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The paper highlights the importance of Taiwan in China's view of the balance of power in Asai and the use of China's economic leverage to influence Taiwan's politics. Given Taiwan's regional importance and shared democratic values, it is the strategic interest of the United States to help Taiwan diversify its economy, thereby reducing China's leverage over Taiwan, giving the people of Taiwan a better opportunity in the long run to freely determine their own future in resolving the cross-Strait dispute.

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## **Executive Summary**

**Title:** Keeping Taiwan Free: The Strategic Importance of Taiwan, the Effects of its Economic Interdependence with China, and the Necessity of Increasing its Economic Diversification

**Author:** Mr. Mason Yu, U.S. Department of State

**Thesis:** China uses its economic leverage to influence Taiwan's politics and to press for unification on China's terms. Given Taiwan's regional importance and democratic values, it is in the interest of the United States to help Taiwan diversify its economy, thereby reducing China's economic leverage over Taiwan, giving the people of Taiwan a better opportunity in the long run to freely determine their own future in resolving the cross-Strait dispute.

**Discussion:** China has quickly risen to the position of the world's second largest economy and has emerged as a regional power intent on achieving regional hegemony. The Chinese have flexed its elements of national power over competing claims in the South China Sea and have often signaled its displeasure over America's involvement and military presence in Asia. Regardless of the competitive nature of a relationship between a rising power and an established power, the United States has found it necessary to secure China's cooperation on a host of important issues ranging from North Korea and the six-party talks to cybersecurity, trade, and global warming. Given the U.S. desire to build a cooperative relationship with China, it is understandably tempting for the United States to put aside the commitments made in the Taiwan Relations Act, the thorniest component of the complicated U.S.-China relationship. China has made it clear that unification with Taiwan is a core national interest. In the interest of smoothing over relations with China, it is easy for the United States to relegate its support for Taiwan's security as a secondary issue. However, reducing support for Taiwan's democratic future is not in the long term interest of the United States. China views unification with Taiwan as critical to its desire to control the sea lines of communication in the South China Sea and for power projection into the Pacific. Due to Taiwan's economic dependence on China, China is able to leverage Taiwan's economic dependence to influence Taiwan's politics in favor of unification on China's terms. China's long game is to shape political and economic conditions to induce Taiwan to agree to a form of unification.

**Conclusion:** It is in the interest of the United States to support a free and democratic Taiwan by helping it reduce its economic dependency on China.

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## *Preface*

Due to the crushing amount of day-to-day work at the U.S. Department of State and in U.S. Embassies and Consulates across the world, it is easy for policy makers and bureaucrats alike to lose sight of the long game. Broader issues of strategic and long term importance are understandably lost in the daily scramble to resolve issues of immediate concern. The daily press of business can cause strategic vision to become myopic and devolve into tactical level problem solving. The number of challenges presented in U.S.-China relations are both substantial and seemingly infinite. Due to China's importance to U.S. regional and global interests, fulfilling the spirit of the commitments made in the Taiwan Relations Act and providing general support to Taiwan can easily be seen as a matter of secondary concern in the hopes of smoother relations with China. Given the natural inclination to view Taiwan through a China-centric, myopic lens, the purpose of this paper is to help the reader take a step back and consider the strategic importance of Taiwan to U.S. interests, the effects of economic dependence on China on Taiwan's democratic society, and feasible steps that could be taken to reverse that dependence.

I am grateful for the guidance and mentorship provided by Dr. Eric Y. Shibuya and Dr. Christopher D. Yung. Their insights and overall support were important and appreciated during the writing of this paper.

## **Keeping Taiwan Free**

**The Strategic Importance of Taiwan, the Effects of its Economic Interdependence with China, and the Necessity of Increasing its Economic Diversification**

## **Introduction**

On January 16, 2016, the people of the Republic of China (ROC), referred to as Taiwan, made history when they elected the Democratic People's Party (DPP) Presidential candidate and opposition leader, Tsai Ying-wen, to as their next President. Tsai soundly defeated Kuomintang (KMT) Presidential candidate, Eric Chou. This past presidential election marked the 6<sup>th</sup> direct election of the President of Taiwan. Although it was only 20 years ago when Taiwan first held its first direct election for the Presidency, Taiwan has become a stable, democratic, and open society. When Tsai assumes the Presidency in May, it will also mark the third democratic and peaceful transition of power in history between Taiwan's two major parties.

