

A Thesis

entitled

**Kantian Peace Theory and the Taiwan Strait**

by

Jing Nie

Submitted to the Graduate Faculty as partial fulfillment of  
the requirements for the Master of Arts Degree in Political Science

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The Taiwan Strait is a global hot spot that has the potential to trigger a war between nuclear powers. Over the past 59 years, the political relationship between Taiwan and mainland China has been characterized by hostility and confrontation. Since Ma Ying-jeou won Taiwan's presidential election in March 2008, however, cross-Strait relations have been improved dramatically. Beijing and Taipei resumed semi-official talks after a nine years suspension. They also launched direct flights and shipping and mail services across the Taiwan Strait, which had not existed since 1949.

What caused "the surge of peace" in the relationship between the two rivals? According to Kantian peace theory, democracy, economic interdependence, and joint membership in international organizations lead to a reduction of conflict between states. This study applies the Kantian hypotheses to the Taiwan Strait case and examines cross-Strait relations from 1987-2008. I find that cross-Strait trade and investment have made a significant contribution to the alleviation of the levels of tension between Taiwan and mainland China. There is mixed effect of democracy. Taiwan's high level of democracy has helped maintain the cross-Strait status quo and prevent the outbreak of war; however,

it has also been a cause of tension and made unification with the mainland more difficult. Finally, due to the limited number of joint memberships shared by the ROC and PRC, the effect of intergovernmental organizations (IGOs) on cross-Strait relations is insignificant. In fact, Taiwan's pursuit of membership in IGOs and China's blocking of those efforts have created conflicts between the two sides.

My analysis demonstrates that Kant's peace theory is valuable in explaining how economic interdependence has reduced tension across the Taiwan Strait. However, I did not find a positive relation between democracy, joint membership in IGOs and the improvement of the PRC-ROC relations. Therefore, Kantian peace theory's relevance for the Taiwan Strait conflict is limited.

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## **Chapter 1**

### **Introduction**

Taiwan (the Republic of China, ROC) and mainland China (the People's Republic of China, PRC) have been separated ever since Chiang Kai-shek's Kuomintang (KMT) was defeated in the Chinese civil war by Mao Zedong's communist army and fled to Taiwan in 1949. For almost six decades, Beijing and Taipei have been hostile towards each other and disagreed about which entity should be the global representative of China. Although economic and civilian interchange has boomed over the last two decades, the political relations between the ROC and PRC governments have remained frosty. Their militaries continue to view each other with great hostility and the arms race between them has been a major threat to regional peace.

Since Ma Ying-jeou, the candidate of the KMT party won Taiwan's presidential election with a large margin over his Democratic Progressive Party (DPP) rival on March 22, 2008, the cross-Strait relations has been improved dramatically and entered a new era (Ding, 2008). Not long after Ma took office in May 2008, a major breakthrough came when representatives from both sides of the Strait signed agreements on direct air, naval and postal links. Eighteen months after Ma's inauguration, cross-Strait relations have

continued to move forward. An Economic Cooperation Framework Agreement (CEFA) that will lower trade barriers even further is being negotiated in 2009 between the two sides<sup>1</sup>. The positive atmosphere remains in spite of some sensitive political events such as Taiwan's participation in the World Health Assembly (WHA)<sup>2</sup> and the Dalai Lama's visit to Taiwan.

Many people are amazed by the rapid improvement of cross-Strait relations. Some scholars even reconsidered their views on cross-Strait relations. For example, Yan Xuetong (2008), the Director of International Studies at Tsinghua University previously known for his pessimistic views<sup>3</sup> on Taiwan, recently made a prediction that there would be no cross-Strait military conflict for at least the next eight years.

How and why did these dramatic changes happen? Did Taiwan's democratic system restrain its government from further irritating Beijing? Did the close economic ties defuse political tensions between the two? Did their joint participation in international organizations bring them closer? What is the prospect for the future relationship between the two? To answer these questions, I will examine the relationship between Taiwan and mainland China during the last two decades.

Contemporary international relations theories provide many insights into the odd relationship between Taiwan and the mainland. Realism can be used to explain why high tensions in the Strait have not escalated into an all-out war in the past sixty years. "The

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<sup>1</sup> See the press release of the Mainland Affairs Council (MAC) of the Republic of Taiwan on September 30, 2009, from MAC Web site: <http://www.mac.gov.tw/english/index1-e.htm>

<sup>2</sup> WHA is "the supreme decision-making body for the World Health Organization (WHO). It meets each year in May in Geneva, and is attended by delegations from all 193 Member States." See <http://www.who.int/about/governance/en/index.html>.

<sup>3</sup> Yan has predicted that there was a high probability that a Taiwan Strait war will take place before 2008. See the translation of his article "Who will maintain peaceful cross-Strait relations? An apology from Yan Xuetong," at <http://www.chinaelections.net/newsinfo.asp?newsid=18155>.

security dilemma” explains the ingrained mistrust between Beijing and Taipei and the self-sustaining momentum of their continuous military buildup. “Balance of power” theory suggests that possession of nuclear weapons by the US and the PRC deters a Taiwan Strait War.

Another theory, the liberal Kantian theory, may help explain the declining tension between the two rivals. Kant asserts that democracy, economic interdependence, and membership in international organizations can reduce interstate conflict. Proponents of liberal theory emphasize that the interaction in “low politics” areas has a spillover effect on “high politics” areas. Therefore, cross-Strait trade is thought to improve communication, reduce misunderstanding, and foster institutional cooperation that can ameliorate conflicts. By raising the costs of military conflict, economic interdependence is believed to encourage restraint by former enemies.

In this paper, I will apply the Kantian peace theory to the Taiwan conflict. The goal of this paper is to test whether the Kantian peace theory can explain the evolution of cross-Strait relations since 1987<sup>4</sup>, and to determine the prospects for the Taiwan Strait in the future. I will test the following three hypotheses:

H1. As the degree of democracy increases, the tension level will decrease, making Taiwan and mainland China less likely to engage in military conflict.

H2. As economic interdependence increases, the tension level will decrease, and Taiwan and mainland China will be less likely to engage in military conflict.

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<sup>4</sup> There are numerous reasons for extending this study to include data from before 1987. Doing so would almost certainly make the changes over time more dramatic. However, reliable data on this period is not readily available from reliable sources.

H3. As their joint participation in IGOs increases, the tension level will decrease, reducing the likelihood of military conflict.

This paper is organized as follows. Chapter 2 is a historical overview of cross-Strait relations and a brief discussion of the Taiwan issue. Chapter 3 is a literature review, in which I survey scholarly articles on Kantian peace theory and on cross-Strait relations. In Chapter 4, I define and operationalize my dependent and independent variables. The dependent variable—the levels of tension in the Taiwan Strait is elaborated in Chapter 5. Chapter 6, 7 and 8 will discuss the independent variables—democracy, economic interdependence and participation in international organizations, and demonstrate their relationships with cross-Strait tension level. Conclusions and recommendations will be presented in the Conclusion.

## **Chapter 2**

### **The Taiwan Issue**

Taiwan is an island located approximately 120 miles off the southeast coast of mainland China. Since 1949, the status of Taiwan has been controversial. The PRC insists that Taiwan is an integral part of China and claims sovereignty over it. Taiwan's leaders originally insisted on the unity of China, but claimed that Taipei not Beijing was the legitimate government of this "one China." Since the 1990s, many in Taiwan have sought more autonomy and even independence from the mainland China. Although the political parties and residents on Taiwan have not reached a consensus over their national identity,<sup>5</sup> they unanimously agree that Taiwan has enjoyed de facto independence for decades and reject control of Taiwan by the PRC government in Beijing.

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<sup>5</sup> Since the seventeenth century, Taiwan has been controlled by several outside rulers: the Netherlands (1624-1662), Spain (1626-1642), China's Ming Dynasty loyalists (1662-1683), the Qing Dynasty (1680-1894), Japan (1895-1945), and the Republic of China (since 1945). More information is available at <http://apdl.kcc.hawaii.edu/~taiwan/history.htm>. Taiwanese culture is a combination of Chinese Confucian, Japanese, European, and Taiwanese aboriginal cultures. Depending on different social backgrounds and origins, the Taiwanese people have different identities. Some Taiwanese hold that Taiwan is an independent island but has been ruled by several "foreign regimes." Some consider Taiwan is a part of a greater China, which includes the mainland, Hong Kong and Macao. Others think that Taiwan's status is ambiguous and has not been decided.

The original residents of Taiwan were indigenous peoples,<sup>6</sup> who have lived on the island for 12,000 to 15,000 years. Large-scale Han Chinese immigration began in the mid-seventeenth century. Taiwan became an official part of Chinese Qing dynasty in 1680 and a region of Fujian province in southeast China. It was ceded to Japan after the Qing government's defeat in the Sino-Japanese War in 1895. At the end of World War II, Taiwan reverted to Chinese rule.<sup>7</sup> Following the Chinese Communist Party (CCP)'s victory on the mainland in 1949, Chiang Kai-shek and two million of his followers fled to Taiwan and established "the Republic of China on Taiwan." Chiang Kai-shek and the KMT did not intend to settle permanently in Taiwan; they planned to use it as a base to regain control of the mainland.

The CCP regime on the mainland considered "liberating Taiwan" as the last step of liberating all of China and made concrete plans to take it back. But when the People's Liberation Army (PLA) on the mainland was preparing to launch an attack on Taiwan in 1950, the Korean War broke out. The United States government sent its 7th Fleet into the Taiwan Strait to prevent any conflict between the PRC and ROC and to keep Taiwan out of "Communists'" hands. The PRC had to temporarily abandon its plan to liberate Taiwan and shift its military forces from the southeast coast to the northeast border with Korea to counter a possible US invasion. The US government markedly increased military and economic aid to Taiwan and signed the Mutual Defense Treaty with Taipei on December 2, 1954 (Scobell, 2000). The KMT army and the PLA battled over control

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<sup>6</sup> These aboriginal people are emigrated from Austronesia and southern Asia.  
<http://www.state.gov/r/pa/ei/bgn/35855.htm>

<sup>7</sup> The history of Taiwan is obtained from the web site of Xinhua News Agency ([news.xinhuanet.com/](http://news.xinhuanet.com/)), Taiwan Affairs Office of the State Council of the People's Republic of China (<http://www.gwytb.gov.cn>).

of small islands between Taiwan and the mainland in the 1950s, but none of these conflicts escalated into an all-out war between the PRC and ROC.

The KMT leaders still upheld the “one China” principle and did not give up their mission of “recovering the mainland.” Since Taiwan had been colonized by Japan for half a century, Chiang Kai-shek took a series of measures to sinicize the population by forcing them to learn Mandarin and take up Chinese cultural practices through compulsory primary education. Activities that might encourage non-Chinese identities and promote Taiwan independence were forbidden. Chiang also imposed strict martial law to oppress the local people. Resenting the repressive rule of the newly arrived mainlanders, some native Taiwanese began to call for Taiwan’s independence.

During the 1970s, the US and other countries began to improve their relationship with the PRC, and cut off diplomatic ties with the ROC. From 1949 until 1972 the government in Taiwan represented “China” in the United Nations (UN). In 1972, the UN removed the Taiwan government from membership and replaced it with representatives of the mainland government. Facing the changing situation inside and outside Taiwan, the KMT government shifted its focus from reclaiming the mainland to developing the island, although it still insisted that it was sovereign over all of China and refused to recognize the PRC’s jurisdiction over the mainland. The 1970s also saw a change of China’s strategy toward Taiwan, from direct threats of military takeover to a series of peaceful initiatives. After Deng Xiaoping came to power, he softened Mao’s hard-line policy toward Taiwan, introducing the new concept of “one country, two systems.” Marshal Ye Jianying, the head of the Standing Committee of the National People’s Congress,

issued the “Message to Compatriots in Taiwan” on January 1, 1979, in which the concept of peaceful unification replaced the idea of “liberating Taiwan” (Wang 2001, p. 718).

Taiwan’s political reforms in the 1990s initiated a democratization and nation-building process that moved the island further away from reunification with the mainland. The Lee Teng-hui government asserted the ROC’s de facto independence and implemented a series of policies that gradually shifted away from the “One China” principle held by his KMT predecessors, who at least officially espoused the “one divided China” idea and promised eventual unification of Taiwan with the Chinese mainland (Wang, P. 719). These moves towards independence irritated the PRC’s leaders and triggered the third Taiwan Strait Crisis<sup>8</sup> in 1995 and high tension in 1999.

Partly due to its long-term oppressive rule and rampant corruption, the KMT lost Taiwan’s 2000 presidential election; thus Taiwan underwent its first transfer of power. The winner in the race was Chen Shui-bian from the Democratic Progressive Party (DPP), which had long been committed to Taiwan’s independence. Beijing viewed Chen as one of the most vocal advocates for Taiwan’s formal independence, and thus refused to hold direct talks with Chen and his administration.

Ma Ying-jeou of the KMT succeeded Chen as Taiwan’s president in May 2008. Ma proposed that Taiwan and the mainland set aside their ideological differences and engage in economic and cultural exchanges. Not long after he took office, cross-Strait relations began to warm up, leading to some major breakthroughs. Currently, both sides have been setting aside political disputes and focus on economic cooperation. The positive

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<sup>8</sup> The First Taiwan Strait Crisis happened during August 1954 to May 1955. The PLA launched heavy artillery attacks on the offshore island of Quemoy. The second Taiwan Strait Crisis was begun by the PLA’s bombardment at Quemoy and Matsu islands in August 1958 and it lasted for 4 months.



atmosphere has been viewed by most commentators as a rare opportunity for the Taiwan Strait peace.

The Taiwan issue is different from most other regional conflicts, such as those in Northern Ireland, Cyprus, Quebec, the Balkans and the Middle East. People involved in these regional conflicts often live closely together but belong to different races or religions, or ethnic groups. They usually have different languages, histories and cultures. The Taiwan Strait dispute is different because most people involved are socially and culturally the same, but separated by the Taiwan Strait.

The Taiwan issue is complicated because a third party - the US - is deeply involved. Washington's policy has been known as "strategic ambiguity," under which it leaves unclear how it would respond if military conflict broke out in the Taiwan Strait. Washington prefers maintaining the status quo in the Strait rather than supporting Taiwan's independence or forced unification with China, so that it can continue to use Taiwan as a base to contain China without direct confrontation with it. To deter China from invading Taiwan, Washington has said repeatedly that it considers "any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States."<sup>9</sup> To prevent Taiwan from taking bold moves that would provoke Beijing's military action, Washington has made it clear that it opposes a Taiwanese declaration of independence, and that it will not protect Taiwan unconditionally.

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<sup>9</sup> See Taiwan Relations Act, Section 2, B 4. [http://www.ait.org.tw/en/about\\_Ait/tra/](http://www.ait.org.tw/en/about_Ait/tra/)

To many people, the cross-Strait dispute seems irreconcilable (Bush 2005, p. 25). So far it has been an either-or issue. The PRC government has proposed “One Country, Two Systems” formula<sup>10</sup> that grants some home rule to Taiwan but insists on Taiwan’s acceptance of the ultimate sovereignty of the government in Beijing. Taipei has consistently rejected that formula, asserting that Taiwan is a sovereign entity, and has insisted on equal political status, which is unacceptable to Beijing. Many scholars point out that preventing Taiwan’s formal independence is one of the most important priorities of the CCP government because the Taiwan issue involves territorial sovereignty and regime legitimacy (Nathan, 1996). If Beijing allows Taiwan to separate, it would weaken the PRC’s claims to Tibet, Xinjiang and Inner Mongolia. In addition, a strong sense of nationalism is rising in the PRC which is very sensitive to the Taiwan issue. The “loss” of Taiwan would be viewed as a national humiliation and would undermine the legitimacy of the CCP government. Beijing seeks peaceful reunification with Taiwan; however, it has never renounced the possible use of force against the island.

