

Chapter 1

The Politics of Mainland China's Economic Statecraft in Relation to Current Cross-Strait Relations*

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Mainly owing to the rapid growth of economic, political, and military power of mainland China (the People's Republic of China, PRC) and the intensified internal political struggles leading to a more divided society in Taiwan (the Republic of China, ROC), relations across the Taiwan Strait have been further complicated in the past decade. It seems that mainland China has felt more certain about its advantage in Cross-Strait relations, and that Taiwan has become more doubtful about its political and economic space for survival.

For mainland China, its economic, political, and military leverages constitute a strong basis against Taiwan independence. Owing to the decreased emphasis on the application of military capabilities and the gradual reduction in tension in the Taiwan Strait, mainland China has been exercising more economic and political means to woo Taiwan in various ways after May 2008. Such means do not always have to be treated separately in the analysis of Cross-Strait relations. Sometimes mainland China's economic policy toward Taiwan can lead to certain political implications or consequences that shape the political nature of Cross-Strait relations. One of

*The author would like to express his gratitude for the materials and opinions provided by Professor Chung-Chih Chen [陳仲志].

the more obvious cases is mainland China's reception of Taiwan's investment and professionals, mostly in the fields of high-tech and management, under the Economic Cooperation Framework Agreement (ECFA) signed in June 2010 by the Taipei-based Straits Exchange Foundation (SEF) and the Beijing-based Association for Relations Across the Taiwan Straits (ARATS). Both agencies have been authorized by the respective governments to deal with Cross-Strait matters in various dimensions such as economy, culture, technology, and so on. The ECFA's economic and political implications have been the focus of many academic works.¹

For Taiwan, it has been in an inferior position regardless of the economic, political, or military affairs in relation to mainland China. Despite the fact that Taiwan has performed well on the world economic stage,² Taiwan still needs a boost to reinforce its economic power as one of the key pillars for Taiwan's survival and development. Another key pillar is Taiwan's vibrant democracy which has created the pluralist nature in politics and helped Taiwan to be accepted by most of the democracies in the world. Yet the economic and political achievements of Taiwan cannot prevent it from being isolated from the international community. Moreover, Taiwan's and mainland China's respective economic strengths may bring about diplomatic competition between the two governments.

Again, during the presidency of Ma Ying-jeou [馬英九], Cross-Strait relations changed dramatically, basically from confrontation to rapprochement and accommodation. Ma argued that the development of Taiwan-mainland China relations should follow the principles of 'economics first,

¹See, for example, Daniel H. Rosen and Zhi Wang, *The Implications of China-Taiwan Economic Liberalization*, Policy Analyses in International Economics No. 93 (Washington, DC: Peterson Institute for International Economics, 2011), pp. 138-198, 141-142; Da-Nien Liu and Hui-Tzu Shih, *New Economic Development Opportunities for Taiwan in the Post-ECFA Era*, *Asie. Vision* No. 51 (Paris: IFRI Center for Asian Studies, 2012), pp. 16-29; and Tsai-Lung (Honigmann) Hong, 'The ECFA: a pending trade agreement?', in Peter C. Y. Chow, ed., *National Identity and Economic Interest: Taiwan's Competing Options and the Implications for Regional Stability* (New York: Palgrave Macmillan, 2012), pp. 48-54.

²According to the Center for Economics and Business Research (CEBR) in London, by the Gross Domestic Production (GDP) in US dollar, Taiwan ranked 25th in the world and 6th in Asia (after mainland China, Japan, India, South Korea, and Indonesia). See CEBR, 'World Economic League Table 2015', available at: <http://www.cebr.com/reports/world-economic-league-table-2015/>.

politics later' and of 'easy decisions first, tough calls later'. To respond, mainland China gradually adjusted its attitudes and policies to a relatively softer approach to Taiwan through economic and social exchanges; nevertheless, it has never given up its pursuit of national reunification by attempting to establish an irreversible framework to better control Cross-Strait relations. Regardless of the unpredictable political dynamics between Taipei and Beijing, Cross-Strait economic affairs have been the most tangible indicator of the peaceful development of Cross-Strait relations. Such functional interactions also helped establish concrete institutionalization in Cross-Strait relations, which would foster sustainable peace, stability, and prosperity between Taiwan and mainland China.

The vital meeting between the head of Taiwan's Mainland Affairs Council (MAC) Wang Yu-chi [王郁琦] and the head of mainland China's Taiwan Affairs Office (TAO) Zhang Zhijun [張志軍] in mainland China (Nanjing) on 11 February 2014 denoted the beginning of official political engagement between the two sides of the Taiwan Strait after more than six decades. The so-called 'Wang-Zhang Meeting' has extraordinary significance in Cross-Strait relations. It not only resulted in agreement to establish bilateral communication channels between the MAC and the TAO, but also symbolized the strengthening of mutual trust as the two ministerial-level officials in charge of Cross-Strait affairs met officially for the very first time.

At those meetings of the heads of Cross-Strait affairs, a couple of functional and institutional (or 'quasi-political') issues were touched upon. Examples include Taiwan as a transit stop for mainland travelers, the trade-in-goods agreement, and Taiwan's participation in regional economic cooperation mechanisms in the Asia Pacific. These will be further discussed later in this chapter.

Following this model, the top leader of the two sides of the Taiwan Strait finally met in Singapore on 7 November 2015, a meeting commonly called as 'Ma-Xi Meeting' between Ma and Xi Jinping [習近平]. The fact that the two top leaders were willing to meet on an equal footing and shelve political disagreement over the issues of political status (e.g., no reference to sovereignty and jurisdiction in public meetings and remarks) and title (e.g., calling each other 'Mr.' instead of official titles) — has demonstrated the goodwill and flexibility of both governments to create a precedent if the future top leader of Taiwan does not deviate from the political arrangement

or foundation shaped intermittently since the early 1990s, including the 1992 Consensus sometimes described as ‘One China, respective interpretations’ by Taiwan. Taiwan insists on the ROC, whereas mainland China stands firm on the PRC. Arguably, from these meetings, mainland China wanted a steady political framework and resilient economic cooperation and social exchange mechanisms that can keep Taiwan from drifting away. Ma’s leadership wished that from these meetings, Taiwan could ensure a stable process of institutionalizing Cross-Strait relations that could result in equality, dignity, and greater mutual trust across the Strait.

In the past, mainland China used many rhetoric attacks and threats of use of force against Taiwan at critical junctures of Taiwan’s political development, in the hope that it could influence the results of Taiwan’s major elections and deter the rising wave of Taiwan’s independence. Knowing the long-lasting political divergence that has been intertwined with complex domestic politics of Taiwan, political leaders of mainland China have appeared to adjust their strategy toward Taiwan in the context of internal-external linkages. History shows that such a strategy has worked on the external front but not on the internal front. Internally, they have seemed to mix economic and political means to strengthen the ‘united-front’ work on Taiwan. Still, Taiwan underwent two regime changes: in 2000, the Democratic Progressive Party (DPP) won the presidential election; in 2008, the Kuomintang (KMT) regained power in the central government. Now the DPP is the ruling party again, under the leadership of Tsai Ing-wen [蔡英文] unwilling to recognize the 1992 Consensus or the ‘One China, respective interpretations’ understanding created by the Lee Teng-hui [李登輝] government and followed by the Ma government. Mainland China has obviously not succeeded in preventing the majority of the people of Taiwan from voting for a pro-independence political party. Externally, they have been able to make good use of mainland China’s economic and political influences to oppress Taiwan’s international space, denounce the ROC’s sovereign status, and illegitimize attempts aimed at claiming an ‘ROC sovereignty’ or creating a ‘Taiwan sovereignty’.

The following sections will begin with an introduction to the strategic thinking and goals of mainland China on the so-called ‘Taiwan issue’. Strategic objectives of mainland China in Cross-Strait economic interactions will be explained by analyzing major contacts between the two sides of the Taiwan Strait. Then, Taiwan’s dynamic domestic politics will be briefly

explained as a main obstacle to mainland China's economic strategy and policy toward Taiwan. Finally, an examination of the economic exchanges between the two sides, mostly between May 2008 and early 2016 will produce some tangible findings to inform future observations on the political factors influencing mainland China's economic policies toward Taiwan.

Strategic Objectives and Thinking

Beyond a doubt, the strategic objectives of mainland China toward the 'Taiwan issue' have remained the same since the separation of the two sides of the Taiwan Strait (i.e., achieving national reunification and enhancing national security).

Mainland China, like the rest of the countries in the world, pursues its goals of national security and interests in the face of internal and external constraints. From Mao Zedong [毛澤東] to Xi Jinping, mainland China has vowed to unify Taiwan under the principle of 'One China'. It sees Taiwan as an inseparable part of 'China' and allows no foreign intervention in national reunification. In dealing with Cross-Strait relations, mainland China has always wished to compel Taiwan to engage in bilateral political negotiations and accept political and legal terms in favor of Beijing; respond to irredentism and patriotism that can mobilize its own people to support the Communist Party of China (CPC) government; catch up with or counter the US hegemony; and deter the possible rearmament of Japan in the West Pacific. In other words, reunification (i.e., territorial integrity) and national security have been perceived and portrayed by the mainland Chinese authorities as the most critical strategic goals in its relations with Taiwan.