Taiwan and the United States share much in common; democracy, freedom of the press and religion, economic liberalism, and a vibrant bilateral trade. Two-way trade between Taiwan and the United States now surpasses \$63 billion per year. Taiwan is the United States' 12<sup>th</sup> largest trading partner and 16<sup>th</sup> largest export market.<sup>i</sup> These shared values and economic ties have made Taiwan a natural friend to the United States. However, the close ties between Taiwan and the United States goes beyond economics. Close relations with the ROC were founded during WWII and reinforced through the Cold War.

Despite the strong economic and historical ties, it is tempting for the United States to relegate support for Taiwan to a secondary concern as U.S. support for Taiwan has been a source of friction between the United States and the People's Republic of China (PRC).<sup>ii</sup> While U.S. relations with China are exceptionally important and China's reaction must be considered, proponents of relegating support for Taiwan to a secondary status underestimate Taiwan's importance to the United States as a positive, stabilizing influence in Asia and its geostrategic

importance. Fixating on China's response to U.S. support for Taiwan and discounting the importance of U.S. commitments to its long-time friend, Taiwan, would be a shortsighted, strategic mistake for the United States and would send the wrong message about U.S. leadership and dependability in Asia.

In 2014, former State Department Deputy Assistant Secretary Randall Schriver cogently summed up Taiwan's importance to the United States and urged continued U.S. support for Taiwan during his testimony before the U.S. Senate Foreign Relations Committee:

Taiwan's continued success as a democracy, free market economy, and responsible regional and global actor is a core interest of the United States. The United States and Taiwan engage cooperatively over a wide range of economic, security, and diplomatic issues... With its successful transition to a democratic form of government and its embrace of economic liberalism as a stable path for sustainable development, Taiwan has become a model for the entire region. Moreover, its international behavior exemplifies that of a responsible stakeholder... Supporting a strong Taiwan is a necessary element in America's efforts to sustain its power and influence in the Asia-Pacific and to promote economic and political liberalism throughout the region.<sup>iii</sup>

Given the importance of a strong, democratic Taiwan to the region, this paper emphasizes the importance of U.S. support for Taiwan by highlighting why China is so intent on cross-Strait unification and why despite the victory of the DPP Presidential candidate concern over China's influence in Taiwan should still be a concern. This paper will also present why the United States should be concerned over China's rise to great power status, illustrate how Taiwan's economic dependence on China has left Taiwan vulnerable to China's coercive influence, and how China is using its influence to shape cross-Strait conditions in its favor. Finally, this paper will conclude with recommendations improving Taiwan's position vis-a-vis China with improved defensive capabilities, a heightened diplomatic profile, and, most importantly, increased trade diversification through membership in the Trans-Pacific Partnership (TPP). While increased

trade diversification may not completely solve Taiwan's economic dependence on China, it could provide Taiwan with enough economic independence for it to resist the pressure to unify on China's terms.

### **The Importance of Taiwan to Chinese Strategic Interests**

Since 1949, the PRC has viewed Taiwan as a renegade province being supported by and under the influence of the United States. The PRC view the continued cross-Strait separation as the furtherance of Western interference in Chinese domestic affairs. The unresolved issue of Taiwan is an important element of the Chinese Communist Party's regime legitimacy, as it views its legitimacy being based, at least in part, on the preservation of its territorial integrity and national reunification.<sup>iv</sup>

Besides the connection to regime legitimacy, China also sees unification with Taiwan to be of significant geostrategic benefit. There are at least four strategic benefits gained by China's control of Taiwan as stated by China's own military and academics. First, Taiwan's location is viewed as a gateway that would provide unfettered access to the Pacific Ocean. China's *Liberation Army Daily* stated, "With Taiwan in hand, the Pacific Ocean will become China's open field to the East... The strategic importance of Taiwan simply cannot be over-stated."<sup>v</sup>

Second, Taiwan's unification is key to China achieving great power status and capabilities. Beijing's University of Aeronautics and Astronautics Professor Zhang Wenmu issued this warning, "At present, the Taiwan issue still embodies a contest for sea power between China and the U.S. If we lose Taiwan, we will one after the next lose the Spratly Islands and losing those two areas will signify that China shall thoroughly lose the fundamental capability of a rising power to guarantee its political, economic, and national security space."<sup>vi</sup>

Third, Taiwan is seen by the Chinese as the lynchpin for dominating much of the maritime space around China and providing strategic depth. The People Liberation Army's Chinese Naval Research Institute Director proposed that, "Once the (Taiwan) reunification mission is completed. Diaoyu (Senkaku) Island to the North and the waters surrounding it would fall in the range of the Chinese gunfire protection. To the south, the distance to China's coastal defense force to all the South China Sea islands will be shortened by a large margin."<sup>vii</sup>