Some people have a more optimistic view about future relations between the PRC and ROC. They believe that neither Taiwan nor China can afford the cost of a Taiwan Strait war because it would probably destroy Taiwan’s economy and democratic system, and damage China’s economic development and international status. Thomas Friedman (1999) asserted that the economic ties between mainland China and Taiwan greatly reduce the

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<sup>10</sup> “One country, Two systems” formula has been the PRC’s policy for peaceful reunification with Taiwan for 30 years. In January, 1979, Deng Xiaoping invented the concept of “one country, two systems.” On September 30, 1981, Ye Jianying, Chairman of the Standing Committee of China’s National People’s Congress, officially put forward a nine-point proposal for bringing about the peaceful reunification of the mainland and Taiwan. He stated that, “after China is reunified, Taiwan may become a special administrative region. It may enjoy a high degree of autonomy and may keep its military forces. The national government will not intervene in the local affairs of Taiwan.” “Taiwan’s current social and economic systems will remain unchanged, its way of life will not change, and its economic and cultural ties with foreign countries will not change.” <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18027.htm>

possibility of military conflict, since such a development would cause “mutual assured economic destruction.” He believes that maintaining a peaceful relationship is in Beijing and Taipei’s best interest. Taiwan’s president Ma Ying-jeou also believes that peaceful coexistence is a win-win situation for both sides. He said, “The heightened traffic of people and money would strengthen ties between the two countries, boost their economies and reduce the risk of war.”<sup>11</sup>

Since a Taiwan Strait conflict would threaten the stability and prosperity of not only the PRC and ROC and also the entire Asian-Pacific region, understanding the reality of the Taiwan Strait situation is important for those who are interested in solving the Taiwan problem.

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<sup>11</sup> See Time magazine article, “The 2008 Time 100, leaders and revolutionaries,” at [http://www.time.com/time/specials/2007/article/0,28804,1733748\\_1733757\\_1735546,00.html](http://www.time.com/time/specials/2007/article/0,28804,1733748_1733757_1735546,00.html)

## **Chapter 3**

### **Literature Review**

This study gains its theoretical inspiration from Immanuel Kant's liberal peace theory that was proposed more than two hundred years ago. In his 1795 paper "Perpetual Peace," Kant (1971, p. 99) suggested that perpetual peace among nations would be the result of three definitive factors: first, "the civil constitution of every state shall be republican," which is often translated in today's term as a liberal democracy (Cederman, 2001). Kant (1971, p. 100) argued that under a republican constitution "the consent of the citizens is required to decide whether or not war is to be declared," and that it is very natural for the citizens to be cautious about going to war because they will have to bear all the burden and miseries of war. In a representative democracy, leaders have to take their voters' preference into consideration before they make decisions on going to war. In contrast, in a non-republican state, declaring war will be "the simplest thing in the world." Because the head of the state is not a citizen like the other but the owner of the state, he can easily make the decision to go to war without having to take popular sentiment into account.

The second definitive factor is "a federation of free states," which in contemporary international studies has been translated as the domination of international law and

organizations. Kant (1971, p. 102) asserted, “Each nation, for the sake of its own security, can and ought to demand of the others that they should enter along with it into a constitution, similar to the civil one, within which the rights of each could be secured.” The pacific federation that Kant imagined is not a temporary alliance or a peace treaty; it aims at ending all wars for good. Just like individuals in a civil society, states must “renounce their savage and lawless freedom, adapt themselves to public coercive laws, and thus form an international state, which would necessarily continue to grow until it embraced all the peoples of the earth” (Kant 1971, p. 105).

In the third hypothesized condition, Kant (1971, p. 105) insisted that, “Cosmopolitan right shall be limited to conditions of universal hospitality.” This is often referred to as the “commercial spirit” of international trade (Oneal and Russett, 1999). In a commercial world, states are compelled to promote peace under consideration of their own self-interest, rather than being driven by the noble motives of morality. In Kant’s (1971) own words,

Nature also unites nations which the concept of cosmopolitan right would not have protected from violence and war, and does so by means of their mutual self-interest. For the spirit of commerce sooner or later takes hold of every people, and it cannot exist side by side with war. (p. 114)

A large number of political scientists have attempted to explore the pacifying influences of the three Kantian factors—democracy, economic interdependence and international organizations—on interstate relations. The “Democratic Peace” theory has attracted many political scientists to investigate whether and why democratic states are less likely than authoritarian to fight against each other. Michael Doyle (1983a) noted that liberal democracies have never gone to war against each other. Jack Levy (1988)

also asserted, “Pacifism between democracies is as close as anything we have to an empirical law in international politics.” Proponents of this liberal theory provide both normative and structural explanation for democratic peace (Junblut & Stoll, 2002).

The relationship between trade and conflict has been debated for more than a century. However, international relations scholars still have not reached a consensus about it. Some scholars (Polachek, 1980) assert that trade inhibits conflict because the benefits of trade will create incentives for countries to maintain cooperative relations. They argue that economic cooperation promotes communication and understanding among societies and thus can “spill over” and lead to political accommodation (McDonald, 2004). Other scholars (Keohane, 1975) argue that trade may increase conflict particularly when one state is more dependent than the other. They argue that asymmetric economic interdependence gives less dependent countries the ability to force concessions from more dependent countries (Gasiorowski, 1986). Empirical studies of the trade-conflict relationship have also produced confusing results. Most of these studies use pooled time-series data for a large number of disputing states and assume that the pacific or non-pacific effects of trade are universal. A group of large-sample quantitative studies (Oneal, Maoz and Russett, 1996; Oneal and Russett 1997, 1999, 2003) has showed strong support for the pacifying effect of economic interdependence. However, Katherine Barbieri (1996) challenged this result by arguing that economic interdependence does not reduce the likelihood of military conflict and may even exacerbate it. The opposite conclusions they draw primarily result from using different methods, such as the selection of samples and the treatment of missing data. For instance, Oneal and Russett used trade data from the International Monetary Fund (IMF). If there is no trade between a pair of countries,

or the trade amount is small, or trade data is not available to the IMF, they assigned “zero” bilateral trade to that pair of countries. Barbieri constructed a revised data set that treated unknown trade data as “missing” instead of “zero”.

Political scientists have long debated the pacific effect of intergovernmental organizations (IGOs). Proponents of realism argue that IGOs have only marginal influence in world power politics and that IGOs reflect rather than determine existing power relations. Liberal scholars argue that IGOs foster cooperation by mediating disputes, reducing transaction cost, and promoting norms and common values. Russett, Oneal and Davis (1998) examined pairs of states during the years 1950-1985 and found that shared membership in intergovernmental organizations (IGOs) makes an additional contribution to the reduction of military disputes. Charles Boehmer, Erik Gartzke, and Timothy Nordstrom (2004) conducted similar research based on Oneal and Russett’s study. They introduced additional variables such as “IGO mandate” and “major power contention” to measure the attributes of IGOs and coded IGO data on a three-point scale. Their study indicated that IGOs can have various effects on conflict. They argued that whether IGOs matter depends on “the level of institutionalization, member cohesiveness, and organizational mandate.”

Oneal and Russett (1999, 2001) expanded their research to examine the relationship between inter-state conflict and the three Kantian factors simultaneously. Their analysis for the years 1885-1992 indicates that these Kantian variables were associated with a reduced incidence of military interstate conflicts. Michael W. Doyle (1983, 1997, 2005), in a series of papers, argued that none of these variables is alone sufficient, but together

the constitutional, international and cosmopolitan sources plausibly contribute to sustained peace. He also noted,

In relations with non-liberal states, liberal states have not escaped from the insecurity caused by anarchy in the world political system considered as a whole. Moreover, the very constitutional restraint, international respect for individual rights, and shared commercial interests that establish grounds for peace among liberal states establish grounds for additional conflict in relations between liberal and non-liberal societies (Doyle 2005, 465).

Some scholars have applied the liberal Kantian hypotheses to examine regional inter-state conflicts. Theodore Coulombis and Ergys Ramaj (2007) applied Kantian peace theory to the post-communist Balkan region and found that the dramatic drop in military conflicts in the Western Balkans supports the Russett and Oneal Kantian peace proposition. Benjamin E. Goldsmith (2007) focused his study on Asia and found that the evidence of the importance of economic interdependence for reducing conflict in Asia is robustly confirmed. However, he notes that there is weak support for the pacific effects of democracy or international institutions in Asia. Some efforts have been made to analyze whether the growing economic integration across the Taiwan Strait has moderated the political tension between Taipei and Beijing. Cal Clark (2003) examined the economic and social processes that are increasingly linking Taiwan to the mainland and compares it to the model of the European Union (EU). He argues that “growing economic and social integration across the Taiwan Strait had created processes similar to the EU model by the mid-1990s.” However, “the periodic crises between Beijing and Taipei demonstrate that the spillover of low politics into high politics has been much more circumscribed in the Chinese case than in the European one.” So far, there has been



no research simultaneously applying the three Kantian variables to the Taiwan Strait conflict.

In order to find solutions to build sustainable peace in the Taiwan Strait, this paper examines cross-Strait relations within the entire Kantian theoretical framework. To be more specific, this study investigates the relationship between all three Kantian factors and cross-Strait tension levels. The time frame of this study is 1987-2008, because Taipei lifted restrictions on visiting the mainland in 1987 and cross-Strait exchanges exploded after that. This study will make a contribution to understanding the puzzle of the Taiwan problem, and shed light on alleviating other regional conflicts such as those between North and South Korea, India and Pakistan, etc.

## **Chapter 4**

### **Research Design and Variables**

This study examines three independent variables — democracy, economic interdependence, and joint memberships in IGOs—as they affect the level of tension in the Taiwan Strait. The anticipated relationship between the independent variables and the dependent variable are described in the hypotheses in Introduction. The study limits itself to the time frame of 1987-2008 because Taipei lifted martial law and eased restrictions on trade with and travel to the mainland in 1987. Before 1987, there were almost no direct contacts between the two sides. I examine the relationships between each independent variable and the dependent variable and explore the nature of across-Strait relations. The choice of independent and dependent variables is guided by the methods commonly used in liberal peace research and other studies of the Taiwan Strait conflict.

The first Kantian variable is democracy, which is a disputed concept.<sup>12</sup> Different theories and definitions emphasize different aspect of democracy. Kant did not use the

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<sup>12</sup> See more information from <http://www.idea.int/democracy>

word “democracy” directly to describe this variable, but called it “a republican constitution” instead. Kant’s idea of the “republican constitution” is based on three principles: “firstly, the principle of freedom for all members of a society; secondly, the principle of the dependence of everyone upon a single common legislation; and thirdly, the principle of legal equality for everyone” (Kant 1971, p. 99). What Kant envisioned is a representative government and a true civil society. He emphasized representative institutions, the separation of legislative and executive powers, and the protection of individual rights. Oneal and Russett (1997, 1999, 2003) used Polity III data to measure “democracy.” Polity III project only examines the authority characteristics of states<sup>13</sup> and has no intention to examine civil rights. My study chooses “Country rating and status data” of the Freedom House to measure the level of democracy of Taiwan and China. I choose the Freedom House ratings not only because they have been frequently used in empirical research on the relationship between democracy and various social and economic variables (Kekic, 2007), but also because they can best measure this Kantian variable. The Freedom House ratings are based on a checklist of 10 political rights and 15 civil liberties, which meet almost all the requirements of the “republican constitution” Kant prescribed. The freedom scale ranges from 1 to 7, with values closer to 1 indicating the highest level of freedom; score of 7 indicating the lowest level of freedom.

The level of economic interdependence is measured by three indicators: (1) total trade volume between Taiwan and the mainland; (2) Taiwanese investment in the mainland; (3) the ratio of bilateral trade to total foreign trade of each side. Traditional studies on relationship between economic interdependence and international conflict

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<sup>13</sup> See more information about Polity III and IV project at <http://www.systemicpeace.org/polity/polity4.htm>

usually pay more attention to one kind of economic interaction—bilateral trade. Both trade volumes and the share of bilateral trade in total foreign trade are important indicators of economic interdependence. However, another element of economic interdependence, international capital flow, should also be taken into account. The mechanism of foreign direct investment (FDI) influencing inter-state relations is similar to the way trade affects bilateral relations. FDI is assumed to bring capital, new technologies and management experiences to the host country. In addition, it creates jobs and tax revenues for the host countries. Profits generated by investment in foreign countries can also benefit the economy of the home country. In order to protect these economic gains, both governments have incentives to reduce conflict and promote peaceful relations. Since Taiwan has prohibited China's investment on the island, only Taiwanese investment in China is presented. All Data related to this variable was obtained from Mainland Affairs Council (MAC) of the Republic of China.

The last Kantian variable is measured by the number of IGOs in which both have membership, as reported by the Yearbook of International Organizations. Just like Oneal & Russett (1998), I want to use the simple count of joint memberships in intergovernmental organizations to test this variable. However, Taiwan's membership in IGOs is very limited because China has been blocking Taiwan's efforts to achieve membership in most IGOs which only sovereign states are qualified to join. To better understand the effect of IGOs, I also examine the role of several important IGOs in which both the PRC and ROC have membership.

In this study, the dependent variable "tension" is defined as the level of hostility between states in all foreign policy issue areas. Tension does not necessarily mean

military conflict. Rather, it can be hostile propaganda, diplomatic protests, the breaking of bilateral agreements, and shows of force.<sup>14</sup> Since the variable describes a complex phenomenon, it is measured by three indicators: (1) a five point scale taken from the COW Military Interstate Dispute (MID) model (Jones, Bremer and Singer, 1996); (2) major events in the Taiwan Strait summarized by MAC; (3) military expenditures of the ROC and PRC from 1987 to 2008. The COW scale system makes it possible to distinguish between lower level interstate tensions and higher level interstate tensions. However, the system has an important drawback. It does not capture the full range of diplomatic actions and propaganda campaign. So I introduce another indicator “major cross-Strait events,” summarized by the Mainland Affairs Council of the ROC, to complete the COW scale. Military expenditure of a state is determined by a lot of factors, including its foreign relations, government budget, domestic politics, etc. It is also an important indicator of tension level with its major enemies. I also use the annual military expenditure of the PRC and ROC as the third indicator of this variable.

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<sup>14</sup> I used a variation of Mark J. Gasiorowski’s definition of “conflict.” He defines conflict as the aggregate level of hostility between states.

