

China's Economic Offensive and Taiwan's Defensive Measures: Cross-Strait Fruit Trade, 2005–2008*

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Abstract

This article explains how Taiwan's Democratic Progressive Party (DPP) administration was able to restrict cross-Strait fruit trade and resist China's "fruit offensive" in a democratic setting. During 2004–2005, China implemented various preferential policies for the importation of Taiwanese fruit and wooed Taiwanese farmers in the rural south, where political support for the DPP was concentrated. However, trade statistics show that cross-Strait fruit trade only increased slightly, making up just 4 or 5 per cent of Taiwan's total fruit exports during 2005–2008. I argue that focusing solely on regime type ignores the formal and informal policy instruments a democratic state can wield to manage its commercial ties with, and resist economic offensives from, other states. Cross-Strait fruit trade was limited because the DPP used legal as well as corporatist informal policy instruments to resist China's fruit offensive. I conclude that state–society institutional relations explain cross-Strait economic relations and economic statecraft better than regime type alone.

Keywords: cross-Strait economic relations; economic statecraft; fruit trade; state–society institutional relations; corporatism

In the study of economic relations across the Taiwan Strait, conventional wisdom holds that democratization in Taiwan has diminished its government's ability to prevent Taiwanese businesses from establishing commercial ties with China. Democratization, the literature argues, has contributed to (1) the collapse of Taiwan's developmental state, which governed the commercial decisions of Taiwanese companies;¹ (2) increased political competition, which has granted businesses greater voice vis-à-vis the government;² and (3) vibrant opposition politics, which has complicated the management of cross-Strait economic ties.³

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1 Leng 1996; Wu 2007.

2 Sutter 2002; Chan 2006; Kastner 2009.

3 Tanner 2007, 34.

This notion has also been applied to the study of economic statecraft across the Taiwan Strait. Kahler and Kastner, for example, argue that democratization in Taiwan has made it difficult for Taiwanese leaders to resist Beijing's economic engagement strategies because a growing constituency in Taiwan with economic stakes in China tends to pressure the government for a less confrontational policy towards Beijing.⁴

This article challenges the conventional wisdom with an examination of the cross-Strait fruit trade between 2005 and 2008. After the pro-independence Democratic Progressive Party (DPP) candidate, Chen Shui-bian 陳水扁, was re-elected as president in 2004, China began wooing Taiwanese farmers in the rural south, where political support for the DPP was concentrated. Beijing worked closely with Taiwan's Pan-Blue opposition – the Kuomintang (KMT) and the People First Party (PFP) – to reach agreement on lifting the duty on Taiwanese fruit. It also invited the KMT-linked Farmers' Association of Taiwan Province (FATP) to participate in negotiations concerning such issues as customs clearance, inspection, quarantine and certificate of origin. Launched in 2004–2005, China's "fruit offensive," as it is termed by the Taiwanese media, offered various preferential policies for Taiwanese fruit. However, as this article will show, the fruit offensive was responsible for only a slight increase in China's share of Taiwan's overall fruit exports, bringing the total to 5 per cent in 2005–2008. In fact, China's share even declined annually between 2005 and 2007. How was it possible that the DPP could restrict the trade of fruit with China and resist Beijing's fruit offensive in a democratic setting?

This question is also puzzling from the perspective of the economic statecraft literature. With regard to target vulnerability, Mastanduno writes, "the most familiar political distinction among targets is between democracies and non-democracies."⁵ Hufbauer, Schott, Elliot and Oegg argue that democracies are more susceptible to economic pressure than autocracies.⁶ Similarly, Papayoanou and Kastner argue that "democratic states will, therefore, tend to pursue cooperative policies toward those with whom they have significant economic links."⁷ The literature maintains that democratic governments are relatively weak when it comes to societal groups such as the ones Hirschman terms "commercial fifth columnists," which tend to put pressure on their governments to comply with the sender's demands.⁸

Based on what Nordlinger calls "the autonomy of the democratic state,"⁹ I argue that focusing on regime type alone ignores the policy instruments, both formal and informal, that a democratic state can wield over its societal groups to

4 Kahler and Kastner 2006.

5 Mastanduno 1999, 297.

6 Hufbauer et al. 2007.

7 Papayoanou and Kastner 1999, 161.

8 Hirschman 1945, 29.

9 Nordlinger 1981.

resist other states' economic pressure. To resist China's fruit offensive, the DPP used legal instruments to prevent the Pan-Blue camp and the FATP from negotiating with China over trade issues which required governmental authority. It also used two informal policy instruments. First, the DPP threatened the FATP with the withdrawal of government subsidies if the organization continued to deal directly with China. Second, the DPP directed the agricultural sector to trade with countries other than China by mobilizing state-sponsored marketing institutions and quarantine techniques. In sum, these formal and informal policy instruments complemented one another and constituted a relatively airtight defensive line and enabled the DPP to withstand the fruit offensive.

It is important to determine where the informal policy instruments used by the DPP came from. The economic statecraft literature identifies various defensive policies adopted by the target to resist the sender's economic pressure, including trading with a third party,¹⁰ import-substitution policy,¹¹ smuggling and resource conservation programming.¹² However, what is unexplained is where state capabilities come from. Can the state implement these defensive policies without institutional connections with society? How can the state mobilize society, especially in a democratic setting?

I argue that the DPP's informal policy instruments did not proceed in an institutional vacuum, but instead derived from the corporatist institutions linking the state and the agricultural sector. Corporatist structures in democracies, as Haggard argues, are successful in extracting compromise from society.¹³ In Taiwan, while most corporatist institutions have collapsed since democratization, agricultural corporatism remains relatively intact. Corporatist agricultural institutions thus enabled the DPP to manipulate government subsidies and mobilize state-sponsored marketing institutions and quarantine techniques. As Mastanduno maintains, democracies can respond to other states' economic leverage through political integration.¹⁴ Similarly, Blanchard and Ripsman posit that integrating domestic politics reduces the political costs of non-compliance.¹⁵ Jentleson calls political integration in the target "the transmission belt effect."¹⁶ Therefore, this article explicitly brings corporatism into the study of economic statecraft. What Katzenstein calls "democratic corporatism"¹⁷ not only helps small states in Europe deal with economic openness, but also enables a small state like Taiwan to resist economic pressure from a big state like China. In sum, focusing on corporatist institutions avoids either overestimating societal capabilities in democracies or assuming state capabilities.

