

Economic Interdependence and Foreign Policy Behavior: ROC Versus PRC

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The collapse of communist systems in both East Europe and Soviet Union has facilitated the dramatic expansion of the World Capitalist System, which has brought about a strengthened economic interdependence. With such a strong global current, the economic relationship between Republic of China on Taiwan (ROC or Taiwan) and People's Republic of China (PRC or mainland China) has been changed and grown by leaps and bounds. Indirect cross-strait trade increased rapidly in the 1980s and the early 1990s. During this period, PRC emerged as ROC's fifth largest trading partner with total sum of trade US\$5.8 billion in 1991. Besides, ROC investments in PRC in the first quarter of 1992 amounted to US\$320 million, making ROC

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the fourth largest investor in the mainland China behind Hong Kong, Japan, and the U. S. More important, some largest corporations in Taiwan (e.g. Formosan Group, Evergreen Group, President Group, Hualoong Group, and Cathy Group) have already taken positive steps for mainland China investments. Whatsoever, the increasing economic interdependence between ROC and PRC has resulted in heat debate about its effects on cross-strait relations among officials, experts and scholars in Taiwan.

While promoting China's re-unification, ROC has cautiously increased its political presence in international society. Taiwan not only attempts to rejoin governmental international organizations (e. g. General Agreement on Tariffs and Trade), but also expands its diplomatic or official relations with nations around the world. The unusual development of Taipei-Beijing-Niamey triangular relationship is the best example to illustrate the tug of war between ROC and PRC in the political front.

ROC and Niger signed a joint communique and announced their decision to re-establish diplomatic relations on June 19, 1992. In the meantime, Niger maintains its diplomatic relations with PRC and, as a result, this action constitutes so-called "dual recognition." PRC could not tolerate "dual recognition" and accused that ROC was trying to force its way into Africa to edge out PRC's influence. PRC's strong reaction provoked a political

storm, splitting the Niger government and threatening to topple reformist prime minister Cheiffou. On order to hold its latest victory, ROC immediately sent a delegation, headed by the director of African Affairs of ROC's Foreign Ministry, to Niger. The dust has finally settled down and PRC suspended its relations with Niger. Whatever the result is, this event brings two important questions before us: (1) what kind of economic relationship exists between two sides of the Taiwan Straits? (2) will this economic relationship affect their political relationship, foreign policy behavior in particular?

II. What Is Interdependence

Simply and broadly speaking, interdependence means mutual and reciprocal effects among countries or among actors in different countries in an increasing number of different issue areas (Wagner, 1988; East, 1981; Richardson and Kegley, Jr., 1980; Tetreault, 1980; Keohane and Nye, 1977). Keohane and Nye (1977) caution us not to define interdependence entirely in terms of situation of evenly balanced mutual dependence. They argue that asymmetries in dependence matter most and provide sources of influence for actors in their dealings with one another.

Prior to discussing how the economic interdependence affect foreign policies, it is necessary for us to identify characteristics

of interdependence. In the first place, multiple channels exist and connect nations, including informal ties between governmental elites as well as formal foreign office arrangements; informal ties among nongovernmental elites; and transnational organizations (Keohane and Nye, 1977). Bureaucrats, nongovernmental elites, and multinational corporations are important actors not only because of their activities in pursuit of their own interest, but also because they act as communication bridge, making government policies in different countries more sensitive to one another. Furthermore, attention should be made to several newly-forming international economic organizations (e.g. Pacific Basin Economic Council, Pacific Economic Cooperation Conference, Asia-Pacific Economic Conference), which are promoting economic integration in Pacific area. The main feature of these organizations is the crucial role played by the nongovernmental elites (Shen, 1991). In the last two organizations, national delegation includes representatives from business and academic.

The second character is increased number and variety of issues. The rising of mutual dependence among nations has resulted in the expansion of foreign policy agendas in both number and variety of issues. Issues like environmental protection, energy, natural resources, food, population, the uses of space and the seas are given higher priority and ranked equally

with national security issues (East, 1981). Thus, foreign policy agenda, which formerly confined to national security issues, is now open to an almost unlimited number and variety of potential issues. United Nations Conference on Environment and Development (or so-called Earth Summit) held in Rio De Janeiro of Brazil is the most illuminative and latest event, revealing changes in issues on foreign policy agenda. This two-week summit produced five principal documents: (1) Biodiversity Convention; (2) Global Warming Convention; (3) Rio Declaration on Environment and Development; (4) Agenda 21; (5) Statement on Forest Principles. It is noteworthy that 153 countries signed the Biodiversity Convention and Global Warming Convention on the spot and more than 116 heads of state (including U.S. President George Bush) attended this summit. All in all, the problem of environment has ranked one of the most important factors in the process of decision making. Furthermore, the distinction between domestic and foreign issues has been blurred. Different issues generate different coalitions, both within governments and across them, and involve different degrees of conflict. Politics does not stop at the water's edge (Keohane and Nye, 1977).

