

# GOVT IV Honours

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Taiwan's Changing Economic Policymaking towards China:  
From Nationalism to Liberalism?

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by

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## **Declaration**

This work is sustainably my own, and where any part of this work is not my own, I have indicated this by acknowledging the source of that part or those parts of the work.

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## **Abstract**

The central question this thesis seeks to answer is: why has there been a change in Taiwan's economic policymaking towards China since the 1990s. The study looks at this changing relationship through the lenses of two International Political Economy theories, economic nationalism vis-à-vis economic liberalism. By examining three distinctive Taiwanese administrations: Lee Teng-hui (1990-1999), Chen Shui-bian (2000-2007) and Ma Ying-jeou (2008-Present), this study explores the motivations underpinning Taiwan's different economic policy choices. To illustrate, the study considers internal factors, Taiwan's domestic politics and the role of its business society, and external factors, China's rise in economic, diplomatic and military aspects and an important regional/global event. This thesis finds that it is the nationalist goal of protecting Taiwan's security and maintaining its 'sovereignty' that has motivated its cross-Strait economic policies, and in the case of Taiwan, this nationalist purpose is dependent upon the assessment of China's expanding strength. These findings are important because, as the thesis suggests, there is a potential framework to understand the way in which small states embrace policy choices reflecting their regional realities with large powerful states.

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# List of Abbreviations

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<b>AFS</b>	Asian Financial Crisis
<b>ARATS</b>	Association of Relationship Across the Taiwan Straits
<b>ARF</b>	Association of Southeast Asian Nations Regional Forum
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASEM</b>	Asia-Europe Meeting
<b>CCP</b>	China's Communist Party
<b>CEPD</b>	Council for Economic Planning and Development
<b>DPP</b>	Democratic Progressive Party
<b>DS</b>	Developmental State
<b>ECFA</b>	Economic Cooperation Framework Agreement
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GFC</b>	Global Financial Crisis
<b>GNP</b>	Gross National Product
<b>IDB</b>	Industrial Development Bureau of the Ministry of Economic Affairs
<b>IPE</b>	International Political Economy
<b>KMT</b>	Kuomintang
<b>MAC</b>	Mainland Affairs Council
<b>MITI</b>	Ministry of International Trade and Investment
<b>MoEA</b>	Ministry of Economic Affairs
<b>NRC</b>	National Reunification Council
<b>NRG</b>	National Reunification Guidelines
<b>NYT</b>	New York Times
<b>PFP</b>	People's First Party
<b>PLA</b>	People's Liberation Army
<b>PRC</b>	People's Republic of China
<b>ROC</b>	Republic of China
<b>SEF</b>	Straits Exchange Foundation
<b>UN</b>	United Nations
<b>U.S.</b>	United States (of America)
<b>WHA</b>	World Health Assembly
<b>WHO</b>	World Health Organisation
<b>WTO</b>	World Trade Organisation

Note: All figures are quoted in US Dollars (\$USD).

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## **Chapter One- Introduction**

### **The Puzzle of Taiwan's Changing Economic Policy towards Mainland China**

Relations between the Republic of China on Taiwan (ROC) and the People's Republic of China (PRC)<sup>1</sup> have long been a contested issue in political science. Since the end of Chinese civil war in 1949, the focus of Taiwan-China relationship has centred on the conventional security issue. Only in recent years when an economically strong China astonished the world, the role of economics and commerce has emerged to be the new emphasis on relations across the Strait.

This thesis focuses on Taiwan's changing economic policymaking towards China since the 1990s, and seeks to find out why there has been such a variation in Taiwan's cross-Strait policies. Through the lenses of two International Political Economy theories, economic nationalism and economic liberalism, this study examines Taiwan's different cross-Strait policy choices and explains the rationale behind these policies under three distinctive Taiwanese administrations: Lee Teng-hui (1990-1999), Chen Shui-bian

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<sup>1</sup> For convenience, I refer to Taiwan as either Taiwan or its official name, the Republic of China (ROC) in the study. In the same logic, China is regarded either as China, the Mainland, or the People's Republic of China (PRC). When I refer to both parties, I may use "nations" or "countries", though Taiwan is not identified as such entity by the PRC. The government and people in Taiwan are referred to as Taiwanese, and where necessary a distinction is made between "native Taiwanese" and "mainlanders" who retreated to the island from the Mainland in 1949 with the KMT.

(2000-2007) and Ma Ying-jeou (2008-Present). To demonstrate, I will examine both factors within Taiwan and factors outside Taiwan. The rest of Chapter One provides a historical background to understand Taiwan's economy and its economic relation with China, followed by presenting the central puzzle of the thesis. It then offers some explanations in the literature and introduces my core argument and methodology used. It concludes with the structure of the entire thesis.

## **HISTORICAL BACKGROUND OF TAIWAN'S ECONOMY AND ITS CROSS-STRAIT ECONOMIC POLICY**

The Kuomintang (KMT or Nationalist Party) led by Chiang Kai-shek retreated to Taiwan after its defeat by the Chinese Communist Party (CCP) in 1949. After Chiang Kai-shek's death, his son Chiang Ching-kuo took over the control and fully concentrated on building on Taiwan's economy. In three decades since the 1960s, Taiwan achieved an economic breakthrough. Along with Hong Kong, Singapore and South Korea, Taiwan has been known as one of Asia's "four little dragons"<sup>2</sup>. Classified as a developmental state, the state of Taiwan guided the market and prioritised the use of resources for key industries. With the guidance of its economic bureaucracies, its well-educated technocrats and an export-oriented economic policy, Taiwan was able to complete the industrial transformation in three decades that took Western nations a century (Vogel, 1991: 38). After its industrial advancement, Taiwan also loosened its tight political control and

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<sup>2</sup> Some scholars also refer them to "four little tigers", but in this thesis I follow Ezra Vogel's term of "four little dragons". See: E. F. Vogel 1991, *The Four Little Dragons: The Spread of Industrialisation in East Asia*, Harvard University Press: Cambridge.

responded to calls for democracy. In 1986, the Democratic Progressive Party (DPP) became the first opposition party officially recognised in Taiwan, and in 1987, martial law was lifted (Cheng and Lin, 1999: 236). The experience of the first direct Presidential election and the first cycle of party change in the 2000 Presidential election also furthered Taiwan's democratisation.

While Taiwan achieved an industrial breakthrough, China also experienced its rapid economic development. Since the late 1970s, China has moved from a closed, centrally planned system to a more market-oriented one that has played a major global role (CIA, 2012). The adoption of economic reform and 'open-door policy' in 1978 under Deng Xiaoping's leadership marked the beginning of China's economic miracle. In ten years between 1985 and 1995, China has experienced an outstanding double-digit economic growth rate of 11.5% on average (World Bank, 2012b). In 2010, China not only became the biggest exporter in the world, but surpassed Japan to be the second largest Gross Domestic Product (GDP) just after the United States (World Bank, 2012b)

When Chiang Kai-shek was the President of Taiwan, contacts over the Strait were minimal. After his son Chiang Ching-kuo took over the Presidency, Taiwanese firms were officially prohibited from directly trading with or investing in the PRC as a result of his "three no's policy"<sup>3</sup> in 1979 (Tanner, 2006: 38). However, when China started to develop its economy in the 1980s, the Taiwanese government saw new incentives and

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<sup>3</sup> "Three Nos policy" refers to "no contact, no negotiation and no compromise".

opportunities across the Strait. Three years before Chiang's death, in 1985, indirect trade via Hong Kong and small-scale investment was allowed. Two years later, the travel restrictions were also eased (Tanner, 2006: 39).

Since the 1990s, Taiwan's economic policymaking towards China has changed over three Taiwanese administrations. The Lee Teng-hui administration adopted a range of restrictive cross-Strait economic policies. Both of his "Go South" policy in 1993, which aimed at diverting business opportunities from China towards Southeast Asia, along with his well-known "No Haste, Be Patient" policy in 1996, attempted to restrict trade with and investments in Mainland (Leng, 2002: 262). After ten years of Lee's era, Chen Shui-bian from the DPP took over the Presidency. Although his "Active Opening, Effective Management" policy appeared to show a sign of liberalising cross-Strait commercial ties at first, Chen's government soon reverted the policies to protectionism (Kastner, 2006: 260). Not until Ma Ying-jeou gained power in 2008 did Taiwan's conservative economic stance towards China come to an end. In the years following his election, trade and investment between two sides have grown at an unprecedented rate thanks to the signing of Economic Cooperation Framework Agreement (ECFA) (MAC, 2012a).

So what we witness here is that Taiwan's cross-Strait economic policymaking varied from strong protectionism in Lee's administration, to Chen's initial liberal position but soon reverted back to restrictive measures, and then to a greater openness under the Ma government. Therefore, Taiwan's changing economic relationship with the Mainland

suggests an interesting puzzle to be explained.

## **PRESENTING THE PUZZLE**

The question of Taiwan's changing cross-Strait economic policymaking is of great importance to scholars and policymakers in Taiwan and China because not only the relationship between has the two been largely economic-dominated, thus contributing to the understanding of an overall cross-Taiwan Strait relationship, but we can also explore what Taiwan has seen as its national interests, whether in more national terms or liberal terms. The central puzzle of the thesis is: why has there been a change in Taiwan's cross-Strait economic policymaking in three distinctive administrations since the 1990s? Why was Taiwan's economic relation towards China restrictive under the administrations of Lee and Chen, but officially liberalised in Ma's government? What were their motivations underpinning their policy choices? What accounts for Taiwan's changing cross-Strait economic policy in the past two decades? Is it because of the internal factors or external factors? The next section presents some available answers in the literature.

## **AVAILABLE ANSWERS**

The literature on Taiwan-China relationship is abundant. Although a large body of coverage centres on military confrontation across the Strait, recently more literature has focused on the bilateral economic relations. There are three different levels of explanations: the state-, the societal- and the external environmental-level.

For the first level, there are two explanations that merit attention. First, several scholars (Fuller, 2008; Lai, 2011; Yu, 1999) have viewed the variation of Taiwan's national priority goals as triggers of its different economic relations with China over time. Secondly, other scholars (Chen, 2011; Wu, 2005) attributed this changing relation to the fluctuations within the stances in Taiwan's political parties. With regards to the civil society-level explanations, the arguments can be arranged into two groups. The first one is the role of Taiwanese business people (taishang) in the process of promoting closer economic ties across the Strait. The second is the emphasis on public opinion which has influenced the decision making of cross-Strait economic ties in Taiwan.

The third level of explanation also highlights two important points of view. Many scholars (Keng and Schubert, 2010; Wu, 2005; Yu, 1999) highlighted the role of China's adjustment in its Taiwan policy from the Jiang Zemin administration to the Hu Jintao era. Other scholars (Wang, 2010) claimed a changing global and regional economic environment that has changed Taiwan's economic stance towards the Mainland. Apart from these preliminary suggestions the literature presents, this thesis seeks to examine Taiwan's changing cross-Strait economic policymaking in a consistent period of time by looking at three distinctive Taiwanese administrations since the 1990s. It intends to demonstrate the motivations underpinning different administration's policy choices by using mainly qualitative methodologies which were lacked in the literature.

## **ARGUMENT AND METHODOLOGY IN BRIEF**

The central argument of this thesis is that the external factor, China's rise in economic, diplomatic and military terms, accounts for Taiwan's changing cross-Strait economic policymaking in the last twenty years. In the eras of Lee Teng-hui and Chen Shui-bian from 1990 to 2007, it is in the national interests of Taiwan to restrict cross-Strait economic exchanges whereas since Ma Ying-jeou's administration came to power in 2008, it seems more in the national interests to engage in more free trade with the Mainland. My analysis demonstrates that based on the assessment of China's power, different cross-Strait policies employed by different Taiwanese administrations actually serve the same nationalist purpose, which is to protect Taiwan's security and maintain its 'sovereignty'<sup>4</sup>.

This study is primarily based on a comparative analysis of Taiwan's cross-Strait economic policies under three different Taiwanese administrations in the past two decades. To illustrate, the study specifically uses two International Political Economy (IPE) theories, economic nationalism and economic liberalism, as the theoretical accounts. The rationale behind the selection of these two theories is because the relationship between Taiwan and China is unique in the sense that the bilateral relationship is not a diplomatic level relation, but primarily an economic and commercial one. Therefore, these two competing economic theories provide a theoretical framework that fits the uniqueness of this case study. In order to illustrate, I will examine two sets of

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<sup>4</sup> Technically speaking, Taiwan does not have sovereignty because it is not recognised as a nation worldwide.

factors behind the changing economic relations: internal and external factors. For internal factors, I will examine both Taiwanese politics and the role of Taiwan's business society as it is an important proxy for Taiwan-China relations. For external factors, I will explore China's growth in economic, diplomatic and military aspects as well as the role of an important regional/global event in each period. To demonstrate, I will mostly utilise a qualitative method of discourse analysis, studying official statements and documents in Taiwan. I will also use some descriptive statistics to understand China's material growth.

## **THE ORGANISATION OF THE THESIS**

The thesis will be divided into six chapters. Chapter Two lays the conceptual and analytical foundations for my thesis. It provides an examination of two IPE theories, economic nationalism and economic liberalism, as well as their relations with the study. Chapter Two also presents a detailed overview of Taiwan's political economy and its changing economic relations with China since the 1990s, followed by a literature review in why such change occurred. The chapter concludes by presenting the methodology used in this thesis.

The next three chapters analyse Taiwan's economic relations with the Mainland under three different Taiwanese administrations, as well as examining why particular economic policies prevailed in each time period. In each of the analysis chapters, I am going to demonstrate nationalist interests in nationalist terms and liberal terms respectively. Chapter Three shows the restrictive economic policies towards China under the Lee

Teng-hui administration. Chapter Four reveals the initial liberal but later restrictive policies in Chen Shui-bian's era. Chapter Five demonstrates the liberal commercial policies promoted by the Ma Ying-jeou administration.

Chapter Six, the conclusion to this study, draws comparisons of economic policymaking across all three different Taiwanese administrations. It also discusses why two economic theoretical approaches were taken in this study. It then presents the findings and implications for future research. The next chapter provides a beginning to the answer of the puzzle by understanding Taiwan's political economy.

## **Chapter Two**

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### **Understanding Taiwan's Political Economy**

This chapter presents a detailed understanding of Taiwan's political economy. It starts with the theoretic framework for my thesis by introducing two IPE theories. It then shows an overview of Taiwan's political economy followed by Taiwan's changing economic relations with China since the 1990s. The chapter concludes by reviewing the literature deemed for a systematic analysis of this changing economic relation and presenting the methodology used in the thesis.

#### **THEORETICAL FRAMEWORK**

Before discussing these two IPE theories, I want to briefly explain why I choose them for the thesis. The relationship between Taiwan and China is not conventional in the sense that there has not been a diplomatic relation between the two territories as Taiwan is not recognised as a nation both by the PRC and the world. Rather, the specific economic relation dominates most of the cross-Strait relations. Therefore, the below two competing IPE theories help understand the economic relations between Taiwan and China, as well as the motivations behind those economic choices.

