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## Taiwan in 2010

### *Mapping for a New Political Landscape and Economic Outlook*

#### ABSTRACT

The November 2010 urban mayoral elections in Taiwan will set the stage for national elections in 2012 between the Nationalist Party and the rising Democratic Progressive Party. Meanwhile, Taiwan and China successfully concluded the Economic Cooperation Framework Agreement in summer 2010, deepening economic ties across the Taiwan Strait.

**KEYWORDS:** Taiwan, mayoral elections, Economic Cooperation Framework Agreement, Kuomintang, Democratic Progressive Party

#### ELECTION-DRIVEN POLITICS

In October 2009, President Ma Ying-jeou took over the Kuomintang (Nationalist Party, KMT) chairmanship from Wu Poh-hsiung in an apparent effort to gain control of the party machinery, enabling Ma to dictate party roles in the upcoming elections. Ma's leadership in the KMT and popularity in general had been badly damaged in August 2009 when Typhoon Morakot swept southern Taiwan, its drenching rain and mudslides causing death, community dislocation, and other suffering. The government was criticized for its slow response and inadequate rescue efforts. Several months after the disaster, the KMT experienced setbacks in the December local elections, particularly in hard-hit Hualien County, which worsened the party's political outlook on the eve of 2010. In the wake of the local elections, the KMT decided to take drastic action to alter the course of the upcoming elections.

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*Asian Survey*, Vol. 51, Number 1, pp. 76–84. ISSN 0004-4687, electronic ISSN 1533-838X. © 2011 by the Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Rights and Permissions website, <http://www.ucpressjournals.com/reprintInfo.asp>. DOI: AS.2011.51.1.76.

Accordingly, in December 2009, President Ma surprised observers by appointing his confidant and closest adviser King Pu-tung as KMT secretary-general. Before his appointment, King had limited experience in party affairs. Although King served as vice mayor of Taipei under Ma, and was the central figure in candidate Ma's campaign headquarters, he had stayed away from front-line politics after Ma assumed office. In January 2010, the Ma-King team acted swiftly to gain full control of KMT daily operations. Despite these efforts, the party experienced serious setbacks in two successive legislative by-elections in January and February. The KMT scored a victory in only one of seven seats contested, while the Democratic Progressive Party (DPP) won six.

Although this result did not alter the KMT's substantial majority position in the Legislative Yuan, its poor performance in these by-elections increased the urgency for a better showing in the November elections in the five major metropolitan areas: Taipei; Kaohsiung; two newly incorporated regions, Greater Tainan and Greater Taichung; and New Taipei City, formerly Taipei County.<sup>1</sup> These five areas account for over 60% of the nation's population.

The November mayoral elections saw the KMT retain its hold on Taipei City, New Taipei City, and Greater Taichung, while the DPP won Greater Tainan and Kaohsiung. However, compared with the previous local elections in 2005–06, the KMT's share of the overall vote in these cities decreased by 7.6 percentage points to 44.5%, while the DPP's share increased by 4.7 percentage points to 49.9%. This KMT figure was also 12.5%, or 1.2 million votes, lower than its vote in the 2008 presidential election. In comparison, the DPP gained 7%, or 300,000 votes. More significantly, the DPP and the KMT each won 130 seats out of 314 city councilors. This represents a major improvement in the DPP's local electoral bases previously dominated by the KMT.

The result of the November elections could significantly impact the next presidential election, scheduled for March 2012. More immediately, the results could change Taiwan's political climate considerably. On the DPP side, Tsai Ing-wen steadily gained higher approval ratings within the party. Before she assumed the DPP chair in 2008, the party had suffered lopsided defeats in both presidential and legislative elections; her leadership position at that time was undoubtedly fragile. But by May 2010, when she was reelected

1. New Taipei City surrounds and excludes Taipei City but still is Taiwan's largest city, incorporating most of Taipei's suburbs. New Taipei City was formally established on December 25, 2010.

chair, gaining 90.3% of votes cast by party members, her position had solidified, likely because of DPP electoral victories in December 2009 and in by-elections in early 2010.