A third character is increasing dominance of economic issues. It goes without saying that interdependence is economic relations in nature (Yokoi, 1990; Spero, 1990; Gilpin, 1987; Blake

and Walters, 1987; East, 1981; Keohane and Nye, 1977). The expansion of World Capitalist System has made possible a dramatic increase in international economic transactions. As a result, national economies become increasingly interdependent, increasingly sensitive to economic policy and events outside the national economy (Spero, 1990). The second explanation for this dominance is that the use of military forces to achieve national goals is less useful and less proper in an era of interdependence (East, 1981; Keohane and Nye, 1977). Thirdly, governments have enlarged their involvement in and responsibility for domestic, economic well-being to the extent that the sensitivity and vulnerability of "low politics" issues to external events have become matters of highest concern (East, 1981).

The fourth one is the minor role of military force. Realism assumes that the international system is characterized by anarchy and the states are unitary actors seeking to survive in this anarchic system. While facing threats from aggressive competitors, states might form balancing and military alliance to survive (Goldgeier and McFaul, 1992). Thus, the use of military forces is inevitable. However, in the era of interdependence, coercive power is no longer an appropriate means of achieving goals other than national security — those goals are becoming more important. In addition, economic interdependence and political democracy

make the use of military force less likely. As the major powers come to share norms about economics and politics, the rationale for participating arms race and seeking allies among these major powers is severely weakened and the cost of arms building and alliance seeking is increased greatly (Goldgeier & McFaul, 1992). For the developing countries, the possibility of military conflicts and war will be decreased in those regions which enjoy both greater economic interdependence and more political democracy. The desire of many poorer states to approach the major powers in order to obtain the economic advantages may induce cooperation instead of conflicts (Goldgeier & McFaul, 1992). However, military force can still be used for the political purpose, especially for the developing countries. Furthermore, for states whose relations approximate complex interdependence, two conditions may force them to appeal force: "(1) drastic social and political change could cause force again to become an important direct instrument of policy; and (2) even when elites' interests are complementary, a country that uses military force to protect another may have significant political influence over the other country." (Keohane & Nye, 1977).

Based on major characteristics of interdependence, Keohane and Nye (1977) further point out the political processes with which dominant countries can translate power resources into

power as control of subordinate countries' foreign policy behavior. Linkage strategies is one political process utilized to induce foreign policy agreement. As the use of military force becomes less likely and as issues become more equal in importance, the distribution of power within each issue will become more important. Dominant states may attempt to use overall economic power to affect results on other issues. If only economic objectives are targeted, they may succeed. But economic objectives have political implications. Under these conditions, economic linkage is limited by domestic, transnational, and trans-governmental actors whose resistance or opposition has something to do with their vested interests. On the other hand, poor weak states often use linkage strategies as means of extracting concessions from rich, powerful states (Keohane & Nye, 1977).

With the increased number and variety of issues, the politics of agenda formation and control will become more important. Under interdependence, the agenda of foreign policy behavior is affected by the international and domestic problems created by economic development and increasing sensitivity interdependence. Governments, international regimes, and discontented domestic groups will politicize issues and lead more issues once considered domestic onto the interstate agenda. Changes in the distribution of power resources within sets of issues will also affect agendas.

A third political process, is the transnational and trans-governmental relations. The number of international conferences and organizations (both governmental and nongovernmental) has been expanded. The multilateral or parliamentary diplomacy taking place in these conferences and international organization meetings is a significantly new form of international interaction. The secretariats and staffs of these international conferences and intergovernmental organizations are increasingly important and active new actors in world politics (East, 1981). The closer a relationship is to economic interdependence, the more the outcomes of political interactions will be influenced by transnational relations (Keohane & Nye, 1977).

The final discussion of political process is on the role of international organization (Keohane & Nye, 1977). In an interdependent world with multiple equally-ranked issues, coalitions are formed transnationally and transgovernmentally, the role of international organizations in political bargaining is dramatically enlarged. More important, international organizations assist set the international agenda and act as catalysts for alliance-formation and as forums for political initiatives and linkage by poor developing states. The active involvement of United Nations, West European Union, and Conference on Europe Security and Co-operative into Yugoslavia internal war is the best illustration.

