

# TAIWAN BETWEEN XI AND TRUMP

## ABOUT

The Chinese have long been obsessed with strategic culture, power balances and geopolitical shifts. Academic institutions, think-tanks, journals and web-based debates are growing in number and quality, giving China's foreign policy breadth and depth.

*China Analysis* introduces European audiences to these debates inside China's expert and think-tank world and helps the European policy community understand how China's leadership thinks about domestic and foreign policy issues. While freedom of expression and information remain restricted in China's media, these published sources and debates provide an important way of understanding emerging trends within China.

Each issue of *China Analysis* focuses on a specific theme and draws mainly on Chinese mainland sources. However, it also monitors content in Chinese-language publications from Hong Kong and Taiwan, which occasionally include news and analysis that is not published in the mainland and reflects the diversity of Chinese thinking.

### Introduction

by Mathieu Duchâtel

It would be an enormous mistake to overlook the key importance of Taiwan for China's security policy – and to ignore the sense of urgency that currently prevails in Beijing regarding domestic trends inside Taiwan. Between 2008 and 2016, the accommodative policies of President Ma Ying-jeou in Taiwan led to so much stability in cross-strait relations that the Taiwan issue disappeared from the radar screens of most politicians and security analysts. This was to the relief of many in Europe to whom Taiwan constitutes an irritant in European Union–China relations. It represents Europe's democratic values made manifest but complicates the EU's strategic imperative to avoid challenging China on its core interests.

The Taiwan issue is making a comeback because of democratic politics on the island. In January 2016, Tsai Ing-wen, of the pro-independence Democratic Progressive Party (DPP), was elected president of Taiwan. For the first time in history, her party also secured a majority in the Legislative Yuan. President Xi Jinping has described cross-strait relations under the new DPP administration in the following way: “when the foundations are not stable, the earth moves and the mountains shake” (基礎不牢，地動山搖, *jichubulao, didongshanyao*). The earth has not yet shaken, but the potential for a new crisis in the Taiwan Strait is slowly building up.

Tsai is no novice in cross-strait politics. She accumulated

considerable government experience as a senior policy adviser and a trade negotiator in the 1990s. Under the presidency of Chen Shui-bian (2000-08), she led the Mainland Affairs Council, the ministry-level agency that develops and implements Taiwan's cross-strait policies. Because of this record, and simply because the DPP Charter calls for the establishment of a Republic of Taiwan, Beijing views her as a pro-independence figure.

But Tsai is no Chen Shui-bian. Her policy platform does not include the search for formal independence. She believes in a separate Taiwanese national identity, but in that she is in line with mainstream public opinion on the island, as all polls consistently indicate. Most importantly, she has learned lessons from Chen's brinkmanship. Her main conclusion is to avoid surprises and refrain from openly challenging Chinese red lines. Strategic surprises killed trust in United States-Taiwan relations, and gave Beijing ample space to increase pressure on Taiwan. This 'no surprise' approach explains the Tsai administration's mortified reaction after President-elect Donald Trump tweeted he had spoken on the phone with the Taiwanese president. Taipei wanted the substance but not the publicity, and Trump's tweet was not part of the script.

The articles in this issue of China Analysis reveal how little space the Tsai administration has to implement its priorities – all of which are domestic. She was elected on a platform of increasing salaries and improving social justice. The central message of her campaign was that Taiwan's domestic problems would not be solved simply by more integration with mainland China, a message exactly opposite to the platform of rival Kuomintang.

China will not reward this low-key and non-provocative approach. In fact, China has a strategic stake in Tsai's rapid failure and in the long-term weakening of the DPP. Tactically, the aim is to shape an environment that will ensure the victory of the Kuomintang at the 2020 presidential and legislative elections. To achieve that goal, China relies on coercion. But the sticks are softer than one could have anticipated. The diplomatic truce is over, but China is in no hurry to establish formal ties with the 21 states that still recognise Taiwan. China is placing invisible restrictions on tourism from the mainland, but visitors from south-east Asia have already made up for the losses of the Taiwanese tourist industry. The interruption of official communication channels does not seem to have affected the Tsai administration's plans, as this had been anticipated in advance. The People's Liberation Army is signalling its displeasure, including by sending the Liaoning aircraft-carrier to the east coast of Taiwan for the first time – where its air power could play a role in a war. But the PLA has yet to initiate actions that would dramatically increase pressure on Taiwan. It seems that China is waiting for the Kuomintang to overcome its leadership crisis before it restarts visible coordination with the opposition party and adds more carrots to the

policy mix. With more carrots could also come more sticks.

