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**Cross-Strait Relations in the Process of Economic Integration:
Same Game, But Different Logic**

By

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**A thesis submitted in partial fulfilment for the degree of
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Declaration

This Thesis is submitted to the University of Warwick in support of my application for the degree of Doctor of Philosophy. It has been composed by myself and has not been submitted in any previous application for any degree.

Thesis Abstract

This thesis provides a theoretical and empirical examination of the contentious “sovereignty” dispute between Taiwan and China, especially following the signing of the Cross-Strait Economic Cooperation Framework Agreement (ECFA) in 2010. Distinctive from many contemporary studies of cross-Strait relations, this research analyzes Beijing’s and Taipei’s political agendas regarding sovereignty in the broader context of East Asian economic integration, as the ECFA is in fact the byproduct of their regional strategies. Commercial diplomacy and interdependence theory constitute the theoretical framework of this thesis. Moreover, this thesis employs various definitions of sovereignty in order to evaluate the extent to which China has impacted upon Taiwan’s sovereignty in the process of economic integration.

By employing document analysis and elite interview methodologies, this thesis finds that Taipei has a limited ability to protect its sovereignty from China’s commercial diplomacy in the post-ECFA era. This outcome can be explained by Beijing’s efforts to marginalize Taiwan during the construction of East Asian regionalism, which has driven Taipei to shift its strategy from confrontation to cooperation with Beijing so as to secure its economic and sovereignty interests. To date, economic integration features centrally in Taiwan’s new Mainland policy. This has increased the degree of Taiwan’s economic dependence on China, which gives greater scope for Beijing to wield commercial diplomacy to infringe upon Taiwan’s domestic, functional, and *de jure* sovereignty.

This thesis makes two overall contributions. The most significant contribution of this thesis is its pioneering research approach, which analyzes how China and Taiwan reconcile their economic interests and sovereignty concerns through the lens of commercial diplomacy. Furthermore, by categorizing sovereignty according to its different aspects, this thesis also contributes to the understanding of the effectiveness of China’s commercial diplomacy in furthering its sovereignty interests with regards to Taiwan.

Abbreviation

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AIIB	Asian Infrastructure Investment Bank
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three (China, Japan, South Korea)
APS	ASEAN Plus Six (Australia, China, India, Japan, New Zealand, South Korea)
ASEAN	Association of Southeast Asian Nations
BDCC	Buyer-Driven Commodity Chain
BIPPA	Cross-Strait Bilateral Investment Protection and Promotion Agreement
CAFTA	China-ASEAN Free Trade Area
CCP	Chinese Communist Party
CSECC	Cross-Straits Economic Cooperation Committee
CSSTA	Cross-Strait Agreement on Trade in Services
DPP	Democratic Progressive Party
ECFA	Cross-Strait Economic Cooperation Framework Agreement
EHL	Early Harvest List
EPZ	Export-processing Zone
EU	European Union
EVSL	Early Voluntary Sectoral Liberalization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GDP	Gross Domestic Product
GPA	Agreement on Government Procurement
HS	Harmonized System of trade classification
ICT	Information and Communication Technology
IMF	International Monetary Fund

IPN	International Production Network
ITA	Information Technology Agreement
ITRI	Industrial Technology Research Institute, Republic of China
KMT	Kuomintang
MAC	Mainland Affairs Council of the Executive Yuan of the Republic of China
MLCC	Multi-Layer Ceramic Capacitors
MNC	Multinational Corporation
MOEA	Ministry of Economic Affairs of the Republic of China
MOFA, PRC	Ministry of Foreign Affairs of the People's Republic of China
MOFA, ROC	Ministry of Foreign Affairs of the Republic of China
MOU	Memorandum of Understanding between China and the World Health Organization Secretariat
NCCU	National Chengchi University
NPC	National People's Congress of the People's Republic of China
OBM	Original Brand Manufacturer
ODM	Original Design Manufacturer
OECD	Organization for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
PFP	People First Party
PPP	Purchasing Power Parity
PRC	People's Republic of China
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
ROC	Republic of China
ROK	Republic of Korea
ROO	Rules of Origins
RPN	Regional Production Network
RTA	Regional Free Trade Agreement
SEF	Straits Exchange Foundation
SEZ	Special Economic Zone
SITC	Standard International Trade Classification
TIFA	Trade and Investment Framework Agreement

TPA	Trade Promotion Authority
TPKM	Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu
TPP	Trans-Pacific Partnership
TSMC	Taiwan Semiconductor Manufacturing Company
US	United States of America
UN	United Nations
WHA	World Health Assembly
WHO	World Health Organization
WTO	World Trade Organization

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Chapter 1 Introduction

1.1 Cross-Strait Relations in the Post-ECFA Era: Arguments and Questions

Economic integration has become the main impetus for the rapprochement of the relationship between China and Taiwan since the 1990s.¹ This dynamic became much more salient in China's Taiwan policy when both sides signed the Cross-Strait Economic Cooperation Framework Agreement (ECFA) in 2010 based on the ambiguous "one-China principle"—the 1992 Consensus.² This thesis argues that the ongoing process of economic integration in the Asia-Pacific region has helped China to convince Taiwan of the benefits of cross-Strait economic integration. This has allowed Beijing to infringe on Taiwan's sovereignty by utilizing commercial diplomacy in the process of cross-Strait economic integration, which is in turn favorable for China's goal of achieving peaceful reunification. This thesis employs document analysis and elite interviewing to evaluate the effectiveness of China's commercial diplomacy towards Taiwan, particularly from the decision to commence negotiation over the ECFA in 2008 to the emergence of the Sunflower Movement in 2014, which resulted in the stagnation of cross-Strait economic integration. However, this thesis will also tackle a number of further questions. To what extent has China infringed on Taiwan's sovereignty in the process of economic integration? How effective is China's commercial diplomacy towards Taiwan? Under what conditions can China enhance its influence over Taiwan by utilizing commercial diplomacy?

¹ China refers to the People's Republic of China, PRC, Mainland China, the Chinese mainland, the Mainland, and Beijing, whereas Taiwan refers to the Republic of China, the ROC in abbreviation, Chinese Taipei, and Taipei. Notably, these titles in this thesis are for academic research only; I have no intention to define either side's political status in reality.

² Pasha L. Hsieh, "The China-Taiwan ECFA, Geopolitical Dimensions and WTO Law", *Journal of International Economic Law* 14, no. 1 (2011): 121-22.

These research questions are very important for three reasons, which stem from debates over the current development of cross-Strait relations—especially with respect to impacts of cross-Strait economic integration on Taiwan’s sovereignty—while the effectiveness of China’s Taiwan strategy has often been exaggerated.

Firstly, contemporary literature on cross-Strait relations has the propensity to discuss the issue of Taiwan’s sovereignty in the context of economic integration across the Taiwan Strait, yet the definition of sovereignty remains unclear. Indeed, scholars who contend that Taiwan’s sovereignty has been eroded in the process of economic integration pay close attention to the guiding principle of China’s Taiwan policy—“using economics to push for reunification”.³ Furthermore, Taiwan’s reacceptance of the 1992 Consensus is important evidence in support of these arguments. However, asserting that cross-Strait economic integration would automatically result in cross-Strait peaceful reunification based on the 1992 Consensus is equal to hypothesizing that the ECFA can directly alter the *status quo* across the Taiwan Strait, which is not in accordance with reality.

As will be discussed in chapter 2, the 1992 Consensus is, in essence, a flexible version of the “one-China principle”.⁴ In brief, the 1992 Consensus emphasizes that both the mainland and Taiwan belong to “the only one-China in the world”, but it allows Beijing and Taipei to have different definitions of which side represents

³ For more examples, please see: Tsai-Lung Hong and Chih-hai Yang, “The Economic Cooperation Framework Agreement between China and Taiwan: Understanding Its Economics and Politics”, *Asian Economic Papers* 10, no. 3 (2011): 79-96; Joe Thomas Karackattu, “Post-ECFA Outlook for Relationship across the Taiwan Strait”, *Issues & Studies* 48, no. 4 (2012): 113-43.

⁴ Dennis V. Hickey, “Wake Up to Reality: Taiwan, the Chinese Mainland and Peace across the Taiwan Strait”, *Journal of Chinese Political Science* 18, no.1 (2013): 4-7; Chi Su, *Taiwan’s Relations with Mainland China: A Tail Wagging Two Dogs* (New York: Routledge, 2010), 46-47.

“China”.⁵ Therefore, rather than resolving the disputed sovereignty issue between both sides, the key function of the 1992 Consensus is to shelve this controversy whilst promoting cross-Strait economic integration. In order to support the argument that China has infringed on Taiwan’s sovereignty in the process of economic integration, a detailed analysis of what impact the 1992 Consensus has had on Taiwan’s sovereignty is essential. As such, this thesis divides sovereignty into Westphalian sovereignty, domestic sovereignty, international legal sovereignty, interdependence sovereignty, and functional sovereignty according to the works of Stephen Krasner and Sigrid Winkler so as to examine the effectiveness of China’s commercial diplomacy towards Taiwan.⁶

Furthermore, given the increasing degree of Taiwan’s economic dependence on China facilitated by the ECFA, scholars have pointed out that Beijing has the potential to either coerce or lure Taipei to comply with its political agendas.⁷ Nonetheless, this argument needs further careful evaluation. In fact, despite the fact that the ECFA aims to fully liberalize cross-Strait trade relations based upon regulations of the World Trade Organization (WTO), as will be discussed in more detail in the third section, most of the sub-agreements of the ECFA have been pending as a result of the emergence of the Sunflower Movement in Taiwan on March 18th, 2014.⁸ This movement suggests that Taiwan’s domestic politics could easily constrain the progress of cross-Strait economic integration. Most importantly,

⁵ Ibid.

⁶ Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton: University Press of Princeton, 1999), 3-4; Sigrid Winkler, “Can Trade Make a Sovereign? Taiwan-China-EU Relations in the WTO”, *Asia Europe Journal* 6, no. 3 (2008): 467-85.

⁷ Chen-Yuan Tung, “Cross-Strait Economic Relations: China’s Leverage and Taiwan’s Vulnerability”, *Issues & Studies* 39, no.3 (2003): 137-75; Murray S. Tanner, *Chinese Economic Coercion Against Taiwan: A Tricky Weapon to Use* (Pittsburgh: RAND, 2007), 1-9.

⁸ Hsieh, “The China-Taiwan ECFA”, 124-31; Chen-Yuan Tung and Jason Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement: Strategy, Review, and Outlook”, *The Chinese Economy* 47, no. 3 (2014): 40-44.

it also indicates that trade barriers between Taiwan and China have still not been entirely removed. The most prominent example is the pending Cross-Strait Agreement on Trade in Services (CSSTA), which affects bilateral economic exchanges between service industries. Since service industries contributed nearly 70% of Taiwan's Gross Domestic Product (GDP) in 2014, the argument that Taiwan's economy is heavily dependent on the Chinese market is questionable.⁹ Therefore, this thesis will carefully analyze the effectiveness of China's commercial diplomacy towards Taiwan in the context of asymmetric economic interdependence across the Taiwan Strait.

Finally, when skeptics argue that the ECFA magnifies former Taiwanese President Ma Ying-jeou's "China-leaning policy", putting sovereignty in danger, Taiwan's strategic concern over the ECFA seems to be left out.¹⁰ In fact, any issue of cross-Strait relations has never been a purely bilateral affair, and issues surrounding economic integration across the Taiwan Strait are no exception. According to former Taiwanese President Ma Ying-jeou, Taiwan's strategic concern behind the ECFA is to avoid "economic isolation" by participating in the ongoing process of regional economic integration, especially the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).¹¹ To achieve this strategic goal, Taipei must improve cross-Strait relations so as to remove obstacles to

⁹ Ian Rowen, "Inside Taiwan's Sunflower Movement: Twenty-Four Days in a Student-Occupied Parliament, and the Future of the Region", *The Journal of Asian Studies* 74, no. 1 (2015): 6.

¹⁰ Stephane Corcuff, "Ma Ying-jeou's China-leaning Policy and the 1683 Fall of the Zheng in Taiwan: A Cross-centuries Geopolitical Comparison", in *National Identity and Economic Interest: Taiwan's Competing Options and Their Implications for Regional Stability*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2012), 93-124.

¹¹ Peng Li, "The Nature of the Economic Cooperation Framework Agreement and Its Implication for the Peaceful Development of Cross-Strait Relations", in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), 47-48.

Taiwan's international space created by Beijing.¹² As such, the ECFA is crucial for Taiwan's regional strategy.

Since signing the ECFA with Beijing, Taipei has signed several free trade agreements (FTA) with its trading partners in the Asia-Pacific region, and the issue of its participation in regional economic integration also seems negotiable.¹³ In this light, there is a possibility for Taipei to decrease the degree of economic dependence on the Chinese market.¹⁴ Moreover, following the expansion of its international space, Taipei could further consolidate its international legal sovereignty, which may influence the effectiveness of China's commercial diplomacy towards Taiwan. As such, this thesis explores cross-Strait economic integration in the context of regional economic integration. Chapter 3 of this thesis will introduce both China's and Taiwan's roles in recent waves of East Asian regionalism and regionalization. The impact of regional economic integration on both Beijing's and Taipei's strategies for tackling cross-Strait relations will be discussed in chapters 4, 5, and 6.

This thesis starts by introducing commercial diplomacy together with the grand strategy of contemporary China's Taiwan policy. The third section of this chapter introduces the ECFA and its key features. The fourth section brings in the approaches adopted by scholars to analyze cross-Strait relations in the context of regional economic integration and discusses their limitations. Finally, in addition to introducing the structure of this thesis, the methodology of document analysis and

¹² Jie Huang, "TPP Versus ECFA: Similarities, Differences, and China's Strategies", *The China Review* 12, no. 2 (2012): 86-88.

¹³ Michael I. Magcamit and Alexander C. Tan, "Crouching Tiger, Lurking Dragon: Understanding Taiwan's Sovereignty and Trade Linkages in the Twenty-first Century", *International Relations of the Asia-Pacific* 15, no. 1 (2015): 92-99.

¹⁴ Jie Huang, "TPP Versus ECFA", 86-88.

elite interviewing will also be discussed in the final section of this chapter.

1.2 China's Commercial Diplomacy and the ECFA

1.2.1 Why Commercial Diplomacy and not Economic Statecraft?

Applying commercial diplomacy to study contemporary PRC-Taiwan relations in the context of bilateral and regional economic integration is a key original contribution of this thesis. Most work on cross-Strait relations still revolves — either explicitly or implicitly — around the theory of economic statecraft, stressing China's ability to pursue economic coercion or even impose economic sanctions on Taiwan. This thesis is the first academic work what departs from this dominant position and explores cross-Strait relations in the post-ECFA era through the lens of commercial diplomacy. The justification for the use of commercial diplomacy in this research is rooted in Beijing's intention to further its political agenda of peaceful reunification in the process of cross-Strait economic integration; particularly following the signing of the ECFA with Taiwan in 2010.¹⁵ Before exploring the manner in which commercial diplomacy represents Beijing's core strategy for tackling "the Taiwan issue", it is first essential to define what commercial diplomacy is.

According to Ellen Frost's work, published in 2007, commercial diplomacy is: "the use of commercial power such as market access or technology transfer to influence noncommercial decisions in the political or even the security realm".¹⁶

¹⁵ Scott L. Kastner, "Buying Influence? Assessing the Political Effects of China's International Trade", *Journal of Conflict Resolution* 60, no. 6 (2016): 984.

¹⁶ Ellen L. Frost, "China's Commercial Diplomacy in Asia: Promise or Threat?" in *China's Rise and the Balance of Influence in Asia*, ed. William W. Keller and Thomas G. Rawski (Pittsburgh:

Notably, the concept of commercial diplomacy has not yet been widely used to explain Beijing's regional strategy. Neither has this been a major theoretical principle applied to Taiwan's regional and global position and role. The key reason for this lacuna is the narrow definition of commercial diplomacy that was employed before the 2000s.

Prior to the publication of Frost's work, most literature narrowly defined commercial diplomacy as a state's diplomatic strategy for influencing other nations' decisions, particularly with respect to "liberalizing trade and investment".¹⁷ As such, the conventional wisdom in "commercial diplomacy" seldom touches upon issues beyond the economic realm. However, apart from economic interests, strategic concerns over the distribution of power, influence, and even sovereignty can also be salient motivating factors underlying commercial diplomacy.¹⁸ For example, as will be discussed in more detail in chapter 3, under the strategic guideline of "pivoting to Asia", promoting the TPP was a key strategy in Washington's attempt to solidify its regional leadership during Barack Obama's presidency.¹⁹ By the same token, Beijing's RCEP and "One Belt One Road" initiatives furthered its political agendas of acquiring greater regional clout under the guideline of "peaceful influence".²⁰

University of Pittsburgh Press, 2007), 96-97.

¹⁷ G. R. Berridge, *Diplomacy: Theory and Practice* (New York: Palgrave Macmillan, 2015), 210-24; Gerard Curzon, *Multilateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and Its Impact on National Commercial Policies and Techniques* (London: Michael Joseph Limited, 1965), 1-9.

¹⁸ Frost, "China's Commercial Diplomacy in Asia", 96-97.

¹⁹ Tun-Jen Cheng and Peter C. Y. Chow, "The TPP and the Pivot: Economic and Security Nexus", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*. ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2014), 114-18.

²⁰ Jagannath P. Panda, "Factoring the RCEP and TPP: China, India and the Politics of Regional Integration", *Strategic Analysis* 38, no.1 (2014): 49-50; Peter Ferdinand, "Westward Ho-the China Dream and 'One Belt, One Road': Chinese Foreign Policy under Xi Jinping", *International Affairs* 92, no. 4 (2016): 948-55.

In response to these phenomena, instead of expanding the definition of commercial diplomacy, scholars have preferred to adopt the theory of economic statecraft for studying how states use economic power to furthering their political interests.²¹ According to David A. Baldwin, economic statecraft can be broadly understood as “influence attempts relying primarily on resources which have a reasonable semblance of a market price in terms of money”.²² By comparing this broad definition with Frost’s definition of commercial diplomacy, it is clear that both concepts aim to understand how state actors utilize “economic resources” to enhance the degree of their “influence” *vis-à-vis* their counterparts so as to further their agendas.²³ In addition, both economic statecraft and commercial diplomacy contend that establishing economic interdependencies with “target states” is a prerequisite for acquiring influence.²⁴ However, the subsequent focal points of these two types of research are very different.

First of all, as discussed in chapter 2.5, commercial diplomacy emphasizes the importance of furthering political agendas by providing “positive-sum economic incentives” to “target states”.²⁵ The economic statecraft literature pays close attention to studying how state actors benefit economically and otherwise when employing coercive measures in an interdependent relationship, especially with

²¹ For more works about Chinese economic statecraft, please see: Adam Segal, “Chinese Economic Statecraft and the Political Economy of Asian Security”, in *China’s Rise and the Balance of Influence in Asia*, ed. William W. Keller and Thomas G. Rawski (Pittsburgh: University of Pittsburgh Press, 2007), 146-61; William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (New York: Cornell University Press, 2016).

²² David A. Baldwin, *Economic Statecraft* (New Jersey: Princeton University Press, 1985), 13-14.

²³ *Ibid.*, see also: Frost, “China’s Commercial Diplomacy in Asia”, 96-97.

²⁴ Deborah Brautigam and Xiaoyang Tang, “Economic Statecraft in China’s New Overseas Special Economic Zones: Soft Power, Business or Resource Security”, *International Affairs* 88, no. 4 (2012): 802-3; Frost, “China’s Commercial Diplomacy in Asia”, 96-99; Jean-Marc F. Blanchard and Norrin M. Ripsman, *Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Conclusions* (New York: Routledge, 2013), 6.

²⁵ Frost, “China’s Commercial Diplomacy in Asia”, 96-99.

regard to economic sanctions.²⁶ In the case of cross-Strait economic integration, as shown in the section 1.4.2.1 of this chapter, Beijing's ability to impose economic sanctions on Taiwan is a focal point of economic statecraft.²⁷ But this on its own does not tell the full story. Under the Chinese guideline of "peaceful reunification", economic sanctions have rarely been a pragmatic option for Beijing.²⁸ Rather, in an attempt to shape Taiwanese attitudes towards "peaceful reunification", Chinese leaders often emphasize the spirit of "win-win" and the principles of "mutual benefits".²⁹ This necessitates scholars adopting the theoretical apparatus of commercial diplomacy to re-conceptualize China's Taiwan policy.

Furthermore, the focus of economic statecraft narrows the scope of analysis. Indeed, while the effectiveness of state coercion is the main theme of the literature on economic statecraft, the discussion seemingly focuses on the comparison of economic power between state actors in an interdependent relationship at the bilateral level so as to discern which party is more vulnerable to sanctions.³⁰ According by this approach, China should possess great influence over Taiwan by manipulating economic statecraft, owing to the asymmetric economic interdependencies and economic power across the Taiwan Strait. Contrary to this argument, as discussed in chapters 3, 4, and 6, Taiwanese manufacturers have also

²⁶ Jean-Marc F. Blanchard and Norrin M. Ripsman, *Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Conclusions* (New York: Routledge, 2013), 6.

²⁷ Norris, *Chinese Economic Statecraft*, 15-21; Tanner, *Chinese Economic Coercion Against Taiwan*, 1-5.

²⁸ Chong-Pin Lin, "Goodwill and Proactive Exchange Policy: How Taipei Manages the Cross-Strait Relations", *Journal of Contemporary China* 10, no. 29 (2001): 712-14.

²⁹ Li, "The Nature of the Economic Cooperation Framework Agreement", 50-57.

³⁰ Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics", *International Security* 34, no. 2 (2009): 11-18; Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, "The Political Economy of National Security: Economic Statecraft, Interdependence, and International Conflict", in *Power and the Purse: Economic Statecraft, Interdependence and National Security*, ed. Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman (New York: Frank Cass, 2000), 3-5.

played important roles in the process of China's economic modernization since the 1990s.³¹ In this case, China may also suffer considerable economic losses by displaying coercive behavior towards Taiwan, and thus Chinese economic statecraft towards Taiwan is not as strong or aggressive as is assumed in this theory. Thus, analyses based on economic statecraft cannot explain how both sides "influence" one another in the process of cross-Strait economic integration.

In addition, neither can the theory of economic statecraft sufficiently explain Taiwan's strategy for consolidating its *de jure* sovereignty under Ma Ying-jeou's presidency. As discussed in chapters 5 and 6, asymmetric economic interdependence across the Taiwan Strait did assist Beijing in convincing Taiwan to sign the ECFA. However, in contradiction to Beijing's unification strategy towards Taiwan, after improving cross-Strait relations, Taipei then "seesawed" between Beijing and Washington in an attempt to expand its international space by participating in the TPP and RCEP.³² In this context, to study both China's and Taiwan's strategies for managing cross-Strait relations, it is essential to extend our analysis from the bilateral to the regional level; or more correctly, to study both the bilateral and regional dimensions at the same time, and the way that these two levels interact. Through the lens of commercial diplomacy, this thesis provides a more comprehensive analysis of both Beijing's and Taipei's sovereignty agendas and their strategies towards each other by studying contemporary relations across the Taiwan Strait in the broader context of economic integration in the Asia-Pacific region.

³¹ Scott L. Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond* (Stanford: Stanford University Press, 2009), 86-99.

³² Li, "The Nature of the Economic Cooperation Framework Agreement", 47-48.

1.2.2 Contemporary Strategy of China's Taiwan Policy: Commercial Diplomacy

Since the late 1980s, despite the fact cross-Strait economic exchanges have provided Taiwan with greater opportunities to boost its economic performance, challenges to sovereignty also captured the attention of Taiwanese leaders, especially when China aims to fulfill its national goal of peaceful reunification by facilitating cross-Strait economic integration.³³ What makes commercial diplomacy salient in China's Taiwan policy actually stems from Beijing's intention to incorporate economic interests with political agendas of peaceful reunification since administration of Chinese leader Deng Xiaoping. Following the implementation of China's "reform and opening up" policy in 1978, pursuing economic development in a peaceful environment became China's priority.³⁴ Chinese leaders adopted "peaceful reunification" as the guideline for their Taiwan policy, so long as Taiwan did not show signs of unilaterally announcing independence, which would force Beijing to adopt a military response.³⁵ Under this guideline, artillery engagements between China and Taiwan that had lasted for thirty years ceased.³⁶ Most significantly, from 1978 onwards, as shown in every PRC White Paper regarding the Taiwan issue, Chinese leaders adopted the strategy of facilitating economic exchange across the Taiwan Strait as the first step for leading Taiwan towards peaceful reunification.³⁷ However, economic incentives provided by China have never been

³³ Taiwan Affairs Office of the State Council of the People's Republic of China (TAO), "The Taiwan Question and Reunification of China", 1993, accessed January 13, 2015 http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316_1789216.htm.

³⁴ Tanner, *Chinese Economic Coercion Against Taiwan*, 1-5.

³⁵ Ibid.

³⁶ Richard C. Bush, *Untying the Knot: Making Peace in the Taiwan Strait* (Washington: The Brookings Institution, 2005), 15.

³⁷ The National People's Congress of the PRC (NPC), "Message to Compatriots in Taiwan", 1979, accessed January 13, 2015, http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790061.htm; TAO, "The Taiwan Question and Reunification of China"; TAO, "The One-China Principle and the Taiwan Issue", 2000, accessed January 13, 2015, http://www.gwytb.gov.cn/en/Special/WhitePapers/201103/t20110316_1789217.htm.

unconditional. The “one-China principle” defining Taiwan as “an inalienable part of China” has also been a precondition for cross-Strait negotiations and even bilateral economic cooperation.³⁸ Nevertheless, the effectiveness of China’s commercial diplomacy towards Taiwan was not prominent before 2008.

As will be detailed in chapter 4, Beijing’s proposals regarding cross-Strait trade liberalization received strong opposition from Taipei during President Lee Teng-hui and President Chen Shui-bian’s presidencies, due to their concern over the erosion of Taiwan’s sovereignty.³⁹ Despite the fact that low-cost production factors in the mainland market have allowed Taiwanese entrepreneurs to pursue high profits following China’s economic ascendance in the 1980s, Taipei was still reluctant to remove barriers to bilateral trade and investment.⁴⁰ President Lee’s “No Haste, Be Patient” policy and President Chen’s policy of “Effective Opening, Active Management” were the clearest evidence of this.⁴¹

In general, by reviewing literature on cross-Strait relations, it is clear that Taipei’s conservative policy for opening cross-Strait economic exchanges is rooted in three main strategic considerations. Firstly, trade liberalization across the Taiwan Strait was not favorable for Taiwanese leaders to promote *de jure* independence. As Beijing had aimed to convince Taiwanese people of peaceful reunification by providing economic incentives, Taiwanese leaders were worried about the emergence of a “fifth column” that would press the government to renounce the

³⁸ Ibid.

³⁹ Bush, *Untying the Knot*, 27-28.

⁴⁰ Tanner, *Chinese Economic Coercion Against Taiwan*, 38-71.

⁴¹ Douglas B. Fuller, “The Cross-Strait Economic Relationship’s Impact on Development in Taiwan and China: Adversaries and Partners”, *Asian Survey* 48, no. 2 (2008): 240-45.

pro-independence route.⁴² Secondly, China became Taiwan's largest trading partner in 2002, and some analysts further assert that Taiwan would be inevitably integrated into the Chinese economy.⁴³ Taiwanese policymakers were therefore worried about the "hollowing-out" effect, whereby Taiwan would become vulnerable to China's economic statecraft, and thus they decided to restrict the pace of cross-Strait economic exchanges.⁴⁴ Finally, Taiwanese leaders also used trade liberalization as an important bargaining chip to negotiate with Beijing about ruling out the use of force to reunify Taiwan.⁴⁵ Nevertheless, Taipei's oppositional attitude towards the issue of cross-Strait trade liberalization did not affect the determination of Chinese leaders to cultivate economic ties with Taiwan; Beijing has seemingly enjoyed remarkable success in terms of promoting cross-Strait economic integration since 2008.

Indeed, following Taiwanese President Ma Ying-jeou's inauguration in May 2008, Taipei shifted its attitude from confrontation to cooperation with Beijing, with respect to the issue of cross-Strait economic integration. In an attempt to commence negotiations with Beijing, President Ma departed from his predecessors' strategies for tackling cross-Strait relations and endorsed the 1992 Consensus.⁴⁶ Based upon this consensus, both sides soon reached agreement in resuming the "three direct links" of "air transport", "sea transport", and "postal services" across the Taiwan Strait in

⁴² Tung, "Cross-Strait Economic Relations", 152-53; Miles Kahler and Scott L. Kastner, "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait", *Journal of Peace Research* 43, no. 5 (2006): 536.

⁴³ Robert S. Ross, "Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia", in *China's Rise and the Balance of Influence in Asia*, ed. William W. Keller and Thomas G. Rawski (Pittsburgh: University of Pittsburgh Press, 2007), 130-31.

⁴⁴ Tanner, *Chinese Economic Coercion Against Taiwan*, 1-9; Bush, *Untying the Knot*, 27-28.

⁴⁵ Bush, *Untying the Knot*, 45-47.

⁴⁶ Hickey, "Wake Up to Reality", 3-4.

November 2008.⁴⁷ Most significantly, at an unprecedented pace in negotiating an FTA, Taiwan signed the ECFA with China in 2010, which ensures the framework of cross-Straits economic integration.⁴⁸ From thereon, Taipei further signed four important sub-agreements of the ECFA listed in Appendix I. As mentioned at the beginning of this chapter, whereas some scholars perceive the ECFA as a milestone of cross-Straits relations,⁴⁹ others contend that Taiwan's sovereignty has been endangered by the comprehensive economic integration with China.⁵⁰ Since China's commercial diplomacy towards Taiwan stems from the intensive progress of cross-Straits economic integration embodied in the ECFA, in order to evaluate the effectiveness of China's commercial diplomacy, it is necessary to explain what the ECFA is.

1.3 What Is The ECFA?

1.3.1 ECFA as an FTA between China and Taiwan

The ECFA is probably the most ambiguous case of economic cooperation because its function is equivalent to an FTA under a title of "framework agreement".

⁴⁷ Straits Exchange Foundation (SEF), "Chronology of Meetings", 2015, accessed April 17, 2015, <http://www.sef.org.tw/lp.asp?CtNode=4382&CtUnit=2567&BaseDSD=21&mp=300&nowPage=1&agesize=30>; David W. F. Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement: Perspective from the European Model of Functional Integration" in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), 13-14.

⁴⁸ Hsieh, "The China-Taiwan ECFA", 121-22.

⁴⁹ Gang Lin, "Beijing's Evolving Policy and Strategic Thinking on Taiwan", in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), 63-77; Jing Huang, "Hu Jintao's Pro-Status Quo Approach in Cross-Straits Relations: Building Up an One China Framework for Eventual Reunification", in *The Changing Dynamics of the Relations among China, Taiwan, and the United States*, ed. Cal Clark (Newcastle Upon Tyne: Cambridge Scholars Publishing, 2011), 96-154.

⁵⁰ For more examples, please see: Hong and Yang, "The Economic Cooperation Framework Agreement between China and Taiwan", 79-96; Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 81-112.

In other words, although the title of ECFA defines it as a “framework agreement”, it is essentially an FTA between China and Taiwan in essence. According to the WTO, the “GATT: Article XXIV⁵¹” defines a framework agreement as an “interim agreement leading to the formation of a custom union or a free trade area”.⁵¹ In clause 8(2) of the same Article, the WTO defines an FTA as an agreement aiming to establish a “free trade area”, which is “a group of two or more customs territories in which the duties and other restrictive regulations of commerce...are eliminated on substantially all the trade between the constituent territories in products originating in such territories”.⁵²

What makes the ECFA qualify as an FTA in function is that it stipulates a wide range of economic cooperation between China and Taiwan. In addition to the Early Harvest List in Goods and Services shown in Articles 7 and 8, the ECFA regulates negotiation principles of trade in goods and services in Articles 3 and 4 respectively.⁵³ As to the issues of bilateral investment, the ECFA also states that both sides should make an agreement “within six months” after its implementation.⁵⁴ Moreover, the ECFA covers several new issues beyond the traditional FTA format, which only focuses on eliminating trade barriers.⁵⁵ According to Article 6 of the ECFA, these new issues include “intellectual property rights protection and cooperation”, “financial cooperation”, “customs cooperation”, “e-commerce

⁵¹ GATT, “GATT: Article XXIV”, 1994, accessed April 17, 2015, https://www.wto.org/english/tratop_e/region_e/regatt_e.htm; Hsieh, “The China-Taiwan ECFA”, 140; Karackattu, “Post-ECFA Outlook”, 136-38.

⁵² Ibid.

⁵³ For full text of the ECFA, please see: Bureau of Foreign Trade, Ministry of Economic Affairs, Republic of China (MOEA, ROC), “The Economic Cooperation Framework Agreement”, 2010, accessed April 17, 2015, <http://www.trade.gov.tw/english/Pages/List.aspx?nodeID=1072>.

⁵⁴ Ibid.

⁵⁵ Linda Low, “Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Arrangements: All Paved with Good Intentions for ASEAN?”, *Asian Economic Journal* 17, no. 1 (2003): 81.

cooperation”, and so on.⁵⁶

Most significantly, Article 13 in the ECFA clearly explains: “All annexes to this Agreement and subsequent agreements signed in accordance with this Agreement shall be parts of this Agreement”.⁵⁷ Therefore, as listed in Appendix I, the Cross-Strait Agreement on Intellectual Property Rights Protection and Cooperation, the Cross-Strait Bilateral Investment Protection and Promotion Agreement (BIPPA), the Cross-Strait Customs Cooperation Agreement, and the CSSTA should all be understood as part of the ECFA. In this regard, Article 13 manifests Beijing’s and Taipei’s intention to make the ECFA play the role of a fully functioning FTA across the Taiwan Strait. The main reason why the ECFA cannot be directly called an FTA is the disputed sovereignty issue between Beijing and Taipei, as both sides perceive the signing of an FTA as the privilege of a sovereign state.⁵⁸ Additionally, as the result of severe controversy over sovereignty, the mechanism of “dispute settlement” is different from the WTO regulations.⁵⁹ Article 10 of ECFA requires that Taipei and Beijing establish the “Cross-Straits Economic Cooperation Committee” (CSECC) to resolve trade disputes amongst themselves rather than through the “WTO Dispute Settlement System”.⁶⁰ Nonetheless, the ECFA is still equipped with the function of integrating all the agreements relevant to cross-Strait economic cooperation, and thus it is an FTA in essence.

⁵⁶ MOEA, ROC “The Economic Cooperation Framework Agreement”.

⁵⁷ Ibid.

⁵⁸ Hsieh, “The China-Taiwan ECFA”, 138-41; Karackattu, “Post-ECFA Outlook”, 136-38.

⁵⁹ Karackattu, “Post-ECFA Outlook”, 124-25.

⁶⁰ MOEA, ROC “The Economic Cooperation Framework Agreement”; Hsieh, “The China-Taiwan ECFA” 152-54.

1.3.2 Economic Contributions and Impacts of the ECFA

As will be explored in chapters 5 and 6, the economic contribution of the ECFA to both China's and Taiwan's economies is still not clear because several important sub-agreements are pending in effect, such as the CSSTA (please see Appendix I). Without these sub-agreements, cross-Strait trade liberalization is limited by the early harvest list contained in Annex I in the ECFA.⁶¹ It is clear from the ECFA's early harvest list that Taiwan has received more benefits than China, which contradicts the prevalent argument that the ECFA is harmful for Taiwan's economic development.⁶² First of all, in terms of the ECFA's contribution to both sides' GDP growth rate, this agreement was estimated to boost Taiwan's GDP performance by 1.72% annually since 2010, whereas China only saw a 0.17% annual growth in GDP.⁶³

Furthermore, according to Annex I of the ECFA, Taiwan had to impose zero tariffs on 267 products imported from China in 2013, which constituted 10.5% of China's total export to Taiwan in 2009.⁶⁴ Meanwhile, China must reduce its tariffs to zero on 539 imported goods — containing 18 agricultural products — from Taiwan by 2013, which accounted for 16.1% of Taiwan's total exports to China in 2009.⁶⁵ It is notable that among the zero tariff preference products Taiwan released (with the exception of several textile and petrochemical products), most of their import tariffs had already been reduced to 5% or even lower when Taiwan joined the WTO in 2002.⁶⁶ As for China, the import tariffs on almost all the items listed in the

⁶¹ Ibid.

⁶² MOEA, ROC, "The Economic Cooperation Framework Agreement".

⁶³ Ibid.; see also Hong and Yang, "The Economic Cooperation Framework Agreement between China and Taiwan", 90-92.

⁶⁴ MOEA, ROC, "The Economic Cooperation Framework Agreement"; Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 42.

⁶⁵ Ibid.

⁶⁶ Hsieh, "The China-Taiwan ECFA", 141-44; Karackattu, "Post-ECFA Outlook", 116-18.

early harvest list were still higher than 10% before 2010, and the taxes on several household appliances had even reached 35%.⁶⁷ By this reasoning, economically, the ECFA should be more beneficial for Taiwan's exports. Nonetheless, before concluding that Taiwan has benefited from the ECFA, the huge outflow of Taiwan's capital towards the Chinese market must be examined.

Indeed, despite the suspended sub-agreements for the liberalization trade in goods and services, Taiwanese investment in the mainland had peaked at US\$14.6 billion in 2010, accounting for 83.81% of Taiwan's total outward investment that year.⁶⁸ The fact that Chinese enterprises only invested US\$94.3 million into the Taiwanese market in 2010 magnifies the considerable degree of asymmetric economic interdependence between China and Taiwan.⁶⁹ Moreover, despite tense debates in Taiwan, an important sub-agreement of ECFA—the BIPPA, which aims to not only facilitate but also protect bilateral investment was reached between China and Taiwan in 2012.⁷⁰

So far, owing to the pending CSSTA, the BIPPA is only applicable to investments from Taiwan's manufacturing industries, as well as several finance institutions contained in the early harvest list of ECFA. In spite of its limited scope of application, the capital account deficit in Taiwan peaked at US\$15 billion in 2014 after signed the BIPPA with China in 2012.⁷¹ The huge amount of capital outflow from Taiwan seems to support scholars' arguments that cross-Strait economic

⁶⁷ MOEA, ROC, "The Economic Cooperation Framework Agreement".

⁶⁸ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)", 2016, accessed April 17, 2016, <http://www.moeaic.gov.tw>.

⁶⁹ Ibid.

⁷⁰ SEF, "Chronology of Meetings".

⁷¹ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

integration may cause Taiwan's economy to be "hollowed out" by China.⁷² Consequently, without a convincing explanation as to why this "hollowing-out" effect is not a real threat, the Taiwanese government has faced difficulties in promoting ECFA sub-agreements.⁷³

The most prominent obstacle to the government's initiative was the Sunflower Movement that began on March 18th, 2014. Organized by Taiwanese university students, the protest consisted of the occupation of the Legislative Yuan to demonstrate against the intensive economic ties with China and to safeguard Taiwan's sovereignty.⁷⁴ These students alleged that the negotiation process of the CSSTA as casual and opaque, despite the fact that the service industry makes up nearly 70% of Taiwan's GDP.⁷⁵ Thus students called on legislators re-review this agreement by adopting the "item-by-item" review process.⁷⁶ Most significantly, protestors also connected the issues of cross-Strait economic integration with Taiwan's democracy and sovereignty.⁷⁷ By comparing the case of cross-Strait economic integration with the cases of asymmetric economic interdependence between Germany and Eastern European countries before World War II, several scholars who participated in this protest appealed to the government to take China's reunification strategy seriously.⁷⁸ Eventually, all bilateral negotiations over the sub-agreements of the ECFA signed between 2013 and 2014 (see Appendix I) were suspended in the aftermath of the Sunflower Movement, and therefore the analyses of China's commercial diplomacy in the subsequent chapters of this thesis finish in

⁷² Tanner, *Chinese Economic Coercion Against Taiwan*, 18-20; Hong and Yang, "The Economic Cooperation Framework Agreement between China and Taiwan", 88-90.

⁷³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 92-99.

⁷⁴ Rowen, "Inside Taiwan's Sunflower Movement", 6.

⁷⁵ Ibid.

⁷⁶ Ibid., 5-6.

⁷⁷ Ibid., 6-9.

⁷⁸ Ibid.; Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

2014.⁷⁹

1.3.3 The Connection between the ECFA and Regional Economic Integration

As briefly mentioned at the beginning of this chapter, any issue regarding cross-strait relations is seldom a purely bilateral affair, and this is also true of the ECFA. Even though the ECFA is an agreement managing bilateral economic integration between China and Taiwan only, it indicates that both sides' strategic concerns have been extended from the bilateral to the regional level. In fact, both Chinese and Taiwanese leaders have bridged the ECFA with the ongoing process of regional economic integration in the Asia-Pacific region.

1.3.3.1 Taiwan's Regional Strategic Concern over the ECFA

For Taiwan, the ECFA is crucial to tackling the negative consequences of its marginalization in the process of regional economic integration. Initially, Taiwan was not overly concerned about the impacts bred by regional economic integration. According to the evaluation conducted by the Executive Yuan (the highest administrative institution in Taiwan) in 2004, economic integration between China and the Association of Southeast Asian Nations (ASEAN) was estimated to negatively impact upon Taiwan's textile and petrochemical industries, and Taiwan would only suffer a 0.05% decrease of GDP by losing US\$149 million.⁸⁰ In addition, this report also questioned whether the project of ASEAN Plus Three (APT) could

⁷⁹ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

⁸⁰ 中華民國行政院研究發展考核委員會, *我國因應中國大陸與東協建立自由貿易區之研究* (台北: 行政院, 2004), 150, Research, Development and Evaluation Commission, Executive Yuan, R.O.C., *The Research of Taiwan's Response towards the Establishment of Taiwan-China Free Trade Area* (Taipei: Executive Yuan, 2004), 150.

really be put into practice considering that Washington had the propensity to deter China-centered regionalism in East Asia.⁸¹ However, when South Korea took the initiative to launch FTA negotiations with the U.S., China, and ASEAN, Taiwanese policymakers began to pay closer attention to the “substitution effect”.⁸²

As will be discussed in chapter 3, the “substitution effect” is generated by the practice of “rules of origins” (ROO) in a free trade area, which provides price advantages to local manufacturers, thus allowing their products “substitute for” the same goods imported from economies outside the area.⁸³ South Korean and Taiwanese exports are highly overlapping, especially with respect to manufacturing products of the machinery industry and the information and communications technology (ICT) industries.⁸⁴ While South Korea is sparing no effort in expanding its FTA coverage rate, Taiwanese enterprises are facing the risk of losing their competitive advantages *vis-à-vis* South Korea.⁸⁵ As such, Taiwan’s decision to sign the ECFA with China is a contingency plan—and perhaps the only feasible scenario—to ameliorate its economic marginalization before participating in regional economic integration.

Thus far, although the ECFA has not yet been fully implemented, all the items on the early harvest list have enjoyed tariff exemption since 2013.⁸⁶ Among 539

⁸¹ Ibid., 145-46.

⁸² Shujiro Urata, “Exclusion Fears and Competitive Regionalism in East Asia” in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, ed. Mireya Solis et al. (New York: Palgrave Macmillan, 2009), 28-31.

⁸³ Ibid.

⁸⁴ Christopher M. Dent, “Taiwan and the New East Asian Regionalism”, *Issues & Studies* 45, no.4 (2009):147-49.

⁸⁵ Ibid.

⁸⁶ 中華民國經濟部, “海峽兩岸經濟架構合作協議(ECFA)執行情形”, 2015, MOEA, ROC, “The Implementation of the Cross-Strait Economic Cooperation Framework Agreement (ECFA)”, 2015,

items on the early harvest list that China promised to liberalize, 331 of them are products of machinery, textile, and petrochemical industries, which may confront loss following the introduction of the APT or the China- South Korea FTA.⁸⁷ In this light, it is clear that the ECFA has assisted Taiwan — to a certain degree — in avoiding the “substitution effect”.

In addition to economic interests, the ECFA also has profound implications for Taiwan’s regional strategy. Taiwanese president Ma Ying-jeou said:

*“It [the ECFA] will help us [Taiwan] catch up the pace of economic integration in the region [of Asia-Pacific]. There are 58 FTAs in Asia but Taiwan has none. We have FTAs with our diplomatic allies in Central America, but we must remove the obstacles and sign more with other countries. The solution is to sign an ECFA with Beijing”.*⁸⁸

Accordingly, tackling the problem of economic marginalization in the Asia-Pacific region is a core strategic concern that drove Ma’s administration to enact the ECFA with China. At the surface-level, as many scholars have noticed, Taiwan’s regional strategy is to improve cross-Strait relations first and then sign FTAs with its major trading partners and regional institutions.⁸⁹ Some scholars further point out that after improving its isolated position in the Asia-Pacific region, Taipei could consolidate its statehood in the international community following the expansion of its

accessed October 31, 2015, <http://www.ecfa.org.tw/ShowNews.aspx?nid=2&id=2129&year=all>.

⁸⁷ Tung and Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement”, 43.

⁸⁸ Taipei Times, “Interview: ECFA Will Help Taiwan Catch Up With Asia: Ma”, *Taipei Times*, January 24, 2010, accessed July 30, 2016,

<http://www.taipeitimes.com/News/taiwan/archives/2010/01/24/2003464288/3>

⁸⁹ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 92-99.

“international space”, which contradicts Beijing’s agenda of peaceful reunification.⁹⁰ In this regard, commercial diplomacy has featured centrally in Taiwan’s strategy for consolidating its sovereignty as well. The question of the extent to which Taiwan could obtain its sovereignty goals by utilizing commercial diplomacy will be explored in chapter 6.

Beyond the above surface-level analyses, the transformation of Taiwan’s regional strategy manifests the shift of Taiwan’s strategic logic. After signing the ECFA with China, the Taiwan-US alliance may no longer be Taiwan’s only regional strategy to counter-balance China. In the past, the expansion of Taiwan’s international space relied heavily on US support, as is clear from Taiwan’s accession to the WTO and the Asia-Pacific Economic Cooperation (APEC).⁹¹ However, the decline of US regional influence in East Asia since the 1997 Asian financial crisis has meant that Taiwan has received less support from Washington in terms of joining in the process of regional economic integration.⁹² From the late 1990s onwards, China’s economic rise has made it an indispensable player in the process of regional economic integration; henceforth, Taipei has had to deal with the “China factor” before launching any FTA negotiation with regional economies or institutions.⁹³ Following the improvement in cross-Strait relations, China has been serving as another bandwagon for Taiwan to jump on in order to obtain its regional interests, and it further implies that Taiwan has shifted its strategic logic from balance of power to seesawing between the U.S. and China. As Taipei’s new strategic logic

⁹⁰ Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 13-14; Lin, “Beijing’s Evolving Policy and Strategic Thinking on Taiwan”, 63-71.

⁹¹ Gordon C. K. Cheung, “APEC as a Regime for Taiwan’s Independence with the United States and Mainland China”, *Issues & Studies* 33, no. 2 (1997): 21-39; Sigrid Winkler, “Can Trade Make a Sovereign? Taiwan-China-EU Relations in the WTO”, *Asia Europe Journal* 6, no. 3 (2008): 467-85.

⁹² Dent, “Taiwan and the New East Asian Regionalism”, 115-16.

⁹³ Ellen L. Frost, *Asia’s New Regionalism* (Colorado: Lynne Rienner Publishers, Inc., 2008), 117-21.

could also have a negative impact on the effectiveness of China's commercial diplomacy, this thesis will discuss this issue in more detail in chapter 6.

1.3.3.2 China: Regionalizing the Taiwan Policy?

Taiwan is not the only side considering cross-Strait relations at the regional level. On the other side of the Taiwan Strait, scholars also point out that China's Taiwan policy has seemingly been embedded into its strategy for managing regional economic integration.⁹⁴ The most direct evidence of this is Chinese President Hu Jintao's speech at the forum celebrating "the 30th anniversary of the issuance of the Message to Compatriots in Taiwan" in 2008.⁹⁵ At this forum, President Hu mentioned that: "Cross-Straits economic cooperation is ...conducive to exploring feasible approaches to the dovetailing of the common development of both economies with the economic cooperation mechanism in the Asia-Pacific region".⁹⁶ According to President Hu's speech, cross-Strait economic integration is crucial for China to promote its political agenda of peaceful reunification. Moreover, his speech reflects that Beijing also aims to connect mechanisms of cross-Strait economic integration with the ongoing process of regional economic integration. However, as opposed to Taiwan's strategic concern, Beijing's political concerns seemingly outweigh their economic interests in this respect.

In fact, Beijing's effort to promote the ECFA is not in line with its economic interests. First of all, in respect of ECFA's contribution to China's economy, it is

⁹⁴ David Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2010), 93-103; Frost, *Asia's New Regionalism*, 119-21.

⁹⁵ TAO, "Let Us Join Hands to Promote the Peaceful Development of Cross-Straits Relations and Strive with a United Resolve for the Great Rejuvenation of the Chinese Nation", 2008, accessed July 31, 2013, http://www.gwytb.gov.cn/en/Special/Hu/201103/t20110322_1794707.htm

⁹⁶ Ibid.

fairly limited because China only saw a 0.17% increase in its annual GDP growth rate after signing this agreement with Taiwan.⁹⁷ In addition, given the asymmetric market openness between China and Taiwan shown in the early harvest list of the ECFA, some Chinese scholars even describe this agreement as “an unfair treaty” for China.⁹⁸ China’s motivation behind its economic concessions has therefore caught scholars’ attention, and most scholars ascribe China’s benign attitude towards cross-Strait economic integration to its grand strategy of peaceful reunification.⁹⁹ Most importantly, beyond the bilateral analyses, China’s success in isolating Taiwan in the process of regional economic integration must also be taken into consideration.¹⁰⁰

Indeed, scholars perceive Taiwan’s decision to sign the ECFA with China to be a consequence of its economic marginalization in the process of regional economic integration.¹⁰¹ Although it is difficult to discern whether marginalizing Taiwan was an initial intention or an accidental outcome of Beijing’s strategy for regional economic integration, it is certain that China did not successfully squeeze Taiwan’s regional space before the 1997 Asian financial crisis. As detailed in chapter 3, Beijing’s regional strategy has taken the form of commercial diplomacy to increase its degree of regional influence, and China’s economic development is key to the effectiveness of its commercial diplomacy.¹⁰² Prior to the Asian financial crisis in 1997, the effectiveness of China’s commercial diplomacy in the Asia-Pacific was constrained for two reasons.

⁹⁷ Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 90-92.

⁹⁸ Huang, “TPP Versus ECFA”, 86-88; Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 18-21.

⁹⁹ Ibid.

¹⁰⁰ Huang, “TPP Versus ECFA”, 86-88; Hsieh, “The China-Taiwan ECFA”, 131-33.

¹⁰¹ Ibid.

¹⁰² Frost, “China’s Commercial Diplomacy in Asia”, 96-97.

As will be discussed in chapter 3, economically, China was not an important trading partner for East Asian countries before 1997. For example, an indicator of trade between China and ASEAN conducted by the Asian Development Bank (ADB) shows that, by 1997, China only shared 3.35% of ASEAN's total trade value, whereas the US and Japan accounted for 33.70% in total.¹⁰³ While the US and Japan played significant roles in boosting the economic performance of East Asian countries, China's regional influence trailed far behind these great powers. Furthermore, before the financial crisis in 1997, East Asian countries still preferred global trade liberalization so as to support their exports to the US and EU markets.¹⁰⁴ Hence most leaders of East Asian countries advocated an "open regionalism" in which the U.S. and Japan were the major drivers promoting economic integration in the Asia-Pacific region.¹⁰⁵ In this context, as the US and Japan took the lead in the process of regional economic integration, Taiwan was able to become involved in the U.S.-centered multilateral mechanisms in the Asia-Pacific regardless of Beijing's opposition.¹⁰⁶ Beijing's incapability to disrupt Taiwan's position in several regional institutions, such as the ADB and APEC, were the clearest evidence of this.¹⁰⁷

Not until the onset of the Asian financial crisis between 1997 and 1998 was China able to effectively exert influence by utilizing commercial diplomacy.¹⁰⁸ Indeed, as will be discussed in chapter 3, this crisis provided Beijing with a strategic

¹⁰³ Asian Regional Integration Center, Asian Development Bank, "Integration Indicators", 2015, accessed July 31, 2015, <https://aric.adb.org/integrationindicators>.

¹⁰⁴ Barry Desker, "In Defence of FTAs: From Purity to Pragmatism in East Asia", *The Pacific Review* 17, no. 1 (2010): 3-4

¹⁰⁵ Siow Yue Chia, "The Emerging Regional Economic Integration Architecture in East Asia", *Asian Economic Papers* 12, no. 1 (2013): 1.

¹⁰⁶ Frost, *Asia's New Regionalism*, 110-14.

¹⁰⁷ Cheung, "APEC as a Regime", 21-39; Heh-Song Wang, "Taiwan and the Asian Development Bank", *ABA journal* 22, no.2 (2007): 6-7.

¹⁰⁸ Frost, "China's Commercial Diplomacy in Asia", 105-12.

opportunity to rival Washington for regional leadership. Chinese leaders grasped this chance to exclude the US from the process of regional economic integration. On the one hand, contrary to the initiatives with stringent conditions proposed by the US-led multilateral institutions, Beijing's unconditional promise that it would not devalue the Chinese currency during the crisis helped China to impress a positive image on East Asian countries.¹⁰⁹ On the other hand, the financial crisis had a limited impact on China's economic performance. Since China's economic rise occurred at a stunningly rapid pace, the importance of China as a trading partner has been more prominent for regional economies to revive their own economic performances after the financial crisis.¹¹⁰ As a result, most East Asian countries turned to Beijing to lobby the establishment of the China-ASEAN Free Trade Area (CAFTA) as well as the APT, and Beijing also displayed a positive attitude towards these issues.¹¹¹ From thereon, the ASEAN-centered APT, which then evolved into the current RCEP, has featured heavily in East Asian regionalism.¹¹² US leadership in East Asia has been shaken in the aftermath of the Asian financial crisis.

Taiwan has received less diplomatic support from the U.S. at the regional level since the ebbing of US regional influence.¹¹³ The first and most important result of this has been the prevalence of the one-China principle in East Asia. Notably, in 1999, Beijing convinced ASEAN of the one-China principle in exchange for a smooth progress of economic integration.¹¹⁴ As a consequence of Washington's reluctance to

¹⁰⁹ Frost, *Asia's New Regionalism*, 110-14.

¹¹⁰ Ibid.

¹¹¹ Akihiko Tanaka, "The Development of the ASEAN+3 Framework" in *Advancing East Asian Regionalism*, ed. Melissa G. Curley and Nicholas Thomas (New York: Routledge, 2007), 59-65.

¹¹² Panda, "Factoring the RCEP and TPP", 49-50.

¹¹³ Mark Beeson, *Regionalism and Globalization in East Asia: Politics, Security and Economic Development* (New York: Palgrave Macmillan, 2007), 227-32.

¹¹⁴ Hiro Katsumata et al. "Correspondence: ASEAN, Regional Integration and State Sovereignty", *International Security* 33, no.2 (2008): 182-88.

promote “open regionalism” due to its focus on the War on Terror, the APT became the only feasible economic integration framework in East Asia.¹¹⁵ It has further led to the deterioration of Taiwan’s already isolated position in the process of regional economic integration. Although the US is now trying to regain its regional influence by launching the TPP under the grand strategy of “pivot to Asia”, whether Taiwan can join the TPP remains uncertain.¹¹⁶

Furthermore, while Beijing has blocked Taiwan’s path towards regional economic integration, scholars point out that Taiwanese entrepreneurs have begun to move manufacturing facilities and even business headquarters to China in an attempt to take advantage of China’s connection with the regional market within the CAFTA and APT frameworks.¹¹⁷ Consequently, this has resulted in Taiwan’s economic overdependence on China allowing Beijing to exert its influence over the island.¹¹⁸ The most prominent evidence of this is Taiwan’s capital outflow to the mainland. Regardless of the fact that Taipei’s policies restrict cross-Strait economic exchanges, immediately, following Beijing’s pronouncement of support for the APT in 1997, Taiwan’s investment in China increased threefold, reaching US\$4.33 billion.¹¹⁹ Most significantly, from 1997 onwards, Taiwan’s investment in the mainland shared more than 50% of its total outward investment, and this ratio increased to 70.53% in 2008, two years before signing the ECFA with China.¹²⁰

Eventually, given its isolated position in the process of regional economic

¹¹⁵ Frost, *Asia’s New Regionalism*, 117-21.

¹¹⁶ Panda, “Factoring the RCEP and TPP”, 49-50.

¹¹⁷ Dent, “Taiwan and the New East Asian Regionalism”, 149-51.

¹¹⁸ *Ibid.*

¹¹⁹ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

¹²⁰ *Ibid.*

integration, as well as the deepening economic ties with China, Taipei decided to negotiate economic integration with Beijing. As mentioned before, Taipei's key concern is to improve its economically marginalized position.¹²¹ Furthermore, Taipei also aims to protect its economic interests in the mainland and regional market.¹²² In this regard, Beijing's effort to marginalize Taiwan in East Asian economic integration is not only conducive to forcing Taiwan to discard its policy of restricting bilateral economic exchanges, but it also helpful in bringing Taipei back to the negotiation table. These achievements further raise the question of whether the effectiveness of China's commercial diplomacy towards Taiwan is contingent on the effectiveness of its commercial diplomacy at the regional level. As such, to study the effectiveness of China's commercial diplomacy towards Taiwan, chapter 3 explores both sides' economic and strategic interests in the context of East Asian regionalism and regionalization. Chapter 4 studies the impact of regional economic integration on cross-strait economic integration before 2008, which influenced both Beijing's and Taipei's policies for managing their bilateral relations. Chapter 5 and 6 then discuss the effectiveness of China's commercial diplomacy and Taiwan's strategy to counter China's commercial diplomacy respectively.

1.4 Literature on Cross-Strait Relations

1.4.1 Literature Deficit

There is only a small amount of literature on the issue of Taiwan's sovereignty in the context of economic integration. The main reason for this is that Taiwan

¹²¹ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 40-41.

¹²² Ibid.

studies have been in decline. Given this literature deficit, Murray Rubinstein even proposed the question “Is Taiwan studies dead?” at the “Sixth Annual Conference of the European Association of Taiwan Studies” in 2009.¹²³ Perhaps the main cause of this is that “Taiwan studies” is not widely recognized as an independent academic field of international politics, while all the key issues regarding Taiwan can be easily connected with China. Neither is there any academic journal focusing solely on Taiwan studies. Even though academic journals which focus on China studies serve as ideal platforms on which most articles of Taiwan studies are published, as Shelly Rigger indicates, “Taiwan studies occupies a marginal position in the China studies field.”¹²⁴ The most prominent evidence of this is found in Jonathan Sullivan’s survey. Between 2004 and 2008, there were 225 articles in academic journals discussing Taiwan, but just 86 of them were on either international politics or international political economy.¹²⁵

Currently, in spite of the fact that in 2010 Taiwan and China signed the ECFA, which was marked as a significant breakthrough of cross-Strait relations, there is still very little literature on this topic. Therefore, the pre-existing research approaches to study the Taiwan issue in the context of economic integration introduced in the next subsection have not yet been paradigms for Taiwan studies due to the literature deficit. Generally speaking, among a small number of these studies discussing Taiwan’s sovereignty and cross-Strait economic integration, they revolve around three dimensions to explore the question of whether facilitating cross-Strait economic integration is favorable for China’s national goal of peaceful reunification.

¹²³ Jonathan Sullivan, “Is Taiwan Studies in Decline?”, *The China Quarterly* 207 (2011): 706.

¹²⁴ Shelly Rigger, “Political Science and Taiwan’s Domestic Politics: The State of the Field”, *Issues & Studies* 39, no. 1 (2003): 50-51.

¹²⁵ Sullivan, “Is Taiwan Studies in Decline?”, 707-11.

These dimensions are: China's economic statecraft *vis-à-vis* Taiwan, the identity issue across the Taiwan Strait, and Taiwan's strategic importance for the U.S. in the Asia-Pacific region. Although none of these studies provides comprehensive explanations for the questions of how, and to what extent, China has infringed on Taiwan's sovereignty in the process of economic integration, as this thesis does, they still contribute to this thesis' theoretical framework and discussion of the background of the ECFA in the context of regional economic integration in chapters 2, 3, and 4.

1.4.2 Pre-existing Research Approaches and Their Limitations

1.4.2.1 China's Economic Statecraft

Following the strengthening of cross-Strait economic ties with China in the 1990s, the foremost theoretical approach within the literature on cross-Strait economic integration has been the theory of economic statecraft. As will be further discussed in the next chapter, the theory of economic statecraft focuses on a state's ability to protect its national interests by threatening or even punishing others through economic means.¹²⁶ In the case of cross-Strait economic integration, while the degree of Taiwan's economic dependence on the Chinese market has increased, it has raised the question of whether Taiwan is vulnerable to China's economic coercion.¹²⁷ Moreover, given the asymmetric economic power between China and Taiwan, Murray Tanner and Tung Chen-yuan further studied Taiwan's vulnerability to Beijing's economic sanctions.¹²⁸

¹²⁶ Jean-Marc F. Blanchard and Norrin M. Ripsman, *Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Conclusions* (New York: Routledge, 2013), 6.

¹²⁷ Segal, "Chinese Economic Statecraft and the Political Economy of Asian Security", 149-54.

¹²⁸ For their studies, please see Tung, "Cross-Strait Economic Relations", 137-75; Tanner, *Chinese Economic Coercion Against Taiwan*, 11-31.

Chapter 2 details the research findings of Tanner and Tung's studies. In brief, both of them concluded that economic sanctions are not a feasible strategy for Chinese leaders to punish Taiwan's stubborn attitude towards China's agendas.¹²⁹ Firstly, most of Taiwan's manufacturing industries, especially the ICT industries, are highly integrated into the regional production networks.¹³⁰ As a result, Beijing's strategy of imposing economic sanctions on Taiwan would inevitably affect other countries' economic performances, which could generate discontent among East Asian countries with China, to the detriment of Beijing's agenda for peaceful development.¹³¹ Secondly, Taiwan's manufacturing industries on the mainland have been major sources of China's inward foreign direct investment (FDI) since the 1990s.¹³² In this regard, cutting cross-Strait economic ties would seriously endanger China's economic performance.¹³³ By and large, threatening Taiwan by imposing economic sanctions is the very last option in Beijing's Taiwan policy arsenal, other than using military force, but Tanner and Tung pointed out that China's political leverage over Taiwan is still considerable.¹³⁴

In fact, Beijing's inability to impose economic sanctions on Taiwan at the state level did not affect its ability to coerce Taiwanese entrepreneurs to support Beijing's political agenda, as has been the case for the Chi Mei Corporation and Acer Corporation, which are the leading ICT manufacturers in Taiwan.¹³⁵ As detailed in chapter 2, the chairmen of these enterprises renounced their pro-independence stance

¹²⁹ Ibid.

¹³⁰ Tung, "Cross-Strait Economic Relations" 144-45; Tanner, *Chinese Economic Coercion Against Taiwan*, 88-90.

¹³¹ Ibid.

¹³² Tung, "Cross-Strait Economic Relations", 141-43; Tanner, *Chinese Economic Coercion Against Taiwan*, 97-102.

¹³³ Ibid.

¹³⁴ Tung, "Cross-Strait Economic Relations", 145-64; Tanner, *Chinese Economic Coercion Against Taiwan*, 1-9.

¹³⁵ Ibid.

during Taiwan's presidential campaigns in 2000 and 2004.¹³⁶ Additionally, as discussed in chapter 4, since there has been a tendency towards "mainland fever" among Taiwanese businessmen, Beijing is also supposed to have many more advantages to organize these entrepreneurs to lobby or even pressure Taipei to comply with China's interests in Taiwan.¹³⁷ In this light, China's influence on Taiwan's policy-making procedures may be greater following the intensive progress of cross-Strait economic integration.

In general, the economic statecraft approach confirms that China's political leverage over Taiwan in the process of economic integration is substantial, but that China is not powerful enough to impose economic sanctions on Taiwan. However, this theoretical approach is not applicable to cross-Strait relations in the post-ECFA era. As mentioned before, Taipei re-endorsed the 1992 Consensus after signing the ECFA with Beijing in 2010. In this context, a coercive strategy to counter Taiwan's pro-independence movements in the international community is not in China's interest. In contrast, in attempting to gain Taiwanese support for peaceful reunification, the spirit of "equality, dignity, and mutual benefit" has guided Beijing's current Taiwan policy, and the ECFA is evidence of this.¹³⁸ Therefore, rather than focusing on the question of whether China possesses more resources to intimidate Taiwan by threatening economic sanctions in the post-ECFA era, this research employs the theory of commercial diplomacy to study how China furthers its interests towards Taiwan in the process of cross-Strait economic integration.

¹³⁶ Segal, "Chinese Economic Statecraft and the Political Economy of Asian Security", 151-53; Scott L. Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 95-99.

¹³⁷ Ibid.

¹³⁸ Li, "The Nature of the Economic Cooperation Framework Agreement", 50-57.

1.4.2.2 The Identity Issue

In addition to the theoretical approach of economic statecraft, studying Taiwanese identity in the context of cross-Strait economic integration is another common approach to examine China's political leverage over Taiwan. Notably, this thesis seldom touches on the identity issue unless it directly impinges on either China's or Taiwan's strategic concern over sovereignty, such as the discussion of different perspectives on sovereignty between the Chinese and Taiwanese in chapter 2. However, literature on Taiwanese identity still contributes to knowledge of the effectiveness of China's commercial diplomacy towards Taiwan because the Taiwanese government has provided a database for scholars to explore the growth of Taiwanese identity since the strengthening of economic ties across the Taiwan Strait in the 1990s.

Since 1992, the Taiwanese government has entrusted the Election Study Center at the National Chengchi University (NCCU) with investigating annual fluctuations in Taiwanese national identity. Based on this survey, Wu Yu-shan, Keng Shu, and Gunter Schubert indicate that promoting cross-Strait economic integration is ineffective in convincing Taiwanese people of the benefits of reunification.¹³⁹ As shown in chapter 5 (see Figures 5.4.1 and 5.4.2), following the intensive progress of cross-Strait economic integration, the percentages of Taiwanese who identify themselves as "Taiwanese" rather than "Chinese" soared from 17.6% in 1992 to

¹³⁹ For more examples of these studies, please see: Shu Keng and Gunter Schubert, "Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration", *Asian Survey* 50, no. 2 (2010): 287-310; Yu-Shan Wu, "The Evolution of the KMT's Stance on the One China Principle: National Identity in Flux", in *Taiwanese Identity in the Twenty-First Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 51-71.

60.6% in 2014.¹⁴⁰ Simultaneously, the ratios of those who advocated reunification with China also decreased from 15.6% in 1992 to 7.9% in 2014.¹⁴¹ Accordingly, instead of promoting Taiwanese recognition of China, cross-Strait economic integration has seemingly consolidated Taiwanese preferences against eventual reunification, which is entirely opposed to Beijing's expectation.¹⁴² Although the survey conducted by the NCCU can be taken as the most direct evidence of the effectiveness of China's commercial diplomacy towards Taiwan, it reflects only the degree of China's influence in the realm of Taiwan's domestic politics. With respect to the impact of China's commercial diplomacy on Taiwan's sovereignty in the post-ECFA era, this issue requires more evaluation.

1.4.2.3 The Triangular Relations between China, Taiwan, and the U.S. at the Regional Level

The previous section introduced China's and Taiwan's strategic concerns behind the ECFA, and it confirmed that both sides' leaders have contemplated bilateral affairs in the context of regional economic integration in the Asia-Pacific region. Despite the fact that both China and Taiwan's strategies at the regional level have become important variables that influence the development of cross-Strait relations, a limited number of scholars have taken these variables into account. Even though some scholars study the Taiwan issue at the regional level, their analyses are seemingly confined to a triangular framework that focuses on either Taiwan's strategic concerns or its strategic value in the context of Sino-US relations in the

¹⁴⁰ Election Study Center, National Chengchi University (NCCU), "Taiwan Independence vs. Unification with the Mainland Trend Distribution in Taiwan (1992/06~2016/06)", 2016, accessed September 1, 2016, <http://esc.nccu.edu.tw/course/news.php?Sn=167>.

¹⁴¹ Ibid.

¹⁴² Wu, "The Evolution of the KMT's Stance on the One China Principle", 58-65.

Asia-Pacific region.¹⁴³ As to the issues of Taiwan's contribution to the establishment of regional production networks (RPNs) and Taipei's FTA strategy in East Asia, there are only a few studies on these topics, even though these factors influence the effectiveness of China's commercial diplomacy towards Taiwan. Notwithstanding the limits of triangular analyses of Taiwan, China, and the U.S., these academic works enable this thesis to analyze Taiwan's seesawing tactics for countering China's commercial diplomacy, which will be detailed in chapter 6.

Initially, analyses of the "strategic triangle" between China, Taiwan, and the US were derived from the analytical framework used to study the relations between the Soviet Union, China, and the U.S. during the Cold War, in which geopolitical calculations were central.¹⁴⁴ Through the lens of geopolitics, Taiwan's strategic value from Washington's perspective consist of its geographic prominence in the US "first island chain", which balance the rise of China.¹⁴⁵ Amid the backdrop of the US "pivot to Asia", scholars believed that Taiwan could take advantage of this strategic opportunity to persuade the U.S. to support its participation in the TPP.¹⁴⁶ With US support, it seemed that Taiwan could bypass China to improve its isolated regional position.¹⁴⁷ Moreover, several scholars also contended that joining the TPP

¹⁴³ For more examples, please see: Lowell Dittmer, "Taiwan's Narrowing Strait: A Triangular Analysis of Taiwan's Security since 2008", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2014), 15-29; Dean Chen, "An Indispensable Pillar of Obama's 'Pivot' to Asia: Continuing Strategic Ambiguity across the Taiwan Strait", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2014), 31-54.

¹⁴⁴ Lowell Dittmer, "Washington between Beijing and Taipei: A Triangular Analysis", in *The Changing Dynamics of the Relations among China, Taiwan, and the United States*, ed. Cal Clark (Newcastle Upon Tyne: Cambridge Scholars Publishing, 2011), 10.

¹⁴⁵ *Ibid.*, 12-18.

¹⁴⁶ Cheng and Chow, "The TPP and the Pivot", 124-29.

¹⁴⁷ Huang, "TPP Versus ECFA", 86-88; Scott L. Kastner, "U.S. Rebalancing: Implications for Taiwan's Security and Stability across the Taiwan Strait", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2012), 97-98.

would be conducive to reducing the degree of Taiwan's economic dependence on the Chinese market.¹⁴⁸ By this reasoning, Washington's strategy of "pivoting to Asia" provides Taiwan with a source to counter China in the process of cross-Strait economic integration.

However, this realist theory of the balance of power cannot explain contemporary cross-Strait relations because economic integration is by no means a zero-sum game. First of all, in terms of Taiwan's participation in regional economic integration, strategies that risk Taiwan's economic ties with either China or the US have never been in Taiwan's interests, as these countries are Taiwan's top two largest trading partners. Although the US and China are absent from either the RCEP or the TPP, like most East Asian countries, Taiwan expects to be involved in both of these regional economic integration frameworks to maximize its economic interests.¹⁴⁹

With respect to Taiwan's political interests, following the improvement of relations with China and the US, both of them are now serving as bandwagons that Taiwan may be able to jump on to further the expansion of its international space. Moreover, obtaining endorsement from either Beijing or Washington could also increase Taipei's bargaining chips with which to negotiate with the other side to support Taiwan's proposal of joining regional economic integration. In this light, instead of balancing China, Taiwan's key tactic to pursue its economic and political interests is to seesaw between Beijing and Washington. Chapter 6 explores the effectiveness of Taiwan's seesawing tactic in more detail in order to assess whether this strategy has influenced the effectiveness of China's commercial diplomacy

¹⁴⁸ Ibid.

¹⁴⁹ Huang, "TPP Versus ECFA", 86-88; Panda, "Factoring the RCEP and TPP", 50-52.

towards Taiwan, especially in terms of achieving the national goal of peaceful reunification.

1.4.2.4 Taiwan's Destiny in the Context of "Offensive Realism"

So far, this section has briefly introduced several important works on cross-Strait economic integration. With the exception of research on Taiwanese identity, it appears that neo-realism has largely dominated the Taiwan studies literature. This is especially true with regards to studies of China's economic statecraft towards Taiwan and the triangular relations between China, Taiwan, and the US in the context of economic integration in the Asia-Pacific region. Notably, most of these works contend that China possesses immense resources for the purpose of furthering its political agendas towards Taiwan, yet they all question if Beijing could really coerce Taiwan to endorse its reunification agenda.¹⁵⁰ However, analyses of cross-Strait relations purely centered on "offensive realism" have provided fairly pessimistic conclusions with regards to Taiwanese sovereignty.¹⁵¹

The most significant and timely example of this school has been John Mearsheimer's work: "*Say Goodbye to Taiwan*".¹⁵² According to his work, observers will likely witness the eventual reunification across the Taiwan Strait, either by peaceful means or through a destructive war between China and Taiwan, and even the US.¹⁵³ As will be discussed below, analyses of "offensive realism" are

¹⁵⁰ Tung, "Cross-Strait Economic Relations", 145-64; Tanner, *Chinese Economic Coercion Against Taiwan*, 1-9.

¹⁵¹ Ibid. For the example of cross-Strait relations in the context of "offensive realism", please see: John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton & Company, Inc., 2014), 392.

¹⁵² Mearsheimer, "Say Goodbye to Taiwan".

¹⁵³ Ibid.

arbitrary if they do not consider China's long-standing guideline of "peaceful reunification" and most importantly, both sides' roles in the process of regional economic integration.

Generally speaking, the arguments made by "offensive realists" are based upon two core assumptions. Firstly, China's economic power growing continuously.¹⁵⁴ As such, Taipei may confront greater difficulties in countering China's political agendas in the future, since China's military power should be covariant with its rapid economic growth.¹⁵⁵ It is true that asymmetric military power has been a growing concern for Taiwan, which has motivated Taipei to consolidate its military ties with the US.¹⁵⁶ There is also a great possibility that Beijing would be able to invest much more capital in developing military technology following its economic rise. However, it is questionable whether Beijing would be willing to generate a war that risks regional stability.

As constantly emphasized in this thesis, the asymmetric yet economically interdependent relationship between China and Taiwan means that Taiwan is an important contributor to China's economic growth.¹⁵⁷ For example, Taiwan has always been amongst China's top five investors since the 1990s and was even in China's the top three in 2015.¹⁵⁸ To date, pursuing economic development remains China's core interest. This mission will likely be more important for Beijing when China's economic growth slows down; for example, Chinese Premier Li Keqiang

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

¹⁵⁶ Kang, *China Rising*, 97-98.

¹⁵⁷ Dent, "Taiwan and the New East Asian Regionalism", 117-24.

¹⁵⁸ Ministry of Commerce, People's Republic of China, "Statistics of FDI in China in January-December 2015", 2016, accessed February 17, 2017

<http://english.mofcom.gov.cn/article/statistic/foreigninvestment/201602/20160201260821.shtml>

announced in 2017 that Beijing will aim to maintain a GDP growth rate of 6.5%, which is the lowest prediction since the 2000s.¹⁵⁹ In this context, given Taiwan's contribution to China's economic performance, it is unlikely that Beijing will go to war with Taiwan by risking its economic interests. As such, it appears probable that "peaceful reunification" will continue to guide Beijing's Taiwan policy.

Secondly, based on the theory of "offensive realism", a hegemon will seek to challenge the pre-existing hegemonic power so as to ensure its "monopoly in dominating and controlling" order within its sphere of power.¹⁶⁰ By applying this theory to study Sino-US relations in the context of the balance of power in the Asia-Pacific region, Beijing's regional strategy should be expected to be more "assertive" following the progress of its economic and military modernization.¹⁶¹ Regardless of Beijing's emphasis on "peaceful development", China's "assertive" attitude towards the contentious sovereignty issue in the Senkaku/Diaoyu Islands and South China Sea are widely considered to be strong evidence in support of the arguments of "offensive realists".¹⁶² In general, China is a powerful challenger to US hegemony in the region. It seems inevitable that there will be a conflict between China and the US, unless Washington voluntarily withdraws from the Asia-Pacific region.¹⁶³

Nonetheless, through the lens of Chinese commercial diplomacy, Beijing indeed

¹⁵⁹ Joe McDonald, "China Trims 2017 Growth Target, Warns Against Trade Control", *The Washington Post*, March 5, 2017, accessed March 5, 2017 https://www.washingtonpost.com/business/china-sets-2017-growth-target-of-65-percent-or-higher/2017/03/04/2b9519e4-013e-11e7-9b78-824ccab94435_story.html?utm_term=.a5a211d77b20

¹⁶⁰ Mearsheimer, *The Tragedy of Great Power Politics*, 44-45.

¹⁶¹ *Ibid.*, 370-380; see also: Mearsheimer, "Say Goodbye to Taiwan."

¹⁶² *Ibid.*, see also: Alastair Iain Johnston, "How New and Assertive is China's New Assertiveness", *International Security* 37, no. 4 (2013): 14-32.

¹⁶³ Mearsheimer, *The Tragedy of Great Power Politics*, 394-403.

expects to expand its influence in the Asia-Pacific region in the process of constructing East Asian regionalism.¹⁶⁴ However, China has no intention of fully pushing Washington out of the region. Rather, by integrating itself into the framework of East Asian economic integration, Beijing hopes to impress regional state actors by fulfilling the promise of “peaceful development”.¹⁶⁵ Notably, China still holds a seat in the US-led APEC. Even in the case of TPP — another US-led regionalism strategy that has been perceived by analysts as a mean to counterbalance the China-driven RCEP — both Beijing and Washington kept an open attitude towards China’s enrolment.¹⁶⁶ In sum, by employing Frost’s work on commercial diplomacy, chapters 3, 5 and 6 of this thesis provide an alternative approach for conceptualizing China’s grand strategy for managing challenges at the bilateral level across the Taiwan Strait and the regional level in the Asia-Pacific. This focus on commercial diplomacy allows analysts to critically engage with “offensive realism”.

1.5 Research Design

1.5.1 Methodology: Document Analysis and Elite Interviewing

This thesis employs document analysis and elite interviewing to study whether cross-Strait economic integration helps China to infringe on Taiwan’s sovereignty by wielding commercial diplomacy in the context of economic integration in the Asia-Pacific region. As discussed in the previous section, the volume of new

¹⁶⁴ Frost, *Asia’s New Regionalism*, 113-121.

¹⁶⁵ *Ibid.*, 116.

¹⁶⁶ Shintaro Hamanaka, “TPP Versus RCEP: Control of Membership and Agenda Setting”, *Journal of East Asian Economic Integration* 18, no. 2 (2014): 163-65.

literature on Taiwan studies has diminished.¹⁶⁷ Furthermore, the Taiwan issue does not occupy a significant proportion of the literature on China studies.¹⁶⁸ As such, an important goal of this thesis is to fill the huge gap in the literature on Taiwan studies by collecting and analyzing credible documents published by the authorities and media. In addition, by interviewing both Chinese and Taiwanese elites and senior-level policymakers, this thesis also provides valuable insights on contemporary cross-Strait relations and both China's and Taiwan's strategic concerns over the issue of sovereignty.

1.5.1.1 Methodology of Document Analysis

Document analysis is widely used to supplement a literature base, support research findings, illustrate the “change and development” of research objects or issues, expand arguments, and uncover questions that have not yet been addressed.¹⁶⁹ This approach is particularly important for this thesis because the ECFA is a timely and fairly new issue across the Taiwan Strait, which has not been sufficiently analyzed in the academic realm. However, collecting data is not an easy task, and it could be difficult to discern credibility when there is an immense volume of documents. While policy documents constitute the main evidence used to support analyses of China's and Taiwan's strategies for managing cross-Strait relations and regional economic integration affairs, this thesis uses those policy documents published by either the Chinese or the Taiwanese government as references.

¹⁶⁷ Sullivan, “Is Taiwan Studies in Decline?”, 707-11.

¹⁶⁸ Ibid.

¹⁶⁹ Gleen A. Bowen, “Document Analysis as a Qualitative Research Method”, *Qualitative Research Journal* 9, no. 2 (2009): 29-31; Tim Rapley, *Doing Conversation, Discourse and Document Analysis* (London: SAGE Publications Ltd., 2007), 115-20.

Specifically, the archives of China's Taiwan policy are mainly available from the official website of the Taiwan Affairs Office of the State Council of the People's Republic of China (TAO), which is the highest official institute responsible for carrying out Beijing's Taiwan policy. The other source is the Association for Relations Across the Taiwan Straits (ARATS), which is the semi-official institute responsible for carrying out negotiations with Taiwan on behalf of the PRC. With respect to China's foreign policy documents adopted by this thesis, they are all from the Ministry of Foreign Affairs of the People's Republic of China (MOFA, PRC). By the same token, this thesis adopts the archives of Taiwan's China policy published by either the Ministry of Economic Affairs of the Republic of China (MOEA), or the Mainland Affairs Council of the Executive Yuan of the Republic of China (MAC), which is the highest official institute charge with coordinating Taiwan's Mainland policy. Additionally, documents released by the Straits Exchange Foundation (SEF) in Taiwan are also analyzed, as this institution is the counterpart of the ARATS, managing Taiwan's negotiation with the Mainland. Finally, all of Taiwan's foreign policy documents come from the Ministry of Foreign Affairs of the Republic of China (MOFA, ROC).

Furthermore, speeches made by either Chinese or Taiwanese leaders are also valuable in helping this research understand both sides' strategic concerns behind the ECFA. Official proclamations or news releases by the government are important sources; mass media also provides abundant news articles containing remarks from the leaders of both sides. Nonetheless, incomplete information contained in news articles or bias in news reporting could be misleading.¹⁷⁰ Therefore, to avoid

¹⁷⁰ Bowen, "Document Analysis", 28-29.

misinterpretation, this thesis has chosen only those news articles with original quotations from interviewees as references.

Apart from the policy documents and remarks from both sides' leaders, this thesis also requires statistical data on various economic indicators (e.g. investment, GDP growth rate, etc.) to study the ECFA and economic integration in the Asia-Pacific region. All of the statistics concerning cross-Strait economic exchanges are available on the MOEA website, and the Taiwanese government also updates this data once a month to ensure their accuracy.¹⁷¹ Given the convenient accession and timely updates, the statistics of trade and investment across the Taiwan Strait shown in this thesis are mainly based on the MOEA database. In addition, statistics on China's and Taiwan's economic performance conducted by the WTO and the International Monetary Fund (IMF) are also used in this thesis.

As for economic statistics at the regional level, the "UN Comtrade Database", which provides statistics on commodity trading, enables this research to investigate East Asian regionalization by illustrating the total value of parts and components trade among East Asian economies.¹⁷² Meanwhile, the database of "Integration Indicators" created by the ADB also covers a wide range of economic indicators, such as the total volume of intraregional trade and investment, which generally satisfies the needs of this research.¹⁷³ Yet statistics on Taiwan's contribution to regional trade and investment have been omitted in both the UN and ADB databases. In order to compensate for the shortage of data regarding Taiwan's economic

¹⁷¹ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

¹⁷² United Nations (UN), "UN Comtrade Database", 2016, accessed January 24, 2016, <http://comtrade.un.org>

¹⁷³ Asian Regional Integration Center, Asian Development Bank (2015), "Integration Indicators".

performance in the Asia-Pacific region, this thesis provides official documents comparing the FTA coverage rate between Taiwan and its major competitors in the region obtained from senior officers in the MOEA and the Executive Yuan in Taiwan. Moreover, thanks to the MOEA's effort in collecting statistics on bilateral trade and investment in East Asian countries on a year-by-year base,¹⁷⁴ this research is still able to examine Taiwan's role in the process of regional economic integration by reviewing these statistics together with UN and ADB data. By referring to the above statistical data, this thesis examines not only the degree of asymmetric economic interdependence between China and Taiwan but also both sides' contributions to economic integration in the Asia-Pacific region, which are crucial for evaluating China's commercial diplomacy towards Taiwan.

1.5.1.2 Methodology of Elite Interviewing

In addition to various forms of documents and statistical data concerning both countries' strategies through the lens of commercial diplomacy, elite interviewing is also used to explore the strategic concerns over the issues of economic integration. Interviews with Chinese and Taiwanese elites were semi-structured, which is a popular approach to "in-depth interviews" in qualitative methodology.¹⁷⁵ As interviewees shown on this thesis include entrepreneurs, scholars and senior level politicians or policymakers, the design of interview guides is also contingent on specific expertise and the backgrounds of interviewees.¹⁷⁶ By asking open-ended questions, I have made every effort to ensure that interviewees had "leeway" to

¹⁷⁴ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

¹⁷⁵ Alan Bryman, *Social Research Methods* (New York: Oxford University Press, 2012), 470-71.

¹⁷⁶ *Ibid.*, 472-73.

answer the questions based on their practical experience or academic knowledge.¹⁷⁷

I interviewed 32 Chinese and Taiwanese elites in total during fieldwork in China and Taiwan from September 2013 to April 2014, and again in December 2014. The duration of every interview was over one hour, with the exception of the interview with former Taiwanese Premier, Professor Liu Chao-Shiuan, which lasted for 45 minutes. However, there is an accessibility gap regarding elite interviewees from Taiwan and China.

During the period of fieldwork in Taiwan, I successfully collected valuable information and perspectives from twenty Taiwanese elites, as shown on Appendix II. The list of interviewees includes one former premier, one former General Secretary of the National Security Council, one former Minister of the MAC, and five deputy minister level officers from either the MOEA or the MAC. Moreover, a former chairman of the Committee of Research and Design Planning of the MOFA (ROC) and several senior policymakers of the Democratic Progressive Party (DPP) also accepted interviews. While their terms of office stretch from Lee Teng-hui's presidency to Ma Ying-jeou's presidency, this research not only illustrates Taiwan's strategic concern over the ECFA but also tracks the evolution of Taiwan's strategic interests with regards to cross-Strait economic integration.

Aside from interviews with Taiwanese policymakers, this thesis also includes interviews with five Taiwanese entrepreneurs in order to explore the roles of Taiwan's manufacturing industries in the process of regionalization, as well as the motivations that drive them to invest in the mainland. Among these five interviewees,

¹⁷⁷ Ibid., 472-80.

three are from Taiwan's most important multinational corporations (MNCs). Specifically, Kent S. Chien is a General Manager of ASUS, heading the Graphic Card Business Unit; Dora W. Chang and Jacky B. Chen are the CEO and Manager, respectively, of the Yageo Corporation, which is the largest manufacturer of passive components in the world. Through interviews with these business people, I gained insights into the business operation strategies of ASUS and Yageo, which serve as important case studies to illustrate not only the contribution of Taiwan's MNCs in the process of regionalization in the Asia-Pacific region but also the impacts of the ECFA, the RCEP and the TPP on Taiwan's manufacturing industries.

As to the fieldwork in China, I was unable to interview any Chinese politicians or policymakers due to the difficulty of obtaining their contacts. Instead, all 13 Chinese elite interviewees were scholars from Beijing, Shanghai, and Xiamen (see Appendix II); however, their perspectives remain valuable in depicting China's political agendas behind economic integration. First of all, as David Shambaugh has noted, some Chinese scholars do participate in the process of Beijing's policymaking procedures, and their opinions could also sometimes influence Chinese leaders' decisions.¹⁷⁸ Although it is difficult to identify exactly who plays what role in which department of the Chinese government, thanks to assistance from Taiwanese interviewees, I successfully conducted interviews with a number of Chinese scholars who are also researchers hired by the TAO.

Furthermore, academic debate among Chinese scholars also reflects Beijing's policy tendencies, since the voice of Chinese scholars should always be in line with

¹⁷⁸ David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013), 15-18.

the government.¹⁷⁹ As a result, I target Chinese scholars in distinct academic institutions of Taiwan studies or international relations, such as Peking University, Renmin University, China Foreign Affairs University, Fudan University, and most importantly—the Taiwan Research Institute at Xiamen University. Despite the high academic prestige of these Chinese interviewees in China’s Taiwan studies, I do not solely rely on these interviews to analyze China’s commercial diplomacy. In contrast, academic literature and official documents are always key evidence supporting arguments of this thesis; interviews act to supplement explanations of China’s policy and academic studies.

1.5.2 Thesis Structure

This thesis is composed of seven chapters. Chapter 2 constructs a theoretical framework to analyze China’s commercial diplomacy and Taipei’s strategy for countering China’s commercial diplomacy. In order to evaluate the extent to which China is able to encroach on Taiwan’s sovereignty in the process of cross-Strait economic integration, this chapter first splits the concept of sovereignty into *de jure* and *de facto*. Based on Stephen Krasner’s work, this chapter then divides *de jure* sovereignty into Westphalian and domestic sovereignty; in the same vein, *de facto* sovereignty is also split into international legal and interdependence sovereignty.¹⁸⁰ Most importantly, by reviewing Sigrid Winkler’s work, this chapter argues that functional sovereignty is a bridge connecting *de jure* and *de facto* sovereignty, upon which Taiwan expects to legitimize its statehood in the international community.¹⁸¹

¹⁷⁹ Ibid.

¹⁸⁰ Krasner, *Sovereignty*, 3-4.

¹⁸¹ Sigrid Winkler, “Can Trade Make a Sovereign? Taiwan-China-EU Relations in the WTO”, *Asia Europe Journal* 6, no. 3 (2008): 471-77.

Additionally, as both Beijing and Taipei implement their strategies for tackling the contentious issue of sovereignty in the process of economic integration, this chapter also explores Ellen Frost's theory of commercial diplomacy in the context of interdependence theory by Robert Keohane and Joseph Nye.¹⁸² This chapter then proposes that asymmetric economic interdependence between China and Taiwan allows Beijing to wield commercial diplomacy to achieve its national goal of peaceful reunification, especially when Taiwan is marginalized in the process of economic integration in the Asia-Pacific region.

Chapter 3 discusses China's and Taiwan's strategic concerns over cross-Strait economic integration from the bilateral level to the regional level. By studying their roles in the process of East Asian regionalization, this chapter demonstrates that, before signing the ECFA with Taipei, Beijing had already created regional conditions that entail Taiwan strengthening economic ties with China to secure its economic interests, as well as to improve its marginalized position in the process of regional economic integration. The main reason for this is that China's economic rise has overshadowed Taiwan's economic contributions to East Asian economic integration. Specifically, by investigating components trade between East Asian economies, this chapter finds that, while China has played a pivotal role in regional production networks, there have been asymmetric economic interdependencies between China and East Asian economies. Taiwan is no exception. This has impinged on the effectiveness of Taiwan's commercial diplomacy in securing its regional position. As Beijing began to take the initiative to shape East Asian regionalism, this further resulted in the exclusion of Taiwan from East Asian economic integration

¹⁸² Frost, "China's Commercial Diplomacy in Asia", 95-117; Robert O. Keohane and Joseph N. Nye, *Power and Interdependence* (New York: Longman, 2012), 1-18.

mechanisms, endangering Taiwan's economic and sovereignty interests. In this case, seesawing between China and the US appears to be the new regional strategy of Ma's administration, and the ECFA may in fact be the byproduct of such a strategy.

After providing the general background information about the ECFA in the context of East Asian economic integration, chapter 4 first explores how the dynamics of regional economic integration have impinged upon cross-Strait economic relations. This chapter then studies the question of how China and Taiwan reconcile their sovereignty agendas with cross-Strait economic integration. By reviewing both sides' policy documents, this research finds that whereas Chinese leaders consistently furthered the agenda of peaceful reunification by promoting cross-Strait economic liberalization since the 1980s, Taiwanese leaders spared no effort in constraining bilateral economic exchanges before 2008. Additionally, the "go south" policy was Taiwan's concrete strategy of commercial diplomacy in order to secure its sovereignty interests. By strengthening economic ties with ASEAN members, Taipei expected to decrease the degree of its economic dependence on the Chinese market so as to counter Beijing's commercial diplomacy towards Taiwan. Nonetheless, the rapid progress of China's economic modernization and Taiwan's industrial development policies reduced the effectiveness of Taiwan's "go south" strategy. The cases of ASUS and Yageo demonstrate that the large economies of scale and low-cost production factors in China are crucial for Taiwanese manufacturing industries to enhance their performance. Following the implementation of Beijing's unilateral preferential trade policies targeting Taiwan, China became the main destination for Taiwanese investments. As a result, the degree of Taiwan's economic dependence on China increased steadily, which strengthened Beijing's political

leverage over Taiwan in the process of cross-Strait economic integration. Most importantly, this also laid the foundations of contemporary cross-Strait economic integration.

In chapter 5, this thesis analyzes the effectiveness of China's commercial diplomacy towards Taiwan after 2008. This chapter illustrates China's strategic concern over the ECFA and its concrete measures for tackling the contentious Taiwan issue in the post-ECFA era. First of all, this research finds that the ECFA is conducive for Beijing to constrain Taiwanese leaders from promoting *de jure* independence movements. The key reason for this is that the ECFA has institutionalized not only cross-Strait economic integration but also the 1992 Consensus across the Taiwan Strait. Notably, in order to convince Taiwan of the ambiguous "one-China principle", Beijing has also made concessions with regards to Taiwan's international space. However, instead of worrying about the consolidation of Taiwan's *de jure* sovereignty, Chinese leaders are seemingly confident with this political concession because they believe that the 1992 Consensus has legitimized China's international legal sovereignty over Taiwan. Moreover, following the intensive progress of cross-Strait economic integration, the importance of the Chinese market for Taiwan's enterprises has increased, and Chinese investments have also been allowed access to the Taiwanese market. Chinese leaders, then, expect to enhance their political leverage over Taiwan in the process of economic integration, which is beneficial for Beijing to achieve its national goal of peaceful reunification.

