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# China and Taiwan: A Future of Peace?

## A STUDY OF ECONOMIC INTERDEPENDENCE, TAIWANESE DOMESTIC POLITICS AND CROSS-STRAIT RELATIONS

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In this paper, I address the question of whether growing economic ties between China and Taiwan will lead to peace in the Taiwan Strait by examining the relationship between Taiwan's domestic politics and China-Taiwan economic exchanges and its resulting impact on China-Taiwan relations. I argue that the growing economic ties between China and Taiwan will lead to a relatively peaceful Taiwan Strait; Taiwan's domestic politics is the key intervening variable that links the former to the latter. Taiwan's growing economic ties with China have politically benefited Taiwanese politicians who have pro-China attitudes and advocate a reconciliatory China policy. The resulting increase in the power of these politicians in Taiwan's domestic politics will in turn have a positive effect on China-Taiwan relations.<sup>1</sup>

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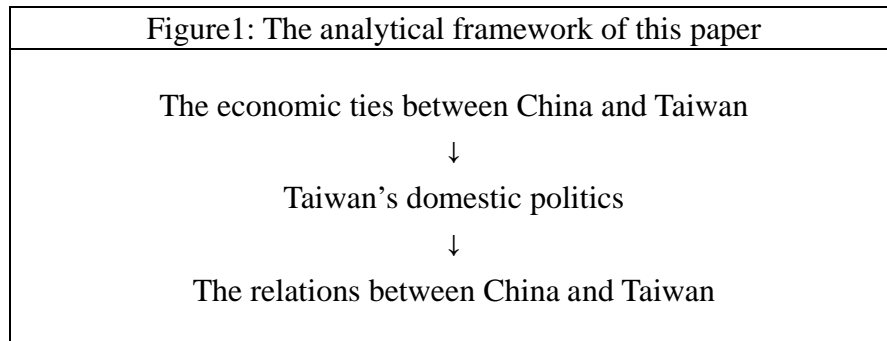
**T**he Taiwan Strait is one of the flash points of today's world. The current conflict between China and Taiwan originally began in 1949 when Chiang Kai-Shek and his followers fled to Taiwan after their defeat by the Chinese communists in the Chinese civil war, which erupted immediately after the end of World War Two. Several cross-strait crises have occurred since then, and the conflicts between China and Taiwan have continued into the early 21st century. While it seems that there is no ultimate solution to the Taiwan problem in the foreseeable future, one development across the Taiwan Strait that catches many experts' attention is the drastically growing economic ties between China and Taiwan. Many people believe that this development has a positive effect on the China-Taiwan relations because, according to the liberal view, economic ties among states will lead to peace. If this argument is correct, we may be able to see more peaceful relations between China and Taiwan in the future as the economic exchanges between them grow.

In this paper, I deal with the question of whether economic ties between China and Taiwan will lead to peace in the Taiwan Strait by examining the relationship between international relations and domestic politics. Specifically, I believe that Taiwan's domestic politics is one of

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the keys to understanding the development of good relations between China and Taiwan. Therefore, in order to probe the relationship between the cross-strait economic ties and cross-strait relations, we should study the relationship between Taiwan's economic ties with China and Taiwan's domestic politics. In other words, Taiwan's domestic politics is an important intervening variable that links cross-strait economic ties to China-Taiwan relations. This analytical framework is shown as figure 1 below.



When Taiwan's domestic politics is taken into account, I find that the growing economic ties between China and Taiwan do have a positive effect on cross-strait relations. This paper is divided into three parts. First, I will discuss the literature concerning general arguments about economic ties and peace and what scholars have found about the case of the Taiwan Strait. Second, I will examine why Taiwan's domestic politics is one of the keys to understanding the development of relations between China and Taiwan. In the third part of this paper, I will link cross-strait economic ties to China-Taiwan relations through Taiwan's domestic politics, especially focusing on how growing economic ties led to the emergence of change in political coalitions in Taiwan's 2000, 2004 and 2008 presidential elections; and how this change impacted cross-strait relations.

### **Literature Review: Economic Ties and Relations between China and Taiwan**

The effect of economic ties on war and peace is a popular topic in the field of international relations. However, findings concerning the relationship between economic ties and peace vary. According to liberals (e.g., Oneal et al. 1996; Oneal and Russett 1999; Russett and Oneal 2001), economic ties between states lead to peace. Liberals make three broad points (Kastner 2006, 320). First, the costs of waging a war against your economic partner are very high. Simply speaking, if you fight against a state with which you trade and in which you invest, you actually fight against yourself because a war between you and that state must have a negative effect on your own economy. Second, economic ties change states' preferences. When economic ties between two states become stronger and these two states become more economically interdependent or even integrated, economic interests – compared with other national interests such as military buildup – become the most important. Third, strong economic ties make non-military threats such as economic sanctions credible. Therefore, when there is a conflict between two states that have strong economic ties, a non-military threat is more likely to be the choice.

