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## Taiwan's Gamble: The Cross-Strait Rapprochement and its Implications for U.S. Policy

POLICY BRIEF



By Abraham M. Denmark and Richard Fontaine

When President Obama visited Beijing in November 2009, he highlighted several issues of mutual interest and concern: climate change, the global economic crisis, Afghanistan, Pakistan, Iran, and North Korea. While the American media closely scrutinized the president's trip, they missed the proverbial "dog that didn't bark." In a remarkable change from past presidential visits, Taiwan was not a major issue of contention. In official statements, both sides reiterated rather perfunctorily their commitment to the status quo and moved on to more pressing matters.

This change can be credited directly to the remarkable cross-Strait rapprochement that has occurred in the 18 months since President Ma Ying-jeou took office and launched a dramatic reorientation of Taiwan's policy toward mainland China.<sup>1</sup> President Ma's government has aggressively pursued rapprochement with Beijing and the mainland has reacted favorably. The changes in policy thus far – and the future trajectory of relations between Taipei and Beijing – hold the potential to fundamentally alter cross-Strait dynamics.

Although relaxation of cross-Strait tensions could inaugurate a new era of stability and prosperity, it contains elements of risk. Increased economic integration between Taiwan and Beijing will necessarily challenge Taipei's autonomy and hand the mainland a potentially potent instrument of influence over the island. China's ongoing military modernization efforts will continue to change cross-Strait military balances, irrespective of the larger political rapprochement. And domestic politics in Taiwan will challenge the long-term sustainability of this new approach: President Ma will have to demonstrate tangible benefits for Taiwan in order to fend off criticism from pro-independence elements, including the Democratic Progressive Party (DPP). Already, recent victories in local elections have reenergized some elements of the DPP, and the emergence of a new, "Pan-Green" coalition government could spell the end for a vigorous, Ma-like outreach to the mainland.

It is time for U.S. policies toward China and Taiwan to adapt to this rapidly changing cross-Strait environment. As relations between Taipei and Beijing turn many long-standing U.S. assumptions on their heads, Washington must adopt new policies that encourage responsible stewardship of the cross-Strait relationship. Specifically, the United States should take steps to support the current rapprochement, demonstrate that rapprochement holds tangible benefits for Taiwan, and assist Taipei in mitigating the risks inherent in its chosen course.

## TAIPEI'S NEW STRATEGY

President Ma has articulated a new grand strategy that recognizes hard realities about geography, China's expanding economic and political power, and Taipei's growing military gap with the mainland. As a senior foreign policy official in Taipei recently explained to delegates from the Center for a New American Security, Taiwan is an important economic power – nearly in the top ten of America's largest trading partners – with a capable military and a vibrant democracy. Yet, positioned just 90 miles off the Chinese coast, Taiwan carries less geopolitical weight than it would elsewhere. As a result, Taipei must be “humble” in its foreign policy and conscious of the relative weight of its giant neighbor.

Taipei's responsible stewardship of the cross-Strait relationship represents the core of Ma's grand strategy. The Kuomintang (KMT) government recognizes that it cannot compete with the mainland in terms of economic might, military power, or international influence. But by building on its strengths – including its durable relationships with the United States and Japan – and by seeking opportunities for cooperation with the People's Republic of China (PRC), officials from Taiwan believe they can preserve the island's autonomy, tame the mainland, and reap economic benefits. They also believe that closer relations with Beijing, including trade and investment ties, hold the key to improved relations with the rest of the region and beyond.

Taiwan's new strategy of engagement reflects an increasing recognition that China's growing military, economic, and diplomatic power has outpaced (and will continue to outpace) any attempts by Taipei to match it. Though the independence-minded “Pan-Green” coalition is deeply unsettled by Ma's new posture toward the mainland, even the DPP leadership cannot envision retreating to a policy of isolation and provocation. While KMT leaders continue to press for deeper engagement with Beijing,

however, they also hope to hedge their bets, for both political and practical reasons. While pursuing greater economic integration with the mainland, for instance, they also desire stronger economic ties with the United States, Japan, and other countries, including the Association of Southeast Asian (ASEAN) nations. Taipei also wishes to maintain robust defensive capabilities through continued arms purchases and military reforms. KMT leaders have prioritized economic over political issues in the cross-Strait dialogue and underscored that Taiwan's sovereignty is not on the table.

