

Cross-Strait Economic Relations: China's Leverage and Taiwan's Vulnerability*

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Economic relations between Taiwan and China have developed very rapidly due to strong business motivations in both societies. Taiwan's government worries that Beijing might exploit China's economic leverage by using economic sanctions to achieve political goals if asymmetric interdependence in China's favor emerges across the Strait.

This paper seeks to answer two categories of questions: first, how large is China's actual and potential economic leverage over Taiwan in terms of imposing economic sanctions, and what conditions or factors would contribute to China's decision to exploit this economic leverage? Second, how vulnerable is Taiwan to any such imposition of economic sanctions, and what conditions or factors would contribute to the success or failure of these sanctions?

This paper concludes that China has no economic leverage over Taiwan in terms of imposing economic sanctions and that Taiwan's vulnerability to such a scenario is almost nonexistent.

KEYWORDS: economic leverage; economic sanctions; vulnerability; cross-Strait economic relations.

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Driven by strong business motivations in both societies, economic relations between Taiwan and China have developed very rapidly. According to Taiwan's statistics, by the end of 2002 China was the biggest recipient of Taiwan's outward foreign direct investment (FDI) with an accumulated total reaching US\$25.5 billion, 48.3 percent of Taiwan's total FDI. Nevertheless, Perng Fai-Nan (彭淮南), governor of Taiwan's Central Bank, estimated that by the end of 2002 the real figure of Taiwan's cumulative investment in China was about US\$66.8 billion.¹ According to Taiwan's official estimate, two-way trade across the Taiwan Strait in 2002 totaled US\$41 billion, with Taiwan enjoying a US\$25 billion trade surplus—making China Taiwan's third largest trading partner and largest export market.

Taiwan's government feels ill at ease having such a close economic relationship with its powerful political rival, in part because the island fears that the flood of investment and trade from Taiwan will make the island economically dependent on China, undermining Taiwan's de facto political independence. In fact, Taiwan's fear has been triggered and reinforced by the fact that Beijing explicitly considers cross-Strait economic relations to be an important source of political leverage against Taiwan. Beijing conducts cross-Strait economic exchange with two political strategies in mind: "*yi min bi guan*" (以民逼官, exploiting the public to pressure the officials) and "*yi shang wei zheng*" (以商圍政, exploiting the businesspeople to encircle the government). Taipei worries that, if asymmetric interdependence in China's favor emerges across the Strait, Beijing might exploit China's economic leverage through the use of economic sanctions in order to achieve political goals.²

In theory, there are two instruments of economic leverage that China

¹Lin Ming-cheng, "Perng Fai-Nan: Investment in Mainland Reaches US\$66.8 Billion," *Zhongguo shibao* (China Times) (Taipei), January 17, 2003.

²Kong-Lien Kao, *Liang'an jingmao xiankuang yu zhanwang* (Cross-Strait economic relations: The current situation and future prospects) (Taipei: Mainland Affairs Council, 1994), 8; and Charng Kao, *Dalu jinggai yu liang'an jingmao guanxi* (Mainland economic reforms and cross-Strait economic relations) (Taipei: Wunan, 1994), 130-31.

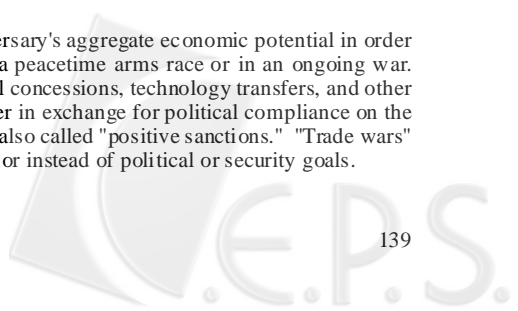
could use to achieve policy objectives toward Taiwan: economic sanctions (through disruption of economic benefits derived from trade and financial ties) and economic inducement (through provision of economic benefits from trade and financial ties). China's current policy is not an explicit strategy of offering economic inducements to Taiwan. China has not attempted to link the provision of economic benefits to Taiwan (such as preferential treatment of Taiwan's businesses) and China's political demands. Beijing has never stated that China will provide economic benefits to Taiwan only if Taiwan makes political concessions to China. Therefore, based on Taiwan's primary concerns and China's current policy approach, this paper focuses on any economic leverage China might gain through the imposition of economic sanctions against Taiwan.

This paper seeks to answer two categories of questions: first, how large is China's actual and potential economic leverage over Taiwan in terms of imposing economic sanctions, and what conditions or factors would contribute to China's decision to exploit this economic leverage? Second, how vulnerable is Taiwan to any such imposition of economic sanctions, and what conditions or factors would contribute to the success or failure of these sanctions?

This paper defines economic sanctions as the threat or act by a state or coalition of states (the sender) to disrupt customary economic exchange with another state (the target) in order to punish the target, force change in the target's policies, or demonstrate to a domestic or international audience the sender's position on the target's policies. Economic sanctions do not include economic warfare, economic inducements, or trade wars.³

Moreover, both China's economic leverage and Taiwan's vulnerability will be examined through a two-stage test: the initiation and outcome of economic sanctions. This test will have four scenarios. First, if conditions

³"Economic warfare" seeks to weaken an adversary's aggregate economic potential in order to weaken its military capabilities, either in a peacetime arms race or in an ongoing war. "Economic inducements" involve commercial concessions, technology transfers, and other economic carrots that are extended by a sender in exchange for political compliance on the part of a target. "Economic inducements" are also called "positive sanctions." "Trade wars" are disputes over economic policy and behavior instead of political or security goals.



across the Taiwan Strait are favorable for China to impose economic sanctions and for Taiwan to make concessions, then China has leverage over Taiwan and Taiwan is vulnerable to China's leverage. Second, if conditions are unfavorable for China to impose economic sanctions and for Taiwan to make concessions, then China has no leverage over Taiwan and Taiwan is not vulnerable to China's leverage. Third, if conditions are favorable for China to impose economic sanctions but unfavorable for Taiwan to make concessions, China has only symbolic leverage over Taiwan and Taiwan has symbolic vulnerability to China's leverage. Fourth, if conditions are unfavorable for China to impose economic sanctions but favorable for Taiwan to make concessions, China has only quasi-leverage over Taiwan and Taiwan has quasi-vulnerability to China's leverage.

In three steps, this paper analyzes the two questions posed above. First, this paper explores the essence of cross-Strait economic relations in terms of the global division of labor and global interdependence.

Second, this paper explores the implications of prior research on economic sanctions. It evaluates theories on both the initiation and the outcome of economic sanctions by analyzing the Hufbauer-Schott-Elliott (HSE) approach, the domestic politics/symbolic approach, the signaling/deterrence approach, and the conflict expectations model. The theories of economic sanctions generalize what conditions or factors would contribute to the sender's decision to exploit economic leverage through the imposition of economic sanctions against the target and what conditions or factors would contribute to the success or failure of these sanctions.

Third, this paper examines important variables in theories of economic sanctions through two case studies, the 1995-1996 and 1999-2000 Taiwan Strait tensions.⁴ These theories generalize the behavior pattern

⁴The 1995-1996 tensions were triggered by a combination of President Lee Teng-hui's visit to his alma mater, Cornell University, and the speech Lee made at Cornell University during the trip. In addition, when interviewed by *Deutsche Welle* Radio on July 9, 1999, President Lee Teng-hui said that since 1991, when the Republic of China Constitution was amended, cross-Strait relations became "state-to-state," or at least "a special state-to-state relationship." These two incidents were taken by Beijing as deliberate attempts to strengthen both domestic and international acceptance of Taiwan as a sovereign nation.

of both the sender and the target during economic sanctions, but do not necessarily explain the specific case of interaction between Taiwan and China. Therefore, this paper further analyzes the significant variables derived from the theories through the two case studies.

The 1995-1996 and 1999-2000 Taiwan Strait incidents created significant strain between Taiwan and China. Beijing attempted both to coerce Taipei to return to the previous status quo by accepting the "one-China principle" and to deter Taipei from declaring (or marching toward) Taiwan independence. The People's Republic of China (PRC) threatened the use of force against Taiwan through moderate military mobilization and an expansion in the scope of the intended military exercises near Taiwan from July 1995 to March 1996 and from July to September 1999.

Beijing has actually proven reluctant and generally ineffective, however, in exploiting its economic leverage through economic sanctions against Taiwan, even during the 1995-1996 and 1999-2000 cross-Strait tensions. During the 1995-1996 missile crisis, Beijing made significant efforts to reassure Taiwan's businesspeople that their investments in China were safe. Beijing also demonstrated restraint in the aftermath of then Taiwan President Lee Teng-hui's (李登輝) "special state-to-state relationship" comment of July 9, 1999. After the victory of Chen Shui-bian (陳水扁, a one-time pro-independence opposition leader) in Taiwan's March 2000 presidential race, however, Beijing overtly warned some Taiwan business figures⁵ that their interests in China would be affected if they supported Taiwan independence.⁶ Despite these caveats, China has yet to follow up on these threats with concrete sanctions.

Given Beijing's high motivation to persuade Taipei to reaffirm the

⁵It was reported that Beijing would punish Yin Qi (殷琪, president of the Continental Engineering Corporation), Stan Shih (施振榮, chairman of the Acer Group), Chang Yung-fa (張榮發, chairman of the Evergreen Group), and Shi Wen-long (施文龍, chairman of the Chi Mei Group) because of their support for Chen Shui-bian. See Bin-zhong Song, "China Warns Taiwan Businesspeople Who Support Taiwan Independence," *Zhongguo shibao*, April 9, 2000.

⁶"On the Current Development of Cross-Strait Economic Relations: Questions Answered by the Leader of the CCP Central Office for Taiwan Affairs and the State Council Taiwan Affairs Office," *Renmin ribao* (People's Daily), April 10, 2000, 1.

"one-China principle" and deter Taipei from marching toward Taiwan independence, another question to be answered is why China exercised such great restraint in not imposing economic sanctions against Taiwan in these instances.

