



# Contested Identities and Multiple Interests in Taiwan's Cross-Strait Economic Policy

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By William Stanton

**William Stanton** is George K. C. Yeh Distinguished Chair Professor and Director of the Center for Asia Policy at National Tsing Hua University, Taiwan.

## IN REVIEW

Shirley Lin, *Taiwan's China Dilemma: Contested Identities and Multiple Interests in Taiwan's Cross-Strait Economic Policy* (Stanford University Press, 2016).

In *Taiwan's China Dilemma: Contested Identities and Multiple Interests in Taiwan's Cross-Strait Economic Policy*, Syaru Shirley Lin presents a detailed history and analysis of Taiwan's shifting economic policies toward China from the election of President Lee Teng-hui in 1996 to the Sunflower Student Movement protests of March 18 - April 10, 2014. Lin documents many factors influencing the seemingly "inconsistent" and "irrational" oscillation between more restrictive and more liberal cross-Strait trade policies during this critical 18-year period in the evolution of Taiwan's democracy. In particular, she focuses on the key role played by the increasing self-identification of Taiwan's people as "Taiwanese" rather than "Chinese" or "both Taiwanese and Chinese" and how that sense of identity and threats to it have outweighed any purely rational calculation of economic self-interest.

### The China Dilemma

There are seven chapters in Professor Lin's book. The first, an "Introduction," clearly defines Taiwan's stark "China dilemma." China is Taiwan's "most important economic partner" but it is "also an existential threat, politically and economically." Taiwan's "prosperity depends on its economic interdependence with China. [...] But China explicitly intends to undermine Taiwan's sovereignty and to achieve unification....China is both extremely attractive and uniquely dangerous."

In Lin's view, Taiwan's massive long-term capital investments in China, its transfer of many manufacturing operations to the mainland, and the continuing

enticement of China's huge market have now left Taiwan with few trade alternatives, and Taiwan's main competitors, including Korea and Japan, are in the same boat. Meanwhile, China's trade options and sources of investment have expanded, and therefore Taiwan is less important to the mainland, even while Taiwan's overall competitiveness, along with its population, declines. Certainly, this is a very pessimistic assessment.

## Conceptual Framework

The second chapter, titled a "Conceptual Framework," reviews "prevailing explanations" of Taiwan's variable cross-Strait economic policies, finds them wanting, and instead offers an approach based on "analytic eclecticism" which takes into account "changes in the international setting, Taiwan's domestic politics and the ideational and pragmatic components of its foreign economic policies."

Central to Lin's framework and her corresponding analysis of shifts in Taiwan's economic policies are what she views as four competing clusters of social and government opinion. The author defines each cluster by the degree of openness to trade with, and investment in, China based on varying assessments of the risks and benefits to Taiwan's autonomy, security, economic stability, and growth. These clusters are arranged across a spectrum ranging from protectionism to free trade: extensive restriction, moderate restriction, moderate liberalization, and extensive liberalization.

## Four Key Shifts in Policy

The four categories are then employed to characterize and interpret in Chapters 3, 4, 5, and 6 what Professor Lin sees as four key shifts or episodes in Taiwan's economic policies from 1996 through 2014. While one of the opinion clusters best describes the dominant policy direction of each episode, Professor Lin also presents the opinions and comments of those whose views during each episode were representative of other clusters as well. The detailed accounts of these views drawn from interviews and other sources represent the longest and richest part of the study.

The four episodes were: Episode 1 (1996): "No Haste": Extensive Restriction. In 1996, partly in response to the PRC's 1995-96 missile "tests" aimed at warning Taiwan, President LeeTeng-hui introduced the "No Haste" policy to reduce Taiwan's dependence on trade and investment in Chinese markets. This followed Lee's 1994 "Go South" policy which had encouraged increased trade with Southeast Asia. Based on polls in 1996, Lin notes that "some 49 percent of Taiwanese viewed themselves as both "Taiwanese and Chinese" and a "significant portion of the public did not prefer that Taiwan continue as an autonomous political entity." Nonetheless, anti-Chinese feeling at the time brought on by the PRC missile launches spurred widespread support for Lee's more restrictive policy. A notable exception was the decision of Y.C. Yang, head of Formosa Plastics Group, who secretly invested in the mainland despite commitments to President Lee not to do so.