There are realist theories contradicting the liberal views mentioned above, such as the relative gains theory (Grieco 1998). Based on this theory, for a state that is asymmetrically dependent on another state, the fact that it gains relatively less while its partner gains relatively

more will make it feel economically insecure and, thus, national security will be more important than economic benefits. From this point of view, economic interdependence does not necessarily lead to peace. A study of trade between Japan and the United States by Robert Gilpin (2003) also appears to rebut liberal views on the relationship between interdependence and peace. He argues that economic interdependence may be a source of conflict: Japan's large trade surplus resulting from Japan's unique trade pattern, which focuses on "inter-industry" rather than "intra-industry" trade with the U.S., has been the main source of economic conflict between the two states.

There are also studies showing that the relationship between economic interdependence and peace is actually more complicated than both liberals and realists think. For example, according to Katherine Barbieri (1996), the relationship is not linear but curvilinear: while a low to moderate level of interdependence may lead to peace, a high level of interdependence increases the likelihood of conflict. The theory of trade expectations (Copeland 1996) also demonstrates that the expectations of future trade have an effect on the relationship between interdependence and peace: if highly interdependent states expect that the level of their trade will remain high in the future, interdependence brings about peace; in contrast, if they expect that the level will become low, interdependence may lead to conflicts because highly dependent states are more likely to initiate war for fear of being cut off; thus, losing national wealth as well as long-term national security.

The conflict between China and Taiwan is, arguably, one of the best opportunities to examine whether economic ties lead to peace given their more than fifty years of rivalry and the drastically growing economic ties between them over the past decade. However, like the general debate on the relationship between economic ties and peace, there is no consensus on whether the growing economic ties between China and Taiwan are leading or will lead to peace in the Taiwan Strait. Based on liberal views, it is argued that when the economic ties between China and Taiwan become stronger, war in the Taiwan Strait becomes highly unlikely (Karen 2002). War will have a negative effect on the economic development for both sides. In addition, economic ties enhance common economic interests between China and Taiwan, making political reconciliation possible.

There are those who do not believe that economic ties across the Taiwan Strait will lead to peace. Scott Kastner (2006) found that evidence for the liberal views on the relationship between economic ties and peace is ambiguous in the case of China-Taiwan relations. Although economic ties are growing, each side seems to have no intention to treat the other side well: while the Chinese leaders continue to threaten Taiwan verbally and at times militarily, Taiwanese leaders continue to provoke China. It is also argued by some that the economic integration between China and Taiwan will not decrease the likelihood of conflict because the main problem that triggers the rivalry is a highly politicized issue – the issues of identity and sovereignty. It is hard to imagine that either China or Taiwan will compromise on these issues (Crane 1993; Chao 2003).

Deng Ping (2000) applied the relative gains theory to Taiwan's economic policies concerning China-Taiwan economic ties. He found that economic interdependence between China and Taiwan is actually an asymmetrical one: an excess of domestic capital outflow from Taiwan to China can be regarded as evidence of asymmetrical interdependence in which China gains relatively more than Taiwan does. Because of this, some Taiwanese political leaders are worried that Taiwan is too economically dependent on China. China is much less economically dependent on Taiwan, and despite Taiwanese merchants' investment, Taiwan is gradually being

economically “hollowed out” by China.<sup>2</sup> Furthermore, these leaders believe that it is China’s strategy to make Taiwan economically dependent on China in order to not only hollow out Taiwan’s economy but also use Taiwanese merchants, who have economic interests in China, to influence the Taiwanese government’s China policy. Therefore, these leaders argue that national security is more important than economic benefits.

After reviewing the literature concerning the relationship between economic ties and peace, especially those dealing with the case of cross-strait relations, I find that scholars tend to use states that are economically interdependent as their units of analysis. While it is reasonable to see a state as an independent actor in the international system because it has its own preferences and behaves rationally based on these preferences, it is also undeniable that a state’s preferences or foreign policies are formed through a decision-making process embedded in domestic politics (Putnam 1988). I believe that we would benefit from taking this perspective into account when exploring the issue of economic ties and peace among states. In terms of my topic I think that Taiwan’s domestic politics does play a critical role in the relationship between cross-strait economic ties and development of cross-strait relations. In the remaining parts of my paper, I will use Taiwan’s domestic politics as an intervening variable to link economic ties between China and Taiwan to China-Taiwan relations.