Furthermore, this study explores Taiwan's vulnerability to China's economic sanctions by analyzing the island's vulnerability to military threats during both the 1995-1996 and 1999-2000 tensions. This analysis is conducted with the understanding that both military threats and economic sanctions could be used to signal Beijing's resolve to use force against Taiwan and thus to extract political concessions from Taipei. In addition, both military threats and economic sanctions will impose economic pain on Taiwan. The similar logic for both military threats and economic sanctions is that, all other things being equal, the more value-deprivation to which the target is subject, the more likely is political disintegration within—and thus concessions be drawn from—the target.

Cross-Strait and Global Economic Interdependence

The cross-Strait economic division of labor is only part of broader global commodity chains (GCCs) and global production networks (GPNs). The production of a single commodity in the globalization of production often spans many countries, with each nation performing tasks in which it has a cost advantage. Globalization today thus entails the detailed disaggregation of stages of production across national boundaries under the organizational structure of densely networked enterprises.⁷ Thus, any impact on cross-Strait economic relations would have interrelated and wide-

⁷Gary Gereffi, Miguel Korzeniewicz, and Roberto P. Korzeniewicz, "Introduction: Global Commodity Chains," in *Commodity Chains and Global Capitalism*, ed. Gary Gereffi and Miguel Korzeniewicz (Westport, Conn.: Praeger, 1994), 1-2; and Gary Gereffi, "Commodity Chains and Regional Divisions of Labor in East Asia," in *The Four Asian Tigers: Economic Development and the Global Political Economy*, ed. Eun Mee Kim (San Diego, Calif.: Academic Press, 1998), 98-99.

reaching global effects.

Within the framework of the global division of labor and global interdependence, this paper emphasizes four links in discussing cross-Strait economic interdependence: *investment-trade*, *internal-external*, *bilateral-global*, and *production-consumption*.

1. *The investment-trade link*: Most cross-Strait trade is driven by Taiwan's investment in China. Taiwan-invested enterprises (TIEs) play a very important role in importing intermediate and capital goods from Taiwan and exporting finished goods to developed countries, in particular to the United States and Japan. In the mid-1990s, about one-third to two-thirds of Taiwan's exports to China were driven by TIEs. In addition, Chinese exports produced by TIEs were estimated to make up between 14 and 18 percent of China's total exports. Furthermore, around one-fifth of Chinese exports to the United States were produced by TIEs.⁸

Therefore, any impact on the production of TIEs would have significant repercussions for cross-Strait trade. On the other hand, any disruption of trade between Taiwan and China would also have a strong impact on the production activities of TIEs. In turn, this impact on the production activities of TIEs will further influence Chinese exports and other economic activities.

2. *The internal-external link*: Because about 36 to 38 percent of Taiwan entrepreneurs have broad partnerships with local Chinese enterprises, local governments, and foreign enterprises, any internal sanctions on the TIEs would provoke protest from both internal and external economic actors.⁹ In addition, because many Taiwan entrepreneurs invested

⁸Chen-yuan Tung, "China's Economic Leverage and Taiwan's Security Concerns with Respect to Cross-Strait Economic Relations" (Ph.D. dissertation, Johns Hopkins University, 2002), 42-46, 66-67; and Chen-yuan Tung, "Trilateral Economic Relations among Taiwan, China, and the United States," *Asian Affairs: An American Review* 25, no. 4 (Winter 1999): 229-35.

⁹Ministry of Economic Affairs (MOEA, Taiwan), *Zhizaoye duiwai touzi shikuang diaocha baogao* (Survey report on outward investment of the manufacturing industry) (Taipei: MOEA, 1997), 77; and MOEA, *Zhizaoye duiwai touzi shikuang diaocha baogao* (Survey report on outward investment of the manufacturing industry) (Taipei: MOEA, 2000), 220, 223, 226.

in China by having their subsidiaries register and raise funds in third areas (such as Hong Kong, Singapore, the United States, and elsewhere), Chinese internal sanctions on TIEs would trigger a series of external disputes between China and these countries.¹⁰

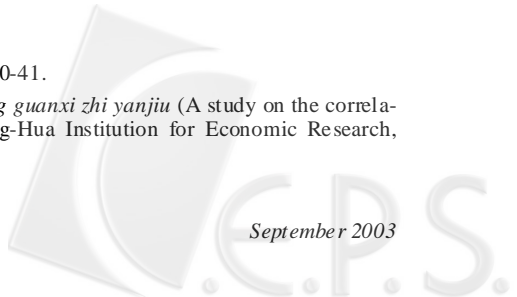
Moreover, because TIEs contribute significantly to China's exports, China's imposition of import (internal) sanctions on Taiwan's goods would interrupt the production of the TIEs and thus result in a reduction of China's (external) exports, and vice versa. For example, according to a 1999 study by the Chung-Hua Institution for Economic Research (中華經濟研究院), the correlation multiplier between Taiwan's exports to China and China's exports produced by TIEs was 20 percent in 1997; that is, if Taiwan's exports to China were disrupted by one dollar, China's exports produced by TIEs would decline by five dollars.¹¹

3. *The bilateral-global link*: Since Taiwan's provision of intermediate and capital goods for TIEs and the production by TIEs is only part of larger GCCs, any disruption of cross-Strait trade or production by TIEs would trigger a snowball effect on these GCCs. For example, Taiwan's imports of key electronics components and systems software from Japan and the United States would significantly decrease if the activities of the electronics industry across the Taiwan Strait were disrupted. Furthermore, Singapore and Hong Kong would lose tremendous business opportunities to provide support services for the GCCs involving both Taiwan and China.

In addition, any bilateral disruption of cross-Strait economic activities would have a heavy impact on the Asia-Pacific region due to robust regional economic interdependence among Taiwan, China, Hong Kong, the United States, Japan, Singapore, and South Korea. In 1998, the average trade dependence (share of intra-regional trade to total trade) for these seven countries was as high as 44 percent. Moreover, the other five countries also have immense stakes in both Taiwan and China in terms of in-

¹⁰Tung, "China's Economic Leverage," 23-27, 40-41.

¹¹Wen-long Lian et al., *Liang'an chuko liandong guanxi zhi yanjiu* (A study on the correlations for cross-Strait exports) (Taipei: Chung-Hua Institution for Economic Research, 1999), 122.



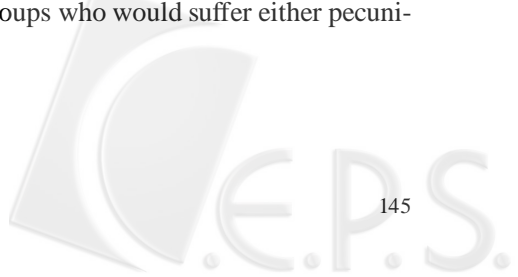
vestment. By the end of 1998, the United States, Japan, Hong Kong, Singapore, British Central America, and South Korea cumulatively invested US\$23.9 billion, or 73.1 percent of total FDI in Taiwan. As of 1999, Hong Kong, the United States, Japan, Taiwan, Singapore, the Virgin Islands, and South Korea were the top seven foreign investors in China, comprising US\$262.2 billion, or 85.3 percent of the cumulative FDI in China.¹²

4. *The production-consumption link*: Most Taiwan products made in Taiwan's domestic facilities or by TIEs are exported to developed countries. Any disruption of GPNs would have an immediate impact on global consumption. For instance, since 1997 Taiwanese firms have ranked as the third largest producers of information products in the world, if the output of both domestic and overseas factories is taken into account. Furthermore, in 2000 Taiwanese firms were the largest producers of more than fourteen information products in the world, most with more than 50 percent of world market share. Therefore, any disruption of cross-Strait economic activities (including both trade and production of TIEs) would seriously harm both consumers of electronics products around the world and global economic development.

Theories on the Initiation of Economic Sanctions

This paper examines three approaches to the initiation of economic sanctions. The domestic politics/symbolic approach focuses on the domestic politics of sender countries. On the one hand, the pressure from both the public and global/domestic interest groups who stand to gain either pecuniary or nonpecuniary benefits from sanctions would impel the sender government to impose economic sanctions against the target. In particular, economic sanctions provide the sender a visible and less expensive alternative to either military intervention or doing nothing. On the other hand, both the public and global/domestic interest groups who would suffer either pecuni-

¹²Tung, "China's Economic Leverage," 75-83.



ary or nonpecuniary losses from sanctions would oppose the sender's sanctions. Therefore, the dynamic balance of these two opposing forces would determine whether the sender will impose sanctions on the target.¹³

Moreover, it is very plausible that a sender government facing political and economic instability is less likely to impose economic sanctions with high costs against the target, because the negative effects of sanctions would exacerbate the domestic instability of the sender. This argument, in particular, finds support from Chinese military experiences from 1949 to 1992.¹⁴

In general, the domestic politics/symbolic approach emphasizes that the decision, form, and severity of sanctions applied would depend primarily on five factors: (1) the relative gains or losses of various interest groups and the public; (2) the relative influence of interest groups and the public within the sender state; (3) the ability of policymakers to act independently of pressure from both the public and interest groups; (4) the amount of information possessed by individuals and groups within the sender country regarding the objectionable policy of the target country; and (5) the conditions of political and economic stability in the sender.¹⁵

The signaling/deterrence approach argues that sanctions can be an ef-

¹³As argued in Tung, "China's Economic Leverage," 135-47, based on the following literature: David Leyton-Brown, "Lessons and Policy Considerations about Economic Sanctions," in *The Utility of International Economic Sanctions*, ed. David Leyton-Brown (New York: St. Martin's Press, 1987), 305-6; William H. Kaempfer and Anton D. Lowenberg, "The Problems and Promise of Sanctions," in *Economic Sanctions: Panacea or Peace-building in a Post-Cold War World?* ed. David Cortright and George A. Lopez (Boulder, Colo.: Westview Press, 1995), 63-64; and William H. Kaempfer and Anton D. Lowenberg, "A Public Choice Analysis of the Political Economy of International Sanctions," in *Sanctions as Economic Statecraft: Theory and Practice*, ed. Steve Chan and A. Cooper Drury (New York: St. Martin's Press, 2000), 159-81.

