

# Crouching tiger, lurking dragon: understanding Taiwan's sovereignty and trade linkages in the twenty-first century

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Accepted 1 September 2014

## Abstract

This paper seeks to explore and explain the process through which Taiwan utilizes free trade – both at multilateral and bilateral levels – in enhancing its shrinking de facto sovereignty against the backdrop of ubiquitous 'China factor' in the twenty-first century. It argues that China's sinicization project creates a scenario wherein increasing cross-strait stability ironically leads to decreasing de facto sovereignty for Taiwan. Due to this existing cross-strait security dilemma, Taiwanese leaders are being forced to preserve the island's quasi-independent statehood due to fears of losing its remaining de facto autonomy over domestic and foreign affairs. In essence, Taiwan chooses to be de facto free by remaining de jure unfree. Taiwan's sovereign space, therefore, becomes a pivotal

referent object of its national security policy and strategy. Balancing between the two paradoxical interests of enhancing sovereignty while maintaining the Chinese-dominated cross-strait status-quo underlines the relentless games, changes, and fears that Taiwan confronts today.

## 1 Introduction

Given the ubiquitous ‘China factor’ shrouding the international system, the paper argues that the primary referent object of Taiwan’s national security policy and strategy (NSPS) is its diminishing sovereign space. The term sovereign space in this context particularly refers to Taiwan’s de facto domestic and interdependence sovereignty, as opposed to de jure international legal sovereignty.<sup>1</sup> As Stephen Krasner (2009) has succinctly put it, sovereignty is ‘the golden ring that political leaders hope to grasp.’ However, the complexities surrounding the politico-diplomatic relations between the ROC and the PRC prevent the former from claiming de jure sovereignty.<sup>2</sup> This results in the continued non-diplomatic recognition of Taiwan as a legitimate state in the international arena (Rich, 2009). Consequently, Taiwan is being forced to resign itself to the vulnerabilities and vicissitudes stemming from its insecure and incomplete sovereignty that continuously contracts as China’s sinicization<sup>3</sup> project progresses.

In attempts to prevent the complete co-optation of Taiwan within Beijing’s One-China trajectory (and therefore, the complete obsolescence of its de facto sovereignty), the paper argues that Taiwanese officials and policymakers are increasingly turning into various forms of free trade agreements (FTAs). Taiwan’s experience with free trade underlines the mutually reinforcing and constitutive multilateral trade agreements and bilateral trade agreements in preserving and enhancing its sovereign space. For

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1 Stephen Krasner (2001) defines domestic sovereignty as the actual control over a state exercised by an authority organized within this state; interdependence sovereignty as the actual control of movement across state’s borders, assuming that the borders exist; and international legal sovereignty as formal recognition by other sovereign states. See also, Rich (2009), Thompson (2006), Kingsbury (1998), Clapham (1998), and Jackson (1990) for a more detailed analysis of different types and degrees of sovereignty.

2 The names ‘Taiwan’ and ‘Republic of China (ROC)’ are used interchangeably in this chapter, as with ‘China’ and ‘People’s Republic of China (PRC)’.

3 Sinicization or Chinalization in this context refers to the policies of acculturation, assimilation, or cultural imperialism of neighboring cultures, specifically Taiwan, to China.

instance, when Taiwan was barred from the GATT,<sup>4</sup> its bilateral trade with the United States ensured that the country's trade regime was complementary to the existing multilateral framework. Conversely, when tensions across the Taiwan Strait escalated, the WTO served as an avenue for reconnecting Taiwan and China (Hsieh, 2005, 2011; Huang, 2009).

However, these two forms of FTAs engender unique power dynamics. At the bilateral level between Taiwan and the United States or Taiwan and China, Taipei is unable to adopt a more assertive strategy with respect both to the Washington and Beijing (Bhagwati, 1991, 1990; Collie, 1997; Huang, 2009). Meanwhile, at the multilateral level, specifically within the WTO, smaller and weaker countries like Taiwan are able to forge strategic coalitions that enhance their collective bargaining power that is crucial during negotiation processes (Cho, 2005; Hsieh 2005; Charnovitz, 2006; Huang, 2009). Hence, Taiwan's active participation in both bilateral and multilateral trade is necessary for the enhancement of its *de facto* sovereignty. To this extent, free trade may be viewed as a sovereignty-upgrading mechanism. However, the ongoing sinicization project being carried out by Beijing via the aggressive promotion of its One-China policy significantly undermines Taiwan's capacity for engaging in these sovereignty-enhancing FTAs.

Against this backdrop, the paper examines Taiwan's participation in both bilateral and multilateral FTAs to analyze their impacts on its *de facto* sovereignty. In doing so, the sections explore the different facets of existing cross-strait security dilemma that will explain the decision of the Taiwanese government to retain its quasi-independent status and that is to preserve its remaining sovereign space. Put differently, the only way for Taiwan to be *de facto* free is by remaining *de jure* unfree. However, such engagement approach creates a dilemma that further reinforces the Chinese-dominated cross-strait status-quo. On the one hand, recalibrating the present cross-strait environment either by pursuing *de jure* independence or complete unification with China invariably threatens Taiwan's sovereign pace given the primacy of Beijing's One-China policy. On the other hand, pursuing either conditional or unconditional engagement with China unvaryingly imperils Taiwan's *de facto* sovereignty as well due to the likelihood of overdependence.

4 Formed in 1947 and signed into international law on 1 January 1948, GATT remained one of the focal features of international trade agreements until it was replaced by the creation of the World Trade Organization on 1 January 1995. For more details, see, WTO website, available online at <http://www.wto.org/>.

In light of this, the paper attempts to answer the following sets of question. First, how do bilateral and multilateral FTAs affect Taiwan's de facto sovereignty amid China's ongoing sinicization project? Do they enhance or undermine Taiwan's remaining sovereign space? Second, why does Taiwan's de facto sovereignty seem to be more conducive for pursuing FTAs as opposed to de jure sovereignty? How does this affect the existing cross-strait status-quo? And third, what are the factors that limit the capacity of FTAs for enhancing Taiwan's de facto sovereignty?

The paper is divided into five sections. Section 1 provided the context through which Taiwan's security–trade linkages in the twenty-first century will be examined. It argued that against the backdrop of omnipresent China factor, the primary referent object of Taiwan's NSPS is its diminishing de facto sovereign space. And in preserving Taiwan's remaining sovereign space, the Taiwanese government actively participates in various free trade activities both at multilateral and bilateral levels. Section 2 briefly examines Taiwan's politico-diplomatic history in order to trace the root of its quasi-autonomous status that results in Taipei's relentless battles for international recognition. It provides preliminary understanding of the importance of economic engagements, mainly via free trade, in eking out a wider space for Taiwan in international politics despite limited formal recognition. Section 3 evaluates Taiwan's experience with bilateral and multilateral trade. It explores the impacts of Taiwan's free trade activities on its sovereign space, which to certain extent, highlights the contrast between Taiwan's political clout and economic clout. Section 4 identifies some of the factors affecting the capacity of FTAs for improving Taiwan's de facto sovereignty. It explains why de facto sovereignty tends to be more favorable than de jure sovereignty when pursuing Taiwanese FTAs and assesses how internal (domestic politics) and external (engagements strategies) factors limit the sovereignty-upgrading potential of FTAs. Section 5 concludes that the warming of cross-strait relations is similar to fraying the frog with warm water. That is, the normalization of cross-strait political and economic relations without the legal recognition of Taipei's sovereignty inevitably absorbs Taiwan within Beijing's One-China trajectory.