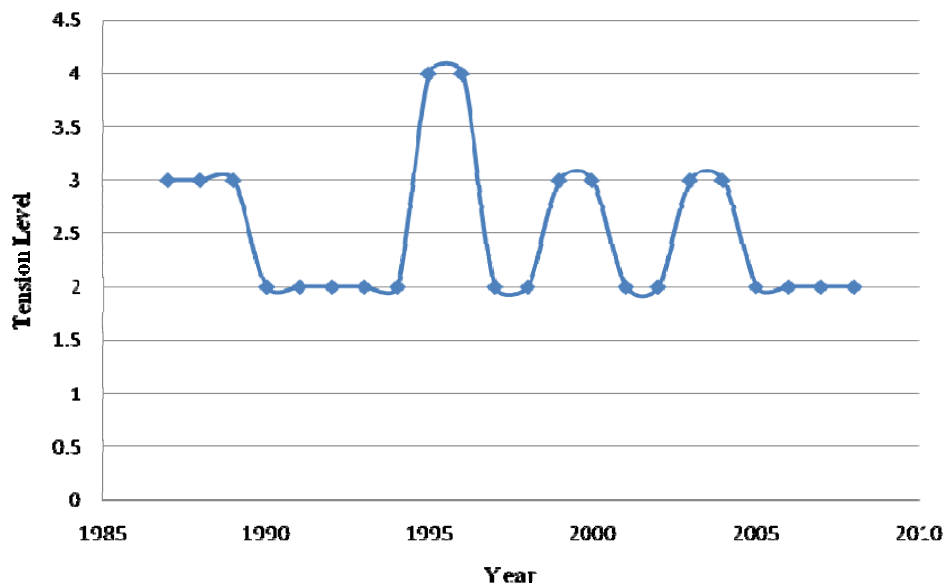
## **Chapter 5**

### **Dependent Variable: Level of Tensions in the Taiwan Strait**

In this study, the tension level across the Taiwan Strait is mainly measured on a five point scale (1-5) taken from the COW Militarized Interstate Dispute (MID) (Jones, Bremer and Singer, 1996), where 1 represents no militarized action between states; 2 represents the threat to use force; 3 represents the display or mobilization of force; 4 represents the use of force, but lack of sustained combat that characterizes a war; 5 represents war.<sup>15</sup> Figure 5-1 shows the tension level between Taiwan and the mainland during the last two decades.

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<sup>15</sup> See “Codebook for the Militarized Interstate Dispute Data, Version 3.0: hostility level of dispute”, Faten Ghosn and Glenn Palmer, 2003. <http://www.correlatesofwar.org/>



**Figure 5-1: Level of tension across the Taiwan Strait**

Sources: This data uses the five-point-scale of the COW Military Interstate Dispute analysis, developed by Jones, Bremer, and Singer (1996).

After Taipei lifted its bans on visiting and doing business with the mainland in the late 1980s, economic and civilian exchanges across the Taiwan Strait boomed, and the frosty political relations began to warm. The tension across the Taiwan Strait dropped from level three in the 1980s to level two in the early 1990s. Taiwanese authorities set up the “National Unification Council” (NUC) in 1990 to serve as an advisory board to the president on national reunification. Two semi-official organizations<sup>16</sup> were set up in 1991 to facilitate trade, investment and cultural exchanges. Representatives from both organizations held several rounds of meetings during 1992-1995 and achieved several

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<sup>16</sup> The SEF (Straits Exchange Foundation) was established in Taiwan in February 1991. The ARATS (Association for Relations across the Taiwan Strait) was established on the mainland in December 1991. See “Major Events across the Taiwan Strait: cross-Strait Talks and Interaction”, Mainland Affairs Council of the ROC. <http://www.mac.gov.tw/english/index1-e.htm>

agreements on functional issues. These meetings signaled an important political breakthrough and the possible beginning of reconciliation between Beijing and Taipei.

At the same time, Taiwan was undergoing democratization and proceeding with the nation-building process. As a separate Taiwanese identity rapidly developed, the desire for Taiwan's formal independence and international recognition increased. These factors sowed the seeds for a new conflict. During the 1995-1996 Taiwan Strait Crisis, tensions across the Strait climbed to level four (use of force). The crisis was triggered by Taiwanese president Lee Teng-hui's speech at Cornell University in June 1995, in which he proclaimed, "The ROC on Taiwan is a sovereign state." His speech was viewed by Beijing as Taipei's first formal deviation from the "One China" principle and a step toward independence. The PLA mobilized forces in coastal Fujian Province and conducted a series of large-scale, live-fire military exercises in the waters around Taiwan. From July 1995 to March 1996, the PRC held three waves of missile tests, which caused widespread panic in the region. The Taiwanese army was on high alert, preparing to counter a possible "communist invasion." In March 1996, prior to Taiwan's first direct presidential election, tensions reached a peak when the PLA fired missiles close to Taiwan's two major harbors, Keelung and Kaohsiung, which interrupted international shipping and air traffic. The US sent two aircraft-carrier battle groups to the area to stabilize the situation. The PLA ended missile tests and military exercises a week before Taiwan's election, and the tension level dropped to level two after the election was over. Although the crisis ended without war, strong nationalist sentiments surged on both sides of the Taiwan Strait. Direct official dialogue between the two sides was completely cut



off. In addition, both Beijing and Taipei accelerated their program of military modernization.

The tension level across the Taiwan Strait rose again in 1999, shortly after Lee Teng-hui's "two states" statement. In July 1999, months after the U.S. bombing of the Chinese Embassy in Belgrade, Lee challenged Beijing's "One China" policy by announcing that Taipei should treat cross-Strait contacts as a "special state-to-state relationship." This statement on cross-Strait relations, which is commonly referred to as the "two states doctrine," irritated Chinese leaders. The PRC's state media launched a harsh offensive accusing Lee of being a traitor and a separatist. The PLA conducted military exercises including mock amphibious attacks along China's coastline to protest Lee's "two states doctrine." Compared to the intensive military exercises and missile tests in the 1995-1996 crisis, Beijing's reaction this time was relatively moderate. The crisis was defused finally by moderate gestures from both sides. Taipei promised that it would not introduce the "two states doctrine" into its constitution and Beijing resumed its commitment to a policy of peaceful reunification with Taiwan.

Cross-Strait tensions entered a new era in 2000. The tension level went up just before the 2000 Taiwanese presidential election. Beijing launched a war game including military exercises and missile tests along its coastline to dissuade the Taiwanese from voting for pro-independence candidate Chen Shui-bian. However, this tactic proved to be ineffective, and even counterproductive. Beijing's military threat provoked anger in Taiwan and actually boosted Chen's position. Many Taiwanese previously supporting other candidates decided to cast their ballots for Chen just to spite Beijing. Shortly after Chen won the election, tension across the Strait dropped to a lower level. The same thing

happened during Taiwan's 2004 presidential election. In order to fully mobilize his base of support, Chen Shui-bian advocated the establishment of a new constitution, and the tension level escalated again. In Chen's second term, he pushed for an "independence timetable" and promoted the policy of "de-Sinicization," provoking vehement verbal attacks from Beijing. The PRC passed an "Anti-Secession Law" on March 14 2005, asserting its determination to prevent Taiwan's independence by force if necessary.<sup>17</sup> While using military threats to deter Taiwan from pursuing de jure independence, Beijing also adopted a series of policies to promote cross-Strait relations, including inviting leaders of Taiwan's opposition parties to visit the mainland. Although the relationship between Taipei and Beijing was at a stalemate in Chen's second term, an alliance between former enemies (the KMT in Taiwan and the CCP on the mainland) was established to isolate Chen Shui-bian.

For almost two decades, the tension level rose and fell several times, but the 1995-1996 Taiwan Strait crises was the only point where a real war seemed possible.

The change in defense spending is often used as an indicator of the tension level between states (Holsti 1963, Goldmann 1973). Table 5-1 shows the annual defense spending of Taiwan and mainland China from 1987-2008.<sup>18</sup> It is obvious that the PLA embarked on an intensive military buildup after the 1995-1996 Taiwan Strait Crisis. The deployment of two US carrier groups outside the Taiwan Strait just before 1996 Taiwan election finally convinced Beijing that the US would intervene militarily if the Chinese

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<sup>17</sup> See the PRC's anti-secession law. On 14 March 2005, the PRC's National People's Congress passed the "anti-secession law" which legalizes a military attack on Taiwan if certain situation occurred.

[http://www.gwytb.gov.cn:8088/detail.asp?table=OneCP&title=One-China+Principle&m\\_id=28](http://www.gwytb.gov.cn:8088/detail.asp?table=OneCP&title=One-China+Principle&m_id=28)

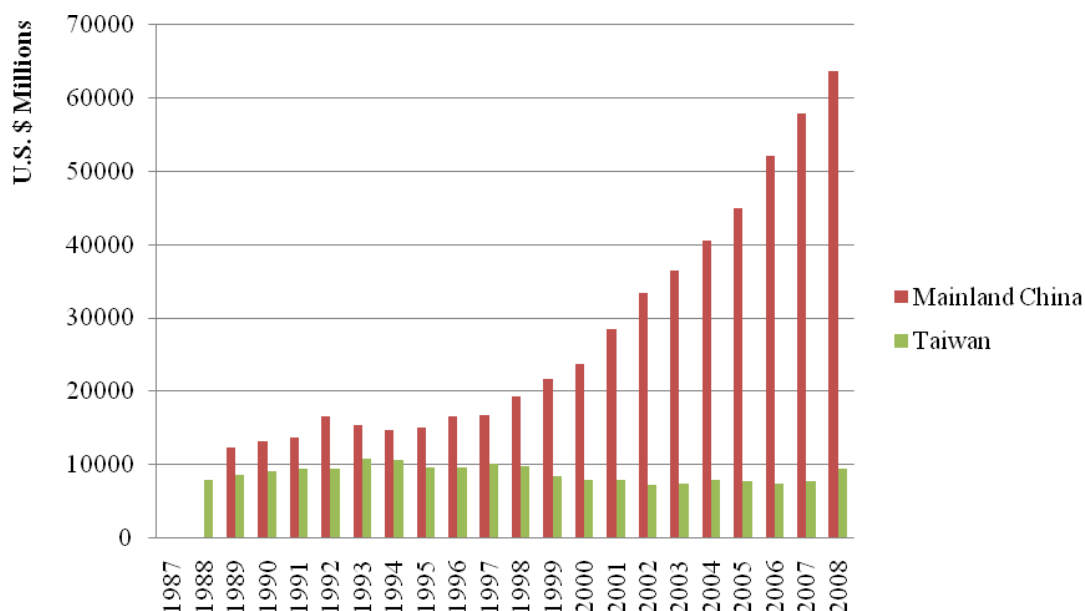
<sup>18</sup> Data can be found in the Stockholm International Peace Research Institute's database.  
<http://www.sipri.org/>

army attacked Taiwan. This thought directly led to China's efforts to modernize and build up its military, with a resulting increase in its military expenditure.

**Table 5-1: Military Expenditure of Taiwan and the mainland**  
(In Constant (2005) US\$ millions)

Years	Mainland China			Taiwan		
	Expenditure	% of Increase	% of GDP	Expenditure	% of Increase	% of GDP
1987	-	-	-	-	-	-
1988	-	-	-	7858	-	4.8
1989	12276	-	2.6	8618	9.67	4.9
1990	13147	7.10	2.6	9091	5.49	5.0
1991	13691	4.14	2.4	9342	2.76	4.7
1992	16534	20.77	2.5	9448	1.13	4.5
1993	15331	-7.28	2.0	10712	13.38	4.7
1994	14607	-4.72	1.7	10592	-1.12	4.4
1995	14987	2.60	1.7	9574	-9.61	3.8
1996	16606	10.80	1.7	9556	-0.19	3.6
1997	16799	1.16	1.6	10024	4.90	3.5
1998	19263	14.67	1.7	9770	-2.53	3.2
1999	21626	12.27	1.8	8412	-13.90	2.7
2000	23767	9.90	1.8	7807	-7.19	2.4
2001	28515	19.98	2.0	7965	2.02	2.5
2002	33436	17.26	2.1	7256	-8.90	2.2
2003	36405	8.88	2.1	7357	1.39	2.2
2004	40631	11.61	2.0	7923	7.69	2.2
2005	44911	10.53	2.0	7725	-2.50	2.2
2006	52199	16.23	2.0	7323	-5.20	2.0
2007	57861	10.85	2.0	7791	6.39	2.0
2008	63643	9.99	2.1	9498	21.91	2.94

Source: Stockholm International Peace Research Institute "military expenditure database." <http://milexdata.sipri.org/result.php4>



**Figure 5-2: Military Expenditures of Taiwan and the mainland China 1987-2007**  
(In Constant 2005 US\$ millions)

Source: Stockholm International Peace Research Institute “*military expenditure database*.” <http://milexdata.sipri.org/result.php4>

We can see from Figure 5-2 that China’s military spending has dramatically increased for more than a decade, with annual double-digit growth since 1998. Even though the cross-Strait relationship improved in 2008, preventing Taiwan’s formal independence remains an important object of the Chinese government. Beijing announced in March 2009 that it would increase military spending by 14.9 percent.<sup>19</sup> Chinese officials explained that it was a moderate increase from a low base, taking into account the size of China’s territory and population.<sup>20</sup> According to the 2008 Pentagon Report<sup>21</sup>, “China’s

<sup>19</sup> See more from “China’s military after Taiwan”, Far Eastern Economic Review, March 18, 2009 <http://www.feer.com/international-relations/20098/march58/chinas-military-after-taiwan>

<sup>20</sup> According to China’s 2008 White paper on national defense, “China is still confronted with long-term, complicated, and diverse security threats and challenges...It also faces strategic maneuvers and containment from the outside while

near-term focus on preparing for military contingencies in the Taiwan Strait, including the possibility of U.S. intervention, appears to be an important driver of its modernization plans.” However, the military expenditure of the PRC is not limited to dealing with the Taiwan issue. The report also said, “Beijing is generating capabilities for other regional contingencies, such as conflict over resources or territory.” Beijing is transforming its army to go global in order to protect and advance its expanding economic and political interests around the world.

In proportion to its population, Taiwan maintains a relatively large military establishment. The military’s primary mission is to defend the island against a possible PRC attack.<sup>22</sup> Compared to the PRC’s military spending, the trend of Taiwan’s military expenditure has been rather irregular (Table 5-1). It appears to be influenced by a combination of factors, including the rising or declining of the PRC’s military spending, the ups and downs of cross-Strait relations, the changes in the Sino-US relations, US arms sales, Taiwan’s economic situation and domestic politics. We can see from Table 1 that Taiwan’s military spending increased by 4.90 percent in 1997, reversing the declining trend of the previous three years. In 1997, the Lee Teng-hui government began to aggressively pursue the acquisition of advanced weaponry (Wang 2001, p. 719). This change can be seen as a response to the PRC’s hostile military moves in 1995 and 1996.

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having to face disruption and sabotage by separatist and hostile forces from the inside...Separatist forces working for ‘Taiwan independence’, ‘East Turkistan independence’ and ‘Tibet independence’ pose threats to China’s unity and security.” [http://www.fas.org/programs/ssp/nukes/2008DefenseWhitePaper\\_Jan2009.pdf](http://www.fas.org/programs/ssp/nukes/2008DefenseWhitePaper_Jan2009.pdf)

<sup>21</sup> The report, called the “Military Power of the People’s Republic of China”, is Pentagon’s annual briefing to Congress on the status of the PRC’s military might.

[http://www.defenselink.mil/pubs/pdfs/China\\_Military\\_Report\\_08.pdf](http://www.defenselink.mil/pubs/pdfs/China_Military_Report_08.pdf)

<sup>22</sup> See the prologue to 2006 National Defense Report, The Republic of China. Former Taiwanese president Chen Shuibian said that China is the most serious threat to Taiwan’s national defense. Former Taiwanese defense minister also pointed out that China’s military threat is the biggest menace to Taiwan’s survival and development.

