Chapter 2
Taiwan’s Political and Economic Ecosystem

Following the civil war in China in the 1940s which led to the defeat of the KMT, and their retreat to Taiwan, the political divergence between Mainland China and Taiwan has essentially been one of contested sovereignty (Tang 2006). Beijing’s political position on Taiwan is to aim for national “reunification” and adheres to Deng Xiaoping’s “one country, two systems” formula, which has been the cornerstone of its “One-China” principle (albeit with changes in the formulation of what “One China” includes). Taiwan has officially maintained that:

The ROC has always been an independent sovereign state in the international community since its founding in 1912...given that division and divided rule on the two sides of the Taiwan Strait is a long-standing political fact, the ROC Government also holds that the two sides should be fully aware that each has jurisdiction over its respective territory and that they should coexist as two legal entities in the international arena.


Taiwan was under martial law from the 1950s through the 1980s following the KMT’s orthodox party line of the three no’s: “no contact, no negotiations and no compromises” with Mainland China (Wu 2005). However, its transformation from

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1 Mainland China’s main guideline for its Taiwan Policy is the “One Country, Two Systems” formulation advanced by Deng Xiaoping in 1979. Taiwan would enjoy a high degree of autonomy under it, but that autonomy would be preconditioned on Taipei’s giving up its sovereignty. It upholds both China’s state sovereignty while promising to take into account the specific conditions of Taiwan (coexistence of the socialist system with the capitalist system and way of life in Taiwan) within the sovereign state of “China”. See “A Policy of ‘One Country, Two Systems’ on Taiwan”, Ministry of Foreign Affairs of PRC at http://www.fmprc.gov.cn/eng/713.html. From insisting that “there is only one China in the world, Taiwan is an inalienable part of China, and the seat of China’s central government is in Beijing” (PRC’s White Paper on Taiwan, 31 August 1993), the present understanding on “One China” is that “there is only one China in the world and both Taiwan and the mainland are part of China” (Article 2 of the Anti-Secession Law adopted at the Third Session of the Tenth National People’s Congress, Monday, 13 March 2005).
an authoritarian one-party state (with lifting of the Martial law in 1987) to a full-fledged multiparty democracy by the mid-1990s gradually increased the political influence of the island’s business community (along with civil society and business interest groups). The political discourse on the island [with the chief opposition party, the Democratic Progressive Party (DPP) gathering more political space over time], steadfastly refused to acknowledge any consensus on the “One China” principle in any form.

In early 2006, then Taiwanese President Chen Shui-bian dissolved the National Unification Council, originally established for the purpose of negotiating unification with China (Benson and Niou 2007). Under the DPP (2000–2008) the Taiwanese side has officially largely tended to restrict trade and investment in China ostensibly on national security grounds (see Tian 2006 for a detailed discussion). The frequently cited concerns regarding the feared negative impacts of this relationship on Taiwan’s economic “dependence” on trade with China creating a ‘hostage effect’ (holding-up commerce to extract political concessions) or would ‘hollow-out’ Taiwan’s industrial base (forced de-industrialization of Taiwan) to that the Taishang (Taiwanese businessmen in Mainland China) could be used by China as political agents, among others. Taiwan’s Ministry of National Defense (MND) 2006 National Defense Report explicitly noted that Beijing’s Taiwan policy has been a combination of political oppression, economic absorption, military intimidation, diplomatic isolation, and social propaganda (Tongzhan). The report warns that Beijing attempts to eliminate the sovereign status of the ROC through the carrot (e.g., cultural exchange and economic enticement) and the stick (e.g., war scare and diplomatic isolation) in the hope of dividing and weakening Taiwan’s popular will of resistance (ibid, pp. 78–80). Against the fears from economic absorption (cixi) i.e. to reduce Taiwan’s growing trade “dependency” on China, the report proposed first, to diversify the destinations of outbound investment and reach free trade agreements (FTAs) with various countries other than the PRC; second, to diversify exporting countries and importing sources; and third, to restrict Mainland-bound investment.

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2 This was accompanied by removal of the official ban on travel to the Mainland, in November 1987; see “Major Events across the Taiwan Strait”, Mainland Affairs Council of the Republic of China (2010).

3 The pan-Green parties comprise, chiefly, the Democratic Progressive Party (DPP) and Taiwan Solidarity Union (TSU) and are considered pro-Independence; whereas the ‘Blue camp’ (Kuomintang (KMT) and People First Party (PFP), chiefly) is considered soft on defending the status quo.

4 While policies such as the Jiji Kaifang, Youxiao Guanli (Active Opening, Effective Management) policy in August 2001 or the subsequent opening of the ‘three mini links between the two offshore islands of Quemoy (Kinmen) and Matsu and Mainland China are noted, these were either curtailed as in case of the subsequent Youxiao Kaifang, Jiji Guanli (Effective Opening, Active Management) policy in 2006, or have been termed (in the case of the mini three links) as means of effective regulation than to ease existing restrictions.