## 2 The genesis of Taiwanese sovereignty dilemma

Analyzing Taiwan's cross-strait engagement policies and strategies requires an understanding of significant events that took place after the Second

World War.<sup>5</sup> The important decisions taken by Washington and Beijing with respect to Taipei's international status significantly influenced the nature of its statehood as a 'floating' de facto sovereign territory. Japan's defeat in World War II (WWII) left Taiwan under the temporary leadership of the Republic of China – Kuomintang (KMT) party (Hsieh, 2005, 2011; Huang, 2009; Rich, 2009). The strong support initially provided by the United States in the aftermath of WWII enabled Taiwan's accession to the United Nations (UN), becoming one of its founding members (Huang, 2009). In 1945, Taiwan was granted a permanent seat in the United Nations Security Council, and two years later, it became a GATT contracting party while still in control of mainland China (Hsieh, 2005, 2011; Huang, 2009).

The ensuing political crises and social unrests, however, drastically transformed the status-quo when KMT was defeated by the Chinese Communist Party in the 1949 (Hsieh 2005, 2011; Huang, 2009; Rich, 2009). This forced the KMT to relocate its government to Taiwan and revoke its GATT membership the following year (Hsieh, 2005, 2011; Huang, 2009). On 8 September 1951, Japan officially renounced its rights over Taiwan in the San Francisco Peace Treaty without formally endorsing a party successor (Huang, 2009). While KMT and CPC both agreed that Taiwan was part of the mainland, however, both parties also claimed legitimate authority over the whole China (Hsieh, 2005, 2011; Huang, 2009).

Fearing that a CPC-led China might further reinvigorate communist sentiments in region, the United States intervened by pressuring Japan to enact another treaty with the KMT (Huang, 2009). In April 1952, Japan and Taiwan signed a new agreement known as the Treaty of Peace between ROC and Japan, which effectively undermined CPC claims (Taiwan's Document Project, 1952). Upon the treaty's ratification, Taiwan was immediately absorbed within the United States' anti-communist regional alliance in Asia-Pacific (Huang, 2009). As a member of this elite circle, Taiwan enjoyed a number of valuable concessions including economic aid and politico-diplomatic support from 1950 until mid-1960s. In 1967, Taiwan rejoined GATT after being granted an observer status (Huang, 2009).

In the late 1960s, however, American foreign policy took a dramatic turn as it began to consider the inclusion of communist PRC into its

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5 The names 'Taiwan' and Republic of China (ROC) are used interchangeably in this paper, as with 'China' and 'People's Republic of China (PRC)'.

anti-Soviet coalition (Huang, 2009). This bargaining with China produced three joint communiqués, which sealed the fate of Taiwan as a ‘non-existing’ state, namely: (i) Shanghai Communiqué in 1972, (ii) Normalization Communiqué in 1979, and (iii) Arms Sales Communiqué in 1982 (US Department of State 1972; Taiwan’s Document Project, 1979; Taiwan’s Document Project, 1982). These three separate communiqués had one underlying theme, that is, a ‘One-China’ policy which the United States had to recognize if it were to win China’s support (Huang, 2009; Lee, 2010; Wang *et al.*, 2010). Consequently, the PRC took over ROC’s seat in the UN in 1971, forcing the latter to withdraw and again from GATT during the same year (Huang, 2009).

With the United States’ recognition of PRC as the seat of Chinese government, ROC’s most important partner terminated its diplomatic relations with Taipei and passed the Taiwan’s Relations Act (American Institute in Taiwan, 1979). The said Act had formally denounced Taiwan’s bid for independence by officially endorsing a position that there was but one China and that Taiwan was part of China. Nonetheless, the said document also stated America’s intention of maintaining strong, unofficial relations with the island as a means of promoting peace and stability in Asia-Pacific. This new mandate required the establishment of the American Institute in Taiwan, a nonprofit corporation responsible for handling official policy-related dialogs and exchanges between ROC and the United States and replacing Taiwanese official ministries (Huang, 2009). In response, Taipei instituted the CCNA or Coordination Council for North American Affairs in 1979 under the purview of the MFA or Ministry of Foreign Affairs (Huang, 2009). The said body was responsible for the administration and coordination of bilateral matters between ROC and the United States. Although these ‘unofficial’ economic and politico-strategic exchanges redefined US-Taiwan diplomatic relations, other states, however, had decided to formally end their diplomatic ties with Taipei, bringing down the number of its political allies from 59 in 1971 to 22 in 2013 (Executive Yuan, 2012).

Given the ROC’s significantly reduced political clout, economic engagements, mainly via free trade, become crucial strategies for carving out a wider space in international politics amid the insecurities and uncertainties induced by its sudden diplomatic demotion.

### 3 Free trade as sovereignty-upgrading mechanism

#### 3.1 Taiwan's multilateral trade

*The Road to the WTO.* Taiwan's accession to the WTO in 2002 under the official name of 'Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu' (TPKM) was largely deemed by Taipei as a diplomatic triumph in light of its previous isolation from the international arena processes (Hsieh, 2005, 2011; Huang, 2009; Lee, 2010; Zhao and Liu, 2010). The Taiwanese government has proudly emphasized the diplomatic significance of its accession to the WTO, and its benefits to local industries and firms, as well as ordinary citizens. Given Taiwan's limited natural resources, it is imperative for the government to actively engage in free trade activities. As such, trade has been an important component of Taiwan's economic statecraft particularly after reorienting its trade strategy in the late 1950s when it shifted from import substitution to export promotion processes (Hsieh, 2005, 2011; Huang, 2009; Lee, 2010; Zhao and Liu, 2010).

While the country's economy has managed to grow rapidly over the past decades even without the benefits from being a GATT member, nevertheless, Taiwanese officials agreed that membership to international organizations could enhance these gains, especially for small powers like Taiwan (Hsieh, 2005, 2011; Huang, 2009). Accession to the WTO, for instance, was expected to improve overall economic efficiency necessary for increasing trade and income levels (Chou *et al.*, 1997). Such initiative has inevitably led to a number of structural reforms such as the abolishment of quantitative restrictions to trade, depreciation of the Taiwanese dollar, and fixing of convoluted multiple exchange rates system (Chou *et al.*, 1997). The range of forbidden and controlled imports was also substantially cut down, and licensing procedures were adopted to ensure health and safety standards (Chou *et al.*, 1997). It is worth noting that even before Taiwan's accession, it has already implemented WTO-consistent reforms and policies (Charnovitz, 2006; Chang and Goldstein, 2007; Yang, 2007; Huang, 2009). The positive results that Taiwan has reaped from the WTO so far can be attributed to its exceptional preparedness in adopting high levels of economic liberalization (Yang, 2007). For instance, Taiwan's average nominal tariff a year prior to its official accession was already at 6.0%, a

level that is comparable to those in advanced WTO countries (Huang, 2009; Chang and Goldstein, 2007; Yang, 2007).