Mainland China had often used the 'One China' principle in its interpretation of Cross-Strait relations. Although Taiwan, under the leadership of Lee Teng-hui [李登輝], would like to refer to the political foundation of Cross-Strait engagements as the 'One China, respective interpretations' understanding acquired jointly by both Taipei and Beijing in 1992, mainland Chinese leaders and senior officials still refuse to accept Taiwan's position and claim the 'One China' part only. For instance, in January 1998, the ARATS's top negotiation official of mainland China Tang Shubei [唐樹備], responded to the SEF's request for the resumption of talks on the basis of 'One China, respective interpretations' by arguing that it was unrealistic to contend 'One China, respective interpretations' because the consensus

reached by the ARATS and the SEF in 1992 was that, in Cross-Strait consultations, both parties simply needed to recognize that the stance of both sides of the Strait was ‘One China’ and that they did not have to discuss the political notion of ‘One China’.³

Yet it seems that Beijing’s harsh tone could be moderated by showing some willingness to negotiate with Taipei as long as the latter could embrace a less rigid definition of ‘China’.⁴ For example, after the term 1992 Consensus — ‘One China, respective interpretations’ by Taiwan’s definition was coined by the then MAC minister Su Chi [蘇起] to replace or supplement the oversimplified ‘One China’ a few weeks before he stepped down from office in May 2000, the 1992 Consensus was first quoted by the head of the TAO Bureau of Information in April 2001 in memory of the eighth anniversary of the ‘Koo–Wang Talk’.⁵ Mainland China still emphasized that this consensus was based on the fact that both sides verbally insisted on ‘One China’ in principle.⁶

Another example is that, in July 2000, Qian Qichen [錢其琛], the then deputy leader of the CPC Central Committee’s Leading Group for Taiwan Affairs and PRC vice premier, asserted that

[a]s far as Cross-Strait relations are concerned, the “One China” principle means there is only One China, Taiwan is a part of China, and the sovereignty and territorial integrity of China cannot be divided’, and ‘the “One China” does not necessarily stand for the PRC’.

³‘Tang Shubei xiwang lianghui jizao zhankai zhengzhi tanpan chengxu xing shangtan’ [Tang Shubei hopes the ARATS and the SEF will hold procedural talks for political negotiations as soon as possible], *People’s Daily*, overseas edition (27 January 1998), p. 2.

⁴Yunhan Chu, ‘Making sense of Beijing’s policy toward Taiwan: the prospect of Cross-Strait relations during the Jiang Zemin era’, in Hun-mao Tien and Yunhan Chu, eds., *China under Jiang Zemin* (Boulder, Colorado: Lynne Rienner Publishers, 2000), p. 194.

⁵The Koo–Wang Talks were talks held between Straits Exchange Foundation (SEF) chairman Koo Chenfu and ARATS chairman Wang Daohan in Singapore in 1993. The first talk began in Singapore on 27 April 1993. On 29 April, Koo and Wang signed four agreements. See ‘Koo–Wang Talks’, *Encyclopedia of Taiwan*, available at: <http://taiwanpedia.culture.tw/en/content?ID=3906>.

⁶‘Zhang Mingqing: xienyou “Jiuer gongshi”, houyou “Wangku huitan”’ [Zhang Mingqing: The ‘1992 Consensus’ came first, followed by the ‘Wang–Koo Talk’], *China News Service* (28 April 2001), available at: <http://big5.china.com.cn/chinese/31550.htm>.

A few weeks later, Qian adjusted his 'One China' statement by saying that '[t]here is only One China in the world; both mainland and Taiwan belong to China; and the sovereignty and territorial integrity of China brooks no separation'. Ever since Chen Shui-bian won the presidential election in March 2000, mainland China, still maintaining the supremacy of its own 'One China' principle, has compromised, at least technically. It is willing to use the 1992 Consensus and shift its policy priority from reunification to the prevention of formal Taiwan independence, in the hope that Taiwan would not move politically away from China.⁷

In spite of the flexibility in the application of the 'One China', Beijing leaders did not recognize the existence of ROC in Taiwan. In late April 2005, the KMT honorary chairman Lien Chan [連戰] visited mainland China to start the party exchange between the KMT and the CPC on the political foundation of the 1992 Consensus and anti-Taiwan independence. Lien and Hu stressed that the two sides should not fall into a vicious circle of confrontation but instead enter a virtuous circle of cooperation, seek together opportunities for the peaceful and steady development of Cross-Strait ties, trusting and helping each other, as well as creating a new situation of peaceful win-win, in order to bring about brilliant and splendid prospects for the Chinese nation. The two parties reached a consensus of a wide range of issues — the promotion for the early resumption of Cross-Strait dialogue, the signing of a peace accord and the development of a mechanism for military mutual trust.⁸ Yet, this party-to-party platform on an equal footing

⁷Huang Jiashu, 'Liangnian lai Beijing dui Tai zhengce zhi xinyi' [On the new thinking of Beijing's policy toward Taiwan in the past two years], paper presented at an off-the-record roundtable on the Taiwan Issue, Brookings Institution, Washington, DC, pp. 1–2; and 'Wang Zaixi: zhizhi Taidu shi Zhonghua ernu dangqiande jinpo renwu' [Wang Zaixi: curbing Taiwan Independence is the urgent task facing the Chinese nation for the present], *China News Agency* (3 January 2004). Both are quoted in Jing Huang, 'Hu Jintao's pro-status quo approach in Cross-Strait relations: building up a One-China framework for eventual reunification', in Cal Clark, ed, *The Changing Dynamics of the Relations among China, Taiwan, and the United States* (Newcastle: Cambridge Scholars Publishing), p. 106. Also see Meng-ju Hsieh, 'Qian Qichen: dalu Taiwan tongshu yigezhongguo' [Qian Qichen: Both Mainland and Taiwan Belong to One China], *China Times*, August 26, 2000, p. 4.

⁸'Text of KMT-Beijing agreement', *BBC NEWS* (29 April 2005), available at: <http://news.bbc.co.uk/2/hi/asia-pacific/4498791.stm>; and Caroline Hong, 'Lien, Hu share "Vision" for peace', *Taipei Times* (30 April 2005), p. 1.

did not mean that leaders in Beijing no longer treated Taiwan as a local government.

Furthermore, mainland China has obviously differentiated between the internal (insiders) and the external (outsiders) when it comes to the principle of ‘One China’. For mainland China, so long as Taiwan agreed on this principle, the conditions by which Taiwan and mainland China interact can be flexible, as implied before. But internationally, Taiwan can by no means represent ‘China’ or act as an independent political entity. In line with the principle of ‘One China’, mainland China has appeared willing to engage Taiwan as long as such an engagement will not be regarded as a model of ‘One China, one Taiwan’ or ‘two Chinas’.

It is important for mainland China to keep Taiwan in a political framework that is mutually acceptable and neutral or favorable for the former’s ‘One China’ formula. All KMT and DPP governments would like to be treated with equality and dignity via an implicit ‘ROC–PRC’, ‘Taiwan–mainland China’, or ‘Taiwan–China’ arrangement, but the CPC government has often seen the meetings with Taiwan’s representatives or officials as ‘Chinese domestic affairs’ and purposefully given Taiwan a provincial status, or a status of the special autonomous region, in its ‘One China’ interpretation aimed at the international community.⁹ An arguable exception (or controversially, a practice of ‘one country, two governments’) is the Ma–Xi meeting in Singapore on 7 November 2016, a historic event where the top leaders of the two sides of the Taiwan Strait met on an equal footing in a third party’s territory (outside Taiwan and mainland China which includes Hong Kong and Macau).

Generally speaking, mainland China’s principal strategic thinking about the resolution of the ‘Taiwan issue’ has evolved from use of force in the 1950s and the 1960s to both use of force and international political

⁹By the same token, for example, in the case of Taiwan’s participation in the World Health Organization (WHO), the 2005 Memorandum of Understanding between mainland China and the WHO formally places Taiwan under the reign of the PRC. Furthermore, the ‘Procedures concerning an arrangement to facilitate implementation of the International Health Regulation (2005) with respect to Taiwan Province of China’ even outlines the way to interact with Taiwan in a stricter way. See Sigrid Winkler, ‘Taiwan in international organizations’, in Jean-Pierre Cabestan and Jacques deLisle, eds., *Political Changes in Taiwan under Ma Ying-jeou: Partisan Conflict, Policy Choices, External Constraints and Security Challenges* (London and New York: Routledge, 2014), pp. 252–254, 257.

(diplomatic) suffocation between the 1970s and the 1990s, and then to multiple economic and societal exchanges that garner more support of the people of Taiwan nowadays (but Beijing still has not renounced the use of force against Taiwan). It should be noted that such a contemporary strategic thinking has been backed up by mainland China's strong military presence and ability to limit Taiwan's international participation, particularly in the regional and global economic and financial cooperation.

