

Rapprochement in the Taiwan Strait: Opportunities and Challenges for Taipei

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After Taiwan President Ma Ying-jeou assumed office in May 2008, talks across the Taiwan Strait have led to the introduction of direct air, sea and postal links, opening of door for mainland Chinese tourists, lifting of the ban on inbound investment by mainland Chinese firms and loosening up of the 40 per cent cap on mainland-bound investment by listed companies. The recent global financial crisis gave Taiwan President Ma Ying-jeou's opening up policy an unintended boost. More export-oriented Taiwanese firms are now placing more emphasis on the expanding markets in the Chinese mainland.

CROSS-STRAIT RELATIONS have taken an about-turn since Ma Ying-jeou's inauguration in May 2008. The pace of change in the direction of closer economic ties and greater political amity has moved faster than most people had expected. Most notably, significant progress has been made in five major areas: first, the installation of a series of high-level engagement and dialogue mechanism between the two authorities;

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second, a rapid movement towards normalisation of trade and investment relationship; third, the acceleration as well as the deepening of economic integration and cooperation; fourth, the emergence of a *modus vivendi* for avoiding zero-sum competition and head-on collision in the international arena; fifth, the intensification of bilateral social contacts and cultural exchange.

These broad and sweeping changes carry enormous implications for Taiwan's domestic socio-political development, the island's international standing, and the peace and prosperity of East Asia at large. This paper aims to accomplish three related analytical tasks. First it identifies the major driving forces and prevailing conditions that have shaped and propelled these dramatic changes. Specifically, it provides a succinct account of a sweeping realignment of Taiwan's social forces around the issue of cross-Straits economic integration during Chen Shui-bian's second term. This realignment set the stage of the Kuomintang (KMT)'s political comeback and Ma Ying-jeou's landslide victory. Second, it highlights the most important developments that have taken place within the first year of Ma Ying-jeou presidency and explores their political and economic implications. Third, it explicates the major challenges as well as opportunities that the rapid unfolding of cross-Straits political rapprochement has brought about for Taipei. On that basis, this paper offers its readers guarded optimism for projecting the future.

The Political Impetus for Change

The popular aim of deescalating the tension in the Taiwan Strait and normalising the bilateral economic relations steadily gained momentum during much of Chen Shui-bian's second term.

First, towards the end of Chen's second term an elite-orchestrated construction of popular desire for a separate nationhood evidently had lost some of its steam. There was a growing awareness among the better-informed citizens and opinion leaders that the grand strategy for a timely substantiation of Taiwan's sovereign status vigorously pursued by Lee Teng-hui as well as the DPP incumbent had done little to advance Taiwan's national security and international standing. Instead, it resulted in Taiwan's increasing isolation in the region and caused some visible harm to Taiwan's international credibility and economic vitality.

Over the last few years, the growing antagonism between Taiwan's business elite and the government took a heavy toll on the island's economic vitality. For years the business community's plea for normalising trade relationship with Beijing, lifting bans on direct transportation, relaxing the rigid entry control for mainland Chinese visitors, and abolishing the 40 per cent investment cap for Taiwanese companies in China has fallen on the DPP government's deaf ears. In the beginning of 2006, their frustration with the DPP government had finally reached a point of no return. More and more Taiwanese firms decided to circumvent the 40 per cent investment cap through setting up offshore shell companies for operating its subsidiaries in Mainland China. Subsequently, when these operations become profitable they avoided Taiwan and chose Hong Kong stock exchange for launching their initial public offers. Furthermore, many listed companies decided to scale down their operation in Taiwan by exercising strategic de-capitalisation.

Many American and European companies also downsized operations or moved out of the Taiwanese market altogether. At the same time, a grim long-term prospect prompted a large number of small business owners and young professionals, believing that Taiwan's economy had passed its prime, to seriously look for career opportunities in the mainland. Many of them began to resettle their families in Shanghai and other metropolitan areas. More and more Taiwanese college graduates took the entrance examination for getting into top graduate schools in the mainland.

Furthermore, Taiwan became increasingly isolated in the emerging East Asian economic community. As Beijing suddenly emerged as the principal architect of the region's new cooperative and policy coordination frameworks, most notably the regional

free trade regime, currency-swap agreements and the East Asia Summit, Taiwan was precluded from the membership of these important regional multilateral arrangements. In a nutshell, the DPP's ideological bias against a normal trade relationship with the PRC has increasingly amounted to self-imposed economic isolation and marginalisation.