Taiwan's application to the WTO was filed in January 1990, but it took another twelve years before it was finally approved (Hsieh, 2005; Charnovitz, 2006; Yang, 2007; Huang, 2009). There are three common factors that prevent applicants from immediate accession to the WTO, these are: (i) more complicated WTO rules, (ii) non-market economies, and (iii) demands for greater concessions and more aggressive commitments from existing WTO members (Langhammer and Lucke, 1999; Huang, 2009). Taiwan, however, has completed all WTO requirements as early as 1998 (Liang, 2002; Yang, 2007; Huang, 2009). In fact, at the time of its application, Taiwan's trade regime was far more liberalized than most of developing members in the WTO (Liang, 2002; Yang, 2007; Huang, 2009). In short, the amount of time it took to approve Taiwan's application should have been significantly shorter.

The biggest delaying factors in Taiwan's case were politically charged. On the one hand, were issues relating to its contested sovereignty, and on the other hand, were concerns relating to its volatile relations with China (Hsieh, 2005; Huang, 2009). When China renegotiated its WTO membership with the United States after its temporary withdrawal following the Tiananmen Square incidence in 1989, the two parties agreed that Beijing would not block Taipei's accession (Liang, 2002; Huang, 2009). In exchange, it was also agreed that China would be granted membership prior to Taiwan (Liang, 2002; Huang, 2009). This was explicitly tackled during the GATT Council Meeting on 29 September 1992, which acknowledged the One-China principle as stated in the UN General Assembly Resolution 2758: 'Many contracting parties, therefore, had agreed with the view of the People's Republic of China (PRC) that Chinese Taipei, as a separate customs territory, should not accede to the GATT before the PRC itself.' (GATT Council, 1992) This proved to be a painful process for Taiwanese officials because despite their preparedness, incumbent WTO members declined to conclude any form of agreements with Taipei since Beijing's application was still in pending (Liang, 2002; Yang, 2007; Huang, 2009). Consequently, all negotiations with Taipei had to remain open and were sometimes repeated even when there was nothing more to add or to discuss (Liang, 2002; Yang, 2007; Huang, 2009). China's inefficiency in implementing the required structural reforms into its non-market economy, as well as its ineffectiveness in bargaining with other members,



mired Taiwan's negotiation activities (Huang, 2009). Finally, a day after China's accession to the WTO on 10 November 2001, Taiwan was granted a membership status as a separate custom territory (Liang, 2002; Cho, 2005; Hsieh, 2005; Yang, 2007; Huang, 2009).

*The ubiquitous China factor.* The WTO, unlike any other existing international institutions, does not require potential members to be sovereign states to gain accession. This unique constitutional feature of the WTO has enabled a form of 'cross-strait co-existence' between the ROC and PRC within the same multilateral space as 'co-equal' or parallel members (Cho, 2005; Hsieh, 2005; Charnovitz, 2006; Huang, 2009; Bush, 2011). Hence, while Taipei's WTO accession cannot be regarded as a bilateral accord with Beijing; nonetheless, it helped in facilitating some semblance of rule of law between the two parties. In addition, it allowed the Taiwanese government to stand in an international tribunal through the organization's Dispute Settlement Understanding when disagreements over WTO rule and procedures other members arise (Hsieh, 2005; Charnovitz, 2006). As pompously stated in the 2001 Mainland Affairs Council (MAC) report (cited in Cho, 2005, p. 743):

Taiwan and mainland China will be two independent, parallel, and equal members. The WTO mechanism offers the two sides a new channel for communication, dialogue, and consultation. The two do not have to set any preconditions or prerequisites. They can conduct dialogue and consultation on mutually concerned issues based on the WTO rules and framework.

However, questions remain as to whether or not China intends to acknowledge Taiwan's co-equal status within the WTO given its continual claim of legitimate sovereignty over the island, along with its long-term goal of reintegrating it with Mainland. From the Chinese perspective, Taiwan remains to be a province of China with or without 'peaceful unification' (Lee, 2010; Zhao and Liu, 2010; Clark and Tan, 2012). As such, Beijing promotes a WTO framework with 'One-China gestures' by rejecting anything that connotes the presence of two Chinas (Cho, 2005, p. 751). Such gestures are intended to castoff any political implications that might arise from China's compliance with WTO rules in relation to Taiwan at the global level. In addition, it aims to emphasize that adherence to these multilateral agreements does not, in any way, nullify Beijing's One-China principle. In short, these

One-China gestures aim ‘to tell the world that interactions with Taiwan are not international affairs but internal matters’ (Cho, 2005, p. 752).

A concrete example is the ‘nomenclature war’ launched by China against Taiwan as a subtle form of protest over their parallel status in the WTO. For instance, China uses the name ‘Chinese Taipei’ instead TPKM to refer to Taiwan in the WTO and insisted that all members must follow the same (Cho, 2005; Charnovitz, 2006). It did not hesitate from calling the attention of representatives from other countries that made the mistake of calling TPKM, ‘Taiwan’ during formal or informal sessions (Cho, 2005; Charnovitz, 2006). Moreover, China prefers to use Chinese language when preparing official WTO documents that pertain to Taiwan and rejects TPKM documents that bear the name of ‘Republic of China’ (Cho, 2005). Such gestures are meant to send the message that the island is part of China’s separate customs territories just like Hong Kong and Macao (Cho, 2005; Charnovitz, 2006). Hence, from the Chinese standpoint, WTO dialogs between Beijing and Taipei are domestic concerns of a single country with several subsidiaries (Cho, 2005).

Yet, in July 2005, CNA Taiwan reported China’s formal recognition of Taiwan’s TPKM title but demanded the cancelation of diplomatic titles given to some members of the Taiwanese Mission (cited in Charnovitz, 2006, p. 417). The WTO Secretariat granted the appeal and removed these titles from the updated version of its Members Directory, provoking Taipei officials to accuse the organization of ‘throwing away its neutrality under pressure from China.’ (Bishop, 2005) At present, only the top two officials at the nation’s Permanent Mission to the WTO are identified by their respective titles, while all lower-ranking representatives only have their names and areas of expertise listed (Cho, 2005; Charnovitz, 2006).

These nomenclature discriminations and One-China gestures toward Taiwan are intended to challenge the legitimacy of government’s equal standing in the WTO (Cho, 2005; Charnovitz, 2006). As far as Beijing is concerned, Taiwan’s WTO accession is solely based on its status as one of China’s separate customs and territories (Cho, 2005; Charnovitz, 2006). Hence, it cannot and should not have a legal standing of its own within the said institution. Through these projections, Beijing is able to effectively portray its relations with Taipei as a local affair between Mainland and one of its customs territories. China’s rejection of Taiwan’s independent legal status at the WTO explains its continuous refusal to conduct bilateral dialogs concerning cross-strait issues at a multilateral level.