Lastly, with Taiwan in hand, China would be able to control Japan's Sea Lines of Communication (SLOCs) to the south and threaten Japan's maritime access to oil from the Persian Gulf and the markets in Europe. A Chinese analyst opined, "As soon as the Mainland and Taiwan are unified, not only will we break through the strategic encirclement of China effected by the U.S.-Japan alliance, we will have Japan's strategic passage to the south firmly in our grasp and China shall easily thereafter be able to counter Japan."<sup>viii</sup> China's rhetoric and its strategy for unification should be taken seriously. In promoting unification, China continues to use the narrative that the people on both sides of the Strait are Chinese and that Taiwan and China are kept apart because of foreign interference.<sup>ix</sup>

However, China's discussion of unification always leaves out the fact that the current desire for the immediate unification of Taiwan and China is largely one-sided. Since 1995, statistics have, on average, shown that around 2% of the people in Taiwan would support immediate unification. As of 2015, the number has dropped down to 1.3%.<sup>x</sup>

There are strong reasons for the rejection of immediate unification in Taiwan. Taiwan's hard won democracy, self-governance, freedom of the press, and open society are feared to be all at risk after unification. Beyond those fears, more and more people in Taiwan view themselves as Taiwanese, distinct from a Mainland Chinese identity, and do not see themselves as part of the

Chinese in China. Polls have shown that the number of people in Taiwan identifying themselves as Taiwanese is growing. The percentage of Taiwan citizens who only identify themselves as Taiwanese has risen to 60% of the population, while those who identify themselves as both Taiwanese and Chinese now makes up about 33% of the population, and the number of those who identified themselves as only Chinese has declined to around 4% of the population.<sup>xi</sup>

### **Taiwan's 2016 Presidential Election Results and Voting Analysis**

The DPP has benefited from this shift in identity because it has as traditionally positioned itself as a party standing up for Taiwan's distinct identity and independence, while the KMT has been the party willing to put aside issues of sovereignty for the sake of stable cross-Strait relations and closer economic ties with China. While President Ma and the KMT were in power, it seemed that relations with China dominated the President's agenda, as historic trade deals were signed cementing closer economic relations with China. While the recent DPP election victories may have been a big step in pulling Taiwan away from China's orbit, one cannot assume that the DPP will not be vulnerable in future elections, as the results of the past election may have been more of a reflection of voter dissatisfaction with President Ma and the poor management of the country's economy.<sup>xii</sup>

Voting analysis of the January 2016 Presidential election revealed that Tsai's win may not have been due to an overwhelming change in long term voting preferences. While Tsai beat her closest competitor by a wide margin, she only gained a marginal number of additional votes over her last presidential run in 2012, when she lost to the incumbent. The reasons for Tsai's huge victory were likely two-fold. First, there were record low voter turnout levels for the 2016 Presidential election, a dip of 17% in voter turnout as compared to the 2000 Presidential election.<sup>xiii</sup> The low voter turnout may be a result of KMT supporters who opted not to vote as

they were too disappointed in the KMT but were unwilling to vote for the DPP. Second, votes were split between the KMT and its coalition partner, the Peoples First Party (PFP). If the KMT and PFP votes were combined, they would have garnered 44% of the vote.<sup>xiv</sup> Given the significantly poor economic performance of the current administration, with an abysmal approval rating, the fact that the KMT/PFP coalition was still able to garner a 44% is significant. If the KMT were able to reverse the 17% drop in voter turnout to their favor by the next general, the DPP's hold on power could be very vulnerable.

Right after the DPP's January 2016 election victory, China came out with strong statements tying Taiwan's security and economic prosperity to "China's territorial integrity". China's Taiwan Affairs Office stated, "Our will is as strong as a rock, our attitude unswerving on the principal matter of safeguarding national sovereignty and territorial integrity."<sup>xv</sup> China's official Xinhua news agency gave this warning, "If there is no peace and stability in the Taiwan Strait, Taiwan's new authority will find the sufferings of the people it wishes to resolve on the economy, livelihood, and its youth will be as useless as looking for fish in a tree."<sup>xvi</sup>

These warnings were issued despite the fact that President-elect Tsai and DPP leaders used moderate rhetoric when referring to cross-Strait relations during the campaign, as opposed to the strong pro-independence rhetoric usually espoused by the DPP. According to the Economist, Tsai has "rowed her party a long way back from its desire to declare formal independence."<sup>xvii</sup> While choosing not to rock the boat with China is certainly a political calculation of risk on Tsai's part, that calculation was largely swayed by Taiwan's influential business community and its intimate connection to the Mainland. So, despite the growing trend of a Taiwanese identity and the political victories of the DPP, the importance of China and its influence over Taiwan will still continue to be strongly felt due to strong economic links.

