

Taiwan's Geopolitical Challenges and Domestic Choices

A State of Ambiguity

Kerry Brown and
Chloe Sageman

Summary

- The increasing uncertainty of Taiwan's external environment – influenced by a less predictable US leadership and an increasingly assertive China – has undoubtedly affected its domestic politics. This was reflected in the results of the 2018 local elections, at which the governing Democratic Progressive Party (DPP) suffered huge losses. While the pro-independence DPP and the Kuomintang, which has traditionally maintained closer relations with China, remain the dominant players in Taiwan's political landscape, both need to find ways to appeal to an increasingly diverse and divided polity in the run-up to the next presidential election in 2020.
- Identity politics and economic issues feature highly in Taiwan's domestic priorities, and are closely linked to its relations with mainland China. The slowdown in China's economy and its use of 'sharp' power are continuing concerns for Taiwan's electorate.
- The US remains Taiwan's most important security and diplomatic partner, but the Trump administration's increasingly hard line towards China gives rise to fears that Taiwan may become a pawn in a 'great power' game. However, rather than be distracted by the drama and unpredictability of the Trump presidency, Taiwan will be best served if it continues to support US security commitments in the region.
- In response to its changing external environment, the government of President Tsai Ing-wen has attempted to diversify Taiwan's international engagement through its New Southbound Policy (NSP), which seeks to develop economic and people-to-people ties primarily with partners in Southeast and South Asia. The NSP will be required to embrace increasing levels of immigration and openness to the outside world if it is to be sustainable. This will mean crafting a new narrative that sees Taiwan as part of Southeast Asia just as much as of the Greater China area.
- Taiwan's task is to strike a balance between maintenance of strong security relations with the US and close economic ties with China, while also diversifying and strengthening its links towards Southeast Asia. Changing regional and domestic dynamics have made this task much harder.



Introduction

Taiwan's world in 2019 is one of heightened uncertainty. The behaviour of its main security ally, the US, has become increasingly unpredictable under the presidency of Donald Trump, and Taiwan risks being tangled up in the escalating tensions between the US and the People's Republic of China. From the trade war between Washington and Beijing which started in mid-2018 to the geopolitical tensions in the South and East China seas, the complexity of Taiwan's external environment has undoubtedly had an impact on its domestic politics. This accounts for the results of the island's 2018 local elections, and the strong evidence they gave of local concern about not just economic but also diplomatic issues.

The task for Taiwan now is to ensure that it maintains as much flexibility as it can in its international relations, and that it does not suffer because of heightened tensions in the region. While the Trump administration's more forceful China Policy does offer short-term opportunities to restrain Beijing's own more assertive tendencies, it is also illustrative of the challenges that arise from Taiwan's perpetual balancing act.

President Tsai Ing-wen must also try to satisfy a population that is clearly divided. Understandably, people want to see strong economic performance while also maintaining their autonomy, but achieving this in a situation in which China accounts for so much of Taiwan's growth often leads to sharp dichotomies and difficult choices, a situation that will not change.

Taiwan's politicians now need to speak to a far more diverse and often divided polity

This briefing considers these issues in the context of recent developments within Taiwan's domestic politics, the current status of its relationship with the US and with China, and its efforts to increase its presence in the international community – or 'international space'¹ – through the New Southbound Policy (NSP). It makes the case that, through policies such as the NSP, Taiwan has a new opportunity to preserve the status quo.² The changing dynamics now mean that Taipei has a greater need than ever to operate a prudent, cautious diplomacy, and to be prepared for all eventualities. It can continue to demonstrate that it is a highly realist, pragmatic actor, and avoid being dragged towards reactive policy positions that are not in its long-term interests – the most serious being the risk of becoming over-friendly with the US and over-antagonistic towards China.

Taiwan's 2018 local government elections: identity politics and economic concerns

It was expected that the governing Democratic Progressive Party (DPP)³ would see some losses in the November 2018 local elections, particularly considering the slump in President Tsai's approval ratings in the months beforehand.⁴ However, the results

¹ Taiwan's international space is often measured in terms of the number of states with which it maintains diplomatic relations, and its ability to participate in international organizations.

² The concept of the 'status quo', supported by the US and the Tsai administrations, lies at the heart of relations between China and Taiwan, and advocates maintaining the current state of cross-Strait affairs. In reality, the status quo is a dynamic situation, in which relations between China and Taiwan are constantly shifting.

³ The DPP is a liberal-leaning pro-independence party. In addition to promoting independence from China and a 'Taiwanese' identity, it advocates universal human rights, transitional justice and constitutional reforms.

⁴ Shan, S. (2018), 'Tsai's approval rating drops to 31.2%', *Taipei Times*, 18 September 2018, <http://www.taipeitimes.com/News/taiwan/archives/2018/09/18/2003700647> (accessed 25 Jan. 2019).

were worse than expected. Of the island's 22 jurisdictions, the DPP was left with control of just six cities and counties (down from 13), with the opposition Kuomintang (KMT)⁵ taking or retaining control of 15. Of the six special municipalities, the DPP retained seats only in the cities of Tainan and Taoyuan, with the KMT taking New Taipei, Taichung and, most surprisingly, the traditional DPP stronghold of Kaohsiung (see Table 1). In tandem with voting in the local elections, ballots were also cast on 10 referendum questions.⁶ Voters rejected several of the more 'progressive' proposed measures, including the legalization of same-sex marriage.⁷

While Taiwan has seen the emergence of several new political parties in the wake of the Sunflower Movement in 2014, including the New Power Party and a number of other smaller parties collectively referred to as the 'Third Force',⁸ this has not had a significant direct impact on domestic politics. Even though these parties have seen increased representation (for example, in terms of representation on city councils⁹), the DPP and the KMT still have the resources to maintain the strongest support and thus remain dominant. Nevertheless, these new smaller actors certainly make life more difficult for both main players. Their main success has been in focusing on, and raising the profile of, specific issues, from pension rights to marriage reform.

