

38<sup>th</sup> Taiwan-U.S. Conference on Contemporary China

## **China Faces the Future**

July 14–15, 2009

Center for Northeast Asian Policy Studies, The Brookings Institution  
Institute of International Relations, National Chengchi University

The Brookings Institution  
1775 Massachusetts Avenue, NW  
Washington, DC

Session III: Cross-Strait Relations under President Ma

### **Advantages and Limitations of President Ma's**

#### **Cross-Strait Negotiation:**

#### **CECA/ECFA as an Example**

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## I. Introduction

In the “Strategy of Conflict,” Schelling conjectured that if an executive intentionally ties his or her hands with domestic constraints, he or she may gain greater leverage in international bargaining (Schelling, 1960). A similar point has also been raised by Robert Putnam. Putnam raised a famous model, the “two-level game model”, to analyze the conditions under which an international bargain can be reached with domestic consent. Basically, he argues that such a bargain can be reached when domestic win-set intersects with the international one. Following such proposition, Putnam also argues that when a domestic win-set is small, it can be a bargaining advantage for the negotiator. (Putnam, 1988: 440) According to such a line of argument, the negotiator will gain a bargaining advantage vis-à-vis its opponent negotiator in an international negotiation when either the negotiator voluntarily acquiesces or even creates a strong domestic constraint or involuntarily faces one. The later, according to Putnam, will be seen by the opponent negotiator as an “involuntary defection” and thus the advantage the negotiator enjoys will become more credible. (Putnam, 1988: 453)

This paper intends to review President Ma Ying-jeou’s bargaining process with Beijing on the Comprehensive Economic Cooperation Arrangement (CECA) or Economic Cooperation Framework Agreement (ECFA) with the analytic framework of two-level game and the Schelling Conjecture. The paper finds that although Ma and his party KMT enjoyed an overwhelming dominance in Taiwan’s parliament Legislative Yuan and thus will not face any credible disapproval threat from the opposition, Beijing still changed its position in making concession to Ma in two ways: first, by expressing greater willingness to talk about CECA/ECFA, and second, by agreeing to accept Ma’s change of the title from CECA to ECFA. In exchange, Ma has accepted Beijing’s formula in participating in the WHA with two conditions: under the title of “Chinese Taipei” and under annual consent of Beijing. This paper argues that such a phenomenon cannot be explained by the typical argument raised by the two-level game model. This paper finds out some of the implicit assumptions that are not well examined by the model. These findings may help us understand the success and limitations of President Ma’s negotiation strategy with Beijing on CECA/ECFA, and also help us review the theoretical model of the two-level game.

## II. Unveil Some Implicit Assumptions in the Two-level Game Model

There are four assumptions that this paper contends that have not been well examined in the well-know two-level game model and will affect its explaining power:

First of all, the two-level game model assumes that the domestic win-set is reached as a result of bargaining between the negotiator (who is also the ruling leader) and the opposition in the domestic democratic process. Therefore, there are three major players, the domestic negotiator as player 1, the foreign negotiator from country 2 as player 2, and the opposition from country 1 as player 3. However, if the country is a democracy, there should be a fourth player, that is, the public (player 4), who shall cast vote to choose a new government between player 1 and player 3 in next major election. The bargaining result between player 1 and 2 shall influence how player 4 casts vote in the next election. Usually, the domestic win-set is referred to as a result of bargaining between the ruling party and the opposition party in the process of parliamentary ratification. Along such a line of argument, domestic political institutions arranging such a domestic bargaining become a major variable to affect the domestic win-set. (Pahre, 1997; Cowhey, 1993; Mo, 1994, 1995; Milner and Rosendorff, 1997) However, such an approach has not elaborated the interactive process between the public and the two major parties. In light of that, a domestic win-set actually may not only be reached as a bargaining result between player 1, the negotiator (also the ruling leader), and player 3, the opposition, but also may be as a result of a competition of the two major parties represented by player 1 and player 3 for the support of the public (player 4) in the process of the international bargaining. The real mechanism thus may not be the ratification process itself, but the expectations (of player 1 and player 3, or sometimes even player 2) on the public vote in next major election.

Second, it is usually assumed that a negotiator does not have enough information or correct perception of the domestic politics (level II) of the opposing country. (Putnam 1978: 452) Such kind of asymmetric information by the foreign negotiator (player 2) will give the domestic negotiator a bargaining advantage. (Iida, 1993: 417) And if the domestic negotiator (player 1) does not have enough information about his or her own domestic politics (including the opposition, player 2, and the public, player 4), then it is argued to constitute a constraint on the domestic negotiator. (Iida, Ibid.) But so far it has not been argued what effect would be generated if the opposition (player 3) and the public (player 4) have asymmetric information about the domestic and foreign negotiators, i.e., player 1 and player 2. What if the two negotiators, player 1 and 2, have better understanding of each other among themselves than the understanding between the

negotiator (player 1) and his or her domestic public and opposition (player 3 and 4)? Would the domestic public and opposition have suspicion on the possible hidden agenda if they don't have enough information while their negotiator intends to push the negotiation agenda in a hasty manner?

Third, the two-level game model in Putnam's work was basically presented in a one-dimensional issue space. Putnam did mention the possibility of two-dimensional issue space but he only gave an "indifference curve analysis" as an analogy without fully elaborating its application. (Putnam, 1988: 447) However, in the real world, even when the political elites of two countries are negotiating on a single issue, the implications or ramifications usually occur in more than one dimension. How the different perception and expectation of different players on different issue dimension may interact and create unexpected dynamics is usually under-studied. The concession a negotiator makes on one-issue dimension may imply he or she intends or expects a pay-back of compensation from the opponent negotiator on another issue dimension. The dynamics of the changing win-set constituted by a two-dimensional issue space has to be analyzed with the changing indifference curve of each player instead of on two separate one-dimensional issue lines.

Fourth, when a democratic country 1 is negotiating with a non-democracy, then it is facing more credible domestic constraints and thus its negotiator enjoys more credible advantage at the level I negotiation than his or her counterpart. However, such a credible advantage lies in how it is perceived by the foreign negotiator. The non-democratic negotiator, as Putnam and other scholars argued, may not have enough information or correct perception about the domestic politics of the democracy. The reason of such a lack of information or lack of capability to correctly perceive is two fold: first, partly because it is relatively more difficult for a non-democracy to understand the complicated and subtle political process of democracy; second, it is also possible because the current negotiator from the democracy has a closer position on the issue dimension to the non-democratic negotiator and thus easier for the non-democratic negotiator to understand its negotiation partner than the opposition and the public of the democracy. However, it has not been observed that a non-democracy can also have a relative advantage of information about the democracy than the other way around because a democracy is always more transparent than a non-democracy. It is thus always much easier and faster for a non-democracy to learn about the domestic politics than for a democracy to know about that of an opaque non-democracy. Therefore, when the domestic political condition of the democracy changes, particular when the ruling party

of the negotiator has another land-slide victory in a major election, the non-democratic negotiator may find that the constraint that the democratic negotiator faces no longer exists or is no longer credible, he or she may change the previous conceding tendency and the advantage of the democratic negotiator may then disappear.

Based on the discussions of these implicit assumptions not fully addressed previously in the two-level game model, this paper will explain why Ma's administration has acquired some success in earning concession from Beijing on the issue of CECA/ECFA. The paper will then discuss three potential challenges that Ma's current seemingly advantageous strategy may face.

### **III. Two Dimensions of the Cross-strait Issue**

In the two-level game model, the bargaining between country 1 and 2 is simplified as on a one dimension spectrum. All players can be positioned along this dimension. Win-sets are also defined on this single dimension. When domestic win-set and international win-set intersects, the bargain can reach agreements acceptable to both sides.