## **China's Pattern of Belligerent Behavior**

China's diplomatic rhetoric describes its rise as a responsible power with an interest in a harmonious world.<sup>xviii</sup> In the words of the Chinese ambassador to the United Nations, "we don't want to make anyone feel uncomfortable."<sup>xix</sup> China claims that, historically, it was never in the business of empire building and that it has never been in China's nature to do so. Therefore, its current rise should not be seen as threat either. However, this claim ignores the fact that the modern borders of China constitute a long-established empire that encompassed other nations and ethnicities. Chinese Imperial Dynasties fashioned themselves as rulers governing from a celestial court and believed it was heaven's mandate for them to conquer and rule "all under heaven". Content in its perceived superiority and hegemony, over what it perceived to be the "known world", China weakened over time due to laxness, corruption, and civil strife. Now that China is regaining its footing on the world stage, it would not run counter to history for China to once again seek hegemony.

Historical narratives aside, the desire for great powers to seek dominance is not unique to China. It is in the character of great powers to seek dominance, and despite Chinese rhetoric to the contrary, Chinese actions in the South China Sea confirm this common disposition. The U.S. National Defense University has kept count of the number of times South China Sea claimants took actions to advance their territorial claims. The data demonstrates that China is more likely to make use of its military power in a belligerent fashion than its smaller neighbors, undermining regional security in the South China Sea. From 1995-2013, China resorted to using military/paramilitary actions 148 times, far outnumbering other claimants, such as the Philippines, with 60 military/paramilitary actions, and Vietnam, with 13 military/paramilitary actions.<sup>xx</sup> In one of these military actions in 1988, Chinese gunboats sunk a Vietnamese landing

vessel, killing 86 people. China's willingness to engage in military/paramilitary actions over territorial disputes is likely related to China's incredibly vast claim over the South China Sea, the desire to control critical SLOCs and underwater resources in that region, and their relatively large Navy and Coast Guard.

In 1992, China passed a maritime law laying claim to almost the entirety of the South China Sea, the borders of the claim is commonly referred to as the 9-dash line, which encompasses 3 million square kilometers of maritime territory.<sup>xxi</sup> In 1995, China occupied an atoll within the Philippines' 200-mile exclusive economic zone, defying international norms. At the time, Filipino President Fidel Ramos stated that the territorial dispute with China over the Spratly Islands were a "litmus test of whether China, as a Great Power, intends to play by international rules, or make its own."<sup>xxii</sup> Ignoring international norms and protests, China has gone on to build an oil rig, conduct massive land reclamation projects, and constructed military bases in the South China Sea, while using its superior Naval and Coast Guard fleets to intimidate other claimants. Analysts at the Center for Strategic and International Studies stated that China's land reclamation projects and construction were "literally creating a new reality" and that by 2030, the South China Sea would be so dominated by China's navy that it would be "virtually a Chinese lake".<sup>xxiii</sup>

It can be seen both statistically and anecdotally that Chinese statecraft has taken on an increasingly belligerent form. China's behavior has illustrated the natural tendency of great powers to act in their self-interest and for rising powers to upset the status quo, even to the detriment to regional stability. Given this expected tendency, China's ambitions for unification with Taiwan and its potential control over key SLOCs should be a concern for the United States.

### **China's Economic Leverage**

Initially fearful of China's economic pull and influence over Taiwan's business community, Taiwan Presidents Lee Teng-hui and Chen Shui-bian made a sincere effort to curb Taiwan business from relocating to and investing in China with a "no haste, be patient" policy.<sup>xxiv</sup> Under the "no haste, be patient" policy, Taiwan restricted direct trade and travel to China and limited Taiwan investments in China per project to \$50 million. But despite the restrictions, many Taiwan export-focused industries still managed to move much of their operations to China. Due to domestic pressures, Taiwan relaxed the \$50 million per project cap in 2000. By 2004, 77% of Taiwan manufactures had investments in China and over 50% of Taiwan's information technology production had moved to China by 2006.<sup>xxv</sup> By the end of 2005, over 85% of Taiwan's 250 largest firms had significant investments in China. By 2009, about 70,000 Taiwan companies that had invested in China.<sup>xxvi</sup> Along with their companies and investments, Taiwan businessmen and their employees also moved over to China. Currently, there are an estimated one million Taiwan citizens living in China, which is a significant number since the total number of Taiwan's citizens is just 23 million.<sup>xxvii</sup> The trend of increased investments from Taiwan rose rapidly in the 1990's. From 1990-1992, the average Taiwan company investment in China was \$365,000 and by 2004 it was \$3.46 million.<sup>xxviii</sup> Before 2006, total investments in China by Taiwan companies reached a total of \$60 billion.<sup>xxix</sup>

