



**S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES**
A Graduate School of Nanyang Technological University

RSIS COMMENTARIES

RSIS Commentaries are intended to provide timely and, where appropriate, policy relevant background and analysis of contemporary developments. The views of the authors are their own and do not represent the official position of the S.Rajaratnam School of International Studies, NTU. These commentaries may be reproduced electronically or in print with prior permission from RSIS. Due recognition must be given to the author or authors and RSIS. Please email: RSISPublication@ntu.edu.sg or call (+65) 6790 6982 to speak to the Editor RSIS Commentaries, Yang Razali Kassim.

No. 049/2014 dated 14 March 2014

Cross-Strait Relations: Warm on Economy, Cool on Reunification

By Santosh Sharma Poudel

Synopsis

The recent official meeting between the head of China's State Council Taiwan Affairs Office (SCTAO) and his Taiwanese counterpart from the Mainland Affairs Council (MAC) marks a major improvement in political relations. Will this pave the way for eventual reunification?

Commentary

CROSS-STRAIT relations have stabilised and markedly improved since President Ma Ying-jeou of Kuomintang Party (KMT) came to power in 2008. A landmark free trade agreement, called the Economic Cooperation Framework Agreement (ECFA), was concluded in 2010. It reduced or eliminated tariffs on hundreds of goods, helping to boost cross-Strait trade to historic levels.

Also, three links - direct air travel, shipping and mail service - were established. This positive development was taken a step further when the two sides signed an investment agreement in 2012 and a trade pact in 2013, though still to be ratified by the Taiwanese legislature.

New landmark

Political relations reached another landmark when the head of China's State Council Taiwan Affairs Office (SCTAO) and his Taiwanese counterpart from the Mainland Affairs Council (MAC) - met formally over four days in Nanjing, China last month.

Previously such meetings were held either informally, at party level or via quasi-governmental organisations. These improved relations between China and Taiwan begs an important question: Has the improved political, economic and social exchanges led to softening of views in Taiwan about 'reunification'?

It would be wrong to assume that the increased economic and cultural exchanges across the Strait are aimed solely with an eye on 'reunification'. It is beneficial for China, Taiwan and the whole region. Economically, trade and investment between China and Taiwan has increased rapidly across the Strait. Total trade hit about US\$120 billion in 2012, with a current account surplus of more than US\$40 billion in Taiwan's favour, according to Taipei's Bureau of Foreign Trade.

Meanwhile, China reported that the total trade was US\$132 billion with China incurring a trade deficit of close to

US\$100 billion, according to the Ministry of Commerce in Beijing. Investment has increased accordingly. Additionally, the number of Chinese tourists visiting Taiwan has increased exponentially. Thus, both sides have benefitted from the improved relations. Also, the lessening in hostility across the Strait has brought stability not only in cross-Strait relations but to the whole region, which is beset by multiple instabilities.

However, it would not be far from the truth that China has an eye on reunification via peaceful means when promoting the cross-Strait relations. It is therefore important to gauge the benefits of improved cross-Strait relations based on the progress towards 'reunification' too, in addition to economic and security benefits, at least from Chinese side. In this case, ironically, the increased political, economic and social exchanges have not translated into effective gains. While the hostility has reduced, so has the urgency among Taiwanese to decide their future.

Closer to reunification?

While Taiwan has enjoyed a larger share of benefits - at least economically - from the liberalisation of trade, there is growing scepticism among some Taiwanese. Given that China has reduced (or eliminated) tariffs on more products and the trade heavily favours Taiwan, some Taiwanese feel that it's a deliberate ploy by China to sugar-coat the attempt to influence Taiwanese politics via economic carrots.

Similarly, cross-Strait trade forms only a small portion of China's total trade, whereas it forms almost a quarter of Taiwanese trade. This has further infused distrust that China might use Taiwanese dependence on the Chinese market for political purposes anytime in future. To add to that, the approximately 1200 missiles, believed to be targeted at Taiwan, and the anti-secession law passed by China in 2005, raise a real threat. This military 'hardness' and economic 'sweetness' is perceived by some Taiwanese as a ploy to make 'reunification' look less coercive.

Even some of those who support the closer exchanges may not likely be any more sympathetic to 'reunification'. The increased cross-Strait exchanges might cultivate complacency in two major ways. Firstly, if Taiwan can trade with China and take advantage of its economic opportunities more 'normally', then the economic rationale behind reunification will only be weakened.

Since the signing of ECFA, China has tacitly allowed Taiwan to sign free trade agreements (FTAs) with other countries too. Taiwan has already concluded FTAs with Singapore and New Zealand, and is in discussion with other economies. This will lift the pressure on Taiwanese to make the hard decisions, rendering 'status quo' the more favourable and less risky option.

Similarly, China was also flexible to allow Taiwan be an observer of the World Health Organisation. Having official meetings also boosts Taiwanese legitimacy internationally. Thus, the gains for Taiwan are slow but certainly positive. It is therefore not surprising that close to 8 out of 10 people in Taiwan prefer the 'status quo', a remarkable increase from 6.5 person out of 10 opting for 'status quo' six years earlier.

Secondly, the increased social exchanges, including tourism, have not narrowed the identity gap. The number of Taiwanese identifying themselves as Taiwanese, and not Chinese, has been increasing with generational change and the stark difference in political systems across the Strait. The increased number of Chinese tourists in Taiwan seems to have also failed to bridge that gap. It has brought forth the differences between Chinese and Taiwanese too. A recent poll found that 8 out of 10 people in Taiwan identify themselves as Taiwanese, and only 1 in 10 people as Chinese. This will not help mainland Chinese to induce Taiwanese towards reunification.

Balancing engagement with ambition

Therefore, China has to find a way to balance engagement with Taiwan and its political intentions. It has to translate such engagement into other preferred policy outcomes. Given that President Xi Jinping is not keen to leave such decision-making from 'one generation to another', China should carefully think how improvements in economic and cultural exchanges can be translated into political solution across the Strait.

Meanwhile, China should also find ways to engage the pro-independence Democratic Progressive Party (DPP). Given the low approval ratings of Ma Ying-jeou, it is not unthinkable that DPP will come to power in the next elections in Taiwan. Thus, investing all the Chinese eggs in one basket could risk slowing down the exchanges or even reversing some should DPP come to power. Polarisation of politics or public opinion in Taiwan is not good for cross-Strait relations. Thus, Beijing should keep the communication channel with both parties open.

Santosh Sharma Poudel is a PhD candidate in International Relations at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University.