President Ma's overriding goal, backed by overwhelming popular support, is to preserve the political status quo in Taiwan: *de facto*, but not *de jure*, independence. During eight years of Democratic Progressive Party (DPP) rule, Taipei strained its relationship with the United States and deepened cross-Strait animosity by pursuing symbolic expressions of independence. In stark contrast, President Ma's “three No's” (no independence, no unification, and no use of force), and his oft-repeated promise of “no surprises” for Washington, represents a new style of leadership and a new set of policies.

Taiwan's outreach to the mainland has reduced the risk of conflict and produced tangible results for the people of Taiwan. Since Ma's inauguration in May 2008, Taiwan and the PRC have expanded air, sea, and postal links; boosted tourism to Taiwan; and collaborated on cross-Strait judicial and crime-fighting measures. Taiwan also relaxed restrictions on investment from the mainland, while China dropped objections to Taiwan's participation in the World Health Assembly. The two sides are currently negotiating a series of pacts covering finance, securities, and insurance supervision (current laws prevent Chinese investment in these areas) as well as the Economic Cooperation Framework Agreement (ECFA). Thus far, U.S. policy makers, both in the final days of the Bush administration and in the nascent Obama

administration, have expressed support for Taiwan's approach to relations with the mainland.

### **The Centrality of Economics**

Economics, not the military balance, now stands at the center of Taiwan's strategy and of the cross-Strait relationship. This new emphasis on economics has contributed to a cross-Strait dynamic that is less zero sum and confrontational than at any time in recent memory, driving both sides to take a longer-term view as they seek enduring advantage and influence.

Beijing's motivation for rapprochement appears rooted in its need for a stable environment that will permit sustained economic development; a war over Taiwan could cut short China's rise. In 2005, the PRC passed an Anti-Secession law that, while widely denounced in Taiwan, shifted Beijing's focus away from achieving unification with the island and toward preventing *de jure* independence.<sup>2</sup> Since then, Beijing appears to have concluded that belligerent behavior towards Taiwan only helps independence-seeking groups gain political traction on the island.

Taiwan desires expanded economic links with the mainland in order to bolster its own economic development. China is already Taiwan's largest trading partner and the destination of 40 percent of its exports, a figure likely to grow with enhanced economic ties. While President Chen Shui-bian and the DPP attempted to restrict cross-Strait contact and trade, President Ma has argued that doing so restricts Taiwan's economic growth – a view that has resonated in a year in which Taiwan's GDP contracted by an expected four percent and unemployment rates hit a record six percent high.<sup>3</sup> Ma's government has moved ahead with policies that relax prohibitions on cross-Strait trade, investment, and tourism.

Top officials in Taipei also view increased economic links with the mainland as a vehicle through which they can participate in regional economic integration

and maintain Taiwan's status as an economic power. In light of a free trade agreement between the PRC and the ten ASEAN nations that will go into effect in 2010, Taipei hopes to use Economic Cooperation Framework Agreement (ECFA) as a way to avoid being left out of enhanced regional trade. Taiwan officials are counting on ECFA to demonstrate to potential trade partners that Beijing does not shy away from freer trade with Taiwan and that increased commerce with the island will not jeopardize ties to the PRC.

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Yet Taipei's ability to leverage ECFA and reach trade agreements with other governments is by no means assured. In the past, China has explicitly opposed efforts by other nations to pursue free trade agreements with Taiwan, and it is unknown whether Beijing will change its position. Moreover, the United States, to paraphrase one of Taiwan's key economic officials, is not in a “free trade-minded phase” at the moment, and has not moved ahead with other key pacts – to say nothing of a potential deal with Taiwan.

### **Military Strategy**

While economic policy dominates current cross-Strait relations, the military backdrop is ever-present. And while Taipei has placed a large bet on rapprochement with China, it has not abandoned its desire for a robust defense posture. Taiwan defense planners recognize that the island is now unable to match the mainland in quantitative military terms, and officials are skeptical about whether the United States would come to Taiwan's defense during a conflict. Fifteen years ago, Taiwan enjoyed a formidable qualitative military advantage over the mainland,

and the PRC's rather primitive naval and air capabilities encouraged a sense of confidence in Taipei and Washington. This advantage has eroded. Even if the United States were to intervene militarily, Taiwan's security in the event of a Chinese attack is no longer assured.<sup>4</sup> In light of these realities, officials in Taipei repeatedly emphasize the need for a strong defense to deter the mainland and to strengthen Taiwan's hand in cross-Strait negotiations.

