

**‘Taiwan’s 2012 Presidential Election:
The Economic and Diplomatic Implications.’**

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Introduction

On November 29th, 2011, the electorate in the Eastern Caribbean nation of St. Lucia re-elected the St. Lucia Labour Party (SLP) to office after five years in opposition. When the now opposition United Workers Party (UWP) came to office in 2006, it had switched diplomatic recognition from China to Taiwan. Current Prime Minister Dr. Kenny Anthony, during the campaign for the 2011 elections, had said that an SLP government would revert to ties with Beijing. But in one of his first speeches after being re-elected, Anthony told St. Lucians that his SLP administration would not break ties with Taiwan immediately but was prepared to hear Taipei's case for continued diplomatic relations with Castries.

Anthony's SLP administration of 1997-2006 had enjoyed warm relations with Beijing and Castries-Taipei ties were a major talking point with the SLP, when in opposition. The party has accused Taipei, through its ambassador in Castries, Tom Chou, of interfering in the internal affairs of St. Lucia. And Anthony had threatened to sever ties with Taipei if his SLP was re-elected to office. But shortly after he was re-elected to office, the Ministry of Foreign Affairs in Taiwan announced that Prime Minister Anthony would meet with Ambassador Chou, in what the China Post in Taipei described as "a move to further solidify bilateral ties" (Yeh 2011). The publication reported that after his re-election, Anthony "noted that his new administration will invite both Taiwanese and China representatives 'for a talk' before deciding whether or not to switch recognition". But Wu Chin-mu, Director-General of MOFA's Central American Affairs, who announced at a press briefing in Taiwan the Anthony-Chow talks, also said Anthony had

told Taiwan Foreign Minister Timothy Yang that St. Lucia's diplomatic relations with Castries would continue.

Reporting on the Anthony-Chou talks, The Voice newspaper in St. Lucia said that the two men shook hands on the lawn of the Prime Minister's Official Residence in St. Lucia. The newspaper noted that Anthony, as Leader of the Opposition, had written to the government of Taiwan calling for Chou to be recalled.

The general feeling amongst Saint Lucians was that Ambassador Chou would have been told to leave the country if the Labour Party was returned to government although the Labour Party, in its campaign against what it considered were the 'wrongs' of the Ambassador, never called for the Taiwanese Embassy to close its doors. At present, things are not going exactly as most people expected. The prime minister made it clear that putting the Ambassador on a plane was not proper and was not the correct thing to do (Goerge 2011).

Research Objectives

The truce between Anthony and Chow did not result from any magnanimous action by either parties but reflects an even more significant development over the past four years between China and Taiwan. In fact, Anthony had very little choice regarding the relationship between St. Lucia and Taiwan, beyond maintaining that Chou be recalled. Further, St. Lucia could not have established ties with China even if it wanted to and was left with little choice beyond maintaining diplomatic relations with Taiwan or not having diplomatic ties with either of the two states. All of these realities result from the policies of Beijing and Taipei to each other since President Ma Ying-jeou came to office in Taiwan in May 2008. This paper will discuss how the policies of the Ma administration

have affected the country's political and economic relationship with China and Taiwan's situation within the international community, especially as it relates to its formal diplomatic allies. It will make projections on how these circumstances are likely to change if Ma is returned to office or if his opponent, Tsai Ing-wen, is elected during the presidential elections in Taiwan on January 14th, 2012.

China-Taiwan Relation: A Brief Overview

The government of the Republic of China (ROC) relocated to Taiwan in 1949, having lost the Chinese Civil War to communist forces in China. Since then, both sides – the ROC and the People Republic of China (PRC) – have evolved differently although they both claim to each be the sole legitimate authority of “one China”, of which each state has its own interpretation. The ROC, with its free-market system, is a thriving democracy, often hailed as an example for other nations in the region. The PRC, on the other hand, has increasingly adopted free-market principles and has replaced Japan as the world's second largest economy, but remains, largely, an authoritarian state.