What is clear is that Taiwan's politicians now need to speak to a far more diverse and often divided polity. There are various reasons for this. Increased support for the KMT should not be perceived as support for closer relations – or reunification – with China. The most overtly pro-unification party, People First, despite high expenditure, won just 0.4 per cent of the overall vote at the 2018 local elections, taking eight council seats out of 912.¹⁰ In this area at least – the one that most matters to Beijing – there is overwhelming consensus on opposition to reunification. But the significance of relations with China should not be discounted either. While this may make itself apparent in different ways now compared with at other recent elections, it undoubtedly remains a factor – as seen through public responses to Tsai's handling of cross-Strait issues. The other major contributing factor, economic issues, is discussed below.

One immediate political consequence of the DPP's poor performance in the 2018 local elections was the resignation of President Tsai as party chair. Despite this, it is almost certain that she will seek re-election in 2020 as the candidate of the DPP – although in March 2019 her former premier Lai Ching-te, known for his strongly pro-independence

⁵ The KMT is currently Taiwan's main opposition party, and advocates a mainland-friendly China policy. The KMT formed a government-in-exile in 1949 when its then leader, Chiang Kai-shek, and his forces fled to Taiwan from the mainland following defeat by the Communists in the civil war. The KMT continuously governed Taiwan until 2000 (returning to power in 2008–16), and has historically viewed Taiwan as part of 'one China' that should be reunited under nationalist (KMT) rule.

⁶ Chung, L. and Huang, K. (2018), 'Democratic Progressive Party suffers big defeat in Taiwan elections; Tsai Ing-wen resigns as chairwoman', *South China Morning Post*, 24 November 2018, <https://www.scmp.com/news/china/politics/article/2174828/taiwan-set-high-election-turnout-voters-queue-deliver-their> (accessed 14 Mar. 2019).

⁷ Horton, C. (2018), 'Taiwan Asked Voters 10 Questions. It Got Some Unexpected Answers', *New York Times*, 26 November 2018, <https://www.nytimes.com/2018/11/26/world/asia/taiwan-election.html> (accessed 14 Mar. 2019).

⁸ The Sunflower Movement saw huge protests against the economic policies of the then-governing KMT, and has since been the driving force behind a new wave of protests and activism in Taiwan. Many activists from the Sunflower Movement have continued to participate in politics, via either the DPP or 'Third Force' parties. For more on the 'Third Force' see van der Horst, V. (2016), 'The Rise of Taiwan's "Third Force"', *The Diplomat*, <https://thediplomat.com/2016/01/the-rise-of-taiwans-third-force/> (accessed 25 Jan. 2019).

⁹ Hioe, B. (2018), 'NPP defies expectations with sixteen city council seats, SDP takes one seat', *New Bloom*, 25 November 2018, <https://newbloommag.net/2018/11/25/third-force-what-now/> (accessed 13 Mar. 2019).

¹⁰ *Ibid.*

position, announced his intention to challenge her for the party's nomination.¹¹ Assuming she does stand again in 2020, Tsai's chances of success will depend in part on how she responds to the complex messages emerging from the 2018 elections – as outlined above – and in part on the strength of any challengers from the opposition. So far, the KMT has failed to present a credible opponent, despite a declaration of intent from its 2016 candidate, Eric Chu. While a number of KMT candidates performed strongly in the 2018 local elections – among them Han Kuo-yu, who unseated the DPP in Kaohsiung, the KMT still has a long road to travel before it can stand a realistic chance of its chosen candidate being elected in 2020. However, Han's message of a new economic policy may resonate strongly with voters if they see little improvement in their living standards and sense of prosperity.

Table 1: Taiwan local election results, 2014 and 2018

Jurisdiction	2014	2018	Jurisdiction	2014	2018
Changhua county	●	●	Nantou county	●	●
Chiayi city	●	●	New Taipei city	●	●
Chiayi county	●	●	Penghu county	●	●
Hsinchu city	●	●	Pingtung county	●	●
Hsinchu county	●	●	Taichung city	●	●
Hualien county	●	●	Tainan city	●	●
Kaohsiung city	●	●	Taipei city	●	●
Keelung city	●	●	Taitung county	●	●
Kinmen county	●	●	Taoyuan county	●	●
Lienchiang county	●	●	Yilan county	●	●
Miaoli county	●	●	Yunlin county	●	●

Key: ● DPP ● KMT ● Independent

Source: Adapted from comparative results published by *United Daily News* (2018), https://p.udn.com.tw/upf/election/2018/data/data01_A.jpg?20181125v0448 (accessed 28 Mar. 2019).

Alongside the local elections in 2018, a number of referendum questions were put to voters. The rejection (by 52.3 per cent of voters) of a proposal¹² that the country should apply to compete at international sporting events, including the 2020 Olympics, under the name 'Taiwan', rather than as 'Chinese Taipei', may suggest a general shift in the population away from an assertively 'Taiwanese' identity towards a more placatory tone towards China.¹³ There is also the question of how far the 2018 results are the product of widely reported incidences of 'sharp power' tactics deployed by China against the DPP in advance of the polls.¹⁴

¹¹ Bloomberg (2018), 'Taiwan's pro-independence former premier William Lai to challenge President Tsai Ing-wen', *South China Morning Post*, 18 March 2019, <https://www.scmp.com/news/china/politics/article/3002151/taiwans-pro-independence-former-premier-william-lai-challenge> (accessed 28 Mar. 2019).

¹² Pan, J. (2018), '2018 Referendums: Advocates vow to continue Olympic name change fight', *Taipei Times*, 26 November 2018, <http://www.taipeitimes.com/News/taiwan/archives/2018/11/26/2003704956> (accessed 12 Feb. 2019).

¹³ Inkster, I. and Chang, V. H-h. (2018), 'Elections, referendums and identity', *Taipei Times*, 29 November 2018, <http://www.taipeitimes.com/News/editorials/archives/2018/11/29/2003705118/1> (accessed 17 Dec. 2018).

¹⁴ For more on 'sharp power' see Nye, J. (2018), 'How sharp power threatens soft power', Pacific Council on International Policy, <https://www.pacificcouncil.org/newsroom/how-sharp-power-threatens-soft-power> (accessed 25 Jan. 2019). See also Hille, K. (2018), 'China's 'sharp power' play in Taiwan', *Financial Times*, 21 November 2018, <https://www.ft.com/content/5c272b90-ec12-11e8-89c8-d36339d835c0> (accessed 12 Dec. 2018).

