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# Can Beijing Buy Taiwan? An empirical assessment of Beijing's agricultural trade concessions to Taiwan

Stan Hok-wui Wong[a] and Nicole Wu[b]

[a]Hong Kong Polytechnic University, Hong Kong; [b]University of Michigan, USA

### ABSTRACT

In the mid-2000s, Beijing made a series of unilateral trade concessions with respect to agricultural trade with Taiwan. This move distressed the then incumbent party of the Republic of China, the Democratic Progressive Party (DPP), because Beijing's offers might weaken the DPP's rural support. This article offers the first empirical assessment of Beijing's trade concessions. Using an original and highly disaggregate dataset at the township-product level, it examines what types of regions were more likely to be the beneficiary of the trade concessions, whether the concessions caused any production change, and the extent to which these changes undermined the DPP's electoral support. It is found that while the benefit of tariff concession was not confined to pro-DPP regions, the townships that grew tariff-reduced products were no less likely to vote for the DPP. The result suggests a limit of Beijing's economic enticement.

## I. Introduction

Economic policies may be used as instruments of politics. A country's ability to unilaterally withhold valuable economic resources and inflict material damages on others gives it political power. Asymmetric economic integration, as Hirschman argues, may lead to relations 'of dependence, of influence, and even of domination'.[1] The history of colonialism shows that initial supremacy enables a foreign country to mold the direction and composition of economic exchange with a home country, affording the former opportunities to create and foster economic dependence of the latter.[2] Once dependence is established, it would be difficult for the dependent state to resist the political demands of the foreign state, for fear of losing vital economic resources.[3]

The People's Republic of China (PRC) is a country whose growing economic power arouses both awe and admiration. How the PRC capitalizes on its economic might causes concerns in policy-making and academic circles. On the one hand, Beijing wants to reassure the world that it is a responsible power whose 'peaceful rise' threatens no one. Calling itself a 'friendly neighbor', Beijing reiterates how it eschews 'interference in the internal affairs of other countries'.[4]

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[1]Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles: University of California Press, [1945] 1980), p. 13.

[2]*Ibid.,* p. 13.

[3]Jean-Marc F. Blanchard and Norrin M. Ripsman, *Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Calculations* (Abingdon: Routledge, 2013), p. 18.

[4]The PRC State Council Information Office, 'Full text: China's peaceful development road', *People's Daily*, (22 December 2005), available at: http://english.peopledaily.com.cn/200512/22/eng20051222_230059.html (last accessed 20 June 2014).

On the other hand, however, more and more anecdotal accounts or studies show how Beijing uses economic tools, such as trade policies, to achieve political aims. For example, Fuchs and Klann find that countries that officially receive the Dalai Lama at the highest political level experienced, on average, a two-year reduction of export to the PRC by almost 17%.[5] After the Norwegian Nobel Committee awarded the Peace Prize to a Chinese dissident Liu Xiaobo, Norway suffered from an import ban on salmon, cancellations of scheduled official visits and suspension of bilateral trade talks.[6] In defending its maritime claim in the South China Sea, Beijing put pressure on the Philippines by blocking tons of bananas from entering China on the grounds of 'quarantine concerns', leaving the fruit to rot at the ports.[7] Finally, the growing economic presence of the PRC in Africa, both in the form of aid and direct investments, is reportedly motivated by Beijing's interest in the continent's vast natural resources.[8]

This article provides an additional example to the above list. In the mid-2000s, Beijing made an overt attempt to utilize economic means to influence party politics in Taiwan by making two rounds of unilateral agricultural trade opening and tariff reductions. Its 'generosity' was not welcomed by the ruling Democratic Progressive Party (DPP), who feared that the trade concessions would eventually entice Taiwanese farmers to vote for the opposition Kuomintang (KMT), a party that is closer to Beijing on the issue of reunification. The DPP, therefore, declined Beijing's economic offers, and deployed various measures to obstruct cross-Strait agricultural trade. The extent to which the DPP could offset Beijing's charm offensive remains unclear. To the best of the authors' knowledge, no one has conducted any systematic investigation into this politically important question. This article is intended to fill this void.

This article should engage two groups as its audience. The first is students of China–Taiwan relations. The aforementioned agricultural concessions can be deemed as the predecessor of a much larger 'material enticement' scheme, the Economic Cooperation Framework Agreement (ECFA) and its follow-up pact, the Cross-Strait Services Trade Agreement (CSSTA). These preferential trade agreements signed between mainland China and Taiwan in the early 2010s expose other Taiwanese sectors (e.g. manufacturing, industrial, business and service) to the same kind of material enticement presented to their agricultural counterparts in the mid-2000s. This economic accord, structured to benefit Taiwan more than mainland China,[9] has sparked heated speculation of a covert political agenda.[10] Skeptics have called the ECFA a 'trap', a 'Trojan Horse'[11] and a 'political tool that masquerades as a trade instrument'.[12] The recent signing of the CSSTA has triggered a serious backlash, leading to the occupation of the legislature by hundreds of protestors for 23 days in early 2014. While the economic and political effects of

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[5]Andreas Fuchs and Nils-Hendrik Klann, 'Paying a visit: the Dalai Lama effect on international trade', *Journal of International Economics* 91(1), (2013), pp. 164–177.

[6]Gwladys Fouche and Walter Gibbs, 'China cancels more Norway visits after Nobel Prize', *Reuters* (Oslo), (13 October 2010), available at: http://uk.reuters.com/article/2010/10/14/uk-nobel-peace-idUKTRE69C54220101014 (accessed 10 September 2015); Richard Milne, 'Norway sees Liu Xiaobo's Nobel Prize hurt salmon exports to China', *Financial Times*, (15 August 2013), available at: http://www.ft.com/intl/cms/s/0/ab456776-05b0-11e3-8ed5-00144feab7de.html#axzz3lLkijbxO (accessed 10 September 2015).

[7]Jane Perlez, 'Dispute between China and Philippines over island becomes more heated', *The New York Times*, (10 May 2012), available at: http://www.nytimes.com/2012/05/11/world/asia/china-philippines-dispute-over-island-gets-more-heated.html?_r=0 (accessed 10 September 2015).

[8]The PRC State Council Information Office, 'Full text'.

[9]Shelley Rigger, *Why Taiwan Matters: Small Island, Global Powerhouse* (Lanham: Rowman & Littlefield Publishers, 2011), p. 160; Daniel H. Rosen and Zhi Wang, 'Deepening China–Taiwan relations through the Economic Cooperation Framework Agreement', in *China Leadership Monitor* (Washington, DC: Peterson Institute for International Economics, 2010), p. 3.

[10]Pasha L. Hsieh, 'The China–Taiwan ECFA, geopolitical dimensions and WTO law', *Journal of International Economic Law* 14(1), (2011), p. 127; Syaru Shirley Lin, 'Economic interests in Taiwan's cross-Strait policy and linkages to national identity: has the Economic Cooperation Framework Agreement opened the way to a political solution?', in Weixing Hu, ed., *New Dynamics in Cross-Taiwan Strait Relations: How Far Can the Rapprochement Go?* (New York: Routledge, 2013), p. 39; Rigger, *Why Taiwan Matters*, p. 160; Tseng Katherine Hui-yi and Chiang Min-hua, 'Taiwan politics: cross-Strait relations continue to dominate', *East Asian Policy* 4(1), (2012), p. 61.

[11]Dennis V. Hickey, 'Rapprochement between Taiwan and the Chinese mainland: implications for American foreign policy', *Journal of Contemporary China* 20(69), (2011), p. 243.

[12]William Lowther, 'Taiwanese–Americans attack ECFA', *Taipei Times*, (22 May 2010), available at: http://www.taipeitimes.com/News/front/print/2010/05/22/2003473588 (accessed 10 September 2015).

the ECFA are still unfolding, the impacts brought by Beijing's earlier agricultural concessions have long surfaced. In other words, a systematic study of the PRC's earlier concessions to the Taiwanese agricultural sector should be able to shed light on the political effects of closer cross-Strait economic exchanges.

This study is also relevant to the literature on economic statecraft. Experts of trade policies and analysts of foreign direct investments (or other forms of cross-border economic exchanges) alike may find this article relevant, for it presents a case of Beijing's overt attempt to influence another government with a seemingly benign economic policy. The political leverage of the PRC will likely increase as it expands economic relations with other economies. Currently, the PRC is the largest export destination of over 30 countries, including Australia, Brazil, Iran, North Korea, Thailand and Yemen.[13] The lure of China's large consumer markets might make the governments of these countries more susceptible to Beijing's political demands and influence.

The rest of the article is divided into three parts. The next section provides an overview of the development of China–Taiwan relations and a detailed discussion of the strategic importance of Beijing's agricultural trade concessions with a reference to the changing relationships between Taiwanese farmers and the two dominant parties. Next, an empirical analysis of the data of China–Taiwan agricultural trade to examine the causes and effects of Beijing's unilateral trade concessions was conducted. These findings are discussed in the final section of this article.

## II. Background

China–Taiwan relations have undergone dramatic twists and turns since the 1990s. In 1991, the KMT established the Strait Exchange Foundation (SEF) to handle affairs with the mainland. The PRC government created a corresponding organization—the Association for Relations Across the Taiwan Straits (ARATS) to liaise with Taipei.[14] As Taiwan experienced democratization in the 1990s, however, tensions between the PRC and the ROC intensified. In retaliation for Lee's pro-independence gesture, the Chinese President Jiang Zemin severed all official contact with the ROC government under the KMT.[15]

The KMT's attitude toward the PRC has changed dramatically since 2000, the year in which it was voted out of office for the first time. The KMT has sought to depart from Lee's pro-independence line, and revamped itself as a pragmatic political force promoting stability. Lee was also expelled from the party. The PRC welcomed the KMT Redux. From Beijing's perspective, the DPP was no less troublesome than Lee Teng-hui, because of the former's support for Taiwan independence. Beijing tried to reach out to the post-Lee KMT in order to contain the pro-independence DPP.

