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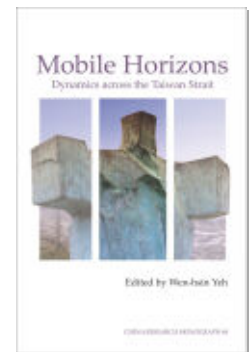
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ONE

What Drives the Cross-Strait Rapprochement?

Political Competition, Globalization, and the Strategic Triangle

YU-SHAN WU AND LOWELL DITTMER

The rapprochement between Taiwan and mainland China since the inauguration of President Ma Ying-jeou has its roots in three driving forces: domestic political competition in the three countries most directly affected by the cross-Strait relationship, globalization and economic imperatives, and the strategic triangle. These forces have converged to push Taipei and Beijing to moderate their cross-Strait policies. However, the three forces also impose constraints on further improvement of ties. The following discussion will deal with these three forces sequentially.

Domestic Politics

China

Beijing's Taiwan policy under Jiang Zemin veered sharply from the early period of optimism and faith in the political efficacy of mutually profitable economic exchanges and political dialogue in the early 1990s to a coercive strategy after the Taiwan Strait crisis of 1995–1996. This strategy was marked by the withdrawal of the "1992 consensus" in favor of an uncompromising "one China principle" as a prerequisite for further negotiation, a vigorous (and often successful) campaign to solicit recognition from the nearly thirty states that then recognized Taipei rather than Beijing diplomatically, the strengthening of offensive forces along the Fujian coast (notably a continuing buildup of short-range missiles targeting the island), and the periodic public announcement of threats to use force if Taiwan did not enter into negotiations by some vaguely defined deadline.

Taipei's response, aside from a 1998 visit by Straits Exchange Foundation Chair Koo Chen-fu, ranged from noncommittal to stubbornly combative.

China's efforts to dissuade the Taiwanese from pursuing an independent political course reached a crescendo toward the end of the 1990s. Following Lee Teng-hui's "two states theory" (*liang guo lun*) in 1999 and leading up to the three-way race among Lien Chan (Kuomintang [KMT]), Chen Shui-bian (Democratic Progressive Party [DPP]), and James Soong (People First Party [PPF]), China published its February 22 White Paper on Taiwan,¹ and Zhu Rongji televised a pointed warning to the Taiwanese electorate three days before the election.² Yet despite all this bluster, Chen Shui-bian's victory incurred the worst possible electoral outcome from Beijing's perspective. Beijing gradually began to reassess its Taiwan policy, for two reasons. First, it had become clear even in Beijing not only that coercive diplomacy could whip up an electoral backlash but also that Beijing could escalate the level of its threats no further without carrying them out, or lose credibility. That might mean war with the United States, which was manifestly not in Beijing's interest. Second, by the turn of the millennium Beijing had become increasingly concerned about the spread of a "China threat theory," with potentially troublesome implications for its "peace and development" foreign policy. Despite Beijing's efforts to isolate Taiwan policy from foreign policy, its tough Taiwan position inadvertently symbolized China's continuing threat to world peace, particularly to the world's sole superpower. Thus Beijing began to consider how to bring Taiwan policy more into line with "peace and development." Following the summer 2000 Beidaihe meetings, Beijing adopted a more liberal construction of the "one China principle" (still deemed a prerequisite for talks) and even opened the way to cross-strait negotiation of "three direct links" in post, transportation, and trade without prior acceptance of the "one China principle."³ The rise of Hu Jintao and Wen Jiabao at the Six-

¹ This White Paper on Taiwan threatened the use of force if, *inter alia*, unification was put off *sine die* ("The One-China Principle and the Taiwan Issue," *People's Daily*, February 22, 2000, available at <http://www.globalsecurity.org/wmd/library/news/china/2000/000222-prc-t3.htm> [accessed August 4, 2010]).

² Beginning with a disclaimer of any intention to interfere in a "local election," Zhu went on to say that "whoever continues Taiwan Independence will not end up well," and more pointedly observed that "if the pro-Independence force comes into power, it may trigger a war between the two sides of the Taiwan Strait and undermine peace in the region"; thus, he would "advise all people in Taiwan not to act on this impulse since this juncture will decide the future on both sides of the Strait" (Chinese Government's Official Web Portal, "Premier Zhu Rongji Takes Questions about China's Focal Issues," March 15, 2000, available at http://www.gov.cn/english//official/2005-07/25/content_17144.htm [accessed August 4, 2010]).

³ Prior to 2000 the PRC position had been that "one China" referred to the PRC and that Taiwan was hence part of it, but Qian Qichen in the summer of 2000 introduced the formu-

teenth Party Congress in September 2002 marked the introduction of more conciliatory foreign policy rhetoric (China's "peaceful rise," later China's "peaceful development" in a "harmonious world"), consistent with this more flexible Taiwan policy. During the 2004 election campaign in Taiwan, Beijing tried to avoid making threats in the face of the DPP's sponsorship of two "defensive referendums" critiquing its cross-Strait missile buildup, relying instead on Washington to keep Chen in line. Following his narrow reelection in March 2004, Beijing revised its blanket no-contact policy, a holdover from the Jiang administration, in favor of a more nuanced policy mixing carrots and sticks. On the one hand, Beijing softened its rhetoric in relation to Taiwan and pursued contact with apolitical, or politically non-independence-leaning, groups in Taiwan. Hu Jintao, in his May 17 Statement in 2004, made overtures to Taipei about resuming negotiations for the "three direct links," reducing misunderstandings, and increasing consultation. On the other hand, still suspicious of the Chen administration for its open advocacy of Taiwan independence, Beijing continued its no-contact policy toward Chen himself, silently rebuffing his overtures to meet with the Chinese leadership. Beijing also continued its military buildup against Taiwan, along with a vigorous policy of isolating Taiwan diplomatically. In March 2005, the National People's Congress passed the Anti-Secession Law, formalizing "nonpeaceful means" as a legal option in response to a declaration of independence by Taiwan. Yet the law also for the first time authoritatively committed Beijing to negotiations on the basis of equal status between the two sides, and furthermore the government refrained from imposing the "one China policy" as a precondition for talks. The Chinese Communist Party (CCP) then quickly increased contacts on a party-to-party basis with the KMT, appealing to their checkered history of "united fronts," when the two parties twice cooperated in the Northern Expedition and in the war against Japan. These increased contacts culminated in the 2005 Pan-Blue visits to mainland China, including meetings between Hu and then KMT chairman Lien Chan in April 2005 and subsequent meetings with PFP chair James Soong. By thus lowering the temperature of cross-Strait relations and depriving the DPP of an obvious mainland threat to inveigh against, Beijing contributed to the KMT's landslide electoral victory in both legislative and presidential elections in 2008 (though new electoral arrangements also contributed).

lation that "there is only one China in the world, both the mainland and Taiwan belong to one China, and China's sovereignty cannot be split" ("Mainland and Taiwan Belong to One China, Inclusiveness Very Large," *Zhongguo shibao*, September 11, 2000, cited in Chen-Yuan Tung, "An Assessment of China's Taiwan Policy under Third Generation Leadership," *Asian Survey* 45, no. 3 [2005]: 343-361).