#### ***Economic Nationalism***

In conventional scholarly literature, economic nationalism was usually used to describe an economic variant of realism (Helleiner, 2002: 309). The core of this concept, as Gilpin

(1987: 31) argued, “is that economic activities are and should be subordinated to the goal of state building and the interests of the state. All nationalists ascribe to the primacy of the state, of national security, and of military power in the organisation and functioning of the international system”. Scholars, such as Friedrich List, often claim that economic nationalists are hostile to free trade, foreign investment and close economic ties with other nations (Shulman, 2000: 365). As Harlen (1999: 733) argued that usually economic nationalists employ the term synonymously with mercantilism or protectionism to refer to the use of state intervention in international free market exchange.

He also pointed out that in its more benign form, economic nationalism attempts to protect the economy against external economic and political forces. Such defensive economic nationalists pursue protectionist and related policies to protect their infant or declining industries and to safeguard domestic interests because economic nationalists are concerned that the political position of the state will be weakened as a consequence of an increasing economic integration with another state (Krasner, 1976: 320). In other words, from the perspective of economic nationalists, closer economic ties would establish dependency among trading partners, and one party may use economic coercion to exploit the adversary’s vulnerabilities and influence its behaviour regarding security issues.

Later, a revised version of economic nationalism was proposed by a number of scholars (Abdelal, 2001; Harlen, 1999; Helleiner, 2002; Shulman, 2000). They argued that the

ideological content of the nationalism has been neglected, and the economic nationalism should be properly defined as “a set of policies that result from a shared national identity, or from the predominance of a specific nationalism in the politics of a state” (Abdelal, 2001: 33). Therefore, by placing nationalism at the core of the definition, as Helleiner (2002: 308) argued, economic nationalism can be associated with a wide range of policy projects, including the endorsement of liberal economic policies.

This is because wealth is also a crucial factor for state power in international relations, and an economically strong state is more able to advance its national interests in the face of foreign competition and threats than an economically weak one (Shulman, 2000: 369). Nationalist goals such as the promoting of the unity, identity and autonomy of a nation can be pursued through a variety of economic policies that include free trade (Shulman, 2000: 369). For this reason, economic globalisation has not eliminated economic nationalism as an ideology, but rather changed the techniques that nationalists use to achieve the same ends of bolstering power, prestige, or the prosperity of the nation (Shulman, 2000: 369). The adoption of free trade thus was seen by nationalists as one of the economic tools to bolster national power (Helleiner, 2002: 322). Those nationalists are therefore known as liberal economic nationalists.

As we have seen, the policy content of economic nationalism was diverse with some economic nationalists challenging liberal economic policies, while other supported and reinforced such policies (Helleiner, 2002: 323). For conventional economic nationalists,

protectionism was just one method of strengthening the industrial capacity and security of a nation (Harlen, 1999: 742). For liberal economic nationalists, nationalist goals can be advanced by liberal economic policies (Shulman, 2000: 373).

### *Economic Liberalism*

The liberal perspective on political economy is committed to free trade and open markets as the most efficacious means for organising domestic and international economic relations and promoting economic growth and individual welfare (Gilpin, 1987: 27).

Wealth-creating, the first aspect of free trade, played a crucial role in the thought of the early economic liberals including Adam Smith, David Ricardo and John Mill. As Smith argued, free trade policies helped to increase national wealth by making possible a greater specialisation of labour and thereby increasing production (Harlen, 1999: 735).

Building upon Smith's philosophy, Ricardo placed emphasis on comparative advantage of a nation in order to gain the most from foreign trade (Crane, 1997: 56). Like Smith and Ricardo, Mill generally opposed government interference in free market because it worked against the general good by preventing the most beneficial utilisation of resources (Harlen, 1999: 735).

On the second aspect of economic liberalism, trade and economic exchange are a source of peaceful relations among nations since the mutual benefits of trade and expanding interdependence among national economies will tend to foster cooperative relations (Gilpin, 1987: 31). As Mill (1848: 120) argued, international trade is the principal

guarantee of the peace of the world. By creating common interests, the states become interdependent with each other, thus the anticipation that war will disrupt trade and result in a loss of the gains from trade deters political leaders from war against key trading partners (Levy, 1998: 149; Oneal and Russett, 1997: 268). In contrast to nationalists' concern that free trade would be likely to create dependence and result in loss of national power, liberalists argue that it would create interdependence among trading partners which brings peace.

After presenting a broad theoretical background by discussing two competing economic theories, the next section specifically focuses on Taiwan's political economy, which follows the East Asian developmental state model.

## **TAIWAN'S POLITICAL ECONOMY**

In East Asia, the dragon has long been considered a symbol of power. Since the 1960s, Taiwan, South Korea, Hong Kong and Singapore, known as "the four little dragons", achieved rapid industrial transformations and excellent economic development. Along with the Europe Union (EU) and the North American Free Trade Zone, these four East Asian societies plus Japan have constituted one of the triads of the modern industrial world in three decades after the Second World War (Vogel, 1991: 1).

Unlike the conventional model of liberal free-market capitalism, these East Asian economies provided an alternative framework for effective governance and economic

development, which was coined as “the developmental state” (DS) model by Chalmers Johnson in 1982 (Johnson, 1982). As a distinctive political economy, the DS combines elements of market and plan, linking a mixed economy to a political-ideological approach that combines authoritarian technocracy with a relatively egalitarian distribution of income and wealth (Radice, 2008: 1154). Using incentives, controls and mechanisms to spread risk, the governments guided or governed market processes of resource allocation so as to produce different production and investment outcomes than would have occurred with purely free markets (Wade, 2004: 26).

As a classical East Asian developmental state, Taiwan was the first little dragon to achieve an industrial breakthrough. But when the KMT retreated to Taiwan in 1949, the economic prospect had been dim. Its average gross national product (GNP) per capita was below \$100, which was about the same as that of India (Vogel, 1991: 13). However, between 1953 and 1986, Taiwan’s GNP grew at an unprecedented rate of 8.8% and per capita GNP at 6.2% (Wade, 2004: 38). Until 1986, Taiwan achieved an average income of \$3,600 which pushed up its world rank to 38 (Wade, 2004: 38). Using Johnson’s (1987) DS criteria, we can attribute Taiwan’s successful industrialisation to several important factors as shown in Table 2.1. This section will discuss the top three most important ones: Taiwan’s state autonomy, two pilot economic bureaucracies, and its foreign trade policies.

**Table 2.1: East Asian Developmental State Attributes**

<b>East Asian Developmental State Attributes</b>	<b>Attributes in Taiwan Specifically</b>
High state autonomy	KMT's firm control over economic development in Taiwan
Pilot economic bureaucracies	Economic Planning and Development (CEPD) Industrial Development Bureau of the Ministry of Economic Affairs (IDB)
Foreign trade policy	Import substitution policy Export-driven economic policy
Well developed human resources	Well-educated and highly skilled technocrats such as K.Y.Yin, the then director of the Chinese Foreign Trade Office in New York, and K.T. Li, the then Finance Minister
Enterprise	Dominated by small- to medium-sized family ownership
External factors	The U.S. offered technical advice and economic assistance throughout the Cold War
The importance of the group	Traditional Confucian philosophy of groups over individuals
Education	Emphasis on education, selecting elites through competitive college entrance exams

Source: Johnson C. (1982). *MITI and the Japanese Miracle: The Growth of the Industrial Policy, 1925-1975*, Stanford University Press: Stanford and Wade, R. (2004). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press: Princeton.

### *The Autonomy of the State*

As the KMT established an authoritarian rule in Taiwan, political leaders were able to develop national goals independently (Wu, 2007: 980). Learning from its bitter experience in the Mainland, the formation of new political parties was banned and the intermediate organisations were also carefully scrutinised by the KMT so as to make sure that no genuine opposition to the party existed (Wu, 2007: 980). The sense of threat

from the Mainland also helped to justify KMT's tight control over the island. Therefore, Taiwan's authoritarian political arrangement provided the basis for market guidance and enabled the state to have firm control over economic development (Wade, 2004: 27).

Taiwan's high degree of party state autonomy and political stability also gave modernising bureaucrats more room to manoeuvre in promoting industrialisation and capitalists with more confidence in the security of their investment in Taiwan's industry (Vogel, 1991: 18). The highly centralised government enabled the state to exert strong leadership in guiding the market by setting rules and influencing decision-making in the private sectors, prioritising the use of resources for industries important for future growth and military strength as well as maintaining control over the flows of financial capital (Vogel, 1991:110). This combination of private markets and public intervention has been a significant factor in Taiwan's economic success (Vogel, 1991: 5).

### *The Economic Bureaucracy*

Governing the market also requires a small number of powerful policymaking agencies to be able to maintain the priorities expressed in the routine accumulation of particular negotiations and policies in line with a notion of the national interest (Wade, 2004: 195). While the politicians set broad goals and protect the technocrats from political pressure, the official bureaucracies perform think tank functions, chart the route for economic development, decide which industries to be prioritised, obtain a consensus for its plans from the private sector, act as gate-keeper for contacts with the international market, and

provide positive government support for private economic initiative (Wade, 2004: 195).

In Johnson's account of DS (1982), Ministry of International Trade and Investment (MITI), Japan's central economic bureaucracy, is one of the core features that accounts for Japan's economic achievement. In the case of Taiwan, the most important agencies for industrial planning were the Council for Economic Planning and Development (CEPD) and the Industrial Development Bureau of the Ministry of Economic Affairs (IDB) (Wade, 2004: 195). As the advisory body to the cabinet with the most economists, the CEPD covers the formulation of the macroeconomic development plans, analyses the current situation of the economy, and evaluates large-scale public enterprise projects (Wade, 2004: 197). The IDB then turns the CEPD's broad guidance plan into detailed sectoral working plans, grades the production facilities of firms in key industries and oversees the interaction between domestic suppliers and foreign companies (Wade, 2004: 202). Therefore, the economic bureaucracies in Taiwan played a crucial role in helping firms to acquire technology, allocating funds for key projects and guiding the entire development of the economy (Wade, 2004: 27).

### *Management of Foreign Trade*

In addition, management of foreign trade policies is crucial to Taiwan's economy. Its most prominent import policy, the import substitution policy, was designed to produce locally goods formerly imported and make Taiwan a more self-sufficient economy. When Taiwan just started to concentrate on manufacturing basic consumer goods, its local industry

was threatened by the massive flow of cheap manufactured goods from Japan (Vogel, 1991: 15). Therefore since 1949, the KMT started to protect Taiwan's infant industries from the flood of cheap Japanese products by setting up import restrictions not only for economic gains, but for national interests concerns (Vogel, 1991: 15). Throughout the 1950s, the policy contributed as much as one-third to the growth of manufactured output (Wade, 2004: 84).

Since the early 1960s, export expansion has instead constituted the major source of economic growth in Taiwan. The government intervened in trade in order to promote prioritised sectors and obtain foreign exchange (Wade, 2004: 113). As the international market remained relatively open after the World War Two, plenty of opportunities were available for Taiwanese exporters (Wade, 2004: 113). Taking advantage of its own cheap labour, Taiwan exported labour-intensive goods at the early stage of the economic development, and later gradually shifted to capital- and knowledge-intensive products as its labour costs rose (Wu, 2007: 981).

In short, Taiwan, a classical example of the developmental state model, has put together the political economy of capitalism in ways unprecedented in the Anglo-American West and achieved high success in its economic growth. Apart from its economic achievement, Taiwan also advanced greatly in democratisation since the 1980s. The DPP was officially recognised as Taiwan's first opposition party in 1986, and the martial law was lifted in 1987 (Cheng and Lin, 1999: 236). Taiwan experienced its first direct Presidential election

in 1996 and witnessed the first cycle of party change in the 2000 Presidential election. Taiwan's civil society also evolved from a divided and weak society to a more vibrant one (Rigger, 1999: 2). At the same time of Taiwan's social changes, the rise of China became the phenomenon of the world that Taiwan could no longer ignore. The economic bilateral relationship between the two, however, has changed over time. The next section will provide an overall picture of this variation.

## **TAIWAN'S ECONOMIC RELATIONS WITH CHINA**

When the KMT retreated to Taiwan in 1949, cross-Strait economic development came to an abrupt stop. Since the 1960s, Taiwan experienced a breakthrough in its economic development. Two decades later, the PRC also underwent rapid economic growth. Since then, huge trade and investment flows have emerged with the restoration of cross-Strait commercial activities. In 1985, indirect exports channelled through Hong Kong were legalised and unofficial Taiwanese tolerance of small-scale investments was allowed (Tanner, 2006: 39). In 1987, Taiwan even permitted Taiwanese to visit the mainland for the first time since the end of the civil war (Tanner, 2006: 39). However, Taiwan's economic policymaking towards the PRC has changed since the 1990s. Cross-Strait economic policies transformed from aggressive nationalism in Lee Teng-hui's administration, to initial liberal but later nationalist approaches in Chen Shui'bian's era, and then to official liberalisation under Ma Ying-jeou's leadership. Below presents an overview of different cross-Strait economic policies under three distinctive Taiwanese administrations.

## Taiwan's Economic Policy towards China under Lee Teng-hui's Government (1990-1999)

After the death of Chiang Ching-kuo in 1988, the fierce power struggle within the KMT ended up with the victory of Lee Teng-hui. Under his leadership, Taiwanese authority adopted strong protectionism policies towards the Mainland and was reluctant to liberalise cross-Strait economic relations (Tanner, 2006: 47). In the early 1990s, Taiwan's government started to implement new regulations on cross-Strait economic exchanges aimed at strengthening the government's ability to monitor and control mainland investments (Leng, 2002: 262). In 1993, the Investment Commission of Ministry of Economic Affairs not only required that all investments over \$1 million must be prior approved by the government and subject to a rigorous review process, but prohibited investments in certain valued industries such as strategic, defense-related and high-tech sectors (Chu, 1997: 239).

In the same year, Lee's government also introduced the "Go South" policy which aimed at diverting Taiwanese investment away from China to Southeast Asia (Tanner, 2006: 45). Cross-Strait trade and investment were further tightened and controlled after Lee becoming the first-ever-elected President in 1996. The government promulgated the 'No Haste, Be Patient' policy immediately after the election (Tanner, 2006: 46). The policy imposed a new ceiling of \$50 million on individual Taiwanese investment in the Mainland (Ho and Leng, 2004: 734). The government followed up in 1997 with a ban on Taiwanese investment in most large-scale infrastructure and energy projects on the mainland

(Tanner, 2006: 48). It also enforced a maximum investment level of 20% to 40% of a firm's total net worth (Tanner, 2006: 48). "Three direct links"<sup>5</sup> were still prohibited, which means that most cross-Strait trade has been shipping indirectly either through Hong Kong or third-country posts (Tanner, 2006: 48).

In spite of the restrictive official cross-Strait economic policies, Taiwanese businessmen found ways to bypass governmental restrictions (Lee, 2003: 118). Much of Taiwan's investment went to China via the Caribbean region, especially through Virgin Islands (Lee, 2003: 118). A glimpse of Taiwan's indirect investment in China shows that trade increased 5-fold from \$5 billion to \$25 billion during Lee's ten-year-presidency (MAC, 2002b).