Taiwan's political dichotomy

In Taiwan, there are two major political parties. President Ma is from the pro-unification Kuomintang (KMT), the major political party in the pan-blue camp, which generally favours closer ties with China, with the ultimate goal being a reunited “China”.

The KMT describes itself as “a political party with a long history and a wholesome ideal.

This ideal is the establishment of the Republic of China (ROC) as a free, democratic, prosperous and dignified modern nation. The KMT's long history is a glorious record of its committed struggle to the realization of this ideal.

... For its history of more than one hundred years, the KMT's ultimate objective has been consistent: to make the ROC a perfect example of a country run on the Three Principles of the People ... developed by Dr. Sun Yat-sen while he was leading the Chinese Revolution. [The principles of nationalism, democracy and the people's livelihood] (KMT n.d.)

Tsai Ing-wen is of the pro-independence Democratic Progressive Party (DPP), the leading political entity in the pan-green camp, which advocate a Taiwan identify, separate and apart from China and strongly favours Taiwan's de jure independence. The DPP, which was founded in 1986, describes itself as having been "at the forefront of movements demanding social and political justice". The party says that it distinguishes itself from the KMT "in its domestic social policies, efficient government and Taiwan value as its core". On the international front, the DPP "advocates greater integration into the world community that is aimed at enhancing the prosperity and security of Taiwan". On the issue of "The establishment of a sovereign and democratic Republic of Taiwan", the DPP says:

Territorial sovereignty and self-government are the preconditions for modern nations to establish the rule of law and to develop international relations. The facts that Taiwan is sovereign and independent, that it does not belong to the People's Republic of China, and that the sovereignty of Taiwan does not extend to mainland China, reflect historical realities as well as the present situation, and at the same time form part of the consensus of the international community. According to this reality of sovereignty and independence, Taiwan should draw up a constitution and establish a nation. Only then is it possible to guarantee respect and security for Taiwanese society and for individual citizens, and to offer the people the opportunity to pursue freedom, democracy, prosperity, justice and self-realization (DPP 2010).

The Chen-Ma Eras: A Contrast

Both Ma and Tsai will represent the KMT and DPP respectively in the presidential elections of January 14th, 2012. Ma is seeking a second term in office while Tsai is

hoping to return the DPP to the helm of government and, at the same time, become the nation's first female president. Former KMT heavyweight James Soong of the People First Party, also of the pan-blue camp, is also a candidate in the race, but analysts say, and opinion polls suggest, that his impact on the outcome of the election will be negligible, unlike in 2000, when his presidential bid is thought to have contributed to election of President Chen Shui-bian of the DPP.

The relationship between the PRC and the ROC has gone through several epochs ranging from estrangement and military confrontation, to extensive people-to-people and economic exchanges and semi-official consultations, especially during the past 20 years. When president Ma came to office in 2008, China-Taiwan relations were at an all-time low after the eight-year presidency of Chen Shui-bian of the DPP, a fire brand politician whose pro-independence rhetoric contributed to China's passage of the Anti-cessation Law in March 2005, which authorises Beijing to use military force against Taipei if it were to declare independence.

Chen first came to office in 2000 and was re-elected in 2004 at the head of a government that "refused to affirm the existence of a 'one China' or the desirability of pursuing unification" (Government Information Office 2010). In his inaugural address, Chen pledged not to initiate any effort that might be considered as changing the status quo and from time to time encouraged China to cooperate in setting up a "peace and stability framework". His government said that it was open to discussing future relationships between China and Taiwan, including various types of integration. It, however,

maintained that such discussions must be without preconditions. Notwithstanding its position on Taiwan-China talks, Chen's government, however, relaxed restrictions on imports from China, China-bound investment, and the functions and scope of offshore shipping centres. The government opened Taiwan to visits by people of China who lived in, or first travelled to, a third country, and took steps to negotiate cross-strait charter flights for ROC citizens during holidays and for humanitarian purposes.