<http://report.mnd.gov.tw/english/index.htm>

Taiwan reduced its military spending during 1998-2000 due to a huge government deficit and an unfavorable economic situation. The defense budget went up temporarily in 2001 after Chen Shui-bian took office and proposed a huge request for US weapons. In 2002, Taiwan experienced its first negative gross domestic product (GDP) growth since 1949. As a result, its defense budget decreased by 8.90 percent. In 2007 Taiwan's military spending grew by 6.39 percent, compared to 5.20 percent decline in 2006 (Table 5-1). The large increase in Taiwan's military spending was seen as a response to the increase in the PRC's military spending growth from 10.53 percent in 2005 to 16.23 percent in 2006. Military expenditures for 2008 were approximately U.S. \$9.5 billion, 21.91 percent higher than the 2007 level. Taiwanese government officials and defense analysts (Chase, 2008) explain that enhancing Taiwan's defense capabilities remains vital to the island's national security although the relationship with China has been improved. They suggest that increasing the defense budget to at least 3 percent of GDP is required to show the new administration's determination to repair Taiwan's strained relationship with the US by purchasing US weapons. Taiwan's Ministry of National Defence (MND) has allocated US\$230 million from this year's defense budget to purchase 60 Sikorsky UH-60 Black Hawk utility helicopters from the US (Kan, 2009).

## Chapter 6

### Democracy and Cross-Strait Relations

Hypothesis 1: *As the degree of democracy increases on both sides, the tension level will decrease, making Taiwan and mainland China less likely to engage in military conflict.*

Proponents of “democratic peace” theory emphasize the influence of norms on resolving conflicts. “In democracies, domestic conflicts are usually resolved in a peaceful manner, and this resolution process will carry over internationally when two democracies deal with one another.” (Junblut and Stoll 2002, p. 531) They also point out the structural constraints that make mobilization for war difficult for a democratic government. Domestic checks and balances constrain its leaders in their decision to go into a war. In addition, election victories in a democratic country require the support of a large number of voters. Thus, political leaders and their parties have strong incentives to pay attention to public opinions. Since it is the people who have to do the fighting and pay for the cost of war, they tend to oppose war and “restrict their country’s participation in war if they have the opportunity to influence its policies (Hegre 2000, p. 6). Doyle (2005) has also pointed out,

Representative government allows for a rotation of elites. This encourages a reversal of disastrous policies as electorates punish the party in power with electoral defeat. Legislatures and public opinion further restrain executives from policies that clearly violate the obvious and fundamental interests of the public, as the public perceives those interests. (p. 464)

Therefore, “democratic peace theory” assumes that democratic governments are more cautious in their decision to go into a war than are autocratic governments.

In this study, the Freedom House data is used to measure the level of democracy. It is divided into two broad categories: political rights and civil liberties. Political rights enable people to participate freely in the political process, including the right to compete for public office, join political parties, and elect representatives. Civil liberties include freedom of expression and belief, and other individual rights. The freedom scales range from 1 to 7; a rating of 1 indicates the highest degree of freedom and 7 the lowest level of freedom.<sup>23</sup>

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<sup>23</sup> See detailed methodology of “Freedom in the World” survey conducted by Freedom House.  
[http://www.freedomhouse.org/template.cfm?page=351&ana\\_page=341&year=2008](http://www.freedomhouse.org/template.cfm?page=351&ana_page=341&year=2008)



**Table 6-1: Freedom Ratings of Taiwan and the mainland (1987 - 2008)**

Years	China			Taiwan		
	PR	CL	Status	PR	CL	Status
-1986	6	6	NF	5	5	PF
1987	6	6	NF	5	4	PF
1988	6	6	NF	5	3	PF
1989	7	7	NF	4	3	PF
1990	7	7	NF	3	3	PF
1991	7	7	NF	5	5	PF
1992	7	7	NF	3	3	PF
1993	7	7	NF	4	4	PF
1994	7	7	NF	3	3	PF
1995	7	7	NF	3	3	PF
1996	7	7	NF	2	2	F
1997	7	7	NF	2	2	F
1998	7	6	NF	2	2	F
1999	7	6	NF	2	2	F
2000	7	6	NF	1	2	F
2001	7	6	NF	1	2	F
2002	7	6	NF	2	2	F
2003	7	6	NF	2	2	F
2004	7	6	NF	2	1	F
2005	7	6	NF	1	1	F
2006	7	6	NF	1	1	F
2007	7	6	NF	2	1	F
2008	7	6	NF	2	1	F

Source: the Freedom House, “Freedom in the World Comparative and Historical Data:Country Ratings and Status, FIW 1972-2009 ”

(<http://www.freedomhouse.org/template.cfm?page=439>)

Since 1987, Taiwan has gone through a peaceful transition from a one-party dictatorship to a western-style political democracy. In 1987, Chiang Kai-shek’s son Chiang Ching-kuo terminated martial law and started the process of democratization. In 1988, Lee Teng-hui became the first native-born president, breaking the “mainlander’s monopoly” on political power. In 1996, Taiwan held its first direct presidential election and Lee became the island’s first elected leader. Taiwan’s democratic progress culminated in Chen Shui-bian’s victory in the 2000 presidential election, which ended 55

years of KMT rule (Wang, 2001). Taiwan's "PR" (political rights) rating rose from 5 in 1987 to 2 in 1996, and then to 1 in 2000 (Table 6-1). Its "CL" (civil liberties) rating also rose from 4 in 1987 to 2 in 1996 and to 1 in 2004 (Table 6-1). Today Taiwan is an open and competitive democracy.

China is not a democracy. All the well-known rankings, including the Freedom House rating, Policy IV project (Gurr and Marshall, 2006), and the Economist annual reports (Kakic, 2007) assert that China is not a free or democratic state. From Table 6-1, we can see that China's rating has not changed very much. But it should be noted that its CL rating has slightly rose from 7 to 6 since 1998. According to John L. Thornton (2008), the CCP "has a monopoly on political power, and the country lacks freedom of speech, an independent judiciary, and other fundamental attributes of a pluralistic liberal system." Yet much has changed since China began economic and political reforms in 1978. Three decades of market reforms, foreign trade and other interaction with the West have drastically changed Chinese society, resulting in "an unprecedented expansion of economic, social, and personal freedom for ordinary Chinese citizens"(Ma, 2007). The Freedom House report also noted that "even though political institutions in China have not undergone major change, the degree to which Chinese can manage their own lives has increased substantially in the reform era."<sup>24</sup>

China is not a democracy; but it is not a complete autocracy either. Vesna Danilovic and Joe Clare (2007) argue that what matters most to Kant is not who rules "but rather whether the policy reflects the general will of the people." They contend that the

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<sup>24</sup> See the Freedom House's "Countries at the Crossroads 2007" report.  
<http://www.freedomhouse.org/template.cfm?page=140&edition=8&ccrcountry=144&section=86&ccrpage=37>

representative spirit of public policies is more relevant than the democratic form of government. The leadership of China has changed from a revolution generation to a post-revolution generation. The new paramount leader, Hu Jintao does not have the same personal authority as his predecessors. The policy-making process of Hu's government is more formal and bureaucratic than that of his predecessors. He cannot make decisions concerning Taiwan without consulting military leaders, business representatives and top diplomats, nor can he ensure the automatic support of Chinese citizens. Facing the rapid decay of communist ideology and lacking the legitimacy of democratically elected governments, the Chinese government is afraid of losing power, just like any other type of government. It has paid more attention to public opinion and tried to make policies more appealing to Chinese citizens. Hu Jintao even visited the People's Daily in 2008, going online and having a "web chat" with Chinese internet users at the newspaper's web site (Li, 2008). It showed that Chinese leaders have realized the internet is an important source of public opinion and they want to engage with Chinese citizens more actively.

The Chinese government is increasingly attempting to promote a sense of nationalism as societal glue. It has launched a propaganda campaign of patriotic education to ensure support among a huge population that would otherwise be subject to much discontent. An important element of this education is that Taiwan is an integral part of China. The CCP benefits from the increased nationalism, but at the same time its ability to maneuver in its relations with Taiwan is restricted by the nationalistic atmosphere. A rising nationalism in the PRC has posited reunification with Taiwan as the most important embodiment of China's sovereignty and national prestige. It will be viewed as a political failure if the Chinese government fails to prevent Taiwan from formal separation.

No one worries about an attack by Taiwan on the mainland because Taiwan does not have this capability. Since economic development is Beijing's top priority, it currently has no intention to attack Taiwan. Beijing made it clear in its "Anti-secession Law" that China will only employ non-peaceful means against Taiwan under three conditions.<sup>25</sup> A military conflict in the Taiwan Strait will be most likely to occur if Taiwan declares formal independence. Taiwan is now a democracy, public opinion on the "independence vs. unification" issue will have an important influence on Taipei's policies and the cross-Strait relations. Most people on the island have developed a separate Taiwanese identity during the last decade. Taiwan's National Chengchi University conducted a public opinion poll back in 1991 and found that 43.9% of respondents identified themselves as Chinese, 13.6% called themselves Taiwanese, and half of respondents described themselves as both Chinese and Taiwanese.<sup>26</sup> According to a recent survey conducted by a policy research committee of the Executive Yuan in Taiwan, 64.6 percent of respondents identified themselves as Taiwanese, 11.5 percent considered themselves Chinese, while 18.1 percent called themselves both Taiwanese and Chinese.<sup>27</sup> Public polls constantly show that most people in Taiwan reject Beijing's "one country, two systems" formula. To them, China's claim is inconsistent with Taiwan's political reality.

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<sup>25</sup> The three conditions are: (1) in the event that the "Taiwan independence" secessionist forces should act under any name or by any means to cause Taiwan's secession from China, (2) if major incidents entailing Taiwan's secession from China should occur, (3) if possibilities for a peaceful reunification should be completely exhausted. See Article 8 of the Anti-Secession Law, adopted at the Third Session of the Tenth National People's Congress, March 14, 2005. [http://english.peopledaily.com.cn/200503/14/eng20050314\\_176746.html](http://english.peopledaily.com.cn/200503/14/eng20050314_176746.html)

<sup>26</sup> See more information about the survey and the changes in Taiwanese identity in "Taiwan identity growing: study," by Rich Chang, Taipei Times, May 12, 2006, <http://www.taipetimes.com/News/taiwan/archives/2006/03/12/2003296948>.

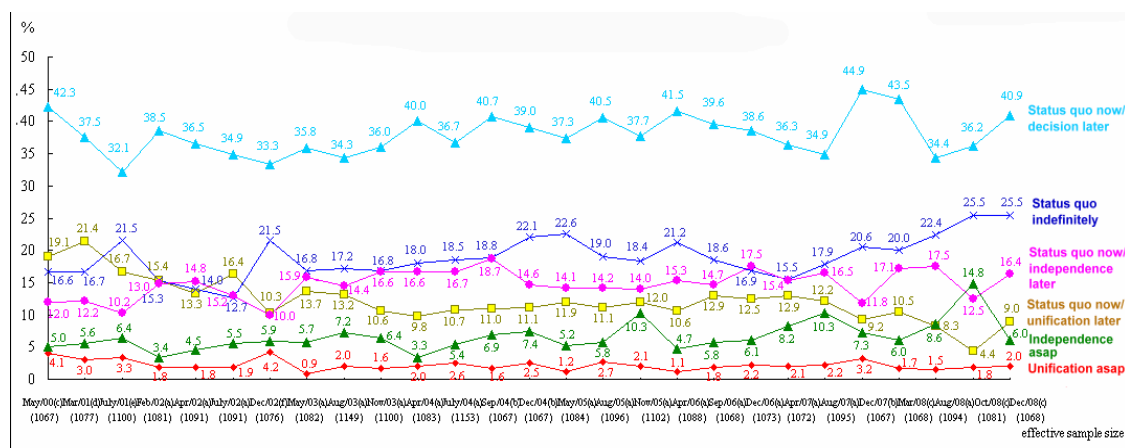
<sup>27</sup> The survey is conducted by Development and Evaluation Commission (RDEC). More information can be found in "RDEC Releases Political, Ethnic Survey Results," Taipei Times, May 28, 2009, p3. <http://www.taipetimes.com/News/taiwan/archives/2009/05/28/2003444751>, and from RDEC web site, <http://www.rdec.gov.tw/public/Data/952711431071.pdf>.

They are also afraid of losing the freedom and political rights they now enjoy if Taiwan were to unite with the PRC. However, the Taiwanese identity movement has not produced a widespread call for Taiwan's formal independence (Ross, 2007). According to the latest public opinion survey<sup>28</sup> conducted by the Mainland Affairs Council (MAC) in Taiwan (Figure 6-1), an overwhelming majority of the public (91.8 percent) tends to favor the broadly defined status quo<sup>29</sup> and this figure has reached a record high as compared to previous opinion surveys. In fact, people's attitudes on unification or independence have not shown significant changes during the last decade. Public opinion polls consistently show that more than 80 percent of the Taiwanese prefer to maintain the status quo. Taiwanese voters' strong preference for maintaining the status quo explains why Chen Shui-bian has refrained from making major moves to alter the island's status.

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<sup>28</sup> Mainland Affairs Council (MAC) announced the 2008 public opinion survey results in December, 2008. <http://www.mac.gov.tw/english/english/news/08110a.pdf>

<sup>29</sup> Including "maintaining the status quo and deciding on independence or unification later," "maintaining the status quo and unification later," "maintaining the status quo and independence later," "maintaining the status quo indefinitely." <http://www.mac.gov.tw/english/english/news/08110a.pdf>



**Figure 6-1: Taiwan’s public opinion on the issue of unification and independence**

Sources: Line chart is adapted from *Public Opinion on Cross-Strait Relations in the Republic of China*, Mainland Affairs Council of the Executive Yuan in Taipei. (<http://www.mac.gov.tw/english/index1-e.htm>)

The relationship between Taiwan’s democratization and levels of tension across the Strait is mixed and complicated. Before democratization, the mainland minority in Taiwan, who arrived on the island from 1945 to 1949, ruled the native Taiwanese, who make up the majority of the population. The ethnic gap between “Taiwanese” and “Mainlanders”<sup>30</sup> became the major division within Taiwanese society. To use this island as a base for recovering the mainland, the KMT government imposed harsh authoritarian rule and conducted intense propaganda to “sinicize” the island residents (Wang and Liu, 2004). The native Taiwanese language (Minnan dialect) was prohibited in schools. Many intellectuals were arrested because they promoted Taiwan’s independence. In 1986, the

<sup>30</sup> According to the background note provided by the US Department of State, Taiwan has a population of 23 million and about 98 percent of them are Han Chinese. The majority of the population (more than 18 million) is the “native Taiwanese”, who are descendants of Chinese who migrated from Fujian and Guangdong Provinces on the mainland to Taiwan before 1945, primarily in the 18th and 19th centuries. The “mainlanders” are those who arrived in Taiwan after 1945, especially in 1949 when Chiang Kai-shek and his two million followers retreated to Taiwan. <http://www.state.gov/r/pa/ei/bgn/35855.htm>

DPP was founded, which was a milestone for Taiwan's independence movement. The lifting of martial law in 1987 made it possible to advocate independence openly.