III. Interdependence and Influence

Up to now, one important question remains unanswered: under what conditions can interdependent relationship be used by one state to achieve political influence over target state? Asymmetrical interdependence is regarded as sources of power among states and provides the opportunity of influence (Richardson & Kegley, Jr., 1980; Keohane & Nye, 1977). To understand the role of power in interdependence, Keohane and Nye (1977) make a distinction between sensitivity and vulnerability. In terms of the costs of dependence, sensitivity means liability to costly effects imposed from outside before policies are changed to try to reverse the situation. Vulnerability is defined as an actors' liability to suffer costs imposed by external events even after policies have been changed (Keohane & Nye, 1977). In other words, sensitivity dependence summarizes the costs that actor A could suffer at actor B's hands before actor A makes compensatory adjustments; vulnerability dependence refers to the long run costs that actor A would experience even after it had adjusted its policies as best it could to the changes brought forth by actor B (Richardson & Kegley, 1980). It is clear that vulnerability dependence is much more important than sensitivity dependence, because vulnerability includes strategical dimen-

sion and denotes more enduring and cumulatively greater costs (Richardson and Kegley, 1980; Keohane & Nye, 1977).

Moon (1985, 1983) utilizes "bargaining model" to elaborate the correlations between interdependence relationship and foreign policy agreements. He argues that "powerful nations secure the cooperation of weaker states chiefly through the use of reward and punishment behavior." (Moon, 1983) This model specifies the nature of external influence to involve a deviation from the dependent state's preference which is presumably a product of internal forces, especially those involving the characteristics of the individual decision-makers. Thus, foreign policy behavior of dependent state is adaptable in short term and adaptive to the reward behavior of a dominant state. In his analysis, Moon (1985, 1983) regards aid-giving, trade, investment as reward behavior. Wagner (1988) also points out that "if political concessions are expected as a result of a threat to interrupt an existing economic relationship, this must be because there is unexploited bargaining power in the existing relationship, that is, the party demanding the political concession could, if it chose, successfully demand more favorable terms in the existing relationship." Furthermore, the use of economic interdependence for political influence, as Wagner concludes, requires that the exchange of economic resources for political concessions make both parties

to a relationship better off than they would be if they bargained over the distribution of the gains from the economic relationship alone (Wagner, 1988). At last, Wagner identifies trade and aid as instruments of political influence.

In this article, I am going to use above-mentioned interdependence as analysis framework to address following questions: (1) is there interdependent relationship between Taiwan and mainland China? (2) if it exists, what kind of interdependent relationship? (3) does their interdependent relationship affect their foreign policy behavior? This analysis will focus on trade interdependence and, to a limited extent, investment interdependence.

How does trade dependence influence the foreign policy of dependent state? It is impossible, in this analysis, for me to utilize votes in the United Nations General Assembly on certain salient issues. Thus, I am going to apply Richardson's scheme on foreign policy concept (see Table 1). Here, Richardson (1981) uses two dimensions to classify foreign policy concept into four categories (i.e. compliance, consensus, defiance, and dissensus). Those two dimensions are (1) foreign policy agreement and (2) attempted to influence. Compliance means those agreements where in one of the two countries succeeds in convincing the other to adopt a policy position contrary to its original intent.

Table 1 Classification of Foreign Policy Concepts

		Foreign Policy Agreement	
		Yes	No
Attempted To Influence	Yes	Compliance	Defiance
	No	Consensus	Dissensus

Source: Richardson, "Economic Dependence and Foreign Policy Compliance," p.90.

Consensus refers to policy agreement that may not include prior consultation and does not denote one party's capitulation. Dissensus relates to policy disagreements in which neither country attempts to persuade the other. Defiance is a country's refusal in the face of efforts by a second country to influence the first to compromise its original policy intent (Richardson, 1981). With this four-category scheme, I can pinpoint foreign policy behavior of both Taiwan and mainland China.

Furthermore, it is very hard to tell whether mainland China holds the dominant position or not. Consequently, a comparison between Taiwan and mainland China is made in terms of socio-economic development (see Table 2). Both in the provision of basic human needs and in the creation of national wealth, Taiwan's performance is far ahead of PRC's. With respect to medical and health service, Taiwan is leading in terms of number of bed

Table 2

A Comparison of Socio-Economic Development between ROC & PRC						
	ROC			PRC		
	'88	'89	'90	'88	'89	'90
National Income						
GNP						
(100 million U.S. dollar)	1,253	1,503	1,617	3,765	4,165	3,638
GNP per capita						
(U.S. dollar)	6,333	7,512	7,997	346	394	320
Saving & Consumption						
Annual Consumption						
Per Capita (U.S. dollar)	3,118	3,919	4,236	172	191	—
Annual Savings Per Capita						
(U.S. dollar)	2,216	2,333	2,353	93	123	129
Daily Calorie Consumption						
Per Capita	3,017	2,993	—	2,485	—	—
Daily Protein Consumption						
Per Capita	89.5	89.8	—	69	—	—
Transportation & Communication						
Number of Telephone Per						
Hundred	35.9	38.9	41.3	0.86	—	—
Number of Automobile Per						
Hundred	10.7	12.9	14.8	0.48	—	—
Number of Television Set						
Per Hundred	25.7	26.5	—	13.2	—	—
Number of Daily News Per						
Hundred	15.7	16.7	—	5.2	3.9	3.8
Education						
Total Enrolled Students						
(Per 10,000)	2,604	2,586	2,688	1,758	1,813	1,905
Enrolled College & University						
Student (Per 10,000)	249	266	283	19	20	18
Enrolled Secondary School						
Student (Per 10,000)	873	877	891	437	462	457
Enrolled Primary School						
Student (Per 10,000)	1,206	1,183	1,154	1,152	1,113	1,078
Medical & Health Service						
Number of Bed in Hospital						
(Per 10,000)	44.5	43.1	43.7	23.0	23.1	23.0
Number of Medical Personnel						
(Per 10,000)	41.7	42.6	44.8	34.0	34.3	34.1