### 3.2 Taiwan's bilateral trade

*The US–Taiwan bilateral relations.* Taiwan's bilateral trade experience with the United States must be examined against the backdrop of its inability to access both the UN and GATT. The power asymmetry between the two parties enabled the United States to manipulate and exploit Taiwan's policy mechanisms (Hsieh, 2005; Huang, 2009; Lee, 2010; Zhao and Liu, 2010; Hsieh, 2011). In essence, bilateral trade relations between the two were more unilateral than bilateral given the United States' dual role as negotiator and arbitrator. This has enabled the former to act 'manipulatively' and 'exploitatively' toward the latter (Bhagwati, 1990; Krugman, 1991; Zartman and Rubin, 2000, p. 275). Taiwan's proposals for creating dispute settlement mechanism to resolve trade issues were rejected by the United States since bilateral agreements do not allow for it (Charnovitz, 2006; Huang, 2009). Accordingly, throughout the negotiation processes, Taipei followed a defensive strategy, acknowledging its lack of any tangible control over trade matters raised by the United States (Huang, 2009).

Although Taiwan's contested statehood was a critical factor for explaining its weak bargaining leverage, nonetheless, the island's excessive dependence on Washington and its lack of access to multilateral trading system further aggravated its position relative to the United States (Huang, 2009; Lee, 2010; Bush, 2011). Given the Taiwanese government's passive and defensive posture, it failed to capitalize on US bilateralism in promoting its political and economic diplomacy objectives (Huang, 2009; Tucker, 2009; Lee, 2010). Despite Taiwan's mediocre performance in US–Taiwan trade talks, several important lessons were learned that helped the government in its successful bid for a WTO pass. For one, Taiwan's experience with US bilateralism made it easier for the country to adjust to the GATT framework (Cho, 2005; Hsieh, 2005; Charnovitz, 2006; Huang, 2009). The country's trade regime was in line with the regulations and procedures being followed in the WTO, which made the transition from bilateralism to multilateralism relatively smooth (Chou *et al.*, 1997; Huang, 2009). Taiwan's prior bilateral engagements with the United States, therefore, helped the former in preparing for its accession to the WTO. As Siew affirmed (cited in Huang, 2009, p. 49):

Taiwan's connection to the international regime and the rules of the game were established in the period of US–Taiwan trade negotiations.

Without such experience, the Americans would not like to help Taiwan join the GATT/WTO while under the pressure from the PRC.

Notwithstanding Taiwan's limited capacity for effectively balancing the asymmetric US power, bilateralism between the two has been instrumental for successful integration of the former within the WTO. This milestone has significantly contributed to the development of Taipei's diplomatic scope. Upon its entry to the WTO, Taiwan was able to conduct positive diplomatic activities through various multilateral mechanisms that have helped in the expansion of its sovereign space. These include: (i) application to other multilateral institutions such as the World Health Organization and the Organization for Economic Cooperation and Development, (ii) participation in negotiating groups within the WTO such as the group of 'Very Good Friends' on Service, the group of 'Anti-dumping Friends', the group of 'Friends of Environmental Goods', and the G10, and (iii) establishment of diplomatic dialogs with other countries applying for accession after 2002 (Huang, 2009).

*The China–Taiwan bilateral relations.* A critical glitch in Taiwan's foreign economic policymaking stems from its statehood dilemma induced by China's continual rejection of its sovereign status. This creates serious politico-diplomatic constraints that limit the trade policy options available for Taiwanese leaders, unable to develop either substantive or tactical FTAs with their prospective partners.<sup>6</sup> As one of the biggest export-oriented economies in the region, forging bilateral and/or regional FTAs with other countries is instrumental for securing Taiwan's preferential access as the WTO Doha Round staggers to a stalemate (Dent, 2002, 2005, 2006; Hong, 2012). Moreover, FTAs can serve as platforms through which the country's sovereignty can be positively expressed, thereby expanding its China-centric diplomacy track (Dent, 2002, 2005, 2006; Hsieh, 2005; Bush, 2011; Hong, 2012) The 'bandwagoning effect' of FTA proliferation compels Taiwan to negotiate and conclude trade agreements to avert the risks of further marginalization.<sup>7</sup>

6 For a detailed discussion on 'tactical' and 'substantive' forms of FTAs, see Aggarwal and Govella (2013), p. 1–22.

7 For in-depth discussion on FTA's 'bandwagoning effect,' see, Bhagwati and Krueger (1995).

Given the debilitating effects of China factor, Taiwan begins to link its security motives with FTA agendas, amalgamating economic and politico-strategic objectives. Taiwan's FTA plans, therefore, are not only substantively informed but are also tactically linked to its national security. Preferential FTAs provide Taiwan a sense of heightened security by minimizing its degree of dependence on China (Dent, 2002, 2005, 2006; Hong, 2012). Hence, FTAs become an attractive medium of escape for Taiwan. The fear of being marginalized further from intensifying regional integration compels Taiwanese policy elites to craft economically lucrative FTAs that will entice potential partners to look beyond the country's contested statehood (Hong, 2012; Dent, 2002, 2005, 2006).

Inadvertently, the proliferation of FTAs has presented China a new instrument for undermining Taiwan's national security by hijacking its diplomatic space. The result is systematic marginalization of the island from significant global interactions. Beijing's forceful arguments in favor of a strictly state-to-state FTA negotiation further diminish Taiwan's international status (Hong, 2012; Dent, 2002, 2005, 2006). As an alternative, China is persuading Taiwanese policymakers to adopt the Hong Kong and Macau model for developing CEPA or Closer Economic Partnership Arrangement (Dent, 2006; Hong, 2012). Such proposition is deemed unacceptable by the ROC government as it not only contracts the country's diplomatic space but can also potentially lead to a dead-end One-China situation.

Nevertheless, since KMT's return to power in 2008 under the leadership of Ma, Taipei, has begun to downplay the importance of its sovereignty dispute with Beijing (Rigger, 2010; Wang *et al.*, 2010; Chow, 2012; Hong, 2012; Hwang, 2012). As a strategy, Ma launched the Economic Cooperation Framework Agreement (ECFA) in November 2008 and was warmly welcomed by China's Hu Jintao and became a law in January 2011 (Ministry of Economic Affairs, 2010). As a preferential trade agreement, the ECFA aims to reduce tariffs and commercial barriers between Taiwan and China and is considered as the most important agreement since the two sides split after the Chinese Civil War in 1949. From the point of view of Taiwanese government, the ECFA fulfills three main objectives: (i) promoting normalization of cross-strait economic and trade relations, (ii) preventing Taiwan's marginalization from regional economic integration, and (iii) enhancing Taiwan's status as a regional investment hub (Mainland Affairs Council).