¹⁴Alastair Iain Johnston, "China's Militarized Interstate Dispute Behavior 1949-1992: A First Cut at the Data," *The China Quarterly*, no. 153 (March 1998): 18-20; and J. David Singer, "Statistical Regularities in Chinese and Other Foreign Policy: A Basis for Prediction?" (Paper presented at the conference on "China in the 21st Century," sponsored by the Democratic Progressive Party, National Taiwan University, Taipei, November 6-7, 1999), available online at <http://www.future-china.org/csi/pf/activity/19991106/mt9911_05e.htm> (accessed on November 20, 2000).

¹⁵These five factors are laid out in Tung, "China's Economic Leverage," 135-49, based on the following literature: Kaempfer and Lowenberg, "A Public Choice Analysis of the Political Economy of International Sanctions," 159-81; Kaempfer and Lowenberg, "The Problems

fective signaling and deterrence tool because states conduct foreign policy in a world of imperfect information. As a result, states frequently engage in signaling techniques in order to demonstrate credibility. Economic sanctions, therefore, could be a type of signal and deterrence to distinguish credible threats of future action (such as military action) from cheap talk. When threatening to use military force, the sender will incur greater costs to signal its resolve. Statistical tests provide strong support for this argument.¹⁶

The conflict expectations model of economic sanctions developed by Daniel Drezner makes two assumptions: (1) states act as rational, unitary utility-maximizers, and (2) national preferences are partially motivated by conflict expectations. Accordingly, the model makes two specific predictions about the pattern of sanction attempts. First, no sanction should generate greater costs for the sender than the target. Second, conflict expectations should be positively correlated with the costs to the sender, but negatively correlated with the costs to the target. In general, the sender will prefer imposition of economic sanctions against the target if the target's costs are sufficiently greater than its own costs, and there is some expectation of future conflict. Both arguments have been supported by strong statistical evidence.¹⁷

Regarding the implications for cross-Strait economic relations, one necessary condition for China to impose sanctions against Taiwan is that China's costs be lower than Taiwan's. Second, China might use economic leverage to threaten Taiwan or signal its resolve so long as China enjoys an advantage in their interdependent economic relationship. Third, the dy-

and Promise of Sanctions," 63-64; and Richard N. Haass, "Introduction," in *Economic Sanctions and American Diplomacy*, ed. Richard N. Haass (New York: Council on Foreign Relations, 1998), 3.

¹⁶David Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton University Press, 1985), 24; Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security* 22, no. 2 (Fall 1997): 98-106; Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (New York: Cambridge University Press, 1999), 15-17, 120-21; and Valerie L. Schwabach, "Sanctions as Signals: A Line in the Sand or a Lack of Resolve?" in Chan and Drury, *Sanctions as Economic Statecraft*, 187-211.

¹⁷Drezner, *The Sanctions Paradox*, 18-42, 62-64, 102-28, 233-45, 307-9.



namic balance between the public and global/domestic interest groups, and between various conditions of political and economic stability, will in the end determine whether China will impose sanctions against Taiwan. Chinese leaders need to reconcile both the domestic and international imperatives of a two-level game simultaneously.

As a result, with respect to China's leverage, four variables are significant in determining whether China will impose sanctions against Taiwan: first, the opportunity costs of economic sanctions; second, the signaling effects of economic sanctions; third, China's domestic economic and political stability; and fourth, the Chinese public and interest groups in China.

This research does not examine the influence of the public on China's decision-making process largely because only extremely limited public opinion polls are available in China on cross-Strait issues, but also because of the following four considerations. First, according to the literature on economic sanctions, pre-1980s evidence generally rejects the hypothesis that economic sanctions are imposed in reaction to public opinion.¹⁸

Second, there has been no statistical evidence to validate that hypothesis for the years since the 1980s, although anecdotal evidence shows that public opinion might have influenced U.S. decision-making on economic sanctions.¹⁹ Nevertheless, it is unclear whether the United States was the primary sender because it was mainly influenced by the public or because it was the economic power.²⁰

Third, China is not a democratic regime and the Chinese government still basically controls mass media. Therefore, the Chinese government

¹⁸Richard J. Ellings, *Embargoes and World Power: Lessons from American Foreign Policy* (Boulder, Colo.: Westview Press, 1985), 113-55; and A. Cooper Drury, "How and Whom the U.S. President Sanctions: A Time-series Cross-section Analysis of U.S. Sanction Decisions and Characteristics," in Chan and Drury, *Sanctions as Economic Statecraft*, 17-36.

¹⁹Kimberly Ann Elliott and Gary Clyde Hufbauer, "Same Song, Same Refrain? Economic Sanctions in the 1990s," *AEA Papers and Proceedings*, May 1999, 403-8; and Kaempfer and Lowenberg, "A Public Choice Analysis of the Political Economy of International Sanctions," 158-86.

²⁰Gary Clyde Hufbauer, "Trade as a Weapon" (Paper for the Fred J. Hansen Institute for World Peace, San Diego State University, World Peace Week, April 12-18, 1999), available online at <<http://www.iie.com/TESTMONY/gch9.htm>> (accessed July 25, 2000), 4-5 of 5.

does not need to respond directly to, and can to some degree manipulate, public opinion. In fact, Beijing has succeeded in minimizing or even suppressing the surge of nationalism in many of the most sensitive sovereignty disputes—including the Diaoyutai (釣魚台, or Senkaku Islands) dispute, the South China Sea islands dispute, the U.S. bombing of the Chinese embassy in Belgrade, and the Taiwan issue.²¹ As a result, in 2000 nationalism (public opinion) was not a significant factor in Chinese decisions on foreign policy.

Fourth, the public could either urge or discourage sanctions against Taiwan. This depends on whether the public will be injured by or benefit from the sanctions in terms of pecuniary or nonpecuniary losses or gains. During these two Taiwan Strait incidents, people in China's coastal areas—who have enormous interests in cross-Strait economic exchange and the achievement of economic development—generally opposed the escalation of cross-Strait tensions and supported the peaceful resolution of bilateral disputes.²²

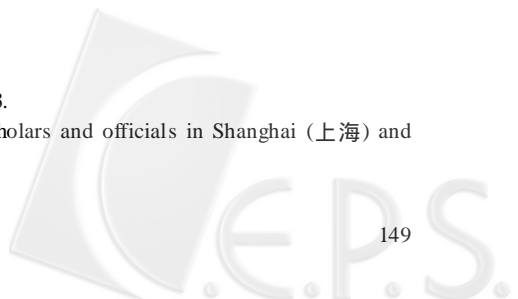
Therefore, this research does not address the variety of public opinion in China during the Taiwan Strait tensions, since such an addition would not change the paper's basic conclusions.

The hypotheses on the initiation of China's sanctions against Taiwan are as follows:

1. The gap in costs between Taiwan and China (the potential power of economic leverage from asymmetric economic interdependence) was insufficiently favorable for Beijing to initiate economic sanctions against Taipei.
2. China had grave domestic concerns and could not afford to impose economic sanctions against Taiwan due to economic, social, and political instability, and because of opposition from interest groups

²¹Tung, "China's Economic Leverage," 207-33.

²²Personal interviews with various senior scholars and officials in Shanghai (上海) and Xiamen (廈門) from June to July, 2001.



(such as southeast coastal leaders and Taiwan businesspeople) who would be associated with such sanctions.

3. Chinese leaders believed that military threats directed at Taiwan were more effective signals and methods of deterrence than actual economic sanctions would have been.

Theories on the Outcome of Economic Sanctions

This paper examines four approaches that account for the outcome of economic sanctions. Drawn from economic sanction case studies, the HSE approach has been developed by Gary Hufbauer, Jeffery Schott, and Kimberly Elliot, who have been collecting the most comprehensive and broadly used database of economic sanction cases (a total of 115 cases).²³

First of all, one should note that economic sanctions are generally ineffective and the rate of success in terms of target compliance has been declining over time, particular from 1975 to 1990. The success rate of economic sanctions based on the HSE database, excluding economic warfare and trade disputes, is as low as 4.6 percent (5 of 109 cases) to 10.4 percent (12 of 115 cases).²⁴

Based on the HSE database and other studies, the HSE approach suggests that sanctions are most effective under the following conditions: modest sender goals, a weak and unstable target, high costs to the target, low costs to the sender, a friendly relationship between the sender and the target, a high trade concentration for the target with the sender, quick and harsh unilateral sanctions, no assistance to the target by third countries, and, finally, sanctions that are primarily financial rather than trade-

²³Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliot, *Economic Sanctions Reconsidered: History and Current Policy*, second edition (Washington, D.C.: Institute for International Economics, 1990).

²⁴Finding in Tung, "China's Economic Leverage," 123-33, based on the following literature: Pape, "Why Economic Sanctions Do Not Work," 100-3; and Kim Richard Nossal, "Liberal Democratic Regimes, International Sanctions, and Global Governance," in *Globalization and Global Governance*, ed. Raimo Vayrynen (Lanham, Md.: Rowman & Littlefield, 1999), 129.

oriented.²⁵ Although the HSE database is criticized for sample bias since it includes trade disputes and economic warfare, most of the above variables have been further confirmed by the other three approaches mentioned in this section.

The domestic politics/symbolic approach focuses on the domestic political economy of the target country. It analyzes three factors that work against the effectiveness of economic sanctions: (1) few cases with damaging sanctions; (2) the rally-around-the-flag effect reinforced by nationalism; and (3) manipulated redistribution effects of sanctions in the target. Furthermore, one could plausibly argue that if the sender suffers domestically from economic and political instability, the target will less likely concede because the sender will have more concerns about the costs of sanctions.