10 Hirschman 1945, 14–16.

11 Selden 1999.

12 Blanchard and Ripsman 1999, 223.

13 Haggard 1990, 45.

14 Mastanduno 1999, 297.

15 Blanchard and Ripsman 1999.

16 Jentleson 2000, 136.

17 Katzenstein 1985.

This article begins with a historical overview of China's fruit offensive. It then outlines the evolution of corporatism in Taiwan, focusing on the distinct paths that business corporatism and agricultural corporatism have taken since democratization. The main section examines how the DPP resisted China's fruit offensive. To put this study into a comparative context, it then examines the DPP's inability to prevent Taiwanese businesses from deepening economic ties with China, focusing on the unavailability of formal and informal policy instruments to the DPP. It concludes that state–society institutional relations explain the dynamics of cross-strait economic relations and economic statecraft better than regime type alone.

Beijing's Fruit Offensive

In the late 1970s, China began promoting cross-strait economic integration as a strategic means to coerce or induce Taipei to accept Beijing's political demands. From 1980, Taiwanese manufacturers were granted duty-free status when setting up in China, and in 1988, China passed a law that provided special incentives for Taiwanese businesses to invest in China.¹⁸ However, although Taiwan's economy had become increasingly dependent on China by the early 1990s, cross-strait political relations remained tense, especially during the presidencies of Lee Teng-hui 李登輝 and Chen Shui-bian. Both of these leaders had refused to accept the so-called one-China principle for a decade and devoted themselves to Taiwan independence.

Despite gaining little political ground, Beijing formulated another economic engagement strategy after the re-election of President Chen in 2004. This time the intention was to woo the farmers in rural southern Taiwan by offering economic carrots to those who might have an interest in gaining access to the Chinese market. In Taiwan's "southern politics," the DPP had acquired steady political support in the rural south.¹⁹ China's objective, as Chan argues, was to increase Taiwanese farmers' "stake in ongoing and future commerce, and to decrease the incentive for them to support economic and political rupture [across the Taiwan Strait]."²⁰

Agricultural engagement policy became one of the tools used in China's united front strategy after the 2004 "May 17 Statement." Issued three days before President Chen's second-term inauguration, the statement claimed that Beijing, while opposing Taiwan independence movements, would give Taiwanese agricultural produce greater market access to China. On 4 March 2005, the Chinese president, Hu Jintao 胡锦涛, set forth the "Four-Point Guideline on Cross-Strait Relations under New Circumstances" and pledged to promote the importation of Taiwanese agricultural produce. On 14 March, Premier Wen Jiabao 温家宝

18 Kahler and Kastner 2006, 534.

19 Lee and Hsu 2002.

20 Chan 2006, 4.

pledged to “take measures to boost the import of agricultural produce from Taiwan, particularly from southern Taiwan.”²¹ In addition, in April, China's State Council established a working group on the importation of Taiwanese agricultural produce, headed by vice-premier, Wu Yi 吳儀.

The centrepiece of China's agricultural engagement policy was the so-called fruit offensive. In November 2004, during a visit to China by former DPP chair, Hsu Hsin-liang 許信良, Beijing announced that it would add seven more types of fruit to the list of five that were already allowed to be imported from Taiwan. In April 2005, China invited KMT chair, Lien Chan 連戰, and PFP chair, James Soong 宋楚瑜, to visit China. It also promised to give duty-free status to Taiwanese fruit exported to China. On 23 May, China announced that it would allow the importation of six more types of Taiwanese fruit, making a total of 18 types of fruit altogether. It also promised to speed up the procedures for customs clearance, inspection, quarantine and release for Taiwanese fruit. On 1 June, China officially announced that it would lift import tariffs on 15 of the 18 types of Taiwanese fruit it allowed to be imported.²²

Beijing viewed cross-Strait fruit trade as a domestic affair and therefore refused to conduct inter-government negotiations with the DPP over technical issues such as customs clearance, quarantine, inspection and the certificate of origin. In fact, China ignored the DPP after it took power in 2000 and instead “placed hopes on the people of Taiwan.” In June and July 2005, Beijing made advances towards the FATP and twice invited the organization to visit for negotiations.²³ The FATP was closely associated with the KMT. Both Liu Chuan-chung 劉詮忠, chair of the FATP, and Pai Tien-chih 白添枝, chief of the FATP Board of Standing Supervisors, were KMT legislators in the Legislative Yuan. Chang Yung-cheng 張永成, secretary-general of the FATP, was a relative of Chang Jung-wei 張榮味, a Pan-Blue commissioner for Yunlin County 雲林縣. The FATP was also looking to gain access to the Chinese market: it was reported that it had not only attempted to set up an agricultural trade corporation in China, but had also agreed with Beijing that it would earn NT\$250 (US\$8.7) for every certificate of origin it issued for Taiwanese fruit going to China.²⁴ Many Taiwanese farmers had also become interested in selling their fruit to China, regardless of cross-Strait political hostility, and although some were cautious about the risks and uncertainties associated with the market there, others regarded it as a viable alternative outlet for their fruit.

The DPP, not surprisingly, viewed the fruit offensive with alarm. President Chen described the fruit offensive as “a 100% politically motivated united

21 Tsai, Ting-i. 2005. “The Beijing-Taipei fruit fracas,” *Asia Times*, 26 August.

22 Ibid.

23 China also approached the Federation of Agricultural Cooperatives of Taiwan Province and the Fruit Marketing Cooperative of Taiwan Province, but this article only concerns itself with the FATP, which was their primary target.

