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**Taiwan's Economic Policies toward China
1988 - 2016
An Analytical Proposal of a Transforming State in
Institutional Change**

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Taiwan's Economic Policies toward China 1988 - 2016

An Analytical Proposal of a Transforming State in Institutional Change

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Abstract

Taiwan's Sunflower protest which blocked the passing of a trade agreement with China highlighted the complexity and controversy behind Taiwan's cross-strait political economy, rather than offering a powerful evidence to certain claims. The puzzles leads this study to ask questions regarding the amplitude of fluctuation of Taiwan's cross-strait economic policy from 1988 all the way to 2016, internal and external factors that are accountable for decision-making, and the mechanisms which lead to policy change or continuity. After examining explanations provided by structuralism, pluralism, national identity, and developmental state theory, this study finds out that they provide valid yet not sufficient insights. More in-depth analyses that address the transformations of Taiwanese politics, economy and society therefore need to be conducted. Being one of such an effort, this study proposes an analytical framework that incorporates state theory with an institutionalist understanding of change and continuity. On one hand, six aspects of the role of state vis-à-vis society in cross-strait political economy are informative to this research. On the other hand, policy change should be scrutinized by detailed investigations on patterns of change, mechanisms behind the change, actors involved, their ideas and interests, and broader environments. In the last part, how this study plans to operationalize the theory and methods will be discussed.

Key words: economic policy of Taiwan toward China, role of state vis-à-vis society, institutional change

1. Puzzle and Research Question

Participated primarily by Taiwanese college students, the 2014 Sunflower Movement protested against the passing of the *Cross-Strait Service Trade Agreement (CSSTA)* between Taiwan and Mainland China¹ in the Legislative Yuan (Taiwan's parliament). The appeals of the movement went beyond protestors within and outside of the parliament, causing a split of opinions in the whole society: the government persuaded desperately for the rectification of the agreement, business tycoons, and major business associations highlighted the benefits and necessity of such a trade pact to the island's economy², meanwhile the public opinions were polarized³. Although the unrest lasted less than a month and was disbanded peacefully, the consequences it brought about are far-reaching. To Taiwan, the movement not only blocked CSSTA at the legislative Yuan, but also led to a series of avalanching defeats of the ruling Kuomintang Party (KMT, or the Chinese Nationalist Party) in local, parliamentary and presidential elections. To the cross-Strait Relations, it cooled further economic and political negotiations and even reverted to some extent the process of rapprochement which started since 2008. On her inaugural address on May 2016, President Tsai Ing-wen (05/20/2016) of the Democratic Progressive Party (DPP) emphasized the need to reduce economic interdependence on the mainland by reinforcing Taiwan's economy ties with Southeast Asia and the rest of the world. With little doubt serves the so-called "China factor" as the key motive behind the protest. (W.-w. Chu 2015; Rowen 2015) Due to the special relationship between the two parties, it is understandable that Taiwanese society would become particularly sensitive to China-related

¹ The terms Taiwan, Republic of China (R.O.C.), and Taipei are used interchangeably; so as to Mainland China, People's Republic of China (P.R.C.), Beijing and occasionally China. The relationship between the two sides is commonly known as the cross-Strait Relations.

² Government officials and business leaders made speeches to the press on the necessity of CSSTA on various occasions, such as the premier, ministers of Mainland affairs and economic affairs, the chairman of Straits Exchange Foundation, the chairmen of large corporations, and major industrial and business associations.

³ Different surveys have contrasting results on the public opinions on CSSTA. For example, the polls published by the Mainland Affairs council show that more interviewees support for CSSTA than those against it; but the polls conducted by DPP and several media tell an opposite story.

issues. After all, it is still the official policy of PRC to use military power to ensure reunification should Taiwan make overt actions toward *de jure* independence⁴; meanwhile, the former remains the latter's biggest trade partner, first export and import destination, and the main source of trade surplus⁵. A government report calculates that trade with Mainland China accounted for 38.9% of Taiwan's foreign trade by the second quarter of 2015. (Central Bank of the Republic of China 2015)