in hospital as well as number of medical personnel. In 1990, the number of bed in hospital per ten thousand is 43.7 in Taiwan; 23.0 in mainland China. In the same period, the number of medical personnel per ten thousand for Taiwan is 44.8; 34.1 for mainland China. With regard to GNP per capita, PRC lags behind ROC with US\$320 versus US\$7,997 in 1990. It is estimated that PRC must take twenty years or so to catch up with ROC (Kao, 992). Based on the preceding analysis, it seems that Taiwan holds a dominant position and superior to mainland China. However, it goes without saying that PRC is much stronger than ROC in terms of total industrial outputs, military strength, natural resources, area and population. More important, PRC's dominance over ROC is recognized by the international society, at least most nations in this society.

IV. ROC versus PRC: Asymmetric Interdependence?

An observation of economic transactions between ROC and PRC should reveal some critical facts and further our understanding. In the first place, indirect trade between ROC and PRC (1979-1991) is targeted (see Table 3). Since mainland China adopted the policies of "reform and open-door" in late 1978, cross-strait economic relations have been improved greatly. From

Table 3 Indirect Trade Between Taiwan and Mainland China (1979-1991)

Unit of Value: US\$million
Growth Rate: %

Year	Total			Cross-Strait Trade Via Hong Kong						Trade Balance
	Value	Growth Rate	Degree of Dependence	Export of Taiwan to Mainland			Import of Taiwan from Mainland			
				Value	Growth Rate	Degree of Dependence	Value	Growth Rate	Degree of Dependence	
1979	77.76		0.25	21.47		0.13	56.29		0.38	-34.82
1980	311.18	300.18	0.79	234.97	994.41	1.19	76.21	35.39	0.39	158.76
1981	459.33	47.61	1.05	384.15	63.49	1.70	75.18	-1.35	0.35	308.97
1982	278.47	-39.37	0.68	194.45	-49.38	0.88	84.02	11.76	0.44	110.43
1983	247.69	-11.05	0.55	157.84	-18.83	0.63	89.85	6.94	0.44	67.99
1984	553.20	123.34	1.06	425.45	169.55	1.40	127.75	42.18	0.58	297.70
1985	1,102.73	99.34	2.17	986.83	131.95	2.04	115.90	-9.28	0.58	870.93
1986	955.55	-13.35	1.49	811.33	-17.78	2.29	144.22	24.43	0.60	667.11
1987	1,515.47	58.60	1.38	1,226.53	51.18	3.70	288.94	100.35	0.83	937.59
1988	2,720.91	79.54	2.47	2,242.22	82.81	4.38	478.69	65.67	0.96	1,763.53
1989	3,483.39	28.02	2.94	2,896.49	29.18	4.38	586.90	22.61	1.22	2,309.59
1990	4,043.62	16.08	3.32	3,278.26	13.18	4.88	765.36	30.41	1.40	2,512.90
1991	5,793.11	43.26	4.16	4,667.15	42.36	6.12	1,125.95	47.11	1.79	3,541.20

Source: Kao, Koong-Lian, *Guidelines for National Unification and Cross-Strait Relationship*, p.38.

1979 to 1991, Taiwan's export to mainland China has been increased from 21.47 million U.S. dollar to 4,667.15 million U.S. dollar; its degree of dependence (i.e. the ratio of Taiwan-PRC transaction value to Taiwan-all states transaction value) from 0.13 in 1979 to 6.12 in 1991. Taiwan's export to mainland China expanded 216-fold during 1979-1991 period at an average annual growth rate of 55.26. With regard to Taiwan's import from mainland China, its value has been enlarged from 56.29 million U.S. dollar in 1979 to 1,125.95 million U.S. dollar in 1991. The degree of dependence of Taiwan's import from PRC jumped from 0.38 in 1979 to 1.79 in 1991. In sum, trade between ROC and PRC increased 73-fold during 1979-1991 period with an average annual growth rate of 61.03. Taiwan's trade dependence on mainland China (i.e. ratio of Taiwan-mainland China trade value to total Taiwan trade value) has been increased from 0.25 in 1979 to 4.16 in 1991. As Table 3 shows, Taiwan's exports to mainland China have been rising greatly since 1984 and Taiwan's imports demonstrated a vigorous increase only after 1987. As a result, it can be concluded that cross-strait trade became significant for Taiwan's politico-economic environment only seven years ago (Chang & Chang, 1989).