What is indisputable is that the role of identity in Taiwan politics has become more complex in the last decade, meaning that politicians have no easy answers on possible responses to public concerns over issues such as cross-Strait relations. Data in recent years have shown that around 60 per cent of the population regard themselves as Taiwanese, as against 34 per cent calling themselves 'Chinese Taiwanese' and just 3 per cent solely 'Chinese'. But it seems that most are happy both to recognize their ethnic and cultural Chinese identity, and to maintain the current political status quo.¹⁵ The question is whether the wider world will allow that.

Domestic concerns have only complicated the issue. Stagnating wages and high youth unemployment remain key sticking points. Despite several rises in the minimum wage from 2016 onwards and pledges to increase the availability of social housing,¹⁶ there is continuing dissatisfaction with economic policy. This was evident in the backlash against the KMT from 2012, which helped to get Tsai elected, and it is clear that the remedies implemented under her presidency in 2017–18 have not been wholly successful.

Taiwan's economy grew by 3.1 per cent in 2017, up from 1.5 per cent in 2016, and by a provisional 2.6 per cent in 2018

Taiwan's economy grew by 3.1 per cent in 2017, up from 1.5 per cent in 2016, and by a provisional 2.6 per cent in 2018.¹⁷ Despite the improvement particularly in 2017, President Tsai's approval ratings dropped,¹⁸ reflecting the public's dissatisfaction with the implementation of a number of tough reforms during her first two years in office. These included significant reductions to civil service pension payouts; reductions in preferential interest rates on savings, from 18 per cent to 9 per cent (with further phased reductions intended from 2021); and an increase in the minimum retirement age.¹⁹ These reforms were in line with a necessary adjustment to the government balance sheet, and they needed to be undertaken while the new administration had the political capital and momentum at the start of its period in power. But for the DPP, the reforms have brought a clear political backlash. It is hard enough, in any case, to undertake structural reforms like this. But the challenges are multiplied when combined with the ever-present issue of cross-Strait tensions, married with Taiwan's economic dependence on China. The question now is how Tsai will interpret and then respond to the 2018 elections, and how receptive the public will turn out to be.

The China factor

China's policy towards Taiwan is focused on the eventual reunification of the island with the mainland. The nature of relations has tended to fluctuate depending on the administration in Taipei. Under the KMT government led by Ma Ying-jeou (2008–16), relations between Taipei and Beijing softened and were marked by increased levels

¹⁵ Data from Taiwan Elections and Democratization Project, cited in *Washington Post* (2017), 'The Taiwanese see themselves as Taiwanese, not as Chinese', 2 January 2017, https://www.washingtonpost.com/news/monkey-cage/wp/2017/01/02/yes-taiwan-wants-one-china-but-which-china-does-it-want/?noredirect=on&utm_term=.0699499facd5 (accessed 17 Jan. 2019).

¹⁶ *Taiwan Today* (2018), 'Tsai touts Taiwan's progress in achieving housing justice', 3 August 2018, <https://taiwantoday.tw/news.php?unit=2&post=139105> (accessed 12 Dec. 2018).

¹⁷ Statistical Bureau (2019), 'National Statistics – principal figures', 13 February 2019, <https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5> (accessed 13 Mar. 2019).

¹⁸ Shan, S. (2018), 'Tsai's approval rating drops to 31.2%', *Taipei Times*, 18 September 2018, <http://www.taipetimes.com/News/taiwan/archives/2018/09/18/2003700647> (accessed 13 Mar. 2019).

¹⁹ Reuters (2017), 'UPDATE 1 – Taiwan cuts 18 pct interest in civil service pension reform', 27 June 2017, <https://www.reuters.com/article/taiwan-pension/update-1-taiwan-cuts-18-pct-interest-in-civil-service-pension-reform-idUSL3N1JO2EU> (accessed 11 Dec. 2018); Chow, J. (2017), 'Taiwan passes Bill to cut pension payouts', *Straits Times*, 1 July 2017, <https://www.straitstimes.com/asia/east-asia/taiwan-passes-bill-to-cut-pension-payouts> (accessed 11 Dec. 2018).

of economic outreach on both sides; relations with the mainland have tended to be cooler under DPP administrations, including Tsai's, reflecting the party's pro-independence stance.

In January 2019 China's President Xi Jinping reiterated that reunification with Taiwan remains a priority for Beijing, stating that China would not rule out the use of force if needed.²⁰ His assertion was predictable in terms of its timing (marking 40 years since China's 'Message to Compatriots in Taiwan'),²¹ and given China's current economic and political context.²² China's growth continues to show a downward trend, partly because of the impact of the trade war with the US,²³ and its efforts to develop its own 'new model' for a service-sector-oriented, innovative economy have hit strong headwinds since the middle of 2018. As a consequence, the world is starting to see what a slowdown for China might look like. The double-digit growth the country enjoyed in the recent past was inevitably unsustainable, a pattern characteristic of an economy evolving from one of developing to developed status. It is also true that the Xi administration is aiming for qualitative and not just quantitative growth. Consistently high GDP figures have been one of the great assets of the Chinese government, and while it is difficult to forecast with much certainty the true impact of lower headline growth, the search for new forms of authority is already evident in the more nationalistic tone of Chinese politics and foreign policy.

The fact that it is the DPP that is currently in power in Taiwan only accentuates the problem: ever since the party's foundation in the 1980s, its association with pro-independence sentiment has meant that its relationship with Beijing has been fractious. This tension now manifests itself through Beijing's use of 'sharp power'. Although Taiwan has experienced this over many decades, one of the new features of this mode of behaviour is the so-called 'weaponization' of economic means – whereby Beijing's dissatisfaction with another state's stance on issues that matter to China brings responses in the economic, rather than political, realm. Norway experienced this in 2010 when the awarding of the Nobel Peace Prize to the Chinese dissident Liu Xiaobo resulted in Beijing instituting a freeze in ministerial visits and a ban on Norwegian exports of salmon to China.²⁴ Also in 2010, Japan suffered from an informal block by China of shipments of rare earth metals, important components in many Japanese-manufactured hi-tech goods, around the same time as tensions were rising in the East China Sea.²⁵ The era of China's primary focus on soft power seems to have given way to one of much more overt, muscular action.