Unlike previous DPP leaders, Tsai had played little role in shaping Taiwan's democratization efforts during the martial law era in the 1970s and 1980s. She served in former President Lee Teng-hui's National Security Council as a senior staff member and held important government posts under former President Chen Shui-bian, rising to vice premier. Well educated and knowledgeable about law and cross-strait affairs, Tsai gained support from factions and party leaders, who viewed her as a fresh face untainted by intra-party power struggles. Indeed, in some ways, her standing in the DPP today approaches that of Ma after the KMT lost the presidential election in 2004. Overall, the DPP under Tsai's leadership appears to be following a political course that reflects her pragmatic style on cross-strait relations. Nonetheless, her position on Taiwan's sovereignty status remains firm: she insists that Taiwan is an independent sovereign state and Taiwan does not belong to China.<sup>2</sup>

On April 25, 2010, Ma and Tsai engaged in a face-to-face nationally televised debate on issues related to the Economic Cooperation Framework Agreement (ECFA), which was being negotiated with China. Both sides claimed victory after the debate, although Ma was deemed the winner by most accounts. The debate helped Ma regain his confidence, and his popularity inched upward. At the same time, Tsai decided to test her ability to win an election by declaring herself DPP candidate for mayor of New Taipei City, Taiwan's largest city with a population of 3.8 million. The electoral outcome will help determine her future position in the DPP and, some believe, her viability as a candidate in the next presidential race.

## CROSS-STRAIT RELATIONS

Under the Ma administration, cross-strait dialogue has resumed and steadily expanded. In 2010, the tempo of interactions accelerated. The number of direct flights across the Taiwan Strait increased from 36 to 370 weekly, with multiple linkages among major cities. More than one million visitors came from China to Taiwan in the first eight months of 2010, up 74% from the

2. *Independent Evening News*, May 21, 2008, <[http://www.idn.com.tw/news/news\\_content.php?catid=1&catsid=2&catdid=0&artid=20080521andy008](http://www.idn.com.tw/news/news_content.php?catid=1&catsid=2&catdid=0&artid=20080521andy008)>.

previous year and making up 30% of total foreign visitors. Sources close to the government estimate that by year-end, the total number of visitors from China—including tourists, business travelers, official delegations, and exchange groups—may exceed 1.5 million. Although this figure falls short of the approximately 4.5 million Taiwanese who travel to mainland China annually, growing tourism brings economic benefits to Taiwan. Reflecting this warming trend in cross-strait relations, Taiwan's Legislative Yuan amended laws to open doors for Chinese students to enroll in Taiwan's universities and colleges starting in 2011. Legislators set an initial limit of 2,000 students per year.

Since 2009, Beijing also has orchestrated numerous official delegations to Taiwan, led by provincial and city government leaders. In April 2010, Shanghai Mayor Han Zheng led a high profile delegation to Taipei, partly to promote the Shanghai World Expo. In September, Minister of Culture Cai Wu visited Taipei and met openly with his Taiwanese counterpart, Sheng Chih-jen, in the first formal visit by a cabinet official of the People's Republic of China (PRC). Soon after, Taiwan's chief of police made his first trip to Beijing to discuss joint efforts to combat crime. By October, more than 16 large delegations from China had made the trip to Taiwan, arriving on purchasing missions as well as seeking more Taiwanese investment in China. Their itineraries are no longer confined to the Taipei area and Taichung; many have visited southern Taiwan's rural communities as well. Exchanges in cultural and educational fields flourished throughout the year. Beijing has initiated bolder contacts with individuals and groups with DPP connections, and despite their stance against reunification and the one-China principle, DPP political figures are invited to visit China.

With cross-strait interactions broadening, both sides have established official tourist offices in Taipei and Beijing. Moreover, the ECFA stipulates creation of a Cross-Strait Economic Cooperation Committee, to be headed by vice-ministerial officials. This committee will provide a more institutionalized mechanism for future economic negotiations.

