

# Deepening Socio-Economic Relations Across Taiwan Straits

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CHRIS BARKER, OCT 20 2013

The People's Republic of China (PRC) has held economic development as its number one foreign policy objective since Deng Xiaoping initiated the 'Open Door' policy in 1978. This policy recognised that for economic and social development to be successful, China needed to interact with the world. Economic growth and modernisation is thus a distinct PRC policy priority and remains the PRC's key national strategic objective (Kang 2008, Xin 2010, Zhao 2006). This prioritisation is central to China's periphery, often referred ambiguously to 'Greater China', and is conducted under the auspices of the 'Good Neighbour Policy' (GNP). This policy is based around 'the strong concerns of Chinese leaders to promote the legitimacy of their continued rule through domestic economic growth and political stability dependent on active economic exchange and an open door to economic globalization and modernization' (Sutter 2004: 714). It is in this context this essay is written.

This essay will refer throughout to 'deepening socio-economic relations' across the Taiwan Straits. These relations refer to economic and social forces, as opposed to official diplomatic agents (Sum 1996). The increased prominence of socio-economic factors within the relationship is reflective of the potential for a shift in cross-Strait relations, potentially departing from a relationship based on political realism. As more of an emphasis on trade, investment and increasing people-to-people interaction across the Straits has emerged, developments occurring at both a transnational, constructivist, and at a micro level of governance have gained significance. This potential for a shift was made possible via the most important transition in the PRC policy-making process regarding Taiwan: the departure of Deng Xiaoping (Swaine 2001). A new generation of leaders have subsequently emerged that emphasise pragmatism and technocratic ability whose 'authority depended primarily on policy successes, substantive policy expertise, organizational controls, and the ability to persuade rather than dictate' (Swaine 2001: 308). However, despite these factors increasing significance, official diplomatic agents are still the most important influence in maintaining (or destabilising) 'a new era of peace'. These official diplomatic actors, emphasised within realist perspectives of world politics include the actions of official diplomatic actors and military capabilities. This perspective predominates at the forefront of PRC considerations in all aspects of its cross-Straits policy (Zhao 2006).

This essay argues that deepening socio-economic relations across the Straits signifies a 'new era of peace' to a significant extent. The benchmark of this essay contends that peace will be maintained across the Straits in the form of its current status quo in the short to medium term. This is increasingly made possible by deepening socio-economic relations; however the most important factors remain the trilateral relationship that consists of the US-PRC-ROC and the predominance of political realism that persists within the relationships. As a result, political factors fundamental to political realism condition the development of these relations in the long term. This essay contends that due to the above mentioned trilateral relationship and Beijing's shift in policy towards economic integration-based unification (EIU), 'any changes in relations between mainland China and Taiwan in the future are most likely to occur very gradually and as a result of economic integration' (Keng et al 2006: 215). The significant extent of socio-economic factors will be presented in three main sections with the constraining influence of political realism integrated within each. These include increasing trade and investment, the influence of people-to-people exchanges, the importance of nationalist identities.

While factors fundamental to political realism are still the most influential conditioning cross-Strait relations in the long

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term, a wholly traditional nation-state analysis is not sufficient for obtaining a nuanced perspective on the future of the relationship. Indeed, the key to making progress on cross-Strait relations is to relax the assumption that the state is the unitary actor (Keng et al 2006). This is evident in the importance globalisation and identity (albeit predominately realist notions of nationalism) enjoys in the future of relationship between the PRC and the ROC. As a result, this essay will utilise transnational, constructivist, as well as political realist perspectives where appropriate to analyse and evaluate the changing cross-Strait dynamics. These perspectives revolve around several main contentions; transnational contentions emphasise the increasing limitations of state boundaries, constructivist contentions that highlight the alignment or realignment of identity, and realist perspectives that emphasises the concept of power, US deterrence and military capabilities.

As aforementioned there have been significant adjustments in China's grand strategy towards Taiwan (Swaine 2001). This shift from 'armed liberation' to a more reconciliatory position focusing on deepening socio-economic relations has culminated in China operating within its regional GNP and has encouraged EIU. Indeed, Beijing has sought to promote economic integration within so-called 'Greater China' (Zhao 2006). This is a direct result of the PRC's main priority: modernisation both domestically and internationally. With this in mind, and backed by the recent dynamic in US-China relations, the GNP 'clearly inclines the PRC leaders to avoid more aggressive or harder-line tactics' (Sutter 2004: 714). The important question then emerges: to what extent does the promotion of economic relations suggest a continuum of the peaceful current status quo across the Straits?

