New Questions of Identity: How Taiwan Is Reimagining Itself

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Closer economic ties to China are reshaping the national debate in Taiwan and giving the opposition new issues to exploit.

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The key to reviving Taiwan’s economy lies in promoting its long-neglected services sector.

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Improved cross-Strait relations have bolstered Taiwan’s economy, but President Ma Ying-jeou must tread carefully.
CROSS-STRAIT RELATIONS were the defining issue in Taiwan’s presidential election in January 2012, and despite President Ma Ying-jeou’s rather low approval rating toward the end of his first term, he was re-elected with a convincing margin of 51.6 percent to 45.6 percent. Ma’s victory was built on a broad-based social coalition that has embraced the recent political rapprochement across the Taiwan Strait and benefited from closer economic ties with mainland China. At the same time, his main opponent, Tsai Ying-wen, failed to convince the business community and urban middle-class voters that the Democratic Progressive Party (DPP) had a viable formula to engage Beijing and sustain the momentum of economic integration.

Over the last decade, mainland China’s phenomenal economic rise has precipitated a marked shift in public opinion in Taiwan, with a growing number of people in favor of normalizing the trade and investment relationship across the strait and turning Taiwan’s cultural affinity and geographical proximity with mainland China into the island’s foremost competitive advantage. This development was aided by Beijing’s charm offensive after the historic visit by Lien Chan, the then chairman of the Kuomintang (KMT), to the Mainland and the establishment of a high-level dialogue between the KMT and the Chinese Communist Party (CCP) leadership in 2005.

This shift in public opinion gave the KMT an enormous electoral advantage when it challenged the DPP in 2008. The KMT’s platform — it promised a reduction in cross-Strait tension, a resumption of political engagement with the Mainland and the speedy and full-scale normalization of cross-Strait trade and investment relations — evidently helped the party to a landslide victory in the January 2008 parliamentary election. The KMT won an unprecedented three-quarters majority for the first time since Taiwan became a democracy. The momentum then carried Ma to a convincing victory in the presidential election in March of that year, in which he picked up 57 percent of the popular vote.

Ma, therefore, had a clear-cut popular mandate when he took office in May 2008. A great majority of Taiwan’s voters were convinced that closer economic ties with the Mainland were necessary to maintain the island’s economic vitality and prevent Taiwan from further marginalization. Ma delivered on most of his campaign promises regarding cross-Strait relations within the first six months of his first term, such as...
resuming the semi-official channels of dialogue and negotiation, introducing direct air, sea and postal links, opening the door to mainland Chinese tourists, lifting the ban on inbound investment by Chinese firms and loosening the 40 percent cap on Mainland-bound investment by Taiwan-listed companies.

EARLY WINS FOR MA

Ma’s new approach registered some clear signs of initial success. First, his administration was able to create multiple channels of high-level dialogue between Taipei and Beijing, with the three most important channels becoming institutionalized between 2008 and 2012. The first was the annual Cross-Strait Economic and Culture Forum, co-sponsored by the KMT and the CCP. Each year, the KMT’s honorary chairman Wu Po-hsiung acted as a surrogate for Ma, who is also KMT chairman, heading a large blue-ribbon delegation to meet with Hu Jintao in his capacity as the CCP secretary general. The second channel was on the sidelines of the annual summit of the Asia-Pacific Economic Co-operation (APEC) forum. For four consecutive years, Lien Chan was designated by Ma as his representative to attend the APEC informal meeting of leaders. Each time, Lien held a private meeting with Hu to exchange views on cross-Strait relations. The third channel was the annual Boao Forum for Asia on Hainan Island, to which Taiwan sent a high-level delegation, which finally found new possibilities for incorporating the island into their Greater China strategy. Another path-breaking agreement was the Memorandum of Understanding on Cross-strait Currency Settlement, which created the necessary mechanism for the two sides to settle their bilateral trade in renminbi, jumpstart co-operation of the financial industry across the strait, and open up the possibility of developing Taiwan into another offshore RMB center after Hong Kong.1