In the face of booming cross-strait trade and visits of Taiwanese businesspeople and tourists to China, the Chen administration often said it hope that cross-strait negotiations could resume, with a priority on signing agreements to open up "three links" -- direct transportation of people and goods as well as direct postal service and commercial transactions. But Beijing said that resumption of these talks could only take place if the Chen administration affirmed that Taiwan and the mainland constitute a single China and must eventually be unified. Notwithstanding his differences with Beijing, Chen, during his first term, unilaterally approved the opening of direct seaborne passenger transportation for ROC citizens on ROC-registered vessels between Taiwan's outlying islands Kinmen and Matsu and several mainland seaports.

But the authorities in Beijing refused to renounce the use of force against Taiwan and by mid-2008 had over 1,000 missiles targeting the island. At the same time, Beijing undertook large-scale military exercises simulating an attack on Taiwan and exerted tremendous efforts in blocking Taiwan's participating in international fora even as both sides tried to woo each other's diplomatic allies amidst mutual accusations of dollar

diplomacy. In response to the passage of the anti-cessation law in 2005, Chen issued a six-point statement, stressing that Taiwan's sovereignty belonged only to its 23 million people.

The DPP's candidate in the 2008 elections, Frank Hsieh, failed to hang on to the presidency for the party and lost to Ma of the KMT. The relationship between China and Taiwan has warmed since Ma came to office in May 2008. This is in keeping with Ma's administration's initiatives to create conditions conducive to promoting regional peace, stability and prosperity on the basis of the "1992 Consensus". The "1992 Consensus", on the "one-China" principle, is said to have been reached at a November 1992 meeting in Hong Kong by China's Association for Relations Across Taiwan Straits (ARATS) and Taiwan's Straits Exchange Foundation (SEF). Although there is no record of the consensus, it is said to mean that "both sides of the (Taiwan) Straits adhere to the 'one-China' principle" and orally explain the principle respectively (China Daily 2004).

“1992 Consensus”?

President Chen, just before leaving office in 2008 again denied the existence of the Consensus and warned the incoming President Ma that the consensus spells uncertainty about Taiwan's sovereignty, its ties with China, and its future destiny. He noted that China has never said that it will accept different interpretations of the one-China principle, or the claim that “one China” refers the Republic of China as Taiwan has argued. But Ma countered that the consensus, reached between the two sides in 1992 without a written record, made possible a landmark meeting in Singapore between Taiwan and China

envoys (Taiwan News 2008).

Tsai Ing-wen, like Chen, and in keeping with the ideology of the DPP, also denies the “1992 Consensus” and has proposed “a Taiwan consensus”, which highlights the democratic process of decision-making”. Ma has said that rejection of the 1992 Consensus is also a rejection of the ROC (Chung, Chen and Tseng 2011). Further, Tsai and the KMT are at opposite ends of the gamut as it relates to the composition of the ROC, or the “Republic of Taiwan”, as the DPP prefers. Tsai has accused Ma of sacrificing Taiwan’s national identity for the cross-strait achievement over the past four years and promised, if elected, to establish “stable economical strategy group”. According to Tsai, the territory of the ROC comprises Taiwan, Penghu, Kinmen and Matsu. This suggests that the ROC is a sovereign entity, separate and apart from China. Ma, on the other hand, says that the territory of the ROC also covers China, a view that is in tandem with the Chinese Communist Party (CCP), which says that its territory also include those areas now governed by the ROC (Huang 2011).

Ma’s principles can be summed up thus: putting economics before politics, pressing matters before less pressing ones, and easily resolved issues before difficult ones to ensure that development of cross-strait exchanges and interactions can steadily progress based on a solid institutional foundation (Government Information Office 2010). In his inaugural address, Ma outlined what is commonly known as the “three noes” policy -- the blueprint of his government’s approach to relations with China: “no unification, no independence and no use of force” (China Post 2008). Since coming to office, Ma has implemented several policies that have led to improved relationship between the two

sides. His government reactivated institutionalized SEF-ARATS negotiations that had been in hiatus for a decade. Two years after he came to office, five rounds of talks had produced 14 formal agreements and one joint statement on mainland Chinese investment in Taiwan. The movement of persons across the strait has increased significantly after direct flights across the strait began on July 18, 2008.