However, the cross-strait relation between Taiwan and Mainland China is a multi-dimensional one. In the cross-strait complicated relationships, there are at least two irreducible dimensions: economic and political. The logics of these two dimensions are quite different, but they are not unrelated, and the positions or preferences of different players on these two dimensions are also different. In the political dimension, the two extreme positions are "Taiwan independence" and "unification." Generally speaking, most Taiwanese people still prefer maintaining the status quo on cross-strait relations. This public opinion has not changed much even after KMT came to power last year. Figure 1-1 shows the result of public opinion from the MAC website. On the spectrum of cross-strait political relationship, the position of DPP is closer to the end of "Taiwan independence" and ranges from pursuing *de jure* independence to admitting the national title as the Republic of China as stated in the "Resolution on Taiwan's Future." KMT's position is in the middle, ranging from "special state-to-state" (proposed by former President Lee Teng-hui), to status quo, to accepting "One China" with the formula of "92 Consensus" (held by current Ma administration). The position of CCP in Beijing is closer to the extreme of "unification," ranging from "PRC as the sole legitimate regime of China and Taiwan as China's one province," to "Taiwan and Mainland all belong to One

China” with what the “One China” means being left unaddressed. On this political issue dimension, KMT cannot go beyond insisting the sovereignty of Republic of China, although President Ma does argue that Taiwan, Penghu, Kingmen, and Matsu, according to the constitution amendments, belong to a “free zone” whereas Mainland belongs to “Mainland zone.” Although this “two-zone statement” has been severely criticized by the oppositions as compromising Taiwan’s status as a sovereign entity, this argument is still under the framework of Republic of China. From Beijing’s side, although President Ma’s affirmation of the “92 Consensus” has paved the foundation of resuming the official contact between SEF and ARATS, the Beijing government has never officially accepted or admitted that “One China” can have different interpretations, as conceived by the KMT in its own version. The status of Republic of China is still not something that can be legally accepted or mentioned in the cross-strait relation. Therefore, on the bottom line, on the hardcore of the cross-strait political relation, i.e., the sovereign issue, there is still not much commonality between Taiwan and Beijing.

Figure 1-1 about here

However, on the economic dimension, the situation is different. Generally speaking, the Taiwanese public does expect a better cross-strait relation. For example, according to the survey conducted by the “Global View” (遠見) magazine, when those who were interviewed were asked “To improve Taiwan’s economic development, the economic connection with Mainland China should be closer?” 51.7% of the respondents said “Yes.”<sup>1</sup> The position of CCP and Taiwan’s public, KMT, and even possibly DPP, may have intersection. According to the survey data provided by MAC, most public under the 2<sup>nd</sup> Chen administration felt the pace of the cross-strait exchange were either “just right” or “too slow,” where as most public under the Ma administration felt either “just right” or “too fast.” (See Figure 1-2) In other words, KMT’s preference on cross-strait economic issue tilts to the direction of improving cross-strait economic relationship than the general public opinion of Taiwan whereas DPP’s to the opposite direction.

Figure 1-2 about here

Following the approach adopted by Putnam in his original piece, we can use these two dimensions to constitute a “political indifference curve chart” of the Taiwan and

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<sup>1</sup> “Survey on President Ma’s Approval Rating,” Global Views Survey Research Center, June 22, 2009.

Mainland China. In the Taiwan side, there are three curves representing the political indifference curves of the KMT, DPP, and Taiwan's public. In order to simplify the logic of reference, the indifference line of Taiwan's public is set to be in the median position of the curves of KMT and DPP. Figure 2 shows the original chart representing the "political indifference curves of Taiwan and Mainland China after Ma won the election last year.

Figure 2 about here

In Figure 2, the chart is constituted by two dimensions, with the horizontal dimension representing the political one and the horizontal dimension representing the economic one. The south-west corner represents the position of Taiwan and the north-east corner China. The curve of  $K_{e1}-K_{p1}$  represents the indifference line of KMT. The curve of  $D_{e1}-D_{p1}$  represents the indifference line of DPP. The curve of  $T_{e1}-T_{p1}$ , which is in the median position between the previous two curves, represents the indifference line of Taiwan's public. The curve of  $C_{e1}-C_{p1}$  represents the indifference line of CCP regime before last year when DPP was in power, and the curve of  $C_{e2}-C_{p2}$  represents the indifference line of CCP regime after the KMT regime came to power. As the KMT came to power in Taiwan, the CCP regime took it as an opportunity to improve cross-strait relations and thus tremendously amplify the extent to which it is willing to sacrifice both political and economic gains in order to reach an agreement with Taiwan. Therefore the indifference line of China moves further toward the south-east corner from  $C_{e1}-C_{p1}$  to  $C_{e2}-C_{p2}$ . Before the election, CCP regime's original indifference line has no intersection with that of Taiwan's public,  $T_{e1}-T_{p1}$ . As CCP regime's indifference line moves ahead, an intersection area with the indifference curve of Taiwan's public then occurs. Such an intersection stands for "win-sets" for cross-strait negotiation. The window of opportunity is thus opened.

#### **IV. Changing Attitude of Beijing on CECA/ECFA**

In December last year, on the fourth KMT-CCP Forum, the Chairman of CCPCC Jia Qinglin represented the Chinese government to first time respond to President Ma's call for holding a negotiation on CECA. Jia said: "Regarding Taiwan's proposal for negotiating a Comprehensive Economic Cooperation Agreement across the strait,

Mainland side will attach importance to the issue and is willing to study it seriously.”<sup>2</sup> Although such a response was positive, there was still some reservation. Following this statement, President Hu Jintao himself later expressed officially a positive attitude in his speech given on a ceremony celebrating the 30<sup>th</sup> anniversary of the document “A Statement to the Taiwanese Compatriots.” In his speech he said: “We expect the economic relationship across the strait can be normalized...In order to realize that, the two sides of the strait can sign a comprehensive economic cooperation agreement to establish a mechanism for economic cooperation with cross-strait characteristics.”<sup>3</sup> Similarly, although this is a very positive sign, it is still only an expression of the good will and positive intention. The same good will was once more expressed by Premier Wen Jiabao in late February 2009. He was reported to say that: “The two sides of the strait should further study mechanisms for economic exchange and cooperation through negotiation. This is parallel to the fundamental interests of the people across the strait, as well as to the stability and development for both sides of the Taiwan Strait.”<sup>4</sup> Similar to Jia Qinglin’s remark, Wen used the word “study” and “through negotiation,” which sounds not treating it as a very urgent agenda. Such an attitude is again expressed by China’s Minister of Commerce, Chen Deming. In responding to the press during the National People’s Congress, he said: “I support the idea that the economic relationship across the strait should be closer and pushed forward.” However, regarding how to sign and the contents of ECFA, he said “it is still up to discussion and will need negotiation through the negotiator institutions of both sides.”<sup>5</sup> The reservation the Chinese side expressed has to do with the debate on the title of the agreement within Taiwan. The Chinese side has used the term Comprehensive Economic Cooperation Agreement (CECA). However, CECA has been criticized in Taiwan to be too similar to the Hong Kong model CEPA. In response, MMT later proposed to use ECFA instead to replace CECA. Regarding the name issue, the Director of Taiwan Affairs Office (TAO) Wang Yi said it still needs further discussion.<sup>6</sup> The spokeswoman of TAO Fan Liqing even gave a more lukewarm response. She said: “The Mainland side holds a positive attitude toward the ‘Comprehensive Economic Cooperation Agreement’ across the strait. But both sides

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<sup>2</sup> “Mainland first time responds with good will to President Ma’s proposal to negotiate ECFA,” United Daily, 12.21.2008, p. A12.

<sup>3</sup> “Hu Jintao’s Speech on the 30<sup>th</sup> Anniversary of ‘A Statement to the Taiwanese Compatriots,’” People’s Net, reprinted from People’s Daily, Jan. 1, 2009, <<http://politics.people.com.cn/GB/1024/8611414.html>>.

<sup>4</sup> “Wen Jiabao responded to ECFA,” Apple Daily, 3.1.2009.

<sup>5</sup> “China said there should be more developed and closer economic relationship across the strait,” Liberty Times, 3.4.2009.

