

Butter versus Guns: Economic Interdependence and the Cross-Strait Relations

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Abstract:

How trade affects the political relations between two rivals has been an intriguing question in IR scholarship. Realists suggest that concerns about relative gains as well as security externalities would hinder trade between two adversaries, as indicative in the India-Pakistan case and between South and North Korea. Liberals, on the other hand, predict that burgeoning trading relationship contribute to the stability between two politically antagonist states, as the Franco-Germany case in the 1950s demonstrated. However, the realist camp cannot explain the growing trade volume between Taiwan and Mainland China since the 1990s, while liberalism cannot explain why significant commerce could not reduce the hostilities between the two political rivals especially in the years of 2000 to 2008.

A latest effort employs the signaling and communication theory in explaining the cross-Strait relations, suggesting that various players in Taiwan, such as politicians, officials, and business groups, would signal their preferences and willingness for further cooperation across the Taiwan Strait. This group of scholars contends that by signaling costly commitments, trade becomes irreversible and so does the stability between both sides of the Taiwan Strait.

In line with this reasoning, this paper examines how economic interdependence helps to stabilize the cross-Strait relations after President Ma Ying-jeou took office in 2008. The signing of the Economic Cooperation Framework Agreement (ECFA) between Taiwan and Mainland China indicates the preferences of the multiple players in maintaining the stability across the Taiwan Strait. In addition, the subsequent establishment of the Cross-strait Economic Cooperation Committee would further institutionalize the interactions between the two rivals in the future. This paper concludes that institutionalization would help to reduce security externalities and uncertainties in the cross-Strait relations.

I. Introduction

The relations between mainland China and Taiwan since the 1980s have posed theoretical as well as practical challenges to the world. On the one hand, economic and societal exchanges between the two sides seem to be significant in terms of scope and pace, making war or military conflict less likely than the peak of the Cold War years. On the other hand, political mistrust still exists between two governments, making the obsolescence of war a difficult task, if not mission impossible, to the top leadership especially in Taiwan.

Ever since the announcement of “a special state to state relationship” between China and Taiwan in July 1999 by Teng-hui Lee(李登輝), the cross-strait relationship was frozen to a point that only sporadic semi-official contacts between Strait Exchange Foundation (海基會 SEF) and Association for Relations Across the Taiwan Straits (海協會 ARATS) . Later on during Chen Shui-bian(陳水扁) Administration, there were several crises emerged and the United States was forced to intervene to prevent the escalation of political conflicts into military confrontation, even moving toward war.¹ As Su Chi once commented, it was “a tail wags two dogs.”² In other words, Taiwan Strait is one of the most dangerous flashing points in the world.

However, a new hope for a stable and peaceful environment over the Taiwan Strait appeared in March 2008, when KMT presidential candidate Ma Ying-jeou (馬英九) won the election. In his inauguration speech, Ma stressed that based on the “1992 Consensus,” Taiwan is ready to resume negotiation with China and to normalize cross-strait economic and cultural relations. The signing of the Economic Cooperation Framework Agreement (ECFA) between mainland China and Taiwan in 2010 indicated a great opportunity for both sides to cooperate and prosper. Some scholars and practitioners would like to describe this new era as an era of détente. “Butter” now has the chance to prevail over “guns” under the Ma Ying-jeou era.

How did the cross-Strait relations reach this meaningful point? How long will this trend sustain? These are the two basic questions this paper aims to cope with. Economic interdependence, we argue, plays an indispensable, if not critical, role in the process of this gradual normalization of the cross-Strait relations. We will first explore

¹ Gabe T. Wang, *China and the Taiwan Issue*, (New York: University Press of America): pp. 5-6.

² Su Chi, *Taiwan's Relations with Mainland China: A Tail Wagging Two Dogs* (New York: Routledge, 2009).

the existing literature in the international relations (IR) scholarship to tackle the theoretical background of the cross-Strait relations under Ma Ying-jeou. In addition, the practice of the 1975 Helsinki Final Act that led to the reconciliation in Europe also shed light on the current cross-Strait relations, with which institutionalization in societal exchanges and negotiations of low-politics issues between formerly antagonist countries contributed to the realization of peace. With practical thinking, this paper will identify the conditions under which this trend of cooperation would continue.

II. War, Peace, and Economic Interdependence

The study of war and peace has been central to the International Relations (IR) scholarship. For the leadership in a given country, if it is believed that war is a constant in international affairs, then preparation for war with the investment in defense seems to be the optimal policy choice. If peace is considered more likely to exist, then more trade and other economic activities are expected to follow.

One school of thought in IR — realism, has tended to deem war as the constant in world politics, and balance-of-power as a means that can help maintain peace. How to acquire and resort to “guns” rather than “butter” becomes crucial to understand and explain a world from a realist perspective. In other words, trade would give way to political antagonism between rivalries.

Another school of thought in IR scholarship suggests that economic interdependence help to sustain peace in the post-Cold War era.³ Economic interdependence, as Richard Rosecrance maintains, could help to foster peace among “trading states,” that usually see trading more profitable than invading.⁴ And, the increase of communication resulted from trade would consequently nurture mutual trust in their dyadic relations. Thus, “butter” seems to be the main theme in world

³ E.g. Michael Doyle, “Liberalism and World Politics,” *American Political Science Review* 80:4 (December 1986), pp.1151-1169; Bruce Russett and John Oneal, “The Classic Liberals Were Right: Democracy, Interdependence, and Conflict, 1950-1985,” *International Studies Quarterly* 41:2 (June 1997), pp. 267-294.

⁴ Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (NY: Basic Books, 1986); and “A New Concert of Power,” *Foreign Affairs* 71:2 (Spring 1992), pp. 64-82. I should point out that Rosecrance’s argument is actually originated from the Cobden-Angell thesis that firstly popularized in the 1850s and then prior to the WWI. Also see Michael Doyle, *Ways of War and Peace: Realism, Liberalism, and Socialism* (NY: WW Norton & Company, 1997), ch. 8. For more refined views on whether trade could promote peace, see Edward Mansfield and Brian Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: U of Michigan, 2003), pp. 207-221.

politics and the leadership of any given country should cooperate for mutual benefits.