5 Taiwan’s vulnerability from closer economic interaction with Mainland China from 1987 to 2008 is part of a separate study by this author (forthcoming).
by high-tech industries or those related to national defense technology (ibid, pp. 88–95).

Mainland China’s response to the ‘pro-independence’ dynamics on Taiwan has been in the form of keeping alive the option of ‘use of force’, reiterated in a series of official documents, military signaling and law-making in China (see Zhao 2005, You 2006). This even as trade and investment relations have been encouraged and promoted. Key measures which could be cited as part of China’s pursuit of the aforementioned approach include:

(a) Marshal Ye Jianying’s (then Chairman of National People’s Congress’ Standing Committee) Nine Points in 1981 (see Kan 2011 and Gibert and Carpenter 1989 pp. 288–290 or full text). Points 2 and 8, below, are particularly relevant, especially the former since it calls for the establishment of, what was later termed as, “three direct links” between Mainland China and Taiwan:

Point 2: It is the urgent desire of the people of all nationalities on both sides of the strait to communicate with each other, reunite with their relatives, develop trade and increase mutual understanding. We propose that the two sides make arrangements to facilitate the exchange of mail, trade, air and shipping services, and visits by relatives and tourists as well as academic, cultural, and sports exchanges, and reach an agreement thereupon.

Point 8: 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.

(b) PRC State Council’s twenty-two articles in 1988 titled “Measures to Encourage Investment by Taiwanese Compatriots”/“Regulations for Encouraging Investment by Taiwan Compatriots”. Three of the articles in this document offer valuable insight as to the approach adopted by the Mainland to handle the issue of Taiwanese investments:

Article 7: The investments made on China’s mainland by investors from Taiwan, the assets they have purchased, their industrial property rights, their profits from investments, and other lawful rights and interests shall be protected by state laws, and may be transferred or inherited according to law. Investors from Taiwan shall, in their activities on China’s mainland, abide by state laws, decrees and regulations.

Article 8: The state shall not nationalize the investments made by investors from Taiwan or other assets belonging to them.

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6 Main instruments of such signaling include, PRC’s first White Paper on Taiwan (August 1993); Jiang’s Zemin’s ‘eight points’ offer to Taiwan, issued in January 1995; Military exercises, including the launching of missiles, before the 1996 presidential election in Taiwan; PRC’s second White Paper on the Taiwan Issue (21 February 2000); China’s missile exercises before the 2000 Presidential elections in Taiwan; PLA military drills on Dongshan Island (involving about 18,000 troops) in the summer of 2004; and the Anti-secession Law of March 2005.

7 Decree of the State Council of the People’s Republic of China, No. 7 (2010), “Provisions of the State Council Concerning the Encouragement of Investments by Compatriots from Taiwan.”
Article 10: The lawful profits gained by the investors from Taiwan from their investments, their other lawful income and the funds after liquidation may be remitted out of China’s mainland according to law.

(Source State Council of the People’s Republic of China)

Beyond what this policy document guaranteed to Taiwanese investors, subsequently, in May 1989 China established two special investment zones for Taiwan firms in the South-eastern port cities of Xiamen and Fuzhou (Sutter 2002, p. 524). From 1987 to 1993, Taiwanese businesses enjoyed a tax break of six to ten years, whereas most foreign investors only enjoyed a two year tax-free period and three years’ tax deduction at half the usual percentage (Lee 2010, p. 40). Interestingly, this initial phase is seen as being mainly focused on attracting Taiwanese capital rather than on using Taiwanese investors to accomplish the political goal of “re-unification”, and it is post-1993 that the strategic value (i.e. towards political “reunification”) of Taiwanese businesses had become more and more apparent (ibid, p. 53). This distinction on the economic versus political utility of Taiwanese investment between the two phases is also clear from the work of other scholars who note that during the post-Tiananmen period, Mainland China was driven by economic necessity stemming from suspended investment flows from the West rather than by any serious motivation to use economic interaction to unify Taiwan (see Wu 1994).

(c) In 1993, then Chinese premier Li Peng announced the need for greater emphasis on economic inducement. The slogan for this new policy was: “to peddle the [domestic] politics through business; to influence the [Taiwanese] government through the people”.8 This was followed by the enactment of the “Taiwan Compatriot Investment Protection Law of the People’s Republic of China” by the National People’s Congress in March 1994 (implementation regulations for this law were issued by the State Council in 1999 in the form of “Implementing Rules for the Taiwan Compatriot Investment Protection Law of the People’s Republic of China”).9 Notable in this law are the following two articles:

Article 3: The State shall protect according to law the investment by investors from Taiwan, the profits gained from their investment and other lawful rights and interests.

Article 4: The State shall not nationalize or requisition investment by investors from Taiwan.