Taiwan's current defense strategy combines layered defenses against air and sea attacks, with the goal of preventing successful Chinese landings on the island. It also emphasizes measures such as increasing the army's mobility, hardening critical infrastructure, and enhancing military professionalism by transitioning to an all-volunteer force. To defend against a possible Chinese maritime threat, some military leaders in Taiwan have proposed employing asymmetrical capabilities such as land-based anti-ship missiles, sea mines, and fast boats. They view Chinese forces as particularly vulnerable at coastal assembly points and have expressed a keen interest in acquiring expensive U.S. systems such as submarines and F-16 aircraft. Taipei has also stated a desire to purchase additional Patriot Advanced Capability-3 (PAC-3) anti-missile batteries and to link into a regional U.S.-Japanese-South Korean-Australian missile defense system (though the PRC's arsenal of over 1,000 missiles opposite Taiwan could likely overwhelm any such missile defenses).

The Taiwan Relations Act requires the United States to provide the island with the military capabilities necessary for its self defense. Consistent with this requirement, the United States last year proceeded with its first arms sales to Taiwan in seven years. The package, which included Apache helicopters and missiles, did not fulfill Taipei's request for some 66 F-16 aircraft. Though they hold significant military utility, such arms sales also represent an important expression of U.S. support for Taiwan and a key

political symbol on both sides of the Strait.

To resist coercion from the mainland, Taiwan must consider the most efficient ways to structure its defense assets. Pound for pound, Taiwan cannot stand up to the PRC, but it can employ tactics aimed at preventing an invasion and making any operation – be it missile attack or blockade – a difficult and costly venture. Recent developments, such as the introduction of a Quadrennial Defense Review (QDR) for Taiwan, and renewed attention to asymmetric capabilities, suggest that Taiwan's strategists recognize this new military reality.

### RISKS AND REWARDS OF A CROSS-STRAIT RAPPROCHEMENT

A relaxation of tensions between Taiwan and China reduces the chances of conflict or instability in the Taiwan Strait. The rapprochement supports America's constant effort to maintain good relations with each and allows differences over Taiwan to consume less time and attention on the very crowded Washington-Beijing bilateral agenda. Nonetheless, Taiwan's new orientation carries risks for both Taipei and Washington.

Taipei officials are rightly concerned that economic interdependence with China will be asymmetrical. China could soon be the destination for more than half of all of Taiwan's exports, while Taiwan would make up just a small fraction of Chinese trade. This asymmetry opens the door for Beijing to use economic policy as an instrument of foreign policy during a future crisis. By reducing trade and investment, restricting Chinese tourists from visiting Taiwan, or eliminating cross-Strait flights, Beijing could significantly disrupt Taiwan's economy without threatening its own. In this sense, ECFA and other agreements could hand Beijing a potent non-military tool of coercion.



China may already be employing economic power to serve its foreign policy interests. When the Taiwan government approved the DPP's invitation for the Dalai Lama to visit the island, a number of Chinese tour groups cancelled their trips to pro-independence areas of southern Taiwan – despite the fact that President Ma declined to meet with the exiled Tibetan. In a democracy like Taiwan's, such moves may result in domestic political pressure on the government to avoid steps that might offend Beijing. Indeed, the Ma government subsequently refused a request from U.S.-based Uighur activist Rebiya Kedeer – considered a “terrorist” by Beijing – to visit Taiwan. This move was widely interpreted as an effort to preserve cross-Strait relations, including upcoming trade negotiations.

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In addition, Taiwan's current assumptions about the island's ability to expand trade with others via ECFA may not hold. Trade talks between Washington and Taipei may resume later this year after resolving the long-standing issue of beef imports, but it is unclear how far these talks will go. If Taiwan concludes an agreement with the mainland without completing similar agreements with other nations, achievement of the KMT's economic policy could come at the expense of Taiwan's freedom of action. This danger illustrates the importance of a U.S. effort to expand its own trade relations with Taiwan.

