

# Is China A Master of Economic Statecraft in Cross-Strait Relations in the New Millennium?

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**Abstract.** The standoff between Taiwan and mainland China in August 2022 heated the debate on the possibility of forceful unification of Taiwan again. The economic linkages between China and Taiwan have been seen as, on the one hand, the stabilizing factor that incorporated the two camps together. On the other hand, it can also be disturbing catalysis that agitate anti-China protest in Taiwan. Undoubtedly, the effectiveness of the Chinese economic statecraft towards Taiwan as a research subject deserves greater scholarly attention not only because of its contemporary relevance but because it can provide empirical cases for the theorization of economic sanctions and economic inducement. This article looks at the Chinese economic statecraft towards Taiwan in the first two decades of the new millennium. This article applies the qualitative method and case studies. By looking at the case of sanctions on Taiwanese business figures, the fruit deals in 2005, this article evaluates the effectiveness of the Chinese economic sanctions and economic inducements in the early 2000s. This article then looks at the Chinese institutional balancing by excluding Taiwan from joining AIIB and the BRI initiative. Finally, this article concludes that the Chinese economic statecraft will remain effective as its institutional influence is growing in the region. This article argues that despite the NSP appearing to attenuate the Taiwanese economic influence of the mainland, the Chinese economic statecraft has been, in general, effective. The Cross-Strait economic interdependence is likely to continue.

**Keywords:** Cross-Strait Relations; Economic Statecraft; New Southbound Policy.

## 1. Introduction

Economic Statecraft refers to the idea that using economic tools as leverage to pursue political goals [1]. The ultimate goal of economic statecraft for the sender state is to yield political compliance of the respective target country. The economics of foreign policy can be manifested through generating economic dependency, offering foreign aid and imposing economic sanction. In this regard, the Chinese utilization of the carrot and stick towards Taiwan to curb its bidding for independence has become a research subject that deserves much in-depth analysis. This article looks at the Chinese economic statecraft towards Taiwan in the first two decades of the new millennium. This article evaluates the effectiveness of Chinese economic statecraft towards Taiwan in the first two decades of the new millennium.

In the previous studies, scholars tend to be skeptical towards the very effectiveness of the Chinese economic statecraft on Taiwan as the security concerns remain haunted [2]. In terms of economic level, the Chinese statecraft has been seen as economic offensive [3]. The discussion on Taiwan's economic dependence on China also tend to focus on its relevance with the Taiwanese nationalism resurgence [4]. When it comes to the issue of New Southbound Policy (NSP), scholars tend to overstate the ambitions of the policy and the importance of person-to-person exchange among Taiwan and the respective countries [5]. In this regard, it is necessary to reconsider the effectiveness of the Chinese economic statecraft towards Taiwan. This article applies qualitative method and case studies. By looking at the case of sanctions on Taiwanese business figures, the fruit deals in 2005, this article evaluates the effectiveness of the Chinese economic sanctions and economic inducements in the early 2000s. This article then looks at the Chinese institutional balancing through excluding Taiwan from joining Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI). Finally, this article concludes that the Chinese economic statecraft will remain effective as her institutional influence is growing in the region.

## 2. Before 2005: Binding on Taishang and the Limits of Stick

The economic ties between China and Taiwan had been deepened since the 1990s. Statistics on trade between Taiwan and China at the time reflected an increasing level of economic integration. China had become the third largest trading partner of Taiwan in the year of 1993 [6]. Similarly, Taiwan was one of the largest suppliers of China. Specifically, the Cross-Strait trade size had grown to 70 billion US dollar in the year of 2004, witnessing a three time increase than the previous year [6]. In this regard, to alter the pro-independence stance of the Taiwanese domestic audience, the main targets of the Chinese economic statecraft towards Taiwan were the Taiwan-oriented enterprises operating in China and the respective Taiwanese businessmen (also known as Taishang).

In particular, the Taiwanese direct investment to China had been a great gear to boost the economic growth in mainland China. The WTO membership of China attracted a great amount of investment from Taiwan. According to the statistics from the Taiwanese Overseas Chinese and Foreign Investment Commission, in 1995, the Taiwanese direct investment to China accounted slightly under 20 percent of the total Taiwanese direct investment in foreign countries [6]. The share of the Taiwanese direct investment flow to China jumped to 61 per cent in 2002 [6]. It is also noteworthy that trading with China brought great surplus to Taiwan. The trade surplus that Taiwan gained from China was 27 billion in the year of 2000[4]; that number then climbed to 40 billion in 2004 [4]. The economic linkage between China and Taiwan was dynamic.