(d) Issues relating to Cross-Straits economic and trade links were also part of Jiang Zemin’s 1995 eight-point programme (cited in Kan 2011, p. 51) (fifth point specifically) viz:


9 “Law of the People’s Republic of China on Protection of Investment by Compatriots from Taiwan (2010).”
Great efforts should be made to expand the economic exchanges and cooperation between the two sides of the Taiwan Strait…

Subsequently, in the CPC’s Sixteenth National Congress in November 2002, a new policy posture of promoting a mutually beneficial relationship across the Strait and winning over the Taiwanese people (Ji Xiwang Yu Taiwan Renmin) was endorsed and spelt out in Jiang Zemin’s political report to the Congress (cited in Hu 2006). Scholars have attributed the motivation for Beijing to encourage closer economic relations to a strategy of binding ‘Taipei’s hands’ in seeking independence and to eventually facilitate national “reunification” by using the trading relationship as leverage to influence Taiwan’s policy-making towards China (Leng 1998; Zhao1999).

However, since the mid-2000s, China has sought to ameliorate its threat image by introducing a series of measures (such as providing preferential treatment to Taiwanese businessmen, farmers, and students) (Shih 2007, p. 6). Unlike the heightened tensions during the 1995–1996 missile threats or during the 2000 elections in Taiwan, Beijing did not fire missiles during Taiwan’s Legislative Yuan election in 2001 and mayoral election in 2002, and even the reaction to President Chen Shui-bian’s remarks on the status of Cross-Strait relations (Yi Bian Yi Guo or “one country on each side”) was relatively muted (Hu 2006, pp. 22–24 op cit).

(e) Chinese President Hu Jintao’s political report (approved by the Congress in October 2007), omitted reference to possible use of military force against Taiwan, and instead urged Taiwan ‘on the basis of the one-China principle’ to join talks on ‘a formal end to the state of hostility’ and ‘reach a peace agreement’.

2.1 The Cross-Strait ECFA

KMT victory in the January 2008 legislative elections and Ma Ying-jeou’s Presidential election victory subsequently in March 2008 was ominous of an impending shift in policy approach towards Mainland China, coming as it did after two successive terms under the DPP President Chen Shui-bian. Initiatives such as regular direct flight connections, cooperation in industrial standards, the Building Bridges Project (BBP) for industrial cooperation, and the deregulation of Chinese investment into Taiwan have been rolled out (see also Cheung 2010). However, the major step forward has been the institutionalization of economic ties between

10 The inaugural flight was a China Southern Airlines from Guangzhou to Taipei. The Bridges Building Project (approved by the Executive Yuan in August 2008) aims to hold a series of Cross-Strait conferences on exchanges in individual industries between Taiwan and Mainland China as a way of building bridges between the two sides. See http://doit.moea.gov.tw/doiteng/contents/printPage.aspx?name=event&sn=20.
Taiwan and its largest trading partner, Mainland China, in the form of a “framework agreement”—the Cross-Strait Economic Cooperation Framework Agreement (ECFA), that operationalizes rationalization of tariff rates (and opening up of select services) to zero-tariff levels on a limited set of goods until 2013 (beginning January 2011).11

ECFA, in its current form, is a preferential trade agreement signed between the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS).12 Three specific circumstances could be identified for Taiwan and Mainland China to fast track the signing of the ECFA.13 Firstly, Mainland China is Taiwan’s largest trading partner and top investment destination, and the transfer of power from the DPP to the KMT came around the time when the 2008 financial crisis was beginning to emerge (see also Fig. 2.1). Taiwan has routed its exports to the US and Europe, largely through assembly lines in China since the mid-1990s (Cheng 2005). Reduced export demand from Mainland China to these final destinations therefore had a direct hit on Taiwan’s trade (and employment as well). The next major reason was fear of economic marginalization from the proliferation of preferential regional trading arrangements (especially the expanded zero-tariff zone covering ASEAN, and China (since 2010), and eventually Japan and South Korea), which would imply relatively higher costs for Taiwan’s exports competing with ASEAN exports in the Mainland market in the absence of similar tariff rationalization. Similar fears of marginalization have been noted for Taiwanese exports to ASEAN as well following the 2007 Korea-ASEAN FTA (Karackattu 2012). Thirdly, from the side of Mainland China, the favorable terms offered to Taiwan (more Taiwanese export items covered under ECFA than what is allowed to be imported from Mainland China), appear as an economic carrot for a “friendly” political dispensation in Taiwan, in continuum with the line proposed by Hu Jintao and Wen Jiabao over the past few years for the need for a “peaceful accord”/“peace agreement” with Taiwan (ibid).

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11 This comprises 539 products (roughly 16 per cent of Taiwan’s exports to Mainland China), eight service industries, and three financial service sectors, while 268 products from Mainland China (roughly 11 per cent of exports to Taiwan), eight service industries, and one financial service sector would be subject to tariff rationalization. See Appendix I for detailed break-up.