The ratification of ECFA impacts several facets of Taiwan's cross-strait relations with China. The deepening asymmetric interdependence between ROC and PRC due to ECFA can be interpreted both in economic ('sensitivity interdependence') and politico-strategic ('vulnerability interdependence') contexts.<sup>8</sup> From an economic context, sensitivity interdependence occurs when economic events in China create externalities that ramify across Taiwan, and vice versa, such as large shifts in prices and disruptions of supply chains (Kahler and Kastner, 2006; Kastner, 2006, 2013; Hong, 2012). The economic fates of both states, therefore, become inextricably linked together. Meanwhile, from a politico-strategic context, vulnerability interdependence arises when imbalanced cross-strait relations allow the stronger party to utilize its power to transform the weaker party's trade policies to its uncontested advantage, such as in the case of ECFA (Kahler and Kastner, 2006; Kastner, 2006, 2013; Hong, 2012). Once dependency has been established, the dominant partner begins to introduce extra conditionalities which cannot be refuted by the weaker party since the risks of termination have gone too high (Chow, 2012; Hong, 2012; Hwang, 2012).

On the one hand, the preferentiality and exclusivity being derived from ECFA integrates Taiwan and China more deeply, and as such, increases the costs of defection (Kahler and Kastner, 2006; Kastner, 2013). Economic Cooperation Framework Agreement may also be seen as an added layer of protection against Taiwan's further relegation from the international trading system (Chow, 2012; Hong, 2012; Wu, 2012). It is envisioned to enhance the country's industrial competitiveness by attracting more FDIs, hence strengthening its position in the rapidly expanding Chinese market (Chow, 2012; Hong, 2012; Wu, 2012). In short, it is the prototype for Taiwan's future FTAs with prospective partners other than China. Beijing had promised to support Taipei's efforts in negotiating FTAs with other small powers like Singapore and New Zealand to begin carving its international space under the purview of One-China principle upon ECFA's implementation (Dent, 2006; Hong, 2012). Due to China's politico-strategic motives, however, the possibility of Taiwan forming FTAs with other powerful nations such as the United States, Japan, EU members, and ASEAN as a whole remains unlikely (Hsieh, 2011; Chow, 2012; Hong, 2012; Wu, 2012).

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8 For a more in-depth analysis of sensitivity interdependence, see Keohane and Nye (1977); for vulnerability interdependence, see Hirschman (1945).

Politically, ECFA is both a cause and effect of cross-strait pacification and, as such, can either reinforce or threaten stability across the Taiwan Strait. The main argument against ECFA, however, is that it can potentially result in the cession of Taiwan's de facto autonomy in exchange for limited economic benefits (Chen, 2012; Chow, 2012; Hong, 2012; Hwang, 2012; Wu, 2012). Critics point to the ambiguous, secretive, and undemocratic process through which ECFA has been negotiated and ratified by the two governments, rousing suspicions that the selling of Taiwan's national interests (Chow, 2012; Hong, 2012). Although the adoption of ECFA does not necessarily lead to unification as discussed earlier, the preferentiality afforded by ECFA to China may contribute to that end goal (Chow, 2012; Dittmer, 2012; Hong, 2012; Hwang, 2012; Wu, 2012). Similarly, the notion of normalization of cross-strait relations through ECFA is deemed by Beijing as a step closer toward unification (Hsieh, 2011; Chen, 2012; Chow, 2012; Hong, 2012; Dittmer, 2012). Arguments for protectionism, therefore, typically underscore the threats to ROC's national security induced by heightened economic engagements (Chen, 2012; Chow, 2012; Hong, 2012). Critics warn the government about China's attempts at unification via economics strategy for managing relations across Taiwan Strait (Chen, 2012; Dittmer, 2012; Hong, 2012; Muyard, 2012; Wu, 2012). Despite Taipei's discriminatory treatment against Chinese products, Beijing remains patient and compromising since it views ECFA negotiations as a positive function of One-China vision (Chen, 2012; Chow, 2012; Hong, 2012).

Beijing's insistence on a 'one country, two systems' approach for facilitating ECFA does not bode well for Taiwanese policymakers who favor normalization of the status-quo over political unification (Dittmer, 2012; Hong, 2012; Muyard, 2012; Wu, 2012). The manner with which the PRC is managing ECFA sends a strong message that it is viewed more as a domestic rather than an international agreement by Beijing. The fact that ECFA's legal documents do not include definite plans and schedules implies that both parties may not be able to fully comply with WTO rules regarding the proper implementation of FTA's. Hence, Taipei still considers multilateral trade under the WTO as the more preferred channel for asserting its sovereign claims and enhancing its national security given its constitutionally guaranteed equal rights that mitigates discrimination and precludes favoritism among members.

*Taiwan beyond the United States and China bilateral relations.* Immediately after ECFA's signing, Taiwanese officials have vigorously explored possibilities for developing FTAs with other nations. In fact, even prior to Taiwan's WTO accession, the government had already established the FTA Task Force in 2001, conducting feasibility studies on bilateral trade with partners such as Japan, New Zealand, Singapore, and the United States (EDN, 2010).

Although preliminary assessments seemed encouraging, it did not take long before China issued warnings to countries that were considering FTAs with Taiwan (Dent, 2006). This led to Singapore's reassessment of its FTA plans with Taiwan, arguing that any agreement between the two countries must be pursuant to the One China principle (Dent, 2006). And while both parties deemed such decision regrettable, nevertheless, FTA negotiations eventually led to indefinite suspension (Dent, 2006; Hong, 2012). Even the announcement made by Taiwanese government concerning the official title that will be used in signing FTA documents to downplay its contested statehood dilemma – Chinese Taipei instead of Taiwan – did not illicit positive response from prospective partners (Dent, 2006; Hong, 2012). Beijing, therefore, has discovered another effective mechanism for constraining Taiwan's diplomatic space by deliberately blocking its efforts at joining regional and/or transregional FTA activities.

Taiwan did manage, however, to conclude bilateral FTAs with four of its twenty-two official diplomatic allies, namely: Costa Rica, from October 2002; Guatemala, from March 2003; Panama, August 2003; and Nicaragua, from, April 2004 (Ministry of Foreign Affairs, 2014). The net economic benefits of Taiwan's bilateral trade deals with these Central American countries – estimated at around USD 324 million in 2004 – are relatively small, taking into account the associated costs for negotiating these FTAs (Dent, 2006). To this extent, it can be argued that Taipei's economic motives for concluding these bilateral agreements were only secondary to its politico-strategic motives. By signing these agreements, Taiwanese officials have gained vital first-hand experience with FTA formulations and negotiations. In addition, these accords have also set the stage for Taiwan's goal of expanding its diplomatic space amid strong pressure from Beijing to uphold the One-China principle.

Amid PRC's constant threats against ROC's FTA plans with non-diplomatic partners, Taipei has implicitly retaliated by adopting a stealthy approach to conducting preferential trade negotiations (Dent, 2006). The



lack of huge media attention on Taiwan's bilateral involvement is a key component of the government's strategy for capturing substantive and/or tactical FTAs (Dent, 2006). The first concrete results from these efforts were the signing of bilateral FTAs with New Zealand and Singapore in 2013, three years after ECFA's enactment. These events had somewhat ended looming speculations on Beijing's plan to abandon its promise of allowing Taiwan to conclude FTAs with other countries even after the passage of ECFA. Needless to say, Taiwan achieved major diplomatic milestones with the successful conclusions of its first two bilateral FTAs with non-diplomatic partners.