### **Taiwan’s Domestic Politics and Cross-Strait Relations**

Taiwan’s domestic politics became relevant to cross-strait relations when the democratization of Taiwan during the 1990s complicated the essence of the conflict. Although the rivalry between China and Taiwan persisted from 1949 to the present, the essence of this rivalry has changed since the 1990s when Taiwan’s then-president Lee Teng-Hui promoted “Taiwanese identity” in the course of Taiwan’s democratization, which eventually led to the emergence of “Taiwanese nationalism.”<sup>3</sup> Before the 1990s, the conflict between China and Taiwan was regarded as a “domestic affair” by both sides. During that period, the government of the People’s Republic of China in Beijing and the government of the Republic of China in Taipei fought over which was the only legitimate government of China as a whole. Simply speaking, the conflict between China and Taiwan during that time was undoubtedly regarded by both sides as a domestic conflict between “the Chinese in mainland China” and “the Chinese in Taiwan” in the “Chinese civil war.”

After Taiwanese identity was promoted by the ruling Kuomintang (KMT) party – which was led by Lee Teng-Hui before 2000 and supported by the opposition Democratic Progress Party (DPP) during the 1990s – China still saw the Taiwan problem as a domestic affair. But there were some in Taiwan who began to regard the rivalry as an international issue. However, at the same time, there were still other people in Taiwan who believed that the conflict between China and Taiwan was essentially a domestic conflict between the Chinese in mainland China and the

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<sup>2</sup> It is called the “hollowing out” theory. For a discussion about this theory, see Deng, Ping. 2000. “Taiwan’s Restriction of Investment in China in the 1990s: A Relative Gains Approach.” *Asian Survey* 40(6): 971-973.

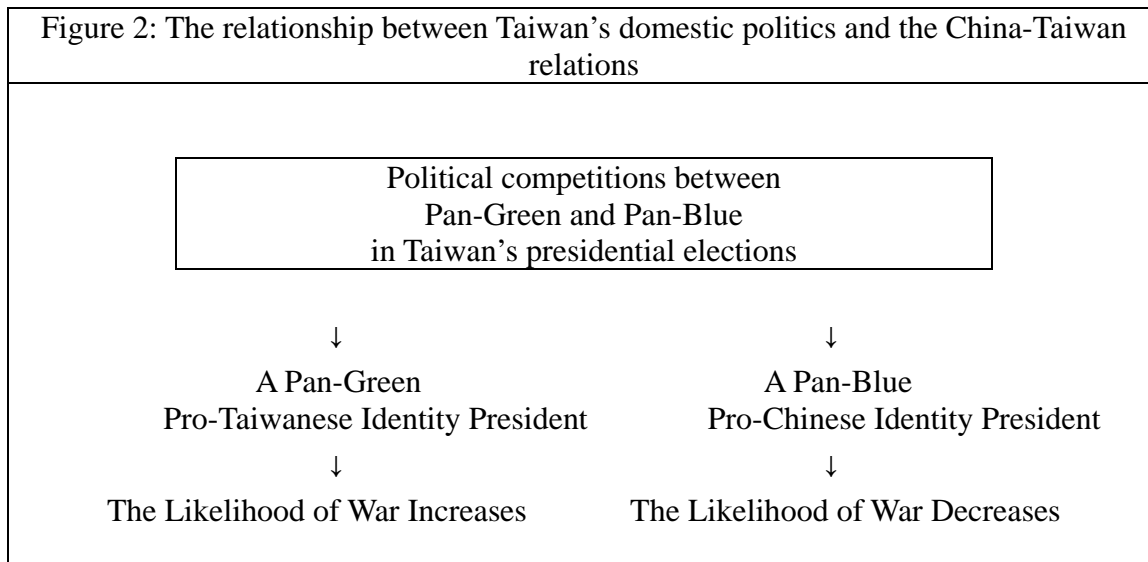
<sup>3</sup> In this paper, I argue that the emergence of Taiwanese identity in Taiwan’s domestic politics changes the essence of the conflict between China and Taiwan. However, I will not discuss how and why Taiwanese identity emerges. For the discussions about Taiwanese identity, see Chu, Yun-Han. 2004. “Taiwan’s National Identity Politics and the Prospect of Cross-Strait Relations.” *Asian Survey* 44(4): 497-503; and White, Lynn. 2004. “Taiwan’s External Relations: Identity versus Security,” in *The International Relations of Northeast Asia*, edited by Samuel Kim, Lanham, MD: Rowman & Littlefield Publisher Inc: 306-308.