12 SEF and ARATS are semi-official intermediary bodies set up by Taiwan and the Mainland China, respectively, to handle Cross-Strait ties in the absence of official ties.

13 For an in-depth discussion on these and other contentious aspects of the ECFA, see Karackattu (2012).
2.2 Anticipated Gains and Problem Areas for Taiwan

ECFA-induced trade liberalization is projected to increase Taiwan’s GDP anywhere between 1.65 and 1.72 % (domestic GDP increasing between USD 6.9 and 7.1 billion approximately). Other foreseeable benefits include the Taishang aligning their fund flows and supply chains to China “directly” from Taiwan (hitherto circumventing official restrictions on investment on the Mainland), and freer environment to repatriate their earnings and invest more in Taiwan. A revival of sunset industries in Taiwan (textiles, machinery, and petrochemicals, among other categories) could also be anticipated, both in terms of Taiwanese access to the Mainland market and also sourcing duty-free intermediate supplies from the Mainland i.e. two-way trade of intermediates, since the maximum coverage of items under ECFA occurs in these categories.

Given the content of the early harvest list, existing quantitative studies project changes to be less pronounced in agriculture compared to manufacturing (chemical, rubber and plastic products industry, machinery and equipment, textile industry, and ferrous metals industry) (Liu and Shih 2012, p. 21). It is also hoped that the target sectors of Mainland China’s post-2008 financial crisis stimulus

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14 See http://www.mac.gov.tw/public/data/051116322071.pdf; Others project Taiwan’s real GDP growth to as high as 1.83 % after trade normalization; see Liu and Shih (2012, p. 19).
package would spur opportunities for Taiwanese companies in related areas (cement, steel, power, telecom, construction, for instance). However, while the future prospects and anticipated gains have reason to deliver, there are problem areas as well which Taiwan is poised to encounter. The mechanism for dispute settlement under the ECFA drawn from chapter 5 [Article 10 and 11 sub-clause 1 (5)] of the agreement stipulates that a “Cross-Strait Economic Cooperation Committee” comprising senior officials from both sides would represent concerned ministries on trade disputes (see also Hsieh 2011, p. 142). As this author has argued elsewhere, such an institutional arrangement brings Cross-Strait ties into a smaller perimeter unlike under the WTO-aegis, where the Dispute Settlement Understanding already privileges consultation (Karackattu 2012). In fact, both Mainland China and Taiwan have used the WTO mechanism of dispute settlement (even as third party) to raise trade disputes earlier (Ho 2006). At present, there are 70 disputes involving Chinese Taipei either as complainant (three) or as respondent (zero) or as third party (67) at the WTO. Curiously, of the three cases which Taiwan has raised at the WTO as complainant, one is against India (see Appendix VII). Hitherto the WTO framework exclusively conferred a de facto treatment of equality for bonafide WTO members (emphasis added; Wu and Chiang 2003; Cai 2011, p. 5). Clearly, then, the political implications of normalization of Cross-Strait ties through an “ex-WTO” dispute settlement mechanism under the ECFA could pose challenges to Taiwan’s international space and role. This is especially true for trade disputes that could involve Taiwan, Mainland China and any third party.

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15 The Chinese stimulus response to the 2008 financial crisis was in the form of a four trillion Yuan (or roughly 586 billion USD) package and a 3-year, RMB 850 billion healthcare plan. Of this roughly 40 per cent was earmarked purely for infrastructure and Sichuan post-quake re-construction. See Karackattu (2011) for a detailed exposition on China’s financial recovery planning. See also Chen (2011, p. 191), Chen et al. (2011a, pp. 66, 67).
17 Mainland China too has filed anti-dumping investigations against trading partners, which has involved Taiwan as third party.
18 Dispute DS318 relates to provisional and definitive anti-dumping measures imposed by India on products from Taiwan, whereby Taiwan requested consultations with India concerning the anti-dumping measures on acrylic fibres, algin, potassium permanganate, paracetamol, sodium nitrite, caustic soda, and green veneer tape. Taiwan considers that these Indian measures are inconsistent with, inter alia: Article VI:1 and VI:2 of GATT 1994, and Articles 1, 2, 3.1, 3.2, 3.3, 3.4, 3.5, 3.7, 3.8, 4, 5, 6 (including Annex II), 7.4, 12.1 and 12.2 of the WTO Anti-Dumping Agreement. See http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds318_e.htm.
19 Refer also Lee Deng-Hui’s six point-statement (specifically number 4) on “joining international organizations on the basis of equality”. 
20 Tsai Ing-wen, former Chairperson of the DPP, clarifies that the DPP would look into the arrangement and bring it into consistency with WTO Rules (on both counts of transparency and comprehensive coverage), where the ECFA would be structured in a multilateral framework with safeguards for the Taiwanese industry. Responding to a specific question by this author that notification of the ECFA to the WTO (as reported in the WTO Annual report 2012) was under the curious category of PTAs which offer preferential treatment to the products of “LDCs”,
In addition, there are doubts relating to the nature of production reorganization that may emerge under ECFA. In terms of theoretical categories in international political economy, trade can produce positive effect from overseas investment, when firms engaged in outward investments purchase inputs (materials and machines) from the mother country i.e. ‘investment driven trade’ which results in the home country’s local production being boosted (Park et al. 2008, p. 108). The negative effect arises when overseas investment completely localizes production in the host country and the resulting industrial relocation reduces the investment and production of the home country (ibid, p. 115). The caveat that this raises for the economic relationship between Taiwan and Mainland China is that in those cases where trade was previously generated from Taiwanese investment in China, there could be diminishing investment-induced trade i.e. erstwhile trade may actually be replaced by local sourcing of inputs due to localization of operations in Mainland China as Taiwanese firms move further upstream in Taiwan (i.e. away from consumers and entrenched in global production networks or GPNs) (Chen et al. 2011b). The argument relating to Mainland China’s market potential and related prospects for economic gains for Taiwan may actually also generate such an outcome. When major high-tech industrial clusters in Taiwan are drained—and if the home economy is left without a new growth sector, that is when FDI abroad may lead to significant investment and employment losses at home (Cheng 2005; Liu and Lo 2002).

