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ABSTRACT

This paper examines the economic policy toward China that the current president of Taiwan, Tsai Ing-wen, has adopted since 2016 by (1) comparing Tsai's policy with her predecessors' (i.e., Lee Teng-hui's, Chen Shui-bian's, and Ma Ying-jeou's policies), (2) exploring the ambivalent attitude toward China-Taiwan economic ties among the Taiwanese general public, and (3) analyzing Tsai's response to China's growing economic coercion against Taiwan.

KEYWORDS: CHINA-TAIWAN RELATIONS, TAIWAN'S ECONOMIC POLICY TOWARD CHINA, CHINA'S ECONOMIC COERCION AGAINST TAIWAN, TSAI ING-WEN, ECONOMIC STATECRAFT

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INTRODUCTION

This special series of *EWC Occasional Papers* is the result of the 2023 *Taiwan & Asia Program Conference* entitled “Washington-Taipai-Beijing Relations at a Crossroads: the 2024 Elections and Geostrategic Implications from the Individual, Domestic, and International Levels of Analysis,” which was hosted by Ramapo College of New Jersey and sponsored by the Taipei Economic and Cultural Representative Office (TECRO) in Washington, DC. The conference organizers gratefully acknowledge the intellectual contributions of the speakers and discussants in providing their views, research observations, and comments to improve the manuscripts as well as the East-West Center in Washington and its editors for reviewing and publishing this series.

The current president of Taiwan, Tsai Ing-wen, has largely adopted a middle-of-the-road approach toward China-Taiwan economic ties as compared with her predecessors’ policies, which were either pro or against those ties. It is also worth noting that Tsai’s economic policy toward China remains relatively neutral even as political relations between China and Taiwan continue to sour. The purpose of this paper is to investigate Tsai’s middle-of-the-road policy toward the so-called cross-strait economic ties by comparing her policy with the policies adopted by the three democratically elected Taiwanese presidents before her: Lee Teng-hui, Chen Shui-bian, and Ma Ying-jeou. As this paper will demonstrate, Tsai’s relatively neutral position as compared with her predecessors’ is arguably due to her awareness of the Taiwanese general public’s ambivalent attitude toward Taiwan’s economic ties with China, which has become more and more obvious over the past three decades, as well as the lessons that Tsai has learned about how her predecessors’ (and her own) excessively pro- or anti-openness positions backfired in Taiwan’s electoral politics as a result of that public ambivalence toward the cross-strait economic ties.

To make my case, I divide this paper into the following parts. I will first review the economic policies toward China adopted by the Lee, Chen, and Ma administrations and discuss the changes to Taiwan’s policy on China-Taiwan economic ties over the past three decades, as well as the ambivalent feeling among the Taiwanese people toward those economic ties. Then, I will examine Tsai’s middle-of-the-road approach to the cross-strait economic ties as a result of that public ambivalence and the lessons that Tsai has learned from her predecessors’ and her own experiences. Finally, I will explore China’s economic strategy toward Taiwan in general and its growing economic coercion against Taiwan in particular, as well as the Tsai administration’s responses.

REVIEW OF TAIWAN'S ECONOMIC POLICIES TOWARD CHINA BEFORE THE TSAI ADMINISTRATION

China-Taiwan economic ties began to grow in the late 1980s, when both sides started to encourage economic exchanges, though still limited, across the Taiwan Strait. By then, China, under the rule of Deng Xiaoping since the late 1970s, had long incorporated the promotion of cross-strait economic ties into its strategy for national unification, as revealed by its ideas of “three links” (i.e., the direct postal, trade, and transport links) and “four exchanges” (i.e., the academic, cultural, economic, and sports exchanges).¹ As for Taiwan, to make good use of China’s economic reform initiated by Deng for Taiwan’s own economic benefits, as well as to show some goodwill toward China, which had decided to open itself up to the outside world, the Taiwanese government in the late 1980s also started to remove some of its restrictions on China-Taiwan economic ties and allow Taiwanese businesses to indirectly invest in and trade with China through a third party, such as Hong Kong.²

However, political stalemate over the first half of the 1990s between the two sides about how, or even whether, the unification of China and Taiwan should be achieved (despite some unprecedented and promising political interactions between the two sides, such as the meeting in 1992 held in Singapore) overshadowed the burgeoning economic ties.³ With the political tension persisting, some officials in the Lee Teng-hui administration of Taiwan (especially those from Taiwan’s Mainland Affairs Council) began to worry about China exploiting the cross-strait economic ties against Taiwan by hollowing out Taiwan’s economy and/or using Taiwanese businesspeople who had economic interests in China to influence the Taiwanese government’s China policymaking.⁴ The political tension eventually reached a point of no return when China conducted a series of military exercises and missile tests near Taiwan in 1995 and 1996 as a result of Lee’s trip to the US and Taiwan’s first popular presidential election, both of which

¹ Parris H. Chang, “China’s Relations with Hong Kong and Taiwan,” *Annals of the American Academy of Political and Social Science* 519 (1992): 134–35; Suisheng Zhao, “Economic Interdependence and Political Divergence: The Emerging Pattern of Relations across the Taiwan Strait,” *Journal of Contemporary China* 6, no. 15 (1997): 177–78; Suisheng Zhao, “Military Coercion and Peaceful Offense: Beijing’s Strategy of National Reunification with Taiwan,” *Pacific Affairs* 72, no. 4 (1999–2000): 496.