Chinese in Taiwan. Since Taiwan's 2000 presidential election in which Chen Shui-Bian, the DPP candidate who supported Taiwanese nationalism, was elected, Taiwan's domestic politics has been dominated by two political forces: "Pan-Green," which consists of the DPP politicians as well as Lee Teng-Hui and his political followers who left KMT and established a new political party named Taiwan Solidarity Union (TSU); and "Pan-Blue," which includes the KMT politicians who forced Lee Teng-Hui to leave KMT in 2000, and the politicians in People First Party (PFP) – which was established by a politician who disagreed with Lee Teng-Hui's political position. The core of the conflict between China and Taiwan is now seen differently by different political forces in Taiwan: while Pan-Green regards the conflict as an international conflict between Chinese and Taiwanese, Pan-Blue regards it as a domestic conflict between the Chinese in mainland China and in Taiwan.

This new situation in Taiwan's domestic politics has a large effect on the development of China-Taiwan relations. It leads China to develop a dual attitude towards Taiwan, and the U.S. to apply a dual strategy regarding the issue of cross-strait relations. Given that Pan-Blue's position on China-Taiwan relations (cross-strait relations are the "domestic" relations between the "Chinese" in mainland China and the "Chinese" in Taiwan) implicitly indicates China-Taiwan unification, and that Pan-Green's position (the cross-strait relations are the "international" relations between "Chinese" and "Taiwanese") implicitly rejects unification, China has become increasingly friendly to Pan-Blue and increasingly aggressive to Pan-Green. Before the 1990s, the United States had to deter China from militarily attacking Taiwan. However, given the fact that Taiwanese identity has been emerging since the 1990s and many Taiwanese leaders since then have promoted and supported Taiwanese identity (e.g., Lee Teng-Hui and Chen Shui-Bian), the U.S. now has to apply a dual strategy to deal with the cross-strait issue: militarily deterring China from attacking Taiwan, while politically deterring Taiwan from declaring independence (Christensen 2001, 34-38).

To recapitulate, Taiwan's domestic political development during the 1990s resulted in the emergence of Taiwanese nationalism and in turn led to the emergence of two political forces in Taiwan's domestic politics: the force of pro-Taiwanese nationalism currently represented by Pan-Green, and the force of pro-Chinese nationalism currently represented by Pan-Blue. Here, what should be emphasized is that the outcome of the political conflict between these two forces in Taiwan's domestic politics would have a critical effect on the China-Taiwan relations and the relations in the Taiwan Strait. The most dangerous prospect affecting peace in the Taiwan Strait is either a Chinese attack against Taiwan without Taiwan's provocation, or a Taiwanese provocation that triggers a justified Chinese attack. The former danger is unlikely to occur given that, according to Robert Ross (2002, 63-71), without Taiwan's provocation China can be effectively deterred from attacking by the U.S. because China realizes an American intervention is both capable and credible. As for the latter danger (a Chinese attack because of Taiwan's provocation), this is believed to be the most important factor that could lead to a war in the Taiwan Strait. According to Scott Kastner (2006, 351), "the danger of war in the Taiwan Strait arises primarily from a willingness of Taiwan's leaders to test Beijing's 'redline,' the point at which Mainland leaders would rather fight a war than accept a certain level of Taiwanese sovereignty." From this point of view, Taiwan's domestic politics plays a key role in the relations between China and Taiwan. Specifically, given that Taiwan's president has large constitutional power to deal with issues concerning national security, foreign affairs and cross-strait relations, which political force wins Taiwan's presidential elections matters a great deal. If a pro-Taiwanese identity politician wins the presidential election, the likelihood of the danger cited by Scott

Kastner would increase. By contrast, the likelihood would greatly decrease if there were a pro-Chinese identity president in Taiwan. This finding regarding the relationship between Taiwan's domestic politics and the China-Taiwan relations can be summarized in figure 2 below.