Episode 2 (2001): “Active Opening, Effective Management”: Moderate Liberalization. Chosen in 2000 as the first President from the Democratic Progressive Party (DPP) by only 39.3 percent of voters in a split election, Chen Shui-bian faced a serious economic downturn, a suspicious and booming China, and a Kuomintang (KMT)-controlled Legislative Yuan. Professor Lin argues that in an effort to win over centrist voters and stimulate the economy, Chen’s administration “promised economic liberalization from the start.” At the same time, by 2001 the percentage of Taiwanese who identified themselves exclusively as “Taiwanese” had nearly doubled since 1996 to 42 percent, and those who identified themselves as Chinese had dropped to 11 percent, indicating a society that was increasingly polarized, and this was reflected in debates over economic policy. The liberalization measures Chen adopted proved insufficient to raise economic growth and to satisfy his political base. Others believed Chen’s liberalization policies had not gone far enough. Professor Lin focuses in particular and at length on the semiconductor industry and its leaders like Taiwan Semiconductor Manufacturing Company CEO Morris Chang who wanted to pursue more business opportunities on the mainland and believed that Taiwan would lose its competitive edge in technology if it did not take advantage of the incentives China offered.

Episode 3 (2006): “Active Management, Effective Opening”: Moderate Restriction. Following his narrow reelection in 2004, President Chen continued to face a lagging economy, worsening unemployment, a KMT- controlled legislature, DPP factionalism, and strained relations with both China and the United States. In this period, national identity did not play a key role in economic policy debates, according to Professor Lin, because a dual Chinese and Taiwanese identity predominated, even while the numbers of those seeing themselves as exclusively Taiwanese continued to grow. Given that his economic opening to China had done little to assuage Chinese or U.S. concerns about his government, Chen turned to a more restrictive economic policy which at least satisfied his political base. Beijing’s passage in 2005 of its Anti-Secession Law once again intensified anti-Chinese feeling among most Taiwanese. Nonetheless, many business leaders, especially Morris Chang, continued to argue for trade liberalization to promote growth. Overall, however, Lin concludes that it was during this period that “Taiwanese appeared to have reached a consensus on their national identity and ... a determination to protect their ‘way of life.’”

Episode 4 (2008-2010) “Prosper Again”: Extensive Liberalization. Lin argues that President Ma Ying-jeou was elected in 2008 in part based on the promise that improved cross-Strait relations and in particular liberalization of trade would revitalize Taiwan’s economy. This led over the next two years to fourteen bilateral agreements with the mainland and to the Economic Cooperation Framework Agreement (ECFA) in 2010. This period coincided, however, with “the final consolidation of a Taiwanese identity,” including an increasing self-identification of Taiwanese as exclusively “Taiwanese,” which “became the leading category after 2008 and exceeded 50 percent of those surveyed by 2009.” By 2010 surveys also indicated a strong preference among Taiwanese for autonomy, with over 80 percent preferring the status quo (now or indefinitely) or independence (now or later). “Paradoxically,” as Lin later concludes, “Taiwan’s consolidated national

identity...actually facilitated further liberalization of its trade and investment with China.” Nonetheless, the failure of ECFA to deliver the promised benefits to many sectors of Taiwan society, the perceived disparity in benefits from ECFA for China and Taiwan, the increasing unpopularity of president Ma and his non-transparent style of governance, and Ma’s efforts to rush through the Legislative Yuan a Services Trade Agreement with China without careful review led to the Sunflower Movement protests in the spring of 2014 and the suspension of efforts to pass the agreement.