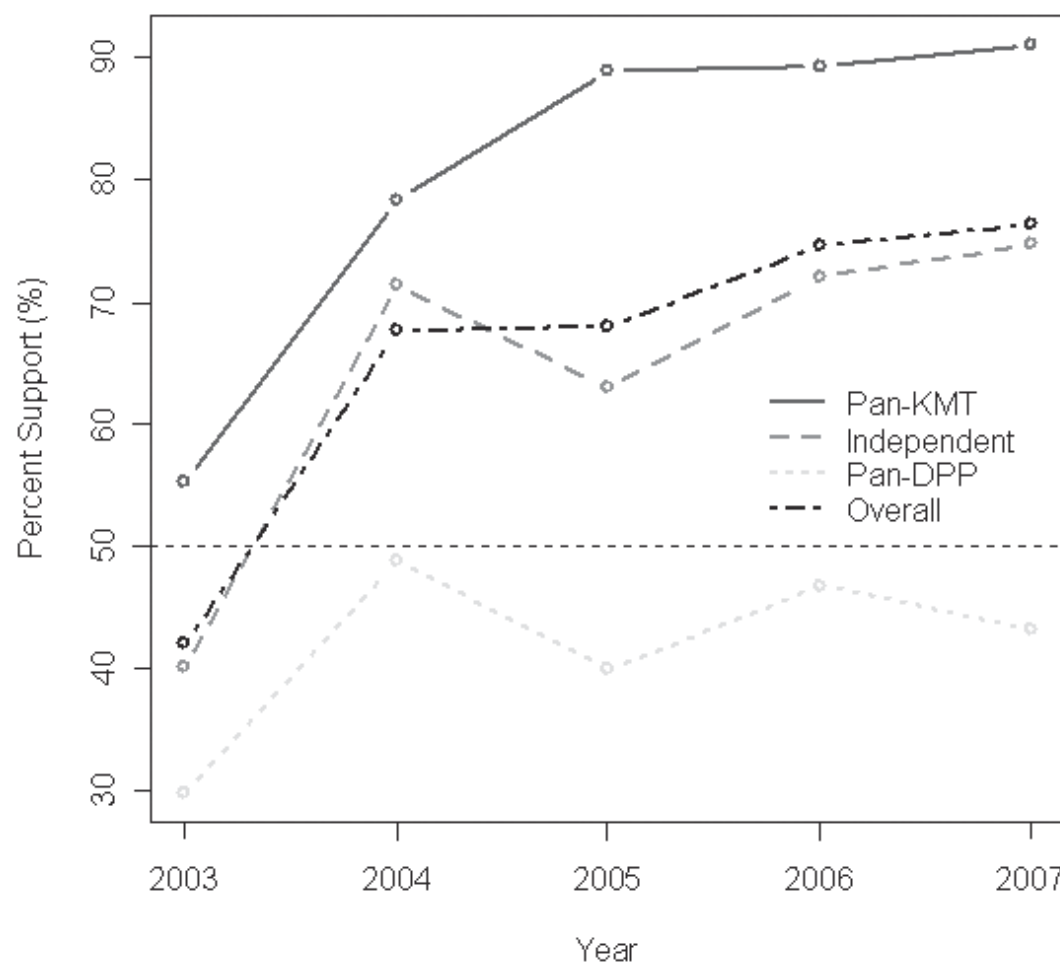
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Towards the end of Chen Shui-bian's second term, Mainland China's phenomenal economic rise precipitated a marked shift in Taiwan's public opinion with a growing number of people in favour of normalising the trade and investment relationship across the Strait and to turn Taiwan's cultural affinity and geographic proximity with the Mainland China into the island's foremost competitive advantage. This new development was also aided by Beijing's charm offensive launched after Lien Chan's historical visit to the mainland and the establishment of high-level dialogue and consultation between Pan Blue and the CCP leadership in 2005. When Chinese President Hu

Jintao met Lien Chan for the first time, he sent a strong message with his six-point policy announcement, in which the mantra of "One Country, Two Systems" was ostensibly missing. Upon his second meeting with Lien Chan in 2006, Hu moved forward a step further. His policy proposal did not mention a word about "Peaceful Reunification". Instead he put forward "Peace and Development" as the new guiding principle for developing cross-Strait relationship for the present. Emanating from their newly acquired confidence in the country's overall capacity in keeping Taiwan within its political and economic orbit, Beijing leaders' new flexibility and professed pragmatism has helped alleviate the apprehension among many Taiwanese people that Beijing might attach a stringent political string to closer economic ties with the mainland.