At the same time, however, the issue of pro-independence ideology casted shadows across the Taiwan Strait. In fact, more than 50 per cent of the Taiwanese general public remain uncertain about China [4]. To push the unification agenda, the Chinese government imposed economic sanctions on leading Taiwanese businesses figures, including the business heads from ACER and Chi Mei [7]. Excluding them from carrying out further commercial events in the mainland market. These individuals had openly supported the Taiwanese independence rhetoric; thus, the Chinese government uses the sanction to coerce the profit speak for unification. In other words, the Chinese government wishes to make the businessmen an extra source of pressure for the Taiwanese administration at the time on the issue of unification.

Yet the economic coercion did not generate the desirable ends for the Chinese government. The first reason is the impacts of the Taiwanese businessmen and enterprise on political issues were overstated. This is to say that the goal of letting the pro-independence changing their minds only for economic reasons was too unrealistic to be realized [8]. The pressure from Taishang was not enough for the Taiwanese administration to abandon the bid on independence. To some domestic Taiwanese, China's economic sanctions ironically proved that the concern of China being the threat of the Taiwanese security was true. That makes the economic coercion counterproductive.

Secondly, the sanction itself was not consistent. This was due to the divert interest between the central government and the local government of China [1]. Putting burdens on Taishang, in many cases, indeed goes against the interest of local government. Besides providing job opportunities, the Taiwanese enterprises were also an important source of tax. In exchange for the income supplemented by the Taishang, local governments offered patronages such as the protection of property rights [9]. The tie, which was behind the curtain, between the Taiwanese businessmen and provincial governments, obstructed the central government from coercing the Taishang. As a result, the provincial administrations did not follow the sanction agenda issued by the central government, supporting the argument of Harrison Wagner that economic sanctions would cause damage in both sender and the target state [10].

## 3. 2005-2012: The Success of the Inducement Policy

From the 2004 presidential election results, which favored the independence faction, it is evident that China's economic sanction fallen short of the expected degree of effectiveness. Thus, 2005 witnessed China's Cross-Strait economic statecraft shifting to a less coercive manner. At the same time, the ingredient of inducement started to heat up. Specifically, through appeals to pro- Democratic

Progressive Party (DPP) voters, China expanded the target to include Taiwanese individuals, with the exception of Taishang [2]. China offered economic benefits to the domestic audience in Taiwan in the hopes of dissuading DPP voters from further bids on independence.

In the hopes of stabilizing and incentivizing Cross-Strait interdependence, China offered unilateral tariff benefits to attract Taiwanese farmers to sell it to provinces located along the Chinese costal line [7]. To circumnavigate potential interest clash with the Taiwanese administration, China avoided direct negotiation with the respective authorities in Taiwan, such as the Mainland Affairs Council and Taiwan External Trade Development Council [3]. Alternatively, China was the sole conductor of the deals, directly negotiating with the Farmer Association of Taiwan Province [3]. Indeed, this is the way that China avoids to credit unintentional acknowledgement of the so-called sovereignty of Taiwan. The DPP followed up with counter measures, such as endorsing acts on Governing Relations between Peoples of Taiwan Area and Mainland Area [3].

However, the Taiwanese government was not free from the pressure of the Chinese government. China politically changed the voting preference of the fruit farmers partly, by applying the interest transformation strategy, where voting opinion is transformed through a redefinition of one's best interests [1, 11]. The fact that DPP lost Chiayi in county magistrate election and in city council election of Kaohsiung, though not comprehensive, was alarming enough for the DPP government [11]. As the voter base of the DPP, the shaky voting tendency of southern Taiwan would cause more than negative impacts. Moreover, Chiayi and Kaohsiung both have been having strong and stable political preference on the DPP as early as the 1980s [11]. As a result, the DPP was compelled to soften its stance in cross-strait relations.

According to Daniel Drezner, the political cost for an authoritarian regime to exercise economic statecraft is lower than that of the democracy [12]. The possibility for the authoritarian to apply the playbook of economic statecraft and generate political compliance is high [12]. More than that, according to Jean-Marc Blanchard and Norrin Ripsman, the unstable domestic political conditions in the target state also reduce the cost for the sender state to get desirable political ends [13]. In the case of Cross-Strait relations, the Chinese success in the fruit deal 2005 was thus, not a coincidence. As Blanchard and Ripsman has pointed out: 'strong opposition can insist on compliance with the sender state's demand in return for its support on other facets of the governmental agenda' [13]. As the sole party that has strong political connection with China, KMT was better at appealing voters for selling the economic benefits of deepen economic integration with China.