Meanwhile, after the successful power transition to the fourth generation of PRC leaders headed by Hu Jintao, Jiang Zemin's policy of non-contact was quickly supplanted with that of engagement.[16] The Hu–Wen administration had also exercised restraint, eschewed the crisis-provoking approach used by its predecessors, and dropped Jiang's timetable for reunification.[17] While keeping its hard stick, Beijing had continued to sweeten its carrots[18]—offering generous loans to Taiwanese businesses, relaxing travel restrictions and tolerating a modest increase in international space for the ROC.[19]

[13]Central Intelligence Agency, *The World Factbook*, available at: https://www.cia.gov/library/publications/the-world-fact-book/fields/2050.html (last accessed 20 June 2014).

[14]Vincent Wei-cheng Wang, 'The evolution of the institutional structure of Taipei's mainland policy making since the 1980s', in Kevin G. Cai, ed., *Cross-Taiwan Straits Relations since 1979: Policy Adjustment and Institutional Change across the Straits* (Singapore: World Scientific, 2011), pp. 247–278 at p. 276.

[15]Chong-Pin Lin, 'More carrot than stick: Beijing's emerging Taiwan policy', *China Security* 4(10), (2008), p. 6.

[16]*Ibid.*, p. 4.

[17]Chen Kai-Chien, 'Comparing Jiang Zemin's impatience with Hu Jintao's patience regarding the Taiwan issue, 1989–2012', *Journal of Contemporary China* 21(78), (2012), pp. 957–958.

[18]Hu Weixing, 'Explaining change and stability in cross-Strait relations: a punctuated equilibrium model', *Journal of Contemporary China* 21(78), (2012), p. 944.

[19]David Brown, 'China–Taiwan relations: Beijing prefers to tango with the opposition', *Comparative Connections* 7(3), (2005), pp. 83–90; Susan Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2008), p. 206.

### II.1. Agricultural trade concessions—the strategic calculus

The KMT's position as an opposition party from 2000 to 2008 did not prohibit Beijing from seeking collaboration. Ironically, Beijing–KMT relations improved significantly after Beijing's promulgation of the controversial Anti-Secession Law (ASL), a law that provides Beijing with a legal basis to use 'non-peaceful means' against Taiwan in the event of the latter's declaration of independence.[20] While the seemingly aggressive gesture caused major uproar on the island, Rigger argues that the ASL was a step taken to pacify hardliners in Beijing,[21] so that talks with Taipei could proceed. Deviating from diplomatic norms, Beijing invited the opposition KMT, instead of the incumbent DPP, to the negotiation table.

The then KMT Chairman Lien Chan's trip to the PRC in 2005 was the highest level of China–Taiwan exchange since 1949. Although most of the discussions were symbolic at best, due to the lack of endorsement from the ruling DPP, the meeting nonetheless brought direct benefits to farmers in the ROC. The conference concluded with a five-point communiqué[22] on cross-Strait relations. In addition, Beijing announced a host of favorable policies toward Taiwan, including agricultural trade concessions, normalization of tourism and a gift of two pandas.

In August 2005, just three months after the visit, Beijing removed the import tariffs (ranging from 10% to 25%) for 15 Taiwanese fruits.[23] Beijing's efforts to win the hearts and minds of Taiwanese farmers did not end with Lien's visit. At the end of the first Cross-Strait Economic and Trade Forum in 2006, Beijing further offered access for four fruit commodities and free tariff treatment for 11 vegetable commodities.[24] The policy went into effect in March 2007.[25] Unlike standard trade pacts, Beijing's concessions were unilateral, asking the other side to offer nothing in return.[26] In addition, despite the fact that the provisions violated the most-favored-nation treatment under the General Agreement on Tariffs and Trade (GATT) of the World Trade Organization law, Beijing still extended the offer to Taiwan.[27]

The timing of the first announcement, a month after the promulgation of the controversial ASL, fueled speculations of Beijing's ulterior political motives. It was widely believed that Beijing's announcement of the first round of trade liberalization was an attempt to pacify the DPP's loyal partisans in the central and southern areas of Taiwan.[28] Journalistic accounts abound that the two rounds of tariff reductions were part of Beijing's political scheme designed to hand political credit to the KMT, thereby weakening the pro-independence DPP's stronghold in agricultural counties.[29]

Not surprisingly, the ROC government led by the DPP fiercely criticized Beijing's proposed concessions. The Mainland Affairs Council (MAC) censured the trade concessions as 'a calculated ploy to cozy

[20]Lin, 'More carrot than stick', p. 7.

[21]Rigger, *Why Taiwan Matters*, p. 158.

[22]'Hu Jintao yu Lien Chan huitan xinwen gongbao (quanwen)' ['Press release of the meeting between Hu Jintao and Lien Chan (full text)'], *Xinhua News*, (29 April 2005), available at: http://news.sina.com.cn/c/2005-04-29/19065787389s.shtml (accessed 10 September 2015).

[23]The PRC General Administration of Customs, 'Haiguan Zhongchu Gonggao 2005 di 37 hao' ['General Administration of Customs 2005 Bulletin No. 37'], available at: http://www.customs.gov.cn/publish/portal0/tab3889/module1188/info8379.htm (last accessed 20 June 2014).

[24]'11 zhong shucai shu Zhongguo mianguanshui, dui an shifang liduo, chongji liying piaocang' ['11 Vegetables to receive tariff-free treatment, the PRC offers economic incentives to target the pan-Green stronghold'], *Apple Daily*, (16 April 2006), available at: http://www.appledaily.com.tw/appledaily/article/forum/20060416/2542277/ (accessed 10 September 2015).

[25]The PRC General Administration of Customs, 'Haiguan zongchu gonggao 2007 nian di 6 hao' ['General Administration of Customs 2007 Bulletin No. 6'], (19 March 2007), available at: http://www.customs.gov.cn/publish/portal0/tab3889/module1188/info60415.htm (accessed 8 October 2013).

[26]Wang Jianwei, 'Seize the moment—cross Strait relations after the Antisecession Law', *American Foreign Policy Interests* 27, (2005), p. 270.

[27]Hsieh, 'The China–Taiwan ECFA, geopolitical dimensions and WTO law', p. 127.

[28]Wang, 'Seize the moment'.

[29]'Wen Jiabao xiang Tainan guonong zhaoshou' ['Wen Jiabao beckons to Tainan fruit farmers'], *Apple Daily*, (15 March 2005), available at: http://www.appledaily.com.tw/appledaily/article/forum/20050315/1642956/ (accessed 10 September 2015); 'Taiwan shuiguo denglu xianbo, shengnonghui yao qiang zhudaoquan' ['Taiwanese fruits enter the mainland market, Taiwan provincial farmers association takes the wheel'], *Taiwan Daily*, (19 June 2005), p. 2.

up to Taiwan's agricultural counties'.[30] President Chen Shui-bian also chastised Beijing's conciliatory gestures as united front tactics[31] that aimed to weaken the DPP's stronghold in agricultural counties, and help the KMT win future national elections.

Their suspicion was not unfounded. The PRC had long been accused of using economic policies to achieve its political goals. As early as the 1980s, Beijing had begun co-opting selected sectors of Taiwan. Taiwanese manufactured products were allowed to enter mainland China duty-free,[32] while investors enjoyed preferential treatment such as tax holidays. Specific regulations were also promulgated to prohibit nationalization of Taiwanese firms.[33] It was believed that Beijing's strategy was to promote cross-Strait economic integration as a way to increase the cost of conflict, thereby deterring the ROC from declaring *de jure* independence.

As for the agricultural tariff exemptions in the mid-2000s, the official publications of the Chinese authorities acknowledged that the exemptions were intended to bolster domestic support for the KMT. For example, an article published on the website of the Embassy of the People's Republic of China in the United States, soon after Lien Chan's visit to China, explicitly stated that the agricultural tariff exemptions 'could help the KMT win supporters in southern Taiwan, a mainly agricultural region, eroding the support base of Chen Shui-bian'.[34]

In anticipation of the ruling DPP's reaction and possible obstruction, Beijing circumvented the standard communication channel when announcing the concessions it offered to Taiwan. China–Taiwan affairs are normally handled by the SEF and the ARATS.[35] Although the ARATS was involved in the negotiation process, the offer was directly made to the KMT Chairman, bypassing normal channels of negotiation with the incumbent government headed by the DPP. Doing so allowed the KMT to take credit for the policy changes.

Lien's highly publicized visit set an ideal stage to broadcast the KMT's 'achievements' in negotiation talks. Although preparation work for the agricultural market liberalization had been underway since 2004,[36] the announcement was timed with Lien's visit, in order to advertise the new friendship between Beijing and the KMT. Beijing also announced that the Farmers Association of Taiwan Province (FATP), directed by the KMT's Liu Chuang-chung, would be the designated agent to discuss matters surrounding agricultural trade, ensuring that the DPP would not be able to hijack subsequent negotiations.[37]

Both Beijing and the KMT were eager to publicize the Chinese agricultural market expansion and tariff reductions to rally for support. Beijing launched a media campaign promoting Taiwanese agricultural produce, and urged Chinese citizens to help Taiwanese farmers whom they insisted were 'suffering'. The KMT, on the other hand, publicly asked the DPP to cast aside its anti-China ideology for the benefit of

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[30]ROC Government Information Office, 'Position paper on Taiwan's fruit exports to China', (10 August 2005), available at: http://www.gio.gov.tw/taiwan-website/4-oa/20050810/2005081001.html (accessed 8 October 2013).