Economic Cooperation Framework Agreement (ECFA)

But of the agreements signed between Taiwan and China during the Ma years, arguably, none might prove to be as important as the Cross-Straits Economic Cooperation Framework Agreement (ECFA) inked in Chongqing on June 29, 2010, and which came into effect on September 12, 2010. According to Taiwan's Mainland Affairs Council (MAC), the ROC government promoted the signing of ECFA "to negotiate tariff concessions on major Taiwan exports to mainland China, raise Taiwan's export competitiveness, and create job opportunities". It further said that without the signing of the agreement, Taiwan's exports to China "will be subject to higher tariffs". To illustrate, the MAC said that levies on Taiwan's petrochemical products, machinery and equipment, and automobiles and auto parts will be 7 per cent, 10 per cent, and 25 per cent higher, respectively, than those imposed on products from Association of Southeast Asian Nations (ASEAN) and will cause "a serious drop in Taiwan's exports" (Mainland Affairs Council 2010).

According to (Government Information Office 2010), the primary aim of the ECFA is to "facilitate institutionalization and liberalization of trade and other economic relations

across the Taiwan Strait”. ECFA is expected to see a progressive elimination or reduction of tariffs on most goods as well as the opening of various service sectors to investment and competition. The goods and services that are expected to benefit immediately from the agreement are comprised in an “early harvest” list of 267 items produced in China and 539 Taiwan-made items. Among the services expected to see early benefits from ECFA are, on the Taiwan side, banking, insurance and securities as well as in eight non-financial sectors. On the mainland side, it includes service providers in banking and eight non-financial sectors.

It is expected that, on balance, the agreement will significantly boost Taiwan’s economy, creating tens of thousands of job opportunities. Further, it is anticipated that the accord will help Taiwan’s businesses benefit from regional integration and develop new international markets, while stimulating foreign direct investment in Taiwan. Intangible benefits of the agreement are also important: Development of cross-strait economic relations can be of help in promoting regional peace. (Government Information Office 2010)

It can therefore be concluded that, based on the intention and practices of ECFA, it is an economic agreement that does not equate a political agreement or expresses or intends to lead to political integration. However, arguments that increase economic integration, in the context of the situation between China and Taiwan, can lead to political integration.

Foreign Relations

With the Ma government in Taiwan refraining from seeking formal independence, Taiwan and China has engaged in a “diplomatic truce” that has resulted in a suspension of efforts to undermine each other in the international community. Ma’s approach to engagement in the international community, known as “flexible diplomacy” (Government

Information Office 2010, 72), aims to remove obstacles to the nation's effectively cooperating with other nations bilaterally and through international fora. Further, the diplomatic truce, which also began in 2008, has seen a curtailing of the vast resources both sides expended to win support for their respective stances in the sovereignty dispute that had persisted since 1949. There has also been a relieving of the tensions across the Taiwan Strait, hitherto regarded as a flashpoint for armed conflict that could severely impact the entire world.

Taiwan has 23 diplomatic allies, comprising 12 nations in Latin America and the Caribbean, six in the Pacific, four in Africa, and the Holy See in Europe. Further, Taiwan is currently a member of 31 intergovernmental organizations (IGO) and their subsidiary bodies, including the World Trade Organization (WTO), which it joined under the name "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu". It also participates in other international bodies, including at the World Health Assembly, under the name "Chinese Taipei". In addition, Taiwan has observer status or associate membership in 20 other IGOs or their subsidiary bodies although the state is yet to gain United Nation's membership and is unlikely to do so for as long as China remains a permanent member of the Security Council (Government Information Office 2010, 77).

