CROSS-STRAIT RELATIONS: THE PERENNIAL POLITICAL DIVIDE AND THE UNCERTAIN ECONOMIC INTEGRATION

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Executive Summary

1. On 2 January 2019, Chinese President Xi Jinping reaffirmed China’s unification policy towards Taiwan. In response, Taiwan President Tsai Ing-wen declared that Taiwan will not accept “one country, two systems” proposed by China.

2. The political divide today is a result of different political development over the past few decades. While Taiwan has gone from an authoritarian to a democratic society, China has retained the same single party system and the same policy towards Taiwan.

3. Taiwan’s democratic development and the growing “Taiwan identity” explains why Xi’s Taiwan statement was not supported by most Taiwanese who particularly disagreed with China’s “no commitment to abandon the use of force against the island” according to Mainland Affairs Council’s survey.

4. Despite the serious political clash with China during Chen Shui-bian’s presidency, Taiwan’s total outward foreign direct investment (OFDI) in and exports to China grew quickly. The opening up of the US market for Chinese products was an important driver behind the development of cross-strait division of labour.

5. Despite the amicable political relation with China when Ma Ying-jeou was in office, Taiwan’s investment in China has started to drop since 2012. China’s share in Taiwan’s total OFDI declined further to 37% in 2018, from 84% in 2010.

6. Taiwan’s merchandise exports to China and Hong Kong remain resilient, accounting for 41% of Taiwan’s total exports in 2018. Nonetheless, the monthly trade figures in March 2019 showed Taiwan’s exports to China have registered negative growth consecutively since November 2018.

7. Chinese visitors to Taiwan fell after Tsai Ing-wen took office, from 4.2 million in 2015 to 2.7 million in 2018, while Taiwanese visitors to China continued to grow from 3.4 million to 4.2 million during the same period.
8. Cross-strait economic negotiations have halted after the Sunflower Student Movement in 2014. To continue to attract Taiwan’s investment and talents, in February 2018 China issued “31 measures for Taiwan” considered by the Tsai administration as a threat to Taiwan’s national security.

9. Bilateral economic ties may be waning as favourable factors (such as China’s cheap labour force and US market opening for Chinese products) no longer exist. Nevertheless, China’s huge market may continue to attract Taiwanese business focusing on China’s domestic market.

10. The US-China power competition is disadvantageous for advancing cross-strait economic relations in the future. Politically, China’s power rise has driven the United States and Taiwan together. Taiwan-US senior official talks through Indo-Pacific Democratic Governance Consultations have been scheduled to take place annually from September 2019.