In order to examine whether China's commercial diplomacy has been as effective as expected, chapter 6 focuses on the impact of the ECFA on Taiwan's economic performance and the effectiveness of Taipei's strategies for consolidating its statehood. This chapter argues that the institutionalization of the 1992 Consensus has hampered the effectiveness of Taiwan's FTA strategy to acquire *de jure* sovereignty based on its solid *de facto* and functional sovereignty. Moreover, in terms of Taiwan's international space, as most of Taiwan's achievements have been accomplished with Beijing's consent, Taiwan's accession to international organizations or regional economic integration mechanisms is thus contingent on the development of cross-Strait relations. From an economic perspective, the ECFA has made a limited contribution to Taiwan's economic performance, and it has indeed increased the degree of Taiwan's economic dependence on the Chinese market, as is clear from the tremendous flows of capital from Taiwan to China. However, this chapter finds that Taiwan's economic overdependence on China is restricted to manufacturing industries, as Taiwanese investments in the Chinese market were mainly made by manufacturers, which accounted for less than 30% of Taiwan's GDP in 2014.¹⁸³ Moreover, while the ECFA has generated concerns in Taiwan over the hollowing-out effect, it further generated the Sunflower Movement in 2014, which make those ECFA's sub-agreements signed in 2013 and 2014 pending in practice. In this light, the effectiveness of China's commercial diplomacy should not be exaggerated.

The final chapter of this thesis concludes that China has been able to encroach on Taiwan's international legal and interdependence sovereignty by wielding

¹⁸³ Department of Statistics, MOEA, ROC, "Economic Indicators EBook", last modified September 27, 2016, http://www.moea.gov.tw/Mns/dose/content/ContentLink.aspx?menu_id=6748.

commercial diplomacy in the process of cross-Strait economic integration. There is also a possibility for Beijing to infringe on Taiwan's domestic sovereignty, as some policymakers in the Ma administration aim to connect the 1992 Consensus with the Constitution of the Republic of China, which could further impact Taiwan's functional sovereignty. However, even though the 1992 Consensus was institutionalized following the implementation of the ECFA, Taiwan can still firmly secure its Westphalian sovereignty, as the ambiguous one-China principle cannot alter the *status quo* across the Taiwan Strait. As a result, Beijing can wield commercial diplomacy to create conditions favorable for its national goal of peaceful reunification, but commercial diplomacy cannot be Beijing's final strategy to take over Taiwan. Additionally, there are also several variables that may influence the effectiveness of China's commercial diplomacy towards Taiwan that are worthy of future research. Firstly, as the DPP won Taiwan's presidential campaign in January 2016, the new pro-independence Taiwanese government attitude towards the 1992 Consensus remains ambivalent. Secondly, contrary to scholars' predictions, negotiations over the TPP between the US and the other 11 members were concluded in 2015.¹⁸⁴ Whether Taiwan can participate in this regional economic integration framework is a question that requires further research. Finally, China's economic growth has always been stunning, regardless of global financial crises. However, comparing its double digit economic growth rate in the 2000s with the estimated 7% in 2015,¹⁸⁵ the question of whether China can maintain a high economic growth rate in the future must also be examined.

¹⁸⁴ William Mauldin, "U.S. Reaches Trans-Pacific Partnership Trade Deals with 11 Pacific Nations", *The Wall Street Journal*, October 5, 2015, accessed October 17, 2015, <https://www.wsj.com/articles/u-s-reaches-trade-deal-with-11-pacific-nations-1444046867>

¹⁸⁵ Mark Magnier, "China Economic Growth Falls Below 7% for First Time Since 2009", *The Wall Street Journal*, October 18, 2015, accessed October 19, 2015, <https://www.wsj.com/articles/china-economic-growth-falls-below-7-for-first-time-since-2009-1445221368>

Chapter 2 Understanding Sovereignty and Commercial Diplomacy:

A Literature Review

2.1 Introduction

The previous chapter briefly introduced economic integration between China and Taiwan in the context of cross-Strait relations, and it was noted that sovereignty remains the most contentious issue affecting the progress of bilateral economic integration. The Cross-Strait Economic Cooperation Framework Agreement (ECFA) signed in 2010 is a milestone in PRC-Taiwan relations which symbolizes that both sides have entered into the phrase of “peaceful development”.¹ The pursuit of economic prosperity has become the common interest of China and Taiwan, and it has driven both sides to cooperate with each other under the principles of “putting aside disputes” and “equality, dignity, and mutual benefit” based upon the 1992 Consensus.² Nonetheless, against the anticipated progress of cross-Strait economic integration, bilateral negotiations over sub-agreements of the ECFA have been pending following the onset of the Sunflower Movement in 2014.³ Intensive economic integration between Taiwan and China has raised the question of whether asymmetric economic interdependence has provided many more resources for Beijing to carry out its grand strategy of peaceful reunification⁴. Moreover, the ECFA has also generated Taiwanese concerns over the erosion of sovereignty.

¹ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 102-105; Prashant Kumar Singh, “Can Taiwan Talk ‘Political’ with the Mainland?”, *Strategic Analysis* 39, no. 3 (2015): 264-66.

² Li “The Nature of the Economic Cooperation Framework Agreement”, 52.

³ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 102-105; Singh, “Can Taiwan Talk ‘Political’ with the Mainland?”, 264-66.

⁴ Scott L. Kastner, “Drinking Poison to Quench a Thirst? The Security Consequences of China-Taiwan Economic Integration” in *The Economic-Security Nexus in Northeast Asia*, ed. T. J. Pempel (New York: Routledge, 2013), 25-27.

To study the question of whether Beijing has infringed on Taiwan's sovereignty in the process of cross-Strait economic integration, this chapter aims to construct the theoretical framework of this thesis to evaluate the effectiveness of Beijing's strategy. The first mission of this chapter is to define sovereignty. In general, sovereignty can be understood as "the right to rule, involving an inherent independence from external authority and implying the legitimate authority to govern."⁵ Under this general definition, sovereignty is indivisible; a state has either "all or nothing."⁶ However, this definition is not useful for studying cross-Strait relations. Although China has not achieved the national of peaceful reunification, it has become the legitimate owner of the island under the prevalent "one-China principle" in the international community. By the same token, despite the fact that the "one-China principle" is an obstacle to Taiwan's international space, it does not affect Taiwan acting as a sovereign state in many aspects, for instance, military procurements from the United States. As a result, contrary to indivisible nature of sovereignty, this research splits sovereignty into several different categories in order to resolve the puzzle of sovereignty in cross-Strait relations.

Specifically, this research utilizes the works of Stephen Krasner and Sigrid Winkler to catalogue five different definitions of sovereignty. The second section first discuss the advantages and disadvantages of Krasner's approach for defining sovereignty. Furthermore, most literature on cross-Strait relations adopts a dichotomous approach to split sovereignty into *de facto* and *de jure* sovereignty. Based on this approach, the third section of this chapter divides *de facto* sovereignty

⁵ Joel R. Campbell, et al., "Bargaining Sovereignty: State Power and Networked Governance in a Globalized World", *International Social Science Review* 85, no. 3/4 (2010): 108.

⁶ Zhongqi Pan, "Managing the Conceptual Gap on Sovereignty in China-EU Relations", *Asia Europe Journal* 8:2 (2010): 229.

into Westphalian and domestic sovereignty according to Krasner's definition.⁷ By the same token, *de jure* sovereignty is also split into international legal and interdependence sovereignty in the fourth section of this chapter.⁸ Additionally, in the fifth section, this chapter employs Winkler's definition of functional sovereignty to fill the gap between literature and *Realpolitik* in explaining how Taiwan consolidates its international legal sovereignty by participating in the international community without widely recognized statehood.⁹

After providing definitions of sovereignty, this chapter aims to study the disputed issue of sovereignty in the context of economic interdependence. It seeks to address three key questions: what is the connection between sovereignty and economic interdependence? How do Beijing and Taipei achieve their political goals in the process of economic integration? How can one evaluate the effectiveness of Beijing's grand strategy of peaceful reunification in the context of cross-Strait economic integration? To address these questions, in the sixth section, this chapter constructs a theoretical framework based on Ellen Frost's theory of commercial diplomacy as well as the interdependence theory proposed by Robert Keohane and Joseph Nye. Finally, by considering the asymmetric economic interdependence between both sides, this chapter suggests that commercial diplomacy is an effective instrument for Beijing to achieve its national goal of peaceful reunification in the process of cross-Strait economic integration; and Taiwan is supposed to be vulnerable due to its asymmetric economic interdependent relations with China.

⁷ Krasner, *Sovereignty*, 9-25.

⁸ Ibid.

⁹ Sigrid Winkler, "A Question of Sovereignty? The EU's Policy on Taiwan's Participation in International Organizations", *Asia Europe Journal* 11, no. 1 (2013): 1-3.

2.2 Approach for Defining “Sovereignty”: Strengths and Flaws

As scholars have pointed out, there is an abundance of literature on sovereignty, but none of these works provide a universally satisfactory theoretical approach to study this issue.¹⁰ Some scholars prefer to define sovereignty according to its “juridical” nature by studying the constitution of a sovereign state or international law, but this approach overlooks the argument that power asymmetry among sovereign states is the main cause of the violation of “equality”.¹¹ Others define sovereignty by stressing the “absolute authority” of the state,¹² but they ignore the role that non-state actors have played in weakening states’ “ability to control” in the era of globalization.¹³ Historical background is a crucial factor in defining sovereignty; however, there has been intense debates amongst scholars over the issue of whether “Westphalian sovereignty”, the concept originating in Europe in the 17th century, is adaptable to world politics today.¹⁴

Since none of the above approaches is sufficient for conceptualizing state sovereignty, political theorists have spared no effort in articulating innovative alternative explanations. The neo-realist school pays close attention to the question

¹⁰ R. B. J. Walker, “State Sovereignty and the Articulation of Political Space/Time”, *European Journal of Political Research* 20, no. 3 (1991): 445-47.

¹¹ For more examples of “juridical sovereignty”, please see: Alan James, “The Practice of Sovereign Statehood in Contemporary International Society”, *Political Studies* 47, no. 3 (1999): 457-73; Michael Barnett, “The New United Nations Politics of Peace: From Juridical Sovereignty to Empirical Sovereignty”, *Global Governance* 1, no 1 (1995): 79-97.

¹² Janice E. Thomson, “State Sovereignty in International Relations: Bridging the Gap between Theory and Empirical Research”, *International Studies Quarterly* 39, no. 2 (1995): 215-19.

¹³ John Agnew, “Sovereignty Regimes: Territoriality and State Authority in Contemporary World Politics”, *Annals of the Association of American Geographers* 95, no. 2 (2005): 437-39; Joseph S. Nye and Robert O. Keohane, “Transnational Relations and World Politics: An Introduction”, *International Organization* 25, no. 3 (1971): 332-36; Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization* (New York: Columbia University Press, 1996), 23-32.

¹⁴ Andrew Coleman and Jackson Nyamuya Maogoto, “‘Westphalian’ Meets ‘Eastphalian’ Sovereignty: China in a Globalized World”, *Asian Journal of International Law* 3 (2013): 258-68; Andreas Osiander, “Sovereignty, International Relations, and the Westphalian Myth”, *International Organization* 55, no. 2 (2001): 264-66; Luke Glanville, “The Myth of Traditional Sovereignty”, *International Studies Quarterly* 57, no. 1 (2013): 87-88.

of how the distribution of power impinges on state actors' sovereign claims in the international system.¹⁵ Liberal-institutionalism proposes "pooled sovereignty" to illustrate the impact of international integration on "state authority" in the era of globalization.¹⁶ Constructivists further magnify the issue of identities as they contend that sovereignty is an essentially "socially-constructed" concept.¹⁷ Regardless of these efforts, the definition of sovereignty is still ambiguous due to its complex historical backdrop, as well as ambivalent logical connection among the concepts of "state", "government", "authority" and "power".¹⁸

It is important to emphasize that this chapter does not intend to provide a definition of sovereignty that resolves all the controversies surrounding state sovereignty. Rather, the core mission is to find an approach that can effectively study the contentious sovereignty issue between Taiwan and China in the context of economic integration. Therefore, discussions of sovereignty in relation to political philosophy and human rights are not taken into consideration. Exploring identity issues is helpful to understand the divergent discourses on sovereignty across the Taiwan Strait. However, both Chinese and Taiwanese leaders' policies for managing cross-Strait relations, and the interactions between China and Taiwan in the international system, are more critical. In this context, Stephen Krasner's work on

¹⁵ Kenneth N. Waltz, *Theory of International Politics* (Long Grove, Illinois: Waveland Press, Inc., 2010), 93-97; Stephen Krasner, *Power, the State, and Sovereignty: Essays on International Relations* (New York: Routledge, 2009), 182-83.

¹⁶ Robert O. Keohane, "Ironies of Sovereignty: The European Union and the United States", *Journal of Common Market Studies* 40, no. 4 (2002): 746-49.

¹⁷ Thomas J. Biersteker and Cynthia Weber, "The Social Construction of State Sovereignty", in *State Sovereignty as Social Construct*, ed. Thomas J. Biersteker and Cynthia Weber (New York: Cambridge University Press, 1996), 11-14.

¹⁸ Alexander B. Murphy, "The Sovereign State System as Political-territorial Ideal: Historical and Contemporary Considerations", in *State Sovereignty as Social Construct*, ed. Thomas J. Biersteker and Cynthia Weber (New York: Cambridge University Press, 1996), 107-12; Giovanni Arrighi, "Globalization, State Sovereignty, and the 'endless' assumption of capital", in *States and Sovereignty in the Global Economy*, ed. David A. Smith et. al. (New York: Routledge, 1999), 58-65; Joseph A. Camilleri and Jim Falk, *The End of Sovereignty: The Politics of Shrinking and Fragmenting World* (Hants: Edward Elgar Publishing Limited, 1992), 15-24.

articulating different aspects of sovereignty represents an ideal approach to the study of the contentious sovereignty issues across the Taiwan Strait.¹⁹ Nevertheless, as shown in the succinct discussion above, despite many scholars' efforts, there is no widely accepted definition of sovereignty, and neither can Krasner's work fulfil this mission. As such, it is important to illustrate both the advantages and disadvantages of defining sovereignty according to Krasner's approach.

First of all, Krasner categorizes the definition of sovereignty into "Westphalian", "domestic", "international legal" and "interdependence sovereignty" in accordance with its different dimensions, and he stresses that each should be taken as an independent concept.²⁰ This demarcation approach enables scholars to analyze a regime's specific sovereign interests in the process of interactions with other sovereign states. However, due to the lack of connection between each type of sovereignty, scholars may confront difficulties in exploring how a "problematic regime" utilizes one form of sovereignty to acquire another form of sovereignty. To recitify this shortcoming, as will be specified in the fifth section, Winkler's "functional sovereignty" will be used to connect the four independent categories of sovereignty proposed by Krasner.²¹

Furthermore, as David Lake indicates, although analysts can capture "deviance" between different types of sovereignty, Krasner does not propose a method to amalgamate all aspects of sovereignty into a single whole.²² The core reason for this

¹⁹ Krasner, *Sovereignty*, 9-25.

²⁰ Ibid.; see also: Stephen Krasner, "Foreword: Varieties of Sovereignty", in *The Future of the United States, China, and Taiwan Relations*, ed. Cheng-Yi Lin and Denny Roy (New York: Palgrave Macmillan, 2011), xii-ix.

²¹ Winkler, "Can Trade Make a Sovereign?", 469-71.

²² David A. Lake, "The New Sovereignty in International Relations", *International Studies Review* 5,

lies in Krasner's argument that not all sovereign states are equipped with every form of sovereignty in practice.²³ Thus, there is no standard that clearly defines how many kinds of sovereignty a state must acquire for being a fully-fledged sovereign state. Owing to this lack of a unitary standard, when applying Krasner's approach to study sovereignty issues in the international system, analysts may be concerned into arguing that a regime cannot be a fully-fledged sovereign state unless it possesses all four aspects of sovereignty. This assumption unwittingly asserts that state actors' strategies for pursuing their sovereign interests are beneficial for "state-building".²⁴

In the case of Taiwan, the crux of its sovereignty dispute is mainly rooted in its problematic international legal sovereignty.²⁵ As such, it is correct to assert that Taiwan would be a fully-fledged sovereign state upon obtaining broad international recognitions. However, this may not be the case for Tropical African countries. Robert Jackson and Carl Rosberg point out that the principles of "self-determination" and "non-interference" allowed African regimes to rapidly obtain international recognitions in the wave of decolonization after World War II.²⁶ Despite their success in acquiring international legal sovereignty, some Tropical African states had limited ability for "self-government".²⁷ The subsequent results were dictatorship, juntas, civil war, poverty and so on, but African leaders' insistence in the convention of "indigenization" under the norms of "self-determination" and "non-interference" prevented their regimes from external interventions.²⁸ Consequently, there was the

no. 3 (2003): 310.

²³ Krasner, *Sovereignty*, 4.

²⁴ Robert H. Jackson, *Quasi-States: Sovereignty, International Relations, and the Third World* (New York: Cambridge University Press, 1990), 1-12.

²⁵ Thomson, "State Sovereignty in International Relations", 220.

²⁶ Robert H. Jackson and Carl G. Rosberg, "Sovereignty and Underdevelopment: Juridical Statehood in the African Crisis", *The Journal of Modern African Studies* 24, no. 1 (1986): 9-14.

²⁷ *Ibid.*, 19-20.

²⁸ *Ibid.*, see also: Jackson, *Quasi-States*, 21-26.

emergence of “quasi states” that possess sufficient international recognitions but with limited domestic governing ability.²⁹ In this light, the applicability of Krasner’s approach is limited because it is entirely contingent on the empirical case selection.

Last but not least, Krasner’s analysis of state sovereignty is conducted through the “actor-oriented approach”, as he contends that rulers are real actors who drive “statecraft”.³⁰ By employing this approach, scholars can further explore how rulers’ “policies”, “power”, and sovereign interests impinge on a regime’s sovereignty claims.³¹ This approach is especially important for the study of cross-Strait relations. For example, Beijing’s “one-China principle” is ostensibly unchanged in the international system, as Taiwan is still forbidden from accessing many important international institutions. Nonetheless, as will be detailed in chapters 4 and 5, by taking China’s official speeches and policy documents into consideration, it is clear that Chinese leaders have subtly recalibrated their discourse on the “one-China principle” since the 1990s, and this principle has in fact become adjustable at the bilateral and regional level.³²

Krasner’s “actor-oriented approach” extends discussion from interactions between sovereign states to rulers’ concerns over state sovereignty, but his focal point remains at the state level, owing to the connection between “sovereign state” and “ruler” implied by the terminology of “state actor”.³³ Specifically, Krasner’s analyses mainly center on state actors’ internal and external power in the context of

²⁹ Ibid.

³⁰ Krasner, *Sovereignty*, 43-44; see also: Stephen Krasner, *Power, the State, and Sovereignty: Essays on International Relations* (New York: Routledge, 2009), 182-83.

³¹ Ibid.

³² Sow Keat Tok, *Managing China’s Sovereignty in Hong Kong and Taiwan* (New York: Palgrave Macmillan, 2013), 129-31.

³³ Krasner, *Sovereignty*, 43-44; see also: Stephen Krasner, *Power, the State, and Sovereignty: Essays on International Relations* (New York: Routledge, 2009), 182-83.

Westphalian and international legal sovereignty.³⁴ This then implores scholars to pay additional attention to other two important factors —globalization and identity — which have a profound impact on state sovereignty.

Firstly, the dynamic of globalization is a determining factor in relation to interdependence sovereignty.³⁵ Although most of the contemporary literature points out that multilateral institutions may “absorb” a portion of sovereign states’ policymaking authority, these mechanisms also contribute to the consolidation of a regime’s claim on its “statehood”.³⁶ This chapter will discuss this issue in more detail in the fourth section. Secondly, as constructivists have noted, sovereignty can be deemed to be a “socially constructed identity”, which is the outcome of interactions between both “states or agents” in international society and individuals within a specific community.³⁷ Although this thesis does not examine the identity issue in depth, this factor is key to the legitimacy of the Taiwanese government, as well as both sides’ perception of the “one-China principle”.³⁸ The next section of this chapter will explore this issue in association with Westphalian and domestic sovereignty.

2.3 *De Facto* Sovereignty in Cross-Strait Relations

Literature on cross-Strait relations always divides the definition of sovereignty

³⁴ Ibid.

³⁵ Krasner, *Sovereignty*, 12-14.

³⁶ Kal Raustiala, “Rethinking the Sovereignty Debate in International Economic Law”, *Journal of International Economic Law* 6:4 (2003):844-46; Saskia Sassen, “Embedding the Global in the National: Implications for the Role of the State”, in *States and Sovereignty in the Global Economy*, ed. David A. Smith et. al. (New York: Routledge, 1999), 158-60.

³⁷ Biersteker and Weber, “The Social Construction of State Sovereignty”, 11-14.

³⁸ Murphy, “The Sovereign State System as Political-territorial Ideal”, 110-12.

into *de facto* and *de jure* sovereignty. *De facto* sovereignty means “the right of governance,” whereas *de jure* sovereignty usually refers to the statehood of a regime that enables it to act as a sovereign state in the international community.³⁹ However, by employing this dichotomous approach, the contribution of this literature is seemingly limited to the realm of *de jure* sovereignty. Indeed, there are abundant studies discussing Taiwan’s international status or the evolution of China’s Taiwan policy in the post-ECFA era, but in terms of *de facto* sovereignty, only a few pieces of literature discuss the impacts of cross-Strait economic integration on this realm.

The main reason for this is that *de facto* sovereignty is always connected with the *status quo*, which is assumed to be static.⁴⁰ Following this logic, the impact on this realm is not measurable unless there are physical challenges to the *status quo* across the Taiwan Strait, such as a war. However, cross-Strait economic integration has entailed both China and Taiwan recalibrating their domestic policies based on the ECFA and the 1992 Consensus, which have apparently impinged on *de facto* sovereignty. Obviously, analyses based on this assumption are no longer sufficient to explain cross-Strait relations in the post-ECFA era. Therefore, this research adopts Krasner’s definitions of sovereignty to further divide *de facto* sovereignty into Westphalian and domestic sovereignty by considering their similar features that emphasize the “control”, “autonomy”, and “authority” of a sovereign state.⁴¹

³⁹ Sow Keat Tok, *Managing China’s Sovereignty in Hong Kong and Taiwan* (New York: Palgrave Macmillan, 2013), 68-71.

⁴⁰ Jianwei Wang, “Hu Jintao’s ‘New Thinking’ on Cross-Strait Relations”, *American Foreign Policy Interests: The Journal of the National Committee on American Foreign Policy* 29, no. 1 (2007): 25-28; Tok, *Managing China’s Sovereignty*, 129-31.

⁴¹ Krasner, *Sovereignty*, 3-4.

2.3.1 Defining Westphalian Sovereignty

2.3.1.1 Westphalian Sovereignty: Contents in Discontents

This chapter argues that *de facto* sovereignty is composed of Westphalian sovereignty and domestic sovereignty, and that Westphalian sovereignty is the most important ingredient. The core reason is that Westphalian sovereignty stresses the “exclusionary” and absolutely “supreme” of an “authority within the territory,” which are prerequisites of the “right of governance.”⁴² Krasner defines Westphalian sovereignty as “political organization based on the exclusion of external actors from authority structures within a given territory”, such that “territoriality” and “noninterference” are important principles.⁴³ Externally, Westphalian principles guarantee that the “domestic authority structures” of a regime are autonomous and “independent of the others”, which qualifies it as a sovereign state that should not be invaded by others.⁴⁴ Internally, Westphalian principles endow a regime with the monopoly to govern within a defined territory, and any intervention in its domestic affairs is therefore forbidden.⁴⁵ While these Westphalian principles should be “honored” in the international community, theoretically, Westphalian sovereignty also implies that sovereign states are equal regardless of their powers or regime modalities.⁴⁶ However, Westphalian principles have become the topic of fierce debates amongst scholars, especially with regards to their implementation.

⁴² Chengxin Pan, “Normative Convergence and Cross-Strait Divergence: Westphalian sovereignty as an ideational source of Taiwan Conflict”, in *New Thinking about the Taiwan Issue: Theoretical Insight into Its Origins, Dynamics, and Prospects*, ed. D. V. Hickey and J.M.F. Blanchard (New York: Routledge, 2012): 30.

⁴³ Krasner, *Sovereignty*, 3-4.

⁴⁴ *Ibid.*, 20-21

⁴⁵ Takashi Inoguchi and Paul Bacon, “Sovereignties: Westphalian, Liberal and Anti-Utopian”, *International Relations of the Asia-Pacific* 1, no. 2 (2001): 285-87.

⁴⁶ C. Pan, “Managing the Conceptual Gap on Sovereignty”, 228-29; Z. Pan, “Normative Convergence and Cross-Strait Divergence”, 30.

Debates over applying Westphalian sovereignty in studying international relations revolve around challenges from great power politics, waves of globalization, and human rights advocacy.⁴⁷ First of all, the Westphalian principle of equality is always violated because of asymmetric power amongst sovereign states in *Realpolitik*. For realists, power remains a crucial factor that decides the extent to which a sovereign entity can protect its Westphalian sovereignty from being invaded.⁴⁸ In this case, weaker powers always make concession on their Westphalian sovereignty in exchange for peace, economic aid, or security guarantees. Unequal treaties that forced China to concede its territory to great powers in the nineteenth century were most evident of this.⁴⁹ Thus, Krasner argues that “asymmetries of power” serve as the main reason for why the practice of Westphalian sovereignty always contradicts its doctrine.⁵⁰

Furthermore, liberals also question whether a state can adhere closely to Westphalian sovereignty since achieving absolute self-governance has become much more difficult in the era of globalization. Numerous “globalized” problems (e.g. financial crises, epidemic diseases, etc.) have driven sovereign states to cooperate with one another.⁵¹ Consequently, multilateral institutions have been springing up around the world. Although not necessarily compulsory, multilateral institutions have the potential to require governing rights from sovereign states (e.g. tariff policy in the case of economic integration) so as to consolidate the legitimacy of collective

⁴⁷ April Morgan, “Sovereignty’s New Story”, *The Monist* 90, no. 1 (2007): 31-37; Kal Raustiala, “Rethinking the Sovereignty Debate in International Economic Law”, *Journal of Economic Law* 6:4 (2003): 841-44.

⁴⁸ Krasner, *Sovereignty*, 8-9.

⁴⁹ Randall Peerenboom, “China Stands Up: 100 Years of Humiliation, Sovereignty Concerns, and Resistance to Foreign Pressure on PRC Courts”, *Emory International Law Review* 24, no. 2 (2010): 654-56.

⁵⁰ Krasner, *Sovereignty*, 20-21.

⁵¹ Joel R. Campbell, et al., “Bargaining Sovereignty”, 117-19; Inoguchi and Bacon, “Sovereignties: Westphalian, Liberal and Anti-Utopian”, 299-302.

action.⁵² In this case, conceding Westphalian sovereignty is inevitable in order to avoid isolation from the international community. Thus, scholars cast doubt on the application of Westphalian principles.

Finally, the increasing awareness of human rights concerns has become the most significant challenge to the Westphalian principle of noninterference. Traditional definitions of Westphalian sovereignty do not stipulate states' obligation to protect their citizens. By contrast, the principle of noninterference legitimizes all decisions made by the supreme authority within its own territory, including the use of force to repress dissent.⁵³ To date, noninterference remains the core principle of sovereignty in the modern international community, as the Charter of the United Nations 2(4) stipulates that:

*“All members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independency of any state, or in any other manner inconsistent with the purposes of the UN.”*⁵⁴

However, this principle is no longer a sacred doctrine without regulating obligations of states. It is noteworthy that the “responsibility to protect” has been listed in the UN *“Secretary-General's 2009 Report (A/63/677) on Implementing the*

⁵² Saskia Sassen, “The Places and Spaces of the Global: An Expanded Analytic Terrain”, in *Globalization Theory: Approaches and Controversies*, ed. David Held and Anthony McGrew (Cambridge: Polity Press, 2007), 80-82.

⁵³ Morgan, “Sovereignty’s New Story”, 29-31.

⁵⁴ UN, “Charter of the United Nations”, 1945, accessed January 20, 2013, <http://www.un.org/en/sections/un-charter/chapter-i/index.html>

Responsibility to Protect".⁵⁵ According to this document, a sovereign state is liable "to protect its populations, whether nationals or not, from genocide, war crimes, ethnic cleansing and crimes against humanity, and from their incitement", and it further legitimizes "collective actions" adopted by the UN once a sovereign state fails to carry out this duty.⁵⁶ In this light, the principle of noninterference has been redefined.

2.3.1.2 Westphalian Sovereignty in the Context of Cross-Strait Relations

Despite the fact that the controversies over Westphalian sovereignty have not been resolved, what justifies the application of Westphalian sovereignty in studying cross-Strait relations is actually derived from these debates. Several scholars argue that Westphalian sovereignty is the consensus on both sides of the Taiwan Strait, and China has a "fundamentalist" attitude towards Westphalian sovereignty due to the memory of the "century of humiliation" in the colonial era.⁵⁷ Chinese people have bitter memories of the violation of their Westphalian sovereignty and thereby the PRC has adhered tightly to Westphalian principles ever since its establishment in 1949.⁵⁸ Sow Keat Tok points out that the Preamble of the Constitution of the PRC is most evidence of this, as it lists the "Five Principles of Peaceful Coexistence",⁵⁹ which are:

"mutual respect for sovereignty and territorial integrity, mutual

⁵⁵ UN, "Secretary-General's 2009 Report (A/63/677) on Implementing the Responsibility to Protect", 2009, accessed January 13, 2015, http://www.un.org/en/ga/search/view_doc.asp?symbol=A/63/677.

⁵⁶ Ibid.

⁵⁷ C. Pan, "Normative Convergence and Cross-Strait Divergence", 30; Peerenboom, "China Stands Up", 655-56; Z. Pan, "Managing the Conceptual Gap on Sovereignty", 228-32.

⁵⁸ Ibid.

⁵⁹ Tok, *Managing China's Sovereignty*, 79-85.

non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence in developing diplomatic relations and economic and cultural exchanges with other countries."⁶⁰

Based on these principles, the PRC welcomes no external intervention in its domestic affairs, especially with regard to the disputed issues of territory and human rights.⁶¹ Moreover, China also promotes this principle in the process of East Asian economic integration and as such issues relevant to Taiwan have been put aside in the regional institutions under the "one-China principle."⁶² So far, Westphalian principles are guiding not only China's foreign policy but also its Taiwan policy; any external intervention in the Taiwan issue is therefore not tolerable.⁶³

On the other side of the Taiwan Strait, the history of colonialism has also been indelibly imprinted in Taiwan's collective conscience. As part of China's "century of humiliation", Taiwan was conceded to Japan in the aftermath of the First Sino-Japanese War between 1894 and 1895.⁶⁴ After reverting to the nationalist government in 1945, the Taiwanese government held tightly to Westphalian principles. The most significant case in this regard is Taiwan's firm attitude toward remnant sovereignty disputes over the Senkaku/Diaoyutai Islands with Japan, with the KMT government condemning the resurgence of the right-wing militarism in Japan.⁶⁵ By this reasoning, the history of resistance colonialism is the core factor

⁶⁰ NPC, PRC, "Constitution of the People's Republic of China", 2004, accessed August 20, 2015, http://www.npc.gov.cn/englishnpc/Constitution/node_2825.htm.

⁶¹ Allen Carlson, "Moving beyond Sovereignty? A Brief Consideration of Recent Changes in China's Approach to International Order and the Emergence of the Tianxia Concept", *Journal of Contemporary China* 20, no. 68 (2011): 91-95.

⁶² Katsumata et al. "Correspondence: ASEAN, Regional Integration and State Sovereignty", 182-88.

⁶³ Ibid.

⁶⁴ Bush, *Untying the Knot*, 15.

⁶⁵ Boyu Chen, "Sovereignty or Identity? The Significance of the Diaoyutai/Senkaku Islands Dispute

that drives both sides to insist on the adherence to Westphalian principles, but their interpretations of Westphalian sovereignty are different due to the civil war between the KMT and CCP.

The foremost controversy regarding Westphalian sovereignty between China and Taiwan is territoriality.⁶⁶ For Beijing, the Taiwan issue is an unresolved problem from the Chinese Civil War. The Constitution of the PRC clearly claims: “Taiwan is part of the sacred territory of the People’s Republic of China. It is the inviolable duty of all Chinese people, including our compatriots in Taiwan, to accomplish the great task of reunifying the motherland.”⁶⁷ Therefore, the Chinese White Papers “Message to Compatriots in Taiwan,” “The Taiwan Question and Reunification of China,” and “The One-China Principle and the Taiwan Issue”, all regard Taiwan as an “inalienable part of China”.⁶⁸ Accordingly, any movement that either supports or promotes Taiwan independence is deemed as “[splitting] China’s sovereignty and territory integrity.”⁶⁹

As for Taiwan, perhaps it is the only country adopting such an ambiguous definition of its territory within its Constitution. The Constitution of the Republic of China says, “The territory of the Republic of China within its existing national boundaries shall not be altered except by a resolution of the National Assembly” in Article 4.⁷⁰ Consequently, while Taipei has gradually shifted its guideline of

for Taiwan”, *Perceptions: Journal of International Affairs* 19, no.1 (2014): 109-11.

⁶⁶ Pan, “Managing the Conceptual Gap on Sovereignty”, 228-32; Peerenboom, “China Stands Up”, 655-56.

⁶⁷ NPC, PRC, “Constitution of the People’s Republic of China”.

⁶⁸ NPC, PRC “Message to Compatriots in Taiwan”; TAO, “The Taiwan Question and Reunification of China”; TAO, “The One-China Principle and the Taiwan Issue”.

⁶⁹ Ibid.

⁷⁰ National Assembly of the Republic of China, “The Constitution of the Republic of China”, 1947, accessed January 13, 2015, http://www.judicial.gov.tw/constitutionalcourt/EN/p07_2.asp?lawno=36.

managing cross-Strait relations from a “pro-unification” to a “pro-independence” route,⁷¹ the lack of a clear definition of territory has provoked further controversy between pro-independence and pro-unification politicians over the question of whether the Chinese Mainland is territory contained in the ROC. To resolve this question, legislators in Taiwan applied for the “Interpretation” of the Constitution. The Judicial Yuan then issued “Interpretation No. 328” in 1993, which indicates:

*“Instead of enumerating the components of the R.O.C., a general provision was adopted and concurrently provided a special procedure for any change of national territory. It is understandable that this legislative policy was based upon political and historical reasons. Since the meaning of ‘according to its existing national boundaries’ is closely related to the delimitation of national territory, accordingly, it is a significant political question.”*⁷²

According to “Interpretation No. 328,” the definition of the ROC’s territory is contingent on the political situation; hence, it allows Taiwanese leaders to freely define this as long as they are not disobeying the Constitution of the ROC. It then legitimized both the “Two-States Theory” and the interpretation of “one country on each side” proposed by President Lee Teng-hui and President Chen Shui-bian, respectively.⁷³ Accompanied by the movement of “localization” or “de-Sinicization”, these statements have then raised Taiwanese consciousness of being an independent

⁷¹ Jau-Yuan Hwang, “Democratic Supervision of Taiwan-China Agreements: On the ECFA and Beyond”, in *National Identity and Economic Interest: Taiwan’s Competing Options and Their Implications for Regional Stability*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2012):17.

⁷² Justices of the Constitutional Courts, Judicial Yuan, Republic of China, “Interpretations No. 328”, 1993, accessed January 13, 2015,

http://www.judicial.gov.tw/constitutionalcourt/EN/p03_01.asp?expno=328

⁷³ Hickey, “Wake Up to Reality”, 4-7.

Westphalian sovereign state.⁷⁴ Even though Taiwan reaccepted the 1992 Consensus (or the “one-China principle”) in 2008, Taiwanese President Ma Ying-jeou constantly stresses that “One China” refers to the ROC rather than the PRC for Taiwanese people.⁷⁵ As a result, Taiwan’s interpretation of territoriality is in conflict with China’s, which further affects their perspectives on the noninterference principle.

Indeed, by connecting the Taiwan issue with the Westphalian principle of territoriality, Beijing firmly emphasizes the principle of noninterference because this issue should be deemed as China’s domestic affair. Beijing’s stance is made quite clear by reviewing the White Paper of “*The Taiwan Question and Reunification of China*”, which clearly says:

*“[China] adheres to the Five Principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful Co-existence...it expects all other governments to refrain from undermining China's interests or interfering in China's internal affairs and to correctly handle their relations with Taiwan.”*⁷⁶

Based on this official document, intervention in the issue of cross-Strait relations is equivalent to the violation of China’s Westphalian sovereignty. To display determination to safeguard China’s Westphalian sovereignty over Taiwan, Beijing issued the “Anti-secession Law” in 2005, which in Article 3 legitimizes the use of force to deter intervention from external actors, as well as “Taiwan independence

⁷⁴ Corcuff, “Ma Ying-jeou’s China-leaning Policy and the 1983 Fall of the Zheng in Taiwan”, 110-12.

⁷⁵ Hickey, “Wake Up to Reality”, 6-7.

⁷⁶ TAO, “The Taiwan Question and Reunification of China”.

secessionist forces” in Article 8.⁷⁷

Taiwanese leaders also stress the Westphalian principle of noninterference, but distinct from China’s stance, the practice of this principle is only limited to Taiwan’s internal affairs, such as the issue of abandoning the death penalty requested by the European Union (EU). As to the issues regarding cross-Strait relations, excluding external intervention was never in the interests of Taiwan. The conflicting practice of noninterference principle between both sides actually originates from very different interpretations of territoriality. By emphasizing the reality that Taiwan exists in the international community as a sovereign state with the name of the Republic of China, for Taipei, cross-Strait affairs are by no means domestic issues.⁷⁸ Furthermore, considering the factor of asymmetric power between China and Taiwan, the U.S. remains an indispensable actor in supporting Taiwan to secure territory.⁷⁹ By this reasoning, the different understandings of territoriality between China and Taiwan has led to different interpretations of the norm of noninterference, which has blocked consensus.

In the context of the above analyses, Beijing’s insistence on protecting its Westphalian sovereignty over Taiwan does not bode well for the practice of the Westphalian principle of equality. From the perspectives of Chinese leaders, unification remains the only approach to resolve the Taiwan issue. Taiwan is perceived as an “inalienable part” of the PRC according to the “one-China principle”

⁷⁷ NPC, PRC “Anti-Secession Law”, 2005, accessed September 1, 2015 http://www.npc.gov.cn/englishnpc/Law/2007-12/13/content_1384099.htm .

⁷⁸ Hickey, “Wake Up to Reality”, 4-7.

⁷⁹ Chen, “An Indispensable Pillar of Obama’s ‘Pivot’ to Asia”, 44-47.

and the “one country, two systems” scenario.⁸⁰ Moreover, nearly all of China’s official documents about Taiwan define the relationship between China and Taiwan as the central government *vis-à-vis* the local government. All the deals between both sides should be arrangements made by Beijing rather than agreements. Nonetheless, the implementation of Beijing’s Taiwan policy has not been in accordance with official Chinese discourse since the innovation of the 1992 Consensus.⁸¹

In order to promote cross-Strait economic integration, Beijing has made concessions on its rigid claims of Westphalian sovereignty over Taiwan. In terms of the one-China principle, Beijing allowed Taiwan to have its own wording defining who represents China under the 1992 Consensus.⁸² Based on this consensus, both sides commenced negotiations over economic cooperation on “an equal footing” in 1992, and the White Paper “The One-China Principle and the Taiwan Issue” published in 2000 further endorsed the principle of equality as the guideline for cross-Strait negotiations and dialogue.⁸³ In this light, economic integration has been conducive to ameliorate enmity between China and Taiwan. After signing the ECFA, both sides’ officials have been allowed to directly speak out their official titles, which is another significant sign of progress in cross-Strait relations. A detailed analysis on how the ECFA impinges on both sides’ Westphalian sovereignty will be provided in the following chapters.

⁸⁰ NPC, PRC, “Message to Compatriots in Taiwan”; TAO, “The Taiwan Question and Reunification of China”.

⁸¹ Tok, *Managing China's Sovereignty*, 93-102.

⁸² Su, *Taiwan's Relations with Mainland China*, 46-47.

⁸³ TAO, “The One-China Principle and the Taiwan Issue”.

2.3.2 Defining Domestic Sovereignty

In addition to Westphalian sovereignty, domestic sovereignty is also an indispensable principle that enables a regime to possess the “right of governance”. Krasner defines domestic sovereignty as “the formal organization of political authority within a state and the ability of public authority to exercise effective control within the own borders of their polity.”⁸⁴ According to this definition, “effective control” is the most essential condition that a regime must be equipped with so as to be the “absolute political authority” within the territory.⁸⁵ Furthermore, domestic sovereignty cannot be shared. Conventional definitions of sovereignty that contend sovereignty is indivisible in essence should be catalogued into domestic sovereignty.⁸⁶ Indeed, literature on domestic sovereignty asserts that once a regime fails to control its domestic affairs, it risks governing supremacy.⁸⁷ In this case, a state’s domestic sovereignty is shared with or deprived by other authorities, leading to the state only existing in wording rather than in reality. Civil war is an extreme example of a challenge to domestic sovereignty within the territory. Other examples, such as international settlements in China’s major cities before WWII or the territory under the trusteeship of the UN, also represent infringements on the domestic sovereignty of a state.

While “effective control” is necessary for a regime to survive, governors spare no effort in obtaining legitimacy to justify their governing powers.⁸⁸ In fact, to ensure the effectiveness of control, the government needs to be granted consents

⁸⁴ Krasner, *Sovereignty*, 4.

⁸⁵ *Ibid.*, 11-12.

⁸⁶ For an example of the conventional definition of sovereignty, please see: Jean Bodin, “Book I, Chapter 8 on Sovereignty”, in *On Sovereignty: Four Chapters from the Six Books of the Commonwealth*, ed. Julian H. Franklin (New York: Cambridge University Press, 1992), 1-42.

⁸⁷ Morgan, “Sovereignty’s New Story”, 29-31; Winkler “Can Trade Make a Sovereign?”, 468-69.

⁸⁸ Winkler, “Can Trade Make a Sovereign?”, 469.

from citizens; otherwise rulers would face difficulties in putting their policies into effect.⁸⁹ Although several scholars argue that the legitimacy of the government should be connected with democratic values, democracy is by no means the only way to legitimize an authority.⁹⁰ Neither is it the only way in which rulers can assure the effectiveness of control. Monarchy, autarchy, democracy, and so on, are all regime modalities that involve the legitimacy of governing powers.⁹¹ The cases of China and Taiwan after the civil war in 1949 are the most ideal examples to support this argument. These cases also serve as empirical evidence to study the issue of how the civil war impinges on domestic sovereignty. So far, both sides effectively control their “internal” affairs, but their governing powers are justified with different approaches.

When analyzing the issue of whether Taiwan can make use of trade to create sovereignty, Sigrid Winkler lays more emphasis on the concept of “effectiveness of control”.⁹² She argues that this condition is imperative for a *de facto* regime to survive, especially for those new regimes established through civil war.⁹³ The history of the Chinese Civil War in the mid-twentieth century is a good case to illustrate this point. Thus far, both the PRC and ROC effectively control their own territory, and both regimes have been legitimized via domestic political processes, be it through authoritarian or democratic pathways. However, the road to this point had many obstacles. Both governments led by the Chinese Communist Party (CCP) and the KMT, respectively, experienced bloody wars to uphold their domestic

⁸⁹ Timothy S. Rich, “Renting Allies and Selling Sovereignty: Taiwan’s Struggle for Diplomatic Recognition”, in *The Changing Dynamics of the Relations among China, Taiwan, and the United States*, ed. Cal Clark (Newcastle Upon Tyne: Cambridge Scholars Publishing, 2011), 176-78.

⁹⁰ Inoguchi and Bacon, “Sovereignties: Westphalian, Liberal and Anti-Utopian”, 292-96.

⁹¹ Winkler, “Can Trade Make a Sovereign?”, 469.

⁹² *Ibid.*, 469-70.

⁹³ *Ibid.*

sovereignty.

Since the end of the civil war on the Mainland in 1949, both the KMT and the CCP struggled to legitimate their governing power in order to effectively control their own territory. In the case of China, the CCP connects domestic sovereignty with popular sovereignty by asserting that “all power in the People’s Republic of China belongs to the people” in the Constitution.⁹⁴ Hence the CCP’s governing power is rooted in Chinese people’s power.⁹⁵ Additionally, Chinese leaders also connect the missions of fighting against imperialism and colonialism with the legitimacy of the CCP’s governing power, as these missions are listed in the Constitution of the PRC in 1954.⁹⁶

Nonetheless, the path is not without obstacles for the CCP to obtain its governing legitimacy. The diverted courses of governance between Maoism and communism caused the Chinese Cultural Revolution between 1965 and 1975. In addition, the public appeals to the CCP to promote democratization resulted in the Tiananmen Massacre in 1989. Only after Chinese leader Deng Xiaoping’s speech during his trip to southern China in 1992 did Beijing eventually appease controversy over the courses of “reform and opening up” policy amongst Chinese leaders since 1978.⁹⁷ Economic prosperity, based on a socialist market economy, has been the most crucial factor in legitimizing the CPP’s power in the mainland since the

⁹⁴ NPC, PRC, “Constitution of the People’s Republic of China”.

⁹⁵ Wim Muller, “China’s Sovereignty in International Law: From Historical Grievance to Pragmatic Tool”, *China-EU Law Journal* 1, no. :3/4 (2013): 39-41.

⁹⁶ Tok, *Managing China’s Sovereignty*, 83.

⁹⁷ Bates Gill, *Rising China: China’s New Security Diplomacy* (Washington: Brookings Institution Press, 2010), 2-4.

1990s.⁹⁸

In the case of Taiwan, the KMT also faced severe challenges to its legitimacy because of Taiwanese concern over being colonized by “mainlanders”.⁹⁹ Although both Chinese and Taiwanese people share a history of fighting colonialism, those mainlanders who retreated from mainland China in 1949 had also been perceived as colonists or external governors by Taiwanese society.¹⁰⁰ For pro-independence historians, Taiwanese desire for self-determination emerged in 1895. Despite its short life, the “Democratic Republic of Taiwan” had established by Taiwanese to fight against Japanese colonialism right after the signing of the Treaty of Shimonoseki in 1895.¹⁰¹ In order to support Taiwanese movements fighting against Japanese rulers, the CCP leader Mao Zedong also endorsed Taiwan’s independence movements in the 1930s as shown in the “Declaration of August 1” by the CCP Central Committee in 1935.¹⁰²

However, after the Japanese retreat from Taiwan in 1945, Taiwanese appeal to honor the rule of “self-determination” were buried until democratization in the late 1980s. Those mainlanders who retreated from China in 1949 occupied almost all of the important positions in government and legislative institutions regardless of the fact that they only made up 15% of the total population in Taiwan.¹⁰³ Moreover, by adopting the harsh and repressive measures to suppress dissidents during the Martial Law period (1949-1987), the KMT effectively controlled Taiwan by establishing an

⁹⁸ Ibid.

⁹⁹ Corcuff, “Ma Ying-jeous China-leaning Policy and the 1983 Fall of the Zheng in Taiwan”, 108-09.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Stephane Corcuff, “Conclusion: History, the Memories of the Future”, in *Memories of the Future: National identity Issues and the Search of A New Taiwan*, ed. Stephane Corcuff (New York: M. E. Sharp, 2002), 243.

¹⁰³ Bush, *Untying the Knot*, 17-21.

authoritarian regime until the 1980s.¹⁰⁴ The KMT's lack of governing legitimacy eventually led Taiwan to democratize in the 1990s. Following the wave of democratization in Taiwan, the identity of "New Taiwanese" created by President Lee Teng-hui endowed Taiwanese elites with equal opportunities to participate in political affairs as mainlanders and their descendants have, and it further legitimized "the ROC in Taiwan".¹⁰⁵

The above historical review examines the difficulties that China and Taiwan have faced in attempting to reach consensus on the issues of domestic sovereignty, because both sides' approaches to governing legitimacy have been different. As a result, Chinese leader Ye Jianying proposed the idea of "one country, two systems" in 1981 so as to define Taiwan's political status "after reunification".¹⁰⁶ Accordingly,

*"Taiwan will become a special administrative region. Different from the other provinces or regions of China, it will have its own administrative and legislative powers, an independent judiciary and the right of adjudication on the island. It may conclude commercial and cultural agreements with foreign countries and enjoy certain rights in foreign affairs. It will run its own party, political, military, economic, financial and cultural affairs. It may keep its military forces and the central government will not dispatch troops or administrative personnel to the island."*¹⁰⁷

¹⁰⁴ Ibid.

¹⁰⁵ Teng-hui Lee, "Understanding Taiwan: Bridging the Perception Gap", *Foreign Affairs* 78, no.6 (1999): 9-14.

¹⁰⁶ Bush, *Untying the Knot*, 36-39.

¹⁰⁷ Ministry of Foreign Affairs, PRC, "What Are the Basic Contents of 'Peaceful Reunification; One Country, Two Systems'?", 2001, accessed January 13, 2015, http://www.fmprc.gov.cn/mfa_eng/ljzg_665465/3568_665529/t17794.shtml.

So far, “one-country, two systems” remains Beijing’s core policy for defining Taiwan’s political status; meanwhile, Beijing has also taken economic integration with Taiwan as the first step to achieve peaceful reunification.¹⁰⁸

In response to China’s strategy of peaceful reunification, Taiwan has adopted a conservative policy of constraining economic exchanges with the mainland.¹⁰⁹ Even though Ma’s administration agrees with promoting economic integration with China, Taipei still rejects the commencement of political negotiations with Beijing.¹¹⁰ Theoretically, political dialogues should be accompanied by economic integration. Yet, contrary to this assumption, other than the 1992 Consensus, bilateral negotiations over political issues have been stagnant owing to the lack of “consensus” to tackle disputed sovereignty issues.¹¹¹ It is notable that the 1992 Consensus was designed to put disputed sovereignty issues aside instead of resolving them concretely. It further affects the negotiation over the Cross-Strait peace agreement since both sides could find no common ground on which to define their statehoods based on the *status quo* across the Taiwan Strait.¹¹² In this light, the bifurcation between China’s and Taiwan’s definitions of domestic sovereignty has impinged upon their interpretations of international legal sovereignty; and this issue will be discussed in more detail in the next section.

Apart from controversies over domestic sovereignty between China and Taiwan, scholars have cast doubts on whether Beijing has brought its influence to bear in the

¹⁰⁸ John Q. Tian, *Government, Business, and the Politics of Interdependence and Conflict across the Taiwan Strait* (New York: Palgrave Macmillan, 2006), 37-39.

¹⁰⁹ Tanner, *Chinese Economic Coercion Against Taiwan*, 50-54.

¹¹⁰ Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 18-19.

¹¹¹ *Ibid.*

¹¹² *Ibid.*

process of Taiwan's local and presidential elections by lobbying Taiwanese businessmen on the mainland.¹¹³ Moreover, since the establishment of the Cross-Strait Economic Cooperation Committee following the signing of the ECFA, the impacts of cross-Strait economic integration on Taiwan's domestic sovereignty has become a prominent issue. This research will provide a detailed analysis of this phenomenon in the chapter 5 and 6.

To summarize, in order to evaluate China's political leverage over Taiwan following cross-Strait economic integration, this section argues that *de facto* sovereignty should not be the static *status quo*. By employing Krasner's work on Westphalian and domestic sovereignty, this research examines the impacts of cross-Strait economic integration on China's and Taiwan's *de facto* sovereignty in the following chapters, especially in terms of the "One-Country, Two Systems" proposal and the legitimacy of their governing powers. However, as many scholars have already pointed out, compared to *de facto* sovereignty, Beijing seems to pay much more attention to maintaining its *de jure* sovereignty over Taiwan.¹¹⁴ Sow Keat Tok even points out that Chinese leaders can make concessions to any issue regarding Taiwan as long as they preserve the "one-China principle" in the international community.¹¹⁵ The next part of this section explains *de jure* sovereignty in more detail.

¹¹³ Keng and Schubert, "Agents of Taiwan-China Unification", 287-310.

¹¹⁴ Wang, "Hu Jintao's 'New Thinking' on Cross-Strait Relations", 25-28; Richard C. Bush, *Untying the Knot*, 48; Tok, *Managing China's Sovereignty*, 129-31.

¹¹⁵ Tok, *Managing China's Sovereignty*, 129-31.

2.4 *De Jure* Sovereignty: Definitions of International Legal and Interdependence Sovereignty

Contemporary literature always connects the definition of *de jure* sovereignty with the concept of statehood that enables a regime to be perceived as a sovereign state by others.¹¹⁶ As such, sovereign states can act based on leaders' or citizens' interests to manage external relations in the international community.¹¹⁷ Thus far, *de jure* sovereignty remains the main theme of most literatures on cross-Strait relations. All of these studies indicate that Taiwan's international legal sovereignty is still confined by the "one-China principle".¹¹⁸ However, globalization has provided opportunities for Taipei to enlarge its international space because economic integration requires intensive cooperation among states. As interdependence sovereignty is the reward of multinational cooperation,¹¹⁹ it further raises the question of whether the enlargement of Taiwan's international space in the post-ECFA era could consolidate its *de jure* sovereignty. As such, to address the puzzle of *de jure* sovereignty in studying cross-Strait relations, this section provides definitions of both international legal and interdependence sovereignty.

2.4.1 Defining International Legal Sovereignty

International legal sovereignty, as defined by Krasner, is "the practice of mutual recognition, usually between territorial entities that have juridical independence."¹²⁰

Winkler emphasizes sufficient recognition when she defines international legal

¹¹⁶ Ibid. 68-71.

¹¹⁷ Winkler "Can Trade make a Sovereign?", 469-70.

¹¹⁸ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 13-30; Su, *Taiwan's Relations with Mainland China*, 27-51.

¹¹⁹ Campbell, et al., "Bargaining Sovereignty", 109-11.

¹²⁰ Krasner, *Sovereignty*, 3.

sovereignty as: “the external recognition of a country by a sufficient number of other states, giving that country legitimacy to act internationally as an equal.”¹²¹ Given this definition of international legal sovereignty, acquiring worldwide recognition becomes the most important mission for a regime to obtain or secure its statehood on the global stage. UN membership is the most commonly used standard to evaluate international legal sovereignty because it directly proves sufficient recognitions of a sovereign state in the international community.¹²² However, this should not be taken as the only standard to evaluate international legal sovereignty, especially in the case of Taiwan.

First of all, contradictory to the argument that a state can only acquire international legal sovereignty by participating in the UN, Winkler points out that most countries have gained international legal sovereignty before entering the UN.¹²³ This arises the question of how a regime obtains international legal sovereignty without globally-recognized statehood. Winkler’s study implies that a regime cannot acquire international legal sovereignty at once; by contrast, it is actually a gradual process of accumulation. In fact, international legal sovereignty is not a necessity for participating in IGOs as long as the regime holds *de facto* sovereignty.¹²⁴ For a newly established regime or a country in civil war, *de facto* sovereignty—especially with respect to domestic sovereignty — is an indispensable prerequisite to participating in the international community.¹²⁵ As has been the case for Taiwan, Taiwan retains a seat in the WTO and the Asian Development Bank (ADB) despite its problematic statehood. Struggles to legitimize statehood in IGOs may be a

¹²¹ Winkler, “Can Trade make a Sovereign?”, 469.

¹²² *Ibid.*, 470.

¹²³ *Ibid.*

¹²⁴ *Ibid.*, 469-71.

¹²⁵ *Ibid.*

prominent issue for those members without recognition, as witnessed in the case of Taiwan. Nevertheless, by actively participating in IGOs, it is still possible to obtain international legal sovereignty because it helps to formulate or define statehood under the accumulated international norms in these multinational institutions.¹²⁶ Therefore, to explore how the ECFA impinges on the international legal sovereignty of China and Taiwan, chapters 5 and 6 also take into account international institutions where both sides are members.

Furthermore, international recognitions of statehood may not correspond with reality.¹²⁷ A failed state with problematic *de facto* sovereignty may still retain recognitions in the international community. For example, the KMT government lost the civil war in the mainland in 1949, yet it was not until 1971 that the CCP replaced the KMT's seat in the UN as being the only legitimate regime in the mainland.¹²⁸ By the same token, under the "one-China principle", the CCP is the only legitimate owner of the island despite the fact that they have never successfully conquered Taiwan.¹²⁹ The cases of PRC and ROC illustrate the fact that a regime's *de facto* sovereignty does not necessarily legitimize its statehood in the international community and *vice versa*.

Scholars attribute this phenomenon to *realpolitik* as there is no compulsory rule to regulate a state to recognize a newly established regime.¹³⁰ Krasner points out that national interest, ideology, and even concern over "the distribution of power", can

¹²⁶ Joel R. Campbell, et al., "Bargaining Sovereignty", 109-11.

¹²⁷ Krasner, *Sovereignty*, 14-20.

¹²⁸ Ibid.

¹²⁹ Jing Huang and Xiaoting Li, *Inseparable Separation: The Making of China's Taiwan Policy* (London: World Scientific Publishing Co. Pte. Ltd., 2010), 75-85.

¹³⁰ Krasner, *Sovereignty*, 15-16.

influence sovereign states to recognize other regimes.¹³¹ These factors are prominent in the cases of PRC and ROC. During the era of the Cold War, ideology led foreign policy; the spread of communism is what the US-lead “Democratic camp” aims to deter.¹³² In this situation, the ROC was able to secure its seat in the UN. However, in the 1970s, when uniting the PRC to balance the Soviet Union became the central goal of American strategy in East Asia, Washington traded the ROC’s membership in the UN for establishing diplomatic relations with the PRC.¹³³ Henceforth, the PRC’s “one-China principle” became the paradigm for other countries to tackle their relations with China and Taiwan. It further generated a domino effect, as most countries established diplomatic relations with the PRC by severing relationships with Taiwan.¹³⁴ Since Taiwan’s international legal sovereignty became curtailed under the “one-China principle”, Taipei’s initiatives to participate in IGOs have been further constrained. Therefore, as most literatures have already recognized, it is essential to discuss the international legal sovereignty of both China and Taiwan in the context of the “one-China principle”.

The “one-China principle” remains the crux of conflicts between China and Taiwan. This controversy is caused by the overlapping interpretations of territoriality resulting from the civil war between the CCP and KMT as discussed above, which leads both sides’ leaders to hold different interpretations of which side has the legitimacy to represent China and Chinese people.¹³⁵ Taiwanese leaders endeavored to get rid of the overlapping definitions of “one-China” by advocating the

¹³¹ Ibid.

¹³² Allen Carlson, *Unifying China, Integrating with the World: Securing Chinese Sovereignty in the Reform Era* (Singapore: NUS Press, 2008), 97.

¹³³ Huang and Li, *Inseparable Separation*, 75-80.

¹³⁴ T. Y. Wang et al. “Taiwan's Expansion of International Space: opportunities and challenges”, *Journal of Contemporary China* 20, no. 69 (2011): 251-52.

¹³⁵ Tok, *Managing China's Sovereignty*, 2-3.

“Two-States Theory” and “one state on each side”.¹³⁶ Instead of ameliorating the controversy, cross-Strait relations became increasingly tense between 1996 and 2008, as these movements were perceived as “creeping independence” by Beijing.¹³⁷ In this regard, the competition between Beijing and Taipei for defining Taiwan’s international legal sovereignty is a zero-sum game. However, it is noteworthy that both sides’ discourses of the “one-China principle” are not rigid.

Beijing’s “one-China principle” can be traced as far back as the promulgation of the “Shanghai Communiqué” in 1972, which says:

*“[The] Government of the People's Republic of China is the sole legal government of China; Taiwan is a province of China which has long been returned to the motherland; the liberation of Taiwan is China's internal affair in which no other country has the right to interfere...The Chinese Government firmly opposes any activities which aim at the creation of ‘one China, one Taiwan,’ ‘one China, two governments,’ ‘two Chinas,’ and ‘independent Taiwan’ or advocate that ‘the status of Taiwan remains to be determined’.”*¹³⁸

Accordingly, Taiwan is defined as the local government of the PRC. Dual recognition of “China”, separate recognitions of Taiwan and China, and simultaneous diplomatic relations with both sides are forbidden.¹³⁹ Neither should

¹³⁶ Huang and Li, *Inseparable Separation*, 217-66.

¹³⁷ Hickey, “Wake Up to Reality”, 4-7.

¹³⁸ Office of the Historian, U.S. Department of State, “Foreign Relations of the United States 1969-1976: Volume XVII, China, 1969-1972, Document 203”, accessed August 20, 2015, <https://history.state.gov/historicaldocuments/frus1969-76v17/d203>.

¹³⁹ *Ibid.*

Taiwan be granted any international space.

Allen Carlson and Sow Keat Tok point out that Beijing displays “flexibility” on the “one-China principle” when promoting cross-Strait economic exchanges.¹⁴⁰ Indeed, to encourage bilateral dialogues and economic cooperation, Beijing amended the content of the “one-China principle” by issuing the White Paper “The Taiwan Question and Reunification of China” in 1993. Although the PRC still insisted that “one-China” refers to the PRC, Beijing stressed the “coexistence of the two systems” allowing both sides to stand “for a long time without one swallowing up the other”.¹⁴¹ Taiwan is no longer a province of the PRC but a “system” on the basis of the “one-China” framework.¹⁴²

The definition of “one-China” has become more ambivalent since 2000. In 2000, Chinese Vice Premier Qian Qichen made further concessions on this issue by saying: “There is only one China in the world; both the mainland and Taiwan belong to one China; the sovereignty and territory of China cannot be split.”¹⁴³ This exposition of the “one-China principle” served as the PRC’s statement when Taiwan entered into the WTO in 2002.¹⁴⁴ After signing the ECFA, Beijing endorsed the 1992 Consensus, which allows each side to freely define “one-China”.¹⁴⁵ Meanwhile, Beijing has also promised Taiwan its international space and agree not to hamper Taiwan’s attempts to sign FTAs with other countries.¹⁴⁶ Compared to the contents of the Shanghai

¹⁴⁰ Carlson, *Unifying China, Integrating with the World*, 95-100; Tok, *Managing China’s Sovereignty*, 129-31.

¹⁴¹ TAO, “The Taiwan Question and Reunification of China”.

¹⁴² *Ibid.*

¹⁴³ Chen-Yuan Tung, “An Assessment of China’s Taiwan Policy under the Third Generation Leadership”, *Asian Survey* 49, no. 2 (2005): 346.

¹⁴⁴ *Ibid.*

¹⁴⁵ Hickey, “Wake Up to Reality”, 1-3.

¹⁴⁶ Li, “The Nature of the Economic Cooperation Framework Agreement”, 47-50.

Communiqué in 1972, Beijing's modern discourse regarding the "one-China principle" is more flexible, yet it has still generated fierce debates in Taiwanese society.

Ever since democratization, Taipei has changed its stance from pro-unification to pro-independence.¹⁴⁷ Taiwanese leaders no longer proclaim that the territory of the ROC covers the mainland when promoting "localization" and "de-Sinicization", as mentioned before.¹⁴⁸ Despite the fact that Taipei has not discarded the title of "Republic of China" yet, this shift in its political stance has subtly altered the definition of "one-China". For Taipei, "one-China" should not include Taiwan but it could only indicate the "Republic of China in Taiwan" at most.¹⁴⁹ From the late 1990s onwards, various titles containing the words of "Taiwan" or "Taipei" have referred to the ROC, such as the "Republic of China (Taiwan)"—shown on the passport— "Chinese Taipei" or "The Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu (TPKM)" in the WTO, and so on.¹⁵⁰ By adopting these titles, the Taiwanese government expected to magnify its statehood on the global stage. Not until 2008 did Taiwan re-pick the 1992 Consensus, which then provoked fierce debates in Taiwan.¹⁵¹

In order to facilitate cross-Strait economic integration, Taipei reaccepted the 1992 Consensus in 2008. As mentioned in the previous chapter, in the 1992

¹⁴⁷ Carlson, *Unifying China, Integrating with the World*, 129-35.

¹⁴⁸ Corcuff, "Ma Ying-jeou's China-leaning Policy and the 1983 Fall of the Zheng in Taiwan", 110-12.

¹⁴⁹ Lee, "Understanding Taiwan", 9-14.

¹⁵⁰ Tok, *Managing China's Sovereignty*, 137.

¹⁵¹ Chien-kai Chen, "China-Taiwan Relations through the Lens of the Interaction between China's Association for Relations Across the Taiwan Straits and Taiwan's Straits Exchange Foundation", *East Asia: An International Quarterly* 31, no. 3 (2014): 234-35.

Consensus, “both sides recognize there is only one China, but agree to differ on its definition.”¹⁵² Specifically, this political terminology is originated from an unofficial record between SEF and ARATS, which is:

*“We hold there is only one China in the world, and Taiwan is a part of China, which is yet to be reunified. The two sides should make joint efforts to go for negotiations and discussions based on equality on reunification under the one-China principle. A nation’s sovereignty and its territory are inseparable. Taiwan’s political status should be discussed on the basis of one-China principle.”*¹⁵³

By and large, the discourse of the 1992 Consensus is in accordance with Beijing’s modern “one-China principle” shown in the White Paper “The Taiwan Question and Reunification of China”. Both of these documents stress that reunification is the only approach that can resolve the sovereignty controversy across the Taiwan Strait. Most significantly, as the 1992 Consensus connects Taiwan with the mainland in the “one-China” framework, after signing the ECFA with China, Taiwan’s international legal sovereignty has been defined according to the “one-China principle” again.¹⁵⁴

Nevertheless, re-embracing the “one-China principle” seems to allow Taiwan to enlarge its international space to unprecedented degree, and it seems to contradict

¹⁵² The Mainland Affairs Council, Republic of China (Taiwan), “1992 Consensus: The Key to Cross-Strait Peace and Prosperity”, 2015, accessed September 17, 2015, [http://www.mac.gov.tw/public/MMO/MAC/摺頁-英\(定稿版\).pdf](http://www.mac.gov.tw/public/MMO/MAC/摺頁-英(定稿版).pdf).

¹⁵³ Su, *Taiwan’s Relations with Mainland China*, 46.

¹⁵⁴ The Mainland Affairs Council, Republic of China (Taiwan), “1992 Consensus: The Key to Cross-Strait Peace and Prosperity”; TAO, “The Taiwan Question and Reunification of China”.

China's national goal of reunification. After signing the ECFA, Beijing removed the barrier to Taiwan's international space. Thus far, with Beijing's consent, Taiwan has signed FTAs with Singapore and New Zealand, as well as obtaining a seat in the WHA.¹⁵⁵ Additionally, Beijing also agreed with Taipei's diplomatic truce initiative that allows Taiwan to preserve diplomatic relations with its pre-existing allies.¹⁵⁶ Whether this has actually assisted Taiwan in consolidating its international legal sovereignty will be analyzed in the following chapters. The other issue worthy of consideration is whether Taiwan's effort to promote trade liberalization and economic integration has been conducive to consolidating its interdependence sovereignty.

2.4.2 Interdependence Sovereignty

Interdependence sovereignty is a fairly new concept that emerged in the era of globalization. According to Krasner, interdependence sovereignty is "the ability of public authorities to regulate the flow of information, ideas, goods, people, pollutants, or capital across the borders of their states."¹⁵⁷ Given his definition of interdependence sovereignty, Krasner seems to pay much more attention to a regime's *de facto* sovereignty.¹⁵⁸ "Control" is the main aim of regimes because in the era of globalization trans-border activities have impinged on states' ability to manage domestic affairs.¹⁵⁹ Indeed, in addition to advanced technology and capital, globalization has also 'globalized' thorny problems (e.g. financial crisis and climate

¹⁵⁵ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99; Singh, "Can Taiwan Talk 'Political' with the Mainland?", 264-66.

¹⁵⁶ Gerald Chen, "'Diplomatic Truce' in Cross-Strait Relations: Limits and Prospects", in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (ed.) (New York: Routledge, 2013), 97-106.

¹⁵⁷ Krasner, *Sovereignty*, 4.

¹⁵⁸ *Ibid.*, 12-14.

¹⁵⁹ *Ibid.*

issues) for every nation. In response to these “shared risks”, sovereign states search for mutual cooperation to strengthen their ability to tackle the risks.¹⁶⁰ This is evidenced by the numerous international institutions and mechanisms of cooperation based upon which sovereign states have taken collective decisions and actions after WWII.

However, the impact of multilateral cooperation is by no means limited to *de facto* sovereignty; it has also generated controversy over the issues of legitimacy. Some scholars contend that implementing collective decisions inevitably requests sovereign states to surrender governing power to some extent.¹⁶¹ As a result, states have to “share sovereignty” with others in the process of collective decision-making, which in turn results in the loss of their authority in making domestic policy.¹⁶² Collective decisions on monetary and tariff policies made by economic institutions are clear evidence of this. Nonetheless, it is notable that the legitimacy of collective decisions needs to be recognized by member states. Moreover, IGOs actually reinforce the international legal sovereignty of regimes rather than eroding it.

Firstly, interdependence sovereignty magnifies the role of sovereign states in the era of globalization.¹⁶³ Despite scholars’ concern over whether sovereignty would be eroded in the process of globalization, the international system remains anarchic so that sovereign states are still the highest authorities of governance.¹⁶⁴ In this case, an IGO would lack the legitimacy to stipulate member states to carry out its policy

¹⁶⁰ Joseph Masciulli and Richard B. Day, “Governing a Global Community of Shared Risks”, *Perspectives on Global Development and Technology* 4, no. 3/4 (2005): 681-85.

¹⁶¹ Campbell, et al., “Bargaining Sovereignty”, 108-10.

¹⁶² Kal Raustiala, “Rethinking the Sovereignty Debate in International Economic Law”, 844-46.

¹⁶³ *Ibid.*

¹⁶⁴ Masciulli and Day, “Governing a Global Community of Shared Risks”, 685-86.

without consents from member states. Even if a sovereign state decides to withdraw from an IGO, this action would not directly make this state losing international legal sovereignty.¹⁶⁵ By contrast, the legitimacy of IGOs would be weakened if there were too many member states withdrawing their memberships. The best evidence of this is the doom of the League of Nations.

Furthermore, statehood is usually the precondition of obtaining interdependence sovereignty through IGOs. To raise the effectiveness of governance, multinational cooperation is the best option for rulers in the era of globalization. Notably, collective decisions made in IGOs need legitimacy; hence international institutions often require members to have international legal sovereignty in order to justify their policies.¹⁶⁶ By carrying out the policies of IGOs, a sovereign state can strengthen its legitimacy in managing trans-border activities. Moreover, with the updated legitimacy endowed by IGOs, international legal sovereignty of regimes is solidified. In this light, apart from consolidating *de facto* sovereignty, interdependence sovereignty can create, or at least re-confirm, the international legal sovereignty of a regime.

The above analyses of interdependence sovereignty imply that the boundary between *de facto* and *de jure* sovereignty has been blurred, owing to the emergence of international institutions. With respect to *de facto* sovereignty, interdependence sovereignty solidifies states' ability to cope with risks that have emerged in the wake of globalization. Meanwhile, interdependence sovereignty could create, or at least re-confirm, international legal sovereignty of regimes. For this research, the

¹⁶⁵ Ibid., 684.

¹⁶⁶ Campbell, et al., "Bargaining Sovereignty", 108-10.

discussion of interdependence sovereignty revolves around international economic institutions and economic integration. Through the lens of interdependence sovereignty, the legitimacy of both sides' statehood should be confirmed in the process of economic integration be it at the bilateral or multilateral level. However, functions of interdependence sovereignty are questionable in the case of cross-Strait economic integration, especially in terms of forging Taiwan's international legal sovereignty.

As mentioned before, Taiwan's international legal sovereignty is problematic. At the bilateral level, cross-Strait economic integration is based on the ambiguous "one-China principle", embodied in the 1992 Consensus.¹⁶⁷ Therefore, there is no clear answer for which side's principle of "one-China" has been confirmed in the process of economic integration. At the global level, although Taiwan holds a seat in the WTO and even in the UN-affiliated WHA, its problematic international legal sovereignty has not yet been resolved due to the prevalence of PRC's "one-China principle".¹⁶⁸ In this case, analysts can only ensure that Taiwan's membership in IGOs is conducive to consolidating its *de facto* sovereignty.¹⁶⁹ The extent to which interdependence sovereignty create international legal sovereignty is still unclear.

Moreover, interdependence sovereignty may not even exist to Chinese academics; neither does it show in official discourse. So far, Chinese elites still believe that sovereignty is indivisible, and thus they believe that states only surrender portion of their "governing power" in the process of multilateral cooperation rather

¹⁶⁷ Pan, "Normative Convergence and Cross-Strait Divergence", 35-36.

¹⁶⁸ Winkler, "A Question of Sovereignty?", 1-3.

¹⁶⁹ Winkler, "Can Trade make a Sovereign?", 469-72.

than “sovereignty”.¹⁷⁰ Following this logic, for Beijing, promoting economic integration certainly does not impact issues of international legal sovereignty. By the same token, allowing Taiwan to participate in international economic institutions has no implications on Taiwan’s international status.

Contrary to Beijing’s discourse, Taiwan’s participation in international institutions or mechanisms of economic integration has been perceived as an expansion of its international space, which is crucial for Taiwan’s international legal sovereignty.¹⁷¹ Scholars also argue that the thriving economic development and its trade liberalization strategy has allowed Taiwan to convince the European Union (EU) and the US to support its entry into the WTO.¹⁷² By this reasoning, Taiwan’s strategy to consolidate international legal sovereignty is based upon its *de facto* sovereignty, which allows Taipei to bring influence to bear in the process of economic cooperation.¹⁷³ This is entirely opposed to China’s grand strategy of peaceful reunification. Therefore, to make an overarching evaluation of the contentious issues of sovereignty between China and Taiwan in the context of economic integration, it is necessary to explore functional sovereignty, which bridges *de facto* and *de jure* sovereignty.

2.5 Bridging *De Facto* and *De Jure* Sovereignty: Functional Sovereignty

2.5.1 Defining Functional Sovereignty

Functional sovereignty, as defined by Winkler, is “a non-recognized

¹⁷⁰ Pan, “Managing the Conceptual Gap on Sovereignty”, 230-31.

¹⁷¹ Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 13.

¹⁷² Winkler, “Can Trade make a Sovereign?”, 468-72.

¹⁷³ *Ibid.*

government's exercise of sovereign powers over one or several narrowly defined issue areas in its international relations.”¹⁷⁴ Accordingly, the core feature of functional sovereignty is that it assists an authority with recognized *de facto* sovereignty but problematic statehood to act as a legal sovereign state in the international community.¹⁷⁵ Although functional sovereignty enables a regime to have an interim arrangement of international legal sovereignty before receiving “sufficient recognitions” of statehood,¹⁷⁶ it does not mean that there is a necessary order of actions for states to acquire sovereignty.

First of all, as Krasner points out, authorities with international legal sovereignty do not necessarily possess domestic sovereignty, such as Somalia.¹⁷⁷ Since *de facto* sovereignty is the prerequisite of functional sovereignty, a failed state cannot consolidate its *de facto* sovereignty by acquiring functional sovereignty. Furthermore, *de facto* sovereignty does not necessarily lead to functional sovereignty. For example, even though North Korea is upholding *de facto* sovereignty, its poor record on human rights and economic recession make it difficult for this regime to obtain recognition of its governing legitimacy in the international community. Pyongyang therefore possesses no functional sovereignty. Thus, functional sovereignty is only applicable to those regimes with sufficient recognition of their *de facto* sovereignty.¹⁷⁸ As has been the case for Taiwan, thriving economic development is the key to entering the international community.

In addition to democracy, Taiwan's functional sovereignty stems from the

¹⁷⁴ Ibid., 470.

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

¹⁷⁷ Krasner, *Sovereignty*, 4.

¹⁷⁸ Winkler, “Can Trade Make a Sovereign?”, 470.

achievements of trade liberalization since the 1960s that have led it to pass through the process of industrialization.¹⁷⁹ Despite the fact that pirated manufacturing products have burdened Taiwan with the problem of intellectual property rights in the US market,¹⁸⁰ the US, Japan, and West European countries have become Taiwan's major trading partners since the 1970s. Moreover, as will be discussed in next chapter, by implementing unilateral trade liberalization, Taipei has successfully attracted investment from Japanese and American multinational corporations.¹⁸¹ Since the 1980s, Taiwan has become the major source of foreign direct investment (FDI) in Southeast Asia and China.¹⁸² From the 1980s onwards, Taiwan has played an indispensable role in international production networks (IPN).¹⁸³ Consequently, impelled by economic interests, European countries and the US encouraged Taiwan's involvement in the world trade system, and they further supported Taiwan's application to join the WTO in the late 1980s.¹⁸⁴ Functional sovereignty has become Taipei's main source to consolidate international legal sovereignty in the international community from thereon.¹⁸⁵

2.5.2 Functional Sovereignty in the Context of the “One-China Principle”

Generally speaking, Taiwan's entry into the WTO magnifies the importance of functional sovereignty in enlarging its international space, and it also signifies the recognition of its *de facto* sovereignty.¹⁸⁶ However, Taipei's intention is by no means

¹⁷⁹ Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 79-80.

¹⁸⁰ Robert Wade, *Governing the Market* (New Jersey: Princeton University Press, 1990), 268.

¹⁸¹ *Ibid.*

¹⁸² Dent, “Taiwan and the New East Asian Regionalism”, 121-24.

¹⁸³ *Ibid.*

¹⁸⁴ Winkler, “Can Trade Make a Sovereign?”, 473-74.

¹⁸⁵ Winkler, “A Question of Sovereignty?”, 5-6.

¹⁸⁶ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 87-88.

limited to expanding its international space. After acquiring membership to the WTO in 2002, Taipei soon began to further its agendas of international legal sovereignty. Notably, in attempts to marginalize the “one-China principle”, instead of adopting the name of ROC, Taipei took the TPKM as its formal title in the WTO.¹⁸⁷ Taipei also printed the official titles of each officer stations in Geneva in the WTO’s “telephone directory”, which provoked Beijing’s protest against Taiwan’s pro-independence movements.¹⁸⁸ Similar attempts to secure its statehood can be observed in Taiwan’s enrollment in the Government Procurement Agreement (GPA) within the WTO, as well as its application to the WHA.¹⁸⁹ Even at the bilateral level, Taipei prefers to adopt the title of TPKM to sign FTAs with trading partners in order to emphasize the title of ‘Taiwan’.¹⁹⁰

The case of Taiwan’s activities in the WTO confirms that Taipei has never given up the intention of being a fully-fledged sovereign state and, most significantly, Taiwan’s functional sovereignty has roots in its economic prosperity.¹⁹¹ It seems that, on the one hand, Taipei aims to make use of its functional sovereignty to legitimize *de facto* sovereignty in the international community. On the other hand, Taiwanese leaders seemingly perceive functional sovereignty as a bridge connecting Taiwan’s *de facto* sovereignty with *de jure* sovereignty, which is beneficial in allowing Taipei to legitimize its statehood. Theoretically, as China has not yet abandoned its national goal of peaceful reunification, Taipei should face obstacles in carrying out this strategy.

¹⁸⁷ Winkler, “Can Trade Make a Sovereign?”, 471-77.

¹⁸⁸ *Ibid.*, 477.

¹⁸⁹ Winkler, “A Question of Sovereignty?”, 7-9.

¹⁹⁰ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 96-99.

¹⁹¹ Winkler, “Can Trade Make a Sovereign?”, 471-77.

Indeed, in response to Taiwan's activities aimed at promoting *de jure* independence, Beijing deterred Taiwan from participating in any multilateral mechanisms that would manifest Taiwan's statehood. Under China's pressure, the WTO rejected Taiwan's application to the GPA in fear of legitimizing Taiwan's governing power in the international community, which would contradict Beijing's "one-China principle".¹⁹² Moreover, Taiwan's initiatives of participating in the process of regional economic integration, as well as signing FTAs with trading partners, also suffered from China's opposition.¹⁹³ In general, between 1996 and 2008, the Taiwanese government was not able to successfully promote *de jure* independence.¹⁹⁴ Rather, in order to improve "economic isolation", especially Taiwan's marginalized position in the process of regional economic integration, Taiwanese President Ma Ying-jeou decided to improve cross-Strait relations by signing the ECFA based on the 1992 Consensus.¹⁹⁵ However, after signing the ECFA with China, Taiwan achieved its strategic goals set by pro-independence leaders, such as entry into the GPA and WHA.¹⁹⁶ In this light, cross-Strait economic integration has appeared beneficial for Taiwan's strategy of making use of functional sovereignty to consolidate *de jure* sovereignty, but Beijing's political consideration behind the ECFA is not in line with Taiwan's strategic goal of independence.

Most scholars argue that Taiwan's decision to sign the ECFA has been conducive to ameliorating Beijing's anxiety about Taiwan's *de jure* independence.¹⁹⁷

¹⁹² Winkler, "A Question of Sovereignty?", 6-9.

¹⁹³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99.

¹⁹⁴ Winkler, "A Question of Sovereignty?", 3-4.

¹⁹⁵ Li, "The Nature of the Economic Cooperation Framework Agreement", 47-49.

¹⁹⁶ Ibid.

¹⁹⁷ Jean-Marc F. Blanchard and Dennis V. Hickey, "Introduction: More than 'two' sides to every story: an Introduction to New Thinking about the Taiwan Issue" in *New Thinking about the Taiwan Issue: Theoretical Insight into Its Origins, Dynamics, and Prospects*, ed. D. V. Hickey and J.M.F. Blanchard (New York: Routledge, 2012), 1-15.

As mentioned before, cross-Strait negotiations over the ECFA are all based on the 1992 Consensus. Following the implementation of the ECFA, Taiwan's reacceptance of the "one-China principle" has helped Chinese leaders to define Taiwan's international status.¹⁹⁸ Moreover, as China has encroached upon nearly all of Taiwan's international space ever since the rapprochement of Sino-U.S. relations, Beijing is supposed to have many more bargaining chips to trade with Taiwan for the "one-China principle".¹⁹⁹ Therefore, for Beijing, it is feasible to obtain Taipei's commitment to the "one-China principle" by allowing Taiwan to participate in certain international organizations as shown in the policy document "One Country, Two Systems' and Complete National Reunification".²⁰⁰ By this reasoning, contrary to Taiwan's strategic goal, Beijing believes that cross-Strait economic integration is leading both sides to peaceful reunification.

In summary, functional sovereignty is crucial for Taipei to enlarge international space; simultaneously, Taiwan also aims to acquire *de jure* sovereignty based on functional sovereignty. However, Beijing is confident in the "one-China principle". As long as Taiwan admits to the "one-China principle", Chinese leaders believe that they can easily cut the connection between Taiwan's functional sovereignty and statehood. Therefore, achieving the goal of peaceful reunification is only a matter of time.²⁰¹ Apparently, Taiwan's strategic goals are contradictory to China's; however, both sides believe that cross-Strait economic integration is beneficial for achieving their aims. To explore this puzzle, the next section of this chapter will review

¹⁹⁸ Lin, "Beijing's Evolving Policy and Strategic Thinking on Taiwan", 69-71.

¹⁹⁹ Tian, *Government, Business, and the Politics of Interdependence*, 37-39.

²⁰⁰ TAO, "'One Country, Two Systems' and Complete National Reunification", 2002, accessed January 13, 2015, http://www.gwytb.gov.cn/en/Special/OneCountryTwoSystem/201103/t20110316_1789248.htm

²⁰¹ Tian, *Government, Business, and the Politics of Interdependence*, 37-39.

interdependence theory and commercial diplomacy to construct an analytical framework. Moreover, in order to evaluate the extent to which China has infringed on Taiwan’s sovereignty, this research compiles a table of definitions of sovereignty and the controversies surrounding (see Table 2.5.1):

Table 2.5.1 Definitions of Sovereignty and Controversies between China and Taiwan since the 1990s

<i>De Facto</i> Sovereignty	
<p>Definition: according to Sow Keat Tok, <i>de facto</i> sovereignty refers to “the right of governance”</p> <p>Components: Westphalian Sovereignty and Domestic Sovereignty</p>	
Westphalian Sovereignty	Domestic Sovereignty
<p>Definition: Krasner defines this as “political organization based on the exclusion of external actors from authority structures within a given territory”</p> <p>Controversies:</p> <ol style="list-style-type: none"> 1. Territoriality: PRC: Taiwan is part of China ROC: No definition in the Constitution 2. Equality: Both sides are equal political entities under the undefined “one-China” 3. Noninterference: PRC: The Taiwan issue is domestic affair ROC: Cross-Strait relations are not domestic affairs 	<p>Definition: Krasner defines this as “the formal organization of political authority within a state and the ability of public authority to exercise effective control within the own borders of their polity”</p> <p>Controversies: PRC: The Policy of “one country, two systems” ROC 1999: “Two states” theory 2000-2008: “One country on each side” 2008-: The 1992 Consensus</p>
<i>De Jure</i> Sovereignty	
<p>Definition: By referring to Sow Keat Tok’s work, <i>de jure</i> sovereignty can be understood as the statehood of a regime that enables it to act as a sovereign state in the international community</p> <p>Components: International Legal Sovereignty and Interdependence Sovereignty</p>	
International Legal Sovereignty	Interdependence Sovereignty
<p>Definition: Krasner defines this as “the practice of mutual recognition, usually between territorial entities that have juridical independence”</p> <p>Controversies:</p>	<p>Definition: Krasner defines this as “the ability of public authorities to regulate the flow of information, ideas, goods, people, pollutants, or capital across the borders of their states”</p>

<p>PRC: The “one-China principle”, PRC is the only legitimate China ROC: 1992-1995: the 1992 Consensus 1995-1999: ROC in Taiwan 1999-2002: Two-States Theory 2002-2008: “one country on each side” 2008-: the 1992 Consensus</p>	<p>Controversies: PRC: Not shown in Chinese discourse of sovereignty ROC: Globalization and regional economic integration allow Taiwan to connect its participation in IGOs with statehood.</p>
<p>Functional Sovereignty: Bridging <i>De facto</i> and <i>De jure</i> Sovereignty</p>	
<p>Definition: Winkler defines this as: “a non-recognized government’s exercise of sovereign powers over one or several narrowly defined issue areas in its international relations”</p> <p>Controversies: The China factor</p>	
<p>Controversies</p>	<p>Conditions</p>
<p>1. The “One-China Principle” PRC: Under the framework of the “One Country, Two Systems”, Taiwan is allowed to have certain international space as Hong Kong has. Taiwan’s participation in functional IGOs will not change the fact that Taiwan is a part of the PRC. ROC: (1) KMT: The “One-China Principle” means ROC, Taiwan’s participation in function IGOs like the WTO, could consolidate its <i>de jure</i> and <i>de facto</i> sovereignty. (2) DPP: The “One-China Principle” is not acceptable. Taiwan should actively participate in functional IGOs under the names of “TPKM”, “Taiwan”, or at least “ROC (Taiwan)” to magnify its <i>de facto</i> and <i>de jure</i> sovereignty.</p>	<p>It is not necessary that every country with problematic statehood will possess functional sovereignty. In general, there are three conditions for state actors to acquire functional sovereignty</p> <ol style="list-style-type: none"> 1. <i>De facto</i> sovereignty: A state must effectively control its territory 2. Globally-recognized governing legitimacy 3. Interdependence sovereignty: Functional sovereignty requires regimes to have solid connections with the international community. In the case of Taiwan, functional sovereignty stems from its economic performances, as well as intensive trade relations with the US and EU.

Sources: Krasner, *Sovereignty*, 1-25; Tok, *Managing China’s Sovereignty in Hong Kong and Taiwan*, 49-106; Winkler, “Can Trade Make a Sovereign?”, 467-85; Winkler, “A Question of Sovereignty?”, 1-20.²⁰²

²⁰² Krasner, *Sovereignty*, 1-25; Tok, *Managing China’s Sovereignty*, 49-106; Winkler, “Can Trade Make a Sovereign?”, 467-85; Winkler, “A Question of Sovereignty?”, 1-20.

2.6 Economic Interdependence and Commercial Diplomacy

The last section illustrated China's and Taiwan's different understandings of sovereignty, and it confirmed that both sides' strategic concerns over the ECFA are distinct from each other. China's political motivation behind cross-Strait economic integration is to confine Taiwan's *de jure* sovereignty in a way that is favorable for its national goal of peaceful reunification, whereas Taipei expects to consolidate functional sovereignty in order to obtain *de jure* sovereignty. As economic integration is the core approach through which both sides seek to further their agendas of sovereignty, this section first argues that commercial diplomacy is the main instrument for both sides to achieve their strategic goals. To support this argument, the first part of this section aims to study both sides' strategies through the lens of commercial diplomacy. Meanwhile, this section will also compare commercial diplomacy with the commonly used theory of economic statecraft to rationalize the differences between them. In addition to the theory of economic statecraft, asymmetric economic interdependence is crucial for the effectiveness of commercial diplomacy as well.²⁰³ Therefore, the second part of this section establishes the theoretical framework to evaluate the effectiveness of commercial diplomacy in the process of economic integration based on interdependence theory.

2.6.1 Sovereignty and Commercial Diplomacy in the Process of Economic Integration

Sovereignty remains the core dispute between Taiwan and China, and Beijing has clearly indicated that there are only two ways to resolve the problem: peaceful

²⁰³ Frost, "China's Commercial Diplomacy in Asia", 95-99.

reunification or war. By reviewing the document “Deng Xiaoping on One Country, Two Systems” published by the Taiwan Affairs Office of the State Council PRC, Beijing points out that “The world faces the choice between peaceful and non-peaceful means of solving disputes.”²⁰⁴ It further states, “If the problem cannot be solved by peaceful means, then it must be solved by force.”²⁰⁵ Despite the fact that Beijing has not yet abandoned the possibility of liberating Taiwan by force according to the Anti-Secession Law, peaceful reunification has become Beijing’s framework for managing the Taiwan issue since the implementation of the “reform and opening up” policy in 1978.²⁰⁶ Most significantly, the promotion of economic integration across the Taiwan Strait has featured heavily in China’s Taiwan policy from 1979 onwards.

Policy documents regarding the Taiwan issue published by Beijing prove that China’s Taiwan policy relies greatly on economic measures. According to the “Message to Compatriots in Taiwan”, Beijing has officially listed “three direct links” between both sides — namely “economic exchanges”, “postal services”, and “transportation”—as the first step toward peaceful reunification.²⁰⁷ In 1990, Chinese leader Yang Shangkun declared that Beijing’s strategy for tackling the Taiwan issue should be to “use business to press politics and use the public to pressure the official[s]”.²⁰⁸ In 2004, at the Sixteenth Party Congress, Chinese leaders further confirmed that “economic development” is the key to achieving “national

²⁰⁴ Taiwan Affairs Office of State Council PRC, “Deng Xiaoping on One Country, Two Systems (1984)”, accessed on January 13, 2015,

http://www.gwyth.gov.cn/en/Special/OneCountryTwoSystem/201103/t20110316_1789244.htm

²⁰⁵ Ibid.

²⁰⁶ Bush, *Untying the Knot*, 36-39.

²⁰⁷ NPC, PRC, “Message to Compatriots in Taiwan”; Tian, *Government, Business, and the Politics of Interdependence*, 19.

²⁰⁸ Segal, “Chinese Economic Statecraft”, 150.

unification”.²⁰⁹ To date, Chinese leaders have taken the ECFA as the cornerstone of their strategy of peaceful reunification.²¹⁰ As such, the literature on cross-Strait economic integration focuses on the issue of China’s political leverage over Taiwan in accordance with the theory of economic statecraft.²¹¹ Contrary to this commonly adopted theory, subsequent analyses of both sides’ strategies for managing cross-Strait relations have highlighted commercial diplomacy.

This thesis argues that commercial diplomacy is the main instrument for China and Taiwan to further their interests in the process of economic integration. Commercial diplomacy, as defined by Ellen Frost, is “the use of commercial power such as market access or technology transfer to influence noncommercial decisions in the political or even the security realm.”²¹² Based on Frost’s research in China’s commercial diplomacy, the greater the “positive-sum economic incentive” China is able to offer its target countries, the greater the degree of China’s influence.²¹³ China’s investments in improving the infrastructure facilities of developing Southeast Asian states are clear evidence of this.²¹⁴ As for economic coercion or sanctions, they are seldom on the list of China’s regional policy options because it would arouse concern over the “China menace”—which is detrimental for China’s “peaceful rise”—and because the US and Japan are powerful regional players balancing China’s influence.²¹⁵ These also serve as the reasons why economic

²⁰⁹ Tung, “An Assessment of China’s Taiwan Policy”, 353-55.

²¹⁰ Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 13-14.

²¹¹ For more examples, please see: Tanner, *Chinese Economic Coercion against Taiwan*, 1-31; Brautigam and Tang, “Economic Statecraft in China’s New Overseas Special Economic Zones”, 799-816.

²¹² Frost, “China’s Commercial Diplomacy in Asia”, 96-97.