The 2005 cross-Strait visits were the direct precursor of the more conciliatory cross-Strait policy introduced by Ma upon his election in March 2008, not only establishing a diplomatic precedent but also negotiating on a party-to-party level many of the agreements later formalized when the KMT resumed power. It was also a prized vindication of a high-risk foreign policy innovation by the Hu leadership. Jiang had since 1995 made a tough Taiwan stance a hallmark of his foreign policy, building a strong institutional base for it in the People's Liberation Army (which had lobbied for the 1995–96 episode of coercive diplomacy) and the Central Military Commission. Thus it seems safe to assume that Hu introduced his more conciliatory Taiwan approach against a skeptical backdrop, and he must have been greatly encouraged by Ma's victory. Then he was prepared to go further than any predecessor since Deng Xiaoping in cultivating his Taiwanese counterpart with the requisite political concessions to ensure his political viability—particularly at the time of the Seventeenth Party Congress in late 2007, when Hu was most vulnerable to the hawks.

A series of meetings between the two sides followed. On April 12, 2008, Hu held a meeting with vice-president-elect Vincent Siew, then chairman of the Cross-Strait Common Market Foundation during the Boao Forum for Asia. On May 28, 2008, Hu met with then KMT chairman Wu Po-hsiung, the first meeting between the heads of the CCP and the KMT as ruling parties, during which both agreed to recommence semiofficial dialogue under the 1992 consensus.⁴ Wu committed the KMT not to seek Taiwanese independence, but he also stressed that a "Taiwan identity" was not equivalent to "Taiwanese independence." Hu committed his government to address the concerns of the Taiwanese people in regard to security, dignity, and "international living space," with priority given to discussing Taiwan's wish to participate in the World Health Organization. Beijing seems to have also tacitly agreed to a diplomatic "truce." A number of bilateral agreements have been reached in subsequent talks between Taiwan's Straits Exchange Foundation (SEF) and China's Association for Relations across the Taiwan Strait (ARATS), culminating in the realization of the "three direct links" across the strait in December 2008.

Taiwan

The KMT went through a soul search after losing two consecutive presidential races in 2000 and 2004. A critical decision was made by Ma Ying-jeou, the party chairman since 2005 and its presidential candidate for the

⁴ On March 26, 2008, Hu Jintao held a telephone conference with U.S. President George W. Bush in which he explained that the "1992 Consensus" means "both sides recognize there is only one China, but agree to differ on its definition."

2008 race, that the KMT would no longer duel with the DPP over identity issues, and that the time was ripe to focus on the economy. With Taiwan's economic malaise and growing fatigue over the DPP's mobilization of Taiwanese identity, the KMT's grand shift of strategy brought about considerable changes in political competition. In order to better grasp this momentum, we need a brief overview of Taiwan's political development in terms of the core issue that defines the competition.

There have been three stages of Taiwan's domestic political development. Initially the defining cleavage was between the KMT and the Tang-wai (i.e., non-KMT opposition), turned DPP in the course of democratization. The KMT attempted to maintain the neo-Leninist system originally established in the 1920s, while the Tang-wai/DPP led in the struggle for full democracy. This stage ended with the path-breaking changes of the 1987–92 period, when martial law was lifted, the extraordinary constitutional clauses were removed, and the National Assembly and the Legislative Yuan were reelected. During the 1990s, the focus of contention shifted to national identity and the future of the nation, that is, unification vs. independence, with the KMT (later the Blue camp) and the DPP (later the Green camp) holding diametrically opposite positions. When Lee Teng-hui was president, the KMT was able to marginalize the radicals in the Green camp and pose as a moderate center-right (i.e., pronunification) force by identifying Taiwan with the Republic of China (ROC) as established in 1912. After Chen Shui-bian won the presidential race in 2000, however, the balance of power shifted to favor the Green side. The KMT fought an uphill battle against the DPP, which held the administrative advantage from the executive branch and advocated "rectification" of the country's name and constitution and formal Taiwan independence. Only tremendous international pressure brought to bear on Chen was able to thwart the movement.

The third stage of Taiwan's political contestation began with the KMT adopting a new strategy to challenge the DPP. Knowing that it had little chance to retake the ground lost on the identity front, where popular identification with "Taiwan" rather than "China" has continued to escalate, the KMT under Ma Ying-jeou sought to halt that battle and shift popular attention to the economic performance of the government (see figure 1.1). This was different from the traditional KMT position; it had always cast itself as the guardian of the ROC and Chinese nationalism. Ma's new course emphasized the material needs of the population and toed a middle line between the Blues and the Greens on the ideological spectrum. Ma himself, though of mainland parentage, struggled to speak Taiwanese in public and maintained his identity as a "new Taiwanese." Instead of talking about "ultimate unification," which burned him at the initial stage of the

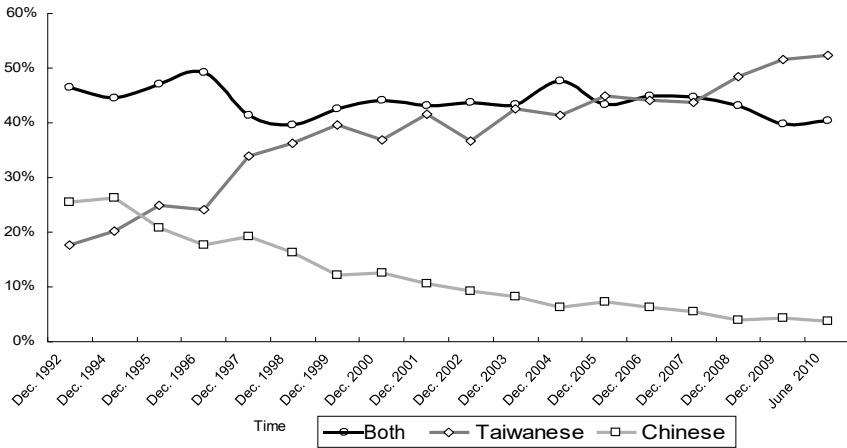


Figure 1.1: The Changing Pattern of Taiwan's National Identity. *Source:* Election Study Center, National Chengchi University, Taiwan (ROC), <http://esc.nccu.edu.tw/modules/tinyd2/content/TaiwanChineseID.htm>, accessed October 6, 2010.

presidential campaign, Ma advocated the “status quo” that most people in Taiwan favored on the unification-independence spectrum (see figure 1.2).

Ma's grand strategy was to avoid the ideological battle, court the median voter who cared less about the name of the country than about concrete performance, and count on support from the Blues as captives who could vote only for him. In this way, Ma and his strategists attempted to redefine Taiwan's politics by shifting the main dividing issue from identity to economy. Because the DPP government's performance in managing the economy left much to be desired, Ma calculated that he would win the 2008 presidential election, and he was right. The corruption case against Chen was a late-breaking windfall for the KMT that underscored their claim of DPP managerial incompetence with credible allegations of high-level corruption.