Optimists argue that China's 19th Party Congress this autumn will open a brief window of opportunity for the two sides to bridge their differences and find a mutually acceptable formula to initiate talks. There have been persistent rumours that Beijing might quietly drop its insistence on a recognition by Taipei of the 1992 Consensus as a precondition to talks, and replace it by an even vaguer acknowledgement that there is only 'one China'. But this is highly improbable. Even if communication channels resumed, China would try to use them to deepen economic and human integration, while the DPP would try to use them to neutralise Chinese hostility.

The most probable scenario is therefore one of incremental coercion; to slowly turn up the heat on the DPP. In this regard, the 19th Party Congress will be a moment of truth. After a long debate in the early 2000s, Chinese strategists concluded that it would be counter-productive to set a deadline for unification with Taiwan. As a result, the Anti-Secession Law adopted in 2005, which codified the use of "non-peaceful means", does not include a timeline. But this debate has now been reopened. If China opts for a deadline, be it 2021 – the 100th anniversary of the foundation of the Communist Party of China – or 2049 – the 100th anniversary of the foundation of the People's Republic of China, a crisis will be extremely difficult to avoid.

This leaves Taiwan having to rely on the Trump administration and US extended deterrence. On that front, the signals are mixed. Washington no longer stresses democracy and liberal values in foreign policy, which is a bad thing for Taiwan. The new administration's transactional approach to China policy is confirmed by its new emphasis on refraining from labelling China a currency manipulator if China is more helpful on North Korea (an approach which might lead Trump to conclude that the transactional approach is not necessarily effective). This has reignited the structural fear in Taiwan that the island could be used as a bargaining chip in a greater US-China game. At the same time, Trump might soon authorise a new arms sales package to Taiwan, which is sure to generate tensions with China. It will take months before US policy on Taiwan becomes predictable, if it ever does.

More instability in the US-China-Taiwan triangle may make the EU's stated goal to "explore launching negotiations on investment with Taiwan" more challenging. But it should still be pursued in connection to the EU's ongoing change of approach on investment relations with China. For Europe, Taiwan is not leverage to be used to extract better deals from China, but a partner with which economic, cultural, and social interactions have the space to deepen.

## How does China perceive cross-strait relations under Trump?

Jessica Drun and Vincent Wang

On 20 May 2016, eight years of warming cross-strait ties suddenly cooled. In her inauguration address, President Tsai Ing-wen vowed to maintain the status quo in Taiwan's relations with China, but avoided direct mention of the 1992 Consensus – a formulation for cross-strait relations that Beijing holds as the threshold for sustaining official dialogue between the two sides, as was the case in the previous administration under Kuomintang (KMT) president Ma Ying-jeou.<sup>1</sup> In addition to the election of Tsai in Taiwan and China's reaction to her Democratic Progressive Party (DPP) government, the uncertainty around the new American president, Donald Trump, further complicates the triangular relationship between the United States, Taiwan, and China. This article will examine the emerging trends in cross-strait relations, focusing in particular on China's perception of its current strategic environment vis-à-vis Taiwan and the policies it enacts with regard to the island.

### The current cross-strait configuration

Following Tsai's inauguration, cross-strait communication mechanisms came to a halt. An Fengshan, spokesperson for the Taiwan Affairs Office (TAO) of the State Council of the People's Republic of China, explicitly stated in a press conference that the suspension of official communication mechanisms, both officially through the TAO and Taiwan's Mainland Affairs Council and semi-officially through the Association for Relations Across the Taiwan Straits and the Straits Exchange Foundation, is a direct result of the Tsai administration's refusal to accept the 1992 Consensus.<sup>2</sup> He emphasised that the 1992 Consensus has always been the basis for cross-strait exchanges and that it was the Taiwan side – under the new Tsai administration – that had shaken this foundation. Of note, there appear to be emergency mechanisms for these channels in place, as official contact was temporarily restored following a bus crash that killed 24 Chinese tourists in Taiwan in July 2016.<sup>3</sup>

1 In a retelling of the origins of the 1992 Consensus, the Taiwan Affairs Office (TAO) of the State Council of the People's Republic of China (PRC) emphasised that Taiwan's Straits Exchange Foundation offered an interpretation of the 'One China' principle on its own accord. In regard to the political realities of 'One China', however, TAO accepted the contradictions both sides faced in order to "seek common ground, while preserving differences." Furthermore, TAO noted that the ultimate goal of the 'One China' principle is both sides working toward unification. See: The Taiwan Affairs Office of the State Council PRC, "The Origins of the 92 Consensus" ("九二共识"的由来, *Jiuer Gongshi de youlai*), 2 July 2016, available at [http://www.gwytb.gov.cn/wyly/201607/t20160712\\_11506678.htm](http://www.gwytb.gov.cn/wyly/201607/t20160712_11506678.htm).