Scholars side with Rosecrance seem more sanguine to argue that the growing trade volume has played a crucial role in preventing direct conflict in the dyadic relations between the two antagonist countries and the high volume of trade has helped to forge a strong interest in peace.⁵ In addition, some have noted that, with burgeoning regional arrangements in Asia, the US and China have in place the mechanisms necessary to communicate with each other, which in turn could at least reduce mistrust and even nurture mutual trust.⁶

Though this sort of statement seems logically sound, many critics are suspicious of assertions of a causal relationship between trade and peace. While liberals argue that trade could lead to peace, the evidence also suggests that, in the face of deep trade relations with other European countries, Germany still engaged in WWI and WWII. In addition, by considering a snapshot of the level of trade relations at a single point in time, the causal arrow could be reversed so as to suggest that it is peace that leads to trade.

The cross-Strait relations between mainland China and Taiwan provide a case in point to test the validity of the realist and liberal arguments about war, peace, and economic interdependence. For one, if realism is correct in that political and security concerns prevail over economic considerations, then political antagonism would precede economic interdependence and there shouldn't have been any economic interactions between mainland China and Taiwan. If liberals are right about the positive effect that trade leads to peace, then both sides of the Taiwan Strait should have been closer with less degree of political antagonism.

Therefore, the relationship between war, peace, and economic interdependence deserves further exploration in considering overall cross-Strait relations in recent years. The trade leads to peace argument contributes to our understanding of the current Chinese policy, because it allows for the possibility that states cooperate for profits. Indeed, Chinese leaders have continued to underline the salience of economic development in the country's political agenda. However, if deeper trade relations unconditionally lead to peace, then China's Taiwan policy should have

⁵ For how trade affects the international relations in Asia, see James Richardson, "Asia-Pacific: The Case for Geopolitical Optimism," National Interest, no. 38 (Winter 1994/95), pp. 28-39.

⁶ Alastair Iain Johnston and Paul Evans, "China's Engagement with Multilateral Security Institutions," in Alastair Iain Johnston and Robert S. Ross, eds., Engaging China: The Management of an Emerging Power (NY: Routledge, 1999), pp. 235-272.

followed smoothly, without setbacks, once it established trade relations with Taiwan.

This research accepts the liberal assumption that economic interdependence can serve to change state preferences and to raise costs of conflict, thus potentially altering state behavior. However, while the liberal view adopts a snapshot analysis that focuses on a single point of time in which trade coexists with peace between two players, we argue that institutionalization of the exchanges in other issue-areas could help to serve as a stabilizer to the current cross-Straits relations.

III. Barometers of the Cross-Straits Relations: Four Baskets in a New Fashion

It is held that the Helsinki Final Act of the 1975 Conference on Security & Cooperation in Europe “codified the East-West détente in the Cold War.”⁷ For decades, the four “baskets” of the Helsinki agreement are closely observed and facilitated the improvement of security in Europe and the Conference was successfully transformed into Organization for Security & Cooperation in Europe. Therefore, it is plausible to use the same four “baskets” of “barometers” to measure the progress of détente between China and Taiwan.

The first basket, “Security in Europe,” included ten principles covering political and military issues, territorial integrity, the definition of borders, peaceful settlement of disputes and the implementation of confidence building measures (CBMs) between opposing militaries. For cross-Straits relations, one indicator focuses on political and military security aspect, such as the exchange of visits by high-level officials, the signing of peace agreement and the creation of CBMs.

The second basket dealt with economic issues and cooperation, such as science, technology, the environment, tourism, and trade. In the case of cross-Straits relations, it is very important to observe the improvement on economic and trade exchanges.

The third basket emphasized humanitarianism and human rights, including freedom of emigration and reunification of families divided by international borders, cultural exchanges and freedom of the press. For cross-Straits relations, we will focus on the movement of people and cultural exchanges.

⁷ Joshua S. Goldstein, International Relations, Fifth Edition. (New York: Longman, 2003): p. 91.

The fourth basket of Helsinki Final Act set up the framework for follow-up meetings reviewing the implementation and proposing feasible suggestions. In the context of cross-strait relations, we are going to examine the follow-up meetings between China and Taiwan, especially dialogues between SEF and ARATS.

In the following discussion, economic and trade exchanges as well as humanitarianism aspects will be presented first, because leaders of both sides of the Taiwan Strait agreed that the discussion of economics and low-politics would precede that of politics.

IV. Economic Ties and other Low-Politics Issues

The signing of Economic Cooperation Framework Agreement between China and Taiwan in June 2010 represents the milestone of cross-strait relations and the climax of economic cooperation. For Taiwan, the basic strategy is to push for the normalization of economic relations with China, to avoid the marginalization in the international market, and to enhance the internationalization of Taiwan's economy.⁸ Emulating China-ASEAN model of free trade agreement, ECFA contains early harvest program for the purpose of injection more momentum into Taiwan's economy and to strengthen its competition in China's market.

There are several reasons to choose signing ECFA with China first. In the first place, China is already Taiwan's largest exports market and this upward trend continues. Since Mainland China adopted the policies of "reform and open-door" in late 1978, cross-strait economic relations have been improved greatly (see Table 1). From 1979 to 1987, Taiwan's export to mainland China has been increased from 21.47 million U.S. dollar to 1226.5 million U.S. dollar; its degree of dependence (i.e. the ratio of Taiwan-China transaction value to Taiwan-all states transaction value) from 0.13 in 1979 to 2.28 in 1987. Total trade between Taiwan and China increased from 77.76 million U.S. dollar in 1979 to 1515.4 million in 1987; its degree of dependence from 0.25 to 1.71.