²⁰ BBC News (2019), 'Xi Jinping says Taiwan 'must and will be' reunited with China', 2 January 2019, <https://www.bbc.co.uk/news/world-asia-china-46733174> (accessed 25 Jan. 2019); Bloomberg News, 2019, 'China's Xi Talks to Unify Taiwan with Mainland', 2 January 2019, <https://www.bloomberg.com/news/articles/2019-01-02/china-s-xi-says-taiwan-must-be-unified-with-mainland> (accessed 21 Jan. 2019).

²¹ The 'Message to Compatriots in Taiwan' outlined for the first time China's aim of peaceful reunification with Taiwan, and called for an end to cross-strait military confrontation. See China.org.cn (undated), 'Message to Compatriots in Taiwan', <http://www.china.org.cn/english/7943.htm> (accessed 15 Mar. 2019).

²² A weaker Chinese domestic economy, together with with nationalist leadership from Xi, has led to a more assertive stance over issues of national interest, including the reunification of a 'Greater China'.

²³ Lockett, H. et al (2019), 'China Exports Fall Most in 2 Years as Slowdown and Trade War Bite', *Financial Times*, 14 January 2019, <https://www.ft.com/content/713ee398-179a-11e9-9e64-d150b3105d21> (accessed 30 Jan. 2019).

²⁴ Milne, R. (2013), 'Norway sees Liu Xiaobo's Nobel Prize hurt salmon exports to China', *Financial Times*, 15 August 2013, <https://www.ft.com/content/ab456776-05b0-11e3-8ed5-00144feab7de> (accessed 21 Jan. 2019).

²⁵ Bradsher, K. (2010), 'Amid Tension, China Blocks Vital Exports to Japan', *New York Times*, 22 September 2010, <https://www.nytimes.com/2010/09/23/business/global/23rare.html> (accessed 21 Jan. 2019).

Taiwan has seen this at close quarters. Xi, through his former tenure as a party official in Fujian province (situated directly opposite Taiwan across the Strait) from 1985 until 2000, is clearly familiar with the importance of Taiwanese trade for China's economy. But since his appointment as the Communist Party's chief leader in 2012, he has also stood at the forefront of a more assertive stance on what are termed China's 'core interests' – of which the status of Taiwan, albeit primarily seen as a domestic issue by China, is one of the most important and sensitive. All of this is linked to the grand narratives of foreign policy under Xi's leadership, in particular China's renaissance and ambition to become a great power by the Communist Party's centenary year in 2021. There is a sense in which, as the final outstanding issue preventing the reunification of what Beijing contentiously calls the 'Greater Chinese' nation, following the hand-back of Hong Kong and Macao in 1997 and 1999 respectively, Taiwan has been drawn into a story emanating from China which has a plotline and a denouement that has never been jointly discussed, and which does not make provision for active input from Taiwan's 23 million inhabitants – just their passive participation.²⁶

Despite its hefty symbolism, the historic meeting between Ma Ying-jeou and Xi Jinping in Singapore on 7 November 2015 – the first such meeting of leaders of the two rivals since 1949 – did not lead to any major changes in the relationship.²⁷ More recently, since the DPP's return to power in 2016, cross-Strait relations have turned increasingly chilly. Tourist numbers from the Chinese mainland have fallen, although overall tourism has been buoyed by visitors from other countries.²⁸ There have been reported attempts to influence and co-opt the many young Taiwanese working in China,²⁹ alongside efforts to constrain Taiwan's international space. For example, that Taiwan was not invited to the World Health Assembly in either 2017 or 2018, having attended with observer status since 2009, was attributed by the authorities in Taipei to pressure brought to bear on the World Health Organization by Beijing.³⁰ China has also secured diplomatic recognition from some of Taiwan's hitherto formal allies, including Panama in 2017 and the Dominican Republic in 2018. This means that by 2019 Taiwan was formally recognized by only 17 countries.³¹ This is predominantly about Beijing now simply having the economic capacity – and the domestic impetus – to assert new forms of influence. But this has coincided with a period in which the US approach towards Taiwan is not as clearly drawn as it has been under previous administrations, and when economic and political issues in Taiwan have become more complex.

²⁶ This is evident in the preamble to Xi's speech to the 19th Party Congress in October 2017, in which he refers repeatedly to the 'historic mission' of the PRC, and the need to reunite the country. See Xinhua, 'Full Text of Xi Jinping's Report at 19th Party Congress', 3 November 2017, http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm (accessed 30 Jan. 2019). For a detailed discussion of the grand narratives that shape the Xi era, see Brown, K., *China's Dream: The Culture of the Communist Party and the Secret Source of its Power*, Polity, Cambridge, 2018.

²⁷ Phillips, T. (2015), 'Historic meeting of Chinese and Taiwanese presidents prompts hope and suspicion', *The Guardian*, 4 November 2015, <https://www.theguardian.com/world/2015/nov/04/historic-meeting-chinese-taiwanese-presidents-hope-suspicion> (accessed 25 Jan. 2019).

²⁸ In total, Taiwan saw a record 11 million visitors to the island in 2018. See Chung, L. (2018), 'Tourists flock to Taiwan in record numbers despite drop from mainland China', *South China Morning Post*, 31 December 2018, <https://www.scmp.com/news/china/politics/article/2180192/tourists-flock-taiwan-record-numbers-despite-drop-mainland-china> (accessed 25 Jan. 2019).

²⁹ There has, for example, been much debate regarding the motives behind the introduction of residency permits to Taiwanese living in China. See Chung, L. (2018), 'Is Beijing's offer of residence permits to Taiwanese nationals a trick or treat?', *South China Morning Post*, 17 September 2018, <https://www.scmp.com/news/china/politics/article/2164430/beijings-offer-residence-permits-taiwanese-trick-or-treat> (accessed 13 Mar. 2019).