Mainland China has maintained Taiwan as one of its core interests not only by firmly opposing the independence movement of Taiwan but also by refuting any foreign interference in the 'Taiwan issue'. Despite the hawkish attitude toward Taiwan independence, flexibility did not wane in mainland China's Taiwan policy. Just one week before the ROC presidential election in March 2000, mainland Chinese premier Zhu Rongji [朱鎔基] warned that blood will be shed if Taiwan declared itself an independent country.¹⁰ Zhu also alerted Taiwan's voters to make the right choice, or they might have no chance to regret.¹¹ Once again, Chen Shui-bian [陳水扁] of the DPP won the election, resulting in another critical marker in Taiwan's sour relations with mainland China. Yet some obvious flexibility appeared to occur in mainland China's policy toward Taiwan. Before this election, mainland Chinese leaders made clear that they would regard a victory by the DPP as a move toward Taiwan's independence with potentially serious consequences. Once the result was in, they stated that they would adopt a 'wait-and-see' attitude toward the DPP government in Taiwan.¹²

Never retreating from the goal of national unification, mainland China enacted the Anti-Secession Law in March 2005 to manage the dynamics of Cross-Strait relations in the new millennium.¹³ In Article 6, the

¹⁰Rebecca MacKinnon, 'China will be watching new Taiwan leader very carefully', *CNN* (18 March 2000), available at: <http://transcripts.cnn.com/TRANSCRIPTS/0003/18/cst.16.html>.

¹¹'Analysis: China's nightmare', *BBC News* (20 March 2000), available at: <http://news.bbc.co.uk/2/hi/asia-pacific/683860.stm>.

¹²Francis Markus, 'Milestone in China-Taiwan ties', *BBC News* (19 March 2000), available at: <http://news.bbc.co.uk/2/hi/asia-pacific/682686.stm>.

¹³See, for example, Kwei-Bo Huang, 'The anti-secession law and the distributive bargaining across the Taiwan Strait', *Views and Policies* 2(1) (September 2005), pp. 93–112; and Chunjuan Nancy Wei, 'China's anti-secession law and Hu Jintao's Taiwan policy', *Yale Journal of International Affairs* 5(1), (Winter 2010), pp. 112–127.

CPC government vows to adopt measures including economic exchange and cooperation and people-to-people exchange to maintain stability in the Taiwan Strait and develop Cross-Strait relations. Article 8 of the Anti-Secession Law specifies that ‘the State Council and the Central Military Commission shall decide on and execute the non-peaceful means and other necessary measures’ in case ‘the “Taiwan independence” secessionist forces should act under any name or by any means to cause the fact of Taiwan’s secession from China’.

In addition to the Anti-Secession Law aimed at the Chen administration, in March 2005, Hu Jintao [胡錦濤] set forth four points regarding mainland China’s position toward the ‘Taiwan issue’. They are: never sway in adhering to the ‘One China’ principle, never give up effort to seek peaceful reunification, never change the principle of placing hope on the Taiwan people, and never compromise in opposing the secessionist activities aimed at Taiwan independence.¹⁴ In December 2008, after Chen stepped down, Hu further offered six basic proposals — the so-called Hu’s Six Points — for peaceful evolution of Cross-Strait interactions when Cross-Strait relations became more predictable after May 2008. The six points are: first, to firmly abide by the ‘One China’ principle and enhance political mutual trust; second, to advance economic cooperation and promote common development; third, to promote Chinese culture and strengthen spiritual bonds; fourth, to strengthen two-way visits of people and expand exchanges in various circles; fifth, to safeguard national sovereignty and hold consultations on external affairs; and sixth, to end the state of hostility and reach a peace agreement.¹⁵

It is evident that Xi’s strategic thinking toward Taiwan is very similar to that of Hu; that is, under the ‘One China’ principle and framework, mainland China and Taiwan can hold equal consultations concerning Cross-Strait political issues and make sensible arrangements to facilitate the gradual

¹⁴ ‘President Hu sets forth guidelines on Taiwan’, *Xinhua News* (4 March 2005), available at: http://news.xinhuanet.com/english/2005-03/04/content_2653447.htm.

¹⁵ Hu Jintao, ‘Let us join hands to promote the peaceful development of Cross-Straits relations and strive with a united resolve for the great rejuvenation of the Chinese nation’, speech at the Forum Marking the 30th Anniversary of the Issuance of the Message to Compatriots in Taiwan, 31 December 2008, available at: http://www.gwytb.gov.cn/en/Special/Hu/201103/t20110322_1794707.htm.

resolution of Cross-Strait political differences.¹⁶ A similar statement issued by Zhang of the TAO in May 2013 is that the gradual resolution of Cross-Strait political differences could be achieved through dialogues that were based on the basis of 'One China', in pursuit of the common understanding, and to diminish the divergences.¹⁷

Xi spent 17 years, from 1985 to 2002, in Fujian Province and took up various party and government posts there. In 1999, he was promoted to the deputy secretary of the CPC provincial committee and acting governor of Fujian. He put a lot of emphasis on Fujian-Taiwan economic cooperation. He experienced the 1996 Taiwan Strait crisis, the 'special state-to-state theory' in 1999, and the first regime change in Taiwan. In facing the dramatic changes in Cross-Strait relations and Taiwan domestic politics, not only did he increase investment from Taiwan,¹⁸ he also supervised the local military command. His exposure to the 'Taiwan issue' may have led him to view Cross-Strait relations with flexibility and pragmatism.¹⁹

The Xi administration, with the unchanged goals already set by its predecessors, appears to aim at establishing an irreversible political and legal framework to regulate Cross-Strait relations. While Beijing agrees with Taipei on the 'economics first, politics later' approach to bilateral issues, in its quest for closer economic ties with Taiwan, it could be losing its patience in seeing Taiwan's refusal to engage in Cross-Strait political dialogue or Taiwan's move away from ultimate reunification.

Even as Cross-Strait relations have improved saliently in recent years, both Hu and Xi have restated the need for reunification between mainland

¹⁶This claim was put forward by Hu in his report at the 18th Party Congress in November 2012.

¹⁷Tse-hung Lin, 'Zhang Zhijun: Yizhong Kuangjia Jiuer Gongshi jiangou liangan zhengzhi' [Zhang Zhijun: One-China framework and 1992 Consensus to construct Cross-Strait politics], *United Daily News* (23 May 2013), available at: <http://udn.com/news/mainland/main1/7915989.shtml>.

¹⁸Pang Li, 'Xi Jinping's 17 years in Fujian', *China.org.cn* (21 November 2012), available at: http://www.china.org.cn/china/2012-11/21/content_27179199.htm.

¹⁹Edward Wong and Jonathan Ansfield, 'China grooming deft politician as next leader', *The New York Times* (23 January 2011), available at: <http://www.nytimes.com/2011/01/24/world/asia/24leader.html>.

China and Taiwan. For instance, ‘Enriching the Practice of “One Country, Two Systems” and Advancing China’s Reunification’ was the exact sub-headline in Hu’s report at the 18th Party Congress in November 2012, which possibly denoted Hu’s desire for a historic legacy in Cross-Strait affairs. Xi has often claimed that national reunification ‘is not merely unification in form, but more importantly, a spiritual connection between the two sides’.²⁰

Xi has promoted the ‘Chinese Dream’ unequivocally as the future philosophical (or political) foundation of mainland China’s development.²¹ In October 2013, he expressed his hope that this ‘Chinese dream’ would be fulfilled with a peaceful unification with Taiwan. He argued in the meantime that, ‘it is the duty of the new CPC leadership to continue promoting the peaceful development of Cross-Strait ties and the peaceful reunification of the two sides of the Taiwan Strait’.²² He also contended that the ‘Chinese Dream’ could be closely linked to the future of Taiwan, and should be shared by both sides of the Taiwan Strait — ‘No power can separate us’ (mainland China and Taiwan).²³ Further, he and other top leaders have advocated the concept of one family on both sides of the Taiwan Strait [*liangan yijiaqin*] and called for greater cooperation for the rejuvenation of the Chinese nation, which is viewed by Beijing as a positive development in the resolution of mutual differences in the future.²⁴ To echo this concept, Yu Zhengsheng [余正聲], chairman of the National Committee of Chinese People’s Political Consultative Conference (CPPCC), claimed that mainland China would work to enhance political mutual trust and maintain favorable exchanges with Taiwan, on

²⁰ ‘Xi steadfast on reunification’, *Xinhua News* (26 September 2014), available at: http://news.xinhuanet.com/english/china/2014-09/26/c_133675240.htm.

²¹ ‘Xi: China confident of sustainable economic growth’, *The China Daily* (3 November 2013), available at: http://www.chinadaily.com.cn/china/2013-11/03/content_17077146.htm.

²² ‘Xi meets KMT’s Lien, stresses Cross-Strait ties’, *Xinhua News* (25 February 2013), available at: http://news.xinhuanet.com/english/china/2013-02/25/c_132191064.htm.

²³ ‘Commentary: Xi takes Cross-Strait ties new level’, *CCTV* (22 February 2014), available at: <http://english.cntv.cn/20140222/102920.shtml>.