In addition, Taiwan's investment illustrates another facet of economic interdependence. According to a report from ROC's

Ministry of Economic Affairs, Taiwan investment amounted to almost 2 billion U.S. dollar and a total of 3000 Taiwanese companies invested in mainland China, as of the end of 1991. In reality, Taiwanese investment on the mainland China focuses on the coastal areas (mainly at Guangdong province, Fujian province, Shanghai city, and Zhejiang province) and was mainly in labor-intensive and export-processing industries, including electronics, hardware, footwear, chemicals, toys, umbrellas, machinery, building materials, and feel farming. More important, not only small-medium businesses but also big corporations are seriously infected with "mainland China Fever" (i.e. eagerness to set up foothold in mainland China).

With regard to promoting economic interactions between two sides of Taiwan Straits, ROC government plays an active role, although quite cautiously. Economic Affairs Minister Vincent Siew expressed that the ROC government would give priority to the following three tasks in 1992 in advancing cross-strait commercial ties: (1) strengthening counseling services for Taiwan manufacturers intending to undertake cross-strait ventures; (2) urging mainland China to fairly protect the interests and investments of Taiwan Businesses; (3) organizing Taiwan businessmen with interests and investment in mainland China to help one another in dealing with local authority. As a matter of fact, trade between ROC and PRC

soared 43 percent last year as links between two sides of the Taiwan Straits strengthened. ROC investments in mainland China in the first three months in 1992 amounted to 320 million U.S. dollar, making ROC the fourth-largest investor in the mainland behind Hong Kong, Japan, and the U.S.

Under its reform and open-door policy, PRC has been devoted into economic reforms, including encouragement of foreign investment and decentralization of power which delegated local decision-makers, factory managers, and trade agents greater power and greater flexibility to manage trade affairs. However, the rhythm of economic reform has been inconsistent and faster intermittently between 1979 and 1989, reflecting the ups or downs of the economy (Chang and Chang, 1989). Concerning its trade policy toward Taiwan, mainland China offers some preferential treatments to so-called "Taiwan Compatriots." For example, PRC promulgated "Regulations for Encouraging Investment by Taiwan Compatriots" in July 1987. According to the "Regulations", Taiwanese businessmen enjoy equal treatments as foreign businessmen except in several areas. Compared with Foreign businessmen, Taiwanese investors have fewer limits on investment targets, capital transfer and inheritance, and operation period. Owing to classifying as PRC citizen, Taiwanese investors are given fewer privileges in the arbitration of trade disputes and

investment protection (Chang and Chang, 1989).

In addition to the dominance of economic issues, channels, which connecting peoples across the Taiwan Straits, have been multiplied. The ROC government did take several critical steps to deregulate limits on the free flow of the people in the first place.

(1) Taiwan residents were first allowed to visit relatives in mainland China on November 1, 1987. From November 2, 1987 to February 29, 1992, more than half million Taiwan residents visited mainland China.

(2) Mainland China residents were given approval for attending family funerals and visiting sick relatives in Taiwan on September 10, 1988. From November 9, 1990 to February 29, 1992, more than 12 thousand mainland China residents visited Taiwan (Ma, 1992).

(3) Distinguished mainland China residents and scholars (including those who doing research or studying abroad, were permitted to visit Taiwan on November 19, 1988. From December 1, 1988 to February 29, 1992, 385 this kind of people visited Taiwan (Ma, 1992).

According to another statistics, more than 2.5 million Taiwan and mainland China residents has visited the other side of the Taiwan Straits (Ma, 1992).

Secondly, international organizations have played an important role as forum for "low political" and direct exchanges between elites of the two sides. In November 1988, the ROC government gave green light to members of non-governmental organizations to participate in international conferences, sports competitions held in mainland China by international organizations. Later on, the ROC government extended this permission to non-governmental organizations on May 23, 1989.

Thirdly, both ROC and PRC set up non-governmental intermediary organizations as representatives of the government to foster exchanges and handle issues and conflicts between two sides of the Taiwan Straits. In February 1991, Straits Exchange Foundation was formally operated as an intermediary organization. On December 16 of the same year, PRC set up the Association for Relations Across the Taiwan Straits as the counterpart institution. By means of these two intermediary organizations, both sides can have an institutionalized channel of quasi-official communication so as to deal with problems as a result of increased contacts between Taiwan residents and mainland residents.