[31]ROC Mainland Affairs Council, 'Mainland Affairs Council: issues surrounding Taiwanese fruit export to China' ['Luweihui: Taiwan shuiguo shuxiao Dalu wenti xiangguan shuoming'], (28 July 2005), available at: http://www.mac.gov.tw/ct.as-p?xItem=61956&ctNode=6226&mp=1 (accessed 8 October 2013).

[32]Barry Naughton, 'Economic policy reform in the PRC and Taiwan', in Barry Naughton, ed., *The China Circle: Economics and Technology in the PRC, Taiwan, and Hong Kong* (Washington, DC: The Brookings Institution, 1997), p. 84.

[33]Scott L. Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond* (Stanford, CA: Stanford University Press, 2009), p. 94.

[34]Embassy of the People's Republic of China in the United States, 'Beijing offers tariffs cut, pandas as KMT ends visit', (3 May 2005), available at: http://www.china-embassy.org/eng/zt/twwt/t194085.htm (accessed 20 June 2014).

[35]Although KMT-affiliated Liu Te-shun was serving as the acting Chairman of the SEF at the time of the first wave of agricultural trade concessions (following the death of Koo Chen-fu), it was clear that the President would nominate a DPP member to take over the leadership sooner or later, making direct negotiations with the SEF less viable to Beijing.

[36]In November 2004, political heavyweight Hsu Hsin-liang visited Beijing with a delegation of agricultural representatives. In the meeting with the Chinese Vice Premier Hui Liangyu and the chairman of the ARATS Chen Yunlin, Hsu expressed his wish that Taiwanese farmers be able to receive similar tariff benefits as their Thai counterparts. Beijing also invited the leaders of various farmer associations to visit China in early 2005. In early April of that year, the State Council of the PRC even established the 'Taiwanese Agricultural Import Working Group' to signal their concern for Taiwanese farmers. Arguably, the announcement of the first round of tariff removal could have been made at any time.

[37]Brown, 'China–Taiwan relations'.

**Table 1.** Agricultural export to China.

| Year | Agricultural export to the PRC (in thousands US$) | Agricultural export to China (percent) |
| --- | --- | --- |
| 2000 | US$50,455.80 | 1.54 |
| 2001 | US$48,891.40 | 1.61 |
| 2002 | US$66,396.90 | 2.11 |
| 2003 | US$175,730.80 | 5.42 |
| 2004 | US$291,904.40 | 8.21 |
| 2005 | US$361,063.80 | 10.07 |
| 2006 | US$430,158.70 | 13.03 |
| 2007 | US$430,743.10 | 12.54 |
| 2008 | US$436,465.40 | 11.33 |

Source: Council of Agriculture, ROC Government.

Taiwanese farmers.[38] In addition, Beijing had taken extra steps to lure Taiwanese farmers. For instance, the State Council authorized its subsidiary departments to organize procurement trips to Taiwan to acquire the agricultural produce with huge surpluses. To reduce transaction costs, Beijing established a Taiwanese fruit market in Xiamen with a free one-year lease to all Taiwanese farmers.[39]

Despite the proximity of the mainland, Taiwanese agricultural exports to China had represented only a small fraction of its total agricultural exports (Table 1). As of the end of 2004, only 12 fruit items were allowed legal access to the mainland. Even when Taiwanese agricultural produce could be imported into the mainland via a third party transit port, farmers faced long processing times, and had difficulties in getting their produce on retail shelves.[40] The PRC's new agricultural import policy includes not only tariff exemptions for selected fruits and vegetables, but also simplified customs procedures. Allowed access to the 'green channel' road network, vehicles containing Taiwanese produce enjoy reduced toll charges and are exempt from detention by law enforcement authorities.[41] The new policies, aiming to keep produce fresh and costs low, increased the ease of business for Taiwanese farmers in the mainland. Not surprisingly, the importance of the mainland market has been on the rise, consistently accounting for more than 10% of the total export value since 2005.

In 2006, Taiwan Affairs Office Chairman Chen Yunlin, with the backing of four Chinese government ministries, including the Ministries of Finance, Agriculture, Commerce and Transportation, announced measures that directly addressed the concerns over intellectual property rights infringements on Taiwanese agricultural produce (namely, the theft of brand names).[42] For example, 'fruits made in Taiwan' and 'fruits of Taiwan brand' had to be strictly differentiated.[43] Legally, the KMT would not impinge on the incumbent ROC government because the policy changes were entirely unilateral on the part of Beijing. As there was no ban on exporting agricultural produce from Taiwan to mainland China, any tariff reduction or relaxation of inspection rules on imports to the PRC would require Beijing's consent, instead of Taipei's.

Taiwanese farmers found the expansion of Chinese market access mostly harmless, despite the purported political motives behind the deal. FATP Chairman and KMT member Liu Chuan-chung defended that the

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[38]'Farmers interested in exports to China', *The China Post*, (13 May 2005), available at: http://www.chinapost.com.tw/news/2005/05/13/62354/Farmers-interested.htm (accessed 10 September 2015).

[39]'Lien Chan canguan Xiamen Taiwan shuiguo xiaoshou jisan zhongxin' ['Lien Chan visited Xiamen Taiwan Fruits Distribution Center'], *Xinhua News*, (31 May 2006), available at: http://www.fj.xinhuanet.com/news/2006-04/20/content_6802788.htm (accessed 10 September 2015).

[40]'Xuannian shuiguo denglu' ['Taiwanese fruits enters the mainland'], *LihPao Daily*, (18 November 2004), p. 2; 'Dalu duoge kouan wei Taiwan nongchanpin kuaisu tongguan goujian lüse tongdao' ['Chinese ports establish green channels for Taiwan agricultural products'], *Xinhua News*, (11 May 2005), available at: http://news.xinhuanet.com/taiwan/2005-05/11/content_2944715.htm (accessed 10 September 2015).

[41]'Mainland opens "green channel" for Taiwan farm produce', *Xinhua News*, (31 May 2006), available at: http://www.china.org.cn/english/features/poverty/169983.htm (accessed 10 September 2015).

[42]Jewel Huang, 'MAC calls on KMT to raise IPR issues in Chinese forum', *Taipei Times*, (16 October 2006), available at: http://www.taipeitimes.com/News/front/archives/2006/10/16/2003331944 (accessed 10 September 2015).

[43]PRC Ministry of Commerce, 'Guanyu cujin liangan nongye hezuo huiji Taiwan nongmin de ruogan zhengce cuoshi' ['Measures to facilitate cross-Strait agricultural exchange to benefit Taiwanese farmers'], (11 January 2007), available at: http://images.mofcom.gov.cn/aetats/accessory/200712/1196923746190.doc (accessed 8 October 2013).

nature of negotiations were 'purely economic' and were 'no different from other business dealings'.[44] Whether Liu's reassurance was convincing to Taiwanese farmers is unclear. But for ordinary Taiwanese farmers, the political motives might not be all that important. After all, they were not coerced to take advantage of the opening of the Chinese market; they could always relinquish this trade opportunity should they find that the costs outweigh the benefits. In addition, even if they become the beneficiary of Beijing's largess, there exists no mechanism to commit them to vote for the KMT in the future.

But Beijing's moves made the ruling DPP nervous. It had painstakingly tried to sabotage Beijing's agriculture offensive. The MAC had not only questioned the sincerity of Beijing, but also expressed reservations about the finality of the agreements.[45] President Chen criticized the PRC for excluding some of Taiwan's most competitive agricultural produce in the agreement, and asked farmers to instead focus on foreign markets such as Japan, Singapore and the United States, where profit margins were higher.[46] The DPP was also skeptical of the advertised benefits in view of the high transportation costs and the competition against the much cheaper South Asian agricultural produce. The DPP also warned that any exercise of state authority to strike deals with Beijing should always be done by the government; the KMT-led FATP should be cautious not to break the relevant law, namely, the Act Governing Relations between the People of the Taiwan Area and the Mainland Area.[47] Wei points out that Taiwanese farmers dared not to take the ruling DPP's intimidation lightly.[48] In particular, because government subsidies constituted an important source of its income, the FATP acquiesced to the DPP's pressure, for fear of the latter's retaliation.

### II.2. Taiwanese farmers and the two major parties in Taiwan

Before evaluating the impacts of the agricultural trade concessions, it is instructive to examine the relationship between political parties and farmers in Taiwan. The ability to mobilize Chinese peasants' support was a key factor contributing to the CCP's success in defeating the KMT in 1949. The defeat taught the KMT to never overlook the importance of co-opting the farmers again.

The population of farm households as a share of Taiwan's total population was 52.9% in 1951.[49] Of the farming population in 1949, 70% were tenant farmers.[50] Between 1949 and 1953, the KMT implemented a three-step land reform on the island.[51] The reform benefited tenant farmers at the expense of landlords, partly because it capped the land rent the latter could charge on the former, and partly because it limited the amount of land owned by non-farmers. The landed gentry, who had been haunted by the shadow of the state-sponsored violence followed by the 228 Incident, dared not challenge the KMT's reform programs.[52] As a result, the reform successfully weakened the economic power of the landed gentry, and hence their dominant political position.[53] Thanks to the land reform, income inequality in the ROC had improved.[54] By 1959, 85% of the farming population was landed farmers.[55] Between 1953

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[44]'Taiwan shuiguo denglu xianbo', p. 2.

[45]ROC Mainland Affairs Council, 'Mainland Affairs Council: issues surrounding Taiwanese fruit export to China'.