First, sanctions are often imposed half-heartedly by the sender government out of a need to satiate domestic political pressure from the public and interest groups to do something in response to the target's disputed behavior. Hence, sanctions are symbols; their effectiveness is of secondary concern. In addition, the costs of sanctions will hurt some interest groups and even the public at large, who will oppose severe measures. Thus, it is not surprising that the sanctions actually adopted often appear ineffectual and the target country may face insufficient coercive pressure to consider acquiescing.²⁶

Second, economic sanctions might be seen by the target as a humiliating affront and thus trigger a rally-around-the-flag effect. Pervasive nationalism and a lack of discrimination between the "guilty" and the "innocent" will significantly reinforce the rally-around-the-flag effect. The sender might become a common enemy for the people of the target nation.

²⁵Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 49-115; George A. Lopez and David Cortright, "Economic Sanctions in Contemporary Global Relations," in Cortright and Lopez, *Economic Sanctions*, 9; Kimberly Ann Elliot, "Factors Affecting the Success of Sanctions," *ibid.*, 53; and Joseph J. Collins and Gabrielle D. Bowdoin, *Beyond Unilateral Economic Sanctions* (Washington, D.C.: Center for Strategic and International Studies, 1999), 15-16.

²⁶Kaempfer and Lowenberg, "A Public Choice Analysis of the Political Economy of International Sanctions," 159-61.

The resistance of domestic groups and the public to economic sanctions becomes synonymous with patriotism, while dissent would trigger accusations of disloyalty or treason. These effects would facilitate political integration in the target and cause the sanctions to fail.²⁷

Third, target governments may prefer to be sanctioned because they can distribute to their supporters economic rent that stems from the trade restrictions and thus weaken their domestic opponents. While in the long run sanctions hurt the trade-oriented sectors of the target economy by depriving them of income, in the short run a sender's embargo strengthens the target's import-substitution sectors by providing them rent-seeking opportunities in the target. In addition, the target government may redirect external pressure onto isolated or repressed social groups while insulating and protecting itself. As a result, sanctions may end up strengthening the target government, and hence its ability to resist the coercive attempts of the sender government.²⁸

By contrast, this approach cites two factors as contributing to the effectiveness of sanctions: (1) the fifth-column effect and (2) political and economic instability in the target. The fifth-column effect is seen when some particular groups in the target country who have been hurt by the sanctions petition their government to comply with the sender's demands. The more the sanction directly hurts the target's central government, the greater is the chance to influence its policy. In addition, core support groups of the target regime negatively affected by sanctions will put pressure on their government.²⁹ As a matter of fact, China's political strategies toward Taiwan—*yi min bi guan* and *yi shang wei zheng*—are based on

²⁷Tung, "China's Economic Leverage," 165-68; Johan Galtung, "On the Effects of International Economic Sanctions," *World Politics* 19 (1967): 388-99; and Zachary Selden, *Economic Sanctions as Instruments of American Foreign Policy* (Westport, Conn.: Praeger, 1999), 4-5, 20-23.

²⁸Pape, "Why Economic Sanctions Do Not Work," 107; and Paul D. Taylor, "Clausewitz on Economic Sanctions: The Case of Iraq," *Strategic Review* 23, no. 3 (Summer 1995): 50-56.

²⁹Jonathan Kirshner, "The Microfoundations of Economic Sanctions," *Security Studies* 6, no. 3 (Spring 1997): 32-64; David Cortright and George A. Lopez, *The Sanctions Decade: Assessing UN Strategies in the 1990s* (Boulder, Colo.: Lynne Rienner, 2000), 20-22; and Selden, *Economic Sanctions*, 20-23.

expectations of a fifth-column effect. Furthermore, a target government faced with domestic political and economic instability will tend to concede to the sender's demands.³⁰

Complicating the situation is the fact that economic sanctions can generate both the rally-around-the-flag effect and the fifth-column effect at the same time. In order to bring about alterations to an objectionable policy, the fifth-column effect must overwhelm the rally-around-the-flag effect. In other words, sanctions must reduce the political effectiveness of pro-regime groups more than they reduce the effectiveness of opposition groups. In particular, financial sanctions tend to reinforce the fifth-column effect while minimizing the rally-around-the-flag effect. By contrast, trade sanctions cannot be aimed accurately at any particular group, and are thus more likely to trigger a rally-around-the-flag effect.

There are several statistical tests of financial sanctions and political instability in the target country, but none on the rally-around-the-flag effect, nationalism, and the fifth-column effect. Overall, the argument that financial sanctions are more effective is based on moderate statistical evidence, while the argument that a target with unstable political and economic conditions tends to make concessions to the sender has strong statistical support.³¹

There is not sufficient statistical evidence, however, to confirm that democracy in a target country is a necessary or sufficient condition for the success of sanctions. In general, a democratic regime may provide more space for both the public and interest groups to influence the target government. An authoritarian regime, however, also needs to respond to pressure from interest groups or members of the regime itself—such as factions or competing leaders, bureaucratic sectors, local leaders, core business

³⁰Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 97-98; and Drezner, *The Sanctions Paradox*, 114, 122.

³¹Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 102-11; Drezner, *The Sanctions Paradox*, 121-25, 131-47; San Ling Lam, "Economic Sanctions and the Success of Foreign Policy Goals," *Japan and the World Economy* 2 (1990): 239-47; and Kimberly Ann Elliott and Peter P. Uimonen, "The Effectiveness of Economic Sanctions with Application to the Case of Iraq," *ibid.* 5 (1993): 403-9.

groups, or sometimes even the public. Furthermore, there are times when a target with a functioning electoral system will quite successfully resist international efforts to sanction it. Indeed, Hufbauer, Schott, and Elliott report at least eleven cases where sanctions against liberal democracies failed.³²

The signaling approach argues that sanctions could be useful as a signal for more coercive measures. In this regard, sanctions are only useful as a signal of resolve; economic sanctions alone cannot work. The casual argument in this school of thought is that what appears to be the success of sanctions is actually the product of an implicit military threat. This approach makes two predictions about the pattern of outcomes of sanctions. First, the sender's costs should be positively correlated with the size of the concession. Second, a threat of force, or a difference in aggregate power, should be positively correlated with the size of the concession.³³

However, statistics provide no support for the signaling approach. The statistical evidence available categorically rejects the argument that high sender costs can effectively signal resolve and thus lead to a successful outcome. High sender costs are found to be negatively correlated with the success of sanctions. In addition, neither military power nor military threats affect the outcome of attempted sanctions. Therefore, from the perspective of the outcome, economic sanctions are not a signal of military threats.³⁴

The conflict expectations model makes two major predictions. First, the greater is the gap that exists between the costs of the sender and those of the target, the greater is the target's concessions. An increase in the

³²Tung, "China's Economic Leverage," 175-80; Nossal, "Liberal Democratic Regimes," 134-48; and Pape, "Why Economic Sanctions Do Not Work," 98-106.

³³Daniel W. Drezner, "The Complex Causation of Sanction Outcomes," in Chan and Drury, *Sanctions as Economic Statecraft*, 215-16; Pape, "Why Economic Sanctions Do Not Work," 98-106; and Drezner, *The Sanctions Paradox*, 113, 122.

³⁴Lam, "Economic Sanctions and the Success of Foreign Policy Goals," 244-46; T. Clifton Morgan and Valerie L. Schwebach, "Fools Suffer Gladly: The Use of Economic Sanctions in International Crises," *International Studies Quarterly* 41 (1997): 38-47; Elliott and Uimonen, "The Effectiveness of Economic Sanctions," 403-9; Drezner, *The Sanctions Paradox*, 122-25; and Drezner, "The Complex Causation of Sanction Outcomes," 221-29.

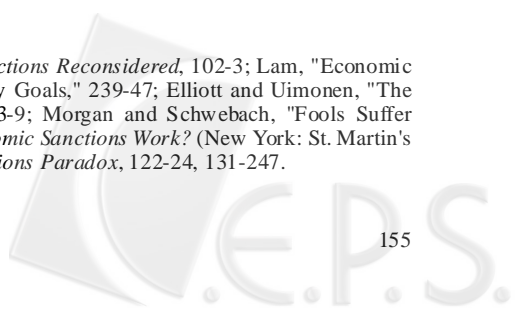
sender's costs makes economic sanctions less viable and less profitable. By contrast, an increase in the target's costs makes economic sanctions more viable and more profitable. Second, if the sender and the target are adversaries, the target will be more reluctant to acquiesce under the pressure of economic sanctions because of relative gains and concern about its reputation. As the target and sender anticipate few political conflicts in the future, the magnitude of the target's concessions will increase. For economic sanctions to produce significant concessions, the absence of conflict expectations is a necessary condition. If the target-sender relationship is adversarial, there must be a large gap in costs for sanctions to generate even moderate concessions. The statistical results provide solid empirical support for this model.³⁵

Regarding the implications for cross-Strait economic relations, in theory China's sanctions against Taiwan generally tend to be ineffective. The probability of success for Chinese economic sanctions is only 4.6 to 10.4 percent. In addition, because of severe bilateral hostility, the necessary condition for China's successful sanctions with Taiwan's moderate concessions is that China enjoy a large gap in costs in its favor.

The following conditions will contribute to the effectiveness of economic sanctions: (1) China enjoys a significant gap in costs of economic sanctions on Taiwan; (2) China's sanctions trigger a fifth-column effect; (3) China imposes financial sanctions against Taiwan instead of trade sanctions, but financial flows now favor Taiwan's leverage; (4) Taiwan is unstable; and (5) China imposes sanctions against Taiwan quickly, with maximum harshness and without significant international assistance to Taiwan.