### **The Economic Ties across the Taiwan Strait, Taiwan's Domestic Politics, and China-Taiwan Relations**

After discussing why Taiwan's domestic politics now plays a key role in peace or war in the Taiwan Strait, it is time to shift the focus to the main question of whether the growing economic ties between China and Taiwan will lead to peace in the Taiwan Strait. Based on what has been discussed about the relationship between Taiwan's domestic politics and China-Taiwan relations, it is reasonable to argue that in order to examine whether Taiwan's economic ties with China leads to peace we must explore whether Taiwan's growing economic ties with China politically benefit pro-Chinese nationalism politicians in Taiwan's domestic politics, especially in presidential elections.

To probe the relationship between the economic ties across the Taiwan Strait and Taiwan's domestic politics, we should first address a key question: does international economy really have an effect on domestic politics? According to Ronald Rogowski and Jeffry Frieden (Rogowski 1989; Frieden & Rogowski 1996), the answer is yes: trade or economic openness will create political cleavages in domestic politics, leading to conflicts between the people who benefit from the openness and the people who do not. Three phenomena should be found here (Rogowski 1989, 4-5). First, the people who benefit from the economic openness will try to press the policy makers for more openness, while those who do not benefit from or are harmed by the openness will try to press the policy makers to resist more openness. Second, those who enjoy a sudden increase in wealth because of the openness will be able to expand their political influence. Third, the policy makers will try to respond to the pressures from those who benefit from the openness and those who do not.

When it comes to the case of Taiwan, we do find that growing economic ties between China and Taiwan has created a political cleavage. There are obvious economic winners and losers in Taiwan as the economic ties between China and Taiwan grow: while the capitalists who invest in

China and the manufacturers who move their factories to China benefit from the growing economic ties, farmers and unskilled workers do not. It is also obvious that the beneficiaries, who are generally called “Taiwanese businesspeople in China,” always press the Taiwanese government for more economic ties across the Taiwan Strait and become increasingly politically influential not only due to the increase in their population and economic power, but also because of the important roles they play in Taiwan’s economic development. Taiwanese policy makers and politicians are pressured from both sides and trapped in a dilemma of more openness or more restrictions.

Having demonstrated that growing economic ties do have an effect on Taiwan’s domestic politics, it is time to link the economic ties across the Taiwan Strait to China-Taiwan relations through Taiwan’s domestic politics. I do this by examining whether the growing China-Taiwan economic ties politically benefit pro-Chinese identity politicians in Taiwan’s domestic politics, especially in the presidential elections. In the remaining part of this section, I will examine how economic ties between China and Taiwan led to the emergence of and change in the two political coalitions – the coalition of Pan-Green with Taiwanese farmers and unskilled workers and the coalition of Pan-Blue with Taiwanese businesspeople in China – during the 2000, 2004 and 2008 Taiwanese presidential elections, and its implications for the China-Taiwan relations.

#### *Political Coalitions in Taiwan’s Presidential Elections from 2000 to 2004*

The political cleavage between the people who were benefiting from Taiwan’s economic ties with China and the people who were not was not obvious in the 2000 presidential election because the economic exchanges between China and Taiwan during that time were suppressed by the policy of “don’t haste, be patient.” The policy was originally implemented by Lee Teng-Hui in 1996 and imposed many restrictions on the economic exchanges between China and Taiwan. During that time there was no obvious winner or loser in the cross-strait economic ties in Taiwan, and, therefore, there was no dilemma of more openness or more restrictions for politicians. Actually, there was a popular sentiment among Taiwanese in the late 1990s that these restrictions on cross-strait economic exchanges had a negative effect on Taiwan’s economic development because they made Taiwan’s information technology industry, which was the backbone of Taiwan’s economic development, unable to access the cheap labor in China and thus become internationally uncompetitive. To respond to this popular sentiment, all three major candidates in Taiwan’s 2000 presidential election – Chen Shui-Bian, Lien Chan, and James Soong – advocated the relaxation of restrictions on the cross-strait economic exchanges imposed by the “don’t haste, be patient” policy (Chu 2004, 507).

After winning the 2000 presidential election, DPP’s Chen Shui-Bian officially replaced the “don’t haste, be patient” policy with the “active openness and effective management” policy in October 2001. Its implementation greatly increased the level of the economic exchanges between China and Taiwan and in turn led to new political situations in Taiwan’s domestic politics.

First, growing economic ties attracted more and more Taiwanese capitalists to invest in and manufacturers to move their factories to China. This created an obvious cleavage between the people who were benefiting from the economic ties and those who were not. While Taiwanese businesspeople asked for more openness and the termination of bans on postal, transportation, and trade links between China and Taiwan, Taiwanese farmers and unskilled workers began to worry that more economic openness and direct economic links between China and Taiwan might harm their economic interests. Taiwanese businesspeople were attracted to the giant market and



cheap labor in China; however, Taiwanese farmers and unskilled workers were worried about the import of cheap Chinese agricultural products and labor.