[46]Brown, 'China–Taiwan relations'; 'Bian: tuishao hou xu xiaojia jingzheng' ['Bian: prices will have to be slashed as the fervor fades'], *Taiwan Daily*, (23 August 2005), p. 1.

[47]ROC Mainland Affairs Council, 'Dui Taiwan nonghui fu Zhongguo qiatan shuiguo denglu, Nongweihui chongshen zhengfu lichang' ['The Council of Agriculture's stance on the Farmers' Association of Taiwan Province's negotiation with the Chinese authorities regarding fruit export to the PRC'], (20 June 2005), available at: http://www.mac.gov.tw/ct.asp?xItem=65040&ctNode=5630&mp=3 (accessed 20 June 2014).

[48]Wei Chi-hung, 'China's economic offensive and Taiwan's defensive measures: cross-Strait fruit trade, 2005–2008', *China Quarterly* 215, (2013), pp. 641–662.

[49]Executive Yuan, *Statistical Yearbook of the Republic of China*, Supplementary Table 3 and Table 6, (1975).

[50]Joseph Wong, 'Deepening democracy in Taiwan', *Pacific Affairs* 76(2), (2003), p. 242.

[51]The major elements of the reform included: (1) reducing the land rent to no more than 37.5% of the main crops; (2) privatizing publicly owned land to farmers; and (3) introducing the land-to-the-tiller policy; see Anthony Y. C. Koo, 'Economic consequences of land reform in Taiwan', *Asian Survey* 6(3), (1966), pp. 150–157.

[52]Chou Mao-chun, '1950 niandai liangan tudi gaige yundong zhi tantao (xia)' ['Land reforms in China and Taiwan in the 1950s (2)'], *Tudi wenti yanjiu jikan* [*Land Research Quarterly*] 9(4), (2010), p. 25.

[53]Tai Hung-chao, *Land Reform and Politics: A Comparative Analysis* (Berkeley: University of California Press, 1974).

[54]Gustav Ranis, 'Equity with growth in Taiwan: how "special" is the "special case"?', *World Development* 6(3), (1978).

[55]Wong, 'Deepening democracy in Taiwan', p. 242.

and 1985, the Gini coefficient of the island dropped from 0.50 to 0.27.[56] Presumably, the political credit went to the KMT, which consolidated its legitimacy among Taiwanese farmers.

In addition to the land reform, the KMT also developed grassroots networks by co-opting local factions to enhance its rural support and political control. Historically, the ROC was an immigration society, with immigrants coming from mainland China, albeit at different waves in time. These immigrants later developed informal grassroots factions that have played a dominant role in local affairs at least since the Qing dynasty.[57] Because the KMT lacked grassroots organizations down to the village and township level of the island (at least up to the early 1950s), it had no choice but to work with the existing local factions. To co-opt them, the KMT granted faction leaders monopolies over banking, transportation and credit unions within their jurisdiction.[58] In return, the factions supported KMT candidates in local elections. To further its rural penetration, the KMT encouraged local faction leaders, or simply sent its own cadres, to occupy farmers' associations and irrigation associations.[59] These associations provided the KMT with an effective channel to distribute patronage.

The dominant position of the KMT in rural Taiwan began to weaken in the 1970s.[60] As electoral challenges coming from individuals outside of the ruling party escalated, local factions found that the KMT-sponsored candidates might not be the only viable option in local elections.[61] In fact, some faction leaders deliberately kept their support for the KMT ambiguous in order to extract more government patronage.[62] The DPP also found farmers too important a constituency to ignore, and had actively developed its rural support base since the late 1980s. For instance, it helped orchestrate the 520 Farmers Movement in 1988 in protest of the KMT's liberalization of foreign agricultural imports. In the 1990s, the DPP also made use of underground radio broadcasts to promote its political beliefs and to organize mass mobilization.[63] Because these radio broadcasts did not use the official Mandarin Chinese, they appealed to non-native Mandarin speakers, who constituted the majority of the rural population.[64] Despite its relatively weak organizational capacity at the grassroots level,[65] DPP's grassroots strategies helped the party capture more than half of the seats in the 1997 elections of county magistrates.

After defeating the KMT in the 2000 Presidential Election, the DPP stepped up its invasion of the KMT's rural turf. It attempted to amend the Farmers Association Act to change the election method, with a view to undermine the dominant position of pro-KMT factions.[66] In 2002, it also proposed to let commercial banks take over the loan business of poorly managed Farmers Associations. Because the KMT still retained the legislative majority at the time, the KMT managed to deter such changes by,

[56]United Nations University, 'World income inequality database V2.0c May 2008', available at: http://www.wider.unu.edu/research/Database/en_GB/wiid/_files/79789834673192984/default/WIID2C.xls (accessed 10 September 2015).

[57]Tu I-Ching, *Taiwan difang paixi zhi shehui jichu—yi Jiayixian difang paixi weili* [*The Social Foundations of Local Political Factions in Taiwan Local Society*], Ph.D. thesis, Tunghai University, 1994.

[58]Chen Ming-tong and Chu Yun-Han, 'Quyuxing lianhe duzhan jingji, difang paixi yu shengyiyuan xuanju: Yixiang shengyiyuan houxuanren beijing ziliao de fenxi' ['Regional cooperation to monopolize economy, local factions, and provincial election: an analysis of provincial election candidate backgrounds'], *Renwen ji shehui kexue* [*Social Sciences and Philosophy*] 2(1), (1992). To prevent faction leaders from accumulating too much political power, the KMT usually fostered a competing faction in the same locality; see Chen Ming-tong, *Paixi zhengzhi yu Taiwan zhengzhi bianqian* [*Factional Politics and Taiwan Political Development*] (Taipei City: Yue dan chu ban she gu fen you xian gong si, 1995).

[59]Cho Shih-Wen, 'Taiwan nonghui zhengzhi jiaose de lishi bianqian' ['The historic variations of the political role for the farms' association in Taiwan'], *Daye daxue tongshi jiaoyu xuebao* [*Dayeh University Liberal Arts Journal*] 8, (2011).

[60]J. Bruce Jacobs, *Local Politics in Rural Taiwan under Dictatorship and Democracy* (Norwalk, CT: EastBridge, 2008), p. 267.

[61]Chou Yung-Mau and Huang Chung-Wen, 'Taiwan weiquan tizhi zhuanxing qianhou nonghui paixi tezhi bianqian zhi yanjiu—Yunlinxian Shuilinxiang nonghui yijiuqiling ji yijiujiuling niandai weili zhi bijiao fenxi' ['The characteristics change of farmer association faction in Taiwan—a case study of Sheilin Township (1970–1990)'], *Zhengzhi kexue luncong* [*Taiwanese Journal of Political Science*] 13, (2000).

[62]Joseph Bosco, 'Faction versus ideology: mobilization strategies in Taiwan's elections', *The China Quarterly* 137, (1994).

[63]Chen Ching-Ho, 'Huanyuan meiti de shidai xingmao—Taiwan dixia diantai yundongshi liubian de zai lunshu' ['The return to original state of media appearance: the re-elaboration of against movement history changes in Taiwan underground radio'], *Taiwan minzhu jikan* [*Taiwan Democracy Quarterly*] 1(3), (2004).

[64]Lo Huei-wen, 'Brainwashing is not the answer', *Taipei Times*, (24 September 2007), available at: http://www.taipeitimes.com/News/editorials/archives/2007/09/24/2003380206/2 (accessed 10 September 2015).

[65]Jacobs, *Local Politics in Rural Taiwan under Dictatorship and Democracy*, p. 269.

[66]Chuang Tzu-Ling, *Taiwan nonghui xuanju zhidu yu juece guocheng zhi yanjiu: yi zhongbu diqu sixiangzhen nonghui weili* [*Electoral Rule and Decision-making Process of Farmer's Association in Taiwan*], M.A. thesis, Tunghai University, 2004.

for example, revising the amendment.[67] Interestingly, the KMT-controlled legislature also passed an amendment to change the election method of Irrigation Associations, in order to prevent the ruling DPP's infiltration into these grassroots organizations.[68]

The foregoing discussion highlights the fierce contest between the DPP and the KMT over farmers' support. Their electoral competition provides the context to understand the strategic importance of the agricultural trade concessions negotiated between the KMT and Beijing, which will be examined in the next section.

## III. Empirical assessments of Beijing's agricultural trade concessions

Given the strategic importance of these one-sided agricultural trade concessions, it is surprising that empirical studies of the concessions are non-existent. Although Wei offered a qualitative analysis of how the DPP resisted Beijing's trade concessions,[69] many questions remain unanswered. In particular, this article seeks to highlight three important ones.

### III.1. The questions

- If Beijing's largess was politically motivated, how did Beijing structure the agricultural concessions in order to achieve its purpose, namely, undermining the ruling DPP's electoral support?

As discussed in the previous section, both the DPP and the KMT enjoyed a certain political support in rural Taiwan. If farmers' political identification varies from county to county, Beijing then needed to tailor the terms of the concessions in order to maximize its political interests. Journalists and Taiwan observers alike suggest that Beijing's concessions aimed to gnaw away at the ruling DPP's support in its rural strongholds.[70] This view, however, misses two important strategic considerations on the part of Beijing. First, co-opting the core supporters of the DPP may not be cost-effective, because core supporters are by definition ideologically committed to their party. Studies in electoral politics show that it makes more sense for parties to capture the support of the 'swing voters', namely, the ideologically uncommitted.[71] Second, Beijing wanted the KMT to claim the credit for the trade concessions. If pro-KMT farmers received no benefits from the deal, KMT's credibility may be tarnished, rather than improved.

- Did the Chen administration succeed in sabotaging Beijing's trade-concessions offer?