24 Lo, Ju-lan. 2005. “Shengnonghui yu duian dachen gongshi” (FATP reaches an agreement with China), *Zhongguo shibao*, 24 June.

front strategy”²⁵ that was directed at securing a KMT victory in the 2008 presidential election. He argued that because he had “won the 2000 and 2004 presidential elections based on sweeping electoral support in southern Taiwan, China realized that it would be difficult for the Pan-Blue camp to win the 2008 presidential election if the south could not be won over.”²⁶ Second, the DPP viewed China’s courting of the FATP as a conspiracy to undermine Taiwanese sovereignty and governmental authority. It insisted that the government should not be excluded from negotiations concerning cross-strait fruit trade and consequently put a stop to the FATP’s negotiations with China. On 24 July 2005, China invited the FATP to a further round of negotiations but, owing to pressure from the DPP, the FATP did not attend. As a result, Beijing, in a unilateral move, announced its preferential policies for Taiwanese fruit on 1 August.

At the 2006 Cross-Strait Economics and Trade Forum, jointly held by China and the KMT, Beijing announced additional preferential policies for Taiwanese fruit. These included allowing the importation of four additional types of Taiwanese fruit; sending agricultural procurement missions to Taiwan during periods of overproduction of fruit; establishing a Taiwanese fruit wholesale marketplace in Xiamen 厦门, and allowing Taiwanese fruit distributors to use it free of storage and rental fees; and establishing a toll-free “green channel” for distributors in order to reduce transportation costs.

Table 1 shows cross-strait fruit trade between 2001 and 2010. In 2001–2004, the fruit export value that Taiwan earned from China was trivial: China accounted for less than 1 per cent of Taiwan’s total fruit exports. The fruit offensive, by contrast, not only increased the fruit export value, but also raised China’s share of Taiwan’s total fruit exports to 5 per cent between 2005 and 2008. However, cross-strait fruit trade remained limited. In absolute terms, although cross-strait fruit trade increased fivefold between 2004 and 2005, its subsequent growth was modest: from US\$1.7 million in 2005 to US\$2.5 million in 2008. In relative terms, the fruit offensive did not make Taiwan’s fruit exports dependent on the Chinese market. China’s share of Taiwan’s total fruit exports even declined annually from 2005 to 2007, indicating that the fruit offensive had little impact. Moreover, the level of cross-strait fruit trade between 2005 and 2008 was lower than that between 2009 and 2010. It was only after 2008, when the KMT succeeded the DPP in office, that cross-strait fruit trade began to grow significantly. In 2010, fruit exports to China reached a peak of US\$10.8 million, accounting for almost 20 per cent of Taiwan’s total fruit exports.

Two notes are in order here. First, although fruit exports to China increased with the shift of power from the DPP to the KMT, other factors could have played a role in the variation of trade levels, including market conditions. Taiwanese mangos only fetched US\$0.72 per kilogramme in China, far lower

25 Office of the President (Taiwan) 2005c.

26 Ibid.

Table 1: Cross-Strait Fruit Trade, 2001–2010

Year	Fruit exported to China (US\$ 1,000s)	Percentage of Taiwan's total fruit export
2001	1.90	0.006
2002	83.30	0.29
2003	219.40	0.53
2004	352.90	0.99
2005	1,694.90	5.30
2006	1,920.30	5.02
2007	2,148.30	4.85
2008	2,481.60	5.58
2009	5,293.50	11.93
2010	10,803.20	19.57

Source:

<http://agrapp.coa.gov.tw/TS2/TS2jsp/TS20201.htm>, Taiwanese Agricultural Trade Database.

than the US\$3.97 per kilogramme they earned in Japan.²⁷ This may have made the Chinese market unattractive to Taiwanese farmers. In addition, it was argued that Taiwanese fruit was expensive for Chinese consumers, and this could have affected the sales of fruit in China. Market conditions could then partially explain why cross-Strait fruit trade remained limited during the DPP's tenure. However, to the extent that market conditions remain relatively constant within a short span of time, they cannot account for the growth of cross-Strait fruit trade since 2008. It is therefore reasonable to assume that the DPP's policy measures were the major factor limiting the export of fruit to China between 2005 and 2008.

Second, space does not allow me to explain the growth in cross-Strait fruit trade since 2008 in this article. The question that this article seeks to address, after all, is how the DPP was able to resist China's fruit offensive in a democratic setting, rather than why there is a variation in the levels of cross-Strait fruit trade before and after 2008. Moreover, the growth of cross-Strait fruit trade since 2008 is less puzzling because President Ma Ying-jeou 馬英九 has adopted various policies to promote cross-Strait relations and exchanges.

Corporatism in Taiwan

Corporatism, according to Schmitter, can be defined as:

A system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.²⁸

Corporatism in Taiwan under the KMT's authoritarian rule was party-state in form. It stabilized the KMT's ruling power and developed Taiwan's economy.

²⁷ Office of the President (Taiwan) 2005b.

²⁸ Schmitter 1974, 93–94.

After migrating from China in the late 1940s, the KMT initiated corporatist-based political reform in 1951 through which it established organizational ties with Taiwan's society.²⁹ Societal groups in Taiwan were organized into hierarchical associations along sectoral lines. At the top of the business community, for example, were three national leading organizations: the Federation of Industry, representing the manufacturing sector; the Federation of Commerce, representing the service sector; and the National Council of Industry and Commerce (NCIC), whose membership included almost all elite business groups.³⁰ To control the business community, the KMT usually appointed the heads of these three leading organizations to its central committee.³¹ In addition, the party-state corporatist structure also served to develop Taiwan's economy. The NCIC held weekly breakfast meetings during which business leaders and government officials exchanged market information and policy opinion in order to formulate industrial policy and facilitate industrial upgrading.³²

The KMT also organized Taiwan's agricultural sector into corporatist associations through which it consolidated its political power base and developed the rural economy. The Farmers' Associations (FAs) were first formed under Japanese rule. After the KMT took power, the FA system continued and was further developed as a three-level hierarchy with the FATP at the top, 21 county/city FAs on the second tier, and a third tier comprising 268 township FAs.³³ Through this hierarchical structure, the KMT was able to establish patron–client relations with local factions. Under KMT rule, the FAs were regarded as “party-state corporatist organizations.”³⁴ The FAs also served to develop the rural economy by implementing the government's agricultural development policies. This elaborate network of agricultural associations provided farmers with loans, agricultural technology, technical training, fertilizers, warehousing and other services.³⁵