### **The Role of Identity versus other Factors**

Among the conclusions Lin reaches in her final chapter 7 is confirmation of “the importance of national identity in defining Taiwan’s economic interests and formulating its economic policies.” Nonetheless, as Professor Lin’s own text also demonstrates, and as the subtitle of her book makes clear, both “multiple interests” as well “contested identities” played roles in determining Taiwan’s economic policies. In fact, Lin more broadly concludes that “Taiwan’s evolving cross-Strait economic policy can be understood only as a result of the opportunities and constraints imposed by both domestic political considerations and the international structure.” Given such a broad context for understanding economic policy, the reader may well wonder why the rather cumbersome conceptual framework was necessary. As the complexity of any historical study usually reveals, most national policies reflect a multiplicity of factors that influence outcomes. Most policies reflect responses to a range of changing circumstances. The major value of Lin’s study lies in her historical account and analysis of the many factors—not only identity—that contributed to determining Taiwan’s economic policies.

It is certainly also true that Taiwan’s evolving sense of identity played a role in Taiwanese policy over the past twenty years. But as Lin’s study shows, there was no direct and determining causality between a particular identity and a particular economic policy, whether restrictive or liberalized. After all, when Lee Teng-hui severely restricted cross-Strait trade and investment, almost half of the Taiwanese people identified as both “Chinese and Taiwanese” and a significant percentage were not clamoring for greater autonomy. It was Chen Shui-bian during his first term who liberalized cross-Strait economic policy despite his own preference for more autonomy and the growing self-identification of the Taiwanese people as “Taiwanese.”

Similarly, during Chen Shui-bian’s second term and the two terms of President Ma Ying-jeou, “Taiwanese” identity increased as did support for greater autonomy. Lin argues that in all three terms “Taiwan’s consolidated sense of identity paradoxically allowed greater liberalization.” It seems therefore that the study of identity reveals only what logic would indicate. The less disagreement there is over identity, whether Taiwanese, Chinese or both, the less identity will be a factor in any debate over economic policy, and the more other considerations will come into play. But if that is all that can be determined, why devote such extensive attention to the role of identity in shaping Taiwan’s economic policy, rather than note it as one of many factors?

## The Counterproductive Influence of China

Arguably, an even more important and superseding factor influencing Taiwan's cross-Strait economic policy and shaping Taiwan's sense of identity as well has been China's policies toward Taiwan. These policies, as Lin rightly notes at several points in her study, usually proved counterproductive and often incited broader anti-Chinese feelings in Taiwan. Professor Lin calls attention, for example, to the 1995-1996 missile tests and military exercises which caused the Taiwan public to lean openly toward economic restriction (p. 74). Similarly, in the run-up to the 2000 Taiwan elections, China issued a white paper to warn the Taiwanese not to vote for the DPP and Premier Zhu Rong-ji "even held a press conference threatening war if the DDP were elected." Beijing also decided not to allow Taiwanese officials to participate in the October 2010 APEC Summit in Shanghai. In addition, China continually blocked Taiwan's participation in international organizations, including the "biggest and most surprising snub" which was the WHO's refusal in 2004 to allow Taiwan to participate as an observer in the aftermath of the SARs outbreak.

China's passage of the March 14, 2005 Anti-Secession Law also proved counter-productive and again had the unintended effect of uniting all the political parties in Taiwan in response to strong popular sentiment. Professor Lin likewise points out that during President Chen's second term China's harsh tactics toward the DPP government and favorable treatment of select interest groups were once again counterproductive. She also notes that Taiwanese businessmen in China privately complained about constant harassment from Beijing aimed at forcing them to oppose independence openly. Given the wealth of evidence Professor Lin cites, Chinese policy itself might have been featured in a separate chapter as one of the key determinants shaping both Taiwan's identity and its cross-Strait economic policies.

## What a Difference Two-Years Make

One of the challenges of writing about contemporary events is that an author has to stop at some point, and this necessarily and inevitably abridges our perspective. In the case of *Taiwan's China Dilemma*, Lin stops with the Sunflower Movement student demonstrations in the spring of 2014, and the last year of her data is from 2014 as well. Her study therefore cannot take into account the shocks to the Chinese economy since then, in light of which it does not seem nearly as imposing, as strong, as dependable, or as attractive as it did before. Falling GDP; unreliable data; the stock market, housing, and land bubbles; massive capital flight; failed and debt-ridden state-owned enterprises; huge and growing bad debt buried in Chinese banks; the absence of adequate pensions for workers; the unavailability of affordable health care; rampant corruption; an aging population; theft of intellectual property rights; a wealth gap that is the 29th largest in the world (according to the *CLA's World Factbook*); severe air, water, and soil pollution--these are only some of the problems that China faces and that make the Chinese economy less promising for Taiwan.