Chen tried to tie economic liberalization with China with Chinese recognition of Taiwan's sovereign status. However, the gravity of China's economy was so great that Chen was unable to prevent Taiwan businesses from getting around restrictions to investing in China. Before being able to gain any Chinese concessions on Taiwan's sovereign status, President Chen had to change the "no haste, be patient" policy to a more liberal "active opening, effective management" policy to please the Taiwan business lobby.<sup>xxx</sup> Under this new policy, however,

Chen still disallowed direct travel, postal service, and shipping to and from China, as China would not recognize flights, parcels, and ships coming from Taiwan as being from an “international” origin.

In 2008, KMT Presidential candidate Ma Ying-jeou won the election in large part because of his campaign platform to establish direct travel links and even more economic liberalization with China. Under Ma’s administration, direct transportation links were established with China and a bilateral trade agreement was signed, further liberalizing bilateral trade and fortifying cross-Strait economic interdependence.

### **The Uneven Effects of Economic Interdependence**

Liberal Institutionalists would argue that Taiwan and China’s economic interdependence will constrain China to behave responsibly towards Taiwan.<sup>xxxii</sup> However, there are two reasons why economic interdependence will not ease tensions between China and Taiwan. First, economic interdependence does not impact democratic governments and authoritarian governments equally. Democratic governments, who are more likely persuaded by the business interests of their citizens, are more vulnerable to the effects of economic interdependence than authoritarian governments, who are less beholden to their citizens.<sup>xxxiii</sup> Authoritarian governments are also less likely to respond to economic incentives. In the late 1990s, South Korean President Kim Dae-jung pursued a policy of economic engagement with North Korea with the hope that positive economic incentives would help transform the closed North Korean government. However, the policy of providing economic incentives did little to change the long term behavior of North Korea’s authoritarian government.<sup>xxxiii</sup> On the flip side, Taiwan’s democratic government, under President Chen, struggled and ultimately failed to link China’s cross-Strait economic engagement with policy changes towards Taiwan’s status. The lure of

China's economic incentives on Taiwan businesses proved too strong for Chen to counter.<sup>xxxiv</sup>

Given the limited effectiveness of economic interdependence on authoritarian regimes and its influence on democracies, the United States cannot assume economic interdependence will be a moderating factor in the cross-Strait dispute that will constrain both sides equally.

Second, Liberal Institutionalism does not account for the effects of the nationalism. As a way of affirming their legitimacy with their citizens, the Chinese Communist Party's perpetually indulges in nationalist sentiment. High levels of nationalism currently pervade China. It should be noted that high levels of nationalism stoked the flames that led to WWII, despite the economic interdependence between the warring European powers and between the United States and Imperial Japan. Just before the outbreak of WWI and WWII, Germany's second-largest trading partner was England, with France also being in the top 5 trading partners. Just before WWII, Japan's largest trading partner was the United States.

### **China's use of Soft Power to Shape Conditions in its Favor**

China's current strategic focus is to use soft power to shape Taiwan's social discourse in favor of unification. While public acceptance of unification seems unlikely in Taiwan in the short term, China hopes to foster the right conditions in the long term, in which Taiwan eventually faces a reality where its best option is some sort of unification. As such, China is constantly trying to shape the political discourse in Taiwan to make unification more palpable to the people of Taiwan. In 2008, Want Want Holdings Limited, a Taiwan company run by a pro-China businessman, bought the China Times Group. The China Times Group owns China Television (CTV), Chung Tien Television (Cti TV), the China Times newspaper, and the Commercial Times newspaper. The reach and impact of the China Times Group on Taiwan society cannot be understated. CTV is one of only three national broadcast network stations in

Taiwan. It is akin to ABC, NBC, or CBS in the United States prior to the advent of cable TV. CTV's nightly news program is the most watched news program on TV. Cti TV is one of the most popular cable TV stations and its shows are hugely popular with younger audiences. Many of the TV stars and personalities on CTV and Cti TV have also gone on to China to participate in Chinese TV shows. These TV stars are forming a cultural bridge and are cultivating the appearance of a unified culture in Taiwan's mass media. The China Times newspaper is also highly influential as one the longest running and most established newspapers in Taiwan. The China Times group has been known to provide news coverage slanted in favor of China. In 2014 Taiwan's three other major papers provided significant coverage of Hong Kong's prodemocracy protests, known as the umbrella movement, while the China Times newspaper downplayed its coverage. When the Hong Kong police began using tear gas on the protesters, three of Taiwan's major papers covered the story on its front page, while the front page of the China Times newspaper ran a story on baseball.<sup>xxxv</sup>