² Tse-Kang Leng, *The Taiwan-China Connection: Democracy and Development across the Taiwan Straits* (Taipei, Taiwan: SMC Publishing, 1996), 106; J. D. Kenneth Boutin, “Cross-Strait Trade and Investment: Economic and Security Implications for the Republic of China,” *Issues & Studies* 33, no. 12 (1997): 79; Zhao, “Economic Interdependence,” 179; Paul J. Bolt, “Economic Ties across the Taiwan Strait: Buying Time for Compromise,” *Issues & Studies* 37, no. 2 (2001): 86; Christopher M. Dent, “Being Pulled into China’s Orbit? Navigating Taiwan’s Foreign Economic Policy,” *Issues & Studies* 37, no. 5 (2001): 13; Karen M. Sutter, “Business Dynamism across the Taiwan Strait: The Implications for Cross-Strait Relations,” *Asian Survey* 42, no. 3 (2002): 525; Chien-Kai Chen, “The Effect of International Relations on Cross-Border Economic Ties: A Case Study of Taiwan’s Economic Policies toward China,” *International Journal of China Studies* 7, no. 1 (2016): 60–61.

³ Chien-Kai Chen, “China-Taiwan Relations through the Lens of the Interaction between China’s Association for Relations across the Taiwan Straits and Taiwan’s Straits Exchange Foundation,” *East Asia: An International Quarterly* 31, no. 3 (2014): 230–32 and 235–38.

⁴ Bolt, “Economic Ties,” 80–81; Yun-Han Chu, “The Political Economy of Taiwan’s Mainland Policy,” *Journal of Contemporary China* 6, no. 15 (1997): 235 and 243; Chen, “Effect of International Relations,” 65; John Fuh-sheng Hsieh and Yi-Tzu Lin, “Butter or Guns: Taiwan’s Economic Policy toward China,” *Journal of Contemporary China* 33, no. 145 (2022): 8–9, <https://doi.org/10.1080/10670564.2022.2130189>.

were regarded by China as signs of Taiwan pursuing de jure independence.⁵ The so-called 1995–1996 Taiwan Strait Crisis, as a result, encouraged Lee, after he was democratically reelected as the Taiwanese president in 1996, to officially adopt an anti-openness policy, which urged Taiwanese businesspeople to take caution in their trade with and investment in China.⁶ This policy, while not completely terminating cross-strait economic ties, imposed several restrictions on the ties. For example, it prohibited any Taiwanese investment in China that was more than US\$50 million. Also, a Taiwanese company's total investment in China was not allowed to exceed 40 percent of its net worth. The policy, which was called the policy of “no haste, be patient,” ended up being so unpopular that all of the candidates for the 2000 Taiwanese presidential election promised that they would remove it if elected, including the candidate nominated by Lee's own party, the Nationalist Party or Kuomintang (KMT).⁷

Once elected, Chen Shui-bian, from the Democratic Progressive Party (DPP), kept his electoral promise by replacing Lee's policy of “no haste, be patient” with a new policy of “active opening and effective management.”⁸ Among all of the new measures, although the 40 percent limit was still upheld, the US\$50 million cap was removed. Also, Taiwanese investment in China less than US\$20 million no longer required any official permission. Although relations between China and Taiwan began to move forward on the economic front again, history repeated itself when their political stalemate once again overshadowed the economic progress. The DPP was relatively anti-China and pro-de jure independence as compared with the KMT, and therefore it was even harder for any agreement on political issues to emerge between the Chen administration and China. In the beginning, China revealed that it would listen to Chen's “words” and examine his “deeds” before making any judgment about the Chen administration.⁹ Though Chen removed many of Lee's restrictions on the cross-strait economic ties, Chen's words and deeds still turned out to be not acceptable to China, as he continued to reject China's demand that he accept the idea of “one China” as a unified Chinese state that includes both the Chinese mainland and the island of Taiwan.¹⁰ The political tension reached another point of no return during Chen's second term, when China passed its Anti-secession Law in 2005, which points out that China will respond to Taiwan's de jure independence with nothing but military actions.¹¹ The growing political

⁵ Chen-Yuan Tung, “Cross-Strait Economic Relations: China's Leverage and Taiwan's Vulnerability,” *Issues & Studies* 39, no. 3 (2003): 158; T. Y. Wang and I-Chou Liu, “Contending Identities in Taiwan: Implications for Cross-Strait Relations,” *Asian Survey* 44, no. 4 (2004): 569; Chien-Kai Chen, “Comparing Jiang Zemin's Impatience with Hu Jintao's Patience Regarding the Taiwan Issue, 1989–2012,” *Journal of Contemporary China* 21, no. 78 (2012): 967; Chen, “China-Taiwan Relations,” 237.

⁶ Boutin, “Cross-Strait Trade,” 89; Leng, *Taiwan-China Connection*, 500; Taifa Yu, “Relations between Taiwan and China after the Missile Crisis: Toward Reconciliation?” *Pacific Affairs* 72, no. 1 (1999): 44; Ping Deng, “Taiwan's Restriction of Investment in China in the 1990s: A Relative Gains Approach,” *Asian Survey* 40, no. 6 (2000): 965–66; Dent, “Being Pulled into China's Orbit,” 17; Bolt, “Economic Ties,” 87; Sutter, “Business Dynamism,” 526; Douglas B. Fuller, “The Cross-Strait Economic Relationship's Impact on Development in Taiwan and China: Adversaries and Partners,” *Asian Survey* 48, no. 2 (2008): 241.