However, after democratization in the late 1980s, corporatism began to collapse. As Kuo observed, “corporatist regulations have been challenged, as independent social organizations have formed outside existing corporatist associations.”³⁶ In particular, democratization shifted the balance in government–business relations in favour of business as vibrant electoral politics left political figures dependent on business people for their political contributions at election times.³⁷ In the 1989–1992 Legislative Yuan, for example, 38 per cent

29 Cheng 1989, 475.

30 Chu 1994, 119–120.

31 Huang 2004, 43.

32 Wade 1990.

33 For the three-level structure of the FAs, see <http://www.farmer.org.tw/english/english.htm>. Accessed 16 May 2012.

34 Liu 1995.

35 Amsden 1985, 81.

36 Kuo 2000, 88.

37 *Ibid.*

of the popularly elected members had ties with businesses.³⁸ This figure increased to 47 per cent during 1992–1995.³⁹ As a result of their coalitions with elected politicians, businesses increasingly bypassed the state-sanctioned corporatist system and the once monopolized system of interest representation became increasingly pluralized. As Wu argues, democratization replaced regime autonomy with interest politics and weakened state penetration into businesses.⁴⁰

The monopoly the three leading national organizations had over the representation of business interests during the KMT's rule has also been challenged since 2000. When the DPP first came to power, the Federation of Industry, the Federation of Commerce and the NCIC remained closely aligned to the KMT. Although the DPP succeeded in appointing Huang Mao-hsiung 黃茂雄, a DPP-associated business elite, as the NCIC chair in 2002, its attempts to influence the Federation of Industry and the Federation of Commerce failed. Instead, it sought to work closely with DPP-associated business associations, such as the National Association of Small and Medium Enterprises, headed by Dai Sheng-tung 戴勝通. It also supported Lee Cheng-chia 李成家 in establishing the Taiwan Federation of Industry in 2001 as an alternative to the Federation of Industry.⁴¹

Democratization also weakened state control over the FAs. Local factions began to gain seats in the Legislative Yuan after the introduction of national elections. Two FATP leaders, Liu Chuan-chung and Pai Tien-chih, served as KMT legislators during the DPP's tenure, as mentioned above, and so represented different interests to the DPP. In the run up to elections, politicians from all parties need the support of the leaders of the FAs to mobilize voters in rural areas. This, in turn, has also increased the FAs' autonomy vis-à-vis the state.

However, the FAs' autonomy has not altered the agricultural corporatist structure. First and foremost, unlike businesses, the FAs have not experienced any division. During the DPP's tenure, the FAs were still closely associated with the KMT, but the DPP did not support or establish alternative FAs. Thus, the FATP still monopolizes interest representation for the agricultural sector. Second, according to Article 3 of the Farmers' Associations Act, the FAs are subject to the supervision of the Council of Agriculture (COA). The FAs' functions – agricultural extension, economic affairs, farm credit and insurance – are subject to COA regulations. The FAs thus are still state-guided. As I will discuss below, Liu Chuan-chung was asked by the COA to report on his China trip upon his return to Taiwan, despite the fact that he was a KMT legislator. Third, the FAs still play a role in implementing agricultural development projects for the government, as Liao argues.⁴²

38 Chu 1994, 126.

39 Huang 2004, 54.

40 Wu 2007, 988.

41 Huang 2004, 60.

42 Liao 2004.

In Schmitter's words, since democratization the FAs have been transformed from state corporatist organizations to societal ones.⁴³ However, the FAs do not completely fit Schmitter's definition of corporatism. For example, the DPP could not intervene in the FATP's leadership selection. Moreover, thousands of farmers took to the streets in November 2002 to protest against the financial reform programmes that called upon the Ministry of Finance to take over the credit departments of the FAs.⁴⁴ Despite these exceptions, several corporatist features remain in state–agriculture relations, as enumerated above. As Schmitter argues, corporatism is an ideal type because no empirically extant system of interest representation has perfectly reproduced all elements of corporatism.⁴⁵ Moreover, corporatism does not guarantee the absence of conflicts of interest. The advantage of corporatism as an analytical tool is to direct attention to how the state uses whatever corporatist institutions it has to resolve conflicts of interest.

The DPP's Defensive Measures

Preventing the FATP from negotiating with and contacting China

After announcing its duty-free policy for Taiwanese fruit, Beijing approached the FATP for negotiations. From a Chinese perspective, the FATP was a civic organization that had specialized in agricultural affairs in Taiwan for decades. It could implement quarantine and inspection procedures and issue the certificate of origin. Beijing would accept any fruit trade-related documents issued by the FATP. Moreover, because the FATP was the top agricultural organization at provincial level, by negotiating with the FATP Beijing could treat Taiwan as a province of China.

In May 2005, the Association for Economic and Trade Exchange across the Taiwan Strait (AETATS), a civic organization founded by China's Ministry of Commerce, was given the task of negotiating cross-Strait fruit trade. In early June of that year, the AETATS invited the FATP to visit Beijing for talks.

To stop the FATP from negotiating with and contacting China, the DPP used two policy instruments, one formal and the other informal. The formal policy instrument was the Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area. Article 5 of the law stipulates that any individual, juristic person, organization or other institution in Taiwan shall not negotiate or execute any agreement involving governmental authority with its Chinese counterpart unless authorized by the Taiwanese government. Similarly, Article 33-1 stipulates that no individual, juristic person, organization or other institution in Taiwan may engage in cooperation with a Chinese counterpart that conducts "political work" towards Taiwan.