From the beginning of the year, Taiwan and China continued to interact on a regular and stable basis, focusing mainly on reaching economic agreements. Between May 2008 and June 2010, the two sides conducted five negotiations yielding 14 agreements on various subjects. To highlight the importance of Taiwan, Chinese President Hu Jintao visited Fujian, the province across the Taiwan Strait from the island, on the eve of the 2009 Lunar

New Year and made friendly overtures to help promote economic talks. Subsequently, in his policy report to China's National People's Congress in March 2010, Premier Wen Jiabao made encouraging remarks regarding negotiations on the forthcoming ECFA. Both officials attempted to address Taiwanese concerns, especially from farmers, who fear the ECFA may harm their livelihood.

Despite rapidly growing exchanges and negotiations, political distrust has not faded. Beijing has left little room for deviation from its official one-China principle. Even during depoliticized international events, Taiwan's officials and private groups continue to encounter political pressure from China. For example, at the October Tokyo International Film Festival—a non-political event—Jiang Ping, head of the Chinese delegation, demanded that the Taiwanese delegation use the titles “Taiwan, China” or “Chinese Taipei” instead of “Taiwan,” and be treated as a part of the Chinese delegation. The incident caused an uproar across party lines in Taiwan and threatened to rock the still-fragile foundation of cross-strait détente. In her speech in Washington, D.C., in August, Lai Shin-yuan, minister of Taiwan's Mainland Affairs Council (MAC), publicly called for China to abandon its “thought” and “law” regarding the use of force against Taiwan.<sup>3</sup> In June, as the ECFA was about to be signed, the PRC Minister of Defense Liang Guanglie reportedly told Japan's visiting military delegation that “China's military build-up is focused on the Taiwan issue.”<sup>4</sup> According to Taiwan's National Security Bureau, 23 of the 30 military exercises conducted by the People's Liberation Army (PLA) in 2009, roughly 70% of total exercises, were aimed at Taiwan.<sup>5</sup> According to the intelligence department of Taiwan's Defense Ministry, as of July 2010, the Mainland has deployed 1,960 missiles aimed at Taiwan.<sup>6</sup>

China remains cautious in acceding to Taiwan's demands for enlarging international space (see Foreign Relations section, below). Beijing's efforts at diplomatic suffocation of Taiwan are undermining Taiwanese goodwill toward the PRC. The Ma administration thus pursues a cautious political line in the face of DPP suspicion of China's peace overtures; any political statement or act related to the cross-strait relationship could lead to serious controversy. With

3. *United Daily News*, August 5, 2010, p. A1, presumably pointing to China's 2005 “anti-secession law” in reference to Taiwan.

4. *China Times*, October 6, 2010, p. A15.

5. *Liberty Times*, March 18, 2010, <<http://www.libertytimes.com.tw/2010/new/mar/18/today-fo1.htm>>.

6. *Ibid.*, July 18, 2010, <<http://www.libertytimes.com.tw/2010/new/jul/18/today-t2.htm>>.

China's two-pronged approach of economic carrots and military sticks, many Taiwanese are nervous; they harbor both anxiety and hope. Opinion polls commissioned by the MAC show that popular perceptions of China as a hostile neighbor, although somewhat lessened, nonetheless remained at 40%–45% of respondents in mid-2010.<sup>7</sup> In short, although cross-strait relations have generally improved, political and security issues remain divisive. These are the more difficult parts of the relationship that poison the otherwise peaceful atmosphere and may handicap future smooth progress.

## THE ECFA

After one year of negotiations, the ECFA was signed by Taiwan and China on June 29, and became effective on September 12. Prior to a complete free trade agreement (FTA), both sides agreed to an early harvest list of tariff-free products under the ECFA, to be followed by four negotiations within the next six months covering commodity trade, service trade, investment, and dispute settlement. The parties will jointly establish a Cross-Strait Economic Cooperation Committee to facilitate bilateral negotiations and cooperation.