What is surprising to observers of the political economy across the strait, however, is that the Sunflower Movement poses an anomaly to the conventional understanding of the interactions between the state and society on Taiwan's economic policy toward the mainland. The idea was long held that the state-business relations determine the policy outcome, in which the power of the business has been rising since democratization, and the effectiveness of state policy has undergone a consistent decline. (Leng 2011; Wang 2012) In terms of the public attitude, despite the rise of the Taiwanese identity vis-à-vis the fall of Chinese identity, polls also reveal that the majority favor a political *status quo* (no unification, no independence) while closer economic ties with the mainland⁶. Moreover, the results of the two sequent presidential elections in 2008 and 2012 were generally interpreted as the constituencies' support for President Ma Ying-jeou's rapprochement policy. Nevertheless, only after two years from 2012, what the Sunflower Movement brought about seems to contradict these ideas: the state-business relationship in

⁴ See Article 8, Anti-session Law (National People's Congress of the People's Republic of China 2004)

⁵ See the statistics of the year 2014 by the Bureau of Foreign Trade, Ministry of Economic Affairs, R.O.C. <http://www.trade.gov.tw/Pages/List.aspx?nodeID=1375>

⁶ Refer to the polls conducted by the Election Studies Center of the National Chengchi University, which is the first and probably the most prestigious research institute on Taiwan's public opinions: Taiwan Independence vs. Unification with the Mainland Trend Distribution in Taiwan (1992/06~2015/12), Taiwanese / Chinese Identification Trend Distribution in Taiwan (1992/06~2015/12), Party Preferences Trend Distribution in Taiwan (1992/06~2015/12). <http://esc.nccu.edu.tw/course/news.php?class=203>

The Center also conducted polls on public attitudes toward cross-Strait economic interactions, the government's Mainland policies etc. under the authorization of the Mainland Affairs Council: <http://www.mac.gov.tw/np.asp?ctNode=6331&mp=1>

policymaking is much more constrained than it is supposed to be. Instead, for the first time the opposing power from the society successfully altered its trajectory.

2. Literature Review

The juxtaposition of the political stalemate and economic integration renders the uniqueness of Taiwan's economic policy toward Mainland China. Although an international or foreign economic policy in essence, it deeply intertwines with the political and economic transitions since the late 1980s at home. In this section, we will review the current studies on the formation and change of this policy to explore on which aspect this thesis will be able to contribute to the academic debates.

Taiwan's cross-Strait economic policy since 1987

Hiscox (2014) distinguishes four major economic policy tools of national governments in economic integration: trade, immigration, investment, and exchange rates. Taiwan's Mainland Affairs Council (Mainland Affairs Council, ROC 2016a) summarizes its relevant policy toward the mainland into trade, investment, finance, transportation, and communication; while Syaru Lin (2010) adds to it the inbound immigration. However, by far academic discussions from the political economic perspective are mainly concerned with trade and investment due to their prominent roles in the economic interactions across the Strait. (Tian 2006; Leng 1996, 2011; Liu and Zhou 2011; Chen and Cheng 2011; Huang and Y.-h. Chu 2015)

After the R.O.C. government retreated from the mainland to Taiwan in 1949 as a result of the Chinese Civil War, it banned any forms of economic and social connections between the two sides. The year 1987 marked pivot in the Taiwanese history, as it witnessed the lift of the 38-year long martial law that ignited democratization, as well as the new regulation which allowed veterans to go back to their hometowns in the Mainland. After the isolation between the two sides of the Taiwan Strait was broken, their economic integration has been deepening

ever since, except for setbacks from time to time. In correspondence, Taiwan's cross-Strait economic policy is characterized by periods of liberalization, followed by more restrictive measures. Based on the tendency of liberalization or restriction, the policy between 1987 and 2016 can be divided into five periods. (S. Shirley Lin 2010, S. Shirley Lin 2010; Yu et al. 2006; Yu 2006) The first is from 1987 to 1995, during which the isolation was broken and the restrictions continued to be loosened. The project to build Taiwan as the *Asia-Pacific Regional Operations Center* in 1994 highlighted the peak of the de-regulating policy at this period. The second started in 1996 when President Lee Teng-hui proposed the "No haste (*Jie ji yong ren*)" approach. The third and fourth changes are during the Chen Shui-bian administration, namely "Active opening, effective management (*Jiji kaifang, youxiao guanli*)" (2001-2005) and "Active management, effective opening (*Jiji guanli, youxiao kaifang*)" (2006-2008). Finally, after Ma Ying-jeou resumed office, he steered Taiwanese economy toward further integration with Mainland China by the 2009 *Cross-Strait Economic Framework Agreement* (ECFA). Nevertheless, this liberalizing process was seriously interrupted due to the breakout of the Sunflower Movement. To put it briefly, the liberal-oriented policy shifts are found in 1987, 2001 and 2009; while the interruptions are in the years of 1996, 2006 and 2014. Although the newly elected President Tsai Ing-wen is in favor of restraining Taiwan's economic links with Mainland China through seeking for opportunities elsewhere in the Asia-Pacific region, what her actual policies would look like still remains to be observed.