43 Schmitter 1974, 93–94.

44 For the financial reform programmes, see Liao 2004.

45 Schmitter 1974, 93–94.

When FATP leaders decided to accept the AETATS's invitation, the Mainland Affairs Council (MAC) warned them not to sign any agreement with China that required governmental authority. The government would not authorize the FATP to negotiate tariffs, customs clearance, quarantine, inspection and the certificate of origin, all of which, the government argued, involved the exercise of governmental authority. The government stated that it would seek legal recourse if the FATP broached issues involving governmental authority.⁴⁶ In an interview, Joseph Wu 吳釗燮, MAC chair (2004–2007), said that the Taiwanese government explicitly used the law and asked the FATP not to encroach on the government's authority.⁴⁷

To emphasize its governmental authority, the DPP proposed a “one principle, three arrangements” formula for its fruit trade policy. The “three arrangements” were as follows. First, the government appointed the Taiwan External Trade Development Council (TAITRA), a semi-official organization founded by the Ministry of Economic Affairs in 1970, as the body to coordinate the global export of Taiwanese agricultural produce; local FAs were only to coordinate the supply of produce. Second, as cross-Strait agricultural trade involved issues related to governmental authority, the government gave authorization to TAITRA to negotiate these issues with China. Third, to facilitate the delivery of fruit to China, the government also authorized TAITRA to negotiate cross-Strait cargo transportation that could carry farm produce without stopovers.⁴⁸

Beijing was reluctant to negotiate with TAITRA. First, Beijing regarded TAITRA as a government agency and therefore negotiations with TAITRA would draw no distinction from talks with the MAC. Second, because TAITRA specialized in promoting Taiwan's *international* trade, Beijing regarded Taipei's designation of TAITRA as political manoeuvring aimed at making cross-Strait fruit trade a state-to-state affair.

Under pressure from the DPP, FATP leaders promised the COA that they would not sign any agreement involving governmental authority with Beijing and insisted that the purpose of their trip to China was only to open communication channels with Beijing.⁴⁹ However, on 19 June, they cancelled the trip. Chang Yung-cheng claimed that the cancellation was a direct result of government pressure.⁵⁰ In the end, the FATP, claiming to serve Taiwanese farmers' interests, made the scheduled trip. The FATP leaders, including Liu Chuan-chung, quietly visited Beijing on 21 June, but they signed no agreements

46 MAC 2005b.

47 Interview with Joseph Wu, Taipei, 14 December 2011.

48 COA (Council of Agriculture). 2005. “Dui Taiwan shengnonghui fu Zhongguo qiatan shuiguog denglu nongweihui chongshen zhengfu lichang” (COA reiterates government positions about FATP's negotiations with China), 18 June, http://www.coa.gov.tw/show_news.php?cat=show_news&serial=9_diamond_20050618121915. Accessed 16 May 2012.

49 MAC 2005c.

50 Li, Ming-hsien. 2005. “Guanfang guanqie shengnonghui denglu jiaoting” (FATP cancels China trip due to government pressure), *Ziyou shibao*, 20 June.

with China. Upon their return, the COA asked Liu to report on his China trip. In his 30 June testimony, Liu confirmed that the FATP did not reach any consensus or agreement with China.⁵¹

The informal policy instrument used by the DPP against the FATP was the threat of withdrawing government subsidies. The FAs are corporatist organizations implementing agricultural development projects on behalf of the government, and in return, Article 38 of the Farmers' Associations Act stipulates that the government shall subsidize the FAs. In early July 2005, the COA announced that it would suspend government subsidies worth NT\$350 million (US\$12 million) to the FATP.⁵² According to one COA official, although the FATP refrained from negotiating issues involving governmental authority with Beijing, the June trip to China was still humiliating for the Taiwanese government. The suspension decision, according to the same official, was taken to dissuade the FATP from contacting China again.⁵³

After its attempts to negotiate with the FATP came to nothing, China seemed to consider conditional negotiations with the DPP-authorized TAITRA. On 24 July, China determined that TAITRA was a civic organization and invited both TAITRA and the FATP to visit China for trade talks. However, the DPP still refused to allow this delegation to visit Beijing and insisted that negotiations should only be with TAITRA as the government-authorized agency.

Claiming to respect government policy, the FATP declined Beijing's invitation. According to Tseng Yung-chuan 曾永權, then executive director of the KMT's Central Policy Committee, the real reason was because the FATP feared losing government subsidies.⁵⁴ In an interview, Chang Yung-cheng claimed that the DPP's threat to withdraw government subsidies worth NT\$350 million forced the FATP to reject China's invitation.⁵⁵ He also offered data on the FATP's 2011 budget, which he said was not significantly different from the 2005 budget. In 2011, the FATP had a total budget of NT\$1.6 billion (US\$54.41 million) and received government subsidies worth NT\$414 million (US\$14.2 million). As a proxy estimate, the 2011 data show that NT\$350 million accounted for 85 per cent of the FATP's annual government subsidies and 22 per cent of the FATP's annual total budget. Government subsidies have been, and continue to be, an important source of funding for the FATP, and it is therefore necessary for the FATP to maintain a good relationship with the government.⁵⁶

The DPP succeeded in preventing the FATP from negotiating with and contacting China by means of these formal and informal policy instruments, and

51 MAC 2005d.

52 Lo, Ju-lan. 2005. "Guomindang jiabuliao duotou mache" (KMT cannot control the multi-horse carriage), *Zhongguo shibao*, 2 July.

53 Interview with COA official, Taipei, 8 June 2011.

54 Lin, Hsin-hui. 2005. "Tseng Yung-chuan: shengnonghui tuisuo dangcai zhan diyixian" (Tseng Yung-chuan: KMT stands up because FATP backs down), *Lianhe bao*, 30 July.

55 Interview with Chang Yung-cheng, Taichung, 21 December 2011.

56 Interview with FATP official, Taichung, 21 December 2011.

so the FATP ended up having no role in cross-Strait fruit trade. It had planned to set up an agricultural trade corporation in China, but this plan did not come to fruition owing to pressure from the DPP. Without any business operation in China, the FATP was unable to reduce the transaction costs of the cross-Strait fruit trade.⁵⁷ Moreover, because it was not permitted to issue the certificate of origin for Taiwanese fruit destined for China, low-quality Chinese fruit mislabelled as Taiwanese appeared on the Chinese market, which in turn hurt the sales of Taiwanese fruit in China and diminished the Taiwanese farmers' willingness to sell there.⁵⁸

Preventing the Pan-Blue camp from negotiating with China

The KMT and the PFP also played an important role in cross-Strait fruit trade talks with China. More importantly, they were not subject to the same degree of control by the DPP as the FATP. In 2005, the DPP was unable to prevent Pan-Blue political figures, including Lien Chan and James Soong, from visiting China to discuss cross-Strait agricultural trade. However, the DPP was able to put an end to their negotiations on issues involving governmental authority by invoking the Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area, just as it had with the FATP.