In July 1987, China promulgated "Regulations for Encouraging Investment by

⁸ Mainland Affairs Council, "Policy Briefing on Economic Cooperation Framework Agreement," April 7, 2009.

Taiwan Compatriots,” which let Taiwanese businessmen enjoy equal treatments as foreign businessmen. Moreover, Taiwanese investors enjoyed more incentives on investment targets, location, capital transfer, tax holiday, and operation period.⁹ This Regulation is very attractive to Taiwanese businessmen. Consequently, cross-Straits trade was bolstered in a higher speed. In 1988, Taiwan's export to mainland increased to 2242.2 million U.S. dollars; its degree of dependence was 3.7. Total trade between Taiwan and China increased 2720.9 million; its degree of dependence was 2.47 (see Figures 1 and 2).

If we examine the Taiwan's export data from 1979 to 2010 (Figure 2), several findings could be identified. First, it took sixteen years that the degree of Taiwan's export dependence on China's market reached 10%. Secondly, it took nine years reached 20%. Thirdly, it only took six years reached 30%. Drawn from these findings, we could infer that Taiwan's export dependence upon China's market has been increasing in a very high speed. After all, Taiwan's foreign trade dependence on China has been enhanced to a very high level.

Furthermore, without ECFA, Taiwan might be marginalized not only in the global market, but also in East Asian market. As a world factory and world market, Taiwan cannot give up China. For Taiwan, it is urgent to sign ECFA, because most East Asian countries have already signed or been negotiating free trade agreements with each other. Taiwan does not have any FTA with East Asian neighboring nations. China-ASEAN free trade agreement went to be effective in January 2010 and constituted threats to Taiwan's competition in China, especially in petrochemical industry.¹⁰ In the meantime, China is negotiating FTA with South Korea and Japan. According to the assessment of Korea Institute for International Economic Policy, its petrochemical industry, steel industry, and transportation equipment industry will be suffered by the signing of ECFA and petrochemical industry will be hit harder.¹¹

It is widely believed that China made substantial concession in ECFA. However, it did obtain some from Taiwan. China will reduce tariffs on 539 categories of products from Taiwan valued at \$13.8 billion, or 16 per cent of its exports to China in 2009. For Taiwan, it pledges to offer tariff concessions for 267 categories of products from

⁹ Raymond J. M. Chang & Pei-chen Chang, “Taiwan's Emerging Economic Relations with PRC.” Paper presented at Conference on “Beyond the Economic Miracle,” Medford, Massachusetts, USA, December 8-10, 1989.

¹⁰ Chen Xiu-lan, “Wang Wen-yuan: Taiwan Speeds up signing CECA with Mainland China,” Economic Daily News, February 22, 2009.

¹¹ “The Signing of ECFA Hits Harder to South Korea's Petrochemical Industry,” United Daily News, July 22, 2010.

China worth NT\$2.86 billion, or about 10.5 per cent of its 2009 exports to Taiwan.¹² Altogether, it is estimated that Taiwan will have a “net advantage of paying NT\$26.1 billion less in customs duty to China.”¹³ In addition, China will open up eleven service sectors (such as banking, insurance, hospitals, and accounting) to Taiwan; Taiwan agrees to let Chinese business access to seven services, including banking and movie.¹⁴

According to the stipulation of ECFA, mainland China and Taiwan is going to conduct negotiations about agreements on merchandise trade, service trade, and investment guarantee cooperation.

Table 1. Cross-Strait Trade Statistics, 1979 ~ 2010

Unit of Value: US\$ Million

Year	Exports from Taiwan to China		Imports from China to Taiwan		Total Trade	
	Amount	Degree Of Dependence	Amount	Degree Of Dependence	Amount	Degree Of Dependence
1979	21.47	0.13	56.29	0.38	77.76	0.25
1980	234.97	1.19	76.21	0.39	311.18	0.79
1981	384.15	1.70	75.18	0.35	459.33	1.05
1982	194.5	0.88	84.0	0.44	278.5	0.68
1983	210.4	0.80	89.9	0.44	291.3	0.64
1984	425.5	1.40	127.8	0.58	553.3	1.06
1985	986.8	3.21	115.9	0.58	1,102.7	2.17
1986	811.3	2.04	144.2	0.60	955.5	1.49
1987	1,226.5	2.28	288.9	0.83	1,515.4	1.71
1988	2,242.2	3.70	478.7	0.96	2,720.9	2.47
1989	3,331.9	5.03	586.9	1.12	3,918.8	3.31
1990	4,394.6	6.54	765.4	1.40	5,160.0	4.23
1991	7,493.5	9.79	1,125.9	0.46	8,619.4	5.57
1992	10,547.6	12.84	747.1	1.03	11,294.7	7.31
1993	13,933.1	16.28	1,015.5	1.31	15,008.6	9.19

¹² Frederik Balfour, “China Trade Pact Draws Taiwan into Economic Embrace,” Bloomberg News, June 28, 2010.