Explanations on Taiwan's economic policy toward Mainland China

Two levels of analysis seek to explain international economic policymaking. Structural theories stress the international constraints on individual states. They aim to provide a framework to explain the impact of economic globalization on national economies and to compare the role of the state vis-à-vis the market. From this perspective, the economic policy of a state is decisively shaped its position in the international economy. With relation to the

cross-Strait political economy, neo-realists focus on the asymmetrical relationship between Taiwan and Mainland China. Analysts see the over-dependence on Mainland China be undesirable due to Mainland China's animosity toward it and the political and military hostility between them. As a result, to enhance Taiwan's political and economic security, balancing against the Mainland with a restrictive economic policy should be the natural outcome. (Y.S.Wu 2007; (Kao 2011) On the contrary, neo-liberalists advocate for liberalization and economic integration across the Strait. Under the trend of globalization and the rise of China as a large market, closer cross-Strait economic ties are not only inevitable but also desirable because an increase in the intensity of trade and investment will create a spillover to the political realm. As the cross-Strait economic relations grew with a drastically rapid speed, the Taiwanese government has been receding into the background with economic forces overpowering national policies. (S. Shirley Lin 2010; Leng 2011)

Despite their differences, both neo-realism and neo-liberalism stress external structural variables by downplaying the role of domestic and contextual variables. Because of the uniqueness of the cross-Strait relations, neither is able to offer an in-depth explanation on the zigzag trajectory between liberalization and protectionism of Taiwan's economic policy toward the mainland.

Therefore, we turn to the second level of analysis which stresses domestic factors. Leng (1996) adopts a state-oriented approach to see how the transformation of the basic structure of political forces and its pattern of external economic relations in the 1990s reshaped the state-business interactions on policymaking, in which the capacity and autonomy of the state were increasingly restrained vis-à-vis interests of big corporations. Three driving forces are underlined: democratization, state-society interaction, and economic dependence on China. Nevertheless, due to the development of the cross-Strait political economy, his later studies (Leng 2005b, 2005a, 2011) emphasize the role of Taiwanese small and medium enterprises (SMEs) and revise

the argument of a declining role of the state. But he does not go further to explore more in detail the cleavage between the evolving state-society interaction and the oscillation of the policy trajectory.

On the other hand, S. Shirley Lin (2010) proposes an identity-interest-policy framework to analyze the policy debates during four episodes. A high level of contestation over Taiwan's national identity leads to a perceived choice between extreme cross-Strait economic policies, with those holding a strong sense of Taiwanese national identity favoring highly restrictive policies toward Mainland China and those with a strong sense of Chinese identity advocating more liberal policies. As a consensus on identity is forged, the range of views of economic policies narrows and moves towards a mixture of liberalization and restriction. Lin thus concludes that the narrowing of the spectrum of policy options eliminates the extremes, but does not produce a consensus on the remaining options. Her framework provides an insightful structure, nevertheless, the decision making processes she analyzes are not clear, nor are the dynamics of interests and identities behind public or private actors.