⁷ Bolt, “Economic Ties,” 100; Greg Mastel, “China, Taiwan, and the World Trade Organization,” *Washington Quarterly* 24, no. 3 (2001): 50; Yun-Han Chu, “Taiwan's National Identity Politics and the Prospect of Cross-Strait Relations,” *Asian Survey* 44, no. 4 (2004): 507–08.

⁸ Yun-Han Chu, “Power Transition and the Making of Beijing's Policy towards Taiwan,” *China Quarterly*, no. 176 (2003): 978; Chu, “Taiwan's National Identity Politics,” 509; Fuller, “Cross-Strait Economic Relationship's Impact,” 242.

⁹ Chu, “Power Transition,” 968.

¹⁰ Chen, “China-Taiwan Relations,” 232–34 and 240–42.

¹¹ Kenneth Lieberthal, “Preventing a War over Taiwan,” *Foreign Affairs* 82, no. 4 (2005): 57; Jacques deLisle, “Soft Power in a Hard Place: China, Taiwan, Cross-Strait Relations and U.S. Policy,” *Orbis* 54, no. 4 (2010): 505; Chen, “China-Taiwan Relations,” 241–42.

tension since Chen's first term once again made his administration, though it supported a relatively pro-openness policy in the beginning, worry that the enlarging cross-strait economic ties due to his pro-openness policy would be used by China as a political tool against Taiwan. Therefore, following China's announcement of its Anti-secession Law, the Chen administration changed its economic policy toward China from "active opening and effective management" to "active management and effective opening."¹² Although that policy did not impose any new restrictions, it was against economic openness toward China due to its goal of limiting cross-strait economic ties by actively enforcing the restrictive regulations set by the previous policy of "active opening and effective management."¹³ Like Lee's anti-openness policy of "no haste, be patient," Chen's new policy became so unpopular that all of the candidates for the 2008 Taiwanese presidential election, including the one nominated by Chen's own party, vowed to change the policy if elected.¹⁴

Ma Ying-jeou, from the KMT, won the 2008 election. Ma, once elected, not only repealed Chen's anti-openness policy but also lifted almost all of the restrictions on cross-strait economic ties. For example, he moved quickly in the first year of his presidency to replace the 40 percent limit on a Taiwanese company's investment in China with a 60 percent one, and then removed the ban on direct air and sea transport across the Taiwan Strait.¹⁵ The Ma administration went so far as to sign a quasi-free trade agreement with China in 2010, i.e., the Economic Cooperation Framework Agreement (ECFA), which was ratified by Taiwan's legislature that same year.¹⁶ This time, the growing relations between China and Taiwan on the economic front, unlike those during the Chen and Lee administrations, were not tainted by any political stalemate between the two sides. Actually, the progress on the economic front was accompanied by an exchange of political conciliation between China and Taiwan as the Ma administration, with its support for the so-called 1992 Consensus (or what Ma called "one China, respective interpretations"), accepted the idea of "one China," which included both the Chinese mainland and the island of Taiwan.¹⁷ But although China-Taiwan relations seemed to continue to improve both politically and economically during Ma's first term as Taiwanese president, Ma's pro-openness policy backfired during his second term, when his administration in 2013 signed the Cross-Strait Service Trade Agreement with China in accordance with the fourth article of the ECFA. The agreement (which required Taiwan to open its market to 64 kinds of service-related businesses from China, including hotels, tourism, printing, and medical services) became so controversial in Taiwan that it eventually triggered a huge student-led protest in 2014 called the Sunflower Movement, and it ended up being put on hold by Taiwan's legislature because of the popular support for the movement.¹⁸

¹² Fuller, "Cross-Strait Economic Relationship's Impact," 244; Hsieh and Lin, "Butter or Guns," 15.

¹³ Chen, "Effect of International Relations," 71.

¹⁴ Chen, "Effect of International Relations," 71–72.

¹⁵ Chen, "Effect of International Relations," 72.

¹⁶ Chen, "Effect of International Relations," 88.

¹⁷ Chen, "China-Taiwan Relations," 234–35 and 242–44.

¹⁸ Chien-Kai Chen, *Political Economy of China-Taiwan Relations: Origins and Development* (Lanham, MD: Lexington Books, 2018), 181–83; Hsieh and Lin, "Butter or Guns," 6.

THE TAIWANESE PEOPLE'S AMBIVALENT FEELING TOWARD THE CROSS-STRAIT ECONOMIC TIES

The development of China-Taiwan economic ties under the Lee, Chen, and Ma administrations have made researchers interested in cross-strait relations wonder whether the Taiwanese general public are pro or against those ties. The answer seems not a clear-cut one. To be more specific, there is no clear public position that is either pro or against economic openness but a very ambivalent feeling toward those ties. Even more specifically, on the one hand, Taiwanese people are well aware of the economic benefits that cross-strait economic ties would bring to Taiwan as China's economy continues to expand in our world since its economic reform. On the other hand, not interested in the unification of China and Taiwan, Taiwanese people are worried that Taiwan might be sucked into the Chinese economic orbit as a result of those ties and eventually have no choice but to accept China's demand for unification once it becomes too economically dependent on China.