Finally, the two sides have worked out a modus vivendi for avoiding head-on collisions in the international arena. Since 2008, Beijing and Taipei have effectively agreed to a tacit diplomatic truce. Beijing put on hold its potent diplomatic offensive to cut off Taipei’s remaining diplomatic ties with 23 countries concentrated in the Caribbean, Central America, Africa and the South Pacific. The most notable example was Beijing’s unprecedented gesture of goodwill in dissuading Paraguay and Nicaragua from switching diplomatic recognition from the Republic of China to the People’s Republic. Furthermore, in 2008, the World Health Organization (WHO) decided to designate Taiwan’s Center for Disease Control as a contact point under the International Health Regulation (IHR), an arrangement customarily reserved for member states only. In 2009, Taiwan was invited by WHO to become an observer (under the name Chinese Taipei) at its assembly. For the first time since the Republic of China was forced out of the UN in 1971, a cabinet-level public health official from Taiwan was given the official podium at a UN agency. The signing of the ECFA also removed the major political obstacle for Taiwan to negotiate a free-trade agreement (FTA) with members of the Association of Southeast Asian Nations and other trading partners. Since 2010, Taipei has launched FTA talks with Singapore and New Zealand, and most of Taiwan’s trading partners have upgraded their “unofficial official” relationship with Taiwan without encountering objections from Beijing. By the end of 2012, 124 countries and territories, including the United Kingdom, Japan, Canada, the European Union and the United States, have offered Taiwan citizens visa-free travel status. Taiwan has also expanded its economic ties with important emerging market countries. In 2012, India gave its go-ahead for Taipei to set up a semi-official economic and cultural affairs office in Chennai and also granted President Ma an unprecedented “transient stop” in New Delhi during his last official trip to Africa. These developments clearly show that the cross-Strait political rapprochement has given Taipei new international space from Beijing without alienating Taiwan’s traditional diplomatic allies.

Ma’s victory in 2008 presented Beijing with the first opportunity since 1996 to engage with a popularly elected Taiwanese leader who was not committed to independence for Taiwan. This opened up a strategic window for Beijing to reach out.

A WINDOW ON ENGAGEMENT

During Hu Jintao’s tenure, Beijing responded constructively in other ways to Ma’s conciliatory overtures. For the CCP leadership, Ma’s victory presented Beijing with the first opportunity since the cross-Strait crisis of 1996 to engage with a popularly elected Taiwanese leader who was not committed to independence. This opened up a strategic window for Beijing to reach out to Taiwan’s various constituencies in its effort to further weaken the social support for independence. On the one hand, Beijing has shown a desire to accelerate the pace of rapprochement, trying to get as much done as possible while Ma is in power; on the other, it has shown great patience in pursuing its more sensitive political agenda in order to avoid pressuring Ma to go out of his
comfort zone. Emanating from Beijing’s newly acquired confidence in its ability to keep Taiwan within its political and economic orbit, China’s new flexibility and pragmatism has, in turn, helped alleviate the apprehension among many Taiwanese that Beijing might attach tight political strings to closer economic ties with the Mainland. Throughout Ma’s first term, Beijing chose to go along with Taipei’s preferred formula of “first the easy, then the hard; the economic first, then the political.”

Most observers predict that China’s newly installed president, Xi Jinping, will adhere to Hu’s pragmatic approach under the new guiding concept of “peaceful development” instead of “peaceful reunification.”

It remains to be seen whether Taipei will soon reach a strategic crossroads where it will become increasingly difficult to maintain its close economic and security ties with the US while deepening its co-operative relationship with Beijing.

The global financial crisis in 2008-09 gave Ma’s mainland policy an extra boost in a way that had not been foreseen. The intensified economic ties enhanced the spillover effect of China’s RMB 4 trillion (US$650 billion) economic stimulus package, which generated some timely purchase orders for a range of Taiwanese manufacturers, pulling them back from the brink of bankruptcy. The prospect of a slow and weak economic recovery in the US and Europe prompted export-oriented Taiwanese firms to place greater emphasis on the expanding demand from emerging-market countries. The ECFA enabled the island to unleash its full potential in exploiting the expanding business opportunity in Mainland China, which has suddenly emerged as the new buyer of last resort.

More broadly, in the aftermath of the crisis, China’s global role has been enhanced. Increasingly, in the eyes of Taiwan’s general public, mainland China is no longer just a manufacturing platform but an important source of tourist spending, investment capital and consumer demand. During Ma’s first term, the scope for the trickle-down effects of cross-Strait economic integration has steadily expanded. It was no longer the case that only owners of export-oriented businesses or people with transportable skills and investment capital favored closer economic ties with mainland China.

Taiwan’s service sector has benefited significantly from mainland Chinese tourists, whose number is expected to top 2.3 million in 2013, up from just 300,000 in 2008. Those tourists are giving a much-needed boost to Taiwan’s economy, according to a report issued by Barclays Bank. Despite a 0.2 percent contraction in the economy during the second quarter of 2012 because of falling exports, unemployment was near a four-year low by the end of the year. That job creation is largely because of growing demand for retail and travel-related services. Nearly half of the net 77,600 jobs created in the first half of 2012 were in hotels, restaurants and retail outlets.

The real-estate sector has also welcomed the new demand for commercial properties as many mainland-based Taiwanese expatriates have started re-investing in Taiwan and many mainland Chinese firms are ready to set up branch offices and subsidiaries on the island. The list of beneficiaries has grown significantly to include retail chains, medical service providers, the financial sector, professionals (such as attorneys, accountants and architects), the organic farming industry, the mass media and the creative industry.

