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# 中國大陸對台觀光政策與兩岸關係

# Mainland Chinese Tourism in Taiwan and Cross-Strait Relations

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# Abstract

With the 2016 election of Tsai Ing-wen and the Democratic People's Party, the number of Mainland Chinese visitors in Taiwan has fallen precipitously. There is much debate as to whether or not this will prove to be a catastrophe for Taiwan's tourism sector or whether it will even be felt. The purpose of this thesis is to ascertain the impact of the reduction in Mainland Chinese tourist numbers on the economy, and what it may mean for China-Taiwan economic and political relations. Due to the large amount Mainland Chinese tourists spend relative to other visitors, their length of stay, and their propensity for traveling to locations rarely visited by other types of tourists, the decrease in Mainland Chinese visitor numbers will have negative consequences for some parts of the Taiwanese economy. Furthermore, Chinese tourism trends in Taiwan correlate with larger Cross-Strait economic concerns, implying that what happens with tourism may be mirrored in trade. Should this prove to be the case, a cooling of China-Taiwan economic relations may be an indicator of difficult times for the China-Taiwan relationship as a whole. However, there is certainly opportunity for Taiwan's tourism sector, and there is evidence that by refocusing on a more diverse array of visitors, Taiwan is capable managing without such heavy, and coercive, Chinese influence.



Keywords:

Mainland Chinese tourism, Taiwan, Cross-Strait relations, economic statecraft

# Notes, acronyms, and abbreviations

## Notes on Chinese-to-Latin Transliteration

For Chinese names, I have used the personally preferred or written spelling of the name in question. For example, for President Tsai Ing-wen, I use the Wade–Giles system spelling preferred by newspapers and media, as opposed to the Hanyu Pinyin system (which would transliterate to Cai Ying-wen). In instances where the individual in question uses the Hanyu system, I have also used that.

## Acronyms and Abbreviations

KMT - 國民黨 - Kuomintang (Guomindang)

DPP - 民進黨 - Democratic People's Party (Minjindang)

ROC - 中華民國 - Republic of China

PRC - 中華人民共和國 - People's Republic of China

CCP - 中國共產黨 - Chinese Communist Party

ARATS - 海峽兩岸關係協會 - Association for Relations Across the Taiwan Straits

SEF - 海峽交流基金會 - Straits Exchange Foundation

FTA - Free Trade Agreement

ECFA - Economic Cooperation Framework Agreement

CSSTA - Cross-Strait Service Trade Agreement

## Notes on use of "China," "Chinese," Mainland," and "Mainland Chinese"

Considering the politically charged nature of even the terminology regarding the name "China" and "Mainland China" I felt it appropriate to address its usage in this thesis. I have,

when addressing tourists traveling to Taiwan from the Chinese Mainland, used the term "Mainland Chinese" tourist(s) or visitor(s). In some instances, simply for brevity, I have simply used the term "Chinese" to refer to people from the Chinese Mainland. Furthermore, I also occasionally use the name Beijing when referring especially to the government of the PRC, but sometimes for the PRC as a whole. I also use this same stylistic selection when referring to the government of Taiwan or the ROC in general by using "Taipei" as a stand in. I usually do so in conjunction with Beijing (e.g. Beijing vs. Taipei). When referring to people from the Republic of China, AKA Taiwan, I simply use the term "Taiwanese." In using "Mainland Chinese" I am in no way implying that citizens of Taiwan or any other areas not controlled by the PRC constitute what some may call "overseas Chinese." I am simply differentiating those from Mainland China and other citizens of PRC Special Administrative Regions (SARs), meaning Hong Kong and Macao.

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# Chapter 1 - Introduction

## Research Background

Since Tsai Ing-wen and her Democratic Progressive Party (DPP) were swept into office in 2016, Taipei's relations with Beijing have cooled (Grossman, 2016). A common trope in the media is that due to increasing tensions, there has been a decrease in the number of visitors to Taiwan from the Mainland, reversing a nearly decade-long trend of increasing amounts of Mainland Chinese tourists traveling across the Strait (Tourism Bureau - Table 1).



| Table 1<br>Mainland Chinese Visitor Arrivals to Taiwan - 2007-2016 | |
|---|---|
| Year | Number of Visitors |
| 2007 | 0 |
| 2008 | 329,204 |
| 2009 | 972,123 |
| 2010 | 1,630,735 |
| 2011 | 1,784,185 |
| 2012 | 2,586,428 |
| 2013 | 2,874,702 |
| 2014 | 3,987,152 |
| 2015 | 4,184,102 |
| 2016 | 3,511,734 |
| Source: Tourism Bureau, 2016 - http://admin.taiwan.net.tw/statistics/release_en.aspx?no=7 | |

In 2008, the ROC and PRC governments met to discuss the "Three Links" - policies that worked to bring Taiwan and China closer in terms of trade and travel. Part of the

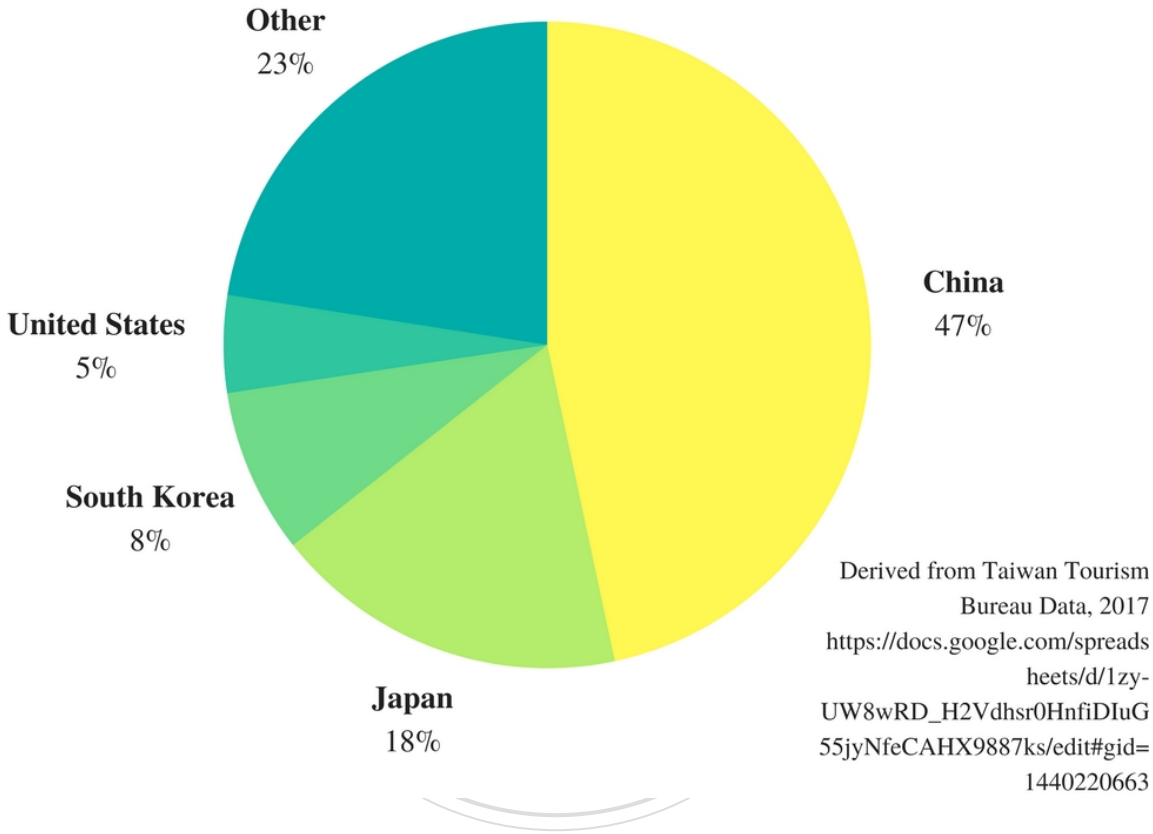
discussion was that of tourism; for the first time since 1949 it became possible for Mainland Chinese to visit Taiwan for the simple purpose of travel. In the first year alone, more than a quarter million Mainlanders crossed the Strait, with numbers growing each subsequent year, peaking at over 4 million in 2015 (Tourism Bureau, 2016).

The administration of ROC President Ma Yingjeou (2008-2016) had been largely conciliatory towards Beijing but, at least towards the end of his second term, widely unpopular in Taiwan, partly due to his administration's China-friendly posture. Tsai and her DPP was subsequently elected on a wave of discontent regarding closer China ties, thus her administration and the DPP-run government were handed a mandate to step back relative to Beijing (Bush, 2016).

Almost immediately after Tsai's inauguration, there was a drop in the number of Chinese visitors. The implication is that tourist numbers have begun to fall due to Beijing's disapproval of Taiwan's new political direction (Jennings, 2016). Regardless of the underlying reasons (and those will be discussed), there is some fear in Taiwan that a significant drop in tourist revenue could spell profound difficulty for the island's tourism industry (Smith, 2016). A range of businesses and workers engage in Taiwan's tourism industry, and with Chinese tourists being the most significant group, these businesses and workers stand to lose. Businesses include hotels, transportation and bus companies, restaurants, gift shops, larger retailers like department stores, and through them local governments due to tax revenue. And while these businesses will lose money, the workers who keep these businesses running will be the first and perhaps most significantly affected - drivers, food servers, store clerks, housekeepers, a huge range of skilled and unskilled professionals will feel the squeeze. Mainland Chinese visitors spend the second most of any national group, with only Japan spending more (Tourism Bureau, 2016). Calling Chinese tourists the "second highest" spenders is almost misleading - they, on average, only spend

one cent USD per day less than their Japanese counterparts. This fact is incredibly significant as Mainland Chinese visitors made up more than 47% of all tourists to Taiwan (Tourism Bureau Data, 2016). Clearly, a significant drop in visitors from China could mean serious trouble for tourism in Taiwan.

Chart 1 - Arrivals to Taiwan by Nationality, 2016 - Taiwan Bureau of Tourism




Derived from Taiwan Tourism Bureau Data, 2017 https://docs.google.com/spreadsheets/d/1zy-UW8wRD_H2Vdhsr0HnfiDIuG55jyNfeCAHX9887ks/edit#gid=1440220663

However, the underlying fear of what comes next is perhaps more significant than the decimation of Taiwan's tourism industry. Tourism is a drop in the bucket in terms of Taiwan's total economy, and should it fall apart, Taiwan at large would hardly notice. The underlying fear of Beijing limiting the amount of tourists allowed to visit Taiwan is that it could be a sign of a willingness to hit Taipei economically when the ROC acts against Beijing's interests. Tourism may be a small part of Taiwan's economy, but Taiwan's economy has become profoundly intertwined with China's, and if Beijing is willing to "punish" Taipei through tourism, perhaps they are increasingly willing to do so through other economic means. Furthermore, Taiwan's economy is much smaller and much more

dependent on the Mainland than China is on Taiwan. Since the opening up of relations between China and Taiwan, Taiwan has become increasingly reliant on Chinese labor, resources, investment, and legal structures. If Beijing were to punish Taipei economically, it could be potentially catastrophic for an already slow Taiwanese economy. In other words, Taiwan rightly worries that a slowing of tourism could be the first sign of greater economic pressure on behalf of Beijing, a pressure that could cause serious damage in Taiwan. As such, this study will analyze the state of economic relations between Beijing and Taipei, as well as the interplay with the political situation across the Strait.

## Research Purpose and Question

Tourism may not be a centerpiece of Taiwan's economy, but that does not mean it should be ignored. $14 billion in income (Tourism Bureau, 2016) is a large amount of money and the people who make a living in tourism could find themselves in a difficult position should Chinese tourist money dry up. To illustrate its importance, in September 2016 workers in Taiwan's tourism industry held a protest in Taipei demanding the Tsai Administration change its tune so as to ensure the arrival of ever more Mainland visitors (Cheng & Wu, 2016).

However, the money might not be the most important factor. Tourism is an important form of contact between peoples. If Taiwan loses 47% of its tourists, which would mean more than half of its tourism income, its travel-related industries, including restaurants, hotels, transportation companies, and gift shops, would close *en masse*. In turn Taiwan would become a less desirable travel destination for other types of tourists. Taiwan would miss out on informal people-to-people exchanges, first with Chinese, then with people from everywhere else. This would be a problem - Taiwan already lacks international visibility, and if it wants to chart its own course, whether by getting closer to China or by moving towards

independence, that visibility is critical, as it ensures other nations are both aware of Taiwan's plight and empathetic to Taiwan's ends. Without a robust tourism sector, who will bother to visit Taiwan? Understanding the importance of tourism and its dynamics is a central theme of this work.

Another purpose behind the research is that the issue is topical and it opens the door to a more important conversation: how China could harm Taiwan economically. As mentioned, the issue of Chinese tourism is common in Taiwanese media, and strikingly frequent in Western news. Furthermore, and as mentioned, Chinese tourism in Taiwan is related to the larger and more significant issue of China-Taiwan economic relations, and how those relations may come into play especially during a time of rising tensions. Having a clear and accessible understanding of a relatively complicated issue can only help in both the academic and informal discourse surrounding the circumstances.

For these reasons, this thesis seeks to understand the following: what is the impact of changing levels of tourists from China on Taiwan's economy, and what does it mean for China-Taiwan relations? Encompassed in this line of inquiry are a few other minor questions that will be explored, like what is the contribution of Mainland tourism to Taiwan, and how much of money spent by Mainland tourists stays in Taiwan, rather than going to Mainland or Hong Kong owned businesses? Also, what will be the impact of a reduction in Chinese visitors to Taiwan, and is Beijing behind that reduction, or is it caused by other factors? Finally, this analysis will address how Taiwan should respond to a reduction in Mainland visitors.

## Research Method

The methods used to collect information and analyze it are essentially twofold. This thesis is qualitative research done through review of available literature regarding Taiwan and

China's economic relationship and interdependence, in conjunction with examination of government data and other academic, government, and journalistic sources for information specifically regarding tourism. A qualitative approach is particularly useful for this study, as I am seeking to establish the effects of Chinese tourism in Taiwan and why it functions the way it does. This means examining the question from a political and human perspective rather than a data driven one. Furthermore, a useful quantitative analysis of my research question would mean a tremendous amount of research that in the end could only reveal trends, and controlling for separate factors would be nigh impossible. A literature review and qualitative analysis can produce similarly efficacious results much more efficiently.

For the literature review, I began with a number of academic texts and reviewed them for similar themes and contrasting conclusions. As readers will find, the preliminary literature review revealed that much thinking on the economic relationship between Beijing and Taipei is in agreement, especially in terms of the motivations underpinning that relationship and the degree to which it has had an effect on the economies and societies on both sides of the Strait. There was, however, little prediction regarding what the effects of the economic relationship, especially regarding the future of political relations and how trade and economic interaction will affect them.

In regards to other sources of information, these are used to extrapolate information specifically regarding tourism to examine whether or not tourism fits the same political and economic patterns as Cross-Strait trade in general. This information, including data from the Taiwan Tourism Bureau, analyses from international think-tanks, and news articles, will determine firm numbers regarding Mainland tourism in Taiwan, what the possible impacts of a decrease in visitors could mean, and how Taiwan might possibly address this decline in tourism revenue. These sources come from a range of media and perspectives, and work to illuminate specifics that the academic literature on China-Taiwan economic relations simply

has not addressed. I also cite a number of web databases and articles from sources that include the CIA World Factbook and Center for Foreign Policy. This information is useful in establishing foundational arguments, e.g., the dollar amount of trade across the Strait, as well as basic analysis of short-term trends. Moving further, news sources are also referenced. These will help in supporting the analysis of this thesis and act as a source of data as well.

In addition to the aforementioned sources of information, expert interviews help to firmly establish the state of Mainland Chinese tourism in Taiwan. I spoke with five experts, ranging from trade association directors to hotel managers to politicians. These individuals shared their deep expertise and opinion's regarding the state of Taiwan's tourism industry, as well as their concerns and predictions for the future and why they hold the views they do. Their input is included throughout this thesis, especially in Chapters three and four, but specific notes about what was asked and their responses are contained in the appendix section near the end of this paper.

## Limitations

Every effort to produce an illuminating and useful work has been taken in researching and writing this thesis. However, there are certainly some limitations to this examination. As stated in the introduction, it is a qualitative review, largely compiled through literature and expert opinion and drawing conclusions from these sources. This is not necessarily a limitation, as expert opinion and the literature available are in many ways more reliable than an amateur effort at quantification. Still, quantitative analysis, especially of survey information and official tourism figures would be a tremendous addition to the conversation. The problem is, such a project would be at the very least a multi-year, team-led project, and at most simply impossible. In other words, it would be a difficult project even for a

government-funded group of social science professors to tackle, much less as a Master's thesis project.

Another limitation is a relative lack of information. While literature regarding Cross-Strait relations, economics, and trade is abundant, information about Mainland Chinese tourism in Taiwan is rather limited. First, there is information that no one knows, including the details regarding the exact decision-making process in the PRC to clamp down on tourist numbers to Taiwan. No one I spoke to had any definite information, and none of the news sources I examined had anything more than rumors and secondhand accounts. Also, as mentioned previously, there is a lack of quantitative data beyond what the Tourism Bureau is willing to provide. The Tourism Bureau was unwilling to respond to my inquiries, as were local tourism boards. Another reason is that information available, especially English language articles and literature, are clearly politicized and show an intent to persuade readers to agree with a given position. This implies a degree of cherry-picking and necessitates healthy skepticism in at least a few sources.