The role of national identity contestation

In principle, national identity is not a big source of contestation to a country with a clear boundary, full sovereignty, and consensus on historic and cultural identities. However, during the democratization process, the goal for democracy brewed the demand for Taiwan independence, which led to an identity crisis as it faces ethnic division, disagreement on cultural identity and a blurred boundary of sovereignty. Although the study of national identity is a key problematic in Taiwan Studies, most of the existing literature is hopelessly undertheorized. The cross-Strait political economy is no exception. The sociological perspective on national identity focuses on the evolution and emergence of Taiwanese identity historically and sociologically. The rising sentiment of regarding Taiwan as a nation-state is, in essence, a reaction to the highly

complicated relationship between it and Mainland China. Democratization, political pressure from China, and economic integration with China all made the debate over Taiwan vs. China both possible and impending. As mentioned above, Lin (2010) divides the evolutionary process of this debate into an ethnic-based contestation period between 1994 and 2005, and a citizenship-based consensus period after 2006. According to her, the contestation leads to a perceived preference between extreme economic policies; while the consensus narrows the choices to moderate ones. This claim sounds plausible, but the causal link among public understanding of national identity, policy preferences, and actual policies is not well constructed. The process is especially blurred on how particular preference finally becomes policy. Moreover, the breakout of the Sunflower movement against a highly limited trade agreement during the “period of consensus over identity” seems also contradict Lin’s argument.

Another perspective on national identity- identity politics- establishes a more direct causal relationship with policy. Analyses of this sort see “identity” as a variable to explain behavior that departs from rationalist predictions. (Berger 2003) This political explanation privileges the role of “political entrepreneurs” in manipulating and defining a national identity for their own political interests. In the Taiwanese case, there is evidence that politicians from both political alliances have redefined their own identity or articulated it differently during electoral campaigns. Many attribute the problems in Taiwan’s volatile cross-Strait economic policies to this manipulation of identity. (J.-w. Lin 2002) Nevertheless, describing identity merely as a political tool without intrinsic value in itself also falls short. Despite falls and rises of the public sentiment on identity issues which have undeniably pressured China-related policies, a strong sense of Chinese nationalism held by politicians and bureaucrats served as the undertow of Taiwan’s economic miracle between the 1950s to late 1980s. (Woo-Cumings 1999; W.-w. Chu 2009) Thus, how this part of the developmental state has transformed deserves our attention.

3. Theoretical Framework

This thesis aims to explain the policy change on the international economy through the interactions among public and private actors. Based on the aforementioned research question and the literature review, we plan to adopt a state-centered approach to the study.

Since the mid-1970s, various changes in the real world, particularly the increasingly intense and uncertain international economic competition confronted by the U.K. and U.S. steered the research on social change and politics from society-centered views to states. (Skocpol 1985) Instead of merely providing an arena for group competition without any significant impact on the decisions, the state is regarded as organizational institutions through which “official collectivities may pursue distinctive goals, realizing them more or less effectively given available state resources in relation to social settings (ibid, 28)”. States matter more than themselves because their organizational configurations, and overall patterns of activities, influence the meanings and methods of politics for all groups, e.g. interests groups, political parties, and social classes. (ibid) All in all, the state is a set of social relations formulated by means of the legal system. The statist approach focuses on both formal and informal rules put in a larger context of social-economic situations. (Leng 1996)

This framework may be of particular interest to study Taiwan. The postwar development model of the island country is well known as the East Asian developmental state⁷. Based on institutional arrangements common to high growth in Japan, South Korea and Taiwan, this form of “state-led capitalism” embodies the following set of characteristics, including a coherent and efficient bureaucracy operated under an authoritarian system, a guided market economy in which the strong state intervention formulates strategic industrial policies, close institutionalized links between elite bureaucracy and private business, and a development-

⁷ Key literature on the developmental state and Taiwan includes: (Johnson 1982; Evans 1995; Woo-Cumings 1999; Evans 1995; Wade 2004; Greene 2008).

oriented political structure rooted in the Confucian tradition and nationalism. (Öniş et al. 1991; Woo-Cumings 1999; W.-w. Chu 2009; Leng 2011; Yoon 2013) Taiwan's developmental regime employed the market as an instrument of development policies by exposing particular industries to international competitive pressures. (Wade 1990) The KMT party-state developed a patron-client network within the business community by establishing bulky state-owned enterprises and subordinating big local corporations. The state-business consultation and cooperation were institutionalized through the three industrial and business associations under KMT control. (Wang 2012) Although the late 1980s witnessed Taiwan going through a significant shift to embrace democracy and neoliberal reforms, its developing statism does not simply disappear. Some argue that the state is adapting to the new challenges by combining economic openness with compensatory policies designed to enhance the nation's export competitiveness and techno-industrial advancement. Some see a "governed-interdependence" between state and business came into being. (Dent 2003; Evans 1995; Weiss 2003) What is true of political economy, in general, is also true of cross-Strait interactions in particular. According to Lin (2010, 16), the role of national government is affirmed that it "has been able to restrict investments in China, especially for large and strategic industries, as well as to redirect resources domestically".