<sup>6</sup> “President Ma said the next SEF-ARATS talk will discuss ECFA,” Apple Daily, 3.6.2009.



so far have never formally talked about it, even on the functional level.”<sup>7</sup> On the third SEF-ARATS talk in March 2009, ARATS Chairman Chen Yunlin again said the Mainland side is open to the issue and will need some more time to further study it. ARATS Vice Chairman Zheng Lizhong said both sides can cooperate to study the feasibility of the issue, and when it is ripe the issue can be negotiated.<sup>8</sup>

However, when time comes near President Ma’s one year inauguration anniversary in May 2009, the attitude of Chinese government suddenly became much more pro-active. On the cross-strait forum held in Fujian, the Director of TAO Wang Yi said Mainland side is willing to negotiate and sign an “ECFA” across the Strait.<sup>9</sup> This is not only the first time Chinese government official directly commits to negotiate such an agreement with Taiwan, it was also the first time the Chinese government formally accepted President Ma’s suggestion to change the name from CECA (originally proposed by the Mainland) to ECFA. Following that, President Hu Jintao, when personally receiving the then KMT Chairman Wu Bo-hsiung, also said: “The two sides of the strait should jointly push forward the preparation works for negotiating an economic cooperation agreement, and the negotiation has better to start in the second half of the year.”<sup>10</sup> According to Wu, when Wu said to Hu that President Ma hoped that it would be nice if the negotiation of ECFA can be completed by the end of 2010, it was Hu Jintao himself suggested in return the negotiation of ECFA should start earlier, better in the second half of 2009.<sup>11</sup> One day later, TAO Director Wang Yi echoed the call of Hu and said the Mainland side will make all the necessary preparation so that the talk can start later in 2009.<sup>12</sup> Recently, Taiwan’s Director General of the Bureau of Foreign Trade Huang Chih-peng said the two sides of the strait has reached consensus on the major content of ECFA. It will be a guideline document to provide a regulatory framework, which includes tariff cut, trade of service, trade of goods, and controversy resolution mechanism.<sup>13</sup>

Why has Beijing changed its attitude on CECA/ECFA in the direction toward yielding to Taiwan’s bargaining position in such an early stage of the negotiation? Why has

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<sup>7</sup> “Signing ECFA across the strait is still far away,” United Daily, 3.26.2009, p. A10.

<sup>8</sup> “The third SEF-ARATS meeting has not decided on ECFA,” United Daily, 4.27.2009, p. A1.

<sup>9</sup> “Chinese government releases 8 beneficial measures, and Taiwanese businesses are happy,” Apple Daily, 5.18.2009, p. A4.

<sup>10</sup> “Wu Bo-hsiung meets with Hu Jintao; Hu expects to start the cross-strait economic cooperation agreement in the second half of the year,” United Daily, 5.27.2009, p. A1.

<sup>11</sup> “Wu Bo-hsiung said it was Hu who takes initiative to suggest to start the ECFA negotiation earlier,” China Times, 5.28.2009.

<sup>12</sup> “Both sides across the strait reach consensus on the title of ECFA,” United Daily, 5.29.2009, p. A12.

<sup>13</sup> “Director General of Foreign Trade Bureau said consensus has been reached on the content of ECFA,” United Daily, 7.1.2009, <<http://udn.com/NEWS/MAINLAND/MAI1/4992935.shtml>>.

Beijing done so without major threat from Taiwan's parliamentary veto or meaningful resistance from the opposition, or even without the pressure from the KMT?

## V. The "Suspicion Effect" of Domestic Asymmetric Information

As mentioned in the introduction, Putnam and other scholars have noticed the effects of international asymmetric information in the process of international negotiation. However, in the recent case of cross-strait negotiation, particularly on the CECA/ECFA issue, the asymmetric information mainly takes place not between Mainland China and Taiwan, but within Taiwan itself. As this paper mentioned earlier, Taiwan as a democracy has a very transparent politics. The difference between the political parties and how the public questions the government policies are not only openly reported by free and competitive media, but are all accessible to Beijing. However, as KMT and CCP has set a party-to-party forum which is perceived to set policy agenda without consulting Taiwan's domestic public opinion, it is widely perceived that the opposition and the public are not clear about what the KMT administration intends to achieve and the content of its CECA/ECFA proposal.<sup>14</sup>

The opposition party and the whole opposition political camp, the Green Camp, have become extremely anxious and suspicious about what Ma administration true purpose is in pushing forward the CECA/ECFA negotiation in such a rush manner and in his strategy of putting all the hope of economic development in China.<sup>15</sup> Remarks such as "boiling frog with mildly warm water,"<sup>16</sup> "lowering Taiwan's sovereignty status,"<sup>17</sup> "luring Taiwan toward de jure unification,"<sup>18</sup> "secret bargaining to sell out sovereignty,"<sup>19</sup> and "falling into the trap of 'One China Principle'"<sup>20</sup> are the most often

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<sup>14</sup> Taiwan Thinktank, "86% of the public are not clear about the content of ECFA," 6.28.2009, Taiwan Thinktank Website; Economic Daily, "What on earth is ECFA?" 6.30.2009, Op-ed; "What on earth is 'ECFA'?" Apple Daily, 2.21.2009, p. A24; Lee, Hua-chiu, "Do you understand what 'ECFA' is?," United Daily, 3.4.2009, p. A11; "Yan Ching-chang said government should explain clearly what 'ECFA' is," Liberty Times, p. 2.

<sup>15</sup> Kuo, Cheng-ling, "The prospect of upgrading Taiwan's economic development should not hinge upon China's favor," China Times, 2.2.2009, , Op-ed.

<sup>16</sup> Lu, Yi-ming, "KMT-DPP Forum is cooking Taiwan as a frog with mildly warm water," Apple Daily, 12.22.2008, Op-ed.

<sup>17</sup> Lin, Huan-chiang, "The dangerous 'CECA'," Liberty Times, 1.21.2009, Op-ed.

<sup>18</sup> "Scholars worry that CECA will lure Taiwan into de jure unification," Liberty Times, 1.23, 2009.

<sup>19</sup> "TSU Chairman accuses KMT secretly contacting with CCP to negotiate ECFA in the third county to sell out sovereignty," Liberty Times, 4.3.2009.

<sup>20</sup> "DPP Chairperson Tsai said ECFA will trap Taiwan into Beijing's 'One China Principle'," Liberty Times, 4.30.2009.

seen reaction by the Green Camp to Ma's proposal of ECFA negotiation. When the Green Camp politicians see Ma's move as moving too fast toward "pro-China," they become very defensive and thus have raised counter-proposal to guard Taiwan's sovereignty that they think Ma is going to sell out. The most conspicuous move made by President Ma in moving toward the direction of "pro-China" was to invite the Director of ARATS Mr. Chen Yunlin to visit Taiwan and cracked down the protestors during his visit. The Green Camp also criticized Ma's concession on Taiwan's status in participating in the WHA. President Ma accepted "Chinese Taipei" as the title of Taiwan's observership and agreed to participate in WHA under the circumstance that such participation shall be subject to China's annual consent. The participation status as the "third category observership" has been criticized as too conceding and taken advantage by China.<sup>21</sup> Other incidents that caused the Green Camp's suspicion that President Ma and his administration is yielding to China's political position include: Ma rejected to allow Dalai Lama to visit Taiwan;<sup>22</sup> Ma canceled the meeting appointment at the last moment with Chinese democracy movement activist Wang Dan;<sup>23</sup> Ma praised China's progress on human rights in his June Fourth remark;<sup>24</sup> Ma's remark "to learn to read traditional Chinese characters and to write simplified character";<sup>25</sup> Ma relaxed the explanation of the meaning of "no unification" as "not excluding the choice of unification";<sup>26</sup> and Ma turn down the meeting requests made by the Democratic Party members from Hong Kong.<sup>27</sup>

Due to such a deep suspicion on Ma's intention in proposing the CECA/ECFA negotiation, DPP then raised the proposal of "referendum on ECFA" as a concrete response. Although a successful referendum is extremely difficult to pass eventually since it requires a very high threshold of valid votes, DPP takes it as a political opportunity to mobilize opposition to ECFA. Although we don't know whether DPP shall successfully mobilize the public opposition to ECFA or public suspicion to the KMT regime's intention to compromise sovereignty, there are a lot of signs of public opinion reservation and criticism on Ma's economic strategy. For example, the public poll presented on MAC

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<sup>21</sup> Chiang, Huang-chih, "To participate in WHA with 'non-state' status falls into China's trap," United Daily, 4.30.2009, <<http://udn.com/NEWS/OPINION/X1/4877696.shtml>>.

<sup>22</sup> "Ma said not a good time for Dalai to visit Taiwan," Apple Daily, 12.4.2008, p. A8; "The Green Camp criticizes President Ma to flatter Beijing," Apple Daily, 12.5.2008, p. A10.