Through the three stages, Taiwan's focus of political contestation shifted from democratization to identity, and then to the economy. The grand shift from the second to the third stage has not been completed. The parliamentary and presidential elections in tandem in early 2008 were the first elections where there was significant economic voting, although traces of identity voting were still evident. Stage two features unification vs. independence, and dual identity (both Chinese and Taiwanese) vs. exclusive Taiwanese identity. Stage three shifts to the conflict between those who benefit from closer economic ties with mainland China and those

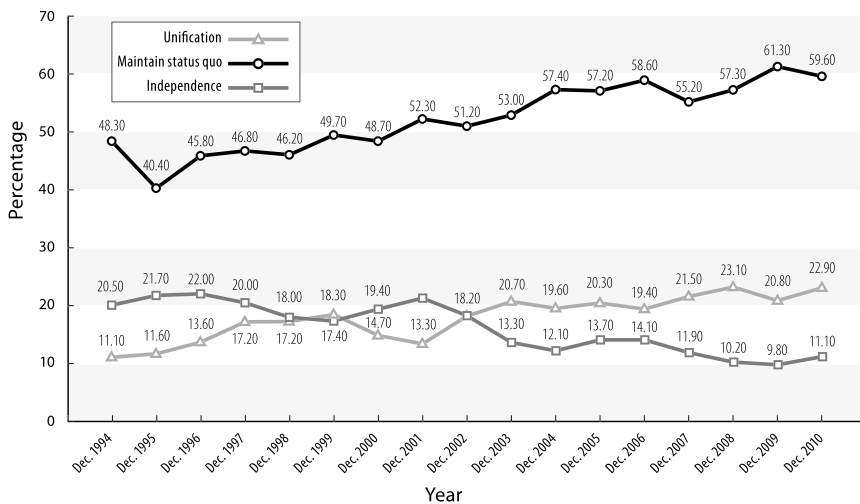


Figure 1.2: Future for Nation Preference. *Source:* Election Study Center, National Chengchi University, Taiwan (ROC), <http://esc.nccu.edu.tw/modules/tinyd2/content/tonduID.htm>, accessed October 6, 2010.

Table 1.1: Crisscrossing Cleavages and Support for Cross-Strait Rapprochement

	<i>Greens</i>	<i>Blues</i>
Winners from cross-Strait rapprochement	Reluctant Supporters	Fundamentalist Supporters
Losers from cross-Strait rapprochement	Fundamentalist Opponents	Conditional Opponents

who stand to lose. The two cleavages crisscross each other, as shown in table 1.1.

Economy is in command in the third stage, compared with the second stage, when identity was in command. Taiwan is right now in the transition phase between the two stages. Whether Taiwan will remain in the third stage, with economy replacing identity or with identity and economy equally dominant remains to be seen. Suffice it to say that concern over the economy had grown to such an extent that people were susceptible to the argument that cross-Strait relations should be viewed primarily in terms

of their impact on the economy, instead of identity. Advocating a moderate and cooperative cross-Strait policy, Ma and his campaign team sought to capitalize on the material concern and identity fatigue of Taiwan's voters in the presidential race. His landslide victory over his DPP rival Frank Hsieh testified to the changing mood of the electorate. However, the "economy in command" mentality can work both ways. It can facilitate cross-Strait relations but also backfire, depending on how people perceive the relationship between closer economic ties with the mainland and the performance of the Taiwan economy. They can express their perspective through their votes. Here one can delve into the hairsplitting typologies of economic voting—prospective vs. retrospective, and sociotropic vs. pocketbook—and test which combination is more prominent. The main issue, however, is clear: Taiwan's voters have adopted a more realistic and materialistic approach to cross-Strait relations and become susceptible to arguments that such relations should be based on economic grounds. Domestic political change and the KMT's shift of strategy have thus provided momentum to cross-Strait rapprochement.

The KMT's shift to a more economic focus was followed by the DPP under its new chairwoman, Tsai Ing-wen. After the electoral debacles in 2008, the DPP made a surprising comeback under Dr. Tsai's able leadership. She is a scholar turned politician with an international perspective, like Ma. She repositioned the DPP toward the ideological center and emphasized the primacy of the economy, again like Ma. The electoral lot of the two parties in 2008 left a deep imprint on both: the KMT was encouraged to deepen its commitment to the economy, and the DPP was urged to follow suit. Right after the 2008 elections, the trends began to shift. As the Green voters were infuriated by Ma's rapprochement with China and saw in Tsai a genuine hope for the DPP to recapture power, they offered solid support for her. The middle voters originally had inflated expectations of Ma, but found his administration deficient in dealing with natural calamities (most notably the 2009 Typhoon Morakot that caused more than seven hundred deaths) and delivering on its economic promises amid the international financial tsunami. The Blue camp sensed Ma's government was not interested in espousing traditional values of the Republic of China (i.e., one China in principle, contingent on the mainland's democratization for its ultimate realization) and was somewhat demoralized. As a result, the DPP's approval rate rose while the KMT's sank. In the mayoral elections for the five special municipalities at the end of 2010, although the KMT was able to secure its seats in Taipei, Xinbei City, and Greater Taichung, the total vote count was in the DPP's favor, as it won more than 400,000 votes. Counting all votes cast in the mayor and county magistrate elections in 2009 and the municipal mayoral elections, the KMT trailed the

DPP. This was in sharp contrast with the 2008 parliamentary and presidential elections, in which the KMT beat the DPP by huge margins, 15 percent and 17 percent, respectively.

As the DPP's electoral lot improved, Tsai's popularity among Green voters surged. In 2011 she won the DPP's primary and became the party's presidential candidate. She then led the DPP to challenge the KMT in the presidential cum parliamentary elections of January 2012. Under Tsai's leadership, the party took a moderate, middle-of-the-road strategy. It downplayed the DPP's traditional identity platform and accepted the ROC as legitimate, equating it to Taiwan while severing its legal ties to the mainland. After Taiwan's SEF signed a landmark Economic Cooperation Framework Agreement (ECFA) with its mainland counterpart ARATS premised on the 1992 consensus that upheld one China, the DPP did not campaign for its abolition or reprise the identity issue, though it refused to accept the 1992 consensus, holding out for a mysterious "Taiwan consensus." It merely pointed out the costs of economic integration with the Chinese mainland, presenting itself as attending to the concrete, material needs of the people. The 2012 elections thus witnessed the duel of two economic policies, not competing identities. It was widely described as the most civilized among Taiwan's presidential elections. Tsai lost to Ma in the presidential race by 6 percent, and the KMT managed to hold its majority in the Legislative Yuan, although with a greatly reduced margin. What lesson the DPP learns from this defeat is critical in determining the future course of political competition in Taiwan. It needs to decide whether to continue following Ma's platform of "frozen identity" and "economy in command," which served to revive the DPP from its historic low but failed to dislodge the KMT from power, or to revive its identity appeal to the Green base.