For now, Taipei remains cautiously optimistic about its future. Although there will be ongoing challenges for this small island, the people of Taiwan are

confident that they can get closer to the mainland without becoming part of it. In the end, officials explain, Taiwan's sovereignty is only a matter of will – the will to resist attacks on its autonomy and civil liberties in pursuit of other objectives, to stand up for its democratic system, and to fight on its soil should the need arise.

Both Taipei and Beijing appear to believe that time is on their respective side. Chinese officials hold that increased integration will undermine any remaining pro-independence sentiment on the island and slowly, but steadily, draw Taiwan into its orbit. Taipei, meanwhile, is confident that ties with China will prompt change on the mainland and not the other way around. KMT officials see strong potential for democratization on the mainland in response to economic change. In this sense, then, Taiwan has made the same bet on Chinese evolution that successive American administrations have made: that strong economic and diplomatic engagement represents the best way to spur responsible Chinese international behavior and domestic reforms by China.

## POLICY RECOMMENDATIONS FOR WASHINGTON

U.S. policy must adapt to the opportunities and risks inherent in President Ma's new strategy. While supporting the cross-Strait rapprochement, American policy makers should work to mitigate its potentially negative effects. Washington should demonstrate tangible support for Taipei's responsible stewardship of the cross-Strait relationship in three key areas to show that stability and pragmatism bring benefits. These recommendations do not constitute an exhaustive list, nor do they add up to a comprehensive policy approach to Taiwan. They do, however, represent an important first step toward adjusting U.S. policy to match current and future realities.

***Expand trade relations with Taiwan and lend diplomatic support to countries (such as ASEAN nations) seeking to do the same.***

As Taiwan's economy becomes increasingly interconnected with that of the mainland, the United States should encourage Taiwan's emergence as an important regional and international trading partner. Washington would thus help mitigate the possibility that Beijing will use its overwhelming economic influence over Taiwan as an instrument of foreign policy.

***Continue arms sales to Taiwan and help analyze its defense posture in a changing military and diplomatic environment, as part of Taipei's QDR process.***

As China and Taiwan continue their rapprochement, some in Washington will be tempted to forego further arms sales out of the calculation that (for the moment) the potential for conflict is low and that arms sales will only rile Beijing. Yet, in addition to remaining faithful to the Taiwan Relations Act, arms sales are exactly the kind of positive inducements Washington can provide to Taiwan for its responsible stewardship of cross-strait relations – especially as China's military deployments continue apace despite the rapprochement. Moreover, arms sales have an importance beyond their military utility; they demonstrate a tangible American political commitment to Taiwan.

U.S. efforts to contribute to Taiwan's self defense should also evolve to reflect the challenges posed by China's continuing military modernization and buildup. U.S. Assistant Secretary of Defense Chip Gregson has called for Taiwan to "seek out areas of asymmetric advantage," explaining that "asymmetry will not replace a layered defense or defeat PRC forces, but it can deter them from fully employing the advanced weapons they are developing and undermine their effectiveness." He has called for maneuverable weapons systems that make use of

deception and camouflage, and the hardening of Taiwan's defenses.<sup>5</sup> Yet U.S. arms approved for sale to Taiwan (F-16s in particular) may not further Taiwan's asymmetric advantages, given the mainland's expanding air capabilities. While current commitments for arms sales should be maintained, future sales agreements should be concluded with an asymmetric strategy in mind.

Achieving asymmetric capabilities requires more than simply purchasing new weapons. It involves developing new doctrine and tactics aimed at undermining an attacker's strategy and exploiting its vulnerabilities. Addressing these issues is a long-term problem that deserves long-term analysis and close consultation. Taiwan's next QDR should be released in 2013, which gives Taipei and Washington plenty of time to establish a joint analysis group to plan for Taiwan's defense in light of contemporary financial, political, and military realities. The United States should push for the establishment of such a group and insist that it review how any new emphasis on asymmetric capabilities in Taiwan should affect arms sales that are already in process.

***Plan appropriate high-level visits and express political support.***

The United States and China both possess a significant interest in demonstrating to the people of Taiwan that Taipei's responsible stewardship of the cross-strait relationship brings benefits. While economic development and military interactions are important, high-level visits and official expressions of support from Washington will be essential in tangibly demonstrating those benefits. While Beijing may initially object to such activities, the temporary discomfort they induce would be greatly outweighed by the likely positive effects on Taipei's efforts to continue the overall cross-strait relaxation.