2 An Fengshan, "TAO: Taiwan Side Responsible for Causing Termination in Cross-strait Communication Mechanism" (国台办: 导致两岸联系沟通机制停摆的责任完全在台湾一方, *Guotaiiban: Daozhi liangan lianxi goutong jizhi tingbai de zeren wanquan zai Taiwan yifang*), TAO, 29 June 2016, available at [http://www.gwytb.gov.cn/wyly/201606/t20160629\\_11495074.htm](http://www.gwytb.gov.cn/wyly/201606/t20160629_11495074.htm).

3 Wen Ye, "TAO Initiates Cross-strait Emergency Response Mechanism in Response to Mainland Tourist Accident" (国台办针对大陆游客车祸启动涉台突发事件应急处理机制), *Guotaiiban zhendui dalu youke chehuo qidong shetai tufa shijian yingji chuli jizhi*, *Xinhua*, 19 July 2016, available at [http://news.xinhuanet.com/tw/2016-07/19/c\\_1119243833.htm](http://news.xinhuanet.com/tw/2016-07/19/c_1119243833.htm).

At the same time China began a more concerted effort to pressure Taiwan in the international arena. Taiwan was excluded from the September 2017 assembly meeting of the International Civil Aviation Organization – a United Nations specialised agency – despite attending three years prior as a "special guest" and commended domestically as a success for the then Ma administration. The organisers cited the UN's 'One China' policy for refusing Taiwan.<sup>4</sup> This marked an escalation from China's actions in the lead-up to Tsai's inauguration, signalling what was at stake for Taiwan if Tsai did not accept the 1992 Consensus. It followed the case of Taiwan's delayed invitation to last year's World Health Assembly (WHA) which included, for the first time, mention of 'One China' and UN Resolution 2758.<sup>5</sup> Taiwan also saw the termination of relations with São Tomé and Príncipe when the latter accepted Beijing's offer to establish formal ties in December 2016 – a move many attributed to China's discontent with Taiwan over the Trump-Tsai call. As in the WHA case, this was a step further from China's

### In 2016, China began a more concerted effort to pressure Taiwan in the international arena.

Taiwan – and that China can exert a greater degree of such pressure to drive home its intentions, particularly as there remain UN organisation meetings in which there is precedent for Taiwan to attend as an observer. In addition, there are rumours coming from Taipei that at least five of its diplomatic allies had intended to switch recognition to the PRC during the Ma presidency, but were turned down out of Beijing's tacit adherence to Ma's "diplomatic truce" (外交休兵, *waijiao xiubing*) of not poaching the other's diplomatic allies.<sup>7</sup> The truce was terminated with São Tomé

move to establish relations with Gambia in March 2016 – a country that at that point in time had no diplomatic relations with either China or Taiwan.<sup>6</sup>

These incidents highlight the range of options in China's toolkit to exert pressure on

4 Lin Feng, "Taiwan Snubbed by ICAO, Under Pressure from China," *Voice of Asia*, 23 September 2016, available at: <http://www.voanews.com/a/taiwan-snubbed-icao-pressure-china/3522841.html>.

5 Taiwan's invitation to the 2016 World Health Assembly meeting was delayed, raising fears in Taiwan that the island would be banned from participating in the UN specialised agency as an observer for the first time since it was permitted to attend in 2009. The invitation was eventually received after a two-month delay and with a clause in the text that for the first time explicitly referenced 'One China' and UN Resolution 2758, which recognised the PRC as the sole representative of China and expelled the Republic of China. Chinese officials stressed that Taiwan's participation in organisations in which sovereignty is a requirement is a "special arrangement" based on adherence to the 1992 Consensus. See: Wang Ping, "When facing '1992 Consensus', Tsai Ing-wen Cannot Continue Pretending to be Asleep" (面对“九二共识”蔡英文不能再装睡, *Miandui Jiuer Gongshi Cai Yingwen buneng zhai zhuangshui*), *Renmingwang*, 9 May 2016, available at [http://paper.people.com.cn/rmrbhwb/html/2016-05/09/content\\_1677386.htm](http://paper.people.com.cn/rmrbhwb/html/2016-05/09/content_1677386.htm).

6 Gambia had unexpectedly severed ties with Taipei in 2013, having diplomatic relations with neither the ROC nor the PRC for two and a half years. Gambia was purported to have sought formal relations with Beijing, but the latter placed greater emphasis on its relationship with Taipei and respect for Ma Ying-jeou's "diplomatic truce". Consequently, the Gambia case presented a unique opportunity for China. While Beijing no longer honored the truce in formalising ties with Gambia in March 2016, it did not actively pursue the African country and compel it to de-recognise Taiwan. Thus, China was able to posture breaking the truce while falling short of doing so. See: Jessica Drun, "China-Taiwan Diplomatic Truce Holds Despite Gambia", *The Diplomat*, 29 March 2014, available at <http://thediplomat.com/2014/03/china-taiwan-diplomatic-truce-holds-despite-gambia/>.