Before Lien Chan embarked on his trip to China, he called President Chen and promised that he would not sign any agreement involving governmental authority with China. During a meeting between Lien and Hu Jintao, the KMT and China agreed to promote cross-Strait agricultural trade. Rather than signing an agreement and risk encroaching on the Taiwanese government's authority, the two sides issued a joint press statement to announce this consensus. James Soong followed suit when he visited China in May 2005. After the Lien–Hu meeting, the KMT did establish some channels of communication with the Chinese Communist Party (CCP) to promote inter-party cooperation and cross-Strait agricultural exchange, as evidenced by the 2006 KMT–CCP Cross-Strait Agricultural Cooperation Forum. However, the KMT refrained from infringing upon issues involving governmental authority when initiating these channels of communication.

In April 2005, the PFP sent a delegation to China for cross-Strait agricultural trade discussions. Before the trip, the PFP consulted with the MAC. While stating that the government would not oppose the trip if it facilitated communication between Taiwan and China, Joseph Wu argued that negotiations over areas of governmental authority should be left to the government and that no legislator or political party was authorized to conduct cross-Strait negotiations. The PFP replied that the purpose of its delegation was for civic exchange and communication with China and that no consensus or agreement would be reached.⁵⁹

57 For the relationship between entrepreneur and transaction costs, see Coase 1937.

58 Tsai, Ching-ying 2006.

59 MAC 2005a.

Similarly, the KMT and the PFP sent a joint delegation of six legislators to China in July that year to discuss cross-Strait fruit trade. Owing to pressure from the DPP, neither Liu Chuan-chung or Pai Tien-chih took part in the delegation. When the six legislators consulted with the MAC before their trip, MAC officials reiterated the law and asked them not to encroach on governmental authority. These legislators, in turn, promised that they would not sign any agreement with China.⁶⁰

Although it refrained from discussing issues requiring governmental authority, the Pan-Blue camp continued to visit China. However, it did not use these visits to promote cross-Strait fruit trade. In late July, a Hong Kong newspaper claimed that the KMT had tried to conduct agricultural business in China by forming a cross-Strait agricultural development foundation and setting up agricultural trade centres in Beijing and Shanghai. However, the KMT denied the news, stating that the KMT “will not do business” in China.⁶¹ In addition, the KMT and China agreed to establish an “emergency purchase mechanism” to help Taiwanese farmers sell their surplus fruit to China; however, this mechanism was only used twice prior to 2008.⁶² Despite its many visits to China, the Pan-Blue camp had a limited role in cross-Strait fruit trade and the legal instruments invoked by the government were sufficient for the DPP to curb the Pan-Blue camp’s negotiations with Beijing.

Trading with countries other than China

In his pioneering study of economic statecraft, Hirschman contends that one of the defensive measures the target state can employ is to redirect trade towards a third party.⁶³ Kuo makes a similar argument in his study of economic statecraft across the Taiwan Strait.⁶⁴ The DPP used this defence against China’s fruit offensive and sought to push Taiwan’s fruit trade with other countries. In its “one principle, three arrangements” formula, the DPP stated that the “one principle” component was aimed at promoting Taiwan’s fruit on the global market, with China being just one of Taiwan’s fruit export destinations. This strategy was also aimed at serving domestic political purposes. In an interview, Joseph Wu said that many Taiwanese farmers had complained to the government that the DPP should look out for their economic interests instead of politicizing the trading of fruit with China. By globalizing Taiwan’s fruit exports, he argued, the government could not only resist China’s fruit offensive, but also alleviate domestic pressure.⁶⁵

60 MAC 2005e.

61 Lin, Hsin-hui. 2005. “Guomintang: meijihua she nongye jijinhui” (KMT: no plan for agricultural foundations), *Lianhe bao*, 31 July.

62 KMT. 2007. “Kuomintang xiezhu jie jue liuding zhixiao wenti” (KMT helps solve orange overproduction), 11 January, <http://www.kmt.org.tw/hc.aspx?id=32&aid=1461>. Accessed 16 May 2012.

63 Hirschman 1945, 14–16.

64 Kuo 1993, 22.

65 Interview with Joseph Wu.

Table 2: Percentage of Taiwan's Total Fruit Exports by Country

Year	Japan	USA	New Zealand
2001	71.5	11.7	0
2002	61.6	15.3	0
2003	59.4	10.0	0.002
2004	50.2	15.4	0.02
2005	57.0	11.6	0.03
2006	58.0	9.8	0.06
2007	54.7	6.5	0.01
2008	56.2	5.6	0.04
2009	49.3	4.2	0.03
2010	40.1	4.7	0.02

Source:

<http://agrapp.coa.gov.tw/TS2/TS2.jsp/TS20201.htm>, Taiwanese Agricultural Trade Database.

The DPP turned its attention to the Japanese market. On 1 December 2004, Japan allowed the importation of Taiwanese papayas after eight years of bilateral negotiations. Japan agreed to import the fruit only after the COA and Taiwanese farmers had jointly developed steam disinfection techniques that would meet Japan's quarantine standards. On 15 June 2005, Taiwan sent its first shipment of papayas to Japan. In a ceremony celebrating this, President Chen claimed that because Japan had been very strict about quarantine and inspection, the opening of the Japanese market to Taiwanese papayas was testament to the high quality of Taiwanese fruit. "As long as we can enter the Japanese market," he declared, "we are capable of exporting Taiwanese agricultural produce to other countries."⁶⁶ By contrast, "exporting medium- or low-priced fruit to China might allow Taiwan to acquire short-term benefits, but would hurt the long-term upgrading of Taiwan's agriculture."⁶⁷ The DPP also entered into talks with other countries. On 3 July, President Chen announced that the government had completed negotiations with New Zealand over quarantine, inspection and tariffs, and therefore Taiwanese fruit could also be sold to New Zealand. He also pledged to sell Taiwanese fruit to countries such as the United States.⁶⁸

Table 2 shows that there was a low volume of fruit exported to New Zealand and the United States during 2001–2010. Japan was Taiwan's primary fruit export market from 2001, accounting for at least 40 per cent of Taiwan's total fruit exports. In particular, fruit exports to Japan between 2001 and 2010 displayed three patterns. During 2001–2004, Japan's share of Taiwan's total fruit exports decreased, but then rose in 2004–2008, although it showed a slight decline in 2007. However, after 2008 Japan's share declined again. The growth of fruit exports to Japan during 2004–2008 coincides with the DPP's efforts to promote

⁶⁶ Office of the President (Taiwan) 2005a.