### *Taiwan's Economic Policy towards China under Chen Shui-bian's Government (2000-2007)*

When Chen Shui-bian, the leader of the opposition party DPP, was elected as the President in 2000, his government initially eased the restrictions on trade and investment with the Mainland. The Chen administration formed a new Economic Development Advisory Council (EDAC) in 2001 and agreed on many economic recommendations, such as the liberalisation of direct trade and investment, the creation of more flexible cross-Strait capital flow mechanisms, and the opening of travel and tourism (Sutter, 2002: 532). Later that year, the new administration replaced Lee's restrictive "Go Slow, Be

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<sup>5</sup> Three direct links are: direct trade, transportation and communication.

Patient” policy with “Active Opening, Effective Management” policy, which aimed at actively promoting economic ties across the Strait (Tanner, 2006: 53). The \$50 million investment cap was eliminated and the bar requiring investment approval was reduced to \$20 million (Fuller, 2008: 242).

However, these seemingly relaxed measures were soon reverted back to strong nationalist approaches by the DPP administration. The slow pace of liberalisation in investment regulations continued to disappoint the Taiwanese entrepreneurs and the “three direct links” were still prohibited (Kastner, 2006: 260). In a report on the likely impact of direct transportation links produced by the Executive Yuan 2003, the authority emphasised a daunting list of specific national security obstacles that would have to be overcome before the direct links could be established (Tanner, 2006: 65). Many DPP officials argued that the overall effect of the “three direct links” could be negative because a transfer of Taiwan’s talent, resources and capital to China would marginalise Taiwan’s economy in the world (Roy, 2004: 4). In 2006, two years after Chen got re-elected, he announced a change in cross-Strait economic policy by shuffling the words of his previous one (Fuller, 2008: 244). The new policy, “Effective Opening, Active Management”, promised a tightening up of supervision on Taiwanese investment across the Strait (MAC, 2006b). Similar to the previous Lee administration’s situation, despite official restrictions on cross-Strait economic exchanges, the actual figure of trade quadrupled from \$28 billion to \$124 billion during Chen’s Presidency (MAC, 2008d).

*Taiwan's Economic Policy towards China under Ma Ying-jeou's Government*  
*(2008- Present)*

The cross-Strait commercial relationship on the official basis has improved greatly since Ma Ying-jeou, the KMT candidate, won the 2008 Presidential election in 2008. Unlike his predecessors, Ma has advocated a liberal idea of cross-Strait economic relationship. During the first two years of Ma's Presidency, the semi-official organisations of two sides: the Association of Relationship Across the Taiwan Straits (ARATS) as representative of Beijing, and the Straits Exchange Foundation (SEF) as representative of Taipei, held four rounds of dialogues and consultations, and reached twelve agreements, including the direct air and shipping services that have been a long-time conundrum across the Strait (Chen, 2011: 154).

In June 2010, Taiwan and China moved a further step in liberalising the economic relations. After five months of consultations and negotiations, in the fifth round of ARATS-SEF dialogue, the "Economic Cooperation Framework Agreement" (ECFA) was signed. It is an open, comprehensive, gradually advancing and cooperative agreement which aimed at facilitating and regulating economic exchanges between Taiwan and China (Chen, 2011: 154). Regarded as a milestone in the cross-Strait relations because the economic ties of the two sides were officially liberalised, the ECFA aimed at reducing tariffs, liberalising investment and trade, and establishing dispute resolution mechanisms (Wang, 2010: 257). Wang continued to point out that the new administration argued that the signing of ECFA would not only help Taiwanese companies develop Chinese markets,

but promote the internationalisation of Taiwan's economy and avoid marginalisation in the Asia economic regionalism process. In only three years since Ma came to power, cross-Strait trade increased 1.3 times from \$129 billion to \$160 billion (MAC, 2012b). In fact, the pursuit of closer economic ties with China not only benefited Taiwanese businessmen, but helped Ma solidify his support in the island and his re-election as the President in 2012.

As we can see from the above three periods, Taiwan has changed its official cross-Strait economic policy over time, however, the economic integration with the Mainland has grown regardless of what policies were imposed. The interesting question thus becomes why has there been a change and what motivated the change of Taiwan's official economic policy stance on China? The next section reviews what has been discussed in the literature with respect to the question.

## **EXISTING EXPLANATIONS FOR TAIWAN'S CHANGING CROSS-STRAIT ECONOMIC POLICYMAKING**

Recent literature on Taiwan-China relations focuses more on their economic and commercial relations rather than conventional security issues. By and large, the literature on cross-Strait economic variation has been dominated by case- and period-specific explanations while neglecting the long consistent process of historical development of this bilateral relationship. Nevertheless, they offer some preliminary suggestions as to why Taiwan's cross-Strait economic policymaking has evolved. The

explanations can be organised into three levels: the state-, the societal- and the external environmental-level.

### State-level Explanations

Two main state-level explanations for Taiwan's economic variation towards the PRC merit attention. First, several scholars (Fuller, 2008; Lai, 2011; Yu, 1999) viewed the variation of Taiwan's national priority goals as triggers of its different economic relations with China over time. As Yu (1999: 48) argued, Taiwan has not abandoned its position that national security should take precedence over particularistic business interests at the end of the 1990s. He also pointed out that its pragmatic diplomacy to win international recognition for Taiwan as a sovereign state also remained a top national priority at the expense of a stable relationship with China during Chen's Presidency. However, the signing of ECFA between Taiwan and China reflected a shift of national goals to normalise cross-Strait commercial relations and prevent Taiwanese economy from being marginalised in the region (Lai, 2010: 175).

Secondly, other scholars (Chen, 2011; Wu, 2005) attributed this changing policymaking to the fluctuations in the stances of Taiwan's political parties. As Wu (2005: 42) noted, with the inauguration of Lee Teng-hui as President, the KMT started to digress from its time-honoured commitment of the "One China-principle" while remaining highly suspicious of any economic links with China, as typified in the 1996 economic policy of "Patience over Haste". It was not until when Ma Ying-jeou came to power in 2008, that

the KMT returned to its previous “One China, Different interpretations”<sup>6</sup> principle and actively pursued increasing economic integration (Chen, 2011: 154). Similar to the KMT, the DPP also changed its position on economic relations with China. At the start of Chen Shui-bian’s Presidency, the DPP showed a willingness to engage with the Mainland, however, it soon changed back to its traditional pro-independence position by promoting strong national sentiment in Taiwan and suggesting that pro-engagement economic policies with China would hollow out Taiwan’s economy (Wu, 2005: 49).

### Civil Society-level Explanations

Civil society-level explanations can be arranged into two groups. First, the role of Taiwanese business people (taishang) is worth noting because Taiwan does not have a diplomatic relation with the Mainland, thus taishang acting as quasi-diplomats in the process of cross-Strait economic engagement. As Keng and Schubert (2010) pointed out, despite the Taiwanese business community’s consistent demand of a greater openness towards the Mainland, their business interests were asked to give way to Taiwan’s national security by the Lee and Chen administrations. They also argued that afterwards, taishang increasingly acted as “linkage communities” across the Strait, and both small- and big-sized enterprises lobbied together in promoting greater economic exchanges. The lobby was ultimately successful when Ma came to power and officially liberalised

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<sup>6</sup> “One China, Different Interpretations”, also known as “1992 Consensus”, was agreed by the ARATS and SEF in 1992. The consensus is that both sides agreed that there is only one China. However, the two sides have different interpretations as to the meaning of one China. To Beijing, one China means the PRC whereas to Taipei, it means the ROC. See: Xinhua Net, 2006, *1992 Consensus*, [Available at] [http://news.xinhuanet.com/tw/2006-04/05/content\\_4385932.htm](http://news.xinhuanet.com/tw/2006-04/05/content_4385932.htm).

cross-Strait commercial activities.

The second type of civil society-level explanation emphasises the role of public opinion. Given that Taiwan is a democracy, many scholars (Hsieh and Niou, 2005; Huang, 2005; Keng, Chen and Huang, 2006; Tsai, Wang and Tossutti, 2008) consider the public opinion as one that has affected the political leaders' decisions to deal with cross-Strait trade and investment. As the traditional one-dimensional method with preference for unification and independence at the extremes and the preservation of the status-quo representing the centrist position is insufficient to study the attitudes of Taiwanese on the independence-unification issue, Niou (2005) disaggregated the pro-status quo majority by examining how individuals might be persuaded economically to abandon their original stance. Similarly, Keng et al (2006) also explored how these two different sources of motivation of public attitudes, rational economic interests and affective identity, combined to influence the structure of Taiwan-China relations.

### *External Environment Explanations*

Many scholars (Keng and Schubert, 2010; Wu, 2005) highlighted the role of China's adjustment in its Taiwan policy from the Jiang Zemin administration to the Hu Jintao era. In earlier years, as argued by Keng and Schubert (2010), Jiang followed a policy of harsh "verbal attacks and military threats" while later emphasising on "great power relations" as a response to the trend towards separatism in Taiwan. They also noted that contrary to his predecessor, Hu's Taiwan policy, on one hand, targeted at

reducing military threats to minimise Taiwanese resentment while at the same time strengthening economic interdependence in the Strait and attempting to influence the Taiwanese public opinion.

Besides, Wang (2010) argued that a changing global economic environment and regional economic integration also pushed the Taiwanese government into repositioning its economic relations with the Mainland. She particularly pointed out that the 2008 Global Financial Crisis and the rise of regional trade agreements such as “ASEAN+1”<sup>7</sup> and “ASEAN+3”<sup>8</sup> placed Taiwan in danger of being marginalised in the world’s economies, thus making Taiwan to reposition its economy, particularly in its economic relations with China, in order to strengthen its own competitive advantage.

All of the three different levels of explanations are relevant to the analysis of Taiwan’s changing cross-Strait economic policy. The first one explains how the upper level of national priority and political party position variations affect the Taiwan-China economic relations, the second one reveals how the bottom-down societal forces push the change, and the third one argues the importance of external environment in influencing the policy decisions.

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<sup>7</sup> ‘ASEAN+1’ refers to “ASEAN+China”.

<sup>8</sup> ASEAN+3” refers to “ASEAN+China+Japan+South Korea”.

## **CASE SELECTION AND METHODOLOGY**

As shown above, the state-, the societal- and the external environment-level explanations all contribute to the understanding of Taiwan's changing economic relation with China. However, some deficiencies existed in the literature. For the state-level explanations, the government's motivations behind the economic policies were oversimplified. For societal-level accounts, how Taiwanese government responded to the business community's demand was neglected. For the external environmental factors, the change was examined only in critical periods of time such as missile crisis and the global financial crisis, rather than throughout a consistent long period of time. The methodology used in the literature was also dominated by quantitative methods. Qualitative methodologies were not widely used.

In the light of these deficiencies, this study takes the form of a comparative analysis into Taiwan's cross-Strait economic policy under three different Taiwanese administrations since the 1990s: Lee Teng-hui (1990-2000), Chen Shui-bian (2000-2008) and Ma Ying-jeou (2008-Present). Since Taiwan's relationship with China is not on a diplomatic level, but mostly dominated by commerce, the introduction of the two International Political Economy (IPE) theories, economic nationalism and economic liberalism, provide a theoretical framework to understand this changing relationship and the motivations behind the policy choices. Two sets of factors, the internal factors and the external factors, will be assessed during each period of time. For the internal factors, I will explore both Taiwanese domestic politics and the role of its business community. For

the external factors, I will look at both the rise of China in all terms, economic, diplomatic and military as well as an important global event under each administration.

To demonstrate, this thesis is primarily dominated by qualitative methodologies of discourse analyses. The primary sources of qualitative methods include sources from Taiwanese government such as official statements and Presidential addresses, as well as sources from Chinese government such as the PRC White Papers and from the U.S. government such as Department of Defense annual reports to Congress. The study also uses descriptive data derived from reliable organisations such as ROC Mainland Affairs Council (MAC), World Bank and the World Trade Organisation (WTO). Along with the primary sources, the study has also involved a range of secondary sources of a predominantly qualitative nature. These include: Taiwanese, Chinese and the world's economic, political, historical and social science-based analyses of each Taiwanese administration.

## **CONCLUSION**

This chapter has provided a theoretic account of the thesis by introducing two competing IPE theories, economic nationalism and economic liberalism. It then narrowed down the focus to Taiwan's political economy and traced the history of its changing relationship with the Mainland since the 1990s. Given the central questions of the thesis, the chapter has also discussed preliminary answers in the related literature, pointed out the gap and introduced the methodology accordingly.

Over the following three chapters, I will examine Taiwan's economic policymaking towards China under the respective Lee, Chen and Ma administrations. For each, I will investigate what factors overrides Taiwan's commercial relations with China. These involve two internal factors, Taiwan's domestic politics and the role of its business group. These also include two external factors, China's rising power in economic, diplomatic and military aspects and a significant regional/global event in each period.

## **Chapter Three**

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### **Taiwan's Cross-Strait Economic Policy under the Lee Teng-hui Administration (1990-1999)**

The previous chapter has shown an overall picture of Taiwan's political economy and the history of its economic relation with the Mainland. It also has provided the theoretical foundation and methodology for the analyses. As the start of the analyses, this chapter focuses on Taiwan's economic policymaking under the Lee Teng-hui administration. Under Lee's leadership, the KMT government adopted strong protectionism policies to slow down and resist the intensified economic exchanges with China throughout the 1990s. In 1993, he put forward the "Go South" strategy, which aimed at diversifying Taiwanese investment and diverting it away from the Mainland to Southeast Asia (Tanner, 2006: 45). In 1996, Lee's government promulgated "No Haste, Be Patient" policy, which further tightened the administrative oversights and controls of Taiwanese investment into the Mainland (Tanner, 2006: 47).

In this chapter, I will explain why Lee's administration adopted a conservative stance in cross-Strait economic policymaking and show how national security was defined in economic terms. On the one hand, I will examine two internal factors, Taiwan's domestic politics and the role of its business society. On the other hand, I will study two external factors, the rise of China and a regional/global event, which is in this period of time, namely the 1998 Asian Financial Crisis. To demonstrate, I will use a combination of

discourse analysis and economic statistics.