<sup>23</sup> "Ma supported June 4<sup>th</sup> Movement in the past but rejects to meet with Wang Dan now," Liberty Times, 5.25.2009.

<sup>24</sup> "Ma is so wimpy as to praise China in his June 4<sup>th</sup> Remarks," Apple Daily, 6.5.2009, p. A10.

<sup>25</sup> "Ma is criticized to play with the idea of unification by advocating to write simplified Chinese characters," Apple Daily, 6.10.2009, p. A9.

<sup>26</sup> "Ma said he does not exclude unification as one of the alternatives; Green criticizes that Ma is succumb to Beijing's pressure," Liberty Times, 6.18.2009.

<sup>27</sup> "Has the democratic party politicians been balck-listed by Ma?" Liberty Times, 6.25.2009.

website shown in Figure 1-2 shows that since President Ma came to power, the percentage of interviewees who thought the cross-strait exchange is too fast has increased. Another poll presented on MAC website on national identity also shows that those who identify themselves as Taiwanese have not only not decreased but also increased since KMT came to power. (See Figure 3) In a poll the “Global View Survey Center” asked whether “government has protected Taiwan’s interest in negotiating with Mainland China when signing agreements through SEF,” although 42.6% of the respondents said “Yes,” there were also 40.5% said “No.”<sup>28</sup>

Figure 3 about here

Generally speaking, Taiwan’s public is willing to be flexible and pragmatic in improving economic relationship with Mainland China, but not willing to exchange such economic benefits with political concession. A national survey conducted by the Wealth (財訊) magazine in late April asked Taiwanese respondents whether they are willing to compromise sovereignty in exchange for economic benefit. Around 66% answered “No” and less than 20% answered “Yes.” Even among the Pan-blue respondents 56% said “No” and 35% said “Yes.”<sup>29</sup> In other words, the Taiwanese public is more sensitive in not willing to yield on the political dimension than the economic one.

Against such a background of public opinion, it is reasonable to assume that the protests, accusations, and political mobilization raised by the Green Camp on President Ma’s conceding tendency on political issues eventually could have some influence over the public opinion in Taiwan. Given the fact that the public appears to have not enough information and understanding of the Mainland policy of Ma administration, the suspicion may also grow. The public political preference thus could become more conservative and less tolerant to any political concession made by the government to Beijing. If such a move takes place, then public’s tolerance on political concession on the indifference curve chart would contract. Figure 4 shows the effects of such a change.

Figure 4 about here

In Figure 4, since KMT’s political position has been “perceived” to move toward “unification” (although the KMT administration and President Ma himself insists they

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<sup>28</sup> “Survey on President Ma’s Approval Rating,” Global Views Survey Research Center, June 22, 2009.

<sup>29</sup> “Loving Ma Ying-jeou without loving his administration,” Wealth Magazine, May 2009, p. 57.

have not compromised any sovereignty or political dignity of Taiwan), the point  $K_{p1}$  is perceived by domestic opposition and public to move to the point  $K_{p2}$ . Such a perception prompts DPP to move more conservatively toward the left, from  $D_{p1}$  to  $D_{p2}$ . Through DPP's political mobilization, the public is also influenced and becomes politically more conservative by moving backward from  $T_{p1}$  to  $T_{p2}$ . Under such a circumstance, the new indifference curve of Taiwan's public  $T_{e2}-T_{p2}$  will hardly intersect with  $C_{p2}-C_{e2}$ . As argued earlier, Taiwan's domestic politics is relatively transparent to Beijing, when Beijing perceives such a change, it must become worried, and thus is likely to be more compromising in order to enlarge the possible win-set intersection. The CCP regime thus may make further flexible adjustment by yielding further on economic dimension without moving on the political one, and CCP's new indifference curve  $C_{e3}-C_{p3}$  will have more intersection with Taiwan's new public indifference curve  $T_{e2}-T_{p2}$ .

In other words, the fact that the insufficient information of the domestic opposition and public generates growing distrust toward President Ma on political dimension has given President Ma some unintended advantage, thanks to the fact that Beijing has enough information about Taiwan's domestic politics. This may be called a “*suspicion effect*” of asymmetric domestic information.

## VI. The “Shadow Effect” of the Next Electoral Competition

Putnam argued that uncertainty about the opponent's domestic politics (level II politics) tends to make the negotiator worry about opponent negotiator's “involuntary defection” and thus may be willing to concede. If KMT in any sense is utilizing such an advantage, it should be due to the possibility that there would be potential pressure from the Legislative Yuan to veto down the negotiation result. However, as KMT enjoys overwhelming dominance in the Legislative Yuan, such a scenario is quite unlikely.

Actually, the SEF and ARATS have already reached 9 agreements since they resumed formal talk. These 9 agreements have been sent to the Legislative Yuan and none of them faced any revision, not to mention objection. Furthermore, there are some institutional mechanisms in the process of legislative approval that the executive branch can use to escape the supervision of the legislative branch. According to the “Statute Governing the Relations Between the People of the Taiwan Area and the Mainland Area,” if agreements signed by SEF and ARATS have nothing to do with revising the existing law, then the agreements do not require the consent of the Legislative Yuan. This allows

the executive branch some room to maneuver as is shown in the agreement regarding direct shipping. Another convenient mechanism that the executive designs to escape the supervision lies within the agreements itself signed by SEF and ARATS. The agreements signed by SEF and ARATS have included the article that the agreements shall become valid in 40 days after the signature. If these agreements requires the amendment and revision of some existing laws, and the Legislative Yuan cannot finish such amendment within 40 days, there would be legal controversy regarding the validity of these agreements. However, since right now the opposition in the Legislative Yuan is too small to force KMT to solve this problem, the real situation is that no legislative check can be exerted on the agreements SEF signs with ARATS.

Since actually there is almost no veto threat in the Legislative Yuan, KMT does not have an advantage of “involuntary defection.” If that is the case, Beijing should know about this too. However, although Beijing does not worry about the veto power of DPP at the present, it is still more worried about the possible coming back of DPP in the next election. Although the previous presidential election has just finished last year and next one is still more than two years away, late 2009 there will be an election for county magistrates and county legislators. Beijing may worry if KMT can not perform well so that the probability of DPP’s coming back may increase. Particularly, as the global economic downturn seriously affect Taiwan’s economic performance since last year, President Ma’s approval rate on the media poll dropped in his first year before his first inaugural anniversary in May.<sup>30</sup> It was almost at the same time that Beijing changed its position on CECA/ECFA, that is, when May 20<sup>th</sup> approached.

The driving force, therefore, is not a current political condition in Taiwan, but a shadow of a future political scenario. This paper calls this a “*shadow effect*” of next election. This shadow effect of the coming election on the international negotiation may also help why the foreign negotiator is willing to concede even when next election is still far away. Figure 5 shows how the shadow effect of the future election affects Beijing’s decision to concede earlier.

Figure 5 about here

In Figure 5, if Beijing worries that Taiwan’s public may in the long run becomes

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<sup>30</sup> For Ma’s low approval rate, see Global View Magazine (4-24-2009): Ma’s approval rate: 32.8% yes vs. 57.6% no; Ma’s trust rate: 49.6% trust vs. 35.2% not; Wealth Magazine (4-30-2009): Ma’s approval rate: 42% yes vs. 47.2% no; China Times (5-24-2009): Satisfaction with Ma: 56.1% yes, 33.5% no.

politically more conservative (by moving from curve  $T_{e2}-T_{p2}$  to curve  $T_{e3}-T_{p3}$ ), particularly if that kind of change happens approaching the election, KMT will be forced to withdraw too (by moving from curve  $K_{e2}-K_{p2}$  to curve  $K_{e3}-K_{p3}$ ), and the DPP will enjoy campaign advantage (with the curve  $D_{e2}-D_{p2}$  remains unmoved). In that case, Beijing will be forced to concede more on economic dimension if it insists no concession politically (by moving from  $C_{e2}-C_{p2}$  to curve  $C_{e3}-C_{p3}$ ). In order not to face such an unnecessary loss, Beijing has a strong incentive to yield earlier than later in facing the shadow of future election of Taiwan. This explains why Beijing is willing to become pro-active even when KMT has not exerted extra pressure on CCP.