To what degree does the state bridle the economic policy vis-à-vis society? In other words, what is the *stateness* of the post-developmental state of Taiwan on China-related affairs? We put forward three measurements. The first is state autonomy, or a state's ability to take decisions in the face of social pressures. The level of autonomy the government enjoys is shaped by the state's political institutions, prevailing decision-making procedures and procedural norms about the way politics ought to be conducted. The second criterion, state capacity, encompasses financial and coercive dimensions to co-opt or coerce key societal groups. Therefore it rests on the government's possession of financial resources, an adequate bureaucracy, means of

coercion, and diverse influence mechanisms. The last is state legitimacy, or the ability to rally disaffected domestic groups. (Leng 2011; Blanchard and Ripsman 2008)

Blanchard and Ripsman (ibid) operationalize the three measurements by categorical judgments about them as below:

We rank autonomy as low, moderate, or high depending on several factors: the degree to which political institutions concentrate foreign-policy authority in the hands of the executive, the role of elected legislatures in policy making, the decision-making procedures that govern foreign policy making, and the procedural norms that inform actors' conduct in the foreign-policy realm. We evaluate economic capacity as low, moderate, or high based on factors such as the money available to the government, the availability of nontax resources, and the centralization of economic policy implementation within the state bureaucracy. We determine coercive capacity (low, moderate, or high) by taking into account the number of police relative to the population and territorial area, the availability of military forces, and the degree to which the intelligence apparatus penetrates society. Finally, we evaluate legitimacy (low, moderate, or high) by examining variables such as the incidence of violent dissent, the degree to which the regime requires systematic repression, and any public opinion indicators of support for the regime that are available.

..... Hence, we judge that a state manifesting a high degree of one component of stateness has significant stateness, regardless of its levels of the other... When a state has a moderate degree of only one or two components and a low degree of the remaining component(s), we classify it as having insufficient stateness.

4. Methodological Considerations

Institutional analysis in policy research

The term (new) institutionalism developed in reaction to the behavioral perspectives and became popular due to its strength in elucidating the role that institutions play in the determination of social and political outcomes. There are three major versions of this kind in the field of political science, namely: rational choice, sociological and historical

institutionalisms. (Hall and Taylor 1996) Although each of them exhibits a unique analytical approach to social and political problems, the interchange of the three schools is possible on the three common problems they share: the problems of change, mechanisms, and ideas. For political scientists, institutions consist of formal and informal rules like procedures, routines, norms and conventions that embedded in the organizational structure of the polity or political economy. They define the context within which individual and collective actors operate and interact with each other. They reflect and also affect the distribution of resources and power in society. They are also powerful external forces exert influences on the ideas, interests and actions of actors. (Campbell 2004)

Recalling from the aforementioned definitions, Campbell (ibid) also regards policy-making as a process of institution building and institutional change; because it is about developing or changing formal regulations and laws, as well as informal procedures and practices that eventually become so taken-for-granted as to be assumed appropriate and legitimate. In comparison, Scharpf (2000, 764) takes a narrower understanding by specifying institutions in policy research as “one set of factors affecting the interactions between policy actors and hence the greater or lesser capacity of policy-making systems to adopt and implement effective responses to policy problems”. We see the merits of both approaches and thus treat the **cross-Strait economic policy as an institution**. In accordance, we aim to explain how it is created and institutionalized; what influences it impinges on political and social actors- on who they are, what they want, how and with whom they organize; and how it changes over time. (Pierson 2006)

Historical perspective on institutional change

Institutions ensure stability in society, yet it also changes. Sometimes they change radically, sometimes they evolve incrementally, while sometimes they are quite stable. (Campbell 2004)