7 Hannah Beech, "Poor Panama. China's Just Not That Into You", *Time*, 13 May 2011, available at: <http://world.time.com/2011/05/13/poor-panama-chinas-not-interested/>; Lucy Hornby and Luc Cohen, "No ties? No Problem as China Courts Taiwan's Remaining Allies," *Reuters*, 6 August 2013, available at <http://www.reuters.com/article/us-china-centralamerica-idUSBRE97514C20130806>.

and Príncipe, and China appears readily poised to court Taiwan's remaining 21 diplomatic allies.<sup>8</sup>

At the same time, it is important to note that China's approach to engaging Taiwan has matured since the tense Chen years of the 2000s. The overall relationship has become more intricate and more deeply integrated. As such, Beijing has found and maintained informal channels with targeted groups in Taiwan in order to stay abreast of the island's breadth of viewpoints. There is now a certain understanding of its pluralistic society. Beijing seeks to provide incentives for these actors to mobilise against the current administration and eventually elect a party or candidate more willing to engage with China. Consequently, it has employed other avenues of engagement in lieu of formal ties with Taipei.

### China's informal approaches to Taiwan under Tsai

#### United Front work

The United Front department's rhetoric of standing firm against Taiwan independence and de-Sinicisation (去中化, *quzhonghua*) and to promote shared Chinese culture is often echoed by Chinese scholars.<sup>9</sup> Despite this firm belief in a shared culture, many in China remain wary that the DPP and Taiwan in general will move toward de-Sinicisation. An op-ed in the People's Daily overseas edition noted Tsai's impending chairmanship of Taiwan's General Association of Chinese Culture (GACC), an institution used to promote Chinese culture. The author, Zhang Mo, sees this as a further push by Tsai and the DPP to de-Sinicise Taiwan.<sup>10</sup> While some have speculated that Tsai wants to utilise the

GACC as a platform to engage with Beijing on the level of the central government, Zhang believes Beijing is unlikely to respond in kind, as the "foundation for cross-strait dialogue has been lost."

#### KMT-CCP party-to-party

In November 2016, Chinese president Xi Jinping met with KMT chair Hung Hsiu-chu. During their conversation, Xi reiterated the importance of the 1992 Consensus and, relatedly, opposition to Taiwan independence, as China's bottom line for cross-strait economic development and cultural exchanges.<sup>11</sup> This framework was likewise emphasised in the December 2016 meeting between the Chinese Communist Party-KMT.<sup>12</sup> The readout of the meeting highlighted these exchanges as an "important platform for both parties to acclimatise to the new political situation and create new exchange opportunities."<sup>13</sup> Party-to-party talks represent a means for Beijing to convey to Taiwan its sustained and continued interest in "securing the peaceful development of both sides of the Taiwan Strait." By engaging the KMT and highlighting distrust in the DPP, Beijing believes the Taiwan public will blame any deterioration in cross-strait relations on the ruling party and further cement the KMT's role as Beijing's interlocutor of choice. Additionally, by engaging the KMT when it is out of power – and not the DPP through official channels – China is signalling that only through the KMT can relations with Beijing improve.

#### Local level exchanges

Beijing has made a concerted effort to 'divide and conquer' Taiwan through local-level exchanges conducted at the city and county levels. Beijing is clear in distinguishing between 'pan-blue' and 'pan-green' districts, seeking to offer opportunities to localities led by KMT officials, in particular economic incentives, people-to-people contacts, and access to Chinese government officials.<sup>14</sup> Yu Zhengsheng, chair of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), drove this point home to a delegation of county and city officials from Taiwan, stressing that districts that recognise the "true nature of cross-strait relations" following the 1992 Consensus will be "warmly received." Numerous KMT-led districts have therefore acknowledged the 1992 Consensus and enhanced cooperative mechanisms with Chinese counterparts. Conversely, the opposite also appears to be true, with China limiting opportunities for DPP-led areas.<sup>15</sup> Again, China is