While the Chen administration kept advising Taiwanese farmers not to fall victim to Beijing's 'trap', it also employed more forceful measures to intimidate Taiwanese farmers who did not heed its advice. Was the administration's advice or intimidation successful? This is an important question that previous studies fail to address. Part of the reason is that it is not easy to evaluate the impact of the administration's defensive measures. As Wei points out, some fruit growers in Taiwan are more interested in high-end markets such as Japan, rather than low-end ones like China.[72] If no drastic increase in the

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[67]Cho, 'Taiwan nonghui zhengzhi jiaose de lishi bianqian'. Internal resistance also undermined the DPP's reform plans. For example, county chiefs from Southern Taiwan opposed the plan to take over the loan business of Farmers Associations; see Cheng Ming-Te, *Minjindang paixi zhengzhi zhi yanjiu* [*An Analysis of Democratic Progressive Party Factional Politics*], Ph.D. thesis, National Sun-Yat Sen University Institute of Interdisciplinary Studies for Social Science, 2003.

[68]Chiu Chung-yuan, Tang Ching-ping and Huang Chien-hsun, 'Difang zhili de zhidu xuanze yu zhuanxing zhengzhi: Taiwan shuilihui zhidu bianqe de zhengzhi yu jingji fenxi' ['Institutional choice of local governance and transition politics: an analysis of institutional adaptation of Irrigation Associations in Taiwan'], *Renwen ji shehui kexue jikan* [*Journal of Social Sciences and Philosophy*] 23(1), (2010).

[69]Wei, 'China's economic offensive and Taiwan's defensive measures'.

[70]Sandy Yen, 'Nongye tongzhan, Zhongguo chuzhao' ['China co-opts the agricultural sector'], *Liberty Times*, (3 March 2005), available at: http://old.ltn.com.tw/2005/new/mar/3/today-o1.htm (accessed 10 September 2015).

[71]Assar Lindbeck and Jörgen W. Weibull, 'Balanced-budget redistribution as the outcome of political competition', *Public Choice* 52(3), (1987), pp. 273–297; Michael C. Herron and Brett A. Theodos, 'Government redistribution in the shadow of legislative elections: a study of the Illinois member initiative grants program', *Legislative Studies Quarterly* 29(2), (2004), pp. 287–311.

[72]Wei, 'China's economic offensive and Taiwan's defensive measures', pp. 646–647.

agricultural trade with mainland China after the announcement of the concessions is observed, it may suggest farmers' lack of interest, instead of the success of the Chen administration's political pressure.

- How did the trade concessions affect the DPP's electoral support, if at all?

There exist two possible outcomes. The first is that the unilateral trade concessions have benefited the farmers, who would then vote for the KMT, hoping that the party, given its friendly relationship with the PRC, would be able to extract more benefits in the future. The trade concessions, thus, achieve their intended *enticement effect*. The second is that Taiwanese farmers heeded the Chen administration's advice or found the concessions economically unattractive. As a result, the concessions produced no observable effects on DPP's election outcomes.

The aforementioned questions cannot be answered without a systematic analysis of empirical trade data. For this reason, the authors gathered agricultural production data for all agricultural commodities at the township-product level, and identified a total of 102 types of farm produce. Commodity-level production data of 277 counties were collected from the Department of Budget, Accounting and Statistics of each respective county government. Such highly disaggregate data allow patterns pertaining to cross-Strait agricultural trade to be identified, which helps to shed light on the above questions.

### III.2. Data at a glance

First, consider Beijing's political motivation and patterns of co-optation. If the trade concessions were a political instrument, Beijing would offer concessions to farmers whom it wanted to co-opt. In other words, the agricultural products grown by Beijing's co-optation targets would stand a good chance of receiving Beijing's trade concessions. For example, had Beijing intended to undermine farmers' support for the DPP, it should be expected that agricultural products widely grown in pro-KMT townships were less likely to receive a tariff reduction.

A 'tariff-reduction propensity' (TR) for each agricultural product was computed using the following formula:

$$TR_i = \sum_j p_{ij}$$

where $p_{ij} = s_{ij} v_j$ is the production of agricultural product $i$ as the share of township $j$'s total agricultural production in 2004 ($s_{ij}$), weighted by township $j$'s vote share ($v_j$) for the DPP in the 2004 presidential election. A high TR value indicates that the agricultural item was widely grown in regions that supported the DPP, and hence, according to conventional wisdom, more likely to receive Beijing's trade concessions.

Table 2 presents the tariff-reduction propensity of the 102 agricultural items, along with the date at which tariff reduction was granted, if any.

A cursory glance at the table shows that although the PRC did grant tariff concessions on products with high tariff-reduction propensity (such as pineapples and cabbage), it also reduced tariffs on low-propensity items including mangoes and grapefruits. In other words, both pro-DPP and pro-KMT rural areas could benefit from the trade concessions. Upon closer examination, however, one can see a subtle change over time. In the first wave (highlighted in dark gray), concessions were concentrated on items at both the high and low ends of the propensity spectrum. The result may not be surprising. After all, Beijing, with the help of the media, attempted to portray Lien Chan as the skillful negotiator who 'brought about' the concessions. The first round of trade liberalization thus should not benefit only pro-DPP farmers. However, in the second wave (highlighted in bold face), concessions predominantly went to products with medium propensity. A possible explanation is that as the 2008 presidential election neared, the PRC had a strong incentive to co-opt the 'swing voters', rather than farmers already committed to either party.

Next, this study examines how Taiwanese farmers respond to Beijing's offer, and in particular, whether farmers produced more commodities that received trade concessions after the concessions came into effect.

To select the periods of comparison, the following rule was adopted: if the tariff concessions occur at time $t$, the annual production data of the affected commodities at $t-1$ are used as the baseline

**Table 2.** Tariff-reduction propensity by agricultural item.

| Item | Tariff reduction effective date | Tariff-reduction propensity |
|---|---|---|
| Basil | | 0 |
| Mung beans | | 0 |
| Piper betle | | 0 |
| Sparrow grass | | 0 |
| Other (fruit–veg) | | 0.0000665 |
| Triangle rush | | 0.0003254 |
| Other (roots) | | 0.0010699 |
| Sunflower | | 0.0045135 |
| Mangos | August 2005 | 0.0061 |
| Garlic bulb | | 0.008366 |
| Incense crop | | 0.0122284 |
| Day lily | | 0.0139388 |
| Other (stem) | | 0.0181095 |
| Strawberry | | 0.0256558 |
| Water bamboo | | 0.0260191 |
| Scallion-head | | 0.0560669 |
| Wentan pomelo | August 2005 | 0.138105 |
| Potato | | 0.1800668 |
| Ficus awkeotsang | | 0.2257293 |
| Pai pomelo | August,2005 | 0.2702655 |
| Grapefruit | August 2005 | 0.2929381 |
| Peach | August 2005 | 0.3155886 |
| Garlic | | 0.3684182 |
| Rape | | 0.4997779 |
| Sesame | | 0.6813128 |
| Leek | | 0.7505357 |
| Runner bean | | 0.9341596 |
| Other beans | | 0.9709049 |
| Cassava | | 1.548339 |
| Soybeans | | 1.67665 |
| Millet | | 1.940901 |
| Ponkan | | 3.030804 |
| Wheat | | 3.676612 |
| Oriental pickling melons | | 3.83095 |
| Honglongguo | | 3.947147 |
| Plums | August 2005 | 4.824492 |
| Spinach | | 5.671953 |
| Mandarin orange | | 8.142625 |
| Tobacco | | 8.318465 |
| Mushroom | | 9.080567 |
| Leaf mustard | | 9.214019 |
| Sugar apples | August 2005 | 14.22496 |
| **Sprouting broccoli** | **March 2007** | **15.06104** |
| Celery | | 15.5589 |
| Carambolas | August 2005 | 16.32082 |
| **Taros** | **March 2007** | **18.34288** |
| Water convolvulus | | 18.4229 |
| Liuchengs | | 18.93942 |
| **Carrots** | **March 2007** | **19.67683** |
| Peppers | | 20.92414 |
| Eggplants | | 21.6682 |
| **Chinese cabbage** | **March 2007** | **22.2882** |
| White gourd | | 23.24302 |
| Cantaloupes | | 23.49403 |
| Ginger | | 23.71832 |
| Kidney beans | | 24.55668 |
| **Loofah** | **March 2007** | **25.51895** |
| Sorghum | | 25.54645 |
| Adzuki beans | | 25.70174 |
| Shanyao | | 26.69373 |
| Lemon | | 31.82325 |
| **Bitter gourds** | **March 2007** | **35.46888** |
| **Chinese mustard** | **March 2007** | **36.27536** |
| Asparagus | | 41.53014 |

(*Continued*)