²¹³ *Ibid.*, 97-99.

²¹⁴ Frost, *Asia’s New Regionalism*, 69-71.

²¹⁵ Segal, “Chinese Economic Statecraft”, 159-61; Ross, “Balance of Power Politics and the Rise of China”, 120-25.

statecraft is not applicable in this research.

Whereas Frost argues influence stems from economic incentives in her work on commercial diplomacy, the literature on economic statecraft pays special attention to the state's ability to impose economic sanctions on others. According to Jean-Marc Blanchard and Norrin Ripsman, the more specific definition of economic statecraft is:

*“an attempt by a sender state to influence a target state either to do something it would not originally do, or to forgo an action that it would otherwise engage in, by the manipulation of the market in a manner that provides economic benefits to states that comply and/or imposes economic penalties on those who fail to comply.”*²¹⁶

Going by this definition, the theory of economic statecraft entails the provision of economic incentives to lure “receivers” to alter policy in accordance with the interests of “senders”.²¹⁷ Notably, the effectiveness of economic statecraft does not stem from “positive-sum economic incentives”, as commercial diplomacy does.²¹⁸ Instead, economic statecraft works because, leaders of “receivers” must face considerable damage from possible economic sanctions after receiving “economic incentives” from the “senders”, in particular when they have a propensity to proclaim against “senders” preferences.²¹⁹ In this light, strategic interactions based on

²¹⁶ Blanchard and Ripsman, *Economic Statecraft and Foreign Policy*, 6.

²¹⁷ *Ibid.*, 18-21.

²¹⁸ Frost, “China’s Commercial Diplomacy in Asia”, 97.

²¹⁹ Jason Davidson and George Shambaugh, “Who’s Afraid of Economic Incentives? The Efficacy-Externality Tradeoff”, in *Sanctions as Economic Statecraft: Theory and Practice*, ed. Steve Chan and A. Cooper Drury (New York: Macmillan Press LTD., 2000), 37-38.

economic statecraft could be seen as a zero-sum game, which is contradictory to China's current strategy for managing relationships with Taiwan.

In the case of cross-Strait relations, Beijing's strategy is, on the one hand, to bring in its influence to bear in the process of economic integration, in order to deter Taiwan's pursuit of *de jure* independence.²²⁰ On the other hand, Chinese leaders also aim to make a good impression on Taiwanese people in order to convince them about peaceful reunification.²²¹ Imposing economic sanctions on Taiwan is therefore not in Beijing's interests.²²² As discussed before, all Chinese official documents connect cross-Strait economic integration with national reunification.²²³ Even though Taiwanese President Lee Teng-hui and President Chen Shui-bian were supportive of *de jure* independence by challenging Beijing's "one-China principle" in the international community, rather than threatening economic sanctions, Chinese President Jiang Zemin and Hu Jintao still urged for bilateral economic exchanges.²²⁴

The most prominent example of Beijing's commercial diplomacy toward Taiwan against the backdrop of nervous cross-Strait relations was President Hu's strategy of "into the island, into the households, and into the brains".²²⁵ Despite chilled relations between both sides, Beijing adopted the unilateral measure of "fruit offensive" toward Taiwan by purchasing remnant fruits from Taiwanese farmers who

²²⁰ Scott L. Kastner, "Drinking Poison to Quench a Thirst? The Security Consequences of China-Taiwan Economic Integration", in *The Economic-Security Nexus in Northeast Asia*, ed. T. J. Pempel (New York: Routledge, 2013), 33-37.

²²¹ Scott L. Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond* (Stanford: Stanford University Press, 2009), 93-95.

²²² Ibid.

²²³ NPC, PRC, "Message to Compatriots in Taiwan"; TAO, "The Taiwan Question and Reunification of China"; TAO, "The One-China Principle and the Taiwan Issue".

²²⁴ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 93-95.

²²⁵ Chris Wang, "Su Warns of Growing Chinese Influence", *Taipei Times*, March 15, 2013, accessed July 30, 2015, <http://www.taipeitimes.com/News/taiwan/archives/2013/04/15/2003559674>

were supposed to be loyal supporters of the pro-independence party—the Democratic Progressive Party (DPP).²²⁶ Although the effectiveness of this strategy is questionable since the DPP still won Taiwan’s presidential election in 2004, it proves that even though Chinese leaders face a grim situation across the Taiwan Strait, commercial diplomacy remains the core strategy of Beijing’s Taiwan policy, rather than economic statecraft.

In addition, scholars also cast doubt on the effectiveness of Beijing’s economic sanctions on Taiwan. As will be discussed in chapter 3 and 4, Taiwan’s economic performance depends heavily on the Chinese market owing to abundant resources and low salaries in the mainland.²²⁷ Theoretically, asymmetrically interdependent economic relations between both sides should allow Beijing to easily force Taiwan to comply with its agendas by wielding economic statecraft. In contrast, whenever Beijing signaled its intention to punish Taiwanese enterprises on the mainland, their efforts were always frustrated.

For example, in order to prevent the DPP from retaining governing power in Taiwan’s 2004 presidential election, Beijing intended to push Taiwanese people into acknowledging that the pro-independence movement could endanger Taiwan’s economic prosperity.²²⁸ Punishing Taiwanese businessmen who overtly supported the DPP became a genuine policy option for Beijing. In 2001, the Minister of Foreign Economic Relations (PRC), Shih Guangsheng, said: “We will not allow Taiwanese businessmen to make political capital at home by supporting

²²⁶ Chi-Hung Wei, “China’s Economic Offensive and Taiwan’s Defensive Measures: Cross-Strait Fruit Trade, 2005-2008”, *The China Quarterly* 215 (2013): 644-47.

²²⁷ Tanner, *Chinese Economic Coercion Against Taiwan*, 3-5; Ross, “Balance of Power Politics and the Rise of China”, 130-31.

²²⁸ Tanner, *Chinese Economic Coercion Against Taiwan*, 13-14.

independence and make economic profits in the mainland.”²²⁹ As has been the case for several leading Taiwanese information and communication technology (ICT) industries on the mainland (e.g., Acer Co. and Chi-Mei Co.), these entrepreneurs have all made announcements against Taiwanese independence movements under pressure from Beijing.²³⁰ Nonetheless, it did not shake President Chen Shui-bian’s public support, and he won the presidential election with an absolute majority in 2004. Scholars conclude that China’s hostile measures led Taiwanese citizens to “rally-around-the flag”, which made them more hostile to Chinese appeals.²³¹ Moreover, Chinese leaders also confronted strong opposition from provincial governors since investment from Taiwanese enterprises contribute to local economic development.²³² Consequently, Beijing downplayed its claim that it would impose sanctions on Taiwanese businessmen.

However, it is notable that Beijing’s punishment of Taiwan’s advocacy of independence has primarily taken place in in the diplomatic realm rather than economic realm. In fact, before Taiwan re-endorsed the 1992 Consensus in 2008, China had blocked the enlargement of Taiwan’s international space, for example by vetoing Taiwan’s application to join the WHO. Meanwhile, Beijing also denounced FTAs between Taiwan and its trading partners.²³³ Most significantly, even after the signing of the ECFA, the diplomatic sanction remains Beijing’s key method for punishing Taipei for its attitude toward signing sub-agreements of the ECFA. Beijing’s strong opposition against the FTA between Taiwan and Malaysia after the

²²⁹ Segal, “Chinese Economic Statecraft and the Political Economy of Asian Security”, 152.

²³⁰ Ibid.,151-53; Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait*, 95-99.

²³¹ Tung, “Cross-Strait Economic Relations”, 149-55.

²³² Ibid.

²³³ Dent, “Taiwan and the New East Asian Regionalism”, 144.

Sunflower Movement in 2014 is evidence of this fact.²³⁴

In the context of the above arguments, this thesis argues that Beijing's ability to impose economic sanctions on Taiwan is limited despite asymmetric economic interdependence between China and Taiwan. Nonetheless, this does not mean China has limited political leverage over Taiwan. As discussed before, commercial diplomacy contends that influence stems from "positive-sum economic incentives", which are distinct from the theory of economic statecraft that stresses the ability of imposing economic sanctions on target states.²³⁵ Yet likewise economic statecraft, the effectiveness of commercial diplomacy is assumed to be covariant with the degree of economic interdependence. While Taiwan's economic development relies heavily on China, asymmetric economic interdependence across the Taiwan Strait should be conducive to strengthening Beijing's political leverage over Taiwan. As such, the next part of this section will explore this issue based on interdependence theory.

2.6.2 Interdependence Theory and Commercial Diplomacy

The degree of economic interdependence is an important indicator for evaluating the effectiveness of commercial diplomacy, and in fact, it is probably the only indicator that can be supported by statistical data. However, before analyzing the effectiveness of China and Taiwan's commercial diplomacy in the subsequent chapters, it is essential to clarify what impact economic interdependence has on the effectiveness of commercial diplomacy. To this end, it is essential to define what

²³⁴ P Singh, "Can Taiwan Talk 'Political' with the Mainland?", 265.

²³⁵ Frost, "China's Commercial Diplomacy in Asia", 97.

economic interdependence is.

Generally speaking, the establishment of economic interdependence networks among states has been facilitated by the breakthrough of technological innovation in the era of globalization. Following the innovation of communication and transportation technology, “transaction costs” across borders have been reduced, and thus entrepreneurs have been able to exploit comparative advantages (e.g., resources, lands, labors) in other countries to enhance their productivity.²³⁶ Multinational corporations (MNCs) have mushroomed, which have in turn contributed to the establishment of “global production networks”.²³⁷ Consequently, developed countries have relied on low-cost factors of production in developing countries to maintain thriving economic performance, whilst developing countries depend heavily on huge amounts of investments from MNCs to carry out their industrialization and economic development projects.²³⁸

As will be discussed in chapter 4, economic interdependence between Taiwan and China has been facilitated by investment in the mainland, mainly injected by Taiwanese original equipment manufacturers (OEM). In brief, the operation strategy of these manufacturing industries is “receiving orders in Taiwan, manufacturing in Mainland China, transiting in Hong Kong, and selling overseas.”²³⁹ Taiwanese investments help China to create jobs and upgrading technology, which are crucial to

²³⁶ Ross Garnaut, “ASEAN and the Regionalization and Globalization of World Trade”, *ASEAN Economic Bulletin* 14, no. 3 (1998): 216-17. Robert O. Keohane and Joseph N. Nye, *Power and Interdependence* (New York: Longman, 2012), 3-5.

²³⁷ Christopher M. Dent, *East Asian Regionalism* (New York: Routledge, 2008), 6.

²³⁸ *Ibid.*, 11-14.

²³⁹ Huang, “TPP Versus ECFA”, 97.

Beijing's economic modernization.²⁴⁰ Meanwhile, cheap production factors in the mainland have also enhanced the productivity and competitive advantages of Taiwanese manufacturers, as well as being profitable for Taiwan's overall economic performance.²⁴¹ By this reasoning, economic interdependence is reciprocal and thus it should be symmetric. Yet, this assumption is contradicted by reality.

There are many cases of asymmetric interdependent relations globally, and cross-Strait economic interdependence is another example of this. All economic indicators support the argument that Taiwan depends heavily on the Chinese market. With respect to bilateral investment, in 2014, China's businesses invested US\$334 million in Taiwan while Taiwan's enterprises invested US\$10.2 billion in the mainland.²⁴² Simultaneously, in terms of bilateral trade, China accounted for 39.74% of Taiwan's total exports and 18.14% of total imports, whereas Taiwan only accounted for 1.98% of China's total exports and 7.00% of China's total imports.²⁴³ So far, Taiwan is China's seventh largest trading partner whilst China is the largest trading partner for Taiwan.²⁴⁴

What captures analysts' attention is the fact that asymmetric economic interdependence breeds either "sensitivity" or "vulnerability" for those countries depending heavily on their counterparts, which could be obstacles to their national

²⁴⁰ Dent, "Taiwan and the New East Asian Regionalism", 121-24.

²⁴¹ Ibid.

²⁴² Department of Statistics, MOEA, ROC, "Economic Indicators EBook", last modified September 27, 2016 http://www.moea.gov.tw/Mns/dos_e/content/ContentLink.aspx?menu_id=6748.

²⁴³ Ibid.; Ministry of Commerce of the People's republic of China, "Statistics of Mainland-Taiwan Trade and Investment in January-December 2014", 2015, accessed April 17, 2015, <http://english.mofcom.gov.cn/article/statistic/lanmubb/hkmacaotaiwan/201501/20150100880632.shtm>

²⁴⁴ Ibid.

interests.²⁴⁵ The main reason for this is that “less dependent” states are supposed to have many more resources to “influence” others so that they comply with their interests. As Keohane and Nye write:

*“It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependent relationship as a source of power in bargaining over an issue and perhaps to affect other issues.”*²⁴⁶

As discussed before, in a relationship of asymmetric economic interdependence, commercial diplomacy is the major tool for states to further their interests. In order to resist attempts at commercial diplomacy from “less dependent actors”, the only approach is to substitute the pre-existing economic interdependence by establishing new interdependence networks with other countries.²⁴⁷

Similar to the theory of economic statecraft, the time that a target state needs to expend and the price it needs to pay to implementing alternative strategies have an impact on the effectiveness of commercial diplomacy.²⁴⁸ By reviewing the extent to which a target state could afford this loss, it is helpful to make a judgment as to whether an interdependent relationship is a “sensitive” or “vulnerable” type of economic interdependence.²⁴⁹ Keohane and Nye indicate that

“Sensitivity means liability to costly effects imposed from outside before

²⁴⁵ Keohane and Nye, *Power and Interdependence*, 8-16.

²⁴⁶ *Ibid.*, 9.

²⁴⁷ *Ibid.*, 10-11.

²⁴⁸ *Ibid.*

²⁴⁹ *Ibid.*

policies are altered to try to change the situation. Vulnerability means an actor's liability to suffer costs imposed by external events even after policies have been altered."²⁵⁰

Accordingly, despite huge costs, as long as a target state can find an effective alternative strategy, it can be deemed to be only "sensitive" to its counterpart's commercial diplomacy rather than "vulnerable".²⁵¹ As a result, the effectiveness of its counterpart's commercial diplomacy would be constrained. In the same vein, if a target state could not propose any new policy or its alternative scenarios failed to change the situation of asymmetric economic interdependence, it would be "vulnerable" in an economic interdependent relationship.²⁵² In this case, the target state has only limited ability to defy the agendas of its counterpart; the effectiveness of its counterpart's commercial diplomacy is therefore considerable. However, by applying this theoretical approach to cross-Strait economic interdependence, the question of whether the economically interdependent relationship between both sides is sensitive or vulnerable is ambivalent. It is contingent on the development of cross-Strait relations.

Based on economic logic, cross-Strait economic interdependence is sensitive for Taiwan but not vulnerable. China's comparative advantages, such as production factors, have attracted Taiwanese investment since the 1980s, which has resulted in asymmetric economic interdependence.²⁵³ Yet China is not the only country that possesses these advantages in the region. Other countries, such as Vietnam, India,

²⁵⁰ Ibid., 11.

²⁵¹ Ibid., 10-16.

²⁵² Ibid.

²⁵³ Bush, *Untying the Knot*, 31-35.

and even Indonesia, are potential partners for Taiwanese manufacturing industries. Additionally, the “race to the bottom” is a prevalent phenomenon among developing countries in East Asia.²⁵⁴ In an attempt to attract FDI to boost economic development, developing countries have often adopted a series of unilateral preferential policies, such as tariff exemption, rent discount, and even lowering salaries.²⁵⁵ In this instance, considering the rising wages of Chinese labor and the increasing costs of land in the mainland, Taiwanese industries can expect greater profitability by moving their manufacturing facilities to these countries. As a result, Taiwan should be able to challenge China’s commercial diplomacy by directing its investment to other countries with low-cost production factors, such as Vietnam and India.

Nonetheless, as will be discussed in Chapter 4, Taiwan’s “go south” strategy only achieved limited gains in the 1990s, owing to the Asian financial crisis.²⁵⁶ Most importantly, cutting cross-Strait economic ties is also risky for Taiwan. First of all, Taipei seems to have no leeway to suspend cross-Strait economic integration unilaterally because it risks peace across the Taiwan Strait, especially after the signing of the ECFA with Beijing. As discussed before, China’s grand strategy of peaceful reunification is based on cross-Strait economic integration under the “one-China principle”. Meanwhile, Beijing has not yet abandoned the scenario of reunifying Taiwan by military measures. As shown in Article 8 of the Anti-Secession Law, once Beijing recognizes that “possibilities for a peaceful reunification” have been “completely exhausted”, it is legal for them to wield military power to reunify

²⁵⁴ Layna Mosley, “The Political Economy of Globalization” in *Globalization Theory: Approaches and Controversies*, ed. David Held and Anthony McGrew (Cambridge: Polity Press, 2007), 110-12.

²⁵⁵ Ibid.

²⁵⁶ Tanner, *Chinese Economic Coercion Against Taiwan*, 44-47.

Taiwan.²⁵⁷ In this light, war is the possible price of changing asymmetric economic interdependence across the Taiwan Strait, an outcome which Taiwan cannot afford.

Furthermore, Taiwan cannot establish formal economic relations without Beijing's consent or acquiescence. Participating in the process of regional economic integration and signing FTAs with other countries remain Taiwan's main strategies to reduce the degree of its economic dependence on China.²⁵⁸ However, the expansion of Taiwan's international space is based on the development of cross-Strait relations. Before reaccepting the 1992 Consensus in 2008, Beijing spared no efforts to cut Taiwan's external economic relations by preventing Taipei from signing FTAs with other countries. Despite Taiwan's efforts to strengthen economic ties with Southeast Asian states by carrying out the "go south" strategy in the 1990s, it was blocked by Beijing due to nervous relations between both sides.²⁵⁹ As such, the strategy of shifting asymmetric economic interdependence does not appear feasible. In this light, Taiwan is the vulnerable party in the context of cross-Strait economic integration.

However, contradictory to the premise that Taiwan is vulnerable to Beijing's commercial diplomacy, Taiwan seems to have opportunities to reduce the degree of asymmetric economic interdependence with China. Indeed, after signing the ECFA with China, Taiwan has been allowed by Beijing to institutionalize its economic relations with other countries.²⁶⁰ Notably, Taiwan's commercial diplomacy has been embodied in its FTA strategy that has targeted its trading partners in the Asia-Pacific, and participation in the mechanisms of regional economic integration, such as the

²⁵⁷ NPC, PRC "Anti-Seccession Law".

²⁵⁸ Peter C. Y. Chow and Dan Ciuriak, "The FTA Music is Playing in Asia: After ECFA, Will Taiwan Join the Dance?", *The International Trade Journal* 26, no. 1 (2011): 61-64.

²⁵⁹ Tanner, *Chinese Economic Coercion Against Taiwan*, 44-47.

²⁶⁰ Singh, "Can Taiwan Talk 'Political' with the Mainland?", 254-56.

TPP and RCEP, is still Taipei's priority. Thus far, Taiwan has already signed FTAs with Singapore and New Zealand, and Taipei has also concluded the initial economic cooperation agreements with Japan.²⁶¹ Besides, Taiwan has also endeavored to commence negotiations over FTAs with the United States.²⁶² It appears that all the parties Taiwan targeted for negotiations are major players in the process of regional economic integration. As such, whether Beijing could wield commercial diplomacy to influence Taiwan to accept its agendas of peaceful reunification is contingent on Beijing's ability to constrain Taiwan's commercial diplomacy in both diplomatic and economic realms at the regional level.

To summarize, commercial diplomacy is the main tool used by both sides to further their agendas of sovereignty in the process of economic integration. However, the question of whether Taiwan is sensitive or vulnerable to Beijing's commercial diplomacy in the context of asymmetric economic interdependence is still unclear. Due to the fact that East Asian regional integration is an important factor that influences the effectiveness of Chinese commercial diplomacy and also Taiwan's strategy to counter Beijing's influence, it is essential to take regional economic integration into consideration as discussed in chapter 3.

2.7 Conclusion

This chapter has constructed a theoretical framework for the subsequent chapters to evaluate the effectiveness of both China's and Taiwan's commercial

²⁶¹ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99.

²⁶² Ibid., 91-92; Singh, "Can Taiwan Talk 'Political' with the Mainland?", 265.

diplomacy in pursuing their interests of sovereignty in the process of economic integration. In addition to rationalizing both sides' commercial diplomacy in the context of interdependence theory, this chapter has also proposed a new approach to define sovereignty in a way that is better suited for analyzing the extent to which has China infringed on Taiwan's sovereignty in chapters 4, 5, and 6. Specifically, by reviewing Krasner's work on sovereignty, this chapter categorizes *de facto* sovereignty into Westphalian and domestic sovereignty. *De jure* sovereignty is also split into international legal and interdependence sovereignty.²⁶³ Furthermore, based on Winkler's works, this chapter has further utilized functional sovereignty to bridge *de facto* and *de jure* sovereignty so as to study the competition between Beijing's and Taipei's strategies for defining Taiwan's status in the IGOs.²⁶⁴

By employing this theoretical framework to study cross-Strait relations in the post-ECFA era, this thesis argues that Taiwan aims to utilize commercial diplomacy to consolidate its functional and *de facto* sovereignty in the process of economic integration. In addition, Taipei also expects to legitimize its *de jure* sovereignty by participating in the process of regional economic integration and international institutions. Against Taipei's strategy, Beijing aims to wield commercial diplomacy to institutionalize the "one-China principle" and keep Taiwan on the track of peaceful reunification. However, the question of which side's strategy is more effective remains unclear. Although asymmetric economic interdependence seems to provide Beijing with many more resources to influence Taiwan, it may be limited owing to the expansion of Taiwan's international space. Moreover, while Taiwan's FTA strategy is to target major players in the Asia-Pacific—especially the US allies

²⁶³ Krasner, *Sovereignty*, 3-4.

²⁶⁴ Winkler, "Can Trade Make a Sovereign?", 467-485; Winkler, "A Question of Sovereignty?", 1-20.

in the region— it may further influence the effectiveness of Beijing’s commercial diplomacy toward Taiwan. As such, to address the question of whether China has infringed upon Taiwan’s sovereignty by wielding commercial diplomacy in the process of economic integration, chapter 3 will extend the discussions from the bilateral to the regional level. Specifically, the next chapter will study cross-Strait relations in the context of regional economic integration to explore how, and to what extent, the ongoing progress of regional economic integration impinges on the effectiveness of both China and Taiwan’s commercial diplomacy, as well as their agendas of sovereignty at the regional level.

Chapter 3 Taiwan, Globalization and Regional Integration

3.1 Introduction

Chapter 2 of this thesis established a theoretical framework to examine how, and to what extent, China could infringe on Taiwan's sovereignty in the process of economic integration. In brief, commercial diplomacy is a major instrument for both China and Taiwan to further their political agendas of sovereignty in the process of economic integration. Whereas Taiwan assiduously wields commercial diplomacy to bridge its *de facto* sovereignty with functional sovereignty in attempts to fortify its statehood in the international community, China sedulously wields commercial diplomacy to consolidate the "one-China principle" so as to enclose Taiwan's *de jure* sovereignty.¹ Theoretically, the effectiveness of commercial diplomacy is covariant with the degree of asymmetric economic interdependence across the Taiwan Strait.² As Taiwan's economic performance is heavily reliant on the Chinese economy, especially after signing the Cross-Strait Economic Cooperation Framework Agreement (ECFA) with China in 2010, Taiwan is supposedly vulnerable to Beijing's political leverage.³

Nonetheless, the effectiveness of China's commercial diplomacy towards Taiwan does not solely stem from asymmetric economic interdependence across the Taiwan Strait. Rather, this thesis argues that Taiwan's marginalization in the process

¹ Krasner, *Sovereignty*, 1-25; Tok, *Managing China's Sovereignty*, 49-106; Winkler, "Can Trade Make a Sovereign?"; 467-85; Winkler, "A Question of Sovereignty?"; 1-20.

² Frost, "China's Commercial Diplomacy in Asia", 96-97. Keohane and Nye, *Power and Interdependence*, 8-16.

³ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 18-21; Corcuff, "Ma Ying-jeou's China-leaning Policy and the 1683 Fall of the Zheng in Taiwan, 93-103.

of regional economic integration is the precondition for Beijing to facilitate cross-Strait economic integration, which provides China with more advantages to wield commercial diplomacy towards Taiwan. To support this argument, this chapter aims to prove that, before signing the ECFA with Taipei, Beijing had already set up regional conditions that entail Taiwan strengthening economic ties with China to secure its economic interests, as well as to improve its marginalized position in the process of regional economic integration. However, how did China take advantage of its economic rise to create conditions at the regional level for increasing its political leverage over Taiwan in the post-ECFA era?

To address this question, the next section of this chapter studies Taiwan's position in the process of regional economic integration. In brief, this section finds that Taiwan had successfully sustained its connection with regional economic integration when East Asian economies preferred "open regionalism" in the early 1990s.⁴ Nevertheless, following China's economic rise in the late 1990s, there has been asymmetry between Taiwan's regional position and its contribution to the process of regional economic integration. To explore this asymmetry, the third section studies both China's and Taiwan's roles in the process of regional economic together with their contributions to "parts and components trade" (or components trade) in the wave of East Asian regionalization.⁵ Moreover, this section also takes ASUS and YAGEO as case studies to illustrate the integration between China and Taiwan's manufacturing supply chains in wave of East Asian regionalization. Through this approach, this chapter contends that China's economic rise has

⁴ Takashi Terada, "The US Struggles in APEC's Trade Politics: Coalition-Building and Regional Integration in the Asia-Pacific", *International Negotiations* 18, no.1 (2013): 49-50.

⁵ Prema-chandra Athkorala, "Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?" *Asia Economic Papers* 10, no. 1 (2011): 65-67.

overshadowed East Asian countries' roles in the process of regionalization, as China has integrated regional production networks (RPNs) into its economy since the 2000s.

Most importantly, China's economic rise has also provided Beijing with opportunities to shape regional economic integration mechanisms in which Taiwan has no role. As such, the fourth section explores what impact has Taiwan's marginalization in the process of regional economic integration had on its sovereignty. Meanwhile, this section also examines impact of Taiwan's marginalized regional position on its economic interests through the lens of "noodle bowl effects" and trade "substitution effects".⁶ After exploring Taiwan's economic interests in the Mainland, this chapter then makes sense of Taiwan's decision to sign the ECFA with China. As such, the fifth section illustrates Taiwan's seesaw strategy for improving its regional position in the context of the balance of influence between the US and China. Finally, this chapter concludes that the ECFA is the outcome of both Beijing and Taipei's effort to reconcile economic interests with political agendas.

3.2 East Asian Economic Integration: Where is Taiwan?

This section studies the question of why Taiwan's economic contribution in the process of regional economic integration is inconsistent with its position within economic integration mechanisms in East Asia and the Asia-Pacific region. It is unusual that Taiwan, as one of the four developed economies and the fifth largest

⁶ Jadish Bhagwati, "US Trade Policy: The Infatuation with FTAs", Discussion Paper Series 726, Columbia University, (1995): 1-9.

economy in East Asia, has become a “bystander” in the process of economic integration at the regional level.⁷ With regards to the cause of Taiwan’s regionally marginalized position, most scholars ascribe this phenomenon to its contentious statehood.⁸ Notably, although Beijing had constrained Taiwan’s international legal sovereignty in regional institutions following its accession to the UN in 1971, Taiwan’s interdependence sovereignty at the regional level was not entirely curtailed until the late 1990s. As will be discussed in this section, in terms of encroaching on Taiwan’s interdependence sovereignty at the regional level, the degree of China’s economic growth is a determinant of the effectiveness of China’s commercial diplomacy. Not until China played a central role in the RPNs in the late 1990s could Beijing wield commercial diplomacy to redefine the geographic scope of regional economic integration mechanisms to isolate Taiwan.⁹

3.2.1 China, Taiwan, and the US in the Asia-Pacific Region in the Early 1990s

Taiwan’s membership of the Asia-Pacific Economic Cooperation (APEC) is the foremost evidence of Beijing’s inability to curtail Taiwan’s interdependence sovereignty at the regional level before China played a significant role in the process of regional economic integration. The main reason for this is that economic integration in the Asia-Pacific region is the “market driven” process propelled by foreign direct investment (FDI) from multinational corporations (MNCs) that facilitates the establishment of RPNs.¹⁰ This regional integration approach was not

⁷ Kevin G. Nealer and Margaux Fimbres, “Taiwan and Regional Trade Organizations: An Urgent Need for Fresh Ideas”, *Asia Policy* 21 (2016): 69-70.

⁸ Dent, “Taiwan and the New East Asian Regionalism”, 108-09; Frost, *Asia’s New Regionalism*, 117-19.

⁹ Frost, *Asia’s New Regionalism*, 117-19; Athkoralala, “Production Networks and Trade Patterns in East Asia”, 77-85.

¹⁰ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 1-2.

beneficial for Beijing to further its political agenda by utilizing commercial diplomacy before China became East Asian economies' major trading partner in the late 1990s.

Speaking of the APEC, this is “open regionalism” led by the US and Japan, which delineated East Asia within “the Asia-Pacific region”.¹¹ According to Jagdish Bhagwati and Richard Baldwin, “regionalism” refers to “preferential trade agreements” or “preferential trade liberalization” between “a subset of nations” within a geographically defined area.¹² Given the wide geographic scope of economic cooperation, as well as its promise of not arousing trade discrimination towards outsiders by raising tariffs, scholars label APEC as “open regionalism” in East Asia.¹³ Although scholars argue that the US had made use of APEC to hamper the construction of “authentic” East Asian regionalism, East Asian economies displayed positive attitudes towards the US-led “open regionalism” because of their interests of liberalizing trade relations with advanced economies.¹⁴

Indeed, the US and Japan's leadership in APEC mainly stemmed from their importance as the major markets and top investors in the Asia-Pacific region, and Beijing had limited ability to reverse the situation.¹⁵ As shown in Table 3.2.1, in the 1990s, Japan and the US were the major trading partners for East Asian economies,

¹¹ Ibid.

¹² Jagdish Bhagwati, “Regionalism versus Multilateralism”, *World Economy* 15, no. 5 (1992): 535; Richard E. Baldwin, “Managing the Noodle Bowl: The Fragility of East Asian Regionalism”, *The Singapore Economic Review* 53, no. 3 (2008): 452-53.

¹³ Tanaka, “The Development of the ASEAN+3 Framework”, 54; Terada, “The US Struggles in APEC's Trade Politic”, 50.

¹⁴ Beeson, *Regionalism and Globalization in East Asia*, 1-14; Baldwin, “Managing the Noodle Bowl”, 458-59.

¹⁵ Frost, *Asia's New Regionalism*, 111-12; Linda Low, “Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Agreements: All Paved with Good Intentions for ASEAN?”, *Asian Economic Journal* 17, no. 1 (2003): 65-67.

especially for ASEAN members.¹⁶ In terms of trade share, these advanced economies accounted for more than 30% of Northeast Asian economies' total trade before 2000. Most significantly, whereas Japan and the US shared about 35% of Southeast Asian countries' total trade in the 1990s, China merely accounted for 3% on average. Therefore, it was in East Asian countries' interest to consolidate their economic ties with the US and Japan, and they were also eager to reduce tariffs on the entry of their products into advanced economies.¹⁷ To this end, East Asian countries preferred to extend the geographic scope of economic collaboration from East Asia to the US in order to strengthen their connections with the US market.¹⁸ In this context, with support from most East Asian countries, the US had successfully established APEC in 1989.

Table 3.2.1 Major Trading Partners' Share of East Asia's Total Trade

Northeast Asia									
Year	1990	1995	2000	2005	2010	2011	2012	2013	2014
Economy									
Japan	8.42%	9.92%	9.51%	8.98%	7.74%	7.32%	6.84%	6.24%	6.00%
EU	16.71%	14.55%	13.99%	13.46%	12.64%	12.39%	11.46%	11.20%	11.74%
China	6.69%	11.50%	13.00%	15.81%	15.50%	14.76%	14.61%	14.73%	14.63%
US	23.78%	20.69%	20.41%	14.84%	11.81%	11.16%	11.44%	11.40%	11.74%
Taiwan	3.76%	4.65%	4.97%	4.90%	4.26%	3.88%	3.77%	3.99%	3.98%
R.O.K	3.57%	4.41%	4.74%	5.42%	5.21%	5.16%	5.03%	5.04%	5.08%
Southeast Asia									
Year	1990	1995	2000	2005	2010	2011	2012	2013	2014
Economy									
Japan	21.15%	19.25%	16.05%	12.45%	10.99%	10.69%	10.66%	9.52%	9.04%
EU	15.95%	14.89%	13.17%	11.60%	10.27%	10.10%	9.87%	9.85%	9.82%
China	2.41%	2.90%	4.40%	9.21%	12.15%	12.57%	13.07%	14.20%	14.99%
US	16.76%	16.01%	16.66%	12.54%	9.18%	8.34%	8.06%	8.26%	8.41%
Taiwan	3.94%	3.58%	4.99%	4.30%	3.89%	3.88%	3.88%	4.05%	4.24%
R.O.K	3.24%	3.85%	4.19%	4.23%	5.12%	5.24%	5.34%	5.35%	5.21%
Note:									
1. According to the ADB Database, Northeast Asia encompasses China, Hong Kong, Taiwan, Japan, Republic of Korea (R.O.K), and Mongolia; and Southeast Asia is composed of 10 ASEAN members.									

Source: Asian Development Bank (2015) "Integration Indicators"¹⁹

¹⁶ Asian Development Bank, "Integration Indicators".

¹⁷ Jeffrey D. Wilson, "Mega-Regional Trade Deals in the Asia-Pacific: Choosing Between the TPP and RCEP?", *Journal of Contemporary Asia* 45, no. 2 (2015): 345-46.

¹⁸ Baldwin, "Managing the Noodle Bowl", 458-59.

¹⁹ Asian Development Bank, "Integration Indicators".

It is noteworthy that by establishing APEC, the US and its allies were able to exert influence on East Asian countries in the process of regional economic integration, which was in turn not favorable for Beijing to marginalize Taiwan's regional position by utilizing commercial diplomacy.²⁰ Politically, Taiwan, Japan, and South Korea were solid US military allies against the expansion of communism in East Asia, and Taipei still sustained formal diplomatic relations with South Korea in the early 1990s.²¹ This advantage was particularly important because the US and its allies, especially Japan, were decisive actors in APEC. In this light, Beijing could not easily intervene in Taiwan's interdependence sovereignty at the beginning of the post-Cold War era.

Most importantly, from economic perspectives, China had not yet been a major trading partner for East Asian economies (see Table 3.2.1); neither had it been a major investor in East Asia in the early 1990s.²² This had affected China's ability in interrupting Taiwan's economic relations with East Asian countries. Notably, Taiwan was not only solid ally of the US but also an important trading partner, and it had further increased Taiwan's bargaining chips to join the APEC.²³ Specifically, in Northeast Asia, Taiwan still maintained strong economic ties with South Korea and Japan. Besides. In Southeast Asia, Taiwan was also one of the major trading partners (see Table 3.2.1),²⁴ and one of the top three investors in this area (see Table 3.2.2) in

²⁰ Frost, *Asia's New Regionalism*, 111-21.

²¹ Steven Phillips, "Why Taiwan? ROC Leaders Explain Taiwan's Strategic Value", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2014): 165-69.

²² Asian Development Bank, "Integration Indicators".

²³ Cheung, "APEC as a Regime", 29-33.

²⁴ Asian Development Bank, "Integration Indicators".

the 1990s.²⁵ Since Taiwan had played an indispensable role in boosting Southeast Asian economic prosperity, most Southeast Asian economies still preferred to shelve the contentious sovereignty across the Taiwan Strait so as to include Taiwan in APEC.²⁶

Table 3.2.2 Taiwan's Investment in Southeast Asia (Unit: US\$1 million)

Year \ Country	Thailand	Malaysia	The Philippines	Indonesia	Singapore	Vietnam
1959 - 1989	2,097	1,257	275	1,964	477	1
1990	783	2,348	141	618	48	251
1991	584	1,326	12	1,057	13	521
1992	290	575	9	563	9	562
1993	215	331	5	128	70	421
1994	477	1,123	268	2,487	101	519
1995	1,804	568	14	567	32	1,240
1996	2,785	310	7	535	165	534
1997	414	480	13	3,419	230	248
1998	254	263	5	155	158	441
1999	211	70	5	1,180	325	173
2000	437	241	1	131	220	281
2001	159	297	0	72	378	456
Total	10,562	9,241	759	12,891	2,244	5,855
Ranking	3	3	6	5	N/A	2

Notes:

1. The statistic of Taiwan's investment in The Philippine does not contain investment in the Subic Bay and other special economic zones. Taiwanese investment in these areas had reached US\$1,044 million in 2002.
2. Source: Ministry of Economic Affairs (R.O.C.)

Source: Edited by the author based on the report of the Council for Economic Planning and Development, Executive Yuan (R.O.C.) to the Legislative Yuan (R.O.C.) conducted in 2002²⁷

In general, APEC is a successful example of Taiwan's efforts to transform its economic advantages into bargaining chips for participating in the process of

²⁵ 中華民國行政院經濟建設委員會, "我國南向政策之檢討-如何運用我國經貿力量拓展與東南亞國家之關係", 2002, Council for Economic Planning and Development, Executive Yuan, Republic of China, "The Review of Go South Policy: How to make use of Economic Power to Establish Relationships with Southeast Asian Countries", 2002, accessed January 24, 2016, <http://npl.ly.gov.tw/npl/report/911226/10.pdf>.

²⁶ Cheung, "APEC as a Regime", 21-25.

²⁷ 中華民國行政院經濟建設委員會, "我國南向政策之檢討-如何運用我國經貿力量拓展與東南亞國家之關係", 2002, Council for Economic Planning and Development, Executive Yuan, Republic of China, "The Review of Go South Policy: How to make use of Economic Power to Establish Relationships with Southeast Asian Countries", 2002.

regional economic integration. The prevalence of open regionalism in the Asia-Pacific region was beneficial for Taiwan, in that it helped Taiwan to participate in the process of regional economic integration. While there was a huge gap in the degree of economic connections with East Asian economies between China and the US, and even with Japan in the early 1990s (see Table 3.2.1), China could not reverse the trend of East Asian “open regionalism”. Moreover, China had limited ability to challenge the US leadership and agendas in APEC, which confined Beijing’s ability to counter Washington’s arrangement for Taiwan’s APEC membership.²⁸

However, Taipei has faced predicaments in wielding commercial diplomacy to join regional economic integration mechanisms after the 1997 Asian financial crisis. On the one hand, Washington’s influence in East Asia has declined due to the ebbing of the US-led “open regionalism” in the post-crisis era.²⁹ On the other hand, China has gradually become an important trading partner for most East Asian economies, which has allowed Beijing to rival the US and Japan for regional leadership by influencing the construction of East Asian regionalism in a manner that is detrimental to Taiwan’s regional position.³⁰

With respect to the decline of APEC’s relevance, most scholars ascribed this to US ambition to maintain its hegemonic role not only at the regional level but also at the global level during the 1997 Asian financial crisis.³¹ Firstly, the US firmly opposed Japan’s Asian Monetary Fund (AMF) initiative due to the concern over the

²⁸ Gary Klintworth, “China’s Evolving Relationship with APEC”, *International Journal* 50, no.3 (1995): 500-504.

²⁹ Frost, *Asia’s New Regionalism*, 110-19.

³⁰ Ibid.

³¹ Tanaka, “The Development of the ASEAN+3 Framework”, 60-62; Beeson, *Regionalism and Globalization in East Asia*, 229-32.

fading of the International Monetary Fund's (IMF) role.³² However, Washington did not propose efficient alternative solutions that would assist East Asian economies in passing through the crisis.³³ Secondly, regardless of East Asian countries' economic predicaments during the crisis, the US maintained a firm attitude towards regional trade liberalization in sensitive fish and forest products by promoting the Early Voluntary Sectoral Liberalization (EVSL) in order to solidify its WTO agendas of trade liberalization.³⁴ Consequently, East Asian economies lost confidence in US-led multilateral institutions.³⁵ APEC's function of promoting regional integration has waned, and the US had also lost its power in promoting regional economic integration in the Asia-Pacific region.³⁶

3.2.2 The Tendency of “Authentic” East Asian Regionalism: Where is Taiwan?

Since the decline of US regional influence, there has been a tendency towards “authentic” regionalism among East Asian countries.³⁷ As East Asian countries had felt resentment at US unilateralism in the 1997 Asian financial crisis, ASEAN took the initiative to extend the pre-existing sub-regional integration framework — the ASEAN Free Trade Area (AFTA) — from Southeast Asia to Northeast Asia.³⁸ Thereafter ASEAN has launched various regional economic integration mechanisms, such as the ASEAN Plus Three (APT) and ASEAN Plus Six (APS) projects.³⁹ These ASEAN-centered integration mechanisms have often been deemed as “East Asian”

³² Ibid.

³³ Ibid.

³⁴ Terada, “The US Struggles in APEC's Trade Politic”, 56-58.

³⁵ Frost, *Asia's New Regionalism*, 111-19; Yang Jiang, *China's Policymaking for Regional Economic Cooperation* (New York: Palgrave Macmillan, 2013), 4-5.

³⁶ Beeson, *Regionalism and Globalization in East Asia*, 223-32.

³⁷ Ibid., 1-14.

³⁸ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 3-5.

³⁹ David Camroux, “‘Asia Whose Asia?’ Evolving Concepts of An Asian Community from the 1920s till Today”, in *The Evolution of Regionalism in East Asia*, ed. Heribert Dieter (New York: Routledge, 2007): 15-19.

regionalism; henceforth, East Asia has been distinguished from the “Asia-pacific” region in terms of “regional” economic integration. In this regard, the geographically defined “region” does not necessarily correspond with the geographic scope of “regionalism”.⁴⁰ Thus the definition of “region” became ambivalent.

The definition of “region” is more ambiguous in Asia where there are many great powers aiming to maintain their influence by defining the geographic scope of “regional” economic integration as discussed later.⁴¹ Generally speaking, there have been too many economic integration mechanisms in the “region” to define what exactly the “region is”. As shown in Figure 3.2.1, apart from APEC, there is the other US-centered integration framework—the TPP—connecting East Asian economies with American and even Oceania countries, which defines the “region” as the Asia-Pacific region.⁴² Meanwhile, the “region” is also encompassing the ASEAN-centric but China-driven Regional Comprehensive Economic Partnership (RCEP), containing both APT and APS members that symbolizes inherent geographically defined East Asian regionalism.⁴³ Although all of these economic integration mechanisms are aimed at establishing the Free Trade Area of the Asia-Pacific (FTAAP), they have already split the “region” into East Asia and the Asia-pacific region.⁴⁴ Moreover, one can further divide East Asia into Northeast Asia and Southeast Asia, as there is a regional trade agreement (RTA) between China, Japan, and South Korea, and the AFTA encompassing every ASEAN member state.⁴⁵

⁴⁰ Dent, *East Asian Regionalism*, 2-6.

⁴¹ Beeson, *Regionalism and Globalization in East Asia*, 7-15.

⁴² Shintaro Hamanaka, “TPP Versus RCEP: Control of Membership and Agenda Setting”, *Journal of East Asian Economic Integration* 18, no. 2 (2014): 165-69.

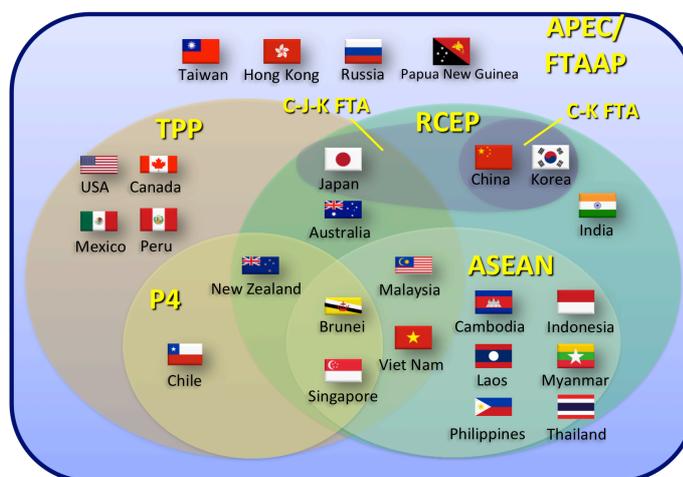
⁴³ Panda, “Factoring the RCEP and the TPP”, 51-52.

⁴⁴ Hamanaka, “TPP Versus RCEP”, 169-77.

⁴⁵ Min-Hua Chiang, “The Potential China-Japan-South Korea Free Trade Area”, *East Asia: An International Quarterly* 30, no.3 (2013): 199-201; Chia, “The Emerging Regional Economic

In order to tackle the problem of defining the “region” after the 1997 Asian financial crisis, this thesis defines “East Asia” as a geographic zone that includes all of the RCEP members, as well as Taiwan and Hong Kong. With respect to “the Asia-Pacific region”, it covers all the members of TPP and RCEP, as well as Taiwan and Hong Kong. The broad term “regional economic integration” encompasses all the major economic integration mechanisms (e.g. APEC, TPP, RCEP, APT, and APS) in the Asia-Pacific region. Finally, with respect to sub-regional integration, it is essential to put a specific sub-region title to define the scope of these integration architectures, such as Southeast Asia, Northeast Asia and so on.

Figure 3.2.1 East Asian Regional Economic Integration Mechanisms



Source: Charted by Chun-Fang Hsu⁴⁶

Notably, while this definition of the region combines geographic with economically parameters, an “economic region” does not necessarily cover every

Integration Architecture in East Asia”, 6-10.

⁴⁶ Chun-Fang Hsu, interviewed by author, March 10, 2014. The author is grateful to her generosity to share this figure. It is important to mention that this figure was also used in 童振源, *台灣經濟關鍵下一步：兩岸經濟整合的趨勢與挑戰* (台北：博碩出版社，2014), 29; Chen-Yuan Tung, *The Next Critical Step for Taiwanese Economy* (Taipei: DrMaster Press Co., Ltd.), 29.

economy in a “geographically defined region”.⁴⁷ Economic connection is a crucial factor in deciding whether a country is in a “region” or not, and this factor explains the exclusion of Russia and Mongolia from East Asian regional economic integration.⁴⁸ However, Taiwan’s exclusion in East Asian regionalism is not reasonable from this perspective. In fact, as shown in Table 3.2.3, if one includes Taiwan into the APT, Taiwan will share around 10% of intra-regional trade among all the 16 economies (including Hong Kong and Macau). Furthermore, as shown in Table 3.2.4, more than 50% of Taiwan’s trade was in East Asia by 2000, and this ratio had been soared to 60% since 2005.⁴⁹

Notwithstanding its strong economic ties with East Asian economies, Taiwan has still been expelled from the process of East Asian economic integration. China’s rapid economic growth is the core reason for this, as it gradually eclipsed Taiwan’s role in the process of regional economic integration. In terms of the share of East Asian economies’ total trade, as shown in Table 3.2.1, between 1990 and 2014, China’s ratio soared from 6.69% to 14.63% in East Asia, and from 2.41% to 14.99% in Southeast Asia, whilst Taiwan’s share only increased from 3.76% to 3.98% in Northeast Asia, and from 3.94% to 4.24% in Southeast Asia. Moreover, as shown in Table 3.2.4, China had shared around 40% of Taiwan’s intra-regional trade since 2005. This proportion can be higher if we take Hong Kong’s ration into account.

The above economic indicators illustrate the eclipse of Taiwan’s economic importance in East Asia. As will be elaborated later, the major cause for this

⁴⁷ Dent, *East Asian Regionalism*, 2-6.

⁴⁸ Ibid.

⁴⁹ Bureau of Foreign Trade, MOEA, ROC, “Trade Statistics”, 2016, accessed January 24, 2016, <http://cus93.trade.gov.tw/ENGLISH/FSCE/>

phenomenon has been China's increasing role in RPNs. As mentioned before, China's regional influence mainly stems from its pivotal role in RPNs, and this is the determinant of the effectiveness of Beijing's commercial diplomacy in countering both Washington's and Taipei's political agendas at the regional level.⁵⁰ However, several important questions need to be asked: how, and when, did China play a central role in RPNs? How has China's economic rise impinged on Taiwan, as well as the US' and Japan's regional influence? To answer these questions, the next section will explore both China's and Taiwan's roles in the wave of East Asian regionalization.

Table 3.2.3 Taiwan's Intra-regional Trade Share (Unit: US\$1 million)

Year	TW – China	TW – HK	TW – Japan	TW – South Korea	TW – ASEAN	TW – APT	Intra-regional Total Trade Value (APT)	Intra-regional Trade Value (APT+Taiwan)	Taiwan's share
1991	4,234	13,568	27,763	3,124	13,599	62,287	470,373	532,660	11.69%
1992	6,587	15,463	30,614	3,578	15,990	72,232	562,363	634,595	11.38%
1993	14,395	15,790	31,881	3,704	17,961	83,731	636,933	720,664	11.62%
1994	16,326	17,573	34,509	4,531	22,000	94,939	714,905	809,844	11.72%
1995	17,880	21,329	43,312	6,445	24,625	113,591	868,146	981,737	11.57%
1996	18,990	20,240	40,953	6,730	29,243	116,155	1,071,864	1,188,019	9.78%
1997	19,834	20,817	40,034	7,020	31,976	119,680	1,123,368	1,243,048	9.63%
1998	20,560	17,819	35,825	6,817	26,865	107,887	919,923	1,027,810	10.50%
1999	23,479	17,225	41,874	9,317	31,528	123,422	1,024,307	1,147,729	10.75%
2000	30,537	21,087	53,868	12,727	39,700	157,919	1,294,782	1,452,701	10.87%
2001	32,350	18,423	38,436	10,137	33,653	132,999	1,208,224	1,341,223	9.92%
2002	44,672	19,361	39,865	11,464	35,438	150,799	1,335,609	1,486,408	10.15%
2003	58,367	21,571	45,584	12,924	38,594	177,039	1,633,033	1,810,072	9.78%
2004	78,307	26,113	58,679	17,157	48,629	228,884	2,035,873	2,264,757	10.11%
2005	91,214	28,163	61,823	18,912	53,201	253,313	2,323,440	2,576,753	9.83%
2006	107,880	31,707	64,376	22,283	61,390	287,636	2,656,573	2,944,209	9.77%
2007	124,466	33,117	64,696	22,994	65,676	310,950	3,028,954	3,339,904	9.31%
2008	129,216	31,758	67,870	22,105	69,593	320,542	3,441,578	3,762,120	8.52%
2009	106,219	29,744	54,771	19,353	56,261	266,348	2,889,786	3,156,134	8.44%
2010	145,288	37,792	75,478	28,478	78,186	365,222	3,797,583	4,162,805	8.77%
2011	159,961	42,061	74,024	32,891	92,825	401,761	4,438,241	4,840,002	8.30%
2012	168,963	42,028	70,085	28,827	96,311	406,214	4,624,469	5,030,683	8.07%
2013	197,162	43,769	65,322	30,332	101,980	438,565	4,711,404	5,149,969	8.52%
2014	198,593	49,042	64,257	30,767	108,318	450,977	4,763,694	5,214,671	8.65%

Source: Calculated by the author based on the database of Asian Development Bank (2015) "Integration Indicators"⁵¹

⁵⁰ Athkorala, "Production Networks and Trade Patterns in East Asia", 77-85.

⁵¹ Asian Development Bank, "Integration Indicators".

Table 3.2.4 Taiwan's Total Trade in East Asia (Unit: US\$1 million)

Year Country	1995		2000		2005		2010		2015	
	Amount	Share								
Brunei	72	0.034%	15	0.005%	18	0.005%	37	0.007%	373	0.073%
Cambodia	34	0.016%	204	0.071%	339	0.089%	487	0.093%	744	0.146%
China	3,468	1.611%	10,441	3.621%	63,736	16.727%	112,880	21.467%	115,392	22.670%
Hong Kong	27,948	12.987%	33,521	11.626%	36,145	9.486%	39,434	7.499%	39,479	7.756%
Indonesia	4,019	1.868%	4,749	1.647%	6,901	1.811%	10,530	2.002%	8,967	1.762%
Japan	43,422	20.177%	55,156	19.130%	61,163	16.052%	69,922	13.298%	57,975	11.390%
South Korea	6,899	3.206%	12,896	4.473%	19,116	5.017%	26,740	5.085%	25,589	5.027%
Laos	23	0.011%	6	0.002%	11	0.003%	11	0.002%	17	0.003%
Malaysia	5,852	2.719%	8,937	3.100%	9,500	2.493%	13,643	2.595%	13,649	2.682%
Myanmar	63	0.029%	235	0.082%	131	0.034%	171	0.032%	270	0.053%
The Philippines	2,277	1.058%	6,629	2.299%	7,120	1.868%	8,302	1.579%	9,280	1.823%
Singapore	7,363	3.421%	10,469	3.631%	13,003	3.412%	19,732	3.753%	24,367	4.787%
Thailand	4,557	2.117%	5,330	1.849%	6,707	1.760%	9,117	1.734%	9,597	1.886%
Vietnam	1,284	0.597%	2,132	0.740%	4,804	1.261%	8,816	1.677%	11,986	2.355%
Intra-Regional Trade	107,282	49.851%	150,720	52.276%	228,694	60.018%	319,822	60.823%	317,687	62.413%
Global	215,204	100.000%	288,321	100.000%	381,035	100.000%	525,829	100.000%	508,999	100.000%

Source: Compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)⁵²

⁵² Bureau of Foreign Trade, MOEA, ROC, "Trade Statistics".

3.3 East Asian Regionalization: Source of Influence

The previous section of this chapter studied Taiwan's regional position in the 1990s, and it also found that Taiwan has faced the difficulties to participate in the new wave of East Asian regionalism by wielding commercial diplomacy since the decline of APEC's relevance of economic integration in East Asia after the 1997 Asian financial crisis. As briefly discussed before, China's economic rise has been the main reason for this, as Taiwan's contribution in the process of East Asian economic integration has eclipsed. This section further ascribes Taiwan's predicament of utilizing commercial diplomacy for securing its regional position to China's pivotal role in East Asian RPNs. To support this argument, this section studies the roles of China and Taiwan in East Asian RPNs. Specifically, according to statistics in intra-regional parts and components trade, this section finds that East Asian RPNs are centered towards the Chinese market, and Taiwanese manufacturing industries are also heavily dependent on the low-cost production factors in the Mainland. As Taiwan's supply chains have been integrated into the Chinese economy in the process of East Asian regionalization, it has increased the degree of Taiwan's economic dependence on the Mainland. This has then provided Beijing with many more resources to further its sovereignty interests by wielding commercial diplomacy *vis-à-vis* Taiwan, as will be detailed in the next section.

3.3.1 Taiwan in the Process of East Asian Regionalization

3.3.1.1 East Asian Regionalization and Regional Production Networks

Regionalization, as defined by Christopher Dent, is "micro-level processes that

stem from regional concentrations of interconnecting private or civil sector activities”, especially in the economic realm.⁵³ Andrew Hull further stresses the geographic area within which these processes occur, as he indicates: “[regionalization] lays particular weight on autonomous economic processes which led to higher level of economic interdependence within a given geopolitical area than between that area and the rest of the world”.⁵⁴ Although this definition of regionalization confines the scope of economic integration to a geographically bounded area, regionalization should not be perceived as a force in conflict with globalization. By contrast, trends of regionalization actually epitomize the current wave of globalization, as is clear from the case of East Asian regionalization.⁵⁵

As mentioned before, the proliferation of RPNs has featured greatly in the process of East Asian regionalization since the 1980s, and it has also laid the foundations of the “market driven” economic integration approach in the region.⁵⁶ Most scholars ascribe the growth of RPNs to the propagation of international production networks (IPNs).⁵⁷ According to Chunji Yun, an IPN is: “an international division of labour, in which each function or discrete stage of a value chain is spatially or geographically relocated in the most efficient site, and undertaken by different firms including MNCs [multinational corporations] and local firms”.⁵⁸

⁵³ Dent, *East Asian Regionalism*, 7.

⁵⁴ Andrew Hull, “Explaining the Resurgence of Regionalism in World Politics”, *Review of International Studies* 21, no. 4 (1995): 334.

⁵⁵ Shaun Breslin, “Theorising East Asian Regionalism(s): New Regionalism and Asia’s Future(s)”, in *Advancing East Asian Regionalism*, ed. Melissa G. Curley and Nicholas Thomas (New York: Routledge, 2007): 32-33; Dent, *East Asian Regionalism*, 16.

⁵⁶ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 1-2.

⁵⁷ Chunji Yun, “International Production Networks and the Role of the State: Lessons from East Asian Developmental Experience”, *The European Journal of Development Research* 15, no.1 (2003): 173-74.

⁵⁸ *Ibid.*, 173.

The progress of communication and transportation technology in the era of globalization is the main catalyst of the reproduction of IPNs, because it has led to the reduction of transactions and transportation cost.⁵⁹ MNCs have therefore been able to utilize low-cost production factors (e.g. cheap labors, resources and so on) in developing economies to maintain or even enhance their industrial competency.⁶⁰ Subsequently, MNCs began to outsource a portion or even all of their products to manufacturers in developing economies so as to cut their operating costs.⁶¹ This has resulted in the segmentation of manufacturing processes, which has further facilitated parts and components trade between developed and developing economies.⁶²

The connection between IPNs and RPNs is the similarities in their manufacturing processes, as well as solid partnerships between regional manufacturers and MNCs within production networks.⁶³ In fact, most IPNs are RPNs because MNCs generally prefer to reallocate their production chains within a region due to their considerations of market approximation.⁶⁴ Even though an MNC is outside a region, it can easily create a business operation center in the targeted regional market or sign a contract with a “local manufacturer” to organize its regional supply chain, thanks to the reduction of transactions cost in the era of

⁵⁹ Ross Garnaut, “ASEAN and the Regionalization and Globalization of World Trade”, *ASEAN Economic Bulletin* 14, no. 3 (1998): 215-16.

⁶⁰ Gary Gereffi, “The Organization of Buyer-Driven Global Commodity Chains: How U.S. Retailers Shape Overseas Production Networks” in *Commodity Chains and Global Capitalism*, ed. Gary Gereffi and Miguel Korzeniewicz (Connecticut: Westport, 1994), 96-100.

⁶¹ Ibid.

⁶² Atchukorala, “Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?”, 65-67.

⁶³ Yun, “International Production Networks and the Role of the State” 175; Mike Hobday, “Latecomer Catch-up Strategy in Electronics: Samsung of Korea and ACER of Taiwan”, *Asia Pacific Business Review* 4, no. 2-3 (1998): 49-51.

⁶⁴ Ibid.

globalization.⁶⁵ In general, within the RPNs, the MNCs from developed economies have assisted East Asian developing economies in transforming their industrialization strategies from “import-substituting” to “export-oriented”, which accelerating their economic development as will be elaborated below.⁶⁶

Today, East Asia has been described as “world factory” because manufacturers in the region’s developing economies have been responsible for a large portion of global manufacturing orders.⁶⁷ By 2005, more than 40% of the world’s manufacturing products were made in East Asia.⁶⁸ The high productivity of East Asian manufacturers roots in the propagation of RPNs.⁶⁹ Meanwhile, the proliferation of RPNs has driven the rapid growth of intra-regional parts and components trade in the 1980s, which then generated the wave of East Asian regionalization.⁷⁰ Therefore, to understand the emergence of regionalization in East Asia, this chapter conducts statistics on East Asian “parts and components trade” by adopting “Harmonized System of trade classification (HS)” and the “Standard International Trade Classification (SITC)” as the standards of commodity classification to illustrate the proliferation of RPNs (please see Appendix III for the statistic method).⁷¹

⁶⁵ Garnaut, “ASEAN and the Regionalization and Globalization of World Trade”, 215-19.

⁶⁶ Gereffi, “The Organization of Buyer-Driven Global Commodity Chains”, 100-01.

⁶⁷ Baldwin, “Managing the Noodle Bowl”, 453-54.

⁶⁸ Atchukorala, “Production Networks and Trade Patterns in East Asia”, 70-75.

⁶⁹ Ibid.

⁷⁰ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 1-2.

⁷¹ Atchukorala, “Production Networks and Trade Patterns in East Asia”, 65-95; Baldwin, “Managing the Noodle Bowl”, 459-62.

Table 3.3.1 The Value of Parts and Components Total Trade in East Asia based on SITC Standard (Unit: US\$)

Year Economies	1995	2000	2005	2010	2014
Brunei Darussalam	582,383,375	191,037,038	336,213,163	568,502,214	761,606,894
Cambodia	303,978,460	166,530,543	365,869,411	722,608,706	2,260,539,894
China	64,693,910,345	141,738,806,457	484,462,680,586	908,052,210,846	1,019,198,770,302
China, Hong Kong SAR	42,769,880,362	57,856,544,140	145,116,042,743	242,039,270,144	326,840,854,524
Indonesia	5,483,648,566	9,549,579,057	28,820,024,848	41,082,706,324	41,841,132,460
Japan	107,523,872,861	134,122,675,786	202,828,896,040	268,022,691,809	261,013,901,515
Lao People's Dem. Rep.	110,943,222	219,256,874	212,379,001	709,767,324	2,322,983,928
Malaysia	44,798,272,597	67,067,383,691	92,971,880,926	125,317,753,458	127,237,964,588
Myanmar	353,372,503	287,595,995	362,744,543	1,420,994,435	4,983,077,603
Philippines	10,515,260,635	28,825,237,540	46,662,788,198	56,500,859,011	58,291,964,329
Rep. of Korea	32,970,840,476	54,447,482,727	119,450,344,975	189,835,179,997	240,002,449,489
Singapore	58,645,347,907	72,179,535,152	88,841,276,780	111,292,755,774	118,300,900,768
Thailand	24,376,144,794	29,874,786,128	52,496,044,834	88,091,286,757	87,390,257,418
Viet Nam	1,630,237,354	2,872,817,599	6,420,050,958	22,134,952,312	65,491,350,470
Parts and Components Trade within East Asia	394,758,093,457	599,399,268,727	1,269,347,237,006	2,055,791,539,111	2,355,937,754,182
Total Trade of Parts and Components (PC)	885,059,329,967	1,280,462,405,605	2,247,777,721,997	3,434,054,813,620	3,984,177,187,940
Intra-Regional Parts and Components Trade Share	44.60%	46.81%	56.47%	59.86%	59.13%
Regional Economies' Total Trade of Manufacturing Goods (M)	2,089,705,114,382	2,578,811,011,401	4,362,806,101,046	6,962,971,702,495	8,866,594,902,127
Total Share (PC/M)	42.35%	49.65%	51.52%	49.32%	44.93%

Source: Calculated by the author based on data compiled from the UN Comtrade Database⁷²

⁷² UN, "UN Comtrade Database".

Table 3.3.1 shows the total value of East Asian parts and components trade and its share of total manufacturing trade. According to this table, components trade constitutes a large portion of East Asia's trade in manufactured commodities. Between 2000 and 2014, an average of 47% of East Asia's total trade in manufactured goods was composed of parts and components products. Furthermore, according to Table 3.3.1, the total value of East Asian economies' components trade soared from US\$885 billion in 1995 to US\$3.98 trillion in 2014. Simultaneously, the total amount of intra-regional parts and components trade was also on the increase, as the value had been raised from US\$394 billion in 1995 to US\$2.35 trillion in 2014. Since the ratio of intra-regional components trade had also grown from 44.60% in 1995 to 59.13% in 2014, this table basically demonstrates the proliferation of RPNs in East Asia, as well as the progress of East Asian regionalization.

Notably, there is a gap between intra-regional component exports and imports as shown in Table 3.3.2. For example, in 2014, 46.47% of parts and components goods produced in East Asia were exported to other economies in the region whilst 66.89% of components imported by East Asian manufacturers were from regional economies. This asymmetric share probably mirrors the developing strategy of East Asian economies, as well as the progress of East Asian regionalization.

Specifically, in 2014, the total value of East Asia's parts and components exports was US\$2.23 trillion whilst the value of its imports was US\$1.62 trillion. These statistics may magnify that "export-oriented industrialization strategy" has guided economic development of East Asian developing economies, as most scholars

have noted.⁷³ Moreover, while Table 3.3.2 indicates that more than 50% of manufactured components still left the region, it also reflects the connection between East Asian RPNs and IPNs. In addition, the high ratio of intra-regional parts and components imports could reflect the growing interdependent networks following the proliferation of RPNs in East Asia. Meanwhile, the rising ratio of intra-regional parts and components imports suggests that East Asia is emerging as a trade bloc, which further confirms the effectiveness of East Asian economic integration.

Table 3.3.2 The Share between East Asian Economies' Trade in Parts and Components, and Trade in Manufacturing Products

Year	1995	2000	2005	2010	2014
The Rate of Intra-Regional Parts and Components Exports	36.61%	38.27%	45.99%	49.22%	51.15%
The Share of Total Manufacturing Exports	47.61%	52.25%	52.03%	48.07%	46.47%
The Rate of Intra-Regional Parts and Components Total Imports	57.31%	58.55%	67.40%	69.58%	66.89%
The Share of Total Manufacturing imports	36.94%	47.01%	49.09%	47.72%	47.61%
The Rate of Intra-Regional Parts and Components Total Trade	44.60%	46.81%	56.47%	59.86%	59.13%
The Share of Total Trade of Manufacturing Products	42.35%	49.65%	51.52%	49.32%	44.93%

Source: Calculated by the author based on data compiled from the UN Comtrade Database⁷⁴

To quickly understand East Asian countries' contribution to the RPNs, Table 3.3.3 displays each regional economy's share of inter-regional parts and components trade. Unsurprisingly, China accounts for an overwhelmingly high ratio of

⁷³ Gereffi, "The Organization of Buyer-Driven Global Commodity Chains", 100-1.

⁷⁴ UN, "UN Comtrade Database".

intra-regional parts and components trade, as its share has soared from 16.39% in 1995 to 43.26% in 2014. Furthermore, except for South Korea and Vietnam, the rest of regional economies share has been constantly in decline. As will be discussed later, this data supports the argument that China has integrated East Asian RPNs into its economy following its economic rise, which provided Beijing with more advantages to wield commercial diplomacy to further its interests in the process of East Asian economic integration. Nonetheless, according to Table 3.3.3, China did not play an important role in East Asian RPNs until 2000. Japan's share of intra-regional parts and components trade remained far higher than the rest of the regional economies in the 1990s, which was 27.24% in 1995. In fact, before China's economic rise, Japan was the major driver of the proliferation of East Asian RPNs since the 1980s.

Table 3.3.3 East Asian Economies' Share of Regional Components Trade

Economies \ Year	1995	2000	2005	2010	2014
Brunei	0.15%	0.03%	0.03%	0.03%	0.03%
Cambodia	0.08%	0.03%	0.03%	0.04%	0.10%
China	16.39%	23.65%	38.17%	44.17%	43.26%
Hong Kong	10.83%	9.65%	11.43%	11.77%	13.87%
Indonesia	1.39%	1.59%	2.27%	2.00%	1.78%
Japan	27.24%	22.38%	15.98%	13.04%	11.08%
Laos	0.03%	0.04%	0.02%	0.03%	0.10%
Malaysia	11.35%	11.19%	7.32%	6.10%	5.40%
Myanmar	0.09%	0.05%	0.03%	0.07%	0.21%
Philippines	2.66%	4.81%	3.68%	2.75%	2.47%
South Korea	8.35%	9.08%	9.41%	9.23%	10.19%
Singapore	14.86%	12.04%	7.00%	5.41%	5.02%
Thailand	6.17%	4.98%	4.14%	4.29%	3.71%
Vietnam	0.41%	0.48%	0.51%	1.08%	2.78%
Regional Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database⁷⁵

⁷⁵ Ibid.

Given Japan's central role in the process of regionalization, contemporary literature on East Asian regionalization revolve around how regional economies benefited from the Japan-driven development approach of RPNs known as "the model of flying geese" caused by the phenomenon of industry offshoring from Japan to East Asian developing economies following its progress of industrialization.⁷⁶ However, the Japanese flying geese model cannot entirely explain the formation of East Asian RPNs, especially in Taiwan and South Korea.⁷⁷ In order to understand the roles of Taiwan and South Korea in the process of East Asian regionalization, as well as their trajectories of industrialization, it is essential to study the US-initiated 'buyer-driven commodity chains' (BDCCs).⁷⁸

3.3.1.2 Taiwan and the US-driven BDCCs

The BDCCs have contributed to Northeast Asian industrialization, especially in the cases of Taiwan and South Korea, as well as China since the late 1990s. Most importantly, the BDCCs have also led to the establishment of interdependent production networks between these economies.⁷⁹ According to Chunji Yun, the definition of BDCCs is:

"IPNs organised by merchandisers including trading companies, large retailers, and brand-name firms, which have competitive advantages in

⁷⁶ For more details concerning Japanese model of flying geese, please refer to Andrew Staples, "Responses to Regionalism: Cooperate Strategy in East Asia" in *The Evolution of Regionalism in Asia*, ed. Heribert Dieter (New York: Routledge, 2007): 109-11; Yun, "International Production Networks and the Role of the State", 175-77; Gereffi, "The Organization of Buyer-Driven Global Commodity Chains", 96-97.

⁷⁷ Hobday, "Latecomer Catch-up Strategy in Electronics", 51-53.

⁷⁸ Yun, "International Production Networks and the Role of the State", 177-81.

⁷⁹ Gereffi, "The Organization of Buyer-Driven Global Commodity Chains", 97-100.

*distribution and marketing end; core competences of the organisers lie in branding and marketing power”.*⁸⁰

Taiwan’s connection with the US-driven BDCCs in East Asia can be traced back to the 1960s when the Taiwanese government still focused on the development of labor-intensive manufacturing industries at the startup stage of industrialization.⁸¹ The low-cost labor force in Taiwan was the core factor that impelled US electronic manufacturers to reallocate their labor-intensive production lines to the island so as to maintain their competitiveness in the home market.⁸² Simultaneously, Taiwan also established export-processing zones (EPZ) in Kaohsiung City where MNCs could enjoy the privileges of lower tariffs, and these preferential trade policies had equipped it with further incentives to lure US electronic industries.⁸³

Notably, after US enterprises stationing their production lines in EPZs, Taiwan endeavored to create connections between their manufacturers and US electronic manufacturing industries in the 1970s.⁸⁴ From thereon, there has been a proliferation of small and medium-sized local manufacturers (or small and medium-sized enterprises, SMEs) producing electronic components for US manufacturers in EPZs.⁸⁵ These SMEs laid the substantial foundations of the development of Taiwanese and South Korean information and communication technology (ICT) industries in the 1980s,⁸⁶ and Taiwan’s electronic components manufacturer —

⁸⁰ Yun, “International Production Networks and the Role of the State”, 177.

⁸¹ Hobday, “Latecomer Catch-up Strategy in Electronics”, 48-51.

⁸² Yun, “International Production Networks and the Role of the State”, 177-78.

⁸³ Dent, “Taiwan and the New East Asian Regionalism”, 120.

⁸⁴ Dieter Ernst, “Inter-Organizational Knowledge Outsourcing: What Permits Small Taiwanese Firms to Compete in the Computer Industry?”, *Asia Pacific Journal of Management* 17, no. 2 (2000):231-33.

⁸⁵ Hobday, “Latecomer Catch-up Strategy in Electronics”, 51-56.

⁸⁶ Ibid.

Yageo— is a case in point.

Today, Yageo is an MNC that has business operation centers and factories in Taiwan, China, the US and Europe, and it is also the largest passive components manufacturer in the world.⁸⁷ The major component product of Yageo is multi-layer ceramic capacitors (MLCCs) that are widely used in ICT products, consumption electronics (e.g. televisions, radios and so on) and automobile electronics.⁸⁸ In 2013, its annual revenue reached US\$830 million of which MLCC products occupied more than 80%.⁸⁹ This company manufactured about 160 billion units of MLCC per month on average.⁹⁰ However, in the early stage after its establishment in 1977, Yageo was still an SME, and its revenue relied on the orders from foreign electronic industries in the EPZ in Kaohsiung City.⁹¹ Meanwhile, by comparing Yageo's annual revenue with its productivity, it is not difficult to see how low the price of a single MLCC unit is. In this case, to increase business revenue, Yageo's strategy was similar to most well-developed Taiwanese components manufacturers, namely it invested in research and development (R&D) to fulfill the strategy of 'low-margin, high volume'.⁹²

In terms of assisting Taiwanese component manufacturers in upgrading manufacturing technology, the US electronic industries played an important role in the 1970s.⁹³ Solid strategic partnerships with US electronic industries allowed

⁸⁷ Dora W. Chang, interviewed by author, December 16, 2014; Jacky B. Chen, interviewed by author, December 16, 2014.

⁸⁸ Jacky B. Chen, interviewed by author, December 16, 2014.

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Yun, "International Production Networks and the Role of the State", 180.

⁹³ Ibid.

Taiwan to acquire advanced production technology through business exchanges or direct technology transfer (especially semiconductor technology transfer from Radio Corporation of America).⁹⁴ Besides, the increasing orders from US MNCs allowed Taiwan's SMEs to increase their investment in R&D.⁹⁵ By this reasoning, the US electronic industries enhanced both the quality and productivity of Taiwanese components manufacturers, and also assisted Taiwan's SMEs in achieving the strategy of "low-margin, high volume".⁹⁶

Following the rapid progress of Taiwan's manufacturing skills in the 1980s, US enterprises — the electronic and ICT industries in particular — decided to outsource all of their products to Taiwan's manufacturing industries in order to further reduce their operating costs.⁹⁷ Subsequently, Taiwan's ICT industries have taken the form of original equipment manufacturers (OEM) on the world stage.⁹⁸ According to Mike Hobday, the OEM and its business model can be understood as "the [manufacturer] produces a good to the exact specification of a foreign buyer or [MNC], which then markets the product under its own brand name using its own distribution [or marketing] channels".⁹⁹ Generally speaking, the OEM business model could benefit NIEs' economic development in two ways—by allowing faster progress towards industrialization and industry upgrading.¹⁰⁰ The case of ASUS clearly illustrates not only the development of Taiwan's OEM but also the OEM business model's contribution to the progress of Taiwan's industrialization.

⁹⁴ Hobday, "Latecomer Catch-up Strategy in Electronics", 51-56.

⁹⁵ Ibid.

⁹⁶ Yun, "International Production Networks and the Role of the State", 178-180.

⁹⁷ Ibid.

⁹⁸ Ibid.

⁹⁹ Hobday, "Latecomer Catch-up Strategy in Electronics", 55.

¹⁰⁰ Ibid., 72-74; Yun, "International Production Networks and the Role of the State", 178-180.

ASUS is an original brand manufacturer (OBM) in Taiwan, and one of the top five largest brands of laptops and personal computers (PCs) in the world. In 2013, ASUS' annual revenue was about US\$15 billion of which about 65% came from the sales of PCs and laptops.¹⁰¹ Before 2006, ASUS was the largest OEM in Taiwan, and its main business was producing components of mobiles, laptops and PCs (especially motherboards) for US and Japan's ICT industries, such as Apple and Dell, which contributed to 60% of ASUS annual revenue.¹⁰² Notably, ASUS was also responsible for assembling ICT products for customers, as several components of ASUS costumers' products were from Taiwanese SMEs.¹⁰³ This business operation model has generated "horizontal integration" between OEMs and component manufacturers in Taiwan.¹⁰⁴ Subsequently, it has catalyzed the establishment of complete supply chains of ICT products in Taiwan, which allowed Taiwanese OEMs like ASUS to commence the project of building their own brands.¹⁰⁵ The pattern of industrial transformation will be illustrated with the case of ASUS in the context of Taiwan's "go south" strategy in chapter 4.

Following the progress of industrialization in Taiwan, as well as in South Korea, similar to the Japanese model of "flying geese", both economies' ICT industries have also reallocated their supply chains to ASEAN developing economies due to the rising cost of production factors in their home countries in the 1990s.¹⁰⁶ The distribution of BDCCs could be seen by reviewing intra-regional parts and components trade of Taiwan's and South Korean ICT industries, as listed in Tables

¹⁰¹ Kent S. Chien, interviewed by author, December 26, 2014.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ Yun, "International Production Networks and the Role of the State", 178-80.

¹⁰⁵ Kent S. Chien, interviewed by author, December 26, 2014.

¹⁰⁶ Dent, "Taiwan and the New East Asian Regionalism", 121-23.

3.3.4 and 3.3.5. Accordingly, Malaysia, Thailand, the Philippines and Singapore, were major investment targets of Taiwan's and South Korean ICT industries. In this regard, concerning Taiwan's contribution to Southeast Asian economies' projects of industrialization, it is not surprising that these developing economies supported Taiwan's participation in APEC in the 1990s despite the lack of formal diplomatic relations with Taiwan as mentioned in the previous section. Nonetheless, the BDCCs did not benefit ASEAN developing economies in the long term. As shown in Table 3.3.4 and 3.3.5, both Taiwanese and South Korean production chains of ICT industries have been converged toward the Chinese market since 2005. This then influenced the effectiveness of Taiwan's commercial diplomacy for participating in the new wave of East Asian regionalism as will be detailed in the next section.

Table 3.3.4 East Asian Economies' Share of Taiwan's Intra-regional Trade in Electronic Components (HS85+HS90)

Countries \ Year	1995	2000	2005	2010	2014
Brunei	0.00%	0.00%	0.00%	0.00%	0.00%
China	1.87%	5.75%	27.32%	38.53%	38.60%
Hong Kong	19.51%	20.05%	18.23%	15.81%	18.22%
Indonesia	0.85%	0.52%	0.47%	0.34%	0.28%
Japan	43.42%	34.13%	22.79%	17.12%	12.05%
Cambodia	0.00%	0.00%	0.00%	0.00%	0.01%
South Korea,	8.76%	9.86%	12.15%	10.33%	9.34%
Laos	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	7.70%	8.50%	4.89%	3.99%	4.36%
Myanmar	0.00%	0.00%	0.01%	0.01%	0.01%
The Philippines	1.62%	6.51%	4.16%	2.70%	2.36%
Singapore	12.10%	11.50%	7.48%	8.72%	11.76%
Thailand	3.99%	2.94%	2.28%	2.11%	1.78%
Vietnam	0.18%	0.24%	0.19%	0.34%	1.23%
Subtotal	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on the data compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)¹⁰⁷

¹⁰⁷ Bureau of Foreign Trade, MOEA, ROC, "Trade Statistics".

Table 3.3.5 East Asian Economies' Share of South Korea's Intra-regional Trade in Electronic Components (HS85+HS90)

Countries \ Year	1990	1995	2000	2005	2010	2014
Brunei	0.00%	0.01%	0.01%	0.00%	0.00%	0.01%
Cambodia	0.00%	0.00%	0.00%	0.00%	0.01%	0.06%
China	5.81%	5.32%	15.57%	39.56%	56.28%	58.80%
Hong Kong	11.25%	11.19%	10.76%	10.90%	10.85%	10.53%
Indonesia	0.76%	1.38%	1.37%	1.05%	1.06%	0.76%
Japan	67.00%	54.43%	41.73%	28.65%	15.21%	10.65%
Laos	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Malaysia	3.84%	6.74%	8.86%	4.18%	3.35%	2.35%
Myanmar	0.02%	0.09%	0.04%	0.00%	0.01%	0.04%
Philippines	1.15%	1.91%	6.57%	3.71%	2.88%	3.03%
Singapore	8.16%	15.84%	11.43%	9.13%	7.24%	6.28%
Thailand	2.02%	2.51%	3.29%	2.31%	1.85%	1.47%
Vietnam	0.00%	0.57%	0.37%	0.51%	1.25%	6.03%
Subtotal	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁰⁸

3.3.2 The Rise of China and the Redistribution of East Asian RPNs

Since China's economic rise in the 1990s, East Asian RPNs have become gradually oriented towards the Chinese market, and this phenomenon has led to the redistribution of RPNs after 2000. There is much evidence to support this argument. Table 3.3.3 shows that there was a nearly three-fold increase in China's share of intra-regional parts and components trade between 1995 and 2014. If Hong Kong is taken into account, the Chinese economy shared 57.13% of regional component trade in 2014. This figure supports the argument that China has played a central role in East Asian RPNs since the 2000s.

¹⁰⁸ UN, "UN Comtrade Database".

Table 3.3.6 East Asian Economies' Share of Japan's Intra-regional Trade in Electronic Components (HS85+HS90)

Countries \ Year	1990	1995	2000	2005	2010	2014
Brunei	0.02%	0.03%	0.00%	0.00%	0.01%	0.01%
Cambodia	0.00%	0.02%	0.01%	0.01%	0.01%	0.04%
China	8.07%	12.83%	21.16%	38.31%	50.11%	55.45%
Hong Kong	20.23%	15.85%	13.94%	13.31%	9.98%	8.10%
Indonesia	2.40%	2.79%	3.48%	2.34%	2.30%	2.16%
Laos	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	9.25%	14.35%	12.65%	6.99%	6.81%	5.35%
Myanmar	0.07%	0.02%	0.04%	0.01%	0.01%	0.04%
Philippines	3.14%	4.91%	8.33%	6.06%	3.97%	4.25%
South Korea	25.93%	20.99%	19.01%	17.32%	11.68%	10.74%
Singapore	22.07%	19.10%	13.08%	6.77%	5.37%	4.05%
Thailand	8.62%	8.96%	7.60%	7.70%	7.52%	6.43%
Vietnam	0.20%	0.17%	0.70%	1.18%	2.22%	3.36%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁰⁹

Furthermore, with respect to East Asian ICT supply chains; China has already integrated both the US-driven BDCCs and Japan oriented RPNs into its economy. Tables 3.3.4 and 3.3.5 demonstrate that China has played a central role in the US-driven BDCCs, and superseded Japan as the largest regional trading partner of both Taiwan and South Korea in electronic parts and components trade in 2005. Meanwhile, with the exception of Singapore, ASEAN developing economies' share of both Taiwan and South Korean intra-regional electronic component trade had fallen to less than 3% by 2014. By the same token, Table 3.3.6 shows that China's share of Japan's intra-regional electronic parts and components trade has reached 50% since 2010, whereas Southeast Asian economies, such as Singapore and Malaysia, have fallen from double digits to 5% on average since 2010. So far, South Korea is the only East Asian economy that can sustain 10% of Japan's electronic

¹⁰⁹ Ibid.

component trade.

In addition, it is noteworthy that this trend actually emerged after 1995, as Hong Kong captured a double-digit share of Taiwan, Japan and South Korea's intra-regional electronic component trade in the 1990s (see Tables 3.3.4, 3.3.5 and 3.3.6). The main reason for this is that Hong Kong serves as an important gateway for both Taiwanese and South Korean ICT industries to connect their production lines in China with global customers, especially in Taiwan's case.¹¹⁰ Generally speaking, these statistics likely reflect the redistribution of ICT regional supply chains following China's economic rise. Notably, it has further resulted in asymmetric economic interdependence between China and those economies focusing on the development of ICT industries.

The asymmetric interdependencies between China and those regional economies specializing in ICT industries can be double-checked by exploring the distribution of China's intra-regional electronic component trade. Table 3.3.7 illustrates China's major trading partners in electronic components trade in East Asia. South Korea and Japan were China's major trading partners in intra-regional ICT component trade, as they shared 25.52% and 17.85% of such trade in 2014. In addition to Japan and South Korea, Hong Kong also occupied a large portion of China's electronic component trade in East Asia as the ratio reached 32.67% in 2014, which may mirror the value of China's ICT component trade with other East Asian economies. Besides, if one adds Taiwan into the calculation of China's inter-regional ICT component trade, the share among those East Asian economies specializing in

¹¹⁰ Huang, "TPP Versus ECFA", 97-98.

ICT industries will be more equal. Obviously, in terms of ICT parts and components trade, whilst East Asian economies are relying heavily on the Chinese market (see Table 3.3.4, 3.3.5, and 3.3.6), China's ratio is equally distributed throughout regional industrialized economies. As such, there has been asymmetric interdependence between China and Taiwan, as well as with South Korea, and even Japan.

Table 3.3.7 East Asian Economies' Share of China's Intra-regional Trade in Electronic Components (HS85+HS90)

Countries \ Year	1995	2000	2005	2010	2014
Brunei	0.00%	0.00%	0.00%	0.01%	0.03%
Cambodia	0.01%	0.03%	0.01%	0.03%	0.05%
Hong Kong	35.25%	27.22%	26.96%	29.55%	32.67%
Indonesia	0.71%	1.39%	0.98%	1.39%	1.53%
Japan	48.69%	41.14%	27.08%	22.99%	17.85%
Laos	0.02%	0.01%	0.01%	0.02%	0.15%
Malaysia	1.77%	5.62%	7.85%	9.43%	8.21%
Myanmar	0.19%	0.10%	0.04%	0.11%	0.32%
Philippines	0.43%	2.40%	5.32%	3.00%	2.53%
South Korea	7.07%	13.31%	22.09%	24.16%	25.52%
Singapore	4.83%	6.28%	6.64%	4.73%	4.16%
Thailand	0.78%	2.39%	2.77%	3.27%	2.91%
Vietnam	0.24%	0.09%	0.24%	1.31%	4.07%
Subtotal	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹¹¹

With regard to China's role in Japan-centered RPNs of automobile industries, China has also become the largest regional partner in Japan's automobile component trade in East Asia since 2000. As shown in Table 3.3.8, China's share has soared from 3.91% in 1990 to 50.84% in 2014, which represents a stunning seventeen-fold increase in the last 25 years. Although this figure suggests that China has integrated

¹¹¹ UN, "UN Comtrade Database".

Japan-centered automobile RPNs into its economy in the 2000s, notably, the development of China's automobile industries may also rely heavily on Japan's MNCs.

Table 3.3.8 East Asian Economies' Share of Japan's Intra-regional Trade in Automobile Components (HS87)

Country \ Year	1990	1995	2000	2005	2010	2014
Brunei	0.89%	0.46%	0.45%	0.47%	0.27%	0.17%
Cambodia	0.03%	0.22%	0.20%	0.14%	0.08%	0.18%
China	3.91%	8.29%	19.14%	34.63%	50.87%	50.84%
Hong Kong	11.60%	13.62%	10.72%	4.99%	2.51%	3.10%
Indonesia	13.74%	13.22%	11.92%	9.55%	9.59%	8.58%
Laos	0.11%	0.07%	0.12%	0.05%	0.09%	0.26%
Malaysia	14.01%	13.22%	12.62%	9.90%	7.16%	6.57%
Myanmar	0.53%	0.42%	0.23%	0.15%	0.15%	2.56%
The Philippines	7.73%	8.51%	8.16%	4.46%	3.64%	4.32%
South Korea	8.13%	6.36%	8.70%	9.43%	6.86%	5.28%
Singapore	10.27%	6.14%	10.58%	7.07%	1.40%	2.08%
Thailand	28.21%	27.90%	15.48%	17.18%	15.57%	12.82%
Vietnam	0.84%	1.55%	1.68%	1.97%	1.79%	3.23%
Subtotal	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹¹²

As shown in Table 3.3.9, Japan had consistently been China's largest trading partner in automobile components since its share rose steadily above 50% between 1995 and 2014. In this light, despite the fact that Japan's automobile supply chains have been directed towards China, economic interdependence between China and Japan in this field is still symmetric. The strong performance of Japanese automobile industries compensates for the impact of its ICT industries' overdependence on the Chinese market, and it may also imply that Japan is the only economy in East Asia

¹¹² Ibid.

that can just about maintain symmetric economic interdependence with China. This may partly explain why Japan is still able to rival China in terms of regional leadership in the constructive process of East Asian regionalism.

Table 3.3.9 East Asian Economies' Share of China's Intra-regional Trade in Automobile Components (HS87)

Year Countries	1995	2000	2005	2010	2014
Brunei	0.02%	0.00%	0.02%	0.02%	0.07%
Cambodia	0.21%	0.11%	0.07%	0.10%	0.29%
Hong Kong	9.23%	9.73%	3.13%	1.81%	1.98%
Indonesia	2.55%	9.04%	3.97%	2.29%	3.45%
Japan	57.79%	56.45%	60.04%	66.81%	55.26%
Laos	0.56%	0.18%	0.19%	0.22%	0.43%
Malaysia	1.39%	1.38%	2.27%	2.57%	3.87%
Myanmar	3.71%	0.52%	0.58%	1.78%	2.65%
The Philippines	1.69%	0.70%	1.62%	1.26%	2.61%
South Korea	12.33%	5.59%	23.45%	18.20%	19.59%
Singapore	5.02%	1.65%	1.01%	0.80%	0.99%
Thailand	3.41%	0.54%	1.66%	1.78%	3.35%
Vietnam	2.10%	14.10%	1.99%	2.37%	5.47%
Subtotal	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹¹³

There are three key factors that help us understand why all of East Asian RPNs converge on China. The first and foremost one is China's steady and rapid economic growth after the implementation of Deng Xiaoping's "reform and opening up" policy.¹¹⁴ This factor became more important in the late 1990s, as China was the only economy that could still maintain a stable economic growth rate after the 1997

¹¹³ Ibid.

¹¹⁴ Urata, "Exclusion Fears and Competitive Regionalism in East Asia", 33-43; Staples, "Responses to Regionalism", 107.

Asian financial crisis.¹¹⁵ Table 3.3.10 displays China’s annual GDP growth rates and purchasing power parity (PPP) per capita between 1996 and 2014. The Asian financial crisis had a negative impact on the Chinese economy, but it was quite limited as China’s GDP growth rates merely declined from 9.23% in 1997 to 7.85% in 1998.¹¹⁶

Table 3.3.10 Indicators of China’s Economic Growth between 1996 and 2014

Year	Annual Growth Rate of Real GDP(%)	PPP Per Capita (Unit: Current International Dollar)	PPP Per Capita Annual Growth Rate (%)
1996	9.92	2,052.315	10.75
1997	9.23	2,246.692	9.47
1998	7.85	2,437.493	8.49
1999	7.62	2,641.669	8.38
2000	8.43	2,907.448	10.06
2005	11.35	5,042.251	14.22
2010	10.63	9,215.399	11.42
2014	7.27	13,224.002	8.50

Source: Compiled from the IMF “World Economic Outlook Database” and the ADB Database of “Economic and Financial Indicators”¹¹⁷

Meanwhile, accompanied by the thriving economic development, there was also a rapid growth in China’s PPP per capita reflecting the rise of the Chinese market in the 1990s. Despite the financial crisis in 1997, as shown in Table 3.3.10, China still sustained steadfast annual growth rates in its PPP per capita, which was around 9% in 1997 and 1998. The positive and high growth rates of China’s GDP and PPP per capita imply that the Chinese market remained substantial and steady during the crisis. Henceforth, China became a shelter for commercial enterprises to weather

¹¹⁵ John Wong, “Commentary: A China-centric Economic Order in East Asia”, *Asia Pacific Business Review* 19, no. 2 (2013): 286-87.

¹¹⁶ Asian Development Bank, “Economic and Financial Indicators Database”, 2015, accessed January 2016, <https://aric.adb.org/macroidicators>; IMF, “World Economic outlook Database”, 2015, accessed January 24, 2016, <http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx>.

¹¹⁷ Ibid.

through the financial crisis.¹¹⁸

In the aftermath of the 1997 Asian financial crisis, China's economy grew at an unprecedented pace. As shown in Table 3.3.10, China achieved double-digits growth rates in GDP in 2005 and 2010.¹¹⁹ Most significantly, between 2000 and 2014, China had a quadruple growth in amount of its PPP per capita, which was equivalent to US\$13,224 in 2014. Given China's thriving and sustained economic performance, as well as its large population of 1.3 billion people, most MNCs have targeted the Chinese market in attempts to enlarge their economies of scale.¹²⁰ As will be discussed below, as a result of China's preferential policies and the low-cost production factors, East Asian manufacturers have decided to relocate their supply chains to the Mainland.

In addition to robust economic performance, China's preferential policies have further incentivized investment from East Asian manufacturing industries, similar to East Asian developing economies. A good example of this is China's effort in establishing special economic zones (SEZs) in Guangdong Province and Fujian Province.¹²¹ In order to attract investment from MNCs, Beijing set relatively low standards of labor salary within SEZs.¹²² Furthermore, the Chinese government also provided MNCs with preferential treatments in rents, electricity, and currency exchange rates and so on within the SEZs.¹²³ Most significantly, given China's

¹¹⁸ Wong, "Commentary: A China-centric Economic Order in East Asia", 286-87.

¹¹⁹ Asian Development Bank, "Economic and Financial Indicators Database"; IMF, "World Economic Outlook Database".

¹²⁰ Athkoral, "Production Networks and Trade Patterns in East Asia", 80.

¹²¹ Qi Luo and Christopher Howe, "Direct Investment and Economic Integration in the Asia Pacific: The Case of Taiwanese Investment in Xiamen", *The China Quarterly* 136 (1993): 757-61.

¹²² *Ibid.*, 225.

¹²³ Shaun Breslin, *China and the Global Economy* (New York: Palgrave Macmillan, 2007), 84-86.

geographical proximity to Hong Kong — especially the short distance between its EPZs in Guangdong province and Hong Kong — MNCs can further utilize Hong Kong’s advantage of intermediary trade to enjoy tariff discounts in exports and imports.¹²⁴

Finally, as most scholars have noted, the low-cost labor force in the Chinese market also serves as an important incentive that propels East Asian manufacturing industries to relocate production lines in China.¹²⁵ However, as will be discussed together with Taiwan’s Mainland fever in chapter 4, China’s labor skills has been largely enhanced following the popularization of higher education since the 1990s.¹²⁶ This has provided manufacturers with further incentives to relocate their production line in the Chinese market.