8 At a Chinese foreign ministry press conference, a reporter asked the spokesperson if the establishment of diplomatic ties with São Tomé and Príncipe meant the end of the "diplomatic truce". Given that China has never formally accepted the truce (only tacitly through its actions), the spokesperson was consistent and careful in her response, not directly mentioning China's position on the "diplomatic truce", but stressing adherence to the 'One China' principle as the bottom line for China's relations with other countries, reiterating that Taiwan is an inalienable part of China, and noting that São Tomé and Príncipe's move to break relations with Taiwan "embodies recognition of the 'One China' principle." Notably, the language coming out of the foreign ministry contrasts with statements out of China following Gambia's termination of relations with Taiwan in 2013. The spokesperson for the foreign ministry took on a softer tone, simply emphasising 'One China' and peaceful unification. The shift in tone demonstrates how China's views regarding Taiwan's diplomatic allies differ based on the Taiwan leadership's approach to the 1992 Consensus and 'One China'. Following São Tomé and Príncipe's switch, a Huanqiu Shibao editorial called on the mainland to "completely shave off" Taiwan's diplomatic efforts and "not leave any one of the remaining 21 allies left under the DPP administration." See: Hua Chunying, "21 December 2016 Ministry of Foreign Affairs spokesperson Hua Chunying Holds a Press Conference" (2016年12月21日外交部发言人华春莹主持例行记者会, *Erlingyiliu nian shier yue ershiyi ri waijiaobu fayanren huachunying zhuci lingxing jizhehui*), PRC Ministry of Foreign Affairs, 21 December 2016, available at: [http://www.fmprc.gov.cn/web/fyrbt\\_673021/t1425931.shtml](http://www.fmprc.gov.cn/web/fyrbt_673021/t1425931.shtml); Hong Lei, "15 November 2013 MFA Spokesperson Hong Lei Holds a Press Conference" (2013年11月15日外交部发言人洪磊主持例行记者会, *Erlingyisan nian shiyi yue shiwu ri waijiaobu fayanren honglei zhuci lingxing jizhehui*), PRC Ministry of Foreign Affairs, 15 November 2013, available at: <http://www.fmprc.gov.cn/ce/cemx/chn/fyrth/t1099519.htm>; *Huanqiu Shibao*, "DPP Will Lose All of Taiwan's Allies" (民进党将输得台湾“邦交国”一个不剩, *Mingjingdang jiang shude taiwan bangjiaoguo yige bushing*), *Huanqiu shibao*, 26 December 2016, available at <http://opinion.huanqiu.com/editorial/2016-12/9864770.html>.

9 Zang Han, "Liu Guosheng: Need to Use Greater Wisdom to Deal with Cross-strait Relations" (刘国深: 用更大的智慧处理两岸关系, *Liu Guosheng: Yong gendade zhihui chuli liangan guanxi*), *China Review News Agency*, 26 November 2016, available at: <http://bj.cmnt.com/doc/1044/8/0/6/104480693.html?coluid=1&kindid=0&docid=104480693&mdate=1126003508>. Hereafter: Zang Han, "Liu Guosheng: Need to Use Greater Wisdom to Deal with Cross-strait Relations." At a 'Chinese Culture Forum' in November 2016, Liu Guosheng, director of Xiamen University's Taiwan Research Institute, emphasised that, despite political differences, both sides of the strait share "the same last names, the same ancestors, and the same philosophical outlooks on life."

10 Zhang Mo, "Green Camp Obtaining GACC to De-Sinicise" (绿营要取了“中华”去中华?, *Luying yao que zhonghua qu zhonghua*) *Renminwang*, 20 February 2017, available at [http://paper.people.com.cn/rmrbwhw/html/2017-02/20/content\\_1751510.htm](http://paper.people.com.cn/rmrbwhw/html/2017-02/20/content_1751510.htm). Zhang Mo is a columnist at People's Daily.

11 Chen Jianxing, "General Secretary Xi Jinping Meets KMT Chair Hung Hsiu-chu" (习近平总书记会见中国国民党主席洪秀柱, *Xi Jinping zongshuji huijian zhongguo guomindang zhuxi hong xiuzhu*), *Xinhuanet*, 1 November 2016, available at [http://news.xinhuanet.com/politics/2016-11/01/c\\_1119830924.htm](http://news.xinhuanet.com/politics/2016-11/01/c_1119830924.htm). Hereafter: Chen Jianxing, "General Secretary Xi Jinping Meets KMT Chair Hung Hsiu-chu."

12 Szechuan Taiwan Affairs Office, "Vice Minister Long Mingbiao: Policy Targeted at Taiwan will Not Change" (龙明彪副主任: 对台方针政策不会改变, *Long mingbiao fuzhuren: Duitai fenzhen zhengce buhui gaibian*) 3 November, 2016, available at [http://www.gwytb.gov.cn/newsb/201611/t20161103\\_11612771.htm](http://www.gwytb.gov.cn/newsb/201611/t20161103_11612771.htm).

13 Liu Huan, "KMT-CCP Dialogue Takes Place in Beijing" (国共两党对话交流活动在京举办, *Guogong liangdang duihua jiaoliu huodong zaijing juban*) *Xinhuanet*, 23 December 2016, available at [http://news.xinhuanet.com/tw/2016-12/23/c\\_1120178346.htm](http://news.xinhuanet.com/tw/2016-12/23/c_1120178346.htm).