The degree of politicization of the tourism issue deserves special attention, as it is probably at the core of why the Tourism Bureau and other bodies are reluctant to provide information beyond official data and basic analyses released on their website. As mentioned in Chapter 4, how individuals regard Mainland Chinese tourists is related to their positions on the China-Taiwan political relationship, specifically whether or not Taiwan is, is not, or should be a part of China. Most sources, including interviewees and newspapers, deny having a political bend, but their perspectives at least slightly betray their leanings. This is not to say that having an opinion towards Mainland Chinese tourists and tourism precludes anyone from offering good information, it just increases the likelihood of cherry-picked information.

Finally, there is a stark lack of quality English information available regarding Mainland Chinese tourism in Taiwan. There are a few quality researchers out there, including

Professor Rowan at Academia Sinica, and there have been strong articles written about it. However, there is a torrent of relatively low-quality speculation and rehashed ideas that make sifting through and finding quality information difficult. There is, obviously, much more Chinese language information, but, sadly, my Mandarin skills are not up to the task of translating from and analyzing Chinese language sources. Still, this is part of why I selected this topic - there needs to be more information available to the international community considering the pertinence of the Chinese tourism issue.

Beyond these limitations, a final issue with this work is its relatively small scale. This study was undertaken during a relatively brief period, with initial research beginning in the spring of 2016 and seeing completion summer of 2017 - a time period in which there was tremendous flux in tourism trends and probably only just the beginning of a transition away from Mainland tourists. Furthermore, I did not select the specific topic of this thesis until early 2017. With more time, more support, and more resources, this study could be expanded and honed. And while the research includes four expert interviews, a literature review, and an analysis of relevant media, there is room for more interviews and the contribution of Chinese sources. However, I am also confident that should the study be refined and extended, the conclusions will not change and its findings will be very similar to those seen here.

## Chapter Structure

The structure of this thesis is as follows: Chapter 1 opens with an introduction to the topic of Mainland Chinese tourism in Taiwan, as well as an explanation of the project's rationale and research questions. Research methods are also explained, followed by potential limitations of the study.

Chapter 2 is a review of available literature, especially regarding Cross-Strait economic relations. The first section explores economic relations between China and Taiwan,

followed by the more specific economic issues relevant to China-Taiwan trade and investment. This is the framework on which the project is based. Finally, literature regarding Mainland Chinese Tourism in Taiwan is discussed, with further discussion of expert interviews used to further explore the nature of the changes occurring.

Chapter 3 delves into the history and background of Mainland Chinese tourism in Taiwan, with a brief recollection of China-Taiwan relations especially since the late 1980s, followed by progress towards the goal of direct flights filled with tourists to Taiwan. The next section discusses the "pros and cons" of Mainland Chinese tourism in Taiwan, including the economic benefits and the social costs of the structure of the market. Chapter 3 ends with an assessment of the current state of Mainland Chinese tourism in Taiwan, and what these trends may mean for the tourism sector.

Chapter 4 relates Mainland Chinese tourism back to the larger economic issues, and establishes the possibility of a correlational link between tourism trends and trade and investment across the Strait. The chapter ends with some predictions as to the state of tourism Taiwan's tourism sector in the near- to mid-term, along with some extrapolations about what it could mean for the overall economic relationship between Beijing and Taipei.

Chapter 5 concludes this thesis with a summary of the work and findings, followed by a policy recommendation of greater diversification, especially in Taiwan's tourism sector. This section is supported by a brief case study of how Taiwan could engage the relatively untapped Western market as an example of actions the government and businesses need to undertake to keep Taiwan's tourism afloat.

The appendix is simply a notated summary of the expert interviews conducted, followed by the references section.

# Chapter 2 - Literature Review

## Cross-Strait Relations

This thesis analyses tourism under the paradigm of China-Taiwan economic relations and interdependence. Since the late 1980s, trade and economic exchange has exploded across the Strait (Kastner 2009, Tanner 2007). During the 80s, Taiwan found itself under martial law and the one-party rule of the Kuomintang (KMT), the erstwhile Chinese Nationalist Party that had fled Mainland for Taiwan in 1949. Taiwan's economy had grown profoundly in the interim, becoming one of the "Asian Tigers" and establishing strong economic and political ties with the West. However, the official stance of the ROC with regards to Beijing was that of the "three no's" - no contact, no negotiation, and no compromise (Kastner, 2009). However, the policy was softened slightly in 1985, allowing indirect trade, but more importantly, martial law was lifted in 1987. In 1989 the ROC government announced new regulations governing trade, and ever since, the economic relationship has been a growing one (ibid).

While the economic relationship has proven beneficial for both sides, there are strong indicators that it has posed difficulties for Taipei. Even before China's and Taiwan's entrance into the WTO regime, Taiwan had developed a large trade deficit with the Mainland, and a degree of economic dependence was evident (Chang & Goldstein, 2007). Economic dependence, or rather interdependence slanted in favor of the Mainland, has grown even further since. This creates a large problem for Taipei; if Taiwan is economically dependent on its political adversary in the PRC, that adversary could potentially hold leverage over Taiwan. In case there were any doubt, the PRC has explicitly claimed that gaining leverage and influence in Taipei is the most important factor for advancing Cross-Strait economic ties

(Tanner, 2007). In other words, while the economic relationship has proven fruitful, it seems to work to undermine Taiwan's political aspirations relative to Beijing, and for many Taiwanese this is a real cause for concern.

The economic relationship between Beijing and Taipei, while generally on the rise, has seen peaks and troughs in terms of growth. Recognizing the security risks of closer economic ties with Beijing, President Lee Tenghui established multiple policies meant to stem the flow of Chinese money and influence, including the "Go South Policy," encouraging Taiwan businesses to invest in Southeast Asia rather than the Mainland, and the "Go Slow, Be Patient Policy" limiting the types of technology and services that could be transferred to and conducted in China (Kastner, 2009). However, and rather counterintuitively, first DPP President Chen Shuibian heavily courted Taiwan business interests in his first term, and as such liberalized many of Lee's policies. He changed tack after 2002, however, again slowing, but not stopping, the growth in Cross-Strait Commerce. Under Ma Yingjeou of the KMT, Taiwan again heavily liberalized trade with China, with President Ma's administration signing 20+ agreements, including the Economic Cooperation Framework Agreement (ECFA) (Albert, 2016).

ECFA is an important watershed in China-Taiwan economic relations for a number of reasons. It was perhaps the most significant agreement signed with Beijing during the Ma Administration and worked to liberalize Taiwan's trade policies with China. It also ensured Beijing no longer pre-empted Taiwan signing trade agreements with other Asian nations. However, and perhaps most importantly, it was largely unpopular in Taiwan and began a steady downturn in KMT approval ratings, ultimately spawning the Sunflower Movement[1]

[1] The Sunflower Movement was a student movement that occupied the ROC Legislative Yuan in April 2014. The movement received global attention and was aimed at preventing the passage of Cross-Strait Service Trade Agreement, an economic agreement that the then-majority Kuomintang (KMT) was attempting to force through the legislature without promised oversight. The occupation lasted for weeks and ultimately resulted in promises from the KMT-led government that the agreement would be reviewed by the public. The popularity of the

and culminating in the massive defeat of the KMT in 2016 elections. Taiwanese voters have shown they are largely dissatisfied with closer economic ties, in part because agreements like the ECFA were largely beneficial to large conglomerates with very little tangible benefit for ordinary citizens (Albert, 2016). With the security concerns related to Chinese leverage over Taiwan and anemic economic growth for most citizens, especially young people, the KMT was largely disposed in 2014 and 2016, and Tsai elected president. Considering the mutual distrust between Tsai's DPP and Beijing, the economic activity across the Strait looks due to take a significant hit, one that seems to already be playing out with tourism.

There is dispute between those who presume Taiwan can offset China-Taiwan commerce with trade elsewhere, and those who are convinced the only hope for Taiwan's economy is through further engagement with Beijing. The Tsai Administration is ostensibly in the first camp, promoting policies that hearken back to the Lee Administration. The "New Go South Policy" literally takes the name of one of Lee's most significant efforts to stem the tide of greater economic interaction (Hsu, 2016). There is some evidence that the New Go South Policy may be working in tourism already, with the decrease in the number of Chinese visitors having been offset by those from other countries (Chen, 2017). However, most of the buzz around this early success has been generated by DPP-friendly sources, implying that reporting may be cherry-picked and overly exuberant before confident results can be declared.

The other side of the argument, that Taiwan should embrace closer economic ties, is predicated on the reasoning that without normalization of trade across the Strait and greater economic cooperation, Taiwan's economy is doomed to stagnate. Tourism to Taiwan was tiny until Mainland visitors made it a viable sector, with over a million visitors arriving in 2009 - the first time that many tourists from one source had ever deigned to vacation on the

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Sunflower Movement and its goals continue to resonate and were an indication of widespread dissatisfaction with closer economic ties with China (Harrison, 2015).

island (Chen, 2017). Furthermore, beyond tourism, Taiwan is, according to these analysts, unable to make up for the potential gains that could be seen with greater cooperation with China (ibid). The reasons for this are manifold, but the biggest factors are the ease of integration with the Mainland vs. the relative difficulty of working with Southeast Asia, and Beijing's maneuvers to isolate Taiwan in the Asia-Pacific should it not cooperate economically. And while some see trading with nations that are unafraid of Beijing's dictates as the answer (e.g., the West), the problem is that the trade regimes between Taiwan and these nations are already mature; in other words, there is not much more to squeeze out of them (ibid).

## Cross-Strait Economic Relations

Cross-Strait economic relations is a huge and well-researched topic, in both the Sinosphere and the English-speaking world. There is a wealth of literature available, from the sweeping to the minute-detail oriented. In this body of literature, the core aspects of Cross-Strait relations are generally agreed upon.

First, analysts agree that a pillar of Beijing's strategy relative to Taiwan is an attempt to draw Taipei into its sphere of influence through greater economic integration. This is hardly an opinion - both Chinese and Taiwanese leaders both recognize and acknowledge the reality that Chinese economic policy towards Taiwan is meant to bring its erstwhile province under the political influence of the PRC (Kastner, 2009).

Second, academics and policymakers agree across the board that trade and economic cooperation between Beijing and Taipei has exploded since the end of the 80s. This does not mean the relationship has been free of trouble. Certainly there have been troughs and spikes in the economic relationship, but even a glancing familiarity with the data proves the general trend has been one of meteoric growth. Cross-Strait trade in 1986 was less than $1billion

USD (Kastner, 2009), but by 2014 trade across the Strait had exploded to almost $200 billion ("China-Taiwan Relations," n.d.).

Finally, analysts are generally in agreement that economic threats and coercion towards Taiwan has had very little effect thus far. The fact is, in order for the trade relationship to be as deep and significant as it has become, Beijing has had to convince Taiwanese investors, the Taiwanese people, and Mainland interests that economic relations across the Strait would be fruitful and stable. Beijing has largely succeeded in this endeavor, and no further evidence is necessary than the tremendous growth in trade.

However, the tiny effect of economic coercion against Taiwan deserves some qualification. One of the most significant disagreements in the literature on the topic is whether Beijing has been unsuccessful in its attempts at coercion through economic policy, or if Beijing has simply never tried to use it in any meaningful way. There are strong arguments both ways, but the assertion that China has yet to actually use its economic weight against Taiwan seems to be the more likely scenario.

Other differences between various analyses and assessments of the situation lie in whether economic coercion, like hassling Taishang, has been fruitful for China or has a negative impact on Taiwan. Also important to examine is the degree to which economic coercion, both large and small scale (e.g., tariffs) is useful for Beijing in the long term, and whether or not closer economic ties portend political rapprochement or possible conflict.

This literature review attempts to examine various academic works, and from them build a hypothesis that Beijing is increasingly impatient with Taipei, especially following the landslide electoral victories of the DPP in 2016. As such, CCP leaders seem to be more willing to signal resolve on their attitudes towards Taiwan through costly measures, including punitive economic initiatives. While there is evidence that Beijing undermining the economic relationship between itself and Taipei is ultimately self-defeating, this review will use its

findings to support the hypothesis that China is in fact increasingly willing to wield the economic bludgeon to bring Taiwan to heel, and tourism is an early and visible example of this strategy.

I selected four texts that act as a foundation for the theoretical framework of this thesis, that being Cross-Strait economic policy and the deepening economic ties between Beijing and Taipei. They are *Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond* by Scott Kastner, *Chinese Economic Coercion Against Taiwan: A Tricky Weapon to Use* by Murray Scot Tanner, *The Implications of China-Taiwan Economic Liberalization* by Daniel H. Rosen and Zhi Wang, and *Economic Reform and Cross-Strait Relations: Taiwan and China in the WTO*, edited by Julian Chang and Steven M. Goldstein. These books delve into the inner workings of the Cross-Strait Economic relationship, including individual trade agreements, economic history, and the relationship's effects on specific industries. While all of these are pertinent in their own right, for this examination viewing the relationship on the large scale is more useful. However, all of these works also examine overarching policy analysis and its possible effects on China-Taiwan relations, both economic and political.

I will also briefly examine other sources for research, including books, government data, news articles, journal articles, and websites / reports that are cited here and elsewhere in this thesis. These sources are used to fill out the argument that Beijing may use economic leverage against Taipei to further political ends, and that tourism is an early form of that strategy.

The most obvious and ubiquitous claim in the literature regarding China-Taiwan trade is the degree to which it has exploded since the 80s (Chang & Goldstein, 2007). This is a simple matter of fact, but it underpins a tremendous amount information regarding Cross-Strait Commerce. This fact attaches itself to every conversation regarding the political

relationship between Taipei and Beijing, the economic development of Mainland China, and the health of Taiwan's economy. Furthermore, it's an issue relevant globally, including regarding US-China relations, stability in the Asia-Pacific, and in terms of geopolitics at large. Obvious, yes, but difficult to understate its importance.

Some scholars, specifically Daniel H. Rosen and Zhi Wang, have found that not only has cross-Strait commerce been imperative to Taiwan's recent economic growth, but without it, Taiwan's economy is sure to flounder in the future. Their work, *The Implications of China-Taiwan Economic Liberalization* is in agreement that economic engagement between Taipei and Beijing has clearly skyrocketed, that Taiwan is increasingly dependent on China economically, and that the economies are also increasingly integrated (Rosen & Wang, 2011). However, where other texts have been less willing to make predictions, *Implications* does offer some strong analysis regarding the future of Taiwan's economy in various circumstances.

Taiwan has made growth in the service sector a linchpin of continued economic growth, and in order for this sector to grow, Taiwan businesses need access to both Chinese markets and investors. As tourism is a service industry, it is potentially illustrative of what could happen with a reduction in Mainland investment. While anyone can see how much trade has grown across the Strait, Rosen and Wang make the case that it is in Taiwan's best economic interests to continue to work with Beijing. Tourism clearly plays a role in this discussion, and China seems to be imposing "indirect economic punishments" including limiting travel on the part of Mainland visitors (Stratfor, 2016).

A common refrain in international relations theory is that greater economic interaction between two parties, like states, ultimately means peaceful political interaction (Ho, 2006). On the surface, this seems self-evident - trade between politically friendly nations is usually

robust, while states experiencing degrees of conflict tend to limit economic interaction. However, there are exceptions, and one of these is, possibly, China-Taiwan trade.

WTO membership of China and Taiwan is an interesting aside in discussing China-Taiwan economic relations. Joining less than a month apart, many analysts have come to assume that equal membership in the body would lead to better relations in the Strait. However, "very little induced harmony has seemingly occurred," and China has put pressure on the organization to limit Taiwan's apparent independence in the body with what could be seen as petty protests. So, rather than being a de facto bilateral trade agreement, parallel WTO membership has caused some tension between Taipei and Beijing while direct agreements between Taipei and Beijing like ECFA continue to be the most significant paradigms of economic interaction (Charnovitz, 2006).

On one side of the discussion are the theorists who believe greater economic exchange can help create peace; war is bad for business after all. *Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond* by Scott Kastner uses the China-Taiwan economic relationship as a case study for the author's hypothesis that the stronger the influence of "internationalist economic interests" within two competing nations, the more limited the effects of political conflict on economic interaction. While Kastner shows his hypothesis to be correct, he is extremely conservative in drawing conclusions from it (Kastner, 2009).

Kastner points out that both sides of the Taiwan Strait have large coalitions of "internationalist economic interests" with high degrees of political clout. He notes that the CCP seems to be increasingly dominated by these voices, while in Taiwan these groups are often courted by both major parties. This includes the "Taishang" and other Taiwanese business interests. Because of the robust influence of the internationalist economic narrative

on both sides of the Strait, the economic relationship between Taipei and Beijing remains strong, even in the face of sometimes intense political confrontation.

Furthermore, according to Chang and Goldstein, ascension to the WTO was promoted most heavily on both sides of the Strait by what Scott Kastner would call "international economic interests" who see liberalization as beneficial both in economic terms, but perhaps also politically. As the introduction makes clear, both sides have reasons to play by the rules of normal international exchange when dealing with each other. And as liberalization across the Strait has occurred, economic interaction has increased at an ever greater clip than previously (Chang & Goldstein, 2007).