Rational choice institutionalism emphasizes the role of strategic interaction among actors whose purpose is to maximize their fixed sets of preferences in the determination of political outcomes. Institutional change is thus a result of an evolutionary process leading to a shift in shared preferences. This structural approach demonstrates the explanatory power on the stability of existing institutions, but its usefulness is limited by its simplistic image on human motivations. In empirical cases, the preferences are multifaceted, ambiguous to specify *ex ante*. (Hall and Taylor 1996; Toya 2006) Sociological intuitionism follows the logic of social appropriateness and legitimacy. Institutional change comes from the process of diffusion, “borrowing” from the existing world of the institutional template. This school of thought can explain inefficiencies in social and political institutions, but it misses the extent to which processes of institutional creation or reform entail a clash of power among actors with competing interests. Sometimes too much of its attention is paid to the macro-level processes that the actors involved in these process seem to drop from sight. (Hall and Taylor 1996)

The last school- historical institutionalism- understands institution as the accumulation of “historically unique events”, to which particular social rules of that time apply. It emphasizes the asymmetries of power associated with the operation and development of such an institution. Its location in historical time matters “all the time”, because institutional change, be it path integration or an unintended consequence, is basically conceived of as “unending process of ‘learning’ about the inevitably imperfect enactment of social rules in interaction with a complex and unpredictable environment”. (Streck 2010, 665) Related to the change of institutions over time, it should also be treated seriously of the lock-in effect of institutional features in the process of endogenous transformation, which provides actors with some degree of certainty. This aspect is especially crucial for policy analysis. Most of all, it is essential to identify unique features or underlying thoughts characterizing policies, then to trace back whether identified characteristics have remained throughout the time. In this process, it is very crucial to sort out

how actors have reinterpreted the existing policies and managed to produce new, state-of-the-art ones in their own forms, coping with external shocks, and recognizing their historical nature and uniqueness. (Thelen 1999) Therefore, we regard historical institutionalist method as a better approach for this thesis to facilitate the discussion on the state-business interactions on cross-Strait economic policies. Hence we suggest following variables.

Dependent variable: Taiwan's economic policy toward Mainland China since 1987 and beyond. As illustrated in the literature review, this policy touches upon various fields, in which trade and investment are the foci. Trade and investment intertwine heavily with each other since a large portion of cross-Strait trade takes place between Taiwanese investors in the mainland and their business partners at home. Export policies are often based on industry-specific strategies that are intended to keep certain industries rooted in Taiwan, including controls on exporting technology or equipment to the mainland. Taiwanese direct investment is also strictly restricted to a certain amount of capital and on specific products and industries. So as the inflows of capital from Mainland into Taiwan. Special attention is given to key industries which the Taiwanese government has a strong incentive to keep an eye on. They include IT industry, semiconductor, and machine tools. (Wang 2010; Leu, Luo, and Xu 2011) In addition, the transportation policy has always been a heated debate on whether the government should lift bans on the so-called *Santong* or Three Direct Links (postal, transportation and trade). Thus it may deserve our interest, too.

Independent variable: The state-business relationship of Taiwan in the recent three decades. After the lift of martial law, the "patron and client" model gradually transformed with the pace of democratization and economic globalization. The thesis intends to explore these dynamics at different time periods when a policy shift on the cross-Strait political economy is formulated. The state consists of political leaders and the bureaucracy; while business actors range from SMEs to big corporations.

Moderator variable⁸: national identity, composed of identity with Taiwan and/or China, together with the unification-independence preference. Analyses focusing on identity politics often posit national identity as a political tool and independent variable. Meanwhile, some scholars who take a sociological understanding define identity as a contextual variable as it lays the basis of national interests. This thesis takes a different approach by putting national identity in the position of a moderator, one that influences the strength of a relationship between state-business relationship and economic policy outcome. Two dimensions are specified, as content referring to a collective identity, while contestation evaluates the degree of agreement within a group over the content of the shared category. Indeed, much of identity discourse is the working out of the meaning of a particular collective identity through the contestation of its members. Taiwan is characteristic to such a phenomenon. (Sylvan and Metskas 2007) We would like to observe how state and societal actors play with identity-related discourses to argue against each other and to legitimize their choices.