The fact that the Beijing regime is much more afraid of the scenario of DPP's coming back to power than losing advantage to KMT in the negotiation gives KMT, KMT can utilize such a fear in Beijing's mind. The best strategy then is to tie the success of his rule to the economic benefits his government and Taiwan to the economic benefit acquired from Taiwan's economic negotiation and cooperation agreement. The more President Ma ties the success of his rule to the economic benefits his government and Taiwan can gain from China, the greater the stake Beijing has in fulfilling the demands Ma raises in the cross-strait economic negotiation.

This is how the cross-strait negotiation is different from other typical international negotiation. CCP as a foreign negotiator has a political stake beyond the negotiation itself in who becomes the ruling party in Taiwan, and that stake is much more important for Beijing than how much to gain and lose in the negotiation itself.

## **VII. Potential Challenges to Ma's Cross-Strait Negotiation**

The previous two sections explain the reasons why Beijing conceded its position with the logic of domestic asymmetric information and the shadow effect of future election. However, such advantages KMT enjoys are not without potential challenges. This section will list three possible challenges: The first challenge is that if the opposition party DPP changes its position on the economic dimension to be more pragmatic and flexible (and a little bit more conservative politically), then it will threaten the credibility of KMT's domestic constraint, and Beijing may thus withdraw its bargaining position, most likely on the political dimension. Second, when KMT's political predomination becomes more and more clear as it approaches the next major election, the credibility of KMT's domestic constraint will also become thinner. Beijing thus will have stronger incentive to withdraw its bargaining position. Third, when after the election Taiwan's society becomes

more dependent upon China's economic favor, Taiwan's public tends to become willing to pay higher political price for the same degree of economic gain. That will be the time that Beijing will charge KMT some political pay-back. This can be more serious if Beijing perceives KMT actually no longer faces credible domestic constraint.

### *1. If DPP becomes much more pragmatic economically*

The first challenge KMT may face is when DPP adjusts itself to a more pragmatic position on the economic dimension but at the same time to a more conservative position on the political dimension. Under such circumstance, KMT may acquire a concession on economic dimension by Beijing, but will also face Beijing's withdrawal on political dimension. In short, KMT is caught by double political pressure at both domestic and international level. Figure 6 shows this scenario.

Figure 6 about here

Currently, there are indeed different opinions within DPP regarding the economic dimension of cross-strait relations. For example, there are some argue that DPP should support ECFA, but under the condition that it should go through referendum.<sup>31</sup> So far DPP has not officially claimed that it will definitely oppose ECFA. However, as stated previously, the whole Green Camp is worried about the political implications. Under such a circumstance, it is reasonable to expect that DPP may gradually moderate its position on those more concrete economic issues but turn even stronger on its political position. In Figure 6, if DPP relaxes its position on economic dimension by moving from  $D_{e1}$  to  $D_{e2}$ , and tightens its position on political dimension by moving from  $D_{p1}$  back to  $D_{p2}$ , then DPP may gain some support from the middle class and central voters without losing the support of the deep green supporters. Due to DPP's move, the average public position may also be changed from the  $T_{e2}-T_{p2}$  curve to the  $T_{e4}-T_{p4}$  curve. In that case, the intersection of the  $T_{e4}-T_{p4}$  curve and the  $C_{e3}-C_{p3}$  curve will become larger than the intersection between the  $T_{e2}-T_{p2}$  curve and the  $C_{e3}-C_{p3}$  curve.

As the intersection area becomes larger due to Taiwan's domestic change, it implies Beijing's advantage. Beijing can raise the price on the economic dimension for the negotiation. However, as mentioned earlier, Beijing has a greater stake on the political

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<sup>31</sup> Li, Wen-chung, "DPP should support ECFA under the condition of referendum," Apple Daily, 6.11.2009, p. A21.



than the economic dimension. In facing such a pragmatic adjustment of both the Green Camp and Taiwan's public, Beijing can choose to give some positive feedback to welcome such a change from Taiwan, by moving from  $C_{e3}$  further ahead to  $C_{e5}$ . However, if Beijing at the same time also charges a higher political price by moving back on the political dimension from  $C_{p3}$  to  $C_{p5}$ , the intersection area between  $C_{e5}$ - $C_{p5}$  curve and the  $T_{e4}$ - $T_{p4}$  curve will remain almost the same as the original area between  $C_{e3}$ - $C_{p3}$  curve and the  $T_{e2}$ - $T_{p2}$  curve, if not larger.

Under such a new circumstance, KMT as a negotiator will face such a dilemma: On the economic dimension it seems both the Taiwan side and the Chinese side relax their positions and the win-set remain existent. This will be much easier for KMT as a negotiator. However, ironically, both Taiwan and China withdraw on the political dimension. ***KMT as a negotiator would face higher political demands from both the domestic and international level.***

The likelihood of such a scenario depends on whether DPP is able to find out such a balance between the economic and political dimensions. Recently there are voices within DPP calling for a new round of China policy debate. However, the party leadership softly diverted such a pressure by arguing that there is no significant difference regarding China policy within the party. The position of the party remains the same according to the major resolution of the party.<sup>32</sup> Recently, there are also politicians that either have managed to visit China or expressed intention to participate in the KMT-CCP Forum. The change of DPP's position on economic issue here does not have to refer to that the DPP leaders accept or legitimize these individual moves. What this paper means is a policy adjustment in articulating a more pragmatic economic policy line that serves the practical needs of the already tight economic relationship between Taiwan and Mainland China, and to solve the problems existing in such complicated yet under-regulated ties.

## *2. If opposition is too weak and KMT's domestic constraint is no longer credible to Beijing*

The second challenge does not come from a more flexible DPP, but from a weak DPP. A very weak DPP may also lead to the gradual vanish of KMT's advantage from the "shadow effect" of the future election, since the possibility of DPP's future challenge

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<sup>32</sup> "Central Standing Committee member urges to hold a debate on China Policy. Cheng Wen-tsan said there is no major difference within the party," Central News Agency, 6.8.2009, <[http://tw.money.yahoo.com/news\\_article/adbf/d\\_a\\_090608\\_1\\_1iyng](http://tw.money.yahoo.com/news_article/adbf/d_a_090608_1_1iyng)>.

seems to be more and more remote. There are two possible time points for such a scenario to take place. The first time point will be when the poll shows a significant gap between KMT and DPP as it approaches the election. The second possible time point is right after the next major election when President Ma or the KMT has won another major victory. In the first time point, no matter how much advantage KMT enjoys in the lead, as long as it is before the election, Beijing still has to worry about the negative effect it may create for KMT if Beijing charge a higher price either on economic or political dimension. In the second time point, in comparison, Beijing will not have to worry about a backlash since the election is over. That will be the best time for Beijing to reap its bargaining advantage. Figure 7 shows such a scenario.

Figure 7 about here

In Figure 7, Beijing no longer needs to create an intersection with the indifference curve of Taiwan's public ( $T_{e3}-T_{p3}$ ) but only needs to intersect with that of KMT's ( $K_{e3}-K_{p3}$ ). Beijing therefore shall move from curve  $C_{p3}-C_{e3}$  to  $C_{p6}-C_{e6}$ . Although the curve  $C_{p6}-C_{e6}$  no longer intersects with curve  $T_{e3}-T_{p3}$ , it does not matter because it only needs to intersect with the curve  $K_{e3}-K_{p3}$ .

The result of such a change of position by Beijing is that willingly or unwillingly, KMT will need to pay a higher political price to get the same economic cooperation from Beijing.

In facing such a scenario, the only checking power would be Taiwan's strong public opinion to resist the pressure from Beijing. However, if KMT has made the public opinion believe that KMT is making Taiwan's democracy rollback before the election as it does now, KMT is creating a trouble for itself for its bargaining position with Beijing.