³⁰ Agence France-Presse (2018), 'Taiwan accuses World Health Organisation of bowing to Beijing over invitation to top health meeting', *South China Morning Post*, 8 May 2018, <https://www.scmp.com/news/china/policies-politics/article/2145129/taiwan-accuses-world-health-organisation-bowing-beijing> (accessed 13 Mar. 2019).

³¹ At the time of publication of this briefing, the diplomatic allies of the Republic of China on Taiwan were Belize, Eswatini, Guatemala, Haiti, the Holy See, Honduras, Kiribati, Nauru, the Marshall Islands, Nicaragua, Palau, Paraguay, Solomon Islands, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Tuvalu.

Xi's statement in early 2019 that Taiwan 'must and will be' united with the People's Republic³² drew much attention. However, the parameters of Beijing's policy have in fact remained unchanged since the era of Deng Xiaoping. The 'One Country, Two Systems' rubric used for the handover of Hong Kong from British to Chinese sovereignty in 1997 is still the proposed mechanism being offered for Taiwan. But Beijing must confront the reality that the vast majority of Taiwan's citizens remain profoundly opposed to any notion that they might reunite with an entity that remains under a one-party, Marxist-Leninist system.³³

President Tsai's response to these developments has simply been to assert – as she did in January 2019 – that the so-called '1992 Consensus'³⁴ is no longer valid. While this is essentially a reaffirmation of her position during her election campaign, Tsai's reinforcement of this message as president, and her firm response to the language from Beijing,³⁵ is important.

The US: an ambiguous relationship

In Taiwan, the US wants a stable, predictable partner in one of the most important regions for its security and economic interests. The US is Taiwan's most important security and diplomatic partner, a fact confirmed by the adoption of the Taiwan Relations Act under the Carter administration in 1979, when Washington shifted formal diplomatic recognition from Taiwan to China. The act commits the US president 'to inform the Congress promptly of threats to the security or the social or economic system of the people on Taiwan, and any danger to the United States interests arising from such threats'.³⁶ It also 'specifies that the President and the Congress shall determine the appropriate action in response to any such danger'. The wording of this act makes it clear that Taiwan's actions have to be seen in accordance with US interests for there to be any involvement from Washington, and also that in the end it is the US president's discretion that counts. For the past four decades, successive US presidents have proved largely supportive of Taiwan – particularly, in the case of the Clinton administration, during the Third Taiwan Strait Crisis³⁷ and the run-up to the first democratic presidential election in Taiwan in 1996. But as China's economy has grown, to become the world's second largest in 2010, a careful balance has been struck between political and security support for Taiwan, and growing trade and investment links with China.

Taiwan's actions have to be seen in accordance with US interests for there to be any involvement from Washington, and in the end it is the US president's discretion that counts

³² BBC News (2019), 'Xi Jinping says Taiwan 'must and will be' reunited with China'.

³³ A poll undertaken in Taiwan in 2016, for instance, showed that 66 per cent of respondents were opposed to reunification in the current circumstances, and 18 per cent in favour. See Chiu, Y. and Chin, J., 'Majority Reject Unification: Poll', *Taipei Times*, 31 May 2016, <http://www.taipetimes.com/News/front/archives/2016/05/31/2003647521> (accessed 30 Jan. 2019).

³⁴ The '1992 Consensus' states that both Taiwan and the PRC recognize that there is 'One China' but differ on their interpretation of what 'One China' means. The intricacies of this debate on the Taiwanese side are set out in '1992 Consensus: The Key to Cross Strait Peace and Prosperity', Mainland Affairs Council, [http://www.mac.gov.tw/public/MMO/MAC/摺頁-英\(定稿版\).pdf](http://www.mac.gov.tw/public/MMO/MAC/摺頁-英(定稿版).pdf) (accessed 30 Jan. 2019).

³⁵ Chung, L. (2019), 'Poll boost for Taiwan's President Tsai Ing-wen after tough stand against Beijing', *South China Morning Post*, 21 January 2019, <https://www.scmp.com/news/china/politics/article/2183001/poll-boost-taiwans-president-tsai-ing-wen-after-tough-stance> (accessed 13 Mar. 2019).

³⁶ US House of Congress, 'Taiwan Relations Act', 1979, at <https://www.congress.gov/bill/96th-congress/house-bill/2479> (accessed 30 Jan. 2019).

³⁷ The Third Taiwan Strait Crisis, in 1995–96, saw US deployment of two carrier battle groups to waters near Taiwan in response to a series of military exercises, including firing of missiles, conducted by China and targeted near Taiwan. This was the first major crisis in US–China relations since the formal transfer of diplomatic recognition in 1979.

US policy towards Taiwan acts as a protective framework within which Taipei can operate. It is an important guarantor, although it would be unwise for Taiwan to take it for granted. The formal position of the US, uniquely, is that it accepts that there is One China but has never stated how it interprets that. (Many countries recognize Beijing as the legitimate government of China but maintain unofficial relations with Taiwan.) This has created ambiguity for both the US and Taiwan. It means that the US has reason to remain involved in Taiwan affairs, but it can also be interpreted as engaging in what Beijing regards as its own domestic affairs. Despite this, the US – just like Taiwan – has a balance of interests, and does not want to be pulled in one direction or the other on this issue. It has therefore built strong links with both Taiwan and China.

Even before he took office, Trump, as president-elect, raised questions over, for instance, what the One China Policy is, and why the US maintains this ambiguity. Although he quickly retracted these expressions of doubt, this created huge nervousness in Beijing.³⁸ Tensions were compounded by Trump's telephone call with President Tsai at the end of 2016,³⁹ which broke the US convention, established in 1979, of there being no direct contact between the leaders of the two states. Beijing subsequently lodged a formal complaint.⁴⁰

These developments – although they raised Taiwan's profile internationally – were received with mixed feelings in Taipei. The increasingly hard line that the Trump administration has taken towards China has also created challenges for Taiwan. After all, China accounts for a large percentage of Taiwan's trade, and a sudden deterioration in its economy as a consequence of the current US–China trade war would have potentially far-reaching trade and political knock-on effects. Taiwan's security dependency on the US also leads it to reflect on its vulnerability should there be real conflict in the region. Its geographical location puts it in the direct firing line of any physical conflict involving China; but, more importantly, Taiwan has a high awareness that it cannot figure solely as a pawn in this 'great power' game. For the US, as is made clear by the Taiwan Relations Act, its own national interests come first. And it can never be assumed that these interests will be forever aligned with those of Taiwan.