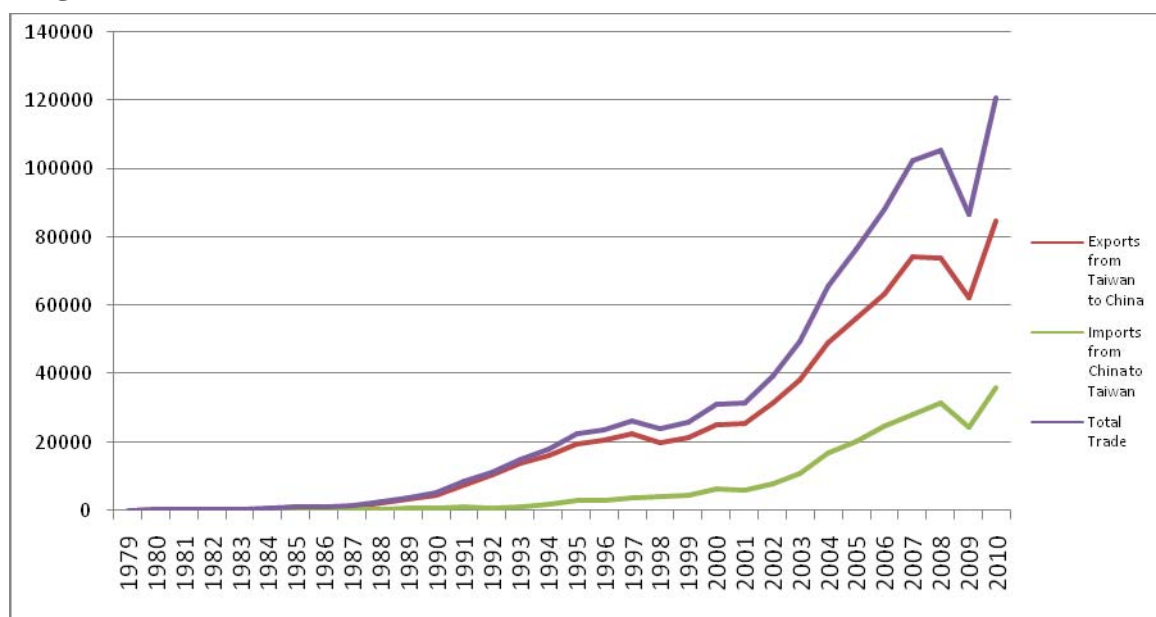
¹³ “ECFA signed,” China Post, June 30, 2010.

¹⁴ Frederik Balfour, op cit.

1994	16,022.5	16.99	1,858.7	2.17	17,881.2	9.93
1995	19,433.8	17.15	3,091.3	2.97	22,525.1	10.36
1996	20,727.3	17.63	3,059.9	2.97	23,787.2	10.79
1997	22,455.2	18.08	3,915.3	3.41	26,307.5	11.03
1998	19,840.9	17.62	4,113.9	3.91	23,954.8	11.00
1999	21,312.5	17.22	4,528.9	4.07	25,841.4	11.00
2000	25,009.9	16.46	6,229.3	4.43	31,239.2	10.67
2001	25,607.4	20.27	5,903.0	5.47	31,510.4	13.45
2002	31,528.8	23.30	7,968.6	7.04	39,497.4	15.89
2003	38,292.7	25.43	11,017.9	8.61	49,310.6	17.70
2004	48,930.4	26.83	16,792.3	9.95	65,722.7	18.72
2005	56,271.5	28.36	20,093.7	11.00	76,365.2	20.04
2006	63,332.4	28.27	24,783.1	12.23	88,115.5	20.65
2007	74,245.9	30.11	28,015.0	12.77	102,260.9	21.95
2008	73,977.8	28.94	31,391.3	13.05	105,369.1	21.23
2009	62,090.9	30.48	24,503.7	14.03	86,594.6	22.89
2010	84,832.2	30.89	35,952.2	14.30	120,784.5	22.96

Source: Author compiled from Mainland Affairs Council, Cross-Strait Economic Statistic Monthly (various years).

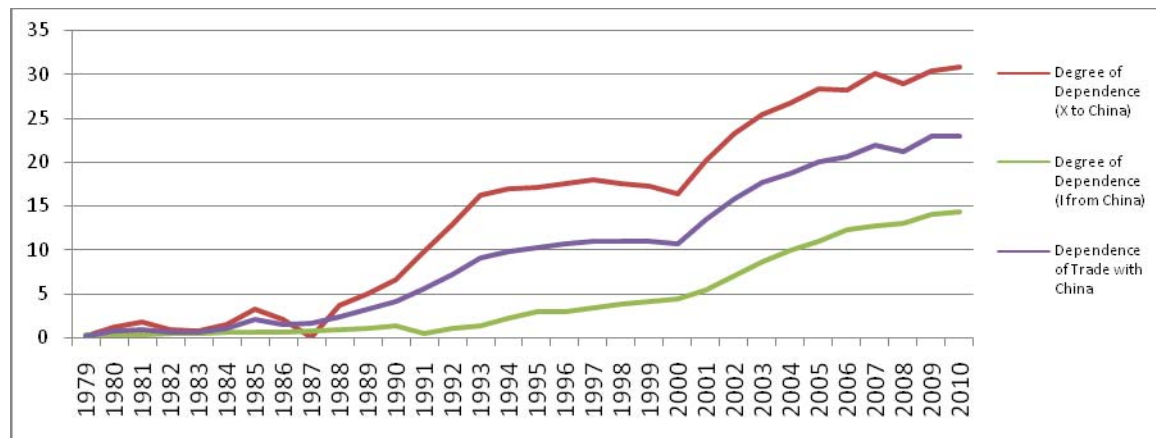
Figure 1. Cross-Strait Trade Relations, 1979-2010 (Unit of Value: US\$ million)



Source: Drawn from the data in Table 1.

Figure 2. Degree of Dependence in Cross-Strait Trade Relations, 1979-2010

(Unit: %)



Source: Drawn from the data in Table 1.

In addition to ECFA, other issue-areas also helped shaping the cross-Strait relations. For humanitarianism reason, late President Chiang Ching-kuo decided to lift its 38-year-old ban on travel to Mainland China in October 1987 and to allow reunions of families separated since the Chinese civil war. The government announced the next day that residents can start applying to visit long-lost relatives in Mainland China.

From 2002, Taiwanese government allows two kinds of China's citizens to make tourist visits in Taiwan. The first kind of Chinese people are those who obtain permanent resident status or legal permission living in a third country and the second ones are those who make tourist and/or business visits in a third country.