Chinese interference in Taiwan's mass media does not stop with influence over major media and news outlets. China has made it clear that Taiwan actors, singers, and public personalities need to toe the "one China" line if they want to work in China, which is more and more common place due to the large consumer market in China. Pop stars that do not toe the "one China" line on TV, even while outside of China, are black listed.<sup>xxxvi</sup> They are also pressured to drop their Taiwan accent and Taiwan slang, which is China's way to counter a distinct Taiwanese identity. While on TV, entertainers must now refer to Mainland China as 内地/neidi (the Inland), as opposed to how the people of Taiwan typically referred to China for many decades, which was 大陸/dalu (the Mainland), as the term "Mainland" has taken on a negative connotation among Chinese. Apparently, from the Chinese perspective, the term

“neidi” connotes a unified relationship between China and Taiwan. Overall, a great chilling effect has taken place in mainstream media in Taiwan. Stars who hope to earn money from the Mainland Chinese market are now very careful not to offend Mainland China and must now completely avoid the topic of Taiwan independence and democracy. While one may chalk this up to simply sensible business practice, the effective censorship of political discourse in Taiwan’s entertainment industry on the status of their country’s independence and democracy is far more insidious than just worrying about not offending your audience. China has made a significant inroad into shaping the discourse on cross-Strait relations through Taiwan’s influential pop culture.

China’s influence over the Taiwan business community in China is also common knowledge.<sup>xxxvii</sup> Being confident that Taiwan businessmen living in China would vote for politicians friendly to China, China went so far as to offer discounted plane tickets for them to fly back to Taiwan in time for elections, in the hopes that their votes will influence Taiwan’s domestic politics.<sup>xxxviii</sup> Back in 2004, flights back to Taiwan just before the general elections were sold out. During this peak travel period, additional charter flights were provided by Chinese airlines with a 30% discount on ticket prices. From 2004 through 2012, it was estimated that up to 200,000 Taiwan citizens were returning to vote in each of the general elections.<sup>xxxix</sup> China’s facilitation of travel for a large block of voters, assumed to be interested in smooth China-Taiwan relations, would likely have impacted how candidates in a general election positioned themselves on cross-Strait issues. China’s undue influence on Taiwan’s domestic politics would likely have been felt in tightly contested races.<sup>xl</sup>

Perhaps one of the most famous instances of direct Chinese coercion over a Taiwan businessman in China was in 2005. Hsu Wen-long, a staunch pro-independence supporter and

founder of a multibillion dollar company with LCD manufacturing factories in China, was bullied by China into issuing an open letter, which was printed in newspapers across Taiwan, supporting China's anti-secession law, denouncing the pro-independence movement, declaring that he and his ancestors were originally from the Chinese province of Fujian, and that there was only one China. The heavy handedness of the Chinese government in dealing with a company with such a large and economically beneficial investment in China came as a shock to the Taiwan business community. Right after this incident, some of Taiwan's most important business leaders resigned from their duties as economic advisors to President Chen. These highly visible businessmen, who were once solid DPP and President Chen supporters, immediately distanced themselves from President Chen.<sup>xli</sup> The old Chinese adage, "kill the chicken to scare the monkeys", worked in this case, as pro-independence Taiwan businessmen, who had large investments in China, quickly learned to toe the line. It was generally felt that if China could pressure one of Taiwan's largest companies, which should have a lot of leverage in China given all the employment benefits it is providing China, to completely capitulate and serve as China's mouth piece, then smaller Taiwan businesses had better get in line as well. Getting businessmen to toe China's anti-independence agenda, has had political ramifications in Taiwan's politics. It is this type of coercion upon the Taiwan business community that helped the KMT regain the presidency after President Chen's tenure and continues to shape the political landscape of what is deemed possible in Taiwan-China relations.

## **Recommendations and Conclusion**

There appears to be no immediate concern of China using force to resolve the unification issue due to the presence of U.S. armed forces in Asia. However, as illustrated in this paper, China currently has its eye on winning the long game and is using all elements of its national

power to shape conditions for eventual unification. Given China's history of coercive statecraft, the United States has a legitimate concern over China's continued use of its economic leverage to force Taiwan into a political arrangement on China's terms.