At the initial stage of Taiwan's democratization, the independence movement gained ground. Lee Teng-hui, a native Taiwanese, succeeded Chiang Ching-kuo after Chiang's death in 1988. Lee had committed himself to Taiwan's democratization and independence. His visit to the US in June 1995 triggered a severe crisis in the Taiwan Strait. Beijing conducted live military exercises and missile tests in waters around Taiwan, and suspended all talks between the SEF and the ARATS. The PRC's military threat, however, was unsuccessful in dissuading the Taiwanese from voting for Lee Teng-hui. Some even argue that Beijing's measures were counterproductive and actually helped Lee's election.

Chen Shui-bian, candidate of the DPP, won the 2000 presidential election with 39.3 percent of the vote.<sup>31</sup> In the first two years of his presidency, Chen adopted a moderate stance by promising five "no's"<sup>32</sup> and encouraging economic exchange with the mainland. The two sides enjoyed a period of "cold peace." In August 2002, Chen broke his "five no's" promise by proclaiming that, "there were two countries on each side of the Taiwan Strait." Beijing condemned him as a separatist who was bringing Taiwan to the brink of war. Prior to Taiwan's 2004 presidential election, Chen planned to hold two referendums regarding Taiwan's relations with mainland China on the date of the

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<sup>31</sup> Chen's victory was partly due to the KMT's bad reputation for corruption and repression, partly a result of the opposition split between his two competitors (Lien Chan and James Soong). Lien Chan was the candidate of the ruling party KMT, who garnered 23.1% of the vote. James Soong was more popular and consistently ranked higher in the polls, but he failed to gain the Kuomintang's nomination. He campaigned as an independent candidate and gained 36.8 % of the vote. The election result is from Government Information Office of the Republic of Taiwan. [http://www.gio.gov.tw/elect2008/kit\\_03.htm](http://www.gio.gov.tw/elect2008/kit_03.htm)

<sup>32</sup> The "five nos": no declaration of independence, no change in the "national title", no "state- to-state" description in the Constitution; no referendum to change the status quo; no abolition of the National Unification Council nor the Guidelines for National Unification.

election. The PRC accused him of using the referendums to bolster his chances of re-election and the tension level went up. Although Chen won the election by a 0.1 percent<sup>33</sup> margin one day after an assassination attempt on him, the election results have been fiercely disputed. During Chen's second term, Taiwan politics became further divided over cross-Strait issues, with Chen and the DPP unwilling to follow the example of the opposition leaders who generally accepted the "One China" principle that Beijing insists is a prerequisite for cross-Strait talks. Tensions between Taiwan and China have been mounting over Chen's attempts to revise Taiwan's Constitution, change the official name of Taiwan (from Republic of China to Republic of Taiwan), and push ahead with a referendum on the island's bid to enter the United Nations under the name of Taiwan. Chen's approach to seeking Taiwan's formal independence drew harsh criticism but did not provoke a major military response from Beijing. Beijing tried to isolate Chen Shui-bian by avoiding all direct contact with Chen and his administration. Many Taiwanese felt that Chen had over-pushed his independence agenda and thus unnecessarily provoked China.

Ma Ying-jeou of the KMT won Taiwan's presidential election by a large margin on March 22, 2008, gaining 58% of the votes cast compared to 42% for his rival from the DPP (Dumbaugh, 2008). In the election, voters also rejected a referendum on Taiwan joining the United Nations under the name of Taiwan. In contrast with Chen's policy of distancing from and irritating the PRC, Ma proposed to build an economic common market with mainland China by launching direct transportation links, lifting restrictions

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<sup>33</sup> Chen Shui-bian had 50.1% of the votes and Lien Chan had 49.9%. The election result is from Government Information Office of the Republic of Taiwan. [http://www.gio.gov.tw/elect2008/kit\\_03.htm](http://www.gio.gov.tw/elect2008/kit_03.htm)



on trade and investment, and opening Taiwan to Chinese tourists and investors. He also promised to negotiate a peace treaty with Beijing and scale back the military build-up along the Taiwan Strait. Relations with Beijing have been improved dramatically since Ma came to power. In December 2008, the MAC survey<sup>34</sup> results show that 64.8 percent of the public thinks that cross-Strait relations are more relaxed than in 2007. More than half of the people (57.9 percent) are confident of Ma's ability to maintain cross-Strait peace. It is noteworthy that some Taiwanese still fear that Ma will somehow sell Taiwan's sovereignty to China. The DPP has accused Ma of selling out Taiwan to Beijing. Ma Ying-jeou responded that he would not "budge an inch on the island's sovereignty dispute with Beijing."<sup>35</sup> He has repeatedly asserted the sovereignty of the ROC and expressed continued interest in greater "international space" for Taiwan. Beijing is uncomfortable with some of Ma's statements, but it is also aware that any strong moves against the Ma administration could play into the hands of Ma's political opponents. The Dalai Lama's visit to Taiwan in September, 2009 was the latest test to the relationship between Taipei and Beijing. Beijing was not happy about Ma's decision to allow the Dalai Lama to visit Taiwan. But it avoided directly criticizing Ma; instead, it blamed the opposition party (DPP) for the invitation.

In conclusion, there is no clear evidence of the pacific effect of democracy in the Taiwan Strait. My first hypothesis is not confirmed. In fact, Taiwan's democratization has had a mixed effect on the levels of tension. In the first flush of democracy, the

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<sup>34</sup> See the summarized results of the public opinion survey on "The Public's View on Cross-Strait Relations and the Mainland Policy," Mainland Affairs Council of the Republic of China, December 2008. <http://www.mac.gov.tw/english/english/news/08110a.pdf>

<sup>35</sup> Ma responded to accusations from the pro-independence opposition (DPP) that he was selling out Taiwan to Beijing, in an interview with Taipei Times on February 20, 2009. "Exclusive Ma Ying-Jeou Interview: Nothing to fear from CECA with Beijing". <http://www.taipeitimes.com/News/front/archives/2009/02/20/2003436567>

Taiwanese were excited by the opportunity to express their political opinions, and some politicians enthusiastically advocated Taiwan's independence. These changes upset Beijing and triggered high levels of tension in the Taiwan Strait in the late 1990s. After a decade-long political impasse in the Strait, the Taiwanese realized that maintaining the status quo is in their best interest and seeking immediate independence would only bring disaster. Taiwan's public opinion thus has helped alleviate high level of tension by restricting its leaders from declaring immediate independence. It is noteworthy that rising nationalism on both sides provides increased ground for conflict and makes peaceful unification more difficult. Most people in Taiwan identify themselves as "Taiwanese" and insist that Taiwan should have equal status with the PRC if the two sides are reuniting as one China; the mainland majority considers this request unacceptable. Given that staying in power is the primary concern for leaders in both Beijing and Taipei, no politician will dare to make a big concession to the other or come up with a bold formula to resolve the Taiwan problem, at least in the near future. Just as Chen Shui-bian was unable to unilaterally make Taiwan officially independent, it would be equally impossible for Ma Ying-jeou to make a deal with Beijing and unite Taiwan with the PRC.

## Chapter 7

### Economic interdependence and cross-Strait relations

Hypothesis 2: *As economic interdependence increases, the tension level will decrease, and Taiwan and mainland China will be less likely to engage in military conflict.*

Proponents of liberal theories argue that states seldom go to war with other states with whom they have extensive trade. This argument is based on a straightforward idea: the mutual benefits of trade provide incentives for trading countries to maintain peaceful relations with each other; trade makes war less likely by increasing the costs of cutting off such economic ties (McDonald 2004, p. 547). Harvard Hegre (2000) pointed out an additional side effect of trade, improved communication between the people of two trading states. This people-to-people communication “reduces the chances of misunderstanding and helps build institutions for the peaceful resolution of conflict.”(Hegre 2000, p. 5) Since Taiwan lifted restrictions on traveling to the mainland in 1987, civilian exchanges and trade have increased dramatically.

In the late 1980s, both Taiwan and mainland China underwent profound political and economic changes. The mainland initiated a “coastal development strategy” to attract

investment in the coastal cities. At the same time, Taiwan was losing its competitiveness in labor-intensive production because the increasingly high wages on the island. Indirect trade between the two sides through Hong Kong, Japan and Singapore grew rapidly. Taiwanese veterans and the business community pushed for the relaxation of restrictions on traveling to the mainland. Taiwan's government lifted the ban on travel in October 1987<sup>36</sup> and removed the restriction on outbound capital below US \$5 million (Hsieh 2008, p3). Since then, economic and social exchanges across the Taiwan Strait have exploded. Taiwan's exports to mainland China grew nearly 10 times from US\$1.2 billion in 1987 to \$10.5 billion in 1992.

Both Taiwan and mainland China have felt the need to expedite and institutionalize their negotiation process to solve problems emerging from the rapidly growing interactions. Taipei adjusted its mainland policy of "no contact, no concession, and no negotiation" and set up SEF (the Straits Exchange Foundation of Taiwan, led by Koo Chen-fu) in February 1991 to deal with cross-Strait affairs considered "inconvenient" for the Taiwan authority to handle. Beijing agreed to hold negotiations by setting up ARATS (the Association for Relations across the Taiwan Strait, led by Wang Daohan) in December 1991.<sup>37</sup> The famous "1992 Consensus"<sup>38</sup> was reached between the ARATS and SEF in a meeting held in Hong Kong in November 1992. The cross-Strait

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<sup>36</sup> According to MAC, Taiwanese people are allowed to pay family visits to the mainland on November 1987. "Major Events across the Taiwan Strait", Mainland Affairs Council of the Republic of China. <http://www.mac.gov.tw/english/index1-e.htm>

<sup>37</sup> See "Major Events across the Taiwan Strait" from the MAC web site. <http://www.mac.gov.tw/english/index1-e.htm>

<sup>38</sup> According to China's official Xin Hua news agency, the "1992 Consensus" is that both sides of the Taiwan Straits adhere to the "One-China principle" and explain the principle differently. It is also referred to as "One China, Two Interpretations". Taipei and Beijing agree that there is only One China and this One China includes both Taiwan and the mainland. However, each side considers itself the legitimate government of this One China. The "1992 Consensus" was clearly expressed in letters exchanged between the SEF and ARATS, and fully documented in the SEF's summary of Wang-Koo talks in 1993. [http://www.chinadaily.com.cn/english/doc/2004-10/13/content\\_382076.htm](http://www.chinadaily.com.cn/english/doc/2004-10/13/content_382076.htm)

relationship reached a peak in April 1993 when the chairmen of the two quasi-official organizations held a summit in Singapore, the first public meeting between high-level figures from both sides since 1949. The meeting demonstrated how economic cooperation could lead to political negotiation and to a more friendly relationship between Taiwan and the mainland.<sup>39</sup>

The economies of Taiwan and mainland China are highly complementary. China's modernization program requires Taiwan's capital, expertise, management technique and trade network, while export-oriented Taiwan needs the mainland's low-cost labor, raw material and huge market. Geographic proximity, sharing a common language and culture, as well as historical ties all make mainland China an attractive destination for Taiwanese business interests. In contrast to the ups and downs in their political relations, economic and social exchanges between Taiwan and mainland China have become increasingly close and frequent.

Table 7-1 and Figure 7-1 show that Taiwan's trade with mainland China has increased steadily since 1987. The amount of trade between the two sides was US\$1.51 billion in 1987, \$2.72 billion in 1988 (a 79.55 percent increase over 1987), \$5.16 billion in 1990, \$11.29 billion in 1992, \$22.52 billion in 1995, \$65.72 billion in 2004, and \$105.37 billion in 2008. The mainland (including Hong Kong and Macao) has become Taiwan's largest trade partner and trade surplus source. Taiwan is the mainland's 7th

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<sup>39</sup> The cooperative atmosphere was ruined by series of political events in 1995. Following Lee Teng-hui's visit to the US and China's missile tests, Beijing and Taipei postponed the second round of Wang-Koo talks. After Taiwan's presidential election in 1996, tension began to ease slowly, and Wang and Koo held meetings again in Shanghai in 1998. Talks between the two sides were suspended again in 1999 after Lee Teng-hui proposed his "special state-to-state" theory. During Chen Shui-bian's tenure, Beijing refused direct talk with Chen's administration and the political relations between Taiwan and mainland China remained deadlocked. <http://www.state.gov/r/pa/ei/bgn/35855.htm>

largest trade partner, 9th export market and 5th import source.<sup>40</sup> By the end of 2008, cross-Straits indirect trade volume hit 857.39 billion dollars overall and Taiwan enjoyed a total trade surplus with the mainland of 553.76 billion.<sup>41</sup>

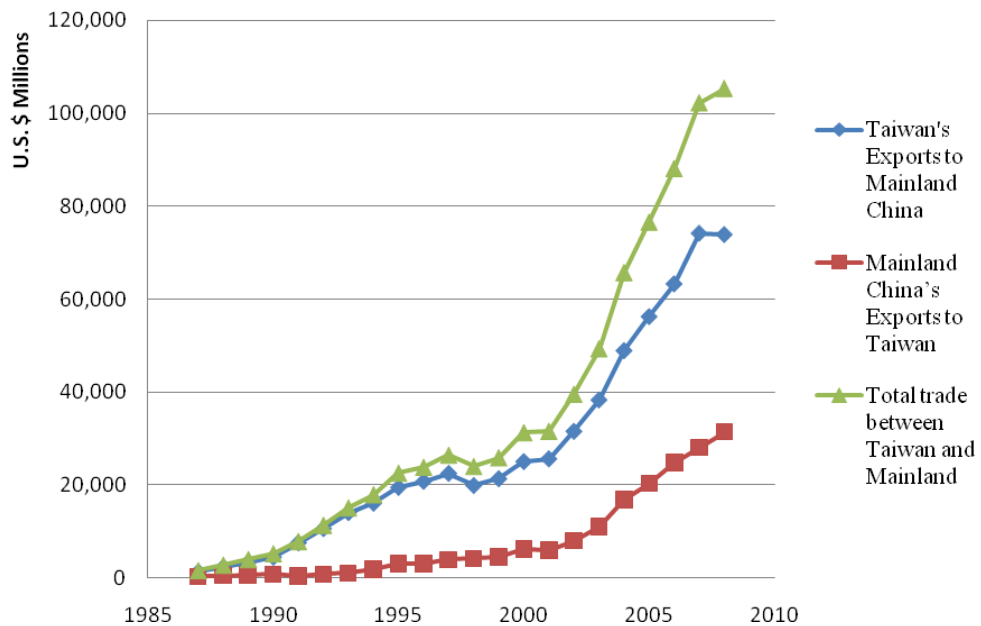
**Table 7-1: Trade between Taiwan and Mainland China (in US\$ millions)**