By contrast, the following conditions will contribute to the ineffectiveness of China's sanctions: (1) China's sanctions trigger nationalism and a rally-around-the-flag effect in Taiwan; (2) China suffers from domestic instability; (3) Taiwan's government can manipulate the effects of re-

³⁵Hufbauer, Schott, and Elliot, *Economic Sanctions Reconsidered*, 102-3; Lam, "Economic Sanctions and the Success of Foreign Policy Goals," 239-47; Elliott and Uimonen, "The Effectiveness of Economic Sanctions," 403-9; Morgan and Schwebach, "Fools Suffer Gladly," 43-45; Makio Miyagawa, *Do Economic Sanctions Work?* (New York: St. Martin's Press, 1992), 61-88; and Drezner, *The Sanctions Paradox*, 122-24, 131-247.



distribution of sanctions to favor the ruling coalition; and (4) Taiwan's decision-makers have strong concerns about relative gains and reputation in the cross-Strait conflict.

Of the above nine variables, it is impossible to predict the following: (1) the domestic situation for both Taiwan and China; (2) whether Beijing could impose sanctions against Taiwan quickly, with maximum harshness; and (3) whether the Taiwanese government could manipulate redistribution effects of sanctions to favor the ruling coalition if Beijing were to impose economic sanctions against Taiwan. However, these three variables are not the most important variables to influence the effectiveness of economic sanctions. They are secondary to the following four variables: (1) the gap in costs of sanctions between Beijing and Taipei (including the reaction of the international community toward China's sanctions); (2) rally-around-the-flag effects; (3) fifth-column effects; and (4) the perceptions of decision-makers in Taiwan on cross-Strait conflicts. As a result, this paper focuses on these four variables in order to assess Taiwan's vulnerability with respect to cross-Strait economic relations.

The hypotheses on the outcome of China's possible sanctions against Taiwan are as follows:

1. As China's military threats increase, Taiwan will experience rising nationalism, a strong "rally-around-the-flag" effect, and a moderate fifth-column effect among Taiwan's public, elites, and interest groups.
2. Taiwan's decision-makers emphasize relative gains and reputation (credibility) in the cross-Strait conflict.

The Effectiveness of Signaling and Deterrence

Beijing had four common goals in the 1995-1996 and 1999-2000 incidents: (1) to signal its disapproval of Taiwan's policy; (2) to coerce Taiwan's leaders to re-adopt the "one-China principle" or give up further in-

dependence activities (i.e., Taiwan's flexible diplomacy); (3) to deter Taiwan leaders from formally declaring independence; and (4) to discourage the Taiwan electorate from voting for candidates who favored independence (i.e., Lee Teng-hui, Peng Ming-min [彭明敏], and Chen Shui-bian). In addition, Beijing also tried to encourage the United States to adopt a more public and determined stance against Taiwan independence in the 1995-1996 crisis.³⁶

These strategies of coercion and deterrence exploited Taiwan's fear of war through military brinkmanship in order to signal Beijing's resolve to halt the momentum toward Taiwan independence. Even though China's official newspaper contended that the political essence of Lee Teng-hui's "state-to-state relations" was the same as Taiwanese independence, Beijing never seriously considered the use of force in the 1995-1996 or 1999-2000 incidents, nor were any serious preparations made for war.

Through its limited deployments of forces to the Strait region during these incidents, China signaled that it did not intend actually to attack Taiwan—China referred to its buildup as "deterrence" against Taiwan independence. China did not deploy the material means to realize an actual invasion. In addition, even Chinese analysts believed that U.S. and Taiwanese leaders knew from intelligence gathered by U.S. satellite reconnaissance that Chinese intentions were limited to influencing both Taiwanese leaders and public psychology.³⁷

Furthermore, in February 1996 the U.S. embassy in Beijing was informed that no attack on Taiwan was planned. In February and March, Li Zhaoxing (李肇星), China's vice foreign minister (and later ambassador to the United States), and Liu Huaqiu (劉華秋), director of the State Council Foreign Affairs Office (國務院外事辦公室), held a series of intensive meetings with officials from the U.S. State Department, the Department of Defense, and the National Security Council. During these meetings, the

³⁶Tung, "China's Economic Leverage," 234-42.

³⁷John W. Garver, *Face Off: China, the United States, and Taiwan's Democratization* (Seattle: University of Washington Press, 1997), 104.



PRC officials gave strong assurances about the limits in time, scale, and location of its military exercises and missile tests. They gave the U.S. government explicit assurance that the People's Liberation Army (PLA) would not attack Taiwan and urged the United States to stay out of the cross-Strait quarrel.³⁸ Even the chance for accidental "incidents" to occur was minimized. The PLA's Front Line Command strictly ordered the participants not to allow any "unwanted situation to emerge."³⁹

Beijing's assurances truly reflected its intention not to use force because these assurances were made prior to heated missile test exercises in early March 1996 and before the United States deterred China by sending two aircraft carrier groups to the waters near the Taiwan Strait. As a senior scholar in American studies in Shanghai stressed, "The 1995-1996 military exercises were mainly to coerce, bully, and deter Taiwan from declaring independence. China never intended to use force."⁴⁰ Many prominent Chinese scholars and official have conveyed the same ideas.⁴¹

Regarding the effectiveness of signaling and deterrence, Beijing never actually compared military threats with economic sanctions in these two incidents. A senior official of the State Council Taiwan Affairs Office (TAO, 國務院台灣事務辦公室) said: "In 1995-1996, no one mentioned economic sanctions. If Taiwan declares independence, China will directly attack Taiwan. There is no need for economic sanctions."⁴² A senior scholar in Taiwan studies in Beijing elaborated on the situation: "In 1995-1996, nobody proposed imposing economic sanctions against Taiwan

³⁸Allen S. Whiting, "China's Use of Force, 1950-96, and Taiwan," *International Security* 26, no. 2 (Fall 2001): 123; Robert S. Ross, "The 1995-96 Taiwan Strait Confrontation: Coercion, Credibility, and the Use of Force," *ibid.* 25, no. 2 (Fall 2000): 108; and Sui sheng Zhao, "Military Coercion and Peaceful Offence: Beijing's Strategy of National Reunification with Taiwan," *Pacific Affairs* 72, no. 4 (1999): 511.

³⁹You Ji, "Changing Leadership Consensus: The Domestic Context of War Games," in *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 Crisis*, ed. Suisheng Zhao (New York: Routledge, 1999), 90.

⁴⁰Personal interview, Shanghai, July 2, 2001.

⁴¹Personal interviews with various senior scholars and officials in Beijing and Shanghai from June to August, 2001.

⁴²Personal interview, Beijing, August 9, 2001.

because sanctions would hurt TIEs, the Taiwanese people, and China itself, rather than Taiwan independence supporters."⁴³

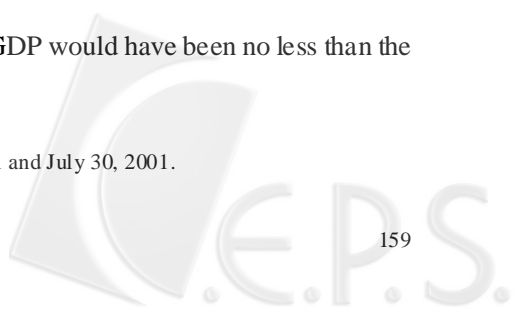
The primary concern for Beijing might be the comparative costs between military threats and economic sanctions incurred by China itself. In the two incidents, military threats did hurt TIEs and the Taiwanese people, not the Taiwan authorities. Economic sanctions might have had the same, albeit more serious, effect. The apparent difference between military threats and economic sanctions is that military threats might be less costly to China than economic sanctions. The costs of sanctions to China itself would have been a loss of 1-3 percent of GDP (as analyzed below), while the costs of military threats to China itself were almost insignificant in the two incidents. This might be the reason why Beijing adopted military threats instead of economic sanctions against Taiwan in the two incidents.

Assessment of the Costs of Sanctions

For China, because of the investment-trade link and the internal-external link in cross-Strait economic relations, there is no essential difference between an embargo against Taiwan, a boycott of Taiwan-made goods, or a freezing or expropriation of Taiwan's investment in China. Since most cross-Strait trade has been driven by Taiwan's investment in China, any impact on the production of TIEs would have significant repercussions for cross-Strait trade. Any disruption of trade between Taiwan and China would also have a strong impact on the production activities of TIEs. Therefore, it is unrealistic to distinguish different elements of economic sanctions in this case. Although a total disruption of cross-Strait trade and investment would represent a worst-case scenario, such an event is possible due to the chain of connections between cross-Strait trade and investment.

China's direct costs in terms of GDP would have been no less than the

⁴³Personal interviews, Beijing, August 3, 2001 and July 30, 2001.



potential costs to Taiwan if China had disrupted cross-Strait economic relations in 1995 or 1999. The loss due to trade sanctions in terms of GDP for the target or sender is equal to the product of the sanction multiplier—the ratio of the percentage change in GDP to the percentage change in trade—and the size of the initial deprivation experienced by the target or sender nation. Taiwan's trade with China was US\$22.5 billion in 1995 and US\$25.8 billion in 1999. With a multiplier between 0.14 and 0.35,⁴⁴ China's economic sanctions would have reduced the welfare of both Taiwan and China by between US\$3.2 billion and US\$7.9 billion in 1995, and by between US\$3.6 billion and US\$9 billion in 1999. In addition, assuming the value-added by TIEs is 26 percent of output,⁴⁵ the value-added by TIEs would have been about US\$8.7 billion in 1995 and US\$18.3 billion in 1999. With investment losses added in, the rough direct costs of economic sanctions for China would have been between US\$11 billion and US\$15.7 billion in 1995, and between US\$21.9 billion and US\$27.3 billion in 1999. Both China and Taiwan would have suffered around 1-3 percent of GDP losses with China's economic sanctions⁴⁶ (see table 1).

This could be an important reason for China not to have imposed sanctions against Taiwan in 1995 or 1999. In particular, the literature on economic sanctions shows that misperception and miscalculation of decision-makers plays a very limited role in decisions to impose sanctions.⁴⁷ Therefore, China would tend to impose sanctions against Taiwan only when Beijing realizes—after a cautious and thorough calculation of costs to both Taiwan and itself—that sanctions would hurt Taiwan more than China, or the costs of sanctions to China are obviously smaller than those to Taiwan.