In summary, China has played a pivotal role in RPNs since the 2000s. While China shared more than 50% of electronic and automobile parts and components trade in East Asia in 2014 (see Tables, 3.3.4, 3.3.5, 3.3.7 and 3.3.8), it proves that China has successfully integrated both of the Japan-centered RPNs and East Asian BDCCs into its economy. Meanwhile, given the disproportionate ratios of bilateral component trade between China and East Asian economies, it is clear that there has also been asymmetric economic interdependence between China and regional economies and Taiwan is no exception. The specific reasons for Taiwan’s “Mainland fever” will be examined with the cases of ASUS and Yageo in chapter 4 so as to

¹²⁴ Ibid., 107-9.

¹²⁵ Yue-man Yeung et. al., “China’s Special Economic Zones at 30”, *Eurasian Geography and Economics* 50, no. 2 (2009): 224-25.

¹²⁶ William W. Keller and Louis W. Pauly, “Building a Technocracy in China: Semiconductors and Security”, in *China’s Rise and the Balance of Influence in Asia*, ed. William W. Keller and Thomas G. Rawski (Pittsburgh: University of Pittsburgh Press, 2007): 61.

explain its unsuccessful “Go South” strategy that aimed to redirect Taiwan’s industrial distribution from China to ASEAN developing economies in the process of East Asian economic integration.¹²⁷ Generally speaking, China’s economic advantages obtained in the process of regionalization provide Beijing with more resources to compete with the US and Japan for regional leadership.¹²⁸ Most importantly, as will be discussed below, China’s advantageous position in the process of East Asian regionalization has also allowed Beijing to shape East Asian regionalism in its interests since the 1997 Asian financial crisis.

3.4 China-Led East Asian Regionalism: The Impacts on Taiwan’s Economic and Sovereignty Interests

The previous section explored both Taiwan’s and China’s roles in the context of economic integration in the Asia-Pacific region. By studying parts and components trade between East Asian economies, it confirmed that following China’s economic rise, both the Japan-driven and the US-centered RPNs have been converged on the Chinese market. In this section, this chapter argues that China’s central role in the process of East Asian regionalization has allowed Beijing to further its regional interests in the construction of East Asian regionalism. Notably, since the ebbing of the US-driven open regionalism after the 1997 Asian financial crisis, China has taken this advantage to initiate an ASEAN-centered regionalism as being favorable for Beijing to pursue its interests in East Asian by utilizing commercial diplomacy.¹²⁹ Meanwhile, China has also excluded Taiwan from regional economic integration

¹²⁷ Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

¹²⁸ Mark Beeson, “Can China Lead?” *Third World Quarterly* 34, no. 2 (2013): 244.

¹²⁹ Frost, *Asia’s New Regionalism*, 117-19.

frameworks by institutionalizing the “one-China principle” in ASEAN-centered regional institutions. As will be discussed below, this has resulted in the erosion of Taiwan’s functional and *de jure* sovereignty at the regional level. Additionally, Taiwan’s economic interests has also been endangered owing to the potential “substitution effects” bred by the TPP and RCEP.

3.4.1 Taiwan’s Sovereignty in the Context of East Asian Regionalism

In chapter 2, this thesis contended that China’s influence should be covariant with “positive-sum economic incentives” that it is able to offer for other countries.¹³⁰ Following this logic, China’s regional influence roots in its contribution to the process of regionalization. Indeed, not until China successfully integrated the US-driven BDCCs and the Japan-centered RPNs into its economy in the 2000s could Beijing take the initiative to compete with the US in defining regionalism. This has had negative impact on Taiwan’s regional position and its economic interests in the Asia-pacific region, which is evident from Taiwan’s marginalized position in process of constructing TPP and RCEP.¹³¹ As will be elaborated below, the foremost impact on Taiwan has been the erosion of its sovereignty, and thus the following paragraphs will examine this issue in the context of regionalism.

3.4.1.1 APEC and Taiwan’s Sovereignty

Thus far, APEC is the only regional integration mechanism in which Taiwan still possesses a seat. In addition to Taiwan’s potential economic contribution to

¹³⁰ Frost, “China’s Commercial Diplomacy in Asia”, 96-97.

¹³¹ Nealer and Fimbres, “Taiwan and Regional Trade Organizations”, 69-77.

regional prosperity, this achievement can also be attributed to Beijing's limited ability to further its political agenda in the process of regional economic integration because China had not yet played an important role in the process of regionalization. However, it is noteworthy that Taiwan's membership in APEC might also be in line with China's political and economic interests.

First of all, from an economic perspective, the establishment of APEC also fitted China's economic interests, and thus Beijing intended to join this forum.¹³² In fact, in order to promote China's economic modernization in the 1990s, Beijing needed technological assistance and investment from Taiwan and advanced economies.¹³³ However, most regional advanced economies still maintained a conservative attitude towards the issue of cultivating economic ties with China, and China's relations with these countries were still tepid following the end of the Cold War.¹³⁴ Facing this situation, Beijing aimed to consolidate bilateral relations with the US and major East Asian economies (e.g. Japan and South Korea) by participating in APEC.¹³⁵ Additionally, Beijing also aimed to make use of this platform to deepen economic cooperation with regional economies, because this was favorable for its economic development in the post-Cold War era.¹³⁶ In this context, Taiwan's membership of APEC was in line with China's economic interests because Taiwan had been among the top three investors in the Mainland but still lacked official economic links.¹³⁷ As such, instead of deterring Taiwan from being an APEC

¹³² Klintworth, "China's Evolving Relationship with APEC", 489-91.

¹³³ *Ibid.*, 491-99.

¹³⁴ *Ibid.*

¹³⁵ Linjun Wu, "The PRC and APEC: A Planned Excursion for Conciliation", *Issues & Studies* 33, no. 11 (1997): 104-10.

¹³⁶ Klintworth, "China's Evolving Relationship with APEC", 491-99.

¹³⁷ Kahler and Kastner, "Strategies Uses of Economic Interdependence", 533-36.

member, China tolerated its co-existence with Taiwan in APEC.¹³⁸

Furthermore, politically, China was not powerful enough to oppose Washington's agenda regarding regional economic integration, as mentioned before. Moreover, following the progress of China's economic modernization since the 1980s, East Asian countries questioned whether China might try to transfer its economic power into military power, which could endanger regional stability.¹³⁹ To mute the voice of 'China threats' in the post-Cold War era, Beijing focused on the "good neighbor policy",¹⁴⁰ and thus Beijing chose to accommodate the US and its allies in APEC rather than challenging their regional interests.¹⁴¹ As a result, Beijing basically acquiesced to the US arrangement for Taiwan to become a member of APEC insofar as it did not clash with the "one-China principle".¹⁴²

Nonetheless, in spite of its inability to prevent Taiwan from participating in APEC, Beijing still successfully confined Taiwan's membership within the "one-China principle". Indeed, Taiwan has been defined as an "economic entity" rather than a sovereign state in APEC due to China's influence.¹⁴³ Notably, most East Asian countries had already normalized their relations with China in the late 1980s, and thus it is not surprising that the "one-China principle" reached the level of consensus among APEC members before Taiwan's enrolment.¹⁴⁴ Beijing had constrained Taiwan's international legal sovereignty by defining Taiwan as an

¹³⁸ Klintworth, "China's Evolving Relationship with APEC", 503-6.

¹³⁹ Frost, *Asia's New Regionalism*, 10-11.

¹⁴⁰ Edward Friedman, "America's Pivot to Asia and the Taiwan Strait Crises", in *The US Strategic Pivot to Asia and Cross-Strait Relations: Economic and Security Dynamics*, ed. Peter C. Y. Chow (New York: Palgrave Macmillan, 2014): 69-70.

¹⁴¹ Wu, "The PRC and APEC", 104-10.

¹⁴² Klintworth, "China's Evolving Relationship with APEC", 500-4.

¹⁴³ Wu, "The PRC and APEC", 109-10.

¹⁴⁴ *Ibid.*, 98-99.

“economic entity” titled “Chinese Taipei” in APEC; hence Taiwanese leaders were forbidden to attend any APEC summit.¹⁴⁵

Regardless of China’s encroachment on Taiwan’s international legal sovereignty, Taiwan has still been able to preserve its interdependence and functional sovereignty at the regional level through APEC. Taiwan has pressed this advantage by making use of APEC as a platform to further its functional sovereignty by wielding commercial diplomacy in attempts to acquire *de jure* sovereignty in the international community. This function is especially important for Taiwan since most East Asian countries severed their diplomatic relations with Taiwan in the late 1980s. Specifically, APEC provided an ideal locus where Taiwan could commence official negotiations with East Asian countries.¹⁴⁶

At the bilateral level, Taiwan connected its *de jure* sovereignty with interdependence sovereignty through its functional sovereignty in APEC. The most prominent cases have been Taiwan’s negotiations with Indonesia and the Philippines over the issue of bilateral investments before the formal assembly of the 1993 Bogor Summit.¹⁴⁷ These negotiations laid the foundation of Taiwan’s “go south” strategy, which was crucial for Taiwan to not only strengthen its economic ties but also develop official relationships with ASEAN members in the 1990s as will be discussed in chapter 4.¹⁴⁸

Most significantly, Taiwan signed the Trade and Investment Framework

¹⁴⁵ Ibid.

¹⁴⁶ Cheung, “APEC as a Regime”, 28-29.

¹⁴⁷ Wu, “The PRC and APEC”, 109-10.

¹⁴⁸ Shin-Yi Peng, “Economic Relations Between Taiwan and Southeast Asia: A Review of Taiwan’s Go South Strategy”, *Wisconsin International Law Journal* 16, no. 3 (1997): 640-47.

Agreement (TIFA) with the US in 1994 after Washington's pronouncement of its ambition to construct the "Pacific Community" in APEC.¹⁴⁹ As will be detailed in chapter 6, this agreement serves as an important precondition for Taiwan to join TPP, which is key for Taipei to improve its marginalized regional position, as well as to counter China's commercial diplomacy in the post-ECFA era.¹⁵⁰ In this regard, APEC's economic cooperation mechanisms provided Taipei with more opportunities to sign bilateral economic agreements with regional economies. It then magnified the Taiwanese government's functions as a *de facto* regime, which is favorable for Taiwan to further its interest in international legal sovereignty.

At the regional level, Taiwan also strengthened economic interdependence with ASEAN members through multiple economic cooperation scenarios in APEC,¹⁵¹ which solidified its interdependence sovereignty. As a member of APEC, Taiwan fulfilled its obligation to contribute to regional prosperity under the US regional integration proposal of the "Pacific Community" in 1993.¹⁵² For example, Taiwan tried to build upon its successful experience in the Hsinchu Science Park by establishing the Subic Bay Industrial Park in the Philippines, so as to assist Manila's industrialization.¹⁵³ So far, most Filipino manufacturers in the Subic Bay Industrial Park specialize in manufacturing parts and components for ICT products in the RPNs, and they are still receiving technological assistance and management from Taiwanese ICT industries.¹⁵⁴

¹⁴⁹ Nealer and Fimbres, "Taiwan and Regional Trade Organizations", 73-77; Terada, "The US Struggles in APEC's Trade Politic", 49-52.

¹⁵⁰ Ibid.

¹⁵¹ Peng, "Economic Relations Between Taiwan and Southeast Asia", 640-47.

¹⁵² Ibid., 647; Terada, "The US Struggles in APEC's Trade Politic", 50.

¹⁵³ Wu, "The PRC and APEC", 109-10.

¹⁵⁴ Dent, "Taiwan and the New East Asian Regionalism", 121-23.

In addition, APEC also contributed to the extension of Taiwan's interdependence sovereignty from the regional to the global level. It is noteworthy that although APEC's goal is to promote regional economic integration, all of APEC's measures of trade liberalization adopt the standard set by the WTO in the Uruguay Round.¹⁵⁵ Taking the EVSL as an example, APEC did urge its members to cut tariff on ICT products before 2000 based on the Information Technology Agreement (ITA) of the WTO.¹⁵⁶ In this context, as a member of APEC, Taiwan was able to recalibrate its domestic trade policy to meet the WTO standards, which aided in its accession into the WTO in 2002.¹⁵⁷

3.4.1.2 Taiwan's Sovereignty in the New Wave of Regionalism

Before the 1997 Asian financial crisis, Taiwan was able to extend its functional and interdependence sovereignty through APEC, and this forum also enabled it to establish economic partnerships with East Asian economies despite the lack of formal diplomatic relations. However, since the decline of APEC's relevance in the late 1990s, the evolution of East Asian regionalism has become a multi-track process in the context of the rivalry between China and the U.S. for regional leadership.¹⁵⁸ Thus far, the US-led TPP and China-driven RCEP featured heavily in this competition. Nonetheless, as shown in Figure 3.2.1, Taiwan became marginalized in the new wave of regionalism in the Asia-Pacific region. From thereon, Taiwan has faced difficulties in retaining its regional position by wielding commercial diplomacy, which has resulted in negative impacts upon its sovereignty interests.

¹⁵⁵ Terada, "The US Struggles in APEC's Trade Politic", 56-58.

¹⁵⁶ Ibid., 56-57.

¹⁵⁷ Chun-Fang Hsu, interviewed by author, March 10, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

¹⁵⁸ John David Ciociari, "The Balance of Great-Power Influence in Contemporary Southeast Asia", *International Relations of the Asia-Pacific* 9, no. 1 (2008): 157-59.

Generally speaking, Taiwan's regionally marginalized position has been detrimental for Taipei to secure its interests of *de jure* and functional sovereignty. First of all, at the bilateral level, as most Taiwanese elites point out, participating in multilateral mechanisms is vital to establish economic ties with major trading partners without formal diplomatic relations.¹⁵⁹ The key reason is that Taiwan can barely sustain its diplomatic relations with just 22 countries, and none of them are Taiwan's major trading partners in the Asia-Pacific region. As Taiwan has been excluded from primary economic integration mechanisms in the region, it is difficult for Taipei to commence negotiation over the issues of bilateral economic integration in the lack of formal diplomatic relations with its major trading partners in East Asia. By this reasoning, Taiwan's isolated position in the process of regional economic integration has impinged upon its interests of consolidating functional and interdependence sovereignty, not to mention further its interests of international legal sovereignty.

Moreover, at the regional level, Beijing has infringed on not only Taiwan's functional sovereignty but also *de jure* sovereignty. The ASEAN-centered regional institutions in which the US plays almost no role (except for ARF) have been useful platforms for Beijing to further its "one-China principle".¹⁶⁰ In the 1990s, China spared no effort in legitimizing its "one-China principle" in ASEAN. In 1994, after considering the huge volume of Taiwan's investment in Southeast Asia, ASEAN members had intended to discuss Taiwan's regional position via "track-two

¹⁵⁹ Chun-Fang Hsu, interviewed by author, March 10, 2014; Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

¹⁶⁰ Katsumata, et. al. "Correspondence: ASEAN, Regional Integration and State Sovereignty", 182-88.

conferences”, but Beijing soon expressed its strong opposition this initiative.¹⁶¹ After the 1997 financial crisis, Beijing even used its financial aids to Southeast Asian economies as bargaining chips to lobby ASEAN members for their official endorsement of the “one-China principle”.¹⁶²

As the result of China’s commercial diplomacy, ASEAN officially endorsed the “one-China principle” in 1999 and reaffirmed this principle in 2004 to ensure China’s positive attitude towards the China-ASEAN FTA (CAFTA).¹⁶³ From that point forward, China successfully deprived Taiwan of its international legal sovereignty at the regional level, and further constrained Taiwan’s ability to commence negotiations over the issue of participating in regional economic integration mechanisms without Beijing’s consent. This has then in turn enhanced the effectiveness of Beijing’s commercial diplomacy towards Taiwan, as will be discussed in chapter 5 and 6.

3.4.2 Taiwan’s Isolated Regional Position: Economic Impacts on Taiwan

Aside from the negative impacts on Taiwan’s sovereignty, the economic impact caused by Taiwan’s marginalized position in the Asia-Pacific region is also worthy of consideration. Ideally, Taiwan should participate in regional economic integration mechanisms as many as it can; at least, it should aim at joining US-led regional economic integration frameworks. However, Taiwan’s focus is mainly on the ASEAN-centered integration frameworks supported by China rather than the US-led

¹⁶¹ Ibid., 187.

¹⁶² Jurgen Haacke, *ASEAN’s Diplomatic and Security Culture: Origins, Development, and Prospects* (New York: Routledge, 2005), 134-35.

¹⁶³ Christopher R. Hughes, “China’s Membership of the ARF and the Emergence of East Asian Diplomatic and Security Culture” in *Cooperative Security in the Asia-Pacific: The ASEAN Regional Forum*, ed. Jurgen Haacke and Noel M. Morado (New York: Routledge, 2010), 63-65.

TPP. The main reason for this is that TPP did not become a concrete regional economic integration mechanism until the US participation in 2008. Moreover, according to the official report conducted by Taiwan's Ministry of Economic Affairs, in 2013, TPP only accounted for 34% of Taiwan's total trade, whereas RCEP accounted for 57%.¹⁶⁴ Yet, based on the interviews with Taiwanese elites, Taipei's concern over the TPP seemingly revolves around its strategic value, namely its ability to decrease Taiwan's economic dependence on the Chinese market and to compensate the negative economic impact on Taiwan generated by RCEP.¹⁶⁵ Chapter 6 will study these issues in more detail.

Nonetheless, at the formative stage of ASEAN-centered economic integration frameworks, Taiwan did not pay close attention to these mechanisms because Japan and South Korea were still outsiders. Moreover, ASEAN members are not Taiwan's major trading partners; neither are they major economic competitors *vis-à-vis* Taiwan. According to the evaluation conducted by Taiwan's Executive Yuan in 2004, the negative impacts of CAFTA would only be seen on "Taiwan's textile industries, wood processing industries, and petrochemical industries".¹⁶⁶ As these are not Taiwan's key industries, Taiwan would only suffer a 0.05% decrease of annual GDP growth rate by losing US\$149 million.¹⁶⁷

Moreover, the Taiwanese government also casts doubt on the effectiveness of

¹⁶⁴ MOEA, ROC, "Why Taiwan Should Join the TPP/RCEP Negotiations?", 2014, accessed January 24, 2016, http://www.trade.gov.tw/english/Pages/Detail.aspx?nodeID=1142&pid=492130&dlDateRange=all&txt_SD=&txt_ED=&txt_Keyword=&Pageid=2.

¹⁶⁵ Chi Su, interviewed by author, March 18, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

¹⁶⁶ 中華民國行政院研究發展考核委員會, *我國因應中國大陸與東協建立自由貿易區之研究* (台北: 行政院, 2004), 150, Research, Development and Evaluation Commission, Executive Yuan, R.O.C., *The Research of Taiwan's Response towards the Establishment of China-ASEAN Free Trade Area* (Taipei: Executive Yuan, 2004), 150.

¹⁶⁷ *Ibid.*

CAFTA owing to the problem of the ‘noodle bowl effects’.¹⁶⁸ As Bhagwati points out, the proliferation of FTAs is the key cause of the “spaghetti bowl” effect because it also raises numerous “rules of origin” (ROOs) in discerning the ‘nationality of goods’ for tariff reductions.¹⁶⁹ Specifically, an effective FTA entails a high utilization rate of ROOs, but it is a challenge for every government. In fact, identifying “nationality of goods” is not easy due to the rise of parts and components trade following the segmentation of production chains in the era of globalization.¹⁷⁰ In this case, the administrative cost of applying ROOs can be even higher than product values; it then results in a low utilization rate of ROOs.¹⁷¹ Furthermore, given the miscellaneous and heterogeneous ROOs among FTAs, it is fairly difficult for the government to standardize ROOs, and therefore analysts question whether an economy can effectively achieve the goal of trade liberalization by signing bilateral or regional FTAs.¹⁷²

The “noodle bowl syndrome” is especially significant in East Asia while regional economies have endeavored to sign FTAs due to the uncertainty of trade liberalization progress at the regional level and the WTO after the 1997 Asian financial crisis.¹⁷³ Apart from interests in pursuing trade liberalization, East Asian countries, and even the US, are also used to utilize RTAs as instruments to consolidate bilateral relations or strategic partnerships in the security realm, as has been the case for the FTA between the US and Singapore.¹⁷⁴ Subsequently, East Asian economies have been entangled with the problem of miscellaneous ROOs

¹⁶⁸ Ibid., 57-58.

¹⁶⁹ Bhagwati, “US Trade Policy”, 4-5.

¹⁷⁰ Ibid.

¹⁷¹ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 25-26.

¹⁷² Bhagwati, “US Trade Policy”, 4-9; Baldwin, “Managing the Noodle Bowl”, 451-52.

¹⁷³ Baldwin, “Managing the Noodle Bowl”, 451-52.

¹⁷⁴ Richard Higgott, “After Neoliberal Globalization”, *Critical Asian Studies* 36, no. 3 (2004): 432-39.

within a great number of FTAs.

Table 3.4.1 The Number of East Asian Economies' FTAs by 2015

Countries	The Number of FTAs	Rank
Brunei Darussalam	12	9
Cambodia	8	14
China, People's Republic of	22	4
Hong Kong, China	5	15
Indonesia	17	7
Japan	24	2
Korea, Republic of	23	3
Lao PDR	10	10
Malaysia	21	5
Myanmar	10	10
Singapore	32	1
Taiwan	9	13
Thailand	21	5
The Philippines	10	10
Vietnam	15	8

Source: Compiled from ADB (2015), "Free Trade Agreements"¹⁷⁵

As shown in Table 3.4.1, most East Asian economies have had at least 10 FTAs at the same time, and regional economic powers, such as Japan, South Korea, Singapore, Malaysia, and China, possessed more than 20 FTAs by 2015. Moreover, Table 3.4.2 provides the number of cumulative FTAs in Asia.¹⁷⁶ Stunningly, between 1995 and 2015, there has been a seven-fold increase in the number of FTAs, reaching 215 by 2015. Given the intricate FTA networks in East Asia, it is not unusual to witness Taiwan's doubt about the effectiveness of CAFTA in the official evaluation. Actually, according to Baldwin's study, since the establishment of AFTA in 1992, this agreement had only benefited about 3% of total trade among ASEAN members in terms of preferential tariff treatments.¹⁷⁷

¹⁷⁵ Asian Development Bank, "Free Trade Agreements", 2015, accessed January 24, 2016, <https://aric.adb.org/fta-country>.

¹⁷⁶ Ibid.

¹⁷⁷ Baldwin, "Managing the Noodle Bowl", 459.

Table 3.4.2 The Total Number of FTAs in Asia in 2015

Year	Under Negotiation		Signed but not yet in Effect	Signed and in Effect	Total	Proposed
	Framework Agreement signed	Negotiations launched				
1975	0	0	1	0	1	0
1991	0	0	2	5	7	1
1995	0	0	9	22	31	1
2000	0	6	10	35	51	3
2005	16	28	17	63	124	37
2010	11	47	15	106	179	53
2011	12	47	14	114	187	57
2012	10	58	12	120	200	48
2013	9	61	10	125	205	53
2014	5	66	12	130	213	59
2015	5	62	14	134	215	67

Source: Compiled from ADB (2015), “Free Trade Agreements”¹⁷⁸

Due to the probable limited effectiveness of CAFTA in trade liberalization, as well as its limited impact on Taiwan’s economy, Taipei remained confident in the “go south” strategy for responding to CAFTA, which will be studied in more detail in chapter 4.¹⁷⁹ In addition, Taiwan aims to promote trade liberalization in the WTO and APEC in order to cope with the negative economic implications of by CAFTA.¹⁸⁰ However, when Seoul and Tokyo commenced FTA negotiates with China and ASEAN, Taipei’s worried about the “trade diversion effect”, particularly

¹⁷⁸ Asian Development Bank, “Free Trade Agreements”.

¹⁷⁹ 中華民國行政院研究發展考核委員會,我國因應中國大陸與東協建立自由貿易區之研究, 154-58, Research, Development and Evaluation Commission, Executive Yuan, R.O.C., *The Research of Taiwan’s Response towards the Establishment of China-ASEAN Free Trade Area*, 154-58.

¹⁸⁰ Ibid.

on its ICT industries.¹⁸¹

“Trade diversion effect”, as defined by Bhagwati, is “taking trade away from efficient outside suppliers and giving it to inefficient member countries” after the implementation of an FTA.¹⁸² This effect contradicts to the initial purpose of trade liberalization, namely—“trade-creating”, which means “generating trade from one more-efficient member at the expense of another less efficient member”.¹⁸³ In theory, once the trade diversion effects had been felt following the establishment of an FTA, both FTA members and “outsides” would suffer economic loss since the FTA has lost its function of “trade creation”.¹⁸⁴

Taiwan’s concern over the “trade diversion effects” is mainly based upon the above FTA theory, but it may be slightly different from theoretical arguments. It is noteworthy that Taiwan’s worries about the establishment of APT largely stems from the potential loss of its competitiveness *vis-à-vis* Japanese and South Korean electronic and ICT industries; however, none of manufacturers in these countries are “inefficient” in these fields.¹⁸⁵ Japanese electronic enterprises, such as SONY and TOSHIBA, and South Korean ICT industries, such as Samsung and LG, are all strong competitors for Taiwan’s electronic and ICT industries. As such, in order to distinguish the difference between Taiwan’s contemplations and the theoretical context of the FTA theory, this thesis replaced the term of “trade diversion effects” by the “trade substitution effects” as defined in chapter 1. Taiwan’s concern over the “trade substitution effects” generated by the APT has two main aspects.

¹⁸¹ Ibid., 130-32.

¹⁸² Bhagwati, “Regionalism versus Multilateralism”, 543.

¹⁸³ Ibid.

¹⁸⁴ Urata, “Exclusion Fears and Competitive Regionalism in East Asia”, 28-29.

¹⁸⁵ Dent, “Taiwan and the New East Asian Regionalism”, 145-48.

Firstly, following the establishment of APT, South Korean ICT products could substitute Taiwan's.¹⁸⁶ The aforementioned industrialization trajectories of Taiwan and South Korea in the process of East Asian regionalization augur severe competition between them. Both economies have focused on the development of ICT industries to facilitate the progress of industrialization, and currently, the ICT products still constitute a large proportion of their exports.¹⁸⁷ In considering Taiwan and South Korea's highly competitive and overlapping export commodities, the Taiwanese government worried that Taiwan's ICT industries would lose its competitiveness *vis-à-vis* South Korea following the establishment of the APT.¹⁸⁸

The disadvantageous position of Taiwan may further deteriorate following Japan's enrolment in the APT and TPP.¹⁸⁹ On the one hand, Japan's enrolment in APT may cause the redistribution of electronic RPNs by directing investment from Taiwan to Mainland China and Southeast Asian economies, which would endanger the survival of Taiwan's electronic SMEs.¹⁹⁰ On the other, it may be more difficult for Taiwan's electronic industries, especially those manufacturers of consuming electronic products, to rival Japan's enterprises for the share of East Asian markets.¹⁹¹

¹⁸⁶ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

¹⁸⁷ Yun, "International Production Networks and the Role of the State", 177-181; Dent, "Taiwan and the New East Asian Regionalism", 145.

¹⁸⁸ 中華民國行政院研究發展考核委員會,我國因應中國大陸與東協建立自由貿易區之研究, 77-81, Research, Development and Evaluation Commission, Executive Yuan, R.O.C., *The Research of Taiwan's Response towards the Establishment of China-ASEAN Free Trade Area*, 77-81.

¹⁸⁹ Chun-Fang Hsu, interviewed by author, March 10, 2014.

¹⁹⁰ 中華民國行政院研究發展考核委員會,我國因應中國大陸與東協建立自由貿易區之研究, 77-81, Research, Development and Evaluation Commission, Executive Yuan, R.O.C., *The Research of Taiwan's Response towards the Establishment of China-ASEAN Free Trade Area*, 77-81.

¹⁹¹ Chun-Fang Hsu, interviewed by author, March 10, 2014.

Thus far, despite most analysts' expectations, the TPP negotiations were concluded in 2015. Meanwhile, in response to the US-led TPP, East Asian economies have endeavored to expand the scope of regional economic integration by establishing RCEP based upon pre-existing APT projects.¹⁹² Moreover, to tackle the “noodle bowl effects”, TPP members have integrated miscellaneous ROOs into three classification standards listed in TPP Chapter 3.¹⁹³ In the case of RCEP, ASEAN has also commissioned several study groups to research the issue of ROOs.¹⁹⁴ This new situation is apparently not in the Taiwanese government's anticipation, and the formation of RCEP and TPP can possibly magnify the negative economic implications for Taiwan caused by its marginalized regional position. To tackle this problem, Taiwan must generate new strategies. However, Taiwan has confronted strategic predicament whilst Beijing has spared no effort to deter Taiwan's FTA negotiations with East Asian economies by reiterating the “one-China principle”.¹⁹⁵ In this regard, Taiwan's economic agendas have become political issues.

3.5 The ECFA: Taiwan's Response to the TPP and RCEP

After studying impact bred by Taiwan's regionally marginalized position on its economic and sovereignty interests, this section contends that the ECFA is a contingency plan of Taiwan's regional strategy. As the China factor is the main obstacle to Taiwan's goal of participating in regional economic integration, Ma's administration has shifted its strategic logic from confrontation to cooperation with

¹⁹² Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 29-30.

¹⁹³ Full Text of TPP is available on Office of the United States Trade Representative, “The Trans-Pacific Partnership”, 2015, accessed January 24, 2017, <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

¹⁹⁴ Chia, “The Emerging Regional Economic Integration Architecture in East Asia”, 25-29.

¹⁹⁵ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 96-99; Nealer and Fimbres, “Taiwan and Regional Trade Organizations”, 71-73.

China, which this thesis terms the “seesawing strategy”. Based on this new regional strategy, Taiwan has decided to promote cross-Strait economic integration under the ECFA since 2010, in exchange for the improvement of its regional position.¹⁹⁶ However, Taiwan’s “seesawing strategy” has generated controversy in Taiwan, which is most evident in the case of the 2014 Sunflower Movement. Yet there is evidence that President Ma’s strategy is more reasonable than some skeptics assert.

3.5.1 Taiwan’s Strategic Predicament in East Asia

Facing possible “trade substitution effects” generated by the establishment of the APT and RCEP discussed in the previous section, ideally, Taiwan’s regional strategies should be signing more FTAs with its trading partners and expressing interests of participating in the ongoing formation of regional economic integration mechanisms or commence the negotiation over the issue of participation in the US-led TPP.¹⁹⁷ Currently, Taiwan is indeed pursuing these strategies, but their effectiveness has seemingly been constrained.

First of all, in terms of joining in TPP, its accession process for a new member was not beneficial for Taiwan. The accession rules of TPP are listed in Article 30.4.¹⁹⁸ In brief, a prospective member must obtain each member’s agreement through bilateral negotiation.¹⁹⁹ In addition, each individual member may set its own conditions that a new member has to meet in exchange as shown in the first clause of Article 30.4.²⁰⁰ Moreover, a new member must also agree to accept all the concluded

¹⁹⁶ Ibid., 70-71.

¹⁹⁷ Ibid.

¹⁹⁸ Office of the United States Trade Representative, “The Trans-Pacific Partnership”.

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

clauses of TPP and cannot oppose any issue that is currently in negotiation between original members.²⁰¹ Additionally, through bilateral negotiation, an incumbent member of TPP can also use its endorsement as a bargaining chip to force a new member to make concessions on a specific issue.²⁰²

In this context, if Taiwan expects to join in TPP, Taipei must accept all the deals that have been agreed by incumbent members. However, it is not the most difficult part for Taiwan to access TPP, the key obstacle is actually the process of acquiring consent of every TPP member through bilateral negotiation. Taiwan does not have formal diplomatic relations with any TPP member. Ostensibly, the regulations of membership contained in the TPP agreement favor Taiwan's accession because statehood is not a prerequisite.²⁰³ However, it is difficult to imagine that Washington will ignore Beijing's attitude and unilaterally support Taiwan's membership of TPP, and the China factor remains the main obstacle stopping Taiwan from carrying out its regional strategy, as most Taiwanese policymakers pointed out.²⁰⁴

In addition, as mentioned before, Beijing has also pressed this advantage to set the agenda of the "one-China principle" at the regional level.²⁰⁵ Moreover, to join TPP, Taiwan has to conclude sensitive agricultural issues with Washington so as to put the disputed TIFA into practice, raising the issue of food safety, which has tortured the Taiwanese government since the late 1990s.²⁰⁶ All of these difficulties

²⁰¹ Michael Wesley, "Trade Agreements and Strategic Rivalry in Asia", *Australian Journal of International Affairs* 69, no. 5 (2015): 487; Hamanaka, "TPP Versus RCEP", 170-72.

²⁰² Ibid.

²⁰³ Office of the United States Trade Representative, "The Trans-Pacific Partnership".

²⁰⁴ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

²⁰⁵ Jurgen Haacke, *ASEAN's Diplomatic and Security Culture*, 134-35.

²⁰⁶ Chi Su, interviewed by author, March 18, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

cannot be resolved in a short span of time. Chapter 6 will elaborate these issues in the context of Taiwan's seesawing strategy for participating in TPP and RCEP in more details.

Furthermore, supporting Taiwan's membership in regional economic integration mechanisms is not in line with East Asian countries' economic interests because it may risk their relations with China.²⁰⁷ Notably, in the aftermath of the 1997 Asian financial crisis, the inherent geographically defined East Asian regionalism, in particular the China-initiated APT and RCEP, had substituted for the US-initiated open regionalism as the main theme of economic integration in the Asia-Pacific region before the emergence of the US-led TPP in the late 2000s.²⁰⁸ During this period, China has been as leader or 'propeller' of East Asian regionalism.²⁰⁹ The major reason for this is that, on the one hand, most East Asian economies have relied heavily on the Chinese market to revive their economic performance in the post-crisis era.²¹⁰ On the other hand, China has also integrated East Asian RPNs into its economy, which has caused asymmetric economic interdependence between China and East Asian economies as discussed before. Consequently, China's importance as a trading partner has continued to increase.

As shown in Table 3.2.1, between 1995 and 2005, China's share of Southeast Asian economies' total trade quadrupled, and it formally surpassed Japan and the US as the largest trading partner of these economies in 2010.²¹¹ In Northeast Asia, China

²⁰⁷ Nealer and Fimbres, "Taiwan and Regional Trade Organizations", 70-71.

²⁰⁸ Panda, "Factoring the RCEP and the TPP", 51-52.

²⁰⁹ Wesley, "Trade Agreements and Strategic Rivalry in Asia", 481-88; Hamanaka, "TPP Versus RCEP", 174-75.

²¹⁰ Wong, "Commentary: A China-centric Economic Order in East Asia", 286-87.

²¹¹ Asian Development Bank, "Integration Indicators".

has also replaced the US and EU as the most important trading partner of regional economies (see Table 3.2.1).²¹² Compared with China's double-digit share of East Asian economies' total trade, Taiwan's importance as a trading partner greatly diminished, despite the fact that Taiwan had a steady annual share of around 4% between 1990 and 2014 (see Table 3.2.1). By this reasoning, China's rise has overshadowed Taiwan's economic contribution to East Asian economies. Consequently, Taiwan has gradually lost its bargaining capacity in relation to new economic integration mechanisms in East Asia, especially when the US and is absent from the APT and RCEP. As Taiwan's former Premier, Professor Liu Chao-shiuan says:

*“We hope to resolve the problem [of economic marginalization] by adopting an open attitude towards trade liberalization, but time is not on our side. In the past, we had the economic advantages to influence or even control the course of events ... but China is rising with unprecedented speed. The wax and wane of China and Taiwan's powers makes us worry about our situation, and our economic performance is no longer far in advance in East Asia”.*²¹³

Finally, as China has played an important role in promoting regional economic integration and development, it has become a hub of FTAs in East Asia as shown in Table 3.4.1.²¹⁴ By 2015, China had 22 FTAs either in effect or under negotiation, and 17 of them were with Asia-Pacific economies.²¹⁵ This implies that Taiwan is not

²¹² Ibid.

²¹³ Chao-Shiuan Liu, interviewed by author, March 24, 2014.

²¹⁴ Ibid.

²¹⁵ Ibid.

the only source from which China can obtain advanced technology and management skills essential for Beijing's projects of industrialization. Moreover, although Taiwan did not entirely normalize bilateral economic relations with China until 2008, as will be elaborated later, the degree of Taiwan's economic dependence on China has continually increased despite Taipei's measures to restrict cross-Strait economic exchanges.²¹⁶ As a result, unlike the case of APEC, Beijing has no reason to make concessions on the issue of Taiwan's participation in regional economic integration mechanisms, and this has also enlarged Beijing's capacity to wield commercial diplomacy towards Taiwan, which will be discussed in chapter 5.

3.5.2 The ECFA as the Contingency Plan of Taiwan's Regional Strategy?

Taiwan's President Ma Ying-jeou verified this strategic dilemma in 2014 when he said:

*"Taiwan has long performed well in external trade, but in the past 10 years or so, countries around the world have signed free trade agreements. Many countries want to do business with Taiwan, but when it comes to signing a FTA with us, they become hesitant, because of our diplomatic predicament."*²¹⁷

This is most evident in Taiwan's stagnant negotiations in the early 2000s with Singapore and New Zealand over FTAs, as Beijing's opposition directly resulted in

²¹⁶ Tanner, *Chinese Economic Coercion Against Taiwan*, 48-71.

²¹⁷ The Economist, "Straight from Mr. Ma's Mouth", *The Economist*, March 28, 2014, accessed January 24, 2016, <http://www.economist.com/blogs/banyan/2014/03/interview-taiwans-president>

the suspension of these negotiations until 2012.²¹⁸

In order to overcome the China factor, President Ma took the initiative to improve cross-Strait relations as the first step towards expanding Taiwan's "international space".²¹⁹ Specifically, after improving bilateral relations with China, Ma's administration further expects Beijing to support its regional policy in the post-ECFA era.²²⁰ In this regard, instead of solely focusing on obtaining Washington's support, the key element of President Ma's regional strategy is now seemingly the attempt to improve Taiwan's regionally marginalized position by "seesawing" between China and the US. Despite the fierce opposition to this tactic, evidenced by the 2014 Sunflower Movement mentioned in chapter 1, President Ma's "seesawing strategy" is in fact based on rational concerns.

From an economic perspective, as several scholars point out, Taiwan could probably make use of the ECFA to decrease the negative economic impacts generated by TPP and RCEP.²²¹ Firstly, according to Taiwan's Ministry of Economic Affairs, China's share of Taiwan's total trade was 21.1% in 2013.²²² This ratio is stunning because it is equivalent to two-thirds of TPP's and a half of RCEP's share of Taiwan's total trade. Therefore, promoting cross-Strait economic integration is indeed the most feasible and efficient scenario to cope with the negative economic impacts from TPP and RCEP, despite the fact that Taiwan cannot join these economic mechanisms. Besides, after the improvement of cross-Strait relations, Taiwan was

²¹⁸ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99.

²¹⁹ The Economist, "Straight from Mr. Ma's Mouth".

²²⁰ Ibid.

²²¹ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 43-44.

²²² MOEA, ROC, "Why Taiwan Should Join the TPP/RCEP Negotiations?".

also able to commence FTA negotiations with Japan, Singapore and New Zealand, which could not only decrease economic impacts on Taiwan caused by regional trade liberalization but also lay foundations for Taiwan to participate in TPP and RCEP.²²³

Additionally, all the commodities contained in ECFA's early harvest list upon which Beijing promised to impose tariff reductions, are from those Taiwanese manufacturers that suffered economic loss following the establishment of the APT. Specifically, the "Product List Under the Early Harvest on the Mainland Side" encompasses the products of petrochemical manufacturers from No.26 to No.75, and the products of textile manufacturer from No.132 to No.264.²²⁴ Moreover, in order to decrease negative economic impacts on Taiwan's electronic and ICT industries caused by the APT, Taiwan has also successfully convinced Beijing to expand the scope of ITA, as the machinery and electronic products are listed between No.344 and No.482, and from No.530 to No.539.²²⁵ Notwithstanding this contribution, the ECFA has still become the topic of intense debate among Taiwanese elites due to the limited benefits for Taiwan's economic development, as well as the increasing degree of Taiwan's economic dependence on China.²²⁶ Chapter 6 will explore these issues in more detail.

Aside from Taiwan's economic strategy concerns, the ECFA can also be deemed as the byproduct of Taiwan's "seesawing strategy". Before the 1997 Asian financial crisis, support from the US and its allies in the Asia-Pacific region were vital in

²²³ Ibid.

²²⁴ For full text of the ECFA, please check: Bureau of Foreign Trade, MOEA, ROC, "The Economic Cooperation Framework Agreement".

²²⁵ Ibid.

²²⁶ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 46-55.

allowing Taiwan to counter Beijing's opposition against Taiwan's membership in regional organizations.²²⁷ However, as the US is now absent from the ASEAN-centered regional economic integration frameworks, it is not practical to keep adopting the strategy of jumping on the bandwagon with the US to counter China's influence. In contrast, while China plays an indispensable role in the formative process of RCEP, Taiwan needs to improve its relations with China in order to access this regional economic integration mechanism.

Moreover, as mentioned before, although there is a possibility for Taiwan to improve its regional position following the establishment of the US-led TPP, good relations with China remains the precondition of Taiwan's accession.²²⁸ This is due to these unique accession rules of TPP. As stipulated in Chapter 30 of the TPP agreement, an economy that wishes to be a new member of TPP has to obtain consent from all the incumbent TPP members through bilateral negotiations.²²⁹ This regulation has created leeway for China to intervene in the negotiation between Taiwan and the TPP members, as has been the case for the FTA negotiations between Taiwan and Singapore, and with New Zealand.²³⁰ As such, Taiwan has to improve relations with China in order to ensure the smooth negotiation process with TPP members. Thus far, Taiwan has successfully signed FTAs with Singapore and New Zealand after signing the ECFA with China, which seems to push Taiwan closer to the goal of participating in TPP. Yet in the aftermath of the Sunflower Movement in 2014, the pending ECFA sub-agreements motivated Beijing to pressure Malaysia to

²²⁷ Cheung, "APEC as a Regime", 28-33.

²²⁸ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

²²⁹ Office of the United States Trade Representative, "The Trans-Pacific Partnership".

²³⁰ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99.

suspend FTA negotiations with Taiwan.²³¹ In this regard, Taiwan seems to be passive when implementing its regional strategy; chapter 5 and 6 will explore this issue in more details.

Most significantly, despite the fact that the development of cross-Strait relations is an important determinant of Taiwan's regional strategy, Washington still plays an important role. In fact, Taiwan's strategy for tackling regional economic integration is similar to most developed East Asian countries' regional strategies. As several scholars have noted, while TPP and RCEP may co-exist in the Asia-Pacific region, most East Asian developed economies, such as Japan and Singapore, has made use of its accession of RCEP to increase their bargaining chips in negotiating TPP, or *vice versa*.²³² In the same vein, Taiwan also intends to take advantage of its close economic relations with China to leverage Washington's support for its membership of the TPP and *vice versa*. The effectiveness of Taiwan's seesawing strategy will be further examined in chapter 6 by drawing on interviews with Taiwanese elites.

3.6 Conclusion

In the summary, this chapter confirms that the ECFA represents Taiwan's contingency plan in response to Beijing's containment on Taipei's regional strategy in the context of the establishment of TPP and RCEP. Specifically, this chapter studied the roles of Taiwan and China in the context of regionalization and regionalism in the Asia-Pacific, and it found that China's economic rise is the major

²³¹ Singh, "Can Taiwan Talk 'Political' with the Mainland?", 260-61.

²³² Hamanaka, "TPP Versus RCEP", 163-64.

cause of Taiwan's isolation and strategic predicaments in relation to regional economic integration. These phenomena emerged in the late 1990s when China began to play a pivotal role in the process of regionalization, which allowed it to integrate East Asian RPNs into its economy. The result has been asymmetric economic interdependence between China and most East Asian economies. As such, China's regional influence has been enhanced, which has allowed Beijing to rival Washington for regional leadership by taking the initiative to shape East Asian regionalism.²³³

Beijing then pressed its economic advantage to marginalize Taiwan in the process of regional economic integration, which has been detrimental for Taiwan's sovereignty interests. Notably, China's rise has overshadowed Taiwan's economic importance in East Asia. Since East Asian RPNs are centered around the Chinese market, China has served as an 'engine' in boosting regional economic growth.²³⁴ Therefore, unlike the case of supporting Taiwan's enrolment in APEC in the early 1990s, East Asian countries must take Beijing's concerns into account when engaging with Taiwan, because tense relations with China may endanger their economic interests. As a result, the effectiveness of Taipei's commercial diplomacy is limited with regards to its participation in regional economic integration mechanisms.

Most significantly, the increasing degree of Taiwan's economic dependence on China has also constrained Taiwan's ability to counterbalance China's political agenda. China has not only integrated East Asian RPNs but also Taiwan's

²³³ Frost, *Asia's New Regionalism*, 112-19.

²³⁴ Wong, "Commentary: A China-centric Economic Order in East Asia", 286-87.

manufacturing supply chains into its economy. In addition to signing FTAs with important regional trading partners, strengthening economic ties with the Mainland is also an essential task for Taiwan to cope with the negative economic impacts generated by the establishment of TPP and RCEP. As such, instead of balancing China, Taiwan has seemingly chosen to seesaw between Beijing and Washington to improve its regional position. Thus the ECFA can be seen as the result of Taiwan's seesawing strategy, which is also an outcome of both Taipei's and Beijing's efforts to reconcile their economic interests and political agendas.

In the context of the above arguments, in terms of improving its marginalized position in the process of regional economic integration, Taiwan had no alternative but to sign the ECFA with Beijing. Nonetheless, China's effort to exclude Taiwan from regional economic integration frameworks was not the only reason that Taipei signed the ECFA. In order to promote its agenda of peaceful reunification with Taiwan, Beijing has endeavored to provide preferential treatment for Taiwanese businessmen since the 1980s.²³⁵ However, promoting cross-strait economic integration has not been a smooth process for Beijing. In fact, between 1993 and 2008, the "Go South" strategy was Taiwan's key strategy for countering Beijing's one-China principle at the regional level. By carrying out this strategy, Taipei expected to strengthen its economic ties with ASEAN economies, and it also aimed to decrease its economic dependence on the Chinese market.²³⁶ Only when cross-strait relations became nervous would Taipei make concessions on China's proposals for bilateral economic cooperation. The next chapter will study these issues in more detail.

²³⁵ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 85-95.

²³⁶ Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

Chapter 4 Cross-Strait Relations between 1990 and 2008: Reconciling Economic Interests with Sovereignty Agendas

4.1 Introduction

In chapter 3, this thesis explored the dynamics of economic integration in the Asia-Pacific region that drive Beijing and Taipei to extend their strategic concerns over cross-Strait relations from the bilateral level to the regional level. In brief, before signing the ECFA with Taiwan in 2010, Beijing had created regional conditions that called for concessions from Taipei in order to reinforce cross-Strait economic ties for securing its economic and sovereignty interests at the regional level. Specifically, China's predominance lay in the rapid progress of its economic modernization. By investigating East Asian parts and components trade, the previous chapter finds that since China's economic rise in the late 1990s, there had been a tendency among East Asian manufacturers to relocate their production lines to the Chinese market. This trend had generated asymmetric economic interdependencies between China and East Asian economies, and even with Taiwan, which further provided Beijing with more opportunities to marginalize Taiwan by utilizing commercial diplomacy during the wave of East Asian regionalism after the 1997 Asian financial crisis. Facing this strategic predicament, following President Ma Ying-jeou's inauguration in 2008, Taiwan began to shift its regional strategy from confrontation to cooperation with China in order to improve its regional position. In this case, promoting cross-Strait economic integration became Taipei's priority in attempts to convince Beijing of the improvement of Taiwan's "international space",¹ and thus the ECFA is actually Taipei's contingency plan.

¹ Nealer and Fimbres, "Taiwan and Regional Trade Organizations", 73-77.

Succeeding the discussion in chapter 3, this chapter further studies how the dynamics of regional economic integration have impacted on cross-Strait economic exchanges and in turn influenced China's and Taiwan's strategies for managing bilateral relations. In addition, this chapter aims at addressing the question of how China and Taiwan reconciled the disputed sovereignty issues with their economic interests in the process of cross-Strait economic integration before the signing of the ECFA in 2010. In line with the core argument of this thesis, this chapter argues that China's predominant role in the process of regional economic integration has helped Beijing to convince Taiwan of facilitating cross-Strait economic integration, which enhances the effectiveness of China's commercial diplomacy in infringing on Taiwan's sovereignty.

Notably, China's commercial diplomacy was not as effective as Chinese leaders would have expected, as Beijing did not successfully convince Taipei to lift restrictions on cross-Strait economic exchanges until 2008. Neither did Beijing's preferential trade policy targeting Taiwanese enterprises prevent Taipei from pursuing movements towards independence during the presidencies of Lee Teng-hui and Chen Shui-bian.² Nonetheless, regardless of the political and economic barriers to bilateral economic exchanges between 1990 and 2008, the degree of Taiwan's economic dependence on the Chinese market still soared significantly because of China's economic advantages in the process of East Asian economic integration. This laid foundations for the ECFA, which allowed Beijing to utilize commercial

² Choon Yin Sam, "Economic Management in Taiwan and Mainland China: Why and How They Have Been Politicized", *Global Economic Review* 36, no. 1 (2007): 74; Yun-Han Chu, "Taiwan's National Identity Politics and the Prospect of Cross-Strait Relations", *Asian Survey* 44, no. 4 (2004): 496-512.

diplomacy to further its unification agendas with regards to Taiwan in the process of cross-Strait economic integration.

In order to study cross-Strait relations in the context of bilateral economic integration, the next section of this chapter addresses the question of how the dynamics of regional economic integration have impinged upon cross-Strait economic integration. In addition, by drawing on interviews with Taiwanese entrepreneurs, the next section also examines the cause of Taiwan's heavy economic dependence on the Chinese market by studying the "Mainland fever" that emerged in Taiwan in the 1990s.³ The third section then discusses Taiwan's struggle to reconcile its sovereignty agendas with economic interests in managing cross-Strait relations between 1996 and 2008. In order to strategically pursue Taiwan's sovereignty, Taipei adopted a series of policies to reduce the degree of its economic dependence on China. Yet, these policies were unable to direct Taiwan's investment away from China in the wave of East Asian regionalization.

After evaluating Taiwan's Mainland policy under the Lee Teng-hui and Chen Shui-bian administrations, the fourth section studies Beijing's Taiwan policy of "hard manners became harder, soft manners became softer" in response to Taiwan's measures to counter its commercial diplomacy.⁴ In short, while stressing that military measures remained on the table for China in its attempt to resolve the disputed Taiwan issue, Chinese leaders also adopted unilateral preferential trade policies targeting Taiwanese businessmen under its grand strategy of "achieving

³ Steven M. Goldstein, *China and Taiwan* (Cambridge: Polity Press, 2015), 79-82.

⁴ Chong-pin Lin, "More Carrot than Stick: Beijing's Emerging Taiwan Policy", *China Security* 4, no. 1 (2008): 6.

unification through economic integration”.⁵ Finally, this chapter concludes that the ECFA is a contingency plan of related to Taiwan’s mainland policy, as the previous policies were ineffective and destabilizing with regards to cross-Strait relations.

4.2 Asymmetric Economic Interdependence across the Taiwan Strait

By retracing the history of cross-Strait relations, it is clear that economic integration has always been a highly contentious issue between China and Taiwan because the two governments have connected these issues with their disputed sovereignty agendas.⁶ As mentioned in chapter 1, between 1978 and 2008, Beijing sedulously advocated cross-Strait economic liberalization in an attempt to further its peaceful reunification agenda towards Taiwan, while Taipei prudently managed or even restricted economic exchanges with China in order to safeguard Taiwan’s sovereignty.⁷ However, “Mainland fever”, the term used to describe the rapid growth of China’s share of Taiwan’s total exports along with a multitude of Taiwan’s investment in the mainland since the 1990s, adumbrated the invalidity of Taiwan’s policies in managing cross-Strait economic relations.⁸ Moreover, this phenomenon has led to asymmetric economic interdependence across the Taiwan Strait that resulted in Taipei struggling to reconcile its economic interests with its sovereignty agendas, as will be explored in the next section.

⁵ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 27-28.

⁶ Sam, “Economic Management in Taiwan and Mainland China”, 72-78; Shaocheng Tang, “New Trends in the Cross-Strait Relations between China and Taiwan”, *Asia Europe Journal* 4, no. 4 (2006): 555-56.

⁷ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 27-28.

⁸ Goldstein, *China and Taiwan*, 79-82.

With respect to the cause of “Mainland fever” among Taiwanese entrepreneurs, most scholars ascribe this phenomenon to inherent comparative advantages in the Chinese market, such as abundant resources, as well as low-cost land and labor.⁹ All of these factors are true, yet they cannot sufficiently explain why Taiwan’s policy for managing cross-Strait economic exchanges was ineffective before 2008.¹⁰ Even though the government had proposed Southeast Asian economies as alternatives to China by considering their similar comparative advantages, the Chinese market remained the main destination of Taiwanese investment.¹¹ To resolve these puzzles, this section contends that the dynamics of regional economic integration should be taken into account.

4.2.1 Taiwan’s “Mainland Fever”

Taiwan’s unsuccessful policy for tackling Mainland fever should be attributed to Taiwan’s strategy for industrialization in the wake of East Asian regionalization that made Taiwan focus mainly on the development of its information and communication technology (ICT) industries.¹² When China began to play a pivotal role in regional production networks (RPNs), together with its initiative for implementing a series of preferential policies targeting Taiwanese ICT manufacturers, the Chinese market became vital for sustaining the competitiveness of Taiwan’s ICT industries. Statistics on cross-Strait trade and investment are important evidence to

⁹ Bush, *Untying the Knot*, 28-35; Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 48-55.

¹⁰ Tse-Kang Leng, “Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms”, *Asian Survey* 38, no.5 (1998): 494-95.

¹¹ Alan Hao Yang and Hsin-Huang Michael Hsiao, “Tai-shang (Taiwan Business) in Southeast Asia: Profile and Issues”, in *Chinese Global Production Networks in ASEAN*, ed. Yong-Chan Kim (London: Springer International Publishing Switzerland, 2016), 217-18.

¹² Dieter Ernst, “Inter-Organizational Knowledge Outsourcing”, 223-31; Shin-Horng Chen et al., “The ECFA and Its Expected Effect on Cross-Strait Trade and Investment: A Taiwanese Perspective”, *China Economic Journal* 4, no. 2-3 (2011):110-21.

support these arguments, as they reflect not only Taiwan’s Mainland fever but also the impact of regional economic integration on cross-Strait economic exchanges.

Table 4.2.1 Taiwan’s Investment in China between 1991 and 2008 (Unit: US\$1,000)

Year	Taiwan’s investment in China	Taiwan’s investment in countries other than China	Taiwan’s total outward investment	China’s share
1991	174,158	1,656,321	1,830,479	9.51%
1992	264,992	887,259	1,152,251	23.00%
1993	3,168,411	1,661,046	4,829,457	65.61%
1996	1,229,241	2,165,404	3,394,645	36.21%
1997	4,334,313	2,893,826	7,228,139	59.96%
1998	2,034,621	3,296,302	5,330,923	38.17%
1999	1,252,780	3,296,013	4,548,793	27.54%
2000	2,607,142	5,077,062	7,684,204	33.93%
2001	2,784,147	4,391,654	7,175,801	38.80%
2002	6,723,058	3,370,046	10,093,104	66.61%
2003	7,698,784	3,968,588	11,667,372	65.99%
2004	6,940,663	3,382,022	10,322,685	67.24%
2005	6,006,953	2,447,449	8,454,402	71.05%
2006	7,642,335	4,315,426	11,957,761	63.91%
2007	9,970,545	6,469,978	16,440,523	60.65%
2008	10,691,390	4,466,491	15,157,881	70.53%

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) “Monthly Report (December 2015)”¹³

Table 4.2.1 shows the amount of Taiwanese investment in the Chinese market, which is a chief indicator for illustrating Taiwan’s Mainland fever. The first legal Taiwanese investment in the Chinese market can be traced back to Taiwan’s abolition of the Martial Law in 1987, which drove the government to further renounce its long-standing Mainland policy of “no contact, no negotiation, and no compromise” that had existed since 1949.¹⁴ In 1990, Taiwan first approved labor-intensive and highly polluted industries to invest in China under “the Statute Governing the

¹³ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

¹⁴ Su, *Taiwan’s Relations with Mainland China*, 5-6.

Relations between the People of the Taiwan Area and the Mainland Area”.¹⁵ Furthermore, this Statute was amended in 1993, which allowed 3,764 labor-intensive industries to invest in China with simplified procedures of censorship if their capitals were less than US\$1 million.¹⁶ Following the loosening of Taiwan’s regulations in managing its investment in China, Taiwan’s capital in the Chinese market grew eighteen fold, as it raised from US\$174 million in 1991 to US\$3,168 million in 1993 (see Table 4.2.1). From 1993 onwards, except for during the cross-Strait crisis in 1996 and the Asian financial crisis, Taiwan’s investment in China always constituted more than 60% of its total outward investment despite the government’s restrictions.

Aside from Taiwan’s investment in China, statistics on total trade value across the Taiwan Strait is another important indicator for evaluating Taiwan’s Mainland fever, which are listed in Table 4.2.2 together with Taiwan’s top three trading partners. With this table, it is not difficult to see China’s increasing importance as Taiwan’s trading partner since the early 1990s, although commodities were required to go through a third economy in the absence of the “three direct links” between Taiwan and the Mainland until 2008.¹⁷ Specifically, between 1993 and 1997, total trade value between both sides quadrupled, and China’s rank in the share of Taiwan’s total export climbed from eighty-fifth to twenty-third. Meanwhile, China also became one of Taiwan’s top ten import partners in 1997. Since 2007, China has steadily been the largest trading partner of Taiwan. However, it is noteworthy that above statistics probably underestimate the total cross-Strait trade value.

¹⁵ Fuller, “The Cross-Strait Economic Relationship’s Impact”, 241.

¹⁶ Ching-Chang Chen, “Understanding the Political Economy of Cross-Strait Security: A Missing Link”, *Journal of Chinese Political Science* 15, no. 4 (2010): 394-95.

¹⁷ Tanner, *Chinese Economic Coercion Against Taiwan*, 41-42.

Table 4.2.2 Taiwan's top three trading partners and China's share between 1993 and 2015 (Unit: US\$1 million)

Year	Economy	Total trade			Total exports			Total imports		
		Rank	Amount	Share (%)	Rank	Amount	Share (%)	Rank	Amount	Share (%)
1993	U.S.	1	40,310	24.86	1	23,588	27.72	2	16,722	21.70
	Japan	2	32,163	19.84	3	8,977	10.55	1	23,186	30.09
	Hong Kong	3	20,183	12.45	2	18,454	21.69	8	1,729	2.24
	China	21	1,032	0.64	85	16	0.02	16	1,015	1.32
1997	U.S.	1	52,785	22.32	1	29,551	24.21	2	23,233	20.31
	Japan	2	40,712	17.21	3	11,691	9.58	1	29,021	25.36
	Hong Kong	3	30,684	12.97	2	28,688	23.50	11	1,996	1.74
	China	12	4,542	1.92	23	626	0.51	7	3,915	3.42
2002	U.S.	1	45,620	18.36	2	27,365	20.22	2	18,255	16.12
	Japan	2	39,731	15.99	3	12,368	9.14	1	27,363	24.16
	Hong Kong	3	34,874	14.03	1	32,959	24.36	13	1,915	1.69
	China	4	18,495	7.44	4	10,528	7.78	3	7,968	7.04
2007	China	1	90,431	19.41	1	62,416	25.30	2	28,014	12.78
	Japan	2	61,869	13.28	4	15,933	6.46	1	45,936	20.95
	U.S.	3	58,585	12.57	3	32,078	13.00	3	26,508	12.09
2012	China	1	121,621	21.28	1	80,714	26.80	2	40,907	15.13
	Japan	2	66,561	11.64	5	18,988	6.31	1	47,573	17.59
	U.S.	3	56,579	9.90	3	32,975	10.95	3	23,603	8.73
2015	China	1	115,392	22.67	1	71,209	25.40	1	44,183	19.33
	U.S.	2	60,658	11.92	3	34,249	12.22	3	26,409	11.55
	Japan	3	57,975	11.39	4	19,274	6.87	2	38,700	16.93

Source: Compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)¹⁸

In fact, China might have already become Taiwan's third largest trading partner in 1993, when the total trade value between Hong Kong and Taiwan is taken into account. The main reason for this is that Hong Kong played an important intermediate role in cross-Strait economic exchanges before Taiwan fully liberalized direct trade with China by signing the ECFA in 2010. Indeed, despite Taiwan's gradual openness to indirect trade with Chinese businesses since 1990, under the

¹⁸ Bureau of Foreign Trade, MOEA, ROC (2016) "Trade Statistics".

“Regulations Governing Permission of Trade between Taiwan Area and Mainland Area”, most commodities remained on the prohibition list in the 1990s.¹⁹ In order to eschew the government’s surveillance, Chinese and Taiwanese businessmen utilized their subsidiaries or intermediate traders in Hong Kong to transport their commodities.²⁰ “Triangular trade” between China, Taiwan and Hong Kong was therefore thriving, which explains the great volume of trade value between Hong Kong and Taiwan, particularly with respect to exports.²¹

As shown in Table 4.2.2, in the 1990s, Hong Kong was Taiwan’s third largest trading partner, sharing about 12% of Taiwan’s total trade, behind only the U.S. and Japan. Notably, Hong Kong’s importance lay in its significant share of Taiwan’s total exports. Hong Kong absorbed more than one-fifth of Taiwan’s outward commodities while it shared just 2% of Taiwan’s total imports on average in the 1990s. Since most of Taiwan’s commodities exported to Hong Kong were supposed to be re-transported to the Mainland, Taiwan has actually relied heavily on the Chinese market since the early 1990s. Not until Taiwan’s opening to the “mini three direct links” in 2001, which permit cross-Strait direct shipments between Taiwan’s islets and China’s Fujian Province, did Hong Kong’s intermediate role in trade between Taiwan and China start to become eclipsed.²² Hong Kong’s importance further declined after Taiwan’s entry into the WTO in 2002, which entailed the government lifting its ban

¹⁹ Sam, “Economic Management in Taiwan and Mainland China”, 74-77; Fuller, “The Cross-Strait Economic Relationship’s Impact”, 240-41; see also Ministry of Justice, ROC, “Regulations Governing Permission of Trade between Taiwan Area and Mainland Area”, 2008, accessed January 24, 2016, <http://law.moj.gov.tw/ENG/LawClass/LawContent.aspx?pcode=Q0040002>

²⁰ Robert F. Ash and Y. Y. Kueh, “Economic Integration within Greater China: Trade and Investment Flows between China, Hong Kong and Taiwan”, *The China Quarterly* 136 (1993): 716-22.

²¹ Yun-Han Chu, “The East Asian NICs: A State-Led Path to the Developed World”, in *Global Change, Regional Response: The New International Context of Development*, ed. Barbara Stallings (Cambridge: Cambridge University Press, 1995), 231.

²² Willem Van Kemenade, “Taiwan: Domestic Gridlock, Cross-Strait Deadlock”, *The Washington Quarterly* 24, no. 4 (2001): 60.

on trade with China.²³ By 2002, China had become the fourth largest economy-close behind Hong Kong in terms of the share of Taiwan's total exports. From 2007 onwards, China has always shared more than a quarter of Taiwan's total exports, which was even greater than the sum of Japanese and US shares.

So far, this section has illustrated the phenomenon of Taiwan's Mainland fever with statistics on investment and total trade value as shown in Table 4.2.1 and 4.2.2. In terms of the main cause of this phenomenon, Taiwan's industrialization strategy during East Asian regionalization is an important factor. As discussed together in chapter 3, Taiwan's industrialization began through participation in the distribution of the US-centered "buyer-driven commodity chains" (BDCCs) in East Asia in the 1970s.²⁴ From thereon, developing ICT industries became the main focus of Taiwan's industrialization policy, and they have contributed more than 50% of Taiwan's total export since the 1990s.²⁵ Within the BDCCs, most Taiwanese ICT industries are original equipment manufacturers (OEMs) responsible for manufacturing or assembling specific components of products on behalf of US MNCs.²⁶ However, the business operation model of OEMs makes Taiwan's ICT industries highly sensitive to production costs. While the progress of industrialization raised production costs in Taiwan in the 1990s, there had been a tendency among Taiwanese ICT manufacturers to relocate their manufacturing facilities to the Mainland so as to utilize the low-cost production factors in the Chinese market.²⁷ This trend counteracted Taiwan's Mainland fever, which can be illustrated by

²³ Hsieh, "The China-Taiwan ECFA", 123-30.

²⁴ Yun, "International Production Networks and the Role of the State", 179-81.

²⁵ Ernst, "Inter-Organizational Knowledge Outsourcing", 223-31; Chen et al., "The ECFA and Its Expected Effect on Cross-Strait Trade and Investment", 110-21.

²⁶ Yun, "International Production Networks and the Role of the State", 179-81.

²⁷ Bush, *Untying the Knot*, 28-35.

exploring the structure of Taiwan's investment, as well as the main commodities it traded with China.

With reference to the structure of Taiwan's investment in China, capital was mainly provided by Taiwanese manufacturers, and most scholars point out that their investment in China was trade-oriented.²⁸ Indeed, Taiwanese manufacturing industries made up more than 80% of Taiwan's total outward investment to China before 2010, as shown in Table 4.2.3 below.²⁹ Among these manufacturing industries, the ICT industries — “electronic parts and components manufacturing” and “computers, electronic and optical products manufacturing” — steadily contributed about 40% of Taiwan's total investment in the Mainland since 2000.³⁰ As discussed in chapter 3, Taiwanese ICT industries' roles within the BDCCs were OEMs that fabricate components of products and then export them to US customers for marketing.³¹ Therefore, the scale of investment in China by Taiwanese ICT industries suggests not only their heavy dependence on the low-cost production factors in the Chinese market but also the “vertical division of labor” between China and Taiwan in the wave of East Asian regionalization.³² Statistics on Taiwan's components trade with China and Hong Kong further support these arguments.

²⁸ Huang, “TPP Versus ECFA”, 97-98; Luo and Howe, “Direct Investment and Economic Integration in the Asia Pacific”, 751-55.

²⁹ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

³⁰ Ibid.

³¹ Gereffi, “The Organization of Buyer-Driven Global Commodity Chains”, 97-100; Hobday, “Latecomer Catch-up Strategy in Electronics”, 55-56.

³² Xiangming Chen, “Taiwan Investments in China and Southeast Asia: ‘Go West, but also Go South’”, *Asian Survey* 36, no.5 (1996): 456-60.

Table 4.2.3 Statistics on Taiwan’s manufacturing investment in China between 1998 and 2010 (Unit: US\$1 million)

Year	Manufacturing industries		Electronic components manufacturing		Computers, electronic and optical products manufacturing	
	Amount	Share	Amount	Share	Amount	Share
1994	962	92.13%	41	4.24%	48	5.02%
1996	1,229	90.78%	88	7.19%	115	9.36%
1998	2,035	89.98%	281	13.83%	342	16.79%
2000	2,607	91.45%	412	15.82%	699	26.80%
2002	6,723	90.40%	1,088	16.18%	1,063	15.81%
2004	6,941	90.55%	1,482	21.36%	1,140	16.42%
2006	7,642	87.01%	1,619	21.18%	1,472	19.26%
2008	10,691	81.95%	2,052	19.19%	1,783	16.68%
2010	14,618	74.16%	4,854	33.21%	1,235	8.45%

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) “Monthly Report (December 2015)”.³³

Table 4.2.4 listed statistics on Taiwan’s major traded commodities with China between 1993 and 2008. Corresponding with Taiwan’s trade-oriented investment in China, parts and components trade featured centrally in Taiwan’s total trade with the Mainland, which accounted for more than 56.59%. The role of East Asian regionalization in propelling cross-Strait economic integration is evidenced by the huge amount of ICT components trade between Taiwan and China. Among the traded intermediate goods, ICT components (HS85 and HS90) made up 76% of cross-Strait parts and components trade valued at a stunning US\$207 billion in total between 1993 and 2008.

³³ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

Table 4.2.4 Taiwan's components trade with China between 1993 and 2008

Commodity	Value (Unit: US\$)	The share of components trade	The share of total trade
HS85	141,406,191,558	51.64%	29.22%
HS90	66,725,776,170	24.37%	13.79%
HS84	60,698,163,912	22.17%	12.54%
HS87	5,011,218,905	1.83%	1.04%
Subtotal of components trade	273,841,350,545	100.00%	56.59%
Total trade value	483,881,463,737		100.00%

Note: 1. For the definitions of HS code and components trade, please refer to Appendix III
2. The total value of ICT components trade is the sum of HS85 and HS87

Source: Compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)³⁴

The burgeoning ICT components trade across the Taiwan Strait began in the 2000s when East Asian RPNs converged on the Chinese market. As shown in Table 4.2.5 below, trade of ICT components between China and Taiwan commenced in 1993, but it only accounted for 6.52% of cross-Strait total trade value. Nonetheless, since China began to play a pivotal role in the process of East Asian regionalization following its economic rise in the late 1990s, there had been quintuple growth in the share of ICT components trade in the total cross-Strait trade between 1993 and 2000. This growth was more significant, which is clear from the ICT components trade value figures during this period, which soared from US\$67 million in 1993 to US\$3.2 billion in 2000. The share of ICT components trade had further raised from 30.86% in 2000 to 43.96% in 2005. By 2010, it shared more than half of Taiwan's total trade value with China. Since these intermediate goods still need to be

³⁴ Bureau of Foreign Trade, MOEA, ROC, "Trade Statistics".

manufactured in either China or Taiwan for final exports, the enormous share and value of components trade suggest deep integration between both economies during East Asian regionalization. However, the total trade value of ICT components trade between China and Taiwan should be far greater than Taiwan's official statistics, which implies that there was much deeper integration between both sides than the Taiwanese government had estimated.

Table 4.2.5 The share and value of Taiwan's ICT components trade with China between 1993 and 2010

Year	Commodities	Total trade value	
		Amount (US\$)	Share
1993	HS85	67,182,730	6.51%
	HS90	70,801	0.01%
	Total trade value	1,031,706,213	100.00%
1995	HS85	557,174,094	16.07%
	HS90	8,289,576	0.24%
	total trade value	3,467,857,572	100.00%
2000	HS85	3,107,236,365	29.76%
	HS90	115,949,377	1.11%
	total trade value	10,440,540,918	100.00%
2005	HS85	18,816,956,136	29.52%
	HS90	9,201,013,331	14.44%
	total trade value	63,736,408,872	100.00%
2010	HS85	36,925,970,311	32.71%
	HS90	19,632,598,937	17.39%
	total trade value	112,879,654,027	100.00%

Source: Compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.) ³⁵

³⁵ Ibid.

Indeed, as mentioned before, because of Taiwan's stringent restrictions on trade with China prior to its participation in the WTO in 2002, statistics on Taiwan's components trade with Hong Kong should not be left out when studying cross-Strait economic integration.³⁶ Despite the fact that Taiwan permitted ICT components trade with China in 1993, most of these commodities remained on the forbidden list due to Taiwan's protectionism and its concern over "national security" according to Article 8 of "Regulations Governing Permission of Trade Between Taiwan Area and Mainland Area".³⁷ However, these stipulations did not chime with Taiwan's manufacturers' interests; particularly considering that some enterprises had relocated their production lines to China regardless of the government's restrictions in the early 1990s.³⁸ In this case, most Taiwanese manufacturers took advantage of Hong Kong's role as an intermediary in order to escape from the government's monitoring.³⁹

Consequently, as shown in Table 4.2.6, parts and components trade between Hong Kong and Taiwan thrived in the early 1990s, and its total value between 1991 and 2008 was even larger than the accumulated components trade value between Taiwan and China in 2008 (see Table 4.2.4). Similar to the structure of trade across the Taiwan Strait, according to Table 4.2.6, 50% of the total trade value between Taiwan and Hong Kong was from parts and components trade, of which ICT intermediate goods accounted for 74.69%. Since most of these products were re-exported to China for further processing, statistics on components trade between

³⁶ Sam, "Economic Management in Taiwan and Mainland China", 74-77; Fuller, "The Cross-Strait Economic Relationship's Impact", 240-41; Ministry of Justice, ROC, "Regulations Governing Permission of Trade between Taiwan Area and Mainland Area".

³⁷ Ministry of Justice, ROC, "Regulations Governing Permission of Trade between Taiwan Area and Mainland Area"; Keller and Pauly, "Building a Technocracy in China", 52-55.

³⁸ Chen, "Taiwan Investments in China and Southeast Asia", 456-60.

³⁹ Shengliang Sun, "Economic Relations Across the Taiwan Straits and Beijing's Policy Adjustment" in *Cross-Taiwan Straits Relations since 1979: Policy Adjustment and Institutional Change Across the Straits*, ed. Kevin G. Cai (London: World Scientific Publishing Co. Pte. Ltd., 2011), 67-69.

Taiwan and Hong Kong help to demonstrate that cross-Strait economic integration is mainly driven by the dynamics of East Asian regionalization.

Table 4.2.6 Taiwan's components trade with Hong Kong between 1991 and 2008

Commodity	Value (Unit: US\$)	The share of components trade	The share of total trade
HS85	189,758,899,977	67.43%	35.60%
HS90	20,420,777,128	7.26%	3.83%
HS84	63,922,741,197	22.72%	11.99%
HS87	7,298,747,507	2.59%	1.37%
Subtotal of components trade	281,401,165,809	100.00%	52.79%
Total trade value	533,087,953,219		100.00%
Note: 1. For the definitions of HS code and components trade, please refer to Appendix III			
2. The total value of ICT components trade is the sum of HS85 and HS87			

Source: Compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)⁴⁰

4.2.2 The Causes of Taiwan's Mainland Fever

After illustrating Mainland fever using statistics on Taiwan's investment and trade with in China and Hong Kong, this subsection provides explanations for why the Chinese market is so important for Taiwan. In general, the reasons for Taiwan's Mainland fever are twofold. First of all, Taiwan's industrialization strategy, which mainly concentrated on the development of the ICT industries during East Asian regionalization, accounts for Mainland fever. According to interviews with Taiwanese businessmen, because Taiwanese ICT industries are largely composed of

⁴⁰ Bureau of Foreign Trade, MOEA, ROC, "Trade Statistics".

OEMs, China's inherent comparative advantages are very important and in fact non-substitutable for them, especially when they were in the process of industrial upgrading and transformation.⁴¹ Moreover, China's unilateral preferential policies targeting Taiwanese businesses further provided these industries with more advantages to compete with South Korean and Japanese industries.⁴² These factors will be specified in more details below.

4.2.2.1 The Importance of the Chinese Market

Taiwan's strategy of industrialization is a major cause of Mainland fever because the development of ICT industries in the wave of East Asian regionalization features greatly in this strategy that magnifies the complementary nature between the Chinese and Taiwanese economies. It was difficult to imagine that Taiwan, as a small economy with limited labors, capital, and market size, would be able to create the "economic miracle" in the 1980s by cultivating its ICT industries.⁴³ However, Taiwan's unique approach to industrialization — developing small and medium-sized enterprises (SMEs) specialized in manufacturing specific components for US ICT industries — not only helped it to overcome the aforementioned inherent disadvantages but also allowed it to be integrated into the BDCCs.⁴⁴

As most scholars and Taiwanese elites point out, "flexibility" is the crucial advantage of Taiwanese SMEs that further enabled Taiwan to adapt itself to the

⁴¹ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

⁴² Phillip C. Saunders, "Long-Term Trends in China-Taiwan Relations: Implications for U.S. Taiwan Policy", *Asian Survey* 45, no. 6 (2005): 983-85.

⁴³ Ernst, "Inter-Organizational Knowledge Outsourcing", 223-25.

⁴⁴ Yun, "International Production Networks and the Role of the State", 179-81; Hobday, "Latecomer Catch-up Strategy in Electronics", 67-72.

BDCCs.⁴⁵ Firstly, Taiwanese SMEs do not have sufficient labor and capital. Therefore, they usually invest in necessary manufacturing facilities and skills that equip them with capability to undertake certain stages of the manufacturing process.⁴⁶ Although this business operation strategy largely limits the tasks they undertake, which further constrain their profits, this strategy has enabled these SMEs to meet the customers' requirements of punctuality and quality within the BDCCs.⁴⁷ Meanwhile, by strategically focusing on the specific stages of the manufacturing process, Taiwanese SMEs can evade "heavy fixed capital costs" in production, which enables them to quickly switch manufactures with limited expense so that they can promptly react to fluctuations in the market.⁴⁸ Besides, with the government's aid in technology transfer, especially from the Industrial Technology Research Institute (ITRI), the cost for SMEs in shifting production could be even lower.⁴⁹

Furthermore, as discussed in chapter 3, horizontal integration has been an important approach to assist Taiwanese SMEs in overcoming their disadvantages (e.g. limited labor force and capital) to achieve economies of scale.⁵⁰ Accompanied by horizontal divisions of labor, the ICT industry clusters emerged in Northern Taiwan and the area near the EPZ in Kaohsiung City. Within these integrated production networks, Taiwanese SMEs strengthened their connection and cooperation among each other and even with MNCs, beneficial for them to improve or polish their manufacturing skills.⁵¹ Most importantly, the entwisted production networks also enabled them to more easily access different production networks organized by other

⁴⁵ Ernst, "Inter-Organizational Knowledge Outsourcing", 228-31. Jiun-Wei Lu, interviewed by author, March 10, 2014; Tsao-Shan Chou, interviewed by author, April 15, 2014.

⁴⁶ Ibid.

⁴⁷ Gereffi, "The Organization of Buyer-Driven Global Commodity Chains", 99-101.

⁴⁸ Ernst, "Inter-Organizational Knowledge Outsourcing", 228.

⁴⁹ Fuller, "The Cross-Strait Economic Relationship's Impact", 252-53.

⁵⁰ Yun, "International Production Networks and the Role of the State", 179-81.

⁵¹ Ernst, "Inter-Organizational Knowledge Outsourcing", 228-31.

MNCs by shifting production.⁵² According to Taiwanese entrepreneurs, this not only helped Taiwanese SMEs to pass through seasons of slack demands, but also assisted them in expanding business niches.⁵³

Despite the fact that Taiwan's strategy for cultivating SMEs with expertise in producing ICT components within the BDCCs created the "economic miracle", this strategy has been not feasible for maintaining the competitiveness of its ICT industries since the 1990s. Firstly, after the Plaza Accords in 1985, the Taiwanese government also faced heavy pressure to appreciate its currency,⁵⁴ and the New Taiwan Dollar (NTD) appreciated 34.22% against the U.S. Dollar between 1985 and 1992.⁵⁵ The appreciation of NTD negatively impacted upon Taiwanese SMEs' profits from exports; combined with rising costs in land and labor in Taiwan, SMEs moved to the Chinese market so as to protect their business interests.⁵⁶

Secondly, most Taiwanese SMEs were OEMs in the ICT industries, but this business operation model could only generate limited profits. In order to enlarge their business niches, Taiwanese SMEs proceeded to implement industrial transformation and upgrading in order to become original design manufacturers (ODMs) or even original brand manufacturers (OBMs).⁵⁷ This mission entails entrepreneurs investing more in research and development (R&D), as well as marketing strategy.⁵⁸ However,

⁵² Ibid.

⁵³ Brian H. Lin, interviewed by author, December 11, 2014; Henry H. Ho, interviewed by author, December 11, 2014.

⁵⁴ Fuller, "The Cross-Strait Economic Relationship's Impact", 241.

⁵⁵ Central Bank of the Republic of China (Taiwan) (2016), "New Taiwan Dollar Exchange Rates (Interbank Spot Market Closing Rates)", 2016, accessed January 24, 2016, <http://www.cbc.gov.tw/content.asp?CulItem=1879>.

⁵⁶ Brian H. Lin, interviewed by author, December 11, 2014; Henry H. Ho, interviewed by author, December 11, 2014.

⁵⁷ Hobday, "Latecomer Catch-up Strategy in Electronics", 54-56.

⁵⁸ Ibid., 72-74.

OEM's the low-profit business operation model constrained their resources available for R&D. Meanwhile, following Taiwan's democratization, the government cannot "pick the winner" by unconditionally transferring technology to a certain enterprise, as was the case for the establishment of the Taiwan Semiconductor Manufacturing Company (TSMC) in the 1980s.⁵⁹ In this case, SMEs had to either lower the product cost or expand economies of scale so as to spare more resources for R&D.⁶⁰ Nevertheless, the inherent disadvantages of the Taiwanese economy restrict the feasibility of these scenarios, which drove SMEs to relocate their production lines to an economy that could satisfy their demands.

Due to the above predicaments in industrial development, industry offshoring has been prevalent among Taiwanese SMEs since the 1990s, and China is their main destination. This has resulted in vaporization of Taiwan's ICT industry clusters, which further drove large enterprises and component manufacturers, such as ASUS and Yageo, to move their factories to the Mainland.⁶¹ In the case of ASUS, except for the two factories for production experiments, most of their manufacturing facilities were relocated to China in the 1990s in order to utilize the advantages of new ICT industry clusters around Shanghai City and Guangdong Province.⁶² Yageo, the largest providers of passive components in the world, relocated its factories to Shanghai and the Special Economic Zone (SEZ) in Guangdong Province due to the fact that most of their buyers had moved to China, combined with the rising production costs in Taiwan.⁶³ By 2013, Yageo's factories in China accounted for

⁵⁹ Kuo-Hsin Liang, interviewed by author, March 14, 2014.

⁶⁰ Hobday, "Latecomer Catch-up Strategy in Electronics", 72-74.

⁶¹ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

⁶² Kent S. Chien, interviewed by author, December 26, 2014.

⁶³ Dora W. Chang, interviewed by author, December 16, 2014; Jacky B. Chen, interviewed by author,

manufacturing 70% of their products.⁶⁴

The key motivations behind firms' decisions to invest in China were, similar to most East Asian manufactures' concerns in the context of regionalization discussed in chapter 3, low-cost labor, abundant resources and the large size of the Mainland's market. These comparative advantages attracted Taiwanese businessmen to relocate their manufacturing facilities to China since the 1990s.⁶⁵ This then led to the creation of a unique business operation model among the ICT industries in China, Taiwan and even Hong Kong, which is "receiving orders in Taiwan, manufacturing in Mainland China, transiting in Hong Kong, and selling overseas".⁶⁶ In general, this vertical division of labor across the Taiwan Strait has allowed Taiwanese ICT industries to avail from utilizing China's comparative advantages in order to reduce production costs, and thus Taiwanese OEMs have been able to maintain their competitiveness.⁶⁷

Furthermore, the Chinese market contains more than 1.3 billion consumers. While the rapid progress of China's economic development has boosted Chinese purchasing power, most MNCs also planned to access into the Chinese market.⁶⁸ Subsequently, requests from buyers entailed Taiwanese OEMs and components providers to establishing complete supply chains in the Chinese market, or otherwise they would lose their orders.⁶⁹ As Yageo's Corporate Development Department

December 16, 2014.

⁶⁴ Ibid.

⁶⁵ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

⁶⁶ Huang, "TPP versus ECFA", 97.

⁶⁷ Chen, et al., "The ECFA and Its Expected Effect on Cross-Strait Trade and Investment", 109-15.

⁶⁸ Wong, "Commentary: A China-centric Economic Order in East Asia", 286-87.

⁶⁹ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

manager, Mr. Jacky B. Chen, said: “No business can make profits without customers... If our customers want to go to the Mainland, we should be there. If we were not there, our competitors would be”.⁷⁰ The other interviewees from Taiwanese enterprises also share the same perspective.⁷¹ By this reasoning, Taiwanese OEMs were highly sensitive to buyers’ decisions to access the Chinese market, and this augured ill for Taiwan’s policies in managing cross-Strait economic exchanges, which will be discussed in the next section.

The above comparative advantages magnify the importance of the Chinese market, but the real factors that make it irreplaceable for Taiwanese ICT industries are the common language and culture across the Taiwan Strait, as well as its contribution to the industrial transformation and upgrading of Taiwanese ICT industries.⁷² The language and cultural similarities between Taiwan and China provide Taiwanese entrepreneurs the opportunity to utilize the comparative advantages of the Chinese market for their projects of industrial transformation and upgrading. Due to the advantage of having similar cultural traits with China, Taiwanese ICT industries are able to access and integrate into the Chinese market in a relatively short period of time *vis-à-vis* their rivals from South Korea and Japan.⁷³ Moreover, thanks to the common language and culture, Taiwanese businessmen can easily and quickly establish cooperative relationships with Chinese officers, vendors, and manufacturers, which largely decreases the time it takes for them to establish

⁷⁰ Jacky B. Chen, interviewed by author, December 16, 2014.

⁷¹ Brian H. Lin, interviewed by author, December 11, 2014; Henry H. Ho, interviewed by author, December 11, 2014.; Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

⁷² Ibid.

⁷³ Ibid.

supply chains in the Mainland.⁷⁴ Aside from the reduction in time costs, language and cultural similarities between China and Taiwan helped Taiwanese ICT industries to save more costs in employee training and management and therefore they can afford to spend more on R&D.⁷⁵

In addition, the enhancement of labor skill and the large number of consumers in the Chinese market have also contributed to the industrial transformation and upgrading of Taiwanese ICT industries. First of all, with respect to the contribution made by well-educated Chinese labor, particularly Chinese engineers, the enhancement of their professional skills allows Taiwanese ICT industries to pay more attention to R&D. Notably, the increasing number of university graduates in engineering and sciences from Chinese universities has contributed to the enhancement of China's labor skills. According to William Keller and Louis Pauly's survey, between 1994 and 2003, there was a 3.5-fold increase in the number of undergraduate students majoring in engineering and sciences at Chinese universities, which has surpassed 4 million in 2003.⁷⁶ Although China has not yet exceeded Japan and NIEs in technical innovation, their education system has equipped Chinese production engineers with the ability to resolve production lines problems in a short space of time.⁷⁷

Despite the fact that Chinese engineers' professional skills have improved, their wages remain much lower than those in NIEs. Hence Taiwanese entrepreneurs are

⁷⁴ Gordon C. K. Cheung, "New Approaches to Cross-Strait Integration and Its Impacts on Taiwan's Domestic Economy: An Emerging 'Chaiwan'?", *Journal of Current Chinese Affairs* 39, no.1 (2010): 17-18.

⁷⁵ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

⁷⁶ Keller and Pauly, "Building a Technocracy in China", 61.

⁷⁷ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

able to employ more production engineers so as to assure the smooth operation of their production lines with less human resources costs.⁷⁸ As the result of the large-scale recruitment of Chinese engineers, Taiwanese engineers have less duties to maintain production lines in China and thus they can concentrate on the projects of R&D.⁷⁹ Meanwhile, as Yageo's CEO Dora W. Chang, and Asus' Chief Manager Kent S. Chien point out, the budgets for human resources can also be used to expand R&D for industrial transformation and upgrading, or simply redirect remnant capital to their projects of technical innovation.⁸⁰

Apart from the contribution made by Chinese engineers, the large size of the Chinese market has allowed Taiwanese ICT industries to sustain economies of scale despite suffering sanctions from the US and Japanese ICT industries in the process of industrial transformation from OEMs to ODMs or OBM.⁸¹ Specifically, as most scholars have noted, a key factor that enabled Taiwanese ICT industries to experience rapid and burgeoning development had been its ability to utilize "distribution channels" (or marketing channels) of buyers under the OEM's business operation model.⁸² As a result, without developing marketing strategy, Taiwanese OEMs were still able to access the global market— especially the markets of advanced economies— through MNCs' marketing channels.

However, the lack of proficient marketing strategies and distribution channels became problems when Taiwanese ICT industries planned to transform from OEMs

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Hobday, "Latecomer Catch-up Strategy in Electronics", 55.

to OBMs.⁸³ In order to hamper potential rivals in their markets, buyers are generally inclined to deter an OEM from turning into an OBM. As such, Taiwanese ICT industries can no longer take advantage of buyers' distribution channels to market their products in advanced economies. Hence Taiwanese enterprises must create their own marketing strategies and marketing channels, and thus the non-OECD countries become their main target markets at the initial stage of their transforming into OBMs.⁸⁴ Amongst the non-OECD markets, China has captured the most attention from Taiwanese ICT industries, given its large market size and the similarities in language and culture across the Taiwan Strait. This then magnifies the importance of the Chinese market in supporting the industrial transformation and upgrading of Taiwanese ICT industries. The case of ASUS is a good example of this.

As mentioned in chapter 3, before it became an OBM in 2006, ASUS was the largest OEM in Taiwan and was responsible for producing components of mobiles, laptops and PCs for Apple and Dell — 60% of ASUS's annual revenue in average came from these businesses.⁸⁵ In the late 1990s, when ASUS started to carry out its strategy of industrial transformation, it began to catch the attention of its customers. Kent S. Chien said: "When we were focusing on brand building, many of our customers, including Dell and Apple, expressed strong opposition to us".⁸⁶ He further elaborated: "Our customers even threatened to cancel their orders, but our annual revenue was mainly from these orders at that time".⁸⁷ In order to resolve this crisis, in 2006, ASUS decided to segment its OEM department by establishing a new

⁸³ Ibid.

⁸⁴ Yun, "International Production Networks and the Role of the State", 178-80; Hobday, "Latecomer Catch-up Strategy in Electronics", 72-75.

⁸⁵ Kent S. Chien, interviewed by author, December 26, 2014.

⁸⁶ Ibid.

⁸⁷ Ibid.

company —Pegatron Corporation— to keep fabricating products for their buyers.⁸⁸ This measure helped ASUS to preserve its customers and thus stabilize its revenue in the process of brand building. Nonetheless, ASUS still suffered a certain degree of loss, as Foxconn overtook ASUS's leadership of Taiwan's OEMs in 2007.⁸⁹

While ASUS suffered a loss of orders and marketing channels owing to sanctions imposed by the US and Japanese MNCs, it was imperative for ASUS to quickly penetrate the market in order to sustain its strategy of industrial transformation. In this case, China became ASUS' target market because cultural and language similarities reduced the time and expenses needed for marketing strategy.⁹⁰ Kent S. Chien further indicated that:

*“since we [ASUS] have more competitiveness in the Mainland, we should certainly go there to achieve economies of scale as soon as possible. After this, we would have chance to extend our business to the US or EU... Actually, we have no reason to ignore the largest market in the world [China] even after entering into American or European markets”.*⁹¹

By this reasoning, after accessing the Chinese market, ASUS could utilize China's large market to compensate for its inability to access advanced economies due to the lack of marketing channels. Additionally, considerable revenue from sales in the Chinese market could further assist ASUS in expanding its distribution channels in the OECD markets. Taiwanese ICT industries therefore perceive the success of

⁸⁸ Ibid.

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Ibid.

entering into the Chinese market as an essential precondition for their strategies of industrial transformation and upgrading.

4.2.2.2 China's Unilateral Trade Preferential Policy

So far, this section has explored how Taiwanese ICT industries benefited from the low-cost production factors in the Chinese market, and also confirmed the importance of the Chinese market for their strategies of industrial upgrading and transformation. However, Taiwan's Mainland fever is by no means purely caused by economic dynamics. Rather, China's unilateral trade preferential policies for Taiwan has also been important in generating this phenomenon because they further provided Taiwanese businessmen with advantages to rival Japanese, South Korean, and even US ICT industries.

Following the implementation of China's "reform and opening up" strategy in 1978, the pursuit of economic development in a peaceful environment became the main mission of Chinese leaders. In this context, Beijing soon issued the "Message to Compatriots in Taiwan" in January 1979, which confirmed peaceful reunification as the framework for tackling the Taiwan issue, and facilitating economic exchanges across the Taiwan Strait became the main theme of Beijing's Taiwan policy.⁹² Beijing's first concerted policy effort in promoting cross-Strait economic exchanges was the "Temporary Regulations Regarding Opening Trade with Taiwan" issued in May 1979, which unilaterally legitimized trade with Taiwan.⁹³ Moreover, Beijing enacted more preferential policies towards Taiwanese entrepreneurs by issuing the

⁹² NPC, PRC (1979), "Message to Compatriots in Taiwan".

⁹³ Denny Roy, "Cross-Strait Economic Relations: Opportunities Outweigh Risks", *Asia-Pacific Center for Security Studies, Occasional Paper Series* (2004): 1.

“Supplementary Regulations on Purchase of Taiwan Products” in 1980, which stipulated that Chinese enterprises should offer a minimum 20% discount to Taiwanese businessmen when they purchased goods or resources from the Mainland.⁹⁴ Simultaneously, Taiwanese businesses could also enjoy tariff exemption when exporting goods manufactured in Taiwan to the Chinese market.⁹⁵

Apart from the above preferential trade policies, Beijing also unilaterally implemented a series of preferential investment policies targeting Taiwanese manufacturing industries. China’s motivations with regards to these policies stemmed from its interest in economic development under the “reform and opening up” strategy. As most Chinese elites point out, on the one hand, given the advanced technology and manufacturing skills of Taiwan, investment from Taiwanese manufacturing industries could make a significant contribution to China’s projects of industrialization and economic modernization.⁹⁶ On the other hand, language and cultural similarities meant that it only took Chinese manufacturers a short period of time to learn manufacturing skills from Taiwanese enterprises, which accelerated the process of China’s industrialization.⁹⁷ As a result, in attempting to attract Taiwanese investment, in 1981, Chinese leader Ye Jianying first announced that “industrialists and businessmen in Taiwan are welcome to invest and engage in various economic undertakings on the mainland, and their legal rights, interests, and profits are guaranteed”.⁹⁸

⁹⁴ Shengliang Sun, “Economic Relations Across the Taiwan Straits”, 72.