⁶⁷ Ibid.

⁶⁸ Office of the President (Taiwan) 2005b.

fruit trade with Japan. In this respect, the DPP was successful in expanding Taiwan's fruit trade only with Japan. However, this does not mean that the DPP's efforts to trade with countries other than China failed. After all, it is impossible to diversify fruit exports to dozens of countries in a short span of time. As Japan had been Taiwan's primary fruit export market, the DPP sought to offset China's fruit offensive by strengthening Taiwan's fruit exports to Japan. What matters was not the number of trading partners other than China, but whether a specific one was targeted. Consolidating the Japanese market alone enabled the DPP to offset China's fruit offensive.

In order to direct the agricultural sector to trade with countries other than China, or at least with Japan, the DPP mobilized two state-sponsored, corporatist agricultural institutions. First, as mentioned above, the COA and Taiwanese farmers cooperated in developing techniques using steam to disinfect fruit in order to meet Japan's strict quarantine standards. To increase Taiwan's fruit-disinfecting capabilities, the government also provided NT\$140 million (US \$4.5 million) to construct a steam-disinfection facility in Tainan. The facility was completed in March 2005 and became commercially operational on 1 July. It was designed to eradicate any fruit fly before fruit was exported. Attending the opening ceremony of the facility on 3 July, President Chen stated that "because fruit has to go through steam-disinfecting procedures before being exported, the government completed this facility to help farmers export fruit."⁶⁹

Second, after Taiwan joined the WTO in 2001, the COA initiated a policy of assisting the agricultural sector with the promotion of exports. In 2004, the government formulated a three-year plan to invest NT\$2.2 billion (US\$75 million) in the international marketing of Taiwanese agricultural produce.⁷⁰ The COA, for example, joined forces with China Airlines to paint aircraft with images of Taiwanese agricultural produce such as butterfly orchids. The government also sent numerous delegations abroad to promote Taiwanese fruit. For example, Su Huan-chih 蘇煥智, DPP commissioner for Tainan County at that time, visited Japan in early July 2005 to promote and increase the sales of Taiwanese mangos in that country.⁷¹

It should be noted that some of the DPP's fruit trade initiatives and the negotiations with Japan over papaya exports had begun prior to the fruit offensive, and so too much emphasis should not be placed on the DPP's determination to trade with countries other than China in its wake. However, the fruit offensive did prompt the DPP to take particular actions, including expediting the first papaya shipment to Japan, constructing the fruit-disinfecting facility in Tainan, and sending Su Huan-chih to promote the sale of Taiwanese mangos in Japan. Moreover, a COA official admitted that, when faced with the fruit offensive, the COA intentionally accelerated the already-formulated policies,

69 Ibid.

70 Office of the President (Taiwan) 2005a.

71 Chiu, Yu-tzu. 2005. "Taiwanese mangoes will do well in Japan: official," *Taipei Times*, 12 July.

including the development of the quarantine techniques needed for negotiations with Japan over papaya exports.⁷² Prior to the fruit offensive, agricultural corporatism had been in place, but without government action to activate it. The fruit offensive pushed the government to activate agricultural corporatism. Seeing the state as not only an institution but also an actor helps to explain why the DPP succeeded in directing the agricultural sector to trade with countries other than China.

The DPP and Taiwanese Businesses

Although the DPP succeeded in restricting cross-Strait fruit trade, cross-Strait economic ties in general expanded rapidly during the DPP's tenure. From 2000 to 2006, Taiwanese exports to China grew from US\$25 billion to US\$88 billion, and Taiwanese investments grew to reach US\$100 billion by 2006.⁷³ Under the same administration in the same democratic setting, cross-Strait fruit trade and cross-Strait economic ties displayed different patterns. While agreeing with the literature that the growth of cross-Strait economic ties is attributable to the DPP's inability to prevent Taiwanese firms from doing business with China, I argue that such an inability was down to the unavailability of policy instruments to the DPP, rather than to democratization alone.

The DPP had few legal instruments to hand with which to prevent Taiwanese businesses from increasing economic ties with China. President Lee had formulated the "no haste, be patient" policy in 1996–1997, which put several limitations on Taiwanese investments in China, including an investment ceiling of US\$50 million and a ban on high-technology investments.⁷⁴ However, during the DPP's tenure, an increasing number of Taiwanese businesses bypassed the government regulations by routing their money to China via a third country. Richard Chang 張汝京, for example, founded the Semiconductor Manufacturing International Corporation (SMIC) in Shanghai in April 2000. Registered as an American company, SMIC is what Ho and Leng call a "hybrid firm."⁷⁵ Owing to the difficulty of tracing the flow of Taiwanese investments, the DPP could not effectively enforce any investment limitations. As Ho and Leng put it, "the Taiwanese state lacks effective instruments to regulate or even punish 'illegal' Taiwanese VC [venture capital] activities in China."⁷⁶

The DPP did take legal recourse against some illegal investments. In February 2005, the DPP brought legal action against Robert Tsao 曹興誠, chairman of the United Microelectronics Corporation (UMC), which had illegally invested in a silicon wafer production facility in China through the Hejian Technology

72 Interview with COA official.

73 Kastner 2009, 37–39.

74 For the "no haste, be patient" policy, see *ibid.*, 58–62.

75 Ho and Leng 2004.

76 *Ibid.*, 744.