For example, according to the 2022 Taiwan National Security Studies survey conducted by Duke University, although 59 percent of Taiwanese respondents acknowledged the negative political impact of Taiwan's economic dependence on China, only 40 percent agreed to weaken Taiwan's economic ties with China.¹⁹ Also, according to a survey conducted by the 21st Century Foundation in January 2023, although 82 percent of Taiwanese respondents felt that China had gotten more and more unfriendly toward Taiwan over the past year, only 36 percent thought that Taiwan should reduce its economic relations with China.²⁰ Similarly, a survey conducted by *United Daily News* in September 2023 revealed that, although 42 percent of the people in Taiwan were worried about China's economic sanctions against Taiwan, only 18 percent advocated a decrease of cross-strait economic ties.²¹ Surveys like these show that, although a majority of the Taiwanese people worry about Taiwan being pressured by China to make political concessions as a result of Taiwan's economic ties with China, a great proportion of them at the same time prefer strengthening or at least maintaining those ties.

Many studies have demonstrated this ambivalent feeling among the Taiwanese general public, who see China as both an economic opportunity and a political threat to Taiwan.²² Here, the change of Taiwan's economic policy toward China back and forth between an anti-openness policy and a pro-openness one from the Lee administration to the Chen administration to the Ma administration provides yet more evidence showing how ambivalent the Taiwanese general public's attitude is toward cross-strait economic ties. When the Taiwanese government tries to significantly restrict economic exchanges between China and Taiwan with an excessively anti-openness position (such as what Lee and Chen tried to do with their policies of "no haste, be patient" and "active management and effective opening," respectively), the Taiwanese people are not happy and urge their government to remove those restrictions.²³ However, when the Taiwanese government tries to significantly increase those economic ties with an excessively pro-openness position (such as what Ma tried to do with the Cross-Strait Service Trade Agreement, on top of the other 16 agreements that his administration had previously signed with China, many of which were economy-related), the Taiwanese people become worried and urge their government to stop increasing those ties further. More research is worth doing to figure out how much is too much for the Taiwanese general public when it comes to their attitude toward either an anti-openness policy or a pro-openness one, but that ambivalent feeling is undoubtedly a phenomenon that we cannot ignore when studying China-Taiwan relations in general and their economic ties in particular.

¹⁹ Duke University, 2022, "Taiwan National Security Studies Survey," <https://sites.duke.edu/tnss>.

²⁰ 21st Century Foundation, 2023. "Taiwan Strait Security Survey," https://www.21stcentury.org.tw/research_detail.php?uID=2&Key=2688.

²¹ *United Daily News*, "85% of the General Public: There Should Be Communication between the Two Sides of the Taiwan Strait," October 2, 2023, <https://udn.com/news/story/8625/7477203>.

²² Chen, *Political Economy of China-Taiwan Relations*, 97; Hsieh and Lin, "Butter or Guns," 9.

²³ Chen, *Political Economy of China-Taiwan Relations*, 98–99 and 145–49.

THE TSAI ADMINISTRATION'S ECONOMIC POLICY TOWARD CHINA

Tsai Ing-wen, from the DPP, was elected as the president of Taiwan in 2016 and got reelected in 2020. Unlike her predecessors, Tsai has adopted a middle-of-the-road approach toward cross-strait economic ties, having neither a pro-openness policy nor an anti-openness one. It is arguably a result of her awareness of that ambivalence among the Taiwanese general public, as well as the lessons that she has learned from how her predecessors' excessively anti-openness position (i.e., Lee's and Chen's) or pro-openness position (i.e., Ma's) backfired in Taiwan's electoral politics. That ambivalent feeling also affected in two conflicting ways the outcomes of her two electoral campaigns for Taiwanese presidency. On the one hand, she lost the debate about the ECFA, as well as the 2012 presidential election, because of the general public's worries about the very obvious anti-openness position that she revealed back then.²⁴ On the other hand, she won the 2016 election because of, among other things, the Sunflower Movement against the very obvious pro-openness policy that the Ma administration had adopted. As a result, her administration has neither pushed for the ratification of the Cross-Strait Service Trade Agreement nor repealed the whole Economic Cooperation Framework Agreement. It is fair to say that the tendency of the Taiwanese government to adopt either a pro-openness or an anti-openness position toward China since the Lee administration seemed to cease to exist during the Tsai administration.

The most prominent grand strategy that Tsai has come up with regarding cross-strait economic ties involves the so-called New Southbound Policy.²⁵ It is "new" as compared with the Southbound Policy adopted by Lee in 1994 to encourage Taiwanese businesses to invest in Southeast Asia as the production costs in Taiwan became higher (and, after 1996, when it coexisted with the "no haste, be patient" policy, to discourage Taiwanese businesses from going to China as the Lee administration's concerns about cross-strait economic ties drastically increased).²⁶ Major differences between the old and new policies lie in the latter's inclusion of South Asia (which was not included in the former), its emphasis on "bilateral" relations (as opposed to the one-way Taiwanese investment in the region pushed for by the former), and its promotion of the "people-to-people link," which involved tourism, education, and cultural exchanges (all largely ignored in the former).²⁷ Although there is no doubt that the New Southbound Policy has been adopted by the Tsai administration with a clear goal of ceasing Taiwan's economic dependence on China,²⁸ it cannot be regarded as an anti-openness policy like Lee's "no haste, be patient" policy and Chen's "active management and effective opening" policy. Simply

²⁴ Chien-Kai Chen, "China-Taiwan Economic Ties and the 2012 Taiwanese Presidential Election," *American Journal of Chinese Studies* 23, no. 1 (2016): 88–91.