Theoretical Framework

Three main theories of international relations offer important insights into what informs interaction between China and Taiwan, especially since Ma came to office in 2008:

Hegemonic Stability Theory, Realism, and Liberalism. The central idea of Hegemonic Stability Theory is that the stability of the international system requires a single dominant state to articulate and enforce the rules of interaction among the most important members of the system. Hegemons can be international or regional. While China is far from joining or replacing the United States as an international hegemon, it is fast replacing Japan as the regional hegemon. To be a hegemon, a state must have the capability to enforce the rules of the system, the will to do so, and a commitment to a system, which is perceived as mutually beneficial to the major states. This capability rests upon three attributes -- all of which characterise China -- namely, a large, growing economy, a dominance in a leading technological or economic sector (manufacturing) and, political power backed up by projective military power (Ferraro n.d.).

China qualifies to varying extent in each of these regards. However, as it relates to Taiwan directly, Hegemonic Stability Theory can be argued in that China, by creating greater economic dependence on its economy on the part of Taiwan, especially as it relates to ECFA, forces Taiwan's economy to depend on China for its continued stability, growth and development and could affect the influence of the United States on the island. With this increased level of dependency, China links Taiwan to itself and reduces the potential political impact of other economies -- such as the United States -- and politics on Taiwan's outlook.

However, the main rivalry between China and Taiwan can also be understood in realist terms of sovereignty, security, and survival. China has remained resolute in its realist ambition to reunite Taiwan with the mainland. According to realism, states seek to

increase their relative power while decreasing that of their rivals. The international community, according to realists, is anarchic, in that there is no authority above the level of the state. States are the principal actors in international affairs. Realist are concerned with accumulating wealth as a means of sustaining power, which in turn is necessary to sustain long-term prosperity and the security of a state.

Liberalism, on the other hand, is the philosophical position that there is a harmony of interests among individual states over the long term, that they cooperate through the use of institutions to achieve mutual benefits, social stability and political stability. Both international institutions and states are actors on the world stage. ECFA, and other institutions on both sides of the Strait can be argued to fulfil liberalist tenets in this regard. Therefore, it can be argued, that since Ma came to office in 2008, the cross-strait relations have evolved from one where the dominant feature is Taiwan's fear of invasion by China to economic interdependence.

(Ahmed 2009) quotes Qingguo and Shirk as making the point as follows:

Cross-strait trade occupies a much larger proportion of Taiwan's foreign trade than of China's [. . . N]ow that Taiwanese investors have committed funds to mainland projects [. . .], they cannot pull out without paying a heavy price. As a smaller economy, Taiwan worries about being vulnerable to manipulation by the mainland more than the mainland worries about being manipulated by Taiwan. Taiwanese officials worry [. . . of] Beijing's political domination [. . .] through control of Taiwan's economy and a weakening of Taiwan's leverage to negotiate with Beijing over reunification when that time eventually comes.¹

¹ Qingguo, Jia and Susan L. Shirk. "Economic Interdependence and Political Détente: The Evolution of Relations between the China Mainland and Taiwan." In *Power and Prosperity, Economics and Security Linkages in Asia-Pacific*, edited by Susan L. Shirk and Christopher P. Twomey, 141-166. New Brunswick: Transaction Publishers, Rutgers University, 1996.

The 2012 Election

The presidential election of January 14th, 2012 is likely to produce three main scenarios depending on the possible outcome. As noted previously, while Ma, Tsai, and Soong are the presidential contenders, opinion polls suggest that Soong is highly unlikely to emerge victorious and his impact in terms of attracting voters from either side would be negligible. It can be reasonably argued that while some pan-blue performance are not satisfied with Ma's performance as president, they are likely to see a vote for Soong as increasing the chance of Tsai winning the polls and therefore vote for Ma. This, therefore, places the polls as a straight race between the DPP and the KMT and either Ma or Tsai as the nation's next president. This paper therefore premises that three main scenarios are likely to result from the election of either Ma or Tsai. Each of these scenarios and their likely impact on cross-Strait relations and Taiwan's diplomatic standings internationally will each be discussed in turn.