Policy contexts: the democratization since 1987 which entailed Taiwanization (Wakabayashi 2014), the economic globalization with neo-liberal reforms from the late 1980s, and the policy-domain context of the rise of China and the increasing Cross-Strait economic interdependence after entering the new millennium.

Actor-centered Social Network Analysis

Historical institutionalism is often criticized of sacrificing for eclecticism the precise causal chain through which the institutions are affecting the behavior to explain. (Hall and Taylor 1996) In this thesis, we believe that an actor-centered angle will help cover the shortage. The

⁸ A moderator is a qualitative or quantitative variable that affects the direction and/or strength of the relation between an independent variable and a dependent variable. See (Baron and Kenny 1986)

underlying assumption is that actors and their interacting choices are “the proximate causes of policy responses, whereas institutional conditions, to the extent that they are able to influence actor choices, are conceptualized as remote causes”. (Scharpf 1997, 764)

The concept of policy network means clusters of relevant actors, each of whom has an interest, or “stake” in a given policy sector and the capacity to help determine policy success or failure. Individuals and organizations that are tied together in formal or informal stable relationships through regular interaction and exchanges of information. Modern governance is non-hierarchical as few policy solutions are simply imposed by the authorities. Although the government remains ultimately responsible for decision making, the process must be disaggregated to be understood because “relationships between groups and government vary between policy areas”. (Rhodes 1997, 32) As a result, policies in a modern democracy are seen as outcomes of some kind of hybrid management involving these actors. Based on this assumption, the policy networks theory tries to identify structure of policy network (links and nodes), explain how the structure of a network (extent and fluidity) can influence policy change and innovation, explore different types of relationships between actors (strong versus weak ties), identify extent and type of hierarchy within network (which nodes have the most links) and the impact on policy outcomes, trace flow of information through network, and analyze how actors within a network interact, and how that interaction influences policy outcomes. (Adam and Kriesi 2007)

5. Operationalization

Actors and channels

Various actors are involved in the Cross-Strait economic policy⁹. On the one hand are relevant governmental institutions (political leaders and bureaucrats), i.e. the president, the National Security Council (NSC), the Executive Yuan as the cabinet, the Mainland Affairs Council (MAC), the Ministry of Economic Affairs (MOEA), and the Strait Exchange Foundation (SEF). The parliament, or the Legislative Yuan, traditionally has little leverage over mainland affairs, unless treaties or agreements are submitted for its approval. The division of duties are:

- The president exercises the decision-making power, whereas the NSC follows the president's instructions and formulates national security-related policies on Mainland China. In practice, most, if not all, issues concerning the mainland are conceived as “security-related”. Thus it is the president with NSC that are the decision makers on mainland affairs. Besides the president, NSC is composed of the vice-president, premier, and vice-premier of the Executive Yuan, ministers of Interior, foreign affairs, defense, finance, economic affairs, mainland affairs, chief of the general staff, secretary-general of NSC, director-general of the National Security Bureau, and others appointed by the president¹⁰.
- The Executive Yuan is responsible for decision-making and implementation of general Mainland policies, in which MAC is in charge of comprehensive research, planning, review, and coordination of Mainland policies and affairs, as well as the partial implementation of inter-ministerial programs. In the economic policy-making process,

⁹ An alternative would be that we limit our scope to the “**institutional entrepreneurs**” among them, meaning those who are responsible for recombining institutional elements in innovative ways. (Campbell 2004)

¹⁰ See Article 4 of the Organizational Act of the National Security Council (Legislative Yuan, ROC 1993)

related agencies such as MOEA serve advisory roles on issues under their respective jurisdictions. Once the Executive Yuan reaches a policy decision, implementation falls under the authorities of the respective ministries.

- The SEF is in nature a civil organization but in practice is under the direction and supervision of MAC to handle cross-strait negotiations, exchanges and service affairs involving public authority. (Mainland Affairs Council, ROC 2016b)

On the other hand, the stakeholders in the business circle are the Taiwanese Business Associations (TBAs) in the Mainland, big corporations, and domestic business and industrial associations.