²⁵ Chia-Chien Chang and Alan H. Yang, "Weaponized Interdependence: China's Economic Statecraft and Social Penetration against Taiwan," *Orbis* 64, no. 2 (2020): 333; Bonnie S. Glaser and Jeremy Mark, "China and Taiwan Are Locked in Economic Co-dependence," *Foreign Policy*, April 14, 2021, <https://foreignpolicy.com/2021/04/14/taiwan-china-economic-codependence>; Christina Lai, "More Than Carrots and Sticks: Economic Statecraft and Coercion in China–Taiwan Relations from 2000 to 2019," *Politics* 42, no. 3 (2022): 420; Hsieh and Lin, "Butter or Guns," 15; Suisheng Zhao, "Is Beijing's Long Game on Taiwan About to End? Peaceful Unification, Brinkmanship, and Military Takeover," *Journal of Contemporary China* 32, no. 143 (2022): 6, <https://doi.org/10.1080/10670564.2022.2124349>.

²⁶ Lindsay Black, "Evaluating Taiwan's New Southbound Policy," *Asian Survey* 59, no. 2 (2019): 250.

²⁷ Black, "Evaluating Taiwan's New Southbound Policy," 246 and 255–56; Chang and Yang, "Weaponized Interdependence," 333.

²⁸ Dennis V. Hickey and Emerson Niou, "Taiwan in 2016: A New Era?" *Asian Survey* 57, no. 1 (2017): 116; Chow Bing Ngeow, "Taiwan's Go South Policy: Déjà Vu All Over Again?" *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 39, no. 1 (2017): 97.

speaking, although it is trying to diversify Taiwan's external economic ties with the policy, the Tsai administration does not intend to significantly restrict the cross-strait economic ties, as Lee and Chen did during their second presidential terms.²⁹ When introducing the New Southbound Policy, the Tsai administration even expressed an interest in working with China to pursue their common economic interests in the region of Southeast Asia.³⁰ Explaining the policy when it was implemented in 2016, Taiwan's Mainland Affairs Council emphasized that the policy was "not politically driven" and that Taiwan was "willing to jointly participate with mainland China on issues related to regional development, exchange views, and explore all possibilities for cooperation and collaboration."³¹

Actually, Tsai has taken a middle-of-the-road approach to not only her economic policy toward China but also her cross-strait policy in general.³² On the one hand, she doesn't accept the idea of "one China," which Ma accepted. On the other hand, she doesn't push the envelope of Taiwan's de jure independence, which Chen did from time to time. From the Tsai administration's perspective, this middle-of-the-road approach demonstrates goodwill toward China. However, given that Tsai, like Chen, continues to refuse to satisfy China's demand that she accept the idea of "one China," China has called what Tsai perceives as goodwill an "incomplete answer sheet."³³ As a result, the tension between China and Taiwan that was largely eased during the Ma administration has reemerged. In response to China's ignorance of its "goodwill," the Tsai administration has become much more hostile toward China as well, which is a vivid contrast with the more appeasing position it used to have in the beginning, during which Tsai even intentionally refrained from calling China "China," instead saying the "Chinese mainland,"³⁴ a term for China that the Ma administration always used to reinforce Ma's support for the idea that both the Chinese mainland and the island of Taiwan belong to that "one China."

It is worth noting that the growing political tension between China and Taiwan nevertheless has not pushed Tsai to significantly move her cross-strait economic policy toward the anti-openness end. So far, the Tsai administration has taken several actions in response to the increasing tension. For example, it implemented the Cyber Security Management Act in 2018 to deal with, among other things, the misinformation allegedly created by China against Taiwan, as well as the Anti-infiltration Act in 2020 to counter possible interference by China in Taiwan's elections and legislations.³⁵ Her administration has also gradually incorporated the concept of a "free and open Indo-Pacific" promoted by the US and Japan in its public statements about the New Southbound Policy.³⁶ However, despite those actions, it seems that Tsai still has no plan to impose significant restrictions on cross-strait economic ties. This is very different from how Lee and Chen responded to what they perceived as the growing threat and hostility from China. As mentioned before, introducing a significant anti-openness policy against China constituted an important part of Lee's and Chen's responses. By contrast, there has been no overhaul of the Tsai administration's middle-of-the-road approach to cross-strait economic ties, at least for now, despite the growing tension between China and Taiwan, as well as the increasing exchanges of hostile rhetoric and gestures between the two sides.

²⁹ Black, "Evaluating Taiwan's New Southbound Policy," 247.

³⁰ Alan D. Romberg, "The First 100 Days: Crossing the River while Feeling the Stones," *China Leadership Monitor* 51 (2016): 7, https://www.hoover.org/sites/default/files/research/docs/clm_51ar.pdf.

³¹ Black, "Evaluating Taiwan's New Southbound Policy," 256.

³² Chen, *Political Economy of China-Taiwan Relations*, 188.

³³ Hickey and Niou, "Taiwan in 2016," 113; Chen, *Political Economy of China-Taiwan Relations*, 191.

³⁴ Chen, *Political Economy of China-Taiwan Relations*, 189.

³⁵ Chang and Yang, "Weaponized Interdependence," 332.

³⁶ Black, "Evaluating Taiwan's New Southbound Policy," 269.