Scenario One

In scenario one, a DPP victory results in the suspension of ARATS-SEF negotiations, a slowdown in the implementation of the agreements reached during Ma's term, and a resumption of efforts to promote a Taiwan identity that is separate from both China and the Republic of China, as per Tsai's "Republic of Taiwan". Such a situation, however, is unlikely to result in a dislocation of Taiwanese investment in China, which are beneficially to both sides. Taiwanese investments in China help to fuel each side's economic growth in that they create jobs in China while reducing the cost of doing business, and hence, generate more profit for Taiwan. Further, in outlining its "National

Security Strategy”, the DPP in an August 2011 paper said that it would seek to “promote balanced China-Taiwan trade relations within the global trade picture”. On this issue, the party says:

Ever since maritime navigation has taken off, Taiwan’s international trade activities have been balanced and outward-oriented. The Democratic Progressive Party believes that with the present trends in globalization, Taiwan should adopt a balanced approach toward its economic and trade strategy with cross-strait trading activities being an important part of its global outreach. Particularly at a time when China’s economic development is moving more and more towards a special type of state capitalism centred around powerful elites, Taiwan should conduct its dealings with China in concert with the rest of the world in order to respond to this special Chinese form of development.

Further, in this scenario, the DPP’s pursuit of a separate Taiwan identity can result in an effect that is opposite to the one intended. Taiwan has been able to maintain its diplomatic allies since Ma came to office, largely because of the “diplomatic truce”. However, even in the face of this agreement and an increasingly rich China, several allies have tried to switch their diplomatic recognition to Beijing – including Panama, El Salvador, and the Dominican Republic in 2011 – only to be rejected. As noted in the introduction, it is for precisely this reason that St. Lucia is not positioned to switch its diplomatic allegiance to Beijing while Ma remains in office in Taipei and the “diplomatic truce” remains in effect. However, if this “diplomatic truce” ends, both states are likely to revert to the pre-2008 situation where Taiwan strove for international recognition even as China tried to ensure its isolation in both political and non-political international entities. But notwithstanding the partial détente between both sides, it is highly unlikely that the Taiwanese people would opt for unification with China. Hence, Taiwan’s diplomatic allies, though few, small and poor, remain vital to bolstering its claims of international legitimacy whether as a state separate and apart from China or the only legitimate government of “China”, however that is interpreted.

But, if Taiwan and China were to revert to their diplomatic war, Taiwan could find itself rejected by its allies in the Caribbean and Latin American and in the Africa, which China has been actively wooing for years. In the case of the Caribbean, the Caribbean Community (CARICOM) represents the main political and economic bloc. All but one of CARICOM's 15 full-time members are independent and only five of those countries – St. Lucia, St. Kitts and Nevis, Haiti and Belize – recognise Taiwan. Of those five countries, all but Haiti and Belize are members of the Organisation of Eastern Caribbean States (OECS). Hence, Taiwan could be at risk of losing three or five allies in the Caribbean if either the CARICOM or the OECS decides to harmonise its foreign policy as it relates to the China-Taiwan issue. This is even as China announced in September 2011 US\$1 billion in loans to Caribbean countries to finance infrastructure projects as it deepens ties in the Caribbean (Hutchinson-Jafar 2011). According to Reuters news agency, “China's wooing of the Caribbean is part of a global push by Beijing promoting loans and investment while seeking natural resources and political influence in the developing world from Africa to Latin America.” Hence, with many Caribbean and Latin American, as well as African nations struggling with the lingering impact of the global financial crisis, and many having explicitly or implicitly communicated their preference for ties with Beijing, a switch to China is increasing becoming attractive, as the nation, with its blooming economy, is well position to outbid Taiwan with the aid it can provide to its diplomatic allies, many of which need it now more than every before.