In 2011, when speaking at the Center for Naval Analysis, Chas Freeman Jr., a retired diplomat with extensive contacts in the Chinese government and military, distilled China's approach to Taiwan's unification in the following manner:

The Chinese see weapons (along with economic, diplomatic, and other forms of power) as tools with which to change men's minds... Beijing is using the allure of Mainland markets skillfully to vest a widening range of Taiwanese economic and social groups with interests in the cross-Strait interdependence... When Beijing judges that the moment is ripe, it will know how to use inducements as well as implied threats to help Taiwanese to rationalize agreements to a long-term cross-Strait accommodation that meets the requirements of Chinese nationalism... China's endgame with Taiwan envisages its eventual preemptive capitulation to the inexorable in response to an offer Taiwan cannot refuse.<sup>xlii</sup>

China has engaged in shaping conditions for unification with a degree of success in the past. In the years prior to the end of the British lease of Hong Kong, China lured Hong Kong's business elite and their factories into China with cheap labor and other incentives, ensuring the business elite's political support for the return of Hong Kong to the Mainland.<sup>xliii</sup> Taiwan should be concerned about China's ability to also win over its business elite. It should be of note that Taiwan corporations are already giving twice as much in campaign contributions to the KMT as they do to the DPP.<sup>xliv</sup>

America should keep its eye on the long game and use its elements of national power to provide balance in cross-Strait relations. A willingness to relegate U.S. support for Taiwan to a secondary status in the hopes of possible gains in U.S.-China relations is a shortsighted approach. This strategy would likely encourage more aggressive Chinese behavior over the

other territorial disputes, drastically change the regional security architecture of Asia to the detriment of U.S. interests, and would call into question America's leadership and credibility.

Assistant Secretary Kurt Campbell made this last point very clear during his testimony before the House Foreign Affairs Committee in 2011:

A peaceful future for cross-Strait relations is central to the stability and prosperity of the entire region and is therefore of vital importance to the United States. . . . Our management of U.S.-Taiwan relations will have a great impact on the way our partners view us across the Asia-Pacific region.<sup>xiv</sup>

While there are many ways the United States could help Taiwan in balancing cross-Strait relations, the main purpose of this paper is to advocate using closer U.S.-Taiwan economic ties to reduce China's economic leverage over Taiwan. As Taiwan is increasingly dependent on China's economy, the international business community in Taiwan, which had traditionally supported closer economic ties with China, has also become concerned about Taiwan's economic dependency on China. In its 2011 white paper, the American Chamber of Commerce in Taipei gave this warning, "Longer range, over-reliance on any one market is always risky, even without the political complications present in the cross-Strait relationship."<sup>xlvi</sup> Without increased trade liberalization with other countries, Taiwan lacks the capacity to keep itself from being economically dependent on China. Added urgency on both the Taiwan and U.S. governments is needed to advance bilateral trade liberalization through the Trade and Investment Framework Agreement (TIFA) talks. In recent years, TIFA talks have been stalled by a small number trade disputes.<sup>xlvii</sup> However, the strategic benefits of closer economic ties to the United States and Taiwan should outweigh any singular trade disagreements that would hold hostage bilateral economic liberalization.

Beyond moving forward with expanded bilateral agreements through TIFA, the United States should be an advocate for Taiwan's membership in the TPP. If ratified by all 12 member nations, the TPP, as the premier economic club in Asia, will bring together more than 40% of the world's economy closer than ever before. Taiwan's inclusion in the TPP would diversify Taiwan's economy and also dilute China's economic hold on Taiwan. It would be in the United States strategic interest to endorse Taiwan's bid for membership and work with Taiwan to create a roadmap that would prepare Taiwan's entry into the TPP. Taiwan's inclusion in the Asia Pacific Economic Cooperation forum, as an economic entity, could be used as a model for membership in the TPP. APEC's members are referred to as economies rather than countries<sup>xlvi</sup>, which allows Taiwan to participate in the forum and sidesteps the thorny issue of Taiwan's statehood.

In addition to U.S. efforts to improve Taiwan's chances of entering the TPP, Taiwan politicians must put aside parochial trade issues, such as protecting its beef and pork industry, and make clear to its public that it has an overriding national interest in joining the TPP.<sup>xli</sup> It is true that bringing Taiwan into the TPP may not eradicate Taiwan's dependence on China, as China will always benefit from having a large consumer market and a cheap labor force in close proximity to Taiwan. However, it is still in the interest of the United States to do what it can to get Taiwan into the TPP, as it would be a substantial improvement in Taiwan's long term position vis-a-vis China. A diverse and substantive economic relationship with America, and with other nations through the TPP, will help Taiwan resist falling further into China's economic orbit.