Statistics on postal coorespondence service and telegraph and telephone service do provide concrete evidences of people-to-people contacts. From March 1988 to February 1992, the

volume of cross-strait postal correspondance service amounted 46,547,509 pieces in total. In the same period, telegraph service amounted 129,395 messages and telephone service amounted 294,762 minutes (Ma, 1992).

After having discussed economic interactions, the free flow of people, and people-to-people contacts, it is necessary for us to investigate into the role of military forces in cross-strait relations. In early 1979, the Standing Committee of the PRC's National People's Congress issued the "Message to Compatriots in Taiwan," which officially announced the cessation of the propaganda shelling of the offshore islands and called for negotiations to end military confrontation (Huang et al., 1992). In addition, PRC leaders have reiterated their intentions to limit the use of military forces to liberate Taiwan. To reduce high tension in the Taiwan Straits, ROC government also took positive steps. For example, it abolished the statutes, which encouraging the defection of mainland China's military personnel with handsome rewards. More important, ROC President Lee Teng-hui ended the Period of National Mobilization for Suppression of the Communist Rebellion, paving the way for a new relationship with mainland China. As a result, coercive power is no longer an appropriate means to achieve low political goals in cross-strait relations.

From the preceding analyses of economic interactions, the free flow of people, people-to-people exchanges, and the rule of military forces, a tentative conclusion can be drawn that a complex interdependence exists between ROC and PRC.

But, another question is: does a dependency relationship exist between between ROC and PRC? Theorists of dependency argue that link between dependence and foreign policy lies in a long-term structural relationship in which the opportunity for the weaker state and the necessity for the more powerful state to engage in short-term bargaining is severely limited. A dependency relationship generates distortions in the social and political system of the weaker state which bring to power an elite whose interests, values and perceptions have more in common with the elites of the powerful nation than with the masses in their own country (Moon, 1983). In order to test the dependency relationship, we should look into trade relationship between two sides of the Taiwan Straits further. In the first place, the composition of trade between two sides should be analyzed. Concerning Taiwan's export to mainland China (see Table 4), manufactured goods and machinery and transport equipment are staple commodities, accounting 80 percent. The third and fourth major items are miscellaneous manufactured articles and chemicals, rising to about 10 to 18 percent share since 1983.

Table 4 Commodity Structure of Taiwan's Exports to Mainland China

SITC	Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	Unit: %
6	Mfg. Goods	86	65	72	79	68	59	54	60	55	44	
7	Machinery & Transport Equip.	9	25	22	13	16	27	35	27	28	35	
8	Miscel. Mfg. Articles	0.3	3	3	4	13	8	8	7	7	6	
5	Chemicals	4	1	1	2	1	2	2	3	7	12	
2	Inedible Crude Materials	0.1	6	2	2	1	3	1	2	2	2	
	else	0.6	0	0	0	1	1	0	1	1	1	

Source: Chang, Raymond J. M. & Pei-chen Chang. "Taiwan's Emerging Economic Relations with PRC."

It is noteworthy that chemicals occupies 12 percent of Taiwan's exports to PRC in 1988 and is the fastest growth commodity (Chang and Chang, 1989). With regard to Taiwan's import from mainland China (see Table 5), inedible crude materials has always been the commodity which takes the biggest share. With the trade booming after 1984, the share of inedible crude materials has been decreasing, though remaining the top one item. The second item is food and live animals in the period of 1979-1983, but shifts to manufactured goods in the 1984-1988 period (Chang and Chang, 1988). This detailed analysis does confirm that the unequal exchange between ROC and PRC is in favor of ROC. In other words, Taiwan is in the dominant position and PRC in the subordinate one.

Furthermore, Taiwan's socio-economic development is higher than mainland China. As Table 2 shows, capitalist-oriented Taiwan has performed much stronger than socialist-oriented mainland China in the provision of basic human needs. It goes without saying that PRC adopts economic reform and open-door policies. Consequently, it seems that Taiwan has penetrated into mainland China and attempted to change its political and socio-economic system. If we are talking about dependency, ROC is dominant state and PRC is dependent state.

Next, let's investigate into economic dependence from per-

Table 5 Commodity Structure of Mainland China's Exports to Taiwan

SITC	Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
2	Inedible Crude Materials	88	83	81	79	71	60	49	44	46	39
5	Chemicals	4	5	7	9	11	8	10	15	12	11
6	Manufacturing goods	1	2	2	3	6	13	13	22	25	27
0	Food & Live Animals	5	9	9	8	11	16	26	16	12	11
	else	2	1	1	1	1	3	2	3	5	12

Unit: %

Source: Chang, Raymond J. M. & Pei-chen Chang. "Taiwan's Emerging Economic Relations with PRC."

spective of economic interdependence. As Table 3 shows, the economic interrelations between Taiwan and mainland China have been enlarged greatly. Whether it is two-way trade, or imports, or exports, Taiwan and mainland China rely on each other. In comparison, Taiwan's degree of dependence is higher than mainland China's. Even with a higher degree of dependence, Taiwan's dependence on mainland China does not pose any serious threat to its existence. In other words, if mainland China cut off its trade or economic relations with Taiwan, Taiwan could overcome the hurdle, especially after policy adjustment. Therefore, Taiwan's dependence is classified as sensitivity dependence.