The indication is favourable when incorporating transnationalism perspectives. The starting point to this assumption is that economic integration will bring the two sides together. An influential factor inherent within this perspective lies in the complementary nature of resources or factor endowments inherent within the economic integration of 'Greater China' (Ash & Kueh 1993, Clough et al 1996, Lin & Lin 2001). While Mainland China offers abundant cheap labour and land it also has the capacity of becoming the world's largest market. Taiwan on the other hand offers a substantial edge in high-tech manufacturing and enterprise management as well as capital (Lin & Lin 2001). This complementary nature has resulted in significant trade and investment figures culminating in an economic symbiosis that is interdependent with clear advantages for both sides (Ash & Kueh 1992, Bullard 2007, Lee 2007, Lin & Lin 2001, Sutter 2002). For example:

'investment from Taiwan to China exceeded US\$100 billion in 2006, 70 per cent of Taiwan's outbound investment goes to the Mainland and the amount of annual trade is nearly US\$80 billion. More than 70,000 Taiwanese companies have investments in the Mainland' (Bullard 2007: 116).

Although the current development of economic relations has at times been constrained by political factors, there have been several independent government measures taken on both sides of the Strait that have facilitated growing interdependence. For instance, the PRC deliberately designated Shenzhen and Xiamen as two of the first four special economic zones – specifically to be near Hong Kong and Taiwan. This was to provide investors with better investment arrangements than they do for other foreign investors (Lin & Lin 2001: 698). Furthermore, the government of Taiwan lifted martial law in 1987 originally imposed by the Kuomintang in 1949 that facilitated 'indirect trade' between the two sides. Moreover, and perhaps most significant, the two sides reached an agreement providing for direct cross-Strait shipping, daily cross-Strait flights, and improved postal services and food safety in November 2008 (Hickey 2009). Much of this cooperation takes place through the quasi-governmental organisations; Taipei's Straits Exchange Foundation and Beijing's Association of the Relations Across the Taiwan Straits. The latest development encouraging economic cooperation was the preferential trade agreement signed in 2010 and effective in 2012: the 'Cross-Straits Economic Cooperation Framework Agreement'. This agreement aims to reduce tariffs and commercial barriers between the two sides (Beijing Review 2012).

There do, however, remain significant constraining factors to this development in the long term. These factors are largely attributable to the thought processes inherent with political realism. This is the case in both Taiwan and China. For example, Taiwan nation security and economic security converge to express concern the island will become dependent on the PRC and have at times restricted the development of economic relations. Indeed, a politically realist perspective predominates in Taiwan that emphasise trends of economic integration complicate the assessment of Taiwan's relative security gains against China (Lee 2007: 198). Indeed, some scholars contend that

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Taiwan is already economically dependent on China (Ash & Kueh 1993, Ho & Leng 2004). This convergence of ideas falls into both, an explicit security concern and an implicitly related concern attributable to Taiwanese nationalism (Ho & Leng 2007). These concerns are a combination of geo-political and geo-economic-nationalist forces espoused through national security rhetoric. President Lee's 'No Haste, be Patient' and the more recent 'Active Opening, Effective Regulation' are both examples of this. These policies prominently espoused national power and or principles of national security, directly related to economic development. This has resulted in the key debate within Taiwan that boils down to the extent to which the economic relationship can be constrained (Bullard 2007). Important in this respect is the consideration of the potential cost if economic interdependency would cease.

There is much ambiguity in this debate and predictions range from a relatively minor impact, to a significant loss of net income (Ash & Kueh 1993) and a disastrous economic impact in the event of military action for Taiwan (Zhao 2006). What is clear, however, is that despite political manoeuvring, deepening economic relations have been drawing the two sides closer together. Increased understanding between both sides to the degree of interdependence and therefore any disruption to the economic status quo would greatly harm both parties (Bullard 2007). In this respect, deepening economic relations could quite feasibly lead to political accommodation in the long run (Copper 2012, Zhao 2006). This emphasises the potential for a shift in relations in the short to medium term. However, the persistence of geo-political, geo-economic-nationalist rhetoric within Taiwan could constrain the deepening economic integration in the long term from a PRC perspective. An example of political rigidity constraining such developments is the fact that 'the key constraining factor in the further expansion of cross-Strait economic relations remains the threat of military force by the PRC' (Lin & Lin 2001: 709). How much influence the People's Liberation Army (PLA) can assert within the PRC's increasingly pluralistic policy making process will largely determine the continuum or otherwise of this threat.