⁴⁴Tung, "China's Economic Leverage," 115-23.

⁴⁵In 1999, the value of gross industrial output for enterprises funded by Hong Kong, Macao, and Taiwan was RMB 899.4 billion and the value-added provided by these enterprises was RMB 233 billion, rendering the ratio of value-added to output 26 percent.

⁴⁶Tung, "China's Economic Leverage," 247-50.

⁴⁷Of the 114 cases in the HSE database, the only case with greater costs to the sender is Canada's sanctions against Japan in 1974. Canada imposed a cost of 0.04 percent of Canada's GNP, but a cost of only 0.01 percent of Japan's GNP.

Table 1
Direct Costs of China's Economic Sanctions, 1995 and 1999

Unit: US\$ billion

	1995		1999	
	Taiwan	China	Taiwan	China
Trade losses	3.2-7.9	3.2-7.9	3.6-9	3.6-9
Investment losses	0	7.8	0	18.3
Total losses	3.2-7.9	11-15.7	3.6-9	21.9-27.3
GDP	257.4	704.6	295.9	989.3
Losses/GDP	1.2%-3.1%	1.7%-2.4%	1.2%-3.1%	2.2%-2.8%

Note: Investment losses refer to direct losses of economic welfare due to Taiwan's investment in China. Taiwan does not directly incur losses from Taiwanese investment in China, yet TIEs do. Nevertheless, the above figures underestimate Taiwan's losses due to China's sanctions against Taiwan. For example, TIEs drive Taiwan's exports to China, remit revenues from China to Taiwan, and expand the scale and specialization of Taiwan's industries. In addition, the above figures also underestimate China's losses, which are focused exclusively on the value-added provided by TIEs. For example, TIEs have substantially contributed to China's production techniques, management skills, and efficiency gained from resource allocation and competition.

However, Chinese scholars and officials never conducted a comprehensive assessment of direct costs of sanctions against Taiwan because in the 1995-1996 and 1999-2000 incidents Beijing never intended to impose sanctions against Taiwan. The majority of Chinese officials and scholars thought that Taiwan would suffer more than China if Beijing imposed economic sanctions against Taipei. Nevertheless, Beijing did not impose sanctions against Taipei (such as blacklisting TIEs) in the 1995-1996 and 1999-2000 incidents.

All evidence leads to the conclusion that, in addition to the relative costs, Chinese leaders attached great importance to the absolute costs of economic sanctions. They worried that economic sanctions would bring a tremendous backlash against China's economic development.⁴⁸ For instance, a senior Chinese official of the Ministry of Foreign Trade and Eco-

⁴⁸Personal interviews with various senior scholars and officials in Beijing and Shanghai from June to August, 2001.



conomic Cooperation (MOFTEC, 對外貿易經濟合作部) asserted that some scholars and officials in Beijing proposed the disruption of economic exchange between Taiwan and China in order to punish Taiwan for Lee Teng-hui's state-to-state statement. He also added that Chinese leaders nevertheless rejected the idea because the disruption would have seriously hurt China's economic development.⁴⁹

In addition, China has become a critical link in the global commodity chains and a partner in broad international interdependence. Chinese leaders have deep interests in the global economy and a strong sense of vulnerability to global economic shocks. China's imposition of economic sanctions against Taiwan would have disastrous results. As stressed by Andrew S. Grove, chairman of Intel, "It is the computing equivalent of mutually assured destruction [if bilateral economic exchange were disrupted under the context of globalization]. You can't hurt the other party without hurting yourself."⁵⁰ If international economic interdependence and the reaction of third parties, particularly the United States, were calculated into the equation, Chinese perceptions of the relative costs of economic sanctions against Taiwan in the 1995-1996 and 1999-2000 incidents would be reversed. China would suffer enormously, much more than Taiwan.⁵¹

Facing Current Problems in China

The challenges (or crises) of the economic, social, environmental, and political situation were acute by 2000. The top Chinese leaders were constantly concerned about both the stability of the country and the preservation of their power. It was not simply a question of how to improve people's living standards and thus the CCP's legitimacy, but a question of

⁴⁹Comments made at a seminar at the Institute of International Relations, National Chengchi University, Taipei, November 4, 2003.

⁵⁰Mark Landler, "These Days 'Made in Taiwan' Often Means 'Made in China'," *New York Times*, May 29, 2001, A1.

⁵¹Tung, "China's Economic Leverage," 265-91.

how to avoid major economic, social, environmental, and political crises in China and thus save the country from possible chaos.⁵² For instance, in March 2002 Premier Zhu Rongji (朱鎔基) said in a press conference that if the Chinese government had not adopted its proactive fiscal and prudent monetary policy between 1998 and 2002, "China's economy would probably have collapsed."⁵³ At this point, any domestic or external instability, or a significant slowdown in economic growth, could have led China into chaos.

A senior economist at the State Council Development Research Center (國務院發展研究中心) explained:

The mainland has been emphasizing the maintenance of stability since the mid-1990s due to staggering employment pressure caused by both the reforms of state-owned enterprises and migrants from rural areas. Social stability can be maintained only through economic development. Mainland China currently is facing immense economic difficulties, however, including financial system reform and non-performing loans, the unemployment problem, income and regional inequality, public finance reform, and industrial development and upgrading. To solve the first four problems, the mainland needs to sustain rapid economic development. For instance, during the Asian financial crisis, the reason the mainland implemented active fiscal policy was to solve social contradictions, not because leaders preferred high economic growth rates.⁵⁴

These challenges and fears faced by Chinese leaders must be addressed through: rapid, efficient, and sustainable economic growth, which requires absolute domestic and external stability; sufficient economic, social, and even political reforms; adequate environmental protection; and an international economic and political environment conducive to these domestic priorities. China needs a peaceful and stable international environment in order to develop its economy for at least several decades. In addition, China needs to cooperate with the international community in order to conduct foreign trade and acquire foreign capital and advanced technology.⁵⁵

⁵²Ibid., 294-365.

⁵³"Comparison—Xinhua Reports on Premier Zhu Rongji News Conference" (in Chinese), Beijing Xinhua Domestic Service, March 15, 2002, in FBIS-CHI-2002-0315.

⁵⁴Personal interview, Beijing, July 31, 2001.

⁵⁵Tung, "China's Economic Leverage," 197-206, 294-360.



With regard to the Taiwan issue, Chinese leaders have similar concerns and agendas. As discussed above, the primary concern that led Beijing not to impose sanctions against Taiwan as a signal might have been the high costs of economic sanctions. In addition, Beijing's emphasis on the absolute costs of imposing economic sanctions on Taiwan also reflected China's priority of economic development. A senior scholar of international relations in Beijing explained, "The mainland cannot afford the costs of China's economic sanctions against Taiwan because society would become unstable and politics would be thrown into turmoil. For the mainland, cross-Strait economic interests involve the mainland's overall economic and social stability, as well as the stability of the political regime. The current regime's survival is at stake. The mainland regime dare not take this high of a risk."⁵⁶ Many Chinese scholars unambiguously argued that Beijing attached great importance to economic development and would not like to sacrifice China's economic development in order to impose economic sanctions on Taiwan.⁵⁷

Interest Groups in China

Over the past twenty years, interest groups have increasingly played an important role in China's decision-making process.⁵⁸ This paper evaluates the influence of interest groups on Chinese decisions not to impose economic sanctions on Taiwan. Here we focus on two groups in particular—TIEs and Chinese localities⁵⁹—who have significant interests in cross-Strait economic exchanges.

In order to emphasize the importance of TIEs, President Jiang Zemin

⁵⁶Personal interview, Beijing, July 19, 2001.

⁵⁷Personal interviews with various senior scholars in Beijing, Shanghai, and Xiamen from June to July, 2001.

⁵⁸Suzanne Ogden, *Inklings of Democracy in China* (Cambridge, Mass.: Harvard University Asia Center, 2002), 258-317.

⁵⁹Localities refer to administrative units at the sub-national level, such as provinces, municipalities, or counties.

(江澤民) visited Kunshan (昆山, a small town outside of Shanghai where many TIEs are located) three times between 1998 and 2001. Jiang even told local leaders in 2001 that mainland China's Taiwan policy should be determined in consultation with TIEs in Kunshan.⁶⁰ As a result, Chinese call the Taiwan-Invested Enterprises Association (TIEA, 台資企業協會) in Kunshan the fifth local leadership—after the Party, the government, the people's congress, and the people's political consultative conference.⁶¹ As a leader of the TIEA in Beijing emphasized, "None of the requests by the TIEA has been rejected by Chinese authorities so far. Chinese authorities help TIEs solve as many problems as they can."⁶²

Although the prior statements might overstate their influence on Chinese policymaking, TIEAs and similar associations have been effective in lobbying Beijing for the protection and advancement of their interests in China. As shown below, the lobbying by the Taiwan Electrical and Electronic Manufacturers' Association (TEEMA, 台灣區電機電子工業同業公會) for their version of the "Implementation Rules for the PRC Law on Protecting Investment by Taiwan Compatriots" (hereafter the "Implementation Rules") in late 1999 clearly elucidates TIEs' political influence.

When China was drafting the "Implementation Rules," officials of the TAO, the Association for Relations Across the Taiwan Straits (ARATS, 海峽兩岸關係協會), and the MOFTEC paid numerous visits to major TIEAs for three years to get their input.⁶³ Before the Implementation Rules were finalized, the TEEMA visited pertinent Chinese officials in August 1999. Since the mid-1990s, Taiwan's investment has focused on electronics and electrical appliances, and the TEEMA represented many im-

⁶⁰Kunshan officials told TIEs about Jiang's excerpt. Author's conversation with a TIE manager in Kunshan, July 5, 2001.

⁶¹A former Chinese senior official involved with Taiwan, author's note of a conference in Shanghai, July 17, 2002.