Leaving aside the identity controversy may be only a temporary solution, though, as the status of the state is left unresolved. Because Ma simply froze the status quo, society remains in the mind-set it had when the DPP left the governing position: "Taiwan" and "China" are opposing concepts, and the ROC has not been fully integrated with Taiwan. In strengthening cross-Strait commercial relations, Ma proposed "three no's"—no unification during his term in office, no pursuit of de jure independence, and no use of force to resolve differences across the Strait. However, this did not ease public concern regarding Taiwan's future, and DPP criticism is only to be expected. For the Blue camp, the middle path reflected in Ma's policy lacks idealism and foresight. Effectively, the policy does not reflect the core values behind the Republic of China, nor does it inspire enthusiasm among the KMT's supporters, who were goaded to the polling stations more by the fear of Tsai winning the election than by

any passion to support Ma. Although the thinking of independent middle voters is hard to grasp, they are generally more critical of the governing parties, particularly during an economic downturn, giving momentum to the pendulum effect. In short, even though Ma and the KMT induced the DPP to shift from identity to economy and won the 2012 elections, the continuation of Ma's new course is in doubt: it does not have a solid electoral base and the DPP may at any time revert to old identity politics.

The U.S. Factor

The United States, as will become clear in the discussion of triangular strategy, is the ultimate guarantor of Taiwan's security and hence the most decisive exogenous factor affecting cross-Strait relations. U.S. policy toward Taiwan's status has, since the Nixon opening to China in 1972, been ambiguous: in effect recognizing Beijing's claim that Taiwan is part of China, but insisting that any attempt at reunification be peaceful and by mutual consent. Although initially Washington seemed to welcome such a resolution, the Tiananmen crackdown and the subsequent disintegration of the communist bloc gave birth to an ideological revival targeting Beijing and commensurately favoring Taipei. Bill Clinton crusaded against the "butchers of Beijing" in the 1992 presidential campaign, an epithet from which George H. W. Bush's sale of 150 F-16s to Taiwan did not adequately immunize him. Yet the cleavage over Taiwan policy was not identifiably partisan, but split the "ins" from the "outs," as the incumbents usually leaned to the Chinese side for strategic utility and diplomatic convenience while the opposition rallied to the support of tiny democratic Taiwan, mobilizing residual ideological suspicions of the PRC. Thus in 2000, Republican George W. Bush ridiculed talk of a Sino-American "strategic partnership" and characterized the relationship as "strategic competition," whereas in the afterglow of his presidential-race victory the U.S.-Taiwan relationship was deemed to be at its best since Nixon. As in the case of Taiwan, domestic electoral competition played a role in shaping Washington's China policy.

The 2008 election was the first since China's opening in which the incumbent administration did not come under polemical assault for abandoning Taiwan and capitulating to China. True, Barack Obama made a comment during the campaign threatening to define China as a currency manipulator, which Treasury Secretary Geithner first repeated and then disavowed soon after the election. But for the most part, both Obama and John McCain sought to be equally conciliatory toward both China and Taiwan, marking in effect a relative decline in U.S. support for Taiwan. Though partly attributable to simultaneous U.S. preoccupation with two wars in the Middle East and a global financial crisis, the decline in political

sympathy for Taiwan, perceptible on both sides of the aisle, owed much to Beijing's low-key courtship of Washington since 9/11 and even more to Chen Shui-bian's determination at certain critical junctures to ignore U.S. interests and advice in favor of a public commitment to an independent foreign policy course aiming toward formal independence.

Whereas the incoming administration made quite clear that it was "back" in Asia and in that context gave a rising China pride of place, the reaction in China to the ascent of Obama was notably cooler than in Europe or Africa. And Beijing's subsequent foreign policies not only ignored Washington's appeals for cooperation but also were sharply critical on points of disagreement, such as arms sales to Taiwan. Amid a series of disputes over global warming, currency manipulation, Internet censorship, and sweeping maritime territorial claims—not to mention ongoing commitments to two wars and a protracted economic recession—it is easy to see why Washington welcomed cross-Strait rapprochement. The danger from Taipei's perspective is possible premature U.S. abandonment—that is, if cross-Strait relations are thriving and cordial, why keep selling Taiwan weapons? Taipei thus continued to appeal for a promised sale of sixty-six new F-16sC/Ds, only to be disappointed when the administration in November 2011 opted instead to help refurbish Taiwan's existing fleet. Aside from the military merits of the decision, this was a signal of American support for Taipei-Beijing rapprochement that was further underscored by clear administration support for Ma over Tsai in the January election.

Taiwan and Globalization

The root cause of the shift in Taiwan's political issue definition since 2000 is the deterioration of the island's economy. Hailed as an economic miracle and one of the four "small dragons," Taiwan successfully built up its capabilities and sustained repeated diplomatic shocks in the 1970s and 1980s. Its growth gradually slowed in the 1990s. Then came the election of 2000. From 2001 to 2008, Taiwan's economic growth averaged 3.8%, compared with 6.2% in the previous decade, when the KMT was in power. The unemployment rate more than doubled from an average of 2.1% in the 1990s to 4.4% from 2001 through 2008. As clearly shown in figure 1.3, 2001, the first year of full DPP governance, was a watershed. Economic growth dove to an unprecedented low of -1.65%, while unemployment soared to a record high of 4.57%. This dismal situation was partly alleviated in the following years, but Taiwan's economy has never fully recovered. Though perhaps not so bad in comparative perspective, those post-2000 figures amount to Taiwan's worst economic performance in decades, especially

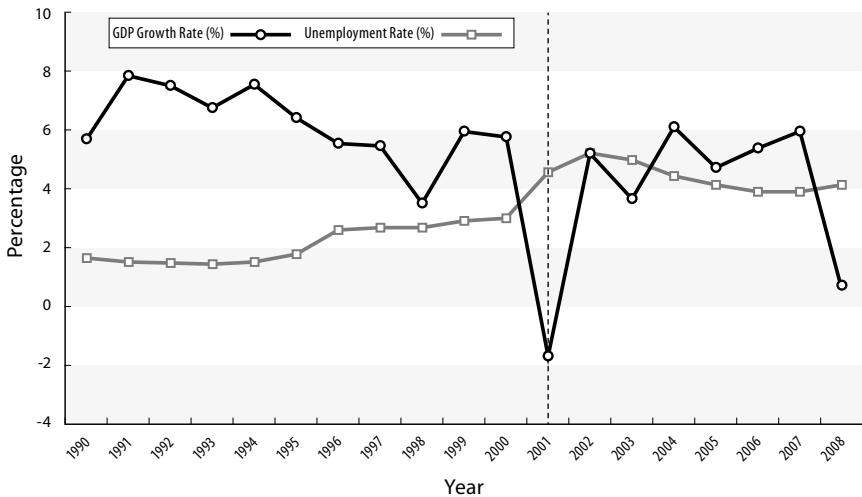


Figure 1.3: GDP Growth and Unemployment, 1990–2008. *Source:* Directorate-General Budget, Accounting and Statistics, Executive Yuan, Taiwan (ROC), <http://www.dgbas.gov.tw/ct.asp?xItem=13213&CtNode=3504&mp=1>, accessed June 7, 2009.

compared with the rapid growth of the East Asian region as a whole. As shown in table 1.2, Taiwan was overtaken by South Korea in 2004 in per capita gross domestic product (GDP). That was a change from Taiwan's quite considerable lead over Korea in 1999, when the latter was still struggling to recover from the Asian financial crisis. Taiwan's lag behind both Hong Kong and Singapore widened further during the 1999–2009 decade.