For the Chinese government, it didn't allow its citizens make a tourist visits to Taiwan until 2005 when Lien Chan made a milestone visit to China. The aviation right bargaining model has spilled over to other functional issue areas, such as tourism. The Association of Travel Exchange for both Sides of the Straits (海峽兩岸旅遊交流協會 ATESS) was established and entrusted by the Chinese government to handle negotiations on cross-strait tourist exchange program in 2005 with Shao Qiwei (邵琪偉), the Director of China National Tourism Administration, as its chairman. (Lee & Wang, *China Times*, 26 August 2006) In 2006, Taiwan Strait Tourism Association (台灣海峽兩岸觀光旅遊協會) the counterpart to the China's ATESS, was established and its chairman is Hsu Wen-sheng (許文聖), Director of Taiwan's Tourism Bureau.¹⁵

¹⁵ Nan-Yen Lee & Ming-Yi Wang, "Talks on Cross-strait Tourism and New Counterpart Association

Both sides agree to proceed to the talks about cross-strait tourist exchange program via these two associations.¹⁶ Under these new measures, the numbers Chinese tourists visiting Taiwan increased slightly from 2,151 in 2002 to 19,212 in 2004 (see Table 2).

With the improvement of cross-strait relations and the consideration of humanitarianism, China agreed to let Chinese tourist groups to choose Taiwan as their destination of sightseeing. With the result of Lien Chan's visit in China in May of 2005, the numbers of Chinese tourists increased more to 54,162 and 98,545 in 2005, 2006 respectively (see Table 3).

Since Ma Ying-jeou took office, several agreements really facilitated the increase of Chinese tourists: Cross-Strait Agreement concerning Mainland Tourists Traveling to Taiwan; Cross-Strait Air Transport Agreement; and Cross-Strait Sea Transport Agreement. Without rapprochement between China and Taiwan and the consent expressed by Hu Jintao in Boao conference, it is impossible to sign the three agreements in such a short period of time. In 2009, almost 0.6 million Chinese tourist having sightseeing in Taiwan.

Table 2. Statistics on Chinese Tourists Visiting Taiwan, 2002 ~ 2009

Year	Number of Groups	Number of Tourists
2002	160	2,151
2003	911	12,768
2004	1,347	19,212
2005	4,060	54,162
2006	7,342	98,545
2007	7,219	81,904

in Taiwan," *China Times*, August 26, 2006, p. A2.

¹⁶ Tze-hung Lin & Cheng-chu Lin, Chinese Tourist to Taiwan: the Application of Macau Model," *Economic Daily News*, April 16, 2006, p. A6.

2008	8,185	89,256
2009	29,970	599,430
Total (2002~2009)	59,194	957,428

Sources: Statistics on Chinese Tourists, National Immigration Agency, Ministry of Interior Affairs.

Note: Taiwan only issues group permits to Chinese tourists.

Province-level visiting group led by leaders of the province is another type of cross-Straits contacts, which have the function to elevate the people-to-people exchange. Usually speaking, province-level leaders of the groups are party secretary, deputy party secretary, governor, deputy governors in the province (see Table 3). It is surprised that the group often consists of a thousand or so participants. It is held that China had arranged one province-level visiting group per month and their objectives is to expand economic and trade relations and to enlarge tourism.¹⁷ It is true that from last November there is one province-level visiting group came to Taiwan each month, except for March 2010.

The activities of this kind of groups are the promotion of understanding of their provinces (such as politics, economics, history, culture, and religion); marketing of their major products; procurement of Taiwanese goods. In other words, their activities focus on the better feeling and attitude toward China in general, their respective province in particular. More important, some groups made substantial procurement of Taiwanese goods worth millions of US dollar, such as Guangxi, Jiangsu, and Hubei.

Table 3. Official Visits Made by China's Province-Level Leaders, May 2009—July 2011

Date	Province	Title & Name of the Leaders	Major Activities
May 21, 2009	Guangxi	Autonomous Region Chairman Ma Biao Ma Biao (馬飆)	Procurement of goods with an estimated value of US \$280 million
November 1,	Sichuan	Deputy Secretary of CPC Sichuan	"Taiwan-Sichuan Economic,

¹⁷ Huang Jen-qian, "One Province One Month, the Wave of Official Visits Led by Chinese Provincial Leaders," *Economic Daily News*, May 18, 2010.

2009		Provincial Committee Li Chongxi (李崇禧)	Trade, & Travel Cooperation Exchanges Meeting”
November 9, 2009	Jiangsu	Secretary of CPC Jiangsu Provincial Committee Liang Baohua(梁保華)	1. Procurement of goods with an estimated value of US \$ 4.1 billion 2. “Taiwan-Jiangsu Week” activities 3. “Taiwan-Jiangsu Economic & Trade Cooperative Forum”
December 14, 2009	Henan	Chairman of the Standing Committee of Henan Provincial People’s Congress Xu Guangchun (徐光春)	
January 28, 2010	Yunnan	Deputy Governor Gu Zhaoxi (顧朝曦)	
February 5, 2010	Shanghai	Standing Committee Member of CPC Yang Xiaodu(楊曉渡)	
February 24, 2010	Shaanxi	Deputy Governor Jing Junhai (景俊海)	
April 6, 2010	Shanghai	Mayor Han Zheng (韓正)	
April 19, 2010	Hubei	Secretary of CPC Hubei Provincial Committee Luo Qingquan (羅清泉)	1. of goods with an estimated value of US \$500 million 2. “Taiwan-Hubei Week” activities
May 1, 2010	Shaanxi	Deputy Governor Zheng Xiaoming (鄭小明)	
May 5 , 2010	Fujian	Governor Huang Xiaojing (黃小晶)	The delegation procured goods with an estimated value of US \$1 billion.
May 14, 2010	Shandong	Deputy Governor Cai Limin (才利民)	
May 23, 2010	Gansu	Deputy Governor Liu Yongfu(劉永富)	
May 23, 2010	Sichuan	Secretary of CPC Sichuan Provincial Committee Liu Jibao (劉奇葆)	1. Taiwan –Sichuan Economic & Trade Cooperative Forum 2. Sichuan, Chengdu Temple Fair
May 24, 2010	Hebei	Deputy Governor Yang Chongyong (楊崇勇)	
June 9, 2010	Zhejiang	Governor Lu Zushan (呂祖善)	
July 1, 2010	Guangxi	Secretary of CPC Guangxi Provincial Committee Guo Shengkun (郭聲琨)	1. Procurement of goods with an estimated value of US