One of the ECFA's key functions is to assist Taiwan in freeing itself from economic isolation in Asia. On this issue, China's position has been clear: to sign an FTA with other countries, Taiwan must first negotiate and obtain consent from China.<sup>8</sup> Generally speaking, at this time China might agree to Taiwan's engagement in negotiations with Singapore or other countries that have already signed an FTA with Beijing. However, none of Taiwan's other major trading partners, including the U.S., Japan, or the EU has an FTA with China. Therefore, it is unlikely for Taiwan to sign an FTA with these nations before China does. On the positive side, Taipei and Washington have agreed to resume negotiations soon under the existing Trade and Investment Framework Agreement.

In the ECFA, China provided to Taiwan its early harvest list covering 539 Taiwanese products. Taiwan's list of tariff concessions, however, covered only 267 Chinese goods. These products represent an estimated 16.1% of Taiwan's

7. "Percentage Distribution of the Routine Questionnaire Survey on the Public's View on Current Cross-Strait Relations," MAC, Executive Yuan, Republic of China, September 2010, <<http://www.mac.gov.tw/public/Attachment/0101317555.pdf>>.

8. *United Daily News*, December 17, 2009, p. A14; *Liberty Times*, October 24, 2010, <<http://www.libertytimes.com.tw/2010/new/oct/24/today-p2.htm>>.

trade with China and 10.8% of China's trade with Taiwan. Taiwan currently enjoys a significant trade surplus amounting to more than US\$40 billion annually. With the ECFA of preferential treatment in place, however, Taiwan has not yet lifted its ban on 2,249 Chinese products, as normally required by the World Trade Organization.

In the short term, Taiwan is expected to gain modestly from the ECFA. The long-term implications are harder to gauge. Although tariffs on products in the early harvest list under the ECFA will be gradually reduced to zero within the next three years, exporters must prove that the value-added ratio of local content for a product reaches 40%–50%, for it to receive a certificate of product origin. According to the FTA practice of the Association of Southeast Asian Nations (ASEAN), the relatively high administrative cost for the rule of origin at 10%–25% of the product price leads to fewer than 5% of products in intra-ASEAN regional trade utilizing the zero tariff scheme.<sup>9</sup> Moreover, the ECFA is merely a framework agreement, not an FTA, and therefore its actual benefits for Taiwan's gross domestic product (GDP) growth are yet to be substantiated by trade development in the future. Whether foreign investors or Taiwanese enterprises are likely to increase investment in Taiwan because of the accord merits further observation, particularly depending on the results of four pending negotiations.

## ECONOMY

In line with the worldwide recession, Taiwan suffered an economic growth rate of -1.9% in 2009. However, the outlook improved in 2010. Economic growth strongly rebounded to 9.1% in the fourth quarter of 2009, peaking at 13.7% in the first quarter of 2010, 12.5% in the second, and 9.8% in the third, respectively. However, the Taiwanese government predicted that with such rapid recovery over four consecutive quarters, economic growth could decline to 4.7% in the fourth. In terms of annual growth rates, Taiwan's economy was forecast to grow by 9.98% in 2010 and 4.51% in 2011.<sup>10</sup>

The recent economic rebound has yet to spread to all sectors. Impacted by the global recession, Taiwan's unemployment rate increased from 3.81% in April 2008 to an unprecedented 6.13% in August 2009. Even with a strong

9. Miriam Manchin and Annette O. Pelkmans-Balaoing, "Rules of Origin and the Web of East Asian Free Trade Agreements," *World Bank Policy Research Working Paper*, no. 4273, Washington, D.C., 2007.