Second, the political forces that emerged after the 2000 presidential election (Pan-Green supporting Taiwanese identity and Pan-Blue supporting Chinese identity) exploited this cleavage. Although Chen Shui-Bian, a politician in Pan-Green, dropped the “don’t haste, be patient” policy and introduced the “active openness and effective management” policy, he refused the request for more openness because he believed that Taiwan’s growing asymmetrical economic dependence on China might have a negative effect on Taiwan’s national security. Losing the support from Taiwanese businesspeople in China including those who supported him in 2000, Chen Shui-Bian and Pan-Green politicians began to appeal directly to those who were not benefiting from the growing China-Taiwan economic ties. At the same time, Pan-Blue, arguing that the growing economic ties between China and Taiwan would benefit Taiwan’s economic development, advocated more openness between China and Taiwan and began to appeal directly to those who were benefiting from the growing economic ties across the Taiwan-Strait. In addition, the fact that China had a much more friendly attitude towards Pan-Blue due to its support for Chinese identity made those who had economic interests in China more willing to vote for Pan-Blue in elections because they believed that a Pan-Blue government was more likely to create a peaceful Taiwan-Strait, which was very important to their business in China.

In summary, after the implementation of the “positive openness and effective management” policy in 2001, the growing economic ties between China and Taiwan created a cleavage between Taiwanese businesspeople and Taiwanese farmers and unskilled workers. The resulting two new political coalitions in Taiwan’s domestic politics saw Pan-Blue work with those who were benefiting from the growing cross-strait economic ties, and Pan-Green work with those who were not. The 2004 presidential election was a competition between these two political forces, resulting in the victory of Pan-Green’s coalition of farmers and unskilled workers.

#### *Political Coalitions in 2008 Taiwanese Presidential Election and the Prospect of China-Taiwan Peace*

Although the political coalition of Pan-Blue and those who were benefiting from the growing cross-strait economic ties was not big enough to be a winning coalition in 2004, it is reasonable to argue that the constituency consisting of those benefiting from the growing economic ties between China and Taiwan has become much stronger both quantitatively and qualitatively then. According to the Taiwanese government’s estimate, there were roughly one million Taiwanese living in China, and more than 77% of Taiwan manufacturers had investments there by 2006 (Kahler & Kastner 2006, 536). These Taiwanese businesspeople became an important part of the whole constituency in Taiwan’s 2008 presidential election. Pan-Blue tried to keep the existing political coalition with them. The Pan-Blue candidate, Ma Ying-Jeou, still appealed directly to Taiwanese businesspeople in China: pledging that he would create a so-called “cross-strait common market” once elected.<sup>4</sup> For another thing, the Pan-Green candidate,

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<sup>4</sup> The idea about the so-called “cross-strait common market” was actively advocated by Ma’s electoral partner in 2008 who is Taiwan’s current vice president, Hsiao Wan-Chang. For more details of “cross-strait common market,” see the web pages of the Cross-Strait Common Market Foundation (<http://www.crossstrait.org/index.php>). For the discussion about the latest development of this issue, see Zhao, Hong and Tong Sarah. “Taiwan-Mainland Economic Cooperation Framework Agreement (ECFA): Implications for Cross-Strait Relations.” *EAI Background Brief No.*

Frank Hsieh, seemed to realize that he should not ignore these Taiwanese businesspeople if he wanted to win the 2008 presidential elections. Although he criticized that creating a “cross-strait common market” as infeasible and too radical, he said that he would introduce a better policy to lift the unnecessary restrictions on the economic exchanges between China and Taiwan. In addition, in order to reassure the Taiwanese businesspeople that he was willing to keep the Taiwan Strait peaceful and stable, he seldom discussed the issue of Taiwan independence in public and even made an argument that Taiwan is part of China according to the Constitution of the Republic of China used in Taiwan. While Frank Hsieh’s new attitude towards cross-strait economic ties and cross-strait relations may attract some Taiwanese businesspeople, these new attitudes actually destabilized the political coalition of Pan-Green with Taiwanese farmers and unskilled workers. His pro-openness attitude angered many people who were not benefiting from the growing economic ties between China and Taiwan, and his ambiguous attitude towards the essence of the China-Taiwan relations alienated many Pan-Green, pro-Taiwanese identity politicians.<sup>5</sup> The presidential election in 2008 was eventually won by the Pan-Blue candidate, Ma Ying-Jeou, an advocate of more cross-strait economic exchanges and peaceful China-Taiwan relations.