			\$197 million 2. “Guangxi-Taiwan Economic, Trade, & Cultural Cooperative Forum”
August 2, 2010 (Tentative)	Hunan	Deputy Secretary of CPC Hunan Provincial Committee Mei Kebao (梅克保)	1. “Taiwan-Hunan Week” activities 2. Taiwan-Hunan Economic & Trade Cooperative Forum
August 16, 2010 (tentative)	Guangdong	Governor Huang Hua Hua (黃華華)	1. Procurement of goods with an estimated value of US \$4.5 billion 2. “Taiwan-Guangdong Week” activities
September 13, 2010	Shaanxi	Acting Governor ZhaoZhengyong(趙正永)	
September 20, 2010	Hubei	Deputy Secretary of CPC Hubei Provincial Committee Yang Song (楊松)	
February 15, 2011	Liaoning	Governor Chen Zhenggao (陳政高)	
April 18, 2011	Anhui	Governor Wang Sanyun (王三運)	
April 23, 2011	Guangxi	Autonomous Region Chairman Ma Biao (馬飆)	
May 21, 2011	Sichuan	Governor Jiang Jufeng (蔣巨峰)	
May 26, 2011	Zhejiang	Secretary of CPC Zhejiang Provincial Committee Zhao Hongzhu(趙洪祝)	
June 16, 2011	Henan	Governor Guo Gengmao (郭庚茂)	
July 12-16, 2011	Shandong	Governor Jiang Daming (姜大明)	

Source: The Author compiles from newspaper.

However, improvements in the cross-Straits relations especially on economic ties and low-politics issue areas raised some discussions within Taiwan and abroad. Whether the ECFA will increase Taiwan’s dependence greatly and, furthermore, whether this kind of asymmetry might have negative effects on Taiwan are still under contestation. At this point, reactions are basically positive. For instance, Shelley Rigger suggests that the long-term political effects of ECFA remain an open question, but Taiwan has begun to benefit from economically linking itself with mainland

China.¹⁸ As shown in the low percentage of Taiwanese people who prefer unification with mainland China to maintaining status quo and other options, mainland China's strategy of "buying Taiwan's people" is yet to be paid off.

V. Political and Security Issues

For the purpose of fending off criticism from the opposition parties and steering a smooth way of laying firm foundation for cross-strait economic relations, Ma Ying-jeou administration has been avoiding to address political and military security issues and explicitly expressed that he would not consider a meeting with Hu Jintao (胡錦濤), his counterpart of China, in the near future and not to mention any kind of discussion on political and military issues.¹⁹ Of course, Ma didn't rule out the possibility of meeting.

Most of the scholars and practitioners would agree that without political directives there is no possibility to see a sound and solid basis for economic, trade and cultural cooperation between China and Taiwan. In the past, we have observed the secret envoys and many third parties have shuttled between leaders from China and Taiwan.²⁰ Nowadays, there exists institutionalized communication between leaders of two sides of the Taiwan Strait and the most important one is the "Cross-Strait Forum on Economics, Trade and Culture," which is organized by both Kuomintang Party (國民黨 KMT) and the Communist Party of China (中國共產黨 CPC) and held annually in China ever since 2005.

The role of political parties in the management of cross-strait relations has long been the pillar of China's strategy and policy and paid much attention to this communication channel. Later on, the Taiwan Affairs Office of the State Council set up a new bureau dealing with political party affairs. The formal establishment of this channel could be traced back to the 2005 historic visit made by Lien Chan, then chairman of KMT. With great confidence, China extended its connections in Taiwan's

¹⁸ Shelley Rigger, *Why Taiwan Matters: Small Island, Global Powerhouse* (Lanham, MD: Rowman and Littlefield, 2011), pp. 160-161.

¹⁹ Howard Schneider, "Taiwan's Ma Ying-jeou says meeting with Chinese president would be 'premature'," *Washington Post*, May 8, 2010.

²⁰ Chin-wen Chou, *The Record of Lee Teng-hui's Presidency*. (Taipei: Chen-Yang, 2001), pp. 194-204; Chun-shan, Shen, *Epilogue of a Floating Life: Linkage without Unification*. (Taipei: Commonwealth Publishing, 2003): pp. 366-379; Shih-cheng Huang. *Quanli Wusi* (*Power Serves No Private Purpose*). Taipei: Yuan-Liou Publishing, 2007.

political parties by conducting formal dialogues with the Pan Blue Alliance, which consists of KMT, People First Party (親民黨) and New Party (新黨). In 2005, Hu Jintao, Secretary-General of CPC, personally received chairmen of these three parties (i. e. Lien Chan 連戰, James Soong 宋楚瑜, and Yok Mu-ming 郁慕明 respectively); Pan-Blue Alliance enjoyed majority in Taiwan's Legislative Yuan at that moment. In addition to their adherence to the "1992 Consensus" and the "one China" principle, these three Pan Blue parties among others pledged to resume the cross-strait negotiation, to establish platform for party-to-party contact, promote economic and cultural exchanges.²¹ This is the very first institutionalized channel, carrying out a kind of mission of CBM; in other word, this kind of annual communication could enhance trust and confidence among leaders and political elites between two sides.