Company.⁷⁷ Despite the UMC case, legal recourse was rare during the DPP's term as it would have created an anti-business image for the party. According to Ho and Leng, the DPP's punitive action against illegal Taiwanese investments in China was only symbolic.⁷⁸

When the DPP first took office, several tycoons and business associations became increasingly critical of the “no haste, be patient” policy. However, their criticism was not channelled through corporatist institutions because business corporatism had collapsed and the DPP had not established any institutional connections with businesses prior to taking office. Businesses thus chose to criticize the DPP publicly. Formosa Plastics Group chair Wang Yung-ching 王永慶, for example, organized a meeting with other business leaders in November 2000 to pressurize the DPP into liberalizing cross-strait economic ties.⁷⁹

Some business leaders also had significant political influence over the DPP's economic policy towards China through their connections with President Chen. For example, Wang Yung-ching, Stan Shih 施振榮 of Acer, Chang Yung-fa 張榮發 of Evergreen, and Hsu Wen-lung 許文龍 of Chi Mei all publicly expressed their support for DPP candidate Chen during the 1999–2000 presidential campaign, although they distanced themselves from him after the election. However, President Chen maintained personal connections with the business community without institutionalizing these relationships (it is no accident that he became corrupt). Without the “embedded autonomy” embodied by institutions,⁸⁰ the DPP was unable to extract any compromise from businesses.

The DPP did attempt to incorporate business opinions into its decision-making process. In a response to the collapse of business corporatism, the DPP convened the Economic Development Advisory Conference in mid-2001. Businesses were well represented at the conference, comprising 34 per cent of all participants, while labour was symbolically represented.⁸¹ Consequently, a consensus on “active opening, effective management” replaced the “no haste, be patient” policy and contributed to several liberalization moves, including the removal of the US\$50 million limitation and the green light for semiconductor investments in China. Without hierarchical systems of interest representation, the government was unable to regulate business pressure, and therefore the business community had the upper hand when it came to influencing Taiwan's economic policy towards China.

After President Chen was re-elected, Beijing initiated a series of “soft policies” towards Taiwan, the fruit offensive being just one of them.⁸² To

77 Wu 2007, 995.

78 Ho and Leng 2004, 745.

79 Kastner 2009, 68.

80 Evans 1995.

81 Kastner 2009, 70.

82 For China's soft policies, see Lin 2008, 20–21.

encourage Taiwanese investments in China, Beijing relaxed loan restrictions for Taiwanese businesses on five occasions between 2005 and 2006.⁸³ In April 2006, Lien Chan led a delegation of more than 50 Taiwanese business leaders to Beijing for the first KMT–CCP Economics and Trade Forum. The enterprises represented by these tycoons jointly constituted 48 per cent of Taiwan's total market capitalization.⁸⁴ While the DPP had used the cross-strait relations law and manipulated government subsidies to prevent the FATP from negotiating with Beijing, there was no policy instrument at its disposal to do the same with business leaders; their participation in the forum did not encroach on the government's authority.⁸⁵ Moreover, government subsidies, if any, were less attractive to Taiwanese enterprises which could attract funds from the international and Chinese markets. At the forum, Beijing announced 15 preferential policies that encouraged cross-strait economic ties. The DPP could not stop Taiwanese businesses from contacting China, and consequently a third KMT–CCP forum was held in 2007 in Beijing with numerous participants from Taiwanese businesses.⁸⁶

Just as the DPP promoted the export of its fruit to countries other than China, so too it attempted to divert Taiwanese investments elsewhere in Asia. In 2002, the DPP re-launched the “go south” policy that encouraged Taiwanese businesses to invest in South-East Asia.⁸⁷ However, this policy attracted only traditional, low-tech manufacturing enterprises and failed to persuade Taiwan's high-tech industries to invest in the region.⁸⁸ While various factors contributed to the policy failure (for example, political and economic conditions in the region), the collapse of business corporatism could also be to blame. When the DPP promoted fruit exports to countries other than China, it mobilized corporatist agricultural institutions. However, business corporatism was not at its disposal when the “go south” policy was re-launched. The Taiwanese state's ability to coordinate Taiwan's high-tech industries had deteriorated since democratization and economic liberalization. As Wu states, “there is no guarantee that economic bureaucrats who succeeded in the catch-up phase would also succeed in picking the ‘right’ strategic industries when it comes to forward designating.”⁸⁹ Without state–business cooperative relations, the DPP was less able to direct businesses to invest in other countries.

83 Ibid.

84 Lo, Chia-wei. 2006. “Qiyejie zheci yongjiao jianyan” (Businesses vote with their feet this time), *Lianhe bao*, 15 April.

85 In the KMT–CCP forum, no agreement involving governmental authority was signed.

86 The second KMT–CCP forum was held in October 2006 and focused on cross-strait agricultural cooperation.

87 The “go south” strategy was first launched in 1993 but petered out in 1997 owing to the Asian financial crisis.

88 Tanner 2007, 54–55.

89 Wu 2007, 988.

Conclusion

This article seems contextually irrelevant to today's cross-Strait relations: President Ma Ying-jeou has adopted various policies to promote cross-Strait relations and exchanges, and resisting China's economic offensives seems to concern Taiwanese policymakers less – unless the DPP returns to power in 2016.

However, this article's findings can help to re-evaluate the literature on cross-Strait economic relations and economic statecraft. Given that the DPP successfully used formal and informal policy instruments in a democratic setting to curb the trading of fruit with China and resist China's fruit offensive, the Lee Teng-hui and Chen Shui-bian administrations' inability to limit other cross-Strait economic ties and resist further economic offensives is more explicable by the absence of policy instruments than by democratization alone. In particular, because business corporatism in Taiwan had collapsed since democratization whereas agricultural corporatism remained relatively intact, such an inability is attributable more to the collapse of business corporatism than to democratization alone. This does not mean that democratization merits no attention; instead, the transformations of state–society institutional relations under democratization deserve more emphasis. If we are to explain better the Taiwanese government's inability to manage cross-Strait economic relations and resist China's economic offensives, state–society institutional relations provide better clues than regime type alone.

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