When one utilises transnationalism perspectives above, deepening economic relations suggests 'new era of peace across the Straits' to a significant extent in the short to medium term. 'Taiwan is becoming less and less visible by the moving swirl of Greater China's economic development, where the PRC is the biggest player' (Cheung 2009: 99). However, while these perspectives help illustrate the change inherent within Greater China with a certain degree of precision, they cannot capture the entire meaning behind the manifestation of Greater China in its entirety (Cheung 2009). Indeed, the relations of Greater China 'are not merely state-to-state diplomacy or patterns of international trade and investment, but involve less formal people-to-people relations, flows and disjunctures in a transnational political economy' (Callahan 2004: xix). To be clear, important developments occurring at a micro level of governance are occurring – reinforcing the potential for a shift in relations. These factors are inextricably linked to the increasing economic integration that transcends such factors as business investment and people-to-people interaction.

Indeed, with an increasing emphasis now placed upon regionalism, and political communities that exist between the global and the nation-state these developments are assigned more significance (Bullard 2007, Callahan 2004). As regional cooperative arrangements are taking place with increasingly regularity, the implicit consequence suggests a detachment from any independence movement, 'including Taiwan's, that focuses on strict sovereignty and national borders' (Bullard 2007: 115). Bullard (2007) suggests a certain amount of ambiguity, and even remoteness can currently be attributed to the significance of this trend of thinking. However, it will undoubtedly have an influence on some thinking. While ambiguity is attached to these developments, there remains little in the political realist perspective operating across the Straits. Indeed, there has been no 'demise of an international geo-politics dominated by the balance-of-power strategy of the Cold War hegemon. Instead there is a coupling of geo-economics at the global, macro-regional, national and local levels' (Sum 1996: 70).

Emanating from economic integration, the deepening of social relations across the Straits is emblematic of the potential for a shift in relations expressed above. Perhaps the most significant statistic that stems from an analysis of deepening social relations is that 'over one million of Taiwan's 23 million population are considered residents of China – living in China more than 300 days a year' (Bullard 2007: 116). Furthermore, medical and educational personnel are brought in from Taiwan, including a newly developed trend which has led to a construction of primary and secondary schools to cater for the significant numbers of Taiwanese businessmen who have been in the PRC for a long time (Cheung 2009: 102). Moreover, along with the agreements aforementioned mentioned, The Cross Straits

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Forum and the Zijinshan Summit have been launched. These are 'serving as new platforms for people-to-people communication and corporate cooperation' (Beijing Review 2012). Indeed, since Taiwan allowed Mainland tourists to visit in 2008, the Mainland has quickly become Taiwan's largest source of visitors (Beijing Review 2012). These developments signify economic integration between Taiwan and China is evolving to other levels such as cultural and social factors, as represented in the educational example highlighted above.

From a PRC perspective, these additional micro level developments are clearly designed to 'eliminate the influence of Taiwan independence' (Beijing Review 2012) particularly in the realm of culture and education. Such factors have the intended consequence of bringing the two sides together emotionally and developing a sense of togetherness. The Beijing Review asserts that through the increasing involvement of ordinary people able to enjoy the benefits from improved cross-Strait relations, forces in favour of Taiwan independence 'are losing their support base' (Beijing Review 2012). This assertion will be analysed at a later stage in the essay due to its overlap with identity. However what is clear is that should deepening social relations remain continuous, combined with economic integration, the possibility remains for 'a more cooperative situation' (Cheung 2009: 104). As the PRC becomes more influential, the onus will be on whether Taiwan can mediate its political position due to the leverage Beijing will enjoy over the island. The election of President Ma is a welcome step from a PRC perspective in this regard as it holds a more conciliatory perspective on the 'one-China policy'.