**Table 2.** (*Continued*).

| Item | Tariff reduction effective date | Tariff-reduction propensity |
| --- | --- | --- |
| Japanese apricot-plum | August 2005 | 47.02234 |
| Others special crops | | 47.10653 |
| Tomatoes | | 48.09517 |
| Jujubes | August 2005 | 48.78555 |
| Melons | | 58.23088 |
| Peas | | 58.37796 |
| Pear | | 65.36784 |
| Scallion | | 66.76953 |
| Cucumbers | | 67.51704 |
| Peanuts | | 91.56101 |
| Longans | | 100.4256 |
| Coconut | August 2005 | 101.7405 |
| Papayas | August 2005 | 102.5418 |
| Vegetable soybeans | | 116.305 |
| Radishes | | 121.1157 |
| **Onions** | **March 2007** | **126.9646** |
| Others common crops | | 130.4254 |
| Sugarcane (fresh) | | 139.5374 |
| Feed sweet corn | | 147.4688 |
| Tea | | 152.5789 |
| Food corn | | 160.1459 |
| **Cauliflower** | **March 2007** | **184.1243** |
| Grapes | | 214.5179 |
| Wax apples | August 2005 | 244.5649 |
| Betel nuts | August 2005 | 248.2702 |
| Lychees | | 252.3597 |
| Persimmon | August 2005 | 361.7626 |
| Guavas | August 2005 | 370.6005 |
| Bananas | | 419.4036 |
| **Cabbage** | **March 2007** | **494.8863** |
| Sweet potatoes | | 677.1298 |
| Watermelons | | 700.7141 |
| Pineapples | August 2005 | 728.6829 |
| Oranges and citrus | | 868.6581 |
| Bamboo shoot | | 873.9111 |
| Others fruits | | 965.8779 |
| Sugarcane (refined) | | 1,223.226 |
| Other vegetables | | 2,971.524 |

comparison year. It is then checked whether the annual production at $t+1$ ($t+2$) surpassed that of the baseline year.[73] Because the agricultural tariff reduction occurred in two waves, August 2005 and March 2007, the baseline comparison years for these two waves are 2004 and 2006, respectively. As may be seen from Table 3, farmers in Taiwan did respond favorably to the trade concessions by raising the production level of the commodities concerned. Difference of means tests show that, the changes in production in the year after the concessions were made were statistically significant, but the difference is only 1% for the first wave and 0.61% for the second wave. In addition, the data of the Wave 1 commodities also indicate that the favorable response fizzled out rather rapidly.

The results in Table 3 seem to suggest the actual benefits reaped by Taiwanese farmers were rather limited. Yet, it is important to note that for farmers who had grown crops that were not on Beijing's trade concession list, switching to the tariff-reduced crops might not be easy. The fact that no drastic increase in the production of those tariff-reduced crops was observed does not imply that no one stood to gain from the trade deal. For one thing, the growers of those tariff-reduced crops should be able to reap benefits even without significantly increasing their existing production level.

To evaluate the political effects of Beijing's concessions, the potential tariff benefit (*B*) that a township can enjoy in a given year, defined by the following formula, was examined:

[73]It takes time for the farmers to change crops in response to the tariff reduction. To estimate farmers' responses, production data at $t+1$ should give more accurate results than production data at $t$.

**Table 3.** Production changes as a result of tariff concessions.

| t | Production share of Wave 1 commodities | | | Production share of Wave 2 commodities | | |
|---|---|---|---|---|---|---|
| | (a) Annual production in baseline year (%) | (b) Annual production at t (%) | Difference of means test (b–a) | (a) Annual production in baseline year (%) | (b) Annual production at t (%) | Difference of means test (b–a) |
| 2006 | 16.28 | 17.29 | 1.01** | | | |
| | (1.49) | (1.55) | | | | |
| 2007 | 16.28 | 17.01 | 0.73* | | | |
| | (1.49) | (1.53) | | | | |
| 2008 | 16.28 | 16.93 | 0.65 | 7.12 | 7.73 | 0.61** |
| | (1.49) | (1.52) | | (0.84) | (0.88) | |

Notes: The first wave of tariff reduction over agricultural commodities was implemented in August 2005, while the second wave was in March 2007. The baseline comparison year is 2004 for the first wave and 2006 for the second wave. Standard errors are in parentheses.*<0.1,**<0.05.

$$B_j = \sum_i s_{ij} r_i$$

where $s_{ij}$ is the production of agricultural item $i$ as the share of township $j$'s total agricultural production in a given year and $r_i$ is the item $i$'s reduced tariff rate, if any.[74] Figure 1 provides the visualization of the geographical distribution of the cumulative tariff benefits measured with a log scale.

Comparing Figure 1 with Figure 2, which shows the decline of DPP's vote shares by township in the 2008 election, with a darker hue indicating a greater percentage point decrease, there appears no strong positive correlation between tariff benefits and the decline in DPP's vote share.



Log TB
1
2
3
4
5
6
7
8
9
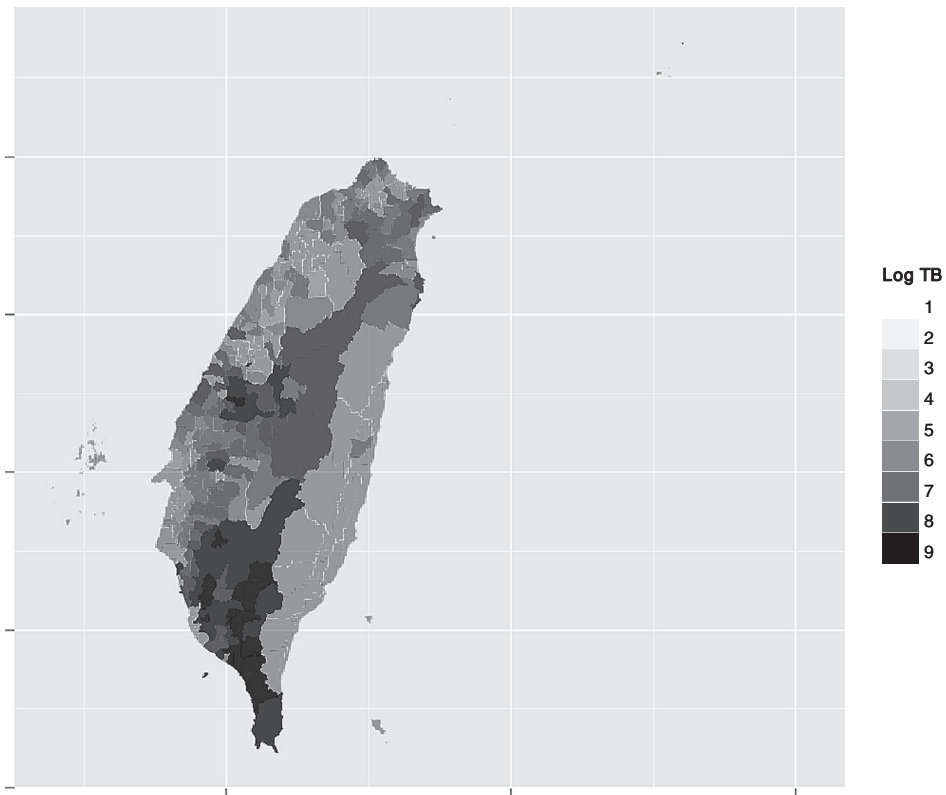
**Figure 1.** Log tariff benefits by township: 2005–2007.

[74]A more direct measure would be the export data of agricultural produce, but they are not available at the township level.
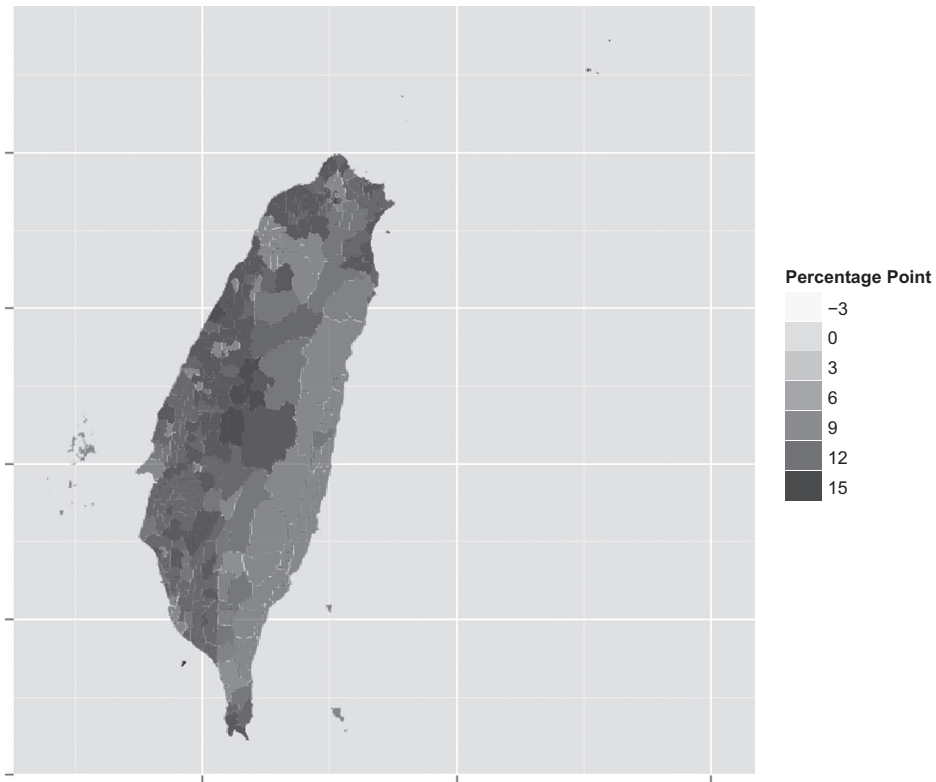
**Figure 2.** DPP vote share decline by township: 2008 presidential election.

These figures, however, are no systematic analysis. To evaluate the electoral effects of Beijing's agricultural concessions more rigorously, a regression analysis was conducted, and the results are presented below.

### III.3. Regression analysis

Two testable empirical implications were derived based on the above discussion. First, if the enticement effect dominates, it would be expected that the DPP should have obtained fewer votes in townships that produced agricultural commodities covered in the trade concessions. Second, if the farmers voluntarily gave up the mainland market because they found Beijing's concessions unattractive, one would then see no significant electoral effect pertaining to the tariff reduction.