***The weaker Taiwan's democracy becomes, the less advantage KMT enjoys in negotiating with Beijing.***

If KMT knows such a possibility, it may want to reach the agreement with Beijing as early from the election as possible when it still enjoys the advantage. This is why Ma was in such a hasty manner, at least from opposition's perception, to push forward the CECA/ECFA negotiation. Furthermore, the earlier the agreement is reached, the more time KMT has to reap the fruit, i.e. the economic development, from the agreement and to use it as the political capital for next elector campaign. If KMT can reach the basic framework of ECFA next year, then it can face less the challenge presented in this scenario. However, as the General Director of the Foreign Trade Bureau said, the first

agreement will only be a framework. All the substantial bargains, particularly about individual industries, that will have to be conducted in the coming years may all face this challenge. ***The longer the whole negotiation process prolongs the more political concession and the higher the political price KMT will have to pay.***

3. *When Taiwan's public becomes dependent upon China's economic benefit and when opposition is powerless*

The last challenge does not purely come from domestic factor, but from the interaction of Level I (international) and Level II (domestic) factors after a longer period of time. According to the “suspicious effect” of the domestic asymmetric information and the “shadow effect” of future election, President Ma's KMT administration enjoys some natural advantages in the CECA/ECFA negotiation with Beijing in the early stage. However, as time passes, such advantage may also disappear due to the previous two potential challenges. Therefore there is a strong incentive in the beginning stage for both the KMT and CCP to start the negotiation. However, as ECFA is a prolonged negotiation, and the “early reap mechanism” is very likely to be developed in the early stages. Such a mechanism may generate substantial economic benefits for some of Taiwan's economic sectors. When Taiwan's economy becomes more and more dependent upon the economic benefits created by the cross-strait economic cooperation, these sectors in Taiwan may become more willing to pay a higher political price in exchange for the continual of such cross-strait economic benefits. When such a scenario presents itself, it is not the KMT that will lose the advantage, but the general Taiwanese society will have to pay a higher political price. The survey conducted by the “Wealth Magazine” shows that the respondents do worry about the scenario that a growing economic dependence upon China comes to realize.<sup>33</sup>

When such a change of relative price between political gain and economic gain of Taiwan's society occurs, it is no doubt a high time for Beijing to reap the fruit. Beijing will definitely ask Taiwanese society to make more concession on political dimension in exchange for its continuous cooperation on the prolonged economic negotiation. KMT as Taiwan's negotiator will be the first one to face the pressure from Beijing. This time Beijing's pressure is not only due to the relative position of the two negotiators, but due

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<sup>33</sup> According to the survey, when asked whether “worry about economic dependence on China,” 58.5% said “Yes” and 31.5% said “No.” See “Loving Ma Ying-jeou without loving his administration,” *Wealth Magazine*, May 2009, p. 60.

to the weakening position of Taiwan's society as a whole. If Taiwan's democracy suffers from a major rollback and opposition remains weak, then that will be *a worst nightmare for a negotiator to guard Taiwan's interests* in the negotiation with Beijing. Figure 8 depicts such a scenario.

In Figure 8, as Taiwan's society has become more dependent on the economic benefits created by the improved cross-strait economic relations, then some of the sectors may be willing to pay a higher political price for continuous economic gains, and thus the point of  $T_{p3}$  shall move to  $T_{p5}$ . In detecting that, Beijing will raise its political price for KMT from  $C_{p3}$  to  $C_{p5}$ , and will also narrow the win-set and constitute a first wave of pressure for KMT. Furthermore, if Taiwan's opposition is weak and democracy suppressed, then as argued in previous subsection, Beijing can ask for an even higher political price as long as there new curve  $C_{p6}$ - $C_{e6}$  intersects with KMT's indifference curve. But if CCP moves the curve to the extent that its new indifference curve does not intersect with that of KMT, then KMT shall be forced to yield by also become willing to pay a higher political price for economic gain (by moving further from  $K_{p3}$  to  $K_{p4}$ ) so that there is a win-set with Beijing.

## VIII. Conclusion

This paper utilizes Putnam's "two-level game model" to review the bargaining process between the KMT regime and the CCP regime on CECA/ECFA, and finds that there are several implicit assumptions in the model that needs to be reexamined. These assumptions include: First, the players in a two-level game are not only the two negotiators and the opposition in the democratic country, but also the public. The domestic constraint may not only come from opposition's veto in the parliament, but also from the competition of the two parties for the support of the public for next election. Second, the information asymmetry not only exists for the foreign negotiator in knowing opponent's domestic politics, but also for the domestic opposition and public to know the true intention of the domestic negotiator. Third, when there are two dimensions of the issue under negotiation, the win-sets constituted by the two dimensions should not be analyzed separately, but by applying the indifference curve chart. The preference of players on different dimensions may be different, and the give-and-take on these two dimensions may interact dynamically in different stages of the negotiation. Fourth, when a democracy negotiates with a non-democracy, the later may have an advantage of

asymmetric information because a democratic system is always more transparent so that the non-democratic opponent always know better the domestic political change than the other way around.

Based on the discussion of these implicit assumptions of the two-level game model, this paper develops explanations for why Beijing changes its attitudes toward CECA/ECFA in an early stage of negotiation, and why President Ma proposed the negotiation of CECA/ECFA in a hasty manner with two effects: the “suspicious effects” of the domestic asymmetric information and the “shadow effect” of the future election. This paper further explores three potential challenges the Ma administration may face in its CECA/ECFA negotiation: First, if DPP changes its position on economic dimension to a more pragmatic one but more conservative on political dimension, then KMT will face a dilemma: enjoying a easier bargaining position on the economic dimension but facing double pressures (from both domestic and international level) on the political dimension. Second, if the checking power from the opposition and Taiwan’s society is too weak, especially when KMT wins the next general election with an overwhelming victory, then KMT will no longer face credible domestic constraint. Beijing thus will charge KMT higher political price in the negotiation. Third, if Taiwan’s society becomes dependent on the economic benefit generated from early stages of the economic negotiation, then the political price it is willing to pay in exchange for economic benefit given by Beijing may increase. At such a moment Beijing will start to charge higher political price too.

In short, this paper finds that the weaker Taiwan’s democracy, the more pragmatic DPP on economic issue, the weaker the checking power of the opposition or the public in the democratic process, the longer the negotiation process, and the more political dominance KMT gains domestically, then the more likely KMT will be forced to pay higher political price in exchange for Beijing’s continuous cooperation in the following economic negotiation such as ECFA. In other words, although in the early stage of the negotiation Beijing seems to be conceding a lot on the economic dimension, it does not imply Beijing will keep doing so in the later stage and on the political dimension too. Quite on the contrary, according to the analysis raised in the paper, Beijing’s position tend to become tougher later, particularly on the political dimension, given the fact that KMT may gradually lose the advantage it enjoys in the early stage.