CHINA-TAIWAN ECONOMIC TIES AND CHINA'S ECONOMIC COERCION AGAINST TAIWAN SINCE 2016

The Tsai administration's middle-of-the-road approach to diversify Taiwan's external ties while not significantly restricting cross-strait economic exchanges has not achieved the goal of ceasing Taiwan's economic dependence on China.³⁷ Actually, neither did Lee's "no haste, be patient" policy, nor Chen's "active management and effective opening" policy.³⁸ Taiwan's trade with China as a percentage of its total foreign trade, as well as Taiwan's investment in China as a percentage of its total foreign direct investment (FDI), has grown and remained relatively high since the cross-strait economic exchanges began in the late 1980s.³⁹ In 2018, two years after the Tsai administration implemented its New Southbound Policy, although the policy did successfully increase Taiwan's economic ties with Southeast Asia and South Asia,⁴⁰ China remained Taiwan's largest trading partner (accounting for 24.2 percent of Taiwan's foreign trade) and the largest foreign destination of Taiwanese investment (accounting for 37.3 percent of Taiwan's outward FDI).⁴¹ Although Taiwan's exports to China decreased by 8.8 percent from 2018 to 2019, and Taiwanese investment in China as a percentage of its total outward FDI also decreased to 31.8 percent in 2020, both of which seem to show some positive prospects,⁴² the economic ties between China and Taiwan in general and the economic dependence of the latter on the former in particular are still very obvious.⁴³ For example, as compared with China, the US, as the second-largest destination of Taiwan's outward FDI, attracted only 2.6 percent of Taiwan's total investment abroad in 2020.⁴⁴ It is also worth noting that, although members of ASEAN (Association of Southeast Asian Nations) jointly attracted more investment from Taiwan than China did for the first time in the first half of 2023 (18.1 percent and 17.6 percent of Taiwan's outward FDI, respectively),⁴⁵ China was still Taiwan's largest trading partner, as compared with any other country or region, during the same period of time. In general, while trade with and investment in China continue to play a very significant role in Taiwan's external economic relations, economic ties with Taiwan constitute only a small part of China's total foreign trade and investment.⁴⁶

The current leader of China, Xi Jinping, has pointed out on various occasions that the unification of China and Taiwan is the foundation of China's "national rejuvenation" (or what he calls the "China Dream"), and that therefore China would adopt any measure to achieve that goal, which includes, but of course is not limited to, those economic ones.⁴⁷ China's economic approach to Taiwan is always a two-pronged one: a carrot-and-stick approach.⁴⁸ The constant economic dependence of Taiwan on China has only given China even more incentives and capabilities to adopt that approach in order to use the cross-strait economic ties for its ultimate political goal of cross-strait unification. It has been economically rewarding

³⁷ Hsieh and Lin, "Butter or Guns," 6; Zhao, "Is Beijing's Long Game on Taiwan About to End?" 6.

³⁸ Chen, "Effect of International Relations," 62.

³⁹ Chen, "Effect of International Relations," 60–62.

⁴⁰ Lai, "More Than Carrots and Sticks," 420.

⁴¹ Chang and Yang, "Weaponized Interdependence," 320.

⁴² Lai, "More Than Carrots and Sticks," 441; Hsieh and Lin, "Butter or Guns," 3.

⁴³ Glaser and Mark, "China and Taiwan"; Hsieh and Lin, "Butter or Guns," 3, 6, and 15.

⁴⁴ Hsieh and Lin, "Butter or Guns," 3.

⁴⁵ *Central News Agency*, "Shift of Supply Chains: Taiwan's Outward FDI to ASEAN Surpassed That to China in the First Half of the Year," August 28, 2023, <https://www.cna.com.tw/news/afe/202308290135.aspx>.

⁴⁶ Zhao, "Is Beijing's Long Game on Taiwan About to End?" 6.

⁴⁷ Chang and Yang, "Weaponized Interdependence," 312; Zhao, "Is Beijing's Long Game on Taiwan About to End?" 10.

⁴⁸ Lai, "More Than Carrots and Sticks," 410–12.

the political words and deeds of Taiwan that it prefers and economically punishing those that it regards as pro-Taiwan's de jure independence. For example, although China rewarded Ma's conciliatory policy toward China with many economic benefits, such as a huge number of Chinese tourists, as well as what China called an act of "yielding benefits," which included but was not limited to opening its market to Taiwanese agricultural products in economic agreements signed with Taiwan (while not asking Taiwan to do the same in return),⁴⁹ it took and has been taking acts of economic coercion against Taiwan during the Chen and Tsai administrations as a result of their refusal to accept the idea of "one China" that Ma accepted.

Though still offering new economic "carrots" (such as the "31 measures" and "26 measures" announced in 2018 and 2019, respectively),⁵⁰ China's economic "sticks" against Taiwan have undoubtedly become much stronger over the past few years.⁵¹ Speaking of China's economic coercion against Taiwan, one phenomenon that has resulted from the growing China-Taiwan economic ties is worth paying more attention to: the diversification of the way that China weaponizes the cross-strait economic ties. During the Chen administration, China's economic-coercion acts were largely taken against those Taiwanese businesses in China that it regarded as anti-unification or even pro-Taiwan's de jure independence. Those businesses were threatened with severe restrictions on their economic activities in China or even exclusion from the whole Chinese market.⁵² One of the most well-known cases involved an open letter that China allegedly forced Hsu Wen-lung, the owner of the Chi Mei Corporation, which had huge economic interests in China, to release in 2005, in which Hsu, who was one of the biggest donors to Chen's electoral campaigns, said he was opposed to Taiwan's de jure independence.⁵³

Those coercive acts against Taiwanese businesses in China are still very common these days, as the Chinese government continues to ban allegedly DPP-friendly Taiwanese businesspeople, as well as entertainers, from "eating Chinese rice while at the same time breaking its rice cooker."⁵⁴ For example, in 2021, the Chinese government fined the Chinese subsidiaries of the Taiwan-based Far Eastern Group US\$74.2 million for regulatory violations, which many observers believed was a response to the political donations made by the group in Taiwan, some of which went to the DPP candidates.⁵⁵ Asked about the fine, the spokesperson for China's Taiwan Affairs Office said in a press conference that China "will never allow those who support 'Taiwan independence' and undermine cross-strait relations to make money on the mainland," and, in a follow-up conference, that "Taiwanese companies that have investments in the mainland are well aware of this" and that "the heads of these companies (should) have a clear understanding of whether or not to donate to obstinate 'Taiwan independence' elements."⁵⁶

⁴⁹ Chen, *Political Economy of China-Taiwan Relations*, 175–76; Chang and Yang, "Weaponized Interdependence," 321; Lai, "More Than Carrots and Sticks," 417.