⁶²Author's interview with Guo-yuan Chen, secretary-general of the Taiwan-Invested Enterprises Association in Beijing, July 18, 2001.

⁶³Chuo-zhong Wang, "TIEAs Create Opportunities," *Zhongguo shibao*, August 12, 1996; and Deming Yang, "Comments on the 'Implementation Rules for the PRC Law on Protecting Investment by Taiwan Compatriots,'" *Xiandai Taiwan yanjiu* (Contemporary Taiwan Studies), 2000, no. 2:73.

Table 2
Comparison of the TEEMA Proposal, MOFTEC Responses, and the Implementation Rules

Response to the TEEMA Proposal	MOFTEC Responses		Implementation Rules	
	Number	Percentage	Number	Percentage
No response/reject	7	28%	3	12%
Partially agree	5	20%	6	24%
Fully agree	13	52%	16	64%
TOTAL	25	100%	25	100%

Sources: Taiwan Electrical and Electronic Manufacturers' Association, "Taishang touzi baohufa shishi tiaoli' ji 'sheli Taishang fating' zhi yanjiu jianyi" (Proposal for "the implementation rules for the PRC law on protecting investment by Taiwan compatriots" and "establishing special courts for TIEs") (Taipei: Taiwan Electrical and Electronic Manufacturers' Association, 1999), 23 pages; and "Detailed Implementation Rules for the PRC Law on the Protection of Investment by Taiwan Compatriots" (in Chinese), Beijing Xinhua Domestic Service, December 12, 1999, in FBIS-CHI-2000-01.

portant TIEs in lobbying the Chinese government. The TEEMA lobbied for their suggestions on the Implementation Rules with Chinese officials article by article.

Table 2 is a comparison of the TEEMA proposal of the Implementation Rules, the MOFTEC responses to the TEEMA proposal, and the final Implementation Rules promulgated by the Chinese government four months later. In the original Chinese draft Rules there were thirty-one articles in total, while the TEEMA lobbied for twenty-five articles based on their version. At the time of the TEEMA visit to Beijing, the MOFTEC either did not respond immediately to or outright rejected 28 percent of the TEEMA's proposed articles, partially agreed to 20 percent, and fully agreed to 52 percent. In comparison, in the Implementation Rules, the Chinese government rejected only 12 percent of the TEEMA's proposed articles, partially agreed to 24 percent, and fully agreed to 64 percent. That is, the MOFTEC partially or fully agreed to 72 percent of the TEEMA's proposed articles, while the Chinese government partially or fully accepted 88 percent of the Implementation Rules. Even after three years of consultation with the TIEAs, the Chinese government generally accepted the majority

of input from the TEEMA. This shows how influential the TEEMA is in relation to the Chinese government.

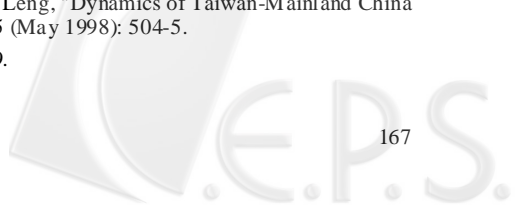
During the 1995-1996 and 1999-2000 incidents, Chinese leaders never articulated any threat to impose economic sanctions on Taiwan. To the contrary, Beijing feared that the PRC military threats might have a serious impact on Taiwanese investment in China. At the same time, the Chinese government faced tremendous and constant pressure from TIEAs who were both very anxious about cross-Strait instability and resentful of China's military threats against Taiwan. Subsequently, Taiwan's investment in China was greatly reduced, at least temporarily, and TIEA leaders threatened to withdraw their capital from China if Beijing continued its military threats against Taipei. Moreover, some TIEA leaders even threatened to return to Taiwan and fight against China if China dared attack Taiwan.⁶⁴

As a result, China—including the Chinese president, premier, ministers, TAO officials, ARATS officials, and state media—both made every effort to reassure the TIEs that their interests would be protected under all circumstances and prohibited protests against Taiwan independence after Chen Shui-bian was elected president. In addition, Beijing provided more favorable treatment and legal protection for TIEs, including promulgating the Implementation Rules in late 1999. Moreover, Beijing repeatedly reassured TIEs that there would be no war between Taiwan and China.⁶⁵

Of course, TIE pressure did not alter China's decision to launch military exercises in late 1995 and early 1996. However, the above assurance that there would be no war undermined Beijing's strategy of deterrence and coercion against Taiwan during these incidents: how could Beijing firmly reassure TIEs that there would be no war, on the one hand, and resolutely

⁶⁴Personal interviews with: Chi Su, former chairman of Taipei's Mainland Affairs Council, May 21, 2001; with Yun-yuan Liaw, director of the Department of Economic and Trade Service, Straits Exchange Foundation, May 22, 2001; and with Huai-jia Luo, executive director of the Industrial Policy Center, Taiwan Electrical and Electronic Manufacturers' Association, May 23, 2001. See also Tse-Kang Leng, "Dynamics of Taiwan-Mainland China Economic Relations," *Asian Survey* 38, no. 5 (May 1998): 504-5.

⁶⁵Tung, "China's Economic Leverage," 374-89.



deter or coerce Taiwan's leaders through the threat of a potential war, on the other? This contradictory stance made clear that Beijing attached great importance to TIEs in China, even to the point of risking failure in their strategy of deterrence or coercion against Taiwanese leaders during the incidents. In essence, Beijing's reassurance to TIEs that there would be no war was tantamount to seriously undercutting its own military threats against Taiwan.

With regard to Chinese localities, the relationship between local and central governments has been transformed significantly in the reform era. Localities in China, particularly in the coastal regions, have gained greater power through decentralization than ever before, with their agenda focusing steadily on economic development. In the 1990s, the center could no longer directly command localities through directives if those directives violated local interests, but needed to compromise and coordinate with the localities. On many occasions localities have successfully resisted national policies and lobbied the center for favorable policies with local economic development in mind.⁶⁶ In order to promote local economic interests, local lobbying efforts have successfully shaped China's relations with many neighboring powers, including South Korea, the former Soviet Union, Japan, and Taiwan.⁶⁷

Chinese localities have developed a reciprocal relationship with TIEs based on mutual economic interests. On the one hand, localities make every effort to attract and protect TIEs because these enterprises contribute

⁶⁶Richard Baum and Alexei Shevchenko, "The 'State of the State'," in *The Paradox of China's Post-Mao Reforms*, ed. Merle Goldman and Roderic MacFarquhar (Cambridge, Mass.: Harvard University Press, 1999), 333-60; Hans Hendrischke and Chongyi Feng, *The Political Economy of China's Provinces* (New York: Routledge, 1999); Linda Chelan Li, *Centre and Provincials: China 1978-1993* (Oxford: Clarendon Press, 1998); Beilei Zhu, "Cong zhongyang yu difang guanxi lun difang jingying zai quanli jiego zhong zhi jiaose fenxi" (On the role of local elites in the power structure from the perspective of central-local relations), *Dongya jikan* (East Asia Quarterly) (Taipei) 30, no. 1 (Winter 1999): 39-58; Shangli Lin, *Guonei zhengfu jian guanxi* (Relations among domestic governments) (Hangzhou: Zhejiang renmin chubanshe, 1998).

⁶⁷Peter T.Y. Cheung and James T.H. Tang, "The External Relations of China's Provinces," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, ed. David M. Lampton (Stanford, Calif.: Stanford University Press, 2001), 91-121.

enormously to local economic development and local officials are promoted based on their achievements in economic development. On the other hand, TIEs foster a cooperative relationship with local governments to advance their interests, including forging broad partnerships with local enterprises and governments. As a result, localities have shown a strong interest in protecting TIE interests, facilitating TIE operations, lobbying the center for favorable measures for TIEs, and establishing closer cross-Strait economic relations. Conversely, local policies and measures toward TIEs have at many times not necessarily been in the interests of the central government, and have even restrained Beijing's Taiwan policy at times.⁶⁸

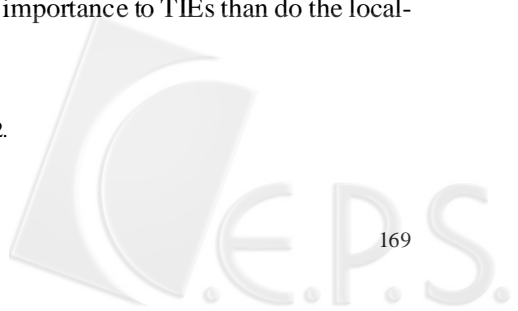
With this central-local and local-TIE relationship established, localities are likely to resist central policies that would seriously damage their economic development by escalating cross-Strait tensions, including by imposing economic sanctions against Taiwan. The coastal areas have enormous, vital interests in continuing and expanding cross-Strait economic exchange. During the 1995-1996 and 1999-2000 Taiwan Strait incidents, the localities—particularly in the coastal areas—reiterated their pledge to protect the interests of TIEs, adopted more favorable treatment for TIEs, and conveyed their concerns to the center about the result of an escalation in cross-Strait tensions. It is yet unclear, however, how much influence these localities had on Beijing's Taiwan policy during the two incidents.⁶⁹

Due to the secretive nature of China's decision-making process, it is almost impossible to know the true influence of the localities in these two incidents. Two reasons might explain why local pressure on the center was somewhat ambiguous. First, Beijing did not intend to use force against Taiwan in the two incidents. Thus, the localities did not have major conflicts with the center over a possible war in the Taiwan Strait, and knew that their losses would at most be temporary.

Second, Beijing attaches no less importance to TIEs than do the local-

⁶⁸Tung, "China's Economic Leverage," 407-12.

⁶⁹*Ibid.*, 412-18.



ities. During the tensions, the center vigorously reassured TIEs. On certain sensitive occasions, the center even actively reminded the localities to reassure TIEs. Therefore, the localities were not in a conflicting position with the center either over the protection of TIEs' interests or the promotion of economic development.