More important, the unthinkable and majority support from Taiwanese people has been the "push factor" for further cross-strait functional exchanges. More than fifty percent people thought that Lien Chan's visit to Mainland China had positive effects on cross-strait relationship, according to opinion poll made by United Daily News (聯合報) and China Times (中國時報) on April 30 2005. After all, it is the people who are benefiting and enjoying the fruits of this kind of cooperation. The role of Lien Chan in the cross-strait relations has been illuminated, because of his determination to initiate the trip in 2005 when many people regarded his decision as a wrong one.

Another critical development is a new platform started to appear on the horizon, when Vincent Siew (蕭萬長), who was the chairman of Cross-Straits Common Market Foundation (兩岸共同市場基金會) and has attended Boao Forum (博鰲論壇) for Asia annually, was elected as vice president of the Republic of China. During a meeting with vice president- elect Mr. Vincent Siew at the Boao Forum for Asia in April 2008, Chinese President Hu Jintao states that China will continue promoting cross-strait economic and cultural exchanges and cooperation and push forward negotiations on weekend charter flights and mainland Chinese tourists' travel to Taiwan. He also says the mainland remains committed to the promotion of the welfare of Taiwan compatriots and protection of their legitimate rights and interests, and it will continue working to resume cross-strait negotiations and talks. Mr. Siew advocates that the two sides should "face reality, pioneer a new future, shelve controversies and pursue a win-win situation." Hu and Siew both agree that

²¹ Ming-Yi Wan, Ju-lang Luo, & Hui-chun Chiu, "Lien-Hu Declare Vision of Peace," *China Times*, 30 April 2006, p. A1.

cross-strait negotiations should be promptly resumed. Their candid talks in 2008 meeting represent the emergence of a new platform for cross-strait discourses. It is noteworthy that President Ma designated Frederic Chien (錢復), former president of Control Yuan and minister of Foreign Affairs, as leader of the delegation to attend 2009, 2010 annual meeting of Boao Forum and Mr. Chien met with Chinese premier Wen Jiabao (溫家寶) and Vice President Xi Jinping (習近平) respectively.

VI. Follow-Up Meetings: SEF VS. ARATS

Above-mentioned channels are concerned with the process of decision-making level. At the implementation level, the resumption of institutionalized dialogue between SEF and ARATS plays a critical role not only in the process of quasi-confidence building measures but also in the process of negotiation and follow-up consultation.

Taiwan's president Lee Teng-hui's most remarkable performance in the early 1990s was to set up Mainland China affairs management system, including National Unification Council (NUC) under Presidential Office, cabinet-level Mainland Affairs Council (MAC), and Straits Exchange Foundation (SEF). Furthermore, Lee Teng-hui formally issued a document "National Guidelines for Unification" in March 1991, outlining the short-term, intermediate, and long-term policy toward China's reunification.

When the Association for Relations Across the Taiwan Straits (ARATS), the counterpart organization of SEF, finally appeared in December 1991, China and Taiwan started to have open contact with each other through two non-governmental organizations. In fact, ARATS and Taiwan Affairs Office (TSO) of the State Council are one organization with two different names. From 1992 to May 1995, there were eighteen rounds of negotiation between two sides.²² However, Lee Teng-hui's visit to Cornell University led to the total halt of formal and official contacts between ARATS and SEF in 1995.

When the river water became warm in June 2008, the new leadership of both

²² Peng-cheng Fang, A Chronological Recollection of Strait Exchange Foundation on Bargaining Table(in Chinese). Taipei: The Commercial Press, 2005.

ARATS and SEF has devoted into close contact and there have been five rounds of Chiang-Chen talks (see Table 2). In concrete terms, they have signed fourteen agreements in two years, including following ones:

- (1) “SEF-ARATS Minutes of Talks on Cross-Strait Charter Flights” (June 2008) ;
- (2) “Cross-Strait Agreement Signed Between SEF and ARATS Concerning Mainland Tourists Traveling to Taiwan” (June 2008) ;
- (3) “Direct Cross-strait Air Transport Agreement” (November 2008) ;
- (4) “Direct Cross-strait Sea Transport Agreement” (November 2008) ;
- (5) “Direct Cross-strait Postal Cooperation Agreement” (November 2008) ;
- (6) “Direct Cross-strait Food Safety Agreement” (November 2008) ;
- (7) “Agreement on Joint Cross-Strait Crime-Fighting and Mutual Judicial Assistance”(April 2009) ;
- (8) “Cross-Strait Financial Cooperation Agreement” (April 2009) ;
- (9) “Supplementary Agreement on Cross-Strait Air Transport,” (April 2009) ;
- (10) Agreement on "cross-strait cooperation on the inspection and quarantine of agricultural products" (December 2009) ;
- (11) Agreement on "cross-strait cooperation on standards inspection, measurement and certification"" (December 2009);
- (12) Agreement on "cross-strait fishery labor cooperation." (December 2009) ;
- (13) Economic Cooperation Framework Agreement (ECFA) (June 2010) ;
- (14) Agreement on Intellectual Property Right Protection (June 2010).

On top of these, there is a consensus on jointly promoting Mainland investment in Taiwan. This remarkable grade report has paved the way for the further rapprochement and engagement between two sides. More over, the function of follow-up consultation can be the guraantee of the satisfied implementation of agreements reached in the past. For example, there is a dispute about the number of scheduled fights to be increased and both sides had different interpretation of the stipulations. Then, a stalemate was formed and might undermine the good atmosphere. In the end, it is SEF and ARATS that are going to arrange meetings to solve this problem.²³

The major difference between these five rounds of Chiang-Chen Talks and the eighteen rounds talks in the past is the participation of government officals into the preparatory negotiations and final talks. For example, the major negotiators in the

²³ “Taiwan China flight dispute talks to resume,” China Post, July 26, 2010.