Diversifying partners: the New Southbound Policy

The New Southbound Policy (NSP), a flagship initiative of President Tsai when she took office in 2016, is a strategic response to these evolving regional relations – and to Beijing's actions to restrict and close down Taiwan's international space. The NSP builds on the 'Go South' policies of previous administrations, and continues Taiwan's efforts to find a solution to the perennial problem of how to balance its economic interests – which depend so much on relations with China – with its security interests – which evidently do not. One notable difference is that the NSP takes a 'people-centric' approach that, in addition to economic collaboration, focuses on developing a shared identity between Taiwan and primarily its Southeast and South Asian neighbours.⁴¹ The aim is to forge

³⁸ 'Trump Questions then Honours 'One China' Policy', Reuters, 10 February 2017, <https://www.reuters.com/article/us-usa-trump-china-xi-timeline/timeline-trump-questions-then-honors-one-china-policy-idUSKBN15P00Q> (accessed 30 Jan. 2019).

³⁹ Trump's action in taking the call from Tsai marked the first time that a US president or president-elect had spoken directly with a Taiwanese president since 1979.

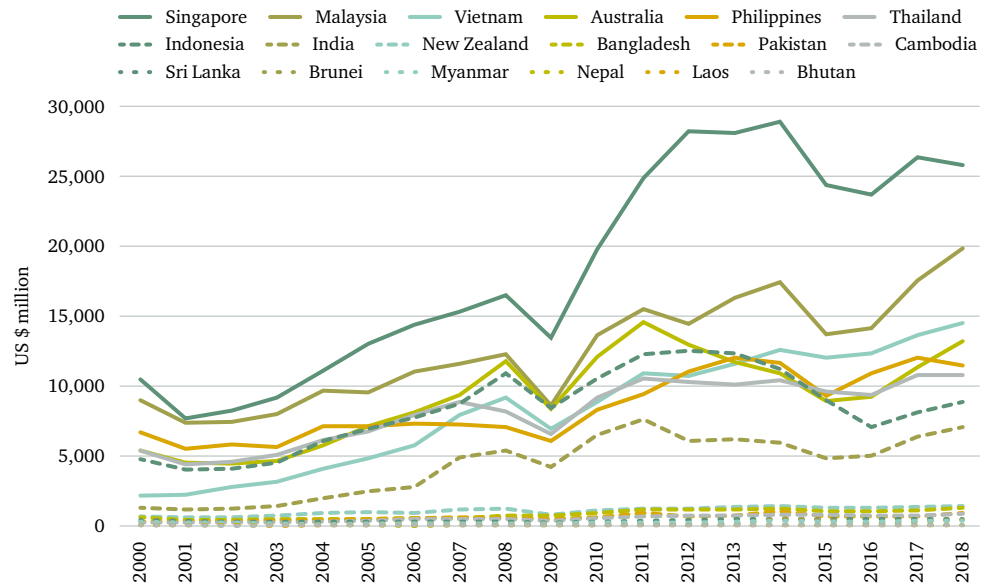
⁴⁰ Sevastopulo, D., Dyer, G. and Mitchell, T. (2016), 'China lodges formal protest after Donald Trump's Taiwan call', *Financial Times*, 3 December 2016, <https://www.ft.com/content/fd19907e-b8d4-11e6-961e-a1acd97f622d> (accessed 13 Mar. 2019).

⁴¹ The NSP's target countries are Australia, Bangladesh, Bhutan, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand and Vietnam.

links in sectors such as technology, innovation, healthcare, agriculture, culture and tourism. The NSP was allocated a budget of \$241 million in 2018, up from \$131 million in 2017.⁴²

Taiwan has made some progress under the NSP. For example, an updated bilateral investment agreement was signed with the Philippines in December 2017, and an updated bilateral investment protection treaty was concluded with India in December 2018. However, while Taiwan's exports to, and foreign direct investment in, target countries have increased, overall trade flows have remained relatively modest, and current levels of bilateral trade are generally not unprecedented (see Figure 1). And of course China looms large in international trade, offering strong competition. For Taiwan's potential partners, the challenge remains how to balance the potential benefits of NSP projects against any possible detrimental impact on relations with China.

Figure 1: Value of Taiwan's total trade in goods with NSP target countries (2000–18)*



* Including re-imports and re-exports.
Source: Bureau of Foreign Trade (2019), *Trade Statistics*, <https://cus93.trade.gov.tw/FSCE030F/FSCE030F> (accessed 14 Mar. 2019).

Taiwan's attempts to upgrade and diversify relations with regional partners are also a response to domestic demographic changes. Its population is ageing, and the country has one of the lowest birth rates in the world. Moreover, stagnant wages have been a major incentive for young Taiwanese to seek opportunities abroad. China in particular offers many of them better job opportunities and earnings potential. To further increase its attractiveness to Taiwan's companies and professionals, China's '31 Measures', launched in February 2018, ease restrictions for Taiwanese entities seeking to invest in China (specifically in those industries that were previously highly protected), and aim to allow equal educational and professional opportunities to

⁴² Marston, H. and Bush, R. C. (2018), 'Taiwan's engagement with Southeast Asia is making progress under the New Southbound Policy', Brookings, 30 July 2018, <https://www.brookings.edu/opinions/taiwans-engagement-with-southeast-asia-is-making-progress-under-the-new-southbound-policy/> (accessed 25 Jan. 2019).

migrants from Taiwan.⁴³ The new measures essentially allow them access to the same policies and benefits as their local counterparts. While this provides new opportunities and market access for Taiwanese businesses, it has also added to state concerns about accelerated losses of Taiwanese talent in the domestic labour force.