²⁴ ‘Xi meets Taiwan politician ahead of APEC gathering’, *Xinhua News* (6 October 2013), available at: http://news.xinhuanet.com/english/china/2013-10/06/c_132775470.htm.

the basis of adherence to the 1992 Consensus and opposing Taiwan's independence.²⁵

According to Xi, under the framework of 'One China', Cross-Strait economic cooperation can be boosted jointly by Taiwan and mainland China. Strengthening Cross-Strait high-level dialogues and coordination and improving institutionalization in economic cooperation by picking up the pace in the negotiation over the ECFA thus become significant and necessary. The two sides should expand two-way investment, deepen cooperation in financial services, and accelerate industrial cooperation.²⁶ Besides, he emphasized that both the economies of the two sides of the Taiwan Strait belong to the Chinese nation. With the new economic development and cooperation in the Asia Pacific, the two sides could better deal with challenges only by cementing cooperation.²⁷

In the eyes of Beijing leaders nowadays, economic exchange and cooperation are very essential for improving Cross-Strait relations. For example, Yu has vowed that mainland China would actively seek follow-up talks of the ECFA and adopt more measures to facilitate youth exchanges across the Strait, among others.²⁸ In May 2015, at the 10th Cross-Strait Economic, Trade and Culture Forum, commonly known as the KMT–CPC Forum [*guo-gong luntan*], Yu pointed out that the forum should continue its focus on welfare with exchanges of economic policy and industrial plans. He urged joint effort to help ordinary people, small and medium-sized enterprises as well as farmers and fishermen.²⁹

At the same time, however, Xi has demonstrated a tough stance in dealing with the reunification issue. Knowing that the Cross-Strait political disputes

²⁵ 'Mainland committed to peace, stability across Taiwan Strait', *Xinhua News* (27 January 2015), available at: http://news.xinhuanet.com/english/china/2015-01/27/c_133950749.htm; and 'Mainland committed to peace, stability across Taiwan Strait', *Xinhua News* (2 February 2016), available at: http://news.xinhuanet.com/english/2016-02/02/c_135068763.htm.

²⁶ 'President Xi meets Taiwan politician', *Xinhua News* (8 April 2013), available at: http://news.xinhuanet.com/english/china/2013-04/08/c_132293193.htm.

²⁷ 'Xi meets Taiwan politician ahead of APEC gathering'.

²⁸ 'Mainland committed to peace, stability across Taiwan Strait'.

²⁹ Guo Yan, 'Cross-Strait economic forum held in Shanghai', *China Radio International* (4 May 2015), available at: <http://english.cri.cn/12394/2015/05/04/2702s877127.htm>.

can be gradually resolved, Xi has held resolutely in October 2013 that they ‘cannot hand those problems down from generation to generation’.³⁰ In September 2014, for the first time, he openly highlighted the concept of ‘One Country, Two Systems’ in Beijing.³¹ In March 2015, he contended that the 1992 Consensus was the foundation for Cross-Strait political trust, dialogue and consultation, and the development of future ties. According to Xi, mainland China’s approach to Cross-Strait relations would be dictated by ‘four resolute’ [*sige jianding*]: to resolutely pursue peaceful development; to resolutely adhere to the common political basis; to resolutely bring benefit to the people across the Taiwan Strait; and to resolutely join hands in bringing about national revitalization. Apparently, Xi asserted once again that Beijing would not alter its stance on the 1992 Consensus or the principle of ‘One China’ for the sake of Cross-Strait talks and cooperation.³²

In March 2015, Xi maintained that ‘the key factor deciding where the Cross-Strait ties goes is the development and progress of the Chinese mainland’. He also affirmed that it would ‘trigger an earthquake and topple hills’ if the 1992 Consensus — whose core has been based on the recognition that both mainland and Taiwan belong to ‘one and the same China’ — as the foundation and precondition of Cross-Strait talks was challenged or altered.³³ This has attracted lots of attention because he rarely expresses such an assertive view on Taiwan.

In July 2015, Xi signed the National Security Law which states that ‘maintenance of national sovereignty and territorial integrity is a shared obligation of all the Chinese people, including compatriots from Hong

³⁰ ‘Xi meets Taiwan politician ahead of APEC gathering’.

³¹ ‘Xi steadfast on reunification’.

³² Xi’s “four resolute” on Cross-Strait ties: a message to DPP’, *Want China Times* (11 March 2015), available at: <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150311000090&cid=1101>.

³³ ‘Xi stresses Cross-Strait peaceful development, urges vigilance against Taiwan Independence’, *Xinhua News* (4 March 2015), available at: http://news.xinhuanet.com/english/2015-03/04/c_134037908.htm. In the text of the Xinhua News article, the phrase ‘trigger an earthquake and topple hills’ cannot be found but it was included in CCTV news that day. See Ping-chung Sung and Su-mei Lu, ‘Xi budianming xiang Lǚ hanhua: rentong yi Zhong’ [Xi speaks loud to the green without identifying names: acknowledge One China], *China Times*, (5 March 2015), available at: <http://www.chinatimes.com/newspapers/20150305000881-260301>.

Kong, Macao and Taiwan'.³⁴ This clause did not receive consent from majority of the people in Taiwan.

In fact, beginning from late 2014, mainland China has undertaken some unilateral actions that were believed by Beijing leaders to meet the ultimate goal of national reunification. These unilateral actions will be introduced later. A possible explanation for that is: the CPC government, based on its own subjective understanding, has realized that the KMT government, despite having a steady majority following in the Legislative Yuan (LY) during the presidency of Ma, was incapable of implementing anything substantial for Cross-Strait ties. Its subjective understanding has been manifested by the KMT government's failure in Cross-Strait Trade-in-Services Agreement (TiSA) in spring 2014 and also by surprising yet unsuccessful charges brought against the MAC principal deputy minister Chang Hsien-yao [張顯耀] in August 2014.

What is worth scrutinizing as well is Beijing's political calculation of Taiwan's desire for participating in regional economic cooperation. It is a commonly acceptable argument in the KMT government that Taiwan's regional integration in the Asia Pacific will help Taiwan's economic performance; thus the potential benefits of Cross-Strait economic cooperation can persuade Taiwan's general public to support Cross-Strait economic and trade negotiations.³⁵ With that, Beijing might be facing a strategic dilemma. Helping Taiwan to become integrated in the region can become a double-edged sword, in the sense that assisting Taiwan can improve Beijing's image in Taiwan's society but reinforce 'Taiwan identity', either directly or indirectly, but in the international arena, the 'Taiwan identity' can be utilized as a useful and powerful tool for promoting Taiwan's independence. The CPC government's caution and reservation in Taiwan's international space are evident signs of this strategic dilemma.

³⁴ 'China adopts new law on national security', *Xinhua News* (1 July 2015), available at: http://news.xinhuanet.com/english/2015-07/01/c_134372812.htm; and 'China "rude" to include Taiwan in national security law: MAC', *Focus Taiwan* (1 July 2015), available at: <http://focustaiwan.tw/news/aip/201507010032.aspx>.

³⁵ '2014 nian Boao Yazhou luntan—Xiao rongyu dongshizhang he Li Keqiang huimian' [The 2014 Boao Forum for Asia—Honorary Chairperson Siew meets with Li Keqiang], *The Cross-Strait Common Market Foundation* (10 April 2014), available at: <http://www.crossstrait.org/?p=192>.

Main Obstacles: Taiwan's Changing Political Environment

The CPC government's objectives and strategic thinking toward Taiwan are facing some salient resistance due to the complexity of Cross-Strait relations. Mainland China wants to garner the support of Taiwanese people by scores of economic and trade exchanges and agreements, some of which have been described as the 'yielding profits' strategy. Such a strategy is often interpreted as a soft measure to enhance Cross-Taiwan Strait ties toward peaceful unification. As former premier of the PRC Wen Jiabao [溫家寶] once elaborated in 2010, full consideration would be given to the different sizes of the economy and market conditions of the two sides of the Straits, as well as the interests of small and medium-sized businesses, ordinary people, and particularly farmers in Taiwan. He also said that Beijing would let the people of Taiwan benefit more from the ECFA.³⁶

Nonetheless, some pro-independence parties and vacillating, or fearful, general public of Taiwan are watching every move taken by mainland China. Therefore, economic and trade exchanges and agreements between Taiwan and mainland China have triggered their concern and worry, particularly when the KMT government pushed the Cross-Strait TiSA full speed ahead at the LY in March 2014.³⁷

A key factor shaping such a cautious attitude in Taiwan is the CPC government's unmovable objectives toward ultimate reunification with Taiwan. This is accompanied by the refusal to announce no use of force against Taiwan and by the relentless downgrading of the legal and political status of Taiwan in the international arena. People in Taiwan are not able to use the official title 'ROC' or 'Taiwan' at most major international occasions. They also resent being represented by a sovereign government that has no *de jure* and *de facto* rule over Taiwan. Starting from the last term of Lee, their frustration has been roused and amplified by the growth of 'Taiwan identity', by the independence appeals confronting a rising mainland Chinese regime during Chen's presidency, by the political and economic uncertainties and

³⁶ 'Premier Wen Jiabao meets the press (14 March 2010)', *China US Focus* (14 March 2010), available at: <http://www.chinausfocus.com/library/government-resources/chinese-resources/remarks/premier-wen-jiabao-meets-the-press/>.