14 Szechuan Taiwan Affairs Office.

15 Zhao Fu, "Yu Zhengsheng Meets Delegation of Taiwan County and City Leaders" (俞

aiming to generate political capital for ‘pan-blue’ politicians, providing greater legitimacy for these officials as they look to future Taiwan elections, while at the same time further constraining the DPP on the cross-strait front.

### Taiwan’s youth

With the rise of a stronger ‘Taiwanese’ identity and shifting view on ‘China’ in Taiwan, Beijing is keeping a closer watch on future generations in Taiwan.<sup>16</sup> Beijing understands that, while some students and youth have stronger feelings about their identities, it believes that others may be persuaded to see ‘Chinese’ and ‘Taiwanese’ identities not as mutually exclusive, but as complementary.<sup>17</sup> However, some scholars, like Dang Chaosheng, a fellow at the Chinese Academy of Social Sciences Institute of Taiwan Studies (ITS), are more negative about the identity trend away from a ‘Chinese’ identity and warns against the increased localisation of Taiwan politics. Dang points to the race for the next KMT chair and some candidates’ unwillingness to explicitly speak out against Taiwan independence.<sup>18</sup> The fear that a younger generation of political leaders is moving even further away from the ‘One China’ principle has led to an increased effort in youth outreach. In both the Xi-Hung meeting and in the 2017 CPPCC work report, Beijing emphasised the need to continue to strengthen engagement with Taiwan’s younger generation. Beijing is aware of the stagnant economic conditions in Taiwan, especially for its youth, and seeks to entice them with economic incentives such as employment and entrepreneurial opportunities.<sup>19</sup> Such people-to-people exchanges may either lead to a shift in the identity construction of younger generations or help tie Taiwan’s economic conditions to an acceptance of the 1992 Consensus and ‘One China’ principle. Though there are an increasing number of young people studying and working on the mainland, such engagement may not be successful in the long run. Nevertheless, this still shows China’s awareness and attempts at reaching out to the younger generation and seeking to reconcile differences in identity.

### Taishang

Of all the current avenues of engagement, the deepest and most impactful relationship is with Taiwan businesspeople (or *Taishang*) operating on the mainland. Many *Taishang*

have been working in China since the 1980s, have long-standing ties to local party leaders in China, and see the uncertainty and deterioration of communication across the strait as bad for business. The CCP is aware of this and has been currying favour with *Taishang* willing to follow their line, especially back in Taiwan. However, those suspected of supporting Tsai or the DPP have been labelled ‘green’ and subject to pressure and harassment from mainland authorities, similar to that which the Hai Pa Wang International Group – a *Taishang* business with ties to Tsai’s family – experienced in December 2016.<sup>20</sup> Zhang emphasised that, as long as the ‘One China’ principle is maintained, policy toward *Taishang* or their businesses will not change, and the CCP will continue to ensure the rights of *Taishang* on

**Wang Jianming believes that Tsai miscalculated US intentions and signals, and that she needs to recognise that.**

the mainland. Zhang hints that *Taishang* can and should help convince people in Taiwan of the benefits of supporting the 1992 Consensus.<sup>21</sup>

### The Trump factor

Beijing has approached the Trump administration with circumspection and patience, waiting to get a better read on the president’s positions on China and in separating his rhetoric from actual policy. They realised that, while Trump took a phonecall from Tsai, he nevertheless reached out to Beijing via former secretary of state Henry Kissinger.<sup>22</sup> However, the Chinese leadership is willing to deploy available tools in its large arsenal against Taiwan. There was a shift following the Trump-Tsai call, with a more concerted effort to punish Taiwan for its “little sly move” in initiating the call.<sup>23</sup> For many, Taiwan is the non-negotiable bottom line in the US-China relationship and some commentators and National People’s Congress delegates have called for a quicker move towards reunification – by force, if necessary.<sup>24</sup> While Beijing was reassured following Trump’s acceptance of the United States’ ‘One China’ Policy, China’s actions against Taiwan shows that its toolkit is malleable.

<sup>16</sup> 正声会见台湾县市长参访团, *Yu zhengsheng huijian taiwan xianshizhang canfangtuan*, *Xinhua*, 18 September 2016, available at [http://news.xinhuanet.com/politics/2016-09/18/c\\_1119580235.htm](http://news.xinhuanet.com/politics/2016-09/18/c_1119580235.htm).

<sup>17</sup> Election Study Center, “Taiwanese/Chinese Identification Trend Distribution in Taiwan” (臺灣民眾臺灣人/中國人認同趨勢分佈, *Taiwan mingzhong taiwanren/zhongguoren rentong qushi fengxi*), National Chengchi University, 12 January 2017, available at <http://esc.nccu.edu.tw/app/news.php?Sn=166>.