## BEIJING'S ROLE

Between now and 2012, Taipei and Beijing share a common goal – getting Ma Ying-jeou re-elected as president. The mainland fears a return of the DPP and its efforts to establish Taiwan's *de jure* independence. It viewed Ma's predecessor, the DPP's Chen Shui-bian, as an irresponsible and unpredictable actor who fomented instability in the cross-Strait relationship. This fact gives Taiwan leverage and China an incentive to support Ma's strategy of rapprochement.

China has in the past demonstrated the ability to moderate its actions to affect domestic politics inside Taiwan. The mainland apparently learned from its mistakes in 2000, when its belligerence helped the pro-independence DPP come to power. Beijing took a different tack in 2008. Though its anxiety was probably equal to that of 2000, its rhetoric was more moderate and clearly calibrated to not provoke a pro-independence reaction in Taiwan.

President Ma's responsible stewardship of the cross-Strait relationship benefits China's interests, as stability and predictability in Taipei's actions allow Beijing to pursue economic and cultural initiatives it believes will tie Taiwan more closely to the mainland. Yet Chinese efforts to consolidate its bonds to Taiwan, combined with Beijing's objections to other countries taking similar steps, may well provoke a reaction in Taipei. As a result, China must give the United States and the rest of the region political space to engage Taiwan or face the possibility of undermining its own objectives. As Beijing improves its ties with Taiwan, it will need to accept the reality that other countries will seek to confer on Taipei benefits that make the mainland uncomfortable, such as new economic agreements and high-level American visitors. Ideally, Beijing would see such steps as in its enlightened self-interest, as they will help leaders in Taipei justify to their constituents a moderate approach to the mainland.

## CONCLUSION

As China's economic, political, and military power increases, the United States will be increasingly pressed to develop policies that fulfill its commitments to Taiwan while recognizing Beijing's rising importance. America's cross-Strait policy remains based on a tangled and complex web of decades-old doctrine, law, and joint statements. Washington should take care that its adherence to traditional policy mantras does not reduce its ability to respond to contemporary policy developments.

Taiwan is attempting to deal with China's rise by employing a sophisticated strategy designed to engage the mainland while carving out an autonomous role for itself. Central to this strategy is Taipei's determination that stewardship of the cross-Strait relationship will give it political room to economically engage the mainland, the United States, and other countries across the Asia-Pacific region. Washington should recognize that this stance, and the stability it has brought, serves American interests and support it. President Ma has taken a large political gamble in instituting the cross-Strait rapprochement and Washington should adjust its strategy to ensure that his responsible stewardship can continue.

At the same time, support for rapprochement cannot be the sum total of American policy. As described above, the new focus on economic relations also increases the potential for Beijing to constrain Taiwan's freedom of action. In order to put the rapprochement on sustainable footing, the United States should take affirmative steps – including the expansion of trade ties, exploring new approaches to Taiwan's defense, and conferring political support – to mitigate the potentially coercive effects of Beijing's embrace.

As it does so, the United States will have to play a delicate game, balancing interests in productive relations with a rising China with the desire to remain

on good terms with the small democracy in Taiwan. While the U.S.-China relationship may be as significant as any other, Taiwan represents an important and highly visible test of America's commitment to its democratic friends around the world. Taipei's new strategy, though risky, has the potential to change the dynamics of the cross-Strait relationship and inaugurate a new era of stability and prosperity in both China and Taiwan. The United States should seize the unique opportunity to contribute to the rapprochement's success.

#### Author Biographies

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#### Endnotes

1. A delegation from the Center for a New American Security travelled to Taiwan in October 2009, where they discussed the issues in this paper extensively with senior officials.
2. Ralph Cossa, "Much Ado about China's Anti-Secession Law," *Asia Times* (5 March 2005), at <http://www.atimes.com/atimes/China/GC05Ad02.html>
3. "Factbox-Key Facts about Taiwan's Economy," Reuters (19 October 2009).
4. See David A. Shlapak et al., *A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute* (Santa Monica, CA: RAND, 2009); and William S. Murray, "Revisiting Taiwan's defense strategy," *Naval War College Review* 61 (Summer 2008): 13-38.
5. Wallace Gregson, "Remarks to the U.S.-Taiwan Business Council Defense Industry Conference," (28 September 2009).

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