What is clear from an analysis of deepening socio-economic relations analysed above is a convergence of several factors. The social and economic forces within the relationship are increasingly faced with awkward choices 'opened by the emerging geo-political/geo-economic/nationalist interface' (Sum 1996: 65). The resulting consequence expresses itself in the form of an identity struggle between alternative discourses, conducted by official state actors. The most significant discourse revolves around the contradictory 'pragmatic nationalism' vis-à-vis democratisation, economic reunification versus liberal indigenism, and one-China versus two China's (Sum 1996). The geo-political forces – a result primarily of the trilateral dynamic between the US-PRC-ROC is made more complex by the geo-economic-nationalist forces mentioned above that exist in the regional bloc of Greater China. These forces are then reinforced on a discursive level, by an imagined identity of Greater China (Sum 1996) and the constraining influence of President Lee Teng-hui and his idea of "Taiwan" (Bruce Jacobs & Ben Liu 2007).

The most significant discourse concerns democratisation vis-à-vis pragmatic nationalism (Sum 1996). Within this context there is much speculation about the essence of Chinese identity. While many scholars emphasise nationalism and the feelings of a 'century of humiliation' suffered at the hands of Western powers, others emphasise the pragmatic rationale inherent within China's 'peaceful rise' strategy. For example, Kang (2008: 79) stresses that while elements of a preoccupation with competition with the West and Japan, combined with nationalist sentiments 'do exist, they are not in fact the only or even the key elements of Chinese identity'. Indeed Kang (2008: 79) articulates that two aspects of Chinese identity are the most important: sovereignty and the absence of territorial ambition. This argument carries a certain amount of credence. Modernisation is the PRC's number one objective in its national security strategy and further reinforces the assertion that there is potential for a shift in cross-Strait relations. However, this essay argues that Taiwan an exception.

As Sutter (2004: 225) quotes a senior PLA officer 'despite China's recent emphasis on China's overall peaceful rise and peaceful development, Beijing was prepared at any time to launch a short and strong "military strike'. To be clear, Mainland China believes that Taiwan is part of China. Moreover, Beijing will not tolerate Taiwan independence, and is prepared to fight a war over it. This is not only because of the strategic location of the island (Yu 2006) but also for reasons of Chinese nationalism (Hao 2006). In Mainland China what Hao classifies as 'collectivistic ethnic nationalism' dominates as it does in Taiwan. Taiwan is the last symbol of China's humiliating history over the last one hundred and fifty years and thus, 'it is unlikely to be erased from the Chinese memory' (Hao 2006: 68). Chinese nationalism is thus a key challenge to PRC reconciliation, as Wang (2004: 304) states 'China's assertive nationalism is a force to be reckoned with'. It is for these reasons that Taiwan remains the major flashpoint in East Asia and indeed the world whose roots remain as an outpost of Cold War-civil war conflict (Callahan 2004).

Whether there is a diminishing appetite for Taiwanese independence is the key to whether the PRC will consider using military force. Independence and nationalist identity rhetoric overlaps with economic integration analysed

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above. Some scholars suggest the Taiwan's public opinion is 'entrenched' (Keng et al 2006). Keng et al's study (2006: 238) utilises a theoretical conception of Taiwan public opinion that suggests the forces supportive of 'sensitivity' (national identity) overwhelms Taiwanese 'sense' (rational pursuit of personal gain enjoyed through economic integration). A contradictory conclusion is provided by Wong (2010) who contends that there is a definitive division among the pan-blue (pro integration) and the pan-green (independence, anti-integration). Here Wong asserts that public opinion is simply a result of the haves and the have-nots. Not surprisingly the haves who benefit from increased economic integration favour a more reconciliatory approach to the Mainland, while the have-nots do not participate in economic integration and therefore hold a much more 'nationalist' perspective regarding economic integration and political reconciliation. This is supported by Cheung (2009: 105) who observes that the economy of Taiwan dichotomises between two groups: the haves and the have-nots.