⁵⁰ Chang and Yang, "Weaponized Interdependence," 321–22; Zhao, "Is Beijing's Long Game on Taiwan About to End?" 5–6.

⁵¹ Russell Hsiao, "Beijing Ratchets Up Economic Coercion against Taiwan with Selective Regulatory Enforcements," *Global Taiwan Brief* 6, no. 23 (2021): 1, <https://globaltaiwan.org/issues/vol-6-issue-23>; Glaser and Mark, "China and Taiwan"; Zoë Weaver-Lee, "Combating Beijing's Multifaceted Economic Coercion Strategy against Taiwan," *Global Taiwan Brief* 8, no. 3 (2023): 9–10, <https://globaltaiwan.org/issues/vol-8-issue-3>.

⁵² Lai, "More Than Carrots and Sticks," 417.

⁵³ Tse-Kang Leng, "State and Business in the Era of Globalization: The Case of Cross-Strait Linkages in the Computer Industry," *China Journal* 53 (2005): 63–79; Chen, "Effect of International Relations," 70; Chen, *Political Economy of China-Taiwan Relations*, 171.

⁵⁴ Hsiao, "Beijing Ratchets Up Economic Coercion," 1; Zhao, "Is Beijing's Long Game on Taiwan About to End?" 5; Weaver-Lee, "Combating Beijing's Multifaceted Economic Coercion Strategy," 11.

⁵⁵ Hsiao, "Beijing Ratchets Up Economic Coercion," 1.

⁵⁶ Hsiao, "Beijing Ratchets Up Economic Coercion," 1.

It is worth noting that, with much more economic connections across the Taiwan Strait, China has begun to take more and more coercive acts against not only Taiwanese businesses in China but also those in Taiwan. The targets in Taiwan are not necessarily specific businesses that China thinks are pro-Taiwan's de jure independence, but whole economic sectors. The purpose is to coerce the Taiwanese people not to elect the "wrong" candidates in any election and the Taiwanese government not to move in the "wrong" direction when it comes to China-Taiwan relations. Take tourism for example. The Chinese government has been discouraging Chinese tourists from visiting Taiwan since the election of Tsai as president in 2016.⁵⁷ In just the first three months of Tsai's presidency (i.e., between May and August 2016), the number of Chinese tourists in Taiwan significantly decreased, by 20 percent.⁵⁸ This has caused huge damage to the tourism-related businesses in Taiwan, especially those that had largely relied on Chinese tourists over the previous decade.⁵⁹ Although the number of tourists traveling to Taiwan from other Asian countries has increased because of, among other things, the measures adopted by the New Southbound Policy, it still cannot cover the damage caused by the loss of Chinese tourists.⁶⁰ The other three well-known examples involve China's ban on imports of Taiwanese pineapples, sugar apples, wax apples, and atemoyas in 2021; imports of Taiwanese grouper and many other kinds of fish in 2022; and imports of Taiwanese mango in August 2023.⁶¹ Although China cited pest infestation, chemical contamination, and incomplete registration as reasons for the import bans, they are allegedly China's latest acts of weaponizing cross-strait economic ties against Taiwan.⁶² Observers believe that those Taiwanese imports were intentionally targeted by China because of their significant dependence on the Chinese market. For example, China accounted for 91 percent of the pineapples, 97 percent of the sugar apples, 98 percent of the wax apples, and 90 percent of the grouper that Taiwan exported abroad when the Chinese ban was imposed.⁶³ In other words, China has begun to weaponize those "benefits" that it had yielded to Taiwan before. Another recent example of China exploiting those "benefits" occurred in April 2023, when China announced that it was going to launch an investigation into what it regarded as Taiwan's "trade barriers" (which it used to turn a blind eye to during the Ma administration) against 2,455 Chinese goods, which mainly included agricultural, textile, and petrochemical products.⁶⁴ In August 2023, it went so far as to announce that China might consider suspending the ECFA either partially or completely because of those barriers.⁶⁵

Intriguingly, despite the increasing economic coercion from China, the Tsai administration has not tried to significantly restrict cross-strait economic ties as Lee and Chen did. Instead, it is only trying to subsidize the businesses that are affected and encourage them to diversify their foreign trade and

⁵⁷ Lai, "More Than Carrots and Sticks," 417.

⁵⁸ Chen, *Political Economy of China-Taiwan Relations*, 192.

⁵⁹ Zhao, "Is Beijing's Long Game on Taiwan About to End?" 5.

⁶⁰ Lai, "More Than Carrots and Sticks," 420.