Demographic changes, coupled with the need to fill gaps in skilled labour, have meant that Taiwan has had to address the issue of immigration. There were estimated to be more than 700,000 foreign workers in Taiwan in late 2018; the majority come from NSP target countries in Southeast Asia, and are employed mainly as care workers, in factories or in construction. Although migrant workers have become an increasingly accepted part of Taiwanese society, they still frequently encounter barriers to social integration and also suffer discrimination – and, in some cases, are vulnerable to abuse of their safety and rights by their employers or employment agencies. Domestic public opinion divides between strong support for some forms of skilled immigration, but weak support for unskilled migrants and for those who come predominantly from Southeast Asia.⁴⁴ While changes to the Employment Service Act in November 2018 have led to some improvements in protection for migrant workers, including eligibility for paid leave and tougher rules and penalties for employers and employment agencies,⁴⁵ the NSP needs to do more to ensure more equitable treatment of Taiwan's existing Southeast Asian community and improve people-to-people interaction at this most basic level.

Recent amendments to the Nationality Act for the first time allow selected, highly qualified professionals the opportunity to obtain dual citizenship

The NSP may be heading in the right direction, but there remains a contradiction in its ambitions to build ties and forge a shared identity with Southeast Asia while often disregarding the social capital offered by the Southeast Asian community that already sits within its borders. The NSP has nevertheless been working to put policies in place to address some of the issues that it is facing with regard to immigration. The most radical shift has been the recent amendments to the Nationality Act, which for the first time allow selected, highly qualified professionals the opportunity to obtain dual citizenship.⁴⁶

The approval of a draft New Economic Immigration Law by the Executive Yuan in November 2018 is also indicative of the Tsai administration's efforts to realize the implicit narrative within the NSP of an open, dynamic relationship between Taiwan and its region. In addition to boosting recruitment of skilled professionals, the draft legislation should make it easier for mid-level technical personnel and foreign students to live and work in Taiwan as permanent residents.⁴⁷ Although not the same as granting citizenship, the new law represents a positive step forward, given that it includes provisions for the continued employment of migrant workers who have reached

⁴³ For an English translation of the '31 Measures', see Norton, J. and Barss, E. J. (2018), 'China's 31 Measures', East Asia Peace & Security Initiative, 24 May 2018, <https://www.eapasi.com/blogs1/china-31-measures> (accessed 14 Mar. 2019).

⁴⁴ This is according to data collated by Rich, T.S., 'How Taiwanese Think About Immigration', *The Diplomat*, 19 January 2019, at <https://thediplomat.com/2019/01/how-taiwanese-think-about-immigration/> (accessed 30 Jan. 2019). Rich's surveys showed that while 76 per cent supported the encouragement of skilled workers, this figure fell to 46 per cent when narrowed to skilled workers from Southeast Asia, and to 29 per cent for all forms of immigration with no specification of skill levels.

⁴⁵ Pelayo, M. 2018, 'Taiwan approves stringent measures to protect migrant workers' rights', UNTV News and Rescue, 27 November 2018, <https://www.untvweb.com/news/taiwan-approves-stringent-measures-to-protect-migrant-workers-rights/> (accessed 12 Dec. 2018).

⁴⁶ Taiwan Today (2017), 'MOI releases dual citizenship rules for foreign talents', 28 March 2017, <https://taiwantoday.tw/news.php?unit=2,6,10,15,18&post=113162> (accessed 18 Dec. 2018).

⁴⁷ National Development Council (2019), 'New Economic Immigration Bill', https://www.ndc.gov.tw/en/Content_List.aspx?n=999F9864EFDB5F6F&upn=6CE244D6E7DAF831 (accessed 14 Mar. 2019); Liu, M.C. (2018), 'New immigration act a positive step', *Taipei Times*, 22 May 2018, <http://www.taipetimes.com/News/editorials/archives/2018/05/22/2003693485/1> (accessed 18 Dec. 2018); Chuan, K. and Wang, F. (2018), 'Cabinet approves draft New Economic Immigration Law', Focus Taiwan, 29 November 2018, <http://focustaiwan.tw/news/aeco/201811290021.aspx> (accessed 18 Dec. 2018).

a medium-level qualification in industry and social care and have been employed in Taiwan for a period of six years.⁴⁸ The proposed changes would, at least, offer incentives and security to a group of people who work in key sectors from healthcare to retail and service industries. The law also offers a vision for what it means to be 'global Taiwanese' – Taiwanese of hybrid identity, and with roots reaching out not just into mainland China, but across and beyond the Asian region.⁴⁹

The NSP is a highly aspirational project. To implement it will take long-term commitment, and will require a reconceptualization of Taiwan's place in the world, and of its main trading and investment partners. And if immigration is to be encouraged, this will have a deep impact on national identity. Currently, 95 per cent of Taiwanese say they are of Han ethnicity (immigration in recent history has been overwhelmingly from mainland China), so this homogeneity – culturally, linguistically and ethnically – would be challenged. Finding new markets and trading partners has potential, but these are unlikely to grow at the rate that Taiwan would like to see in order to reduce its reliance on China.

Moreover, if it is to be successful, the NSP will need to be sustained across successive – and ideologically different – administrations. To counter the risk of the NSP figuring as the flagship of just one administration, only to be neglected by an eventual successor, Taiwan must make an institutional, cultural and political commitment – critically, with bipartisan support – for this policy to become a fundamental feature of Taiwanese economic life. With Taiwan's labour force having already shown itself to be adaptable to challenging economic circumstances, this is now a question of scale, and of just how fast, sustainably and pragmatically the aspirations underpinning the NSP can be achieved.

Taiwan's future: responding to a strategic dilemma

As the 2018 local elections have shown, the challenges facing Taiwan in terms of party affiliation, attitudes towards national identity, and reactions to social change have had increasingly complicated and unpredictable political outcomes. The fall of the DPP in Kaohsiung is a particularly dramatic example of how old lines of alliance are now disappearing. In this context, the present government – and its successors – will best meet the needs of the people of Taiwan by developing creative, imaginative and sustainable policies that can provide answers to people's security and economic concerns in a way that demonstrates how action on the one can help with the other. The era of neat party affiliations, with the kind of political messaging that this entailed, is clearly over. The greatest dilemma for Taiwan in this context is that China, its largest partner for growth and economic development, is also its most important strategic competitor and impediment. Meanwhile, the Trump presidency in the US has given rise to a complex set of opportunities and risks for the Tsai government. But the underlying structural issue remains. Taiwan is a *de facto* state that cannot refer to itself as such, and nor can others without immediate reprisals from Beijing. And the dynamics of nationalism in mainland China – with its own narratives of onward progress and renaissance – impinge on Taiwan's sense of agency by restricting its autonomy. Despite the Trump administration's current posture towards Beijing, Taiwan knows well the danger of misinterpreting Washington politics. Tsai herself has had direct experience of this: when visiting Washington as

⁴⁸ Chuan and Wang (2018), 'Cabinet approves draft New Economic Immigration Law'.