In this atmosphere of economic insecurity, Taiwan has been keenly aware of the rise of China. At the outset of the policy of reform and opening, Taiwan's GDP was more than half that of the PRC. By 2009, Taiwan had been overtaken by no fewer than three provinces on the mainland in economic size.⁵ Although Taiwan continues to enjoy greater economic prosperity in per capita terms, this is not necessarily true in various Taiwanese enclaves in urban China, where Taiwanese can enjoy higher living standards than at home. All these developments damage Taiwan's self-esteem. For a long time Korea was considered less developed than

⁵ Taiwan's GDP fell behind that of Guangdong in 2007, the first time Taiwan was not at the top of China's "national" list. In 2008, Shandong and Jiangsu also surpassed Taiwan. Taiwan's economic size was a third that of mainland China as a whole in 1992, a quarter in 2000, and one seventh in 2008.

Table 1.2: Per Capita GDP of Former Tigers and China (USD)

	<i>Taiwan</i>	<i>South Korea</i>	<i>Singapore</i>	<i>Hong Kong</i>	<i>Mainland China</i>
1999	13,535	9,906	21,073	24,600	861
2000	14,641	11,347	22,791	25,199	946
2001	13,108	10,655	21,001	24,753	1,038
2002	13,370	12,094	22,028	24,351	1,132
2003	13,748	13,451	23,029	23,443	1,270
2004	14,986	15,029	26,419	24,403	1,486
2005	16,023	17,551	28,498	25,999	1,726
2006	16,451	19,676	31,763	27,509	2,064
2007	17,122	21,590	36,695	29,847	2,645
2008	17,372	19,028	38,087	30,926	3,404
2009	16,330	16,959	36,567	29,917	3,740
2010	18,572	20,540	43,865	31,786	4,423
2011	20,083	22,424	43,271	34,259	5,417

Source: World Economic Outlook Database, International Monetary Fund (IMF), <http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weoselgr.aspx>, accessed October 23, 2012.

Taiwan. Hong Kong was thought of as suffering under the “one country, two systems” formula. Finally, China was regarded as underdeveloped, a country where Taiwan’s sunset industries would migrate for cheap labor. All this changed dramatically from 1999 to 2009. Taiwan’s relative position dropped precipitously against the other three economies and also in the region (see table 1.2). Exacerbating the dismal growth situation is deteriorating income distribution, as liberalization of the economy further enriches property and capital owners at the expense of fixed-wage earners. Unlike in the past, when the development of the economy could be more or less taken for granted, Taiwan in the late 2000s found itself struggling to keep pace with its rapidly growing neighbors and unsure of its economic future. Confidence waned.

Two issues stand out. One is sluggish investment, both domestic and international. The other is the danger of being locked out of international markets. The investment problem has to do with the deterioration of Taiwan’s business environment, including rising labor costs, appreciation of the NT dollar, and local protest and legislation for environment protection.

The most important factor is political: with cross-Strait relations in chronic danger of eruption, long-term investment has not been forthcoming. Potential investors, both foreign and local, would rather invest in a country that may be launching missiles than a country that may be their target. Market accession is also of great importance. Taiwanese too preferred to invest in China, so the island's main security threat became one of the few bright spots on Taiwan's economic horizon—and both trade and investment ironically continued to mount unabated throughout Chen's presidency.⁶ As bilateral free-trade agreements (FTAs) in Asia proliferate, Taiwan finds itself in an unenviable situation: potential economic allies refuse to discuss FTA arrangements with Taipei because of Beijing's claim on the island and their reluctance to offend Beijing. Without market access, Taiwan's exports will be hard hit and its growth potential further thwarted. The ASEAN+1 agreement, which officially took effect on January 1, 2010, eliminates all formal tariff barriers within the world's largest multilateral FTA while imposing a uniform tariff of around 9 percent for all nonmembers. The Cross-Strait Common Market vigorously advocated by Ma and Vice-President Vincent Siew, and later the Economic Cooperation Framework Agreement (ECFA), are in a sense logical responses of Taiwan to the ASEAN+3 at the cost of appearing to concede on nominal sovereignty.⁷ In short, economic globalization requires Taiwan to improve relations with the mainland, which acts as a "gatekeeper" that can lock Taiwan out of the international marketplace. And Taipei has been prompt to walk through this gate, initiating talks for an Economic Partnership Agreement with Singapore (Taiwan's sixth largest trade partner) in January 2011 while looking forward to similar talks with the Philippines (neither partner would consider such an agreement without Beijing's approval).

Taiwan and the Strategic Triangle

The third reason for Taiwan to reach rapprochement with mainland China is strategic. Taiwan, China, and the United States have been interacting at least since the early 1970s in a strategic triangle. There are different roles to play, the most enviable of which is the pivot, where a player enjoys good

⁶ In the decade from 1998 to 2008, annual trade rose by 7.9%, 21%, -10.9%, 34.3%, 23.8%, 33.1%, 16.2%, 15.4%, 16.1%, and 3.1%; investment (dollar amount) increased by -17.5%, 108.8%, 7%, 38.58%, 19%, 51.1%, -13.5%, 27.2%, 30.5%, and -1.3% (Mainland Affairs Council, Information Center, available at <http://www.mac.gov.tw/np.asp?ctNode=5892&mp=3> [accessed January 29, 2010]). Taiwan's statistics are probably an underestimate.

⁷ An analysis by the Global Trade Analysis Project in 2001 demonstrated that ASEAN+3 would reduce Taiwan's GDP by at least 1.1%. See Robert Scollay and John P. Gilbert, *New Regional Trading Arrangements in the Asian Pacific?* (Washington, D.C.: Peterson Institute, 2001), 68-69.

relations with both “wings” while the two wings compete with each other. The worst role is outcast, shunned by the other two players, who form a partnership. If there is a power disparity among players, then the cost of being the outcast becomes prohibitive for the weakest player. It should do whatever is necessary to extricate itself from that role. From 2003 to 2008, with Chen’s brinkmanship on Taiwan independence, cross-Strait relations were severely strained, implicitly challenging the United States to rescue Taiwan from Beijing’s threats. Because the overstretched United States feared open conflict with China over the Taiwan issue, Chen’s provocative policy significantly weakened U.S.-Taiwan ties. As the United States found more and more strategic and economic value in cooperation from Beijing, U.S.-PRC relations steadily improved. In the strategic triangle, all three relationships were moving against Taiwan’s interest. Furthermore, the power gap between Taiwan and mainland China had been widening rapidly. Whereas at the beginning of the 1990s, mainland China’s national capabilities (calculated in terms of GDP and military expenditures with equal weight) were 1.91 times that of Taiwan, in 2008 the ratio had risen to 8.96:1. On the U.S.-Taiwan side, the asymmetry was even more disproportional: 42.78:1 in 1990 and 49.84:1 in 2008. The increasing power gap between Taiwan and the other two players suggests any negative relationship the island had with either of them, let alone both, would be amplified tremendously. In short, Taiwan simply could not afford to continue playing the role of the outcast, weakest of the trio.