Scenario 2 - DPP Wins

In scenario two, a DPP victory results in a suspension of ARATS-SEF negotiation and a slowdown in the implementation of the agreements concluded during Ma's term. However, in this scenario, a DPP administration avoids challenging China's bottom line, that is, it tones down its rhetoric regarding the existence of the "1992 Consensus" or gradually accepts its existence. Further, in this scenario, a DPP administration does not pursue formal independence but continues under the status quo. These outcomes suggest that Tsai election campaign rhetoric is a bluff intended to play to the political base of the DPP (much like not singing the first two – pro-KMT lines of the nation's National Anthem (The China Post 2012)), which, traditionally, has a strong pro-independence leaning and favour a Taiwan identity.

There is precedence for such inconsistency within the DPP regarding election campaign rhetoric and actual policies and practices in office – a common phenomenon within democracies. To illustrate, during his "Taiwan Stands Up: Advancing to an Uplifting Era" inauguration speech on May 20, 2000, former President Chen, in what was regarded as a step toward moderation and reassurance, pledged not to: (1) declare Taiwan independent; (2) change the name of the nation; (3) push for the inclusion of former president Lee Teng-hui's "special state-to-state relationship" in the Constitution; (4) hold a referendum to change the status quo on the question of independence or unification; (5) move to abolish either the Guidelines for National Unification or the National Unification Council. These pledges are often referred to as the "Five No's," or "Four No's and One Have Not" (Centre for Strategic and International Studies n.d.). However, in February

2006, Chen abolished the National Unification Council China's due to China's "military threat". He further said that the National Unification Guidelines were "absurd products of an absurd era" and that the Council "deprives the Taiwan people's rights to freely decide on cross-strait relations and the future direction of our country" (BBC News 2006).

Tsai faces an uphill battle in trying to rid the Taiwanese electorate of lingering vestiges of Chen's legacy and broken promises even as the Chinese Community Party has a lingering distrust of the DPP based on the hurt endured during the Chen year. Tsai, in the presidential debates, has had to reject Ma's repeated references to Chen. "The one right in front of you is Tsai Ing-wen, not Chen Shui-bian," she said in one of the debates, even as she emphasised that in many respects, Ma's cross-Strait policies built on foundations laid by the DPP, mentioning banking reform as an example (Lin 2011).

Scenario 3 – KMT Wins

In Scenario 3, President Ma wins the elections and the KMT is returned for a second term in office. The status quo is preserved, the "Three Nos" principle of "no unification, no independence, and no use of force" is maintained and cross-strait integration either continues apace or slows down in response to criticisms that the Ma administration is moving ahead too quickly without adequate analysis of the real impact of its policies, especially ECFA, on Taiwan's economic circumstances and its long-term relationship with China.

For example, one year after EFCA was signed, there is little agreement on its overall impact on the Taiwanese economy, although some sectors, undoubtedly, have benefited. Taiwan Review”, a publication of the Government Information Office, on November 1, 2011, said, “early results show that the trade pact is fulfilling its promises to help Taiwan access a greater part of the mainland Chinese market and consolidate the island’s position in the global economy”. It mentioned the reduction in tariffs for the “early harvest items” and the opening up of China’s market to Taiwanese businesses; a 33-per cent increase in exports of agricultural products to China between January to July 2011, compared to the same period of 2010 and ECFA’s facilitation of the financial operations of Taiwan-based banks as they do business across the strait.

Taiwan Review further said that since ECFA, a number of economies including the European Union, India, Indonesia, the Philippines and Singapore have shown interest in strengthening economic ties with Taiwan. At the beginning of 2011, Taiwan moved up one place to equal Norway as the world’s third-best destination for investment, according to US-based research firm Business Environment Risk Intelligence even as it enjoyed the highest investment in Asia for 2010, according to the Council for Economic Planning and Development. Since the signing of ECFA, 27 multinational firms have signed letters of intent with the Ministry of Economic Affairs, with an estimated investment of NT\$108 billion (US\$3.7 billion). Taiwanese firms are also returning to invest locally. From January to June this year, Taiwanese firms pledged new investment worth NT\$28.3 billion (US\$976 million), according to Taiwan Review.