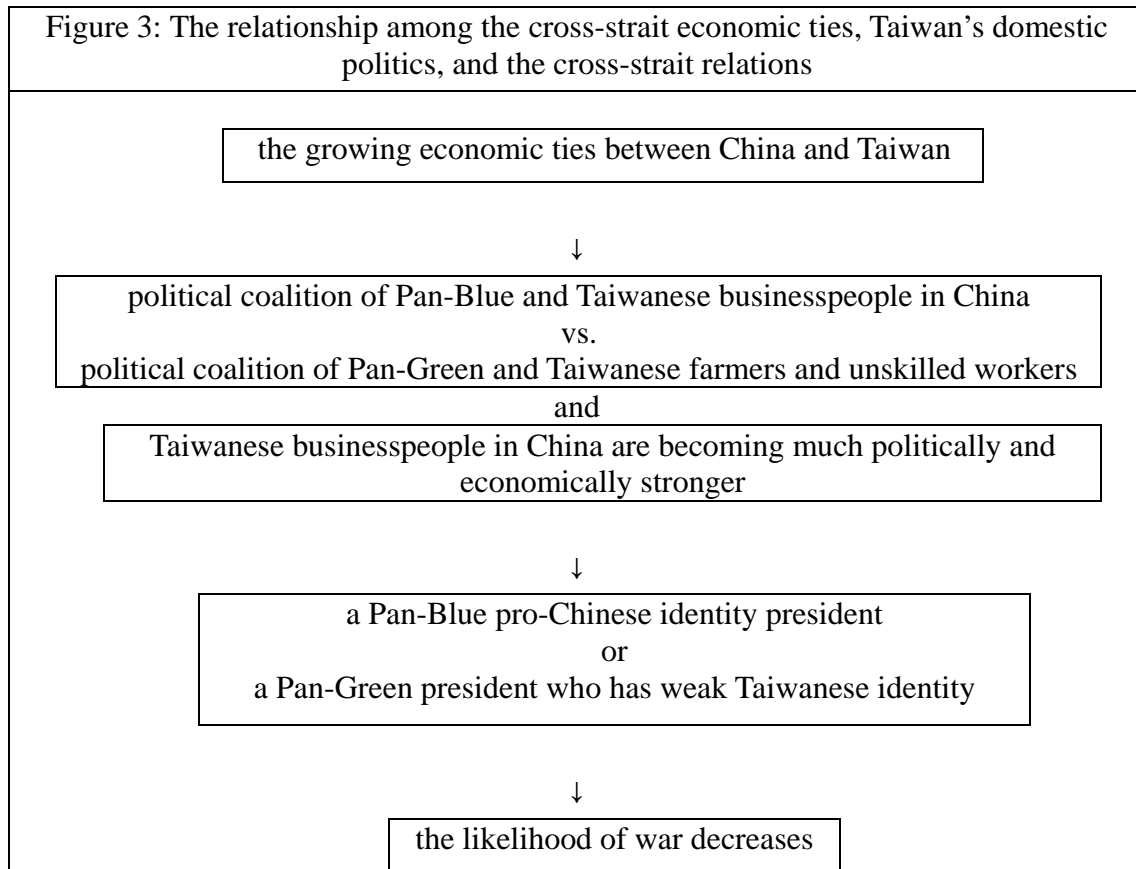
Based on what I have discussed, we can find that the constantly growing economic ties between China and Taiwan not only created a cleavage between the people who were benefiting from these ties and those who were not, but also made the former politically stronger because of the increase in their population and the importance of the role they play in Taiwan’s economic development. Although these people did not play a critical role and were ignored by the election winner in Taiwan’s 2004 presidential election, it is obvious that they attracted both Pan-Blue and Pan-Green candidates in 2008. The increase in the political and economical importance of this new constituency of people who were benefiting from the growing cross-strait economic ties even changed the Pan-Green, pro-Taiwanese identity presidential candidate’s attitudes towards the economic openness and the core of the China-Taiwan relations. This destabilized the political coalition of Pan-Green with the people who were not benefiting from growing cross-strait economic ties. These developments in Taiwan’s domestic politics greatly benefited the Pan-Blue, pro-Chinese identity presidential candidate in the 2008 election. As mentioned before, if a pro-Chinese identity candidate is elected, the likelihood of war in the Taiwan Strait would greatly decrease. The recent developments in China-Taiwan relations, such as the meetings between Taiwan’s quasi-official Straits Exchange Foundation and China’s quasi-official Association for Relations Across the Taiwan Strait in June and November 2008, demonstrate that the election of Ma Ying-Jeou changed the confrontational nature of the China-Taiwan relations from 2000 to 2008. In addition, it is worth mentioning again that the increasing political and economical importance of the people who were benefiting from the China-Taiwan economic ties forced the

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452, published by East Asia Institute at National University of Singapore on May 21, 2009, accessed through the web page of East Asia Institute at National University of Singapore (<http://www.eai.nus.edu.sg/BB452.pdf>).