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FIGURE 1 PARTISAN SUPPORT FOR INCREASING CROSS-STRAIT ECONOMIC EXCHANGE (2003-2007)



China especially among the younger generation. In Figure 1, drawing from various face-to-face surveys conducted between 2003 and 2007, I constructed a time series of the distribution of public attitude towards cross-Strait economic exchange for the overall population as well as each of the three camps with different partisan orientations. Since 2003, a growing proportion of Taiwan's citizenry indicated that they favour expanding economic relationship with Mainland China. By 2007, this had become the prevailing view shared by more than 70% of Taiwan's general public.

Among Pan Blue supporters, the proportion of respondents who supported an expansion of cross-Strait economic exchanges had grown from around 55 per cent in 2003 to above 90 per cent in 2007. This significant jump indicated clearly that the Pan Blue camp has reached broad consensus over closer economic ties with Mainland China. On the other hand, the Pan Green was always equally divided between the pragmatists and the fundamentalists. The proportion of Pan Green supporters who favour closer economic ties with China has fluctuated in the range of 40 per cent to 50 per cent since 2004. The latest survey data indicated that about 44 per cent of the Pan

Green followers support the opening up of the economy while 56 per cent opposed accelerating cross-Strait economic integration. The figure also shows that independent voters have also moved into the pro-integration camp en masse since 2004.

This marked shift in public opinion awarded the KMT with an enormous electoral advantage when the two political camps approached the political showdown in 2008. The KMT's platform that promises a reduction of tension and hostility across the Strait, resumption of political engagement with the Chinese mainland, and a speedy and full-scale normalisation of cross-Strait trade and investment relationship had evidently helped the party secure a landslide victory in the January 2008 Parliamentary election, in which

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the KMT won an unprecedented three-quarter majority since Taiwan became democratised. It also helped achieve a convincing victory for Ma Ying-jeou in the following presidential election of March by winning over 57 per cent of the popular votes.

Ma Ying-jeou's electoral victory built up a broad-based social coalition that includes many potential beneficiaries that look forward to a political rapprochement in the Strait and closer economic ties with the Chinese mainland. Over the last decade, the scope of potential spillover effects of cross-Strait economic integration has steadily expanded as China's standing in the global economy has been elevated dramatically. By the end of Chen Shui-bian's political tenure, China has emerged as the second largest consumer market in the world, the largest source of tourist spending in the region (surpassing Japan) and an increasingly important source of foreign direct investment. It was no longer the case that only business owners of export-oriented sectors or people with transportable skills and

investment capital favoured closer economic ties with the Chinese mainland while most people working in inward-looking sectors on the island suffered from out-bound capital flow, brain drain and industrial hollowing-out. Increasingly, in the eyes of Taiwan's general public, Mainland China is no longer just a manufacturing platform or the most popular destination for Taiwan's out-bound investment but potentially an important source of tourist spending, investment capital and consumer demand. The list of potential beneficiaries has grown significantly to include real estate, medical services, the financial sector, the professionals, hotel and catering, organic farming, mass media, entertainment and culture industry, etc. This amounts to a large-scale realignment of Taiwan's social forces around the issue of cross-Strait economic integration with the KMT firmly occupying the centralist ground.

When Ma Ying-jeou was inaugurated on 20 May 2008, he was entrusted with a compelling and clear-cut popular mandate. A majority of Taiwan's electorates have

become convinced that Taiwan would be increasingly marginalised in the region without a normal economic relationship with the mainland and that fostering closer economic ties with Mainland China is necessary for maintaining the island's economic vitality. It has also become clear in the eyes of the majority that Taiwan's independence is simply not a realistic option. Playing the independence card could only escalate military tension and undermine Taiwan's international support as Chen Shui-bian's venturesome moves have vividly demonstrated. A great majority of Taiwan's electorates also felt strongly that Taiwan should get its priorities right. Lofty political agenda should give way to the more urgent issues of cracking down corruption, rejuvenating the economy, enhancing social safety net for the weak and needy, and preparing the country for an ageing population.