One shortfall of their work however, at least as it applies to this examination, is that it almost completely decouples the economic implications of WTO membership and greater Cross-Strait commerce with the political implications. This is probably the responsible course for the authors - as Kastner points out, the political implications of economic interaction are difficult to predict and can be influenced by circumstances beyond economic jurisdiction. Still, hoping for a "smoking gun" as to the political implications of economic interdependence would make it easier to prove a thesis. Regardless, this text provides valuable information that will assist in determining whether decreasing tourism from China implies economic coercion.

However, Kastner points out that the effects of trade on peace and Taiwan's sovereignty are unclear. Many analysts take it for granted that greater economic exchange implies a decrease in political conflict, but that is hardly a causal relationship. Analysts on the other side of the argument have noted that it could be the other way around - a cooling of political conflict could be the cause of more bilateral economic activity. Furthermore, there is very little evidence that nations with starkly different systems of government will necessarily

be peaceful with each other, regardless of economic activity. Thus, Kastner is reluctant to predict that greater economic engagement on both sides of the Strait will guarantee peace.

Kastner states that, with the right conditions, Beijing and Taipei are more likely to avoid military conflict if there are more economic links, but again, that is largely dependent on those conditions. If Beijing relies too heavily on "stick" as opposed to "carrot" diplomacy, they are liable to empower nativist Taiwanese constituencies and undermine the clout of Taishang (Taiwanese business owners in China) and other internationalist economic interests in Taiwan. Other factors include continued agreement between internationalist economic interests and PLA in Beijing, as well as the strength of the respective economies and relations with other players in the region, especially the United States.

Another consideration is that if Beijing finds that economic channels are counter-productive in drawing Taipei closer politically to the Mainland, much of CCP policy towards Taiwan is rendered ineffective. These policies have been crafted by PRC leaders who are convinced Taiwan can be brought into the fold peacefully, and have argued against harsher methods proposed by the PLA and other, more hawkish voices. Should economic avenues not pan out for Beijing, these "hawks" could gain the upper hand in policy decision-making.

Rosen and Wang also chime in regarding future China-Taiwan relations as it relates to Taiwan's economy. They conclude Taiwan would suffer should it try to abandon its economic relationship with the Mainland. Their claim is that even if Taiwan were able to untangle its economy from the Mainland, and were able to enter trade deals with other nations to replace them, it would ultimately still lose. In other words, Taiwan has much more to gain, economically, by engaging China, than by remaining protectionist. The ultimate conclusion of their work is that the implications of China-Taiwan economic liberalization are positive, and that with greater liberalization on the part of Taipei, economic growth will follow.

Again however, this says not enough about the political implications. Glaringly clear is the fact that the Rosen and Wang prioritize the macroeconomic over local concerns, and are very much pro-globalization. All predictions, while meticulously researched, are based on the assumption that growing trade with China will have a positive effect on Taiwan's economy with no mention of who might be the losers in that calculation. Furthermore, while their text is very much in favor of closer economic ties with China, noticeably absent from discussion are the political implications. While it is a common refrain for other works to also omit political analyses, leaving them out of this book is strange. Rosen and Wang take a strong stance on the economic benefits of the ECFA and liberalization, so one would think they have to know that the political relationship between Beijing and Taipei would obviously be influenced. Still, they make no mention of what that might be or even acknowledge that it would be an issue.

Most of the literature shies away from claims about how the economic relationship could ultimately affect the political situation between Taipei and Beijing. As Kaster points out, the interplay of economics and policy is tremendously complicated and it likely is not wise to draw firm conclusions either way. However, he does point out that the general assumption that greater trade implies greater peace might be largely faulty. On the other hand, scholars like Rosen and Wang have no qualms claiming the best case scenario is one where Taipei liberalizes as much as possible in regard to Beijing. While unstated, the implication is that Taipei be drawn into Beijing's metaphorical orbit, and that is ultimately better for Taiwan's economy.

Another universally acknowledged fact is that Beijing's strategy towards Taiwan has been to "buy" its erstwhile province rather than force Taipei to unify with the Mainland. As such, Beijing has been a huge proponent of increased trade and cross-Strait investment and commerce. This growth has produced a degree of mutual dependence, but especially on the

part of Taiwan. It has also given clout to the "international economic interests" on both sides of the Strait, who strongly support further integration (Chang & Goldstein, 2007).

Because Taiwan and China are so linked economically, many analysts expect Beijing to wield undue influence over Taipei. However, Kastner shows this has not been the case. As mentioned, Beijing has courted the Taishang and has hoped to develop them into a pro-China lobby. This effort has been largely unsuccessful however. Taishang businessmen have adapted and keep their political leanings quiet, and as it stands, winning the Taishang vote is not imperative to retaining political power in Taipei, as Chen Shuibian showed in his re-election when he won with a coalition made up of nativists and protectionists (Kastner, 2009).

Another important piece of Beijing's economic strategy towards Taipei has been continually signing trade agreements, like ECFA. Much of Rosen and Wang's book is invested in predicting the future of the economic relationship given that the Economic Cooperation Framework Agreement (ECFA) was signed by both Taipei and Beijing. The agreement is essentially a roadmap for further liberalization of Taiwanese policy, and would ensure a few things. First, that Beijing did not attempt to preempt Taiwanese trade agreements with other regional neighbors, the subtext being that it was common Chinese policy to isolate Taiwan, and that Taiwan would be able to compete with Southeast Asian exports in China after Beijing signed the ASEAN-China Free Trade Area Agreement (ACFTA) (Chang & Hayakawa, 2014). Furthermore, the FTA signed between Beijing and the ASEAN nations (ASEAN +1), along with being unable to sign its own agreements in the region meant that Taiwan stood to stagnate while China and the region surged ahead. The goal of ECFA was to mitigate that eventuality (Rosen & Wang, 2011).

Rosen and Wang further note that China, in dealing with Taiwan, follows WTO regulation and has essentially liberalized its entire trade regime with the island. Taiwan, on

the other hand, has tremendous restrictions regarding economic interaction with China, specifically in terms of labor, investment, and imports. Both sides behave the way they do, not necessarily for economic reasons, but for those related to security or policy goals. Beijing has stated it is not concerned with the economic outcomes of liberalizing economic relations with Taiwan, the goal being rising interdependence and ultimately political reunification. This is not entirely true, as China has profited immensely from trade with Taiwan (Rosen & Wang, 2011). Still, Taipei's illiberal policies towards Beijing, very much out of line with how the ROC conducts trade with the rest of the world, are meant to insulate Taiwan's economy from becoming too intertwined with China's, and thus vulnerable (Rosen & Wang, 2011; Tanner, 2007).

Scot Tanner makes it clear that Beijing has almost never used real economic coercion against Taiwan. The only instance he notes is that of the Taishang putting unequal pressure on Taipei to liberalize trade policy with the Mainland. I say "unequal" because some of the Taishang investors are supporters of the DPP. These business magnates have, in turn, experienced some pressure from Beijing, mostly in the form of being hassled by Chinese regulators and government officials. For example, government inspectors would visit factories unannounced, or repeated audits of company finances were demanded. This coercion, however, is extremely light and only generally directed at Taishang Beijing has dubbed too supportive of the DPP. There is some further evidence of Taiwanese officials limiting provocative speech in order to court big business support (e.g., Chen Shuibian in 2000 foregoing talk of Taiwan independence), but again, there is no evidence this is directly related to threats of economic pain coming from Beijing (Tanner, 2007).

Furthermore, even though Taiwanese voters generally see China as a political threat, they do see China as an economic opportunity (Liu & Lee, 2016). Beijing's policy has banked on economics being more important than politics (both on the Mainland and in

Taiwan), thus this perspective seems within the scope of CCP strategy towards Taiwan. Still, and as mentioned regarding Kastner's analysis, the political fears are intimately related to economic concerns, simply because of how easily Beijing, with economic leverage over Taiwan, could turn that economic relationship towards coercion. In other words, just because China has not attempted major sanctions, it does not mean they never will. Up until the present, China has tried to woo Taipei economically, but they could, through economic venues, impose pressure on Taiwan in a few significant ways. The PRC, according to Tanner, is reaching for the ability to: force Taiwan to reunify under less than favorable conditions, undermine support for developing Taiwan's defensive capabilities, turn influential individuals, especially Taishang, into a lobby for Beijing, and scare the Taiwan electorate into supporting greater political concessions, among other possible venues of leverage (Tanner, 2007).

This other option for Beijing, the stick part of its "carrot-and-stick" approach to Taiwan, is to act in a way so as to "punish" Taipei. As mentioned, one strategy is to target Taishang, which they did during the Chen administration. This, however, was largely ineffective - it makes little sense to pull the rug out from under your desired base of support, and by hurting the interests of the Taishang, they became less likely to speak to Beijing's interests in Taipei (Tanner, 2007).

Another strategy for punishment is various forms of economic sanctions. We may be seeing this currently with China tapering off the amount of tourists coming to Taiwan, but historically, at least since the late 80s, Beijing has been loathe to signal political resolve through economic means. Chinese leadership is reticent for a number of reasons, not least of which are the economic benefits Taiwanese businesspeople bring to some regions of China. However, and as Beijing has stated again and again, their intentions in doing business with Taiwan are to ultimately gain political leverage in Taipei, and economic sanctions seem to be

a last-ditch effort before outright conflict (Kastner, 2009). If Chinese clamps on the tourism spigot are an early sign of economic coercion directed towards Taiwan, policymakers should view this as a real warning sign of difficult days to come.

Complicating the issue further is that while Beijing seems to have bungled some early attempts at economic coercion, Taiwan's treatment of policy can be equally ineffective and send mixed messages. Tanner explains that Taiwan has adopted something of a gradual and uneven liberalization policy in regards to Cross-Strait commerce. Depending on the government, sometimes there is an opening, and sometimes Taiwan tries to roll policies back.

Furthermore, Taipei occasionally attempts to dislodge Taiwan's economic integration with China. An example is Lee Tenghui's "Go South Policy," that attempted to incentivize moving and opening of factories and production to Southeast Asian nations. This policy was generally unsuccessful for a range of reasons. First, language and cultural barriers between Taiwan and China are much lower than between Taiwan and Southeast Asia. Also, Beijing actively isolated Taipei and tried to preempt Taiwan investment in Southeast Asian nations by striking deals of its own. The "Go South Policy" sounds very much like President Tsai's "New Go South Policy," and while times have changed since the Lee administration, there is very little reason to expect the new endeavor to turn out any differently than its predecessor.

Perhaps the most effective form of "coercion" Beijing has employed has been lobbying, incentivising, or threatening third parties into avoiding trade deals with Taipei, ensuring strategies like the "Go South Policy" ultimately fail. This action, the authors note, has potentially dangerous consequences and could ultimately undermine the status quo. This is part of why Rosen and Wang hail the ECFA; it put a stop to Chinese meddling in third party agreements. However, if Taipei does not liberalize and further integrate its economy with the Mainland, it would ultimately stagnate and make the people of Taiwan more vulnerable and tend towards a weakening economy (Rosen & Wang, 2011).

While it is clear that Beijing has positioned itself so as to be able to use economic coercion, it's less clear that it would ultimately be successful in helping China bring Taiwan further into its orbit. As a matter of fact, Tanner's central argument is that economic coercion is something of a double-edged sword in Beijing's hands (Tanner, 2007). He argues that ultimately, while economic pressure on behalf of China could certainly do damage to Taiwan, PRC leadership might not be able to wield it to positive affect, and that in doing so they could push Taipei further from Beijing's orbit as opposed to frightening Taiwan into greater dependence.

The problem with coercion is that it rarely works, and there is strong evidence it would do little to force Taiwan to accept greater political concessions. Tanner explains that sanctions can only work when a "target" country (e.g., Taiwan) is unable to resist the economic pressure of an "initiating" country (e.g., China). Sanctions against democracies are almost never effective in extracting political concessions, and, as repeatedly stated, could have the opposite effect. Consider the 2016 Taiwan elections - the DPP and Tsai Ing-wen were swept into power not even as a response to Chinese economic coercion, but the fear of closer economic ties to China and the *potential* for economic vulnerability to Beijing. In this political environment, it is hard to see how economic sabre-rattling on the part of the Mainland would do anything but strengthen the resolve of the Taiwanese populace and empower protectionist and independence-minded leaders.

Tanner also points out that this is not necessarily good news for Taiwan. As previously discussed, if economic sanctions and coercion are seen as a non-viable form of leverage, it removes the ability of Beijing to clearly signal resolve. Economic pressure is often seen as a "middle path" when signaling resolve to take action in support of a political agenda. On the softer side is diplomatic condemnation and isolating actions, which Beijing conducts against Taipei routinely. On the other side, however, is military or covert action. If

the middle ground of economic pressure is not present to show where Beijing stands in regards to its feelings towards an increasingly independence-minded Taiwan, Taipei could find itself in a significant confrontation with almost no warning.

Furthermore, Taipei could likely resist Beijing's punitive policies for a long time, thus frustrating PRC policymakers. Tanner notes that Taiwan has vast foreign currency reserves, with which it could float its economy even under difficult conditions for an extended period of time. In addition, Taiwan's tech industry is highly mobile, and if it had to depart from China, chances are it could, even under less than favorable conditions. This would also cause tremendous pain to the Mainland, as Taiwan-owned companies are linchpins of a number of local and provincial economies. True, China could bear the brunt, but it would have to reconfigure its economy in many ways and risk dissatisfaction on the part of local populations and provincial leadership.

While Beijing could exert economic influence over Taiwan, the evidence shows that it might only exacerbate tensions, as opposed to cajoling Taipei into accepting itself as a part of China. As such, Beijing is still reluctant to act this way, but this could be a scary, rather than assuring fact. If China feels that its "carrot and stick" policies of luring Taiwan in economically are bound to fail, there may be little warning of Mainland escalation. Furthermore, the subtext for economic coercion on the part of Beijing is that Taipei is already essentially dependent on the Mainland for continued economic growth - a truth further explored in the other texts.

Finally, one field of thought that this text touches and draws upon is the idea of economic coercion in international relations. This is rooted in the ideas of economic engagement – namely that one nation can influence the actions of another by how they set policy (Mastanduno, 2003). China, as can be seen, firmly believes that Taiwan can ultimately

be manipulated into acting according to Beijing's wishes, and this manipulation will occur largely through economic policy.

Take tourism for an example – during the relatively warm relations experienced during the Ma Administration, Taiwan was, in theory, enriched by huge amounts of Mainland Chinese visitors who spent relatively large sums of money. However, when Taiwan's electorate voted the DPP and Tsai into office, thus pushing away from China culturally and politically, Beijing's strategy seems to have shifted to enforcing a degree of punishment in the same area. Having been the largest and most important market for Taiwan's tourism sector, China thus gained leverage over it, and now that political circumstances have changed, Beijing is attempting to wield that leverage. Thus China's economic engagement is apparent in attempting to extract concessions from Taipei and the Taiwanese people.

Interestingly, China seems to be following the lead of the United States in using economic engagement as both an enticement and a cudgel in dictating its regional environment (ibid). However, it is unclear whether China is still attempting to use leveraging strategies, say, in attracting friendly Taiwanese to work in China or by a "United Front" strategy that works to empower the KMT in Taiwan and that limits economic benefits felt by known DPP supporters (Tsang & Tien 1999), or if they are simply attempting to impoverish Taiwan through brain-drain and economic coercion, like we are seeing with tourism (Jennings, 2017). This thesis makes the case that with the changing of Taiwan's political guard, Beijing is more willing to explore punitive economic initiatives against Taiwan, but cautiously, especially at first.

## Mainland Tourism in Taiwan

The literature, at least in English, regarding Chinese tourism in Taiwan is limited to say the least. However, the English literature discussing specifically Mainland Chinese

tourism in Taiwan has been supported in this thesis by expert interviews. These experts include business leaders, politicians, trade association directors, and academics. The situation is changing rapidly, as evinced by the range of news coverage and the popularity of the topic in public discourse. However, the literature available and experts point to Taiwan being an important destination for Chinese travelers and that recent political shifts in Taiwan, namely the ascension of the DPP and Tsai Ing-wen, have caused Beijing to begin to limit the number of travelers in Taiwan (Ledsham 2016, Carolus interview, Lee interview, Chen interview, Huang interview, 2017).

There is further evidence that Taiwanese tourism industries, like hotels, shops, and transportation, are feeling the effects of the decrease in Chinese visitors (Carolus interview, Lee interview, Chen interview, Huang interview, 2017). Tour bus operators and drivers have flocked to the government asking for help to pay back large loans they took in order to finance the purchase of new busses, busses that are now largely unneeded, unfilled, and unprofitable (Chen interview, 2017). This in turn has had an effect on the banking industry, which provided the loans. Now banks are joining drivers in lobbying the government for assistance to avoid large-scale forfeiture (Huang interview, 2017). A number of hoteliers report difficulties in making sufficient earnings from Chinese visitors as their trips are so heavily controlled by Chinese operated travel agencies (Apple Daily, 2015). Even large and high end hotels, like the Grand Hyatt Taipei, report decreases of over 10 percent relative to last year (Carolus interview, 2017).

Chinese tourists, in tour groups hosted by Chinese travel agencies, are more likely to visit sites less frequently visited by tourists from other nations, like Japan and the West (Lin 2012, Lee interview 2017). So while the literature in terms of economic and political relations in the Taiwan Strait tends to agree, opinions regarding the beneficial nature of Chinese tourism is controversial. Still, evidence exists that the money Chinese tourists spend often

finds its way back to the pockets of Chinese business or those owned by Hong Kong investors (UDN, 2016). If this is the case, then a decrease in the number of visitors from China would have a smaller effect on the tourism industry than anticipated, and could be a positive sign for Taiwanese business-owners and workers. Expert opinion supports the fact that there is Chinese and Hong Kongese investment in Taiwan's tourism industry, but this investment is largely a positive outcome for Taiwan as it means most of the profit and operating costs stay in Taiwan and support local economies and various parts of the larger tourism sector.