<sup>5</sup> The publication of reports and editorials that criticized Hsieh’s position on the China-Taiwan relations in the Liberty Times, a pro Pan-Green newspaper, revealed the emerging gap between Hsieh and his potential supporters. See “Ma and Hsieh rush to China: Taiwan’s economy will be doomed in 2008” in the Liberty Times (November 26, 2007), accessed through the web page of the Liberty Times (<http://www.libertytimes.com.tw/2007/new/nov/26/today-fo2.htm>); and “Hsieh’s argument that Taiwan is part of China according to the Constitution of the Republic of China is the biggest obstacle to his success in the presidential election” in the Liberty Times (April 21, 2007), accessed through the web page of the Liberty Times (<http://libertytimes.com.tw/2007/new/apr/21/today-fo2.htm>).

Pan-Green candidate, Hsieh, to change his attitudes towards economic openness and Taiwanese identity in order to attract these people to vote for him. Therefore, it is reasonable to argue that Hsieh, though not a pure pro-openness and pro-Chinese identity politician like Ma, would be a president different from Chen Shui-Bian if he was elected, and the likelihood of war in the Taiwan Strait would still decrease to some extent under this counterfactual circumstance. The finding in this section can be summarized as figure 3 below.



## Conclusion

Whether the growing economic ties between China and Taiwan lead to peace in the Taiwan Strait is an academic and pragmatic question. Many arguments concerning this issue tend to ignore the complexity of Taiwan's domestic politics, which has played a very important role in the development of China-Taiwan relations since the 1990s when Taiwanese nationalism emerged in the course of Taiwan's democratization. If we take Taiwan's domestic politics into account, we can find that growing economic ties between China and Taiwan have a positive effect on China-Taiwan relations. My conclusion is based on two findings.

First, Taiwan's domestic politics, in which the pro-Taiwanese identity force and the pro-Chinese identity force are competing with each other, has a critical effect on China-Taiwan relations. Since 2000, Taiwan's domestic politics has been dominated by these two political forces represented by pro-Taiwanese identity Pan-Green and pro-Chinese identity Pan-Blue. Given that Taiwan's president has large power to deal with issues concerning national security, foreign affairs and cross-strait relations, which force wins Taiwan's presidential election matters.

Therefore, while the election of a pro-Taiwanese identity president would increase the likelihood of war between China and Taiwan because he or she is more willing to test China's redline about Taiwan's sovereignty, the election of a pro-Chinese identity president would decrease that likelihood.

Second, the growing economic ties between China and Taiwan will politically benefit the pro-Chinese identity coalition. The economic ties between China and Taiwan create a cleavage between Taiwanese businesspeople and Taiwanese farmers and unskilled workers. In Taiwan's 2000 presidential election, this cleavage was not obvious, and therefore there was no political coalition based on this cleavage. However, after the policy of "don't haste, be patient" was replaced by the policy of "positive openness and effective management" in 2001, the cross-strait economic ties drastically grew and the cleavage between Taiwanese businesspeople and Taiwanese farmers and unskilled workers became obvious. Pan-Green and Pan-Blue began to exploit this cleavage to their political advantage. In the 2004 presidential election, Pan-Green formed a political coalition with those who were not benefiting from the growing economic ties, while Pan-Blue formed a political coalition with those who were. Although the political coalition of Pan-Green defeated Pan-Blue in 2004, as cross-strait economic ties grew and the constituency consisting of Taiwanese businesspeople became politically and economically stronger, Pan-Blue strengthened. The result was the election of a pro-Chinese identity president in Taiwan's 2008 election, as well as a change in the Pan-Green presidential candidate's attitudes towards cross-strait economic exchanges and China-Taiwan relations in general. This development in Taiwan's domestic politics, resulting from the growing cross-strait economic ties, continues to decrease the likelihood of war in the Taiwan Strait.

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