\$1.0	1%
1994	\$1.9 2%	
1995	\$3.13%	
1996	\$3.13%	
1997	\$3.93%	
1998	\$4.14%	
1999	\$4.54%	
2000	\$6.24%	
2001	\$5.95%	
2002	\$8.07%	
2003	\$11.09%	
2004	\$16.810%	
2005	\$20.111%	
2006	\$24.712%	
2007	\$28.013%	
2008	\$31.413%	
2009	\$24.414%	
2010	\$36.0	14%
2011*	\$10.315%	

*January through March only.

SOURCE:

Cross-Strait Economic Statistics Monthly, Number 220. Taipei:
 Mainland Affairs Council, www.mac.gov.tw, 2011, pp. 24 &26.

Table 5

TAIWAN INVESTMENT IN CHINA APPROVED BY MOEA
(approved by the Ministry of Economic Affairs, ROC)

	TOTAL AMOUNT (in billion US\$)	AVERAGE INVESTMENT (in million US\$)
1991	\$0.2	\$0.73
1992	\$0.2	\$0.94
1993*	\$1.1	\$0.90
1994	\$1.0	\$1.03
1995	\$1.1	\$2.23
1996	\$1.2	\$3.21
1997*	\$4.3	\$0.50
1998*	\$2.0	\$1.58
1999	\$1.3	\$2.57
2000	\$2.6	\$3.10
2001	\$2.8	\$2.35
2002*	\$6.7	\$2.16
2003*	\$7.7	\$1.99
2004	\$6.9	\$3.46
2005	\$6.0	\$4.63
2006	\$7.6	\$7.01
2007	\$10.0	\$10.01
2008	\$10.7	\$16.63
2009	\$7.1	\$12.11
2010	\$14.6	\$15.99
2011	\$3.9	\$17.43

*Includes some projects from previous years that were registered in that year.

**January through March only.

SOURCES:

Cross-Strait Economic Statistics Monthly, Number 220. Taipei: Mainland Affairs Council, www.mac.gov.tw, 2011, p. 28.

Cross-Strait Economic Statistics Monthly, Number 141. Taipei: Mainland Affairs Council, www.mac.gov.tw, 2004, p. 26.