- The 147 local TBAs (Team of economic and trade affairs, SEF 2015) and one national organization¹¹ function as a transmission belt, and a platform between Taishang, the political authorities, and local Taiwanese communities. Small and medium-sized enterprises (SMEs), which consists the majority of Taishang, are more likely to rely on them for help in coping with problems and in gaining access to the government authorities, business-related information, and social networks. (Schubert 2013)
- The large enterprises usually cultivate their own networks thus are independent from the assistance of TBAs. Because of the size and importance of economy and the close linkage with the politics, they exert significant influence on the state. At the same time, they are also more sensitive to the Cross-Strait economic policies as regulations which target their activities on the Mainland are more effective than those on SMEs.

¹¹ The Association of Taiwan Investment Enterprises on the Mainland (ATIEM), which cooperates closely with the central government of PRC. However, it does not possess authority over other TBAs.

- The six major associations act as a bridge between the government and a variety of business and industrial interests. They are: Chinese National Federation of Industries (CNFI) with 155 member associations and over 100,000 companies, General Chamber of Commerce of the Republic of China (ROCCOC) with 125 member associations, Chinese National Association of Industry and Commerce, Taiwan (CNAIC) with major business conglomerates as well as SMEs, Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) with 3,032 members which have a total of about 774,093 employees, National Association of Small and Medium Enterprises, R.O.C. (NASME) backed by a large portion of the 1.3 million SMEs, and Taiwan Federation of Industry(TFOI) representing the interest of more than 23,000 manufacturing businesses.

The channels of political participation- both formal and informal- are to be identified. Schubert (2013) hypothesizes that the TBAs and the big enterprises influence Taiwanese politics most notably by 1) organizing themselves as voting blocs; 2) sponsoring political parties and candidates, or by taking office themselves; 3) seeking support of domestic business associations; 4) steering the domestic discourse on Taiwan's China policy through the acquisition of substantial shares in the Taiwanese media market. Meanwhile, regarding themselves as the bridge between the government and vast stakeholders, the domestic industrial and commercial associations claim to influence economic policy by aggregating opinions and interests of their members, lobbying the government, offering advisory, influencing the public opinion, providing platforms of interaction between public and private actors, and assisting the government with the implementation of certain policies¹².

¹² Information collected from the websites of each associations: CNFI(www.cnfi.org.tw), ROCCOC (www.roccoc.org.tw), CNAIC(www.cnaic.org), TEEMA(www.teema.org.tw), NASME(www.nasme.org.tw), TFOI(www.tfoi.org.tw)

Case selection

Taiwan's economic policy toward Mainland China is divided into five periods. The first is between 1987 and 1995 that witnessed the creation of a whole set of institutions on mainland policy. For this part, we will focus on the state-business interactions over the four regulations on trade and investment across the Strait and the discussion on the proposal of building Taiwan as an Asia-Pacific regional operations center (APROC). The second period is marked by the No Haste Policy of 1996, and the focus will be on the 1996 National Development Conference. Similarly, the third and fourth ones are the 2001 Active Opening policy with an Economic Development Advisory Conference, and 2006 Active Management policy with a conference on Sustaining Taiwan's Economic Development. For the last part, we analyze the ECFA policy and the public debate on it.

Sources

This project intends to analyze such *primary sources* as government publications (policy whitepapers, press releases and briefings, speeches and writings by presidents and other key decision makers, and speeches, inquiries and debates in the Legislative Yuan, etc.), speeches and publications of major politicians (retired officials, leaders of the pan-blue and pan-green parties, etc.) and political parties (KMT and DPP), reports of major think-tanks (Academia Sinica, Taiwan Institute for Economic Research, Institute for National Policy Research, Chung Hua Institution for Economic Research, Taiwan Thinktank, National Policy Foundation, etc.), major newspapers, journals and magazines (Union Daily, Liberty Times, Apple Daily, China Times, Central Daily, Tianxia Magazine, Yuanjian Magazine, and Caixun Magazine). *Secondary sources* are existing academic works on related issues of Taiwan. Besides open

resources available online (e.g. governmental websites), *key libraries and/or archival repositories* may include Mainland Affairs Information and Research Center, National Central Library, Academia Sinica, libraries of National Taiwan University and National Chengchi University. Additionally, *interviews* with relevant actors and scholars will also be conducted. Due to the problem of accessibility, the targeted population will be policy makers and officials who are no longer in office, the six business associations, as well as scholars who are close to decision makers.

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