## **INTERNAL FACTORS**

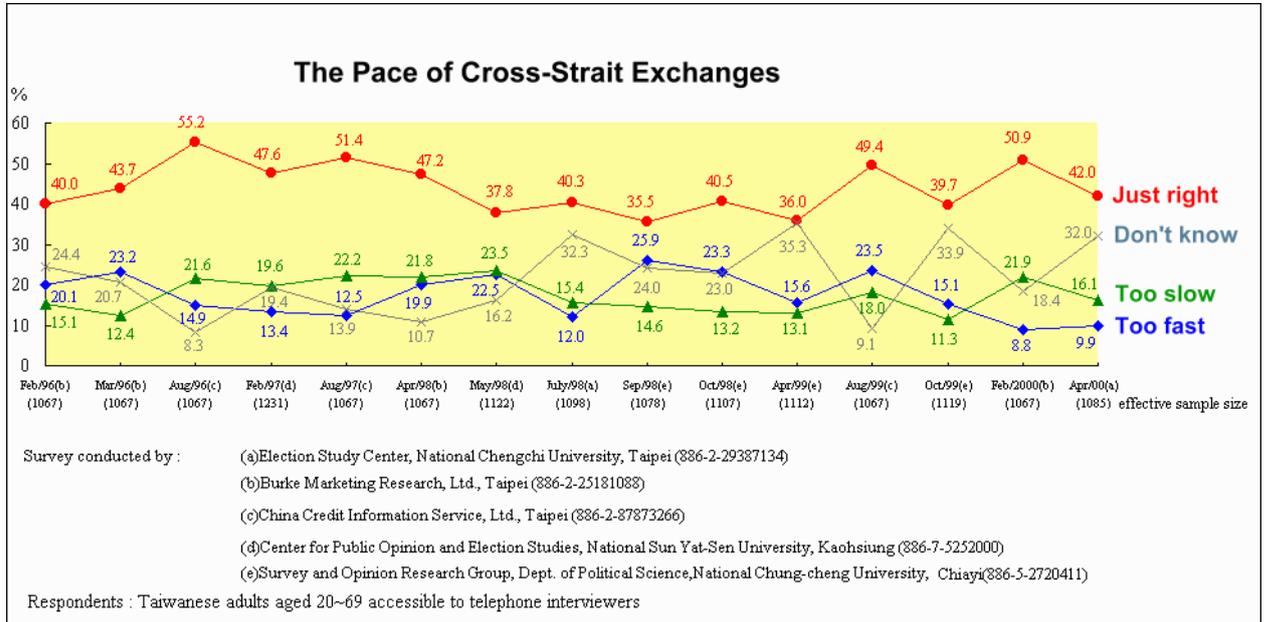
### *Taiwan's Domestic Politics*

In the first four years (1988-1992) after the passing of Chiang Ching-kuo, the power struggle within the ruling party was intensified. In the end, Lee Teng-hui steadily consolidated his power and successfully gained the control over the pace of cross-Strait economic exchange and recentralising the decision-making power (Chu, 1997: 237). In order to coordinate cross-Strait relations, Lee's government created two important organisations. In 1991, the Mainland Affairs Council (MAC), a cabinet-level administrative agency was created (MAC, 2012d). Later that year, a semi-official organisation, the Straits Exchange Foundation (SEF), was then created by the MAC with the responsibility in conducting cross-Strait political talks and negotiations (SEF, 2012).

In Lee's era, social attitudes on the pace of cross-Strait exchange to be "just right" tended to decline over the time. As Figure 3.1 indicates, the proportion of respondents who believed that the pace was "just right" tended to decrease 20% from 1996 to 1998. However, Lee's administration did not follow the trend of the public opinion, but insisted on promoting his "No Haste, Be Patient" policy in 1996, which aimed at tightening the supervision of Taiwanese investment in China (Tanner, 2006: 45). As such, public opinion did not account for Lee government's economic stance towards China. The following will examine an internal factor other than public opinion, which is Taiwan's

politics through official statements under Lee's administration and secondary sources.

**Figure 3.1: The Pace of Cross-Strait Exchanges (1996-2000)**



Source: Mainland Affairs Council, ROC,

[http://www.mac.gov.tw/public/MMO/MAC/8906e\\_6.gif](http://www.mac.gov.tw/public/MMO/MAC/8906e_6.gif)

After Lee consolidated his power within the KMT, the political contest over the steering wheel of the economic policy making towards the Mainland focused on two concerns: economic security and national security (Chu, 1997: 232). Table 3.1 below indicates three government statements used in this section. All of them demonstrate the economic security concern that worried the Lee administration.

**Table 3.1: Taiwan’s Official Government Statements (1990-1999)**

<b>Occasion of the Speech</b>	<b>Date</b>	<b>Organisation</b>
Relations across the Taiwan Strait	29 <sup>th</sup> July 1994	MAC
Address to the 11 <sup>th</sup> Meeting of the National Reunification Committee	1996	
Guidelines for National Unification	29 <sup>th</sup> June 1997	

Source: Mainland Affairs Council, ROC, <http://www.mac.gov.tw/mp.asp?mp=3>.

As shown in an official document titled “Relations across the Taiwan Strait” produced by the Mainland Affairs Council in 1994, the administration particularly emphasised the importance of reciprocity, which is one of the principles underlying Taiwan’s policy towards China (MAC, 1994). It stressed that “exchanges between the two sides of Taiwan Strait should serve the interests of both parties; relations should always be ‘win-win’ rather than ‘zero sum’”. It also stated that “although the Peking authorities claim that no one is trying to ‘swallow up’ anyone else, they have actually adopted a tactic of ‘the strong devouring the weak’ and they hold that economic exchanges should be elevated to a strategic level so as to ‘tie up Taiwan’”. It is apparent that Lee’s government was concerned of Taiwan’s national interests defined in economic terms.

As Leng (2002: 262) argued, in Lee’s administration, this ‘hollowing out’ effect was seen as the loss of manufacturing production, job opportunities and industrial competitiveness. Soon it turned out that their worries were not confined to labour-intensive industries. At the start of the 1990s, Taiwan’s investment in China remained primarily in industries that required high use of labour and low levels of technological sophistication in production (Lee, 2003: 119). However, from the mid-1990s onwards, Taiwanese investment shifted

to capital-intensive sectors and higher levels of technological sophistication, which raised the government's concern in those sectors (Lee, 2003: 119).

In his keynote speech to the 11<sup>th</sup> Meeting of the National Reunification Committee in 1996, Lee urged the business community to adopt his "No Haste, Be Patient" policy and stated, "(we need) to ensure the security and welfare of the 21million fellowmen in Taiwan...therefore the starting point of our Mainland policy must be to keep our roots in Taiwan" (MAC, 1996). As the security and welfare of Taiwanese are dependent on Taiwan's economic development, the roots Lee particularly referred to were Taiwan's economic root. One year later, in the Guidelines for National Unification produced in 1997, the government emphasised the significance of economic security that "development of investment and trade relations with the Chinese mainland should involve exceptional consideration of political risks" (MAC, 1997).

It can be seen that Lee's restrictive economic policies towards China were motivated by the nationalist concern of Taiwan's economic security. As discussed in the previous chapter, conventional economic nationalists ascribe to the primacy of national security (Gilpin, 1987: 31). From the Lee government's nationalist point of view, the acceleration of cross-Strait economic exchange was deemed detrimental since it would aggravate Taiwan's economic vulnerability and jeopardise Taiwan's national security. In fact, the Taiwanese government's concern was not just based on its speculation. In Taiwan, Beijing's cross-Strait economic policy was seen as 'to peddle the domestic politics

through business and to influence the Taiwanese government through the people' (Chu, 1997: 249). In one of China's three White Papers related to Taiwan, it stated that 'active economic cooperation and other exchanges (are carried out)...in order to pave the way for the peaceful reunification of the country' (The Central Government of the PRC, 1993). In order to protect its economic national security, therefore, the Lee government adopted strong nationalist policies in the conduct of cross-Strait relations. The next section examines the role of Taiwan's business society in Lee's era.

### *Taiwan's Business Society*

Taiwan's domestic politics is not the sole internal factor in cross-Strait economic relations. The role of Taiwanese business society is also worth nothing because Taiwan does not have a diplomatic relation with the Mainland, thus making Taiwanese business people act as Taiwan's quasi-diplomats in dealing with cross-Strait relations. Since 1993, small- and medium-sized Taiwanese enterprises flocked to a greatly improved investment environment in China, and they were quickly followed by large business groups from 1993 (Chu, 1997: 242). In order to get access to the huge Chinese market, the business society lobbied for a more liberal economic policy towards the Mainland, but failed in the face of Lee's conservative economic stance (Chu, 1997: 242).

On the one hand, since small enterprises had different enterprise backgrounds and dispersed economic interests, they were impeded by their lack of strong interest representation (Keng and Schubert, 2010: 303). Efficient advocacy of their cross-Strait

commercial policies vis-à-vis the Taiwanese government was also absent (Keng and Schubert, 2010: 303). On the other hand, even big businesses' demand for the relaxation of restrictions on cross-Strait economic exchange was ignored by the central leadership in Taiwan. After the announcement of the "No Haste, Be Patient" policy, the MAC officials urged many large business groups to postpone or scale down their ambitious investment projects in Mainland (Chu, 1997: 242). Among them, the most famous case was the bargain between Formosa Plastic, the island's largest diversified business group, and the Taiwanese government over a \$7 billion petro-chemical complex project across the Strait (Chu, 1997: 242). The economic officials successfully persuaded the company to indefinitely postpone the project with both a lucrative counter-offer package and an unspoken threat to retrench the credit line from state-owned banks (Chu, 1997: 242).

Therefore, the Lee administration successfully resisted the business society's demand of liberalising cross-Strait economic relations and promoted strong nationalist economic policies throughout the 1990s. But why did the Lee administration perceive Taiwan's economic security in danger? To answer the question, the next section will study two external factors, the rise of China and the 1998 Asian Financial Crisis.

## **EXTERNAL FACTORS**

As shown above, the national security concern in Lee's administration explained his conservative position in cross-Strait commercial relations. But why did Taiwan feel

greatly threatened by China? The following analysis will demonstrate that since 1990 this is as a result of the rising of China in economic, diplomatic and military arenas.

### *The Chinese Factor- The Rise of China*

#### **Economic Development**

China has experienced an economic miracle that has astonished the world in the 1990s. Between 1990 and 1999, China's GDP growth tripled from \$357 billion to \$1083 billion, and its average GDP growth reached a rate of 10% per annum (World Bank, 2012a&b). Meanwhile, Chinese exports quadrupled from \$62 billion to \$249 billion while foreign direct investment (FDI) jumped over eight times from less than \$5 billion to more than \$40 billion (World Bank, 2012c). At the end of the twentieth century, China accounted for 3.9% of total world exports, making it the largest exporter among the emerging East Asian economies and the world's seventh largest exporting nation (World Bank, 2012c). In 1990, traditional labour-intensive manufactures like textiles, clothing and footwear (TCF) dominated China's export structure with a share of 25% (Wong and Chan, 2002: 83). In ten years, however, its manufactured exports were no longer confined to low value-added products, but experienced a radical change in composition, marked by the rise of more technologically advanced items accounting for the overall exports from 6.1% to 16.5% (Wong and Chan, 2002: 83).

Thus, the rapid growth of the Chinese economy created a desirable commercial environment that lured Taiwanese businesses to conduct economic exchanges. Many

Taiwanese companies were located in China's industrial heartland, such as Shanghai, Tianjin, Qingdao and Dalian, and got access not only to the supply of cheap labour and land, but well-trained technicians and engineers as well as China's minimally commercialised but relatively advanced technology to minimise their production costs and raise corporation profits (Chu, 1997: 240). In addition, the common language and shared cultural heritage with China was also a significant source of social empowerment for Taiwanese business people (Lee, 2003: 119). Thus, China's rapid economic development made it an attractive destination for Taiwanese business people. However, it also raised the concern of Lee's administration regarding China's possible exploitation of economic tools to gain political leverages against Taiwan, which may undermine Taiwan's security and 'sovereignty'.

### **Diplomatic Influence**

Due to its outstanding economic growth, China was able to gain more diplomatic influence and exercise this influence to isolate Taiwan in the global arena. During Lee's Presidency, Taiwan lost three of its important diplomatic allies. Between 1990 and 1992, Saudi Arabia and South Korea, established formal diplomatic ties with China, which resulted in Taiwan's loss of these two diplomatic allies (Ministry of Foreign Affairs of PRC, 2011&2012). The only remaining important ally in Taiwan's diplomatic corps, South Africa, also ended its diplomatic relations with Taiwan in 1998 (Ministry of Foreign Affairs of PRC, 2011&2012). In addition, through foreign aid programs and investment projects, the KMT government made endless efforts to buy diplomatic ties from micro-states

(Wang, Lee and Yu, 2011: 252). However, with China's economic ascendancy, Beijing has countered with its own 'dollar diplomacy', and three small states, Central African Republic, Republic of Guinea-Bissau and Kingdom of Tonga, broke their diplomatic relations with Taiwan in 1998, followed by Papua New Guinea in 1999 (Lin, 2008: 14).

Meanwhile, Taiwan's efforts to participate in international organisations have also been blocked by China. Since 1993, Taiwan tried to solicit help from its allies to file applications for UN membership, but failed as a result of PRC's strong resistance (Wang, Lee and Yu, 2011: 252). In 1996, two significant regional forums, ASEAN Regional Forum (ARF) and the Asia-Europe Meeting (ASEM) passed membership rules that required sovereign state as the minimum qualifications, which in essence disqualified Taiwan (Wang, Lee and Yu, 2011: 252). Since 1997, Taiwan's efforts to enter the World Health Organisation (WHO) have been consistently impeded by China, who only conceded to let Taiwan's medical professionals participate as observers (Lin, 2008: 25). Therefore, Taiwan's international space was strangled by China's diplomatic enlargement, which was perceived by the Taiwanese government as a threat to its national security.

### **Military Modernisation**

Above all, what worried Lee's administration the most was China's use of coercive military threat against Taiwan. The concern came to a reality in the 1995 Taiwan Strait Missile Crisis, in which China launched a series of large scale military exercises in the

Strait. Following Lee Teng-hui's private visit to Cornell University in 1995, in order to ward off the possible domino effect of Lee's U.S. trip and to remind Taiwan and the U.S. of the consequences of pursuing/sponsoring Taiwan's independence, China conducted numerous missile tests and naval and air exercises in the waters near Taiwan in July 1995.

It launched six surface-to-surface missiles approximately 100 miles from Taiwan (Ross, 2000: 94). Intending to disrupt Lee's re-election, from late January through February in 1996, the People's Liberation Army (PLA) amassed over 100,000 troops in the Fujian Province and fired three M-9 missiles into the waters just off the coast of Taiwan's two largest port cities, one of which was barely twenty miles from the northern port of Keelung (Ross, 2000: 107). The military exercises thus heightened Taiwan's national security concerns because the 'threat of China' that had been forewarned by Lee's government for years, demonstrated by China's use of military force to address political issues, had become a reality.

Overall, the concern of Taiwan's national security stemmed from China's huge economic potential and opportunities, its isolation of Taiwan's participation in world affairs, and its resolution of coercive military actions, which motivated the Lee administration to adopt a strong economic nationalist policy towards the Mainland. In addition to China's growing power, the next section will discuss an important regional event, which is the 1998 Asian Financial Crisis in this period of time.

### *A Regional Event- 1998 Asian Financial Crisis (AFS)*

During Lee Teng-hui's era, a significant regional event that had a huge impact on the Asian economies was the 1998 Asian Financial Crisis (AFS). Compared to other Asian nations who suffered from this crisis, Taiwan weathered well through the crisis and minimised the damage that the AFS brought in.

The AFS started with the huge devaluation of Thai currency baht in 1997 and rapidly spread to the majority of Southeast Asian countries. Not only were their financial sectors hit by stormy shocks, but their production, consumption and investment industries also encountered grave setbacks (Yang, 2001:86). Soon afterwards, the AFS spread to East Asian nations and greatly damaged their stock markets. Although the crisis also caused fluctuations in Taiwan's exchange rates, interest rates and share prices, its impact on Taiwan was much smaller compared to its neighbours in Asia (Yang, 2001: 81). Comparison of Taiwan's economic performance to its regional counterparts can be seen in Table 3.2. Although Taiwan's economic growth rate dropped from 6.7% to 4.6% during the AFS, it remained one of the two Asian countries whose growth rate was positive (Table 3.2). Its inflation rate and unemployment rates were stable at 1.7% and 2.7% respectively in 1998 (Table 3.2). As can be seen from the above figures, Taiwan seemed to be least affected by the AFS.