Ma and his strategists yearn for a return to the early 1990s, when Taiwan maintained good relations with both the United States and the PRC. That they consider the apex (*dianfeng shiqi* 巔峰時期) of Taiwan’s development,⁸ for “cross-Strait economic and cultural exchanges progressed rapidly, military confrontation attenuated, and diplomatic competition moderated,” and “because of the improvement of cross-Strait relations, the Republic of China [could] ‘stand up and walk out’ (*zhan qilai zou chuqu* 站起來走出去), increasing our military procurements, democratizing our politics, and rapidly growing our economy.”⁹ Of course circumstances were quite different at that time—China was still under a cloud in much of the world in the wake of the Tiananmen crackdown, while Taiwan’s democracy was still fresh and its economy booming. Ma recognizes that both threat and

⁸ Su Chi, “Guoji, liang’an zongti qingshi yu guojia anquan” [The overall international and cross-Strait situation and national security], in *Ma zongtong zhizheng hou de liang’an xinju: Lun liang’an guanxi xin luxiang* [The new cross-Strait situation after the inauguration of President Ma Ying-jeou: On the new orientation of cross-Strait relations], ed. Tsai Chao-ming (Taipei: Prospect Foundation, 2009), 4.

⁹ Su Chi, *Weixian bianyuan: Cong liangguo lun dao yibian yiguo* [Brinkmanship: From two-states theory to one-country-on-each-side] (Taipei: Commonwealth, 2003), 37.

opportunities exist in this new environment and strongly advocates a rapprochement with the mainland to maximize the opportunities and minimize the threat.¹⁰ In short, the rise of mainland China makes it very costly in both economic and strategic terms for Taiwan to take a confrontational attitude toward Beijing. Rapprochement is deemed a must. Yet while Beijing insists on reading Taipei's forthcoming movement as growing political accommodation to the "one China principle," the Ma administration maintains a calculated silence about its ultimate destination, creating the possibility of serious misunderstanding between Beijing and Taipei at some future point.

To improve relations with Beijing it is necessary for Taipei to mend fences with Washington. When Chen pursued a radical independence line designed to mobilize support in domestic political competition, Taipei's role in the strategic triangle began to deteriorate rapidly. In December 2003, Bush considered Chen's referenda proposal such a gratuitous provocation that he criticized him in front of visiting Chinese Premier Wen Jiabao (having already fruitlessly criticized his proposals more discreetly through diplomatic channels). In the following five years, Chen's precarious proindependence moves kept Washington on constant alert, for such adventurism might involve the United States in an unwanted military showdown with the People's Liberation Army, at a time when the U.S. military was spread thin around the world. Except for different perspectives toward Beijing, however, there was little disagreement between Taipei and Washington, so a moderation of Taiwan's mainland policy could go a long way toward improving ties with the United States. In this way, Taiwan could kill two birds with one stone: rapprochement with mainland China would improve relations with Beijing and Washington simultaneously, for the two relations are intricately linked, a typical situation in a strategic triangle. "Dual amity" was the essence of Taiwan's position in the early 1990s, a period considered by Ma as the best time for the island. The KMT's new course of rapprochement with the mainland was designed to bring back the early 1990s for Taiwan. Obviously there is one major difference now: the relationship between the United States and the PRC is much better than in the aftermath of the Tiananmen Incident—the row over Beijing's posture in the South China Sea and Diaoyu Islands and differences over the increased U.S. military presence

¹⁰ Ma Ying-jeou, "Zhonghua Minguo di shierren zongtong Ma Ying-jeou xiansheng jiuzhi yanshuo" [The inaugural address of the twelfth president of the Republic of China Ma Ying-jeou], and "Zongtong zhuchi Zhonghua Minguo jiushiba nian kaiguo jinian dianli ji yuandan tuanbai zhici" [Presidential address at the founding of the nation ceremony in the ninety-eighth year of the Republic of China], Office of the President, ROC, both available at <http://www.president.gov.tw/> [accessed September 20, 2009].

in the Korean peninsula notwithstanding. This naturally causes Taiwan concern but proves beyond its ability to influence. Given U.S.-PRC amity (and increasingly so with the world in financial crisis), the best triangular position Taiwan could possibly achieve is as a friend in a *ménage à trois*, not as a pivot as in the early 1990s. Failing to reach rapprochement with Beijing may result in becoming an outcast. Thus U.S.-PRC amity means there is more reason for Taiwan to reach rapprochement with the Chinese mainland.

As the United States is still the strongest actor, its policy calculations have also of course played a role in the triangle's evolution. During the Cold War, the Taipei-Beijing-Washington triangle was subordinate to and a function of the "great" strategic triangle involving Washington, Beijing, and Moscow, but with the collapse of the Soviet Union in the 1990s the Taiwan triangle became autonomous, evolving according to the power relations among its three participants. Washington usually occupied the pivot position, by dint of its economic and military superiority as well as its attempt to cultivate simultaneous positive relations with both Beijing and Taipei, whose relations were always complicated by the sovereignty dispute. PRC analysts have suspected the United States of using the Taiwan issue to manipulate Beijing, but although there was always a relationship between cross-Strait relations and Sino-U.S. relations in the sense that the United States tended to be more supportive of Taiwan when Sino-U.S. relations soured and to neglect Taiwan when they improved, from Washington's perspective the shifts in its policy were usually motivated by changing assessments of Beijing's behavior (as the larger and more strategically important of the two "wings") rather than Taipei's. These assessments typically involved a combination of economic and residual ideological factors; since Deng Xiaoping had abandoned the export of revolution to the Third World and there were few direct conflicts of interest between China and the United States, strategic competition played a remarkably small role. Only the defense of Taiwan remained of strategic concern, as the Taiwan Relations Act became a functional substitute for the Sino-American alliance (abrogated in 1979).

Since the 1990s Washington's China assessment has changed along three dimensions. First, as noted previously, the PRC's phenomenal growth rate has made it a much more economically weighty actor, both as a leading trade partner and host of U.S. multinational investment and as the largest holder of American debt. Second, particularly since the turn of the millennium, Beijing has adopted a more conciliatory foreign policy line ("peaceful development," etc.), including a less threatening posture toward Taiwan. This has made it much easier for Washington to look benignly upon improving cross-Strait relations. There are still implicit conflicts of interest

between the two, however, notably the temporarily muted but unpredictable ideological factor. China's economic rise has hitherto been a source of admiration to the Americans, but according to power transition theory, the real test will come when China's GDP approaches that of the United States.¹¹ Depending mainly on the temperature of the Sino-U.S. relationship, Washington could come to see cross-Strait rapprochement as a strategic liability, even a threat to its own national interests—particularly when (and if) a transition point is reached between economic integration and formal unification. Third, the PRC's economic growth has been paralleled by even more rapid growth of its military budget, much of which has been aimed at developing the capability to prevail in a conflict over the Strait. These preparations fit two contingencies. One is the capability to coerce Taiwan, such as the growing number of increasingly precise short-range missiles (now well over one thousand) and the (slower) development of amphibious capabilities and aircraft to gain local air superiority. The second is area-denial capabilities (e.g., antiship ballistic missiles, ASBMs), to deter U.S. aircraft carriers from protecting Taiwan in case of a mainland invasion or blockade.