Ma Ying-jeou's First Year

One year after Ma's inauguration, the prospect of consolidating this broad-based coalition looks rather promising. First, Ma's new approach to cross-Straits relations has registered some clear signs of initial success. Beijing responded very favourably to Ma's peace overture. Ma's victory presented Beijing with the first historical opportunity for engaging with a popularly elected leader who is not committed to Taiwan independence since 1996. Beijing's first priority is to further weaken the social support for Taiwan independence and consolidate a pro-integration coalition. It can effectively do so by demonstrating how much Taiwan can gain by abandoning Taiwan independence and reaffirming the one-China principle.

Thus Ma was able to deliver virtually all his campaign promises: within a month after Ma's inauguration, the dialogue between the Association for Relations Across the Taiwan Straits (ARATS) and the Straits Exchange Foundation (SEF) was resumed at all levels. Chiang Ping-kun, Taiwan's top envoy and his counterpart, Chen Yun-lin, held their first meeting in July and kicked off the direct air and sea links. When Chen Yun-lin came to Taiwan for the second Chiang-Chen meeting in November 2008, his trip was historical in every aspect. He was the highest-level official representative sent by Beijing to visit the island. His courtesy call on Ma Ying-jeou drew media attention from all over the world as it marked the beginning of the official contact at the highest echelon between the two sides after 60 years of political standoff.

The resumption of semi-official talks paved the way for a full-scale normalisation of bilateral economic relationship. Following the introduction of direct air, sea and postal links are the opening of door for mainland Chinese tourists, lifting of the ban on inbound investment by mainland Chinese firms and loosening up of the 40 per cent cap on mainland-bound investment by listed companies. There are now more than 270 direct flights per week between Taiwan and popular mainland Chinese destinations, including all major cities like Dalian, Kunming, Hangzhou and Chengdu. The number of mainland Chinese tourists is expected to hit the target of one million in 2009. Many mainland-based Chinese firms are ready to set up branch offices and subsidiaries in Taiwan and acquire commercial real estate.

Despite a sharp drop in the foreign demand for Taiwan's exports since the third

quarter of 2008, Taipei stock market registered one of the strongest rallies in Asia in the first half of 2009 (up for more than 55 per cent). Taiwan's electronics industry benefited from the strong demand for major appliances and IT-related products as Beijing pumped an enormous amount of fiscal stimulus into its economy in the wake of the worst global recession since the Great Depression. The news about China Mobile striking a deal of strategic alliance with FarEast Tone, the island's third largest mobile phone company, was widely regarded by most institutional investors as the harbinger of a new era of

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cross-Strait economic cooperation. The real estate sector has also experienced a strong recovery as many mainland-based Taiwanese expatriates started re-investing in Taiwan and sending money home. The commercial property market has turned decisively bullish after a decade-long recession with the prospect of mainland Chinese SOEs ready to set up branch offices and subsidiaries on the island. All mayors of magistrates of cities and counties have been busy visiting the mainland to promote their local tourist attractions and specialties.

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to plug herself in the emerging East Asian economic community. More fundamentally, in the aftermath of the sub-prime loan crisis, China's global role looms even more prominently. It has been widely viewed as a co-manager of the global economy under the G2 auspices and a lender and buyer of the last resort.

This new development lends support to the KMT government's proposal for signing the Economic Cooperation Framework Agreement (ECFA), a free-trade agreement (FTA) with Beijing. Without an FTA, Taiwanese producers could not compete with South Korean and ASEAN firms on a level playing ground in the vast Chinese mainland

market. On the other hand, a cross-Strait economic cooperation framework can fully reap the benefits of the untapped synergy in combining their strengths. There is great potential for the two sides to undertake joint efforts to incubate world-class industrial giants and brand names. In particular, it will set off the momentum for forming joint ventures in green energy, electrical car, Chinese medicine, aerospace, next-generation telecommunications and new materials and facilitating joint development of industrial and technical standards in these emerging sectors.