While some decry the state of the tourism industry and the loss of so many Chinese visitors, others are happier. Many Taiwanese note that Chinese tourists are receiving a self-confirming experience and are a drain on Taiwan's resources and economy, and these sentiments are fanning dissatisfaction among locals (Rowen, 2016). Furthermore there are real concerns about tourist sites being overcrowded with Chinese tourists (Su, Lin, & Liu, 2012), a circumstance that mirrors the sentiment of many Taiwanese.

The aim of this thesis is to become an important entry into the English language literature regarding Mainland Chinese tourism in Taiwan. In doing so, this study will address the history of Mainland tourism in Taiwan, the economic and social effects of it, and whether Mainlander money enters Taiwan's economy or is fed back to the Mainland. Furthermore, it will examine literature and data to determine what exactly is changing, what the effect may be on Taiwan, and what can be done to address changes in tourist flow from China. These questions will be addressed more completely in Chapter 3.

# Chapter 3 - Mainland Tourism in Taiwan: Past and Present

## Setting the stage

Mainland Chinese tourism in Taiwan did not begin until 2008, but in order to understand why it began then, observers must appreciate the state of China-Taiwan relations. In 1949, when the Republic of China (ROC) retreated from the Mainland to Taiwan, it cut off all official contacts with what became the PRC. Martial law continued until 1987, the same year that the ROC established the Straits Exchange Foundation (SEF) to conduct the ROC's first semi-official contact with the PRC since 1949.

In 1986, China Airlines Flight 334 was hijacked by pilot Wang Xijue and landed in Guangzhou. The incident forced then-President Chiang Ching-kuo to reverse his "Three Noes" policy towards the PRC in order to negotiate the return of other crew members and the aircraft in question. The "Three Noes" were set by Chiang Ching-kuo in response to Deng Xiaoping's 1979 overtures for a degree of rapprochement across the Taiwan Strait, specifically calling for the opening of the "Three Links" (Lin & Robinson, 1994). The Three Links are trade, mail, and direct travel, to which Chiang responded with "no contact, no compromise, no negotiation" - his Three Noes. The ROC policy of no contact and collaboration stood until the China Airlines Flight 334 Incident. This event is seen as a "catalyst" for the opening of China-Taiwan dialogue (ibid). Indeed, the very next year, the SEF and its Mainland counterpart - the Association for Relations Across the Taiwan Straits (ARATS) met and set the tone of subsequent Taipei-Beijing communication and collaboration (World Heritage Encyclopedia).

Still, it was 21 years between the establishment of the SEF and ARATS and the opening of regular direct flights across the Strait. As is common in China-Taiwan exchange,

both sides insisted on conditions that the other found unacceptable. Things were further complicated, at least from Beijing's perspective, by both the Lee Teng-hui and Chen Shui-bian administrations. President Lee adopted a "two-state policy," which Beijing deemed unacceptable and subsequently cancelled the "Koo-Wang Talks" a series of meetings between officials from both sides of the Strait (Ling, 2011). President Chen's DPP has never accepted the 1992 Consensus, and his own positions on the issue, while not always clear, were certainly never in favor of the consensus or a "one-China" ideology, and spoke openly of Taiwan and the Mainland drifting away from each other (Teon, 2016). Without acknowledgement of the 1992 Consensus, Beijing was simply unwilling to engage very much on the Three Links, including regular direct flights.

The lack of flights and Mainland to Taiwan travel does not mean that neither side made an effort to change that pattern before 2008. During the Chen Shui-bian administration, Taipei and Beijing frequently discussed opening direct flights for the Lunar New Year, especially between 2003 and 2006 (Tung, 2005). However, and unsurprisingly, neither side was willing to budge on key issues. Beijing insisted that any discussion be predicated on Chen's acceptance of the "One China" principle, which of course his administration vehemently resisted. Still, during these years some direct charter flights were approved so Taiwanese business people could return to Taiwan for the Lunar New Year holidays (China Post, 2005). A small step, yes, but an important one considering the otherwise rocky relationship between the Chen administration and Beijing.

Another important cross-Strait success of the Chen administration was the establishment of "Three Mini-links." Under the Mini-links, Kinmen and Matzu, two ROC islands adjacent to Mainland China, were allowed to trade with, and facilitate direct travel to, nearby Mainland ports (Tung, 2005). Again, the numbers indicate this to be a relatively

insignificant accomplishment, but from another perspective, it was also the first legal and regular direct contact between the ROC and PRC since 1949.

While the Chen administration attempted to facilitate some direct travel, the Three Links were not opened in earnest until the KMT returned to power in Taipei in 2008 alongside newly elected President Ma Ying-jeou. Ma and the adjacent KMT-led government accepted the 1992 Consensus (Adams, 2007), thus encouraging closer interaction with the Mainland than Beijing had been willing to entertain with the Chen administration. One of Ma's arguments during his campaign had been the potential economic benefits of allowing Mainland visitors to travel to Taiwan (Gold, 2008). In April 2008 Ma's Vice President, Vincent Siew met with Hu Jintao in a private meeting in Hainan, while Chen Yunlin, ARATS Chairman, traveled to Taiwan and signed four agreements that finally established the "Three Links" including direct flights.

To begin with, Taiwan allowed 3000 Mainland tourists to travel to Taiwan daily, but only as part of tour groups. In 2011 individual tourists were first allowed (ibid), and in 2014 daily limits were lifted on the number of individual tourists that could come (China Post, 2014). This trend corresponded with the growing number of Chinese visitors each year after the establishment of regular direct flights and open tourism to Taiwan.

| Table 1<br>Mainland Chinese Visitor Arrivals to Taiwan - 2007-2016 | |
|---|---|
| Year | Number of Visitors |
| 2007 | 0 |
| 2008 | 329,204 |
| 2009 | 972,123 |
| 2010 | 1,630,735 |
| 2011 | 1,784,185 |
| 2012 | 2,586,428 |
| 2013 | 2,874,702 |
| 2014 | 3,987,152 |
| 2015 | 4,184,102 |
| 2016 | 3,511,734 |
| Source: Tourism Bureau, 2016 - http://admin.taiwan.net.tw/statistics/release_en.aspx?no=7 | |

As Table 1 shows, during the Ma administration, the number of tourists increased greatly each year, to the point that Mainland tourists were the most common by volume. The volume became so significant that concerns about a "crowding out" effect grew (Su, Lin, & Liu, 2012), as well as increasing complaints about Mainland visitors on the part of Taiwanese people (Rowen, 2016). However, the number of Mainland tourists increased every year of the Ma administration - a trend that continued unabated until the KMT was roundly defeated in the 2016 presidential and legislative elections. In 2016 the number of Mainland visitors decreased relative to the previous year for the first time since Mainland Chinese were allowed to travel to Taiwan in 2008. While it may seem clear that the decrease in visitor numbers is a direct consequence of Taiwan electing the China-wary DPP, Beijing has resisted openly stating as much (Lin, 2016).

When President Tsai and her DPP were swept into power in 2016, she avoided affirming the 1992 Consensus, the construct that allowed for such a high degree of rapprochement between Taipei and Beijing under Ma Ying-jeou (Wong, Wu, & Wang, 2016). Almost immediately after Tsai and the DPP were inaugurated, the number of Mainland visitors to Taiwan began to decline. Media reports spelling doom for Taiwan's tourism industry proliferated, claiming Beijing's dissatisfaction with Taipei's new political regime has caused the CCP to begin decreasing the number of Chinese allowed to cross the Strait (Chow 2016, Smith 2016, Arlt 2017). Industry workers and business owners protested over the declining numbers (Cheng & Wu, 2016).

Certainly, the number of tourists visiting from did China fall. In 2015 over 4 million Mainland tourists traveled to Taiwan, but the next year - the first year of Tsai's presidency - that number shrank by more than 600,000 to 3.5 million. That is not only lower than 2015, but also 2014 (Visitor Statistics by Year, Tourism Bureau 2016). Still, this only paints part of the picture. As mentioned, the "crowding out" effect of Mainland tourists had been a concern in Taipei Mainland visitors began traveling to Taiwan in 2008 (Su, Lin, & Liu, 2012), so in the eyes of at least some parties, the reduction in Mainland visitors is seen as a positive trend.

The question remains as to why exactly the reduction is occurring. There is broad consensus that the catalyst was the election of Tsai and her refusal to embrace the 1992 Consensus. However, that says nothing about who is dictating that policy on the Mainland. Reports are mixed as to who is behind it - some sources claim officials have discretely communicated to travel agencies to de-prioritize and limit the number of Mainland travelers to Taiwan (Lin, 2016) and that provincial level officials have taken it upon themselves to reduce outbound tourist numbers (Chao, 2016). These reports, however, do not tell the full story either. There is some evidence that a degree of self-censorship is also to blame, with Mainland Chinese visitors and travel agencies de-prioritizing trips to Taiwan in favor of

other, less politically sensitive destinations (Lee interview, 2017). Furthermore, industry insiders are also quick to point out that Taiwan may have lost its luster to Mainland Chinese visitors (Chen interview, 2017). Many Mainland Chinese see Taiwan as just another part of China, and the market has been open for nine years now (Rowen, 2016). Combined with at least implicit government directives and self-imposed prioritization, the natural attrition of the market seems to have magnified.

The issue of who is causing and enforcing a reduction in Mainland Chinese tourists is discussed in greater detail in subsequent sections, but suffice it to say that the issue is controversial. Regardless of the actors behind the reduction, however, the fact remains that the amount visitors from Mainland China is decreasing precipitously, and the effects have yet to be determined.

## Pros and Cons

Businesses in Taiwan have certainly felt the effects of the reduction in Mainland visitors. Sammy Carolus, the General Manager of the Grand Hyatt in Taipei saw an 11 percent decrease in earnings in the first three months of 2017 relative to the previous year, the cause of which is a decrease in Mainland Chinese guests (Carolus interview, 2017). Mr. Carolus is relatively lucky, however, as hotels around Taiwan saw a gargantuan 40 percent decrease. The Hyatt, adjacent to the Taipei World Trade Center convention center and a short walk from Taipei 101, sees fewer tour groups made up of Mainland visitors. However, even upscale, business-oriented hotels like the Hyatt feel the pinch due to a decrease in conference and business-traveler revenue (ibid).

Perhaps the most significant controversy when discussing Mainland Chinese tourism in Taiwan is where the money ends up. On one hand, and as President Ma claimed during his campaign, the whole point of inviting Mainland tourists to Taiwan was for economic

benefits. However, some sources claim that much of the money spent by tourists simply winds up back in China (Tsai, 2016). Mr. Carolus disagrees. Taiwan's tourism industry was relatively mature before 2008, and the big players are certainly Taiwan-owned. Chinese investment in Taiwan is relatively new, and there are few Chinese owners of tour companies or businesses in Taiwan. This is not to say that Chinese investors have not contributed to Taiwan tourism businesses. Taiwan Travel Agency Association Director, Ringo Lee, acknowledges that Chinese investors do play a role, but that does not mean that all Mainland tourist money winds up back in China. He notes that these businesses, even if entirely Chinese owned - and they usually are not - still have to pay local taxes. Furthermore, all employees working in Taiwan are Taiwanese, and if these companies shut down, local people lose jobs (Lee interview, 2017). Mr. Chen Jih-Chung, the Director General of the Taiwan Tour Bus Industry Association corroborates the reports of Mr. Carolus and Professor Lee. While there are Mainland investors who obviously expect returns on investments, it is not really an issue like the media reports (Chen interview, 2017). Finally, Professor Huang Kwei-Bo, of National Chengchi University and a former official at the Ministry of Foreign Affairs, acknowledges that there is significant Chinese investment, but he corroborates the account of industry leaders that earnings by and large stay in and benefit Taiwan (Huang interview, 2017). Judging from the responses of experts, it is clear that most tourism sector profit stays in Taiwan, whether it be in the form of local taxes, employee wages, or earnings overall.

Tourism is a relatively minor sector of Taiwan's economy, somewhere from 2.5 to 4 percent depending on the source (Carolus interview, Lee interview, 2017). Still, as will be addressed in the next chapter of this thesis, tourism can act as something of a bellwether for other economic sectors, and it certainly does not exist in a vacuum, distinct from other parts of the economy. For example, Mr. Lee highlighted one illustrating story about an off-site laundry company that worked largely with area hotels in cleaning linens. Due to the drop in

the number Mainland tourists, this cleaning company, a few steps down the economic chain from actual tourism, had to cut two-thirds of its staff due to the drop in business. So, even if all of the hotels in and around Chiayi had been Chinese-owned (which they are not), there still are examples of economic consequences for Taiwan nationally and in its locales.

An interesting aspect of the conversation is how politicized it is. Tourism in most places is not a political concern, but in Taiwan it is very much an aspect of, and a mirror to, larger conversations about China-Taiwan relations. Media reports are wildly contradictory with some outlets and writers claiming the decrease in tourists will doom the industry and be a drag on the economy (Chow 2016, Smith 2016, Arlt 2017) while other sources assert that Mainland visitors were more trouble than they were worth, and that most of the money went back to Mainland China or Hong Kong anyway (Turton 2017, Horton 2017, Wu 2011). However, these reports are often superficial and are written by foreign reporters with little grasp of the complicated nature of the issue, or they are written by individuals or outlets with a clear political bend. What's a researcher to make of such highly subjective information?

The government does not seem to want to help either. I personally have asked to interview officials at the Tourism Bureau - once by emailing the Director General personally, and another time through their contact page on the site. The Director never responded, and I was turned down when I contacted through the Tourism Bureau's website and told all necessary information can be found online. This behavior is not new either - in reports as far back as 2011, reporters from major outlets were denied interview requests, and that was with a different administration and government in power in Taipei (Wu, 2011).

Also significant is the degree to which the question is polarizing to Taiwanese people. The media has made much of poor Mainland tourist behavior both in Taiwan and in other destinations (Hsu 2015, Nettikkara 2015, The Economist 2013). Furthermore, crowding out issues abound (Su, Lin, & Liu, 2012), and locals actively avoid visiting tourist sites that they

know will be flooded with Mainlanders (Chen interview, 2017). Stereotypes abound, and the tourists are seen by many locals and other visitors in less than a positive light. This is true both in Taiwan and in other destinations that see large number of Chinese visitors (Volodzko, 2016).

However, the issue may be exasperated in Taiwan. Where Mainland visitors get a sense that they are still in "China" while traveling in Taiwan and thus feel a sense of closeness to the place and its people, Taiwanese people have developed increasingly averse feelings about Mainland tourists, and by extension, the Mainland itself (Rowen, 2016). This phenomenon can be traced back to the political and social concerns every day Taiwanese are faced with when it comes to China. Taiwanese people are also highly informed - just like it is no secret to officials on both sides of the Strait that China hopes closer economic ties give Beijing leverage in Taipei, Taiwanese people see that tourism is meant to inculcate a sense of sameness, at least in the mind of those who visit, thus shoring up confidence in Beijing's increasingly hostile stance towards Taiwan. Where Mainland Chinese tourism to Taiwan is causing Chinese people to feel that Taiwan is Chinese, Taiwanese people increasingly feel the opposite.

There are two core perspectives with which people observe Mainland Chinese tourism in Taiwan. On one hand, it is an economic boon to Taiwan's tourism industry and economy at large, and a sign of smoother relations between Beijing and Taipei. On the other, however, is a sense of crowding out and negative views of Mainland Chinese visitors, coupled with trepidation on the part of locals that China is taking over. Both of these perspectives are important to the discussion, and both hold merit. They are also, again, a reflection of broader social, political, and economic issues between China and Taiwan. As such, the state of Mainland Chinese tourism truly is a bellwether China-Taiwan relations as a whole.

## Current Status

In March 2017, there were 926,647 visitors to Taiwan (ROC) "down 108,083 or -10.45% from the 1,034,730 in March of last year" (Tourism Bureau, 2017). Interestingly, Southeast Asian visitors increased by a whopping 39 percent compared to last year - obviously a reflection of the "New Southbound Policy," and accounted for almost 22 percent of visitors. Mainland Chinese visitors were the second most common type of visitor, with 21.76 percent of all tourists. This, however, is a 45 percent drop compared to March 2016. Japanese arrivals, the next highest figure, also fell, but only by .46 percent. They made up 21.35 percent of the total. Visitors from Hong Kong and Macao made up 13.4 percent of visitors, which is down almost 25 percent relative to last year. The number of visitors from South Korea also spiked, making up 9.4 percent of the total and an increase of 54 percent compared to March of last year.

The numbers for the first quarter of 2017 (January through March) are also illuminating. In total, Chinese visitors were down by more than 40 percent. South Korea and Southeast Asia sent a higher number of visitors, up by 36 percent and 12 percent respectively. Overall, Taiwan saw a 10 percent decrease in the number of visitors compared to 2016 (ibid). In other words, Taiwan's tourism industry is doing worse overall than compared to the same timeframe in 2016.