Beijing's view of the relationship is ambivalent. On the one hand, Beijing would in principle not view the relationship in triangular terms, execrating the very notion as a treacherous and cynical American "card" game to block China's rise and prevent "one China" from realizing its full geopolitical and economic potential. On the other hand, in its very efforts to checkmate the United States, Beijing implicitly recognizes Taipei's de facto ability to seek diplomatic recognition from other states and even to purchase weapons with which to resist coercive reunification. Thus Beijing implicitly acknowledges the triangular power realities and attempts to play that game without forfeiting the legal and moral advantages of denying triangularity and pretending Taiwan is already part of China. From a triangular perspective Beijing has moved through four stages. From 1949 to 1978, Beijing viewed the Washington-Taipei axis as an unholy marriage, an ethno-national betrayal consolidated by capitalist-imperialist ideology, to be redeemed only by revolutionary violence. From 1978 to 2000, following abrogation of the alliance and Washington's switch of diplomatic recognition from Taipei to Beijing under its "one-China policy," Beijing viewed the relationship as one of fraternal intimacy with Taiwanese compatriots (*tongbao*), according them special investment privileges on the

¹¹ According to the traditional power transition theory as espoused by A. F. K. Organski, the real test would come when the rising power's GDP had grown to 80 percent that of the dominant state's. Parity would be reached then, and the challenger and the dominant power would have to work out their relationship under the mounting pressure inherent in this power structure. See A. F. K. Organski, *World Politics* (New York: Knopf, 1958).

mainland and tolerating a big negative trade balance while at the same time refusing to disavow its sovereign right to use force should it deem this necessary. From a legal perspective, the relationship was a strictly domestic matter in which U.S. involvement was outrageous interference in Chinese sovereignty. From 2000 to 2008, Beijing tacitly shifted to quasi-ostracism of DPP-led Taiwan and quasi-alliance with the United States, whose pressure on Taipei was deemed more likely to be persuasive and did not entail an antimainland electoral backlash. From 2008 to the present, with the second cross-Strait thaw, Beijing seems to have shifted back to the 1978–2000 pattern of quasi-marriage with Taipei and intensified resentment of U.S. interference (hence the 2010 cancellation of military-to-military relations following U.S. arms sales to Taiwan). This pattern of course foreshadows the triangular configuration should economic integration eventuate in formal reunification.

Looking into the Future

The effects of the three forces that caused Taipei's initial tilt toward Beijing may not point in the same direction over time. In terms of domestic politics, Ma's desire to appeal to the median voter with concrete economic performance may make him think twice about his mainland policy if Taiwan's economy fails to grow rapidly and in a sustainable manner, as he has promised, or if the Green camp succeeds in persuading the electorate that deepening ties with the mainland seriously jeopardizes Taiwan's economic well-being. In the aftermath of the 2008–09 international financial crisis, Taiwan managed to register quite impressive economic recovery, with a growth rate for 2010 at 10.82%, the highest since 1989, followed by a decent 4.03% for 2011. And yet the growth prospect for 2012 is quite bleak, hovering around 2% and below most of Taiwan's Asian neighbors. Moreover, unemployment (linked not directly to outsourcing but to declining international demand for Taiwan's exports) hovered high at 5.21% for 2010, and 4.39% for 2011. What is particularly worrying is the effect of the massive inflow of capital from the mainland on price inflation and increasing income stratification. It is estimated that in 2010 the richest 20 percent of households in Taiwan had a disposable income 6.34 times that of the poorest 20 percent, compared with 6.05 times in 2008. Income polarization appears to be widening and is generally attributed to deeper economic ties with the Chinese mainland. Less competitive sectors in the economy, such as traditional manufacturing and agriculture, are also threatened by further integration with the mainland. Economic stratification and sector vulnerability may play a significant role in dampening the KMT's prospects in future elections. Thus even if the main focus of

political contestation in Taiwan has shifted from identity to economics, Ma may still apply the brakes on rapprochement and integration with the mainland if the economic issue fails to deliver electorally. If the identity issue again becomes politically salient, expressed either in anxiety over the tacit ceding of sovereignty or in more blatant ethnic forms, this may persuade Ma that he should slow down on cross-Strait relations in order to reduce domestic controversy, especially when elections are near. This would follow the pattern of the KMT presidential candidates to shy away from ideological confrontation over national identity in campaigns, an issue that exposes their vulnerability. In short, domestic politics is not necessarily favorable to the continuation and deepening of the cross-Strait rapprochement and integration that has thus far progressed by leaps and bounds.

On the economic and globalization front, the litmus tests are market expansion, investment rate, and access to international markets, the three checkpoints that now thwart Taiwan's economic growth. The results of the tests need to buttress Ma's claim that deepening cross-Strait ties is good for Taiwan's economy. The Cross-Strait Economic Cooperation Framework Arrangement has become the focal point in this regard, epitomizing deeper economic relations with China and promising economic revitalization for Taiwan. The signing of the ECFA at the end of June 2010 and its passage in the Legislative Yuan in mid-August, over strong DPP opposition, aroused great controversy, but the KMT was able to fulfill its promise to deliver on this single most important and symbolic measure. The ECFA is not yet an FTA agreement but is a framework under which such an agreement, with its trade and investment protection components, can be negotiated in an institutionalized setting. A bilateral Cross-Strait Economic Cooperation Committee was set up for that purpose. The ECFA also contains an early harvest list of products that Taiwan and mainland China agree to exempt from customs duty in their mutual trade prior to entering into a full fledged FTA.¹² The two sides further agreed to open up various service sectors for investment, including finance. After the ECFA gained parliamentary approval and Taiwan exchanged notes with the mainland, the ECFA took effect on September 1, although the list and customs concessions had to wait until January 2011. The KMT government expected to raise competitiveness for Taiwan's exports on the Chinese market with the help of customs concessions that have proven extremely useful in enlarging the market share for ASEAN countries. A large num-

¹² In the list, Taiwan received customs concessions on 539 products, while mainland China received the same benefits on 267 of its products. The existing duties on all the items were to be completely phased out over a three-year period.

ber of buy-Taiwan procurement missions led by China's provincial governors added to the momentum of Taiwan's export drive to the mainland market. As a result, Taiwan products' market share in China rose to 8.58% in the first half of 2010, the only gain in market share among China's main trading partners in this period. The ECFA has proved a decided advantage in Taiwan's competition with South Korea, while also enhancing the island's attractiveness to Japanese businesses as an economic headquarters for dealings with the mainland. Even with this improvement, whether the goal of market expansion can be sufficiently realized in a sustainable way remains to be seen. The Chinese market already absorbs some 42 percent of Taiwan's exports, constituting its largest outlet. Further expansion in this direction would certainly further increase Taiwan's dependence on the Chinese market.