The acceleration of economic integration has been accompanied by intensified social and cultural exchanges. A large number of Taiwan-based NGOs, covering a full range of social causes from Buddhism to environment, from philanthropy to consumer rights, from assistance to battered wives to preservation of cultural heritage, and from education for mentally retarded children to campaigns against deforestation have developed extensive networks with their like-minded organisations throughout Mainland China. Taiwan-based religious groups have played a key role in reviving the traditional religions, in particular Buddhism and Daoism, in Mainland China. In the aftermath of the May 2008 Sichuan earthquake, Taiwan NGOs were the most active overseas operators in rescue, relief and reconstruction efforts. In 2008, Tzu-chi, Taiwan's largest Buddhist organisation, became the first overseas religious group licensed to operate in Mainland China as a charity organisation. In March 2009, the 2nd World Buddhist Forum was jointly hosted by Wuxi and Taipei, with thousands of delegates flying over the Taiwan Strait to attend the opening and closing ceremonies on each side. Other important developments include the growing number of joint ventures between television stations on the two sides (including joint productions of TV series and joint live broadcasts on traditional festivals, such as the Chinese New Year and the Moon Festival), the increase in the number of universities on the two sides sending their students and faculty for exchanges, the decision by Taiwan to participate in the Shanghai Expo 2010, and the expanding bilateral cooperation between local governments on the two sides.

Another important pillar of Ma Ying-jeou's new approach is the supportive attitude of Washington. Up to this point, Ma and his national security team have been able to induce a win-win-win virtuous cycle in the triangular relationship between Washington, Beijing and Taipei on the argument that peace and prosperity in the Taiwan Strait ultimately complements the US' global strategic interest. The Obama administration has openly praised the progress the two sides have made so far. US senior officials have also endorsed the idea of the signing of the ECFA as long as it is consistent with WTO regulations.

Beijing has also responded constructively to Ma Ying-jeou's proposal for a diplomatic truce. The most notable examples are Beijing's unprecedented good gesture in persuading Paraguay and Nicaragua from switching diplomatic recognition from the Republic of China to the People's Republic. Ma Ying-jeou has also delivered a series of major breakthroughs in expanding Taipei's political status and visibility. The most surprising accomplishment was getting Taiwan, under the name of "Chinese Taipei", invited as an observer at the annual meeting of the World Health Assembly in May 2009. Other notable advances include the attendance of Lien Chan at 2008 APEC informal leaders

meeting, the United Kingdom's goodwill gesture to offer Taiwan travellers visa-free treatment, and the decision by the World Health Organisation to designate Taiwan's Centres for Disease Control as a contact point under International Health Regulation (IHR), an arrangement customarily reserved for former member states only. This suggests that under a cross-Strait political rapprochement it is possible to seek diplomatic truce and greater recognition from Beijing without alienating Taiwan's traditional diplomatic allies.

Guarded Optimism for the Future

Most observers believe that cross-Strait relations have undergone a smooth change during Ma Ying-Jeou's first year as the two sides upheld a strong consensus over the

"the easy ones first, the more difficult later" approach. But this strategy will not last long as all the items on the list of "the easy ones" might soon be exhausted.

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The two sides need to establish a series of *modi vivendi* to avoid the hidden political reefs along the way as the cross-Strait relationship is sailing into uncharted waters at an unprecedented speed. The list of "the more difficult ones" is quite long. First, the two sides have not yet developed a clear set of rules of engagement in the international arena to avoid diplomatic bickering and outright conflict. These rules must on the one hand adequately address Taiwan's rising expectation for political recognition and on the other hand fully alleviate Beijing's worry about creating a scenario of "Two Chinas" or "One China, One Taiwan".

Next, US arms sales to Taiwan will continue to drive a wedge between the two. Taipei is still waiting for the White House's approval for its recent request to acquire more advanced defensive weapons, including the F-16 C/D jet fighters, while Beijing is throwing all strategic

levers to terminate the arms sales. This contestation remains the most formidable stumbling block for establishing military and security confidence across the Strait.

It is also difficult to predict if Ma can continue to maintain a delicate strategic balance internationally while cross-Strait economic integration is being accelerated. Can Taipei seek more economic concessions and recognition from Beijing without upsetting Taiwan's security and diplomatic allies? As Michael Green put it, some circles in the American military establishment and conservative think tanks such as The Heritage Foundation might register reservation about how far this virtuous cycle can go as Taiwan becomes

increasingly dependent on the Chinese mainland economically and Beijing's goodwill politically. It remains to be seen if Taipei will soon run into a strategic crossroads where the island finds that it becomes increasingly difficult to maintain its close economic and security ties with the United States while deepening its cooperative relationship with Beijing.