V. Struggles on Political Front

It is noteworthy that PRC tends to use its economic policies to extract political concessions and benefits from Taiwan. In an official document of May 1985, United Front Work Department stressed that the major purpose of its trade policy toward Taiwan is "to make Taiwan more and more dependent on mainland China . . . so as to manipulate Taiwan's economy and economy and to accelerate the unification of the motherland." (Mainland Affairs Committee, 1989). Furthermore, mainland China's Ministry of Economic Relations and Trade, which is in charge of trade with Taiwan, set a "Bureau of Economic Relations

with Taiwan” to devise export, import, investment, and other economic affairs toward Taiwan. All in all, mainland China has made every efforts to deepen Taiwan’s economic dependence on PRC and to use this dependence as leverage for political purposes—especially the realization of PRC’s version of China reunification.

In order to measure foreign policy behavior, a salient issue should be located first. Scholars argue that a dominant country’s efforts to extract foreign policy compliance from a dependent country are restricted to those occasions politically salient to the former (Richardson, 1981; Richardson and Kegley, 1980). In my analysis the salient issue is the competition between ROC and PRC on diplomatic front, especially after 1989. On the one hand, ROC wants to gain equal status in cross-strait competition by means of a stronger presence in international society. PRC, on the other hand, would like to drive ROC into a corner or reduce its presence in this global society.

Table 6 illustrates some basic data about diplomatic competitions between two sides. Altogether, there are 9 cases presented in this table, i.e. those nine states establish or re-establish diplomatic or consular relations with ROC. The recent diplomatic initiative of the ROC started on July 20, 1989 when the ROC established full of official relationship with Grenada. If the PRC accepted this fact without any reaction, “dual recognition” would come

Table 6 Competition between ROC and PRC in Diplomatic Front

Country	Date of Establishment of Diplomatic Relations with Republic of China	Date of Termination of Diplomatic Relations with Mainland China
GRENADA	July 20, 1989	August 7, 1989
LIBERIA	October 9, 1989	October 10, 1989
BELIZE	October 13, 1989	October 23, 1989
LESOTHO	April 5, 1990	April 7, 1990
GUINEA-BISSAU	May 26, 1990	May 31, 1990
NICARAGUA	November 5, 1990	November 7, 1990
CENTRAL AFRICA	July 8, 1991	July 18, 1991
NIGER	June 19, 1992	July 30, 1992
Latvia	January 29, 1992 (consular relations)	February 25, 1992 (close its embassy)

Source: various issues of *The China News*.

true—i.e. a tacit recognition of “one nation, two states.” Either dual recognition or “one nation, two states” is in contradiction to PRC’s version of China’s re-unification, i.e. one nation, two systems and PRC government is central government and ROC government is local government.

Facing the establishment of diplomatic relations between ROC and Grenada, PRC did not back down and terminate its diplomatic relationship with Grenada. The Grenada event does illustrate a kind of defiance foreign policy behavior. Either ROC or PRC did make every efforts to influence on the other, but failed to obtain foreign policy agreements.

In similar vein, PRC terminated or suspended its diplomatic relations with Liberia, Belize, Lesotho, Guinea-Bissau, Nicaragua, Central Africa, and Niger, when these seven states re-established or established full official relationship with ROC. All these prove the consistence of both ROC’s and PRC’s foreign policy behavior and indicate the existence of competition between two sides of the Taiwan Straits. In addition, ROC closed its embassy stationed at Latvia, when ROC announced the establishment of consular relations with Latvia on January 1992. It is noteworthy that in the last two cases (i. e. Latvia and Niger), PRC did make every efforts to reverse the fact and to stop ROC’s diplomatic offense. By and by, PRC noticed that it must take some actions to stop

ROC's advance prior to the formation of a strong pro-ROC current. The establishment of formal relationship with both Saudi Arabia and South Korea represents an important signal and, of course, offset PRC's setbacks.

As preceding discussion, economic interdependence between ROC and PRC was expanded remarkably in the period of 1989-1991. A tentative conclusion can be drawn that for the moment economic interdependence between two sides of the Taiwan Straits does not bring about foreign policy compliance, but do produce defiance foreign policy behavior.