Also, the ECFA is expected to unleash the great potential for the two sides to undertake joint efforts to incubate world-class industrial giants and brand names; to create joint ventures in alternative energy, Chinese medicine, aerospace, next-generation telecommunications and new materials; and to facilitate joint development of industrial and technical standards in these sunrise sectors. In addition, the bilateral arrangements helped put the island back on the world map of foreign multinational firms. Taiwan has also re-emerged as a gateway to mainland China, offering non-stop airline services to more than 50 major cities, more direct flights than any other neighboring country or territory.

KEEPING THE STATUS QUO

In a nutshell, the acceleration of cross-Strait economic integration amounts to a large-scale realignment of Taiwan’s social forces, with the KMT firmly occupying the centrist ground. However, this by no means suggests that it is going to be all smooth sailing. First, the acceleration of cross-Strait economic integration has so far been driven more by economic pragmatism than cultural identity. The great majority of Taiwan’s people favor the preservation of the status quo, including the legal structure of a sovereign state as defined under the Republic of China Constitution. Therefore, Ma needs continually to reassure the public that closer economic ties are not compromising Taiwan’s political autonomy and sovereign status. At the same time, there are still people whose interests have been adversely affected by the acceleration of cross-Strait economic exchanges. To consolidate the pro-integration coalition, the KMT government has to provide the losers with the necessary social protection. At the same time, Ma must placate the pro-independence zealots who are feeling increasingly marginalized and frustrated, and may be prone to take radical and disruptive action. Last but not least, Ma has to restrain the business lobby that is always preoccupied with its own narrow interests and increasingly susceptible to Beijing’s political influence.

Another important pillar of Ma’s new approach is the supportive attitude of Washington. Up to this point, Ma and his national security team have been able to induce a virtuous cycle in the triangular relationship among Washington, Beijing and Taipei based on the argument that peace and prosperity in the Taiwan Strait will ultimately complement the global strategic interests of the US. However, one might suspect that during Ma’s second term he will face a tougher challenge as Washington’s recent “pivot” to Asia heightens the strategic competition between the US and China. As former US National Security Advisor for Asia Michael Green put it, some circles in the American military establishment and conservative think tanks have growing reservations about how far this virtuous cycle can go. They worry about Taiwan becoming more dependent on mainland China economically and on Beijing’s goodwill politically. It remains to be
seen whether Taipei will soon reach a strategic crossroads where it will become increasingly difficult to maintain its close economic and security ties with the US while deepening its co-operative relationship with Beijing.\(^5\)

Should the trend toward cross-strait economic integration continue at its current pace, the possibility cannot be excluded that Taiwanese nationalism could begin to fade as a potent force in favor of cross-Strait political integration in the long run. Whether this will come to pass depends on many “big ifs.” However, at this point, there is no trace of any burgeoning popular aspiration on the island to break the status quo, either through an innovative political formula or by capitulation to the Mainland’s grand design for reunification. On the contrary, popular anxiety may increase if the people on Taiwan become less confident that they will still have an equal say in deciding the island’s long-term political relationship with mainland China, because time might not be on Taiwan’s side. As a consequence, a sharper Taiwanese identity might function as a form of psychological self-defense against the prospect of steady assimilation into Beijing’s political and economic orbit.

**TAIWAN LEADS THE WAY?**

At the same time, one might argue that despite the asymmetry in hard power between the two sides, closer cross-Strait economic and cultural ties could actually unleash Taiwan’s enormous potential for shaping mainland China’s political future. The combined effects of the island’s democratic experience, the inherited cultural and linguistic affinity between Taiwan and the Mainland, Taiwan’s vibrant and diversified civil society and its strong economic and social ties with the Chinese mainland constitute the most important sources of Taiwan’s soft power. In the eyes of mainland Chinese citizens, Taiwan’s democratic experience may constitute a crucial and illuminating social experiment, because it is the first and the only democracy ever installed and practiced in a culturally Chinese society — with the possible exceptions of tightly controlled Singapore and the relative democracy enjoyed in Hong Kong.

Furthermore, in the eyes of the CCP elite, Taiwan’s unique mode of democratic transition illustrates a viable, albeit risky, exit strategy for a hegemonic party seeking to engineer a peaceful and gradual transition from one-party authoritarianism on the basis of its successful record of economic modernization. As the cross-Strait relationship enters a new era under the second Ma administration, Taiwan is in a position to maximize its soft power, which may be the only strategy available to protect its long-term interests. This strategy could also elevate Taiwan to the position of a significant, responsible and constructive player in East Asia and on the world stage.

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