⁹⁵ Ibid.

⁹⁶ Yong Wang, interviewed by author, November 11, 2013; Rui Pan, interviewed by author, December 10, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

⁹⁷ Ibid.

⁹⁸ TAO, “Ye Jianying on Taiwan’s Return to Motherland and Peaceful Reunification (1981)”, 2002, accessed January 13, 2015,

http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790062.htm

Furthermore, in line with its strategy of attracting foreign direct investment by establishing the SEZs discussed in chapter 3, in 1983 the Chinese government published the “Special Preferential Scheme for Investment by Taiwan Compatriots in the Special Economic Zones”.⁹⁹ According to this scheme, aside from pre-existing preferential treatment within SEZs, Taiwanese businessmen were also exempted from the “land use fees” for five years and corporate income tax for four years after the first profit-earning year.¹⁰⁰ Furthermore, they could also enjoy a 50% reduction of corporate income tax after the fifth year of profit-making.¹⁰¹ Moreover, the Chinese government also allowed 30% of goods produced by Taiwanese manufactures in the Mainland to have direct access to the Chinese market within the official marketing channels.¹⁰² Finally, the Chinese government also promised to protect those Taiwanese enterprises from Taiwan’s punishment by ensuring that their investments in the Mainland were kept confidential.¹⁰³

In 1988, Beijing further published the “Regulations of the State Council of The People’s Republic of China for Encouraging Taiwan Compatriots to Invest in the Mainland”, which affirmed that Taiwanese people would enjoy the privileges of establishing “wholly-owned enterprises”, “purchasing enterprise shares and bonds”, “buying real estate”, and applying for preferential tariff treatments as well as loans with low-interest.¹⁰⁴ Most importantly, in Article 8, Beijing assured Taiwanese

⁹⁹ Shengliang Sun, “Economic Relations Across the Taiwan Straits”, 73.

¹⁰⁰ 中華人民共和國國務院, “關於台灣同胞到經濟特區投資的優惠管理辦法”, 1983 ; State Council of the People’s Republic of China, “Special Preferential Scheme for Investment by Taiwan Compatriots in the Special Economic Zones”, 1983, accessed January 13, 2015, <http://www.reformdata.org/content/19830405/10619.html>.

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ State Council of the People’s Republic of China, “Regulations of the State Council of The People’s Republic of China for Encouraging Taiwan Compatriots to Invest in the Mainland”, 1988, accessed January 13, 2015,

businessmen that the government would not “nationalize Taiwanese assets” in any circumstance.¹⁰⁵ According to Article 18, in addition to preferential treatment from the central government, preferential policies issued by the local governments would also be applicable to Taiwanese enterprises in the mean time.¹⁰⁶

In general, by reviewing China’s preferential policy measures targeting Taiwan, it is clear that the treatment Taiwanese businesses experienced in the Mainland was far better than the other foreign investors and nearly equivalent to Chinese domestic enterprises. For example, whereas Beijing had allowed Taiwan to establish “wholly-owned enterprises” with simplified approval procedures, other foreign investors were still required to go through a series of stringent censorship mechanisms in order to establish an enterprise in China with rigid preconditions based on the “Law of People’s Republic of China on Foreign Capital Enterprises” before the 2000s.¹⁰⁷ The uniquely low corporate income tax rates and extraordinary raw material discounts for Taiwanese manufacturers also greatly reduced their production costs in the mainland. As such, since the 1990s, most MNCs have preferred to outsource their products to Taiwanese enterprises in the Mainland, especially when they planned to access the Chinese market.¹⁰⁸ As investing in China was conducive to increasing order volume, the Mainland became the main destination for Taiwan’s outward investments (see Table 4.2.1) following Taiwan’s decision to relax the rules on investment in China in the early 1990. The problem of

<http://english.mofcom.gov.cn/aarticle/lawsdata/chineselaw/200211/20021100053824.html>.

¹⁰⁵ Ibid.

¹⁰⁶ Ibid.

¹⁰⁷ NPC, PRC, “Law of People’s Republic of China on Foreign Capital Enterprises”, 1986, accessed January 13, 2015, http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383937.htm; State Council of the People’s Republic of China, “Regulations of the State Council of The People’s Republic of China for Encouraging Taiwan Compatriots to Invest in the Mainland”.

¹⁰⁸ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

“hollowing-out” effects captured attention of Taiwanese policymakers, yet they were more concerned about the erosion of sovereignty in the process of cross-Strait economic integration.

Indeed, it is noteworthy that China’s preferential trade and investment policies targeting Taiwanese enterprises are not purely driven by economic modernization. Instead, Chinese leaders subtly incorporated its peaceful reunification agendas with the above preferential policies in 1979, which has then evolved as China’s commercial diplomacy towards Taiwan since the 1980s. This is most evident in the “Temporary Regulations Regarding Opening Trade with Taiwan” promulgated in 1979, which explicitly clarified: “Trade with Taiwan is a special form of trade in the transitional period before Taiwan returns to the motherland...to create conditions for unification of the motherland” in Article 1.¹⁰⁹ Similar announcements were “Deng Xiaoping’s Six Conceptions for the Peaceful Reunification”, President Jiang Zemin’s “Eight Point Proposal”, and President Hu Jintao’s “Six Proposals”, which all stress that cross-Strait economic integration is crucial for China’s strategy of “peaceful reunification”.¹¹⁰ In response to China’s commercial diplomacy, as will be discussed in the next section, Taiwanese leaders adopted several policies to limit cross-Strait economic exchanges between 1996 and 2008 so as to safeguard Taiwan’s sovereignty.

¹⁰⁹ Denny Roy, “Cross-Strait Economic Relations”, 1.

¹¹⁰ TAO, “Deng Xiaoping’s Six Conceptions for the Peaceful Reunification (1983)”, accessed January 13, 2016, http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790064.htm ; TAO, “Jiang Zemin’s Eight-point Proposal”, 1995, accessed January, 2015, http://www.gwytb.gov.cn/en/Special/Jiang/201103/t20110316_1789198.htm; TAO, “Let Us Join Hands to Promote the Peaceful Development of Cross-Strait Relations and Strive with a United Resolve for the Great Rejuvenation of the Chinese Nation”.

4.3 Taiwan: The Struggle between Economic and Sovereignty Interests

The economic dynamics of Asia-Pacific regional integration have impinged on cross-Strait economic integration. However, as opposed to economic dynamics, political issues — particularly the controversies over sovereignty between China and Taiwan — have always been obstacles to the development of cross-Strait economic integration. As will be discussed in this section, Beijing's intention of taking advantage of Taiwan's Mainland fever to further its reunification agenda in the process of cross-Strait economic integration has captured the attention of Taiwanese leaders. As such, during Lee Teng-hui's and Chen Shui-bian's presidencies, they spared no effort to promote Taiwan's independence movements.¹¹¹ Meanwhile, in order to reduce the degree of Taiwan's economic dependence on China, the "No Haste, Be Patient" and "Active Management, Effective Opening" policies dominated Taiwan's strategies concerning cross-Strait economic exchanges.¹¹² Additionally, the Taiwanese government also adopted the "go south" strategy in an attempt to direct Taiwan's investment from China to ASEAN.¹¹³ Nonetheless, Taiwan's policies for restricting cross-Strait economic exchanges were unsuccessful because they contradicted the economic dynamics across the Taiwan Strait. Moreover, the effectiveness of Taiwan's "go south" policy was also limited following the onset of the 1997 Asian financial crisis.¹¹⁴

¹¹¹ Hickey, "Wake Up to Reality", 4-7.

¹¹² T. Y. Wang, "Lifting the 'No Haste, Be Patient' Policy: Implications for Cross-Strait Relations", *Cambridge Review of International Affairs* 15, no. 1 (2002): 132; To-hai, Liou, "Cross-Taiwan Straits Economic Relations and the ECFA", in *Cross-Taiwan Straits Relations since 1979: Policy Adjustment and Institutional Change Across the Straits*, ed. Kevin G. Cai (London: World Scientific Publishing Co. Pte. Ltd., 2011), 160-63.

¹¹³ Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

¹¹⁴ *Ibid.*

4.3.1 Taiwan: Managing Cross-Strait Economic Exchanges

As most Taiwanese policymakers have pointed out, between 1996 and 2008 Taiwan often struggled to maintain equilibrium between economic and sovereignty interests, with regards to managing cross-Strait economic integration.¹¹⁵ By studying Taiwan's policies concerning cross-Strait economic integration during this period, we can see that Taipei's attitude towards the issues of liberalizing economic exchanges with the Mainland became volatile. While Beijing furthered its interest of promoting the "one-China principle" in the process of cross-Strait economic cooperation, Taipei often restricted economic exchanges with China in order to reduce the degree of Taiwan's economic dependence on China.¹¹⁶ When Taiwanese businessmen organized interest groups to lobby the government to promote cross-Strait economic cooperation, Taipei was forced to switch its mainland policy from "positive management" to "positive opening".¹¹⁷

4.3.1.1 The "No Haste, Be Patient" Policy in the Context of "Special State-to-State Relationship"

Taiwan's struggle to balance its economic and sovereignty interests can be traced back to 1996, when Taiwanese President Lee Teng-hui announced the "No Haste, Be Patient" policy towards China.¹¹⁸ The "No Haste, Be Patient" policy was the first policy aimed at restricting cross-Strait economic exchanges since Taiwan's promise to gradually liberalize economic relations with China in 1990. Following the

¹¹⁵ Ming-Tong Chen, interviewed by author, October 28, 2013; Chieh-Cheng Huang, interviewed by author, April 10, 2014.

¹¹⁶ Richard C. Bush, *Untying the Knot*, 45-71.

¹¹⁷ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 60-67.

¹¹⁸ Su, *Taiwan's Relations with Mainland China*, 49-51.

announcement of this policy, Taipei amended the “Review Guidelines for Investment and Technological Cooperation in the Mainland Area” in 1997 so as to strengthen surveillance of Taiwanese high-tech industries’ investment in China — particularly investment from Taiwanese ICT industries — in an attempt to combat Mainland fever.¹¹⁹ In general, Taiwan stipulated that all entrepreneurs must be granted permission by the government before investing in any project in the mainland, and the total amount of their investment could not surpass US\$50 million.¹²⁰ Meanwhile, Taiwan also imposed stringent measures including heavy fines and the revocation of investment permission in order to punish delinquent enterprises.¹²¹

With respect to Taiwan’s motivation behind the “No Haste, Be Patient” policy, Taiwanese policymakers under Lee Teng-hui’s presidency, such as former Vice Premier Professor Liu Chao-shiuan, former Minister of the Mainland Affairs Council Professor Su Chi, former Deputy Minister of the Mainland Affairs Council Professor Lin Chong-pin, all pointed out that Taiwan’s political concerns outweighed economic interests in managing cross-Strait economic relations at that moment.¹²² Generally speaking, there were two factors that drove Taipei to restrict cross-Strait economic exchanges: the threat to Taiwan’s sovereignty interests caused by Mainland fever, and the nervous relations between China and Taiwan in 1996 provoked by Taiwan’s unilateral movements towards consolidating its domestic and international legal sovereignty.¹²³

¹¹⁹ The Government Information Office, the Republic of China, *1999 the Republic of China Yearbook* (China Color Printing Co. Inc., 1999), 167-69.

¹²⁰ Ibid.

¹²¹ 中華民國經濟部(1997), “在大陸地區從事投資或技術合作許可辦法”; Ministry of Economic Affairs, Republic of China, “Regulations Governing the Approval of investment or Technical Cooperation in Mainland China”, 1997.

¹²² Chong-pin Lin, interviewed by author, February 19, 2014; Chi Su, interviewed by author, March 18, 2014; Chao-Shiuan Liu, interviewed by author, March 24, 2014.

¹²³ Ibid.

Indeed, since Taiwan gradually opened economic exchanges with China in the early 1990s, the question of how to safeguard its sovereignty whilst pursuing economic interest in the process of cross-Strait economic integration has been a recurrent dilemma. Although Taiwan's policy of restricting economic exchanges with the Mainland was mainly driven by its concern over sovereign interests, it is noteworthy that at the initial stage of the resumption of cross-Strait economic exchanges in the early 1990s, Taiwan's Mainland policy was actually propelled by its interests in economic development.¹²⁴ Not until Taiwan's sovereignty interests confronted severe challenges caused by Mainland fever, as well as China's assertive attitude in defining Taiwan's political status, did Taipei adopt the "No Haste, Be Patient" policy for managing cross-Strait economic relations.

In the early 1990s, Taipei's concerns over opening cross-Strait economic exchanges were actually rooted in the interests of exploiting the low-cost production factors in the Chinese market in order to assist Taiwanese manufacturing industries in maintaining their competitiveness.¹²⁵ For this purpose, the strategic logic of "buying time in order to create strategic space" seemingly dominated Taiwan's Mainland policy, and accordingly Taipei shelved controversies over sovereignty so as to promote cross-Strait economic exchanges.¹²⁶ As such, rather than directly defying Beijing's reunification agenda, Taipei strategically took the issues of cross-Strait economic liberalization as the main theme of cross-Strait negotiation in an attempt to avoid political dialogues concerning reunification.

¹²⁴ Leng, "Dynamics of Taiwan-Mainland China Economic Relations", 500.

¹²⁵ Bush, *Untying the Knot*, 28-35; Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 48-55.

¹²⁶ Chao-Shiuan Liu, interviewed by author, March 24, 2014; Chi Su, interviewed by author, March 18, 2014.

Taking the “Guidelines for National Unification” promulgated in 1991 as an example, it is clear that Taiwan explicitly claimed that the issue of reunification was non-negotiable until both sides become fully-fledged democracies.¹²⁷ Meanwhile, through this guideline, Taiwan also indicated that it would not commence negotiation over the “three direct links” with Beijing unless China implements a project of democratization.¹²⁸ Notably, although China had been carrying out its economic reform project since 1978, political reform — particularly in terms of democratization — remained unforeseeable in the short term. By this reasoning, Taiwan’s intention to avoid political dialogue with China in the process of cross-Strait economic cooperation was very apparent.

Nevertheless, according to these guidelines, the Taiwanese government made a promise to “gradually ease various restrictions” on cross-Strait economic exchanges insofar as these measures would not endanger Taiwan’s national security.¹²⁹ Subsequently, Taiwan established the semi-official Straits Exchange Foundation (SEF) to negotiate economic issues with China’s semi-official Association for Relations Across the Taiwan Straits (ARATS) based on the 1992 Consensus.¹³⁰ Moreover, by amending the “Statute Governing the Relations between the People of the Taiwan Area and the Mainland Area” in 1993, Taiwan permitted indirect trade with the Mainland and allowed more than 3,700 industries to invest in the Chinese

¹²⁷ Mainland Affairs Council, Republic of China, “Guidelines for National Reunification”, 1991, accessed on January 13, 2015, <http://www.mac.gov.tw/ct.asp?xItem=68107&ctNode=5910&mp=3>

¹²⁸ Ibid.

¹²⁹ Ibid.

¹³⁰ Chien-Pin Li, “Conflict of Interest and Values: An Analysis of Negotiations between Taiwan and China, 1992-1998”, *International Negotiation* 16, no. 2 (2011): 249-50.

market.¹³¹ However, President Lee Teng-hui's initial Mainland policy had generated disaffection among not only Taiwanese businessmen but also Chinese leaders.

First of all, despite the fact that Taipei had relaxed restrictions on investment in the Mainland, most Taiwanese manufacturers, especially the ICT and petrochemical industries, remained on the "prohibition list" of the "Regulations Governing Permission of Trade between Taiwan Area and Mainland Area".¹³² Entrepreneurs from Taiwan's large corporations therefore spared no effort in lobbying the government to liberalize economic relations with China, and some of them had even eschewed the government's restrictions to invest in China.¹³³

The most popular case was Formosa Plastics Group's power plant projects in Fujian Province, which were worth more than US\$3 billion in total.¹³⁴ Regardless of the government's prohibition, Wang Yung-chin, President of the Formosa Plastics Group, established subsidiaries in a third country in order to inject capital into his power plant projects in China.¹³⁵ In addition to the case of Formosa Plastics Group, other Taiwanese entrepreneurs, such as Chang Yung-fa (President of the Evergreen Corporation) and Morris Chang (Chairman of TSMC), had also lobbied the government to lift restrictions on cross-Strait economic relations.¹³⁶ Facing great pressure from enterprises, combined with the rapid growth of Taiwan's investment in China since 1993 (see Table 4.2.1), Lee Teng-hui's administration was worried about

¹³¹ Chen, "Understanding the Political Economy of Cross-Strait Security", 394-95.

¹³² Ministry of Justice, ROC, "Regulations Governing Permission of Trade between Taiwan Area and Mainland Area".

¹³³ Wang, "Lifting the 'No Haste, Be Patient' Policy", 134.

¹³⁴ Chen, "Understanding the Political Economy of Cross-Strait Security", 396.

¹³⁵ Syaru Shirley Lin, *Taiwan's China Dilemma: Contested Identities and Multiple Interests in Taiwan's Cross-Strait Economic Policy* (Stanford: Stanford University Press, 2016), 82-87.

¹³⁶ Chen, "Understanding the Political Economy of Cross-Strait Security", 396; Wang, "Lifting the 'No Haste, Be Patient' Policy", 134.

the emergence of a “fifth column” following the development of cross-Strait economic cooperation.¹³⁷ Meanwhile, President Lee Teng-hui also worried that complying with Taiwanese businessmen’s demands would eventually drag Taiwan back to the negotiation table, which would provide Beijing with more bargaining chips that it could be used to trap Taiwan with its “one-China” framework.¹³⁸ As such, Taipei decided to restrict cross-Strait economic exchanges by implementing the “No Haste, Be Patient” policy.

In addition to the aforementioned political pressure caused by Mainland fever, the disputed sovereignty issue between China and Taiwan has always been an obstacle to cross-Strait economic integration. As discussed before, while Taiwan’s Mainland policy was mainly driven by economic interests in the early 1990s, Taipei chose to downplay discrepancies between both sides’ definitions of the “one-China principle”. Nonetheless, owing to Beijing’s insistence on the principle that any negotiation with Taiwan must be based on the “one-China principle”, as Professor Su Chi indicated, Taiwan’s strategy was to blur Beijing’s “one-China principle” by proposing “one China, respective interpretations”, which then became the 1992 Consensus discussed in chapters 1 and 2.¹³⁹

Chinese leaders reluctantly accepted this ambiguous definition of “one-China” in order to ensure smooth negotiations between the SEF and ARATS in 1992, as facilitating cross-Strait economic exchanges was also in line with Beijing’s economic interests.¹⁴⁰ However, in 1993, Beijing erased this ambivalence by issuing the White

¹³⁷ Ibid.

¹³⁸ Chu, “Taiwan’s National Identity Politics and the Prospect of Cross-Strait Relations”, 499-500.

¹³⁹ Chi Su, interviewed by author, March 18, 2014.

¹⁴⁰ Ibid.

Paper of “The Taiwan Question and Reunification of China”, which claimed: “there is only one China and the Government of the People’s Republic of China is the sole legal government of China, and Taiwan is part of China”.¹⁴¹ In this context, continuing economic negotiations with China entailed Taiwan endorsing Beijing’s “one-China principle”, which would be detrimental to Taiwan’s sovereignty. On the one hand, ratifying the PRC as “the sole legal government of China” would endanger Taiwan’s international legal sovereignty since Taipei had adhered to the 1992 Consensus.¹⁴² On the other hand, as Beijing claimed that “China” could only be referred to as the PRC, accepting that Taiwan is inseparable from China would be equivalent to endorsing China’s “one country, two systems formula”, allowing Beijing to encroach on Taiwan’s domestic sovereignty.¹⁴³

In response to China’s assertive attitude towards the “one-China principle”, Taipei slowed its negotiations with Beijing. Since 1994, the SEF reached no new agreements concerning cross-Strait exchanges with the ARATS except the issue of transportation between Hong Kong and Taiwan after 1997.¹⁴⁴ President Lee Teng-hui also carried out a two-pronged strategy aimed at consolidating Taiwan’s sovereignty.

Firstly, in an attempt to consolidate Taiwan’s domestic sovereignty, President Lee promoted a direct Presidential election in Taiwan, which was held in 1996. As discussed in chapter 2, the KMT had always been taken as an “external governing

¹⁴¹ TAO, “The Taiwan Question and Reunification of China”.

¹⁴² Ibid.

¹⁴³ Lee, “Understanding Taiwan”, 12.

¹⁴⁴ SEF, “Chronology of Meetings”.

power” in Taiwan which was a result of the Chinese civil war.¹⁴⁵ In this regard, the KMT government could only represent “Republic of China” on the Mainland rather than Taiwan. and this had justified Beijing’s statement that Taiwan “became an issue only as an aftermath of the ensuing civil war started by Kuomintang” which is “China’s” domestic affair.¹⁴⁶ Therefore, President Lee Teng-hui decided to facilitate the project of democratization.

As President Lee won the 1996 presidential campaign, the KMT government has not only legitimized its governing power but also confirmed the “Republic of China on Taiwan” that enabled Taipei to counter Beijing’s “one country, two systems” framework.¹⁴⁷ Notably, in the process of Taiwan’s democratization President Lee further reshaped Taiwanese national identity by creating the term “New Taiwanese”, which means “those who are willing to fight for the prosperity and survival of their country, regardless of when they or their forbears arrived on Taiwan, regardless of their provincial heritage or native language”.¹⁴⁸ This challenged the credibility of Beijing’s assertion that both peoples are Chinese and that “national reunification...is a sacrosanct mission of the entire Chinese people”.¹⁴⁹

Secondly, aside from promoting democratization, Lee’s administration adopted the strategy of “pragmatic diplomacy” for consolidating Taiwan’s *de jure* sovereignty.¹⁵⁰ The main mission of this strategy was to counter Beijing’s “one-China principle” in the international community by disseminating “the

¹⁴⁵ Yu-Shan Wu, “The KMT and the One-China Principle: National Identity in Flux”, in *Taiwanese Identity in the Twenty-First Century: Domestic, regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 52-55.

¹⁴⁶ TAO, “The Taiwan Question and Reunification of China”.

¹⁴⁷ Lee, “Understanding Taiwan”, 9-14.

¹⁴⁸ *Ibid.*, 9.

¹⁴⁹ TAO, “The Taiwan Question and Reunification of China”.

¹⁵⁰ Su, *Taiwan’s Relations with Mainland China*, 4.

Republic of China on Taiwan”, as demonstrated during President Lee Teng-hui’s speech at Cornell University in the US in 1995.¹⁵¹ At the same time, Lee’s administration also forged the “go south” policy aimed at strengthening relations with ASEAN countries by deepening bilateral economic cooperation, which will be discussed later.¹⁵²

In order to counter Taipei’s pro-independence policy, Chinese leader Jiang Zemin soon issued the “Eight-point Proposal” in 1995 that clearly expressed Beijing’s stance of against “Taiwan’s activities in ‘expanding its living space internationally’, aimed at creating ‘two Chinas’ or ‘one China, one Taiwan’.”¹⁵³ Moreover, to demonstrate their determination to reunify Taiwan, China also held a series of military maneuvers and missile tests in the Taiwan Straits between 1995 and 1996, which resulted in the third cross-Strait crisis. From thereon, Beijing spared no effort in downgrading Taiwan’s international legal sovereignty by defining the island as a “province” of the PRC.¹⁵⁴ Beijing’s assertive attitude eventually pushed President Lee Teng-hui to defend Taiwan’s statehood by proposing the “two state theory”, which defined cross-Strait relations as “a special state-to-state relationship”.¹⁵⁵

Specifically, during an interview with Voice of Germany on July 9, 1999, President Lee said:

“The 1991 constitutional amendments have placed cross-Strait relations as a state-to-state relationship, rather than an internal relationship of ‘one

¹⁵¹ Ibid., pp. 33-35.

¹⁵² Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

¹⁵³ TAO, “Jiang Zemin’s Eight-point Proposal”.

¹⁵⁴ Su, *Taiwan’s Relations with Mainland China*, 41-43.

¹⁵⁵ Lee, “Understanding Taiwan”, 12.

China' between a legitimate government and a renegade group, or between a central government and a local government."¹⁵⁶

President Lee had later reiterated that his statement was based on the *status quo* across the Taiwan Strait, thus suggesting that this statement was not accidental.¹⁵⁷

However, as President Lee did not specify his motivation for making this statement, there has been a great deal of speculation amongst analysts about what he actually wanted to imply. Some scholars suspected that he intended to further promote *de jure* independence by amending the constitution, while others questioned whether this statement was intended to prevent further semi-official talks with Beijing on "the 50th anniversary of the PRC".¹⁵⁸ There was even a strong suspicion that President Lee tried to assist the DPP's presidential candidate, Chen Shui-bian, to win the campaign in 2000.¹⁵⁹ Although Lee's real intentions may not become apparent until there is more evidence, it is clear that his statement regarding the "special state-to-state relationship" has had a profound impact on the 1992 Consensus.

First of all, President Lee distinguished Taiwan's "territoriality" from the Mainland in his statement on the "special state-to-state relationship" based on the ROC's constitution, which has impacted upon Beijing's sovereignty claim over

¹⁵⁶ Teng-hui Lee, "Exclusive Interview with Voice of Germany (July 9, 1999)", *Chinese Law and Government* 35, no. 5 (2002): 57.

¹⁵⁷ Lee, "Understanding Taiwan", 12; Teng-hui Lee, "Special State-to-State Relations: Saying 'Yes' to Reality", *New Perspectives Quarterly* 16, no. 5 (1999): 48-49.

¹⁵⁸ Bush, *Untying the Knot*, 219-22; Su, *Taiwan's Relations with Mainland China*, 68-76.

¹⁵⁹ Yu-Shan Wu, "The Evolution of the KMT's Stance on the One China Principle: National Identity in Flux", in *Taiwanese Identity in the Twenty-first Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 61-62.

Taiwan based on the 1992 Consensus.¹⁶⁰ As discussed in chapter 2, the 1992 Consensus provides no clear answer to the question of who represents “China”.¹⁶¹ Article 4 of the ROC’s Constitution delineates no clear national boundary.¹⁶² As such, the implicit juridical link between China and Taiwan was found in the PRC’s Constitution and Taiwan’s “Guideline for National Unification”.¹⁶³ However, when speaking of the “special state-to-state relationship”, President Lee cited “Article 10 of the Additional Articles” of the ROC’s constitution which “limits the area covered by the Constitution of the Taiwan area”, in order to define Taiwan’s territory.¹⁶⁴ He further highlighted that both the PRC and ROC coexist in the international system, which is equivalent to the “two China” discourse.¹⁶⁵ While President Lee rejected that the ROC’s territory is “overlapping” with the PRC, this was equivalent to denying Beijing’s claims on Taiwan’s international legal and Westphalian sovereignty.

In addition to territoriality, President Lee Teng-hui also emphasized Taiwan’s domestic sovereignty by citing “Article 2 of Additional Articles” of the ROC’s Constitution, which necessitates that Taiwan’s president be elected following a direct presidential campaign.¹⁶⁶ This clearly illustrates the divergence between the Chinese and Taiwanese regimes. Combined with the aforementioned “New Taiwanese” identity, President Lee’s “special state-to-state relationship” further strengthened Taiwanese identity, which then allowed Taiwanese people to discern “us” from “them”

¹⁶⁰ Ibid.

¹⁶¹ Su, *Taiwan’s Relations with Mainland China*, 12-16.

¹⁶² Ministry of Justice, ROC, “Constitution of the Republic of China”.

¹⁶³ MAC, ROC, “Guidelines for National Reunification”; NPC. PRC, “The Constitution of People’s Republic of China”.

¹⁶⁴ Lee, “Exclusive Interview with Voice of Germany (July 9, 1999)”, 57-58.

¹⁶⁵ Lee, “Special State-to-State Relations”, 48.

¹⁶⁶ Ibid.

in the process of cross-Strait exchanges. Subsequently, Lien Chan's (the KMT presidential candidate) discourse of "Chinese helping Chinese" and his policy of rapprochement of cross-Strait relations became unpopular in Taiwanese society during the 2000 and 2004 presidential campaigns.¹⁶⁷ Meanwhile, as a result of the emergence of Taiwanese identity, Beijing faced difficulties in making "Chinese nationalism" appeal to Taiwanese people.¹⁶⁸ This explains why the 1992 Consensus had lost its momentum until 2008.

Following President Lee's announcement of the "special state-to-state relationship", the 1992 Consensus was abolished. Beijing also displayed a hostile attitude towards Taiwan's attempts at attaining independence by holding military exercises targeting Taiwan's outlying islands.¹⁶⁹ In general, between 1996 and 2000, as a consequence of tense relations across the Taiwan Strait caused by the disputed "one-China principle", the progress of normalization of cross-Strait economic relations became stagnant. Professor Liu Chao-shiuan said: "The mainland expected us [Taiwan] to accept their 'one-China' framework ... However, it was not acceptable for us because there were polarized opinions on this issue in Taiwan."¹⁷⁰ He further elaborated that: "When either of us [the mainland or Taiwan] stubbornly required the other side to accept its own framework [the 'one-China' framework] as a precondition of cross-Strait exchanges, the government had no space to promote bilateral cooperation."¹⁷¹

¹⁶⁷ Wu, "The Evolution of the KMT's Stance on the One China Principle", 62.

¹⁶⁸ Chien-Min Chao, "Will Economic Integration Between Mainland China and Taiwan Lead to a Congenial Political Culture?", *Asian Survey* 43, no. 2 (2003): 289-94.

¹⁶⁹ Chong-pin Lin, "Goodwill and Proactive Exchange Policy: How Taipei Manages the Cross-Strait Relations", *Journal of Contemporary China* 10, no. 29 (2001): 712-13

¹⁷⁰ Chao-Shiuan Liu, interviewed by author, March 24, 2014.

¹⁷¹ Ibid.

4.3.1.2 President Chen Shui-bian's Mainland Policy

Cross-Strait relations were strained under Lee Teng-hui's final presidency, and these became even more fragile after Chen Shui-bian — a pro-independence leader from the DPP — won Taiwan's presidential election in 2000. As most analysts observed, during President Chen Shui-bian's presidency, from 2000 to 2008, Taiwan's Mainland policy was erratic and more assertive in terms of pursuing Taiwan's *de jure* sovereignty than Lee's administration.¹⁷² Many examples support this argument. At the beginning of the first term of his presidency, President Chen Shui-bian took a positive attitude towards cross-Strait economic integration, but he then condemned Beijing's initiative of promoting economic exchanges with Taiwan as “sugar coated poison”.¹⁷³ Nonetheless, during his presidency, Taiwan eased restrictions on economic exchanges with China, typified by the “Active Opening, Effective Management” policy.¹⁷⁴

Another case of Taipei's volatile Mainland policy under Chen Shui-bian's presidency has been his promise of not adopting a pro-independence policy. In his inaugural speech in 2000, President Chen promised that he would “not declare independence”, “not change the national title”, “not push forth the inclusion of the so-called ‘state-to-state’ description in the Constitution”, “not promote a referendum to change the status quo”, and claimed that “there is no question of abolishing the Guidelines for national Unification and the National Unification Council” insofar as

¹⁷² Gunter Schubert and Stefan Braig, “How to Face An Embracing China? The DPP's Identity Politics and Cross-Strait Relations During and After the Chen Shui-bian Era”, in *Taiwanese Identity in the Twenty-first Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 72-88.

¹⁷³ Hickey, “Wake Up to Reality”, 2.

¹⁷⁴ Tanner, *Chinese Economic Coercion Against Taiwan*, 50-62.

the mainland “has no intention to use military force against Taiwan”.¹⁷⁵ However, these promises were exposed as nothing but rhetoric. Even though China’s Vice Premier leader Qian Qichen recalibrated Beijing’s “one-China principle” based on the 1992 Consensus by emphasizing the “equality” between both sides in September 2000, Taiwanese President Chen Shui-bian was still resolute in assuming *de jure* independence.¹⁷⁶

In 2002, Taiwanese President Chen Shui-bian proposed the “one country on each side”, and unlike his “five noes policy”, this statement is by no means rhetoric alone.¹⁷⁷ The first step President Chen took was to announce a referendum on the *status quo* of Taiwan Strait in 2003, but this plan was deterred by the US.¹⁷⁸ Nonetheless, he still successfully held the “defensive referendum” on the issue of military procurement in the 2004 presidential election.¹⁷⁹ Regardless of Washington’s opposition, Chen’s administration abandoned both the “Guidelines for National Unification and the National Unification Council” following Taiwan’s constitutional reform in 2006.¹⁸⁰ In 2007, President Chen further promoted “a referendum on joining the UN”.¹⁸¹ All of these strategies to promote independence

¹⁷⁵ Mainland Affairs Council, Republic of China, “President Chen’s 520 Inaugural Speech: Taiwan Stands Up: Advancing to an Uplifting Era”, 2000, accessed July 13, 2016, http://www.mac.gov.tw/ct.asp?xItem=50894 &ctNode=5913&mp=3&xq_xCat=2000.

¹⁷⁶ Dennis van Vranken Hickey and Yitan Li, “Cross-Strait Relations in the Aftermath of the Election of Chen Shui-bian”, *Asian Affairs* 28, no. 4 (2002):209-10; Tung, “An Assessment of China’s Taiwan Policy”, 346.

¹⁷⁷ Hickey, “Wake Up to Reality”, 5.

¹⁷⁸ Bush, *Untying the Knot*, 70-71.

¹⁷⁹ Cheng-Yi Lin, “A Status Quo With Different Interpretations: Taiwan, China, the United States, and Security in the Taiwan Strait”, in *The Future of United States, China, and Taiwan Relations*, ed. Cheng-Yi Lin and Denny Roy (New York: Palgrave Macmillan, 2011), 84.

¹⁸⁰ Mainland Affairs Council, Republic of China, “Position Paper on the national Unification Council Ceasing to Function and the Guidelines for National Unification Ceasing to Apply”, 2006, accessed July 13, 2016, http://www.mac.gov.tw/ct.asp?xItem=50730&ctNode=5913&mp=3&xq_xCat=2006.

¹⁸¹ S. Philip Hsu, “Between Identity Quest and Risk Aversion: Lessons from the Chen Shui-Bian Presidency for Maintaining Cross-Strait Stability”, *Journal of Contemporary China* 19, no. 66 (2010): 695; Mainland Affairs Council, Republic of China “MAC: The United States Should Respect and Understand that the Taiwanese People Support the UN Referendum”, 2007, accessed July 13, 2016

dragged Taiwan away from Beijing's "one-China" framework, and they also impacted upon the 1992 Consensus manifested in two ways.

Firstly, as most scholars have pointed out, in terms of promoting *de jure* independence, Chen's administration went much further than the former President Lee Teng-hui.¹⁸² Indeed, at the global level, President Chen successfully illustrated Taiwan's unique territoriality in the international system following Taiwan's accession into the WTO under the name of the "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu".¹⁸³ It is true that Taiwan's participation did not directly help to consolidate its statehood, and furthermore Beijing spared no effort in attempting to infringe upon Taiwan's status in the WTO.¹⁸⁴ However, Taiwan's place in the WTO has been referenced widely in bilateral FTAs with other countries in the post-ECFA era.¹⁸⁵ Chapter 6 will study in more detail the issue of whether this will result in the erosion of Beijing's "one-China principle".

At the bilateral level, the territoriality of Taiwan's Westphalian sovereignty has been further confirmed under Chen Shui-bian's presidency. As previously discussed, the connection of "juridical territoriality" between China and Taiwan under the 1992 Consensus has been weakened due to President Lee's statement regarding the "special state-to-state relationship". President Chen further curtailed this link by abolishing the "Guidelines for National Unification".¹⁸⁶ This movement demonstrates that pursuing reunification with the Mainland is no longer one of

http://www.mac.gov.tw/ct.asp?xItem=50456&ctNode=5913&mp=3&xq_xCat=2007.

¹⁸² Su, *Taiwan's Relations with Mainland China*, 77.

¹⁸³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 87-90.

¹⁸⁴ Hsieh, "The China-Taiwan ECFA, Geopolitical Dimensions and WTO Law", 130.

¹⁸⁵ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 97.

¹⁸⁶ Hsu, "Between Identity Quest and Risk Aversion", 695.

Taiwan's objectives, and thus the essence of the 1992 Consensus under President Ma Ying-jeou's presidency has become very different from the 1990s. Specifically, owing to the lack of juridical link of the PRC's and the ROC's territories, the commonly employed discourse of "Taiwan is Taiwan, China is China" since the late 1990s has been further affirmed.¹⁸⁷ As a result, the definition of the ROC under the 1992 Consensus can at most be understood to mean the "ROC on Taiwan", and this also gives weight to President Ma Ying-jeou's assertion that the 1992 Consensus represents the spirit of "mutual non-denial".¹⁸⁸ Chapter 6 will study whether this is likely result in the erosion of Beijing's "one-China principle".

Secondly, similar to President Lee Teng-hui's contribution, President Chen Shui-bian's success in promoting the 2004 and 2008 referenda contributed to the consolidation of not only Taiwan's domestic sovereignty but also Taiwanese identity.¹⁸⁹ The two referenda under Chen Shui-bian's presidency signified the achievements of Taiwan's democratization, and again reminded Taiwanese people of the utterly divergent Chinese and Taiwanese regimes.¹⁹⁰ Moreover, during the debates over the referendum issues, in addition to succeeding former President Lee Teng-hui's strategy to cultivate Taiwanese identity, President Chen also aimed at constructing an "us" and "them" identity, which even construed China as the "enemy".¹⁹¹ According to a poll conducted by Taiwan's Mainland Affairs Council, 53.1% of Taiwanese people believe that the Mainland held "hostile" attitudes

¹⁸⁷ Mao-Sen Chang et. al., "Lee Teng-hui Presents Views on Political Scene", *Taipei Times*, November 18, 2016, accessed February 25, 2017

<http://www.taipeitimes.com/News/front/archives/2016/11/18/2003659494>

¹⁸⁸ Singh, "Can Taiwan Talk 'Political' with the Mainland?", 260-65.

¹⁸⁹ Bush, *Untying the Knot*, 75-77; Saunders, "Long-term Trends in China-Taiwan Relations", 974-77.

¹⁹⁰ *Ibid.*

¹⁹¹ Lin, "The Case of the ECFA", 40-42.

towards Taiwan.¹⁹² Furthermore, the ratio of people who identified as exclusively Taiwanese increased from 39.7% in 2000 to 48.4% in 2008.¹⁹³ President Chen's attempts to cultivate Taiwanese identity thus created difficulties for Beijing in convincing Taiwanese of the 1992 Consensus by emphasizing Chinese nationalism in the post-ECFA era.

Although President Chen implemented assertive policy in an attempt to promote *de jure* independence, he simultaneously recalibrated President Lee's conservative policy in managing cross-Strait economic integration in an attempt to pursue economic interests.¹⁹⁴ According to the document titled "The DPP Administration's Logic and Policy on China", Taiwan's Mainland policy goals included "building a consensus on national identity", "safeguarding the integrity of Taiwan's sovereignty", and promoting "a future of co-existence and co-prosperity".¹⁹⁵ This document also argued that the Taiwanese government should achieve the above strategic goals by "negotiating a cross-Strait 'peace and stability framework for interaction'", "developing cooperative economic relations" with China, and "facilitating the democratization of the PRC government".¹⁹⁶ Professor Chen Ming-tong, former Minister of the Mainland Affairs Council, summarized President Chen's strategic logic as "using limited conflicts with [Beijing's Taiwan policy] to expand strategic space, making limited compromise in order to preserve strategic achievements".¹⁹⁷ According to this reasoning, the strategic goal of Taiwan's commercial diplomacy

¹⁹² Mainland Affairs Council, "Summarized Results of the Public Opinion Survey on August 22 to 24, 2008" (2008), accessed March 7, 2017 <http://www.mac.gov.tw/public/Attachment/96315262717.pdf>

¹⁹³ NCCU, "Taiwanese/Chinese Identification Trend Distribution in Taiwan (1992/06~2016/06)".

¹⁹⁴ Wang, "Lifting the 'No Haste, Be Patient' Policy", 132-36.

¹⁹⁵ Ming-Tong Chen, "The DPP Administration's Logic and Policy on China", General Policy Archives (1994-2008) of Mainland Affairs Council, Republic of China, 2007, accessed July 13, 2016, http://www.mac.gov.tw/ct.asp?xItem=50566&ctNode=5913&mp=3&xq_xCat=2007.

¹⁹⁶ Ibid.

¹⁹⁷ Ming-Tong Chen, interviewed by author, October 28, 2013.

was to press Beijing to ratify the co-existence of the PRC and the ROC. Meanwhile, Taipei also intended to utilize commercial diplomacy to maintain stability across the Taiwan Strait while pursuing international legal sovereignty.

However, maintaining equilibrium between economic and sovereignty interests remained a trial for the Taiwanese government. Initially, after winning the presidential election in 2000, President Chen Shui-bian displayed a consistently positive attitude towards cross-Strait economic and even political dialogues in an attempt to convince Beijing to not set any prerequisites for bilateral negotiations.¹⁹⁸ Yet Taipei did not fully achieve its strategic goals. Despite the fact that Chinese leaders softened its definition of the “one-China principle” mentioned before,¹⁹⁹ Beijing still insisted on “the PRC as the sole legitimate government representing the whole of China” according to its White Paper “The One-China Principle and the Taiwan Issue”.²⁰⁰ Notably, Beijing also rejected to further concessions to Taipei. The main reason for this was that Taipei had lost its bargaining chips following the onset of the domestic financial crisis in 2001.

Taiwan’s financial crisis in 2001 was caused by a slump in US stock market because of the bursting of the “dot-com bubble”,²⁰¹ and its negative impact on Taiwan’s economic performance was more considerable than the 1997 Asian financial crisis. Notably, the Taiwan Stock Exchange Weighted Index declined heavily from 8939.52 on 31 May 2000 to 3446.26 on 3 October 2001 — the lowest

¹⁹⁸ Dennis V. Hickey and Yitan Li, “Cross-Strait Relations in the Aftermath of the Election of Chen Shui-bian”, *Asian Affairs* 28, no. 4 (2002): 202-4.

¹⁹⁹ Tung, “An Assessment of China’s Taiwan Policy”, 346.

²⁰⁰ TAO, “The One-China Principle and the Taiwan Issue”.

²⁰¹ Her-Jiun Sheu and Chien-Ling Cheng, “Systemic Risk in Taiwan Stock Market”, *Journal of Business Economics and Management* 13, no.5 (2012): 904-911.

point in the record of Taiwan's stock market.²⁰² The evaporation of stock market value had an impact on Taiwanese SMEs' costs and this in turn resulted in another wave of industrial offshoring.²⁰³ In an attempt to gain more votes in the legislative elections in December 2001, Taiwan's opposition parties took advantage of this crisis to collaborate with entrepreneurs and lobby Chen's administration to liberalize economic relations with China.²⁰⁴ Hence, in May 2001, the Taiwanese government established the Economic Development Advisory Committee (EDAC), which contained politicians from opposition parties and Taiwanese entrepreneurs to adjust Taiwan's policy for managing cross-Strait economic relations.²⁰⁵

Three months later, Chen's administration created the "Active Opening, Effective Management" policy as a substitute for President Lee Teng-hui's "No Haste, Be Patient" policy, based on the EDAC's suggestion.²⁰⁶ Chen's administration added about 3,000 industries onto the "permission list" of Taiwanese investment in the Mainland.²⁰⁷ Meanwhile, Taiwanese entrepreneurs were not required to obey the previous regulations that forbade them from investing more than US\$50 million in the mainland.²⁰⁸ As an alternative, from 2001, Taiwanese enterprises were allowed to inject more capital into the Chinese market so long as the total amount of their investments did not exceed 40% of their business net profits.²⁰⁹

²⁰² Taiwan Stock Exchange Corporation, "Highlights of Daily Trading", 2016, accessed August 3, 2016, http://www.twse.com.tw/en/trading/exchange/FMTQIK/genpage/Report200110/200110_F3_1_2.php?STK_NO=&myear=2001&mmon=10.

²⁰³ Kemenade, "Taiwan: Domestic Gridlock, Cross-Strait Deadlock", 60-62.

²⁰⁴ Chu, "Taiwan's National Identity Politics and the Prospect of Cross-Strait Relations", 508-9.

²⁰⁵ Tanner, *Chinese Economic Coercion Against Taiwan*, 53.

²⁰⁶ *Ibid.*, 50-53.

²⁰⁷ Chen, "Understanding the Political Economy of Cross-Strait Security", 398.

²⁰⁸ 中華民國行政院大陸事務委員會 (2001), "落實大陸投資『積極開放 有效管理』執行計畫"; Mainland Affairs Council, Republic of China, "Implementing the 'Active Opening, Effective Management' Policy", 2001, accessed August 3, 2016, <http://www.mac.gov.tw/ct.asp?xItem=64241&ctNode=6451&mp=1>.

²⁰⁹ *Ibid.*

Most significantly, Taiwan also opened the “mini three direct links” that allowed direct transportation between China’s Fujian province and Taiwan’s remote islands — Kinmen and Matsu as an experiment to prepare for opening the “three direct links” in the future.²¹⁰

However, the implementation of the “Active Opening, Effective Management” policy did not correspond with President Chen’s strategic goals. Firstly, Beijing still firmly held on to its “one-China principle” for addressing the Taiwan issue, but the Taiwanese government eased restrictions against economic exchanges with the Mainland instead of utilizing commercial diplomacy to bargain with Beijing. Secondly, the effectiveness of Taiwan’s commercial diplomacy was limited following the implementation of this policy because the degree of Taiwan’s economic dependence increased as a result of the huge outflow of Taiwanese investment into China (see Table 4.2.1). As such, since 2002, President Chen refused to commence any official or semi-official negotiation with the Mainland, and he further challenged Beijing’s “one-China principle” by proposing the notion of “one country on each side” as discussed above.²¹¹ However, President Chen’s pro-independent route encountered severe challenges. In response to President Chen’s pro-independence policy, Beijing signaled its determination of using military force to fight against Taiwan’s unilateral independence movements by making the “Anti-secession Law” in 2005 as discussed in chapter 2, and this henceforth deteriorated cross-Strait relations.²¹²

In addition to tense relations with Beijing, President Chen Shui-bian’s strategy

²¹⁰ Tanner, *Chinese Economic Coercion Against Taiwan*, 54.

²¹¹ Hickey, “Wake Up to Reality”, 5-7.

²¹² NPC, PRC “Anti-Secession Law”.

of reshaping Taiwan's national identity was also defied by the advocates of the 1992 Consensus in Taiwanese society. On the one hand, Taiwan's poor economic performance after the 2001 financial crisis motivated Taiwanese entrepreneurs to press the government to promote full economic liberalization across the Taiwan Strait even though it would entail Taipei to accepting the 1992 Consensus.²¹³ On the other hand, the KMT attempted to improve cross-Strait relations and Taiwan's economic performance by opening up economic and political dialogues with China based on the 1992 Consensus during Taiwan's presidential campaign in 2004.²¹⁴ Although the DPP won this campaign, this did not help Chen's administration to appease domestic controversy over its pro-independent course in managing cross-Strait economic relations. In contrast, Taiwanese public opinion turned to support the liberalization of economic exchanges with the Mainland, and thus the government was pressured to recalibrate its Mainland policy by Taiwanese entrepreneurs.²¹⁵

In order to prepare for the local elections in Taiwan, as well as to ameliorate tense relations with China, Chen Shui-bian's administration commenced dialogues with Beijing to discuss "cross-Strait direct charter flights during the Chinese Lunar New Year" in Macau in 2005.²¹⁶ However, as Taipei still firmly rejected the 1992 Consensus, this raised the question of whether the "one-China principle" was the prerequisite of this negotiation. Policymakers in the Chen administration named this

²¹³ Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond*, 65-70.

²¹⁴ Dafydd Fell, "More or Less Space for Identity in Taiwan's Party Politics", in *Taiwanese Identity in the Twenty-first Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 97-102.

²¹⁵ Tanner, *Chinese Economic Coercion Against Taiwan*, 62-68.

²¹⁶ Qiang Xin, "Beyond Power Politics: Institution-building and mainland China's Taiwan Policy Transition", *Journal of Contemporary China* 19, no. 65 (2010): 530.

negotiation the “Macau Model”.²¹⁷ They even advocated the use of the “Macau Model” to address cross-Strait dialogues thereafter because this model was not based on the 1992 Consensus.²¹⁸ Yet most Chinese and Taiwanese elites could not ratify this statement.

Doctor Huang Chieh-cheng, former Deputy Minister of the Mainland Affairs Council in Chen’s administration, questioned the statement that Beijing abandoned the “one-China principle” in the process of the negotiation with Taiwan in Macau in 2005.²¹⁹ He further said:

*“I can tell you Beijing firmly insisted in the ‘one-China’ principle in the process of cross-Strait communication. In order to allow both sides’ people, especially Taiwanese businessmen in the Mainland, to have a good Chinese New Year, I suggested adding two words to this principle, which became the ‘one Chinese New Year principle’ ... In this case, cross-Strait negotiations were based on our people’s interests instead of political concerns”.*²²⁰

In effect, most Chinese elites pointed out that there was no necessity to stress that the “Macau Model” was based on the “one-China principle” because this negotiation only touched on the issues of route planning concerning direct flights

²¹⁷ Yan-chih Mo, “Wu Defends Use of ‘1992 Consensus’ in Cross-Strait Talks”, *Taipei Times*, May 7, 2011, accessed August 1, 2016, <http://www.taipeitimes.com/News/taiwan/archives/2011/05/07/2003502633>.

²¹⁸ Ibid.

²¹⁹ Chieh-Cheng Huang, interviewed by author, April 10, 2014.

²²⁰ Ibid.

across the Taiwan Strait.²²¹ For Beijing, the conclusion made in this negotiation can be easily defined as “the arrangement for domestic airlines across the Taiwan Strait”, and this is the reason for why Taiwan’s Airlines are allowed to land at not only international airports but also domestic airports in the Mainland.²²² In this light, Beijing made use of the “Macau Model” to trap Taiwan with its “one-China principle”, which formed a challenge to Taipei’s political status at the bilateral and even global level.

In addition, it is noteworthy that the cross-Strait negotiation in Macau in 2005 was operated by non-governmental organizations.²²³ Senior KMT policymakers therefore pointed out that the Macau Model actually manifested the strategic predicament facing Chen’s administration because Taipei was unable to launch even semi-official dialogues with Beijing due to tense bilateral relations.²²⁴ Professor Su Chi said:

“The Macau Model was a really low-level form of cross-Strait negotiations. Furthermore, unlike the significant contribution made by the Koo-Wang talks to the improvement of cross-Strait relations, the Macau Model saw no achievements in this sense because both sides [China and Taiwan] only discussed technical details about direct charter flights ... [Under Ma Ying-jeou’s presidency], the level of cross-Strait negotiations have been much higher than in this model; President Ma even plans to meet with Xi

²²¹ Li Yihu, interviewed by author, December 2, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

²²² Ibid.

²²³ Yan-Chih Mo, “Wu Defends Use of ‘1992 Consensus’ in Cross-Strait Talks”.

²²⁴ Chi Su, interviewed by author, March 18, 2014; Chien-Min Chao, interviewed by author, April 4, 2014.

Jinping. It's impossible to imagine both sides readopting such a low-level negotiation like the case of the Macau Model".²²⁵

Generally speaking, as the Macau Model emerged from non-official negotiations between China and Taiwan, this model might allow Beijing to define cross-Strait affairs as non-governmental issues. In this regard, the Macau Model could be detrimental not only to Taiwan's international legal sovereignty but also its domestic sovereignty, which contradicts President Chen's strategic goals of consolidating Taiwan's sovereignty. Regardless of the above disputes over the Macau Model, there is no need to deny that this negotiation laid the foundations for the issue of opening the three direct links in 2008.²²⁶ Nevertheless, the effort to open direct charter flights to the Mainland during the Chinese New Year did not assist Chen's administration in soothing the pressure of fully opening cross-Strait exchanges. Instead, this pressure became much greater after the KMT and the CCP reached a consensus on promoting cross-Strait economic cooperation through a meeting between Chairman Lien Chan and Chinese President Hu Jintao in 2005.²²⁷

Consequently, President Chen Shui-bian rejected consideration of opening cross-Strait economic exchanges by announcing the policy of "Active Management, Effective Opening" in 2006.²²⁸ Following the implementation of this policy, the government encouraged Taiwanese businesses to direct their investment to Southeast

²²⁵ Chi Su, interviewed by author, March 18, 2014.

²²⁶ Ibid.

²²⁷ Chu, "Navigating between China and the United States", 146-47.

²²⁸ Mainland Affairs Council, Republic of China, "Supporting Mechanisms for 'Active Management, Effective Opening' in Cross-Strait Economic and Trade Relations", 2006, accessed February 15, 2015, <http://www.mac.gov.tw/public/Data/96281673171.pdf>.

Asia by promoting the “go south” policy.²²⁹ Meanwhile, Chen’s administration also imposed strict measures to ban illegal outward investment to the Mainland by Taiwanese enterprises, particularly Taiwanese ICT companies.²³⁰ For instance, Chen’s administration filed a lawsuit against the UMC — Taiwan’s second largest semi-conductor manufacturer — in order to punish their illegal investment in China, which antagonized Taiwanese entrepreneurs.²³¹ However, in contrast to the “No Haste, Be Patient” policy, the government made no further regulations to substitute for the previous cross-Strait economic policy. Professor Chen Ming-tong explained:

*“It is not effective to restrict economic exchanges by making a policy. We [Chen’s administration] lifted the ceiling on the maximum amount of Taiwanese investment allowed in China, and only large high-tech industries could meet this ceiling ... The real goal of the [Active Management, Effective Opening] policy was to increase Taiwanese awareness of China’s political intention towards us ... Certainly, we also aimed to preserve Taiwan’s economic advantages and bargaining chips for future [negotiations with China]”.*²³²

4.3.2 Evaluating Taiwan’s Go South Strategy

The above paragraphs traced Taiwan’s cross-Strait economic policy between 1996 and 2008. In brief, by adopting the “No Haste, Be Patient” and “Active Management, Effective Opening” policies, Taipei’s strategic goal was to combat

²²⁹ Sam, “Economic Management in Taiwan and Mainland China”, 79.

²³⁰ Ibid.

²³¹ Ibid.

²³² Ming-Tong Chen, interviewed by author, October 28, 2013.

Mainland fever so as to counter China's commercial diplomacy in the process of cross-Strait economic integration. Notably, aside from the aforementioned policy, Taipei extended its strategy for managing cross-Strait economic relations from the bilateral to the regional level by implementing the "go south" policy.²³³ In fact, since 1994, in coordination with its policy for constraining cross-Strait economic exchanges, Taipei had encouraged Taiwanese businessmen to look southwards by investing in ASEAN economies rather than "going west" to the Chinese market.²³⁴ Moreover, following the implementation of the "go south" policy, Taipei had also furthered its sovereignty interests by utilizing commercial diplomacy. The most direct evidence of this was President Lee Teng-hui's "vacation diplomacy" in the 1990s, as Taiwan's senior level officials actively made use of their holidays to visit ASEAN members to discuss the issues of bilateral cooperation regardless of Beijing's strong opposition.²³⁵ Nonetheless, as analyzed in chapter 3, after China became the main trading partner and investor in the region, ASEAN economies endorsed Beijing's "one-China principle" in 1999, which constrained Taiwan's strategic space to further its sovereign interests.²³⁶ Most importantly, as will be discussed below, the "go south" policy did not help Taipei to twist asymmetric economic interdependence with China.

The origins of Taiwan's "go south" strategy can be traced as early back to 1994 when the government published the "Guideline on Enhancing Economic and Trade Relations with Southeast Asia".²³⁷ Initially, reducing the degree of Taiwan's

²³³ Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

²³⁴ Yang and Hsiao, "Tai-shang (Taiwan Business) in Southeast Asia", 215-17; Chen, "Taiwan Investments in China and Southeast Asia", 456-60.

²³⁵ Su, *Taiwan's Relations with Mainland China*, 25-29.

²³⁶ Hughes, "China's Membership of the ARF", 63-65.

²³⁷ Yang and Hsiao, "Tai-shang (Taiwan Business) in Southeast Asia", 219.

economic dependence on China was contained in the second part of the guidelines.²³⁸ In addition to this mission, assisting labor-intensive and highly-polluted industries' (e.g. textile and clothing industries) in seeking new manufacturing bases was also an important policy goal according to senior officers served in the Ministry of Economic Affairs (ROC).²³⁹ After helping the above industries to relocate their production lines to Southeast Asia, the government then planned to make use of spare land and labor to cultivate competitive high-tech industries.²⁴⁰ However, when Taipei began to adopt a series of policies in restricting economic exchanges with China in 1996, downgrading the importance of the Chinese market for Taiwanese businessmen become the main strategic goal of the "go south" policy.²⁴¹

Indeed, in coordination with the "No Haste, Be Patient" policy, the Taiwanese government soon renewed the "go south" policy.²⁴² Taiwanese policymakers believed that ASEAN economies could be an ideal alternative to substitute for the Chinese market as the major destination for Taiwanese investment.²⁴³ The main reasons for this included "cultural similarities" between Taiwan and ASEAN nations (considering the large number of overseas ethnics Chinese in Southeast Asia), ASEAN's efforts to promote regional economic integration, and "abundant low-cost labor forces and resources" according to the "Guidelines on Enhancing Economic and Trade Relations with Southeast Asia in the Sixth Phase".²⁴⁴ In order to convince

²³⁸ 中華民國經濟部, "加強對東南亞地區經貿工作綱領(草案)"; MOEA, ROC, "The Draft of the Guidelines on Enhancing Economic and Trade Relations with Southeast Asia", 1994, accessed July 15, 2016, <http://catalog.digitalarchives.tw/item/00/44/d5/da.html>.

²³⁹ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

²⁴⁰ Ibid.

²⁴¹ Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

²⁴² Yang and Hsiao, "Tai-shang (Taiwan Business) in Southeast Asia", 219.

²⁴³ Ibid.

²⁴⁴ 中華民國經濟部, "第六期加強對東南亞地區經貿工作綱領", 2010, 1; MOEA, ROC, "The Guideline on Enhancing Economic and Trade Relations with Southeast Asia in the Sixth Phase", 2010,

enterprises to invest in Southeast Asia, the Taiwanese government further made investments in Southeast Asia through several state-owned enterprises (SOEs), such as the Taiwan Salt Corporation and Taiwan Sugar Corporation.²⁴⁵ Meanwhile, Taipei also decided to use the “go south” policy as a long-term strategy by renewing the guidelines regularly so as to display the government’s commitments to this economic strategy.

Despite Taipei’s effort to promote the “go south” policy, most Taiwanese businessmen, particularly entrepreneurs in ICT industries, contended that they should not direct their investment from China to ASEAN countries for several reasons.²⁴⁶ First of all, ASEAN economies were heavily impacted by the 1997 Asian financial crisis. It was certainly not wise to inject capital into the region given the unstable currency of Southeast Asian economies in the late 1990s. Furthermore, Yageo’s CEO Dora W. Chang and ASUS Chief Manager Kent S. Chien also indicated that compared with Chinese labor, it is difficult and even costly to manage labor in Southeast Asia because of the difference in language between Taiwanese managers and workers in most ASEAN countries.²⁴⁷ Besides, as mentioned before, while Chinese labor skills have improved since the 1990s,²⁴⁸ most Taiwanese ICT industries still prefer to relocate their production lines in China rather than ASEAN.

In addition, despite ASEAN’s effort in promoting regional economic integration since the 1990s, this achievement was not attractive to Taiwanese entrepreneurs. First

1.

²⁴⁵ Yang and Hsiao, “Tai-shang (Taiwan Business) in Southeast Asia”, 217.

²⁴⁶ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

²⁴⁷ Ibid.

²⁴⁸ Keller and Pauly, “Building a Technocracy in China: Semiconductors and Security”, 61.

of all, after the establishment of the ASEAN Free Trade Area (AFTA), the ASEAN-10 is indeed a large market with a population more than 600 million people.²⁴⁹ However, by considering the huge economic development gap among ASEAN members, Taiwan's "go south" policy could only aim at strengthening bilateral economic ties with the relatively advanced ASEAN-6 and Vietnam (ASEAN-7) but not the whole ASEAN.²⁵⁰ Notably, most of these economies are archipelagos. This piecemeal geographical distribution highlights the disadvantage of ASEAN-7's small hinterland, which eclipses its market advantage. When the progress of infrastructural development was very slow in most ASEAN economies in the 1990s, ASEAN-7's disadvantage with regards to terrain was magnified.²⁵¹ Therefore, most Taiwanese businessmen still prefer to relocate their production lines in China given its large hinterland and good infrastructure.²⁵²

Most importantly, as discussed in chapter 3, East Asian economic integration was inefficient because of miscellaneous ROOs created by numerous FTAs in the region, and thus the utility rate of these FTAs was fairly low.²⁵³ As such, business profits generated by East Asian FTAs were limited, which influenced Taiwanese entrepreneurs' interests in investing in ASEAN-7. Meanwhile, in spite of the lack of FTAs between Taiwan and ASEAN economies until 2012, most entrepreneurs indicated that this did not have a considerable impact on their business interests, and

²⁴⁹ Low, "Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Agreements", 65-68.

²⁵⁰ 中華民國經濟部, "加強對東南亞地區經貿工作綱領(草案)", 1994; Ministry of Economic Affairs, Republic of China, "The Draft of the Guidelines on Enhancing Economic and Trade Relations with Southeast Asia", 1994; 中華民國經濟部, "第六期加強對東南亞地區經貿工作綱領", 2010, 35-90; MOEA, ROC, "The Guideline on Enhancing Economic and Trade Relations with Southeast Asia in the Sixth Phase", 2010, 35-90.

²⁵¹ Dora W. Chang, interviewed by author, December 16, 2014; Jacky B. Chen, interviewed by author, December 16, 2014.

²⁵² Brian H. Lin, interviewed by author, December 11, 2014; Dora W. Chang, interviewed by author, December 16, 2014; Henry H. Ho, interviewed by author, December 11, 2014.; Kent S. Chien, interviewed by author, December 26, 2014.

²⁵³ Baldwin, "Managing the Noddle Bowl", 459.

Taiwan's ICT products especially have enjoyed tariff reduction under the ITA following Taiwan's participation in the WTO.²⁵⁴ Mr. Kent S. Chien indicated: "even though an enterprise intends to take advantage of these FTAs, this is just paperwork for companies".²⁵⁵ He further said:

"At most, companies only need to set up an office to handle paperwork in a country that has an FTA with Taiwan and our target market in Southeast Asia. Even if Taiwan has no connection to bring us into ASEAN economies, they can still enter into the market through the Cayman Islands and so on ... This will increase our cost in paperwork, but there is no reason to spend a great amount of money on opening a new production line just for an FTA".²⁵⁶

Generally speaking, the effectiveness of Taiwan's "go south" strategy was limited in reducing the degree of Taiwan's economic dependence on China due to the lack of incentives to motivate Taiwanese ICT industries to redirect their investments from China to ASEAN-7. Annual statistics regarding Taiwanese investment in Southeast Asia before 2012 is not available, but according to "The Guidelines on Enhancing Economic and Trade Relations with Southeast Asia in the Sixth Phase", Taiwanese investments in the region were mainly consisted of textiles, clothing, wood, agricultural, food and beverage, and chemical industries before 2008.²⁵⁷ With respect to Taiwanese ICT industries, although they also contributed a large amount of

²⁵⁴ Dora W. Chang, interviewed by author, December 16, 2014; Jacky B. Chen, interviewed by author, December 16, 2014.

²⁵⁵ Kent S. Chien, interviewed by author, December 26, 2014.

²⁵⁶ Ibid.

²⁵⁷ 中華民國經濟部, "第六期加強對東南亞地區經貿工作綱領", 2010, 5-6; MOEA, ROC, "The Guideline on Enhancing Economic and Trade Relations with Southeast Asia in the Sixth Phase", 2010, 5-6.

capital in ASEAN economies, their investments were mainly concentrated in Singapore, Malaysia, Thailand, and The Philippines before 2008.²⁵⁸ As discussed in chapter 3, Taiwanese investments in Singapore were based on the concern of utilizing its advantage of intermediary trade. As for the other three economies, they were mainly responsible for producing low-value added components such as a hard disk drives, which were then transported to the Chinese market for fabrication.²⁵⁹

Table 4.3.1 Taiwan’s Late Registered Investment in China between 1993 and 2008

Year	Approved Mainland Investment		Late Registered Investment		Total
	Case	Amount (US\$1,000)	Case	Amount (US\$1,000)	
1993	1,262	1,140,365	8,067	2,028,046	3,168,411
1996	383	1,229,241	0	0	1,229,241
1997	728	1,614,542	7,997	2,719,771	4,334,313
1998	641	1,519,209	643	515,412	2,034,621
1999	488	1,252,780	0	0	1,252,780
2000	840	2,607,142	0	0	2,607,142
2001	1,186	2,784,147	0	0	2,784,147
2002	1,490	3,858,757	3,950	2,864,301	6,723,058
2003	1,837	4,594,985	8,268	3,103,799	7,698,784
2004	2,000	6,939,912	4	751	6,940,663
2005	1,287	6,002,029	10	4,924	6,006,953
2006	897	7,375,197	193	267,138	7,642,335
2007	779	9,676,420	217	294,125	9,970,545
2008	482	9,843,355	161	848,035	10,691,390

Note: Statistics on ‘Late Registered Investment’ were from Taiwanese enterprises’ applications based on the “Statute Governing the Relations between the People of the Taiwan Area and the Mainland Area”, which had been amended in 1993, 1997, and 2002.

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) “Monthly Report (December 2015)”,²⁶⁰

Due to the fact that production lines of Taiwanese ICT industries were still converged on the Chinese market, Taipei did not achieve its main strategic goal by

²⁵⁸ Ibid.

²⁵⁹ Dent, “Taiwan and the New East Asian Regionalism”, 122.

²⁶⁰ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

adopting the “go south” policy. This then in turn impacted on the effectiveness of Taiwan’s policy in restricting cross-Strait economic exchanges. Indeed, as shown in Table 4.2.1, the Chinese market was still the main destination for Taiwanese manufacturing investment since ASEAN-7 was not an ideal substitution for the Chinese market. While the Taiwanese government adopted a series of stringent policies for stipulating Taiwanese investment in China, most Taiwanese enterprises eschewed these regulations by increasing their “paperwork” in order to transfer money to tax heavens, and then redirected their capital to the Chinese market.²⁶¹

Table 4.3.1 shows Taiwan’s illegal investment that was later ratified by the government after the amendment of the “Regulations Governing Permission of Trade between Taiwan Area and Mainland Area” between 1993 and 2008.²⁶² This table demonstrates Taiwan’s predicament in restricting cross-Strait economic exchanges through the use of policy tools, and the amount of Taiwanese capital in China was always much higher than Taiwan’s official data. For example, regardless of Taiwan’s relaxation of its investment in the mainland in 1993, only 1,262 investment cases were reported to the authorities whilst 8,067 investment projects in the Chinese market were not under the government’s control. In 1997, while Taipei adopted the “No Haste, Be Patient” policy, less than 10% of Taiwanese investment projects in China were reported to the government. Stunningly, the total amount of late registered investment was US\$2.7 billion in 1997, which was much higher than the amount of approved projects. Moreover, since President Chen Shui-bian had a cautious attitude towards cross-Strait economic exchanges in 2002, there had always been late-registered investment projects in the Chinese market. In 2003, the number

²⁶¹ Fuller, “The Cross-Strait Economic Relationship’s Impact”, 244-45.

²⁶² Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

of unreported cases hit a record high, and the total amount of these investments also reached US\$3.1 billion.

The above statistics on Taiwan's late-registered investment were entirely based on voluntary reports to the government, following the lifting of restrictions on investing in China.²⁶³ As a result, there may still be many unreported Taiwanese investment projects, and thus the amount of Taiwan's total investment in the Chinese market between 1993 and 2008 could be higher than the statistical data shown on Table 4.3.1. In this light, although Taiwanese investment in China made up less than 40% of Taiwan's total outward investment (see Table 4.2.1), it is reasonable to question the effectiveness of Taiwan's policy in constraining investment in the Mainland. Additionally, as several scholars have noted, Taiwan's investment in China's major investors increased rapidly since the 1990s, there was a great possibility that Taiwanese entrepreneurs made use of its subsidiaries or business partners in a third country to inject capital to China.²⁶⁴ By this reasoning, President Lee's "No Haste, Be Patient" policy might not have been as effective as statistic data suggested.

In the summary, Taiwan's "go south" policy did not effectively assist Taiwan in reversing the relations of asymmetric economic dependence across the Taiwan Strait. Rather, as ASEAN-7 could not replace China's role as an important market and manufacturing base for Taiwan's main manufacturing industry — the ICT industries, most Taiwanese investment still targeted the Chinese market. Consequently, regardless of Taiwan's prohibitions, Taiwanese businessmen spared no effort in

²⁶³ Ibid.

²⁶⁴ Fuller, "The Cross-Strait Economic Relationship's Impact", 244-45; Leng, "Dynamics of Taiwan-Mainland China Economic Relations", 500-4.

eschewing the government's surveillance so as to inject capital into the mainland, which resulted in the failure of the "No Haste, Be Patient" and "Active Management, Effective Opening" policies.

4.4 The ECFA as The Contingency Plan of Taiwan's Mainland Policy

This section evaluates Beijing's Taiwan policy between 1996 and 2008, and subsequently argues that the ECFA was a contingency plan of Taiwan's policy in managing cross-Strait relations given previous policies only achieved limited effect. In fact, in response to Taiwan's assertive attitude towards its *de jure* sovereignty, Beijing implemented a "two-handed" strategy by displaying its military power whilst actively providing positive economic incentives to Taipei.²⁶⁵ Not only has this strategy deteriorated Taiwan's international political status, but it has also assisted Beijing in increasing the degree of Taiwan's economic dependence on China regardless of Taiwan's effort in limiting bilateral economic exchanges. Consequently, after his inauguration in 2008, President Ma Ying-jeou transformed Taiwan's strategy towards Beijing from one of confrontation to one of cooperation. The issue of promoting the ECFA has thus featured largely in the rapprochement of cross-Strait relations.

4.4.1 Beijing's Response: "Hard Became Harder, Soft Became Softer"

Between 1996 and 2008, whereas Taiwanese leaders endeavored to restrict cross-Strait economic exchanges in coordination with their strategies in solidifying

²⁶⁵ Lin, "More Carrot than Stick: Beijing's Emerging Taiwan Policy", 6.

its international legal and domestic sovereignty, Chinese leaders spared no effort to prevent Taiwan from deorbiting from its “one-China” trajectory. Specifically, for Beijing, the task of deterring Taiwan’s independence movement was of greater importance than the mission of facilitating cross-Strait reunification peacefully.²⁶⁶ Following this logic maintaining the “*status quo* across the Taiwan Strait” became the main goal of Beijing’s Taiwan policy. For this purpose, a “two-handed” strategy, which has been termed “the hard [coercive measures] becomes harder and the soft [détente measures], softer”, played a large role in Beijing’s Taiwan policy at that time.²⁶⁷

Generally speaking, China’s coercive measures in hampering Taiwan’s independence movements were mainly manifested on military and diplomatic fronts.²⁶⁸ As far as military measures are concerned, although China had ceased artillery engagements with Taiwan following the implementation of the “reform and opening up” policy, Beijing did not (and never has) erase the option of restoring Taiwan through war, as shown in every White Paper on the Taiwan issue.²⁶⁹ When Taiwanese President Lee Teng-hui advocated Taiwan’s domestic and international legal sovereignty in 1996 and 1999 respectively, signaling the bottom line of “one-China” became an important policy tool for Beijing to impede Taiwan’s independence movements.²⁷⁰ The most prominent examples were China’s military

²⁶⁶ Wang, “Hu Jintao’s ‘New Thinking’ on Cross-Strait Relations”, 25-28.

²⁶⁷ Lin, “More Carrot than Stick”, 6; Su, *Taiwan’s Relations with Mainland China*, 278.

²⁶⁸ Ibid.

²⁶⁹ TAO, “The Taiwan Question and Reunification of China”; TAO, “The One-China Principle and the Taiwan Issue”.

²⁷⁰ Lin, “Goodwill and Proactive Exchange Policy”, 712-13; Scott L. Kastner, “Rethinking the Prospects for Conflict in the Taiwan Strait”, in *Globalization and Security Relations across the Taiwan Strait: In the Shadow of China*, ed. Ming-chin Monique Chu and Scott L. Kastner (New York: Routledge, 2015), 46.

exercises in the Taiwan Strait in 1996 and 1999.²⁷¹

Nonetheless, these measures were not as effective as Beijing had anticipated. Indeed, Beijing's coercive manners did not shake President Lee's determination to promote Taiwan's democratization in his presidential campaign in 1996.²⁷² Neither did Beijing successfully prevent the pro-independence party — the DPP — from obtaining governing power through the presidential election in 2000. Most importantly, beyond the bilateral level across the Taiwan Strait, Beijing also risked damaging its relations with the US by threatening Taiwan of military conflicts. Notably, Washington had always requested Beijing and Taipei to envisage a peaceful scenario for resolving their dispute over sovereignty.²⁷³ Thus Beijing's military exercises targeting Taiwan was equivalent to challenging Washington's security interests in East Asia.

As a result, in order to avoid direct conflicts with the US, Beijing adjusted its method of displaying military power against Taiwan after Chinese leader Hu Jintao took the helm in 2002. China's military exercises were no longer held in the Taiwan Strait. However, this does not mean that the Chinese leaders softened its militarism; Beijing's alternative was to increase the number of missiles aiming at Taiwan.²⁷⁴ Additionally, Beijing also passed the Anti-secession Law in 2005, legitimizing the use of military measures to resolve the Taiwan issue in case of "Taiwan

²⁷¹ Ibid.

²⁷² Yuan-Kang Wang, "Democratization in Greater China: Taiwan's Democratization and Cross-Strait Security", *Orbis* 48, no. 2 (2004): 295-96.

²⁷³ Phil Deans, "The Taiwan Question: Reconciling the Irreconcilable", in *Chinese-Japanese Relations in the Twenty-first Century: Complementarity and Conflicts*, ed. Marie Soderberg (New York: Routledge, 2001), 96.

²⁷⁴ Lin, "Goodwill and Proactive Exchange Policy", 712-13.

independence” or “interference by any outside forces”.²⁷⁵ This clearly sent Beijing’s bottom line to Taipei.

On the diplomatic front, the PRC’s stance on the “one-China principle” became more assertive. Beijing even issued the policy of “three empties” in 1997 attempting to expel Taiwan from international organizations, “exhaust[ing]” Taipei’s budgets in establishing diplomatic relations with other states, as well as rubbing out all of Taiwan’s diplomatic allies.²⁷⁶ Thereon, at the bilateral level, Beijing actively competed with Taipei in offering financial aids to African and Central American countries, and the number of Taiwan’s diplomatic allies decreased from 29 in 2000 to 23 in 2008.²⁷⁷ At regional and global levels, Beijing further infringed on Taiwan’s international legal sovereignty by defining this island as a “province of China”.²⁷⁸ Under this narrow definition, Taiwan’s political status was even lower than Beijing’s initial offer within the “one country, two systems” framework after reunification.²⁷⁹ Furthermore, while Beijing could not tolerate Taiwan’s enrollment in any international organization even under the title of “Chinese Taipei”, Taipei had no leeway to make a self-interpretation over the “one-China principle” based on the “1992 Consensus”. Consequently, except for the WTO, Taiwan faced difficulties in participating in IGOs and even INGOs.²⁸⁰ The failure of Taiwan’s applications to the WHO in 2005 is clear evidence.

²⁷⁵ NPC, PRC “Anti-Secession Law”.

²⁷⁶ Chien-Min Chao, “The Republic of China’s Foreign Relations under President Lee Teng-hui: A Balance Sheet”, in *Assessing the Lee-Teng-hui Legacy in Taiwan’s Politics: Democratic Consolidation and External Relation*, ed. Bruce J. Dickson and Chien-Min Chao (New York: M. E. Sharp, Inc., 2001), 191.

²⁷⁷ Timothy S. Rich, “Status for Sale: Taiwan and the Competition for Diplomatic Recognition”, *Issues & Studies* 45, no. 4 (2009): 171-79

²⁷⁸ Winkler, “A Question of Sovereignty?”, 9-12.

²⁷⁹ *Ibid.*

²⁸⁰ Hickey, “Wake Up to Reality”, 10-11.

Apart from the above coercive manners aimed at forcing Taipei to abolish its policy in acquiring *de jure* sovereignty, Beijing also endeavored to practice the strategy of “using business to press politics and using the public to pressure the official[s]”.²⁸¹ Chinese leaders have never abandoned the strategy of achieving the national goal of peaceful reunification through commercial diplomacy. As early as the Jiang Zemin era, despite tense relations with Taiwan provoked by the disputed issue of sovereignty, Beijing still stressed the principle of “pinning its hope on the people of Taiwan”.²⁸² Based on this principle, Beijing released more preferential treatments for Taiwanese businessmen in order to attract more Taiwanese investments by assuring their business interests in the Mainland.

The most prominent preferential policy adopted by Beijing was the promulgation of the “Detailed Rules for the Implementation of the Law of the People’s Republic of China on the Protection of Investments of Taiwan” in 1999.²⁸³ These rules legitimized all the preferential treatments targeting Taiwanese businessmen since the 1980s discussed in the second section. Moreover, Beijing confirmed that Taiwanese enterprises in the Mainland must be treated as Chinese domestic companies, and they were allowed to utilize preferential treatments issued by the central and provincial governments at the same time.²⁸⁴ Most importantly, Beijing approved Taiwanese businessmen to “freely” organize provincial and central associations so that they could have direct channels to communicate with the Chinese

²⁸¹ Segal, “Chinese Economic Statecraft and the Political Economy of Asian Security”, 150.

²⁸² Xin, “Beyond Power Politics”, 528.

²⁸³ 中華人民共和國國務院, “中華人民共和國台灣同胞投資保護法實施細則”, 1999 ;The State Council of the People’s Republic of China, “Detailed Rules for the Implementation of the Law of the People’s Republic of China on the Protection of Investments of Taiwan”, 1999, accessed July 19, 2016, <http://www.mofcom.gov.cn/article/b/bf/200207/20020700031349.shtml>.

²⁸⁴ Ibid.

government.²⁸⁵

Since the 2000s, the successor of President Jiang Zemin — President Hu Jintao — seemingly put more emphasis on soft manners when addressing the Taiwan issue, particularly when Beijing’s coercive manners did not effectively prevented Taipei from adopting pro-independence policies. Most notably, while expressing Beijing’s firm attitude against Taiwan’s independence movements by publishing the “Anti-secession Law” in 2005, President Hu also displayed his soft manners towards Taiwan by reiterating “peaceful reunification” as the main goal of Beijing’s Taiwan policy.²⁸⁶ As such, in March 2005, President Hu made “a four-point guideline” concerning Beijing’s agenda of “peaceful reunification” in an attempt to encourage Taipei to resume dialogues with Beijing, and he further stressed that Beijing would “never change the principle of placing hope on the Taiwan people”.²⁸⁷ Subsequently, between 2005 and 2008, Beijing offered more trade preferential treatments to Taiwan. However, different from the previous preferential policies in Jiang Zemin’s era, President Hu’s commercial diplomacy might have actually enabled Beijing to extend its influence from Taiwanese businessmen in the Mainland to Taiwanese society in general.

For example, as we have already seen in chapter 1, when Taiwanese fruit farmers suffered considerable business loss due to over-production, China

²⁸⁵ Ibid.

²⁸⁶ For more details regarding Hu’s “four-point guideline”, please see: Xinhua, “Do Best to Seek Peaceful Reunification, But Never Tolerate ‘Taiwan Independence’: President Hu”, *China Daily* on March 4, 2005, accessed October 19, 2015, http://en.people.cn/200503/04/eng20050304_175597.html.

²⁸⁷ Ibid.

unilaterally opened its market to import fruits from Taiwan.²⁸⁸ In coordination with this preferential treatment, China's commercial diplomacy took the form of "fruit offensive" policy.²⁸⁹ Guided by this policy, Beijing purchased tons of leftover fruits from Taiwanese farmers in an attempt to lower DPP's approval rate since most of these farmers were loyal supporters of the DPP.²⁹⁰ In addition, Beijing further established the "Cross-Strait Agricultural Cooperation Experimental Zones" in Fujian Province, so as to attract Taiwanese farmers to invest in the Mainland.²⁹¹

Most importantly, even though Beijing had made unilateral preferential trade policies for Taiwan in the late 1990s, the effectiveness of such commercial diplomacy was often limited in furthering its political agenda towards Taiwan because of the suspension of semi-official cross-Strait dialogues. In order to improve this predicament, President Hu Jintao adopted another noteworthy form of cross-Strait dialogues. Beijing actively invited KMT politicians to the Mainland to discuss issues concerning cross-Strait economic cooperation, and most of Hu's preferential treatments for Taiwan were released after these meetings.²⁹² By holding meetings with Taiwan's pro-unification leaders, Beijing aimed, on the one hand, to exert pressure on Chen Shui-bian's administration to recalibrate its Mainland policy based on the "one-China principle".²⁹³ On the other hand, Beijing also intended to magnify KMT's expertise in managing cross-Strait relations, in the hope of helping the party in defeat the DPP in the presidential election in 2008.

²⁸⁸ Wang, "Hu Jintao's 'New Thinking' on Cross-Strait Relations", 29-30.

²⁸⁹ Wei, "China's Economic Offensive and Taiwan's Defensive Measures", 644-47.

²⁹⁰ Ibid.

²⁹¹ Xin, "Beyond Power Politics", 530.

²⁹² Wang, "Hu Jintao's 'New Thinking' on Cross-Strait Relations", 29-30.

²⁹³ Ibid.

In spite of improvements of the bilateral relationship between the CCP and KMT, it remains difficult to make a clear judgment on whether President Hu's commercial diplomacy towards Taiwan was effective or not. During Chen Shui-bian's presidency, Taipei did not soften its assertive attitude towards pursuing *de jure* independence, nor did Chen's administration resume the suspended semi-official negotiations with Beijing. Moreover, although the KMT won the presidential campaign in 2008, most scholars ascribed this to Taiwan's poor economic performance under President Chen Shui-bian's leadership and — most significantly — to the scandal of his corruption.²⁹⁴ In this light, President Chen's poor record in tackling cross-Straits relations was not the key factor that should be blamed for the DPP's loss.

In summary, despite the fact that Beijing did not manage to impede Taipei's resolution to pursue independence movements with its “two-handed” strategy, this strategy had made Taipei encounter a strategic dilemma in managing its cross-Straits relations. At the bilateral level, Beijing's coercive manners have sent clear signals to Taipei, declaring that a war across the Taiwan Strait and limited diplomatic space would be the price for Taiwan's independence movements.²⁹⁵ Resuming cross-Straits negotiations based on the “one-China principle” seemed to be the only approach to improve Taiwan's tense relations with China, but this scenario conflicted with both President Lee Teng-hui's and Chen Shui-bian's strategic goals to solidify Taiwan's international legal sovereignty. Moreover, from the perspective of Taiwan's domestic politics, the meetings between the KMT and the CCP since 2005 have heavily impacted the authority of the DPP administration in managing cross-Straits

²⁹⁴ Fell, “More or Less Space for Identity in Taiwan's Party Politics”, 109-10;

²⁹⁵ Lin, “Goodwill and Proactive Exchange Policy”, 713-14.

relations.²⁹⁶ Combining with Beijing's "soft" preferential policies, which aimed at luring Taiwanese investments, President Lee's and Chen's policies in restricting cross-Strait economic exchanges have faced severe challenges.

4.4.2 Taiwan's New Mainland Policy: The ECFA

Cross-strait relations were nervous between 1996 and 2008, but there was a dramatic improvement in bilateral relations after the KMT regained power in 2008. The key factor was the substantial reform of Taiwan's Mainland policy. Since Taiwanese President Ma Ying-jeou's inauguration in 2008, Taipei soon resumed the bilateral talks between the SEF and the ARATS based on the 1992 Consensus, and Taiwan further expressed benign attitude towards China by opening the "three direct links" in November 2008.²⁹⁷ In 2010, both sides even achieved a milestone in cross-Strait relations by signing the ECFA, which officially formed the prologue for cross-Strait economic integration. The issue of economic integration has henceforth featured a major role in cross-Strait rapprochement during Ma Ying-jeou's presidency.

President Ma's new Mainland policy — particularly the ECFA which promoted cross-Strait economic integration — symbolized a shift in Taiwan's strategic logic in managing cross-Strait relations, from one of confrontation to one of cooperation with Beijing. However, the ECFA was in fact Taipei's contingency plan for managing both cross-Strait relations and Taiwan's own economic problem. Besides, as will be discussed below, President Ma's new Mainland policy has been met with fierce

²⁹⁶ Wang, "Hu Jintao's 'New Thinking' on Cross-Strait Relations", 29-30.

²⁹⁷ SEF, "Chronology of Meetings"; Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 13-14.

debates in Taiwanese society. As far as the reason Taipei adopted this contingency plan is concerned, most Taiwanese elites observed that Taipei's strategic concern were placed on three fronts: improving Taiwan's economic performance, enlarging Taiwan's diplomatic space and stabilizing cross-Strait relations.²⁹⁸

First of all, on the economic front, boosting Taiwan's economic growth was one of the priorities after President Ma's inauguration.²⁹⁹ As he had promised that during his presidency, Taiwan would achieve "a 6% annual GDP growth, an annual per capita income at least US\$30,000; and unemployment rate of no more than 3%", the achievement of this mission became crucial for the credibility of the new government.³⁰⁰ As such, it was urgent for his administration to show the public signs of economic revival, a difficult task given the heavy impact on Taiwan's economic development during the 2008 global financial crisis.³⁰¹ To the extent that China was the only economy with a burgeoning growth among Taiwan's major trading partners, facilitating economic integration with China seemed to be the only feasible solution that could allow Taiwan to gain economic growth in a short term. Combined with Taiwanese entrepreneurs' appeals to the government for liberalizing cross-Strait economic exchanges (discussed in the previous section), Ma's administration eventually took cross-Strait economic integration as its top priority.³⁰²

²⁹⁸ Chong-pin Lin, interviewed by author, February 19, 2014; Chi Su, interviewed by author, March 18, 2014; Chao-Shiuan Liu, interviewed by author, March 24, 2014; Chien-Min Chao, interviewed by author, April 4, 2014.

²⁹⁹ Ibid.

³⁰⁰ Stephanie Chao, "Lawmakers Demand Ma Pay for Broken Pledges", *The China Post*, May 17, 2016, accessed August 16, 2016, <http://www.chinapost.com.tw/taiwan/national/national-news/2016/05/17/466404/Lawmakers-demand.htm>.

³⁰¹ Joe Thomas Karackattu, "Post-ECFA Outlook for the Relationship across the Taiwan Strait", *Issues & Studies* 48, no. 4 (2012): 116-21.

³⁰² Ibid.

On the diplomatic front, the mission of expanding Taiwan's international space was equally important as pursuing Taiwan's economic development, especially when President Ma attributed Taiwan's poor economic performance to its regionally isolated position.³⁰³ At the regional level, as previously analyzed in chapter 3, the potential side-effect of "trade substitution" had captured the attention of Taiwanese policymakers following the rapid growth of the number of FTAs in East Asia.³⁰⁴ Yet, Taipei did not have an effective policy tool for tackling this problem, because the "China factor" served as an obstacle to Taiwan's FTA strategy. At the global level, owing to the tightened cross-Strait relations between 1996 and 2008 provoked by the disputed "one-China principle", the number of Taiwan's diplomatic allies had decreased to 23 by 2008. Meanwhile, Taipei failed to gain entry to important IGOs other than the WTO. In this light, Taipei's previous strategy in challenging Beijing's political agendas did not assist Taiwan in getting rid of the "one-China" framework. On the contrary, it resulted in a shrink of Taiwan's international space, detrimental to its international legal and interdependence sovereignty.

Since Taiwan only had limited policy tools for achieving its economic and diplomatic goals in the context of tense cross-Strait relations, stabilizing bilateral relations with China was especially important for delivering President Ma's policy goals.³⁰⁵ Professor Su Chi, former General Secretary of the National Security Council (ROC) in the Ma administration, indicated that:

"Our [the Taiwanese government's] decision to sign the ECFA was

³⁰³ Chi Su, interviewed by author, March 18, 2014; Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

³⁰⁴ Dent, "Taiwan and the New East Asian Regionalism", 145-48.

³⁰⁵ Li "The Nature of the Economic Cooperation Framework Agreement", 54-58.

actually driven by a set of strategies, and there is an order of priority between each of them. After signing the ECFA with Beijing, our next step is to sign the FTAs with Singapore and New Zealand. Afterwards, we expect to dovetail with the international community ... Even though we did not set this order of priority, other countries would do so... For example, Southeast Asian countries, Singapore, and New Zealand were only willing to conclude an FTA with us after we signed the ECFA with Beijing."³⁰⁶

Accordingly, the development of cross-Strait relations was key to the effectiveness of President Ma's economic policy. Doing so, however, would impinge on his strategies for acquiring Taiwan's international space. Chapter 6 will study this issue in more detail.

During President Ma Ying-jeou's presidency, Taipei did achieve several strategic goals. After the improvement of cross-Strait relations, Beijing softened its assertive attitude towards Taiwan's political status, and Chinese President Hu Jintao further advocated the "peaceful development of cross-Strait relations" in 2008.³⁰⁷ As such, Taiwan managed to not only sign FTAs with several of its targeting trading partners, but also join some IGOs such as its enrolment in the WHA. Despite the above achievements, criticism of Taipei's new Mainland policy was never appeased. As introduced in chapter 1, the foremost controversy over the ECFA stemmed from the disputed 1992 Consensus, and Taiwanese pro-independence politicians contended that Beijing could infringe on Taiwan's sovereignty in the process of economic

³⁰⁶ Chi Su, interviewed by author, March 18, 2014.

³⁰⁷ TAO, "Let Us Join Hands to Promote the Peaceful Development of Cross-Strait Relations".

integration.³⁰⁸ In addition, given the considerable amount of Taiwanese investment in China, some Taiwanese elites further questioned if the ECFA has caused the “hollowing out” effect endangering Taiwan’s economic security.³⁰⁹ Chapter 6 will evaluate the effectiveness of Taipei’s new Mainland policy in more detail.

4.5 Conclusion

To sum up, this chapter studied Taiwan’s strategic dilemma in maintaining equilibrium between economic and sovereign interests between 1990 and 2008, and posited that Taiwan’s “Mainland fever” in the wave of East Asian regionalization was the main cause of this predicament. Specifically, China’s low-cost production factors have been beneficial to Taiwanese ICT industries for maintaining their competitiveness within the BDCCs. Meanwhile, China’s large market size and the common language and culture shared with Taiwan, have also provided Taiwanese ICT industries with unique advantages in the process of industrial transformation and upgrading.³¹⁰ As such, the Chinese market has become the main target of Taiwanese investment, and this commercial diplomacy allowed Beijing to take advantage of Taiwan’s Mainland fever to further its political interests on Taiwan.

Although the increasing degree of Taiwan’s economic dependence on China has captured the attention of Taiwanese leaders, Taipei did not have effective policy instruments to reverse this situation. Nor did Taipei successfully counter Beijing’s

³⁰⁸ Hickey, “Wake Up to Reality”, 3-5.

³⁰⁹ Tanner, *Chinese Economic Coercion Against Taiwan*, 18-20; Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 88-90.

³¹⁰ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

commercial diplomacy by assertively solidifying Taiwan's statehood during Lee Teng-hui's and Chen Shui-bian's presidencies. First, Taipei's measures in restricting cross-Strait economic relations entirely conflicted with the economic dynamics of cross-Strait integration. Thus Taiwanese entrepreneurs were reluctant or even refused to cooperate with the government's policies. Second, in spite of Taiwan's effort to implement the "go south" policy, ASEAN-7 was not an ideal substitution for China as the main production bases of Taiwanese ICT industries, particularly when ASEAN economic development was affected by the 1997 Asian financial crisis.³¹¹ Most importantly, instead of forcing Beijing to loosen its definition of the "one-China principle", Taipei's unilateral movement of pursuing *de jure* sovereignty only resulted in tense relations with China. This then increased the difficulty for Taipei to enlarge its international space, and has a detrimental impact to its economic interests and *de jure* sovereignty.

Taipei's determination to pursue its international legal sovereignty magnified the limited effectiveness of China's commercial diplomacy in stopping Taipei from carrying out pro-independence policies between 1996 and 2008. Nonetheless, by adopting a "two-handed" strategy, Beijing still managed to convince Taipei to promote cross-Strait economic integration by signing the ECFA after President Ma Ying-jeou's inauguration in 2008. For Taipei, the ECFA was a contingency plan for removing the obstacle of the "China factor" to Taiwan's international space, in a bid to secure Taiwan's economic and sovereign interests. However, as most critics have contended, the ECFA might be more favorable to Beijing for encroaching on Taiwan's sovereignty in the promotion of bilateral economic integration, since the

³¹¹ Ibid.