According to a report released by Taiwan’s legislature (Budget Center division), Taiwan’s exports to China in the first half of 2012 totaled US $8.95 billion—lower than the US $9.17 billion recorded for the same period in 2011 (even as imports from China increased from US $3.95 billion in 2010 to about US $5 billion in 2011) (Lee and Hsu 2012). The report explicitly notes the “reverse effect” to have emerged already following the signing of ECFA, with the market share of Taiwan-made products in China shrinking for a fifth consecutive year (ibid). Further, given that both Taiwan and Mainland China are exploring an enhanced role in similar technological fields (electric vehicles, cloud computing, biotechnology, and green energy, among others), the two economies could switch from utilizing complementarities to a competitive relationship almost naturally (Chen et al. 2011b). While competition is good, it may not necessarily be a “non zero-sum” exercise if Taiwanese firms increasingly relocate and localize their operations and manufacturing capacity in China with ECFA-induced normalization (Ibid, p. 17). The added caveat is that with the limitation of foreigner’s tax incentives from early 2008 in China, the operating cost has risen for Taiwanese firms in Mainland China where local Chinese supervisory staffs are being trained.

(Footnote 20 continued)

Tsai Ing-wen noted that it was not a normal notification since neither party had acceded to the WTO on the basis of LDC status. Author’s Q&A with Tsai Ing-wen at the India International Center, 20 September 2012, New Delhi.

21 The offshore production of Taiwan-based ICT device firms has now substantially outweighed their domestic production, with China accounting for 89% of total production in 2007.
to cut costs involved in hiring Taiwanese managers (Park et al., op cit: 87, 88). The future outlook for Taiwan should thus factor-in caveats with respect to its excessive reliance on continuance of the reorganization of production hitherto occurring (role of Taiwanese companies merely as OEMs/ODMs to Transnational corporations in Global Production Networks)—and focus should instead shift to building strong ‘Taiwanese brands’ in a post-ECFA ecosystem. It is when the ‘substitution’ of Taiwanese production in Mainland China (Taiwanese firms in Mainland China competing with Taiwanese firms producing from Taiwan) moves to the next stage of ‘migration’ i.e. Taiwanese production from China becomes a chief source of *import* for Taiwan—that is when vulnerability is exposed (emphasis added).

Likewise, the gains from ECFA in the form of resulting employment generation is projected at over 260,000 jobs (Government Information Office, Republic of China (Taiwan) 2012). However, if we examine the statistics on labour force and employment generation more closely, it becomes clear that while there has been a recovery trend in employment generation in the recent past—most of that has occurred in the services sector (see Table 2.1).

The sectoral break-up of employment reveals that employment contraction following the 2008 financial crisis was 148,000 persons (goods-producing), matched with a slow growth in services by 15,000 persons in 2009. If the years 2010, 2011 and 2012 are used to reflect the rebound in recovery from the recession, then 2010 was a pre-ECFA year which saw 84,000 persons added, while the average for 2011 reveals another 123000 goods-producing jobs. This implies a net job creation for 53,000 persons compared to the crisis year (2008) average. Even in services, a similar trend can be discerned in that the slowdown in 2009 rebounded in 2010 with 123,000 additional jobs over 2009, and the growth in employment in 2011 being 101,000 over 2010. In fact based on available statistics for 2012, services-producing industries have generated higher overall employment compared to the crisis year (2008) average for manufacturing and services.