Figure 1-1. Taiwanese public views on cross-strait political relation

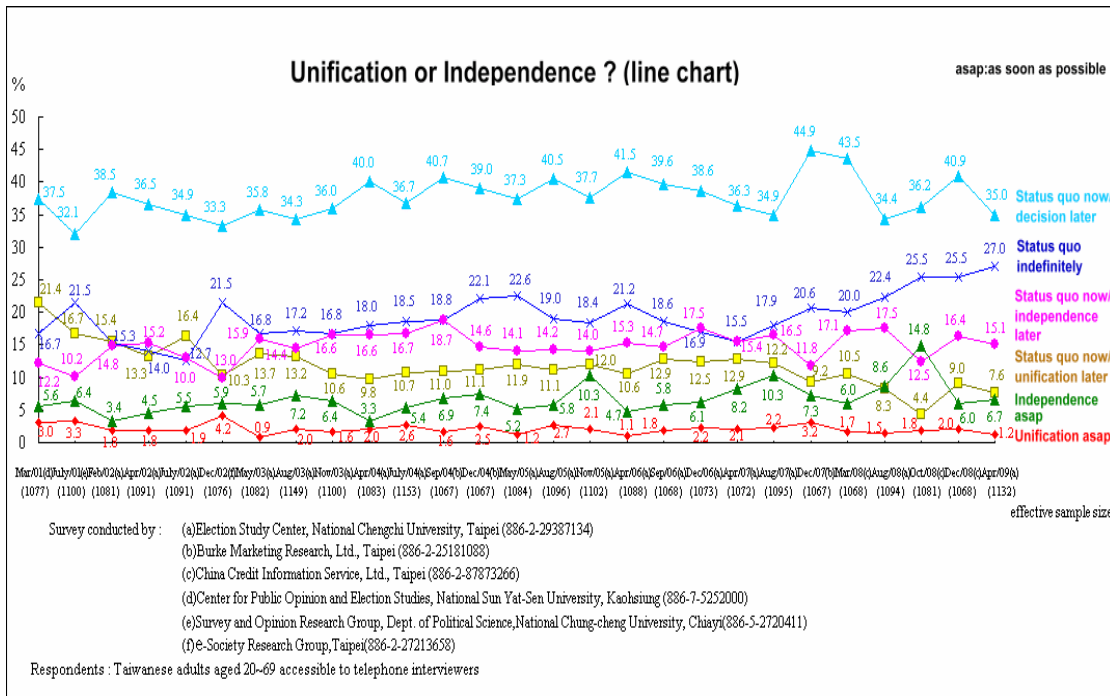


Figure 1-2. The Pace of Cross-Strait Exchanges

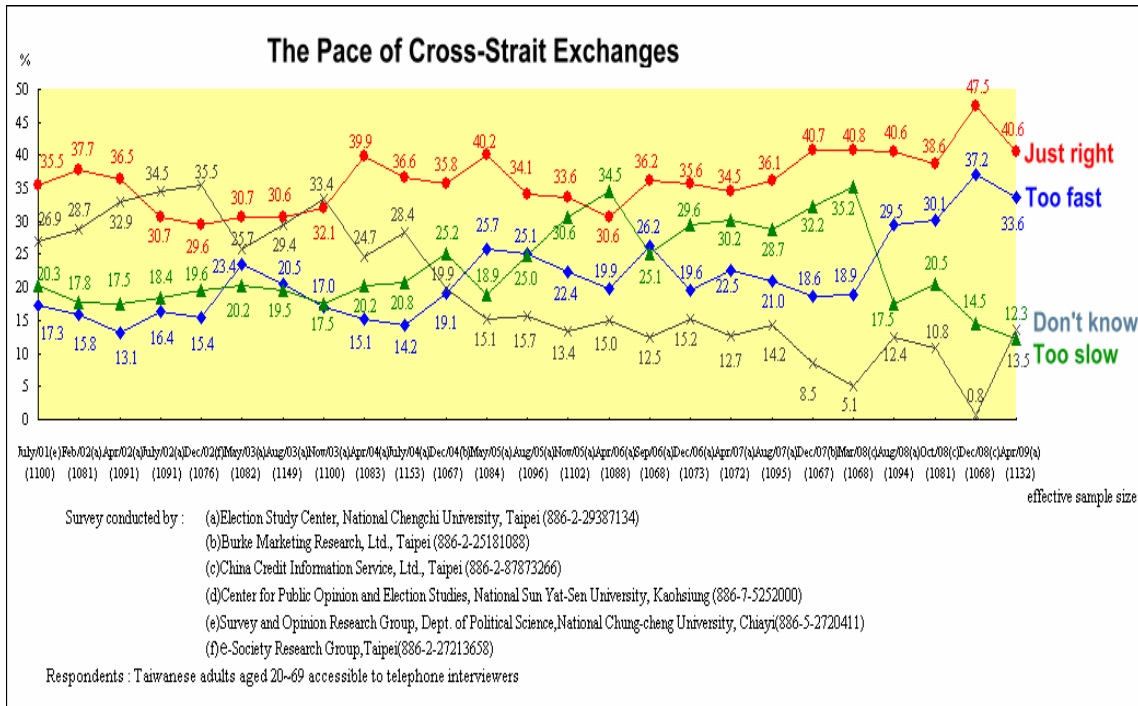


Figure 2. When KMT takes over power from DPP

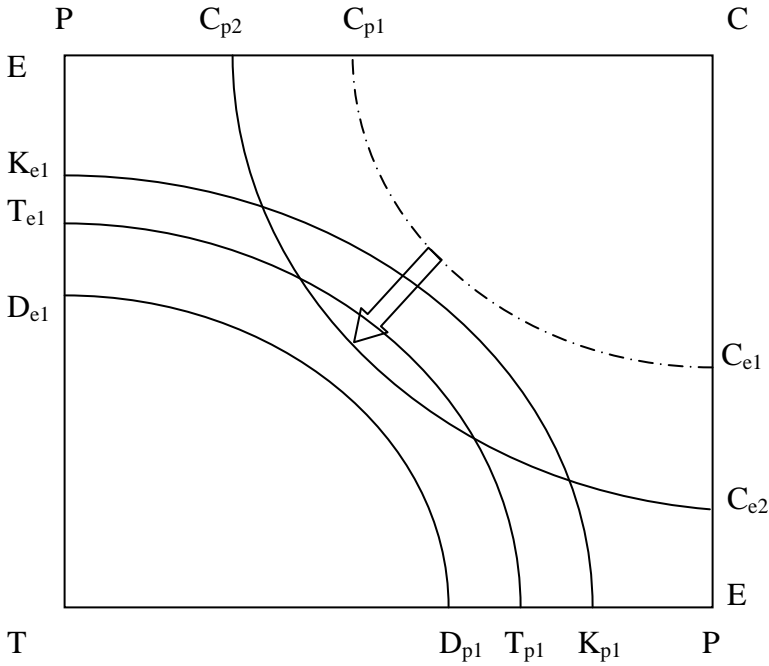


Figure 3

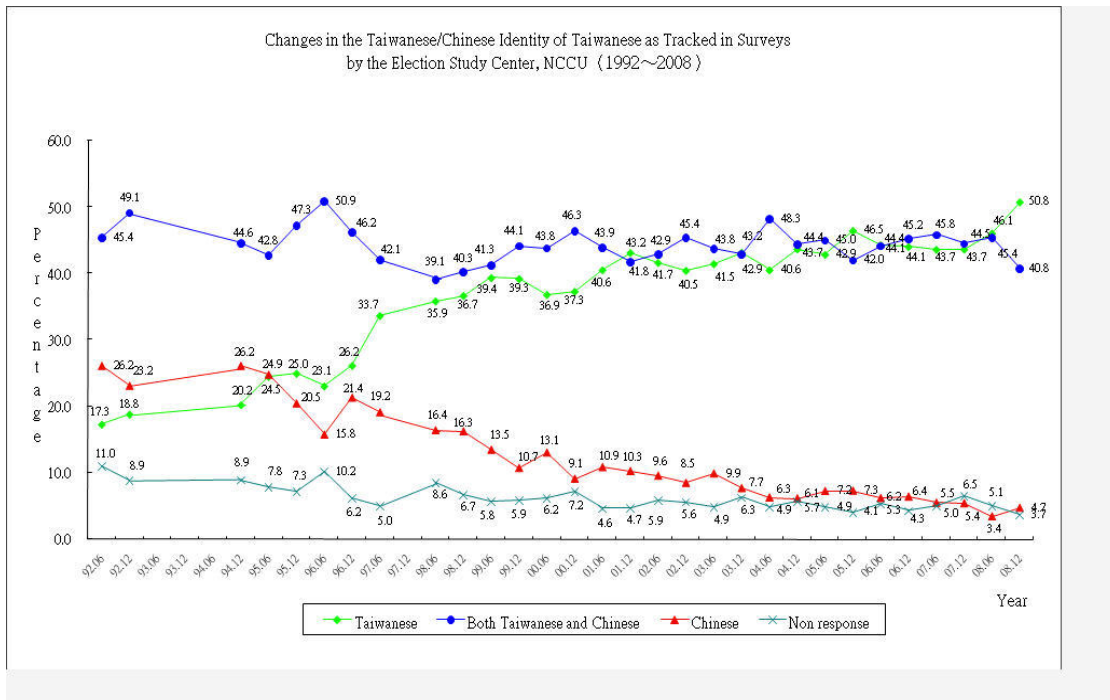


Figure 4. Effects of domestic asymmetric information and suspicion

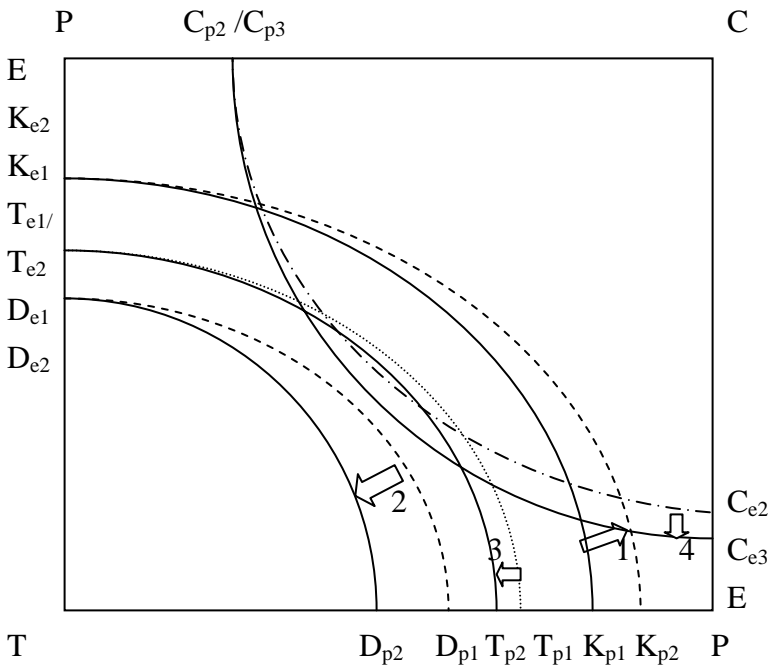


Figure 5. The shadow effects of future election -1