Year	Taiwan's Exports to Mainland China	Mainland China's Exports to Taiwan	Total	Percentage Increase (%)
1987	1,226.50	288.90	1,515.40	
1988	2,242.20	478.70	2,720.90	79.55
1989	3,331.90	586.90	3,918.80	44.03
1990	4,394.60	765.40	5,160.00	31.67
1991	7,493.50	293.20	7,786.70	50.91
1992	10,547.60	747.10	11,294.70	45.05
1993	13,993.10	1,015.50	15,008.60	32.88
1994	16,022.50	1,858.70	17,881.20	19.14
1995	19,433.80	3,091.30	22,525.10	25.97
1996	20,727.30	3,059.90	23,787.20	5.60
1997	22,455.20	3,915.30	26,370.50	10.86
1998	19,840.90	4,113.90	23,954.80	-9.16
1999	21,312.50	4,528.90	25,841.40	7.88
2000	25,009.90	6,229.30	31,239.20	20.89
2001	25,607.40	5,903.00	31,510.40	0.87
2002	31,528.80	7,968.60	39,497.40	25.35
2003	38,292.70	11,017.90	49,310.60	24.85
2004	48,930.40	16,792.30	65,722.70	33.28
2005	56,271.50	20,293.70	76,565.20	16.50
2006	63,332.40	24,783.10	88,115.50	15.09
2007	74,245.90	28,015.00	102,260.90	16.05
2008	73,977.80	31,391.30	105,369.10	3.04

Sources: Data from 1990-2008 are adapted from *Cross-Strait Economic Statistics Monthly* No.197. Figures from 1987-1989 are taken from *Cross-Strait Economic Statistics Monthly* No.192. Mainland Affairs Council of the Executive Yuan of the Republic of China in Taipei. (<http://www.mac.gov.tw/big5/statistic/em/197/5.pdf>)

<sup>40</sup> The information is obtained from the statistics provided by Ministry of Commerce of the People's Republic of China, Department of Taiwan, Hong Kong and Macao Affairs.  
<http://tga.mofcom.gov.cn/aarticle/d/200901/20090106015202.html>

<sup>41</sup> Ibid. <http://tga.mofcom.gov.cn/aarticle/jingmaotongji/redht/200902/20090206026844.html>



**Figure 7-1: Trade between Taiwan and Mainland China**

Besides the increase in bilateral trade, mainland China has become the primary destination for Taiwanese investment. Table 7-2 shows the rapid growth of Taiwan's investment on the mainland. Prior to 1987, there was no investment from Taiwan to the mainland. Following the relaxation of economic policies, some Taiwanese businessmen began to invest in the coastal cities in Gangdong and Fujian provinces on the mainland. The initial level of investment was moderate, then, it sped up after 1992. The amount of investment reported to the Ministry of Economic Affairs was about \$421.15 million before 1992; it soared to 3168.41 million in 1993 (Table 7-2), \$4334.31 million in 1997, \$6723.06 million in 2002, and \$10691.39 million in 2008. According to statistics

released by the Ministry of Commerce of the PRC<sup>42</sup>, 2,360 Taiwan-invested projects were approved in the mainland last year with a contractual value of 1.9 billion. By the end of 2008, the mainland had approved 77,506 Taiwan-invested projects, with a contract value of 47.66 billion dollars. According to the statistics on foreign investment in actual use, Taiwan's investment accounted for 5.9% of the total overseas investments absorbed by China.<sup>43</sup> The actual amount of Taiwanese investment is believed to be much higher because many Taiwanese businessmen do not honestly report their investment to the government. It is estimated that Taiwanese companies have invested about US\$150-300 billion on the mainland.<sup>44</sup>

Taiwan business conglomerates such as Formosa Plastics Group (FPG) have invested in eastern and southeastern China and gradually moved to the less developed middle and western regions. Taiwanese hi-tech businesses such as Acer and Semiconductor Manufacturing International (SMIC) have sped up the pace of entering the mainland market. After two decades of operating on the mainland, the Taiwanese have expanded their investment from labor-intensive to technology-intensive industries. In the late 1980s and early 1990s, Taiwan's investment in China concentrated on the shoe, apparel, textile and plastics industries. By the middle of the 1990s, most of Taiwan's investment in China was in machinery, mechanical appliance, electrical equipment, and metal industries. By 2008, electronic parts and products, computers, optical products and

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<sup>42</sup> The data is obtained from the statistics provided by Ministry of Commerce of the People's Republic of China, Department of Taiwan, Hong Kong and Macao Affairs.  
<http://tga.mofcom.gov.cn/aarticle/d/200901/20090106015202.html>

<sup>43</sup> Ibid.

<sup>44</sup> It is an unofficial estimation, but the figure has been acknowledged by Taiwanese government. See "Recent Development in Relations across the Taiwan Strait," by Taipei Liaison Office in the Republic of South Africa (RSA). At <http://www.roc-taiwan.org/ct.asp?xItem=83356&ctNode=2122&mp=402>.



electrical equipment have accounted for more than 40 percent of Taiwan's total investment in China.<sup>45</sup> It is estimated that over 60,000 Taiwanese firms operate on the mainland and over one million Taiwanese now live and work on the mainland.<sup>46</sup>

**Table 7-2: Taiwan Investment in Mainland China (Unit: US\$ million)**

Period	Approved by Ministry of Economic Affairs, ROC		Official Data from Mainland China		
	Cases	Amount	Projects	Contracted Amount	Realized Amount
Before 1987	0	0	0	0	0
1987-1992	501	421.15	9,807	8,253.53	1,894.10
1993	9,329	3,168.41	10,948	9,964.87	3,138.59
1994	934	962.21	6,247	5,394.88	3,391.04
1995	490	1,092.71	4,847	5,849.07	3,161.55
1996	383	1,229.24	3,184	5,141.00	3,474.84
1997	8,725	4,334.31	3,014	2,814.49	3,289.39
1998	1,284	2,034.62	2,970	2,981.68	2,915.21
1999	488	1,252.78	2,499	3,374.44	2,598.70
2000	840	2,607.14	3,108	4,041.89	2,296.28
2001	1,186	2,784.15	4,214	6,914.19	2,979.94
2002	3,116	6,723.06	4,853	6,740.84	3,970.64
2003	3,875	7,698.78	4,495	8,557.87	3,377.24
2004	2,004	6,940.66	4,002	9,305.94	3,117.49
2005	1,297	6,006.95	3,907	10,358.25	2,151.71
2006	1,090	7,642.34	3,752	—	2,135.83
2007	996	9,970.55	3,299	—	1,868.45
2008	643	10,691.39	2,092	—	1,898.68
Total	37,181*	75,560.46 *	77,506	—	47,659.68

Source: Data are adapted from *Cross-Strait Economic Statistics Monthly* No.197. Mainland Affairs Council of the Executive Yuan of the Republic of China in Taipei.  
<http://www.mac.gov.tw/big5/statistic/em/197/10.pdf>.

<sup>45</sup> See more details from Mainland Affairs Council, *Cross-Strait Economic Statistics Monthly*, No. 197, Table 12 "Taiwan approved investment in mainland China by industry." <http://www.mac.gov.tw/big5/statistic/em/197/12.pdf>

<sup>46</sup> See "Recent Development in Relations across the Taiwan Strait," by Taipei Liaison Office in the Republic of South Africa (RSA). At <http://www.roc-taiwan.org/ct.asp?xItem=83356&ctNode=2122&mp=402>.

Economic integration has created mutual dependence between Taiwan and the mainland. The cross-Strait trade as a percentage of Taiwan total trade has increased from 1.71% in 1987 to 21.23% in 2008 (see Table 7-3). Mainland China accounted for 30% of Taiwan's overall exports in 2007. Taiwanese companies have benefited from the favorable investment policies granted to them by the Chinese government. China's low-cost labor has helped Taiwanese firms maintain competitiveness in the era of globalization. Taiwanese companies have also reaped huge profits from China's gigantic market. Cross-Strait trade as a percentage of China's total trade has increased from 1.83% in 1987 to 4.47% in 1990 and has remained stable since then (see Table 7-4).

These figures indicate that Taiwan is much more dependent on the mainland than the mainland is on Taiwan. The most important reason for the asymmetric economic relationship is that China's economy is ten times larger than Taiwan's.<sup>47</sup> The second reason is that political considerations have deeply influenced Taipei and Beijing's economic policies. China has granted preferential investment and tax policies<sup>48</sup> to Taiwanese investors, which is largely driven by a strategic, political thinking. From the perspective of Chinese leaders, these policies will attract more Taiwanese investment and thus benefit China's economic development. They also believe that in the long run the cross-Strait economic integration will lead to political unification (Hsieh 2008, p. 2). At the 1990 National Work Conference on Taiwan, Former Chinese president Yang Shangkun

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<sup>47</sup> See "China's bailout of Taiwan is good for the region," by Wei Gu, from Reuters web site, <http://blogs.reuters.com/great-debate/2009/08/26/chinas-bailout-of-taiwan-is-good-for-the-region/>

<sup>48</sup> To encourage Taiwanese investment, Chinese government enacted the Regulations for Encouraging Investment by Taiwan Compatriots in 1988, granting Taiwanese companies preferential treatment including tax deductions and exemption. Because Chinese government offered more favorable treatment to Taiwanese than it granted to Chinese citizens and foreigners, these benefits are often referred to as "super-national treatment." See "China-Taiwan Trade Relations: Implications of the WTO and Asian Regionalism," Hsieh, Pasha L. (2008), pp2.

(Zhao, 1999) said publicly, “We should make efforts to develop cross-Strait relations. The emphasis should be placed on economic and other exchanges in order to ‘*yi shang wei zheng*’ (exploit business to press politics) and ‘*yi min bi guan*’ (utilize the public to urge the official). We should lead cross-Strait exchange in the direction to facilitate unification of the motherland and the four modernizations.” Beijing is willing to run a large deficit with Taiwan and give privileges to Taiwanese business in order to lure Taiwan into China’s economic network (O’neil, 2009). In contrast to Beijing’s “friendly” policy, Taipei has imposed stringent restrictions on mainland investment and products. While reaping the benefits from cross-Strait trade, Taiwan authorities have become increasingly worried that Taiwan’s economy will be too dependent on China and thus become politically vulnerable to the latter. They are also afraid that the island will lose its technological advantage over the mainland (Hsieh 2008, p. 3). The Lee Teng-hui administration implemented the “no haste, be patient” (*jie-ji yong-ren*) policy in the 1990s to avoid cross-Strait trade becoming “overheated”. The Chen Shui-bien administration further tightened the control of cross-Strait trade and investment by promoting the “proactive management and effective liberalization” policy. As a result of these policies, Taiwan has been less open to China than to other countries. Following China and Taiwan’s entry into the WTO, Taiwan was compelled to open up its market to the mainland, but only in a partial and gradual way. Until 2008, Taiwan still imposed caps on China-bound investments by the Taiwanese business community (Hsieh 2008, p3) and prohibited imports of more than 2000 agricultural and industrial items from the mainland.<sup>49</sup> Mainland companies were not allowed to invest on the island until recently.

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<sup>49</sup> See “Taiwan-China Free Trade: Winners and Losers”, DBS group research, october 7, 2009. At

As a result, cross-Strait capital flow has been a one-way movement from Taiwan to the mainland over the last 20 years.

It is true that there is an asymmetric economic relationship between Taiwan and China. However, Taiwan's economic dependence on China may be overrated. Taiwan's exports to China are largely investment driven. It is estimated by Taiwan's Board of Foreign Trade that 54 percent of the materials and 75 percent of the machinery and equipment needed by Taiwanese businesses in China are imported from Taiwan. And a large portion of electronic and consumer products labeled "made in China" are actually made by those Taiwanese companies. Since these products are exported to Japan, North America, Europe and other regions, they are not included in cross-Strait trade. Taiwan has successfully shifted its trade surplus with the US and EU to the mainland. Taiwan's Straits Exchange Foundation Chairman Chiang Pin-kung said that dependence on China is not a bad thing and what the Taiwanese should really worry about is that China no longer needs Taiwan.<sup>50</sup> He mentioned that Taiwan used to rely on the US economically and the US once accounted for about 50 percent of Taiwan's total exports, but now the US only accounts for 12 percent. He implied that Taiwan's dependence on China could be temporary.

Some scholars (Keohane, 1975) argue that asymmetric economic interdependence gives less dependent countries the ability to force concessions from more dependent countries. However, according to Gasiorowski (1986), those scholars who argue that

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[https://www.dbsvresearch.com/research%5Cdb%5Cresearch.nsf/\(vwAllDocs\)/198BEE74FE0A39F74825764900045A28/\\$FILE/tw\\_2009oct7.pdf](https://www.dbsvresearch.com/research%5Cdb%5Cresearch.nsf/(vwAllDocs)/198BEE74FE0A39F74825764900045A28/$FILE/tw_2009oct7.pdf)

<sup>50</sup> "SEF Chief Defends Trade Policy with the PRC", Taipei Times, Feb 9, 2009.  
<http://www.taipeitimes.com/News/taiwan/archives/2009/02/05/2003435267>

interdependence leads to increased conflict emphasize the costly aspect of interdependence. He argued, “whether interdependence leads to a net increase or a net decline in conflict thus depends on whether the consequences of its costs outweigh those of its benefits” (Gasirowski 1986, p. 27). If asymmetric economic ties only bring foreign influence and conflict, why would countries like Canada, Mexico want to trade with a much powerful neighbor - the US? Why is Taiwan so eager to deepen economic cooperation with China and planning to build a free trade zone with the latter?

Economic integration has also created China’s dependence on Taiwan. And China’s economic dependence on Taiwan is greater than the trade data may suggest. Taiwanese companies operating on the mainland have created millions of jobs, generated billions in tax revenues, and more importantly, Taiwanese capital, technology and know-how have been crucial to China’s sustained economic growth over the past 20 years. Taiwan has helped guide China into becoming a global economy.