Employment increase in the service sector is expected in a maturing economy. Taiwanese economy has evinced such trends from the pre-ECFA time as well when the decrease in Taiwan’s production in labour-intensive industries resulted from the economy’s upgradation to more capital-and-technology intensive industries (Wong 2005, p. 46). Key Taiwanese exports such as electronic equipment products already enjoy low tariffs in both Mainland China and Taiwan (0.58 and 0.71 %, respectively), and hence the projections on benefits of ECFA-induced liberalization to sectors such as Taiwan’s electronic equipment industry would be limited (Liu and Shih op cit: 22). While this does not blunt the gains in employment from ECFA *per se*, however, further disaggregation of employment accruing strictly to ECFA-induced gain is needed. Otherwise, cyclical recoveries from the post-2008 financial crisis-induced fall in manufacturing and services may be mistakenly projected as ECFA-induced gains. It is therefore vital to observe how the labour force is being distributed within the economy across sectors and if that reflects emergence of comparative disadvantages from re-allocation of ECFA-induced competitiveness over the years (emphasis added) (also see Karackattu 2012).
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2.3 Taiwan’s Decisive Moment

As this author has argued elsewhere, the institutionalization of ties between Mainland China and Taiwan in recent years is akin to a game of Stag Hunt in International Relations game theory (Karackattu 2012, pp. 131–136). This is a game where two hunters are out hunting, and each hunter has the choice of hunting down the stag i.e. bigger meat (payoff of 2) if both coordinate their actions (emphasis added). There is also the temptation to go after a hare i.e. smaller meat (payoff of 1) if one of them decides to go after it alone (leaving the other hunter with a payoff of 0). The latter option allows the stag to escape since catching a stag by oneself is not possible as both hunters fail to coordinate their actions.

Such a balance of interests is most relevant to conceptualize the trust dilemma in Cross-Strait relations. Applying the game to Cross-Strait ties, the payoff for both Mainland China and Taiwan could be defined in terms of two strategies/actions. “Managing status-quo” would be the equivalent of hunting for the stag since it involves the complicated task of managing peace, and hence the larger payoff. The second strategy/action could be defined as “changing status-quo” which is akin to hunting for the hare. In Taiwan’s case, “changing status-quo” does not only refer to the red lines that the present chief opposition political parties (DPP and Taiwan Solidarity Union (TSU)) are accused of treading, namely declaring independence. Being a vibrant and thriving democracy, a brief discussion on what could turn out to be KMT’s status-quo changing behaviour is imperative. “Securitization” as articulated in Security: A New Framework for Analysis is defined as, “when an issue is presented as posing an existential threat to a designated referent object” (referent object is that which is threatened; it could be the state, national sovereignty or even national economies) (Buzan et al. 1998, p. 36). The articulation of an issue in ‘security’ terms itself thus shifts that issue into a specific area whereby the designating authority claims a special right to use ‘necessary’ means to block it (Waever 1995, p. 55). In short, an issue can be securitized if it is presented as an “existential threat” by using speech acts (use of language for designating the threat) and relevant norms (rules/codes for dealing with the threat) are established (Buzan et al. op cit, pp. 23, 24). The series of restrictive policies vis-à-vis relations with Mainland China during President Lee Deng-Hui’s tenure and during the two terms of DPP President Chen Shui-bian can be attributed to the semiotics of securitization described here.23

Desecuritization, in contrast, is defined as the returning of issues from ‘emergency politics’ to ‘normal politics’ (Roe 2004). It reflects a shift in the language of

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22 See Skyrms (2001) for an exposition on the game itself.
23 It is interesting to note that scholars such as Ching-Chang Chen argue that as a paradigmatic optic, earlier restrictions in Cross-Strait ties were useful as a “boundary-producing exercise”, where even hitherto restrictive policy from this perspective, is attributed to have played the dual role (a la David Campbell’s critical constructivism), of disciplining the Taishang and reproducing the identity of a separateness; See Chen (2010a, pp. 391–412).
“speech acts” that moved away from insecurity (a situation of insufficient defence) to one of ‘what is needed for security’ (sufficient defence). It is clear that the electoral mandate in Taiwan from 1996, 2000, 2004, 2008 and 2012 reflected in some ways a shift in acknowledgement of these security concerns. While “desecuritization” is desirable (and the KMT has been vindicated for this through popular elections in 2008 and 2012, which was a mandate for decoupling Cross-Strait ties from the politics of conflict), the transformation of this into an “a-security” scenario is problematic and shrinks the space hitherto available as a policy tool to deal with Mainland China.