This almost certainly spells trouble for the tourism industry, at least in the short-term, especially if you examine the details. While Japanese tourists are the highest spenders, Chinese visitors spent only a penny per day (USD) less, and made up a much higher percentage of visitors in 2015 (Tourism Bureau, 2016). Furthermore, according to Mr. Lee, Mainland Chinese visitors stay longer than other types of tourists, with 7.5 days being the normal duration of visit for Mainlanders, while Japanese and South Koreans stay, on average, only five days, and tend to stick around Taipei as opposed to traveling around the island (Lee

interview, 2017). So, while Taiwan is making up for the drop in Mainland Chinese visitors with Southeast Asian and Korean tourists, there is still bound to be a loss in revenue, especially outside of Taipei.

While a hit to tourism industry revenue might not be a death knell for Taiwan's economy, there are still important questions as to who is most affected by the change in situation. Obviously, industries involved in tourism will be impacted. These include airlines, hotels, travel agencies, tour services, tour bus companies, etc. And the individuals affected most will be the employees of these industries - all of whom are Taiwanese. Flight attendants, bus drivers, housekeepers and bellhops, travel agents, and tour guides will all feel a squeeze in the short term (Lee interview, 2017). Another problem with the decrease is that many tourism-oriented industries, like tour bus companies and hotels, invested heavily into their own growth in recent years. With a decrease in visitors overall, and especially Mainland visitors to whom their services were oriented, these investments will not see returns (Chen interview, 2017). For example, tour bus companies, many of which are small- to medium-sized, invested upwards of six million NT per bus on new vehicles. Taiwan has a fleet of roughly 17,000 tour buses, but since Tsai was elected, only 13,000 are actually needed. Still, these companies need to pay the loans they took out in order to finance the purchases, meaning many of them are struggling profoundly. They have turned to the government for assistance, and whether the government helps a little or a lot, that means taxpayers must contribute to non-productive investments (Chen interview, 2017).

However, there are further industries that will be affected. In 2015, Mainland Chinese visitors spent 52 percent of their average budget on shopping (Tourism Bureau, 2016). This means that souvenir shops, department stores at places like Taipei 101, and even street vendors will be disproportionately affected by a decrease in Mainland Chinese tourists.

Increasing numbers of visiting Southeast Asians and Koreans are unlikely to fill the gap, meaning that these sectors will contract and individuals will lose jobs.

While a decrease in tourism overall, and a sharp decrease in Mainland visitors is not a deathblow to Taiwan's tourism industry or economy like some have claimed, it will mean difficulty for many Taiwanese, at least in the short term. There is no indication that the situation will be reversed, and plenty of other questions as to the reasons behind the reduction in Mainland Chinese visitors remain - specifically, who actually caused it.

As mentioned, central to the discussion of the recent reduction in Mainland Chinese tourists is the question of exactly why the reduction is happening. Ostensibly, because Tsai Ing-wen has not reaffirmed a commitment to the 1992 Consensus, Beijing is acting to punish Taiwan by dialing back the number of tourists arriving from the Mainland. However, this superficial answer only raises more questions. In terms of directing a reduction, who exactly in Beijing, or elsewhere, is telling travel agencies and tourists to travel less to Taiwan? Furthermore, should Tsai and the DPP be held responsible, or does the KMT bear some responsibility as well?

Obviously, DPP reticence in accepting the 1992 Consensus is at the root of the decrease in the number of Mainland arrivals. During the Chen administration - the last time the DPP led the government in Taipei - Beijing generally refused direct communication due to this very same issue. So, by voting in the same party, Taiwanese voters must have realized, or at least be willing to accept, that there would be consequences from Beijing. Thus, the question is not one so much of diplomatic mismanagement on the part of Tsai and the DPP, but one of Taiwanese people prioritizing other concerns over the economic consequences of provoking Beijing's ire.

Furthermore, the previous administration under President Ma can also be held responsible for incubating the conditions that led to the current reduction. Every industry

expert I spoke to expressed a need for diversification of the market and pointed out that Taiwan had become too dependent on one line of income, specifically one that clearly had political caveats (Carolus interview, Lee interview, Chen interview, 2017). However, it is hardly fair to blame either of Taiwan's main political parties for the actions of China and its people. As it stands, no one in Taiwan has been able to confirm who exactly is responsible for ordering the decrease. The assumption is Beijing is behind the decision, but that begs the question, "who in Beijing is making the decision to cut trips to Taiwan?" Is it the Politburo, is it officials further down the chain - say involved in the PRC's tourism or travel agencies, or is it a matter of industry leaders in China self-censoring?

Many sources indicate that the cuts may be self-imposed by tourists and tour companies themselves, and thus not a dictate from major Communist Party officials (Lee Interview 2017, Cole 2016). The logic goes, Chinese citizens are sufficiently indoctrinated and have enough access to information to make decisions as to what they feel the government would approve of. A salient example of this is Chinese boycotts of South Korea after the American developed THAAD Missile Defense System was installed on the peninsula, ostensibly to protect that nation against North Korean missiles. Beijing protested the move as compromising its own security. Immediately following the deployment of THAAD, the number of Chinese tourists to South Korea dropped precipitously, largely voluntarily, although encouraged by state-run media (Woody 2017, Goh & Xu 2017). Academic sources claim that Chinese tourists are highly sensitive towards the perceived concerns of their government as well. The status of Cross-Strait relations could very well be an issue that determines whether tourists wish to visit Taiwan, and whether Mainland businesses and tour groups make travel across the Strait a priority in their marketing (Song, Liu, & Huang 2016).

However, this rate of decrease in numbers seems to make very little sense if it is simply organic - the sheer numbers indicate a more direct quelling of interest in Cross-Strait

travel on the Mainland, and analysts and tourism industry leaders are confident that there must have been an order from the central government, although there is thus far no official confirmation of this (Huang interview 2017, Chen interview 2017). Both media sources and think tanks report that Beijing is, in fact, behind the reduction in tourist numbers, but literally none of them offer names of officials or government agencies that are behind the actual order (Chow 2016, Grossman 2016).

Other reports claim that Chinese travel agents have received "implicit government orders" to reduce the number of visitors coming to Taiwan (Lin, 2016). These seemed to be of a "wink and nod" nature, with no formal order to limit the amount of visitors destined for Taiwan. The problem with this report, however, is that, like all others, it cannot be substantiated. Truly, the Straits Exchange Foundation has attempted to confirm with Beijing that a cut has been planned, but they have received no official response. So, if a government order is being executed, it is thus far unverifiable - a situation almost as strange as the idea of such a massive reduction in visitors occurring organically.

A possible answer could be composite in nature. Perhaps officials have decided to directly reduce the number of tourists to both Taiwan and South Korea due to recent political conflict, but wish to execute the directive as quietly as possible. This strategy both relies on the knowledge that companies and travelers will self-regulate to a degree, therefore making encouraging the process easier and something officials can plausibly deny. However, there is no smoking-gun evidence that Beijing has even done this, only whispers and hearsay, so establishing any degree of certainty is impossible. Still, logic seems to dictate, just due to the sheer size of the reduction, that it cannot simply be a self-imposed and organic process.

# Chapter 4 - Tourism and Cross-Strait Economic Relations

The condition of Mainland Chinese tourism to Taiwan can be compared, and is perhaps even related to, China-Taiwan economic relations as a whole. As mentioned previously, this makes Taiwan's tourism industry and the role China plays in contributing to it a notable bellwether in judging the state of the critical economic relationship. This chapter will examine why tourism and the larger economic relationship are so tied together, as well as what the consequences of these deteriorating relationships may be.

## As goes tourism, so goes trade (at least with China)

Before establishing the parallels between tourism and economic relations, it should be noted that tourism is a significant economic sector in and of itself, with potential losses possibly reaching into the "hundreds of millions" in NTD (Huang interview, 2017). Should this part of the economy recede, the human costs will not be unnoticed, as can be seen in the 2016 protests of the DPP government by tourism industry employees (Cheng & Wu, 2016). And as outlined in the third chapter, many different industries are involved in this sector. Hotels, travel agencies, tour companies, and tour bus services will feel the effects should a reduction in Mainland visitors heavily impact the sector. Furthermore, restaurants, souvenir shops, department stores, and street vendors will take a remarkably large cut, perhaps even more than other types of businesses considering the high percentage of total spending of Mainland tourists going to shopping while in Taiwan (Tourism Bureau, 2016). Also, industries not directly related to tourism, like banking and finance, will be impacted by businesses being unable to meet the terms of loans for large purchases like tour buses (Huang interview, 2017). Finally, local economies will be impacted - Mainland Chinese tourists spend more time outside of Taipei relative to other visitors, thus spreading economic benefits

around Taiwan compared to visitors from other countries. This means local tourism sectors outside of Taipei will be disproportionately affected (Lee interview, 2017).

Also worth considering is the nature of the discussion regarding Mainland Chinese tourism in Taiwan. Every article, report, and interview has been directed at whether or not Taiwan's tourism sector can weather a large-scale reduction in the number of visitors arriving from across the Strait. What people are not considering is whether continued growth in the tourism sector is possible. In the previous chapter I established that while it will not be easy, it is certainly within the realm of possibility for Taiwan to adjust and survive a large reduction in the number of Chinese visitors. However, ensuring that this sector grows for the foreseeable future will be profoundly difficult. As shown, Chinese tourists spend a great amount, stay longer, visit more destinations, and were the largest share of visitors in Taiwan for years. Without the benefit of relatively easy Chinese money supporting continued industry growth, thriving, as opposed to simply surviving, seems unlikely, especially since many observers see a decline in the industry as inevitable (Huang interview, 2017). And a lack of growth in a service-sector area like tourism is anathema to stated Taiwanese goals of expanding its service-sector economy (Rosen & Wang, 2011).

Tourism and trade between China and Taiwan illustrate some important parallels, parallels that indicate the state of tourism is a strong representation of Cross-Strait economic health as a whole. First is growth. There was 16 percent average annual growth between China and Taiwan from 2001 to 2011 (Rosen & Wang, 2011). Between 2008 and 2016, however, growth slowed to 4.3 percent on average, which is smaller but still significant (Table 2: Bureau of Trade Statistics). Tourism followed a strikingly similar growth path. In the early years of Mainland tourism to Taiwan, between 2008 and 2009, growth was nearly 200 percent (Tourism Bureau, 2016). From 2008 to 2016 however, it slowed down to near 45 percent annual average growth (only 23 percent if 2008-2009 growth is excluded). And

tourism is just the type of industry that Taiwan's service-sector-oriented economy goals are looking towards.

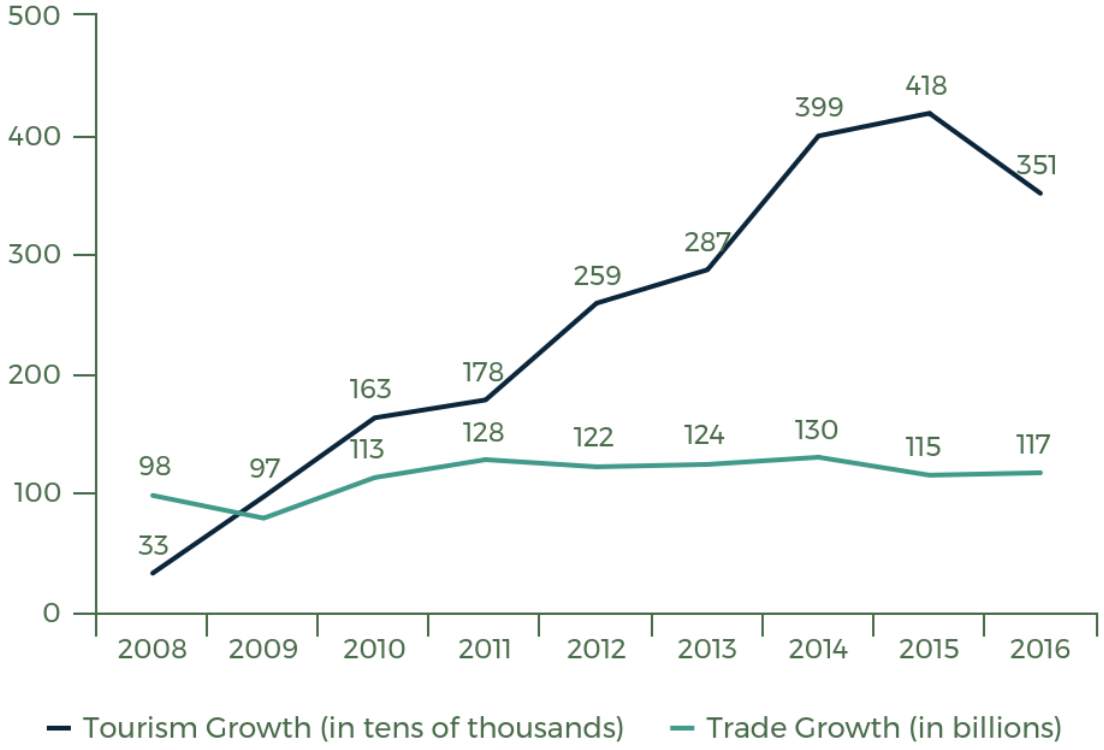
Table 2: Total Trade and Surplus, China-Taiwan 2008-2016
(source: Republic of China - Bureau of Trade Statistics - http://cus93.trade.gov.tw/FSCE030F/FSCE030F)

| | TOTAL TRADE(re-imports & re-exports included) | | EXPORT+re-exports | | IMPORT+re-imports | | SURPLUS/DEFICIT(re-imports & re-exports included) | |
|---|---|---|---|---|---|---|---|---|
| YEAR | AMOUNT | GROWTH RATE(%) | AMOUNT | GROWTH RATE(%) | AMOUNT | GROWTH RATE(%) | AMOUNT | GROWTH Rate(%) |
| 2008 | 98,273,497,890 | 8.673 | 66,883,031,816 | 7.156 | 31,390,466,074 | 12.052 | 35,492,565,742 | 3.169 |
| 2009 | 78,670,764,058 | -19.947 | 54,248,101,236 | -18.891 | 24,422,662,822 | -22.197 | 29,825,438,414 | -15.967 |
| 2010 | 112,879,654,027 | 43.484 | 76,934,575,511 | 41.82 | 35,945,078,516 | 47.179 | 40,989,496,995 | 37.431 |
| 2011 | 127,555,177,571 | 13.001 | 83,959,399,961 | 9.131 | 43,595,777,610 | 21.284 | 40,363,622,351 | -1.527 |
| 2012 | 121,621,186,471 | -4.652 | 80,713,756,748 | -3.866 | 40,907,429,723 | -6.167 | 39,806,327,025 | -1.381 |
| 2013 | 124,376,057,324 | 2.265 | 81,787,644,881 | 1.33 | 42,588,412,443 | 4.109 | 39,199,232,438 | -1.525 |
| 2014 | 130,158,219,397 | 4.649 | 82,119,323,365 | 0.406 | 48,038,896,032 | 12.798 | 34,080,427,333 | -13.058 |
| 2015 | 115,392,430,915 | -11.344 | 71,209,418,882 | -13.285 | 44,183,012,033 | -8.027 | 27,026,406,849 | -20.698 |
| 2016 | 117,867,946,312 | 2.145 | 73,878,343,290 | 3.748 | 43,989,603,022 | -0.438 | 29,888,740,268 | 10.591 |
| Average Growth | | 4.252667 | | 3.061 | | 6.732556 | | -0.329444 |

Just for the sake of argument, notice that Chinese tourism grew on average nearly 50 percent each year since 2008, and total trade between Taiwan and China grew over 4 percent. Beginning in 2017, presume tourism falls 50 percent - the actual projection of decline from 2016 to 2017 (Lee interview, 2017). It then stands to reason that perhaps trade might begin to fall, on average, 4 percent per year. This is a distinct possibility, especially if one considers the fact that Beijing's whole goal in courting trade with Taiwan was to gain economic leverage. And a 4 percent average annual decrease is a tremendous amount that would have very serious economic repercussions for Taiwan. Should that level of loss occur, that means that over an eight year period - to mirror the 2008-2016 era of growth - China-Taiwan trade could conceivably fall by over 27 percent total. Again, the extreme nature of this scenario is unlikely - the trade regime with Taiwan is important to China beyond political leverage.

However, it is an interesting idea, and one perhaps not far from the truth should Beijing begin flexing their economic leverage to try and bring Taipei to heel.

## Table 3: Mainland Chinese Tourism vs. Cross-Strait Trade Growth




ROC Tourism Bureau, ROC Bureau of Trade Statistics (combined data of Tables 1 and 2)



Another important parallel between tourism and trade is their nature as hot button issues. There have been protests on the part of the tourism industry, and media reports are ubiquitous. However, the inflammatory nature of China-Taiwan trade makes the tourism discussion look downright benign. The motivating factor behind the Sunflower Movement of 2014 and the occupation of the Legislative Yuan was popular - and ultimately successful - protest against the Cross-Strait Service Trade Agreement (CSSTA), an agreement that would

have expanded 2010's ECFA liberalizations. Also, trade is a highly visible, highly relatable, and hotly debated topic, viewed along the same lines as Chinese tourism. To be "pro-trade" with China is to be in support of greater trade liberalization and greater rapprochement, and those who support these views are likely to also hold the view that Taiwan should be more willing accept Mainland tourists. The converse is also true - those who are wary of closer economic ties and higher rates of trade with the Mainland are also more likely to have negative opinions of Mainland Chinese visitors and their hold on Taiwan's tourism market.

Finally, and most importantly, China's whole purpose in both greater economic rapprochement and tourism to Taiwan was to "buy" the ROC. In the literature review we saw how economic incentives were used to entice closer ties with Taiwan, but now that those ties are being tested and even reversed, it stands to reason Beijing may want to use some of that economic leverage it has spent so much time cultivating. And what is the decrease in tourism if not an opening foray into leveraging some of that economic clout?