The publication, however, noted that notwithstanding these results, it is early days yet for ECFA.

Establishing reasonable investment protection measures, such as Taiwan's proposal for a third-party dispute resolution mechanism, for example, is a serious challenge. Agreement is also needed on trade in commodities and services. ... While there is occasion for close observation and circumspection, there is also a need for continuity and progress in Taiwan-mainland China relations. It is a difficult balancing act to say the least (Taiwan Review 2011).

The situation, as presented by the state-owned publication varies starkly to an analysis Tung Chen-yuan, a professor at National Chengchi University's Graduate Institute of Development Studies. Tung, citing a speech by President Ma, argues that one year after ECFA was signed, argued that "the early effects are far less impressive than expected". He said that Taiwan had only completed a joint study with Singapore into the signing of a free trade agreement (FTA) and said it was unlikely that such an agreement would be signed between the two countries in the near future, let alone with other Southeast Asian countries and further premised that such an FTA "would be of little significance to Taiwan's economy as a whole, since trade between the two only makes up 3.6 percent of Taiwan's foreign trade". Tung further argued that following the implementation of the ECFA, the competitiveness of Taiwan's exports to China has not improved but had fallen much more than exports to any other country even as the nation's investment momentum and foreign investment in Taiwan continue to fall.

After Ma's inauguration, foreign investment in Taiwan dropped by 46.8 per cent in 2008 to US\$8.2 billion. This was followed by a 41.8 per cent drop in 2009 to US\$4.8 billion. Last year [2010], although the global financial crisis was over, it dropped again, this time by 20.6 per cent to US\$3.8 billion, and in the first quarter this year, it dropped by 34.1 per cent to US\$1.06 billion. In addition, Chinese investment in Taiwan during the first quarter this year was a mere US\$13.83 million, a 50.6 per cent fall (Tung 2011).

However, after the implementation of the ECFA, Tung says, Taiwanese investment in China continued to grow rapidly increasing by 102 per cent, or US\$12.23 billion in 2010. Further, Taiwanese capital has continued to flow out of the country. During Ma's presidency, a net average of US\$20 billion of international capital has flowed out of Taiwan annually, compared to US\$13.2 billion that flowed out of Taiwan every year under the DPP administration.

The common sentiment among many analysis is that it is too early to analyse the impact of ECFA on the Taiwanese economy and business interest in Taiwan, a point echoed by Freddie Hoeglund, Chief Executive Officer of the European Chamber of Commerce Taipei, according to (Chance 2011) felt that it was "still a little bit early" to assess the trade pact. But commentators also argue, that during Ma's administration, to borrow Tung's words, "... cross-strait relations have stabilized and that the economy has opened up" (Tung 2011) or, as Hoeglund puts it, "...so far ... the signing of ECFA in itself brings a stabilization in the relationship between both sides of the Taiwan Strait [and] a stable environment is good for investment" (Chance 2011) or, as (Taiwan Review 2011) puts it, ECFA "also can be seen as the kind of confidence-building initiative that sends a powerful message to the international community of Taiwan's commitment to peace and stability in the Taiwan Strait".

Conclusion

The results of the January 14th, 2012 elections hold some very important prospects for relations across the Taiwan Strait and for Taiwan's standing in the international community over the next four years, and beyond. This paper sought to discuss some of

the likely scenarios depending on the outcome of that poll. While Taiwan has seen a period of stability in terms of its relationship with China and its standing in the international community over the past four years, the populace are likely to cast their votes based on the relative change in their economic circumstances over the past four years. The United States of America, an important player in the region, is likely to try to influence the policies of whichever administration comes to office, with a view to protecting American political (security) and economics interest in the region. However, the China of today is much more powerful than in 2000 and is less inclined to response positively to U.S. power. Essentially, whichever administration comes to office in Taipei is likely to analyse the situation and formulate its policies in a way that meets its ideological and practical interest.

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