Taiwan should also seek to improve its other elements of national power to strengthen its position vis-a-vis China. While Taiwan's military strength may never match China's

conventional force strength, there are still a multitude of military advances that Taiwan could pursue that would be worthwhile in bolstering its defense capabilities. One such advancement would be in Taiwan's counter-air capabilities, designed to oppose a Chinese military operation to achieve air supremacy over Taiwan or a naval blockade around Taiwan. Having an effective and durable air force, that would be able to contest China's air force and naval fleet in the Taiwan Strait, would provide a visible sense of achievement to Taiwan's populace and a boost to morale during an armed conflict. While an effective air defense capability is not a silver bullet in resolving a cross-Strait military conflict, the ability to defend its airspace would boost the morale of the Taiwan public, which would likely be a critical vulnerability in Taiwan's national defense during an armed conflict with China. Denying China air superiority, by using a combination of surface-to-air missiles and jet fighters, China's surface fleet would also be deterred from attempting a blockade. To improve its air defense capabilities, Taiwan would have to increase the number of fighters in its arsenal, house a large percentage of its fighters in hardened hangars, and perfect quick tarmac repair under attack conditions. In the event of an attack, it is likely that the Chinese will try to wipe out airport command and control infrastructure and runways. Therefore, Taiwan must train to repair runways quickly, rapidly scramble jets, and maintain command and control of aircraft, even after aircraft control towers and runways have been severely damaged. A robust air defense capability would also help deter China from blockading or invading Taiwan. While these recommendations would require a prolonged and significant increase in Taiwan's defense budget, it would go a long way in proving to China and its own citizens that it is serious about its defense.

Along with raising its defense capabilities, Taiwan should improve its diplomatic relevance and profile. China's current belligerent moves in the South China Sea presents an

opportunity for Taiwan to resist diplomatic isolation. Taiwan's leadership and cooperation to bring about a peaceful resolution to rival territorial claims in the South China Sea, while keeping open the sea lines of communication, would be welcomed. The current Taiwan President, Ma Ying-jeou, proposed a South China Sea Peace Initiative. The Initiative proposed that rival claimants temporarily lay aside their sovereignty claims, abide by the principles of the United Nations Convention on the Law of the Sea (UNCLOS), and jointly develop resources in the South China Sea.<sup>1</sup> While this approach should be applauded, Ma, bound by historic ROC claims that encompassed the majority of the South China Sea, which virtually mirror China's claims, also suffered from the perception that he was too closely aligned with China. However, President-elect Tsai may not be as tightly bound to historic ROC sovereignty claims and does not suffer from the perception of being too close to China. It is possible that Tsai will have more maneuvering space to push for a UNCLOS-based resolution on rival claims in the South China Sea, as well as pursuing multinational joint development projects. A condition to negotiating this type of agreement with rival claimants would be that she publicly meet with the heads of state of other claimant nations. Domestically, Tsai would certainly encounter domestic opposition and would be accused of giving up Taiwan's sovereign claims over the islands in the South China Sea. However, Tsai could balance the negative attacks by showing how Taiwan was gaining significant diplomatic visibility and relevance in the region when she met with heads of state. The other claimants are more likely than ever to welcome Taiwan's approach, given China's increasingly belligerent behavior in the South China Sea. Although China would certainly oppose and likely put a stop to any Taiwan-led agreements in the short run, in the pursuit of this method of resolution, Taiwan will have improved its diplomatic relevance and shown itself to be a responsible stakeholder in the international system.

In conclusion, supporting Taiwan in its ability and freedom to shape its own future in resolving the cross-Strait dispute should still be one of the United States' primary interests in Asia. However, so long as unification is a core national interest, China will continue to use all elements of its national power to shape conditions and reduce Taiwan's ability and freedom to resist unification on China's terms. After China shapes conditions in its favor and Taiwan finds itself out of economic, military, and diplomatic options, Taiwan may find capitulation unavoidable and agree to unification. Therefore, Taiwan must also use its elements of national power to counter China's long game and achieve more equal footing vis-a-vis China. Expanding and improving its defense capabilities and diplomatic standing are critically important to Taiwan. However, Taiwan's ability to resist China's economic pull through trade diversification is most vital. Most of China's power to coerce politics in Taiwan originates from the leverage China is able to derive from Taiwan's economic dependence on China. While the United States maintains the policy of allowing China and Taiwan to sort out their differences on their own peacefully, it is in the strategic interest of the United States that Taiwan negotiate with China from a position of strength rather than dependence. Therefore, the United States should help Taiwan reduce its economic dependence on China by supporting Taiwan's bid to join the TPP. Improved economic diversity will reduce China's influence over Taiwan's business and politics, thereby giving the people of Taiwan a better chance in the long term to freely determine their own future in the resolution of the cross-Strait dispute.

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