<sup>18</sup> Zang Han, “Liu Guosheng: Need to Use Greater Wisdom to Deal with Cross-strait Relations.”

<sup>19</sup> Dang Chaosheng, “KMT Chair Election Must Give People Hope of Winning” (國民黨主席選舉應給人贏的希望, *Guomingdang zhuxi xuanju ying geren yingde xiwang*), China Huayi Broadcast Corporation, 26 January 2017, available at [http://www.chbnet.com/zips/content/2017-01/26/content\\_1278825.htm](http://www.chbnet.com/zips/content/2017-01/26/content_1278825.htm). Dang Chaosheng is a fellow at the Chinese Academy of Social Sciences Institute of Taiwan Studies.

<sup>20</sup> Chen Jianxing, “General Secretary Xi Jinping Meets KMT Chair Hung Hsiu-chu”; Chinese People’s Political Consultative Conference, “12th CPPCC, 5th Plenum Opening, Yu Zhengsheng Delivers Work Report” (全國政協十二屆五次會議開幕 俞正聲作政協工作報告, *Quanguo zhengxie shierjie wuci huiyi kaimu yuzhengsheng zuo zhengxie gongzuo baogao*, 3 March 2017, available at [http://www.china.com.cn/cppcc/2017-03/03/content\\_40402411.htm](http://www.china.com.cn/cppcc/2017-03/03/content_40402411.htm).

<sup>21</sup> *China Review News*, “Opinion: Investigating Taiwan Enterprises May Not Be Suppression; Must Pay the Price for Supporting Independence” (快評: 台企被查未必是打壓 挺獨肯定需付代價, *Kuai ping: Taiqi beicha waibishi daya tingdu kending xufu daijia*), 2 December 2016, available at [bj.cmnt.com/doc/7\\_0\\_104491299\\_1\\_1202003740.html](http://bj.cmnt.com/doc/7_0_104491299_1_1202003740.html).

<sup>22</sup> Zhang Zhijun, “Zhang Zhijun’s Address to the Association of Taiwan Investment Enterprises on the mainland’s 2017 Spring Festival Banquet” (張志軍在全國台企聯2017年新春聯誼活動上的致辭, *Zhang zhijun zai quanguo taiqilian 2017nian xinchun lianyi huodongshang de zhici*), *Zhongguo Taiwanwang*, 20 February 2017, available at [http://www.taiwan.cn/xwzx/ja/201702/t20170220\\_11703096.htm](http://www.taiwan.cn/xwzx/ja/201702/t20170220_11703096.htm). Zhang Zhijun is Minister of the Taiwan Affairs Office of the State Council, PRC.

<sup>23</sup> Lee Zhonghua, “Trump and Tsai Cross Red Line, Should We Just Quietly Stand By?” (特朗普蔡英文越紅線 難道還要咱們陪笑臉, *Telangu caiingwen yuehongxian nandao haiyao zamen pei xiaolian*) *Sina News*, 7 December 2016, available at <http://news.sina.com.cn/c/nd/2016-12-07/doc-ifyhwy0885732.shtml>. Hereafter: Lee Zhonghua, “Trump and Tsai Cross Red Line, Should We Just Quietly Stand By?” Lee Zhonghua is a senior editor for CCTV’s *Live Newsroom*.

<sup>24</sup> Wang Yi, “Wang Yi Answers Reporter Question on Trump-Tsai Call” (王毅就特朗普同蔡英文通話回答記者提問, *Wangyi jiu telangu tong caiyingwen tong dianhua huida jizhe tiwen*), PRC Ministry of Foreign Affairs, 3 December 2016, available at <http://www.fmprc.gov.cn/web/zyxw/t1421115.shtml>.

<sup>25</sup> Lee Zhonghua, “Trump and Tsai Cross Red Line, Should We Just Quietly Stand By?”; Chen Junyuan and Chen Boting, “Mainland Advocates Reunification Law, Creates ‘Visible Hand’ Toward Taiwan” (陸倡統一法 對台形塑「有形之手」, *Luchang tongyifa duitai xingsu youxing zhi shou*), *China Times*, 16 October 2016, available at <http://www.chinatimes.com/cn/newspapers/20161016000328-260108>. Comments were made by Li Yihu, dean of Peking University’s Taiwan Studies Institute and a delegate to the National People’s Congress.

Wang Jianmin, also a fellow at ITS, has interpreted Trump's reaffirmation of the US 'One China' Policy as a warning to the Tsai administration's "Taiwan independence adventure."<sup>25</sup> He believes that Tsai miscalculated US intentions and signals that she needs to recognise that. Wang believes that the Trump-Xi call may make Tsai a bit more cautious and move to better cross-strait relations. Despite the Trump-Xi call, Wang believes that Beijing should remain cautious, especially on US arms sales to Taiwan, which could bring Trump's businessman side out of him.