Considering these parallels, it becomes clear that both tourism and trade with China are both going to be leveraged as some kind of punishment to Taiwan on the part of Beijing, and as such it behooves Taiwanese businesses and the government to act immediately to protect its interests in both areas from departing Chinese money.

The most important step Taiwan needs to take, both in tourism and its larger economy, is to diversify. The New Southbound Policy is a step in the right direction, but - as will be discussed in the concluding chapter of this thesis - Taiwan needs to leverage its relationships with the rest of the world. Furthermore, the New Southbound Policy is largely a "replacement policy" for courting Mainland Chinese tourists, and it attempts to do so with markets that are less familiar, reliable, and stable (Huang interview, 2017). Taiwan should actively attempt to sign Free Trade Agreements with its closest diplomatic partners, and those that have little to fear from Beijing. These include Japan and South Korea, but also nations

further afield like European Union nations and the United States and Canada. Between the established East Asian and Western economies and the soon-to-be-developed ones of Southeast Asia, Taiwan may be able to stave off heavy economic damage caused by Chinese capital flight. The same is equally true in the tourism sector.

However, this will not be easy, nor will it happen immediately. The New Southbound Policy might help, but Beijing has tried to limit Taiwan's engagement with Southeast Asia in the past and only stopped after ECFA was signed (Rosen & Wang, 2011). Taiwan might see Beijing return to this former strategy of quietly embargoing Taiwan, so Southeast Asian trade and visitors may not be the panacea Taiwan is hoping for. And relying on the West is tricky as well. US President Donald Trump has shown he cares very little for international norms and concerns when he refused to sign the Trans-Pacific Partnership, and the West made for an unreliable economic partner during the 2007-08 recession. Furthermore, Taiwan, as a member of the World Trade Organization already has robust trade with Western nations - unless FTAs can be signed, there might not be a whole lot more room for leveraging growth.

Still, Taiwan has got to do something. A combination of these strategies will likely be Taipei's best option, but that means not relying on only one partner and one plan of attack - all tactics will need to be attempted. Finally, Taiwan should not abandon attempting to engage with Beijing. Even if the central government in the capital is reluctant to work with Taiwan, the southern provinces and the Special Administrative Regions like Hong Kong and Macao will be more amenable to engaging Taipei. Simply put, Taiwan will have to be profoundly savvy and be willing to weather possible economic downturn, but moving forward without strong support from Beijing is not impossible, both in trade and tourism.

## Further effects

There are certain to be consequences for Taiwan due to the already under way decrease in Chinese tourists and the chance for a decrease in trade. These consequences range

from economic to political to social, and their implications are likely to have a lasting effect on Taiwanese society. While these consequences are possible, they are not guaranteed to happen, thus certainty is difficult. However, judging from the recent past and the effects of economic change, some assumptions can be made.

First, Taiwan will face some obvious economic changes. The nature of the tourism industry will change drastically - even if it is able to avoid economic contraction, its nature will be fundamentally altered, and this will have a range of economic effects, which have been covered extensively elsewhere in this thesis. Furthermore, if tourism is the first step towards economic sanctioning on the part of Beijing, that means trade and interaction with China may begin to decline. As mentioned in the previous section, this would likely have negative economic outcomes for Taiwan, and although not necessarily fatal, it will become more difficult to grow the economy.

However, economic doom and gloom are not foregone conclusions. Economic sanctioning by Beijing would also hurt China (Tanner, 2007), so if Beijing does select this route, they will likely implement sanctions slowly and quietly. No more evidence of this is needed than the fact that Beijing has not admitted it is behind the decrease in Mainland visitors to Taiwan when all of the evidence points to at least some government intervention (Chen interview, 2017). In other words, if they wanted Taipei to know for sure China was sanctioning them, Beijing would simply announce they were behind the decrease in tourist numbers. They will not do this, however, at least for the foreseeable future because they understand that clear and direct sanctioning would probably push Taiwan's voters towards frustration with China (Tanner, 2007). Thus, Beijing will decrease trade gradually and quietly act to limit Taiwan's capability to conduct trade with other nations, possibly by coercing Southeast Asian nations to avoid trade with Taiwan or through protesting Taiwan's participation at international forums (BBC, 2017). Still, even quiet actions meant to coerce

Taiwan economically is likely going to be felt, so Taiwanese people and government should, at the very least, be aware that without diversification in trade, continued economic contraction is likely.

Politically, the effects of decreasing trade and tourism are very unclear. On one hand, Taiwanese are feeling more "Taiwanese" than ever before (Chen, Yen, Wang, & Hioe 2017) and are less likely to be coerced by real or perceived Chinese aggression. The Sunflower Movement, which enjoyed wide public support, was ultimately a question of whether or not Taiwan should drift closer to Beijing, politically and economically. Furthermore, there is the distinct chance that Taiwan's economy begins to do surprisingly well under Tsai's stewardship - if Taipei can navigate economic and trade relationships with other nations, support for Tsai and her DPP may actually increase, making it even harder for Beijing to achieve its ends in Taiwan. However, economic troubles have been bad for previous presidents, KMT and DPP alike (Bush 2016, The Economist 2008). Taiwan's economy is sluggish and has been for some time (Chen and Ko, 2017), so if job markets and earnings do not see growth, the KMT may be in for a resurgence if they can convince voters that a softer tone on China might mean better economic outcomes. Furthermore, there is also the possibility that if things get too hot - say China begins to threaten and actively prepare for military action against the island - voters might turn to the KMT to avoid conflict. Political outcomes depend very much on economic ones, so if the current government can manage some economic growth and avoid provoking Beijing - no easy task - the DPP could hold political supremacy for a long while.

The social consequences of less Chinese tourism in Taiwan will, at least for many Taiwanese, be a welcome change. As discussed in previous chapters, Taiwanese locals have experienced frustration due to Mainland Chinese visitors (Rowen, 2016). While this might be overblown or not always for the best reasons, there can be no doubt that this social pressure

exists, and that a reduction in visitor numbers will relieve that tension. Some problems may arise should Taiwan's tourism sector feel too much of a squeeze, especially from workers in that industry in the form of protests, but considering the relatively small size of the sector, public unrest will likely not boil over.

On the other hand, if Taiwan hopes to make up for the reduction in Chinese visitors, it needs to attract Southeast Asian tourists. To do so, Taiwan needs to overhaul its immigration policies (Lee interview, 2017). However Taiwan has been slow to make these changes, and even industry experts are concerned about what increasing immigration from Southeast Asia may mean for Taiwanese society (Chen interview, 2017). Furthermore, there is also a degree of "otherism" in how many Taiwanese view Southeast Asians, at least as much as with Mainland Chinese, so even if Taiwan is able to make up for ground lost with Chinese visitors, some of the same problems may reappear.

The social consequences of possibly decreasing trade with Beijing are more unclear and heavily tied to the economic outcomes. Should the economy in Taiwan take a turn for the worse, there will obviously be at least some degree of unrest. However, the direction of popular frustration depends on what people determine to be the cause. Should public sentiment swing towards an overriding need for fast economic growth, or should people become actually afraid of conflict with China, popular support for rapprochement and closer social ties with China will increase. If, however, China pushes economic sanctions too far or too fast, there is the chance that support for declared independence will increase (Tanner, 2007). Still, this is all contingent on severe economic downturn. If, as seems likely, that Taiwan can manage to avoid major economic downturn, the social consequences of current affairs seem to imply a growing Taiwanese identity and less of a desire to depend on Beijing economically. As such, Taiwan is probably in for an extended freeze with China, with

Taiwanese people generally in support of it. However, slow economic growth is likely, with some economic issues and conflict with Beijing a possibility.

## Future possibilities

Given the information presented throughout this thesis, a few predictions are forthcoming. First, and most predictably, is that at least in the next four years, numbers of Mainland Chinese tourists will dwindle. The reduction numbers may level off after a year or two, but the trajectory will be negative growth. As long as the Tsai government refuses to acknowledge the 1992 Consensus as the framework for China-Taiwan relations, Beijing will refuse negotiation and tourism at the very least will wither.

As reported by industry experts and seen in tourism numbers, the tourism industry will be negatively affected by the reduction in Chinese visitors, at least in the short-term. Again, this does not mean that Taiwan's tourism sector is doomed to obscurity and negative growth for all time - the New Southbound Policy shows promise and, if the government and businesses are wise, they will take steps like greater diversification and innovation in order to attract new tourists and keep Taiwan's tourism industry afloat.

As outlined in Chapter 4, like the tourism industry, China-Taiwan trade may decrease in the next few years. A decrease in trade with China would not spell doom for Taiwan, at least not for the foreseeable future, but there certainly would be negative economic outcomes. However, Beijing is also likely unwilling to hobble one of its best and most productive trading partners, political tension or no. At least in the early stages of decreasing trade, China will probably not acknowledge they are behind the trend, much like with the decrease in tourism. However, should Taipei not change course and accept the 1992 Consensus on Beijing's terms, China may begin to more heavily and openly punish Taiwan. They could do so through limiting Taiwan's access to international fora, directly if covertly intervening in

Taiwan's trade deals with other countries (as they have done in the past with Taiwan-Southeast Asian nations), and possibly outright sanctions.

If Beijing starts sanctioning Taiwan, this would be a strong indication of China becoming more willing to punish, and less willing to entice Taiwan. Beijing has been reticent to directly punish Taiwan through economic action; doing so is not good for China's economy, and the CCP is aware that overt punishment runs the risk of alienating Taiwanese people, making Taiwan drift even further out of Beijing's sphere of influence. Still, if they get to the point where they feel nothing else will work, China may become more open to aggressive economic sanctioning (Kastner, 2009). This development would be significant for a few reasons. As mentioned, China has never engaged in overt, direct sanctioning of Taiwan since the opening of communication channels in the early 1990s. Beijing's strategy has been to entice cooperation from Taiwan economically as a means of increasing political leverage. If Beijing were to enact economic punishment in the form of sanctions or other measures, it would mean a sea-change in China's treatment of the relationship. It would imply China feels like it holds significant economic leverage. It would also mean that the CCP is losing its patience with Taiwan and that its longtime strategy towards the island is shifting.

Scott Kastner presents some interesting observations of economic relations and sanctions, and what they can mean for international relationships. As discussed in the literature review, economic sanctions are a middle ground in terms of signaling of intent between nations. This signalling is critical to international actors, as agreements and promises are rarely seen as reliable indicators of behavior, especially between actors who have very little mutual regard or trust for each other. As such, nations judge each other mostly by what actions a rival undertakes. Diplomatic resolutions and condemnation is a relatively soft step, while military action is both profound and highly dangerous. Thus, a happy medium between the two is economic action. Sanctions are coercive and thus work to force a rival to act

according to your nation's wishes, but they are non-violent and a much safer form of signalling resolve than any military option. However, this signalling calculus is less clear between Taiwan and China. Because of Taiwan and China's interwoven and complicated history, along with Beijing's strategy of economic engagement even during periods of strong political friction, it becomes difficult to see what economically coercive action might indicate. However, Kastner posits that should Beijing move to coerce Taiwan economically, it could indicate that China's patience with peace is fast coming to an end, and military conflict could be on the horizon. This is due to relatively little faith placed in sanctions on the part of the PRC, as well as such a change in policy could snowball into abandoning economic initiatives altogether and finally allowing the hawks in the upper echelons of the CCP to be heard.

It should be noted that this outcome is far from certain. Taiwan may swing back to support for the KMT or other leaders who adhere to the 1992 Consensus in the next election cycle or two. It is conceivable, if unlikely, that the DPP and the PRC reach an understanding towards a new formulation that upholds the status quo. Relations could simply remain chilly across the Taiwan Strait for an extended period of time, with trade and business generally continuing unabated and both sides accepting a kind of diplomatic and political stalemate. However, if tourism is any indication, and it appears to be, economic relations could also become frosty, and from there disputes could aggregate into more severe, more ominous maneuvering where the space for miscalculation grows. Hopefully, Taipei and Beijing are able to preserve peace and continue trade and even significant people-to-people exchanges, like tourism, but it is also prudent to be prepared for difficult days ahead in the China-Taiwan relationship.

Therefore, Taiwan has a choice to make, both with tourism and its political future. Rejecting China, Chineseness, and the Chinese people offers one route - less crowded tourist

destinations, more focus on visitors from other nations, and a more dynamic tourism sector not so dependent on group tours. However, there is also tremendous risk - without the spending of these tourists, Taiwan's tourism industry will take a hit, and without intense effort to attract other tourists, it will be hard. Furthermore, Taiwan risks drawing the ire of Beijing, a proposition that ought not be taken lightly. The other route is embracing Chinese tourists and acting to assuage Beijing's concerns, including embracing the 1992 Consensus. By doing so, Taiwan's tourism sector will likely continue to enjoy robust growth, and thus greater economic benefits for Taiwan in general, but possibly at the expense of some of Taiwan's greater ideals.

In this manner, tourism acts as a projection of the greater China-Taiwan relationship - a fundamental choice for Taiwan. One option, moving towards a formal declaration of independence, would reinforce a sense of Taiwanese identity, definitively separate Taiwan from China politically, and cause Taiwan to depend on other powers to support its nationalizing project, all with significant risk of provoking Beijing. The other choice, however, would be an embrace of Taiwan's Chineseness, with less decision-making space internationally but a strong economic windfall and a significant decrease in actual, physical danger. Thus, in tourism and its political future, Taiwan has to make a choice: work with China and benefit economically but lose a sense of nationalistic identity, or reject Beijing and hope that Chinese investment can be replaced and that other countries are able - and willing - to support Taiwan in resisting Chinese domination.

# Chapter 5 - Conclusion

With the election of President Tsai and Beijing's unwillingness to work with her, the amount of Mainland Chinese tourists visiting Taiwan has fallen precipitously. This change is significant due to the back-and-forth nature of China-Taiwan relations; under the KMT-led Ma Administration Taiwan's tourism sector saw tremendous growth due to an influx of money spent by Mainland Chinese tourists. The situation under Ma was unique, however. It was the first time, essentially ever, that Mainland Chinese civilians have been able to travel to Taiwan for leisure and tourism purposes. The rapid and massive decrease in these tourists mean important consequences for Taiwan. First, Taiwanese governments and businesses will have to rethink strategies for attracting tourists if they are to remain viable. Furthermore, the rapid shift in tourism numbers could be indicative of other shifts due to Chinese dissatisfaction with the leadership in Taipei.

This thesis, then, has attempted to answer what the impact was of changing levels of tourists from China on Taiwan's economy, and what does it mean for China-Taiwan relations? It has further attempted to answer more minor questions, including how much Mainland Chinese tourism contributes to Taiwan's economy, and at least an idea as to how much money spent by Mainland Chinese visitors stays in Taiwan versus ultimately ending up in the pockets of Chinese investors and businesspeople. I have also attempted to answer what the impacts of such a heavy decrease in Chinese visitors will be and whether or not the central government of the PRC is behind the reduction.

The literature review acknowledges China-Taiwan economic relations are the framework for the discussion of Mainland Chinese tourism in Taiwan, and thus provides analysis of the state of China-Taiwan relations - especially economic relations across the Strait. The literature regarding China-Taiwan economic relations shows a recent history of

profound growth, but also with the intent, on the part of Beijing, to gain economic and thus political leverage over Taipei. China has attempted to use economic incentives to entice Taiwan to move closer to the economic orbit of the Mainland, but the landslide election of Tsai and the DPP in 2016 proves that these initiatives have been largely ineffective, at least during the Ma Administration. The literature also indicates that the health of the economic relationship is tied to the political relationship between Beijing and Taipei. In other words, should Beijing find itself frustrated in its efforts to court Taiwan with the promise of economic growth, China may shift from policies of enticement to policies of coercion. Once that happens, the risk of miscalculation grows as indicators of intent - especially economic sanctions or policies meant to punish Taipei - have almost no frame of reference for which to compare the level of Chinese commitment to maintaining leverage over Taiwan.

With the literature establishing the nature of China and Taiwan's economic relationship, the history of people-to-people exchanges, and ultimately tourism, deserve examination. China and Taiwan initially opened talks in 1986 after the China Airlines Flight 334 Incident. Beijing and Taipei established semi-official organs with which to communicate, namely ARATS and the SEF. It was during initial talks the 1992 Consensus was, disputedly, established. Subsequent to the opening of semi-official talks, direct trade and the "Three Linkages" were opened, with the exception of Mainland Chinese visitors being able to travel to Taiwan. Trade exploded as did Taiwanese business in China. However, Mainland Chinese were not allowed to travel to Taiwan for tourism until after the election of the KMT and Ma Yingjeou in 2008. As soon as Mainland Chinese tourists began traveling to Taiwan, numbers increased every year, with these visitors making up 47 percent of all tourists in Taiwan in 2015. With the election of Tsai and the DPP, largely a repudiation of closer China-Taiwan ties, the stage was set for a massive decrease in Mainland Chinese visitor numbers.