The situation may worsen further. The majority of the wealthy nowadays in China are adopting five measures, well documented in Western media, that suggest a serious lack of confidence in China's future: 1) they are planning to emigrate or already have; 2) they are buying investor visas in Western democracies; 3) they are buying private real estate in these countries; 4) they are sending their children to study in these countries; and 5) they are moving as much of their money as possible to secret accounts abroad. While already-existing investment and trade ties, proximity, and a common language make China an inescapable economic partner for Taiwan, Taiwan can no longer base its prosperity on trade and investment in China alone.

The decline of the Taiwan economy since 2014 is clearly linked to the slowing of the Chinese economy on which it has become so heavily dependent. In hindsight, those who favored a more restricted trade relationship with China and more trade with others may have been right. Certainly that is one interpretation of the overwhelming Taiwanese rejection of the KMT in the 2016 election after eight years of President Ma's economic policies which were principally focused on liberalization of trade and investment with China that in fact did little to improve the livelihoods of the majority of the Taiwanese people. In my experience, in contrast, President Ma did not show much interest in improving trade relations with the United States, repeatedly failing, for example, to support publicly the import of U.S. beef, which was the key obstacle to resuming trade talks with Washington. This absence of effort was all the more striking compared to President Ma's strenuous efforts to persuade the Taiwan public of the merits of his trade agreements with China, including a televised debate with DPP leader (and, ultimately, Ma's successor) Dr. Tsai Ying-wen over ECFA. The personal commitments and views of a country's leader have a strong bearing on the direction of its economic policies.

President Tsai Ing-wen entered office on May 20, 2016 describing restoration of the Taiwan economy as her highest priority, and citing in particular the need for trade diversification, including trade with Southeast Asia, Japan, the United States, and India (which overtook China in 2015 as the fastest growing major economy in the world).

Some of Taiwan's most outspoken proponents of extreme liberalization policies toward China may have been persuasive, but some of their claims proved wrong. In 2009 TSMC "insisted that Taiwanese firms would lose competitiveness if they were prohibited from accepting the incentives the Chinese government offered."). Lin likewise concludes that as a result of TSMC's consistent compliance with Taiwan government policy in seeking approval for projects on the mainland "it had fallen behind its competitors in entering China." Nonetheless, as of 2015 TSMC ranked Number 1 in the world in revenues earned among semiconductor foundries; it ranked Number 1 among semiconductor companies in "patent power"; it ranked Number 2 among semiconductor companies in wafer capacity; and it ranked Number 3 in overall semiconductor sales.

## Possible Corrections

In a work of such depth and breadth as *Taiwan's China Dilemma*, it is inevitable that some apparent errors may slip in. For example, Lin appears to contradict herself at one point. In her introduction, Lin states:

“[B]oth the KMT and the DPP have championed liberalizing cross-Strait economic policies in some periods and restricting them in others. During the period covered in this book, *there has been little correlation between the party in power and the content of cross-Strait policy*. [Emphasis added.] The oscillation has occurred regardless of which party has held the presidency.)

Later, however, Lin states:

“...*cross-Strait economic policy strongly depends on which party is in power* [Emphasis added]; each party's policy preferences are determined by its electoral calculations and how it prioritizes national interests.”

In describing Lee Teng-hui two years after the death of President Chiang Ching-kuo, Professor Lin notes that Lee was “one of handful of native Taiwanese” in the KMT. University of Miami Professor June Teufel Dreyer has pointed out, however, that by the early 1990s, the KMT was estimated to be about 85 percent Taiwanese. Substantial Taiwanese membership in the KMT was to be expected, if only because the KMT was the only politically meaningful party, and therefore membership was more personally advantageous than being outside the party, or a bit later, a member of the DPP.

Aside from such small missteps, Lin's study is an extremely useful history and analysis of a key period in Taiwan's modern economic and political history, and will serve as a helpful point of departure for future work on Taiwan's cross-Strait economic policies.