³⁷ Kwei-Bo Huang, 'Beyond the Cross-Strait trade in services agreement: seeking a "2014 Consensus" for Taiwan', *Brookings Institution* (April 2014), available at: <http://www.brookings.edu/research/opinions/2014/04/30-taiwan-economic-consensus-huang>.

risks associated with the gradual expansion of Cross-Strait interactions promoted by Ma, as well as by the possible loss of sovereign and independent status that have been enjoyed by the people in Taiwan after the separation of the two sides of the Taiwan Strait. All these have led partially to a critical social protest against the TiSA in spring 2014, and landslide losses of the KMT both in the local elections at the end of 2014 and in the presidential and LY elections in January 2016.

In March 2014, the dubiousness of the negotiations and consequences of the TiSA and the ensuing Cross-Strait agreements resulted in the Sunflower Movement, namely large-scale protests initiated by anti-PRC protesters, prompting a strong awareness of the risks associated with the KMT's rapprochement policy and economic exchanges with mainland China after May 2008.

Despite the fact that DPP used very long legislative boycotts to delay the pass of the TiSA and that some protesters, including undergraduate and graduate students, illegally occupied the LY's chamber from 18 March to 10 April 2014 and broke into the headquarters of the Executive Yuan during 23–24 March of the same year, it was obvious that the appeals presented by the Sunflower Movement gained sympathy of the general public. The series of polls in the post-Sunflower Movement era show the following results: (1) about one-third of the interviewees thought it was fine to occupy the LY, while only less than one-fifth thought it was fine to break into the headquarters of the Executive Yuan; (2) more than half of the interviewees believed the consequence of the Sunflower Movement was positive; (3) the majority of the interviewees felt the voices of the younger generations were taken into consideration to a greater extent; (4) the younger generations tended to view national sovereignty more importantly than economic interests; and (5) the number of adherents to the KMT reduced while the number of DPP supporters increased.³⁸

³⁸See, for example, 'Lienhebao mindiao: shehui geng zhongshi nianqingren shengyin' [United Daily News poll: society thinks more highly of the voice of young people], *United Daily News* (18 March 2015), available at: <http://udn.com/news/story/7776/772286>; and Chih-Jou Jay Chen, 'Taiyanghua yundong gaibian le minzhong de zhengzhi taidu ma?' [Has the Sunflower Movement altered people's political attitudes?], paper presented at the 2015 Workshop on China's Impact, Institute of Sociology at the Academia Sinica, 16 October 2015.

During the Sunflower Movement, the ‘legislate first, review second’ approach was endorsed by the DPP. Some of the key protesters demanded the clause-by-clause review of the TiSA. It is evident that the political struggles within the KMT, mainly between Ma and LY speaker Wang Jinpyng [王金平], a KMT member, weakened the KMT government’s capacity to negotiate with the domestic constituencies over the TiSA and ensuing Cross-Strait agreements.

Former ROC vice president Vincent Siew [蕭萬長] discerned three major concerns of the people in Taiwan on the day of the retreat of the protesters as he was meeting PRC premier Li Keqiang [李克強] at the Boao Forum for Asia in 2014. The three major concerns are: first, complementary partnership between Taiwan and mainland China can decline into economic rivalry; second, Taiwan’s access to mainland markets is restricted by trade barriers arising from huge differences in institutions and management between the two sides of the Strait; and third, Taiwan urgently needs to join the ongoing process of regional economic integration but is facing obstacles.³⁹ Li responded that mainland China was willing to offer Taiwan increased access to the former’s markets, and even to open up economically for Taiwan before opening further to foreign countries. He added that closer economic ties between mainland China and Taiwan will create better conditions for Taiwan to join other regional trade pacts.⁴⁰

Regardless of the results of Cross-Strait economic cooperation, as mentioned earlier, the KMT suffered greatly from a couple of elections since late 2014. In addition to the KMT government’s mediocre domestic governance and political communication, the political configuration of Taiwan has begun to change after the Sunflower Movement. The pan-Blue vs. pan-Green competition in politics has been influenced by the rise of the third force, some of which detest ‘China’ and vow to struggle for Taiwan independence. Besides, it seems that the Taiwanese society was gradually losing self-confidence to confront mainland China.

³⁹·2014 nian Boao Yazhou luntan–Siew rongyu dongshizhang he Li Keqiang Huimian’ [The 2014 Boao Forum for Asia–Honorary Chairperson Siew met with Li Keqiang].

⁴⁰·Premier Li promotes Cross-Strait economic cooperation’, *Xinhua News* (10 April 2014), available at: http://news.xinhuanet.com/english/china/2014-04/10/c_133253162.htm; and An Baijie and Zhao Yinan, ‘Li stresses Cross-Straits harmony’, *China Daily* (11 April 2014), available at: http://usa.chinadaily.com.cn/china/2014-04/11/content_17426801.htm.

The link between the gradual loss of self-confidence in Taiwan's society and the support for the Sunflower Movement needs to be examined more carefully. But it is highly possible that some of the people in Taiwan have sensed the rapid progress in mainland China and deeply worry about their own future,⁴¹ thus generating a widespread mood of reluctance to accept the KMT government's policy for closer economic cooperation with mainland China. The TiSA and ensuing agreements to be negotiated between the two sides are sometimes viewed as a means of mainland China's economic statecraft on Taiwan. Then, the rising anti-Beijing sentiment triggered by Beijing's plan to recover Taiwan via military and non-military methods, has been treated as a hindrance to Taiwan's independence by certain political parties and civic groups which are against further Cross-Strait exchanges.

It is also worth noticing that the high participation of the young voters have an effect on those elections as well. The Sunflower Movement has inspired the younger generation to participate in public affairs and to monitor the government. Convincingly, most of them who have a strong Taiwan[ese] identity did not adhere to the KMT's campaign platform which include opening up Taiwan's market to mainland China at a pace the KMT would prefer.⁴²

Within Taiwan, such new internal causes are affecting and altering the political structure of Cross-Strait relations, thus adding to the complexity of mainland China's contemporary economic policy toward Taiwan.

⁴¹ 'Tai Xin Zhong Gang sisi Huaren huping, sheishi zuijinbu shehui?' [Evaluating one another among the ethnic Chinese in Taiwan, Singapore, China, and Hong Kong: whose society is the most advanced?], *Yuanjian* [Global View] (30 November 2015), available at: http://www.gvm.com.tw/webonly_content_7152.html. In this survey, Taiwan received seven lowest scores out of nine categories, including wealth distribution, administration, and parliamentary efficiency, from the lowest to the third lowest. The *Taipei Times* has the same argument. See 'Editorial: It's the economy, stupid', *Taipei Times* (3 December 2014), p. 8.

⁴² In the 2016 elections, for example, nearly half of young voters were for the DPP, while the rest were more supportive of the People's First Party, not the KMT. See Stacy Hsu, 'Strong disapproval of Ma led to KMT's rout: survey', *Taipei Times* (3 December 2014), p. 1; and Christine Chou, 'Election results, polls align on Taiwan's presidential race: pollsters', *The China Post* (18 January 2016), available at: <http://www.chinapost.com.tw/taiwan/national/presidential-election/2016/01/18/456374/Election-results.htm>.

Actions (Policy Options)

In most cases, a government's action is chosen as a calculated solution to a strategic problem. Having touched upon mainland Chinese leaders' objectives and strategic thinking toward Taiwan and the associated main obstacles, this section delineates the actions of the Xi administration toward economic exchanges with Taiwan, and attempts to explain from a political perspective.

An important assumption that goes with this section is that the economic statecraft of mainland China carries considerable political meaning. In this regard, it is not easy to find direct quotations from the government and party documents of mainland China, but it can be inferred that economic cooperation and concessions made by Beijing have been aimed at performing vital political and united front functions in Taiwan and that mainland China's operatives would continue to build up its resources, and strengthen its capability to influence and shape Taiwan's political process and policy efforts toward peaceful unification without firing a shot.⁴³ Given the discreet and secretive nature of Beijing's united-front strategy, it is likely that, strictly speaking, lots of economic activities that cross the Taiwan Strait could be part of the CPC government's plan to intervene in Taiwan's internal affairs to achieve reunification. This has reminded some people of Hong Kong's relations with and economic dependence on mainland China after the handover in 1997.⁴⁴

As stated in the '1979 Interim Provisions on Trade Relations with Taiwan of the PRC Ministry of Foreign Trade and Economic Cooperation', trade with Taiwan has been treated by Beijing as a special arrangement targeted at the people of Taiwan in the business and industrial sectors for the purpose

⁴³Parris H. Chang, 'Beijing's strategy to "buy" Taiwan: coerced unification without firing a shot', *WorldTribune.com* (19 February 2014), available at: <http://www.worldtribune.com/10-beijings-strategy-buy-taiwan-coerced-unification-without-firing-shot/>.

⁴⁴See, for example, Sonny Lo, 'The mainlandization and regionalization of Hong Kong: a triumph of convergence over divergence with mainland China', in Joseph Y. S. Cheng, ed., *The Hong Kong Special Administrative Region in Its First Decade* (Hong Kong: City University of Hong Kong Press, 2007), pp. 215–219; and Jong Wong, 'CEPT: a gift from Beijing?', in Yongnian Cheng and Chiew Ping Yew, eds., *Hong Kong under Chinese Rule: Economic Integration and Political Gridlock* (Singapore: World Scientific, 2013), pp. 21–34.

of ultimate national unification. In 1979, the Standing Committee of the National People's Congress issued a letter to 'Taiwan compatriots' and developed a range of policies toward Taiwan to boost Cross-Straits relations, promote trade and economic cooperation, encourage visits and enhance mutual trust between the two sides under the basic principle of peaceful reunification and 'One Country, Two Systems'. The PRC State Council enacted 'Regulations Encouraging Compatriots from Taiwan to Invest in the Mainland' in 1983 and passed the 'Provisions concerning the Encouragement of Protection of Investment by Compatriots from Taiwan' in 1988 which offered some preferential arrangements to Taiwan's entrepreneurs, followed by the creation of Taiwan Investment Zones in 1989 in some provinces close to Taiwan.