**Table 3.2: Economic Performance of Asian Economies (1997-1998)**

Unit: percentage (%)

Country	Economic Growth Rate		Inflation Rate		Unemployment Rate	
	1997	1998	1997	1998	1997	1998
<b>Taiwan</b>	6.7	4.6	0.9	1.7	2.7	2.7
<b>South Korea</b>	5.0	-5.8	4.4	7.5	2.6	6.8
<b>Singapore</b>	8.9	0.3	2.0	-0.3	1.8	3.2
<b>Hong Kong</b>	5.0	-5.1	5.7	2.6	2.4	4.4
<b>Thailand</b>	-1.8	-10.4	5.6	8.1	1.9	4.0
<b>Malaysia</b>	7.5	-7.5	2.7	5.3	2.4	3.2
<b>Philippines</b>	5.2	-0.5	5.9	9.8	8.7	10.1
<b>Indonesia</b>	4.7	-13.2	6.2	58.4	4.7	5.5
<b>Japan</b>	1.4	-2.8	1.7	0.6	3.4	4.1

Source: Yang, Y. (2001). 'Riding the Wave of the Asian Financial Crisis: Taiwan's

Lessons for Emerging Economies', in C. Lee (ed), *Taiwan, East Asia and Copenhagen Commitment*, Chung-hua Institution for Economic Research: Taipei.

As a result of Lee's "Go South" policy, Taiwan established a close relationship with Southeast Asia, and the latter became the former's major destination for trade and investment. However, this commercial relation was greatly undermined during the AFS. For example, Taiwan FDI in Thailand fell from \$2.8 billion in 1997 to \$158 million in 2000 (Tanner, 2006: 46). Its exports to Malaysia dropped 21.8% in 1999 (MAC, 2002b). Therefore, for Taiwan, although the AFS had little impact on its economy, its trade and investment relations with Southeast Asia were severely damaged, which made Lee's attempt to divert Taiwanese investment from China unsuccessful.

## **CONCLUSION**

Overall, Taiwan's cross-Strait economic policymaking in Lee Teng-hui's administration was dominated by strong protectionism policies. Internally, Lee's administration ignored calls for liberalisation by the Taiwanese business community and insisted pushing for restrictive policies towards the Mainland. These nationalist economic policies were motivated by the administration's concern of Taiwan's national security, which stemmed from an economically, diplomatically and militarily rising China. The 2000 Presidential election raised hope for a change in the cross-Strait commercial relation, and the next chapter will examine Taiwan's economic policymaking under the Chen Shui-bian administration.

## **Chapter Four**

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### **Taiwan's Cross-Strait Economic Policy under the Chen Shui-bian Administration (2000-2007)**

The previous chapter has shown why Taiwan under the Lee Teng-hui administration adopted aggressive economic nationalist policies towards the Mainland. When Chen Shui-bian was elected as the first DPP President in 2000, the new administration initially considered China as an opportunity, thus starting to encourage cross-Strait economic exchange. In 2001, the DPP government officially discarded Lee Teng-hui's "Go Slow, Be Patient" policy and replaced it with "Active Opening, Effective Management", which was aimed at relaxing the restrictions on and encouraging economic exchange with the Mainland (Tanner, 2006: 53). With the fear of deepening cross-Strait economic integration, frustration of diplomatic setbacks and military intimidation, however, the DPP government rapidly reverted its liberal strategy back to strong nationalist policies towards the Mainland. Not only did the "three direct links" continued to be prohibited, but a new policy "Effective Opening, Active Management" aimed at tightening the existing commercial links across the Strait was introduced in 2006 (MAC, 2006b).

In this chapter, I will examine why Chen's administration initially adopted seemingly liberal cross-Strait economic approaches but then changed back to restrictive nationalist approaches. Parallel to the structure in Chapter Three, I will first look at two internal factors, Taiwan's domestic politics and the role of its business community. Then I will examine an external factor, China's rapid growing expansion, which in this period of time

is of great importance to the world. I will utilise a combination of discourse analysis and economic data in the following analysis.

## **INTERNAL FACTORS**

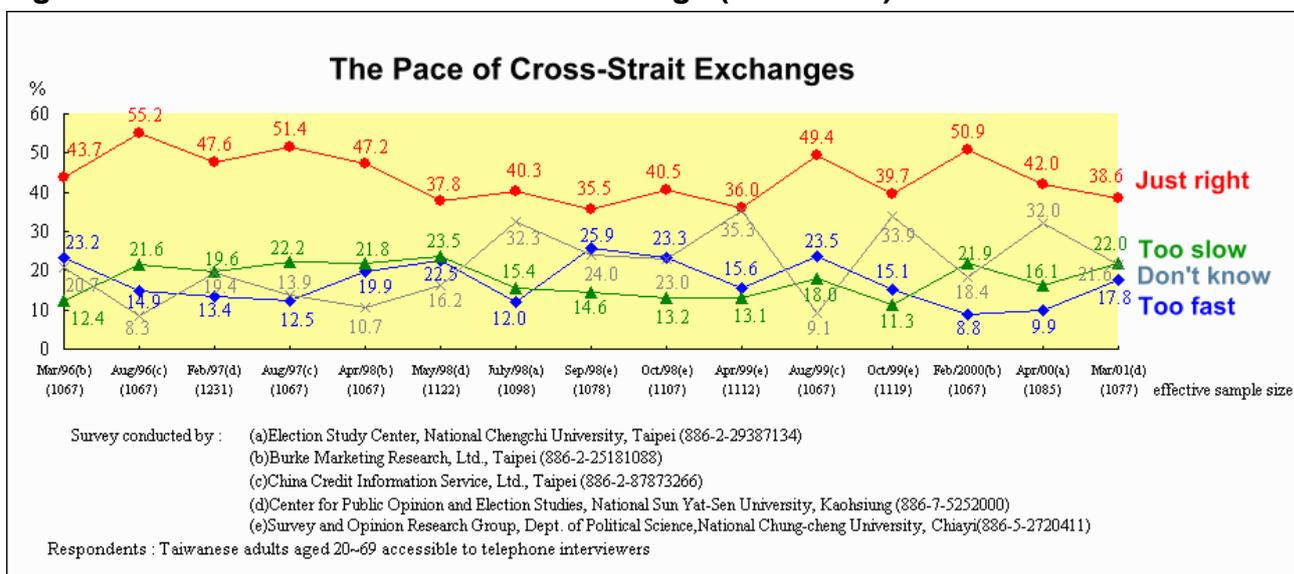
### *Taiwan's Domestic Politics*

Taiwan's 2000 Presidential election marked a significant milestone in the island's democratic development as it is the first time an opposition party came to power. The DPP candidate Chen Shui-bian, who won with the share of 39% of the votes, defeated James Soong, a former governor of Taiwan Province with 37% and KMT's candidate Lien Chan, the then Vice President in Lee's administration with 23% (Wang, 2002: 92). Chen's victory further complicated cross-Strait relations, not only because the DPP had actively promoted Taiwan's independence and sovereignty as manifested in its platform (DPP, 2010) but also because of Chen's previous history as an ardent supporter of the independence movement.

A few years before Chen got elected, social attitudes on the pace of cross-Strait exchange varied significantly. As Figure 4.1 indicates, although the proportion of respondents who believed that the pace was "too slow" tended to increase over time, nearly half of the population believed that the pace during Lee's Presidency was "just right". Despite of the majority of the public opinion favouring a status quo in the keeping the pace as what Lee administration set, later it turned out that Chen's administration initially did not follow the major trend, but to promote its own economic agenda.

Therefore, public opinion did not influence Chen government's economic stance towards China. Rather, factors other than public opinion accounted for Chen's economic position.

**Figure 4.1: The Pace of Cross-Strait Exchange (1996-2001)**



Source: Mainland Affairs Council, ROC,  
[http://www.mac.gov.tw/public/MMO/MAC/9003e\\_6.gif](http://www.mac.gov.tw/public/MMO/MAC/9003e_6.gif).

As Chen and the DPP came close to power, pragmatism towards the Mainland seemed to dominate. The DPP proclaimed in its 2000 election platform that “Taiwan should also seek to normalise ties with China as long-term goals” (DPP, 2000). Although not abandoning its principled stance on Taiwan’s status as an independent nation, the DPP seemed to be ready to improve cross-Strait relations. Unlike the previous Lee administration’s tightening up of commercial links with China for reasons of national security, Chen’s initial stance was to promote cross-Strait economic relations as an important means to keep peace and stability in the Strait. His idea of expanding trade and economic exchange as a source of peaceful relations between nations reflected the liberal economic thinking. Table 4.1 below shows ten official government statements

used in this section. The first four statements indicate Chen's liberal position as demonstrated in the analysis below.

**Table 4.1: Taiwan's Official Government Statements (2000-2007)**

<b>Occasion of the Speech</b>	<b>Date</b>	<b>Speaker</b>
(first) Inaugural Speech	20 <sup>th</sup> May 2000	Chen Shui-bian, President of the ROC
New Year Address	1 <sup>st</sup> January 2001	
Address to the 28 <sup>th</sup> Sino-Japanese Conference on Mainland China	26 <sup>th</sup> March 2001	Chong-pin Lin, Vice Chairman of MAC
New Year Address	1 <sup>st</sup> January 2002	Chen Shui-bian, President of the ROC
New Year Address	1 <sup>st</sup> January 2003	
(second) Inaugural Speech	20 <sup>th</sup> May 2004	
Address to the MAC Year End Conference	28 <sup>th</sup> January 2005	N/A
Address to the International Conference on the Rise of China: Challenges and Opportunities	28 <sup>th</sup> September 2005	Rong-I Wu, Vice Premier of the ROC
MAC Statement: The Crises and Risks of the Rise of China	28 <sup>th</sup> October 2005	MAC
New Year Address	1 <sup>st</sup> January 2006	Chen Shui-bian, President of the ROC

*Source: Mainland Affairs Council, ROC, <http://www.mac.gov.tw/mp.asp?mp=3>*

In his inaugural speech in May 2000, Chen not only stressed the harm of war in general, but urged that “it is time for the two sides to cast aside the hostilities” (MAC, 2000a). The primary concern of Chen's government, as shown in the speech, is peace in the Strait. Chen then extended his friendly gesture to the Mainland by pledging support for the

“Four Nos”<sup>9</sup> during his Presidency.

Chen’s political gestures permitted the possibility of his initial desire to liberalise cross-Strait economic relations. As he emphasised in his 2001 New Year address, “the two sides should start with the integration of our economies, trade, and culture to gradually build a new framework of permanent peace and political integration” (MAC, 2001a). Later in a conference on Mainland China in March, Dr. Lin Chong-pin, the then Vice Chairman of the Mainland Affairs Council, not only officially recognised the inevitability of “growing and even accelerating economic exchanges” in the Strait, but stressed the stance of the DPP government was that “we take pro-active approach on promoting socio-economic exchanges across the Taiwan Strait” (MAC, 2001b).

Followed by the introduction of the “Active Opening, Effective Management” policy, Chen stressed again in his 2002 New Year speech that “we are prepared to make more active efforts to promote a ‘constructive cooperative relationship’ in cross-Strait economic and trade for the greatest benefit and welfare of all” (MAC, 2002a). Similarly, in his 2003 New Year address, he clearly stated that “my administration has pursued stability in cross-Strait relations”, and “to make this a primary goal at this stage of cross-Strait development ... let us begin by creating a common niche for economic development, thus fostering an environment conducive to long-term engagement” (MAC, 2003).

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<sup>9</sup> “Four Nos” refers to “no change of the national title, no independence, no change in the Constitution and no referendum”. For full speech, see: MAC (2000), [http://www.mac.gov.tw/ct.asp?xItem=50894&ctNode=5913&mp=3&xq\\_xCat=2000](http://www.mac.gov.tw/ct.asp?xItem=50894&ctNode=5913&mp=3&xq_xCat=2000).

Therefore, from the above official statements, it is easy to see that the primary reason behind Chen's initial efforts to liberalise Taiwan's economic exchanges with the Mainland is the pursuit of peace and stability in cross-Strait relations. In Chen's second term as the President, however, the liberal tone towards the Mainland was dramatically shifted to a fairly strong nationalist one. China was again perceived as a threat to Taiwan's national security and sovereignty, and thus reducing the risks of liberalisation of cross-Strait trade and investment seemed to be imperative for the Taiwanese administration. Taiwan's changing perception of "Chinese threat" in economic, diplomatic and military respects, drawn from the last six government documents in Table 4.1, can be demonstrated below.

The first mention of the word "threat" appeared in Chen's 2004 inaugural speech. In contrast to four years ago, Chen hardened his tone in the speech, and stated that "(Taiwan is faced) with an ever-increasing military threat from across the Strait" (MAC, 2004a). In his year-end press conference in 2005, Jaushieh Wu, Chairman of the MAC, also pointed out the military oppression and diplomatic threat of China, as he stated that "efforts have been strengthened in (the) arms build-up, military deployment aimed at Taiwan, suffocating Taiwan in the international community, or suppressing Taiwan's international activities (by the Mainland)" (MAC, 2005a). It appears that the primary concern of the DPP government had changed from seeking permanent peace with China to preventing military intimidation and diplomatic suffocation from the Mainland.

Starting from 2005, the Taiwanese government acknowledged in their official documents that the threat from China not only came from military and diplomatic arenas, but also from the economic sphere. Their concern towards China's tactics of obtaining its political motives through economic exchanges grew rapidly. As the then Vice Premier Rong-i Wu expressed at an international conference in September 2005, "in recent years, Taiwan's resource and capital have to a certain degree flowed to the other side of the Strait...however, it (China) has actually indirectly strengthened China's ability to hold down Taiwan...the Taiwanese government must completely examine the rate and scope of the opening of cross-Strait exchanges in order to preserve social stability and national security" (MAC, 2005b).

In the next two months, the MAC produced two other documents commenting on the rise of China, and both not only equated "the rise of China" with "Chinese threat", but called for the Taiwanese government "(to) cautiously manage and plan such exchanges to safeguard our social stability and national security" (MAC, 2005b&c). In Chen's 2006 New Year speech, he officially introduced the "Active Management, Effective Liberalisation" policy in order to "effectively reduce risks from liberalisation (with the Mainland) and the reliance on China's economy". What's more, in his speech, Chinese threat was replaced by even stronger language of "China's ambition to annex Taiwan" (MAC, 2006a).

Furthermore, the DPP administration's economic nationalist policies towards China cannot be separated from the DPP's consistent efforts to raise nationalism awareness in Taiwan. Since 2000, Chen has moved the symbol of Taiwan to the centre of politics. He not only advanced the use of native Taiwanese languages and indigenous culture, but favoured native Taiwanese in hiring (Copper, 2008: 181). In 2005, the website for the President's Office modified the official title in the home page banner from 'Republic of China' to 'Republic of China (Taiwan)' (Chang and Holt, 2009: 322).

In addition, Chen was skilful in prioritising 'Taiwan' ahead of its official name 'the Republic of China (ROC)' in his speeches. Names, particularly in politics, are not labels used for convenience, but symbols carefully chosen to define identities (Chang and Holt, 2009: 303). As can be seen in Table 4.2, in Chen's Presidential addresses during his first term, Taiwan was mentioned 17.9 times on average, which was almost 4 times more than the mention of ROC. However, in his speeches during his second term, ROC dwindled while Taiwan increased rapidly in usage. On average, Taiwan was referred to 43.5 times, which was 15 times more than the frequency of ROC (Table 4.2). The excessive emphasis on Taiwan in Chen's official addresses reflected the DPP government's attempts to promote a distinctive Taiwanese national identity.