three preparatory and consultative negotiations of Economic Cooperation Framework Agreement (海峽兩岸經濟合作架構協議 ECFA) are Tang Wei (唐煒), Director General of Department of Taiwan, Hongkong, & Macao Affairs of China's Ministry of Commerce and Huang Chih-peng (黃志鵬), Director General of Bureau of Foreign Trade of Taiwan's Ministry of Economic Affairs.²⁴ Furthermore, both Kuo-hsin Liang, Deputy Minister of Taiwan's Ministry of Economic Affairs and Jiang Zengwei, Deputy Minister of China's Ministry of Commerce, led their staffs and attended the final round talks at Chongqing.²⁵

Table 4. Talks between Chiang Pin-kung of SEF and Chen Yunlin of ARATS, 2008-2010

Round	Date	Place	Agreement(s)
First	June 11 to 14, 2008	Beijing	1. SEF-ARATS Minutes of Talks on Cross-Strait Charter Flights; 2. Cross-Strait Agreement concerning Mainland Tourists Traveling to Taiwan.
Second	November 3 to 7, 2008	Taipei	1. Cross-Strait Air Transport Agreement; 2. Cross-Strait Sea Transport Agreement; 3. Cross-Strait Postal Service Agreement; 4. Cross-Strait Food Safety Agreement.
Third	April 25 to 29, 2009	Nanjing	1. Agreement on Joint Cross-Strait Crime-Fighting and Mutual Judicial Assistance; 2. Cross-Strait Financial Cooperation Agreement; 3. Supplementary Agreement on Cross-Strait Air Transport; 4. Consensus on jointly promoting Mainland investment

²⁴ Mainland Affairs Council, "Briefing on the Third Consultative Talks of Economic Cooperation Framework Agreement," June 15, 2010; "China's vice minister of commerce arrives," China Post, March 26, 2010.

²⁵ "For the first time in cross-strait negotiations, deputy ministers of economics & commerce sits at negotiation table," United Daily News, June 29, 2010.

			in Taiwan.
Fourth	December 21 to 22, 2009	Taichung	1. Agreement on "cross-strait cooperation on the inspection and quarantine of agricultural products," 2. Agreement on "cross-strait cooperation on standards inspection, measurement and certification," 3. Agreement on "cross-strait fishery labor cooperation."
Fifth	June 28 to 30, 2010	Chongqing	1. Economic Cooperation Framework Agreement (ECFA); 2. Agreement on Intellectual Property Right Protection
Sixth	December 20 to 21, 2010	Taipei	Agreement on Cross-strait Medical and Health-care Cooperation

Source: The author compiles from news coverage.

As shown in the above discussion, the cross-Straits relations under the Ma Ying-jeou government have improved tremendously, especially in the issue-areas such as trade, humanitarian, security and political fields. And, as learned from the experiences of reconciliation in Europe, Taiwan and mainland China are intended to institutionalize the interactions in these aspects.

International institutions could help to reduce uncertainty, mediate conflict, and socialize and shape the preferences of the parties, and thus to lower hostilities among states.²⁶ As Bruce Russett and John Oneal argued in their *Triangulating Peace*,

²⁶ E.g. Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (NJ: Princeton University Press, 1984); Lisa Martin and Beth Simmons, "Theories and Empirical Studies of International Institutions," *International Organization* 52:4 (Autumn 1998), pp. 729-757. For how international organizations shape state preferences, see Martha Finnemore, "International Organizations as Teachers of Norms: The United Nations Educational, Scientific, and Cultural Organization and Science Policy," *International Organization* 47:4 (Autumn 1993), pp. 565-597. It is noteworthy that the proponents of this view do not deny that most of the existing institutions are established by the US and its allies, and some of them further suggest that for the participants, the sunk cost is too high to either change the rules or to defect, thus maintains US predominance. For this view, please refer to Celeste A. Wallander, "NATO after the Cold War," *International Organization* 54:4 (Autumn 2000), pp. 705-36; G. John Ikenberry, "Institutions, Strategic Restraint, and the Persistence of

economic interdependence and international institutions are not independent but rather in a mutually reinforcing fashion that could contribute to world peace. In the case of the cross-Strait relations since 2008, institutionalization helps both sides of the Taiwan Strait reduce tensions by sharing information and resolving civilian and business disputes peacefully through various channels. As long as Taiwan and mainland China can pragmatically cooperate on low-politics issues and benefit from functional information sharing, then peace between both sides will have a better chance to continue.

VII. Conclusion

Having analyzed the four indicators of political and military security issues, follow-up meetings, economic, trade and low politics issues, and humanitarianism issues, we could observe that China-Taiwan relationship has been escalated from incremental enhancement to a big stride one. From every statistics about cross-strait interactions, we could easily find the evidences to support the observation.

China's economic rise has contributed to its self-confidence and could use its economic leverage to attract Taiwan people. On the other hand, Taiwan has to use this window of opportunity to lay solid foundation to initiate another stage of sustainable development.

It is a unique case that both sides strongly abide by the market economy and have wide and thick experiences to conduct economic and trade negotiations, given their different political systems. This kind of similarity has contributed and facilitated to the rapid progress of their interactions. Therefore, we could expect their closer economic and trade relations in the future.

On top of the changing external environment, the greater China community has been formed through numerous semi-governmental and non-governmental dialogues. The dramatic augmentation of cross-Strait exchanges in general, trade and investment in particular, has forced both governments taking positive steps to solve emerging issues. The participation of various kinds of third parties into bargaining and negotiations has something to do with "face-saving" mentality held by both

governments.

The expansion of issue areas from fishery disputes into financial cooperation, even to so-called “Economic Cooperation Framework Agreement” signifies the wide spectrum of cross-Strait cooperation and gradual formation of a Chinese community. In other words, there is a real *détente* between China and Taiwan.

Throughout the process, institutionalization helps both sides of the Taiwan Strait reduce tensions by sharing information and resolving civilian and business disputes peacefully through various channels. As long as Taiwan and mainland China can pragmatically cooperate on low-politics issues and benefit from functional information sharing, then peace between both sides will have a better chance to continue.