Given that the *raison d’etre* of Cross-Strait relations is one of contested sovereignty, the shift from securitization to desecuritization is not the same as taking a situation out of the realm of “security conceptualization”, to one of ‘a-security’ altogether.24 Going by the levels of debate on ECFA within Taiwan under the KMT, it seems to be the case that the “desecuritization” space could eventually shrink further if “framing the problem of Cross-Strait ties” moves towards “a-security” narratives. If (and when) that happens, the status-quo changing behaviour attributable to the KMT would also be evident. Therefore, the burden or blame of status-quo changing behaviour does not fall on the pan-Green camp’s pursuit of some extreme positions alone. The path-dependency on an “a-security” conceptualization of Cross-Strait ties would, therefore, be a status-quo changing outcome.

The aforementioned caveat can be corroborated from the authoritative political survey polls conducted by the NCCU, for instance, which do not reveal any mandate for an “a-security” conceptualization of Cross-Strait ties.25 Core political attitudes among people in Taiwan over a 18-year period, makes it evident that the response of ‘maintain status quo indefinitely in Cross-Strait relations’ shows the highest jump especially after 2007 (see Appendix IIa). Over 63% of the respondents support the ‘maintaining status quo option’ over differing periods of time into the future.26 What is interesting, however, is that this preference for ‘managing status quo’ is paralleled by a sharp increase in the number of people who consider themselves as ‘Taiwanese’ in response to the specific survey question of “Do you consider yourself to be ‘Taiwanese,’ ‘Chinese,’ or both?” (see Appendix IIb). In terms of identifying with any political party, respondents over

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25 The Election Study Center at National Chengchi University conducts authoritative survey polls based on responses from the adult population (20 years or older) in Taiwan (excluding, for survey purposes, the offshore islands of Kinmen and Matsu). The sample set is drawn from records from the most recent China Telecom Residential Telephone Number Book. See http://esc.nccu.edu.tw/english/modules/tinyd2/index.php?id=6 for the detailed surveys and methodology.
26 NCCU survey op cit; The respondents were required to choose between six options, viz. 1. unification as soon as possible; 2. independence as soon as possible; 3. maintain the status quo and move toward unification in the future; 4. maintain the status quo and move toward independence in the future; 5. maintain the status quo and decide in the future between independence or unification; 6. maintain the status quo indefinitely.
the last two decades have moved away from “non-response” to choosing specific political platforms. From 2004 onwards, while support for KMT has been high—the responses are not steady, even as support for the DPP shows a plateauing trend though its appeal is certainly higher than in 2008 when the shift of power in favour of the KMT happened first after two terms under the DPP (see Appendix IIc). Likewise, for Mainland China, “changing status-quo” would be the equivalent of pursuing the hare as it entails use of military force or diplomatic action to suffocate the participation of Taiwan in international politics, and yields 0 payoff for Taiwan, compared to bigger payoff of managing peace.

The payoff matrix, according to one of the possible utility functions, appears in Fig. 2.2.

While constructing the game of stag hunt, therefore, the strategy of chasing the hare or the stag (whether for Taiwan’s political parties or Mainland China) is therefore based on the totality of core political differences among major political parties in Taiwan, shifts in Mainland policy described in the earlier segments as well as mechanism of popular mandate which exists in Taiwan. The “stag” is captured if both “hunters” could coordinate a range of actions (cooperation need not be analogous to compromise on either party). As noted from the earlier discussion, the “changing status-quo” option leaves the “hunters” with lower payoff and is the equivalent of “hunting for the hare” since individual strategies pursued thus are expedient and reflect no mutuality of interests of all concerned stakeholders in the outcomes obtained thereof.

2.4 Conclusion

One of the dimensions of “managing status quo” is the expectation that the signing of the ECFA acts as a bridge for Taiwan to sign economic cooperation agreements with other countries (Chiang 2010, p. 25). Taiwan has three major pathways to pursue this (Karackattu 2012, pp. 133, 134). It could be a bilateral preferential

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27 See NCCU survey at URL: [http://esc.nccu.edu.tw/english/modules/tinyd2/index.php?id=6](http://esc.nccu.edu.tw/english/modules/tinyd2/index.php?id=6); The respondents were specifically asked which of the political parties, Chinese Nationalist Party (Kuomintang, or KMT), Democratic Progressive Party (DPP), New Party (NP), People First Party (PFP), and Taiwan Solidarity Union (TSU) would they support the most.
agreement-based approach, which would per force involve the implicit/tacit concurrence of Mainland China. The second approach would be one entailing relatively deeper economic reforms (in comparison with conveniently drawn early harvest lists in bilateral agreements) in a distinctly plurilateral context such as the Free Trade Area of the Asia–Pacific (FTAAP; growing out from the Trans-Pacific Partnership or TPP), for instance. This approach draws on Taiwan’s previous successes such as accession to the WTO as a customs territory, its membership of the APEC, becoming ‘observer’ at the World Health Assembly in 2009, or attempt for ‘observer’ status with the International Civil Aviation Organization (ICAO). The third pathway could be of pursuing unilateral restructuring of the Taiwanese economy. This is more painful compared to the earlier two options since the business community may not be supportive of deep economic restructuring, even though this generates trade-creation effects for Taiwan.