Furthermore, the acceleration of cross-Strait economic integration so far has been driven more by sheer economic pragmatism than blood-thicker-than-water cultural identity. As the great majority of Taiwan's citizenry favours the preservation of the status quo including the legal structure of a sovereign state defined under the Republic of China constitution, Ma Ying-jeou is compelled to reassure the public that closer economic ties are not compromising Taiwan's political autonomy and the country's sovereign status. At the same time, to consolidate the pro-integration coalition, Ma Ying-jeou always needs to find ways to maximise the trickle-down effects of cross-Strait economic exchange and provide the potential losers with necessary social protection. At the same time, Ma has to placate the Pan Green followers who are feeling increasingly marginalised and frustrated and are prone to take radical and disruptive moves to unleash their anxiety and fears. Last but not least, Ma has to restrain the business lobby that is always preoccupied with its narrow interests and increasingly susceptible to Beijing's political influence.

Looking towards the horizon, if the trend of cross-Strait economic integration continues at its current pace one cannot rule out the possibility that the rising tide of Taiwanese nationalism will be reversed while the growing awareness of the imperatives of cross-Strait economic interdependence may load the dice of national identity in favour of cross-Strait political integration over the long run. Whether this possibility will come to pass depends on a number of "big ifs". One "big if" is whether future Beijing leaders are willing and able to exercise greater creativity and flexibility in designing future cross-Strait relations. Will they be able to surprise the Taiwanese public with some innovative and appealing political designs, such as a Chinese confederation (*banglian*) or federal commonwealth (*lianbang*), under which Taiwan would enjoy not only a high degree of autonomy, as it might under the "one country, two systems" formula, but also some considerable measure of sovereignty and political status? Another "big if" factor is what the United States might do should Taipei decide to pursue reunification with Beijing. Will Washington

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have viable options to prevent it? And if it does, will it take more aggressive manoeuvring to keep Taiwan separate from the PRC, as a peaceful reunification might exacerbate the US security dilemma in Asia? A third “big if”, arguably more important, is whether China can manage to sustain its momentum of economic modernisation while wrestling with the huge challenge of growing economic disparity, social unrest and rising demand for greater political participation for the foreseeable future.

However, at this point there is no trace of burgeoning popular support on the island for breaking the fluid “status quo” and to resolve the island’s security dilemma with either an innovative political formula or capitulation to the PRC’s grand design. On the contrary, popular anxiety may rise if the people in Taiwan become less confident that they can still have an equal say in deciding the island’s long-term political relationship with Mainland China and whether Taipei can still be able to negotiate a lasting political accord on favourable terms as time might not be on Taiwan’s side. As a consequence, the Taiwanese identity might become even more crystallised and function as a psychological self-defence against the prospect of Taiwan being steadily assimilated into a Beijing-dominated political and economic orbit.

At the same time, some optimists might argue that Taiwan possesses enormous potential in shaping Mainland China’s political future. By so doing the island is no less able than the mainland to steer the future course of cross-Strait relation despite the growing asymmetry in the distribution of hard power between the two. Maximising the island’s soft power is the best and perhaps only strategy available to Taiwan for protecting her long-term interests. This strategy will also elevate Taiwan to the level of a significant, responsible and constructive player in East Asia and also the world. The island’s democratic experience, the inherited cultural and linguistic unity between Taiwan and the mainland, Taiwan’s vibrant and diversified civil society, and its strong economic and social ties with the Chinese mainland constitute the most important sources of Taiwan’s soft power. In the eyes of mainland Chinese citizens, Taiwan’s democratic experience constitutes a very crucial and illuminating social experiment, as it is the first and the only democracy ever installed and practised in a culturally Chinese society. Furthermore, in the eyes of the CCP elite, Taiwan’s unique mode of democratic transition illustrate a viable (albeit risky) exit strategy for a hegemonic party to engineer a peaceful and gradual transition from one-party authoritarianism on the basis of its successful record of economic modernisation. As cross-Strait relations enter a new era under Ma Ying-jeou’s administration, Taiwan is in a position to maximise its magnetic power over Mainland China. ■