To avoid omitted variable bias, a host of township or county level factors was controlled for. First, because economic growth has long been identified as a valence issue in many elections,[75] a control for *county-level income change from the last election* was introduced. DPP's current vote share should be correlated with its past vote share. Therefore, one of the control variables is *DPP's vote share in the 2004 presidential election*. Similarly, DPP's vote share in a township should also be affected by who controls the township government. Hence, another control variable, *DPP-led township*, which takes a value of '1' if the township head is a DPP member and '0' otherwise, was included. The size of the farming population in a township also matters. A small farming population may limit the number of beneficiaries of Beijing's agricultural concessions. For this reason, *farmers' population* of each township was controlled for. Previous studies have shown that male[76] and more educated voters are more likely to support

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[75]Donald E. Stokes, 'Spatial models of party competition', *The American Political Science Review,* (1963), pp. 368–377; Donald Stokes, 'Valence politics', *Electoral Politics,* (1992), pp. 141–164.
[76]J. F. S. Hsieh, 'Ethnicity, national identity, and domestic politics in Taiwan', *Journal of Asian and African Studies* 40(1–2), (2005), pp. 13–28.

the DPP.[77] It is thus necessary to include control variables of *female population* and *high school and elementary school graduates' population*. Finally, two basic variables in election models, *turnout* and *log population*, were included in the set of control variables.

The regression analyses were conducted with two different specifications. In the first specification, the dependent variable is the DPP's vote share in the 2008 presidential election:

$$y_j = \alpha_0 + \boldsymbol{B_j}\boldsymbol{\beta} + \alpha_1 \text{Turnout}_j + \alpha_2 \text{Log Population}_j$$
$$+ \alpha_3 \text{Income Change}_k + \alpha_4 \text{DPP Vote Share 2004}_j + \alpha_5 \text{DPP Township}_j$$
$$+ \alpha_6 \text{Farmers' Population}_j + \alpha_7 \text{Female Population}_j$$
$$+ \alpha_8 \text{Population: High School}_j + \alpha_9 \text{Population: Elementary School}_j + \varepsilon_j,$$

where $y_j$ is the DPP's vote share in the 2008 presidential election in township $j$, $\alpha_0$ is a constant, $\boldsymbol{\beta}$ is a vector of coefficients on the variables of interest $\boldsymbol{B_j}$, $\alpha_1 - \alpha_9$ are coefficients on the control variables, and $\varepsilon_j$ is an error term, which is assumed to be independent and identically distributed. Note that the data on income change are only available at the county level. For this reason, $\alpha_3$ is the coefficient on income change for county $k$, where township $j$ is located.

The problem with the first specification is that it fails to control for township-specific idiosyncratic shocks. In addition, it examines factors affecting the *levels* of DPP's vote share, while this article is primarily focused on investigating whether the trade concessions caused any *change* in DPP's vote share. For these reasons, an alternative specification that models changes was adopted:

$$\Delta y_j = \mu_0 + \boldsymbol{B_j}\boldsymbol{\gamma} + \mu_1 \Delta \text{Turnout}_j + \mu_2 \Delta \text{Log Population}_j$$
$$+ \mu_3 \Delta \text{Income Change}_k + \mu_4 \Delta \text{DPP Township}_j + \mu_5 \Delta \text{Farmers' Population}_j$$
$$+ \mu_6 \Delta \text{Female Population}_j + \mu_7 \Delta \text{Population: High School}_j$$
$$+ \mu_8 \Delta \text{Population: Elementary School}_j + \omega_j,$$

where the notation $\Delta$ indicates the change of the underlying variable between the current election (2008) from the previous election (2004),[78] $\boldsymbol{\gamma}$ is a vector of coefficients on the variables of interest $\boldsymbol{B_j}$,[79] the $\mu$'s are coefficients on the control variables, and $\omega_j$ is an error term, which is assumed to be independent and identically distributed.

As mentioned in the previous section, Beijing offered the trade concessions in two waves. It is instructive to examine how the electoral effects of the concessions played out over time. The potential tariff benefits accrued to farmers for each year after Beijing's trade concessions came into force were first calculated, and they were inserted into the regression specifications successively.

The OLS regression results are presented in Table 4. First, consider specifications (1) and (4), which examine only the short-term effect of the tariff reductions. Contrary to the expectation, the variable of interest, *Tariff Benefits 2007*, has a positive sign, indicating that more tariff benefits are associated with higher DPP vote shares (or percentage change of vote share from the last election).

The effect of the trade concessions is not necessarily confined to the short-term. The remaining specifications examine their effects in longer terms. Interestingly, the sign of *Tariff Benefits 2006* is opposite to that of *Tariff Benefits 2005*, suggesting that the effect of the trade concessions is not linear over time. Also, note that the short-term effect, measured by *Tariff Benefits 2007*, is no longer statistically different from zero in specifications that include longer-term effects.

Substantively, the size of the coefficients on individual variables of interest is far from insignificant. For instance, according to specification (3), if *Tariff Benefits 2006* increase by one standard deviation, which is equal to 372, the DPP's vote share would drop by 1.49 percentage points. However, this negative

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[77]C. H. Yu, 'The evolving party system in Taiwan, 1995–2004', *Journal of Asian and African Studies* 40(1–2), (2005), pp. 105–123.
[78]For example, $\Delta y_j$ is the change of the DPP's vote share in the current election (2008) from the previous election (2004) in township $j$.
[79]Note that because there was no tariff reduction prior to the 2004 presidential election, the change of the variable of interest ($\Delta B_j$) is essentially $\boldsymbol{Bj}$.

effect is cancelled out by the positive effect associated with *Tariff Benefits 2005*. In short, statistical significance notwithstanding, the overall effects of the trade concessions seem unable to undermine the political support for the DPP. This study finds no strong evidence in support of the *enticement effect*.

Now consider the control variables. Owing to the limitation of space, only the results based on the specifications related to changes were interpreted. The variable *Turnout* has a positive and significant effect on $\Delta y$, suggesting that the DPP could benefit from higher turnout rates. The DPP seemed to fare poorly in townships with a larger population, as evidenced by the negative coefficient on *Log Population*. Female voters were more likely to support the DPP. In contrast, townships with a higher share of less educated population tend not to vote for the DPP. The coefficients on the other control variables are not statistically different from zero. Most notably, *County Income Change* seems to have no effect on the dependent variable.

### III.4. Robustness checks

Additional tests were run to ensure the foregoing results are robust. One may worry that the above specifications are beset with endogeneity bias because tariff benefits were not distributed at random. Rather, as conventional wisdom suggests, Beijing would dole out tariff benefits to farmers who support the DPP in order to undermine the party's electoral support. If this is the case, the coefficients on the variables of interest would suffer from a downward bias; townships that had received the most tariff benefits inevitably recorded a high level of DPP vote share because Beijing's trade concessions had been specifically targeted at DPP strongholds.

To reduce the endogeneity problem, the above specifications were re-run after removing deep-green and deep-blue townships. First, townships were ranked by their 'greenness' using DPP's vote share in the 2004 presidential election. The deep-green and deep-blue townships from the data were then trimmed, resulting in a sample of townships that are less partisan. Finally, regression analyses were conducted again using the above specifications on this new sample. Figure 3 features results from using different cut-off points for deep-green and deep-blue in the regressions.
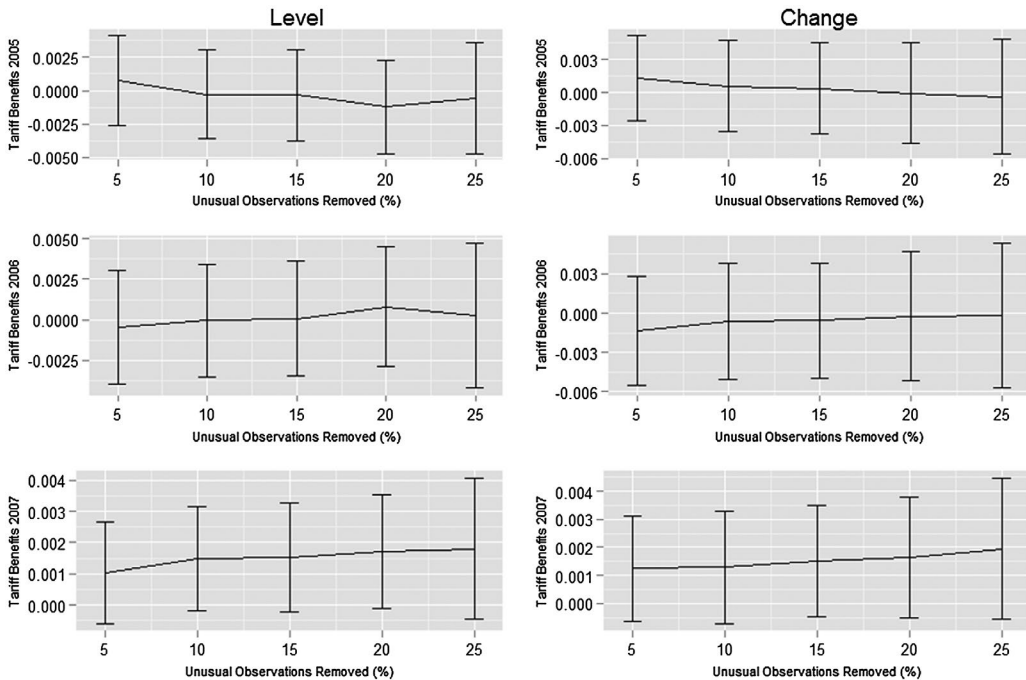


**Figure 3.** Robustness checks: removing deep-green and deep-blue townships. Notes: Each graph shows the estimates and confidence intervals of a variable of interest (e.g. *Tariff Benefits 2005*) based on five separate regressions. Before running each of the five regressions, the authors removed a certain percentage of deep-green or deep-blue townships from the data. For example, the first bar on the left shows the estimate of a variable of interest based on a regression that removes the top and bottom 5% of townships ranked by their DPP vote share in the 2004 presidential election. After removing these cases, the sample contains only 90% of the cases of the full dataset.