1992 Consensus was the prerequisite of this agreement.³¹² This controversy has raised the question of whether Beijing could infringe on Taiwan's sovereignty in the process of cross-Strait economic integration. Moreover, it has also raised the question of whether Taipei has achieved its strategic goals after signing the ECFA with Beijing. To address these questions, chapters 5 and 6 will respectively evaluate Beijing's commercial diplomacy towards Taiwan and Taipei's strategy for countering China's commercial diplomacy in the post-ECFA era.

³¹² Hickey, "Wake Up to Reality", 3-5.

Chapter 5 China's Commercial Diplomacy towards Taiwan in the Post-ECFA Era

5.1 Introduction

In chapter 4, this thesis studied cross-Strait relations in the context of economic integration at the bilateral level, across the Taiwan Strait, and the regional level in East Asia. In general, between 1996 and 2008, whilst Beijing faced the difficulties in convincing Taiwan of the “one-China” by utilizing commercial diplomacy in the process of cross-Strait economic integration, reconciling economic and sovereignty interests in the process of cross-Strait economic integration was also a challenge for Taiwan with regards to its relations with China. On the one hand, comparative advantages in the Chinese market had been crucial for Taiwan's major industries — the ICT manufacturers — to maintain their competitiveness in the wave of East Asian regionalization.¹ On the other hand, this economic dynamic had generated Taiwan's “Mainland fever”, which provided Beijing with many more resources to utilize commercial diplomacy towards Taiwan. Yet Taipei was unable to secure its economic and sovereign interests simultaneously. The degree of Taiwan's economic dependence on China was increasing despite Taipei's efforts to restrict bilateral economic exchanges. Additionally, rather than successfully solidifying Taiwan's international legal sovereignty, Taipei's pro-independence policies provoked Beijing to adopt the narrowly defined “one-China principle”. This had further risked Taiwan's security interest, as has been the case for the 1996 cross-Strait crisis.²

¹ Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 82-84.

² Qimao Chen, “The Taiwan Strait Crisis: Its Crux and Solutions”, *Asian Survey* 36, no.11 (1996): 1055-60.

Consequently, Taiwanese President Ma Ying-jeou considered the ECFA a contingency plan related to Taiwan's Mainland policy and the key strategy for acquiring international space so as to consolidate its *de jure* sovereignty.³

Notably, contradictory to Taiwan's strategic goals, Beijing's concern over the ECFA was actually based on its guideline of "peaceful reunification".⁴ The different strategic goals held by Beijing and Taipei concerning the issue of facilitating cross-Strait economic integration led to the formulation of this thesis — that is, whether the ECFA helped China to encroach upon Taiwan's sovereignty, or whether it has assisted Taiwan in countering the "one-China principle" following the expansion of its international space in the post-ECFA era. Studying this question is especially important because this thesis contends that Beijing has utilized commercial diplomacy to infringe on Taiwan's sovereignty in the process of cross-Strait economic integration after signing the ECFA with Taipei. As such, in this chapter, this thesis evaluates both Beijing's and Taipei's strategies for managing cross-Strait relations respectively.

The core purpose of this chapter is to assess the effectiveness of China's commercial diplomacy towards Taiwan in the post-ECFA era. Specifically, this chapter will answer three sub-questions stemming from the aforementioned core research question. Firstly, what strategic goals has Beijing achieved by utilizing commercial diplomacy in the post-ECFA era? Secondly, how has Chinese leaders

³ David W. F. Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 13-14.

⁴ Jean-Pierre Cabestan, "Taiwan and Chinese Security", in *Routledge Handbook of Chinese Security*, ed. Lowell Dittmer and Maochun Yu (New York: Routledge, 2015), 185-186; Jianwei Wang, "Is the Honeymoon Over? Progress and Problems in Cross-Strait Relations," *American Foreign Policy Interests* 32, no. 3 (2010): 152-57.

defined Taiwan's political status based on the 1992 Consensus in the post-ECFA era? Thirdly, how, and to what extent, has Beijing extended its influence to Taiwanese society in the post-ECFA era?

In order to address these questions, the next section of this chapter will analyze Beijing's strategic goals in the post-ECFA era by drawing on interviews with Chinese elites and Beijing's official documents concerning the Taiwan issue. As we shall see in the next section, the "peaceful development of cross-Strait relations" and the institutionalization of the 1992 Consensus were the main accomplishments of China's commercial diplomacy in the post-ECFA era. However, it is noteworthy that Beijing has made concessions on Taiwan's international space in an attempt to encourage Taipei to sign the ECFA based on the 1992 Consensus.⁵ The third section studies Beijing's strategy in managing Taiwan's international space and its definition over the "One Country, Two Systems" framework so as to examine if China has encroached on Taiwan's sovereignty in the post-ECFA era.

The fourth section of this chapter evaluates Beijing's influence on Taiwanese society in the post-ECFA era. In brief, regardless of Beijing's effort to practice the guideline of "placing hope on the Taiwan people", the onset of the Sunflower Movement in 2014 symbolized Taiwanese antagonism towards Beijing's reunification agendas in the process of cross-Strait economic integration.⁶ Finally, this chapter concludes that, although China has seemingly locked Taiwan within its "one-China" framework, Beijing did not successfully convince Taiwan of peaceful

⁵ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 13-14.

⁶ Magcamit and Tan, "Crouching Tiger, Lurking Dragon: Understanding Taiwan's Sovereignty and Trade Linkages in the Twenty-first Century", 102-105; Singh, "Can Taiwan Talk 'Political' with the Mainland?", 264-66.

reunification in the post-ECFA era.

5.2 The ECFA: Evaluating Beijing's Strategic Goals

Cross-Strait relations experienced a turbulent period between 1996 and 2008; however, there has been a significant improvement of bilateral relations particularly after Beijing and Taipei signed the ECFA in June 2010. Whereas Taipei took the initiative to improve cross-Strait relations, Chinese leaders have made considerable economic concessions by offering more preferential tariff treatments for Taiwanese enterprises in the negotiation process over the ECFA with Taipei.⁷ Simultaneously, Beijing has also softened their language concerning Taiwan's political status, and Chinese leaders even expressed goodwill in allowing Taiwan to sign FTAs with its trading partners and participate in IGOs.⁸ Nonetheless, it is noteworthy that the generous offers made by Beijing did not conflict with its political interests in Taiwan. Rather, after signing the ECFA with Taipei, it has not only institutionalized cross-Strait economic exchanges but also stabilized cross-Strait relations based on the 1992 Consensus. This has been beneficial for Chinese leaders to pursue peaceful reunification by utilizing commercial diplomacy in the context of "peaceful development of cross-Strait relations".⁹

5.2.1 The ECFA and China's Commercial Diplomacy towards Taiwan

As previously discussed in chapter 1, the ECFA is not economically beneficial

⁷ Tung and Yeh, "Development of A Cross-Strait Economic Cooperation Framework Agreement", 41-44.

⁸ Chen, "Diplomatic Truce in Cross-Strait Relations", 99-100.

⁹ TAO, "Let Us Join Hands to Promote the Peaceful Development of Cross-Strait Relations".

for China because Beijing only foresees a 0.17% annual GDP growth rate after signing this agreement with Taipei.¹⁰ Neither is it an “asymmetric” economic agreement for the Mainland since Beijing is obliged to remove tariffs on 272 items more than Taipei according to the Early Harvest List of the ECFA.¹¹ As most scholars have noted, China’s generous economic concessions to Taiwan suggest that Beijing’s political gains from the ECFA have outweighed the economic conflicts generated by this agreement.¹² Indeed, as discussed in chapter 1, the ECFA embodies contemporary China’s commercial diplomacy towards Taiwan. Beijing’s political concern over the ECFA should be understood in relation to China’s long-standing strategic goal of “peaceful reunification” that has existed since the Deng Xiaoping’s era.¹³ Specifically, as we have already seen in chapters 2 and 4, the strategic logic of creating a stable environment for “accomplishing peaceful reunification step by step” has guided Beijing’s Taiwan policy since the 1990s.¹⁴ In 2008, Chinese President Hu Jintao further stressed that promoting cross-Strait economic integration is the key to the “peaceful development of cross-Strait relations”, which is a crucial step for Beijing to achieve its national goal of “peaceful reunification”.¹⁵

In effect, the foremost achievement of Beijing’s commercial diplomacy in the post-ECFA era has been the “peaceful development” of the PRC-Taiwan relations in

¹⁰ Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 91.

¹¹ Tung and Yeh, “Development of A Cross-Strait Economic Cooperation Framework Agreement”, 41-44.

¹² Hong and Yang, “The Economic Cooperation Framework Agreement between China and Taiwan”, 94-95.

¹³ TAO, “Deng Xiaoping’s Six Concepts of Peaceful Reunification (1983)”, 2002, accessed January 13, 2015, http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790064.htm

¹⁴ TAO, “Jiang Zemin’s Eight-Point Proposal”, 1995, accessed January 13, 2015, http://www.gwytb.gov.cn/en/Special/Jiang/201103/t20110316_1789198.htm

¹⁵ TAO, “Let’s Us Join Hand to Promote the Peaceful Development of Cross-Strait Relations”.

the context of cross-Strait economic integration.¹⁶ The most direct evidence of this is Chinese President Hu Jintao's address at the meeting with the KMT Honorary Chairman Wu Poh-hsiung in July 2010; he said: "this agreement [ECFA] was an important achievement in the peaceful development of relations across the Taiwan Strait and a sign that economic and trade ties have entered a new stage".¹⁷ Succeeding President Hu, Chinese President Xi Jinping clearly expressed Beijing's determination "to continue promoting the peaceful development of cross-Strait ties" at the CCP-KMT meeting in February 2013.¹⁸ He said: "We will maintain consistency in policies toward Taiwan by unswervingly upholding the one-China principle and continuing to promote cross-Strait exchanges and cooperation".¹⁹

Chinese scholars further rationalized the connection between "peaceful development" across the Taiwan Strait and the development of cross-Strait economic integration. Professor Li Yihu, Dean of the School of International Studies (SIS) at the Peking University, observed: "Rational thinking [by Chinese and Taiwanese leaders] comes from economic interests".²⁰ Between 1949 and 1987, Taipei's implementation of the "no contact, no negotiation, and no compromise" policy had resulted in stalemate with regards to cross-Strait relations.²¹ While there was no room for Beijing to adopt non-military strategies to tackle the Taiwan issue, taking Taiwan by force appeared to be the only feasible approach for Beijing.

¹⁶ Jianwei Wang, "Is the Honeymoon Over?", 152-57.

¹⁷ TAO, "Hu Jintao Meets with KMT Honorary Chairman", 2010, accessed on August 25, 2016, http://www.gwytb.gov.cn/en/Headline/201103/t20110316_1787914.htm

¹⁸ Xinhua, "Xi Meets KMT's Lien, Stresses Cross-Strait Ties", *The China Times*, February 25, 2013, accessed February 4th, 2015, <http://thechinatimes.com/online/2013/02/6688.html>

¹⁹ Ibid.

²⁰ Yihu Li, interviewed by author, December 2, 2013.

²¹ Chi Su, *Taiwan's Relations with Mainland China: A Tail Wagging Two Dogs* (New York: Routledge, 2010), 5-6.

Following the gradual resumption of cross-Strait economic exchanges after the 1990s, the burgeoning economic ties between both sides helped to stabilize bilateral relations.²² Yet due to the lack of an institutional arrangement between Beijing and Taipei before the signing of the ECFA, the development of bilateral economic relations was subject to “the zero-sum Green-Blue [DPP-KMT] politics in the Taiwan island” as several Chinese elites have noted.²³ As such, ensuring the long-term stability across the Taiwan Strait by promoting cross-Strait economic integration remained a crucial mission for Beijing so as to “create favorable conditions” for “peaceful reunification”.²⁴ By this reasoning, as cross-Strait economic ties have been institutionalized since the signing of the ECFA, this should have assisted Beijing in promoting “peaceful development” so as to fulfill “peaceful reunification” across the Taiwan Strait.

In the context of “peaceful development” between Taiwan and the Mainland, there are three main “favorable conditions for peaceful reunification” that Beijing expects to create by utilizing commercial diplomacy through the ECFA.²⁵ Firstly, after the signing of the ECFA, cross-Strait economic integration has been institutionalized, a goal that Beijing had strived for since the 1980s. Based upon this foundation, Beijing intends to build “mutual trust” with Taipei in order to commence political negotiation one day.²⁶ So far, under the framework of the ECFA, Beijing and Taipei have jointly established the “Cross-Straits Economic Cooperation

²² Yonghong Tang, interviewed by author, October 12, 2013; Xiancai Chen; interviewed by author, October 29, 2013

²³ Wensheng Zhang, interviewed by author, December 20, 2013.

²⁴ TAO, “Let’s Us Join Hand to Promote the Peaceful Development of Cross-Strait Relations”.

²⁵ Embassy of the People’s Republic of China in the United Kingdom of Great Britain and Northern Ireland, “Premier Wen Jiabao Meets the Press”, 2010, accessed August 20, 2016
<http://www.chinese-embassy.org.uk/eng/zgyw/t673753.htm>

²⁶ Yijiang Ding, “Cross-Strait Peace Agreement: Diminishing Likelihood”, *Asian Affairs: An American Review* 39, no. 1 (2012), 1-2.

Committee” (CSECC) in which both sides’ economic officials meet regularly to discuss bilateral trade affairs.²⁷ Although the concrete statutes have not yet been established due to the unsettled political bifurcation between Taipei and Beijing, the establishment of the CSECC symbolizes that the level of bilateral talks has been enhanced from semi-official dialogue to official negotiation. However, the institutionalization of cross-Strait economic relations has seemingly had a limited effect in persuading Taipei to negotiate political issues with Beijing. As will be specified later, Taipei’s refusal to discuss the Cross-Strait peace agreement with Beijing based on the “one-China principle” was the most prominent case.²⁸ Moreover, even though both sides’ leaders met in Singapore in 2015, no concrete agreement or consensus was reached.²⁹

Secondly, the institutionalization of cross-Strait economic integration has assisted Beijing in enhancing the effectiveness of commercial diplomacy. Unlike the previous unilateral preferential policy that only applied to Taiwanese businessmen on the Mainland, the ECFA has provided Beijing with a solid platform upon which Chinese leaders can further their political agendas by utilizing commercial diplomacy towards Taiwan. In other words, in the post ECFA-era, Beijing has been able to exert its influence over the whole of Taiwanese society by creating preferential policies and economic concessions so as to fulfill its strategic guideline

²⁷ Bureau of Foreign Trade, MOEA, ROC, “The Economic Cooperation Framework Agreement”; Hsieh, “The China-Taiwan ECFA, Geopolitical Dimensions and WTO Law”, 152-55.

²⁸ Baohui Zhang, “Peaceful Unification vs. Divided Rule: Assessing Political Relations across the Taiwan Strait”, in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), 116-19.

²⁹ Charles Hutzler and Jack M. Watts, “China’s Xi Jinping and Taiwan’s Ma Ying-jeou Meet in Singapore”, *The Wall Street Journal*, November 8, 2015, accessed on August 30, 2016, <http://www.wsj.com/articles/china-s-xi-jinping-and-taiwan-s-ma-ying-jeou-meet-in-singapore-1446880724>

of “placing hope on the Taiwan people”.³⁰ Beijing’s concrete tactics in this regard have been its economic concessions to Taiwan in negotiating the Early Harvest List of the ECFA. As discussed before, regardless of Taiwan’s heavy protectionism on agriculture, Beijing promised zero tariffs on 18 sensitive agricultural products imported from Taiwan.³¹ Simultaneously, China fulfilled its obligation by reducing tariff on 539 imported goods from Taiwan, which assisted Taiwanese petrochemical and machinery industries in reducing negatively impacted bred by the establishment of the APT.³²

Chinese Premier Wen Jiabao clarified Beijing’s motivation behind these concessions in 2010 by saying: “we [Beijing] will let the people in Taiwan benefit more from the ECFA ... because ‘we [Taiwanese and Chinese] are brothers’”.³³ Premier Wen also expressed his wish to witness both sides’ peoples’ efforts to promote reunification, as he said: “‘difference between brothers cannot sever their brother ties’. I believe as bothers, we will eventually solve the problems”.³⁴ Through Premier Wen’s speech, it is not difficult to see Beijing’s efforts to convince Taiwanese of the benefits generated by cross-Strait economic integration. Moreover, Beijing’s generous economic concessions also demonstrated that Chinese leaders have more confidence in managing the Taiwan issue.³⁵ Likewise Professor Tang Yonghong from the Taiwan Research Institute at the Xiamen University said: “The Chinese mainland is playing the core role in the process of globalization. We have

³⁰ Xinhua, “Do Best to Seek Peaceful Reunification”.

³¹ Bureau of Foreign Trade, MOEA, ROC, “The Economic Cooperation Framework Agreement”.

³² Tung and Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement”, 42.

³³ Embassy of the People’s Republic of China in the United Kingdom of Great Britain and Northern Ireland, “Premier Wen Jiabao Meets the Press”.

³⁴ Ibid.

³⁵ Weixing Hu, “The Political-Economic Paradox and Beijing’s Strategic Options”, in *China’s Rise, Taiwan’s Dilemmas and International Space*, ed. Edward Friedman (New York: Routledge, 2006), 35.

strong economic growth, and we can take care of the Taiwanese people's economic interests now".³⁶ He further pointed out that: "under these circumstances, it is only natural for Beijing to leverage Taiwan by making use of economic advantages".³⁷

In addition, Chinese elites further pointed out that "with supports from the Taiwanese people", the development of cross-Strait economic integration is anticipated to be stable even if the DPP returns to power in future.³⁸ The core reason for this is that the DPP cannot win a election by ignoring the economic interests represented by the ECFA, which correspond with the needs of the Taiwanese people.³⁹ In this regard, the solid relations of economic interdependence across the Taiwan Strait in the post-ECFA era seems to be a strong constraint on the DPP's pro-independence policy. Subsequently, Beijing hopes that Taiwanese will "expect the prospect of peaceful reunification".⁴⁰

Thirdly, following the steady development of cross-Strait economic integration, Beijing hopes to resolve the Taiwan issue through political negotiation with Taipei based upon the foundation of mutual trust and the Taiwanese expectation of "peaceful reunification".⁴¹ Yet Beijing has faced difficulties in persuading Taipei to commence political talks about cross-Strait peace agreements and "confidence

³⁶ Yonghong Tang, interviewed by author, October 12, 2013.

³⁷ Ibid.

³⁸ Yihu Li, interviewed by author, December 2, 2013; Fenglin Chen, interviewed by author, December 5, 2013.

³⁹ Kastner, "Drinking Poison to Quench a Thirst?", 33-37.

⁴⁰ Yong Wang, interviewed by author, November 25, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

⁴¹ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 21-24; Shu Keng, "Understanding Integration and 'Spillover' across the Taiwan Strait: Towards An Analytical Framework", in *Taiwanese Identity in the Twenty-First Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 158-59.

building measures (CBM)” based on the “one-China principle”.⁴² The main obstacle has been the political bifurcation of the “one-China principle” between Beijing and Taipei. Chinese leaders firmly insisted that there should be no ambiguity in the “one-China principle” while these agreements would directly touch upon both sides’ political statuses, but Beijing’s definition of this principle has not been popular in Taiwan.⁴³ Besides, the pro-independence parties in Taiwan also spared no effort in attacking Beijing and the Ma administration by criticizing the cross-Strait peace agreement as “a treaty of surrender”.⁴⁴ Given strong opposition from Taiwanese society, in 2011, Taiwanese President Ma Ying-jeou announced that he would only focus on the issues of cross-Strait economic and cultural exchanges during his presidency.⁴⁵

In spite of this failure, Beijing retains positive attitude towards promoting “peaceful development” across the Taiwan Strait in the context of cross-Strait economic integration so as to pursue “peaceful reunification” with Taiwan. In May 2014, Chinese President Xi Jinping indicated that: “[The] policy to promote peaceful development of cross-Strait relations will not change, and neither will the pragmatic measures to boost exchanges, cooperation and mutual benefits”.⁴⁶ He further said: “It will be easy to seek solutions to many difficult problems when there is mutual trust between compatriots (from both sides)”.⁴⁷ In this regard, President Xi basically obey the principle of “easy issues before difficult issues and economy [economic

⁴² Francis Yi-Hua Kan, “The Prospects for Cross-Taiwan Strait Confidence Building Measures: opportunities and Challenges”, in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), 83-86; Zhang, “Peaceful Unification vs. Divided Rule”, 115-16.

⁴³ Ibid.

⁴⁴ Ding, “Cross-Strait Peace Agreement”, 4-5.

⁴⁵ Ibid.

⁴⁶ Xinhua, “Cross-Straits Economic Integration Equals Win-Win: Xi”, *China Daily*, May 7, 2014, accessed on August 30, 2016, http://www.chinadaily.com.cn/china/2014-05/07/content_17490963.htm

⁴⁷ Ibid.

issue] before politics [political agendas]” in managing the Taiwan issue, which was set by his predecessor Hu Jintao.⁴⁸ Accordingly, beginning political negotiation over “peaceful reunification” with Taipei is not an urgent mission for Chinese leaders. At least, this task can be shelved until the establishment of cross-Strait mutual trust, since Beijing has not yet made a concrete schedule for retrieving Taiwan.⁴⁹

In the above context, Chinese elites believe that, insofar as Taipei and Beijing can keep deepening bilateral economic integration, cross-Strait political negotiation over the issue of “peaceful reunification” may still be possible.⁵⁰ For example, Professor Chen Xiancai from the Taiwan Research Institute at the Xiamen University said:

*“The current attitude of Beijing [towards the Taiwan issue] is to promote peaceful reunification gradually because Beijing believes time is on its side. Bilateral exchanges would help both sides [the Chinese mainland and Taiwan] to eliminate biases and differences between one another ... This will lead us to the road of peaceful reunification”.*⁵¹

In brief, cross-Strait relations are reaching the stage of “peaceful development” and heading towards “peaceful reunification” following the institutionalization of cross-Strait economic integration. Beijing believes that the collaboration with Taipei in promoting cross-Strait economic integration is conducive to the establishment of

⁴⁸ Qiang Xin, “Mainland China’s Taiwan Policy Adjustments”, *China Security* 5, no. 1 (2009): 57.

⁴⁹ Raviprasad Narayanan, “Stability with Chinese Characteristics: Hu Jintao’s Taiwan Policy”, *China Report* 49, no. 4 (2013): 417-19.

⁵⁰ Fenglin Chen, interviewed by author, December 5, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

⁵¹ Xiancai Chen, interviewed by author, October 29, 2013.

“mutual trust”, which is an important foundation of cross-Strait political negotiation. Despite the failure of commencing political negotiations with Taipei, Beijing is confident to further its peaceful reunification agendas towards Taiwan by utilizing commercial diplomacy in the post-ECFA era. As such, Beijing does not rush to utterly resolve the Taiwan issue. In addition, as will be discussed below, after signing the ECFA with Taipei, Beijing institutionalized the ambivalent “one-China principle” — the 1992 Consensus — across the Taiwan Strait. This is another significant achievement of China’s commercial diplomacy towards Taiwan in the post-ECFA era.

5.2.2 Institutionalizing the 1992 Consensus

The institutionalization of cross-Strait economic integration has been favorable for enhancing the effectiveness of Beijing’s commercial diplomacy in furthering its political agendas towards Taiwan. The other significant political achievement of Beijing’s commercial diplomacy has been the institutionalization of the 1992 Consensus after signing the ECFA with Taipei. As specified in chapter 2, the 1992 Consensus is an ambivalent “one-China principle”. Although this consensus still adheres to the prevalent rule that “there is only one China” in the international community, Beijing and Taipei can freely define which party represents the “whole of China”.⁵² Abided by the previous convention of the talks between the ARATS and the SEF, the 1992 Consensus remains a bilateral oral agreement which does not imprint on any cross-Strait agreement including the ECFA.

Nevertheless, the cause of Beijing’s belief that the 1992 Consensus became

⁵² Su, *Taiwan’s Relations with Mainland China*, 46-47.

much more credible across the Taiwan Strait following the development of cross-Strait economic relations can be traced back to Taiwanese President Ma Ying-jeou's inauguration speech. In his inauguration ceremony in 2008, in order to revive Taiwan's economic development by facilitating economic integration with China, President Ma said: "I want to reiterate that, based on the '1992 Consensus', [cross-Strait] negotiations should resume at the earliest time possible".⁵³ Notably, this was the first time that Taipei officially confirmed the 1992 Consensus, as this consensus had normally been referred by the semi-official institution — the SEF. In return for Taipei's benign attitude towards cross-Strait negotiations, Beijing also officially ratified the 1992 Consensus in December 2008, as Chinese President Hu Jintao said: "Since May of this year [2008]... cross-Straits consultation has been able to resume and achieve significant fruits on the basis of the 1992 Consensus".⁵⁴ Most significantly, in the phone meeting with the U.S. President George W. Bush, President Hu also confirmed Beijing's ratification of the 1992 Consensus and obtained positive response from Washington.⁵⁵

In the above context, for Chinese leaders, Taiwan's international legal sovereignty had been officially locked into Beijing's "one-China" framework since the 1992 Consensus became the official "oral agreement" across the Taiwan Strait. Meanwhile, with Washington's endorsement, Beijing not only reaffirmed the legitimacy of its international legal sovereignty over Taiwan, but it also enhanced the credibility of the 1992 Consensus by embedding this oral agreement into the triangular framework between China, Taiwan and the US. Most importantly, as

⁵³ Mainland Affairs Council, Republic of China (Taiwan), "President Ma's Inaugural Address", 2008, accessed August 30, 2016, <http://www.mac.gov.tw/ct.asp?xItem=50095&ctNode=5909&mp=3>.

⁵⁴ TAO, "Let's Us Join Hand to Promote the Peaceful Development of Cross-Strait Relations".

⁵⁵ Charles Snyder, "Bush Urges Hu to Reach Out to Taiwan", *Taipei Times*, March 28, 2008, accessed August 30, 2016, <http://www.taipeitimes.com/News/front/archives/2008/03/28/2003407348>.

shown in the discussion below, the institutionalization of cross-Strait economic integration is also conducive to the institutionalization of the 1992 Consensus.

The foremost reason why the ECFA has contributed to the institutionalization of the 1992 Consensus lies in the fact that this “oral agreement” is the prerequisite of cross-Strait negotiations over economic integration. Specifically, while Beijing successfully convinced Taipei to promote bilateral economic integration by signing the ECFA in 2010 based on the 1992 Consensus, this was equivalent to reconfirming that the “one-China principle” is the foundation of cross-Strait economic relations. The 1992 Consensus has henceforth been institutionalized following the institutionalization of cross-Strait economic integration. In other words, without this loosely-defined “one-China principle”, there should be no cross-Strait economic integration agreement. The director of the Taiwan Affairs Office of the State Council (PRC), Wang Yi, emphasized that: “Cross-straits ties can hardly remain stable and peaceful if they are not founded on an anti-Taiwan independence stance and the 1992 Consensus on the one-China principle”.⁵⁶ Additionally, the meeting between the CCP and Taiwan’s governing party — the KMT — after the APEC Summit in November 2011 has further consolidated the legitimacy of the 1992 Consensus after the signing of the ECFA, as both parties claimed that: “cross-Strait ties must be built on the ‘1992 Consensus’”.⁵⁷

Furthermore, as introduced in chapter 1, the ECFA is a “framework agreement”

⁵⁶ The China Post News Staff, “1992 Consensus Needed: Beijing Official”, *The China Post*, July, 29, 2011, accessed August 30, 2016,

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2011/07/29/311500/1992-consensus.htm>.

⁵⁷ The China Post News Staff, “Hu, Lien Emphasize Importance of 1992 Consensus to Current Ties”, *The China Post*, November 13, 2011, accessed August 30, 2016,

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2011/11/13/322772/Hu-Lien.htm>.

of cross-Strait economic integration that encompasses all subsequent agreements involving bilateral economic cooperation between Beijing and Taipei.⁵⁸ Since the 1992 Consensus is the foundation of the ECFA, this “oral agreement” can also apply to all sub-agreements of the ECFA as a prerequisite. In this regard, for Beijing, encouraging Taipei to sign the sub-agreements of the ECFA is equivalent to making Taipei ratify the 1992 Consensus repeatedly, which has made this “oral agreement” more durable. As a result, insofar as Beijing assures that Taipei keeps deepening cross-Strait economic integration under the ECFA, the “one-China principle” would be continually institutionalized across the Taiwan Strait. Under this circumstance, the only approach that would allow Taipei to fully reverse the 1992 Consensus would be to abolish the ECFA but this is difficult to imagine. Most Chinese elites therefore believe that the development of cross-Strait relations will remain in the stage of “peaceful development”, as this would be beneficial for Beijing to lead Taiwan towards “peaceful reunification”.⁵⁹

However, as Beijing and Taipei have not yet made a concrete agreement on the 1992 Consensus, there is another factor that may impinge on the effectiveness of China’s commercial diplomacy in solidifying the “one-China principle” across the Taiwan Strait. As scholars have noted, Taiwan is a fully-fledged democracy, and this means that the pro-independence DPP may return to power one day, despite its failed presidential campaigns in 2008 and 2012.⁶⁰ Since the 1992 Consensus remains unacceptable to the DPP, it is possible to imagine the suspension of cross-Strait

⁵⁸ Bureau of Foreign Trade, MOEA, ROC, “The Economic Cooperation Framework Agreement”.

⁵⁹ Xiancai Chen, interviewed by author, October 29, 2013; Yong Wang, interviewed by author, November 25, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

⁶⁰ Xin, “Mainland China’s Taiwan Policy Adjustments”, 58.

economic integration if the DPP were to win a presidential election.⁶¹ Yet most Chinese elites point out that this is not an outcome that Beijing should be worried about.⁶²

As discussed in the previous subsection, given the deepening bilateral economic interdependence in the post-ECFA era, Chinese elites contend that Beijing may have prevented Taipei from abolishing the ECFA, even though the DPP could obtain governing power.⁶³ In this case, it would be difficult to reverse the 1992 Consensus. Professor Li Yihu observed that: “Many people have benefited from cross-Strait economic interdependence, and Taiwanese enterprises would not agree with the suspension of cross-Strait economic exchanges”.⁶⁴ He further predicted that: “at most, the DPP may be passive in promoting cross-Strait economic integration, but they may be unable to fully abort the ECFA”.⁶⁵

Corresponding with Professor Li’s anticipation, although the DPP is reluctant to negotiate sub-agreements of the ECFA with Beijing after returning to office in 2016, the new government has no intention of reversing the ECFA.⁶⁶ Meanwhile, despite the fact that Taiwan’s new President Tsai Ing-wen is reluctant to accept the 1992 Consensus, she proposes no new substitute for this ambivalent “one-China principle” in defining cross-Strait political status. Rather, President Tsai adopted a cautious attitude by recognizing the 1992 Consensus as a “fact” acknowledged between both

⁶¹ Hickey, “Wake Up to Reality”, 4-5.

⁶² Xiancai Chen, interviewed by author, October 29, 2013; Yong Wang, interviewed by author, November 25, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

⁶³ Yong Wang, interviewed by author, November 25, 2013; Yihu Li, interviewed by author, December 2, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

⁶⁴ Yihu Li, interviewed by author, December 2, 2013.

⁶⁵ Ibid.

⁶⁶ Mainland Affairs Council, Republic of China (Taiwan), “Inaugural Address of ROC 14-th Term President Tsai Ing-wen”, 2016, accessed August 30, 2016, <http://www.mac.gov.tw/ct.asp?xItem=114669&ctNode=7909&mp=3>

sides in her presidential inauguration ceremony.⁶⁷

In the context of the institutionalization of the 1992 Consensus in the post-ECFA era, Beijing has seemingly confined Taiwan within its “one-China” framework. For Chinese leaders, as long as they can ensure that implementing the ECFA remains in Taiwan’s interests by utilizing commercial diplomacy, Taipei cannot stray too far from the 1992 Consensus even though the DPP has returned to office. By this reasoning, it is not difficult to understand why Chinese leaders applaud the ECFA’s contribution to “opposing ‘Taiwan’s independence’” and forcing Taipei and Beijing to “[uphold] the 1992 Consensus”.⁶⁸ As Chinese elites observed, insofar as Taipei sticks to the 1992 Consensus, resolving the Taiwan issue will not be on Beijing’s priority list.⁶⁹ Indeed, by the end of Taiwanese President Ma Ying-jeou’s presidency, maintaining “the peaceful development of Cross-Strait relations” and “[pushing] forward the follow-up talks of the ECFA” so as to further the agenda of “peaceful reunification” towards Taiwan remained the main theme of Beijing’s Taiwan policy.⁷⁰ Nonetheless, analysts cast doubts on the effectiveness of China’s commercial diplomacy in guiding Taiwan towards “peaceful reunification” in the post-ECFA era.

Firstly, in the context of the above discussion, it is clear that “peaceful development” is an incremental project aimed at promoting “peaceful reunification” with Taiwan. As the core concept of “peaceful development” is to maintain the

⁶⁷ Ibid.

⁶⁸ TAO, “Hu Jintao Meets with KMT Honorary Chairman”.

⁶⁹ Xiancai Chen, interviewed by author, October 29; Dalei Jie, interviewed by author, December 16, 2013

⁷⁰ Xinhua, “Mainland Committed to Peace, Stability across Taiwan Strait” *Xinhuanet*, January 27, 2015, accessed February 4, 2015

http://news.xinhuanet.com/english/china/2015-01/27/c_133950749.htm

stability of the “*status quo*” across the Taiwan Strait, some observers have pointed out that this is equivalent to ratifying “Taiwan’s *de facto* independence from China”.⁷¹ Secondly, in addition to economic concessions, China has also compromised Taiwan’s appeals to participate in IGOs and sign FTAs with other economies in exchange for Taipei’s positive attitude towards the ECFA.⁷² While the Ma’s administration actively sought the opportunity to participate in IGOs, this has further raised the question of whether Taipei could acquire statehood based on its *de facto* political status endorsed by China.⁷³ As will be discussed later, Beijing is also confident of managing Taiwan’s international space based on the 1992 Consensus, as well as the “One Country, Two Systems” framework.

5.3 Managing Taiwan’s Political Status in the Post-ECFA Era

The previous section evaluated the strategic goals and effectiveness of China’s commercial diplomacy towards Taiwan in the post-ECFA era. Generally speaking, after signing the ECFA with Taiwan, Chinese leaders have ensured “peaceful development” across the Taiwan Strait by using commercial diplomacy, which is conducive to their strategic goal of “peaceful reunification”. However, leading Taiwan towards “peaceful reunification” by utilizing commercial diplomacy in the post-ECFA era probably remains a challenge for Beijing. On the one hand, Beijing has been unsuccessful in persuading Taipei to commence political negotiation based on the foundation of bilateral economic integration. On the other hand, the 1992 Consensus did not clearly define whether the PRC or the ROC represented the one

⁷¹ Ding, “Cross-Strait Peace Agreement”, 7.

⁷² Singh, “Can Taiwan Talk ‘Political’ with the Mainland?”, 260-61.

⁷³ Li, “The Nature of the Economic Cooperation Framework Agreement”, 48.

“China” in the world.⁷⁴ Combined with China’s concession on Taiwan’s “international space” in exchange for Taipei’s cooperation to institutionalize cross-Strait economic integration, the question of whether this would be detrimental to Beijing’s strategic goal of “peaceful reunification” is worthy of consideration.⁷⁵ Nonetheless, as will be argued in this section, the institutionalization of the 1992 Consensus has assisted Beijing in encroaching on Taiwan’s *de jure* and functional sovereignty beyond the bilateral level across the Taiwan Strait. In this case, the only issue with which Chinese leaders need to be concerned is making an appropriate arrangement for Taiwan’s international and political status based on the 1992 Consensus.

5.3.1 Taiwan’s International Space and the “One-China Principle”

In the post-ECFA era, the institutionalization of cross-Strait economic integration has assisted Beijing in institutionalizing the 1992 Consensus at the bilateral level across the Taiwan Strait, which is undoubtedly a significant achievement of China’s commercial diplomacy. Nonetheless, as Beijing’s “one-China principle” has taken the form of the 1992 Consensus, it has created the illusion that Beijing has recalibrated its strategies for “peaceful reunification”. This is most evident in Taiwanese President Ma Ying-jeou’s statement concerning the 1992 Consensus. His support of this consensus symbolizes “the principle of mutual non-recognition of sovereignty and mutual non-denial of jurisdiction between the two sides of the Taiwan Strait”.⁷⁶ While Beijing rewarded Taipei with “international

⁷⁴ Su, *Taiwan’s Relations with Mainland China*, 46-47.

⁷⁵ Li, “The Nature of the Economic Cooperation Framework Agreement”, 48.

⁷⁶ Adam Tyrsett Kuo, “Only Mutual Non-Denial Advances Cross-Strait Ties: Ma”, *The China Post*, December 26, 2013, accessed August 30, 2016,

space” in return for its cooperative attitude towards the ECFA, the Taiwanese government further claimed that “during the process of economic and cultural exchanges [with the Mainland], the sovereignty of the Republic of China has not suffered, on the contrary it has [been] consolidated”.⁷⁷

Contrary to Taipei’s conceptualization above, Chinese elites argued that Beijing’s concession to Taiwan’s “international space” did no harm to its national goal of “peaceful reunification”.⁷⁸ Rather, this concession can assist Beijing in defining Taipei’s political status as part of China based on the institutionalized 1992 Consensus in the post-ECFA era.⁷⁹ The main reason of this is rooted in the connection between the “one-China” framework and the PRC’s international legal sovereignty. As stated in the previous discussion, the 1992 Consensus between Beijing and Taipei did not clearly stipulate that the PRC had the absolute right to represent “the whole of China” including Taiwan.⁸⁰ Notwithstanding its ambivalent definition on the “one-China principle”, the institutionalization of the 1992 Consensus seemingly built up Chinese leaders’ confidence in achieving the ultimate goal of “peaceful reunification” in the post-ECFA era.

In effect, before the institutionalization of the 1992 Consensus, Beijing already had been confident in tackling the disputed issue of Taiwan’s *de facto* and *de jure* sovereignty. Beijing’s confidence stemmed mainly from the worldwide ratified international legal sovereignty over “China”, as discussed in chapter 2. Since Beijing

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2013/12/26/396817/Only-mutual.htm>

⁷⁷ Corcuff, “Ma Ying-jeou’s China Leaning Policy and the 1683 Fall of the Zheng in Taiwan”, 101.

⁷⁸ Dalei Jie, interviewed by author, November 11, 2013; Zhirong Zhang, interviewed by author, November 11, 2013.

⁷⁹ Liping Xia, interviewed by author, December 13, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

⁸⁰ Su, *Taiwan’s Relations with Mainland China*, 46-47.

has obtained global ratification on its legitimacy of governing “China”, Chinese leaders have reiterated that “everything, including Taipei’s status in international community, is negotiable” insofar as Taipei embraces the “one-China” framework.⁸¹ In 2000, Chinese leaders further softened the definition of the “one-China principle” by defining both Taipei’s and Beijing’s statuses as equal but subordinate to the “one-China principle”.⁸² Because the 1992 Consensus in the post-ECFA era is basically in line with this new definition, Chinese leaders have interpreted Taipei’s reacceptance of this “oral agreement” as a willingness to be defined under Beijing’s broader “one-China” framework.⁸³ This has allowed Beijing to connect Taiwan’s political status with the PRC’s international legal sovereignty, which further confirms the legitimacy of Beijing’s ownership of Taiwan in the international community. In this context, Chinese leaders have conceptualized the 1992 Consensus as an “oral agreement” that both sides can coexist within the “one-China” framework, but that the PRC will shoulder the responsibility to represent “China” in the world.

Based on Beijing’s conceptualization of the 1992 Consensus in the context of the “one-China” framework, allowing Taipei to participate in international organizations that involve no issue regarding sovereignty does not conflict with Beijing’s national goal of “peaceful reunification”.⁸⁴ Nevertheless, given the lack of a concrete political agreement confirming Taiwan’s political status under the “one-China” framework, any initiative of Taipei concerning the issues of its

⁸¹ TAO, “The Taiwan Question and Reunification of China”; Xinhuanet, “Anti-Secession Law Safeguards Cross-Strait Peace: People’s Daily”, *Xinhuanet*, March 18, 2005, accessed August 30, 2016, http://news.xinhuanet.com/english/2005-03/18/content_2711977.htm; Yun-Han Chu, “The ABCs of Cross-Strait Policy”, *Taiwan Today*, May 1, 1997, accessed August 30, 2016, <http://taiwantoday.tw/ct.asp?xitem=349&ctnode=1343&mp=9> ;

⁸² Chen-Yuan Tung, “An Assessment of China’s Taiwan Policy under the Third Generation Leadership”, *Asian Survey* 49, no. 2 (2005): 346.

⁸³ Tok, *Managing China’s Sovereignty*, 97-102.

⁸⁴ Yong Wang, interviewed by author, November 25, 2013; Liping Xia, interviewed by author, December 13, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

international space still needs to go through cross-Strait consultation mechanisms to obtain Beijing's arrangement.⁸⁵ Moreover, while the disputed issue of sovereignty between the Chinese mainland and Taiwan has not yet been resolved, most Chinese scholars pointed out that Beijing's arrangement must manifest the fact that Taipei is subordinate to "China" based on the "one-China principle".⁸⁶ Generally speaking, Beijing's concessions on Taipei's international space in the post-ECFA era were related to three aspects: Taiwan's participation in inter-governmental organizations (IGOs), signing "FTAs" with other economies, and the "diplomatic truce" between both sides.⁸⁷ As specified below, all of these concessions have assisted Beijing in magnifying its international legal sovereignty over Taiwan at best and deterring Taiwan's independence at worst.

In terms of Beijing's concessions to Taiwan's wish to participate in more IGOs, the most significant case has been Taiwan's participation in the World Health Assembly (WHA) so as to lure Taipei to sign the ECFA based on the 1992 Consensus.⁸⁸ From the perspectives of Chinese elites, this concession has been helpful for Beijing to further its "peaceful reunification" agenda towards Taiwan, because this has corresponded with the Taiwanese people's expectation and Beijing's "one-China principle" simultaneously.⁸⁹ In fact, as early as the onset of the severe acute respiratory syndrome (SARS) epidemic in Taiwan in 2003, Taipei had expressed its wish to participate in the WHO.⁹⁰ However, Beijing's ruthless

⁸⁵ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 21-24.

⁸⁶ Ibid.

⁸⁷ Wang et. al., "Taiwan's Expansion of International Space", 255-59; Xin, "Mainland China's Taiwan Policy Adjustments", 60-62.

⁸⁸ Winkler, "A Question of Sovereignty", 1-2.

⁸⁹ Li Yihu, interviewed by author, December 2, 2013; Liu Guoshen, interviewed by author, December 16, 2013; Zhang Wensheng, interviewed by author, December 20, 2013.

⁹⁰ Tung, "An Assessment of China's Taiwan Policy", 351.

statement, “Taiwan, as a province of China, has no right to participate in the WHO”, severely damaged Beijing’s image in Taiwanese society.⁹¹ Meanwhile, Beijing also faced strong criticism of its neglect of Taiwanese “health rights and human rights”.⁹²

Doctor Zhang Wensheng, Director of Political Sciences of the Taiwan Research Institute at the Xiamen University, observed that “while Taipei connected this issue [participating in the WHO] with human rights, Beijing was under great pressure to make a compromise in order to look after the Taiwanese people’s health and interests”.⁹³ Therefore, after Taipei accepted the 1992 Consensus, Beijing soon approved Taipei’s initiative of attending the WHA as an “observer” since 2009. In this positive response to Taipei, Beijing expected to improve its previously negative image in Taiwanese society to fulfill its strategic guideline of “placing hope on the Taiwan people” for promoting peaceful reunification.⁹⁴

In addition, it is noteworthy that Beijing has also taken this opportunity to lock Taiwan into the aforementioned narrowly defined “one-China” framework at the global level. Ostensibly, Beijing’s goodwill in inviting Taipei to attend the WHA is based on the 1992 Consensus at the bilateral level. Thus, Beijing’s and Taipei’s status in the WHA ought to manifest the spirit of this consensus that both regimes belong to “one China” but “on an equal footing” with respect to their political status.⁹⁵ However, the WHO is a UN-affiliated institution. Beijing has defined Taiwan’s status

⁹¹ Ibid.

⁹² Jacques deLisle, “Taiwan in the World Health Assembly: A Victory with Limits”, *Brookings East Asia Commentary*, May 13, 2009, accessed August 30, 2016, <https://www.brookings.edu/opinions/taiwan-in-the-world-health-assembly-a-victory-with-limits/>

⁹³ Wensheng Zhang, interviewed by author, December 20, 2013.

⁹⁴ Yihu Li, interviewed by author, December 2, 2013; Guoshen Liu, interviewed by author, December 16, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

⁹⁵ Li, “The Nature of the Economic Cooperation Framework Agreement”, 50-57; Lin, “Beijing’s Evolving Policy and Strategic Thinking on Taiwan”, 69-73.

in the WHA as “the province of China” by citing the “United Nations General Assembly Resolution 2758”, and thus Taipei could not attend the WHA without Beijing’s invitation letter.⁹⁶ In this regard, Beijing has infringed on Taiwan’s international legal sovereignty at the global level. Meanwhile, in this case, Taiwan’s interdependence and functional sovereignty have been encroached upon because Beijing has constrained Taipei’s function as a regime that represents all Taiwanese in securing their “health rights” by collaborating with other regimes in the WHA.⁹⁷ The detailed process of Beijing’s operation in managing Taipei’s political status in the WHA will be discussed further along with Taipei’s strategies for consolidating its *de jure* and functional sovereignty at the global level in chapter 6.

Apart from the compromises to Taipei’s entrance into the IGOs, Beijing has displayed a positive attitude towards Taiwan’s initiatives of participating in economic integration mechanisms at the regional level and signing bilateral FTAs with other economies.⁹⁸ Again, based on the institutionalized 1992 Consensus in the post-ECFA era, these concessions are also in line with Beijing’s interests in consolidating its international legal sovereignty over Taiwan under the “one-China” framework. At the regional level China has not fulfilled its promise of supporting Taiwan’s entry into regional institutions in the post-ECFA era. However, even though Beijing would admit Taipei to access to regional economic integration mechanisms one day, Taipei’s political status should be under the “one China” framework rather than an “economy” as is the case for Taipei’s membership in APEC under the name “Chinese Taipei”.

⁹⁶ Winkler, “A Question of Sovereignty”, 9-12.

⁹⁷ Ibid.

⁹⁸ Wang et. al., “Taiwan’s Expansion of International Space”, 255-59; Xin, “Mainland China’s Taiwan Policy Adjustments”, 60-62.

Specifically, Taipei's accession into APEC as an "economy" was not in line with Beijing's interests in defining Taipei's political status under the "one-China principle". As discussed in chapter 3, the core reason for Beijing's tolerance with Taipei's membership in APEC was the consequence of the limited effectiveness of its commercial diplomacy in countering the US' and its allies' influence in the process of regional economic integration until the late 1990s. Therefore, as shown in all White Papers about the Taiwan issue, Beijing constantly stressed that Taipei's current memberships in regional institutions are "ad hoc arrangement[s] and cannot constitute a 'model' applicable to other inter-governmental organizations and international gatherings".⁹⁹ Nonetheless, as discussed in chapter 3, since China has played a key role in promoting East Asian economic integration mechanisms, obtaining Beijing's support has become essential for Taipei to participate in the ASEAN-centered economic integration frameworks.

Subsequently, signing the ECFA with Beijing has become Taipei's contingency plan for improving its regionally marginalized position. This then provided Beijing with more advantages to utilize commercial diplomacy in infringing on Taiwan's *de jure* and even functional sovereignty at the regional level in the post-ECFA era. Indeed, as mentioned in chapter 1, Chinese President Hu Jintao has emphasized the contribution of the ECFA in helping Taipei improve its isolated position in East Asia.¹⁰⁰ The main reason for this is that Taipei can connect with the ongoing process of regional economic integration through the Chinese market under the ECFA, which

⁹⁹ TAO, "The One-China Principle and the Taiwan issue"; TAO, "The Taiwan Question and Reunification of China".

¹⁰⁰ TAO, "Let's Us Join Hand to Promote the Peaceful Development of Cross-Strait Relations".

has magnified Beijing's legitimacy over Taiwan at the regional level.¹⁰¹ Additionally, Beijing has also reiterated that Taiwan's connection with regional economic integration mechanisms must go through the Chinese mainland. The most prominent case was Beijing's announcement concerning Taipei's application to the Asian Infrastructure and Investment Bank (AIIB), as Chinese officials clearly indicated: "[A] future Taiwanese bid to join the bank would have to be submitted to China's [the PRC's] finance ministry".¹⁰²

At the bilateral level concerning the FTAs between Taiwan and other economies, the foremost compromises that Beijing has made so far have been Taipei's agreements with Singapore and New Zealand.¹⁰³ Indeed, after signing the ECFA with Taipei, Beijing has had a positive response to Taipei's initiatives of signing FTAs with other sovereign states.¹⁰⁴ Nevertheless, Beijing has prevented Taipei from utilizing bilateral FTAs with other countries as foundations to acquire statehood. As Chinese Foreign Ministry Spokesperson Hua Chunying said in 2013: "We have no objection to non-governmental business and cultural exchanges between foreign countries and the region of Taiwan but oppose the development of any official ties between them".¹⁰⁵ Accordingly, from Beijing's perspectives, Taipei's FTAs with other economies ought to involve agendas of economic cooperation only. Issues concerning sovereignty should not be contained within these FTAs.

¹⁰¹ Ibid.

¹⁰² Yuan-Ming Chiao, "Taiwan AIIB Member Bid Must Go Through PRC Ministry: China", *The China Post*, April 10, 2016, accessed August 30, 2016, <http://www.chinapost.com.tw/taiwan/national/national-news/2016/04/10/463044/Taiwan-AIIB.htm>

¹⁰³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 97-99.

¹⁰⁴ Wang et. al., "Taiwan's Expansion of International Space", 255.

¹⁰⁵ Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on July 10, 2013", 2013, accessed August 30, 2016, http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1057848.shtml

In addition, China has further adopted several measures to consolidate its international legal sovereignty over Taiwan, and confine Taiwan's interdependence sovereignty. First, probably inspired by the patterns of both sides' accession into the WTO, Beijing only allowed Taipei to sign FTAs with those countries that had finalized FTAs with China so as to shape the image that Taiwan's political status is subordinate to the PRC.¹⁰⁶ Secondly, Beijing has stressed Taipei's duty of obtaining ratification from Beijing before commencing FTA negotiations with other nations.¹⁰⁷ In this case, Beijing has magnified its ownership of Taiwan in the international community again. Meanwhile, this has reflected that Taipei cannot solidify its interdependence sovereignty without Beijing's approval. Most significantly, Beijing has urged other countries to take the ECFA as a template to cultivate economic ties with Taipei without touching on sensitive sovereignty issues across the Taiwan Strait.¹⁰⁸

As Professor Liu Guoshen, Dean of the Taiwan Research Institute at the Xiamen University observed: "The ECFA is helpful for Taipei to resolve the problem of economic marginalization".¹⁰⁹ He further elaborated that:

"Beijing has noticed Taipei's interest to deepen economic cooperation with other economies. However, before both sides resolving the political problem [the disputed issue of sovereignty], we need to make an agreement [ECFA] first ... This agreement must assure both parties would not disobey the "one-China principle" after signing economic agreements with

¹⁰⁶ Nealer and Fimbres, "Taiwan and Regional Organizations", 72.

¹⁰⁷ Ministry of Foreign Affairs of the people's Republic of China, "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on July 10, 2013"

¹⁰⁸ Wang et. al., "Taiwan's Expansion of International Space", 255.

¹⁰⁹ Guoshen Liu, interviewed by author, December 16, 2013.

other economies ... By doing so, Beijing doesn't need to worry about a split across the Taiwan Strait when Taipei develops economic relations with other economies."¹¹⁰

Thus far, the ECFA is the concrete agreement based on the 1992 Consensus between Beijing and Taipei. While Beijing intends to standardize all of Taiwan's FTAs with other countries in accordance with the ECFA, this probably symbolizes that all of the new FTAs that Taiwan made in the post-ECFA era are based on the "one-China principle". Consequently, as will be discussed in chapter 6, Beijing already has infringed on Taiwan's *de jure* sovereignty following the institutionalization of the 1992 Consensus under the ECFA. This is undoubtedly an achievement of China's commercial diplomacy towards Taiwan in the post-ECFA era.

The final aspect of Beijing's compromise with Taipei in the post-ECFA era has been its acquiescence to Taipei's initiative of "diplomatic truce" based on the 1992 Consensus so as to ensure the smooth progress of cross-Strait economic integration.¹¹¹ According to this consensus, Beijing and Taipei promised not to rival for diplomatic allies between each other. Meanwhile, in order to display its sincerity, Beijing rejected three of Taipei's diplomatic allies' — Paraguay, Malawi, and El Salvador — initiatives of shifting their diplomatic relations from the ROC to the PRC in 2010.¹¹² Ostensibly, cross-Strait diplomatic truce is seemingly beneficial for Taiwan since Taipei is able to preserve the current 22 diplomatic allies that it has at this moment. Moreover, Taipei can save a huge amount of budget in securing or

¹¹⁰ Ibid.

¹¹¹ Chen, "'Diplomatic Truce' in Cross-Strait Relations", 99-100.

¹¹² Xin, "Beyond Power Politics", 536-37; Hickey, "Wake Up to Reality", 7.

developing its diplomatic ties with other states, as with the “checkbook diplomacy” featured largely in Taiwan’s previous diplomatic strategies.¹¹³ However, the significant political interest that Beijing has obtained through the diplomatic truce across the Taiwan Strait has been the freeze of Taiwan’s strategies for strengthening its international legal sovereignty.

As discussed in chapter 2, acquiring international legal sovereignty is an incremental process that entails a regime obtaining ratifications of its statehood from “a sufficient number of other states”.¹¹⁴ Since Beijing successfully enticed Taipei to implement the diplomatic truce by wielding commercial diplomacy in the post-ECFA era, Chinese leaders could ensure that Taipei would not endeavor to further its interest of international legal sovereignty during Ma Ying-jeou’s presidency.¹¹⁵ Following this logic, the *status quo* across the Taiwan Strait based on the 1992 Consensus is anticipated to be more stable, which is beneficial for Beijing to further its political agenda of “peaceful reunification”. Even though Taipei would like to reverse the “diplomatic truce” one day, according to Professor Pan Rui’s (Center for American Studies, Fudan University) observation, Beijing would definitely have the ability to make Taipei possess less diplomatic allies than the number that it currently has.¹¹⁶ In this light, it is not difficult to see Beijing’s achievement in deterring Taiwan’s independence after signing the ECFA with Taipei.

So far, this subsection has discussed Beijing’s concessions to Taipei’s international space in the post-ECFA era, and it also confirmed that the

¹¹³ Rich, “Status for Sale”, 171-80; Wang et. al., “Taiwan’s Expansion of International Space”, 252-53.

¹¹⁴ Winkler, “Can Trade Make a Sovereign?”, 469.

¹¹⁵ Wang et. al., “Taiwan’s Expansion of International Space”, 254.

¹¹⁶ Rui Pan, interviewed by author, December 10, 2013.

institutionalization of the 1992 Consensus has assisted Beijing in applying the “one-China” framework to define Taiwan’s international status. Therefore, from Beijing’s perspectives, making compromises to Taiwan’s international space would not risk its national goal of “peaceful reunification”, but it could manifest the legitimacy of Beijing’s ownership of Taiwan. However, it is notable that Beijing did not fully satisfy Taipei’s interests in expanding its international space.

Indeed, Beijing only allows Taiwan access to the WHA and the Government Procurement Agreement (GPA) in the WTO to date.¹¹⁷ As for other IGOs that Taipei has long wished to join, such as “the United Nations Educational, Scientific and Cultural Organization”, and the “World Meteorological Organization”, Beijing has not had any response.¹¹⁸ Neither has Beijing approved Taipei’s initiative to participate in any regional economic integration mechanism. The most prominent example has been the case of Beijing’s refusal to Taiwan’s application to the AIIB. Most significantly, due to the stagnant progress of cross-Strait economic integration since 2014, Beijing officially opposed the FTA between Taiwan and Malaysia.¹¹⁹ Apparently, Beijing still has a cautious attitude towards the expansion of Taiwan’s international space. In fact, as will be detailed in chapter 6, Beijing’s compromises to Taiwan’s international space are important bargaining chips for enticing Taipei to keep promoting the ECFA and abiding by the 1992 Consensus. In other words, only when Beijing verifies the effectiveness of its commercial diplomacy towards Taiwan following the progress of cross-Strait economic integration will Taipei be rewarded

¹¹⁷ Winkler, “A Question of Sovereignty?”, 7-12.

¹¹⁸ Wang et. al., “Taiwan’s Expansion of International Space”, 259.

¹¹⁹ Singh, “Can Taiwan Talk ‘Political’ with the Mainland?”, 265; See also Staff writer, with CNA, “Taiwan Unfazed by China’s Opposition to Free-Trade Agreement with Malaysia”, *Taipei Times*, August 22, 2014, accessed August 30, 2016, <http://www.taipeitimes.com/News/taiwan/archives/2014/08/22/2003598000>

international space.

5.3.2 The “One Country, Two Systems” Framework in the Post-ECFA Era

The previous subsection examined how Beijing has connected the institutionalized 1992 Consensus with the “one-China” framework in arranging Taiwan’s international status in the post-ECFA era. Under this “one-China” framework, Beijing’s approvals of Taipei’s enrollment in several IGOs and the signing of FTAs with its trading partners have solidified the legitimacy of its *de jure* sovereign claim over Taiwan. Although these approvals seemingly generated no negative impact on Beijing’s “one-China principle”, the expansion of Taiwan’s international space has caused analysts to question whether the “One Country, Two Systems” framework remains Beijing’s framework in defining Taiwan’s political status after peaceful reunification.¹²⁰ Combined with Beijing’s low-key attitude with respect to the “One Country, Two Systems” framework in the post-ECFA era, scholars have supposed that Beijing has adopted the other frameworks based on confederation, federalism, or even integration experience of the EU in defining Taiwan’s status.¹²¹ Yet, as discussed below, the “One Country, Two Systems” framework remains Beijing’s only framework in governing Taiwan’s *de facto* and functional sovereignty after achieving its goal of “peaceful reunification”. Most importantly, despite the fact that Chinese scholars also have proposed several scenarios for governing Taiwan’s political status after peaceful reunification, all of these initiatives still correspond with the framework of “One Country, Two

¹²⁰ Hickey, “Wake Up to Reality”, 16-18.

¹²¹ Ibid., See also Joseph Lee, “Divided Sovereignty and the Confederalist Option: The Future of Cross-Strait Relations from an International Legal Perspective”, in *Taiwanese Identity in the Twenty-First Century: Domestic, Regional and Global Perspectives*, ed. Gunter Schubert and Jens Damm (New York: Routledge, 2011), 197-217.

Systems”.

The misunderstanding that the “One Country, Two Systems” framework might no longer be Beijing’s option in defining Taiwan’s status in the post-ECFA era was caused mainly by the omission of this framework in Chinese leaders’ speeches regarding the Taiwan issue. In effect, after signing the ECFA with Taipei, Beijing seldom mentioned Taiwan’s political status after reunification. For example, in every meeting between the CCP and KMT in the post-ECFA era, Chinese President Hu Jintao only stressed the issue of continuing to promote “peaceful development of cross-strait relations” based on 1992 Consensus.¹²² He mentioned nothing about the “One Country, Two Systems” framework.

Succeeding President Hu’s Taiwan policy, Chinese President Xi Jinping seemingly has avoided talking about this agenda as much as he could. President Xi did not touch on the Taiwan issue in any remarks concerning the practice of the “One Country, Two Systems” framework in Hong Kong and Macau. The most direct evidence of this is his remarks on “the 15th Anniversary of Macau’s Return to China”, as the Taiwan issue was absent from this speech.¹²³ Even in the meetings of the Central Leading Group for Taiwan Affairs, according to official news releases, Chinese leaders’ discussion concerning the Taiwan issue revolved around the topics of the ECFA, the 1992 Consensus, and peaceful development.¹²⁴ However, this does not mean that Chinese leaders have discarded the “One Country, Two Systems” framework.

¹²² The China Post News Staff, “Hu, Lien Emphasize Importance of 1992 Consensus”.

¹²³ Xinhua, “Full Texts of Remarks by President Xi Jinping at Gathering Macau SAR’s 15th Anniversary”, *Xinhuanet*, December 20, 2014, accessed January 13, 2015, http://news.xinhuanet.com/english/china/2014-12/20/c_133868480.htm

¹²⁴ Xinhua, “Mainland Committed to Peace, Stability across Taiwan Strait”.

Notably, the “One Country, Two Systems” framework remains in every Chinese White Paper concerning cross-Strait relations, and Beijing has had no intention to reverse the previous Taiwan policies by making a new White Paper thus far. Moreover, despite the fact that Chinese leaders seldom talked about this framework in the post-ECFA era, in the aftermath of the Sunflower Movement in Taiwan in 2014, Chinese President Xi Jinping said the following for the first (and perhaps only) time during Taiwan’s President Ma Ying-jeou’s presidency: “Peaceful reunification and one country, two systems are our guiding principles in solving the Taiwan issue”.¹²⁵ By this reasoning, instead of abandoning the framework of the “One Country, Two Systems” in managing Taiwan’s *de facto* sovereignty, Beijing seemingly chose to downplay this issue after signing the ECFA with Taipei.

Chinese scholars rationalized Beijing’s low-key attitude towards the “One Country, Two Systems” framework in managing the Taiwan issue by emphasizing the 1992 Consensus across the Taiwan Strait and Beijing’s tactic of “winning Taiwanese hearts for promoting peaceful reunification”.¹²⁶ In the post-ECFA era, Taipei has reaccepted the 1992 Consensus, which has been equivalent of endorsing the “one-China” framework from Beijing’s perspective. Since Beijing has already persuaded Taipei to accept the concept that both sides exist under “the notion of one country”, it is unnecessary to hasten in pushing Taipei to accept the proposal of “two systems” after peaceful reunification at this stage.¹²⁷ Moreover, as discussed in the

¹²⁵ CNA, “Xi Speaks to Taiwan on ‘One Country, Two Systems’”, *The China Post*, September 27, 2014, accessed on August 30, 2016,

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2014/09/27/418149/Xi-speaks.htm>

¹²⁶ Dalei Jie, interviewed by author, November 15, 2013; Yihu Li, interviewed by author, December 2, 2013.

¹²⁷ Xiancai Chen, interviewed by author, October 29, 2013; Guoshen Liu, interviewed by author,

previous section, after signing the ECFA with Taipei, making Taiwanese recognize peaceful reunification is a core strategic goal of Beijing's commercial diplomacy. However, as presented in the next section, Beijing's agenda of "peaceful reunification" is still not popular in Taiwanese society. Therefore, the time is not ripe for Beijing to ask Taiwanese people to accept the framework of "One Country, Two Systems".¹²⁸

Now that the "One Country, Two Systems" framework is Beijing's main proposal in dealing with the issue of Taiwan's *de facto* and functional sovereignty after reunification, the key question for Chinese leaders is how to fit Taiwan to this framework. In fact, taking the "One Country, Two Systems" framework to define Taiwan's *de facto* sovereignty after reunification can be a difficult task for Chinese leaders. First, it is doubtful whether Beijing could secure its Westphalian sovereignty over Taiwan under this framework because Beijing had promised Taiwan to preserve its own troops after returning to the motherland.¹²⁹ Furthermore, Beijing had pledged not to change Taipei's political and social system after reunification in spite of the fact that Taiwan has been a full-fledged democracy.¹³⁰ In this case, Beijing might not possess domestic sovereignty over Taiwan until the CCP wins the election in the island.

Most importantly, Taiwan has 22 diplomatic allies and memberships in several IGOs in the international community, and it also holds 9 FTAs with other economies. This has magnified Taiwan's functional sovereignty. As discussed in the previous

December 16, 2013.

¹²⁸ Dalei Jie, interviewed by author, November 15, 2013; Yihu Li, interviewed by author, December 2, 2013.

¹²⁹ TAO, "Deng Xiaoping's Six Conception for the Peaceful Reunification (1983)".

¹³⁰ Ibid.

subsection, China had indeed endeavored to encroach on Taiwan's functional sovereignty by reiterating that Taipei's international activities must obtain agreement from Beijing.¹³¹ Despite this effort, Taiwan still has independent seats from the Chinese mainland in IGOs, and Beijing cannot play any role on behalf of Taipei in the process of negotiation over bilateral cooperation between Taiwan and other regimes. Thus, even though Taipei admits that it belongs to "China" after returning to the motherland, managing Taipei's pre-existing seats in IGOs and agreements with other nations remains a problem for Chinese leaders. While Beijing promised Taipei a larger international space in the post-ECFA era, Chinese leaders might have faced more difficulties in searching for an adequate scenario for managing Taiwan's functional sovereignty after reunification. Besides, analysts used to refer to Hong Kong as a template for Taiwan under the "One Country, Two Systems" framework, but this case might no longer be suitable, given Taiwan's current political and international status.¹³²

In response to these puzzles, all of China's elites pointed out that flexibility is an important trait of the "One Country, Two Systems" framework, and thus Hong Kong might not be a reference of Taiwan's political status under this framework.¹³³ Specifically, Chinese scholars have contended that Taiwan's status must be higher than Hong Kong's under this framework after reunification, and some of them further suggested several reunification models for Beijing's consideration based on

¹³¹ Winkler, "A Question of Sovereignty?", 7-12.

¹³² Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 106; Tok, *Managing China's Sovereignty in Hong Kong and Taiwan*, 102-6.

¹³³ Dalei Jie, interviewed by author, November 15, 2013; Yihu Li, interviewed by author, December 2, 2013; Guoshen Liu, interviewed by author, December 16, 2013; Wensheng Zhang, interviewed by author, December 20, 2013;

the framework of the “One Country, Two Systems”.¹³⁴ For example, Professor Li Yihu proposed the “Taiwan model”, which emphasizes Taiwan’s higher political status compared to Hong Kong and Macau after reunification.¹³⁵ Professor Liu Guoshen developed the “nation-sphere theory” in which both Beijing and Taipei can consider adopting the model of “joint representative” in the international community since both sides belong to “one China”.¹³⁶ Professor Chu Shulong even designed the model of “one country, two central governments” to magnify that Taiwan’s political status is subordinate to “China”, but its political status will be higher than Hong Kong and Macau after returning to the motherland.¹³⁷

Thus far, none of the aforementioned models have been adopted as Beijing’s concrete scenario under the framework of “One Country, Two Systems” for governing Taiwan’s *de facto* sovereignty after peaceful reunification. As Professor Li Yihu observed:

*“‘One Country, Two Systems’ itself has immense flexibility and malleability, and can accommodate and integrate dozens of different models of unification, such as multi-system nations, federalism, and so on. Therefore, the specific scenario of ‘One Country, Two Systems’ will depend on Taiwan’s circumstances upon unification.”*¹³⁸

In brief, Beijing still insists on using the framework of “One Country, Two Systems” to deal with the issue of Taiwan’s *de facto* sovereignty after accomplishing its

¹³⁴ Ibid.

¹³⁵ Yihu Li, interviewed by author, December 2, 2013.

¹³⁶ Guoshen Liu, interviewed by author, December 16, 2013.

¹³⁷ Hickey, “Wake Up to Reality”, 17.

¹³⁸ Yihu Li, interviewed by author, December 2, 2013.

national goal of “peaceful reunification”. However, it may be difficult to see a clear project for Taiwan under this framework until Beijing successfully launches cross-Strait political negotiation over the issue of Taiwan’s return to the motherland.

In summary, creating a concrete scenario for managing Taiwan’s political status within the framework of “One Country, Two Systems” is not an easy task. Beijing’s compromises regarding Taiwan’s international space in the post-ECFA era have made this mission more difficult. Yet, Beijing has not rushed in dealing with this issue because Taipei’s political status already has been enclosed by the “one-China” framework following the institutionalization of the 1992 Consensus in the post-ECFA era.¹³⁹ Moreover, the 1992 Consensus has allowed Beijing to define Taiwan’s international status under the “one-China” framework in the international community, which has in turn resulted in Beijing’s infringement of Taiwan’s *de jure* and even functional sovereignty. However, as discussed in chapter 2, Taipei’s interpretation of the 1992 Consensus is entirely different from Beijing’s.¹⁴⁰ Therefore, for Taiwanese leaders, Beijing’s concessions to its international space might provide them with more opportunities to further Taiwan’s interests of *de jure* and functional sovereignty in the world. This would enable Taiwan to escape from Beijing’s “one-China” framework. Chapter 6 will discuss this issue in more detail.

5.4 China’s Influence on Taiwan in the Post-ECFA Era

After exploring Beijing’s sovereignty agenda towards Taiwan, this section

¹³⁹ Xiancai Chen, interviewed by author, October 29, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

¹⁴⁰ Hickey, “Wake Up to Reality”, 3-4.

discusses how China exerts its influence in Taiwanese society by wielding commercial diplomacy in the post-ECFA era. Theoretically, while Taiwan's economic development relies heavily on the Chinese economy, Beijing should successfully obtain Taiwanese support to cross-Strait economic integration, particularly after making economic concessions to Taiwan through the ECFA. Beijing also expected the Taiwanese people to gradually recognize "peaceful reunification" following the progress of cross-Strait economic integration.¹⁴¹ Contrary to Beijing's anticipation, the Taiwanese people were not satisfied with the asymmetric relations of economic interdependence across the Taiwan Strait, owing to the risk of Taiwan's economic security and sovereignty interests.¹⁴² This further provoked Taiwanese to organize the Sunflower Movement in 2014, which then resulted in the stagnant progress of the ECFA.¹⁴³ These phenomena reflected the limited effectiveness of China's commercial diplomacy in helping Beijing to achieve its strategic goal of "placing hope on the Taiwan people".

5.4.1 Cross-Strait Economic Integration: The Model of "Win-Win" or

"Hollowing-Out"?

Since Beijing and Taipei commenced bilateral negotiation over the ECFA, Chinese leaders have constantly stressed that cross-Strait economic integration is based on the model of "win-win" so as to pursue economic prosperity collaboratively.¹⁴⁴ In order to make the Taiwanese people realize the benefits of cross-Strait economic integration, Beijing has also made significant economic

¹⁴¹ Huang, "On the Spillover Effect of the Economic Cooperation Framework Agreement", 20.

¹⁴² Rowen, "Inside Taiwan's Sunflower Movement", 6-7.

¹⁴³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 105.

¹⁴⁴ TAO, "Hu Jintao, KMT Honorary Chairman Meet on Cross-Strait Ties", 2010, accessed August 23, 2016, http://www.gwytb.gov.cn/en/Headline/201103/t20110316_1787933.htm.

concessions to Taiwan. As mentioned in the first section, Beijing has imposed zero-tariffs on 250 more items than Taiwan at the initial stage of cross-Strait economic integration.¹⁴⁵ In addition, in negotiating the CSSTA with Taipei, Beijing also promised to open 80 service industries to Taiwanese enterprises, while Taiwan only agreed to open 64 service industries (and 37 of them have already been opened to Chinese investors under the WTO framework).¹⁴⁶ Nonetheless, Beijing's commercial diplomacy was not popular in Taiwan, and this even caused the Sunflower Movement in 2014, which was detrimental to the progress of cross-Strait economic integration.

Most scholars attributed the Taiwanese people's oppositions to their fear of witnessing the Taiwanese economy being "hollowed-out" by the Chinese market, which would further result in the loss of Taiwanese political autonomy in the post-ECFA era.¹⁴⁷ Speaking of the "hollowing-out effects", this is not a new issue since Taipei had already implemented a series of policies in restricting cross-Strait economic exchanges based on this concern between 1996 and 2008, as detailed in chapter 4. The Taiwanese people's concern over the "hollowing-out effects" following the strengthening of cross-Strait economic ties is mainly rooted in the huge outflow of Taiwanese capital to the Mainland since the 1990s (see Table 4.2.1).¹⁴⁸ After signing the ECFA with Beijing, the asymmetric relations of economic interdependence between Taiwan and China became more prominent. As will be discussed later in chapter 6, in 2009, the Chinese market had already shared 70.38%

¹⁴⁵ Tung and Yeh, "Development of A Cross-Strait Economic Cooperation Framework Agreement", 41-44.

¹⁴⁶ Yan-Chih Mo, "Cross-Strait Service Trade Pact Signed", *Taipei Times*, June 22, 2013, accessed May 24, 2016, <http://www.taipeitimes.com/News/front/archives/2013/06/22/2003565371>.

¹⁴⁷ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 105-106.

¹⁴⁸ Tanner, *Chinese Economic Coercion Against Taiwan*, 19.

before Taipei signed the ECFA with Beijing (see Table 6.2.3). While the ECFA was in effect in 2010, 83.81% of Taiwanese outward investment went to the Chinese market (see Table 6.2.3). Analysts argue that Beijing's effort to marginalize Taiwan's international and regional space should be blamed for this consequence.¹⁴⁹ Some scholars then questioned if the ECFA had endangered Taiwan's economic and political autonomy, which may allow China to further merge Taiwan.¹⁵⁰

Furthermore, the argument that cross-Strait economic integration is based on the model of "win-win" and is beneficial for Taiwan's economic performance is not convincing for most Taiwanese people. Firstly, as will be discussed in chapter 6, after signing the ECFA with Beijing, Taiwan's economic performance did not correspond with the official anticipation.¹⁵¹ This then drove the Taiwanese people to question ECFA's contribution to Taiwan's economic development. Secondly, Taiwanese outward investments to the Chinese market have always been accompanied with industrial offshoring since Taiwan's manufacturing industries are the major investors.¹⁵² This has further supported the argument of the "hollowing-out" effect. Most importantly, following the implementation of the ECFA, Chinese entrepreneurs have actively utilized this agreement to merge Taiwanese ICT corporations step by step. The most disputed and unsettled case to date has been China's Tsinghua Unigroup's initiative to merge Taiwan's MediaTek, which is the largest ODM of semiconductors in Taiwan and the second largest in the world.¹⁵³ Although there is

¹⁴⁹ Hong and Yang, "The Economic Cooperation Framework Agreement between China and Taiwan", 88-90.

¹⁵⁰ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

¹⁵¹ Tung and Yeh, "Development of A Cross-Strait Economic Cooperation Framework Agreement", 41-52.

¹⁵² Chen et. al., "The ECFA and Its Expected Effect on Cross-Strait Trade and investment", 118.

¹⁵³ Lisa Wang, "MediaTek 'Open' to Chinese Team-up", *Taipei Times*, November 3, 2015, accessed May 22, 2016, <http://www.taipetimes.com/News/front/archives/2015/11/03/2003631561>.

no evidence to prove Beijing's involvement in Tsinghua Unigroup's initiative, incidents like this have strengthened the impression that Beijing aims to "hollow-out" Taiwan's technology in the process of cross-Strait economic integration.

No Chinese interviewees agreed with the above argument that cross-Strait economic integration has generated the "hollowing-out" effect in Taiwan. Rather, all of them emphasized the complementarity of the Chinese and Taiwanese economies in the wave of globalization and regional economic integration. Indeed, as discussed in chapters 3 and 4, since China has begun to play a pivotal role in the process of regionalization since the late 1990s, there has been division of labor between Taiwan and the Chinese mainland.¹⁵⁴ While the Taiwanese manufacturers — especially the ICT industries — have benefited from low-cost production factors in the Chinese market, Chinese manufacturers have been rewarded abundant capital, advanced technology, and efficient managing skills from Taiwanese enterprises.¹⁵⁵ Apart from the aforementioned comparative advantages, following the development of both economies, as Professor Wang Yong from the SIS at the Peking University noted, there has been a "new division of labor between Taiwan and the Chinese mainland" in the post-ECFA era. He further explained:

"For the Taiwanese economy, cross-Strait economic integration will allow Taiwanese enterprises to take advantage of the large market in the Chinese mainland ... and the innovative marketing strategies of Taiwanese companies may influence other [Chinese] enterprises' marketing behavior in the mainland. In the end, these advantages will amplify and create a

¹⁵⁴ Dent, "Taiwan and the New East Asian Regionalism", 117-24.

¹⁵⁵ Chen et. al., "The ECFA and Its Expected Effect on Cross-Strait Trade and Investment", 109-21.

win-win situation where both Taiwan and the Chinese mainland benefit from integration.”¹⁵⁶

Chinese scholars further attributed Taiwan’s fear of the “hollowed-out” effect in the post-ECFA era to the slow progress of Taiwan’s industrial transformation and upgrading rather than cross-Strait economic integration.¹⁵⁷ They pointed out that in the era of globalization, the offshoring of labor-intensive industries is a common phenomenon for all economies following the progress of their industrialization.¹⁵⁸ However, whether this phenomenon would generate the “hollowing-out” effect in an economy depends on whether this economy can cultivate another new industry to sustain its economic development.¹⁵⁹ In the case of Taiwan, as discussed in chapter 4, Taipei’s effort to cultivate the ICT industries did offset the economic loss caused by the offshoring of labor-intensive industries since the 1980s, and this even helped Taiwan to create the “economic miracle”.¹⁶⁰ Yet, as Doctor Zhang Wensheng observed, “the Taiwanese authorities did not do that much for industrial transformation and upgrading since the mid-1990s”.¹⁶¹ Therefore, most of the Taiwanese ICT industries still adopt the low-profit business model of OEM as discussed in chapters 3 and 4. In order to tackle the “hollowing-out” effect, Chinese scholars suggested that Taipei should take advantage of cross-Strait economic integration to make strategies for industrial transformation and upgrading so as to cultivate more OBMs with advanced and innovative technology.¹⁶²

¹⁵⁶ Yong Wang, interviewed by author, November 11, 2013.

¹⁵⁷ Yonghong Tang, interviewed by author, October 12, 2013; Yong Wang, interviewed by author, November 25, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

¹⁵⁸ Ibid.

¹⁵⁹ Liping Xia, interviewed by author, December 13, 2013; Yonghong Tang, interviewed by author, October 12, 2013.

¹⁶⁰ Ernst, “Inter-Organizational Knowledge Outsourcing”, 223-25.

¹⁶¹ Wensheng Zhang, interviewed by author, December 20, 2013.

¹⁶² Liping Xia, interviewed by author, December 13, 2013; Yonghong Tang, interviewed by author,

In addition, Chinese elites also believe that the ECFA has largely satisfied Taiwanese interests of economic development. First of all, as discussed in chapter 4, Taiwan's economic development has faced a predicament since the 2000s. As Beijing has opened its markets and offered more preferential treatments to Taiwanese enterprises through the ECFA, cross-Strait economic integration should have provided Taipei with an opportunity to pursue better economic performance.¹⁶³ Furthermore, as discussed in chapter 3, Taiwan's isolated position in the process of regionalization and its protectionism have impinged on its economic performance. Since the Chinese economy has played an indispensable role in the process of regionalization and even globalization, signing the ECFA with Beijing should be in Taipei's priority so as to connect itself with regional and global economic integration mechanisms through the Chinese mainland.¹⁶⁴

In general, Chinese elites do not think that the ECFA has generated the "hollowing-out" effect in Taiwan. Rather, by considering the ECFA's contribution to Taiwan's economic development, this agreement should have Taiwanese support and Beijing should be able to gradually further its peaceful reunification agendas towards Taiwan. However, contrary to Beijing's expectation, the ECFA was not popular in Taiwanese society. The "hollowing-out" effect is not the only reason. As will be specified below, Beijing's intention of shaping Taiwan's public opinion in the post-ECFA era has also provoked the Taiwanese to advocate stopping negotiation

October 12, 2013.

¹⁶³ Rui Pan, interviewed by author, December 10, 2013; Guoshen Liu, interviewed by author, December 16, 2013.

¹⁶⁴ Yonghong Tang, interviewed by author, October 12, 2013; Xiancai Chen, interviewed by author, October 29, 2013; Yong Wang, interviewed by author, November 25, 2013; Wensheng Zhang, interviewed by author, December 20, 2013.

with Beijing over the sub-agreements of the ECFA. This has then affected the effectiveness of China's commercial diplomacy in furthering its political agendas of "peaceful reunification" towards Taiwan.

5.4.2 Shaping Taiwan's Public Opinion on Peaceful Reunification?

Since signing the ECFA with Taiwan, Beijing has spared no effort in furthering its reunification agenda in Taiwanese society by wielding commercial diplomacy. Aside from making economic concessions to enhance its image in Taiwan, the other concrete measures adopted by Beijing have been its initiatives requesting Taipei to allow Chinese enterprises to invest or even purchase Taiwan's news, telecommunication, and publishing industries by signing the CSSTA with Taiwan.¹⁶⁵ These initiatives manifested Beijing's intention of influencing Taiwan's public opinion by wielding commercial diplomacy, which was one of the main reasons that drove the Taiwanese to launch the Sunflower Movement in 2014 aimed at opposing deeper cross-Strait economic integration.¹⁶⁶ The Sunflower Movement was a surprise for Beijing and Taipei because both sides' leaders thought cross-Strait economic integration was based on the model of "win-win", and because Taipei had not yet allowed Chinese businessmen to directly invest in the aforementioned industries.¹⁶⁷

Contrary to the government's ideas, analysts criticized that Beijing's Taiwan policy is to "buy Taiwan for reunification" in the post-ECFA era.¹⁶⁸ Opponents of

¹⁶⁵ Rowen, "Inside Taiwan's Sunflower Movement", 10.

¹⁶⁶ *Ibid.*, 5-6.

¹⁶⁷ *Ibid.*

¹⁶⁸ Michael Cole, "No Missiles Required: How China is Buying Taiwan's 'Re-Unification'", The

the ECFA further contended that investment and the proposals of merging Taiwan's news media made by Hong Kong's corporations or Taiwanese corporations in the Chinese market has probably enabled Beijing to exert influence into Taiwanese society. The most significant case at this bid is the Want-Want Corporation's projects for merging Taiwan's news media despite the lack of direct evidence to support its ties with Beijing.¹⁶⁹ Specifically, the Want-Want Corporation is one of the top-three largest Taiwanese food industries; as early as the 1990s, it had relocated most of its production bases to the Mainland. In 2009, the Want-Want Corporation launched the first wave of initiatives in merging several of Taiwan's news media that confronted difficulties in operation and that were popular among Taiwanese audiences, such as the CTV, CtiTV, and China Times.¹⁷⁰ The "pro-China editorial slant" of the Want-Want China Times Media Group had generated a doubt that the Want-Want Corporation's initiatives were not purely based on commercial interests, and it remained difficult to prove Beijing's involvement in these cases.¹⁷¹

In 2012, when the Taiwanese government planned to approve another series of the Want-Want Corporation's projects for purchasing Taiwan's popular news media — the Apple Daily and Next Media Group, this provoked Taiwanese to launch the Anti-Media Monopoly Movement.¹⁷² In addition to fighting against the emerging media monopoly in Taiwan, opponents further argued that Beijing is

Diplomat, August 23, 2013, accessed July 31, 2015,

<http://thediplomat.com/2013/08/no-missiles-required-how-china-is-buying-taiwans-re-unification/>

¹⁶⁹ Ming-Yeh T. Rawnsley, "Anti-Media Monopoly Explained", *Taipei Times*, February 4, 2013, accessed July 31, 2015,

<http://www.taipeitimes.com/News/editorials/archives/2013/02/04/2003554169>.

¹⁷⁰ Hsin-Yi Sandy Tsai and Shih-Hong Lo, "Media Reform Movements in Taiwan", in *Strategies for Media Reform: International Perspectives*, ed. Des Freedman et. al. (New York: Fordham University Press, 2016), 160.

¹⁷¹ Rowen, "Inside Taiwan's Sunflower Movement", 10.

¹⁷² Tsai and Lo, "Media Reform Movements in Taiwan", 158-60.

behind the Want Want Corporations given its considerable investment in China.¹⁷³ In March 2013, *The Economist* revealed that the Want-Want Corporation enjoyed the treatment of China's state-owned enterprises, as Beijing has subsidized US\$47 million to this company in 2011, which was equivalent to 11.3% of its annual net profit.¹⁷⁴ Combined with its "pro-China editorial slant" in reporting the Sunflower Movement and the ECFA,¹⁷⁵ the Want-Want China Times Media Group was once again surrounded by protestors in the Sunflower Movement regardless of its clarification. Finally, the Want-Want Corporation did not obtain the government's ratification to its proposals of buying the Apple Daily and Next Media Group.

The disputed initiatives of the Want Want China Times Media Group symbolized the Taiwanese people's cautious attitude towards Beijing's influence in the Taiwanese society by wielding commercial diplomacy in the post-ECFA era. Notably, the Want-Want Corporation is not the only case that caused widespread discontent in Taiwanese society. For the opponents of the ECFA, other cases, such as Chinese direct or indirect investments in Taiwan's mobile corporations, banks, and so on, are seemingly in line with the assertion that Beijing expects to "buy Taiwan for reunification" in the process of cross-Strait economic integration.¹⁷⁶ Although this assertion may not be rational, it actually reflects the widespread discontent with

¹⁷³ Rawnsley, "Anti-Media Monopoly Explained".

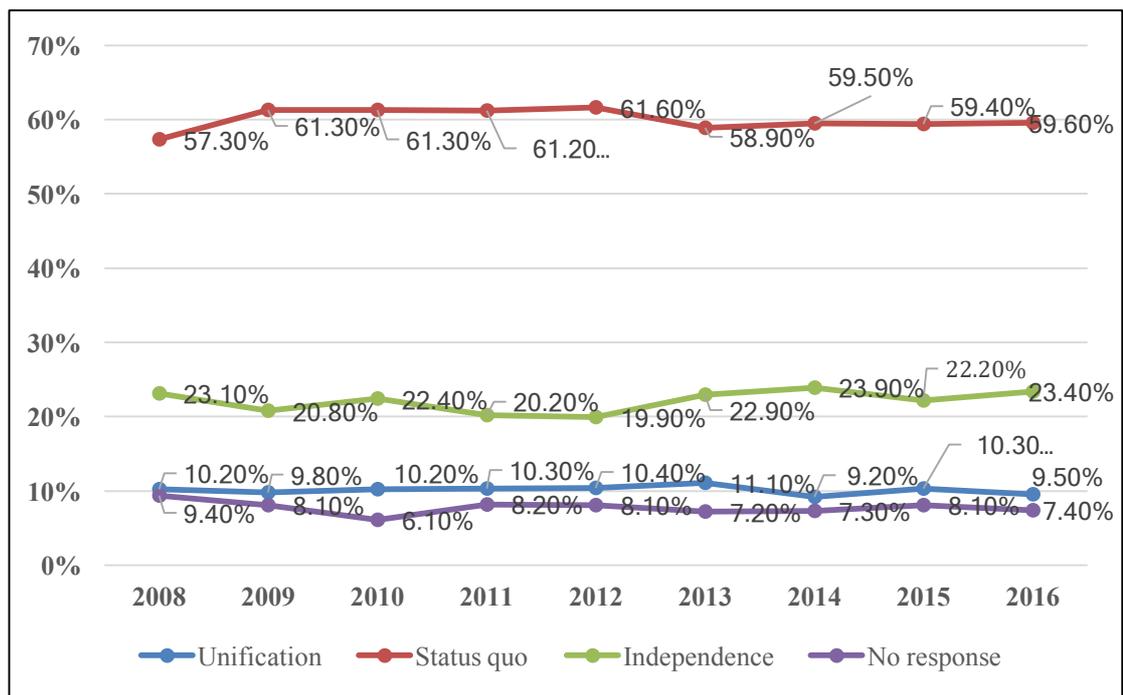
¹⁷⁴ Print Edition: Finance and Economics, "Perverse Advantage", *The Economist*, April 27, 2013, accessed on March 5, 2016, <http://www.economist.com/news/finance-and-economics/21576680-new-book-lays-out-scale-chinas-industrial-subsidies-perverse-advantage>; The main theme of this article is to introduce Usha Haley and George Haley's work, please See also Usha C. V. Haley and George T. Haley, *Subsidies to Chinese Industry: State Capitalism, Business Strategy and Trade Policy* (Oxford: Oxford university Press, 2013).

¹⁷⁵ Rowen, "Inside Taiwan's Sunflower Movement", 10.

¹⁷⁶ Justina Lee and Argin Chang, "Taiwan Restricts Chinese investment Amid Trade Pact Review", Bloomberg, November 13, 2013, accessed July 31, 2015, <http://www.bloomberg.com/news/articles/2013-11-13/taiwan-says-it-strengthened-rules-on-china-investment-projects>; Cole, "No Missiles Required".

Beijing’s reunification agenda in Taiwanese society. Taiwanese resentment against Beijing’s political agenda then caused the Sunflower Movement in 2014, which has resulted in the stagnant progress of cross-Strait economic integration from thereon.¹⁷⁷

Figure 5.4.1 The Fluctuation of Taiwanese Attitude towards the Issue of “Unification-Independence”



Source: Compiled from Election Study Center, National Chengchi University, “Taiwan Independence vs. Unification with the Mainland Trend Distribution in Taiwan (1992/06~2016/06)”, 2016.¹⁷⁸

In general, the effectiveness of China’s commercial diplomacy in appealing “peaceful reunification” to the Taiwanese people has been limited in the post –ECFA era. The poll conducted by the outstanding Election Study Center of the National

¹⁷⁷ Rowen, “Inside Taiwan’s Sunflower Movement”, 1-9.

¹⁷⁸ Election Study Center, National Chengchi University (NCCU), “Taiwan Independence vs. Unification with the Mainland Trend Distribution in Taiwan (1992/06~2016/06)”, 2016, accessed September 1, 2016, <http://esc.nccu.edu.tw/course/news.php?Sn=167>

Chengchi University can support this argument. As shown in Figure 5.4.1, in terms of the Taiwanese people's attitude towards unification, only 9.2% of the Taiwanese supported Beijing's reunification agenda in 2014, which was even lower than the same percentage (10.2%) in the year of the signing of the ECFA in 2010.¹⁷⁹ With respect to attitude towards independence, the support rate had slightly increased from 22.4% in 2010 to 23.9% in 2014. So far, maintaining the status quo across the Taiwan Strait remains the consensus among the Taiwanese people, as this option has steadily obtained support from 60% of the Taiwanese in the post-ECFA era. This survey has implied the limited effectiveness of China's commercial diplomacy in directing Taiwan's public opinion towards "peaceful reunification".

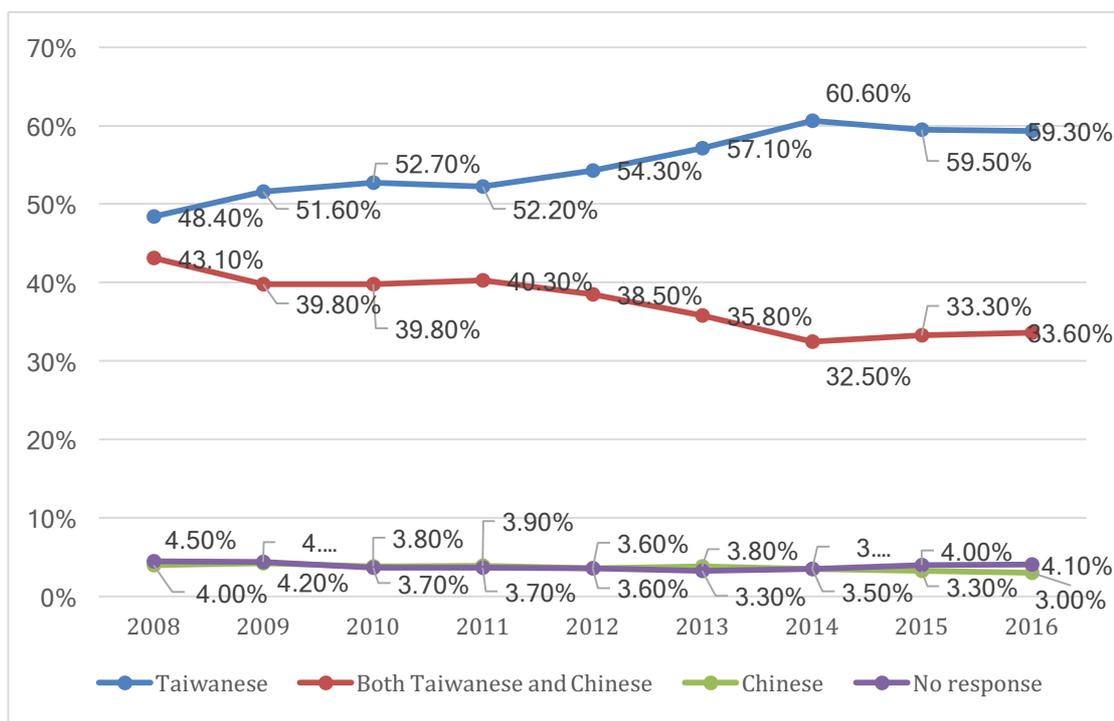
In addition, as most scholars have noted, under the strategic guideline of "placing hope on the Taiwanese people", Beijing has expected the Taiwanese to gradually recognize that both sides' peoples across the Taiwan Strait are "Chinese" following the progress of cross-Strait economic integration.¹⁸⁰ Based on this shared identity between both sides' peoples, Beijing then hopes that the Taiwanese will accept its reunification agenda.¹⁸¹ However, contrary to Beijing's expectation, the percentage of Taiwanese who identified themselves as "Chinese" did not increase in the post-ECFA era. Rather, according to Figure 5.4.2, there have been more Taiwanese people who identified themselves as "Taiwanese but not Chinese", as this percentage raised from 51.6% in 2009 to 60.6% in 2014. This statistical data further suggests that China's commercial diplomacy has limited effectiveness with respect to helping Beijing shape "Chinese identity" in Taiwan in the post-ECFA era.