**Table 4.2: Frequency of words *Taiwan* and *ROC* in Presidential Addresses (2000-2008)**

<b>Occasion of the Speech</b>	<b>Date</b>	<b>Taiwan</b>	<b>Average (Taiwan)</b>	<b>ROC</b>	<b>Average (ROC)</b>
(first) Inaugural Speech	20/05/2000	41	18	9	4
Address to the 2000 National Day	10/10/2000	8		7	
Address to the 2000 National Day Rally	10/10/2000	11		5	
Millennium Talk	31/12/2000	20		4	
New Year Day Address	1/1/2001	13		9	
Address to the 2001 National Day	10/10/2001	12		3	
Address to the 2001 National Day Rally	10/10/2001	14		2	
New Year Day Address	1/1/2002	1		3	
Address to the 2002 National Day	10/10/2002	9		3	
Address to the 2002 National Day Rally	10/10/2002	28		3	
New Year Day Address	1/1/2003	20		3	
Address to the 2003 National Day	10/10/2003	29		3	
Address to the 2003 National Day Rally	10/10/2003	24		4	
New Year Day Address	1/1/2004	36	46	4	3
(second) Inaugural Speech	20/05/2004	48		8	
Address to the 2004 National Day	10/10/2004	26		2	
Address to the 2004 National Day Rally	10/10/2004	50		7	
New Year Day Address	1/1/2005	29		3	
Address to the 2005 National Day	10/10/2005	24		2	

Address to the 2005 National Day Rally	10/10/2005	32		1	
New Year Day Address	1/1/2006	64		2	
Address to the 2006 National Day	10/10/2006	57		2	
Address to the 2006 National Day Rally	10/10/2006	19		1	
New Year Day Address	1/1/2007	53		1	
Address to the 2007 National Day	10/10/2007	94		1	
New Year Day Address	1/1/2008	68		1	

Source: Chang H. and Holt, R. (2009). 'Taiwan and ROC: A Critical Analysis of President Chen Shui-bian's Construction of Taiwan Identity in National Speech', *National Identities*, 11 (3), pp. 301-330.

As can be seen, in Chen's second term, strong nationalist sentiment prevailed in Taiwan, and China was again considered as a threat. Chen's government not only tightened cross-Strait relations economically, but broke his political promise of "Four Nos" that he made in his 2000 inaugural speech. The DPP administration ceased the function of NRC and NRG, expedited Taiwan's constitution reform, promoted a referendum for Taiwan independence and supported joining the UN under the name of Taiwan (Copper, 2008: 189). But why did the DPP administration change its cross-Strait economic policies from initial liberalisation back to restrictions without worrying about the pressure from the business groups? In the next section, I will explore how Taiwan's business community's economic demands were not achieved during Chen's Presidency.

## Taiwan's Business Community

During Taiwan's transition in political power, its business community was also in a transitional period of enhancing their collective bargaining capacities. The list of Taiwan's big business groups who either supported Chen in his campaign or agreed to serve as his economic advisor was impressive (Tanner, 2006: 114). Won with just 39% of the vote, the DPP administration sought to gain more electoral support from the business sectors which were critical to Taiwan's economic growth (Copper, 2008: 180). Therefore, it initially responded to the business sector's demand by loosening the cross-Strait economic hurdles which promoted their business interests in China.

However, when the DPP government reverted their cross-Strait policies back to protectionism, the business community did not display sufficient electoral power and unity to drive Chen from office (Tanner, 2006: 112). Instead, they were constrained by pressure from Chen's administration. Taiwanese businessmen (taishang) were often labeled as "taijian", literally translated as "traitor to Taiwan" (Tanner, 2006: 122). By discrediting taishang's motivation and impugning their loyalty to Taiwan, Chen's administration undermined their political ability to pursue for more preferential treatment in cross-Strait relations (Tanner, 2006: 122). The then Vice President Annette Lu was one of the officials who attacked taishang on numerous occasions. For instance, in the 2004 legislative campaign, she suggested that the judgment of business people were clouded by their economic interests:

“So many tourists go to China every year, and so many businessmen make investment there. They follow what China wants them to do. If China says that it is against the holding of referendums, they would reject the idea. If China advocates ‘one China principal [sic],’ they would believe the idea as well. They cannot tell who the enemy is and who the friend is” (ET Today English, 2004).

As discussed earlier in chapter Two, Taiwanese businessmen were quasi-diplomats between Taiwan and China. By using such an incredible strong word of ‘enemy’, Lu sent a fairly clear and explicit message to Taiwan’s ‘diplomats’ that China is the enemy of state.

Therefore, the DPP government only responded to the business community’s appeal of liberalising cross-Strait relations for electoral purposes when it came to power in 2000. Later, it successfully resisted political pressure from the business community and quickly switched back to the previous nationalist economic policies. But why did the DPP administration shift their perspective of China quickly from an opportunity to a threat? The next section will show that since 2000, this is as a result of a stronger China in economic, diplomatic and military aspects.

## **EXTERNAL FACTORS**

### ***The Chinese Factor- A Stronger China***

During Chen’s Presidential terms, China had become a stronger neighbour of Taiwan.

Both the DPP administration's initial expansion of cross-Strait economic exchange and later restrictive policies as well as the "Chinese threat" perspective were responses to a rapidly stronger China, which can be examined from three sources: economic development, diplomatic influence and military power.

### **Economic Development**

Compared to its predecessor, Chen's government faced an economically stronger China. Between 2000 to 2007, China's economic growth and trade was impressive. Its GDP nearly tripled from \$1trillion to \$3 trillion, making China the fourth largest economy in the world at the start of 2005 (World Bank, 2012b). Its trade performance was even more impressive. Chinese exports rose from \$249 billion in 2000 to \$1218 billion in 2007, making it the world's second largest exporter only after Germany (China Statistical Yearbook, 2001&2008). Meanwhile, its imports grew seven times to \$96 billion in 2007 from 2000, making it the third largest import nation in the world and its inward foreign direct investment (FDI) also doubled, making it the world's third-largest recipient of FDI (China Statistical Yearbook, 2001&2008).

Furthermore, China has become more actively engaged in regional integration. In the early 1990s, China was not enthusiastic of formal, structured regional trade arrangements. However, after the 1998 financial crisis and its membership in the WTO in 2001, China has actively engaged in strengthening economic ties with its neighbours and promoting East Asian economic integration for long-term gain. For example, China

beat Japan and Korea to be the first to sign a free trade agreement with ASEAN, which encompassed a population of nearly two billion people and was expected to rival the EU and the North American Free Trade Zone (Wang, 2004: 34). In the first decade of the twenty-first century, the Chinese economy has become interdependent with the world.

In contrast to China's remarkable economic growth, Taiwan has witnessed an economic downturn during Chen's terms. Taiwan experienced more than 2% negative growth as government spending exceeded revenues by almost 50% and public debt encompassed 45% of the GDP (Chai, 2008: 88). Its GDP per capita stood at \$12,961 in 2000, which was 17 times more than that of China (China Statistical Yearbook, 2001). Eight years later, the gap decreased to only 4 times more (China Statistical Yearbook, 2008). In 2000, Taiwanese exports in the U.S. accounted for 3.3% of U.S.'s total exports, which was less than half of China's share of 8.2% (MAC, 2008d). In 2007, however, Taiwanese exports shares in the U.S. market declined to only 1.9% whereas Chinese products rose to over 16%, which stretched the gap to eight-fold (MAC, 2008d).

After Chen's initial economic opening in late 2001, the economic integration between China and Taiwan grew dramatically. In two years, total Taiwanese trade increased 1.7 times from \$27.8 billion to \$46.3 billion (MAC, 2008d). The share of cross-Strait trade in Taiwan's total foreign trade jumped from 12% in 2001 to 17% in 2003, making China the largest importer of Taiwanese goods since 2002 (MAC, 2008d). However, given China's large economies of scale, the cross-Strait economic ties were asymmetric in nature. In

2007, cross-Strait trade represented approximately 30% of Taiwan's total trade, but only about 5% of China's total trade (MAC, 2008d). Cross-Strait investment flows were even more imbalanced. In 2007, China attracted 60% of Taiwan's total FDI such that it became the foremost destination for Taiwan's foreign investment, but Taiwanese investment in China represented only 2.3% of the Mainland's total inflows of FDI (MAC, 2008d).

It thus can be seen that when China has become interdependent with the world, Taiwan has become over-dependent on China, which was the source of the DPP government's concern. As they suggested in a statement, "China has taken advantage of close bilateral trading and economic exchanges in strengthening its influence over Taiwan's political and social quarters" (MAC, 2005c), they perceived China's economic superiority would be likely to increase its political leverage over Taiwan and diversified its means to constrain Taiwan's independence movement. Therefore, China's speedy economic growth in this period of time lured the Chen administration to relax the cross-Strait economic restrictions initially, but later, also intensified the latter's sense of threat towards the former.

### **Diplomatic Influence**

As a result of its economic advantage, China was able to exercise its growing diplomatic influence to further isolate Taiwan internationally. Through foreign aid programs and investment projects, the DPP governments continued the previous administration's

efforts to buy diplomatic ties (Wang, Lee and Yu, 2011: 252). However, with China's economic ascendance and its unyielding stance on the 'one China' policy, Beijing has countered with its own 'dollar diplomacy', and the number of countries that recognise Taiwan as a sovereign state has continued to dwindle. During Chen's presidency, Taiwan's diplomatic allies decreased from 28 to 23 (Ministry of Foreign Affairs of the ROC, 2000).

Besides, Taiwan's efforts to participate in international organisations, even those non-political in nature, have been relentlessly blocked by China. For instance, the Chen administration intended to send Lee Yuan-tsu, a former Vice President, as the representative of ROC to attend the 2001 APEC summit in Shanghai (Wang, 2002: 112). However, Beijing refused to issue Lee an invitation on the grounds that Taiwan could send only a high-ranking economic official to APEC, which resulted in Taiwan's absence from the summit (Wang, 2002: 112). Even during SARS in 2003, the Chinese government refused to grant Taiwan the right to participate in the WHO since "Taiwan is a province of China" (Wang, Lee and Yu, 2011: 256). Its attempt to establish closer ties with the regional organisations also failed. In the aftermath of the 2004 tsunami disaster, its request to attend the world relief summit organised by ASEAN was turned down, despite Taiwan being the eighth largest donor to the neighbouring countries which suffered in the disaster (Hsiung, 2006: 263).

With China's expanding economic strength, as a MAC (2005c) statement said, "from the

diplomatic aspect, it (China) has continued to suppress Taiwan's activities in the international arena and further restricted other countries from developing any form of relations with Taiwan". Therefore, diplomatic frustration changed the DPP government's perspective on China, from an opportunity to a threat, at least diplomatically. However, the biggest threat they feared was China's growing military strength, which brought back strong nationalist sentiment in the authority.

### **Military Modernisation**

China's rapid military modernisation, due to its outstanding economic achievement, increased the gradual shifting of cross-Strait military balance, which greatly threatened Taiwan's national security.

Since the mid-1990s, the PLA has accelerated modernisation with the goal of developing military options for potential Taiwan scenarios (U.S. Department of Defense, 2005: i). During Chen's Presidency, China's military capability has improved significantly. Between 2000 and 2005, China's defense budget doubled to \$29.9 billion (U.S. Department of Defense, 2005: 21). The sharp increase in its defense budget allowed the military to spend on weapons procurement and upgrades, troop training and communication, computer and intelligence improvement (Yang, 2004: 9). The number of China's mid- and short-range (300-600 kilometres) ballistic missiles including Dongfeng-11 and Dongfeng-15 missiles deployed opposite to the shore of Taiwan reached 650-730, and the number was increasing at a rate of 100 per year (U.S.

Department of Defense, 2005: 4). In addition to ballistic missiles, procurement to build a sea denial capability, especially naval and air force platforms have also been prioritised by the PLA (Ding, 2009: 99).

In contrast to China's growing military spending, Taiwan's military budget demonstrated a gradual decline in its GDP from 2.91% in 2000 to 2.21% in 2006 (GlobalSecurity, 2012). U.S. arms sales to Taiwan have been the major source for the island to upgrade its military equipment. However, arms sales have been restrained as a part of the American pledge in the "third U.S-China Joint Communiqué" (Kastner, 2006: 91).

Taiwan's acquisition of military equipment was also constrained by its democratic system. Since the DPP government controlled the executive branch in 2000, the opposition forces dominated the legislature and heavily politicised arms procurement in Taiwan (Lee, 2007: 220). They opposed huge arms purchases from the U.S. based on concerns of the price, suitability and capability of purchased weapons (Lee, 2007: 220). Between 2001 to 2004, the government faced enormous protests and criticisms led by the opposition parties against the \$3 billion funding for the Kidd-class destroyer program, though they ultimately succeeded in purchasing the package in 2005 (Yang, 2004: 10). Except for the purchase of the destroyers and two long range Early Warning Radar Systems, there has not been much progress in Taiwan's procurement of those big-ticket items offered by the U.S. (Kastner, 2006: 100). Its defense strategy has been heavily dependent on missiles that are guided by satellite in the same way that the U.S. military

uses satellite technology for strategic strikes, which the Chinese government has been studying extensively in the Yugoslavia conflicts and Iraq War (Lin, 2008: 38). As a result of Taiwan's sagging economy, a limited defense budget and inner political struggle, the military capability balance between China and Taiwan was gradually shifting in China's favour.

## **CONCLUSION**

In sum, the DPP government gradually opened Taiwan's economic interactions with China when it came to power initially. It responded to the business community's demand of a more liberal environment for cross-Strait relations. However, as a consequence of China's expanding economic material strength, the administration was concerned about Taiwan's economy becoming over-dependent on Mainland China, as well as its diplomatic frustration and military threat. Thus, Chen's administration switched its cross-Strait economic strategy back to the nationalist policies of tightening its regulations, ignoring the business community's pursuits as what the previous administration did. It is apparent that the rise of China in economic, diplomatic and military arenas under Chen's terms created a vast power disparity between China and Taiwan and thus raised Taiwan's sense of threat. The economic situation, however, changed dramatically when the KMT's candidate Ma Ying-jeou was elected as the President in 2008. The next chapter will examine Taiwan's economic policymaking under his administration.

## **Chapter Five**

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### **Taiwan's Cross-Strait Economic Policy under the Ma Ying-jeou Administration (2008-Present)**

The previous chapter gives a thorough analysis of why Taiwan under the governance of Chen Shui-bian took an initial liberal position but soon reverted to the nationalist approaches in its cross-Strait economic policymaking. At the end of Chen's Presidency, Taiwan and China were hostile to each other, as was previously the case. The year of 2008, however, marked a dramatic change in their relationship. After the KMT candidate Ma Ying-jeou won the 2008 election, his administration actively proposed and quickly implemented a liberal economic strategy towards China that aimed for expanding bilateral economic relations and deepening commercial exchanges. Less than one year since Ma assumed the Presidency, the new administration launched the "three direct links"<sup>10</sup> that have long been contested across the Strait (MAC, 2009b). Furthermore, the signing of the Economic Cooperation Framework Agreement (ECFA) between the two sides in mid-2010 pushed the bilateral economic relations even closer (MAC, 2009b).