The decrease in Chinese tourist numbers presented a number of "pros and cons" for Taiwan. In terms of negative outcomes, the tourism sector saw contraction in areas catering to Mainland Chinese visitors, with experts warning of even greater losses as time went on. Furthermore, there is a sense that Taiwan and China are facing a chill in relations, and a decrease in tourism is an indication of this. However, there are certainly positive aspects to the decrease. The tourism industry was entirely too focused on Chinese visitors and in order to retain the same kind of tourist numbers, Tsai would have had to accept the 1992 Consensus on Beijing's terms. Also, Chinese tourists have been a source of frustration for many Taiwanese. Finally, the decrease in Chinese tourist numbers will force Taiwan's tourism industry to adjust and attempt to attract a more diverse set of visitors. And while the media and experts reported some difficulties for Taiwan's tourism sector, the decrease does not mean tourism in Taiwan will be decimated; it is very possible for Taiwanese businesses and government to make up for losses in Chinese visitors with those from other places, especially other East Asian and Southeast Asian nations. So, while Mainland Chinese visitors are becoming less common - and this is having a negative effect on the economy and tourism sector, at least in the short term - there is hope.

Still, just because Taiwan's tourism industry is capable of surviving, there is very little discussion of it thriving with such a massive decrease in Mainland Chinese visitors. Tourism also appears to be an indicator of the larger China-Taiwan economic relationship. As trade exploded across the Strait, so did tourism. Furthermore, tourism reflects greater trade issues insofar as they are both very much hot button issues. How a Taiwanese person feels about Mainland Chinese tourists is likely to mirror how they feel about increased trade with China, which in turn will mirror how that person might feel about closer political relations with Beijing. Lastly, the whole point of opening Taiwan to Mainland Chinese tourists was to win leverage in Taiwan with the influx of Chinese money, again mirroring trade, as a stated

purpose of economic interaction with Taiwan is to gain leverage. As such, what happens with tourism could very well happen with trade and overall economic relations.

Because China-to-Taiwan tourism and China-Taiwan trade are so interrelated, it stands to reason that what is happening tourism, namely a decrease on the part of China, could happen in the larger trade relationship. Should this happen, the economic effects would be profound, although perhaps not terrible. Still, once the currently active trade relationship between China and Taiwan cools, the room for miscalculation rises and economic and political disputes are likely to become more common, possibly snowballing into ever greater disputes. Should Beijing impose economic sanctions or other punitive measures in Taiwan, that would be an indication that China is quickly losing its patience with Taipei. Obviously, this is not a foregone conclusion, but the future seems to be one of frigid economic and social relations between China and Taiwan at the very least, if not necessarily escalating tensions.

## Policy suggestion: Diversification

Given the choice between embracing the 1992 Consensus on Beijing's terms or not doing so, what is Taiwan to do? The option of embracing closer ties and eventual rapprochement with China would mean Taiwan does not have to do much. Taiwan's tourism industry is largely optimized towards Mainland Chinese tourists, and it has the capacity to service them. This would mean a halt and reversal to the reduction in visitor numbers, numbers that spell trouble for Taiwan's tourism industry in the short term. However, in order for this to happen, President Tsai would need to accept the 1992 Consensus as the framework for China-Taiwan relations. That is not going to happen, nor is it necessarily right for Taiwan. It is hardly reasonable to ask a polity as dynamic and protective of its blossoming democratic traditions as Taiwan to risk these features for economic benefits - economic benefits that have not been evenly distributed.

That leaves the second choice - accept that the days of 4 million plus Chinese visitors annually are over, and that in order to make up the difference and continue to support Taiwan's tourism sector, Taiwan needs to attract other visitors to make up the difference. This is complicated project, one that demands consideration of various world regions and strategies. In other words, Taiwan has to either be satisfied with adjusting its marketing, expectations, and attractions to a more global market, or it needs to be satisfied with accepting the 1992 Consensus. Taiwan cannot remain as stuck in its habits if it hopes to keep its tourism sector afloat.

First, Taiwan needs to leverage greater numbers from South Korea and Japan. According to the Tourism Bureau, it already has (Tourism Bureau, 2016). Japan has seen a negligible uptick in the number of visitors to Taiwan, but South Korea has sent 36 percent more tourists in the first quarter of 2017 relative to the previous year, indicating room to grow in the Korean market (Tourism Bureau, 2017). Furthermore, while Japanese numbers might be stagnant, possibly reflecting the stagnation of Japan's economy, with ever greater numbers of Japanese retiring each year, there may be a growing market for elderly visitors with more money and free time.

Southeast Asia has also been a target for tourism growth, as well as greater economic growth in general with the New Southbound Policy. As mentioned in previous sections, the numbers of Southeast Asian visitors are already on the rise, and growth in the Southeast Asian market is likely what propped up Taiwan's tourism industry in 2016 (Chen, 2017). This is hugely encouraging considering that Southeast Asia's economy is largely on the rise and sustained growth is projected for the foreseeable future, meaning greater numbers of tourists coming out of the region.

A little discussed target for Taiwan's tourism industry is attracting Western travelers, meaning tourists from North America, Europe, and Australia and New Zealand. Westerners

are among the wealthiest tourists and tend to be repeat visitors should they positively engage with a location (Schriver, 2016). Furthermore, they are younger and tend to travel individually or in small groups, meaning flexibility in terms of activities is possible. Most importantly, however, is that Taiwan's tourism industry has barely begun to explore Western markets, with most attention given to China, Japan, South Korea, and more recently Southeast Asia. This could indicate tremendous opportunity should Taiwan develop its tourism sector to attract this demographic of visitor. A short case study in attracting western tourists is presented in the next section.

Another possible area for tourist expansion in the face of decreasing volume in Mainland Chinese tourists is, counterintuitively individual Mainland Chinese tourists. Considering that the bulk of Mainland tourism is group tours and most Chinese tourists prefer to stay in these groups, this is, like Westerners, a relatively untapped market and one that is likely to grow. As Mainland Chinese continue to make money, become more educated, and ultimately more sophisticated and confident travellers, Taiwan could again become a prime destination for all the reasons it was until recently - familiarity of culture, proximity, and ease of navigation.

There are, however, serious difficulties with each regional or national focus. While a greying Japanese population might mean more retirees, it also is suffering from a tepid economy (Soble, 2017) and is already fairly well represented in terms of number of visitors to Taiwan, meaning there may not be many more Japanese left to entice to visit. While South Korean visitors are increasing significantly, their daily spending is significantly smaller than that of Japanese and Chinese tourists, they stay for a shorter period of time, and usually limit themselves to Taipei and the surrounding area - problems true of most demographics (Lee interview, 2017). The New Southbound Policy has some great potential, especially for tourism, but Taiwan has been really slow in relaxing travel restrictions and Southeast Asian

tourists simply have less money than their East Asian counterparts - a situation that means this strategy alone will not be enough to make up for the loss in Chinese visitors. Western tourists in Taiwan are stingy with money relative to Asian tourists (Tourism Bureau, 2016), these nations are very far away, and most Westerners are not familiar with Taiwan, much less have a deep desire to travel here. And individual Chinese tourists will be tricky to attract in a time when China wants fewer of its citizens to travel and spend money across the Strait - whether it's government imposed or self-censoring, if the PRC is adamant about closing the tourist spigot, individual travelers may refrain from traveling to Taiwan as much as group tourists have begun to do.

As such, just one target or strategy for tourism is not enough; just like climate change issues cannot be solved simply by either solar energy or wind power, Taiwan's tourism industry, and its economy at large, needs a diverse and dynamic answer to the question of making up for a decrease in Mainland Chinese tourists. The Taiwanese government and tourism sector businesses need to try and address as many of the pulls and obstacles to getting different kinds of people to Taiwan as possible. To help Southeast Asians, Taiwan needs to allow visa-free visits at southern airports (Lee interview, 2017). To get more Japanese and Koreans to visit other parts of Taiwan, companies should advertise more than just Taipei - Taiwan has wonderful hiking, temples, and historical sites that would be of interest to many Japanese and Koreans. To attract more Westerners, the government should encourage the opening of hostels and backpacking culture (Shriver, 2016), as well as address the lack of quality English language information and tour guides - a problem that could be solved by engaging Taiwan's large expatriate community. Also, working with regional partners to develop tour packages - say a Taiwan-Philippines shopping / beach resort package - would help increase the numbers of visitors (Carolus interview, 2017). The solutions will need to be

manifold and dynamic, but Taiwan cannot hope things will just work out if they try to shift all focus from one target group to another.

## Western tourists as an example

One market segment that Taiwan and businesses could focus on attracting is Western tourists. In 2015 934,966 visitors traveled to Taiwan from the US, Canada, Europe, and Oceania (Tourism Bureau, 2016). This is compared to the over 4 million visitors from China, 1.6 million from Japan, and 1.4 million from Southeast Asia. Furthermore, many of visitors from the West are not coming for tourism purposes - many are coming for business or family connections. Clearly, there is room for growth in this market segment, and one that may be ripe for the picking.

Expatriate business leaders and academic researchers alike acknowledge the potential Taiwan has for attracting Western visitors. One aspect to examine is Taiwan's appeal to different kinds of travelers, or travelers who want to engage in a range of activities. Western visitors report loving the food, convenience, and typical tourist spots, including Taipei 101, the National Palace Museum, night markets, and shopping - features that appeal to all tourists from all over the world (Ek interview, 2017). Furthermore, there is much potential for other, more rugged types of travel. In Taiwan there are businesses that teach surfing and scuba diving, as well as even more extreme activities like hang gliding. For nature lovers Taiwan has dozens of climbable mountains with many companies organizing short and long hikes, and the national parks, especially Taroko Gorge, are a huge potential pull. Because Taiwan is relatively small and highly navigable, if visitors want to hike in the morning, visit temples in the afternoon, go to the night market for dinner, enjoy some nightlife later in the evening, and end their day at a 5-star hotel, that is very much within the realm of possibility. It is also an itinerary unavailable in most destinations in Asia or elsewhere (ibid).

Another reason why Western visitors are a good target is that so many of them are youth travelers, especially backpackers. Younger Western tourists in Taiwan actually spend more than older visitors, spending 2600USD per trip compared to average spending of 950USD (Schriver, 2016). These visitors are also likely to return to Taiwan later in life, as well as spread positive reviews of their trip to other potential tourists in their same demographic. Furthermore, Taiwan is well positioned in the eyes of younger Western tourists - concerns like safety, food, cost/quality, and nature top the list of what this group cares about, and Taiwan scores very highly on these metrics (ibid).

Most significantly, however, is that Western tourists are the most common type of traveler globally, and they spend huge amounts of money. For example, Germany, in 2014, spent $1309USD per capita (calculating for the entire population). The United Kingdom spent $1237 per capita. Japan, however, spent only $225 per citizen (World Bank 2014, HowMuch.net 2016). Japanese visitors are the highest spenders in Taiwan, but spend small amounts compared to Europeans globally. Obviously, there is room for improvement in how Taiwan courts Western tourists.

While the benefits of attracting more Western tourists is clear, the question of how to do so still stands. First, Taiwan needs to leverage its significant expatriate community (Ek interview, 2017). The majority of young Western travelers who visit did so because they knew someone else who had worked, studied, or traveled to Taiwan (Scriver, 2016). Expatriates are already familiar with Taiwanese culture and geography, and their shared language and cultural understanding of potential visitors makes them an excellent bridge and resource for increasing the Western segment of Taiwan's tourism market. Another important step is for Taiwan businesses and infrastructure to update their operations. For example, the online ticketing system for Taiwan's High Speed Rail has a useful and intuitive English interface. The Taiwan Rail Authority ticketing system is very much the opposite. Both

Taiwan tourism researcher Mark Schriver, and longtime expatriate and business owner Elias Ek cite poor systems like the TRA's, and apathy for improving them, as a serious drag on attracting visitors, especially in encouraging them to get out of Taipei and to other Taiwan locations. Language skills are another issue frequently cited; many Taiwanese in the tourism industry, while earnest and patient, simply do not possess the English skills, or that of any other European language, to host Western visitors and chaperone them when they patronize businesses or tourist sites (Ek interview 2017, Schriver 2016).

Another area to focus on, and not just for Western tourists, is branding and marketing. Simply put, Taiwan's tourism marketing has been directed mostly at China (Carolus interview, 2017). Furthermore, Taiwan uses the exact same promotional materials around the world and does not identify or differentiate between different markets (Huang interview, 2017). Taiwan tourism needs a facelift and an overhaul. If the government is serious about making tourism in Taiwan a big draw, a global ambassador of Justin Timberlake-level fame would be a start says Mr. Carolus. Also important is targeting Westerners as Westerners want to be targeted. Instead of using one general video to show everyone, Taiwan should focus on aspects like Taiwan's natural beauty, convenience, and affordability. Something like a video contest by expatriates here, with a prize for the winners would be a cheap and effective way to show potential tourists what Taiwan is really like through the eyes of someone who understands both the viewer and the place. Taiwan could also leverage its "Chineseness" and promote itself as the place to experience true Chinese culture without all the fear, trouble, and red-tape of visiting the Mainland (Huang interview, 2017). This could obviously pose a problem for Taiwan as it attempts to differentiate itself from China, but for tourism purposes, especially to attract Western visitors, it could be a huge draw.

Courting Western tourists should only be one prong of a multi-pronged and diversified effort to promote tourism to Taiwan internationally. This examination of how to

attract Western visitors is simply an example of how Taiwan's tourism sector has plenty of opportunity to reach untapped markets, and how creative efforts and ardent research can effectively improve the outlook for the tourism industry. While obvious hurdles remain - lack of visibility, sheer distance, and language and cultural barriers - they are not insurmountable and present a way for Taiwan to educate itself on how to be more international, cosmopolitan, and recognizable on the world stage.

# Appendix: Expert interviews - questions and responses

| *Date* | *Interviewee* | *Institution and title* | *Location* | *Notes* |
|---|---|---|---|---|
| *2017/05/09* | Sammy Carolus | Grand Hyatt Taipei – General Manager | Grand Hyatt Taipei | |
| *2017/05/17* | Ringo Lee | Taiwan Travel Agency Association – Director | Taipei City University of Science and Technology | (Lee Jian Ting interpreter) |
| *2017/05/23* | Chen Jih-Chung | Taiwan Tour Bus Association – Director General | Taiwan Tour Bus Association Office | (Lee Jian Ting interpreter) |
| *2017/06/12* | Kwei-Bo Huang | Center for Foreign Policy Studies at NCCU - Director | National Chengchi University | |
| *2017/06/14* | Elias Ek | Enspyre - CEO | Email interview | Email interview |

## Sammy Carolus - 2017/05/09 - General Manager of the Grand Hyatt Taipei

1. First: my reasons for interviewing (IMAS student thesis, topic related to tourism industry), if you do not wish to answer any questions feel free to decline to comment.
2. What is your official job title?
    a. General Manager, 25 years with Hyatt
3. Can you tell me a little about your background - home, educational and professional background, any political affiliation you are willing to disclose?
    a. No politics, Hyatt employee
4. What percentage of visitors at your hotel are Mainland Chinese tourists? (Best guess)
    a. 20%, was the #1 market until this year
5. What percentage of these tourists are part of a group tour? (Best guess)
    a. Most are individual, but experienced a drop in conference groups
6. The GH is a very nice hotel within walking distance of the trade center - are most Mainland visitors business people or tourists?
    a. Most are business people
7. Have you seen a decrease in the number of Mainland visitors since 2015?
    a. 11% decrease in total business, this year 1st quarter vs 2016

8. If so, do you think this reduction is related to the election of the DPP and Tsai Ing-wen?
    a. Yes, specifically her unwillingness to accept the 92 Consensus
9. Is a decrease in Mainland visitors a cause for concern for your hotel?
    a. Yes, need to look into other markets
10. Is a decrease in Mainland visitors a cause for concern for Taiwan's hotel industry?
    a. Even more true for the industry as a whole
11. Do you think Taiwan will be able to attract enough visitors to offset the consequences of reduced numbers of Mainland visitors? What about just your hotel?
    a. Yes, eventually, but it will take time and there needs to be the political will to actually make the Southbound policy happen and better brand Taiwan's tourism industry
12. What are the feelings of other guests about Mainland visitors? Staff?
    a. Guests are fine, most are educated and travelled
13. What are your personal feelings towards Mainland visitors?
    a. Other guests seem to be happier at the reduction in overall number of Chinese visitors, but behavioral problems will get better as these tourists become more sophisticated.
14. Is it possible for you to put me in touch with other people in the tourism industry who may have further information in regards to my questions, including tour companies, other hotels, etc.?