#### **4. 2012-2022: China's response to the New Southbound Policy**

The outbreak of the Sunflower Movement in 2014 proved that the issue of national identity puts the Cross-Strait Relations during that period on the sand. Worrying that the signing of the Economic Cooperation Framework Agreement (ECFA) with China would bring more Chinese factor into the Taiwanese economy, the protest on the Chinese which covers political intervention with economic tools lasted a month in 2014 [14]. In 2014, more than 70 per cent of the general public in Taiwan supported the claim that the economic integration with mainland China would lead to security concern for Taiwan [14]. Then there are voices skeptical towards the effectiveness of the Chinese economic statecraft. The Sunflower Movement seemed to mirror the argument of Adrienne Armstrong on the conditions of success economic statecraft. Accordingly, Armstrong argues that if the trade off is unreasonable, the economic tools of foreign policy would prove to be ineffective [15]. In the China-Taiwan case, some suggested that the Chinese economic statecraft cannot yield positive outcomes as the cost is the Taiwanese national identity and the freedom of being an independent country. In other words, the concern over identity outweighs the concern over economic interest through bilateral trade.

Following the so-called political legacy of the Sunflower Movement, the overarching political aim of the Tsai and the DPP government since 2016 has become de-Sinicization [5]. In particular, by articulating the New Southbound Policy, the Tsai administration aims to redirect the Taiwanese economic fabric interconnecting with the countries in the Southeast Asia, especially the Association

of Southeast Asian Nations (ASEAN) countries [5]. Surely, the implementation of the NSP made the ASEAN countries the second largest trading partner for Taiwan [6]. Scholars claims that the NSP will grant Taiwan with more room to maneuver out of the market of China [5]. However, as showed in Table 1, the Cross-Strait trade volume had grown steadily from 115.2 billion US dollar to 153.7 billion US dollar [6]. The total volume of Taiwan-ASEAN trade had remained 2 digits from 2015 to 2019[6]. The increase of Taiwanese investment to the NSP countries was less than five million US dollars [6]. To make the picture bleaker, during the same period, the Taiwanese investment to the ASEAN countries accounted lower than 2 per cent of the total foreign investment of Taiwan [6]. In this regard, the economic interactions between Taiwan and the NSP countries is far from dynamic and integrated.

**Table 1.** Taiwan's trade volume with China and ASEAN in 2015 and 2019 (billion) USD) [6]

Year	Export to China	Import from China	Export to ASEAN	Import from ASEAN
2015	71.2	44	28	28.3
2019	96.4	57.3	53,9	35

To counter the Taiwanese attempt of NSP, besides economic sanction, the China had blended the economic statecraft with her institutional arrangement within the Asia-Pacific and Southeast Asia. In 2015, Beijing turned down the proposal of Taiwan for joining the AIIB [5]. It is not surprising for China to turn down the Taiwanese bid of joining the Belt and Road Initiative (BRI) later [5]. The geopolitical overlapping of the BRI the NSP makes it hard for the NSP to generate extra economic fruit while circumventing the clout of the BRI According to the data of the Ministry of Commerce, China, there are 20 economic cooperation zones and relevant Industrial Estates that dotted along the BRI political landscape [16]. The greater Chinese economic influence in the region makes the circumvent of Chinese economic clout in the region extremely difficult.

To the date, the endorsement of the Regional Comprehensive Economic Partnership (RCEP) further isolated Taiwan from the economic integration on the regional level. The trade volume with the RCEP members shared more than half of the total trade volume of Taiwan. For example, 6 out of top 10 trading partners of Taiwan in 2019 are RCEP members [6]. From a comparative lens, the size of trade between Taiwan and those RCEP countries had experienced a 20 per cent growth in 4-year-time from 2015 to 2019 [6]. At the same time, the trade volume between Taiwan and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) members shared roughly one fourth of the Taiwanese trade bulk in total [6]. Moreover, even with the implementation of the NSP, China was the top export and import market for Taiwan in the year of 2019 [6].

To the date, the fully-in-effect RCEP has manifested to be the very free trade agreement that has the greatest global outreach. In terms of respective, all 15 members of RCEP will benefit from the removal of 90 per cent of tariffs multilaterally [17]. This would narrow the opportunities for Taiwan to export chemical and fabricated rubber product to the ASEAN countries, in particular Thailand, Vietnam, and Malaysia. The endorsement of RCEP will enable the tariff barriers among the ASEAN countries; Japan and Korea will put Taiwan under the competition for markets. In other words, the cost of being isolated by China from the regional economic institutions and partnership will, if not has done so, weaken the economic fabric of Taiwan.

## 5. Conclusion

This article looks at the Chinese economic statecraft towards Taiwan since 2000. The Chinese tactics of economic statecraft went through the shift from economic coercion to economic inducement in the first decade of the 21th Century. The implementation of the New Southbound Policy of Taiwan seems to pose threat to the Cross-Strait economic integration at the first glance. By using institutional binding, the Chinese government has been relatively successful in deterring the Taiwanese bid of

economic de-Sinicization. For future research, more attention should be paid to the booming regional cooperation framework. In particular the interaction between the Cross-Strait economic linkages and the Indo-Pacific Economic Framework needs close analysis.

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