In this chapter, I will explain what motivated Ma's administration to adopt liberal economic policies towards the Mainland and argue that these liberal economic approaches actually serve three nationalist goals. Identical to the previous two chapters, I will first look at two internal factors, Taiwan's domestic politics and the role of its business society. Then, I will examine two external factors, a more confident China, and

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<sup>10</sup> Three direct links are: direct trade, transportation and communication.

an important regional/global event, which in this period, namely the 2008 Global Financial Crisis (GFC). For both factors, I will use a mix of discourse analysis and descriptive statistics to support the following argument.

## **INTERNAL FACTORS**

### *Taiwan's Domestic Politics*

In January and March 2008, the KMT won landslide victories in Taiwan's parliamentary and presidential elections respectively, marking its return to the centre of Taiwan's politics after eight years in exile. Since Ma Ying-jeou was sworn in as the President in May 2008, the Taiwanese government adopted a new approach towards the Mainland that contrasted starkly with previous administrations. Politically, Ma pledged no change of the status quo in the Taiwan Strait under the principle of "Three Nos"<sup>11</sup>(MAC, 2008a). He also proposed that negotiations between Taiwan and China should be based on the "One China, Different Interpretations" consensus, which was reached by the non-governmental representatives of Association of Relationship Across the Taiwan Straits (ARATS) and the Straits Exchange Foundation (SEF) in 1992 (MAC, 2008a). Both of his promises indicated a friendly gesture to the Mainland, that during his tenure, Taiwan will not pursue independence, though he also denied the possibility of unifying with China. In addition to political gestures, the Ma administration keenly focused on accelerating the normalisation and expansion of cross-Strait economic relations.

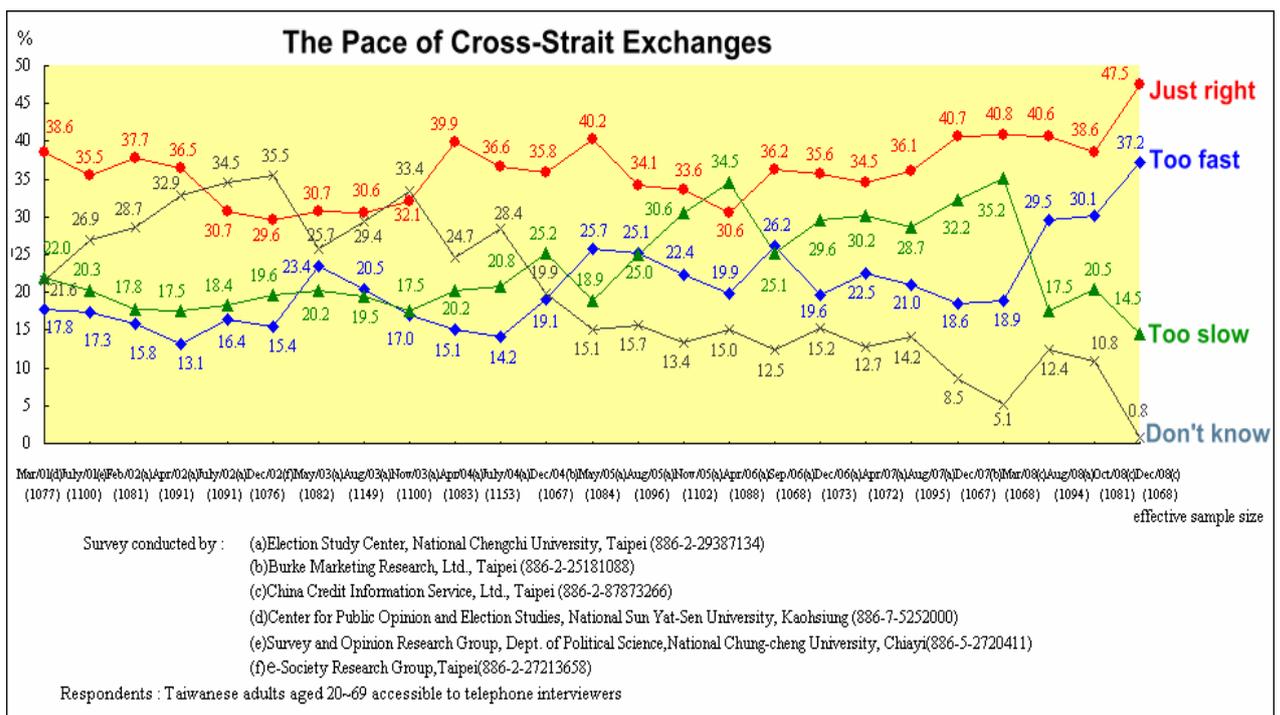
Few years before Ma got elected, social attitudes on the pace of cross-Strait exchange

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<sup>11</sup> "Three Nos" refers to "no unification, no independence and no use of force".

fluctuated. As Figure 5.1 shows, the proportion of respondents who believed that the pace of cross-Strait exchanges was “too slow” increased from 25% in 2006 to 35% in 2008. However, people who believe that the pace was “just right” constituted the largest proportion of 40%. Similar to the Chen administration, the Ma government did not follow the majority of the public opinion and pursued its own economic agenda. Therefore, public opinion did not account for Ma administration’s economic stance towards China. Then I will examine internal factors other than the public opinion, which in this period of time, is what President Ma said in numerous occasions.

**Figure 5.1: The Pace of Cross-Strait Exchange (2000-2008)**



Source: Mainland Affairs Council, ROC,

<http://www.mac.gov.tw/public/Attachment/911813121050.gif>

In the following formal speeches and government statements, which are listed in Table 5.1, Ma switched from aggressive nationalism to liberal nationalism by using liberal rhetoric. As can be demonstrated in Table 5.1, Ma brought up the concept of 'Taiwan' a lot, meanwhile, he also mentioned 'China' quite frequently in his speeches. Unlike his predecessor Chen, exclusive Taiwanese identity was no longer the focus, but the following three nationalist goals emerged to be the new centre of his speeches.

**Table 5.1: Taiwan's Official Government Statements (2008-Present)**

Occasion of the speech	Date	Speaker	Mention of Taiwan (times)	Mention of Mainland China (times)
(first) Inaugural Speech	20 <sup>th</sup> May 2008	Ma Ying-jeou, President of the ROC	53	7
Address to National Day	10 <sup>th</sup> October 2008		25	1
New Year Address	1 <sup>st</sup> January 2009		37	5
Address to the Europe Day Dinner	14 <sup>th</sup> May 2009		N/A	N/A
Address to National Day	10 <sup>th</sup> October 2010		44	12
Discussion with Taiwan's experts on PRC military affairs	28 <sup>th</sup> October 2010		N/A	N/A
(second) Inaugural Speech	20 <sup>th</sup> May 2012		55	6

Source: Mainland Affairs Council, ROC, <http://www.mac.gov.tw/mp.asp?mp=3>

The first goal of Ma's administration was to achieve peace and co-prosperity through deepening economic relations with the Mainland. In his inaugural speech in May 2008, Ma spent one quarter of the speech explaining his new mission to deal with cross-Strait

relations in his era, which demonstrated its significance to Taiwan (MAC, 2008a). The most frequent word he used in this section is “peace”, which appeared 7 times (MAC, 2008a). With a concluding remark of “we care about peaceful development of cross-Strait relations”, Ma explicitly and clearly stressed the importance of peace and regional stability in the Taiwan Strait.

In his National Day address, Ma further stressed that “our efforts to alleviate cross-trait confrontation, create a new dynamic for peace and enhance stability” (MAC, 2008c). The pursuit of peace and stability is not only a “win-win solution” in his own words, but can be achieved through “the normalisation of economic and cultural relations, (which) are the first step” (MAC, 2008c). As shown in Chapter Two, in addition to liberal economic nationalists, economic liberals also believed that increasing economic exchange are a source of peaceful relations among countries as mutual benefits would tend to promote (Mill, 1848: 120). The first goal might not be obvious to show the nationalist ambitions of Ma’s administration, but the second and the third will reveal this nationalist goal more obviously. The second motivation of Ma’s liberal cross-Strait economic policy is to improve Taiwan’s global economic standing. In his 2009 New Year’s address, Ma clearly stated that “we should seize this opportunity to enhance Taiwan’s economic standing in the world”, and by “this opportunity”, he means “the increasing interdependence between Taiwan and China” indicated in the following sentence (MAC, 2009a). Five months later during his Europe Day Dinner statement, he actively promoted the idea of ECFA, aiming to “encourage foreign companies to do business in Taiwan, avoid Taiwan being

marginalised, upgrade its industrial competitiveness, bring its economy to international standards, and enhance its global standing” (MAC, 2009b).

Although implicitly stated, in practical terms, Ma considered expanding commercial links with the Mainland as a jumping board to attracting other trading partners and increasing its international economic competitiveness. ECFA is obviously a starting point for Taiwan, and Ma’s economic strategy is to integrate Taiwan with the rest of the world through the deepening link with the Mainland first. He frequently, for example, at the 2010 National Day address, called for Taiwan’s attention to “recognise the importance of economic integration in the Asia-Pacific region and the economic rise of China”, as well as a smartly put metaphor that “we certainly cannot afford to play the ostrich by burying our heads in the sand” (MAC, 2010a). Even in his second inaugural speech in May 2012, Ma made sure that he clearly expressed the message to the world that “we (Taiwan) must speedily complete follow-up talks under the ECFA and expedite on economic cooperation agreements with (other) important trading partners” (MAC, 2012a). This sense of urgency to bolster Taiwan’s national economy no doubt pushed its government’s liberal policies towards the Mainland.

The third driver of the Ma administration’s liberal policy was to achieve a diplomatic truce with the Mainland and thus winning Taiwan more international space. In his inaugural speech in 2008, Ma made it clear that “Taiwan doesn't just want security and prosperity. It wants dignity” (MAC, 2008a). By dignity, he referred to “Taiwan no longer being

isolated in the international arena” (MAC, 2008a). He realised that without the improvement of cross-Strait relations as foundations, Taiwan could not improve its image in the world. Thus, during his Europe Day Dinner address in 2009, Ma explained the “essence of ‘diplomatic truce’ and ‘flexible diplomacy’”, which is “taking the initiative in starting a vicious cycle of cross-Strait interaction in the world” (MAC, 2009b). For years, the fear of being politically manipulated by the Mainland through its economic means dominated the Taiwanese government’s cross-Strait economic debate. Ironically, Ma’s administration tried to gain benefits diplomatically by increasing its economic ties with the Mainland, which reversed the direction of the concern.

As Ma told Taiwan’s PRC military experts, “our defense force are not the only means for safeguarding security in the Taiwan Strait, which is why the government is actively promoting cross-Strait economic and cultural ties” (MAC, 2010b), it is evident that what motivated Ma’s liberal cross-Strait economic policymaking were nationalist goals: maintaining peace and stability in the Strait, increasing Taiwan’s economic competitiveness as well as playing a more important diplomatic role in the world. Thus, Ma’s attempts to liberalise cross-Strait exchanges can be classified as liberal economic nationalist approaches. The next section examines the role of Taiwan’s business society and how Ma Ying-jeou’s administration responded to their demands.

### *Taiwan’s Business Society*

Unlike the previous administrations, Ma’s government not only supported Taiwanese business community’s demands, but achieved what it had long advocated: an open

business environment trading with and investing in China. In his inaugural speech in 2008, Ma particularly emphasised that “Taiwan’s enterprises should be encouraged to establish themselves at home, network through the Asia-Pacific region, and position themselves globally” (MAC, 2008a).

Later, during his meeting with delegates from the Straits Exchange Foundation (SEF) who were heading to China for cross-Strait economic negotiations, Ma stated that “no individual or group of persons can sell out Taiwan”, and he added that “the so-called ‘betrayal of Taiwan’ is an expression based on a way of thinking from 20 or 30 years ago” (MAC, 2009d). Ma’s statement intended not only to negate the previous DPP government’s portrayal of Taiwanese businessmen (taishang) as traitors because they demanded more liberal economic policies, but relieved the potential political pressure for SEF to seek a closer tie with the Mainland. In his ECFA debate with the opposition leader Ing-wen Tsai in 2010, Ma Ying-jeou used an example of the small enterprise he visited in Taichung, a city located in the west-central Taiwan, to illustrate that signing of ECFA would be beneficial to both big- and small- to medium-sized enterprises (Taiwan News, 2010).

The 2012 Presidential election not only marked the victory of Ma Ying-jeou, but witnessed a bigger role of the taishang in influencing the island’s Presidential race. When Ma faced a vigorous challenge from Tsai, taishang executives urged their compatriots to return home to vote for Ma (Jacobs, 2012b). In his interview with the New

York Times, Mr. Lin Qingfa, chairman of the Beijing Association of Taiwan Enterprises, confirmed the concern that many taishang had for this election: “there is a feeling that if Tsai Ing-wen is elected, cross-Strait relations will suffer and so will our business opportunities” (Jacobs, 2012a). Business leaders also arranged for discounted plane tickets, pressed Chinese and Taiwanese airlines to add 200 flights so that taishang were able to fly back and vote, which made an estimated 200,000 people return to Taiwan for the election (Jacobs, 2012a). Thus, it can be seen that the Taiwanese business community welcomed the economic benefits that were generated from the liberal economic policies Ma advocated in his first term and helped Ma win the 2012 Presidential battle.

## **EXTERNAL FACTORS**

### *The Chinese Factor- A More Confident China*

Since late 2000s, China has gradually increased its confidence in its role in the world. The KMT government under Ma’s leadership realised the inevitability of China’s global influence, thus smartly shifting its cross-Strait strategy to active engagement with its powerful neighbour across the Strait. But where had China’s confidence come from? The following analysis will demonstrate that since 2008, this is as a result of China’s continuing economic development, its growing diplomatic influence and increasing military power.

## **Economic Development**

The Chinese economy has continued its phenomenal growth during Ma's era, which has built the foundation of China's confidence. Its GDP increased 1.7 times from \$4.5 trillion in 2008 to \$7.3 trillion in 2011, surpassing Japan to become the world's second largest economy in 2010 (World Bank, 2012b). Its annual GDP growth rate still remained robust with an average rate of 9.5% over the past four years (World Bank, 2012a). Although its exports suffered a 10% decrease and imports merely increased 4% in 2009 due to the Global Financial Crisis (GFC), its trade bounced back strongly with a 28% and 10% increase in the respective sector in the following year. Breaking down the trade components, its merchandise exports and imports ranked the first and the second place in the world respectively in 2010 (WTO, 2012).

As China's economic development has continued to grow, so too has its economic integration in the Asian region. China's free trade agreement with ASEAN, which came into effect at the beginning of 2010 is a typical example of China's expanding economic cooperation in the region, as well as the source of the Taiwanese government's economic concern. The "ASEAN+1" and "ASEAN+3" arrangements, which were expected to cause Taiwan's actual GDP to drop by 0.15% and 1.1% respectively, prevented Taiwan's businesses from competing effectively in the Asian market and would potentially cause eventual regional marginalisation (Jin, 2003: 15).