Each of the pathways in the post-ECFA ecosystem clearly has their own political costs attached. Preferential trading arrangements pursued bilaterally with other trading partners, clearly more expedient than the other pathways in terms of domestic economic restructuring involved, narrows the perimeter of Cross-Strait interaction with an explicit inward-bilateral bias towards Mainland China (Karackattu 2012). Mainland China may actually prefer this option over the other two pathways as it gives it the highest visibility for its “economic carrots”. Compared to this, pursuit of a multilateral context (second pathway) would be relatively time consuming. However, the inward bilateral bias towards Mainland China extant in option 1 (since that applies to Taiwan’s negotiating partner as well) would be a shade muted in this option as Mainland China’s overt influence (such as in the WTO, ASEAN, EU, APEC, among other platforms) remains subject to multilateral pressures as well (ibid). The third option of unilateral economic reforms would be evidently less expedient in a political context where

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28 This is a situation where Taiwan could sign preferential agreements such as ECFA with its key trading partners (negotiations for probing “Trade Enhancement Measures” or TEM with the European Union, trade and investment framework agreement (TIFA) with the United States, an ECA with New Zealand, possible FTA/CEPA with India, Singapore, are key examples of pursuing such a track).

29 TPP is the acronym for the proposed trade agreement between Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam and the United States (with Japan, Mexico and South Korea expressing interest in inclusion) under the APEC umbrella.

30 Responding to a specific question by this author on the realistic probability for Taiwan to conclude FTAs with other economies in the spirit of greater international space being claimed under the ECFA, Tsai Ing-wen, former chairperson of the DPP clarified that a case-by-case approach is likely where hurdles were likely to be specifically brought up by Mainland China in the case of Taiwan’s FTAs negotiated with bigger economies. She clarified that in the present negotiations on FTAs and CEPAs only those economies which have a prior FTA/CEPA arrangement with Hong Kong would stand a chance of being concluded. This, according to her, is symptomatic of a “Hong Kong model for Taiwan’s FTA efforts”. Author’s Q&A with Tsai Ing-wen at the India International Center, 20 September 2012, New Delhi.
the need for demonstrable gains and results may easily override the economic logic of deep reform.

In any case, a combination of these pathways would be pursued by Taiwan in the post-ECFA ecosystem, depending on considerations of political and economic expediency. It has been noted that ECFA would allow firms from other economies the space not to take sides between Mainland China and Taiwan, if they want to explore the economic potential in China and in the Greater China Area (Chen et al. 2011b). Prof. Tien Hung-Mao, former Foreign Minister of the Republic of China (Taiwan), clarifies that contrary to some criticism, the KMT interest in pursuing bilateral free trade agreements is not political gimmick, and that the interest being shown in negotiating such agreements (such as the Trade and Investment Framework Agreement with the US or an FTA with New Zealand, or other study arrangements for prospective agreements, for instance) was real and had bipartisan support (others get tax benefits, retain their comparative advantages, among other plusses).31 However, he also notes that any inherent drawback from the ECFA and/or the political consequences for Taiwan’s status vis-à-vis Mainland China would always be subject to the democratic system in Taiwan where elections would deliver the final verdict.

The caveat however is that in the absence of active strategies for “managing status quo”, iterated circumstances for political and economic expediency may, over a period of time, land Taiwan in a comfort zone with the ECFA that eventually automatically configures a “changed status quo” similar to the spillover effect that free movements of goods, services, personnel, and capital did in the European Union and the “European identity” which resulted from that (see Chen 2010, p. 408 and Karackattu 2012). Such scenarios are not in the realm of conjecture alone as any dispute legislation by other WTO members as Most Favoured Nations (MFN), for instance, against Taiwan or Mainland China for not being extended the preferential treatment entailed to MFNs32, could eventually be stonewalled by projecting ECFA as a “unique Greater China economic space” or as an ‘internal matter’ (as Mainland China claims). Taiwan, therefore, should eschew politically and economically expedient strategies with an inward-bilateral bias towards Mainland China in the series of appended agreements to the existing pact that would ultimately inform the formal final shape of the Cross-Strait ECFA in the coming years.

Part II of this study specifically draws out one such complementary fit that attenuates the likelihood of some of the political and economic dilemmas for Taiwan from compounding. Partnerships such as growing economic engagement with countries such as India, will emerge as a key foundational pillars of the “managing status quo” strategy that Taiwanese political parties of all shades would have in order to prevent a post-ECFA ecosystem from ossifying Taiwan and Mainland China into a narrower perimeter with an “inward-bilateral bias”.

31 Author’s interview.
32 see also Crawford and Fiorentino 2005, p 7 for a discussion on how agreements involving developed and developing WTO members fall under GATT Article XXIV.
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