¹⁷⁹ Ibid.

¹⁸⁰ Keng, "Understanding Integration and 'Spillover' across the Taiwan Strait", 165-168; Lin, "Beijing's Evolving Policy and Strategic Thinking on Taiwan", 74-76.

¹⁸¹ Ibid.

Figure 5.4.2 The Fluctuation of Taiwanese Identity



Source: Compiled from Election Study Center, National Chengchi University, “Taiwan/Chinese Identification Trend Distribution in Taiwan (1992/06~2016/06)”, 2016.¹⁸²

5.5 Conclusion

In summary, by utilizing commercial diplomacy towards Taiwan in the post-ECFA era, Beijing expects “the peaceful development of cross-strait relations” in the context intensive cross-strait economic integration based on the 1992 Consensus.¹⁸³ Meanwhile, Beijing also intends to exert its influence over Taiwanese society so as to persuade the Taiwanese people to accept its reunification agenda. Yet Beijing has not fully accomplished these strategic goals. With respect to Beijing’s influence on Taiwanese attitude towards unification, making economic concession to

¹⁸² NCCU, “Taiwanese/Chinese Identification Trend Distribution in Taiwan (1992/06~2016/06)”, 2016, accessed September 1, 2016, <http://esc.nccu.edu.tw/course/news.php?Sn=166>.

¹⁸³ Xinhua, “Mainland Committed to Peace, Stability across Taiwan Strait”.

Taiwan did not assist Chinese leaders in “winning hearts and minds of the Taiwanese people” for “peaceful reunification”.¹⁸⁴ By contrast, the widespread suspicion that Beijing intends to “buy Taiwan for reunification” in Taiwanese society provoked the Taiwanese people to fight against Taipei’s decision to deepen economic integration with China by launching the Sunflower Movement in 2014.¹⁸⁵ Moreover, polls conducted by the NCCU (see Figure 5.4.1 and 5.4.2) have also reflected that both Beijing’s reunification agenda and the ECFA have remained unpopular in Taiwanese society.

However, from Beijing’s perspectives, the ECFA has still made contribution to “peaceful development of cross-Strait relations”, leading both sides towards the path of “peaceful reunification”.¹⁸⁶ The institutionalization of cross-Strait economic integration has been one of Beijing’s significant achievements after signing the ECFA with Taipei. Insofar as Taipei’s decision to not fully reverse the ECFA, Beijing can further its political agendas towards Taiwan by utilizing commercial diplomacy.

Most importantly, following the institutionalization of cross-Strait economic integration, the 1992 Consensus has also been institutionalized across the Taiwan Strait. Beijing has then connected this loosely defined “one-China principle” with its narrowly defined “one-China” framework in managing Taiwan’s international status. By defining Taiwan’s political status under the “one-China” framework in the international community, Beijing has infringed on Taiwan’s *de jure* and functional sovereignty at the global and regional level. In this regard, for Chinese leaders, how to make a feasible scenario in managing Taiwan’s *de facto* and functional

¹⁸⁴ Huang, “On the Spillover Effect of the Economic Cooperation Framework Agreement”, 20.

¹⁸⁵ Cole, “No Missiles Required”.

¹⁸⁶ Xinhua, “Cross-Straits Economic Integration Equals Win-Win: Xi”.

sovereignty after fulfilling peaceful reunification based on the “One Country, Two Systems” framework seems to be the only question that they need to ponder.

Despite Chinese leaders’ confidence in managing the contentious sovereignty issue of Taiwan, it is inappropriate to conclude the effectiveness of China’s commercial diplomacy without evaluating Taiwan’s strategy in furthering its sovereignty interests. As will be discussed in the next chapter, from Taipei’s perspectives, Beijing’s endorsement of the 1992 Consensus symbolizes that Chinese leaders have accepted the existence of the ROC, which directly conflicts with Beijing’s conceptualization.¹⁸⁷ In addition, Taipei has also aimed to consolidate its interdependence and international legal sovereignty based on its solid functional sovereignty and following the enlargement of its international space.

¹⁸⁷ Su, *Taiwan’s Relations with Mainland China*, 46-49.

6.1 Introduction

The previous chapter analyzed the strategic goals of Beijing's commercial diplomacy towards Taiwan in the post-ECFA era. Specifically, the previous chapter has shown the effectiveness of China's commercial diplomacy in allowing China to extend its influence towards both the Taiwanese government and the society. Following the institutionalization of cross-Strait economic integration, Beijing has always aimed to guide Taiwan heading towards "peaceful reunification" in the context of "peaceful development of cross-Strait relations".¹ Although Beijing has not yet convinced the Taiwanese people of reunification by utilizing commercial diplomacy, it is noteworthy that Beijing has institutionalized the 1992 Consensus by signing the ECFA with Taipei. From Beijing's perspectives, Taipei's reacceptance of the 1922 Consensus was equivalent to the endorsement of the "one-China" framework. This has made Beijing be confident in managing Taiwan's *de jure* and functional sovereignty in the international community, and thus Beijing was willing to make concession to Taiwan's international space in the post-ECFA era. By making positive responses to Taiwan's international space, Beijing expected Taipei to continuously promote the ECFA so as to pave the way towards peaceful reunification.

Yet Taiwan's strategic goals of Cross-Strait economic integration are entirely counter to China's agenda of peaceful reunification. According to Taiwan's President Ma Ying-jeou, on the one hand, by signing the ECFA with China, Taipei aimed to

¹ Xinhua, "Cross-Straits Economic Integration Equals Win-Win: Xi".

improve its isolated position in the international community so as to boost its economic performance.² On the other hand, enlarging Taiwan's international space was also Taipei's strategic goal behind the ECFA, which stands in opposite to China's expectation of peaceful reunification.³ However, Taiwan's strategy in countering China's commercial diplomacy raise several questions that are crucial to judge the effectiveness of China's commercial diplomacy towards Taiwan. Has the ECFA increased the degree of Taiwan's economic dependence on the Chinese market beneficial for Beijing to wield commercial diplomacy? Has the ECFA really caused the "hollowing-out" effect in Taiwan? Most importantly, has Taiwan's sovereignty been eroded in the process of Cross-Strait economic integration?

To address these questions, the next section first studies Taiwan's strategic concerns and their challenges when carrying out commercial diplomacy at the global and regional levels by drawing on interviews with senior Taiwanese policy makers. As the huge outflow of Taiwan's FDI has generated concern among Taiwanese scholars over the "hollowing-out" effect,⁴ the next section also reviews Taiwan's capital flows between 2010 and 2014 so as to examine whether Taiwan's strategy for tackling regional economic integration is conducive to decrease the degree of its economic dependence on Mainland. In brief, the share of Taiwan's investment in China has been decreasing in the post-ECFA era, but the Chinese market has still been the top choice where Taiwanese manufacturers prefer to inject their investment. Nonetheless, this may manifest the constraints of China's commercial diplomacy

² Garfie Lee and Flor Wang, "ECFA Will Be Milestone in Cross-Strait Economic Exchanges: Ma", *The China Post*, January 28, 2010, accessed April 17, 2015, <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2010/01/28/242753/ECFA-will.htm>

³ Ibid.

⁴ Rong-I Wu and Tsai-Lung Hong, "Economic Integration in East Asia— Taiwan Perspective", in *Deconstructing ECFA: Challenges and Opportunities for Taiwan*, ed. Chih-cheng Lo and Tien-wang Tsaur (Taipei: Taiwan Brain Trust, 2010), 39-48.

towards Taiwan while the “hollowing-out” effect is only limited to Taiwanese manufacturing industries that share less than 30% of Taiwan’s total GDP.⁵

The third section further studies the effectiveness of Taiwan’s commercial diplomacy in respect to consolidate its *de jure* and functional sovereignty at the regional and global levels. In general, although Taiwan did successfully expand its international space by signing FTAs with several important regional trading partners and participating in several international organizations in the post-ECFA era, the one-China principle remains an obstacle to Taiwan’s goal of being a fully-fledged sovereign state.

After evaluating Taiwan’s commercial diplomacy in helping it to secure its economic and sovereignty interests at the global and regional levels, the fourth section explores the impact of Cross-Strait economic integration on both Taiwan’s economic performance and *de facto* sovereignty. By taking the “Economic Indicators EBook” published by the MOEA (ROC) as the main index, this section argues that the ECFA’s contribution on Taiwan’s economic performance does not meet Taipei’s expectations.⁶ In addition, despite the fact that the ECFA has not yet allowed China to encroach on Taiwan’s Westphalian sovereignty, Beijing might have encroached on Taiwan’s domestic sovereignty. It is noteworthy that the ECFA has institutionalized the 1992 Consensus across the Taiwan Strait, which has legitimized the one-China principle by connecting both sides’ constitution with each other. Finally, given the pros and cons of China’s and Taiwan’s commercial diplomacy in reconciling their sovereignty agendas and economic interests, this chapter concludes that both sides

⁵ Department of Statistics, MOEA, ROC, “Economic Indicators EBook”.

⁶ Ibid.

have faced strategic dilemma after signing the ECFA.

6.2 Taiwan's Strategic Concerns over the ECFA at the Regional Level

As discussed in chapters 3 and 4, the ECFA is Taiwan's contingency plan for tackling impact bred by its regionally marginalized position since the late 1990s. This section further rationalizes Taiwan's strategic concerns over the ECFA with regards to its economic interests in order to evaluate the effectiveness of Taiwan's strategy in the post-ECFA era in a later section. Generally speaking, by carrying out interviews with policymakers in Ma Ying-jeou's administration, tackling the "substitution effects" at the regional level was the main incentive that drove Taipei to sign the ECFA with Beijing in 2010. Meanwhile, following the improvement of cross-Straits relations, Taipei also expects to deepen economic cooperation with its major trading partners in an attempt to deal with the problem caused by the "hollowing-out" effect. In addition, Taiwan also aims to decrease its economic dependence on the Chinese market so as to counter Beijing's commercial diplomacy. All of these strategic concerns will be further elaborated below.

6.2.1 Taiwan's Regional Economic Integration and Taiwan's International Space

For those who study the relationship between trade and sovereignty, Taiwan's participation in the WTO in 2002 is an ideal case to explore the issue of how trade liberalization can consolidate state sovereignty.⁷ Taiwan's successful entry into the WTO has enlarged Taiwan's international space and consolidated its "functional

⁷ For more examples, please see: Winkler, "Can Trade Make a Sovereign?", 467-85; Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 81-112.

sovereignty”.⁸ Scholars attribute the success to Taiwan’s promotion of unilateral economic liberalization, which has led EU and the US to support Taiwan’s membership based upon their economic interests.⁹ As discussed in chapters 3 and 4, in 1990, the year of its application to the GATT, Taiwan already played an indispensable role in international production networks, and both EU and the US were major markets for Taiwan’s manufacturing products.¹⁰ Thus facilitating Taiwan’s trade liberalization was the common interest shared by both the US and the EU. Moreover, it were also in EU and the US interests to liberalize Taiwan’s procurement policy, which would be beneficial for their manufacturers to sell public goods to Taiwan (i.e. the French enterprise of Metro for Taiwan’s underground system).¹¹ Although sovereignty assertions made by Beijing had provoked controversy over Taiwan’s membership in the WTO, Taiwan still obtained membership one day latter than the PRC.¹²

Taiwan’s efforts in facilitating unilateral trade liberalization, however, cannot help it to join the process of regional trade liberalization. Taiwan’s authorities ascribe the isolated position in the region to the “China factor”. Interviews with Taiwanese policymakers illustrate the difficulty in bypassing China to sign FTAs with other countries. Mrs. Hsu Chun-fang, former Deputy Director of the Bureau of Foreign Trade in the Ministry of Economic Affairs (MOEA, ROC), says: “The development of Taiwan’s relations with other countries is contingent on the development of Cross-Strait relations. If we fail to manage Cross-Strait relations, it is impossible to

⁸ Ibid.

⁹ Ibid.

¹⁰ Dent, “Taiwan and the New East Asian Regionalism”, 121-23.

¹¹ Winkler, “A Question of Sovereignty?”, 4-6.

¹² Ibid.

have good relations with others”.¹³ Taiwan’s General Secretary of the MOEA (ROC), Mrs. Chou Tsao-shan, further specifies this point. She says:

*“It is impossible to ignore the ‘China factor’ when we negotiate over an FTA with our trading partners. Even though we do not care about their [Beijing’s] attitude, other countries care...When we tried to negotiate with the EU over the issue of trade liberalization, they told us to manage our relations with Mainland China first...We cannot verify whether China has influenced others attitude towards signing an FTA with us, but you can feel ‘China factor’ has influenced the process of negotiation...Our counterpart always stands in the shadow of Mainland China”.*¹⁴

For the Taiwan authorities, China’s influence is an important variable that impacts upon their effort to negotiate FTAs with trading partners. While Taiwan touched a nerve with Beijing with regards to sovereignty by advocating “one country on each side” in 2002, Taiwan’s international space was blocked by Beijing.¹⁵ As a result, Taiwan missed the opportunity to participate in the wave of regional trade liberalization caused by the stagnant progress of trade liberalization initiatives in the WTO since 2002.¹⁶ This has meant that Taiwan has occupied a marginalized position in the process of regional economic integration as shown in the Figure 6.2.1 below.

As discussed in chapter 4, when Cross-Strait relations became tense between

¹³ Chun-Fang Hsu, interviewed by author, March 10, 2014.

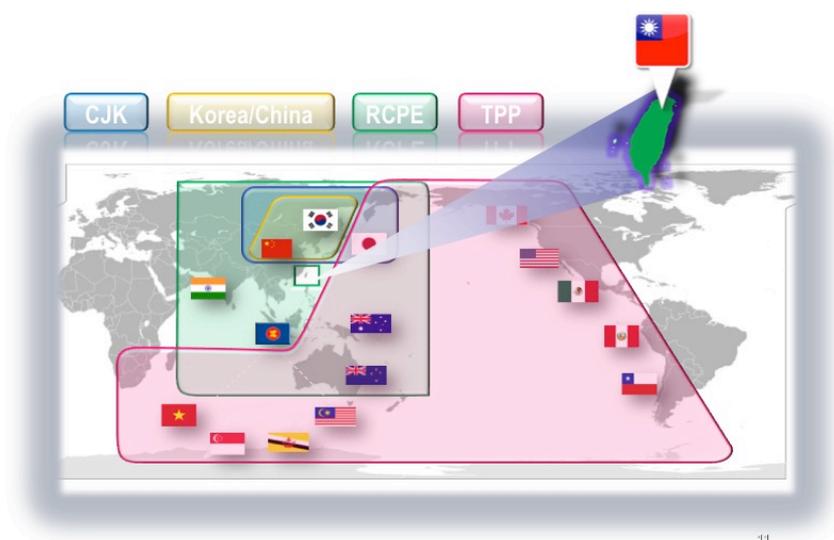
¹⁴ Tsao-Shan Cho, interviewed by author, April 15, 2014.

¹⁵ Su, *Taiwan’s Relations with Mainland China*, 160.

¹⁶ Staples, “Responses to Regionalism”, 100-1.

1999 and 2008, the disputed issue of sovereignty was raised as a constraint on Taiwan's regional space. Consequently, Taiwan's isolated position in regional economic integration has had a considerable impact on its economic performance. Notably, Taiwan is an economy guided by an "export-oriented" strategy, and thus trade performance is crucial to its economic development¹⁷. With respect to impact of regionally marginalized position on Taiwan's economic performance, it can be estimated by reviewing both TPP's and RCEP's shares of Taiwan's total trade.

Figure 6.2.1 Regionalism in East Asia and Taiwan's Isolated Regional Position



Source: Compiled by Mrs. Hsu Chun-fang¹⁸

According to the report compiled by the MOEA (ROC), TPP members had a share of 34.4% of Taiwan's total trade by US\$198.22 billion in 2013.¹⁹ Furthermore, by 2013, RCEP members had a share of 57% of Taiwan's total trade, and the total

¹⁷ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 87.

¹⁸ Chun-Fang Hsu, interviewed by author, March 10, 2014. The author deeply appreciates her generosity to allow this thesis to directly use or edict the figure.

¹⁹ 中華民國經濟部國際貿易局, "加入 TPP/RCEP, 我們做得到!", 2014. The Bureau of Foreign Trade, Ministry of Economic Affairs, ROC, "Joining the TPP/RCEP, We Can Do It!", 2014, accessed April 17, 2015, [http://www.trade.gov.tw/Files/Doc/1030305_經濟部簡報\(加入 TPP 做得到\)00312%20 本局%20final.pdf](http://www.trade.gov.tw/Files/Doc/1030305_經濟部簡報(加入 TPP 做得到)00312%20 本局%20final.pdf).

volume of trading had reached US\$325.2 billion.²⁰ “Trade creation effects” are important concerns for the Taiwanese government, but the most crucial consideration for Taiwanese policy makers actually stems from the “substitution effect” as mentioned in chapter 3.²¹

For example, South Korea is Taiwan’s major competitor in the region, and according to Taiwan’s former Deputy Minister of the MOEA (ROC), Mr. Liang Kuo-hsin, “64% of products of manufacturing industries between both economies [Taiwan and South Korea] are overlapping and highly competitive”.²² Moreover, as Seoul is actively engaging in various FTA negotiations with its major trading partners, Taiwan’s industries will lose its competitive advantages *vis-à-vis* South Korea. Table 6.2.1 lists the FTA coverage rate of Taiwan and its major economic rivals.²³ According to this data, FTAs between South Korea and its major trading partners will cover 82.12% of total South Korean trade.²⁴ As for Taiwan, even after the full implementation of the ECFA, the FTA coverage rate is merely 33.06%, which is fairly low compared to South Korea.²⁵ As a result, impact bred by Taiwan’s regionally marginalized position became an imperative issue for the Taiwanese government to deal with. Mrs. Chou Tsao-shan points out that:

“South Korea is our major competitor, especially in the ICT sector. The quality of our [South Korea and Taiwan] products is about the same...If our manufacturers still need to pay tariffs of more than 5%, the price of

²⁰ Ibid.

²¹ Urata, “Exclusion Fears and Competitive Regionalism in East Asia”, 28-31.

²² Kuo-Hsin Liang, interviewed by author, March 14, 2014.

²³ Chun-Fang Hsu, interviewed by author, March 10, 2014.

²⁴ Ibid.

²⁵ Ibid.

*our products will be higher than South Korean ones. Consumers will buy their products not ours...Therefore, we should sign FTAs with our trading partners as much as we can to ensure that we are on the same starting line as they [South Korea] are”.*²⁶

Table 6.2.1 FTA Coverage Rate of Taiwan’s Major Regional Competitors in 2012

	South Korea		Japan		Singapore		Taiwan	
	Country	The share of Total Trade (%)	Country	The share of Total Trade (%)	Country	The share of Total Trade (%)	Country	The share of Total Trade (%)
In Effect	46	34.69%	15	18.79%	26	64.26%	6	4.18%
In the Process of Negotiation	Canada	0.94%	South Korea	6.06%	Canada	0.31%	China	24.34%
	Mexico	1.09%	GCC	10.82%	Pakistan	0.12%	Singapore	4.93%
	New Zealand	0.26%	Australia	4.45%	Ukraine	0.08%	New Zealand	0.21%
	Australia	3.02%	Mongolia	0.02%	Taiwan	5.04%		
	Colombia	0.18%	Canada	1.36%	Mexico	0.36%		
	Turkey	0.49%	Colombia	0.12%	Egypt	0.08%		
	China	20.15%	EU	10.9%	EU	10.68%		
	CJK FTA	29.81%	CJK FTA	25.81%	GCC	7.06%		
	GCC	11.64%			Costa Rica	0.1%		
Total		82.12%		72.27%		88.09%		33.06%
Source: The Database of Global Trade Atlas Navigator (2012)								

Source: Compiled by Mrs. Hsu Chun-fang, edited by the author²⁷

²⁶ Tsao-Shan Cho, interviewed by author, April 15, 2014.

²⁷ Chun-Fang Hsu, interviewed by author, March 10, 2014. The author is grateful to her generosity to permit this research to directly use or edit this data.

6.2.2 The Connection between the “Substitution Effect” and “Hollowing-out” effect

In addition to the “substitution effect”, it is noteworthy that some Taiwanese policymakers also ascribe the “hollowing-out” effect to Taiwan’s isolated position in the process of economic integration in the Asia-Pacific region.²⁸ Literature on contemporary cross-Strait economic relations also support this viewpoint. Theoretically, Taiwan’s isolation from the process of regional economic integration has also drove enterprises to move their manufacturing facilities or even operational headquarters abroad.²⁹ Concern about the “substitution effect” among Taiwanese entrepreneurs is the main reason for industrial offshoring. For example, Mrs. Chou Tsao-shan points to Taiwan’s textile industries as an example³⁰. Under the TPP’s ROOs, Taiwanese textile manufacturers that export to Vietnam will be replaced by TPP-member textile producers because they “can enjoy zero tariffs in the US market”³¹. She further says: “In this case, if Vietnam is the major market for Taiwan’s textile manufacturing, industry offshoring is predictable”³².

Furthermore, this offshoring phenomenon has increased Taiwan’s economic dependence on the Chinese market.³³ Indeed, Taiwan’s investment towards China is export-oriented, and China’s relatively cheap factors of production serve as an

²⁸ Chun-Fang Hsu, interviewed by author, March 10, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

²⁹ Dent, “Taiwan and the New East Asian Regionalism”, 150-52.

³⁰ Tsao-Shan Cho, interviewed by author, April 15, 2014.

³¹ Ibid.

³² Ibid.

³³ Joshua Meltzer, “Taiwan’s Economic Opportunities and Challenges and The Importance of the Trans-Pacific Partnership”, *Brookings Center for East Asia Policy Studies, East Asia Policy Paper 2* (January 2014), 3-5. Accessed April 17, 2015, <http://www.brookings.edu/research/papers/2013/09/30-taiwan-trans-pacific-partnership-meltzer> Tanner, *Chinese Economic Coercion Against Taiwan*, 19.

important attraction for Taiwanese manufacturers.³⁴ Furthermore, as Taiwanese manufacturers in Mainland China also enjoy the treatment that Chinese enterprises have in the wave of East Asian regionalization, China's effort to liberalize trade should not be ignored.³⁵ Table 6.2.2 shows Taiwan's investment in the Chinese market and its investments in other areas. Based on statistic gathered by MOEA (ROC), Taiwan's investment in China made up 60% of its total outward investment between 2002 and 2013.³⁶ This has further contributed to the "hollowing-out" effect.³⁷ Doctor Hong Tsai-lung, Director of the Department of China Affairs in the DPP, indicates that:

"Most Taiwanese enterprises are SMEs, and the owners fully control international business networks. When they move into the Chinese market, their networking connections with Taiwan weaken. It is not beneficial for Taiwan's economic development".³⁸

To reduce the degree of Taiwan's economic dependence on China, most Taiwanese policymakers point to the importance of improving Taiwan's marginalized position in the process of regional economic integration and signing FTAs with other countries.³⁹ Nonetheless, this strategy is questionable. For example, as shown in Table 6.2.3, the FTA between Singapore and Taiwan did increase Taiwan's investment there, which peaked at US\$4.5 billion in 2012.⁴⁰ However, there has been a negative growth in Taiwanese investment in Singapore since 2013. Moreover,

³⁴ Karackattu, "Post-ECFA Outlook for Relationship across the Taiwan Strait", 116-19.

³⁵ Dent, "Taiwan and the New East Asian Regionalism", 150-152.

³⁶ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

³⁷ Wu and Hong, "Economic Integration in East Asia—Taiwan Perspective", 39-48.

³⁸ Tsai-Lung Hong, interviewed by author, March 20, 2014.

³⁹ Chien-Min Chao, interviewed by author, April 4, 2014; Chi Su, interviewed by author, March 18, 2014.

⁴⁰ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

most of Taiwan's investors in Singapore were services industries (e.g. financial and insurance industries, and wholesale and retail industries).⁴¹ While 64.02% of Taiwan's investments in the Mainland were from manufacturing industries (see Table 6.4.3) in 2014, it is doubtful that signing FTAs with other trading partners has helped Taiwan to reduce the degree of economic dependence on China thus far.⁴²

Table 6.2.2 Taiwan's Investment in China and Outward Investment

Year	Investment in China	Outward Investment (without investment in China)	The Share of Investment in China (%)
2002	6,723,058	3,370,046	66.61
2003	7,698,784	3,968,588	65.98
2004	6,940,663	3,382,022	67.23
2005	6,006,953	2,447,449	71.05
2006	7,642,335	4,315,426	63.91
2007	9,970,545	6,469,978	60.64
2008	10,691,390	4,466,491	70.53
2009	7,142,593	3,005,554	70.38
2010	14,617,872	2,823,451	83.81
2011	14,376,624	3,696,827	79.54
2012	12,792,077	8,098,641	61.23
2013	9,190,090	5,232,266	63.72
2014	10,276,570	7,293,683	58.48
Unit: US\$1,000			

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) "Monthly Report (December 2015)".⁴³

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ibid.

Table 6.2.3 Taiwan's outward Investment in Asia other than Mainland China (Unit: US\$1,000)

Year	Asia		Singapore			Malaysia			Japan		
	Amount	Share (%)	Amount	Share (%)		Amount	Share (%)		Amount	Share (%)	
				Overall	Asia		Overall	Asia		Overall	Asia
2005	430,673	17.59	97,701	03.99	22.68	28,195	01.15	06.54	42,552	01.73	09.88
2006	1,390,621	32.22	806,303	18.68	57.98	31,236	00.72	02.24	10,926	00.25	00.78
2007	2,366,606	36.57	1,194,110	18.45	50.45	65,018	01.00	02.74	18,815	00.29	00.79
2008	2,046,998	45.83	697,626	15.61	34.08	27,806	00.62	01.35	52,105	01.16	02.54
2009	765,457	25.46	36,698	01.22	04.79	83,537	02.77	10.91	102,750	03.41	13.42
2010	1,391,363	49.26	32,697	01.15	02.34	370,369	13.11	26.61	40,648	01.14	02.92
2011	1,723,918	46.63	448,592	12.13	26.02	130,205	03.52	07.55	252,347	06.82	14.68
2012	7,151,518	88.30	4,498,662	55.54	62.90	187,905	02.32	02.62	1,089,349	13.45	15.23
2013	2,894,581	55.32	158,291	03.02	05.46	103,446	01.97	03.57	170,499	03.25	05.89
2014	2,482,274	34.03	136,771	01.87	05.50	31,786	00.43	01.28	680,020	09.32	27.39
Total	22,644,009	47.32	8,107,451	16.94	35.80	1,059,503	02.21	04.67	2,460,011	05.14	10.86

Table 6.2.3 Taiwan's outward Investment in Asia other than Mainland China (Unit: US\$1,000) (Continue)

Year	South Korea			Hong Kong			Indonesia			Vietnam		
	Amount	Share (%)		Amount	Share (%)		Amount	Share (%)		Amount	Share (%)	
		Overall	Asia		Overall	Asia		Overall	Asia		Overall	Asia
2005	3,613	00.14	00.83	107,559	04.39	24.97	9,115	00.37	02.11	93,932	03.84	21.81
2006	15,910	00.36	01.14	272,021	06.30	19.56	8,798	00.20	00.63	123,736	02.87	08.90
2007	11,011	00.17	00.46	189,568	02.92	08.01	702	00.01	00.03	109,282	01.69	04.62
2008	235,264	05.67	11.49	337,361	07.55	16.48	2,932	00.06	00.14	639,325	14.31	31.23
2009	9,679	00.32	01.26	241,242	08.02	31.51	1,517	00.05	00.19	242,774	08.08	31.72
2010	3,352	00.11	00.24	244,464	08.65	17.57	389	00.01	00.03	670,118	23.73	48.16
2011	27,999	00.75	01.62	254,355	06.88	14.75	1,145	00.03	00.06	457,737	12.38	26.55
2012	21,060	00.26	00.29	291,579	03.60	04.07	17,200	00.21	00.24	943,997	11.65	13.20
2013	60,986	01.16	02.10	316,405	06.04	10.93	28,470	00.54	00.98	1,736,479	33.19	59.99
2014	171,150	02.34	06.89	423,421	05.92	17.42	116,667	01.59	04.70	646,502	08.86	26.04
Total	560,024	01.17	02.47	2,812,755	05.87	12.42	186,934	00.39	00.82	5,663,882	11.84	25.01

Table 6.2.3 Taiwan's outward Investment in Asia other than Mainland China (Unit: US\$1,000) (Continue)

Year	The Philippines			Thailand			India			Others		
	Amount	Share (%)		Amount	Share (%)		Amount	Share (%)		Amount	Share (%)	
		Overall	Asia		Overall	Asia		Overall	Asia		Overall	Asia
2005	14,937	00.61	03.47	20,265	00.83	04.71	1,914	00.08	00.44	10,890	00.44	02.53
2006	13,483	00.31	00.96	81,672	01.89	05.87	4,296	00.10	00.31	22,240	00.52	01.60
2007	13,253	00.20	00.56	712,116	11.01	30.90	7,738	00.12	00.33	44,993	00.70	01.90
2008	2,628	00.06	00.13	9,295	00.21	00.45	16,250	00.36	00.79	26,407	00.59	01.29
2009	21,833	00.73	02.85	14,962	00.50	01.95	3,160	00.11	00.41	7,305	00.24	00.95
2010	521	00.02	00.04	8,677	00.31	00.62	3,620	00.13	00.26	16,509	00.58	01.19
2011	69,174	01.87	04.01	11,665	00.32	00.68	67,051	01.81	03.89	3,647	00.10	00.21
2012	10,701	00.13	00.15	61,242	00.76	00.86	20,931	00.26	00.29	8,890	00.11	00.12
2013	58,923	01.13	02.04	78,272	01.50	02.70	65,042	01.24	02.25	117,759	02.25	04.07
2014	40,926	00.56	01.65	82,824	01.14	03.34	33,486	00.50	01.35	118,723	01.63	04.78
Total	246,387	00.51	01.09	1,080,990	02.26	04.77	223,488	00.47	00.99	377,363	00.79	01.67

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) "Monthly Report (December 2015)"⁴⁴

⁴⁴ Ibid.

Furthermore, according to Table 6.2.3, the amount of Taiwanese investment in Vietnam increased between 2012 and 2013, but there is no FTA between Taiwan and Vietnam. Scholars explain this phenomenon by pointing to the weak growth of China's exports (see Table 6.2.4).⁴⁵ Moreover, the rise of labor salaries and land prices since 2005, as well as China's increasing focus on the issues of environment protection, served to drive Taiwanese manufacturers to find another countries with low-cost factors of production from thereon.⁴⁶ As such, scholars question whether signing FTAs with other economies can help Taiwan reverse asymmetric economic interdependence across the Taiwan Straits, and they further suggest that the government should focus on industry upgrading and unilateral trade liberalization.⁴⁷ In response to scholars' suggestions, Mr. Liang Kuo-hsin says: "the government has already budgeted NTD\$96.4 billion to assist vulnerable industries to do industrial upgrading and transformation. Besides, we also aim to establish the Taiwan Free Trade Zone to facilitate market openness".⁴⁸ Nevertheless, as these policies still lack concrete measures, it seems that the Taiwanese government still focuses on multilateral trade liberalization.

However, there are several obstacles to Taiwan's participation in multilateral mechanisms concerning economic integration. Specifically, in order to participate in the process of regional economic integration, Mr. Liang Kuo-hsin points out that there are at least three difficulties to overcome, and he says:

⁴⁵ Department of Statistics, MOEA, ROC, "Economic Indicators EBook"; Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 43-44.

⁴⁶ 高長, "兩岸經濟關係現況與趨勢", 童振源與曹小衡主編 *兩岸經貿關係的機遇與挑戰* (台北: 新銳文創, 2013); Chang Gao, "The Trend and Development of Cross-Strait Economic Relations", in *Turn Our Challenges into Opportunities*, ed. Chen-Yuan Tung and Xiaoheng Cao (Taipei: Independent and Unique, 2013), 19-20; Huang, "TPP Versus ECFA", 96-97.

⁴⁷ Ibid.

⁴⁸ Kuo-Hsin Liang, interviewed by author, March 14, 2014.

*“Taking the TPP for example, the first difficulty that we need to overcome is to obtain consent from all the members of the TPP...and the second one is that we need to abandon protectionist policies despite strong domestic oppositions. Most importantly, we need to manage Cross-Strait relations well, and this is the precondition to commence negotiations with the TPP members”.*⁴⁹

Table 6.2.4 The Annual Growth Rate of Exports between 2012 and 2014

Economies \ Year	2012	2013	2014
Taiwan	-2.3%	1.4%	2.7%
The US	4.3%	2.2%	2.8%
Japan	-2.7%	-10.5%	-3.5%
Germany	-4.6%	3.1%	3.6%
France	-3.9%	1.8%	0.2%
The U.K.	-2.4%	-0.8%	0.5%
China	7.9%	7.8%	6.0%
South Korea	-1.3%	2.1%	2.3%
Singapore	-0.2%	0.5%	-0.2%
Hong Kong	3.2%	3.6%	3.2%

Source: Department of Statistics, Ministry of Economic Affairs, Republic of China (2015), “Economic Indicators EBook”⁵⁰

As stated in chapters 1 and 4, economic cooperation featured centrally in Taiwan’s current strategy to improve Cross-Strait relations between 2008 and 2014. Under Ma Ying-jeou’s presidency, Taiwan returned to the negotiation table with the 1992 Consensus, which served as a cornerstone of Cross-Strait negotiations over collective governance and functional cooperation. Based on this ambivalent “One-China Principle”, Taipei signed 23 agreements with Beijing between 2008 and 2014, and 18 of them have been put into effects (see Appendix I). It is notable that 11 agreements between both sides are relevant to the issue of Cross-Strait economic integration, and three of them are affiliated to the ECFA signed in 2010 (see

⁴⁹ Ibid..

⁵⁰ Department of Statistics, MOEA, ROC, “Economic Indicators EBook”.

Appendix I). Although several scholars criticize Taiwan's strategy as the "China-leaning policy",⁵¹ Taiwan has seemingly increased its bargaining chip to seesawing between regional great powers to enlarge international space in the context of the rivalry for regional leadership between China and the US. The next part of this section will explore this issue in more details.

6.3 ECFA: The Impacts on Taiwan's Sovereignty in the International Community

The previous section of this chapter studied Taiwan's strategic concern over the ECFA with regards to its economic interests. Aside from tackling the problems generated by the "substitution effect" and "hollowing-out" effect, as will be discussed in this section, Taiwan also aimed to consolidate its functional and *de jure* sovereignty in the international community after the improvement of cross-Strait relations. The strategy of seesawing between China and the US constitutes Taiwan's current tactic to expand its international space, especially in terms of participating in the TPP and RCEP. However, this chapter finds that the effectiveness of Taiwan's "seesawing strategy" was limited by Beijing, as most countries must take China's attitude into account when engaging with Taiwan. Moreover, despite the fact that the ECFA institutionalized the 1992 Consensus across the Taiwan Strait, Beijing's has not yet loosened its definition of the "one-China principle" in the international community. In this light, Taiwan is on a passive stance in terms of consolidating its "sovereignty" in the post-ECFA era.

⁵¹ Corcuff, "Ma Ying-jeou's China-leaning Policy and the 1983 Fall of the Zheng in Taiwan", 93-129.

6.3.1 Taiwan: Seesawing between the US and China

From 2008 onwards, Taiwan's strategy to expand its international space has gained relative success compared with the achievements of Chen's administration between 2000 and 2008. Notably, this was the significant turning point of Taiwan's strategy for consolidating international legal sovereignty. Between 2008 and 2014, the US did not play a central role in assisting Taiwan to obtain a membership in IGOs as it did in the cases of Taiwan's entry in the APEC and the WTO in the 1990s.⁵² The reason for this is that Taiwan's President Ma Ying-jeou has shifted Taiwan's strategic focus from challenging China's sovereignty claims over Taiwan to cooperating with China to construct a platform on which both sides can co-exist. In this light, President Ma's strategy was not to seek Beijing's recognition of Taiwan's international legal sovereignty, but instead he aimed to obtain China's acknowledgement of Taiwan's *de facto* sovereignty and "functional sovereignty".⁵³ As a result, rather than focusing on lobbying Taiwan's membership in IGOs through the US and the EU as what his predecessors did, President Ma Ying-jeou focused on getting Beijing to support the expansion of Taiwan's international space. He also endeavored to gain China's support for Taiwan's participation in the ongoing regional economic integration and the signing of FTAs with Taiwan's trading partners.

The most profound implication of President Ma's strategy to consolidate Taiwan's international legal sovereignty is that the tactic of bandwagoning with the US is not the only policy instrument available to Taiwan. Actually, China has become another bandwagon to jump on as long as Taipei can retain stable relations with

⁵² Cheung, "APEC as a Regime", 21-39; Winkler, "Can Trade Make a Sovereign?", 467-85

⁵³ Lin, "Beijing's Evolving Policy and Strategic Thinking on Taiwan", 64-73.

Beijing. Hence Taiwan has become equipped to seesaw between the US and China following the rapprochement of Cross-Strait relations. Taiwan's "seesawing strategy" went well between 2010 and 2014. After signing the ECFA with China, Taipei was able to overcome the "China factor" that confines Taiwan's international space. Thanks to Beijing's consent in loosening the definition of the "One-China Principle" to a degree, between 2010 and 2014, Taiwan has successfully signed FTAs with Singapore and New Zealand.⁵⁴ Most significantly, when the relations between China and Japan became intense due to the disputed sovereignty issue over the Senkaku/Diaoyu Islands, Taiwan signed the fishing agreement with Japan and also an agreement to promote Taiwan-Japan electronic commerce.⁵⁵ As Professor Su Chi and Mrs. Hsu Chun-fang point out that Tokyo's intention of signing economic agreements with Taiwan was to prevent Taipei from allying with Beijing to challenge Japan's interests in the Senkaku/Diaoyu Islands.⁵⁶ This seemingly shows the effectiveness of Taiwan's seesawing strategy by wielding commercial diplomacy.

The effectiveness of Taiwan's seesawing strategy is also apparent at the regional level. Before 2014, China softened its attitude towards Taiwan's involvement in regional integration frameworks in exchange for the smooth process of follow-up economic negotiations over sub-agreements of the ECFA.⁵⁷ Moreover, according to Taiwan's policymakers, in response to Taiwan's bandwagoning with China in the regional arena, the US and Japan have taken a friendly attitude towards Taiwan's

⁵⁴ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 97-99.

⁵⁵ Chi Su, interviewed by author, March 18, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

⁵⁶ Ibid.

⁵⁷ Huang, "TPP Versus ECFA", 85-88; Shiro Patrick Armstrong, "Taiwan's Asia Pacific Economic Strategies after the Economic Cooperation Framework Agreement", *Journal of the Asia Pacific Economy* 18, no. 1 (2013): 101-2.

participation in the TPP.⁵⁸ Although Taiwan has not commenced negotiations over the accession of either the TPP or the RCEP yet, analysts point out that bilateral FTAs between Taiwan and its trading partners has allowed the government to adjust protectionist policies to meet the standard of market openness set by regional integration frameworks, especially the TPP.⁵⁹

In the context of Taiwan's success in expanding international space at bilateral and regional levels, it seems that Taiwan would be able to gradually consolidate its international legal sovereignty. However, this strategy contradicts to China's reunification strategy towards Taiwan, and the price Taiwan has paid thus far is to facilitate Cross-Strait economic integration by signing the ECFA. Through the lens of China's commercial diplomacy, Cross-Strait economic integration has institutionalized not only bilateral economic relations but also the "One-China Principle" favorable to China's strategy of peaceful reunification. Combined with the fact that the US role was not as important as it had in Taiwan's foreign relations until 2014, it raises the question of whether Taiwan can really seesaw between the US and China or Taiwan only able to jump on China's bandwagon.

All of Taiwan's policymakers interviewed for this research are well aware of China's political intentions, and therefore they adopt a cautious stance towards Taiwan's Mainland policy. Taiwan's strategy for countering China's commercial diplomacy is similar to what most East Asian countries have done—consolidating bilateral relations with Washington whilst facilitating economic integration with

⁵⁸ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Chi Su, interviewed by author, March 18, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

⁵⁹ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 52.

China⁶⁰. Taiwan's President Ma Ying-jeou says:

*“The relaxed tensions across the Strait depend very much on the continued supply of arms from the United States to Taiwan...Certainly Taiwan will not feel comfortable to go to a negotiating table without sufficient defense buildup in order to protect the safety of the island”.*⁶¹

In addition to strengthening military ties with the US through arms procurement, for the Taiwanese government, participating in the US-centric regional integration framework is also an important policy for managing China's political leverage. Former General Secretary of National Security Council (ROC), Professor Su Chi, confirms that the TPP is an important “instrument to counter the possible political impacts on Taiwan bred by the ECFA”.⁶² In this regard, political interests are greater than economic interests in motivating Taiwan to participate in the TPP. However, this strategy of balancing China's influence on Taiwan is problematic even for some senior policymakers in the Ma administration.

First of all, considering the constraints upon Taiwan's domestic politics, both Professor Su Chi and Professor Chao Chien-min put forward pessimistic viewpoints on President Ma's strategy of “participating in the US-led TPP to balance the ECFA”.⁶³ According to Su, “while President Ma promises to lead Taiwan into the

⁶⁰ Ross, “Balance of Power Politics and the Rise of China”, 139-142; 顏建發, *台灣的選擇: 亞太秩序與兩岸政經的新平衡* (台北: 新銳文創, 2014), 168-175 Jien-Fa Yen, *Taiwan's Choice: New Balance of Asia-Pacific Order and Cross-Strait Political and Economic Relations*, (Taipei: Independent & Unique, 2014), 168-175.

⁶¹ Leslie Hook, “Taiwan's Detent Gamble: Ma Ying-jeou's Vision for Making Peace with China through Trade, Defense and Democracy”, *The Wall Street Journal*, December 15 2009, accessed February 4, 2015, <http://www.wsj.com/articles/SB10001424052748703514404574588863008012766>

⁶² Chi Su, interviewed by author, March 18, 2014.

⁶³ Ibid.; Chien-Min Chao, interviewed by author, April 4, 2014.

TPP within ten years, his promise sounds like rhetoric. As he promised to lead Taiwan to join in TPP in 10 years, this is even beyond his presidency”.⁶⁴ Professor Chao Chien-min also points out that the government has not conducted any explicit research to study the economic impact of the TPP on Taiwan yet, and thus it is difficult to imagine that “Taiwan can successfully participate in the TPP before 2017”.⁶⁵ Taiwan’s policymakers attribute the reasons for this to the government’s lack of confidence in convincing people of the benefits of liberalizing imports of sensitive agricultural products (e.g. US beef and pork).⁶⁶ Moreover, according to Mrs. Chou Tsao-shan, “since Taiwan’s entry to the WTO in 2002, there has been no external factor to stimulate Taiwan to progress with its policy of trade liberalization”.⁶⁷ Although bilateral FTAs are helpful in adjusting the policy of market openness, it has a limited efficiency for Taiwan due to the low coverage rate of total trade (see Table 6.2.1). Combined with significant opposition against importing sensitive agricultural products, the constraints of domestic politics delay Taiwan in meeting the standard of trade liberalization set by the TPP.

Furthermore, the effectiveness of Taiwan’s seesawing strategy is questionable. In order to seesaw between the US and China, Taiwan must have freedom to ensure that it stands on a strategic equilibrium between these powers. However, Taiwan has limited freedom to act in the international community owing to its problematic statehood. So far, Taiwan can barely sustain its membership in 26 IGOs, the implication of which is that, unlike ASEAN members, Taipei cannot use multilateralism as a strategic instrument to influence the US and China. In this case,

⁶⁴ Chi Su, interviewed by author, March 18, 2014.

⁶⁵ Chien-Min Chao, interviewed by author, April 4, 2014.

⁶⁶ Chi Su, interviewed by author, March 18, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

⁶⁷ Tsao-Shan Cho, interviewed by author, April 15, 2014.

the only feasible approach for Taiwan is to influence China and the US through a bilateral approach, but asymmetric power between Taiwan and its counterpart constrains the efficiency of Taiwan's seesawing strategy.

Additionally, following the rise of China and the decline of the US regional influence since the late 1990s, it is worth considering whether the US is willing to challenge Beijing's interests in Taiwan. According to Mr. Liang Kuo-hsin, while China was provoked by Taiwan's resolution to search for *de jure* independence between 2002 and 2008, the US hesitated in commencing negotiations with Taiwan over the Trade and Investment Framework Agreement (TIFA) despite the fact that Taiwan had become one of the US' top 10 trading partners.⁶⁸ Mr. Liang said that an US officer asked to him: "Francis, how would you [like to] handle this 800 pounds gorilla in the room? ".⁶⁹ He further added: "US officer then told me that if Taiwan would like to force them to choose between Taiwan and China, the result would not be good for us".⁷⁰ This case illustrates that even a superpower like the US needs to evaluate China's attitude carefully when managing issues related to Taiwan. As discussed above, on the one hand, Taiwan's core interest in joining the TPP is to decrease the degree of economic dependence. On the other hand, Taipei also aims to counter China's commercial diplomacy. These strategic goals certainly do not correspond with China's interests in Taiwan. Consequently, it increases the difficulty for the Taiwanese government to bandwagon with other regional great powers because it risks these powers' relationships with China.

Finally, the effectiveness of Taiwan's seesawing strategy is contingent upon the

⁶⁸ Kuo-Hsin Liang, interviewed by author, March 14, 2014.

⁶⁹ Ibid.

⁷⁰ Ibid.

development of both regional integration and Sino-US relations. Based upon Taiwan's political concerns discussed above, the TPP is an ideal integration framework that the government expects to be involved in. Nonetheless, whether the TPP will successfully be finalized or not remains dubious. The high standard of trade liberalization set by the TPP drives scholars to cast doubt on its feasibility⁷¹. Moreover, the impacts bred by the TPP have also generated controversy in the US, and both candidates for the presidential election in 2016, Donald Trump and Hillary Clinton, have openly opposed the US participation in TPP.⁷² This then raises a question of whether the US could successfully build up the TPP in the Asia-Pacific region.⁷³ Taiwan has no platform to wield seesawing strategy in this situation; neither can Taipei take initiative to promote the TPP. Therefore, despite the fact that Taiwan spared no effort in lobbying for its participation in the TPP, Taipei was still on a passive situation, which limited the effectiveness of its seesawing strategy.

The other regional integration framework in Taiwan's policy list is the RCEP in which China plays a central role. The RCEP members had a share of 57% of Taiwan's total trade whilst the members of TPP only had a share of 38% in 2013.⁷⁴ Economically, Taiwan should benefit more from by joining the RCEP than the TPP. However, the RCEP is not an ideal option for Taiwan. Politically, since China plays a central role in the RCEP, there is concern over whether Beijing will attempt to block

⁷¹ Huang, "TPP Versus ECFA", 91-93.

⁷² Dan Roberts and Ryan Felton, "Trump and Clinton's Free Trade Retreat: A Pivotal Moment for the World's Economic Future", *The Guardian*, August 20, 2016, accessed August 22, 2016, <https://www.theguardian.com/us-news/2016/aug/20/trump-clinton-free-trade-policies-tpp>.

⁷³ Mike DeBonis, "Obama's Trade Plan Gets Second Wind but still Faces Fight from Democrats", *The Washington Post*, on May 14, 2015, accessed May 14, 2015, http://www.washingtonpost.com/local/dc-politics/over-democratic-objections-obamas-trade-agenda-gets-moving-in-the-senate/2015/05/14/aad2a0a0-fa5b-11e4-a13c-193b1241d51a_story.html.

⁷⁴ 經濟部國際貿易局(2014), "加入 TPP/RCEP, 我們做得到!" The Bureau of Foreign Trade, MOEA, ROC (2014), "Joining the TPP/RCEP, We Can Do It!".

Taiwan's membership.⁷⁵ Furthermore, the question of whether Taiwan can participate in the RCEP or not entirely depends on Beijing's attitude. Again, Taiwan was in passive situation, and to be a member in the RCEP, Taipei must maintain close relationship with Beijing. In this case, Beijing is anticipated to possess more bargaining chips than Taiwan, and it also increases the efficiency of China's commercial diplomacy, which is certainly counter to Taiwan's strategic goals.

In sum, the effectiveness of Taiwan's seesawing strategy is questionable, especially when the negotiation process of the US-centric TPP has not achieved significant breakthroughs yet. As the RCEP seems to be the only relatively feasible regional integration framework for Taiwan, combined with the fact that there has been no new FTA negotiation between Taiwan and other countries since 2012, it is not surprising that several Taiwanese political elites conclude that the expansion of Taiwan's international space is "under Beijing's control"⁷⁶. Nevertheless, Taiwan still successfully obtained membership to some IGOs, and it has also signed several bilateral agreements with other states. The next part will examine whether Taiwan has consolidated its international legal sovereignty in more detail.

6.3.2 Removing the Obstacle: The China Factor and Taiwan's Sovereignty

The "China factor" has been an obstacle to Taiwan's international space, and this has also had a significant impact on Taiwan's interdependence sovereignty following the wave of regionalization in the Asia-Pacific.⁷⁷ Indeed, in the era of

⁷⁵ Chien-yuan, Tzeng, interviewed by author, October 21, 2013; Jiun-Wei Lu, interviewed by author, March 10, 2014.

⁷⁶ Jien-Fa Yen, interviewed by author, October 16, 2013; Jiun-Wei Lu, interviewed by author, March 10, 2014.

⁷⁷ Li, "The Nature of the Economic Cooperation Framework Agreement", 47-59.

globalization, the importance of interdependence sovereignty corresponds with the increasing difficulty for a state to manage trans-border activities (e.g. the flow of capital, international trade and so on) independently.⁷⁸ As such, sovereign states collaborate with each other to come up with collective responses to the common problems (or issues) they face so as to protect their interests, and the proliferation of IGOs, RTAs, and even regional institutions are evidence of this.⁷⁹ As Taiwan has been absent from most multilateral institutions and mechanisms owing to the lack of prevalent recognition of its international legal sovereignty, the government has taken the initiative to tackle the “China factor” by facilitating Cross-Strait economic integration.⁸⁰ However, the last part of this section demonstrates the limited effectiveness of Taiwan’s strategy to expand international space, and thus suggests that what Taiwan has gained in terms of international legal sovereignty and interdependence sovereignty should not be exaggerated.

Scholars point out that Taiwan’s strategy for reinforcing its international legal sovereignty by signing FTAs only achieved limited effect.⁸¹ Firstly, Taiwan does not have membership as a fully-fledged sovereign state in any IGO; it is only allowed to participate as an economy or political entity.⁸² Secondly, Taiwan’s functional sovereignty is the main reason that drives other sovereign states to support Taiwan’s involvement in IGOs and FTA negotiations.⁸³ Hence, the expansion of Taiwan’s international space can only strengthen its functional sovereignty rather than international legal sovereignty. Lastly and most importantly, this research also finds

⁷⁸ Krasner, *Sovereignty*, 13-15.

⁷⁹ Ibid.

⁸⁰ Lee and Wang, “ECFA Will Be Milestone in Cross-Strait Economic Exchanges: Ma”.

⁸¹ Winkler, “A Question of Sovereignty?”, 1-3.

⁸² Ibid.; Tok, *Managing China’s Sovereignty*, 146-48.

⁸³ Winkler, “A Question of Sovereignty?”, 1-3.

that the definition of the “one-China Principle” remains rigid in the international community, and thus the ECFA between Taiwan and China has resulted in the consolidation of China’s *de jure* sovereignty over Taiwan. To support these arguments, the following paragraphs of this section will examine what Taiwan has gained and lost at different levels.

At the bilateral level, it is doubtful whether signing FTAs with other countries can strengthen Taiwan’s international legal sovereignty. In fact, it is entirely up to how Taiwan and China prefer to interpret the connection between an FTA and international legal sovereignty. For the Taiwanese government, signing an FTA is the privilege of a sovereign state, and it is a crucial policy instrument to consolidate Taiwan’s international legal sovereignty. But none of the agreements between Taiwan and its trading partners are called “FTAs”. Senior policy makers of the Ma administration point to the case of Japan as a reference since most agreements between Japan and other countries are named “EPA” instead of “FTA”.⁸⁴ The key reason for this is that international economic cooperation is no longer restricted to the fields of market openness and tariff reductions; other issues such as “electronic-commerce” and “human resources development” are important, too.⁸⁵ Following this logic, what Taiwan cares about is the efficiency of an economic agreement rather than its title, as Mr. Liang Kuo-hsin says: “If it quacks like a duck and walks like a duck, it is a duck. Whatever you name these agreements, they are FTAs. And we have notified the WTO”.⁸⁶

⁸⁴ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

⁸⁵ Low, “Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Arrangements”, 81.

⁸⁶ Kuo-Hsin Liang, interviewed by author, March 14, 2014

However, given the recognition standard of an FTA set by the WTO, the connection between an FTA and international legal sovereignty is not clear. The WTO has recognized that all the economic agreements between Taiwan and its trading partners are FTAs except for the ECFA with China.⁸⁷ Contrary to the understanding that signing an FTA is the privilege of a sovereign state shared among Taiwanese elites, the WTO has recognized all of Hong Kong's economic agreements including the CEPA with China.⁸⁸ In this light, the question of whether signing an FTA is the privilege of a sovereign state depends entirely on how a state interprets this. Therefore, defining the signing FTAs with other countries as an action of acquiring international legal sovereignty is not a sufficient reason for Taiwan to become a fully-fledged sovereign state, especially after signing the ECFA with China.

As discussed in the previous chapter, China has institutionalized the “one-China Principle” by signing the ECFA with Taiwan although the definition of this principle remains ambiguous between both sides. Scholars point out that the ECFA is an ideal example for other countries to refer how to avoid sensitive political issues when negotiating an FTA with Taiwan.⁸⁹ Thus countries without formal diplomatic relations only signed FTAs with Taiwan after Beijing signing the ECFA with Taipei in 2010.⁹⁰ Indeed, China is cautious about the definition of Taiwan's political status. Since Beijing had not defined Taiwan's political status in terms of economic cooperation before signing the ECFA with Taiwan, it was difficult for both Singapore and New Zealand to adopt a definition that was in line with both China's and

⁸⁷ WTO, “List of All RTAs in Force”, 2015, accessed April 17, 2015, <http://rtais.wto.org/UI/PublicPreDefRepByRTAName.aspx>.

⁸⁸ Ibid.

⁸⁹ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 97-99.

⁹⁰ Ibid.

Taiwan's interests⁹¹.

Concluding economic negotiation over Cross-Strait economic integration therefore became the precondition for Taiwan to sign FTAs with countries without diplomatic relations. In this case, the title of Cross-Strait economic agreement matters because it defines Taiwan's international legal sovereignty directly. As a result, at the negotiating table with China, Taiwan rejected any title containing the word "arrangement" whilst China was opposed to calling any bilateral agreement with Taiwan as an FTA, and thus both sides decided to adopt the term "framework agreement", which is more neutral than "FTA" but better than "arrangement".⁹² Yet this does not affect the effectiveness of the ECFA in terms of defining Taiwan's international legal sovereignty within the "One-China Principle". As mentioned in chapter 1, according to the "GATT: Article XXIV 5", a "framework agreement" is similar to the "interim agreement leading to the formation of a custom union or a free trade area".⁹³ Therefore, by signing the ECFA, China actually defines Taiwan's political status as an economy rather than a sovereign state, which corresponds with Taiwan's membership in the WTO. After signing the ECFA with China, both Singapore and New Zealand respected China's political arrangement with Taiwan, and thus they adopted the term "TPKM" to refer to Taiwan's political status in the FTAs. Besides, none of these agreements are entitled "FTAs"; they are "economic partnership" instead. Consequently, the "One-China Principle" is still an obstacle to Taiwan's international legal sovereignty.

⁹¹ Karackattu, "Post-ECFA Outlook for Relationship across the Taiwan Strait", 133-35.

⁹² Hsieh, "The China-Taiwan ECFA", 138-141; Karackattu, "Post-ECFA Outlook for Relationship across the Taiwan Strait", 136-138.

⁹³ GATT, "GATT: Article XXIV"; Hsieh, "The China-Taiwan ECFA", 140; Karackattu, "Post-ECFA Outlook for Relationship across the Taiwan Strait", 136-38.

At the regional level, the impact of the “One-China Principle” on Taiwan’s international space is more prominent. Although scholars point out that Beijing plans to use the ECFA as reference for Taiwan’s participation in East Asian economic integration,⁹⁴ both sides have to work harder to find a feasible name for Taiwan’s membership in regional multilateral mechanisms. Indeed, Taipei has not commenced a negotiation over its involvement in any regional economic integration framework yet because both sides have not reached consensus about Taiwan’s political status in regional institutions. Taipei has sent delegates to China to consult Beijing’s attitude every year since 2008; however, the response made from Chinese President Xi Jinping is:

“Strengthen cross-strait communication and coordination, explore possible ways in which [Taiwan] could participate [in regional integration] and make arrangements in the hope of affording Taiwan economic development new vigor and dynamics.”⁹⁵

President Xi’s response implies that Taiwan’s participation in East Asian economic integration is contingent upon the development of Cross-Strait relations and a consensus about Taiwan’s regional status on both sides. Following this logic, the issue of Taiwan’s regional participation is negotiable, but Taiwan still finds it difficult to leave from the One-China framework as most Taiwanese elites observe.⁹⁶ Additionally, the failure of Taiwan’s application to be to a “founding member” of the

⁹⁴ Huang, “TPP Versus ECFA”, 101-2; Hsieh, “The China-Taiwan ECFA”, 140-42.

⁹⁵ Editorial, “Cross-Strait Dialogue Should Focus on Taiwan’s TPP, RCEP Bids”, *Want China Times* on January 12, 2014, accessed on April 17, 2015, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20140112000043&cid=1701>.

⁹⁶ Chien-Yuan, Tzeng, interviewed by author, October 21, 2013; Jiun-Wei Lu, interviewed by author, March 10, 2014; Chieh-Cheng Huang, interviewed by author, April 10, 2014.

Asia Infrastructure Investment Bank in 2015 shows that China cannot allow Taiwan to attend any regional institutions until both sides can reach consensus on the “appropriate name” of Taiwan’s membership.⁹⁷

The “one-China Principle” is flexible at the bilateral level and negotiable at the regional level; however, it is impeccable at the global level. Scholars indicate that Taiwan’s membership in the WHA cannot improve its international status. Contrary to Taiwan’s expectations, the narrow definition of the “one-China Principle” in these IGOs has not only led to Taiwan being seen as affiliated with the PRC, but has also resulted in the loss of its interdependence sovereignty and even “functional sovereignty”.⁹⁸ For example, Taiwan participates in the WTO as a “separate custom territory” by the name of “TPKM”, and is also known as “Chinese Taipei” in official WTO documents.⁹⁹ Even though Taiwan became a member of the WTO in 2002, Taiwan was still not allowed to take part in the Government Procurement Agreement (GPA) until the outset of negotiations over cross-strait economic integration with China in 2009.¹⁰⁰ Furthermore, under China’s pressure, the WTO published the “GPA/87” which clearly states: “With respect to the nomenclature and other terminology used in a decision of accession of the Agreement [GPA] ... none of the nomenclature and other terminology used have implications for sovereignty”.¹⁰¹

⁹⁷ Jenny W. Hsu, “China Thwarts Taiwan’s Bid to Be Founding Member of AIIB”, *The Wall Street Journal*, April 13, 2015, accessed April 17, 2015, <http://www.wsj.com/articles/china-thwarts-taiwans-bid-to-be-founding-member-of-aiib-1428899140>.

⁹⁸ Winkler, “A Question of Sovereignty?”, 5-9; Tok, *Managing China’s Sovereignty*, 141-148.

⁹⁹ WTO, “Report of the Working Party on the Accession of the Separate Customs Territory Taiwan, Penghu, Kinmen and Matsu”, 2001, accessed April 17, 2015, <http://docsonline.wto.org/imrd/directdoc.asp?DDFDocuments/t/WT/ACC/TPKM18A2.doc>.

¹⁰⁰ Winkler, “A Question of Sovereignty?”, 7-9.

¹⁰¹ Ibid., see also WTO, “GPA/87: Modalities of Accession to the Agreement on Government Procurement”, 2006, accessed April 17, 2015, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?MetaCollection=WTO&SymbolList=&Serial=&IssuingDateFrom=&IssuingDateTo=&CATTITLE=Modalities+of+Accession+to+the+Agreement+on+Government+Procurement&ConcernedCountryList=&OtherCountryList=&SubjectList=&TypeList=&FullTextHash=371857150&ProductList=&BodyList=&OrganizationList=&ArticleList=

As to the case of Taiwan's membership in the WHO, an institution affiliated to the UN, the "One-China Principle" has no ambiguity that would allow Taiwan to interpret it in different ways. Former Deputy Minister of Mainland Affairs Council (ROC), Professor Huang Chieh-cheng, he denies Taiwan's membership in the WHO as an observer by saying: "There is no membership entitled 'observer' in the WHO. Taiwan can only attend the WHO assembly [WHA] with an invitation letter from the PRC on a year by year basis"¹⁰². In other words, Taiwan's attendance to the WHA is contingent upon the development of Cross-Strait relations, which further constrains Taiwan's options. Moreover, the "Memorandum of Understanding (MOU) between China and the WHO Secretariat" indicates that the WHO can only contact the Taiwan's authorities with the consent of the PRC.¹⁰³ In this regard, Taiwan's political status is apparently affiliated to the PRC. Furthermore, Taiwan's "functional sovereignty" and interdependence sovereignty have also been compromised owing to China's sovereign claim over Taiwan in the international community.¹⁰⁴ By this reasoning, Taiwan's international legal sovereignty is constrained by the "One-China Principle", and it is therefore doubtful that Taiwan can strengthen *de jure* sovereignty by enlarging its international space at the global level.

In summary, it is doubtful that Taiwan can strengthen international legal sovereignty through the enlargement of its international space after improving cross-Strait relations. At the global level, the narrowly-defined "one-China principle"

[&Contents=&CollectionList=&RestrictionTypeName=&PostingDateFrom=&PostingDateTo=&DerestrictionDateFrom=&DerestrictionDateTo=&ReferenceList=&Language=ENGLISH&SearchPage=FE_S_S001&ActiveTabIndex=0&languageUIChanged=true#](#)

¹⁰² Chieh-Cheng Huang, interviewed by author, April 10, 2014.

¹⁰³ Winkler, "A Question of Sovereignty?", 11.

¹⁰⁴ Ibid.

is widely adopted, and the ambiguous “one-China Principle” institutionalized by the ECFA is not applicable. Furthermore, the problematic statehood in IGOs has also constrained both Taiwan’s interdependence sovereignty and functional sovereignty because China fully controls the rights of Taiwan’s membership. At the bilateral and regional level, as the ECFA serves as a reference for other countries to commence economic negotiations with Taiwan,¹⁰⁵ the self-interpreted “one-China Principle” is not a sufficient factor to ensure Taiwan’s sovereign status as it wishes in the international community. Consequently, in terms of sovereignty, Taiwan has received interdependence and functional sovereignty due to its signing of FTAs with Singapore and New Zealand. Yet, on the one hand, this is limited since Beijing’s acquiescence is necessary for other countries to sign FTAs with Taiwan. On the other hand, there is no new FTA between Taiwan and other countries following the stalled progress of cross-Strait economic integration. As such, it is also doubtful whether Taiwan can decrease the degree of economic dependence on the Chinese market via bilateral and regional FTAs. However, the impact of cross-Strait economic integration is not only on Taiwan’s international legal sovereignty and interdependence sovereignty; scholars argue that it also allows China to intervene in Taiwan’s domestic sovereignty.¹⁰⁶ Thus the next section will study the economic and political aspects of this issue.

6.4 Evaluating Taiwan’s New Mainland Policy

After discussing Taiwan’s strategic concern over the ECFA at the regional and global levels, this section evaluates the ECFA’s impacts on Taiwan’s economic

¹⁰⁵ Wang et. al., “Taiwan’s Expansion of International Space”, 255.

¹⁰⁶ Magcamit and Tan, “Crouching Tiger, Lurking Dragon”, 102-5.

performance and its *de facto* sovereignty at the bilateral level across the Taiwan Strait. From an economic perspective, the ECFA did not significantly benefit Taiwan's economic performance between 2010 and 2014, as the government had anticipated. Moreover, given the huge outflow of Taiwanese capital towards China, some analysts even worried that the ECFA would generate the "hollowing-out" effects.¹⁰⁷ This section argues the "hollowing-out" effects in Taiwan are not yet apparent. However, Taiwan's economic performance relies on its export performance. As most of Taiwan's major export commodities, especially ICT products, were mainly produced in China,¹⁰⁸ Taiwan has depended heavily on the low-cost factors of production in the Chinese market. Finally, this section contends that as the 1992 consensus became institutionalized following the signing of the ECFA in 2010, China infringed on Taiwan's functional and *de facto* sovereignty in the post-ECFA era.

6.4.1 ECFA and Taiwan's Economic Performance

The question of whether Cross-Strait economic integration is beneficial or harmful to Taiwan's economic development has generated fierce debate among scholars.¹⁰⁹ However, the impact of the ECFA on Taiwan's economic performance are not clear because the progress of Cross-Strait economic integration is stagnant. So far, the sub-agreements of the ECFA, such as Cross-Strait Agreement on Trade in Services and Cross-Strait Agreement on Trade in Goods, are all pending in effect due to the burst of the Sunflower Movement in Taiwan in 2014 (see Appendix I). Thus

¹⁰⁷ Meltzer, "Taiwan's Economic Opportunities and Challenges", 5.

¹⁰⁸ Department of Statistics, MOEA, ROC, "Economic Indicators EBook".

¹⁰⁹ Rong-I Wu, "ECFA and Taiwan-China Trade Relations" in *Deconstructing ECFA: Challenges and Opportunities for Taiwan*, ed. Chih-cheng Lo and Tien-wang Tsaur (Taipei: Taiwan Brain Trust, 2010), 101-119; Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 40-56.

most evaluations of the ECFA's impact on Taiwan's economy are based upon anticipations, which are not convincing but questionable. To make objective analyses, this section will examine whether the Taiwanese government have achieved their goals by signing the ECFA with China. However, it is essential to mention that although the ECFA did not meet the Taiwan's expectations in boosting its economic performance, the question of whether Taiwan's economic performance would be worse without the ECFA is worthy of consideration. In fact, as will be discussed below, Taiwan's economic performance was affected by the financial crisis in 2008. Meanwhile, due to the weak growth of China's exports, Taiwan had also suffered impact on its trade performance.¹¹⁰

Generally speaking, the Taiwanese government asserts that the ECFA's benefits to Taiwan's economic performance include lowering Taiwan's unemployment rate to 3% by offering 60,000 jobs, increasing the market share of Taiwan's products in the Chinese market vis-à-vis South Korea, raising Taiwan's real GDP growth rate by 2.83%, boosting Taiwan's exports to the Mainland, and attracting FDI to Taiwan by US\$8.9 billion.¹¹¹ However, the "Economic Indicators EBook" published by the MOEA (ROC) paints a less rosy picture.¹¹² First of all, with respect to lowering Taiwan's unemployment rate, although the rate had decreased from 5.21% in 2010 to 4.39% in 2011, the contribution made by the ECFA did not correspond with the government's expectations (see Figure 6.4.1). Even four years after the signing of the ECFA, the unemployment rate in Taiwan was 4.03%, which was still 1% higher than

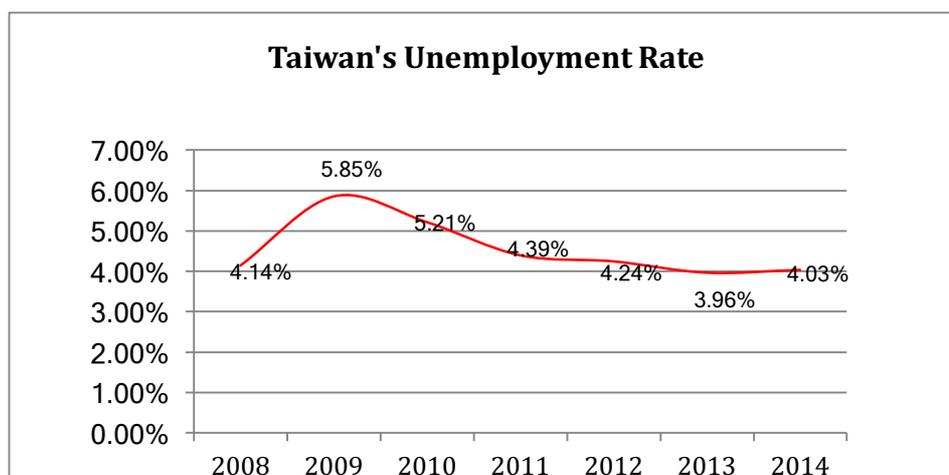
¹¹⁰ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 43-44.

¹¹¹ MOEA, ROC, "Taiwan, Mainland China, and Global Trading Partners", 2010, accessed April 17, 2015, <http://www.ecfa.org.tw/Download.aspx?No=10&strT=ECFADoc>; Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 44-52; Hsieh, "The China-Taiwan ECFA", 133-37.

¹¹² Department of Statistics, MOEA, ROC, "Economic Indicators EBook".

the government anticipated.

Figure 6.4.1 Taiwan's Unemployment Rate between 2008 and 2014



Source: Compiled by the author based on the “Economic Indicators EBook” published by the MOEA (ROC) in 2015¹¹³

Furthermore, concerns about a possible substitution effect caused by the FTA between China and South Korea was another reason that motivated the government to sign the ECFA with China.¹¹⁴ As discussed above, Taiwan’s manufacturing industries have faced fierce competition from South Korean enterprises, especially the ICT industry. Scholars also argue that the implementation of China-South Korea FTA, China-ASEAN FTA, and the upcoming trilateral FTA between China, Japan and South Korea, will result in the loss of competitive advantages for Taiwan’s manufacturing in BDCCs.¹¹⁵ All Taiwanese policy makers from the MOEA (ROC) recognize this point, but they indicate that the ICT industries did not benefit from the ECFA as they have been enjoying tariff exemption owing to the ITA in the WTO.¹¹⁶ Instead, chemical material manufacturing and auto parts and components manufacturing were the industries that received significant benefits among all

¹¹³ Ibid.

¹¹⁴ Karackattu, “Post-ECFA Outlook for Relationship across the Taiwan Strait”, 119-21.

¹¹⁵ Dent, “Taiwan and the New East Asian Regionalism”, 119-24; Tung and Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement”, 46-50.

¹¹⁶ Chun-Fang Hsu, interviewed by author, March 10, 2014; Kuo-Hsin Liang, interviewed by author, March 14, 2014; Tsao-Shan Cho, interviewed by author, April 15, 2014.

manufacturing industries owing to the implementation of the Early Harvest List (EHL) of the ECFA.¹¹⁷

Mrs. Hsu Chun-fang further says: "We expect to stabilize Taiwan's industrial development and investment in the Mainland through the ECFA, which also contributes to the market share of Taiwan's industries in the mainland".¹¹⁸ Nevertheless, contrary to Taiwan's goal, the market share of Taiwan's products in China decreased after the signing of the ECFA (see Table 6.4.1).¹¹⁹ According to Table 6.4.1, the market share of Taiwan's industry had been dropped from 8.3% in 2010 to 7.2% after one year of signing the ECFA with China in 2010. In 2014, the statistics regarding Taiwan's market share in the Mainland was 7.8%, which was still lower than the 8.5% in 2009, the year before the implementation of the ECFA. In this light, the ECFA did not help Taiwan to raise its market share in China, and Taiwan even rivaled with the US to secure a seat amongst the top three economies with respect to the market share in China since 2014.

Table 6.4.1 The Rank of Market Share in China

Year	2009	2010	2011	2012	2013	2014
Country						
South Korea	10.2%	9.9%	9.3%	9.2%	9.4%	9.7%
Japan	13.0%	12.6%	11.2%	9.8%	8.3%	8.3%
Taiwan	8.5%	8.3%	7.2%	7.3%	8.0%	7.8%
The US	7.7%	7.3%	6.8%	7.0%	7.5%	7.8%
Germany	5.6%	5.3%	5.3%	5.1%	4.8%	5.3%

Source: Compiled by the author according to the "Economic Indicators EBook" published by the MOEA (ROC) in 2015¹²⁰

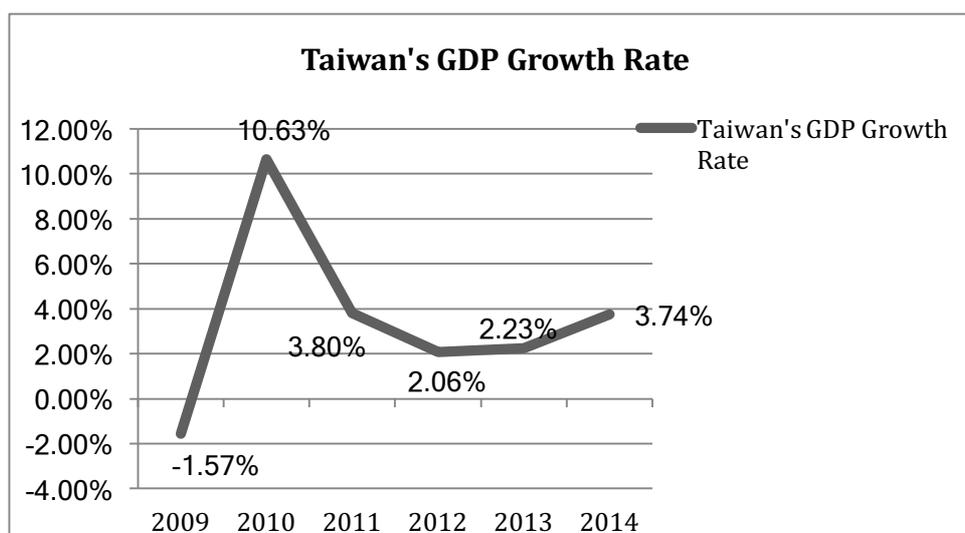
¹¹⁷ Chun-Fang Hsu, interviewed by author, March 10, 2014.

¹¹⁸ Ibid.

¹¹⁹ Department of Statistics, MOEA, ROC, "Economic Indicators EBook".

¹²⁰ Ibid.

Figure 6.4.2 Taiwan's GDP Growth Rate (%)



Source: Compiled by the author according to the “Economic Indicators EBook” published by the MOEA (ROC) in 2015¹²¹

Taiwan's GDP growth rate may be the only evidence that can show the efficiency of the ECFA in boosting Taiwan's economic growth. However, the contribution of the ECFA was only significant between 2010 and 2011, when Taiwan's GDP growth rate reached 10.63% and 3.80% respectively (see Figure 6.4.2); it was not clear between 2011 and 2013, since Taiwan's GDP growth rate was about 2%. Moreover, by looking at Taiwan's GDP per capita at current prices, it becomes clear that the ECFA was not unambiguously beneficial to Taiwan's GDP growth. According to the “World Economic Outlook Database” compiled by the IMF in 2015, although Taiwan's GDP grew by double-digits, Taiwan's current GDP per capita was US\$19,261 in 2010, which just came back to the standard before the world financial crisis in 2008.¹²² Furthermore, Taiwan's GDP was US\$20,911 in 2011, US\$21,269 in 2012, and US\$21,874 in 2013; it is clear that Taiwan's economic

¹²¹ Ibid.

¹²² IMF, “World Economic Outlook Database”.

growth slowed down since 2012.¹²³ Some scholars explain this by pointing to the decline in Taiwan's exports to the Chinese market, especially because the annual growth rate Taiwan's total exports to China became negative in 2012 (-4.3%).¹²⁴ As such, it is unclear to what extent the ECFA contributed to Taiwan's economic performance.

Finally, the assertion that the ECFA can enhance Taiwan's competitive advantages to attract FDI is problematic. Taiwanese policy makers believe that the ECFA has motivated several foreign enterprises to direct their capitals to Taiwan, especially Japanese enterprises¹²⁵. For example, Mr. Liang Kuo-hsin says:

*“Canon, a famous manufacturer of digital cameras, invested in Taichung City and Chiayi County to build two new factories right after the signing of the ECFA in 2010. They found that their products could enjoy duty free by exporting from Taiwan. Besides, it has also created 5,000 to 6,000 employment opportunities”.*¹²⁶

Notwithstanding several large investments from Japan, based upon the statistics of Taiwan's inward and outward investment (see Table 6.4.2), Taiwan only attracted FDI by US\$5 billion on average between 2010 and 2014; obviously, it was far less than the government's prediction of US\$8.9 billion.¹²⁷ Most significantly, the balance of Taiwan's inbound and outbound investment was negative between 2007 and 2014. As shown in Table 6.4.2, the capital deficit doubled following the

¹²³ Ibid.

¹²⁴ Department of Statistics, MOEA, ROC, “Economic Indicators EBook”; Tung and Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement”, 44-46.

¹²⁵ Kuo-Hsin Liang, interviewed by author, March 14, 2014.

¹²⁶ Ibid.

¹²⁷ Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

implementation of the ECFA, which peaked at US\$15 billion in 2012.¹²⁸ Besides, the net outflow of Taiwan’s investment reached US\$20.8 billion that year. Therefore, the efficiency of the ECFA to attract FDI to Taiwan is dubious, and the government seems to exaggerate ECFA’s contribution to Taiwan’s economic performance.

Table 6.4.2 The Balance of Taiwan’s Inbound and Outbound Investment between 2008 and 2014

The balance of Taiwan’s Inward and Outward Investment between 2008 and 2014 (Unit: US\$1,000)							
Year	Investment from China	Inward Investment (without China)	Subtotal of Inward investment	Investment in China	Outward Investment (without China)	Subtotal of Outward Investment	Balance of Inward Minus Outward
2006	0	13,969,247	13,969,247	7,642,335	4,315,426	11,957,761	2,011,486
2007	0	15,361,173	15,361,173	9,970,545	6,469,978	16,440,523	-1,079,350
2008	0	8,237,114	8,237,114	10,691,390	4,466,491	15,157,881	-6,920,767
2009	37,486	4,797,891	4,835,737	7,142,593	3,005,554	10,148,147	-5,312,410
2010	94,345	3,811,565	3,905,910	14,617,872	2,823,451	17,441,323	-13,535,413
2011	51,625	4,955,435	5,007,060	14,376,624	3,696,827	18,073,451	-13,066,391
2012	331,583	5,558,981	5,890,564	12,792,077	8,098,641	20,890,718	-15,000,154
2013	349,479	4,933,451	5,282,930	9,190,090	5,232,266	14,422,356	-9,139,426
2014	334,631	5,770,017	6,104,648	10,276,570	7,293,683	17,570,253	-11,465,605

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) “Monthly Report (December 2015)”¹²⁹

6.4.2 ECFA: The “Hollowing-out” Effect and Asymmetric Economic

Interdependence

The ECFA’s contribution to Taiwan’s economic performance does not correspond with the Taiwanese government’s expectations. Moreover, owing to the considerable capital deficit in Taiwan, scholars are also worried about the

¹²⁸ Ibid.

¹²⁹ Ibid.

“hollowing-out” effect caused by the ECFA.¹³⁰ As discussed in the previous section, while 97% of Taiwanese enterprises are SMEs, the huge capital outflow towards the Chinese market reflects the phenomenon of Taiwan’s industrial offshoring, and it also means that Taiwanese SMEs may have moved both their operation headquarters and factories to China.¹³¹ However, not all Taiwanese political elites agree with the “hollowing-out” effects. For example, Doctor Tzeng Chien-yuan points out that China’s and Taiwan’s manufacturing industries supplement to each other owing to different manufacturing advantages they have; he says:

*“China can offer cheap land and labor to Taiwanese businessmen while we can offer capital and know-how. Therefore, Taiwan’s investment in China is not based upon political strategies but economic logic ... China-Taiwan economic integration should not be defined by this political terminology [the “hollowing-out” effect] without evidence”.*¹³²

Thus, this research will examine whether the ECFA has generated the “hollowing-out” effect in Taiwan by carefully reviewing several indicators including the structure of Taiwan’s investment in China and its exports.

The argument that Taiwan’s economy has been “hollowed out” by China in the post-ECFA era is not convincing when compared with the evidence on Taiwanese investment in the Mainland and the structure of Taiwan’s industries. As shown in Table 6.4.3, Manufacturing had a share of more than 80% of Taiwan’s total

¹³⁰ Wu and Hong, “Economic Integration in East Asia— Taiwan Perspective”, 39-48.

¹³¹ Tsai-Lung Hong, interviewed by author, March 20, 2014; Jiun-Wei Lu, interviewed by author, March 10, 2014.

¹³² Chien-yuan Tzeng, interviewed by author, October 21, 2013.

investment in China between 2005 and 2009. Although the ECFA has allowed services industries, such as financial services enterprises, to invest in the Chinese market, investment from Taiwanese manufacturing industries still made up about 60% of Taiwan's total investment in China between 2010 and 2014.¹³³ Scholars attribute this phenomenon to the thriving development of Taiwan's OEM industries, and the fierce price competition between OEMs drove Taiwan's manufacturing industries to make use of China's cheap factors of production to enhance competitive advantages.¹³⁴ Consequently, the "business model" of Taiwan's OEMs is "receiving orders in Taiwan, manufacturing in Mainland China, transiting in Hong Kong, and selling overseas"¹³⁵. In this regard, Taiwan's manufacturers depend heavily on China's low-cost factors of production. However, according to the "Economic Indicators EBook", manufacturing is not Taiwan's key industry as it only accounted 29.8% of Taiwan's GDP in 2014.¹³⁶ By contrast, the major industry in Taiwan is services, which had a share of 64.05% of Taiwan's GDP in 2014.¹³⁷ Most of Taiwan's and China's service industries are still forbidden from investing across the Taiwan Strait owing to the pending Cross-Strait Agreement on Trade in Services. Therefore, despite Taiwanese manufacturing industries' considerable degree of economic dependence on the Chinese market, it is inappropriate to argue that Cross-Strait economic integration has resulted in the "hollowing-out" effect.

¹³³ Ibid.

¹³⁴ 高長, "兩岸經濟關係現況與趨勢", 97-98, Gao, "The Trend and Development of Cross-Strait Economic Relations", 97-98.

¹³⁵ Huang, "TPP Versus ECFA", 97.

¹³⁶ Department of Statistics, MOEA, ROC, "Economic Indicators EBook".

¹³⁷ Ibid.

Table 6.4.3 Statistics on Approved Mainland Investment by Industry (Unit: US\$1,000)

Year	Total	Manufacturing										
	Amount	Sub-total		1st			2nd			3rd		
		Amount	Share	Amount	Share		Amount	Share		Amount	Share	
					Total	Sub-total		Total	Sub-total		Total	Sub-total
2005	6,006,953	5,281,921	87.93%	Computers, Electronic and Optical Products Manufacturing			Electronic Parts and Components Manufacturing			Electrical Equipment Manufacturing		
				1,243,497	20.70%	23.54%	850,106	14.15%	16.09%	560,706	9.33%	10.62%
2006	7,642,335	6,649,291	87.01%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Electrical Equipment Manufacturing		
				1,618,566	21.18%	24.34%	1,472,132	19.26%	22.14%	664,726	8.70%	10.00%
2007	9,970,545	8,765,998	87.92%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Electrical Equipment Manufacturing		
				2,426,286	24.33%	27.68%	1,688,385	16.93%	19.26%	1,047,009	10.50%	11.94%
2008	10,691,390	8,761,185	81.95%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Electrical Equipment Manufacturing		
				2,051,917	19.19%	23.42%	1,783,302	16.68%	20.35%	1,065,871	9.97%	12.17%
2009	7,142,593	5,892,078	82.49%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Electrical Equipment Manufacturing		
				1,801,294	25.22%	30.57%	1,019,404	14.27%	17.30%	462,680	6.48%	7.85%

Table 6.4.3 Statistics on Approved Mainland Investment by Industry (Unit: US\$1,000) (Continue)

Year	Total	Manufacturing										
	Amount	Sub-total		1st			2nd			3rd		
		Amount	Share	Amount	Share		Amount	Share		Amount	Share	
					Total	Sub-total		Total	Sub-total		Total	Sub-total
2010	14,617,872	10,840,822	74.16%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Non-metallic Mineral Products Manufacturing		
				4,854,424	33.21%	44.78%	1,235,374	8.45%	11.40%	791,772	5.42%	7.30%
2011	14,376,624	10,375,391	72.17%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Chemical Material Manufacturing		
				3,467,195	24.12%	33.42%	1,550,552	10.79%	14.94%	832,680	5.79%	8.03%
2012	12,792,077	7,518,803	58.78%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Chemical Material Manufacturing		
				1,948,057	15.23%	25.91%	1,522,422	11.90%	20.25%	1,171,111	9.15%	15.58%
2013	9,190,090	5,120,523	55.72%	Computers, Electronic and Optical Products Manufacturing			Electronic Parts and Components Manufacturing			Electrical Equipment Manufacturing		
				1,174,675	12.78%	22.94%	1,026,728	11.17%	20.05%	460,145	5.01%	8.99%
2014	10,276,570	6,579,158	64.02%	Electronic Parts and Components Manufacturing			Computers, Electronic and Optical Products Manufacturing			Non-metallic Mineral Products Manufacturing		
				1,613,022	15.70%	24.52%	1,330,215	12.94%	20.22%	683,346	6.65%	10.39%

Table 6.4.3 Statistics on Approved Mainland Investment by Industry (Unit: US\$1,000) (Continue)

Year	Total	Services Industries					
	Amount	1st		2nd		3rd	
		Amount	Share	Amount	Share	Amount	Share
2006	7,642,335	Wholesale and Retail Trade		Professional, Scientific and Technical Services		Transportation and Storage	
		312,778	4.09%	123,672	1.62%	104,781	1.37%
2007	9,970,545	Wholesale and Retail Trade		Information and Communication		Financial and Insurance	
		411,902	4.13%	151,269	1.52%	117,948	1.18%
2008	10,691,390	Wholesale and Retail Trade		Information and Communication		Other Industries	
		499,106	4.67%	324,465	3.03%	261,941	2.45%
2009	7,142,593	Wholesale and Retail Trade		Information and Communication		Accommodation and Food Services	
		743,150	10.40%	106,845	1.50%	80,292	1.12%
2010	14,617,872	Real Estate		Wholesale and Retail Trade		Financial and Insurance	
		1,128,284	7.72%	1,115,494	7.63%	500,376	3.42%
2011	14,376,624	Financial and Insurance		Wholesale and Retail Trade		Real Estate	
		1,255,828	8.74%	1,232,720	8.57%	413,598	2.88%
2012	12,792,077	Financial and Insurance		Real Estate		Wholesale and Retail Trade	
		1,725,721	13.49%	1,337,996	10.46%	1,271,788	9.94%
2013	9,190,090	Financial and Insurance		Wholesale and Retail Trade		Real Estate	
		1,900,966	20.68%	1,035,940	11.27%	289,317	3.15%
2014	10,276,570	Financial and Insurance		Wholesale and Retail Trade		Real Estate	
		1,658,954	16.14%	1,095,575	10.66%	325,297	3.17%

Source: Compiled from Investment Commission of the Ministry of Economic Affairs, R.O.C. (2016) "Monthly Report (December 2015)"¹³⁸

¹³⁸ Investment Commission, MOEA, ROC, "Monthly Report (December 2015)".

Table 6.4.4 Top 10 Taiwanese Export Commodities

	2011	2012	2013	2014	Structure of Export
Electronic Products	839	834	881	1000	33.0%
Basic Metals and Articles Thereof	302	281	276	289	9.3%
Plastics and Articles Thereof; Rubber and Articles Thereof	252	242	248	241	7.5%
Machineries	205	201	198	209	6.9%
Chemicals	225	208	213	217	6.7%
Optical, Photographic, Measuring, Medical Instruments, etc.	223	218	210	191	6.2%
Mineral Products	179	221	237	205	4.4%
Vehicles, Aircraft, Vessels and Associated Transport	103	111	110	117	4.1%
Information and Communication Products	198	155	147	130	4.0%
Textile Products	127	118	117	116	3.8%
Unit: US\$ 100Million					

Source: Compiled by the author according to the “Economic Indicators EBook”

published by the MOEA (ROC) in 2015¹³⁹

In spite of the fact that the “hollowing-out” effect does not correspond with the evidence on the structure of Taiwan’s investment in China, the structure of Taiwan’s exports tells a different story. Taiwan is an economy adopting an export-oriented development strategy and it is currently the 19th largest exporter in the world.¹⁴⁰ As shown in Table 6.4.4, the major commodities of Taiwan’s export were electronic and ICT products (including “electronic products, machineries, information and communication products, and Optical, Photographic, Measuring, Medical Instruments, etc.”), which shared 50.1% of Taiwan’s total exports in 2014.¹⁴¹ Notably most of these commodities were produced in China. By referring to the Table 6.4.3, it is clear that manufacturers of Taiwan’s major export products were also amongst the top three investors in Taiwan’s manufacturing industries on the mainland, which were “Computers, Electronic and Optical Products Manufacturing”, “Electronic Parts and Components Manufacturing”, and “Electrical Equipment

¹³⁹ Department of Statistics, MOEA, ROC, “Economic Indicators EBook”.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

Manufacturing” respectively.¹⁴² By this reasoning, Taiwan’s economic performance relies on its export performance, which depends heavily on China’s low-cost factors of production. As the ECFA has sped up Taiwan’s manufacturing offshoring between 2010 and 2011, several scholars therefore argue that China has actually hollowed out Taiwan’s economic base.¹⁴³

Table 6.4.5 Annual Growth Rate of Taiwan’s Export to Major Trading Partners

Economies \ Year	2010	2011	2012	2013	2014
The US	33.6%	15.6%	-9.3%	-1.2%	7.1%
China	41.8%	9.1%	-3.9%	1.3%	0.4%
Japan	24.2%	1.2%	4.2%	1.2%	3.5%
NAFTA	33.8%	15.9%	-7.8%	-1.4%	6.9%
EU	30.1%	6.2%	-7.8%	-3.5%	3.5%
ASEAN 6 (Vietnam, The Philippines, Thailand, Malaysia, Indonesia, and Singapore)	37.2%	22.7%	9.8%	3.9%	1.2%

Source: Compiled by the author according to the “Economic Indicators EBook” published by the MOEA (ROC) in 2015¹⁴⁴

However, the “hollowing-out” thesis is not supported by the statistics on Taiwan’s exports to the Chinese market and its investment in China. First of all, according to Table 6.2.2, although Taiwan’s investment in China shared a large portion of its total outward investment, both the amount and the share decreased between 2012 and 2014. The reason for this is that the cost of Chinese labor has increased gradually since 2005, and thus Taiwanese OEMs have redirected their

¹⁴² Investment Commission, MOEA, ROC, “Monthly Report (December 2015)”.

¹⁴³ Jiun-Wei Lu, interviewed by author, March 10, 2014; Tsai-Lung Hong, interviewed by author, March 20, 2014

¹⁴⁴ Department of Statistics, MOEA, ROC, “Economic Indicators EBook”.

investments from China to Vietnam or Malaysia (see Table 6.2.3).¹⁴⁵ This combined with the recession in Chinese export growth from 2012 onwards (see Table 6.2.4), affected the annual growth rate of Taiwan's export to China, which was -3.9% in 2012 (see Table 6.4.5). In this light, it is dubious whether China has hollowed out Taiwan's economic base.

In the context of the above arguments, the definition of the “hollowing-out” effect is ambivalent; and thus it is not possible to argue that the ECFA has caused the “hollowing-out” effect before its full implementation. Nevertheless, the asymmetric economic interdependence between Taiwan and China has made Taiwanese people worry about the emergence of the “hollowing-out” effect, which motivated them to oppose further economic integration with China, the best evidence of which is the Sunflower Movement in 2014 was most evident.¹⁴⁶ Scholars attribute this phenomenon to the government's propaganda surrounding the ECFA's efficiency.¹⁴⁷ Based upon the above economic analyses, the ECFA has a limited contribution to Taiwan's economic performance. Additionally, owing to the acceleration of Taiwan's industrial offshoring to China after signing the ECFA, several scholars argue that Cross-Strait economic integration has allowed China to hollow out Taiwan's economic base as Taiwan's export performance and manufacturing output depends heavily on China.¹⁴⁸ Therefore, the ECFA is not beneficial for Taiwan's economic development. By contrast, it can only increase the degree of asymmetric economic

¹⁴⁵ Huang, “TPP Versus ECFA”, 96-97.

¹⁴⁶ 譚偉恩, “貿易自由化與國家安全: 以<<海峽兩岸服務貿易協議>>為例”, *安全研究*, 29 卷第 5 期 (2014): 21-42; Wei-En Tan, “Trade Liberalization and national Security: The Case of CSSTA”, *National Defense Journal* 29, no. 5 (2014): 21-42.