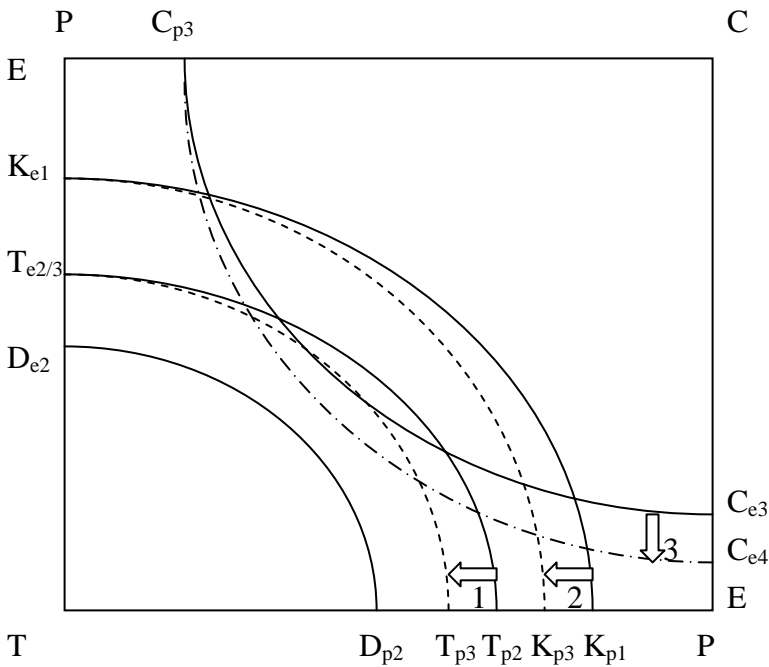






Figure 6. If DPP changes its position and public pressure mounts

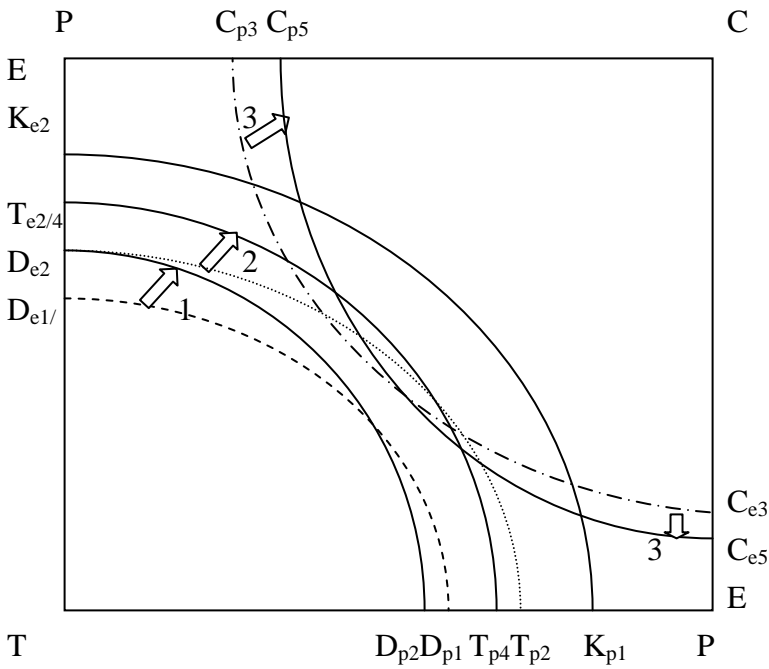


Figure 7. If opposition is too weak and KMT's domestic constraint is no longer credible to Beijing

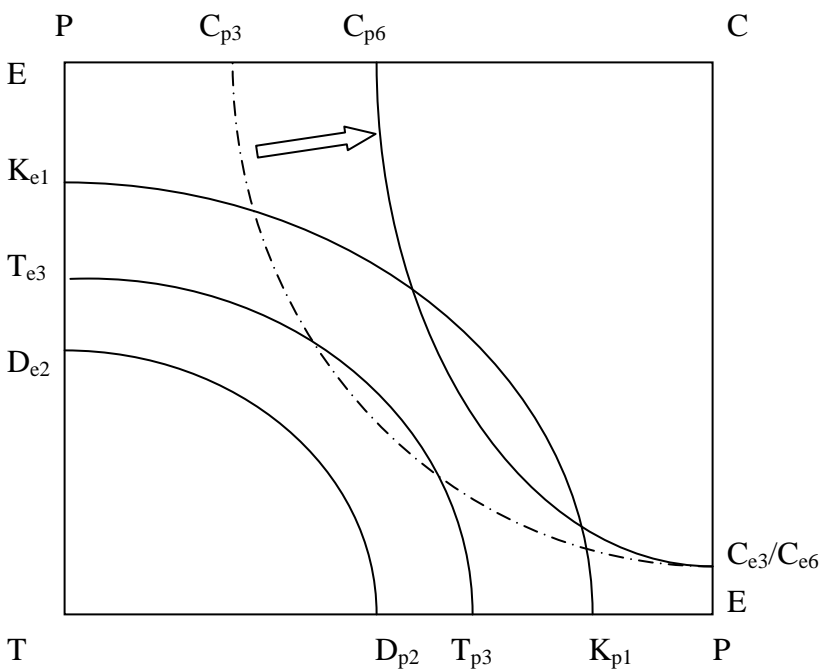
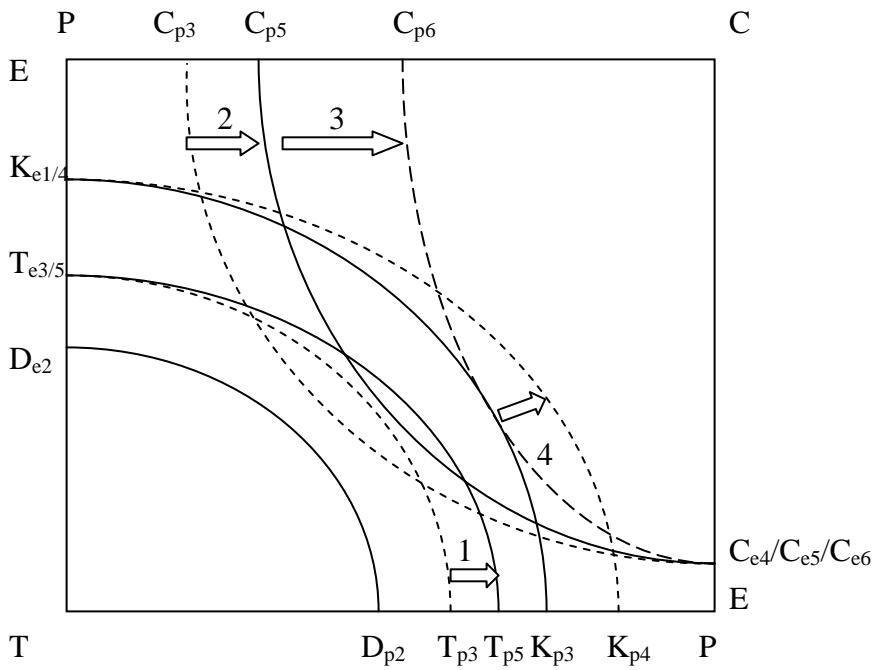




Figure 8. When Taiwan's public becomes dependent upon China's economic benefit; and when opposition is powerless



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