On 10 July 2013, Taiwan and New Zealand signed the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu (TPKM) on Economic Cooperation or ANZTEC (New Zealand Commerce and Industry Office, 2013). The said agreement is Taiwan's first FTA with a non-diplomatic partner that also has an existing trade arrangement with China. Taipei officials maintain that ANZTEC provides Taiwan the much-needed thrust for pursuing greater regional economic integration and opens new doors for similar agreements against the backdrop of warming cross-strait relations (White *et al.*, 2013). To avoid unnecessary diplomatic row with its second largest trading partner, the New Zealand government took a low-profile approach during negotiations (Craymer and Liu, 2013). Neither government sent senior ministers to witness the signing of ANZTEC, so as not to imply a 'state-to-state' affair. Instead, the pact's signing was concluded via webcast, enabling Taiwanese officials to witness the agreement without having to set foot in New Zealand territory.

Technically, ANZTEC is not a 'state-to-state' agreement since it was signed by the New Zealand Commerce and Industry Office in Taipei, and the Taipei Economic and Cultural Office in Wellington. This was later on confirmed by China's Foreign Ministry spokesperson Hua Chunying at a press conference held in Beijing on 10 July 2013:

Our position on the issue of Taiwan's foreign exchanges is consistent and clear. We have no objection to non-governmental business and cultural exchanges between foreign countries and the region of Taiwan but oppose the development of any official ties between them. Fair and reasonable arrangement could be made for Taiwan's participation in international activities through practical consultation across the Straits on the premise of

not creating ‘two Chinas’ or ‘one China, one Taiwan.’ (Consulate-General of the People’s Republic of China, 2013)

Following its game-changing FTA with New Zealand, on 7 November 2013, Taiwan signed another bilateral agreement with Singapore, called Agreement between Singapore and the Separate Customs Territory of TPKM on Economic Partnership or ASTEP (Ministry of Foreign Affairs, 2013). It is Taiwan’s first bilateral FTA with a non-diplomatic partner in Asia and represents the country’s hope to trigger a domino effect by encouraging other states to negotiate with it on similar trade accords without antagonizing Beijing. As with ANZTEC, both parties in ASTEP maintained a low-profile approach throughout the negotiation process to avoid offending Chinese sentiments (Wang, 2013). The deal was signed between the Singapore Trade Office in Taipei and the Taipei Representative Office in Singapore, implying a non-‘government-to-government’ agreement similar to ANZTEC. Taiwan’s Minister of Foreign Affairs David Lin is optimistic that both ASTEP and ANZTEC will enable the country to accede to plurilateral trade agreements such as the TPP or Trans-Pacific Partnership, and the RCEP or Regional Comprehensive Economic Partnership (Shih, 2013). Meanwhile, China threw caution to Singapore over its FTA activities with Taiwan, urging its government to recognize the existing One-China policy: ‘our position on Taiwan’s foreign interactions remains consistent and clear. We hope Singapore could abide by the One-China policy and deal with its economic ties with Taiwan in a prudent and proper manner.’ (Hsu and Poon, 2013).

The coming into fruition of ANZTEC and ASTEP can be indications that cross-strait relations are improving. The PRC is now more comfortable in giving ROC some room to navigate in the international arena, thereby enlarging its diplomatic space. However, the extent to which observance of One-China principle will influence Taiwan’s capacity at enhancing the level and quality of interactions in international platforms remains ambiguous. Notwithstanding these uncertainties, both ANZTEC and ASTEP represent a significant development as far as Taiwan’s ‘inexistence’ at the global arena is concerned and mark the beginning of thawing political barriers to Taiwanese sovereign statehood.

Overall, bilateral FTAs are vital tools for upgrading Taiwan’s de facto sovereignty as they enhance the country’s relations with non-diplomatic partners. While bandwagoning and domino effects of FTAs have

manifested in various Asia-Pacific countries, Taiwan, in contrast, has remained relatively idle due to its existing politico-diplomatic issues with China ([Asian Regional Integration Center, 2014](#)). Although recent events may have revealed a more positive Chinese attitude toward Taiwan's FTA goals, nonetheless, there are no guarantees that such behavior will last in the short, let alone long run. The Taiwanese government, therefore, tries to efficiently utilize the benefits from WTO membership. Unfortunately, the current WTO impasse poses yet another problem for the country that requires it to play a more pro-active role in helping other members reach a consensus on problematic trade issues. Hence, in the context of an omnipresent China factor, Taiwan is essentially facing a two-way free-trade stalemate, which invariably threatens its remaining sovereign space.

## 4 Limits to Taiwan's sovereignty-trade linkages

### 4.1 *Limits of domestic politics*

Different political actors have different views regarding the impacts of cross-strait trade relations on Taiwan's de facto sovereignty. On the one hand, the pan-green forces depict cross-strait trade engagements as threats to national security, and on the other hand, pan-blue forces highlight the security-enhancing features of such engagements.<sup>9</sup> Despite DPP's warnings about the imminent threats being posed by deeper economic engagement with the Mainland, the KMT still actively campaigns for enhanced Sino partnership to take advantage of the economic boom in China ([Lee, 2010](#); [Wang et al., 2010](#); [Zhao and Liu, 2010](#); [Chow, 2011](#)).

Thus, it is interesting to see how ordinary Taiwanese citizens view the intensifying cross-strait relations. Based on the survey conducted by the National Chengchi University in April 2007 during the time of then-President Chen of the DPP, cross-strait relations were seen more as a threat rather than reinforcement to Taiwanese sovereignty. 61.0% of the respondents demanded tighter regulations on cross-strait relations; 35.0% requested for fewer restrictions; and 4.0% favored the present status-quo

9 The pan-green force is consisted of the Democratic Progressive Party (DPP), Taiwan Solidarity Union (TSU), and the minor Taiwan Independence Party (TAIP). The pan-blue force is consisted of the Kuomintang (KMT), the People First Party (PFP), and the New Party (CNP).

(Wang, 2009). Upon the KMT's return to power in 2008 under Ma's leadership, the percentage of Taiwanese population that called for stricter regulations increased to 71.0%, whereas those that favored softer policies decreased to 26.0% (Wang, 2009). These results highlight the largely pessimistic views being held by Taiwanese citizens with respect to Taipei's engagement strategies with Beijing, specifically after the reopening of direct links to cross-strait relations. To some extent, these findings reflect the persistence of Taiwanese nationalism over fears of complete absorption within China's sinicization project.