As Ma said in his press conference following his inauguration in 2008, "we (Taiwan)

could be marginalised in the future if that organisation (ASEAN) becomes the largest economic integration entity not just in Asia but in the world” (MAC, 2008b). In February 2010 he explained the major reason for Taiwan to sign ECFA with the Mainland, namely that “Taiwan’s competitiveness will be adversely affected by the free trade agreement between the ASEAN and the Mainland” (MAC, 2010c). As such, Ma’s administration had no choice but to seek a liberal and open economic strategy facing its economically confident neighbour, or otherwise being marginalised in a world that has been engaging with China economically.

### **Diplomatic Influence**

China also shifted its previous diplomatic tactic of blockading Taiwan on the global stage. First, China redefined the principles of “One China”. Previous Chinese leaders were more interested in using nationalistic rhetoric such as “Taiwan is an inalienable part of China” or advocated the “One Country, Two Systems” policy (The Central Government of the PRC, 1993). Contrary to his predecessors, Hu Jintao, the incumbent President of China, not only endorsed the concept of “One China, Different Interpretations”, or the “1992 Consensus” and promoted this both regionally and internationally (Xinhua Net, 2008). In a telephone conversation with President Bush in March 2008, a week after Ma’s Presidential election, Hu clearly stated that “the Chinese Mainland should restore consultations and talks on the basis of the ‘1992 Consensus’” (Xinhua Net, 2008).

China not only softened its diplomatic tones to Taiwan, but lessened constraints on the

latter's activities in the world. Since Ma assumed Presidency, China refrained from its previous money diplomacy of buying Taiwan's diplomatic allies (Lin, 2008: 14). Unlike previous governments, Ma's administration did not lose any diplomatic allies, and the number remained at 23 (Ministry of Foreign Affairs of ROC, 2012). In addition to stop fighting with Taiwan for its diplomatic partners, China also allowed Taiwan to participate in some of the international organisations. One year after Ma's Presidential victory, former Vice President Lien Chan, represented Taiwan to attend the 2009 APEC Economic Leaders' Meeting in Singapore (MAC, 2009b). In the same year, Taiwan finally acceded to the World Health Assembly (WHA) as an observer under the name of Chinese Taipei after 12 years pushing for participation (MAC, 2009b). These seeming diplomatic successes of Taiwan, yet, would not be thinkable without China's acquiescence. Thus, with its strong economic background, China's greater flexibility on Taiwan's international status reflected the former's increasing confidence.

### **Military Modernisation**

Lastly, rapid military development complements the economic and diplomatic factors to provide China with more confidence in dealing with Taiwan. As the annual report on the PRC's military development produced by the U.S. Department of Defense (2011:7) pointed out, "the balance of military force continued to shift in China's favour". Its sustained economic growth has enabled China to focus greater resources on the army. One measure of increasing resources for the PLA is its continued growth in annual official budget, which almost doubled from \$60.1 billion in 2008 to \$106 billion in 2012

(U.S. Department of Defense, 2008 & 2012).

Another measure is the acquisition of advanced weaponry. Formerly, Taiwan could rely on its smaller but better equipped military to keep the PLA at bay, however, the latter's revolutionary progress in acquiring state-of-the-art combat capabilities means that Taiwan's qualitative edge is rapidly diminishing (Zhang, 2011: 278). As Murray from the U.S. Naval War College (2008: 13) outlines in his article, "new Chinese submarines, advanced surface-to-air missiles, and especially short-range ballistic and land-attack cruise missiles have greatly reduced Taiwan's geographical advantage. Taipei can no longer expect to counter Chinese military strengths in a symmetrical manner". The most advanced Chinese fighters (such as the J-10s and FC-1s) and naval warships (such as China's equivalent of the American Aegis-class destroyers) now match the current capacities of Taiwan's U.S.-supplied inventories (Zhang, 2011: 278).

With China's growing confidence, yet, Taiwan chose to adopt a liberal approach in cross-Strait economic relations because Taiwan realised that it could no longer resist China's global economic, diplomatic and military superiority. In addition to China's growing confidence, the next section will examine an important world event, which in Ma's tenure, is the 2008 Global Financial Crisis.

### *A Global Event- 2008 Global Financial Crisis (GFC)*

The bankruptcy of Lehman Brothers in September 2008 triggered the largest global financial tsunami since the Great Depression of 1930s. Those economies whose

financial sectors had been highly internationalised and whose economies were closely linked to the U.S. were severely affected. Although the extent of asset destruction in Taiwan was limited because the level of financial internationalisation still remained low, Taiwan's export performance was badly impacted as a result of the worsening economic climate in North America and Europe, Taiwan's major trading partners, leading to rapidly declining import demand (Wang, 2010: 254). Take the year of 2009 for example: Taiwan's exports to the U.S., Japan and the United Kingdom declined 23.5%, 17.4% and 17.9% respectively compared to the previous year (MAC, 2011). Taiwanese exports to China decreased at the same time, however, the overall trade surplus of Taiwan in 2009 was \$38 billion, which largely outweighed its world trade surplus of \$29 billion (MAC, 2011). In other words, Taiwan's world trade balance would be in deficit without trade with the Mainland.

As Ma (MAC, 2009b) stated in the National Day Address in 2009, "our (Taiwanese) government immediately responded to these challenges with deliberate and measure action", among which "open(ing) up new vistas for business by liberalising restrictions on economic interchange between Taiwan and mainland China" was one of the important solutions. Thus, to Ma's administration, opening up Taiwan's economy to the Mainland and promoting the signing of ECFA would be a significant strategy for expanding Taiwan's access to the huge Chinese market and stimulating its economy to tackle the GFC. Therefore, the GFC weakened the global position of most major economies but China, which furthered Taiwan's understanding of the importance of Chinese economy

and pushed its own economy to integrate with the Mainland's.

## **CONCLUSION**

Overall, since Ma Ying-jeou was elected as ROC's President, Taiwan adopted a whole new set of strategies towards the Mainland. His administration extended political gestures to China by pledging to act under the "1992 Consensus" and "Three Nos" principles, and followed its business groups' strong demands of liberalising and expanding cross-Strait economic exchanges. These liberal economic policies, however, serve three nationalist goals of maintaining peace in the Strait, improving Taiwan's economic status and gaining Taiwan more diplomatic flexibility. Having the same purpose to safeguard the core national interests of Taiwan, Ma realised the vast power differential across the Strait economically, diplomatically and militarily, and thus chose a different way of interacting with the Mainland. The strategy appeared to be effective as it not only enabled Ma to be re-elected, but greatly reduced the tension across the Strait and promoted mutual economic benefits.

## **Chapter Six- Conclusion**

### **Taiwan's Changing Cross-Strait Economic Policymaking**

This thesis has demonstrated that Taiwan's economic policymaking towards Mainland China has changed over the past two decades. Focusing on economic nationalist and economic liberalist perspectives, the study has analysed Taiwan's cross-Strait economic policies under three distinctive Taiwanese administrations: Lee Teng-hui (1990-1999), Chen Shui-bian (2000-2007) and Ma Ying-jeou (2008-Present). In each period of time, both Taiwan's internal factors and external factors have been considered. What has been shown is that the external factor, China's growing power in economic, diplomatic and military arenas, has driven Taiwan's changing commercial relationship with China since the 1990s. It has also demonstrated that different policy choices taken by different Taiwanese administrations were motivated by the same nationalist goal of protecting Taiwan's security and maintaining its 'sovereignty'. The concluding chapter first reiterates the history of Taiwan's political economy and explains why two economic theoretical approaches were taken to study its changing commercial relationship with China since the 1990s. It then presents the key findings and the implications for future research.

### **HISTORY OF TAIWAN'S POLITICAL ECONOMY**

Cross-Strait trade and investment flows were prohibited under the leadership of Chiang Kai-shek, who lost the Mainland to the CCP in 1949. Chiang Ching-kuo, Chiang Kai-shek's son, took over the Presidency in 1978 and concentrated on building up

Taiwan's economy. From 1949 to 1986, Taiwan's average economic growth reached 8.8% per annum and its GNP per capita increased 36-fold from \$100 to \$3,600 (Wade, 2004: 38). All of these accomplishments can be attributed to Taiwan's developmental state model, which is a political economy in East Asia that is distinctive from the Anglo-American liberal market model.

In Taiwan, the state enjoyed a high degree of autonomy which enabled it to influence the decision making in the private sector. With the planning and guidance of two of its economic bureaucracies, CEPD and IDB, the Taiwanese government prioritised the use of resources for industries critical to its economic growth and focused on an export-driven economic strategy (Wade, 2004: 26). As a result of its outstanding economic achievement, Taiwan, along with South Korea, Singapore and Hong Kong, has been internationally known as one of Asia's four little dragons.

During the same period, China also started to open up to the world and experienced rapid economic development. Although cross-Strait trade and investment were still officially prohibited under Chiang Ching-kuo's earlier rule, great change took place several years before his death. Within Taiwan, the DPP, Taiwan's first opposition party was officially recognised in 1986 and the martial law was lifted in 1987, which marked a great step in Taiwan's democratization (Cheng and Lin, 1999: 236). Outside of Taiwan, indirect trade through Hong Kong and small-scale investment across the Taiwan Strait were permitted in 1985, and Taiwanese were allowed to visit the Mainland in 1987

(Tanner, 2006: 39). Flows of trade and investment across the Strait thus emerged. However, Taiwan's economic policymaking towards the Mainland has varied since the 1990s. Through the lenses of economic nationalism and economic liberalism, the next section examines different policies taken by three different Taiwanese administrations and explains the nationalist motivations underpinning the policy choices.

## **THE IMPORTANCE OF NATIONALISM**

Taiwan's relationship with China is not an official diplomatic one as the former has not been recognised as a country, but rather dominated by economic links. Given the uniqueness of this case study, it is appropriate to introduce two IPE theories, economic nationalism and economic liberalism, as foundations to understand this changing commercial relation over the last two decades. By tracing the evolution of Taiwan's economic policymaking towards China under three distinctive Taiwanese administrations, we witness an empirical example of the competition between these two theories.

Under the Lee Teng-hui administration, the thesis has shown that classical economic nationalism was the mainstream thinking that dominated Taiwan's economic policymaking towards the Mainland. The core of the Lee administration's concerns was Taiwan's national security. In their view, cross-Strait economic policy should be subordinated to Taiwan's national interests, and when the acceleration of cross-Strait commercial exchanges was likely to give China more political leverage and compromise Taiwan's 'sovereignty', the commercial exchanges were restricted. Therefore, Lee's

government accepted strong economic nationalist measures towards cross-Strait trade and investment, including the “Go South” policy in 1993, the “No Haste, Be Patient” policy in 1996 and the continuing restrictions on the “three direct links” (Tanner, 2006: 45). In Lee’s Presidency, strong economic protectionism against China was observed to be an important way of safeguarding Taiwan’s security.

During Chen Shui-bian’s era, economic liberalism emerged at first, but was soon taken over by economic nationalism. In accordance with economic liberalist thinking, Chen’s administration regarded expansion of cross-Strait economic exchanges as a means to maintain peace between Taiwan and China. That’s why the DPP administration quickly replaced Lee’s policy with its liberal policy of “Active Opening, Effective Management” in 2001 (Tanner, 2006: 53). However, the seemingly liberal economic policy did not last long. In fact, strong economic nationalism came back to dominate Taiwanese authorities’ thinking. China was again considered as a threat to Taiwan’s national security, thus restrictive economic measures were implemented. “Three direct links” continued to be prohibited, and in 2006, Chen’s government changed the policy to “Active Management, Effective Opening”, aiming at tightening up the supervision of Taiwanese investment in China (MAC, 2006b). In Chen’s government, initially liberal economic and later restrictive measures were believed to be significant means to protect Taiwan’s national interests.

In Ma Ying-jeou’s era, liberal economic nationalism dominated the government’s approaches in managing cross-Strait commercial relations. In less than one year’s time,

Ma's administration not only solved the "three direct links" issue, but actively promoted the negotiations with the Mainland for more mutual economic benefits (MAC, 2009b). With the goal of gradually reducing tariffs and liberalisation of commercial transactions, the signing of ECFA in 2010 marked a milestone in cross-Strait economic relations, as the commercial ties of the two sides were officially liberalised (MAC, 2012a). Yet, the creation of a more favourable environment for cross-Strait economic relations actually served three nationalist goals: maintaining peace, increasing Taiwan's economic standing and participating in more international activities. Although Ma's administration adopted different techniques from the previous administrations, it still aimed at achieving the same ends of bolstering Taiwan's power and prestige.

By examining three periods of time, this thesis has revealed that Taiwan's cross-Strait economic approaches switched from aggressive nationalism to liberal nationalism. Despite different economic strategies used, all three governments were motivated by the same nationalist reason: protecting Taiwan's security and maintaining its 'sovereignty'. The economic means did vary from strong protectionism to gradual liberal policies. However, the purpose of safeguarding Taiwan's national interests remained the same over the past twenty years.

## **THE IMPORTANCE OF CHINA**

The central conclusion that may be drawn from my study is that China's rise, the external factor, accounts for Taiwan's changing cross-Strait economic policymaking. In all three

administrations, Taiwan's domestic politics concern stemmed from an economically, diplomatically and militarily stronger China.

In Lee's era, the national security concern came from China's rapidly growing power. Its rapid economic development not only attracted many Taiwanese corporations, but enabled China to diplomatically isolate and militarily intimidate Taiwan. During Chen's Presidency, an economically more global integrated China became irresistible to Taiwanese businessmen, thus created its image as an opportunity to the DPP authority. Meanwhile, China's increasing diplomatic influence and military advancement as well as Taiwan's economic over-dependence on China increased the DPP's anxiety, thus changing its perception on China from an opportunity to a threat. In Ma's administration, a more confident China as a result of its increasing power in all terms made Taiwan realise its vast power disadvantage with China. At this stage, engaging with China economically appeared to be a wise option for Taiwan to safeguard its national security and restore national pride.

It can be seen that during the administrations of Lee and Chen, it was in the national interest for Taiwan to put great barriers in cross-Strait economic exchanges, but during Ma's Presidency, it seemed to be more in the national interest to encourage economic integration. But throughout these three periods of time, Taiwanese government's economic decisions have been derived from its assessment on China's rising power. That illustrates the nature of the economic relations between Taiwan and China.

## **CONCLUSION AND IMPLICATIONS FOR FUTURE RESEARCH**

The thesis suggests a future research agenda for the study of the relationship between a minor state and a major state. This study has demonstrated that in the case of Taiwan, the Chinese factor has dominated Taiwan's cross-Strait economic policymaking. Regardless of what policies Taiwanese administrations put forward, their fundamental concerns are Taiwan's national security and interests. Yet, the source of this concern is not from domestic politics, but rather an assessment of China's overall power.

While it would be wrong to make generalisations about all the relationships between weak and strong states, this study suggests that potentially there is a framework to understand the way in which small states embrace policy choices reflecting their regional realities with large powerful neighbours. In the relationship, geopolitics potentially overrides other considerations such as ideologies and economic benefits. Thus, the scholarly task ahead is to explore the relationships of other weak and strong states to test this proposition. For instance, nations which are geographically proximate, historically connected and culturally affiliated such as Russia and Ukraine, Canada and the U.S., Pacific Islands and Australia would make good case studies.

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