VI. Conclusion

Ever since 1979, the economic relations between ROC and PRC have been enlarged dramatically in terms of two-way trade and Taiwan's investment in mainland China. Total value of two-way trade was increased from 77.76 million U.S. dollar of 1979 to 5,793.11 million U.S. dollar of 1991. Moreover, one ROC government survey of nearly 3,500 enterprises showed that more than one-sixth of them have already invested outside Taiwan, with the largest single investment destination—attracting 23.6 percent of the firms—being mainland China.

The economic interdependence between two sides of the Taiwan Straits do affect their foreign policy behavior to a certain extent.

On the one hand, PRC really started to pay much attention to ROC's presence in the international society. In the first seven cases showed in Table 6, PRC suspended or terminated its diplomatic relationship with those seven nations immediately after they had established diplomatic relations with ROC. In the last two cases, PRC suspended its official relations only after they had spent more time and used every efforts to alter situation. On the other hand, ROC took more cautious way in the diplomatic front in the last two years—a sharp contrast to its diplomatic offenses in 1989 and 1990.

However, the political relations between two sides of the Taiwan Straits is in stalement, i.e. “one nation, two states” of ROC versus “one nation, two systems” of PRC. A lot of efforts must be made before both sides sit down and conciliate their differences.

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Chronology—Milestones of Cross-Strait Relationship

1987

- November 1 — Taiwan residents begin filing applications for visiting their relatives in mainland China.

1988

- April 18 — The ROC Red Cross Society begins forwarding mail from Taiwan residents to the mainland.

- August 5 — Restrictions are lifted on the indirect import of fifty categories of agricultural and industrial raw materials from the mainland.

- August 18 — The Mainland Affairs Task Force is formally established by the Executive Yuan, with vice premier Shih Chi-yang as convener and Ma Ying-jeou as executive secretary.

- September 10 — Mainland residents are allowed to attend family funerals and visit sick relatives in Taiwan.

- November 19 — Members of non-governmental organizations are allowed to participate in international conferences, sports competitions, and cultural activities held in mainland China by international organizations.

- Limited numbers of distinguished mainland residents and overseas mainland scholars and students are allowed to visit Taiwan.

1989

- March 27 — Native Taiwanese soldiers of the Nationalist Army stranded on the mainland and their dependents are given approval for resettling in Taiwan.

- April 7 — The Chinese Taipei Olympic Committee announces that ROC athletic teams and organizations will participate under the title "Chinese Taipei" in international sports events held on the mainland.

- April 10 — The ROC government approves the Regulations governing Goods from the Mainland Area and establishes a system for indirect imports of mainland goods.

- April 17 — Permission is granted for news reporting and film-making on the mainland China.

May 23 — Permission is granted to non-governmental organizations to attend international conferences or related activities held on mainland China by international organizations of which they are members.

June 7 — Indirect telecommunication links across the Straits begins, and simplified mailing procedures are adopted for correspondence destined for the mainland.

1990

March 19 — Businessmen are allowed to explore trade opportunities and to attend trade fairs on the mainland.

— Permission is granted on a case-by-case basis for government employees to attend international conferences in the mainland China.

June 25 — Government officials are allowed to visit sick relatives or attend funerals on the mainland.

September 24 — ROC's Ministry of Economic Affairs approves indirect Taiwan exports to the mainland.

October 6 — ROC's Ministry of Economic Affairs issues Measures for Controlling Investment and Technical cooperation with the mainland area.

October 7 — The National Unification Council is established by the President Office. The council is headed by President Lee Teng-hui.

1991

January 28 — The Mainland Affairs Council is officially set up by the Executive Yuan.

February — Straits Exchange Foundation was formally operated to handle affairs and disputes arising as a result of increased contacts.

March 14 — The ROC government formally issued a document "Guidelines for National Unification", outlining its short-term, intermediate, and long-term policy toward China's reunification.

April 30 — President Lee Teng-hui announces that the Period of National Mobilization for Suppression of the Communist Rebellion will be ended on May 1.

December 16 — Mainland China sets up the Association for Relations Across the Taiwan Straits, the counterpart institution of Taiwan's Straits Exchange Foundation.

1992

July 16 — Statutes on Relations between the People Across the Taiwan Straits is enacted. This Statutes opens up a new and normal exchanges between two sides.

IV. Appendix (Selected Works of the Sixth Volume) (第二輯)

Chapter V. Monetary (第五章 貨幣) (一) 貨幣與國際收支

1. *Regional Cooperation in Trade and Finance* (區域合作與貿易金融)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

2. *Constructing Theories of International Relations* (構建國際關係理論)

By James E. Doherty and Robert L. Haggard (著者：詹姆斯·E·多爾蒂和羅伯特·L·哈加德)

3. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

4. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

5. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

6. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

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7. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

8. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

(Selected Works of the Sixth Volume) (第二輯)

9. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)

10. *China's Foreign Trade and Investment* (中國的對外貿易與投資)

Edited by Robert A. Dorn (編者：羅伯特·A·道爾)