10. National Statistics, <<http://www.stat.gov.tw>>.



economic recovery after mid-2009, unemployment remains relatively high, declining modestly to 4.92% in October 2010. In real terms, the average monthly wage in July was even lower than in 2003. Moreover, income inequality in Taiwan has worsened, reaching a level not seen since 2001. The somewhat mixed economic picture is further compounded by the rapid increase of housing and asset prices stemming from very active speculative investments. Income inequality and unemployment, although less severe than in highly industrialized nations, are regarded as problematic for the government in the face of domestic elections, where economic issues are politicized.

## FOREIGN RELATIONS

Despite the breakthrough of Taiwan's participation as an observer in the World Health Assembly in 2009, Taiwan's further progress in enlarging its international space is limited as long as the PRC remains reluctant to relax its grip. Between 2008 and 2010, Taiwan maintained a steady number of diplomatic allies: 23. China, however, objects to Taiwan's participation in two U.N.-affiliated bodies. These are the International Civil Aviation Organization and the U.N. Framework Convention on Climate Change, two international bodies that the Ma administration hopes to join. Taiwan also was rejected for participation in the Inter-American Tropical Tuna Commission. Taiwan did, however, experience some success in bilateral relations. It obtained visa-free status from the United Kingdom, Japan, New Zealand, Ireland, and the Schengen countries<sup>11</sup> in the European Union during 2009–10. Singapore has expressed interest in negotiating an FTA with Taiwan, with Beijing's acquiescence. Whether this would be a ground-breaking case that leads to wider gains is an issue closely watched in Taiwan.

With respect to Taiwan-U.S. relations, Washington officials have endorsed ongoing peaceful cross-strait relations and committed to maintain stability in the region. In January 2010, the U.S. decided to sell more than US\$6 billion in weapons to Taiwan, but these did not include the more advanced F-16 CD fighter planes or diesel-electric submarines. Both sides announced in October that vice-ministerial discussions on a trade and investment framework agreement—disrupted since 2007—would resume. The bilateral relationship appears to be moving smoothly.

11. Currently a single visa enables "borderless" travel among 25 European countries, under the Schengen Agreement.

Nevertheless, cross-strait relations entail certain sensitive elements of potential concern to some in Washington. U.S. arms sales to Taiwan have always been a thorny issue between Beijing and Washington, and are likely to remain so in the foreseeable future. Moreover, Taiwan could be compelled to choose between the U.S. and China if tensions arose in the region. If the PRC decides to take a more assertive stand with respect to territorial disputes over the Diaoyutai Islands and in the South China Sea, the security environment in the region could complicate Taiwan's relations with the U.S., the PRC, and other Asian neighbors.

## PROSPECTS

With the 2010 election results, the presidential election in 2012 is poised to be a very tight race between the KMT and the DPP. President Ma should be the obvious KMT candidate to run for a second term. On the other hand, the DPP still faces a cloudy outlook in its intra-party contest for nomination. Chairwoman Tsai lost her bid for mayor of New Taipei City by a relatively small margin, but won a respectable one million votes. Pundits believe that such a performance should make her a frontrunner for presidential nomination if she chooses to contest it.

In short, the November 2010 election results produced no clear-cut winner for either party. Judging from statements by PRC officials and commentators, Beijing does not seem very surprised by the outcome. But the DPP's strong electoral performance may force the PRC authorities to step up their dialogue with DPP circles. The post-election political climate also indicates the DPP's growing interest in fostering a more pragmatic consensus on its China policy.

Post-ECFA cross-strait negotiations may still be bumpy. Hard bargaining is to be expected on a number of substantive economic issues. Although soft exchanges in education and culture will progress, the more sensitive political subjects are unlikely to see breakthroughs in Taiwan's current cautious political climate. This reflects the lack of fundamental consensus on cross-strait issues within Taiwan, as well as the presidential election around the corner. The other side of the Taiwan Strait poses equal uncertainty, as President Hu Jintao and most Politburo Standing Committee members are due to retire following the forthcoming 18th Communist Party Congress in Fall 2012. What does Hu expect to accomplish regarding Taiwan before his term ends? Many in Taiwan would like to know.