The eighty or so Chinese scholars and officials interviewed by this author from June to August 2001⁷⁰ unanimously agreed that cross-Strait economic exchange has restrained Beijing's Taiwan policy. They argued that the interests of cross-Strait economic exchange, represented by TIEs and the localities, have made Beijing reluctant to adopt a radical Taiwan policy—including a war between Taiwan and China—because the costs of conflict would simply be too high. For instance, a senior scholar of international relations in Shanghai contended, "If there were no cross-Strait economic exchange, the voices for using force against Taiwan would have been much louder. Because of economic interests, coastal provinces do not want to have a war with Taiwan."⁷¹ Another senior scholar of international relations in Shanghai asserted, "Chinese politics has changed dramatically. Interest groups have become larger and larger in China. Business groups have had a great impact on China's Taiwan policy. Without the moderate voice of business groups, cross-Strait tensions would have been much higher."⁷²

A senior scholar of Taiwan studies in Beijing summed it up poetically: "A thousand interests, ten thousand interests—economic interests are the most important interests; a thousand relations, ten thousand relations—economic relations are the most important relations." He elaborated by saying that cross-Strait economic exchange ties the interests of both sides together, and that the mainland has benefited from the reform and

⁷⁰The author arrived in China on June 4, 2001, and stayed in Xiamen for one week, Shanghai for one month, Chengdu (成都) for four days, and Beijing for one and a half months. He left Beijing on August 15. During this trip, he conducted interviews with Chinese scholars in major research institutes, officials of the Taiwan affairs system, and Taiwan business-people.

⁷¹Personal interview, Shanghai, June 15, 2001.

⁷²Personal interview, Shanghai, June 26, 2001.

opening-up process. Therefore, the mainland would never want a war with Taiwan.⁷³

To sum up, the interests of TIEs and of Chinese localities to preserve cross-Strait economic exchange have gradually served to restrain China from further escalating tensions. The importance of TIEs and Chinese localities in China's decision-making in turn substantially minimized the possibility of Beijing imposing economic sanctions on Taiwan during the two incidents because sanctions would have brought much greater and more direct damage to TIEs and the localities than would a military threat.

Taiwan's Reaction to China's Military Threats

This section assesses the responses of the public, the political elite,⁷⁴ interest groups, and decision-makers in Taiwan to China's military threats during the 1995-1996 and 1999-2000 incidents. That is, it assesses rally-around-the-flag effects, fifth-column effects, and the perceptions of decision-makers in Taiwan during these two incidents.

To assess the reaction of the Taiwanese public to Chinese threats, this paper explores trends in opinion polls on cross-Strait issues conducted by five different institutions in Taiwan in the late 1990s—including the Election Study Center at National Chengchi University (國立政治大學選舉研究中心); Burke Marketing Research, Ltd. (柏克市場研究公司); China Credit Information Service, Ltd. (中華徵信社); the Center for Public Opinion and Education Studies at National Sun Yat-sen University (國立中山大學民意調查研究中心); and the Survey and Opinion Research Group at National Chung-cheng University (國立中正大學民意調查研究中心). Although many factors influence the polls in Taiwan, this research attempts to establish a direct causal relationship between Chinese military threats and Taiwanese reaction since, in these two cases, the Taiwanese polls

⁷³Personal interview, Beijing, July 29, 2001.

⁷⁴The term "political elite" refers to the leaders of political parties, legislators, ranking governmental officials above the vice-minister level, and presidential candidates.

registered immediate and significant change after both Chinese military threats and the relaxation of cross-Strait relations.

According to the opinion polls, as China escalated tensions in the Taiwan Strait between 1995 and 2000, the public also perceived an increase in Chinese hostility toward both Taiwan's government and people. As long as Beijing threatened or sought to coerce Taiwan, Taiwan's people tended to support their government in confronting Beijing. It is apparent that Chinese military threats stirred strong nationalism, or "rally-around-the-flag" effects, in Taiwan.⁷⁵

To assess the reaction of Taiwanese elites, this paper analyzes the response of Taiwan's presidential candidates to China's military threats in the 1995-1996 and 1999-2000 campaigns.

There were four major presidential candidates in the 1996 election in Taiwan: Lee Teng-hui, the Kuomintang (KMT, 中國國民黨) presidential candidate; Peng Ming-min, the Democratic Progressive Party (DPP, 民主進步黨) presidential candidate; Lin Yang-kang (林洋港), an independent presidential candidate; and Chen Li-an (陳履安), another independent presidential candidate. Chen Li-an's and Lin Yang-kang's criticism of President Lee Teng-hui's China and foreign policies represented a fifth-column effect of the Chinese military threat. Despite this criticism at home, however, those who voted for Lee Teng-hui and Peng Ming-min (more than 75 percent of total voters) generally supported both Lee's visit to the United States and Taiwan's bid for more room on the international stage. Furthermore, both Lee and Peng also openly preferred not to make any concessions to China in the face of its military threats. The 1996 election revealed a rally-around-the-flag effect and a moderate fifth-column effect, which were triggered by China's military threats.⁷⁶

The 2000 Taiwan presidential election was essentially a contest among three leading candidates: Lien Chan (連戰), the ruling KMT candidate; Chen Shui-bian, the DPP candidate; and James Soong (宋楚瑜), an

⁷⁵Tung, "China's Economic Leverage," 426-37.

⁷⁶*Ibid.*, 437-40.

independent candidate. During the election, Chen Shui-bian and Lien Chan supported President Lee Teng-hui's remarks referring to the "special state-to-state relationship" between Taiwan and China. Although initially criticizing President Lee's remarks, James Soong muted his opposition after August 1999 and strongly challenged Beijing's position after the PRC escalated its military threats toward Taiwan. All three candidates denounced China's military threats and emphasized that Taiwan is an independent sovereign country. They insisted that Taiwan would not negotiate with China under military pressure, let alone make concessions. Thus, the reactions of the three candidates during the election essentially constituted a rally-around-the-flag effect, which, as in the 1996 election, was triggered by China's military threats.⁷⁷

Regarding the reaction of interest groups in Taiwan, this paper discusses the role of TIEs in Taiwan's policy-making process in the two incidents. TIE pressure on the Taiwanese government has concentrated on the issues of facilitating cross-Strait economic exchange, and has seldom centered on political issues. In general, TIEs would like to have both the Taiwanese and Chinese governments maintain peace and stability in the Taiwan Strait. These enterprises have hardly ever expressed their political positions on any particular issue or pressured the Taiwanese government in any way.

During the 1995-1996 and 1999-2000 Taiwan Strait tensions, TIEs hardly raised political issues with the Taiwanese government. In general, most TIEs did not lobby for Taipei to make concessions to Beijing under China's military threats, although some TIEs asked for caution and no further provocation from the Taiwanese government. Furthermore, most TIEs supported Taiwan's position. The majority of TIEs strongly opposed Chinese military threats, as discussed in the previous section. That is, Chinese military threats triggered a strong rally-around-the-flag effect, with a mild fifth-column effect, from interest groups in Taiwan.⁷⁸

⁷⁷Ibid., 441-48.

⁷⁸Personal interviews with: Huai-jia Luo, executive director of the Industrial Policy Center, Taiwan Electrical and Electronic Manufacturers' Association, May 23, 2001; with Horng-

From the perspective of decision-makers, Taiwan essentially did not make explicit concessions to China while under Chinese military threats in 1995-1996 and again in 1999-2000. Taiwan's leaders perceived that concessions made by Taiwan under such threatening circumstances would have simply encouraged China to threaten Taiwan further (i.e., concern about reputation) and would have undermined Taiwan's status in future negotiations with the PRC (i.e., concern about relative gains). The perception of Taiwan's decision-makers is consistent with the prerequisites of the conflict expectations model. That is, Taiwan would be inclined not to make concessions to China under Chinese threats because of concerns about reputation and relative gains.⁷⁹

Conclusion

According to theories of economic sanctions and the two case studies, China is not likely to impose sanctions on Taiwan in the future. In the short term, China's willingness to impose sanctions on Taiwan will be constrained

by the costs of sanctions, internal instability, and pressure from interest groups. In the long term, one additional factor would likely be pressure from the public.

Parenthetically, Beijing may attach great importance to the prevention of Taiwan independence. Beijing may or may not use military force to prevent Taiwan independence. Nevertheless, this paper does not seek to answer whether closer economic interdependence between Taiwan and

ming Tsai, deputy secretary-general of the Chinese National Federation of Industries, May 28, 2001; and with Vincent C. Siew, former premier and chairman of the MAC, August 23, 2001.

⁷⁹Jing-wen Zou, *Lee Teng-hui zhizheng gaobai shilu* (Confession of Lee Teng-hui's ruling experience) (Taipei: Ink, 2001), 120; as well as personal interviews with Vincent C. Siew, August 23, 2001; with Chang King-yuh, former MAC chairman, August 20, 2001; with Jung-kung Chang, director-general of the Department of Mainland Affairs, KMT Central Committee, May 22, 2001; with Su Chi, May 21, 2001; and with Chong-pin Lin, then MAC vice chairman, June 1, 2001.

China would restrain a radical Chinese policy toward Taiwan and thus lead to peace across the Taiwan Strait. In either case, however, this paper concludes that Beijing will not resort to economic sanctions on Taiwan.

Furthermore, there is little evidence that China's economic sanctions against Taiwan would be successful, while much evidence shows that such sanctions would fail in the future. First, in terms of costs, China would suffer more than Taiwan from any imposition of economic sanctions. Second, in a case of severe hostility between Taiwan and China, a rally-around-the-flag effect would prevail in Taiwan. Third, Taiwan's decision-makers would be reluctant to make concessions to China under threatening circumstances because of strong concerns about reputation and relative gains.

Overall, in terms of the two-stage test of both the initiation and outcome of economic sanctions, China can gain no economic leverage over Taiwan by imposing economic sanctions, and Taiwan's vulnerability to China's exploitation of its economic leverage by imposing economic sanctions is almost nonexistent.