<u>Other notes:</u>

- There is a lack of political will to make tourism a big industry - branding is important, and Taiwan needs a spokesperson (Global Brand Ambassador - Justin Timberlake) and a bold strategy
- Heart of Asia not working
    - Still targeting China with low impact
- China will not cooperate with Taiwan without acknowledging the 1992 consensus
    - 40% decrease in tourists in first quarter relative to 2016
    - Hyatt saw 11% decrease
- Big actors in Taiwan's tourism industry are Taiwanese
    - Taiwan's market was mature when China was allowed to begin investing
- The Southbound policy will mean tourists who spend less
    - Less was earned in 2016 relative to 2015
    - Taiwan tourism needs other markets - SE Asia and India, also more from South Korea
        - It has been a problem to "put all eggs in one basket"
    - Southbound policy can be successful if branding is good
        - Needs partnerships with SE Asian countries - year round beach packages, cities not enough

# Ringo Lee - 2017/05/17 - Director, Taiwan Travel Agency Association (Lee Jian Ting interpreter)

1. First: my reasons for interviewing (IMAS student thesis, topic related to tourism industry), if you do not wish to answer any questions feel free to decline to comment.
2. What is your background with tourism in Taiwan? Position, organization, time there.
    a. Tour guide at 18, Princess cruise, started own company for Taiwan travel, became Travel Agency director 12 years ago, Masters and PhD in tourism, Asst Prof at School, Company has offices in Taipei, Kaohsiung, Yilan, Tokyo
3. Can you tell me a little about your background - home, educational and professional background, any political affiliation you are willing to disclose?
    a. From Taipei, KMT member
4. To your knowledge, what percentage of tourists in Taiwan are Mainland Chinese tourists? (Best guess)
    a. 43%, 4.36 million in 2015, 3.5 mil in 2016, projected 1.7 mil in 2017 - 400 bilNT in 2015, 200 bilNT in 2017
5. What percentage of these tourists are part of a group tour? (Best guess)
    a. 3mil in 2015
6. Have you seen a decrease in the number of Mainland visitors since 2015?
    a. (see next question)
7. If so, do you think this reduction is related to the election of the DPP and Tsai Ing-wen?
    a. Yes, Tsai cannot handle the relationship, too passive (won't say independent, won't accept 1992 consensus), China won't work with her
8. Who specifically is behind this reduction - who in Beijing or the CCP would make that decision?
    a. Mainlanders obey what gov wants them to do - self-censoring. Same thing happened with THAAD in Korea, travel agencies and people did by themselves
9. Do you think a decrease in Mainland visitors a cause for concern for Taiwan's tourism industry? Why?
    a. Yes, Japanese and South Koreans come for less time, spend less money, only stick around Taipei. Also, lots of investment had been undertaken - 40% capacity increase investment, but now market will tank
10. What groups of people are affected by a decrease in Chinese visitors? Business owners, workers, etc. Who is most affected?
    a. Airlines, local travel agencies, tour bus companies, guides, drivers, hotels, souvenir shops, street vendors - big and small individuals
11. Do you think Taiwan will be able to attract enough visitors to offset the consequences of reduced numbers of Mainland visitors?
    a. Southbound policy is good, problem is execution - South Korea gave 5 SE Asian countries access (removed visa requirements), Taiwan only allowed 1, very slow, poor execution. Taiwan needs to open southern airports (government said no - immigration policy issues - government needs to

change attitude if it wants to make southbound policy work). Also - SE Asians mostly stick in Taipei

12. Does the money spent by Mainland Chinese tourists filter into Taiwan's economy or does much of it go back to Chinese or Hong Kongese business owners?
    a. Funding source doesn't matter, businesses still pay taxes, reinvest, expand locally - not a real issue, money is ultimately spent here - Taiwan business owners in Japan are given medals.
13. Are many of the tour companies, shops, etc. owned or do they pay kickbacks to Chinese business people?
    a. This is a propaganda issue - if Apple opened businesses in Taiwan, people would be excited. Hard to say though, lots have mixed investors.
14. A lot has been made of the bad manners and behavior of Mainland tourists in Taiwan. Do you think Taiwanese and other tourists are justified, or do you think this has been an overreaction?
    a. Over-reported and people over-react. Taiwan used to be the same. Question of development and education. Tour guides are also responsible - not a problem in Singapore where things are super strict.
15. What are your feelings on the Southbound policy? Do you think it will help with tourism? What about the economy as a whole?
    a. (see question 11)
16. Is it possible for you to put me in touch with other people in the tourism industry who may have further information in regards to my questions, including tour companies, hotels, etc.?

Other notes:

- Tourism is 4% of GDP, not a huge impact on GDP
- Chinese people spend a lot, are here longer
    - $223 daily, 7.5 days
    - South Koreans $154 daily, 5 days
    - Japanese slightly more than China, 5 days
- Losing one Chinese tourist means you need two Koreans to compensate
- Certain to impact local economy
- DPP propaganda - accuses China of decrease - truth is that tourists want to go elsewhere now
- Taiwan should take advantage of Chinese tourists
- 10 years developing industry for Chinese
- Travel agencies in China place Taiwan trips as low priority now, so fewer group tours
- Number of individual travelers is increasing
- One laundry company in Chiayi had to cut ⅔ of workers because of lack of business
    - Deep impact
- 3 main groups controlling tourism industry - all likely have some Chinese investment
    - Jie Da - Hong Kong
    - Bao ge li - Hong Kong (Taiwan also?)
    - Qi li - Taiwan (controls ½ of market - other two control other half)

# Chen Jih-Chung - 2017/05/23 - Director General, Taiwan Tour Bus Association (Lee Jian Ting interpreter)

1. What is your background with tourism in Taiwan? Position, organization, time there.
    a. 26 years
2. Can you tell me a little about your background - home, educational and professional background, any political affiliation you are willing to disclose?
    a. Business and law experience, no experience working in tour bus company, no political alignment, from Yilan
3. To your knowledge, what percentage of tourists in Taiwan are Mainland Chinese tourists? (Best guess)
    a. about 50% in 2015, needed a lot of buses, so bus companies rushed to buy them
4. What percentage of these tourists are part of a group tour? (Best guess)
    a. 80% were groups, spent about 8 days traveling around TW, 64K per day in TW
5. Who specifically is behind the reduction in Mainland tourists? - who in Beijing or the CCP would make that decision?
    a. Unclear, but seems there was an order from somewhere in the government. But this is also paired with a natural decrease in numbers - Taiwan is old news now for a lot of Mainlanders.
6. Do you think a decrease in Mainland visitors a cause for concern for Taiwan's tourism industry? Why?
    a. Tourism industry at large will be impacted, especially companies that made large investments that won't pay off now (bus companies, hotels), not too negative though - shouldn't have put all eggs in one basket
7. What groups of people are affected by a decrease in Chinese visitors? Business owners, workers, etc. Who is most affected?
    a. Decline in Chinese visitors is good long term - locals don't like going to lots of tourist sites because of the Mainlander crowds. According to media 2 billion NT to be lost, but that is actually money not earned. Not the end of the world.
8. Do you think Taiwan will be able to attract enough visitors to offset the consequences of reduced numbers of Mainland visitors?
    a. Total amount of visitors remained the same, but SE Asians, Japanese and South Koreans spend less on average. Not going to impact the whole economy, only tourism industry.
9. Does the money spent by Mainland Chinese tourists filter into Taiwan's economy or does much of it go back to Chinese or Hong Kongese business owners?
    a. Most money stays in Taiwan, even if there are HK and Mainland investors. Not a big issue.
10. Are many of the bus companies, shops, etc. owned, have investors, or pay kickbacks to Chinese business people?

    a. Yes, does happen, trying to compete for tourists so Chinese travel agencies get paid (no numbers)
11. A lot has been made of the bad manners and behavior of Mainland tourists in Taiwan. Do you think Taiwanese and other tourists are justified, or do you think this has been an overreaction?
    a. Yes, they have been misbehaving, but education level between tourists is so broad. Development issue, Taiwan was the same 30-40 years ago. To be expected, shouldn't blame China.
12. What are your feelings on the Southbound policy? Do you think it will help with tourism? What about the economy as a whole?
    a. Not helpful in the short term. Industry is geared to Chinese, not SE Asian - they can't buy as much. Maybe better in the long term, but also increased risk of illegal employees
13. Is it possible for you to put me in touch with other people in the tourism industry who may have further information in regards to my questions, including tour companies, hotels, etc.?

Other notes:

- Conclusion - Taiwan just wants to develop its industry. Should develop in multiple directions, and embrace a range of visitors
- Concerned with safety issues - old buses need to be replaced, gov needs to help because bus firms are kinda small, and the are getting hit hard by the decrease
- 17000 tour buses in TW, more than needed, only 13K needed now (17K was too small when Ma was still in office)
- Each bus costs 6-7 million NT, most companies paying off loans for buses that they can't fill now. Huge burden, need government help.
- There was a rush for buses in 2008-11, Chen recommended people slow down. Now he is negotiating with gov to help compensate for loss in unused buses.
- US tourists have a good reputation in contrast with Mainlanders

# Kwei-Bo Huang - 2017/06/12 - Director of Center for Foreign Policy Studies, Professor, former MOFA Official

1. What is your official title at NCCU?
    a. Director of Center for Foreign Policy Studies, Professor, former MOFA Official
2. Can you tell me a little about your background - home, educational and professional background, any political affiliation you are willing to disclose?
    a. Central Taiwan, Ph.D from U. Maryland, no political affiliation.
3. Do you think this reduction is related to the election of the DPP and Tsai Ing-wen?
    a. Yes, 100%

4. Who exactly do you think is behind the reduction? Other sources have said it must be the central government in China, others that it's largely self-imposed and naturally occurring. Your thoughts?:
    a. Both - central government did not specify they'd been involved and no direct information, but the size of the reduction indicates that self-imposed reduction is impossible.
5. Is a decrease in Mainland visitors a cause for concern for Taiwan's tourism industry?
    a. Yes, very much. Bus drivers own expensive busses, have huge loans, can't pay them off, bad for banks, drivers, and companies.
6. Is a decrease in Mainland visitors a cause for concern for Taiwan's economy?
    a. Yes, 100s of millions in losses
7. Do you think Taiwan will be able to attract enough visitors to offset the consequences of reduced numbers of Mainland visitors?
    a. No, the numbers aren't large enough, not sustainable over time, also spend much less than Mainland Chinese visitors
8. Who will be most affected by the drop in Mainland Chinese tourists? Other experts have mentioned tourist spots outside of Taipei are likely to suffer most, along with employees of companies involved in tourism. Your thoughts?
    a. Culture creation industries - for example, all CKS figurines have disappeared. Political symbols have been banned, anything expressing shared Chineseness has gone. Bad for the creators of this, related to tourism issues.
9. What are your personal feelings towards Mainland visitors?
    a. There was a debate in the 90s in the CCP - should Chinese be allowed to travel to Taiwan? Some said yes - would develop people-to-people familiarity. Some said no - Chinese tourists not educated enough and would behave poorly. So the CCP knew that tourist behavior could become an issue, but obviously the "yes" faction won out.
10. To you knowledge, what percentage of the tourism industry is controlled by Mainland Chinese interests? Estimates are fine.
    a. No, does not know, but lots of investment does come from China.
11. Would you say most of the earnings from Mainland Chinese tourists stay in Taiwan or do they largely end up in China or elsewhere?
    a. "Majority" stay in Taiwan. If it were going to China, it would have been a bigger deal.
12. A lot has been made of the bad manners and behavior of Mainland tourists in Taiwan. Do you think Taiwanese and other tourists are justified, or do you think this has been an overreaction?
    a. The reaction is reasonable, but it is also "enlarged" because of the political relationship. For example, there are reports in Japan of Taiwanese tourists acting poorly, but this does not seem to have a large effect on Japan-Taiwan people-to-people relations. There is a sense of Chinese are "different from us" especially when someone has political feelings about China. The Mainland factor always comes up - Chi Po-lin just passed away, people online discussing his parentage (Dad was from China).

13. What are your feelings on the Southbound policy? Do you think it will help with tourism? What about the economy as a whole?
    a. In the short term it will help with tourism, but there has been a slowdown and costs have increased (e.g., training tour guides in Vietnamese and Korean). These markets are also unstable and not guaranteed to be a continuing source of tourists. Quantities may be too low, might not want to return. This is mostly a "replacement policy" for working with Mainland China. Government seems willing to do whatever it takes to "counter China" regardless of whether those things are positive or negative. DPP is trying to exclude China.
14. Other experts have mentioned a lack of political will to attract visitors from further afield, including dragging feet with immigration policy and a lack of dynamic branding. What are your thoughts?: Open visas not necessarily a good policy - Taiwan needs equal treatment, but Philippines still has visa fees for Taiwan, and Thailand still makes Taiwanese get a (free) visa. DPP decision-making has been hasty. Taiwan has eased visa restrictions on Pakistan, Sri Lanka, and Bangladesh, but what does Taiwan get in return? "Quasi-surrender" - no FTAs, no extradition agreements, no support for WHO entry

<u>Other notes:</u>

- Previously MOFA official, present at the Ma-Xi Summit in Singapore.
- Worked on Bangladesh issues - only 10 visas issued in 2008, so office was closed
- Mainland students are also tourists in Taiwan - travel many weekends, spend lots of money while here
    - Decreasing numbers as well?
- Branding is a big issue - use the same promotional material all over the world, regardless of the market
    - Taiwan's best brand is that it's a great place to experience Chinese culture, but DPP doesn't want to say that, even though the temples, holidays, and celebrations are all Chinese (and pro-independence activists still attend)
- Economic activity will probably not decrease too much - Taiwan is so dependent on it, and China is not "punishing" all of Taiwan equally
    - Punishing green areas, selective impact, using the "National Treatment" or "United Front"
    - Still trying to entice Taiwanese workers with strong benefits
- Some in DPP calling for revision of independence clause - want to change to a status quo clause
    - Won't work in giving Taiwan more access to Chinese markets
    - Too loosely defined - Tsai hasn't explained what she means by her acknowledgement that officials met in 1992, nor what her definition of status quo is
    - 1992 consensus was coined in 2000, but it is an explanation of the talks in 1992
        - Change the term if necessary, the point is that it connotes a foundation on which to work with Beijing

- Does DPP status quo mean one China one Taiwan?
- If there is no tacit understanding, resumption of Mainland tourism will be difficult

## Elias Ek - 2017/06/14 - Founder and CEO of Enspyre

1. What is your name and professional background?
    a. My name is Elias Ek. I am from Sweden and have lived in Taiwan since 2000. I have worked with B2B marketing since 1998 and since 2002 I am the CEO and co-founder for Taiwan's largest B2B Telemarketing firm, Enspyre. I am also the COO for hospitality IoT company Docceo and the Chairman for animal care association PACK Sanctuary. Since 2005 I have worked actively with helping foreign entrepreneurs in Taiwan and to make the business environment in Taiwan more friendly for foreigners. In 2012 I published a book called How to Start a Business in Taiwan which has become the go-to guide for foreigners starting companies in Taiwan. Over the years I have had the pleasure to cooperate with many parts of the national and local government to promote Taiwan to foreign entrepreneurs.
2. Do you think the decrease in the number of Mainland Chinese tourists to Taiwan presents an opportunity for the tourism industry to attract Western visitors?
    a. Not sure if I would call it an opportunity since nothing would have stopped us from attracting BOTH mainlanders and westerners at the same time, but for sure it is an incentive to realize the enormous potential to attract western tourists.
3. What are some factors that would be a draw to Taiwan for Western tourists?
    a. My own sister came to visit me for the first time a few years ago together with her husband and two small kids. She was extremely positively surprised with how much she loved Taiwan. She liked that it was clean, safe, well organized, and lots of public bathrooms. She loved the food, she loved the transportation system and she and her family had a grand time exploring the typical tourist stops everyone sees on their first visit - 101, Palace Museum, a night market, endless shopping etc. And the friendly, helpful people impressed her a lot. So those are the words from a mother traveling with kids. For more adventurous people, there is surfing, diving and hang gliding. For nature lovers there are peaks to climb or Taroko gorge to explore. With Taiwan being so small, people can enjoy everything in the amounts they would like to. If they want to visit nature and return to a 5-star hotel in the evening, that is totally doable. An aside: My sister is a celebrity in Sweden and wrote a column about Taiwan in a well known publication. I wish Taiwan could have utilized such glowing remarks to convince more Swedes to come to Taiwan.
4. What are some factors that are possible barriers to increasing the numbers of Western tourists?
    a. General awareness about Taiwan is the biggest. Too few of my friends abroad actually know where Taiwan is and what we are about. If they have a mental

picture of Taiwan at all, it is all factories and messy politics. Another is that many people I have met who are working with marketing Taiwan internationally do not speak very good English and even less of other languages.

5. What strategies could businesses in Taiwan use to try and attract more Western visitors?
    a. Taiwan has all the potential, we just need to segment properly and speak to each with their language. The English-language abilities outside of Taipei needs to be improved. There could be a business opportunity for tour guides who accompany visitors on certain activities where the experts do not speak English. Since few people know about Taiwan, we need to reach people when they research other places. Content marketing - we need to educate the world about Taiwan! Use the voice of all the foreigners who live here and visit here.Social media and newsletters - sign up visitors and keep contact with them for return visits and encouraging spreading the word.
6. How could Taiwan's government work to attract Western visitors?
    a. Follow in the footsteps of South Korea and try to support more popular culture, movies, sports, music etc. to act as brand ambassadors for Taiwan. I hear all the time that Taiwan has a tough political situation. And while it is true that China is blocking us very well in all official organizations like the UN, Olympics etc, there are many more arenas where we can build more international awareness. Continue to encourage immigration and make it easier for immigrants to live and make Taiwan their home. The 500,000+ foreign residents in Taiwan can be Taiwan's best marketing channels.

       When I travel to other countries like Hong Kong, it happens often that as I am waiting for my plane to leave, someone approaches me from the Tourism Bureau to ask me about my visit. This type of survey can tell us more clearly about what foreigners find to be interesting in Taiwan. It would also be a good place to build up a database of people who have been to Taiwan and could help spread the news back home. Why not have a great newsletter where once a month we offer a really awesome coupon for something in Taiwan that they could use AND share with their friends, the more the better.

       The book stores at the airport should sell books about Taiwan in English and other major languages! Today there is only Lonely Planet which of course only speaks to one segment of travelers. There should be beautiful coffee table books as well as books like own, telling travelers how they could invest in Taiwan. Basically every foreigners who comes to Taiwan like it here so whatever we can do to make it easier for them to share this experience with their friends, the more we would benefit.

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