⁶¹ Glaser and Mark, "China and Taiwan"; Zhao, "Is Beijing's Long Game on Taiwan About to End?" 6; Thompson Chau, "China Flexes Economic Muscle with Ban on Taiwanese Grouper," *Nikkei Asia*, June 15, 2022, <https://asia.nikkei.com/Economy/Trade/China-flexes-economic-muscle-with-ban-on-Taiwanese-grouper>; Weaver-Lee, "Combating Beijing's Multifaceted Economic Coercion Strategy," 10; *Liberty Times*, "China Stops Importing Mango from Taiwan," August 21, 2023, <https://news.ltn.com.tw/news/politics/breakingnews/4402866>.

⁶² Zhao, "Is Beijing's Long Game on Taiwan About to End?" 6.

⁶³ Weaver-Lee, "Combating Beijing's Multifaceted Economic Coercion Strategy," 10.

⁶⁴ Ralph Jennings and Kandy Wong, "Mainland China Launches Probe into Taiwan's 'Trade Barriers' Affecting 2,400 Products," *South China Morning Post*, April 12, 2023, <https://www.scmp.com/economy/global-economy/article/3216789/mainland-china-launches-probe-taiwans-trade-barriers-affecting-2455-products>.

⁶⁵ *China Times*, "China's Ministry of Commerce Ponders the Possibility of Suspending ECFA," September 13, 2023, <https://www.chinatimes.com/realtimenews/20230913002813-260409?chdtv>.

investment. It has not even tried to weaponize Taiwan’s semiconductor industry, which is manufacturing most of the advanced electronic chips in the world, despite the fact that the Chinese government treats the import of these chips as an economic priority, given their importance to the development of China’s high-tech industries.⁶⁶ According to Tsai, Taiwan’s semiconductor industry is a “silicon shield that allows Taiwan to protect itself and others from aggressive attempts by authoritarian regimes to disrupt global supply chains.”⁶⁷ Here, although the Tsai administration is well aware of the competitive advantage of Taiwan’s semiconductor industry as compared with China’s, it at least for now still tries to use it just as a “shield” instead of a “spear” against China. One of the most restrictive measures that the Tsai administration has adopted so far is the one in 2021 that required Taiwan’s staffing companies to remove their listings for Chinese jobs to prevent Taiwan’s brain drain, particularly in the semiconductor industry.⁶⁸ However, notwithstanding that measure, Taiwanese people in general, including those in the high-tech industries, are still not prohibited by law to work in China for Chinese companies. Simply speaking, that middle-of-the-road approach largely remains: Tsai’s response to China’s growing economic coercion seems to involve more political restrictions (such as the Cyber Security Management Act and the Anti-infiltration Act) than economic ones and focus more on economic diversification than cutting ties. Again, the ambivalent feeling among the Taiwanese general public (who see China as not only a political threat, but also an economic opportunity) as well as the lessons about how Lee’s and Chen’s efforts to restrict cross-strait economic ties backfired arguably play an important role in the Tsai administration’s hesitation to move toward the anti-openness end.

CONCLUSION

Unlike her predecessors, all of whom ended up taking either a very anti-openness position or a very pro-openness one, the current president of Taiwan, Tsai Ing-wen, has taken a relatively neutral position on cross-strait economic ties and adopted a middle-of-the-road approach toward Taiwan’s economic relations with China. Moreover, unlike Lee Teng-hui and Chen Shui-bian, she has not moved toward the anti-openness end, despite the growing tension between China and Taiwan and the increasing economic coercion from the former against the latter. As this paper has demonstrated, Tsai’s middle-of-the-road approach can be explained by her awareness of the Taiwanese people’s ambivalent feeling toward cross-strait economic ties, as well as the lessons she has learned about how her predecessors’ (and her own) excessively anti-openness or pro-openness position backfired in Taiwan’s electoral politics. That being said, whether the next president of Taiwan as a result of the 2024 presidential election will continue to adopt a middle-of-the-road approach toward cross-strait economic ties remains to be seen. Among different factors that might matter, whether and how that ambivalent feeling toward cross-strait economic ties among the Taiwanese general public will change because of the increasing economic coercion from China and the growing tension between not only China and Taiwan, but also China and the US, is arguably one of the most important topics worth more research. The chip ban imposed by the US against China is another important topic for future studies of cross-strait economic ties. With the ban (which prohibits any semiconductor manufacturers in the world that use US technologies from exporting advanced electronic chips, as well as the machines used to produce those chips, to China), China for the

⁶⁶ Glaser and Mark, “China and Taiwan.”

⁶⁷ Tsai Ing-wen, “Taiwan and the Fight for Democracy: A Force for Good in the Changing International Order,” *Foreign Affairs*, October 5, 2021, <https://www.foreignaffairs.com/articles/taiwan/2021-10-05/taiwan-and-fight-democracy>.

⁶⁸ Weaver-Lee, “Combating Beijing’s Multifaceted Economic Coercion Strategy,” 10.

first time is feeling the vulnerability caused by the growth of its economic ties with Taiwan.⁶⁹ Although, as discussed, Taiwan is pretty much economically dependent on China in general, as revealed by its total trade with and investment in China, China is, however, dependent on Taiwan when it comes to advanced semiconductors and other high-tech electronics components: Around 70 percent of China's need for semiconductors and integrated chips is satisfied by Taiwan Semiconductor Manufacturing Company.⁷⁰ How this rare but critical economic dependence of China on Taiwan in the context of the US chip ban will evolve and affect China-Taiwan relations in general and their economic ties in particular is a research question worth addressing as more developments unfold.

⁶⁹ Glaser and Mark, "China and Taiwan."

⁷⁰ Zhao, "Is Beijing's Long Game on Taiwan About to End?" 21.