After both sides of the Taiwan Strait established unofficial ties in the early 1990s, conceivably guided by the same political strategy, the PRC State Council enacted the 'Law of the People's Republic of China on Protection of Investment by Compatriots from Taiwan' (PICT) and passed the 'Rules for the Implementation of the PICT' in 1994 and 1999, respectively. The same thread of thought is that, as instructed by the State Council, Fujian Province invented a Cross-Strait experimental basis for agricultural cooperation in 1996 in Zhangzhou, followed by a Cross-Strait experimental area for agricultural cooperation in 1997 in Fuzhou.

Between 2000 and 2008, there were sporadic actions taken by mainland China and Taiwan — mostly the KMT which was an opposition party and the Taiwan provincial organizations. For instance, the Western Taiwan Straits Economic Zone was proposed by the Fujian Province in 2004 to further integrate Taiwan with mainland China. Five major cities were identified to serve as windows of Cross-Strait exchanges: Zhangzhou, Quanzhou, Xiamen, Wenzhou, and Shantou. Partly due to the slowdown of Cross-Strait relations at that time, this pilot subregional economic project was included in the 11th Five-Year Plan of mainland China but it materialized only in 2011 when the State Council approved.

Looking at the positive side, the Lien–Hu meeting in April 2005 discussed the establishment of some mechanisms to promote economic cooperation and Cross-Strait ties. Examples include the opening of regular commercial flights and direct shipping, and the strengthening of investment and agricultural cooperation. After the meeting, Beijing lifted restrictions

on mainland Chinese tourists to Taiwan, removed tariffs on more than 10 kinds of Taiwanese fruit, and allowed imports of six more fruit species, in the hope that a timely boost for Taiwan's economy could be delivered by the KMT-CPC platform. Immediately, the first 'Cross-Strait Agricultural Cooperation Exhibition and Taiwan Agricultural Products Trade Show', in collaboration with the Farmers' Association of Taiwan Province, was held in Shanghai in July 2005, and the pilot areas for Taiwan's peasants entrepreneurship began in 2006, in Zhangpu, Fujian and Qixia, Shandong, respectively. There are at least 29 Taiwan peasants' entrepreneurship parks now.⁴⁵

Mainland China also launched a series of people-to-people exchange programs in such fields as education, religions, ethnic communities, business and industry, agriculture and fishery, and art and culture. These programs are sometimes seen as part of the united-front strategy of the CPC to place the hope of reunification on the people of Taiwan.⁴⁶ These people-to-people exchanges, along with economic measures and programs, serve to reinforce the ties between the two sides of the Taiwan Strait and to diminish the confrontational nature of Cross-Strait relations.

Beijing has managed to coax the DPP government and offered unilaterally preferential measures and exchange programs to the people of Taiwan. One of the most significant is the party-to-party exchanges with the KMT. These measures and programs that sometimes produced positive non-political results imposed great pressure on the DPP government, and could be used by Beijing to implement its Taiwan policy and promote propaganda targeted at both Taiwan and the international community.

The aftermath of the slowdown of Cross-Strait relations between 1996 and 2008, saw the conclusion of several economic and trade-related agreements between Taiwan and mainland China. In addition to the ECFA

⁴⁵Jiun-Mei Tien, 'Zhongguo dalu "Taiwan nongmin chuangyeyuan" zhi fazhang xiankuan yu dui Taiwan zhi yingxiang' [The development of mainland China's Taiwan peasants' entrepreneurship parks and their impact on Taiwan], *Taiwan Yinhang Jikan* [Bank of Taiwan Quarterly], 62(4) (December 2011), pp. 113–139.

⁴⁶This principle of 'laying the hope of national reunification to the people of Taiwan' was first raised in January 1979 in the 'Message for the Compatriots in Taiwan' by the Standing Committee of the National People's Congress, and has been re-emphasized by some CPC leaders on Taiwan.

(June 2010), the Cross-Strait Bilateral Investment Protection and Promotion Agreement (August 2012), and the TiSA (June 2013), both sides reached agreements on air transportation (November 2008), sea transportation (November 2008), postal service (November 2008), mainland tourists traveling to Taiwan (June 2008), financial cooperation (April 2009), intellectual property rights protection and cooperation (June 2010), bilateral cooperation in the standardization of technologies in the fields of LED lighting, photovoltaics and flat-screen monitors (June 2011), as well as the avoidance of double taxation and improvement in cooperation on tax operations (August 2015). Cross-Strait memorandums of understanding (MOUs) on cooperation related to the supervision of banking, securities, futures, and insurance were also signed in December 2009.

Although these agreements and MOUs address the economic interests and general welfare of people on both sides of the Taiwan Strait without touching on sovereignty issues,⁴⁷ the ECFA signed in June 2010 still represents both opportunities and challenges for Taiwan, and can be somewhat political in nature. It can surely boost Taiwan's economic growth and Cross-Strait economic interflows. However, certain facts — such as a huge increase in the approved foreign direct investment from mainland China to Taiwan during 2010–2014, and a high trade dependence rate on mainland China and Hong Kong which reached its peak during the second term of Chen's presidency (a little bit over 40%) — show that the ECFA may enlarge Taiwan's economic overdependence on mainland China and increase the hollowing-out of Taiwan's industries. All these could weaken Taiwan's capacity to act. Beijing seeks national reunification and will use attractive economic policies to woo Taiwan. Future Cross-Strait relations will be problematic if the people of Taiwan do not believe that the ECFA would benefit Taiwan's economy in general. Moreover, the deepening of Cross-Strait economic relations may lead the people of Taiwan to deliberate why mainland China is willing to develop economic cooperation with Taiwan but is reluctant to let Taiwan launch bilateral free trade negotiations

⁴⁷'Cross-strait Relations', *The Republic of China Yearbook 2015* (Taipei: R.O.C. Executive Yuan, 2016), available at: <http://www.ey.gov.tw/en/cp.aspx?n=A6407797E00AD99E>.

with others.⁴⁸ In the eyes of the CPC leaders and officials, as PRC foreign minister Wang Yi [王毅] claimed in September 2013, gradual integration between Taiwan and mainland China ‘through two-way interactions and cooperation will lead to ultimate reunification’.⁴⁹

Mainland China appears willing to grant some economic concessions during negotiations with Taiwan under the ECFA, in the hope that all concessions it has made would enhance Cross-Strait ties and pave the way for ultimate peaceful unification. Examples include the application of the ‘first among equals’ policy to Taiwanese businesses in mainland China since the Jiang Zemin [江澤民] period, as well as the ‘yielding profits’ strategy on Taiwan in Cross-Strait economic and trade-related agreements. The political scheme of Beijing behind the scene is very clear. Beijing’s pursuit of national unification is by tempting the people of Taiwan with economic benefits and also with the slogan ‘both sides of one family’. Beijing is also indicating a grave future in Cross-Strait relations (‘an earthquake will be triggered and the hills will topple’) should the 1992 Consensus no longer exist as the political foundation for the two sides.

In June 2014, two months after the Sunflower Movement, Zhang of the TAO visited Taiwan for the second meeting between the heads of Cross-Strait affairs. He also traveled to the southern part of Taiwan to meet various groups of people to allay the concerns of some people in Taiwan who are opposed to further Cross-Strait economic cooperation. He also met with Chen Chu [陳菊], an important DPP member and mayor of Kaohsiung, who has won every Kaohsiung mayor elections since 2006. Furthermore, an unverified report by *Reuters* on 26 November 2014 revealed how the united-front agencies of the CPC viewed economic exchanges between Taiwan and mainland China as a way to fulfill the ‘Chinese dream’ and make reunification a reality. By mitigating investment problems and settling legal disputes

⁴⁸Kwei-Bo Huang, ‘In pursuit of gradual stabilization and peace dividends: cross-Taiwan Strait relations and their influence on the Asia Pacific’, *Maryland Series in Contemporary Asian Studies* 2011(3), pp. 41–43, available at: <http://digitalcommons.law.umaryland.edu/mscas/vol2011/iss3/1>.

⁴⁹Wang Yi, ‘Toward a new model of major country relations between China and the United States’, speech at the Brookings Institution, Washington, DC, 20 September 2013, available at: http://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/2461_663310/t1078768.shtml.

for resident Taiwanese, these agencies can create a more friendly business environment to promote the CPC government's unification policy.⁵⁰

In addition to mainland China's economic united-front strategy, it was often argued that mainland China would like to undertake those measures to court Taiwan's capital because the success of its economic reform and development would reinforce the CPC's legitimacy.⁵¹ By now, this argument has lost some ground largely because mainland China has the capacity to attract a great deal of capital investment from a wide range of countries.