⁴⁹ See for instance, Berger, S. and Lester, R.K. (eds), *Global Taiwan: Building Competitive Strengths in a New International Economy*, Armonk, NY and London, M. E. Sharpe, 2005.

a presidential candidate in 2012, she was indirectly criticized by US officials for her position on cross-Strait relations – something she was careful to avoid on her second, successful run for the presidency four years later.⁵⁰ Today's open doors may be expected to close tomorrow. The fundamental security guarantee that the US offers to Taiwan can never be something to be complacent about.

President Xi may seem all-powerful from certain perspectives, but in reality he too is subservient to China's domestic politics. Falling consumer confidence and slower growth are likely to intensify the nationalist trope of the Communist Party's messaging. On a rational calculation, however, Beijing would be risking far too much geopolitically by ratcheting up cross-Strait tensions. Any kind of military action against Taiwan would do incalculable damage to China's international image, and could well be met by some form of international response premised on the assessment that China's rise is indeed a threat to global peace and security. For a China that is so economically dependent on positive relations with the wider world, this would be a massive setback and might prove fatal for the Communist Party's grip on power.

In different ways, therefore, Xi and Tsai are heirs to the strategic ambiguity inherited from previous generations of leaders. In Beijing, Xi is custodian of the conviction that the Taiwan issue needs to be resolved through reunification in a Greater China – a near-mythical mission. Taiwan's leaders, meanwhile, have cleaved to the notion that they too would have legitimate rights over a reunified Greater China. Given her political background in the DPP, President Tsai does not of course subscribe to this view. But she has had to deal with the constant obfuscation of the language of the '1992 Consensus', and the blurring of boundaries so that the incendiary red line of declaring Taiwan independent can be avoided.

Conclusion

Changing regional dynamics have rendered the preservation of the status quo in Taiwan much harder. It is important to bear in mind, however, that the Trump presidency is finite, and a wholly different US approach may have emerged by the time he leaves office. Despite the volatility in Trump's approach, there nonetheless remains a strong sense that US primacy hinges on its role in the Asia-Pacific. The underlying structural commitments of US security and foreign policy therefore remain unchanged, and Taiwan can work within these and act to support them.

That means not antagonizing a China that externally looks strong but internally has major economic and political problems. Taiwan's leaders cannot stray far from the approach that they have painstakingly created over the last 40 years. It is in Taiwan's interests to continue to convey to China, as well as to the US, the costs in terms of reputation and geopolitical standing that China would incur should it attempt any military move on Taiwan.

Taiwan is now entering a period of major readjustment. The NSP, if it does prove sustainable, will involve a still relatively homogeneous society embracing increased levels of immigration and openness to the outside world. It will mean crafting a new

⁵⁰ See Jacobs, A. (2012), 'Former US Diplomat Rattles Taiwan Before Election,' *New York Times*, 13 January 2012, <https://www.nytimes.com/2012/01/14/world/asia/former-united-states-envoy-remarks-cause-uproar-in-taiwan.html> (accessed 30 Jan. 2019).

narrative that sees Taiwan as a part of Southeast Asia just as much as of the Greater China area. That will bring cultural and social challenges requiring clear, supportive leadership. Taiwan's emerging generation of leaders will need to embody this new outlook and speak about it with conviction. It is in the NSP's interests that it exists as more than a slogan, and both the potential costs and successes of its implementation will have to be recognized and planned for.

The 2020 elections are already shaping up to be a combative and competitive process. The KMT, until only recently written off, will be encouraged by its performance at the 2018 local elections. Meanwhile, the DPP will be aware it cannot be complacent, and potential challengers to Tsai have already started to emerge. In the context of the aspirations of Xi's China, the state of relations between Beijing and Washington, and the very fluid situation in the region and globally, 2020 is a real opportunity for Taiwan to showcase the robustness of its young democracy and demonstrate that it can meet the challenges of an increasingly complex domestic and external situation. The stakes are high. But so are the potential rewards.

About the authors

Professor Kerry Brown is an associate fellow with the Asia-Pacific Programme at Chatham House, where he previously worked as a senior fellow and then head of the Asia Programme from 2006–12. He is also professor of Chinese studies and director of the Lau China Institute at King's College London. From 2012 until 2015 he was professor of Chinese politics and director of the China Studies Centre at the University of Sydney. From 1998 to 2005 he worked at the UK Foreign and Commonwealth Office. He has a MA from the University of Cambridge, and a PhD from the University of Leeds.

Chloe Sageman is senior manager of the Asia-Pacific Programme at Chatham House, working on a range of projects relating mainly to East Asia. She has worked at Chatham House since 2011, and holds degrees from the University of Oxford and University College London.

Acknowledgments

The authors would like to thank the Taipei Representative Office in the UK for its support for this publication and the Asia-Pacific Programme's wider project work on Taiwan, which included a roundtable in London in April 2018 and a research trip to Taipei in September 2018. They would also like to thank the peer reviewers of the draft text, and Roderic Wye for his support throughout the project.

Chatham House, the Royal Institute of International Affairs, is a world-leading policy institute based in London. Our mission is to help governments and societies build a sustainably secure, prosperous and just world.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical including photocopying, recording or any information storage or retrieval system, without the prior written permission of the copyright holder. Please direct all enquiries to the publishers.

Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author(s).

Copyright © The Royal Institute of International Affairs, 2019

Cover image: The Taipei 101 building stands in the centre of an aerial photograph of Taipei, on 30 March 2019.

Copyright © Bloomberg/Contributor/Getty

ISBN 978 1 78413 321 4

Typeset by Soapbox, www.soapbox.co.uk

This publication is printed on recycled paper.