¹⁴⁷ Tung and Yeh, “Development of a Cross-Strait Economic Cooperation Framework Agreement”, 42-44.

¹⁴⁸ Jiun-Wei Lu, interviewed by author, March 10, 2014; Tsai-Lung Hong, interviewed by author, March 20, 2014

interdependence between China and Taiwan. Mrs. Hsu Chun-fan explains that:

*“The government’s prediction of the ECFA’s efficiency was according to the simulation of full implementation of this agreement, including the Cross-Strait Agreement on Trade in Services and the Cross-Strait Agreement on Trade in Goods. While these sub-agreements are pending, it is not surprising to see limited efficiency of the ECFA in term of boosting Taiwan’s economic development”.*¹⁴⁹

So far, Cross-Strait economic integration has increased the degree of Taiwan’s economic dependence on the Chinese market. Taiwanese policy makers of the Ma administration aim to reverse this situation by signing FTAs with other major trading partners and participating in regional economic integration, but they face difficulties in carrying out this strategy. For example, Professor Su Chi says:

*“It is very hard for us to participate in the TPP because we are afraid to open our market. Taiwanese people were worried about food security when we planed to import agricultural products from abroad. When we planed to open our market, they began to worry about the decrease in employment opportunities and impacts on traditional industries ... Finally, we will still depend heavily on the Chinese market. This is a very ironic consequence”.*¹⁵⁰

In addition to constraints caused by public opinion in Taiwan, the “China factor” is

¹⁴⁹ Chun-Fang Hsu, interviewed by author, March 10, 2014.

¹⁵⁰ Chi Su, interviewed by author, March 18, 2014.

the other barrier stopping Taiwan from participating in the process of regional economic integration. There have been no FTAs between Taiwan and other countries since the stagnant progress of Cross-Strait economic integration, and Chinese leaders have taken the development of Cross-Strait economic integration as the precondition for Taiwan's participation in regional integration.¹⁵¹ Now that Taiwan's international space is based upon the development of Cross-Strait economic integration, the ECFA has actually restricted Taiwan's policy options.

6.4.3 Strategic Dilemma: ECFA, Taiwan's Mainland Policy and Domestic Sovereignty

As discussed above, economically, the ECFA made a limited contribution to Taiwan's economic development. What has made this agreement become much more contentious is its political impact on Taiwan's domestic sovereignty. In general, China's intervention in Taiwan's domestic sovereignty has three dimensions. Firstly, the ECFA has institutionalized the "one-China Principle" between China and Taiwan, and it has brought up the question of the legitimacy of Taiwan's *de facto* sovereignty. Secondly, since the ECFA has been serving as a reference point for not only FTAs between Taiwan and other countries but also Taiwan's participation in regional integration mechanisms, Taiwan's foreign policy is constrained by its Mainland policy. Finally, Taiwanese scholars also point out that Taiwan's national security has been threatened by intensive Cross-Strait economic integration.¹⁵²

As mentioned in chapters 1 and 2, the "one-China Principle" was

¹⁵¹ Editorial, "Cross-Strait Dialogue Should Focus on Taiwan's TPP, RCEP Bids".

¹⁵² 譚偉恩, "貿易自由化與國家安全", 21-42; Tan, "Trade Liberalization and national Security", 21-42; 顏建發, 台灣的選擇, 126-138; Yen, *Taiwan's Choice*, 126-38.

institutionalized by the ECFA based upon the “1992 Consensus”; however, it is an interim plan for shelving the disputed sovereignty issues between China and Taiwan. The profound implication of the 1992 Consensus is that Taiwan’s *de facto* sovereignty needs to be recognized by Beijing; otherwise, Taiwan cannot even act as a political entity with full function in the international community. Scholars have illustrated Taiwan’s entry to the WTO and the WHA as cases in point.¹⁵³ Their research indicates that when Cross-Strait relations became nervous, the legitimacy of Taiwan’s *de facto* and functional sovereignty could be compromised by the PRC despite the fact that Taipei remained in control of the island.¹⁵⁴ Taiwan’s failure to join the GPA and WHA as a political entity between 2002 and 2008 is the clearest evidence of this.¹⁵⁵ As such, since Taiwanese President Ma Ying-jeou’s inauguration in 2008, achieving the goal of transferring from a situation of “mutual non-recognition to mutual non-denial” has been one of his major motivations for improving Cross-Strait relations by signing the ECFA.¹⁵⁶

Professor Chao Chien-min explains that: “All the issues about Mainland China are political ones ... and the biggest problem is that Mainland China does not recognize Taiwan as a sovereign state”¹⁵⁷. He further says that:

“The contingency scenario for us is to convince Beijing of our de facto sovereignty. We aim to connect the “One-China Principle” with both sides’ Constitutions. For example, we can interpret the “Once-China” principle

¹⁵³ Winkler, “A Question of Sovereignty?”, 6-12; Tok, *Managing China’s Sovereignty*, 129-52.

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

¹⁵⁶ Chun-I Chen, “Legal Aspects of Mutual Non-Denial and the Relations across the Taiwan Straits”, *Maryland journal of International Law* 27, no. 1 (2012): 117-22.

¹⁵⁷ Chien-Min Chao, interviewed by author, April 4, 2014, 2014

*by insisting that the Republic of China is the only legitimate China in the world, and then we can make Beijing to accept our de facto sovereignty. There is no scenario that is more feasible than the current one [the 1992 Consensus]”.*¹⁵⁸

Under the 1992 Consensus, Beijing has recognized the status quo of Cross-Strait relations, and thus Taiwan’s *de facto* sovereignty has been legitimized based upon the ambivalent definition of the “one-China principle”.¹⁵⁹ Only after the legitimization of the status quo could Taiwan act as a political entity in the international community. In this light, the legitimacy of Taiwan’s functional sovereignty is entirely based upon China’s recognition.¹⁶⁰ While the legitimacy of Taiwan’s functional sovereignty requires both sides recognized the 1992 Consensus based on their Constitutions, this could impinge on Taiwan’s domestic sovereignty.

The consequence of the institutionalization of the 1992 Consensus is that Taiwan’s foreign policy has been constrained by the Mainland policy, which once again proves that China has intended to intervene in Taiwan’s domestic sovereignty following Cross-Strait economic integration. As mentioned before, the ECFA is a reference point for other countries to sign FTAs with Taiwan, and it also serves as a reference for Taiwan’s accession to regional economic integration. However, the sub-agreements of the ECFA have been pending owing to the emergence of the Sunflower Movement in 2014. Ever since the stagnation of negotiations over Cross-Strait economic integration, Taiwan has faced difficulties to conclude FTAs with other countries, as has been the case for the FTA between Taiwan and

¹⁵⁸ Ibid.

¹⁵⁹ Hickey, “Wake Up to Reality”, 1-7.

¹⁶⁰ Winkler, “A Question of Sovereignty?”, 6-12.

Malaysia.¹⁶¹ This proves that it is difficult for Taiwan to bypass China to enlarge its international space by discarding the 1992 Consensus. Chinese President Xi Jinping further warned it would result in serious repercussions, such as causing “the earth to move and mountains to shake”.¹⁶² Neither could Taipei put any issue about Cross-Strait economic integration to a referendum to appease controversies over the ECFA owing to Beijing’s strong opposition.¹⁶³ In this light, Beijing has already intervened in Taiwan’s policy-making procedure, which is another case of China’s intention to infringe Taiwan’s domestic sovereignty.

Most significantly, the ECFA has also generated fierce debate over the question of whether Cross-Strait economic integration has endangered Taiwan’s economic and national security¹⁶⁴. Indeed, based upon concerns over the “hollowing-out” effect which has been argued to put Taiwan’s “national security” in danger, the Cross-Strait Agreement on Trade in Services is on hold following the emergence of the Sunflower Movement in 2014.¹⁶⁵ It has also affected the negotiations over the other sub-agreements of the ECFA, such as the Cross-Strait Agreement on Trade in Goods. Economically, Taiwan should benefit from this agreement. According to the Cross-Strait Agreement on Trade in Services, China promises to open “80 market

¹⁶¹ Singh, “Can Taiwan Talk ‘Political’ with the Mainland?”, 265.

¹⁶² Tien-lin Huang, “Soft Chinese Lion Hard to Swallow”, *Taipei Times*, May 4, 2015, accessed May 17, 2015, <http://www.taipeitimes.com/News/editorials/print/2015/05/04/2003617419>; Pan, “Normative Convergence and Cross-Strait Divergence:”, 36-42.

¹⁶³ CNA, “Beijing Stands Firm on Service Agreement”, *The China Post*, April 17, 2014, accessed May 17, 2015

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2014/04/17/405547/Beijing-stands.htm>

¹⁶⁴ Syaru Shirley Lin, “National Identity, Economic Interdependence, and Taiwan’s Cross-Strait Policy: The Case of the Economic Cooperation Framework Agreement”, in *New Dynamics in Cross-Taiwan Straits Relations: How Far can the Rapprochement Go?*, ed. Weixing Hu (New York: Routledge, 2013), pp. 31-43.

¹⁶⁵ 譚偉恩, “貿易自由化與國家安全”, 21-42; Tan, “Trade Liberalization and national Security”, 21-42.

segments” whilst Taiwan only needs to “liberalize 64 industries”.¹⁶⁶ Besides, among the 64 sectors that Taiwan promised to open, Taiwanese policymakers point out that 27 of them had already been liberalized since both sides’ accession to the WTO in 2002, and thus China made more considerable economic concessions in addition to the ECFA.¹⁶⁷ However, it is notable that service industries shared 64% of Taiwan’s GDP in 2014. Therefore, political elites from the DPP expect the government to hold more public hearings in order to stringently assess the impact of the Cross-Strait Agreement on Trade in Services on Taiwan’s economic performance. For example, Doctor Hong Tsai-lung says:

“[The] Cross-Strait Agreement on Trade in Services regulates the issue of market openness and personnel exchanges between both sides in great detail. However, it will result in the influx of Chinese capitals and workers into Taiwan, and this means the ‘China factor’ will penetrate into Taiwanese society...It is very dangerous, but there is no effective supervisory mechanism over Cross-Strait exchanges. Besides, the government has only made casual evaluations of this issue.”¹⁶⁸

Furthermore, although China seemed to make economic concessions in the Cross-Strait Agreement on Trade in Services, there is a problem about asymmetric market openness between both sides. First of all, Taiwan’s e-business enterprises are only allowed to set up a branch in the Fujian Province, and accordingly, China must

¹⁶⁶ Joann Fan, “The Economics of the Cross-Strait Services Agreement”, *The Diplomat*, on April 18, 2014, accessed June, 15, 2015,

<http://thediplomat.com/2014/04/the-economics-of-the-cross-strait-services-agreement/>

¹⁶⁷ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Chun-Fang Hsu, interviewed by author, March 10, 2014.

¹⁶⁸ Tsai-Lung Hong, interviewed by author, March 20, 2014

hold at least 45% of these companies' shares¹⁶⁹. Another case of asymmetric opening between both sides is China's publishers are allowed to invest in Taiwan's publishing industry freely while Taiwan's publishers need to accept Beijing's censorship before investing or making publications in China¹⁷⁰. Moreover, scholars also cast doubt on whether Chinese investment in Taiwan's telecommunications industry will endanger Taiwan's national security¹⁷¹. Taiwan's former Chairman of the Committee of Research and Planning in the Ministry of Foreign Affairs, and former Director of China Affairs Department of the DPP, Doctor Yen Jien-fa, points out that the factors of asymmetric market openness and the difference between both sides' political regimes will result in the limiting of "Taiwan's influence in the Mainland" whilst "Chinese will have much more influence on Taiwan".¹⁷² Thus, according to Doctor Yen, "Cross-Strait economic integration will result in the loss of Taiwan's political autonomy and Taiwanese national identity".¹⁷³

6.5 Conclusion

This chapter examined the impacts of the ECFA on Taiwan's economic development and sovereignty, and analyzed the effectiveness of Taiwan's strategy to counter China's commercial diplomacy. In summary, economically, the ECFA has had a limited contribution to Taiwan's economic performance, but the question of

¹⁶⁹ National Development Council, Republic of China, "Taiwan, China sign Trade in Services Agreement", 2013, accessed April 17, 2015.

<http://www.ndc.gov.tw/encontent/m1.aspx?sNo=0019475#.VWDF9MbVUt8>

¹⁷⁰ CNA, "Reactions Mixed on Cross-Strait Service Trade Pact", *Want China Times* on June 22nd, 2013, accessed April 17, 2015.

<http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20130622000090&cid=1101>

¹⁷¹ 譚偉恩, "貿易自由化與國家安全", *國防雜誌* 29:5 (2014), Wei-En Tan, "Trade Liberalization and national Security", 21-42.

¹⁷² Jien-Fa Yen, interviewed by author, October 16, 2013.

¹⁷³ Ibid.

whether it is favorable for China to wield commercial diplomacy towards Taiwan efficiently is controversial. As discussed above, the efficiency of China's commercial diplomacy towards Taiwan is based on the asymmetric economic interdependence between both sides. Although there is still an asymmetry between both sides' investments toward each other, which caused Taiwan to be concerned about the "hollowing-out" effect (see Table 6.4.2), the degree of Taiwan's economic development on the Mainland has actually been falling from 2012. Indeed, the share of Taiwan's investment in China has dropped from 83.81% in 2012 to 58.48% in 2014 (see Table 6.2.2). Correspondingly, the annual growth rate of Taiwan's exports to China has also fallen since 2012, reaching -3.9% in 2012 (see Table 6.4.5).

It is notable that the decrease in Taiwan's economic dependence on China was not caused by Taiwan's effort in signing FTAs with other major trading partners. Scholars attribute this phenomenon to the recession in Chinese exports growth and the rising costs of production in China that drove several Taiwanese enterprises to redirect their capitals to Southeast Asian countries (see Table 6.2.2 and Table 6.2.3).¹⁷⁴ Furthermore, most Taiwanese investment in China comes from manufacturing industries, which shared less than 30% of Taiwan's GDP in 2014.¹⁷⁵ As to Taiwan's major GDP contributor — services industries — their investment in China still shared a small percentage of Taiwan's total outward investment in China owing to the pending of Cross-Strait Agreement on Trade in Services (see Table 6.4.3). In this regard, to enhance the efficiency of commercial diplomacy towards Taiwan, Beijing needs to, on the one hand, boost its exports performance and to attract Taiwanese investment. On the other hand, China also needs to convince

¹⁷⁴ Tung and Yeh, "Development of a Cross-Strait Economic Cooperation Framework Agreement", 43-44; Huang, "TPP Versus ECFA", 96-97.

¹⁷⁵ Department of Statistics, MOEA, ROC, "Economic Indicators EBook".

Taiwanese people to promote Cross-Strait economic integration, otherwise its influence may remain limited.

However, this is not to deny the efficiency of China's commercial diplomacy towards Taiwan, and in fact, Beijing has made several political achievements. Specifically, the ECFA's institutionalization of the "one-China Principle" under the 1992 Consensus, which connects the concept of "one-China" with both sides' Constitutions, indicates that the legitimacy of Taiwan's *de facto* sovereignty needs to be approved by Beijing¹⁷⁶. Only with Beijing's consent could Taiwan's "functional sovereignty" be widely recognized in the international community that allows Taipei to enlarge international space by signing FTAs or participating in IGOs as an economy or a political entity.¹⁷⁷ Furthermore, since the ECFA served as a reference for other countries to sign FTAs with Taiwan as well as Taiwan's membership in regional economic mechanisms, it has made Taiwan's international legal sovereignty become self-interpreted, which is not beneficial for Taiwan to achieve the goal of becoming a fully-fledged sovereign state. Moreover, following the stagnant progress of Cross-Strait economic integration, the "China factor" has become a prominent obstacle to Taiwan's international space again, and it has further affected Taiwan's seesawing strategy of participating in either the TPP or the RCEP. Consequently, Taiwan's interdependence sovereignty has also been constrained by the development of Cross-Strait relations. The task of breaking through this stalemate remains a crucial preoccupation of Taiwanese policymakers.

¹⁷⁶ Chi Su, interviewed by author, March 18, 2014; Chien-Min Chao, interviewed by author, April 4, 2014.

¹⁷⁷ Winkler, "A Question of Sovereignty?", 6-12.

Chapter 7 Conclusion

7.1 Introduction

This thesis has studied the contentious sovereignty issues between China and Taiwan in the context of economic integration at the bilateral level across the Taiwan Strait and the regional level of the Asia-Pacific region. Elite interviewing and document analysis are core research methods of employed in this thesis. Building on scholars' analyses and statistics on East Asian parts and components trade, this thesis confirms that Taiwan's marginalization in the process of regional economic integration is beneficial for China to press its economic advantages so as to convince Taiwan to facilitate cross-Strait economic integration by signing the ECFA. This in turn provides Beijing with further advantages to infringe upon Taiwan's sovereignty by wielding commercial diplomacy in the process of cross-Strait economic integration.

As detailed in chapters 1 and 2, commercial diplomacy had been an important strategy for Beijing in its attempts to achieve the national goal of peaceful reunification since Taipei resumed economic exchanges with China in the late 1980s.¹ However, not until China began to play a determinant role in the intensive process of East Asian economic integration in the late 1990s has commercial diplomacy been effective for Beijing to further its political agendas towards Taiwan. Indeed, as discussed in chapter 3, before signing the ECFA with Taipei in 2010, Beijing had already shaped a favorable environment in the context of regional economic integration that would allow it to utilize commercial diplomacy towards

¹ Bush, *Untying the Knot*, 39-45.

Taiwan. Specifically, chapters 3 and 4 confirmed that China's pivotal role in East Asian RPNs had not only allowed Beijing to establish asymmetric economic interdependence across the Taiwan Strait, but it had also provided China with more advantages in its strategy to marginalize Taiwan in the process of constructing East Asian regionalism by wielding commercial diplomacy.² This has then impinged on Taiwan's economic and sovereignty interests.

Consequently, improving cross-Strait relations seemed to be the only feasible scenario for Taipei to secure its sovereignty and economic interests. Therefore, regardless the precondition of the 1992 Consensus, signing the ECFA with Beijing became Taipei's contingency plan for tackling cross-Strait relations and its regionally marginalized position under Ma Ying-jeou's presidency. Yet, given the potential "hollowing-out" effect, analysts have questioned ECFA's contribution to Taiwan's economic development.³ Additionally, debates over whether Taiwan's sovereignty has been eroded in the process of cross-Strait economic integration have never gone away in Taiwanese society.⁴

As shown in the next section, this thesis concludes that Beijing has infringed upon Taiwan's *de jure*, functional, and perhaps even domestic sovereignty in the post-ECFA era based on analyses in chapters 5 and 6. Nevertheless, as Beijing cannot solely rely on commercial diplomacy to alter the status quo across the Taiwan Strait, Taiwan's Westphalian sovereignty remains solid. Meanwhile, this thesis also contends that the "hollowing-out" effect should not be magnified in Taiwan. The

² Chen et al., "The ECFA and Its Expected Effect on Cross-Strait Trade and Investment", 109-21; Frost, *Asia's New Regionalism*, 117-19; Hamanaka, "TPP Versus RCEP", 177-81.

³ Hong and Yang, "The Economic Cooperation Framework Agreement between China and Taiwan", 88-90; Lin, *Taiwan's China Dilemma*, 50-52.

⁴ *Ibid.*

core reason for this is that although Taiwanese manufacturing industries have relied heavily on the comparative advantages in the Chinese economy, they only accounted for less than 30% of Taiwan's GDP in 2014.⁵ Nonetheless the concern over the "hollowing-out effect" has still driven the Taiwanese people to oppose the ECFA, which has then impacted on the effectiveness of China's commercial diplomacy in influencing the Taiwanese people's attitude towards Beijing's reunification agenda.⁶

This thesis contributes a new research approach to Taiwan studies by exploring how China and Taiwan incorporate economic issues with sovereignty agendas in the process of cross-Strait economic integration through the lens of commercial diplomacy. By employing Krasner's and Winkler's works to categorize definitions of sovereignty,⁷ this thesis give new insights into the effectiveness of contemporary Beijing's and Taipei's commercial diplomacy in furthering sovereignty agendas. Finally, several factors, such as the DPP's attitude towards the ECFA, China's economic performance and so on, may influence the effectiveness of China's commercial diplomacy towards Taiwan. Future research should take these factors into consideration, as will be discussed in the last section.

7.2 The Effectiveness of China's Commercial Diplomacy towards Taiwan

As shown in the analyses in chapters 3 and 4, in addition to ameliorating the tense cross-Strait relations, signing the ECFA with Beijing was Taipei's contingency plan for securing its economic and sovereignty interests. However, the Ma

⁵ Department of Statistics, MOEA (ROC), "Economic Indicators EBook".

⁶ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

⁷ Krasner, *Sovereignty: Organized Hypocrisy*, 3-4; Winkler, "Can Trade Make a Sovereign?", 467-85.

Ying-jeou's administration did not successfully convince the Taiwanese people of the ECFA's contributions to Taiwan. Rather, fierce debates over Taiwan's sovereignty and economic security in Taiwanese society have compelled Taipei to suspend the implementation of several sub-agreements of the ECFA (see Appendix I), particularly following the onset of the Sunflower Movement in 2014. As shown in chapter 5, opponents of the ECFA are worried that deepening cross-Strait economic integration would risk Taiwan's sovereignty and economic security, as Beijing can easily exert its influence over Taiwanese society in the process of economic integration.⁸ The "hollowing-out" effect bred by the ECFA is another disputed issue in Taiwanese society.⁹ Yet there is no comprehensive evaluation of these issues owing to the decline of Taiwan Studies since the 2000s.¹⁰ As discussed below, based on the evaluations made in this thesis, the effectiveness of China's commercial diplomacy towards Taiwan in the post-ECFA era should not be exaggerated.

7.2.1 The Resources and Conditions of China's Commercial Diplomacy

As stressed in this thesis, the effectiveness of China's commercial diplomacy towards Taiwan has its roots in the asymmetric relations of economic interdependence between both sides in the process of cross-Strait economic integration. However, it is noteworthy that neither cross-Strait economic integration nor asymmetric economic interdependence across the Taiwan Strait was generated by the ECFA. Rather, economic integration between China and Taiwan had emerged a decade earlier than the ECFA, which was mainly triggered by the economic dynamics of East Asian integration. While China began to play a pivotal role in the

⁸ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

⁹ Lin, *Taiwan's China Dilemma*, 50-52.

¹⁰ Sullivan, "Is Taiwan Studies in Decline?", 707-11.

wave of East Asian regionalization following its economic rise in the 1990s, the degree of Taiwan's economic dependence on the Chinese market was also on the increase.¹¹

Specifically, by investigating East Asian parts and components trade (see Table 3.3.1 and 3.3.3), chapter 3 showed that China's efforts to press its comparative advantage on low-cost production factors in attracting investment of East Asian manufacturers had made the Chinese market become the pivot of RPNs in the 1990s.¹² This has then allowed Beijing to create favorable conditions for utilizing commercial diplomacy so as to further its political agendas with regards to Taiwan at the bilateral and regional levels.

At the bilateral level, after East Asian RPNs began to converge on the Chinese market, Taiwanese manufacturers — the ICT industries in particular — started to relocate their production lines to the Mainland.¹³ By studying the cases of ASUS and Yageo in chapter 3, this thesis has illustrated the importance of the Chinese market in helping Taiwanese manufacturers to sustain or even enhance their competitiveness within the BDCCs. Henceforth, components trade featured heavily in total cross-Strait trade, as it occupied 52% of the total trade value between Taiwan and China from 1993 to 2008 (see Tables 3.3.4, 4.2.4, 4.2.5, and 4.2.6). This statistical data reflects the division of labor between China and Taiwan in the wave of East Asian regionalization, which further confirms that East Asian economic integration was the main impetus propelling economic integration across the Taiwan

¹¹ Dent, "Taiwan and the New East Asian Regionalism", 117-24; Tanner, *Chinese Economic Coercion Against Taiwan*, 76-82.

¹² Baldwin, "Managing the Noodle Bowl", 454; Athkoral, "Production Networks and Trade Patterns in East Asia", 77-85.

¹³ Chen et al., "The ECFA and Its Expected Effect on Cross-Strait Trade and Investment", 109-21.

Strait.

The economic dynamics of regional integration then impinged on the effectiveness of Taiwan's policies for managing cross-Strait economic relations. Indeed, between 1990 and 2008, Taiwanese leaders adopted a series of policies for limiting cross-Strait economic exchanges given Beijing's political motivations behind its economic agendas, but these policies were limited in effect.¹⁴ As discussed in chapters 3 and 4, the low-cost production factors and the large market in the Chinese economy helped Taiwanese manufacturers to maintaining their competitiveness within the RPNs.¹⁵ Combined with Beijing's unilateral preferential trade policies, the outward investment by Taiwanese manufacturing industries mainly went to China, despite the government's restrictions, which caused the "Mainland fever" in Taiwan.¹⁶ In this light, Taipei's Mainland economic policies were obviously counter to Taiwanese entrepreneurs' interests. Consequently, as stated in chapter 4, Taipei often confronted great pressure to recalibrate its Mainland economic policy, which made Taipei faced the difficulties to counter Beijing's commercial diplomacy by constraining economic exchanges with China.¹⁷

At the regional level, China's economic rise has eclipsed Taiwan's economic significance in the process of East Asian regionalization, which has in turn impinged on the effectiveness of Taiwan's strategies in obtaining its economic and sovereignty interests in East Asia. As specified in chapter 3, before China's economic rise,

¹⁴ Fuller, "The Cross-Strait Economic Relationship's Impact on Development in Taiwan and China", 240-45.

¹⁵ Dora W. Chang, interviewed by author, December 16, 2014; Kent S. Chien, interviewed by author, December 26, 2014.

¹⁶ Bush, *Untying the Knot*, 28-35; Goldstein, *China and Taiwan*, 79-82.

¹⁷ Kastner, *Political Conflict and Economic Interdependence*, 58-75.

Taiwanese manufacturers — OEMs of Taiwan’s ICT industry in particular — had played an indispensable role within the US-driven BDCCs in the 1980s, and therefore Taiwan was an important trading partners and investors for East Asian economies.¹⁸ Solid economic ties between Taiwan and East Asian economies served as important reasons for why Beijing was unable to block Taiwan’s participation in APEC.¹⁹ This is an example of how Taiwan utilized commercial diplomacy to acquire *de jure* sovereignty based on its functional and de facto sovereignty.

However, the effectiveness of Taiwan’s commercial diplomacy has been limited by China’s economic rise in the late 1990s. Notably, in the late 1990s, the Chinese economy had shared about 30% of East Asian components trade, and this percentage has soared to 49.6% in 2005 (see Table 3.3.3). The central role of the Chinese market within East Asian RPNs then resulted in asymmetric economic interdependences between China and most East Asian economies including Taiwan (see Tables 3.3.4 to 3.3.9). From thereon, Beijing has possessed many more resources with which to further its political agendas at the regional level by utilizing commercial diplomacy *vis-à-vis* Taiwan. The most direct evidence of this was Beijing’s success in expelling Taiwan from the process of constructing East Asian regionalism following the decline of APEC’s relevance within regional economic integration in the aftermath of the 1997 Asian financial crisis.²⁰ As a result of Taiwan’s regionally isolated position, the “substitution effect” has endangered Taiwan’s economic interests in the BDCCs.²¹ Meanwhile, Taiwan has also lacked a solid regional platform upon which it could consolidate *de jure* sovereignty by utilizing commercial diplomacy.

¹⁸ Yun, “International Production Networks and the Role of the State”, 179-81.

¹⁹ Cheung, “APEC as a Regime”, 21-25.

²⁰ Frost, *Asia’s New Regionalism*, 117-19.

²¹ Nealer and Fimbres, “Taiwan and Regional Trade Order”, 69-70.

In general, this subsection summarized the research findings on the resources of China's commercial diplomacy. This thesis further confirmed that, since the 1990s, China's predominant role in the process of East Asian economic integration has allowed Beijing to create favorable conditions for utilizing commercial diplomacy towards Taiwan, which have negatively impacted upon Taiwan's economic and sovereignty interests. In this situation, as explained in chapter 4, since China has been a determinant player in the process of contemporary East Asian integration and a major trading partner for Taiwan, continuing President Lee Teng-hui's and President Chen Shui-bian's strategies of defying Beijing's Taiwan policy would only risk Taiwan's economic and sovereignty interests. Stabilizing cross-Strait relations by facilitating cross-Strait economic integration was therefore the main centerpiece of Taiwanese President Ma Ying-jeou's Mainland policy.²² By offering a positive response to Beijing's integration initiatives, Taiwanese leaders expected to exchange Beijing's acquiescence to allow them to enlarge Taiwan's regional and even international space, based upon which Taipei could not only secure its economic interests but also further its sovereignty agendas.²³ Yet Taipei's new Mainland policy was not effective in helping Taiwanese leaders to achieve these strategic goals, which will be explained below.

7.2.2 Taiwan's Sovereignty in the Post-ECFA Era

Following the institutionalization of cross-Strait economic integration, this thesis found that Beijing has many advantages in utilizing commercial diplomacy to

²² Ibid., 72-73.

²³ Chi Su, interviewed by author, March 18, 2014; Tsao-Shan Chou, interviewed by author, April 15, 2014.

further its political agendas towards Taiwan. chapters 5 and 6 suggested that Beijing has successfully impinged upon Taiwan's de jure, functional, and domestic sovereignty in the post-ECFA era. Meanwhile, this thesis also confirmed that contemporary cross-Strait economic integration served as a constraint on Taiwan's strategy for pursuing its sovereignty interests. However, it is inappropriate to exaggerate the effectiveness of China's commercial diplomacy towards Taiwan. Based on the analyses in Chapters 5 and 6, this thesis found that China's commercial diplomacy had limited effectiveness in encroaching upon Taiwan's Westphalian sovereignty.

After signing the ECFA with Beijing in 2010, Taiwan did sign FTAs with Singapore and New Zealand without China's opposition, and its participation in the WHA was another significant achievement.²⁴ Yet Taipei has not fully achieved its strategic goals of consolidating its sovereignty after signing the ECFA with Beijing. By contrast, Taiwan's sovereignty has been infringed upon by Beijing because the institutionalization of cross-Strait economic integration has resulted in the institutionalization of the 1992 Consensus. The 1992 Consensus did not clearly define which side of the Taiwan Strait possesses the legitimacy to represent "one-China" as stated in chapter 2.²⁵ Notably, as discussed in chapter 5, Beijing has connected this consensus with the internationally recognized "one-China" framework in which the PRC is the solely legitimate China. In order to counter Beijing's "one-China principle", Taiwan intended to connect the "one-China" framework with the existence of the ROC under the 1992 Consensus.²⁶ Nonetheless, as summarized

²⁴ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 96-99; Winkler, "A Question of Sovereignty?", 5-9.

²⁵ Hickey, "Wake Up to Reality", 4-5.

²⁶ Ibid.

below, Taipei's self-interpreted "one-China principle" was only applicable at the bilateral level across the Taiwan Strait, but this might have allowed Beijing to infringe upon Taiwan's domestic sovereignty. At the regional and global levels, Beijing's international legal sovereignty over Taiwan remained strong, and this has in turn impinged on Taiwan's interdependence and functional sovereignty in the post-ECFA era.

At the global level, the "China factor" remains an obstacle to Taiwan's strategy for furthering its sovereignty interests. In terms of Taiwan's participation in IGOs, despite the fact that Beijing has compromised Taipei on this issue in the post-ECFA era, Taiwan actually has no strategic space to further its sovereignty agendas in the international arena. As stated in chapters 5 and 6, Beijing's "one-China principle" in the IGOs remains solid, and China has made no concession to Taiwan on this issue in the post-ECFA era. Since the 1992 Consensus was institutionalized across the Taiwan Strait following the implementation of the ECFA, as stated in chapter 5, Beijing's concession to Taiwan's international space should further consolidate its claim over Taiwan's international legal sovereignty.

Taking the case of Taiwan's accession into the WHA as an example, as specified in chapter 6, China only allowed Taiwan to attend the assembly of the WHO with an annual invitation letter from Beijing based on the 1992 Consensus rather than directly supporting Taiwan's initiative for obtaining a formal membership in the WHO.²⁷ The question of whether Taiwan can secure its seat in the WHA is based entirely upon Beijing's attitude. In this regard, Beijing has apparently infringed upon

²⁷ Winkler, "A Question of Sovereignty", 9-12.

Taiwan's international legal sovereignty. In addition, now that Taiwan's status has been widely granted as part of the PRC in the IGOs, Taiwan's attendance must go through Beijing's administrative procedure.²⁸ This has further allowed Beijing to encroach on Taiwan's interdependence and functional sovereignty.

As for Taiwan's economic relations with other countries, it is problematic for Taiwan to further its sovereignty agendas by utilizing commercial diplomacy. As discussed in chapter 6, in the post-ECFA era, Beijing's consent is the determinant of Taiwan's FTA strategy. Without Beijing's approval, Taipei cannot finalize any FTA with other states, as has been the case for the FTA negotiation between Taiwan and Malaysia in the aftermath of the Sunflower Movement in 2014.²⁹ This case demonstrated that the effectiveness of Taiwan's FTA strategy is entirely contingent on the development of cross-strait economic integration, which magnified Beijing's infringement on Taiwan's interdependence and functional sovereignty in the post-ECFA era. Moreover, as shown in chapters 5 and 6, the ECFA is a template for other economies to define Taiwan's political status in the process of economic cooperation.³⁰ The effectiveness of Taiwan's commercial diplomacy in furthering its sovereignty interests has therefore been constrained by the precondition of the ECFA — the 1992 Consensus. This could even result in the erosion of Taiwan's international legal sovereignty, given Beijing's efforts to connect the 1992 Consensus with its narrowly defined "one-China principle" in the international community.

At the regional level, as studied in Chapter 6, by signing the ECFA with Beijing, Taipei hoped to increase its bargaining chips so as to participate in TPP and RCEP by

²⁸ Ibid.

²⁹ Singh, "Can Taiwan Talk 'Political' with the Mainland?", 265.

³⁰ T. Y. Wang et. al., "Taiwan's Expansion of International Space", 255.

seesawing between the US and China so as to decrease its degree of economic dependence on China and secure its sovereignty interests. However, Taipei has on a passive stance in carrying out this strategy in the post-ECFA era. In respect to Taiwan's participation in the US-centered TPP, according to TPP's stipulation, Taiwan must obtain all of the incumbent members' consent through bilateral negotiations.³¹ Thus far, with Beijing's acquiescence, Taiwan has commenced and even finalized bilateral FTA negotiations with several key players in the TPP, such as Singapore and New Zealand. However, as mentioned in chapter 5, owing to the stagnant progress of cross-Strait economic integration in the aftermath of the Sunflower Movement in 2014, Beijing has intervened in economic negotiations between Taiwan and other nations.³² By this reasoning, the effectiveness Taiwan's strategy for participating in TPP has been contingent on the progress of cross-Strait economic integration. Combined with factors like domestic opposition to open agricultural imports from the US and the uncertainty of TPP's finalization, it is difficult to imagine Taiwan's participation in the TPP in the short term.³³

With regard to Taiwan's attempts to join the RCEP or other China-driven regional economic integration mechanism, Beijing has not given a positive response to Taipei because Chinese leaders were not satisfied with the progress of the ECFA.³⁴ Again, this highlighted that the steady progress of cross-Strait economic integration is a key precondition for the enlargement of Taiwan's regional space. In addition, as shown in chapter 5 and 6, with reference to the case of Beijing's refusal of Taiwan's

³¹ Full Text of TPP is available on Office of the United States Trade Representative, "The Trans-Pacific Partnership", 2015, accessed on January 24, 2016, <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

³² Singh, "Can Taiwan Talk 'Political' with the Mainland?", 265.

³³ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Chi Su, interviewed by author, March 18, 2014.

³⁴ Editorial, "Cross-Strait Dialogue Should Focus on Taiwan's TPP, RCEP Bids".

application to the AIIB, this research found that the 1992 Consensus may not be applicable at the regional level, as Taiwan's widely used title — "Chinese Taipei" — was not acceptable in Taiwan's membership of the AIIB.³⁵ In this light, rather than consolidating Taiwan's sovereignty at the regional level by adopting the seesawing strategy, Taiwan's international legal, interdependence, and functional sovereignty have been infringed upon by China in the post-ECFA era.

At the bilateral level across the Taiwan Strait, the institutionalization of the 1992 Consensus might have allowed Beijing to encroach on Taiwan's domestic sovereignty. As specified in chapters 2, 5, and 6, under the loosely defined "one-China" framework, Beijing and Taipei can have their own interpretations over whether the PRC or the ROC is the legitimate "China" based on their own Constitutions.³⁶ This has laid the foundation for the legitimacy of the *status quo* across the Taiwan Strait, based upon which Taiwan could act as a *de facto* regime to participate in the international community in the post-ECFA era. In other words, following the institutionalization of the 1992 Consensus in the post-ECFA era, Taiwan's functional sovereignty is based on the legitimacy of its *de facto* sovereignty approved by Beijing. As such, it is reasonable to contend that Beijing has utilized the 1992 Consensus to infringe upon Taiwan's domestic sovereignty.

In the context of the above analyses, the institutionalization of the 1992 Consensus is a significant achievement of China's commercial diplomacy towards Taiwan, and this has allowed Beijing to encroach on Taiwan's *de jure*, functional, and domestic sovereignty in the post-ECFA era. However, as most Chinese elites

³⁵ Yuan-Ming Chiao, "Taiwan AIIB Member Bid Must Go Through PRC Ministry: China".

³⁶ Hickey, "Wake Up to Reality", 3-16; Su, *Taiwan's Relations with Mainland China*, 46.

have noted, to accomplish China's national goal of peaceful reunification, Beijing and Taipei still need to go through a political negotiation so as to make an arrangement for Taiwan's political status after returning to the motherland.³⁷ As cross-Strait economic integration cannot directly help China to alter the *status quo* across the Taiwan Strait in favor of its interests, it has been ineffective for Beijing to manage Taiwan's Westphalian sovereignty by utilizing commercial diplomacy.

7.2.3 China's Influence and Cross-Strait Asymmetric Economic

Interdependence

Aside from the intention of embedding Taiwan's political status in the "one-China" framework, Beijing has also aimed to fulfill the strategic goal of "placing hope on the Taiwan people for peaceful reunification".³⁸ As Taiwan's economic performance has relied heavily on the Chinese economy, Beijing should have obtained the Taiwanese people's support for the ECFA, especially after making considerable economic concessions to Taiwan through the ECFA. Following the progress of cross-Strait economic integration, Beijing also planned to exert its influence over Taiwanese society so as to shape Taiwanese public opinion in favor of peaceful reunification.

Yet China's commercial diplomacy has had limited effectiveness in assisting Beijing to achieve these goals in the post-ECFA era. As discussed in chapter 5, the Taiwanese people's sensitive attitude toward the inward investments from Chinese

³⁷ Liping Xia, interviewed by author, December 13, 2013 Wensheng Zhang, interviewed by author, December 20, 2013;

³⁸ Xinhua, "Do Best to Seek Peaceful Reunification, But Never Tolerate 'Taiwan Independence': President Hu".

and even Taiwanese businessmen in the Mainland reflects Taiwan's concern over Beijing's influence in the post-ECFA era. Moreover, the fear of witnessing the Taiwanese economy being "hollowed-out" by China and the erosion of Taiwan's sovereignty motivated the Taiwanese people to protest against the ECFA in the Sunflower Movement in 2014.³⁹ From thereon, cross-Strait economic integration has been stagnant, and several important sub-agreements like the CSSTA have been suspended (see Appendix I).

A poll conducted by the NCCU drew a less rosy picture. As shown in Figure 5.4.1, less than 10% of Taiwanese people on average supported reunification with China. However, the support for independence peaked at 23.90% in 2014, which was even higher than the final year of the pro-independence government — the DPP administration — in 2008 (see Figure 5.4.1). By this reasoning, China's strategy of furthering reunification agenda towards Taiwan by utilizing commercial diplomacy has in fact had the opposite result.

In addition, the ECFA has not yet clearly generated the hollowing out effect in Taiwan. As stated in Chapter 6, although China consistently shared more than 60% of Taiwan's total outward investment between 2002 and 2013, the phenomenon of asymmetric economic interdependence between Taiwan and China was limited to Taiwan's manufacturing industries. As shown on Table 6.4.3, before 2010, more than 80% of Taiwanese investment in China was injected by manufacturing industries. Following the implementation of the ECFA, in spite of the partial liberalization of Taiwanese services industries in the Mainland, Taiwanese manufacturing industries

³⁹ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 102-5.

still contributed about 60% of Taiwan's total outward investment in China in the post-ECFA era (see Table 6.4.3). However, manufacturing industries are not the main contributors to Taiwan's GDP, as they only shared 29% of Taiwan's GDP in 2014.⁴⁰ It is therefore not reasonable to argue that the ECFA has allowed the Chinese economy to "hollow-out" the Taiwanese economy.

Most importantly, although Taiwanese manufacturers have relied heavily on low-cost production factors in the Chinese market, it is notable that the amount of Taiwanese manufacturing investment in China decreased between 2010 and 2014 (see Table 6.4.3). In fact, owing to the rising cost of production in China following China's steady economic growth, there has been a tendency among Taiwanese manufacturers to relocate their production lines from China to Southeast Asian economies, particularly Vietnam (see Table 6.2.3). This might have further resulted in the decreasing percentage of China's share of Taiwanese outward investment in the post-ECFA era, as it had dropped from 83.81% in 2010 to 58.48% in 2014 (see Table 6.2.2). This statistical data may reflect the decreasing degree of Taiwan's economic dependence on the Chinese market. The question of whether this phenomenon would in turn affect the effectiveness of China's commercial diplomacy towards Taiwan requires further observation.

7.3 Research Contributions to Taiwan Studies

This thesis evaluated the effectiveness of China's and Taiwan's strategies in furthering their political agendas — sovereignty agendas in particular — towards

⁴⁰ Department of Statistics, MOEA (ROC), "Economic Indicators EBook".

each other through the lens of commercial diplomacy in the context of economic integration. This thesis' contributions lay in its pioneering research approach to studying how Beijing and Taipei utilized commercial diplomacy to manage contentious sovereignty issues while pursuing economic interests in the process of cross-Strait and regional economic integration. Specifically, as detailed below, by employing Ellen Frost's theory of commercial diplomacy,⁴¹ this thesis assists researchers in Taiwan studies to conceptualize contemporary Beijing's and Taipei's strategies for managing cross-Strait relations. Moreover, by employing Krasner's and Sigrid's work on categorizing sovereignty,⁴² this thesis helps analysts to evaluate the effectiveness of China's commercial diplomacy in infringing upon Taiwan's sovereignty.

As mentioned in chapters 1 and 2, owing to the considerable literature deficit, only limited amount of literature on Taiwan studies paid special attention to contemporary cross-Strait relations in the post-ECFA era.⁴³ Among these analyses, economic statecraft remained the main theoretical approach for studying cross-Strait relations in the context of bilateral economic integration.⁴⁴ However, applying this theoretical approach to study contemporary cross-Strait economic integration directly conflicts with reality, as economic coercion and even sanction have never been amongst Beijing's policy options since the 1980s. As specified in chapter 4, even when cross-Strait relations became tense between 1996 and 2008, Beijing still continuously directed preferential trade policy towards Taiwan in an attempt to

⁴¹ Frost, "China's Commercial Diplomacy in Asia", 95-117.

⁴² Krasner, *Sovereignty*, 3-4; Winkler, "Can Trade Make a Sovereign?", 467-85.

⁴³ Sullivan, "Is Taiwan Studies in Decline?", 707-11.

⁴⁴ For more examples, please see: Tung, "Cross-Strait Economic Relations", 137-75; Tanner, *Chinese Economic Coercion Against Taiwan*.

further its peaceful reunification agenda.⁴⁵

Currently, promoting cross-Strait economic integration is important for Beijing to guide Taiwan towards the pathway of peaceful reunification in the context of stable cross-Strait relations.⁴⁶ Meanwhile, Taiwanese President Ma Ying-jeou's China policy was also guided by the ECFA. Commercial diplomacy is therefore the most appropriate approach for conceptualizing both sides' policies for managing cross-Strait relations because it enables analysts to study how China and Taiwan incorporate their sovereignty agendas with economic interests following the institutionalization of cross-Strait economic integration. This thesis is the first work within the field of Taiwan studies that adopts commercial diplomacy to study the disputed sovereignty issues between China and Taiwan in the context of economic integration. This thesis expects to serve as a template for future literature on Taiwan studies.

In addition, in order to evaluate the extent to which has China encroached on Taiwan's sovereignty, as shown in Chapter 2, based on Krasner's work, this thesis has further split *de jure* sovereignty into international legal and interdependence sovereignty.⁴⁷ *De facto* sovereignty has also been categorized into Westphalian and domestic sovereignty.⁴⁸ Moreover, this thesis also adopts Winkler's definition of functional sovereignty to explain how Taiwan furthers its *de jure* sovereignty interests based on its solid *de facto* sovereignty.⁴⁹

⁴⁵ Sun, "Economic Relations Across the Taiwan Straits and Beijing's Policy Adjustment", 72-81.

⁴⁶ TAO, "Let's Us Join Hand to Promote the Peaceful Development of Cross-Strait Relations"; Xinhua, "Xi Meets KMT's Lien, Stresses Cross-Strait Ties".

⁴⁷ Krasner, *Sovereignty*, 3-4.

⁴⁸ Ibid.

⁴⁹ Winkler, "Can Trade Make a Sovereign?", 467-85.

Through this classification, this thesis breaks with the myth that sovereignty, particularly in terms of *de facto* sovereignty, is not measurable unless there is a change in the *status quo* of a country.⁵⁰ By utilizing Krasner's and Sigrid's works on sovereignty, this thesis is able to evaluate the gains and losses of China's and Taiwan's sovereignty interests. Combined with the research methods of elite interviewing and document analysis, this research makes an objective evaluation of the effectiveness of China's and Taiwan's commercial diplomacy in furthering sovereignty agendas in the post-ECFA era.

7.4 Policy Implication

Building upon the theory of commercial diplomacy, this thesis has provided a new approach for scholars to conceptualize both Beijing's and Taipei's strategies for managing bilateral relations in the process of economic integration. In addition to this contribution, in this section, this thesis will examine the policy implications of Beijing's commercial diplomacy, which are noteworthy for policymakers in Taiwan and other East Asian countries. Specifically, as shown in all China's White Papers, the Taiwan issue has consistently been on Beijing's list of core sovereignty interests since 1949.⁵¹ Therefore, Taipei's decision to solidify economic ties with Beijing by signing the ECFA can be a useful case for East Asian leaders to contemplate when considering the consequences of engaging with China.

⁵⁰ Wang, "Hu Jintao's 'New Thinking' on Cross-Strait Relations" 25-28; Tok, *Managing China's Sovereignty*, 129-31.

⁵¹ NPC, PRC "Message to Compatriots in Taiwan"; TAO, "The Taiwan Question and Reunification of China"; TAO, "The One-China Principle and the Taiwan Issue".

The foremost implication that policymakers should take note of in this thesis' analysis is the importance of regional multilateral mechanisms in assisting Beijing in projecting its influence at the bilateral level. Moreover, as scholars have already pointed out, the absence of the US and the target state from these mechanisms can further enhance the effectiveness of China's commercial diplomacy.⁵² In the case of China's commercial diplomacy towards Taiwan, Taipei did not decide to use the ECFA to participate in the ongoing process of East Asian economic integration until Beijing successfully constructed East Asian regionalism in the 2000s.

As stated in chapters 3 and 4, in spite of China's rapid economic growth and the emergence of Taiwan's "Mainland fever" in the 1990s, Taiwan's seat in APEC had emboldened Taipei to challenge China's commercial diplomacy by carrying out the "go south" strategy.⁵³ Nevertheless, Taiwan soon lost its advantages since the China-driven APT and RCEP became amongst the few feasible mechanisms for regional economic integration after the 1997 Asian financial crisis.⁵⁴ The subsequent challenges posed by the "substitution effect" and the "China factor" then motivated Taipei to soften its attitude towards the "one-China principle" in exchange for its "international space" by signing the ECFA with Beijing.⁵⁵ Consequently, the question of the extent to which Taiwan can further its economic and sovereignty interests becomes contingent on Beijing's attitude.

Taiwan may be considered an extreme case, due to its regionally marginalized position and its highly contentious *de jure* sovereignty in the international

⁵² Frost, *Asia's New Regionalism*, 117-19; Hamanaka, "TPP versus RCEP", 165-69.

⁵³ Peng, "Economic Relations Between Taiwan and Southeast Asia", 640-47.

⁵⁴ Chia, "The Emerging Regional Economic Integration Architecture in East Asia", 29-33.

⁵⁵ The Economist, "Straight from Mr Ma's Mouth".

community. However, this case should enable policymakers to see how expulsion from China-driven regional economic integration mechanisms can have negative economic consequences for a nation. Most importantly, this case should also allow observers to better understand how Beijing can take advantage of its predominant role in regional economic integration mechanisms to further its interests by offering “positive-sum economic incentives” through commercial diplomacy.⁵⁶ Similar strategic logic may be applied to study China’s “AIIB initiative” and the recent “One Belt One Road”, together with Washington’s, Tokyo’s, and even Seoul’s responses.⁵⁷

Although Taipei’s reacceptance of the 1992 Consensus under Ma Ying-jeou’s presidency magnifies the effectiveness of China’s commercial diplomacy, China did not successfully convince Taipei to sign a peace agreement or “CBM”, leading Taipei towards the “one country, two systems” scenario.⁵⁸ Neither did Beijing’s “positive-sum economic incentives” prevent the DPP from obtaining governing power in 2016. As such, it is unlikely that commercial diplomacy will be the instrument that will utterly resolve the Taiwan dispute. This explains why the disputed sovereignty issues between China and East Asian states coexist with the China-driven APT, AIIB, RCEP, and the “One Belt One Road”.⁵⁹ However, given Beijing’s intention to extend its influence in East Asia by utilizing commercial diplomacy, most East Asian countries, including Taiwan, endeavor to solidify bilateral military and economic ties with not only other regional countries but also

⁵⁶ Frost, “China’s Commercial Diplomacy in Asia”, 97.

⁵⁷ Wenjuan Nie, “Xi Jinping’s Foreign Policy Dilemma: One Belt, One Road or the South China Sea”, *Contemporary Southeast Asia* 38, no. 3 (2016): 434-35.

⁵⁸ Kan, “The Prospects for Cross-Taiwan Strait Confidence Building Measures”, 83-86; Zhang, “Peaceful Unification vs. Divided Rule”, 115-16.

⁵⁹ Frost, “China’s Commercial Diplomacy in Asia”, 97-99; Nie, “Xi Jinping’s Foreign Policy Dilemma”, 422-25.

the US so as to counter China's commercial diplomacy.⁶⁰

In the case of PRC-Taiwan relations, Taiwan is struggling to find an effective strategy for countering China's commercial diplomacy. In the past, President Lee Teng-hui and Chen Shui-bian implemented a series of policies to restrict Taiwan's economic exchanges with the Mainland whilst advocating the "go south" policy in an attempt to lessen asymmetric economic interdependence across the Taiwan Strait.⁶¹ Nonetheless, as discussed in chapter 4, these strategies had limited effect, and they in fact risked Taiwan's economic interests in the wave of East Asian regionalization. As such, President Ma Ying-jeou reversed his predecessors' Mainland policies by signing the ECFA with Beijing.⁶² Simultaneously, as detailed in chapter 6, Ma's administration also endeavored to access regional integration mechanisms by seesawing between China and the US. However, President Ma's strategy was limited in effect due to the lack of domestic support for fully liberalizing Taiwan's economy, and because of China's intrusion into Taiwan's FTA affairs after the emergence of the Sunflower Movement in 2014.⁶³ Thus far, after the 2016 presidential campaign, Taiwanese new President Tsai Ing-wen has not undertaken further measures to deepen economic ties with China in accordance with the ECFA, and she has re-emphasized the "go south" strategy.⁶⁴ The question of whether her strategy will be effective in defying China's commercial diplomacy must be answered through more research in the future.

⁶⁰ Ciorciari, "The Balance of Great-power Influence in Contemporary Southeast Asia", 157-59.

⁶¹ Kastner, *Political Conflict and Economic Interdependence Across the Taiwan Strait*, 55-67; Tanner, *Chinese Economic Coercion Against Taiwan*, 45-47.

⁶² Huang, "TPP versus ECFA", 98-102.

⁶³ Magcamit and Tan, "Crouching Tiger, Lurking Dragon", 92-99; Singh, "Can Taiwan Talk 'Political' with the Mainland", 264-66.

⁶⁴ Ministry of Economic Affairs, R.O.C., "New Southward Policy", May 31, 2016, accessed March 25, 2017,

https://www.moea.gov.tw/MNS/english/news/News.aspx?kind=6&menu_id=176&news_id=54317

Beyond the bilateral level of cross-Strait relations, scholars have pointed out that numerous multilateral institutions and integration mechanisms in the Asia-Pacific region have seemingly helped East Asian leaders to counter China's commercial diplomacy.⁶⁵ The US and its allies play an important role in this regard. Indeed, as China has played an influential role within East Asian economic integration mechanisms, ASEAN states have advocated the inclusion of Japan, India, and US allies in Oceania, as has been the case in APS and RCEP.⁶⁶ Despite that fact that the ASEAN-constructed regionalism only covers East Asian countries in the economic realm, the US and other regional great powers, such as Russia, have been invited to attend the ASEAN Regional Forum.⁶⁷ Most importantly, although the majority of East Asian leaders prefer to collaborate with China in pursuing their economic interests, they also engage with Washington so as to acquire membership to the US-led TPP.⁶⁸ So far, Washington's plan to retreat from the TPP magnifies China's regional influence, especially considering Beijing's AIIB and "One Belt One Road" initiatives.⁶⁹ However, this cannot be a supplementary explanation for "offensive realism".

As briefly discussed in chapter 1, literature on "offensive realism" asserts that, accompanied with rapid economic growth, China should be able to challenge US

⁶⁵ Ciorciari, "The Balance of Great-Power Influence in Contemporary Southeast Asia", 159-62; Thomas G. Moore, "China's Rise in Asia: Regional Cooperation and Grand Strategy", in *The Evolution of Regionalism in Asia: Economic and Security issues*, ed. Heribert Dieter (New York: Routledge, 2007), 39-48.

⁶⁶ Panda, "Factoring the RCEP and the TPP", 51-53; Hamanaka, "TPP versus RCEP", 174-77.

⁶⁷ Frost, *Asia's New Regionalism*, 136-39.

⁶⁸ Cheng and Chow, "The TPP and the Pivot", 124-29.

⁶⁹ David Smith, "Trump Withdraws from Trans-Pacific Partnership amid Flurry of Orders", *The Guardian*, January 23, 2017, accessed February 28, 2017 <https://www.theguardian.com/us-news/2017/jan/23/donald-trump-first-orders-trans-pacific-partnership-tpp>; John J. Mearsheimer, "Say Goodbye to Taiwan", *The National Interest* (March-April 2014) <http://nationalinterest.org/article/say-goodbye-taiwan-9931>

hegemony so as to vie for a “monopoly of domination” in the Asia-Pacific region.⁷⁰ In this case, the conflicting interests between Washington and Beijing on regional “flashpoints”, such as Taiwan, can be *casus belli* of a China-US war.⁷¹ By considering China’s recent “assertive” attitude (or “new assertiveness”) in managing the contentious sovereignty issues to Taiwan, the Senkaku/Diaoyu Islands, and the South China Sea, the prophecy of “offensive realism” is much more likely to become reality.⁷² However, arguments about “offensive realism” do not stand well if one contemplates China’s regional strategy through the lens of commercial diplomacy.

Building on commercial diplomacy, regional economic integration is not a “zero-sum” game in essence.⁷³ As a result, the expansion of China’s regional influence does not necessarily result in the decline of US influence, and *vice versa*. Specifically, it is reasonable to argue that China’s intention behind the APT and RCEP is to pursue regional leadership by “balancing” US regional influence.⁷⁴ It is also correct to argue that the effectiveness of China’s commercial diplomacy has been enhanced by its active initiatives to construct East Asian regionalism and by the decline of US relevance in the process of East Asian economic integration.⁷⁵ This narrative only becomes false when it is asserted that Beijing can use its economic power to expel the US from East Asia, leaving China as the only regional hegemon.⁷⁶

Ascribing the failure of Washington’s regionalism strategy to Beijing’s growing

⁷⁰ Mearsheimer, *The Tragedy of Great Power Politics*, 370-94.

⁷¹ Ibid., 394-95; see also: Mearsheimer, “Say Goodbye to Taiwan”.

⁷² Ibid., for examples of “China’s new assertiveness”, see also: Johnston, “China’s New Assertiveness?”, 14-32; Nie, “Xi Jinping’s Foreign Policy Dilemma”, 435-37.

⁷³ Frost, “China’s Commercial Diplomacy in Asia”, 97.

⁷⁴ Panda, “Factoring the RCEP and the TPP”, 49-52; Wesley, “Trade Agreements and Strategic Rivalry in Asia”, 479-81.

⁷⁵ Frost, *Asia’s New Regionalism*, 110-14.

⁷⁶ Mearsheimer, “Say Goodbye to Taiwan”.

regional influence is equivalent to contending that the China-driven RCEP, AIIB, or “One Belt One Road” can defeat the US-led TPP, APEC and so on, which conflicts with reality.⁷⁷ In fact, the decline of US regional influence has not been caused by the emergence of Chinese hegemony. Conversely, it was Washington’s hegemonic approach to furthering its economic interests that negatively impacted on its regional influence, as was the case for the decline of APEC’s relevance after the 1997 Asian financial crisis.⁷⁸ Washington’s recent unilateral announcement that it would discard its TPP initiative is further evidence of this.⁷⁹

In addition, China’s achievements in expanding its regional influence cannot be explained by “offensive realism”. As many scholars have pointed out, rather than aiming to be a regional hegemon, China’s motivation in integrating itself into multilateral mechanisms in the Asia-Pacific region is to deter collaboration between the US and its allies that defies Beijing’s “core interests”.⁸⁰ For example, as discussed in chapter 3, with support from the US and its allies in the late 1980s, Taiwan’s success in obtaining membership in APEC challenged China’s sovereignty interests with regard to Taiwan.⁸¹ Incidents such as this should be uncommon, since China has become an important actor in regional multilateral mechanisms. Following the decline of Washington’s role in constructing regionalism in the Asia-Pacific region, Beijing should become more influential, but this does not mean that China will take this opportunity to be an “assertive” regional hegemon.

⁷⁷ Ibid.

⁷⁸ Terada, “The US Struggles in APEC’s Trade Politic”, 56-58.

⁷⁹ Smith, “Trump Withdraws from Trans-Pacific Partnership amid Flurry of Orders”.

⁸⁰ Shaun Breslin, “Understanding China’s Regional Rise: Interpretations, Identities and Implications”, *International Affairs* 85, no. 4 (2009): 819; Wesley, “Trade Agreements and Strategic Rivalry in Asia”, 481-84.

⁸¹ Cheung, “APEC as a Regime for Taiwan’s Independence with the United States and Mainland China”, 29-33.

Specifically, as introduced in chapter 1, analyses based on “Chinese assertiveness” and “offensive realism” indicate that China’s current regional strategy has no legacy of “peaceful development” or “peaceful rise”, despite the prominence of such “peaceful strategies” in China’s foreign policy.⁸² It is true that Chinese President Xi Jinping has proposed a “Chinese dream” that envisages ambitious future economic growth; however, this is not a substitution for “peaceful development”.⁸³ Rather, these two concepts often coexist, as was the case in President Xi’s speech in London in October 2015.⁸⁴

Finally, contrary to the predictions of “offensive realism” and “Chinese assertiveness”, despite the US shifting its focus from East Asia to the Middle East following the onset of the “war on terror”, Beijing has still spared no effort to ameliorate this tension in the process of East Asian economic integration by utilizing commercial diplomacy.⁸⁵ The most significant evidence of this is the “Declaration on the Conduct of Parties in the South China Sea”.⁸⁶ The other important case is the PRC-Taiwan relations under Chen Shui-bian’s presidency. Indeed, despite Taipei’s firm attitude in pursuing *de jure* independence, preferential policy targeting Taiwanese businessmen remained a major instrument of Beijing’s Taiwan policy.⁸⁷ So far, under the guideline of the “Chinese dream” and “peaceful development”, China is now forging the “One Belt One Road” and the AIIB initiatives.⁸⁸ Although

⁸² Johnston, “China’s New Assertiveness?”, 35-36; Mearsheimer, *The Tragedy of Great Power Politics*, 370-94.

⁸³ Ferdinand, “Westward Ho-The China Dream and ‘One Belt, One Road’”, 942-48.

⁸⁴ Ministry of Foreign Affairs of the People’s Republic of China, “Work Together to Promote Openness, Inclusiveness and Peaceful Development”, October 22, 2015, accessed February 28, 2017 http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdygjxgsfw/t1308151.shtml

⁸⁵ Frost, *Asia’s New Regionalism*, 112-19.

⁸⁶ ASEAN, “Declaration on the Conduct of Parties in the South China Sea”, 2012, accessed February 28, 2017 http://asean.org/?static_post=declaration-on-the-conduct-of-parties-in-the-south-china-sea-2

⁸⁷ Sun, “Economic Relations Across the Taiwan Straits and Beijing’s Policy Adjustment”, 72-81.

⁸⁸ Ferdinand, “Westward Ho-The China Dream and ‘One Belt, One Road’”, 948-55.

the question of whether these initiatives will enable Beijing to soothe sovereignty disputes with other East Asian countries requires future research, it appears that commercial diplomacy is still prominent in China's contemporary regional strategy. "Offensive realism" and "Chinese assertiveness" are therefore not applicable to the study of China's strategies and its role in the Asia-Pacific region.

7.5 Research Limitations and Suggestions for Future Research

This thesis has evaluated the effectiveness of China's and Taiwan's commercial diplomacy in reconciling their economic and sovereignty interests between 2008 and 2014 in particular. However, there are several variables that may influence the effectiveness of both sides' commercial diplomacy but which are not included in this thesis. These variables are: the DPP's return to the governing power, Washington's withdraw from the TPP, and the decline of China's economic growth.

First of all, the DPP returned to governing power after defeating the KMT in the presidential election in 2016. So far, Taiwanese new President Tsai Ing-wen has adopted a very ambivalent attitude towards the 1992 Consensus. In her inauguration speech on May 20 in 2016, she admitted the existence of the 1992 Consensus in the negotiations between the SEF and ARATS under President Lee Teng-hui's presidency.⁸⁹ However, she makes no response to the question of whether she accepts the 1992 Consensus or not. In this case, the progress of cross-Strait economic integration may still be stagnant. Moreover, as Chinese President Xi Jinping has warned Taiwan that its refusal of the 1992 Consensus will cause "the earth to move

⁸⁹ Mainland Affairs Council, Republic of China (Taiwan), "Inaugural Address of ROC 14-th Term President Tsai Ing-wen".

and mountains to shake”.⁹⁰ In this regard, Beijing’s response to Taiwan’s new government’s ambivalent attitude towards the 1992 Consensus is also difficult to predict. Future research should pay close attention to these issues, as these may impinge upon not only both sides’ commercial diplomacy but also the stability across the Taiwan Strait.

Furthermore, as mentioned in Chapter 3 and 6, the TPP was concluded in 2015, but the question of whether Taiwan could successfully participate in this regional economic integration mechanism remains unclear. Washington’s attitude is a key determinant. Under Ma Ying-jeou’s presidency, because of the fierce debate within Taiwanese society over the issue of opening agricultural imports from the US, it was difficult for Taipei to obtain US support for participating in TPP.⁹¹ Notably, the new DPP administration has promised to lead Taiwan to the TPP and Taipei even plans to conclude the TIFA with Washington.⁹² This then raise two questions worthy of consideration. Firstly, will Taipei successfully make a breakthrough on domestic politics to finalize the TIFA with the US? Secondly, will Taipei obtain Washington’s support to access the TPP in the context of relatively cold cross-Strait relations? If all of these possibilities come true, this may in turn impinge upon the effectiveness of Beijing’s commercial diplomacy towards Taiwan.

Finally, as discussed in Chapter 6, China’s export growth rate was in recession between 2012 and 2014 (see Table 6.2.4). Combined with the recent decline in

⁹⁰ Tien-lin Huang, “Soft Chinese Lion Hard to Swallow”.

⁹¹ Kuo-Hsin Liang, interviewed by author, March 14, 2014; Chi Su, interviewed by author, March 18, 2014.

⁹² Stephanie Chao, “Tsai Seeks US Support in TPP Bid”, *The China Times*, May 23, 2016, accessed August 31, 2016, <http://www.chinapost.com.tw/taiwan/national/national-news/2016/05/23/467002/Tsai-seeks.htm>

China's economic growth rate,⁹³ this may have caused negatively impact on Taiwanese manufacturers in the Mainland. Under these circumstances, whether this would further motivate Taiwanese manufacturing industries to relocate their production lines to Southeast Asia (in addition to the rising cost of production) needs further observation. If this is the case, the degree of Taiwan's economic dependence will be further decreased, which would weaken the effectiveness of Beijing's commercial diplomacy towards Taiwan.

⁹³ Mark Magnier, "China Economic Growth Falls Below 7% for First Time Since 2009".

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Appendix I The List of Cross-Strait Agreements signed after 2008

Date	Agreement	Note
13.06.2008	Cross-Strait Agreement on Travel by Mainland Residents to Taiwan	
13.06.2008	Minutes of Talks on Cross-Strait Charter Flights	This is the agreement of Cross-Strait Charter Flights
14.11.2008	Cross-Strait Air Transport Agreement	The “Three Direct Links” across the Taiwan Strait
14.11.2008	Cross-Strait Sea Transport Agreement	
14.11.2008	Cross-Strait Postal Service Agreement	
14.11.2008	Cross-Strait Food Safety Agreement	
26.04.2009	Agreement on Joint Cross-Strait Crime-Fighting and Mutual Judicial Assistance	
26.04.2009	Cross-Strait Financial Cooperation Agreement	
26.04.2009	Supplementary Agreement on Cross-Strait Air Transport	
22.12.2009	Cross-Strait Agreement on Cooperation in Inspection and Quarantine of Agricultural Products	
22.12.2009	Cross-Strait Agreement on Cooperation in Respect of Standards, Metrology, Inspection, and Accreditation	
22.12.2009	Cross-Strait Agreement on Cooperation in Fishing Crew Affairs	
29.06.2010	Cross-Strait Economic Cooperation Framework Agreement	ECFA
29.06.2010	Cross-Strait Agreement on Intellectual Property Rights Protection and Cooperation	ECFA
23.12.2010	Cross-Strait Agreement on Medical and Health	
20.10.2011	Cross-Strait Agreement on Nuclear Safety and Cooperation	
09.08.2012	Cross-Strait Bilateral Investment Protection and Promotion Agreement	ECFA
09.08.2012	Cross-Strait Customs Cooperation Agreement	ECFA
21.06.2013	Cross-Strait Agreement on Trade in Services	ECFA, Pending in

		effects
27.02.2014	Cross-Strait Collaboration Agreement on Seismological Monitoring	Pending in effects
27.02.2014	Cross-Strait Collaboration Agreement on Meteorology	Pending in effects

Sources: Straits Exchange Foundation, “Chronology of Meetings”¹

¹ Straits Exchange Foundation, “Chronology of Meetings”, 2015, accessed April 17, 2015.
<http://www.sef.org.tw/lp.asp?CtNode=4382&CtUnit=2567&BaseDSD=21&mp=300&nowPage=1&pagesize=30>

Appendix II The List of Interviewees

Elite Interviewees in Taiwan			
Interviewee	Date	Duration	Position/Practical Experience
1. Dr. Yen Jian-Fa (DPP)	16/10/2013	14:40-15:45	Chairman, Committee of Research and Planning, Ministry of Foreign Affairs, R.O.C. (2004-2006)
2. Dr. Tzeng Chien-Yuan (DPP)	21/10/2013	18:30-21:30	1. Associate Professor, Graduate Institute of National Development, National Taiwan University 2. Former Chairman, Association of Taiwan Development and Cultural Exchange
3. Prof. Chen Ming-Tong (DPP)	28/10/2013	10:00-11:00	1. Minister, Mainland Affairs Council, R.O.C. (2007-2008) 2. Deputy Minister, Mainland Affairs Council, R.O.C. (2000-2004)
4. Prof. Lin Chong-Pin (Impartial)	19/02/2014	15:30-17:00	1. Deputy Minister, Ministry of National Defense, R.O.C. (2003-2004) 2. Councilor, National Security Council, R.O.C. (2002-2003) 3. Deputy Minister of Mainland Affairs Council, R.O.C. (1996-2002)
5. Mrs. Hsu Chun-Fang (Impartial)	10/03/2014	15:00-16:30	1. Former Deputy Director, Bureau of Foreign Trade, Ministry of Economic Affairs, R.O.C. 2. She has represented Taiwan to negotiate the ECFA with China for 11 times.
6. Dr. Lu Jiun-Wei (Impartial)	10/03/2014	19:200-21:30	1. Associate Researcher, Taiwan Institute of Economic Research
7. Mr. Liang Kuo-Hsin (Impartial)	14/03/2014	15:00-17:00	1. Advisor, Executive Yuan, R.O.C. (2014.2-) 2. Deputy Minister, Ministry of Economic Affairs (2009.10-2014.2)
8. Prof. Su Chi (KMT)	18/03/2014	15:00-16:00	1. General Secretary, National Security Council, R.O.C. (2008-2010) 2. Minister of Mainland Affairs Council, R.O.C. (1999-2000) 3. Convener, National Unification Council, R.O.C. (1997-1999) 4. Deputy Minister of Mainland Affairs Council, R.O.C. (1993-1996)
9. Dr. Hong Tsai-Lung (DPP)	20/03/2014	16:30-17:30	1. Director, Department of China Affairs, Democratic Progressive Party
10. Prof. Liu Chao-Shiuan (KMT)	24/03/2014	14:00-14:45	1. Premier of R.O.C. (2008-2009) 2. Vice Premier of R.O.C. (1997-2000)
11. Prof. Chao Chien-Min (KMT)	04/04/2014	14:30-15:30	1. Deputy Minister of Mainland Affairs Council, R.O.C. (2008-2012)
12. Prof. Lo Chih-Cheng (DPP)	08/04/2014	10:30-11.30	1. Director, Taipei County Branch, Democratic Progressive Party (2012-) 2. Councilor, Mainland Affairs Council, R.O.C. (2004-2006)

			3. Councilor, Ministry of Foreign Affairs, R.O.C. (2002-2004) 4. Chairman, Committee of Research and Planning, Ministry of Foreign Affairs, R.O.C. (2000-2002)
13. Prof. Huang Chieh-Cheng (DPP)	10/04/2014	16:00-17:00	1. Deputy Minister, Mainland Affairs Council, R.O.C. (2003-2005) 2. Senior Political Consultant, Taipei Economic and Cultural Representative Office in the U.S. (1993-1998)
14. Mrs. Chou Tsao-Shan (Impartial)	15/04/2014	12:30-14:00	1. General Secretary, Ministry of Economic Affairs, R.O.C.
15. Mr. Brian H. Lin	11/12/2014	15:00-20:00	Managing Director, AMMAMSIC Technology Group
16. Mr. Henry H. Ho	11/12/2014	15:00-20:00	Vice President, iOTEO
17. Mr. Tu Chi-Hsiang	13/12/2014	09:00-11:00	Director-General, Hsinchu Science Park Bureau, Ministry of Science and Technology
18. Mr. Jacky B. Chen	16/12/2014	10:00-11:30	Manager, Corporate Development Dept., Yageo Corporation
19. Mrs. Dora W. Chang	16/12/2014	10:00-11:30	CEO, Yageo Corporation
20. Mr. Kent S. Chien	16/12/2014	11:00-13:00	General Manager, Graphics Card Business Unit, ASUS
Elite Interviewees in China			
Interviewee	Date	Duration	Position/Practical Experience
21. Prof. Wang Yong	11/11/2013	14:00-15:00	Director, Center for International Political Economy, Peking University
	25/11/2013	15:00-16:00	
22. Prof. Zhang Zhirong	11/11/2013	15:00-17:00	Executive Director, School of Taiwan Studies, Peking University
23. Dr. Jie Dalei	11/11/2013	15:00-17:00	Assistant Professor, School of International Studies, Peking University
	15/11/2013	14:00-16:00	
24. Prof. Pang Zhongying	29/11/2013	Email	Professor, School of International Studies, Renmin University
25. Prof. Li Yihu	02/12/2013	16:00-17:00	1. Dean, School of International Studies, Peking University 2. Dean, School of Taiwan Studies, Peking University 3. Member, Foreign Affairs Committee of the National People's Congress, P.R.C.
26. Prof. Chen Fenglin	05/12/2013	17:00-22:00	Professor, Department of Diplomacy and Foreign Affairs Management, China Foreign Affairs University
27. Prof. Pan Rui	10/12/2013	12:00-14:00	Professor, Center for American Studies, Fudan University
28. Prof. Xia Liping	13/12/2013	09:00-10:00	1. Dean, School of Political Science and International Studies, Tongji University 2. Researcher, Taiwan Affairs Office of the State Council, P.R.C.
29. Prof. Liu Guoshen	16/12/2013	17:30-19:00	Dean, Taiwan Research Institute, Xiamen University
30. Dr. Zhang Wensheng	20/12/2013	14:30-16:00	Director of Political Sciences, Taiwan Research Institute, Xiamen University
Chinese Scholars Interviewed in Taiwan			

31. Prof. Tang Yonghong	12/10/2013	18:00-21:30	1. Director, Economy Research Center of Taiwan Research Institute of Xiamen University 2. Researcher, Taiwan Affairs Office of the State Council, P.R.C.
32. Prof. Chen Xiancai	29/10/2013	10:00-12:00	Deputy Director of Political Sciences, Taiwan Research Institute, Xiamen University

Appendix III The Statistics of East Asian Parts and Components Trade

In order to explore the process of East Asian regionalization, this thesis provides statistics of East Asian ‘parts and components trade’ as most scholars did in their research.² But it is essential to stress that this approach could only analyze regional parts and components trade in broad terms. The “Harmonized System of trade classification (HS)” and the “Standard International Trade Classification (SITC)” are two widely applied standards to discern part and components commodities from all other manufactured goods.³ However, as Prema-chandra Athukorala has noted, there is no classification standard of commodities that can enable scholars to purely extract ‘parts and components’ goods from all manufacturing products; neither is there any clear standard to catalogue commodities into ‘parts and components trade’.⁴ For example, by reviewing the “HS Classification by Section”, we can observe that machinery components are grouped into Catalogue 84, but ‘nuclear reactors’ (HS8401) are also labeled as within this grouping.⁵ Moreover, the classification standard of commodities in the HS is also too detailed to draw out all ‘parts and components’ products from the list. While the “SITC Revision 3” could go some way to resolving this problem, some machinery components are labeled outside the machinery catalogue (SITC7).⁶

Owing to the flaws of HS and SITC classifications, this chapter adopts both of these standards in combination to illustrate East Asian parts and components trade as accurately as possible. Specifically, HS is applied to identify specific commodities whilst the SITC is adopted to label parts and components commodities. The detail classification of commodities is listed in Table 1 below. In addition, the “UN

² Athukorala, “Production Networks and Trade Patterns in East Asia”, 65-95; Baldwin, “Managing the Noodle Bowl”, 449-478.

³ Athukorala, “Production Networks and Trade Patterns in East Asia”, 67-70.

⁴ Ibid.

⁵ United Nations International Trade Statistics Knowledgebase, “HS Classification by Section”, 2010, accessed January 24, 2016.

<http://unstats.un.org/unsd/tradekb/Knowledgebase/HS-Classification-by-Section>

⁶ Athukorala, “Production Networks and Trade Patterns in East Asia”, 67-70; United Nations International Trade Statistics Knowledgebase “Standard International Trade Classification Revision 3”, 2010, accessed January 24, 2016,

<http://unstats.un.org/unsd/tradekb/Knowledgebase/Standard-International-Trade-Classification-Revision-3>

Comtrade Database” is the major source of statistics data in this chapter, as it is the only database that collects comprehensive statistics of international trade labeled by commodities. Nevertheless, this database does not include every country’s annual statistics of every classification standard. For instance, Taiwan is not included in this database, and most SITC data of ASEAN economies is also missing before 1995. As a result, the SITC statistics shown in this chapter are from 1995 to 2014, but the statistics of HS may more or less make up for this shortage, as they cover the statistics of major commodities of parts and components trade in East Asia between 1990 and 2014 (except for China). By employing these data, statistics on intra-regional parts and components total trade of Japan, Taiwan, South Korea and China are tabulated from Table 3.3.6 to Table 3.3.9 in chapter 3. Table 2 to Table 13 contained in this appendix further tabulated detail data of exports and imports of their intra-regional components trade.

Table 1: Definition of Commodities in HS and SITC Codes

SITC Revision 3	
Commodities	SITC Code and Catalogue
Manufacturing Products	SITC5- Chemicals and Related Products, n.e.s. SITC6- Manufactured Goods Classified Chiefly by Material SITC7- Machinery and Transport Equipment SITC8- Miscellaneous Manufactured Articles SITC9- Commodities and Transactions not Classified Elsewhere in the SITC
Commodities of Parts and Components	SITC75- Office machines and automatic data-processing machines SITC76- Telecommunications and sound-recording and reproducing apparatus and equipment SITC77- Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment) SITC78- Road vehicles (including air-cushion vehicles) SITC87- Professional, scientific and controlling instruments and apparatus, n.e.s. SITC88- Photographic apparatus, equipment and supplies and optical goods, n.e.s.; watches and clocks
HS	
Commodities	HS Code and Catalogue
East Asian Major Commodities of Parts and Components	HS82- Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal. HS83- Miscellaneous articles of base metal HS84- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof HS85- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles, HS87- Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof. HS90- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and

	accessories thereof
Electronic/Information and Communication Technology (ICT) products	HS85 -Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles HS90 -Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
Automobiles	HS87 -Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.
Note: The classification of 'parts and components' commodities is based on Prema-Chandra Athukorala's work of "Production Networks and Trade Patterns in East Asia: Regionalization or Globalization", <i>Asian Economic Paper</i> 10:1 (2011), p. 69.	

Sources: Compiled from the United Nations International Trade Statistics Knowledgebase⁷

Table 2: East Asian Economies' Share of Japan's Intra-regional Exports in Electronic Components (HS85+HS90)

Country \ Year	1990	1995	2000	2005	2010	2014
Brunei Darussalam	0.03%	0.04%	0.00%	0.00%	0.01%	0.01%
Cambodia	0.00%	0.03%	0.01%	0.01%	0.01%	0.04%
China	7.48%	9.79%	15.62%	31.68%	42.52%	44.08%
China, Hong Kong SAR	22.69%	19.43%	19.75%	20.79%	16.80%	15.77%
Indonesia	2.62%	3.05%	3.15%	2.10%	2.27%	2.39%
Lao People's Dem. Rep.	0.01%	0.00%	0.00%	0.00%	0.01%	0.01%
Malaysia	9.00%	13.78%	10.60%	5.61%	5.88%	4.35%
Myanmar	0.08%	0.03%	0.04%	0.01%	0.02%	0.07%
Philippines	3.00%	4.89%	7.72%	5.02%	3.99%	4.13%
Rep. of Korea	22.79%	18.20%	19.57%	18.07%	11.87%	12.76%
Singapore	23.41%	21.79%	15.70%	8.71%	6.84%	5.64%
Thailand	8.65%	8.76%	7.21%	7.19%	8.09%	7.43%
Viet Nam	0.23%	0.21%	0.63%	0.80%	1.69%	3.34%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database⁸

⁷ United Nations International Trade Statistics Knowledgebase "HS Classification by Section", 2010, accessed 24 January 2016,

<http://unstats.un.org/unsd/tradekb/Knowledgebase/HS-Classification-by-Section>

United Nations International Trade Statistics Knowledgebase "Standard International Trade Classification Revision 3", 2010, accessed 24 January 2016,

<http://unstats.un.org/unsd/tradekb/Knowledgebase/Standard-International-Trade-Classification-Revision-3>

⁸ UN, "United Nations Comtrade Database", 2016, accessed January 24, <http://comtrade.un.org>

Table 3: East Asian Economies' Share of Japan's Intra-regional Imports in Electronic Components (HS85+HS90)

Country \ Year	1990	1995	2000	2005	2010	2014
Brunei Darussalam	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Cambodia	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%
China	11.49%	22.43%	32.44%	49.45%	60.86%	67.17%
China, Hong Kong SAR	5.82%	4.53%	2.12%	0.74%	0.31%	0.21%
Indonesia	1.12%	1.95%	4.17%	2.74%	2.35%	1.92%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	10.72%	16.13%	16.83%	9.30%	8.13%	6.38%
Myanmar	0.00%	0.00%	0.02%	0.01%	0.00%	0.01%
Philippines	3.96%	4.95%	9.58%	7.79%	3.94%	4.39%
Rep. of Korea	44.27%	29.82%	17.88%	16.06%	11.40%	8.67%
Singapore	14.19%	10.58%	7.74%	3.52%	3.29%	2.42%
Thailand	8.42%	9.58%	8.39%	8.56%	6.72%	5.40%
Viet Nam	0.00%	0.03%	0.85%	1.83%	2.98%	3.39%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database⁹

Table 4: East Asian Economies' Share of Japan's Intra-regional Exports in Automobile Components (HS87)

Country \ Year	1990	1995	2000	2005	2010	2014
Brunei Darussalam	0.90%	0.48%	0.52%	0.56%	0.32%	0.22%
Cambodia	0.03%	0.23%	0.22%	0.17%	0.09%	0.23%
China	3.82%	7.13%	14.79%	30.02%	50.55%	49.11%
China, Hong Kong SAR	11.70%	14.04%	12.03%	5.90%	2.95%	3.99%
Indonesia	13.87%	13.43%	12.82%	10.21%	10.02%	9.15%
Lao People's Dem. Rep.	0.11%	0.07%	0.13%	0.07%	0.11%	0.33%
Malaysia	14.21%	13.48%	14.06%	11.63%	8.20%	8.16%
Myanmar	0.54%	0.44%	0.26%	0.18%	0.18%	3.30%
Philippines	7.68%	8.46%	7.98%	4.24%	3.61%	4.75%
Rep. of Korea	7.36%	5.83%	8.08%	8.80%	6.40%	3.91%
Singapore	10.40%	6.19%	11.75%	8.44%	1.63%	2.61%
Thailand	28.52%	28.62%	15.50%	17.74%	14.77%	11.98%
Viet Nam	0.85%	1.61%	1.85%	2.04%	1.17%	2.25%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁰

⁹ Ibid.

¹⁰ Ibid.

Table 5: East Asian Economies' Share of Japan's Intra-regional Imports in Automobile Components (HS87)

Country \ Year	1990	1995	2000	2005	2010	2014
Cambodia	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%
China	9.92%	41.45%	50.62%	57.34%	52.68%	56.80%
China, Hong Kong SAR	5.34%	1.72%	1.25%	0.52%	0.02%	0.05%
Indonesia	5.51%	7.37%	5.38%	6.26%	7.19%	6.64%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	1.77%	5.79%	2.23%	1.39%	1.27%	1.08%
Myanmar	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Philippines	10.75%	10.03%	9.48%	5.55%	3.79%	2.85%
Rep. of Korea	56.14%	21.64%	13.16%	12.55%	9.48%	9.99%
Singapore	2.09%	4.70%	2.09%	0.32%	0.14%	0.24%
Thailand	8.50%	7.26%	15.35%	14.44%	20.12%	15.73%
Viet Nam	0.00%	0.04%	0.43%	1.64%	5.31%	6.59%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹¹

Table 6: East Asian Economies' Share of Taiwan's Intra-regional Exports in Electronic Components (HS85+HS90)

Country \ Year	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.00%	0.00%	0.00%	0.00%
Cambodia	0.73%	4.29%	33.82%	41.44%	37.04%
China	40.06%	38.53%	30.49%	24.40%	26.52%
China, Hong Kong SAR	1.61%	0.54%	0.42%	0.31%	0.26%
Indonesia	17.62%	20.41%	11.49%	9.67%	7.08%
Lao People's Dem. Rep.	0.01%	0.01%	0.00%	0.01%	0.01%
Malaysia	5.82%	8.07%	6.17%	7.72%	7.72%
Myanmar	0.00%	0.00%	0.00%	0.00%	0.00%
Philippines	7.46%	6.29%	3.87%	2.91%	3.54%
Rep. of Korea	0.00%	0.01%	0.00%	0.01%	0.01%
Singapore	1.74%	5.08%	3.61%	2.58%	2.30%
Thailand	18.38%	13.60%	7.55%	8.58%	12.73%
Viet Nam	6.15%	2.77%	2.34%	1.94%	1.65%
Brunei Darussalam	0.42%	0.41%	0.24%	0.42%	1.15%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on the data compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)¹²

¹¹ Ibid.

¹² Bureau of Foreign Trade, Ministry of Economic Affairs, Republic of China, "Trade Statistics", 2016, accessed January 24, 2016, <http://cus93.trade.gov.tw/ENGLISH/FSCE/>.

Table 7: East Asian Economies' Share of Taiwan's Intra-regional Imports in Electronic Components (HS85+HS90)

Year Country	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.00%	0.00%	0.00%	0.00%
Cambodia	2.71%	7.07%	18.75%	33.36%	41.94%
China	4.35%	3.33%	2.05%	0.54%	0.47%
China, Hong Kong SAR	0.28%	0.50%	0.54%	0.39%	0.33%
Indonesia	62.46%	46.54%	37.72%	30.36%	22.68%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	10.92%	11.48%	20.06%	14.97%	12.82%
Myanmar	0.00%	0.00%	0.00%	0.00%	0.00%
Philippines	7.87%	10.50%	6.25%	5.90%	6.12%
Rep. of Korea	0.00%	0.00%	0.02%	0.01%	0.01%
Singapore	1.53%	7.80%	4.88%	2.91%	2.49%
Thailand	7.47%	9.60%	7.40%	8.97%	9.70%
Viet Nam	2.40%	3.10%	2.21%	2.42%	2.04%
Brunei Darussalam	0.01%	0.08%	0.13%	0.18%	1.39%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on the data compiled from the Database of Trade Statistics, Bureau of Foreign Trade, Ministry of Economic Affairs (R.O.C.)¹³

Table 8: East Asian Economies' Share of South Korea's Intra-regional Exports in Electronic Components (HS85+HS90)

Year Country	1990	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.02%	0.02%	0.00%	0.00%	0.00%
Cambodia	0.00%	0.00%	0.01%	0.01%	0.01%	0.06%
China	6.69%	5.86%	17.10%	47.96%	60.13%	60.56%
China, Hong Kong SAR	19.05%	18.00%	18.44%	16.89%	15.88%	14.99%
Indonesia	1.69%	2.40%	2.21%	1.34%	1.17%	0.77%
Japan	46.38%	32.67%	23.27%	15.83%	8.56%	5.31%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Malaysia	5.92%	9.35%	9.78%	3.33%	2.64%	1.81%
Myanmar	0.04%	0.15%	0.06%	0.01%	0.02%	0.06%
Philippines	2.02%	2.66%	8.75%	3.41%	2.68%	3.32%
Singapore	14.25%	24.10%	15.68%	8.23%	5.91%	4.38%
Thailand	3.96%	3.76%	4.12%	2.20%	1.39%	1.06%
Viet Nam	0.00%	1.04%	0.55%	0.79%	1.60%	7.69%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁴

¹³ Ibid.

¹⁴ UN, "United Nations Comtrade Database", 2016, accessed January 24, 2016,

Table 9: East Asian Economies' Share of South Korea's Intra-regional Imports in Electronic Components (HS85+HS90)

Country \ Year	1990	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%
Cambodia	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%
China	5.14%	4.72%	14.07%	28.91%	49.35%	55.26%
China, Hong Kong SAR	5.27%	3.66%	3.28%	3.29%	1.78%	1.57%
Indonesia	0.04%	0.26%	0.56%	0.68%	0.84%	0.76%
Japan	82.81%	78.51%	59.70%	44.90%	27.19%	21.38%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	2.24%	3.85%	7.97%	5.25%	4.65%	3.44%
Myanmar	0.00%	0.02%	0.02%	0.00%	0.00%	0.00%
Philippines	0.48%	1.08%	4.45%	4.08%	3.23%	2.44%
Singapore	3.49%	6.71%	7.30%	10.27%	9.63%	10.09%
Thailand	0.54%	1.13%	2.48%	2.46%	2.69%	2.28%
Viet Nam	0.00%	0.06%	0.19%	0.16%	0.64%	2.71%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁵

Table 10: East Asian Economies' Share of China's Intra-regional Exports in Electronic Components (HS85+HS90)

Country \ Year	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.00%	0.01%	0.01%	0.04%
Cambodia	0.03%	0.06%	0.02%	0.06%	0.07%
China, Hong Kong SAR	53.20%	44.44%	54.38%	56.43%	55.65%
Indonesia	1.40%	2.09%	1.41%	2.04%	2.23%
Japan	31.18%	30.34%	19.16%	15.51%	12.81%
Lao People's Dem. Rep.	0.03%	0.03%	0.03%	0.04%	0.26%
Malaysia	1.85%	3.75%	3.72%	3.80%	3.66%
Myanmar	0.39%	0.21%	0.09%	0.22%	0.54%
Philippines	0.78%	1.76%	1.69%	1.32%	1.30%
Rep. of Korea	4.34%	8.02%	9.58%	11.56%	12.87%
Singapore	5.19%	7.39%	7.47%	4.66%	3.90%
Thailand	1.13%	1.75%	2.01%	2.38%	2.36%
Viet Nam	0.49%	0.16%	0.43%	1.97%	4.32%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁶

<http://comtrade.un.org> .

¹⁵ Ibid.

¹⁶ Ibid.

Table 11: East Asian Economies' Share of China's Intra-regional Imports in Electronic Components (HS85+HS90)

Country \ Year	1995	2000	2005	2010	2014
Brunei Darussalam	0.00%	0.00%	0.00%	0.00%	0.00%
Cambodia	0.00%	0.00%	0.00%	0.00%	0.02%
China, Hong Kong SAR	18.01%	12.35%	4.34%	1.84%	0.74%
Indonesia	0.05%	0.78%	0.63%	0.72%	0.56%
Japan	65.53%	50.47%	33.61%	30.70%	24.87%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	1.69%	7.24%	11.27%	15.24%	14.52%
Myanmar	0.00%	0.01%	0.00%	0.01%	0.01%
Philippines	0.09%	2.95%	8.31%	4.72%	4.25%
Rep. of Korea	9.69%	17.88%	32.41%	37.16%	43.10%
Singapore	4.48%	5.33%	5.95%	4.79%	4.52%
Thailand	0.46%	2.95%	3.40%	4.20%	3.68%
Viet Nam	0.00%	0.03%	0.09%	0.63%	3.72%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁷

Table 12: East Asian Economies' Share of China's Intra-regional Exports in Automobile Components (HS87)

Country \ Year	1995	2000	2005	2010	2014
Brunei Darussalam	0.05%	0.01%	0.05%	0.08%	0.17%
Cambodia	0.52%	0.21%	0.20%	0.36%	0.74%
China, Hong Kong SAR	20.43%	17.30%	8.51%	6.38%	5.15%
Indonesia	6.12%	16.42%	10.03%	7.30%	7.63%
Japan	32.08%	29.98%	50.11%	36.87%	29.95%
Lao People's Dem. Rep.	1.37%	0.33%	0.53%	0.79%	1.13%
Malaysia	3.14%	1.75%	5.74%	7.69%	8.53%
Myanmar	9.05%	0.95%	1.62%	6.29%	6.92%
Philippines	4.07%	1.27%	4.36%	4.32%	6.41%
Rep. of Korea	2.59%	3.68%	7.77%	14.23%	10.26%
Singapore	7.88%	1.64%	2.12%	2.02%	2.26%
Thailand	8.11%	0.69%	3.44%	5.54%	7.38%
Viet Nam	4.60%	25.78%	5.53%	8.13%	13.47%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁸

¹⁷ Ibid.

¹⁸ Ibid.

Table 13: East Asian Economies' Share of China's Intra-regional Imports in Automobile Components (HS87)

Country \ Year	1995	2000	2005	2010	2014
Cambodia	0.00%	0.00%	0.00%	0.00%	0.01%
China, Hong Kong SAR	1.47%	0.60%	0.11%	0.01%	0.02%
Indonesia	0.08%	0.12%	0.57%	0.31%	0.86%
Japan	75.62%	88.40%	65.60%	78.59%	70.95%
Lao People's Dem. Rep.	0.00%	0.00%	0.00%	0.00%	0.00%
Malaysia	0.18%	0.93%	0.33%	0.55%	0.98%
Philippines	0.03%	0.00%	0.08%	0.05%	0.25%
Rep. of Korea	19.08%	7.89%	32.25%	19.76%	25.38%
Singapore	3.03%	1.68%	0.38%	0.32%	0.19%
Thailand	0.15%	0.37%	0.66%	0.30%	0.86%
Viet Nam	0.36%	0.00%	0.00%	0.10%	0.51%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Calculated by the author based on data compiled from the UN Comtrade Database¹⁹

¹⁹ Ibid.