While negotiating with Taiwan over the other pacts, Beijing sometimes raised its tone by reiterating that any delay in the implementation of the TiSA could make it difficult for the two sides to secure a trade-in-goods deal on schedule.⁵² Zhang of the TAO held that it was unrealistic to deal only with economic issues while ignoring political ones.⁵³ Noticeably, mainland China's two-tier policy toward Taiwan — advancing economic ties while pressing more for political contacts and ultimate reunification — has been conducted in a more delicate and concrete way. By being delicate and concrete in dealing with Taiwan, mainland China appears to place the hope of reunification on the people of Taiwan, while strengthening its own comprehensive power in order to undertake unilateral actions that facilitate Cross-Strait exchanges or caution against any possible move of Taiwan.

To better illustrate this point, the following paragraphs will touch upon four issues: mainlanders travelling to Taiwan, mainland Chinese passengers transiting Taiwan, the Cross-Strait trade-in-goods agreement, as well as participation of both sides of the Taiwan Strait in regional economic cooperation and integration.

⁵⁰Yimou Lee and Faith Hung, 'Special report: how China's shadowy agency is working to absorb Taiwan', *Reuters* (26 November 2014), available at: <http://www.reuters.com/article/us-taiwan-china-special-report-idUSKCN0JB01T20141127>.

⁵¹Yu-shan Wu, 'Mainland China's economic policy toward Taiwan', in Bih-jaw Lin and James T. Myers, eds., *Contemporary China in the Post-Cold War Era* (Columbia, South Carolina: University of South Carolina Press, 1996), pp. 393–412.

⁵²'Two Cross-Strait pacts progressing simultaneously: Chinese official', *Focus Taiwan* (27 October 2013), available at: <http://focustaiwan.tw/news/aall/201310270018.aspx>.

⁵³'First Cross-Strait peace forum pools political wisdom', *Xinhua News* (11 October 2013), available at: http://news.xinhuanet.com/english/china/2013-10/11/c_132789521.htm.

There were 4.14 million mainlanders touring in Taiwan in 2015, with a net increase of 196,000 from 2014, accounting for about 40% of visitor arrivals to Taiwan. Meanwhile, foreign visitor arrivals to Taiwan reached 10.43 million. Individual travelers from mainland China accounted for about 30% of the volume of mainland Chinese tourists visiting Taiwan in 2015. These tourists' high spending directly boosted the domestic economy via hotels, restaurants, local tour operators, and souvenir and gift-related businesses. A speculation in Taiwan is that mainland Chinese visitors to Taiwan would drop 30% between 20 March and 30 June 2016 due to emerging political uncertainties in the Taiwan Strait.⁵⁴ If the report is true that Beijing has begun to enforce policies that restrict a certain number of mainland Chinese tourists from travelling in Taiwan, revenue in certain sectors will be affected. Such a preemptive policy appears to be a subtle warning against any substantial changes under the new government of the DPP.⁵⁵

The issue regarding mainland Chinese passengers transiting Taiwan was complicated as Beijing insisted on the optimization of Cross-Strait air routes. Taiwan wanted to separate these two issues, but was willing to discuss the air routes specified in the Cross-Strait Agreement on Air Transportation (November 2008) and the Cross-Strait Supplementary Agreement on Air Transportation (April 2009). During negotiations in 2008, both parties decided to open a two-way direct flight route in the northern lane and in the southern lane across the Taiwan Strait respectively, and set up a direct handover procedure between the air traffic control departments on either side across the Strait. During negotiations in 2009, both parties decided to open another two-way direct air route in the northbound lane and in the southbound lane, separately.

For Taiwan, the opening of mainlanders transiting through Taiwan would profit Taiwan-based airline companies and revive Taiwan's major airport,

⁵⁴Claudia Liu and Y.F. Low, 'Drop in tourist arrivals from China a political issue: President Ma', *Focus Taiwan* (19 April 2016), available at: <http://focustaiwan.tw/news/acs/201604190011.aspx>.

⁵⁵Elizabeth Shim, 'China restricting tourism to Taiwan after elections', *United Press International* (23 February 2016), available at: http://www.upi.com/Top_News/World-News/2016/02/23/China-restricting-tourism-to-Taiwan-after-elections/1471456255035/.

Taoyuan Airport, by an increased number of passengers through Taiwan. At the Ma–Xi meeting in November 2015, when Ma raised this transit issue again, he finally received a small but positive response from the Xi administration in early January 2016; that is, mainland China announced that, as a pilot plan effective on 1 February 2016, mainland Chinese passengers from Chongqing, Nanchang, and Kunming were allowed to make a transit stop. Only hundreds of mainland Chinese tourists stopped over in Taiwan due to the lack of effective publicity and also Beijing's incremental and precautionary way of implementing this pilot plan in late April 2016. Although mainland China seems unwilling to make more compromise, Taiwan plans to ask Beijing to adhere to a fully open policy at an upcoming Cross-Strait air transportation meeting.⁵⁶

The Cross-Strait trade-in-goods agreement was scheduled for negotiations right after negotiations over the TiSA ended in 2013. But the pace of negotiations slowed down due to Taiwan's large-scale social protest against the TiSA in spring 2014 and the ensuing promise of the KMT government that nothing would be signed until the LY in Taipei had passed a draft Cross-Strait agreement oversight act.

Taiwan and mainland China completed 12 rounds of negotiations on this agreement (the 12th round was held in November 2015), but the 13th round stalled when Taiwan endeavored to receive the zero-tariff status for its flat panel, machine tool, automobile, and petrochemical sectors — which have been seen as critical ones by mainland China — and turned down mainland China's request to lift Taiwan's ban on 615 categories of mainland Chinese farm produce, including those Taiwan does not grow, or grows little, and those Taiwan has allowed foreign imports under the framework of the World Trade Organization (WTO). A bilateral preparatory meeting was held in January 2016, but some of the issues still remain unresolved, according to Taipei.⁵⁷

⁵⁶Pei-fen Zhang, 'Lüke zhongzhuān, Huahāng dānyue lānkeliāng jīn 200 míng' [Mainland Chinese passengers transiting, China Airlines touts for close to 200 a single month], *China Times* (26 April 2016), available at: <http://www.chinatimes.com/newspapers/20160426000155-260204>.

⁵⁷'Goods trade agreement talks not concluded: economics minister', *Radio Taiwan International* (7 March 2016), available at: <http://english.rti.org.tw/m/news/?recordId=43430>.

In mid-March 2016, president of the ARATS Chen Deming [陳德銘] said that both sides could ‘take a nap’ since the oversight act bill has not been passed by Taiwan’s LY. He also maintained that, because both sides of the Strait have recognized the ‘One China’ principle — not under a ‘state-to-state’ framework — mainland China would see people of Taiwan as ‘one of us’ and continue to show goodwill to Taiwan at various Cross-Strait meetings.⁵⁸

Taiwan’s and mainland China’s participation in regional economic cooperation and integration is politically sensitive for the two sides. Taiwan has always felt highly restrained in this matter, regardless of the ruling parties. During Chen’s presidency between May 2000 and May 2008, Taiwan succeeded in joining the WTO in January 2002, under the title of Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu (TPKM). This achievement was based mainly on the previous effort of the Lee administration that submitted the accession package in mid-1999. Progress was also made in the Organization for Economic Cooperation and Development (OECD). In December 2001, Taiwan as an official observer was permitted to participate in the Competition Law and Policy Committee of the OECD, under the title of ‘Chinese Taipei’. Then, Taiwan was able to participate in two more OECD committees, the Steel Committee (as an official observer) and the Fisheries Committee (as a project observer) in October 2005 and May 2006, respectively.

Under the Asia-Pacific Economic Cooperation (APEC) framework, Taiwan is not allowed to hold any APEC ministerial meetings or summits. Taiwan could simply send to the APEC Leaders’ Summits the president of the LY, incumbent or former officials of the ministerial level, or business leaders. Within the DPP government, former Vice President Li Yuan-zu [李元簇] and former vice premier Tsai Ing-wen were some potential candidates who acted as special envoys of Chen Shui-bian. Beijing rejected these candidates but did not identify the reason(s) clearly, probably due to sour Cross-Strait relations and the pro-independence attitude of the DPP government.

⁵⁸Li-Chuan Wang and Cheng-Chung Lin, ‘Chen Deming: Lu yizhidui Tai shishanyi jing-deng Cainushi huiying’ [Chen Deming: Mainland keeps showing goodwill to Taiwan and waits for Madam Tsai’s response], *United Daily News* (24 March 2016), available at: http://url-site.com/chendeming_on_tsai.

An official and founding member of the Asian Development Bank (ADB), Taiwan has been forced to change its official title since 1986 from the Republic of China to 'Taipei, China'. The KMT and the DPP governments have protested in vain at each annual meeting.