Nevertheless, ECF's passage and implementation had seemed to alter Taiwanese perception toward China but not without deep polarization of local opinion. On the one hand, influential business groups along with some of the country's political elites are largely supportive of ECFA, citing huge economic gains as primary impetus for passing the agreement (Clark, 2009; Wang *et al.*, 2010; Hsieh, 2011; Clark and Tan, 2012). On the other hand, parties opposed to reunification plans with China, along with the local firms adversely affected by the agreement, argue that ECFA symbolizes Ma's long-term interest in selling Taiwan's sovereignty by ceding all its political and economic authorities to the Mainland (Tien and Tung, 2011; Hong, 2012). Despite this, results from the surveys conducted by the MAC in 2010 indicated a generally favorable Taiwanese attitude toward ECFA. 60.0% of the total number of respondents agreed that ECFA creates long-term positive impacts to the economy and 23.0% expressed less optimism about its promised effects, while the remaining 11.0% showed neutral support for the agreement (Mainland Affairs Council, 2010).

Furthermore, ECFA supporters argue that the citizens' favorable view toward the agreement is largely driven by the satisfying conditions it generates. 67.0% of survey participants expressed satisfaction with the ECFA, while only 33.0% claimed dissatisfaction (Mainland Affairs Council, 2010). With regard to ECFA's latent security threats against Taiwan's sovereignty, although 34.0% believed that the agreement undermines the country's de facto sovereignty, nonetheless, a much larger 66.0% downplayed the veracity of these threats (Mainland Affairs Council, 2010). With respect to ECFA's role in Taiwan's FTA promotion, 71.0% of the respondents viewed the agreement as a necessary precursor for capturing more FTAs in the future, thus, underlining its capacity for enhancing the island's sovereign space (Mainland Affairs Council, 2010). These

results suggest that Taiwan's management style with respect to cross-strait relations is more fluid than what might have been initially thought of. Taipei's pragmatic engagement approach with respect to China has substantial influence over the politico-diplomatic climate surrounding the two governments. The island's speedy recovery from the global recession in 2009, and the inability of the DPP from predicting the accurate impact of the ECFA on Taiwan's sovereignty, has significantly improved the Chinese image (Clark, 2009; Clark and Tan, 2010, 2012).

But, for the members and leaders of the DPP, pro-Taiwan policies particularly the quest for *de jure* sovereignty must deeply be interwoven into the country's democratization agenda (Clark and Tan, 2012; Rigger, 2010). Replacing authoritarianism with democracy requires the propagation of Taiwanese nationalism that would overthrow a China-centric regime in order to declare non-negotiable autonomy from China (Gold, 1986; Wachman, 1994). The DPP officials expected that by leading the nation in its pursuit for complete independence, the citizens would give them the required votes to gain power over the government (Clark and Tan, 2010, 2012). Conversely, the KMT leaders heavily relied on the spill-over effects of Taiwan's economic miracle to justify their position that favored the normalization of cross-strait relations (Clark and Tan, 2010, 2012). So, while the DPP was adamant in endorsing a state-to-state approach when dealing with China, the KMT was cautious with implementing its own version of the One-China principle despite its reinstatement of Taiwan as the legitimate government of all China (Clark and Tan, 2010, 2012; Rigger, 2010).

The results of 1991 and 2008 elections, however, have forced the DPP to take a more restrained rhetoric on Taiwanese sovereignty after suffering a landslide defeat against the KMT (Clark and Tan, 2012). Since the explicit denouncement of One-China policy proved to be electorally costly and politically infeasible at least in the short run, the DPP started to relax its policy on sovereignty and crafted a new discourse emphasizing the country's *de facto* rather than *de jure* independence from China (Rigger, 2010; Clark and Tan, 2012). This resulted to internal conflicts among various DPP factions that eventually led to defection of pro-independence members and soon established the Taiwan Independence Party (Wang, 2000; Rigger, 2001; Clark and Tan, 2012).

The failure of nationalist goals and objectives to bring about electoral success their limits for improving Taiwan's remaining sovereign space.

Revisionist propositions with regard to Taiwan's contested sovereignty yield low numbers of vote for the respective parties espousing them. This reflects the public's fear that proposals for either complete unification or absolute independence invariably undercut the existing cross-strait stability. Interestingly, a huge segment of the voting population preferred the preservation of the status-quo, or the so-called normalization of cross-strait relations (Hsieh, 2002; Huang, 2009). Consequently, Taiwan's major political parties are being compelled to soften their nationalist stance by taking the middle ground in order to placate the skeptic voters (Wang, 2000; Lin, 2001; Clark and Tan, 2012). It appears, therefore, that a consensus for adopting a moderate approach to achieving nationalist agendas between these two competing parties has been reached. While general sentiments toward each other may be as capricious as the Taiwan–China relation itself, nonetheless, both have been consistent in applying the norm of moderation in the conduct of cross-strait affairs.

Once again, this became evident in the 2012 presidential election when the DPP's presidential candidate, Tsai Eng-wen, failed to convince Taiwanese voters that cross-strait relations would remain stable under her leadership. This forced the DPP to reformulate its engagement policies and strategies with the Mainland (Kastner, 2013). As such, it may be argued that in the long run, there will be no incentive for Taiwanese political parties and politicians to launch strong pro-independence campaigns given their huge electoral risks. Therefore, the freezing of Taiwan's de jure sovereignty becomes an attractive choice.

#### *4.2 Limits of engagement strategies*

That the ever-increasing economic interdependence between Taiwan and China engenders security threats due to the latter's claims of sovereign authority over the former is reminiscent of Hirschman's (1980) analysis of Eastern Europe's economic dependence on Nazi Germany in the 1930s. There were three interrelated factors that led to intensified cross-strait economic relations in the early and mid-1990s, namely: economic complementarity, cultural and language ties, and political compatibility (Clark and Tan, 2010, 2012).

The ephemeral harmony of interest induced by volatile political compatibility was soon replaced by hostility and tension stemming from provocative exchanges between the two governments beginning on second half of the

1990s. President Lee's visit to his alma mater at Cornell University in June 1995 was interpreted as a subtle assertion of Taiwanese independence, eliciting strong military contestations from Beijing through missile diplomacy (Clark and Tan, 2010, 2012; Lee, 2010; Zhao and Liu, 2010). Lee's statements regarding Taiwan's 'state-to-state relations' with China in 1999 led further to a series of confrontations (Clark and Tan, 2010, 2012; Lee, 2010). Although Beijing issued grave warnings against a pro-independence presidential candidate, nevertheless, this did not prevent a DPP contender in the person of Chen Shui-bian, from occupying the presidential seat in 2000 (Lee 2010; Wang *et al.*, 2010; Zhao and Liu, 2010).

After two years of failed attempts at courting China, a 'one country, one side' rhetoric was adopted, provoking yet another cross-strait crisis. China responded with the passage of its Anti-Secession Law directed toward Taipei in March 2005, reigniting tensions across the Taiwan Strait (Wang *et al.*, 2010; Zhao and Liu, 2010). Chen then utilized the China factor for consolidating domestic support to his nationalist agendas while freezing the National Unification Council and Guidelines in 2006 (Lee, 2010; Rigger, 2010). As a result, cross-strait relations continued to be erratic and unstable until the KMT's return to power in 2008 with Ma taking over the presidency and promising a more China-friendly approach (Chu, 2007; Gold, 2009; Tucker, 2009; Lee, 2010; Rigger, 2010; Wang *et al.*, 2010; Zhao and Liu, 2010).