**Table 7-3: Taiwan's Economic Dependence on Mainland China (Unit: %)**

<b>Year</b>	<b>Exports Share</b>	<b>Imports Share</b>	<b>Total</b>
1984	1.40	0.58	1.06
1985	3.21	0.58	2.17
1986	2.04	0.60	3.31
1987	2.28	0.83	1.71
1988	3.70	0.96	2.47
1989	5.03	1.12	3.31
1990	6.54	1.4	4.23
1991	9.79	0.46	5.57
1992	12.84	1.03	7.31
1993	16.28	1.31	9.19
1994	16.99	2.17	9.93
1995	17.15	2.97	10.36
1996	17.63	2.97	10.79
1997	18.08	3.41	11.03
1998	17.62	3.91	11.00
1999	17.22	4.07	11.00
2000	16.46	4.43	10.67
2001	20.27	5.47	13.45
2002	23.30	7.04	15.89
2003	25.43	8.61	17.70
2004	26.83	9.95	18.72
2005	28.36	11.00	20.04
2006	28.27	12.23	20.65
2007	30.11	12.77	21.95
2008	28.94	13.05	21.23

Sources: Data are adapted from “The Share of Cross-Straits Trade in Taiwan’s Total Foreign Trade”, *Cross-Strait Economic Statistics Monthly* No.197. Mainland Affairs Council of the Executive Yuan of the Republic of China in Taipei.  
(<http://www.mac.gov.tw/big5/statistic/em/197/8.pdf>)

**Table 7-4: Mainland China's Economic Dependence on Taiwan (Unit: %)**

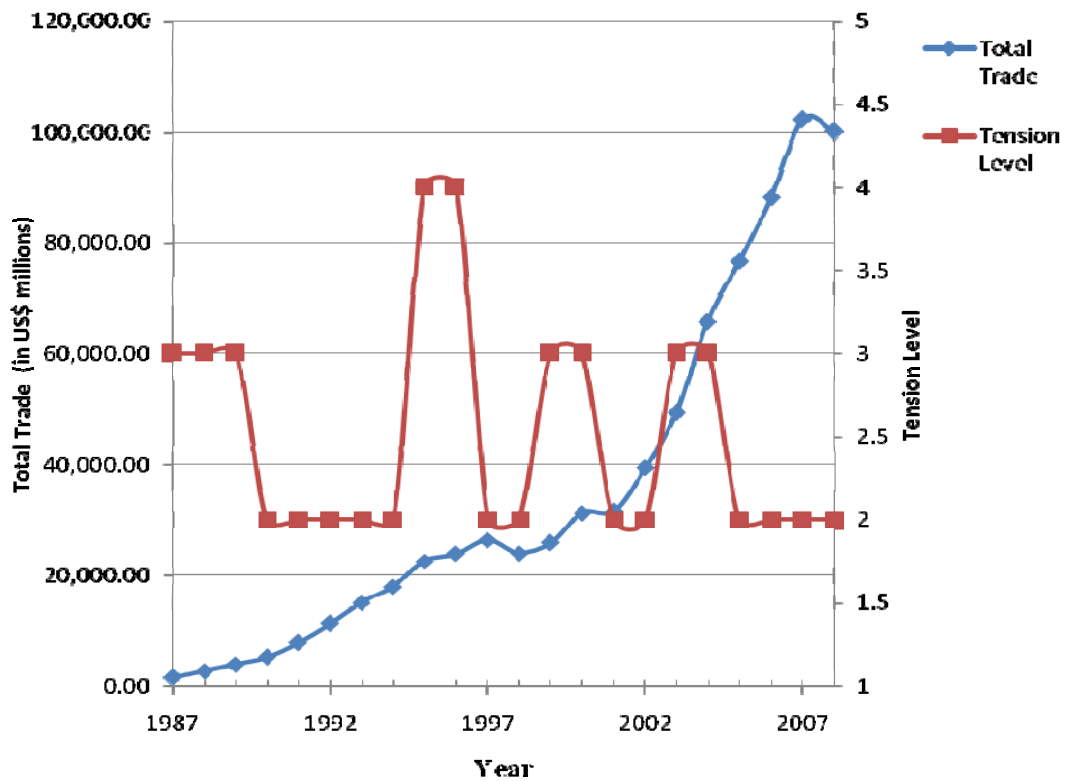
Year	Exports Share	Imports Share	Total
1985	0.42	2.34	1.58
1986	0.47	1.89	1.29
1987	0.73	2.84	1.83
1988	1.01	4.06	2.62
1989	1.12	5.63	3.51
1990	1.23	8.24	4.47
1991	0.41	11.75	5.74
1992	0.88	13.09	6.82
1993	1.11	13.46	7.67
1994	1.54	13.86	7.56
1995	2.08	14.71	8.02
1996	2.03	14.93	8.21
1997	2.14	15.77	8.11
1998	2.24	14.15	7.39
1999	2.32	12.86	7.17
2000	2.5	11.11	6.59
2001	2.22	10.51	6.18
2002	2.45	10.68	6.36
2003	2.51	9.28	5.79
2004	2.83	8.72	5.69
2005	2.64	8.53	5.37
2006	2.56	8	5
2007	2.3	7.77	4.71
2008	2.20	6.53	4.11

Sources: Data are adapted from "The Share of Cross-Straits Trade in Mainland China Total Foreign Trade," *Cross-Strait Economic Statistics Monthly* No.197. Mainland Affairs Council of the Executive Yuan of the Republic of China in Taipei. (<http://www.mac.gov.tw/big5/statistic/em/197/9.pdf>)

Figure 7-2 illustrates the relationship between the cross-Straits tension level and the level of bilateral trade. Unlike what many had expected, economic exchanges between Taiwan and the mainland have not been slowed by military threats and diplomatic conflicts through these years. The PLA's military activities in the 1995 and 1996 Taiwan Strait Crisis temporarily disrupted Taiwan's economy and cross-Straits trade, but there was no sign of any long-term effect. During the crisis, the Taiwanese stock market fell by

17 percent and real estate prices plummeted. The Taiwanese investment on the mainland sank to very low level in July and August 1995. For the first half of 1996, investment declined by 5 percent compared with the same period in the previous year (Wang, 1999). Shortly after the crisis, Taiwanese investment returned to the mainland. The failure of military intimidation also made Chinese leaders realize that economic integration is their best bet to engage Taiwan into cross-Strait talks. After the crisis, the PRC's foreign minister Qian Qichen and other civilian leaders emphasized the need to promote economic cooperation and attract more business investment from Taiwan. We can see from Figure 6, bilateral trade kept growing in high-tension years (1995, 1996, 1999, 2000, 2002, 2003, and 2004). The only time that trade volume decreased was in 1998 when the Asian Financial Crisis hit Taiwan. In 2000, the mainland became Taiwan's most important export market, and in 2002, the Mainland became the largest recipient of Taiwanese overseas investment. Cross-Strait indirect trade has enjoyed double-digit growth for six consecutive years since 2002. Taiwan's exports to the mainland dropped for the first time in 2008 due to the weak demand caused by the global economic downturn. Taiwan suffered a 1.9 percent decline in its trade with mainland China, the worst figure since the 1998 Asian Financial Crisis.





**Figure 7-2: Cross-Strait trade and tension level during 1987-2008**

The Taiwanese business community has become a powerful interest group lobbying for a friendly mainland policy and more cross-Strait cooperation. After avoiding politics for years, the Taiwanese business community has decided to play an active role in the island's politics in order to protect their economic interests on the mainland. The Taiwan Chamber of Commerce in China and the Taiwan Business Association openly endorsed the KMT presidential candidate in the 2004 and 2008 presidential elections. From the perspective of the business community, the KMT's Beijing-leaning policies are more pragmatic and business-friendly than those of the DPP. They believe that there is too much at stake to support a president whose policies will provoke Beijing recklessly. After China's entry into the WTO in 2001, Beijing gradually eased the "super-national

treatment" granted to Taiwanese companies in order to comply with the "most-favored-nation (MFN) treatment" and "national treatment" required by the WTO (Hsieh 2008, p. 3). The profits of Taiwanese firms operating on mainland China have shrunk because of increasing foreign competition. In order to lower costs and attract mainland business, the Taiwanese business community has pushed its government to lift restrictions on the free flow of goods and people across the Taiwan Strait. Since the KMT returned to power last May, the Ma administration has committed itself to improving relations with Beijing and eliminating obstacles for Taiwanese business. The launching of the "three direct links" is the most concrete evidence of Ma's policy of engagement with mainland China. Beijing offered to set up direct transportation links with Taiwan 30 years ago, but Taipei repeatedly turned it down.<sup>51</sup> As China's economy blossomed and Taiwan's slowed, Taipei has reconsidered the offer. Since Ma took office, both sides swiftly resumed semi-official talks between the ARATS and SEF, and signed landmark deals on direct flight, shipping and postal services. Restrictions on mainland investment in Taiwan have been relaxed, which would encourage further cross-Strait economic integration.

Not everyone on the island is as excited as the business community about warming cross-Strait relations. The majority of Taiwanese people have not had an opportunity to visit mainland China and continue to view it as a communist and authoritarian country. Some Taiwanese also worry that the island's economy is becoming too dependent upon China which will give Beijing increasing leverage to settle political differences on its terms. The DPP has taken full advantage of this fear of an over-powerful China. Since

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<sup>51</sup> See the article posted by China's official news agency, "'Three Links' across the Taiwan Straits", at [http://news.xinhuanet.com/english/2005-04/30/content\\_2897151.htm](http://news.xinhuanet.com/english/2005-04/30/content_2897151.htm).

losing power in 2008, the DPP has accused Ma ying-jeou administration of “selling out” Taiwan to the PRC. There were large-scale protests in major Taiwan cities during Chen Yunlin’s (the chairman of the ARATS) landmark visit to Taiwan in November 2008. The protests indicate that some Taiwanese, especially the supporters of the DPP are uneasy about the rapidly growing cross-Strait ties. It also explains why Ma Ying-jeou urged the U.S. to increase the pace of its arms sales to Taiwan and promised that Taiwan’s military spending would not fall below 3 percent of GDP during his term, even as he promoted closer ties with mainland China.

Overall, the pacific effect of economic interdependence has robustly confirmed my second hypothesis. Close economic ties have created common interests and promoted communication between Taiwan and mainland China. Greater economic interdependence, especially Taiwan's dependence on the mainland serves to dissuade the Taiwanese, especially the business community from supporting independence movement.

## Chapter 8

### IGOs and cross-Strait relations

Hypothesis 3: *If the participation in IGOs increases, the tension level will decrease. Taiwan and mainland China will be less likely to engage in military conflict.*

Intergovernmental organizations (IGOs) are the third leg of the Kantian tripod for peace. According to Russett, Oneal and Davis (1998, p. 444), there are six major functions of most international organizations: coercing norm breakers; mediating among conflicting parties; reducing uncertainty by conveying information; problem-solving; socialization and shaping norms; and generating narratives of mutual identification. Their study indicated that the benefits of joint memberships in IGOs are as significant as democracy and economic interdependence in reducing the incidence of military disputes. The EU has become a model for many regional IGOs in Asia, Latin America, the Middle East, and Africa, such as SAARC (The South Asian Association for Regional Cooperation), ASEAN (Association of South East Asian Nations), and the AU (African Union). The absence of war over the last sixty years among the members of the EU represents the best evidence of an IGOs' pacifying effect on interstate conflict.

Russett, Oneal and Davis (1998, p. 450) used a simple count of shared membership in IGOs to operationalize this variable. As to joint memberships in IGOs, the case of Taiwan is special. The PRC has been blocking Taiwan's efforts to achieve membership in those IGOs, which only sovereign states are qualified to join. Thus Taiwan's membership in IGOs is limited.<sup>52</sup> In 1971, the United Nations General Assembly passed resolution 2758, which designated the PRC as the official and exclusive representative of China. Taiwan has thus been excluded from the UN and its related organizations since 1972. For more than three decades, the PRC has used its diplomatic power to deny membership to Taiwan. From the perspective of the PRC, Taiwan is ineligible for membership in international organizations composed of sovereign states because it considers Taiwan to be part of China. As to international organizations with membership open to both sovereign states and regions, Taiwan's participation is negotiable if an agreement or understanding has been reached between Beijing and the organization concerned, and only if Taiwan participates as a region of China under the designation of "Taipei, China" or "Chinese Taipei". Taiwan argues that its 23 million citizens deserve to be members of the international community and condemns Beijing's policies of

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<sup>52</sup> Beijing's principled stance against Taiwan's membership in IGOs is exemplified by Foreign Ministry Spokesman Qin Gang's response at a regular press conference held on August 29, 2008: It is known to all that the UN and its specialized agencies are intergovernmental organizations whose membership is open only for sovereign states. There's only one China in the world with Taiwan part of it. The so-called proposal on "Taiwan's participation in the United Nations specialized agencies" submitted by a handful of countries including Nauru and Gambia is an attempt to create "two Chinas" or "one China, one Taiwan". It infringes upon China's sovereignty and territorial integrity, and intervenes in China's domestic affairs, which will be firmly opposed by the Chinese Government and people. See the latest statements concerning Taiwan's participation in intergovernmental organizations made by the Ministry of Foreign Affairs (MOFA) of the People's Republic of China.  
<http://www.fmprc.gov.cn/chn/pds/ziliao/zt/ywzt/2005year/wcflysg/lshbjbst/fyrthb/t509821.htm>

diplomatic pressure. This is a manifestation of the dispute over Taiwan's legal status in the international arena.

Participation in international organizations is viewed as an important measure of a nation's prestige and legitimacy in the world. The PRC has been actively involved in several hundred international organizations.<sup>53</sup> It holds a permanent seat on the Security Council of the United Nations (UN) and the accompanying veto power gives it great influence on international issues. Besides the UN General Assembly and Security Council, the PRC is an active member of numerous UN specialized agencies such as the Food and Agriculture Organization of the UN; UN Educational, Scientific and Cultural Organization, UN Office of the High Commissioner for Refugees, UN Industrial Development Organization, UN Conference on Trade and Development. It is also an important member of other international and regional organizations that are significant to world and regional affairs, including the International Atomic Energy Agency, the World Intellectual Property Organization, and the International Olympic Committee, Asian Development Bank, Asia Pacific Economic Cooperation, Shanghai Cooperation Organization, etc.

According to the Ministry of Foreign Affairs of the ROC, Taiwan has membership in 27 IGOs. Table 8-1 shows that the IGOs in which Taiwan participates are mostly Asian in scope, rather than global, and are mostly economic or technical, rather than political or with a broad mandate; mostly little known, rather than prominent and influential. And

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<sup>53</sup> See "China's Role in International Organizations", U.S. Library of Congress <http://countrystudies.us/china/134.htm>

none is within the UN system. Taiwan also participates in more than 20 IGOs as an observer or with other similar status (Table 8-2).

**Table 8-1: International Organizations in which Taiwan has membership**

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Advisory Center on WTO Law
Afro-Asian Rural Development Organization
Asia/Pacific Group on Money Laundering
Asian Development Bank
Asian Productivity Organization
Asia-Pacific Association of Agricultural Research Institutions
Asia-Pacific Economic Cooperation (APEC)
Asia-Pacific Legal Metrology Forum
Association of Asian Election Authorities
Association for Science Cooperation in Asia
AVRDC-The World Vegetable Center
Central American Bank for Economic Integration
Egmont Group
Extended Commission for the Conservation of Southern Bluefin Tuna
Food and Fertilizer Technology Center for the Asian and Pacific Region
Interim Scientific Committee for Tuna and Tuna-like Species in the North Pacific Ocean
International Cotton Advisory Committee
International Satellite System for Search and Rescue
International Seed Testing Association
Office International des Epizooties (World Organization for Animal Health)
South East Asian Central Banks
Study Group on Asian Tax Administration and Research
The International Competition Network
Western and Central Pacific Fisheries Commission
World Customs Organization (Technical Committee on Customs Valuation)
World Customs Organization (Technical Committee on Rules of Origin)
World Trade Organization

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Source: “International Organizations”, from the Ministry of Foreign Affairs of the Republic of China. At <http://www.mofa.gov.tw/webapp/public/Data/811511552371.pdf>

**Table 8-2: International Organizations in which Taiwan participate as observers or other status**

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Agency for International Trade Information and Cooperation
Central American Parliament
Commission for the Conservation of Southern Bluefin Tuna
Conferencia de las Fuerzas Armadas Centroamericanas
European Bank for Reconstruction and Development
Foro de Presidentes de Poderes Legislativos de Centroamérica y la Cuenca del Caribe
General Conference on Weights and Measures
Global Biodiversity Information Facility
Inter-American Development Bank
Inter-American Tropical Tuna Commission
International Commission for the Conservation of Atlantic Tunas
International Council for Information Technology in Government Administration
International Grain Council
International Grains Council Food Aid Committee
International Organization of Legal Metrology
Kimberley Process
OECD Fisheries Committee
OECD Steel Committee
Organization for Economic Cooperation and Development: Competition Committee
Sistema de la Integración Centroamericana
World Customs Organization (Revised Kyoto Convention Management Committee)

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Source: “International Organizations”, from the Ministry of Foreign Affairs of the Republic of China. At <http://www.mofa.gov.tw/webapp/public/Data/811511552371.pdf>

The so called “Olympic formula” has been a workable model that permits the participation of both Taiwan and mainland China in many international organizations. The Republic of China had been a member of the International Olympic Committee (IOC) since 1924.<sup>54</sup> After the KMT government retreated to Taiwan in 1949, Beijing claimed to represent all of China in international organizations. Taipei boycotted the

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<sup>54</sup> See Jean Brisebois’s review of Victor D. Cha’s book “Beyond the Final Score: the Politics of Sport in Asia” at <http://www.taiwantoday.tw/ct.asp?xItem=53121&CtNode=436>.