Despite these alternative opinions, this essay argues that the majority of people in Taiwan favour the existence of the current status quo. This is supported in Kang (2008: 97) who states a poll conducted by the Taiwanese Institute for National Policy found that '67 per cent of respondents preferred maintaining the status quo'. This supports the essay's central assertion that the deepening of socio-economic relations suggests a 'new era of peace' to a significant extent, at the very minimum in the maintenance of the current status quo. This is supported by Hsieh (2006: 484) who states 'it should be noted there are now more people favouring the status quo than either independence or unification'. Whether these socio-economic forces are strong enough to represent a fundamental shift away from political realism in the long term remains to be seen. Perhaps the only possible scenario that would facilitate such a fundamental shift would be China's democratisation. As it stands Taiwan cannot trust China while it is not a democracy (Bullard 2007).

This essay argues that factors fundamental to political realism are significant constraining influences in assessing to what extent deepening socio-economic factors suggest a new era of peace. The US and the PRC are the most important actors within the cross-Strait dynamic due to their geo-strategic capabilities. This essay argues 'Chinese leaders are in essence realists. Their making of Chinese foreign policy often starts from a careful assessment of China's relative power in the world' (Zhao 2012: 377). This perspective of world politics is not incompatible with China's main policy priority of modernisation; indeed it is very much compatible. The PRC followed a policy of *taoyuang yanghui* because it recognised its limited power and geostrategic position (Zhao 2012). This is apparent in the PRC's more assertive behaviour in the wake of the global financial crisis.

The US has not remained inactive either. This is evident in the current US 'pivot to Asia' that as recently as today culminated in the USS Freedom being deployed to Asia. This warship is the most advanced of the US navy and deployment is part of an effort for 'a more nimble and efficient naval force for Asia-Pacific operations' (Al Jazeera 2013). There can be little doubt that the deployment of the USS Freedom is designed to support the US deterrence capability operating within the region. US deterrence is the primary reason why the PRC has not attempted to take Taiwan militarily (Yu 2006).

In conclusion, while to a significant extent socio-economic relations encourage and maintain a peaceful era in the short to medium term, political factors fundamental to political realism severely constrain the development of these relations in the long term. This essay argues that the deepening of socio-economic factors represents a potential for a shift in cross-Strait relations. This is evident in the weakening of nation-state borders inherent from a transnational perspective and the emergence of developments at a micro level of governance. Possible implications indicate that the closer the two sides get, the more likely they are to adopt a more conciliatory approach towards one another.

To be clear, the emphasis placed upon economic integration adopted by the Mainland helps to achieve several critical long term goals in relation to EIU. Beijing hopes to create a domestic constituency on Taiwan favourable to accommodation. Beijing also believes interdependence will alleviate calls for independence and the fears of unification with the Mainland. Key to this process is the benefits accrued by Taiwanese Taishang in terms of trade and investment. Furthermore, and perhaps most importantly Chinese leaders realise that economic interdependence, arguably dependence will result in increased political leverage over the island.

Taiwan on the other hand is far more vulnerable to economic leverage exerted by the PRC. As a result, 'China's

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policy of inducing asymmetric interdependency with Taiwan have been highly successful (Clough et al 1996: 10). Moreover, economic integration has culminated in a spill over of increasingly important social factors. These are deliberately aimed at decreasing the forces for independence on the island. While there is ambiguity as to the effectiveness of these attempts, the deepening of socio-economic factors has brought the two sides closer together. This culminates in the possibility for a more conciliatory stance adopted by both sides, particularly Taiwan in the long run.

However, these developments have resulted in an increased effort by diplomatic actors to realign identities within Taiwan. The assertiveness of Chinese nationalism, the geo-strategic importance of Taiwan and the predominance of a realist mentality within the upper-echelons of the PRC leadership are all important factors conditioning short to medium term potential for peace. Combined with these factors is the influence US exerts as most significant actor within the trilateral PRC-US-ROC relationship. From a realist perspective, US deterrence is the primary influence on maintaining the current status quo across the Straits. One can conclude from this analysis that nationalist sentiments constraining transnational integration and political realism regarding one's vital national interests and the protection of national integrity are the key components constraining a new era of peace in the long term. The rise of Taiwanese and Chinese nationalism amidst the globalisation process is an indication of the important attributed to realism in the cross-Strait relationship. Despite the prominence of these factors, it is important to also emphasise that significant developments have been made when accepts the weakening of a primary nation-state analysis. Taking this into account, if not a 'new era of peace' then at that the very minimum, a continuum of the current status quo that is likely to prevail across the Taiwan Straits.

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