Ma has been hoping that integration with China and the opening up of all convenient channels would make it unnecessary for Taiwan businesspeople to invest on the mainland, so many of them would come back to Taiwan. Furthermore, the greatly improved atmosphere across the Taiwan Strait would attract foreign and overseas investment that had been deterred by fear of conflict between Taiwan and mainland China. There have been complaints from Korea that this is occurring, but without sufficient data this cannot be confirmed. Finally, Ma has begun courting mainland investment in Taiwan's stock market. The high expectations in this area have yet to materialize. The absolute volume of Taiwan's investment in China has fluctuated widely under the impact of the international financial crisis, plummeting to record lows in the first quarter of 2009 but bouncing back with a vengeance after the third quarter (see figure 1.4). A more accurate indicator is the share of mainland investment in proportion to Taiwan's overall outbound investment. That number has remained high and rising since 2008, reaching 82.34% in January through September 2010. This trend was partly encouraged by the Ma administration's loosening of investment constraints, a move strongly demanded by the business community. In foreign and overseas Chinese investment in Taiwan, there has been a consistent downward trend since 2008, with negative growth of -46.38%, -41.75%, and -20.56% for 2008, 2009, and 2010, respectively. The much trumpeted mainland investment in Taiwan's stock market and industries has been slow to arrive.¹³ With Taiwan businesspeople increasing their investment on the mainland and with foreign investment in Taiwan dwindling, the Ma government's expectations have thus far failed to materialize.

¹³ The total amount of the mainland's investment in Taiwan totaled a mere US\$132 million in 2009 and 2010 combined.

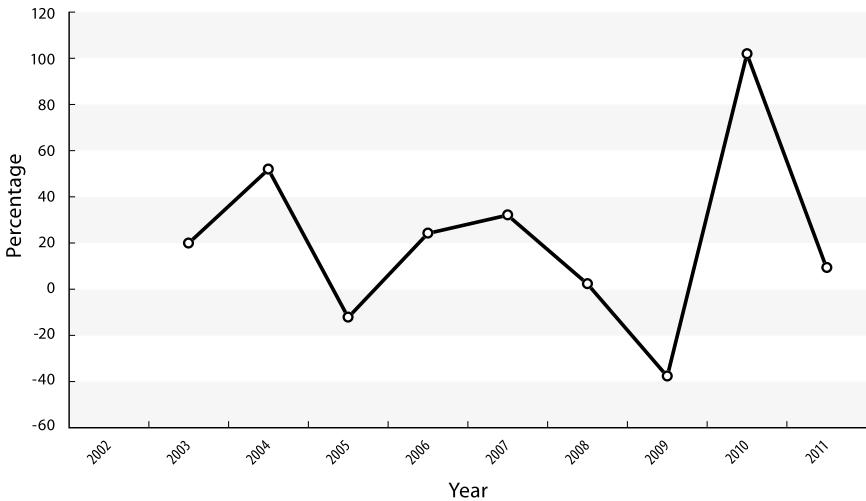


Figure 1.4: Taiwan's Investment in Mainland China (Change in Percentage).
 Source: Investment Commission, Ministry of Economic Affairs, Taiwan (ROC),
http://www.moeaic.gov.tw/system_external/ctrl?PRO=NewsLoad&id=858,
 accessed October 24, 2012.

Concerning access to the international market, one of the major arguments for the ECFA was that it could facilitate Taiwan's FTA negotiation with other countries. Because Taiwan has been suffering from international isolation in both diplomatic and economic terms, signing an FTA with any significant country would be considered not only an economic gain but also a major political breakthrough. Whether this actually can be achieved has become the focus of debate in Taiwan. On August 5, 2010, Taiwan and Singapore announced the commencement of economic partnership (EPA) negotiations under the World Trade Organization (WTO) framework. This showed a major advancement toward international market accession and the valuable collateral effect of the ECFA. Singapore in effect sought permission from Beijing before commencing negotiations, and Beijing gave tepid assent. Undoubtedly Taipei will seek to expand its FTA framework with the blessing of the ECFA, and tentative discussion was initiated for EPA talks with the Philippines following those with Singapore. In all, even with some encouraging signs, whether rapprochement with the mainland would really be able to deliver on export expansion, investment promotion, and access to international markets remains to be seen.

Finally, the logic of the strategic triangle dictates that Taipei's tilt toward Beijing is balanced by assurance and "countertilt" toward Washington, for

otherwise Taiwan might plant suspicion in the United States, creating an impression that it would become a “Finland” or even “Hong Kong” in the long term, and that the United States would have no interest in sustaining balance in the Taiwan Strait and come to Taiwan’s rescue if push came to shove.¹⁴ It was exactly based on this strategic thinking that the National Security Council (NSC) and its General Secretary Su Chi pushed Taipei’s decision to lift the partial ban on U.S. beef (dating from the “mad cow disease” scare of the late 1990s), a move that caused great controversy and handed the DPP a valuable gift that it used successfully against the KMT in the year-end local elections in 2009. The public (not to mention the local livestock industry) was outraged by the insensitivity of Ma’s administration to the health risk involved in lifting the beef ban. Obviously the inept handling of this controversy was a big reason for the government’s dropping popularity rating, but the cause of the NSC’s intervention into this trade and health issue was to be found in the strategic triangle and Taipei’s perceived need to make a countertilt toward Washington.¹⁵ However, if the relation between Washington and Beijing turns sour, whether Taipei would keep committed to dual amities with the two countries, and whether it would be able to do so if it wishes, is not without doubt.

Given that the link among the three main forces—political, economic, and strategic—and rapprochement with Beijing is not intrinsic but “instrumental,” that is, that the impact of the forces on cross-Strait relations may shift in a diametrically opposite direction, there is no assurance that the current rapprochement will continue, and this is only taking into consideration forces on the Taiwan side. Whether Taipei and Beijing can keep up the momentum of rapprochement and bring about the desired outcome for both sides remains to be seen.

¹⁴ On the prospect of “Finlandization” for Taiwan, see Bruce Gilley, “Not So Dire Straits: How the Finlandization of Taiwan Benefits U.S. Security,” *Foreign Affairs* 89, no. 1 (Jan./Feb. 2010): 44–60, available at <http://www.foreignaffairs.com/articles/65901/bruce-gilley/not-so-dire-straits> [accessed January 26, 2010].

¹⁵ For a critique of Su Chi’s role in the beef controversy, see “Analysis: In Beef Debacle, Su Chi Emerges as Main Villain,” *Taipei Times*, January 9, 2010, available at <http://www.taipetitimes.com/News/taiwan/archives/2010/01/09/2003463063> [accessed January 25, 2010].