As may be seen from the figure, none of the variables of interest is statistically different from zero on any sample of moderate townships. The results show that endogeneity is less of a concern here; even moderate townships were no less likely to vote for the DPP as a result of Beijing's trade concessions.

Because the variables of interest, namely tariff benefits, are highly skewed, as a robustness check, a logarithmic transformation of these variables was applied and specifications (3) and (6) of Table 4 were then re-run. The results, which are presented in the first two columns of Table 5, show a familiar pattern: the negative effect of *Tariff Benefits 2006* is cancelled out by the positive effect associated with *Tariff Benefits 2005*. The overall effect is substantively insignificant.

Finally, the actual tariff benefits a farmer could receive may be influenced by her geographical location. If her farm is located far away from the port, the tariff benefits she could enjoy may not be able to outweigh the transportation cost. As such, she may forgo the tariff benefits and sell her produce to local markets. To check whether the effects of tariff benefits are sensitive to this geographical factor, we interacted the variables of interest with the township's distance to the closest port, and re-ran specifications (3) and (6). As may be seen from Table 5, the geographical factor does not seem to matter at all.

## IV. Discussion

Economic integration with mainland China has become a thorny political issue in Taiwan. Some argue that the DPP lost the presidential election in 2012 because the party failed to convince voters of stable cross-Strait economic relations.[80] Indeed, in recent years, the KMT has capitalized on the DPP's pro-independence position, which Beijing firmly denounces, to forge an unprecedentedly close rapport with its former archenemy. Its improved relationship with Beijing has brought about the signing of the ECFA, a preferential trade agreement that grants Taiwanese goods and services privileged access to mainland markets. To observers of China–Taiwan relations, how this recent trend of economic integration between the two sides has impacted party politics in Taiwan demands a systematic investigation. Because the economic effects of the ECFA are still unfolding, its political repercussions remain to be seen. However, long before the ECFA, economic integration between the two sides had already begun. Most notably, Beijing unilaterally offered Taiwan tariff reductions on selected agricultural products in 2005 and 2007.

This article examines the political background and consequences of these agricultural trade concessions. Skeptics in Taiwan argue that such concessions are Beijing's plot to lure the island further into its economic orbits and undermine the DPP's political support among its rural constituency. Using highly disaggregate agricultural production data, this study seeks to understand the actual implementation and effects of the tariff reductions. First, while many believe that the trade concessions were intended to weaken the DPP's rural support, it is found that those who benefited from the concessions were not confined to pro-DPP regions. In fact, Beijing seemed to time its concessions strategically; as the 2008 elections neared, tariff benefits became more concentrated in 'swing' farmers; namely, farmers who were neither deep-green nor deep-blue. It is also shown that the production of tariff-reduced items did increase after the concessions came into effect. However, the results of the regression analysis suggest that Beijing's agricultural concessions ended up failing to undermine the DPP's electoral support in the 2008 presidential election.

There are several possible explanations for the insignificant electoral effects. First, it is possible that Taiwanese farmers did not find the concessions attractive. As shown in Table 3, the surge in production of tariff-reduced commodities was rather short-lived. The second possibility is that President Chen's countermeasures against Beijing's unilateral offer, including political pressure and trade diversion, were effective. Third, as Susan Stokes points out, political parties that trade particularistic benefits to voters

[80]'Weilai sinian Minjindang buneng quexi' ['The DPP should not be absent in the next four years'], *Apple Daily*, (1 February 2012), available at: http://www.appledaily.com.tw/appledaily/article/headline/20120201/33992137/ (accessed 10 September 2015).

**Table 4.** Effects of tariff reductions on 2008 presidential election outcomes.

| Dependent variable | DPP vote share | | | Percentage change of DPP vote share from last election | | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Tariff Benefits 2007 | 0.001*** | 0.001 | 0.001 | 0.001** | 0.001 | 0.001 |
| | (0.000) | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) |
| Tariff Benefits 2006 | | 0.000 | −0.004** | | −0.000 | −0.004* |
| | | 0.001 | (0.002) | | (0.001) | (0.002) |
| Tariff Benefits 2005 | | | 0.005*** | | | 0.004** |
| | | | (0.002) | | | (0.002) |
| DPP vote share 2004 | 0.986*** | 0.986*** | 0.986*** | | | |
| | (0.014) | (0.014) | (0.013) | | | |
| Turnout | −8.129* | −8.145* | −8.383* | 0.258** | 0.258** | 0.205* |
| | (4.302) | (4.319) | (4.263) | (0.107) | (0.107) | (0.109) |
| Log population | −1.236*** | −1.236*** | −1.180*** | −13.770*** | −13.771*** | −13.077*** |
| | (0.229) | (0.230) | (0.228) | (4.893) | (4.906) | (4.871) |
| Population share: female | 2.870 | 2.909 | 3.394 | 1.976*** | 1.978*** | 1.977*** |
| | (15.035) | (15.079) | (14.881) | (0.655) | (0.661) | (0.655) |
| Population share: high school | 12.716 | 12.648 | 12.144 | 33.284 | 33.345 | 29.241 |
| | (12.376) | (12.449) | (12.286) | (77.342) | (77.615) | (76.908) |
| Population share: elementary school | 3.850 | 3.821 | 6.598 | −89.179* | −89.115* | −80.858* |
| | (6.097) | (6.127) | (6.134) | (45.844) | (46.096) | (45.822) |
| Population share: farmers | −5.750*** | −5.743*** | −5.837*** | 1.682 | 1.685 | 2.231 |
| | (1.378) | (1.386) | (1.368) | (1.346) | (1.366) | (1.377) |
| County income change | 0.927 | 0.918) | 1.157 | −0.024 | −0.024 | −0.025 |
| | (2.594) | (2.604) | (2.571) | (0.040) | (0.040) | (0.040) |
| DPP township | 0.537 | 0.538 | 0.423 | 0.347 | 0.347 | 0.304 |
| | (0.398) | (0.399) | (0.396) | (0.415) | (0.419) | (0.415) |
| Constant | 9.927 | 9.930 | 8.939 | −9.148*** | −9.149*** | −9.345*** |
| | (7.726) | (7.743) | (7.649) | (0.673) | (0.675) | (0.675) |
| Number of observations | 244 | 244 | 244 | 203 | 203 | 203 |
| $R^2$ | 0.977 | 0.977 | 0.978 | 0.164 | 0.164 | 0.184 |

Notes: Data on the dependent variables come from the 2008 presidential elections. For specifications (4)–(6), the control variables measure changes. For example, Turnout refers to ΔTurnout as in the alternative specification. Standard errors are in parentheses.*<0.1,**<0.05,***<0.01.

**Table 5.** Robustness checks.

| | Level | Change | Level | Change |
|---|---|---|---|---|
| Log Tariff Benefits 2007 | 0.164* | 0.167 | | |
| | (0.098) | (0.126) | | |
| Log Tariff Benefits 2006 | −0.635* | −0.825* | | |
| | (0.367) | (0.430) | | |
| Log Tariff Benefits 2005 | 0.692* | 0.919** | | |
| | (0.363) | (0.420) | | |
| Tariff Benefits 2007 | | | 0.002 | 0.001 |
| | | | (0.002) | (0.003) |
| Tariff Benefits 2006 | | | −0.007 | −0.008 |
| | | | (0.006) | (0.007) |
| Tariff Benefits 2005 | | | 0.008 | 0.009 |
| | | | (0.005) | (0.007) |
| Tariff Benefits 2007 × Port Distance | | | −0.000 | 0.000 |
| | | | (0.000) | (0.000) |
| Tariff Benefits 2006 × Port Distance | | | 0.000 | 0.000 |
| | | | (0.000) | (0.000) |
| Tariff Benefits 2005 × Port Distance | | | 0.000 | 0.000 |
| | | | (0.000) | (0.000) |
| Port Distance | | | −0.008 | −0.009 |
| | | | (0.007) | (0.009) |
| Number of observations | 244 | 203 | 244 | 203 |
| $R^2$ | 0.978 | 0.194 | 0.978 | 0.198 |

Notes: 'Level' specifications use DPP Vote Share as the dependent variable, while 'Change' specifications use Percentage Change of DPP Vote Share from Last Election. Standard errors are in parentheses.*<0.1, **<0.05, ***<0.01.

in exchange for their votes often face a voters' commitment problem: after enjoying the benefits, voters vote for rival parties.[81] As Beijing could not monitor how Taiwanese farmers vote, they might simply vote as they pleased. The current data do not permit one to judge which explanation is more cogent. Hence, we leave further investigation of this question to future research. What this article suffices to show is that despite its growing economic might, buying political support in Taiwan with economic enticement remains a challenging task to Beijing.

## Acknowledgements

## Notes on contributors

*Stan Hok-wui Wong* is an assistant professor at the Hong Kong Polytechnic University. His research focuses on democratization and state–business relations. His articles have appeared in journals such as *Electoral Studies*, *Journal of Contemporary Asia* and *Journal of East Asian Studies*. He is also the author of the book *Electoral Politics in Post-1997 Hong Kong: Protest, Patronage, and the Media*.

*Nicole Wu* is a graduate student in political science at the University of Michigan, Ann Arbor.

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[81]Susan C. Stokes, 'Perverse accountability: a formal model of machine politics with evidence from Argentina', *American Political Science Review* 99(3), (2005), pp. 315–325.