1952 Helsinki Olympics because the PRC sent its first delegation to the Games. The PRC left the 1956 Melbourne Games protesting Taiwan's participation and it did not return until the 1976 Montreal Olympics.<sup>55</sup> In 1979, the Nagoya resolution (Chan, 1985) fashioned the compromise: the national Olympic committee of the PRC would be named the "Chinese Olympic Committee" and would use the flag and anthem of the PRC; Taiwan cannot use any of the national symbols of the Republic of China in Olympic Games, and must compete under the name, flag and anthem of the "Chinese Taipei Olympic Committee."

According to the Yearbook of International Organizations, in 2008 the ROC and PRC had joint memberships in several economic and technology organizations such as Pacific Basin Economic Council (PBEC), the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), Asia-Pacific Legal Metrology Forum (APLMF), International Seed Testing Association (ISTA), Study Group on Asian Tax Administration and Research (SGATAR), Western and Central Pacific Fisheries Commission (WCPFC), and World Customs Organization (Technical Committee on Customs Valuation). Taiwan participates in these IGOs under the name of "Chinese Taipei" or "Taipei, China," rather than its official title "the Republic of China."

Some IGOs have greater influence on cross-Straits relations than others. The ADB is one of them. Taiwan was a founding member of the ADB in 1966.<sup>56</sup> In 1986, the ADB

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<sup>55</sup> Ibid.

<sup>56</sup> In accepting China's conditions for entry in 1986, the ADB changed Taiwan's designation to "Taipei, China" – a format similar to "Hong Kong, China." See ADB website <http://www.adb.org/About/members.asp>.

recognized the PRC as the sole legitimate representative of China and gave it formal membership. The ROC remains a member by assuming a new name “Taipei, China.”<sup>57</sup> To protest the “unfair treatment,” Taiwan refused to take part in any ADB activities in 1986 and 1987. However, Taipei returned to the annual board meeting in 1988 after President Lee advocated a more pragmatic diplomatic approach (Yu, 1990). The co-existence of China and Taiwan in the ADB set an example for their participation in other economic organizations, such as the WTO.

China was one of the 23 original members of the General Agreement on Tariffs and Trade (GATT) in 1948. The KMT government withdrew from the GATT after it lost the Chinese Civil War in 1949. In 1986, Beijing notified the GATT that it would like to resume China’s status as a GATT member. After almost 15 years of negotiations with the Working Party, China officially became a member of the WTO on November 11, 2001.<sup>58</sup> Taiwan joined the WTO on January 1, 2002, as a separate customs territory within China, using the name of “Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu,” which is often abbreviated as “Chinese Taipei.”<sup>59</sup> The WTO not only provides a forum for Taiwan and China to resolve their trade conflicts, it also requires them to treat each other as a normal trading partner. At the beginning of its participation in the WTO, China was reluctant to resolve trade issues with Taiwan under the WTO framework because it considered cross-Straits trade issues as “internal affairs” (Hsieh 2008, p. 5). When China initiated an anti-dumping investigation with several other countries on steel sheet

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<sup>57</sup> See the statement of “China and Asian Development Bank,” posted by the Ministry of Foreign Affairs of the PRC, at <http://www.mfa.gov.cn/eng/wjb/zzjg/gjs/gjzzyhy/2616/t15324.htm>

<sup>58</sup> See news released by the WTO at [http://www.wto.org/english/news\\_e/pres01\\_e/pr243\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr243_e.htm).

<sup>59</sup> Ibid.

imported from Taiwan, it notified all involved governments except that of Taiwan. Taiwan refused to discuss the case until China sent a request “in an appropriate manner” (Hsieh, p. 7). To some extent, China has overcome its reluctance to treat Taiwan as a normal trade partner under the WTO framework. The WTO also has had a great impact on Taiwan's discriminatory policy toward Chinese goods and services. Based on the excuses of "national security" and the "serious negative impact on related domestic industries," the Taiwanese government has been blocking the importation of thousands of Chinese products through two official lists.<sup>60</sup> Because these restrictions apply only to products from China, not to other WTO members, Taiwan's regulations violated the MFN principle, which is a key feature of the WTO (Hsieh 2008, p4). The WTO obligations have compelled Taiwan to gradually reduce its trade barriers in cross-Strait trade.

Taiwan joined APEC in 1991, together with the PRC and Hong Kong, under the name of “Chinese Taipei” (Hsieh, p10). Although the Taiwanese president is not allowed to attend the annual Leaders Summit, and Taiwan’s delegation cannot include officials of foreign and other ministries higher than the level of department director, APEC forums provide a precious opportunity for Beijing and Taipei to talk to each other. In all the APEC meetings, senior officials and ministers from both sides sit together and exchange opinions on economic issues in the region. Some scholars (Yang, 1998) believe that the confidence-building measures (CBM) function of APEC in reducing tension among member economies creates a better environment for Beijing and Taipei to conduct cross-Straits talks. In November, 2008, Taiwanese president Ma Ying-jeou chose former Vice

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<sup>60</sup> The Taiwanese government limits Chinese products that are permitted for import through the use of the "ROC Classification List for Import and Export Goods" and the "List of Mainland Permitted Items." (Hsieh 2008, p4).

President Lien Chan to attend the APEC forum leaders summit in Peru. As the honorary chairman of the KMT party, Lien became the highest-ranking representative of the ROC ever to attend an APEC leaders summit<sup>61</sup>. Chinese president Hu Jin-tao met Lien Chan before the formal leaders summit, the highest-level cross-Strait meeting since 1949. Given the fact that both sides have tried to avoid each other at the previous fifteen APEC leaders summits, the Lien-Hu meeting has been viewed as a breakthrough in cross-Strait relations.

Joint membership in IGOs by Taiwan and mainland China may have helped reduce the likelihood of military conflict, but Taiwan's aspiration for membership in IGOs and China's constant blocking have created animosity between the two governments. With the rapid economic development and political democratization on the island, there has been a strong desire by Taiwan for a more dignified international status. Taiwan has sought to return to the UN since 1993. Faced with strong opposition from the veto-wielding PRC and little support from other member states, the "question of Taiwan's participation in the United Nations" has never been included on the formal agenda of any General Assembly meeting. As Taiwan's application has been rejected by the UN for 15 consecutive years, the island residents have become increasingly irritated by Beijing's opposition. Chen Shui-bian pressed ahead with a referendum in 2007 on Taiwan's bid to enter the UN under the name of Taiwan. The campaign was perceived as a step towards formal independence and aroused ire from Beijing. Even Taiwan's ally, the United

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<sup>61</sup> See "Lien to attend the APEC summit", *China Post*, October 30, 2008

States, criticized the move because it “unnecessarily raises tensions in the Taiwan Strait.”<sup>62</sup>

Taipei has been attempting to join the World Health Organization (WHO) since 1997. The SARS pandemic in 2002 strengthened its determination to achieve at least observer status in the WHO. But it has never been able to overcome strong opposition from the PRC. Since the majority of Taiwanese support Taiwan’s bid for membership in the UN and its affiliated agencies, Ma Ying-jeou has put the pursuit of membership in IGOs in his agenda. He suggested a “diplomatic truce”<sup>63</sup> with Beijing, so that both sides could stop trying to win over each other’s diplomatic allies and open the way for Taiwan to join international organizations. Lai Shin-yuan, the top mainland policy official in Taiwan’s cabinet, called for “concrete” Chinese goodwill over the island joining international organizations. Chinese president Hu Jintao responded that “the mainland is willing to discuss with Taiwan proper and reasonable arrangements for Taiwan’s participation in international organizations if it does not create a scenario of ‘two China’ or ‘One China, One Taiwan’.”<sup>64</sup> Beijing considers the positive atmosphere which has developed since last year as a “hard won” opportunity and did not want to spoil it. After months of consultations and negotiations, Taiwan was finally invited by the WHO to participate as

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<sup>62</sup> See “Taiwan UN bid ‘provocative’”, BBC news, 21 December 2007, <http://news.bbc.co.uk/2/hi/asia-pacific/7156515.stm>

<sup>63</sup> During the last few decades, both sides of the Taiwan Strait poured tremendous money into competing for allies and battling over Taiwan’s participation in key international organizations. Since taking office in May, Ma has placed normalization of cross-Strait relations at the top of his agenda and stepped down from the competition for allies with Beijing. See “Strategies for A cross-Strait Truce,” at [http://www.brookings.edu/opinions/2008/1120\\_taiwan\\_liu.aspx](http://www.brookings.edu/opinions/2008/1120_taiwan_liu.aspx).

<sup>64</sup> “President Hu Offers Six Proposal for Peaceful Development of Cross-Strait Relationship”, Xinhua, December 31, 2008. [http://news.xinhuanet.com/english/2008-12/31/content\\_10585635.htm](http://news.xinhuanet.com/english/2008-12/31/content_10585635.htm)

an observer under the name of Chinese Taipei in the World Health Assembly (WHA), the WHO's highest decision-making body.

Taiwan's participation in this year's WHA is widely viewed as another breakthrough in the relations between Beijing and Taipei. It is the first time Taiwan has been allowed to participate in the WHA, after 12 failed attempts since 1997. This event has received a warm welcome from the international community. Singapore's foreign ministry issued a statement on April 29, 2009, saying "This is a positive development which demonstrates the determination of both sides (of the Taiwan Strait) to set aside differences in order to cooperate in mutually beneficial areas. This is in the interest of the global community" (Chan, 2009).

In sum, the coexistence of China and Taiwan in several IGOs has helped reduce conflict and increase communication; however, the third Kantian variable does not seem to have had a significant effect on reducing cross-Strait tension. My third hypothesis is not confirmed. Indeed, it has been a source of conflict during recent decades. Although Beijing has allowed Taiwan to participate in the WHA, it is premature to assume that the dispute over Taiwan's international activities will disappear. In fact, Taiwan's re-bid for the UN or its application for membership in other important IGOs may create new conflicts in the Taiwan Strait. The public on the island believe that Taiwan is entitled to join international organizations, like any other country. In a democratic system, the Taiwanese government has to respond to mainstream public opinion and will not give up its effort to attain membership in IGOs. The Chinese leadership is now considering allowing Taiwan to take a larger part in international activities, but they worry that Taipei will take advantage of any concessions they make. The PRC is concerned that if the

KMT loses the 2012 or later presidential elections, the DPP is likely to rule Taiwan again. The concessions made today may then be harmful to Beijing, especially to the PRC's efforts to incorporate Taiwan into China.

## **Chapter 9**

### **Conclusion**

Kant believed that democracy, joint membership in international organizations, and economic interdependence could mitigate tension between states, constrain the possibility of war, and establish a foundation for “perpetual peace.” My analysis shows strong support for the pacific effect of economic interdependence on cross-Strait relations. The effect of democracy is mixed. Taiwan’s democracy has helped maintain the status quo—a “cold peace” between Taiwan and China, but it has also been a cause of tension during the past two decades. My study shows that the pacific effect of IGOs is insignificant. The ROC and PRC share memberships in a few IGOs which have helped increase contact and reduce misunderstanding, and thus ease tension indirectly. However, Taiwan’s attempts to join IGOs whose membership is confined to sovereign states, and the PRC’s blocking of those efforts have been a source of conflict in the Strait.

My study indicates that the Kantian peace theory is hard to apply to the Taiwan Strait conflict. A representative government and a true civil society are important elements of Kant’s first variable. Since the PRC is not a democracy, the condition necessary to directly test the first Kantian variable is not present. The only option as a result is to do a



surrogate test of the element of the Kantian peace theory: (1), to see if the establishment of democracy in one of the states has an effect on the level of tension; (2), to see if the increasing need of the Chinese government for public support has affected its behavior and policy toward Taiwan. Another Kantian variable – joint membership in IGOs – is also difficult to operationalize and test in this study. Due to its legal status and China's continuous opposition, Taiwan's participation in IGOs is limited. Therefore, I conduct a surrogate test to see if the co-existence in several important IGOs has changed the hostile relationship between the PRC and ROC.

In spite of all the difficulties in testing the Kantian peace theory, my study indicates that the theory is still valuable in explaining how economic interdependence has reduced tension and brought a more positive atmosphere to the Taiwan Strait. Those who believe that the conflict can only be understood in realist terms should acknowledge at least the effect of economic interdependence. One policy implication here is to note the role of trade and investment in promoting peace between disputing countries, for instance, between North and South Korea, and India and Pakistan. Another policy implication is that promoting democracy is not always the solution. Sometimes conflicts become intensified because of democracy. When people in disputing states insist on irreconcilable core principles, for example, the Israelis and Palestinians, and the Indians and Pakistanis, joint democracy will make negotiation and compromise more difficult. The last policy implication is that membership in IGOs does not necessarily lead to peaceful relations between two enemies.

The Kantian peace theory can shed some light on the Taiwan Strait conflict. However, it is not sufficient to grasp the whole picture. State leaders consider a lot of factors when

they make decisions concerning foreign relations and national security. In future studies, other international relations theories are needed in order to fully understand the prospects for peace in the Taiwan Strait. The conflict between Taiwan and the mainland might not be completely solved until people on both sides change their views on core issues, which is unity in the case of the PRC and sovereignty in the case of the ROC.

Resolving the dispute of more than a half-century across the Taiwan Strait will not be easy. Yet peace and stability can be achieved in a pragmatic way. This study contributes to a better understanding of the cross-Strait relations and provides some insight into how to solve the conflict peacefully. My study suggests that more peaceful relations between the PRC and ROC can be attained if policy makers in Beijing maintain economic engagement as a core element of their unification strategy; institutionalize negotiation and communication mechanisms; remove missiles currently targeting at Taiwan; consider Taiwan's participation in IGOs on a case-by-case basis. Instead of focusing on political parties, Beijing should adjust its policy to win the hearts of the Taiwanese people. Instead of insisting on the "one country, two systems" policy, Beijing might need to come up with a new approach that will more appropriately reflect Taiwan's political, economic, and diplomatic reality.

Taiwan is facing a tougher time in coping with China because it needs China more than ever. The global economic downturn forces Taiwan to take full advantage of the Chinese market and promote a more peaceful relationship with the mainland. In the meanwhile, the increasingly strong Taiwanese identity requires the Taiwanese government to insist on Taiwan's sovereignty and national dignity. In the short term, the Taiwanese government has to strike a balance between building stronger economic ties

with the mainland and asserting Taiwan's sovereignty. In the long run, Taiwan must overcome the drawback of "election politics"<sup>65</sup> and form a new mainland policy. Here is my recommendation for policy makers in Taiwan: accelerate economic integration with China and build the common market as soon as possible; stabilize peaceful cross-Strait relations through institutionalized bilateral communications; take a less confrontational approach in pursuit of membership in IGOs; strengthen national defense no matter how cross-Strait relations will develop; and maintain good relationship with the US.

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<sup>65</sup> In "election politics," political parties only focus on short-term political gains, rather than thinking of the long-term interests of the majority of the people.

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