Despite constant diplomatic bickering, economic interactions between the two governments remained relatively stable and in fact grew even higher. Cross-strait trade relations have been successfully insulated during these tumultuous periods. However, the imbalanced trade between Taiwan and China has some serious implications, both positive and negative depending on whether one generates a surplus or a deficit. The argument regarding the adverse effects of Taiwan's trade dependence on China, particularly in terms of its contested statehood, highlights the limits of ROC's engagement strategies. Given the overwhelming China factor, Taiwan's pursuit of economic interests threatens to undermine its already diminishing sovereign space. Yet, for the current Ma administration, forging mutual trust and understanding through deeper economic partnership with China is the key to ensuring peace and stability in cross-strait relations (Clark and Tan, 2010, 2012; Lee, 2010; Wang *et al.*, 2010; Zhao and Liu, 2010). In the words of Ma (in Kastner 2013, p. 6) it's only by 'more contact, more understanding, more exchange [can] we reduce the historical hostilities across the Taiwan

Strait.’ Such statement implies Ma’s adherence to a softer version of One-China policy by insisting on closer economic integration with the Mainland in order to preserve Taiwan’s de facto autonomy.

But, for the staunchest critics of cross-strait economic engagement, Taiwan’s increasing dependence on China inevitably leads to political unification (Lee, 2010; Zhao and Liu, 2010; Hong, 2012). First, Beijing may either use economic sticks or carrots to convince or coerce Taipei into unification. Second, Taiwanese beneficiaries of economic interdependence in general may develop a positive outlook toward unification, knowing how important stable cross-strait relations is for securing their private interests (Kastner 2013).

Supporters of Ma’s policy, however, claim that there are a few good reasons to question the assumption that economic integration will eventually lead to political unification. Although Taiwan’s closer economic relations with China may enhance the latter’s coercive power, its application, however, can be both economically and politically costly not only for the island but also for the Mainland (Cheng, 2005; Kastner, 2013). The imposition of economic sanctions on Taiwan, for example, hurts local business groups that favor political unification and, as such, are counterproductive to China’s strategic motives (Hsieh, 2005; Kastner, 2013). In addition, there are no compelling statistical evidences that would suggest great enthusiasm on the part of Taiwanese citizens toward unification projects (Clark and Tan, 2012; Kastner, 2013). In fact, the percentage of Taiwanese population demanding to expedite the unification process has dropped to 3.0% over the past decade, while those advocating for a ‘one country, two systems’ framework were reduced to 8.1% (MAC, 2012). In short, at present, there are no strong evidences to support the argument that intensifying economic interdependence is increasing domestic support for Chinese unification.

Finally, the salience of ‘Taiwanese dilemma’ from the Chinese standpoint somewhat depends on Taiwan’s ruling party (Clark and Tan, 2010, 2012; Rigger, 2010; Kastner, 2013). A more daring ROC government that pushes the envelope on sovereignty issues is expected to illicit aggressive reactions from the PRC, which may ignore the economic costs of war if only to prevent the emergence of two Chinas (Clark and Tan, 2010, 2012; Kastner 2013). Given the rate at which Chinese economic wealth and military power are expanding, financial considerations for waging war are becoming less of an issue, especially when launched against smaller enemies like Taiwan



(Kahler and Kastner, 2006; Kastner, 2013). So, while strengthening cross-strait economic ties might bring about new economic miracle for Taiwan, its overdependence on China, however, blocks fundamental politico-diplomatic objectives necessary for its sovereign statehood.

This argument is clearly illustrated by the dramatic turn of events that took place after the KMT's 'blitzkrieg' passage of Cross Strait Services Trade Agreement (CSSTA) with China on 17 March 2014.<sup>10</sup> Ma's decision to cut-short a vital deliberation process in the Legislative Yuan concerning the controversial agreement has provoked the protestors and various militant groups to occupy the parliament on 19 March 2014 (Arrouas, 2014). The demonstrators have demanded several conditions from the Taiwanese president: hold an inclusive citizens constitutional conference; reject the CSSTA in lieu of a monitoring mechanism for cross-strait agreements; pass a monitoring mechanism for Cross-Strait Agreements in the current legislative session; and for legislators from both parties to address the people's demands (CALD, 2014). Thus, while on the one hand, big local business groups support unconditional economic engagement, the grass-roots civil society, on the other hand, insists on maintaining regulatory conditions for the facilitation of cross-strait relations. The conflicts between these two important segments of the population further side-steps the respective policy strategies of Taiwanese political parties with respect to issues surrounding Taiwan's quasi-sovereign statehood.

## 5 Conclusions

Taiwan's reopening of cross-strait links with China, along with successful enactments of its new bilateral FTAs with non-diplomatic partners, has sparked renewed optimism among Taiwanese officials. However, the fact that these agreements are anchored on the One-China principle implies the continued illegitimacy of Taiwan's independence. Hence, although a détente approach toward cross-strait relations may have helped in expanding the country's sovereign space, however, it is largely inadequate for legitimizing Taiwan's sovereign existence in the twenty-first century.

To some extent, Ma's rapprochement policy with respect to China has resulted to the easing of tension across the Taiwan Strait. But, the

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10 For more information about the protest against the CSSTA, see Democratic Progressive Party (2014).

widespread belief that his government is recklessly annexing Taiwan's national interests within China's 'Greater China Economic Zone' framework has ruffled some feathers, particularly who are most concerned about possibility of unification with the Mainland. Amid China's continual rejection of Taiwanese statehood, intensified economic engagements, particularly via free trade, act as vehicles for conquering Taiwan's remaining sovereign space. Clearly, there is a huge tradeoff between Taiwan's competing goals of pursuing economic interests, on the one hand, and preserving its politico-diplomatic viability, on the other, thereby resulting to a dilemma. To prevent such dilemma from resulting to an internal impasse, Taiwanese officials have decided that it would be best to rekindle the flame with their Chinese counterparts. This underlines the risks involved in Taiwan's attempts at facilitating FTAs in saving its sovereign space against the backdrop of omnipresent China factor. Diminishing political frictions across the Taiwan Strait has the paradoxical effect of further reducing the available political-diplomatic options for Taiwan, including its quest for de jure independence. Put differently, greater cross-strait rapprochement paradoxically leads to lesser Taiwanese autonomy.

Clearly, the spread of One-China rhetoric, is damaging for Taiwan's de facto sovereignty as it helps facilitate the complete sinicization of the island. By treating cross-strait affairs as domestic rather than international matters, China is effectively reducing Taiwan's statehood into a special administrative region similar to Hong Kong and Macau. This further curtails Taiwan's diplomatic recognition, resulting to greater erosion of its remaining sovereign space. The abstruse customary practice being observed when signing Taiwanese FTAs – between government institutions as opposed to state-to-state approach – reinforces the idea that Taiwan is merely a local government unit of China. Moving toward the institutionalization of cross-strait politico-economic relations without acknowledging the legitimacy of Taiwanese sovereignty inexorably absorbs the island within China's sinicization trajectory – from short-term economics to long-term political. That is, frazzling the frog with warm water.

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