During Ma's era, from May 2008 to May 2016, even though Taiwan, again under the title of Chinese Taipei, has been able to participate in UN specialized agencies such as the World Health Assembly (WHA, an organ of the World Health Organization) as an observer since May 2009 and in the Assembly of the International Civil Aviation Organization (ICAO) as a guest of the President of the ICAO Council since September 2013, and even though Taiwan secured economic cooperation deals with New Zealand and Singapore respectively in 2013, it is obvious that mainland China has remained ambiguous about Taiwan's economic cooperation agreements with its major trade partners in the Asia-Pacific. Taiwan encountered an insurmountable obstacle and failed to join most emerging bilateral and multilateral economic cooperation and integration in a meaningful way. This insurmountable obstacle comes mainly from the general political and strategic thinking in mainland China that Taiwan's meaningful participation in major international organizations is an internal affair of China, and that such participation may be exploited by major political parties of Taiwan and result in 'two Chinas' (when the KMT is in power) or 'One China, One Taiwan' (when the DPP gains power). Beijing, knowing Taipei's longing for greater international space and Taiwan's fear of being marginalized in regional economic cooperation, would be willing to confront this tough issue as long as its 'One China' principle can remain intact and Taipei gives a heads-up to Beijing before it bids for meaningful participation in international activities. So far, mainland China has been exerting its influence to discourage Taiwan's major trade partners from concluding an economic cooperation agreement with Taiwan.⁵⁹

At the closed-door meeting between Ma and Xi in November 2015, Taiwan expressed its strong interest in applying for Trans-Pacific Partnership

⁵⁹Li Jing, 'Beijing meddling in Taiwan bids to forge trade pacts, minister claims', *The South China Morning Post* (6 October 2014), available at: <http://www.scmp.com/news/china/article/1610237/beijing-meddling-taiwan-bids-forge-trade-pacts-minister-claims>.

(TPP) membership and its wish to participate in the Regional Comprehensive Economic Partnership (RCEP).⁶⁰ Moreover, Taiwan emphasized that both parties should participate in regional economic cooperation in a way that strengthens Cross-Strait economic and trade ties.⁶¹ Without news of Xi's reply at this meeting, one can simply speculate that mainland China would insist that Chinese people on both sides of the Taiwan Strait deepen the mutually beneficial exchange and cooperation by upholding the 'One China' principle as the political foundation. The meetings (between the heads of Cross-Strait affairs in Taiwan and mainland China) which began in February 2014 continued on a regular basis, with a few dialogues on Taiwan's participation in regional economic cooperation and integration. It seems that Taiwan has the urgency to discuss this issue, particularly when the TPP has concluded its negotiations in early 2016. At the fourth meeting in October 2015, the most recent statement that was mutually agreeable to both sides of the Taiwan Strait is that Cross-Strait economic and trade cooperation and participation in regional economic integration should be complementary and promoted continuously.⁶²

To date, how to use the ECFA as a bridge for Taiwan's participation in the RCEP is still indefinite because mainland China's official stance is not indicated. Despite Taiwan's high level of interest, there has been no concrete deed on the mainland Chinese side to foster both parties' participation in the RCEP.

In addition to the RCEP, the China factor also accounts for Taiwan's strong interest in membership of the TPP. Neither Taiwan nor mainland China has joined TPP negotiations before the initial agreement was reached

⁶⁰The TPP with 12 members is now led by the United States, but the United States has not participated in the RCEP.

⁶¹'Full text of ROC President Ma Ying-jeou's remarks in meeting with mainland Chinese leader Xi Jinping', *Mainland Affairs Council of the Executive Yuan New Release* (9 November 2015), available at: http://www.mac.gov.tw/ct.asp?xItem=113323&ctNode=6337&mp=3&xq_xCat=2015.

⁶²'The fourth meeting between heads of Cross-Strait competent authorities held in Guangzhou; both sides adhere to consolidating "institutionalized Cross-Strait negotiations" and "official interaction" mechanisms based on the "1992 Consensus" to advance towards truly stable Cross-Strait relations', *Mainland Affairs Council of the Executive Yuan New Release* no. 54 (14 October 2015), available at: http://www.mac.gov.tw/ct.asp?xItem=113156&ctNode=6337&mp=3&xq_xCat=2015.

among the current 12 parties in February 2016. Regardless of mainland China's intent regarding TPP membership in the future, it will not wish to see Taiwan join the TPP while it has not participated. It is very possible that Taiwan's hope to participate in the TPP will hinge partially on the political attitude of mainland China. Despite the fact that Kin Moy, the United States deputy assistant Secretary of State, clearly stated in March 2014 that the United States welcomed Taiwan's interest in the TPP,⁶³ and that Daniel R. Russel, the United States assistant Secretary of State, affirmed in April 2014 that the United States supported Taiwan 'to participate in the international community in a manner befitting a large economy and modern society with a great deal to contribute',⁶⁴ the 'China factor' obviously remains if mainland China refers to the 'One China' principle that excludes Taiwan from an equal status with mainland China and tries to sway some of the original TPP members that have good relations with it.

Recently, Taiwan's bid for the Beijing-led Asian Infrastructure Investment Bank (AIIB) has manifested that Cross-Strait financial cooperation has been built on sand. Not only did Beijing, along with its allies in the AIIB, reject Taiwan's bid submitted in late March 2015 to become a founding member, it also changed its tone about this issue. Mainland China welcomed Taiwan to participate in the AIIB under an appropriate name at the onset of Taiwan's bid.⁶⁵ The Ma administration was willing to join the AIIB in the capacity of an ADB member, as promulgated in the Article 3, Paragraph 2 of the AIIB's 'Articles of Agreement'. After the landslide loss of the KMT in the presidential and legislative elections in January 2016, nevertheless, mainland China has toughened its position and declared in April 2016 that Taiwan is 'not sovereign or not responsible for the conduct of its

⁶³Kin Moy, 'The promise of the Taiwan Relations Act', testimony before the US House Foreign Affairs Committee, Washington, DC, 14 March 2014, available at: <http://www.state.gov/p/eap/rls/rm/2014/03/223461.htm>.

⁶⁴Daniel R. Russel, 'Evaluating US policy on Taiwan on the 35th anniversary of the Taiwan Relations Act', testimony before the Subcommittee on East Asian and Pacific Affairs of the US Senate Committee on Foreign Relations, Washington, DC, 3 April 2014, available at: <http://www.state.gov/p/eap/rls/rm/2014/04/224350.htm>.

⁶⁵Austin Ramzy, 'Taiwan's bid to join China-led development bank hits early snags', *The New York Times* (1 April 2015), available at: <http://sinosphere.blogs.nytimes.com/2015/04/01/taiwans-bid-to-join-china-led-development-bank-hits-early-snags/>.

international relations' and is supposed to follow the case of Hong Kong whose request was sent to the Ministry of Finance in Beijing. As always, mainland China wants to cause no problems with the appearance of 'Two Chinas' or 'One China, One Taiwan' in this case.⁶⁶ Besides, mainland China does not want to make Taiwan's accession to the AIIB as a gift to Tsai and her DPP government.

Conclusion

The nature of Cross-Strait economic interactions is both economic and political. The strategic thinking of mainland China has always centered on 'One China', regardless of various interpretations provided by concerned parties. The goals of mainland China include the maintenance of legitimacy and ruling basis, the prevention of the United States' hegemonic dominance and the revival of Japanese militarism, as well as the ultimate reunification of China. The more feasible policy options range from a threat of the use of force to a profit-yielding approach that could garner more support of the people in Taiwan. Between both lies political rhetoric pressure either on Taiwan's economic interactions with mainland China or on Taiwan's very limited international space.

Through ups and downs in Cross-Strait relations, both sides have exercised obvious self-restraint to minimize the outbreak of armed conflicts in the Taiwan Strait. In addition, for mainland China, since the late 1970s, it has tried to use various economic means, such as the ECFA, to draw Taiwan to its side. The pursuit of national reunification has appeared to receive overwhelming consideration. Economically, Taiwan has become much more dependent on mainland China than it had been in the past. Politically, Taiwan has not moved closer to mainland China. Some non-political Cross-Strait differences may be resolved gradually and peacefully, but problems will

⁶⁶Beijing wants to refer to Article 3, Paragraph 3 of the AIIB's 'Articles of Agreement' to define Taiwan as a non-sovereign applicant. For details, see Yuan-ming Chiao, 'AIIB membership not a "domestic issue": MAC', *The China Post* (23 October 2015), available at: <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2015/10/23/449047/AIIB-membership.htm>, and Yuan-ming Chiao, 'Taiwan AIIB member bid must go through PRC ministry: China', *The China Post* (10 April 2016), available at: <http://www.chinapost.com.tw/taiwan/national/national-news/2016/04/10/463044/Taiwan-AIIB.htm>.

arise once the notion of 'One China' or 'One China, respective interpretations' as the foundation for bilateral communication is specified further. The current state of ambiguity has helped both sides of the Strait to achieve something and avoid many unsurmountable political barriers.

Mainland China's ulterior motives in its two-tier policy toward Taiwan to achieve national reunification through soft approaches are becoming more evident. Taiwan understands why mainland China willingly applies political ambiguity in Cross-Strait contacts while working eagerly on economic means to keep Taiwan within its reach. Taiwan's internal constraints: rising domestic opposition against closer economic ties with mainland China and growing Taiwanese frustration stemming from failure to expand international space have prevented mainland China from realizing national unification at a pace it has preferred. In the near future, whether mainland China can be patient enough to maneuver well in a complicated relationship with Taiwan, both economically-politically and internally-externally driven, remains to be seen.