Thus, the Trump factor adds an interesting layer to current cross-strait dynamics, but seems to apply less to how China positions itself in navigating the intricate web of vested actors in Taiwan and more to potential avenues of reactive responses aimed at Tsai and through clever diplomatic manoeuvring against an unconventional administration in Washington. Beijing reserves the option to apply a greater degree of pressure on the above-mentioned fronts – further squeezing Taiwan's international space and withholding economic benefits – when US-Taiwan relations are veering away from what it views as the norm, such as the Trump-Tsai call, and in efforts to secure 'a deal' with Washington that is conducive to its interests.

## Conclusion

In essence, China has a wide range of available tools to apply pressure on the Tsai administration and Taiwan more broadly. How it uses these tools is dependent on its assessment of cross-strait relations and domestic issues in Taiwan, and, to a lesser extent, the triangular relationship between Washington, Beijing, and Taipei.

Perhaps the most important element on Taiwan's domestic front is the state of the KMT and the feasibility of that party coming back to power. China's Taiwan-watchers have remained cautiously optimistic about the KMT winning the 2018 local elections or 2020 presidential election. Liu Guosheng, of Xiamen University's Taiwan Research Institute, notes that if Beijing wishes to resolve tensions peacefully it must "consider the feelings" of those in Taiwan, and convince them that cooperation "within the current political realities" can be beneficial for the people of Taiwan.<sup>26</sup> Thus, it appears that China's preference remains to help the KMT to victory and engage with the KMT for a peaceful solution of cross-strait issues in the future. However, it has nevertheless maintained its right to the use of force – a point that was once again driven home with the recent revelation that China has deployed the Dongfeng 16 missile.<sup>27</sup>

<sup>25</sup> Ya Jun, "Trump Emphasises 'One China' policy," Taiwan Netizens Sarcastically Claim DPP Excitement Over" (特朗普强调“一中政策”，台网友讽民进党“自嗨结束了”，*Telangu qiangdiao 'yizhongzhenche,' taiwangyou fong mingjingdang jihai jieshu le*), *Cankao Xiaoxiwan*, 10 February 2017, available at <http://ihl.cankaoxiaoxi.com/2017/0210/1678787.shtml>.

<sup>26</sup> Ibid.

<sup>27</sup> Hsieh Chia-jen, "Defence Ministry Confirms PLA Targeting Taiwan with DF-16 Missiles" (國防部證實 共軍部署對台東風16飛彈, *Guofanbu zhenshi gongjun bushu duitai dongfeng shiliu feidan*), *Central News Agency – Taiwan*, 20 March, 2017, available at <http://www.cna.com.tw/news/firstnews/201703200048-1.aspx>.

Meanwhile, Tsai Ing-wen and the DPP have remained committed to their promise of maintaining the status quo. For example, some Chinese scholars have noted that Tsai began to use "mainland" or "mainland China" instead of just "China" throughout 2016. To them, this is a sign of goodwill and a step in a positive direction.<sup>28</sup> However, without the Tsai government's explicit acceptance of the 1992 Consensus and 'One China' principle, communication and official mechanisms at the central government level will remain closed, and any remaining exchanges between China and Taiwan are relegated to the channels detailed here.

<sup>28</sup> Zang Han, "Liu Guosheng: Need to Use Greater Wisdom to Deal with Cross-strait Relations."

## Cross-strait relations under Trump: A view from Taiwan

Yevgen Sautin

This article examines the prospects for cross-strait relations between mainland China and Taiwan from the perspective of Taipei. Although President Tsai Ing-wen and the Democratic Progressive Party (DPP) secured a strong electoral mandate for their cross-strait policies, implementing them has proved to be difficult. A deterioration in cross-strait relations coupled with growing economic and social dissatisfaction among the Taiwanese has given the opposition Kuomintang (KMT) new hope for electoral success. Despite the KMT's improved prospects, the party continues to be deeply divided over China. It sees Donald Trump as a potential complicating factor in an already difficult political balancing act. From the perspective of most Taiwan experts, although cross-strait relations between mainland China and Taiwan improved significantly under the previous administration of President Ma Ying-jeou, the long-term dynamics do not appear to favour Taiwan.<sup>29</sup>

Taiwan's economy is heavily reliant on trade with China, leaving it vulnerable to its large neighbour's economic vicissitudes and political pressure. While Beijing is providing tax breaks and other incentives to attract Taiwanese businesses, at the same time it is deterring neighbouring states from entering free-trade agreements with Taipei, furthering Taiwan's dependence on China. Feeling squeezed, Tsai has called for a "New Southbound Policy" to expand trade and people-to-people contacts with south-east Asia in addition to boosting innovation in key sectors such as biotech, defence, and green energy.<sup>30</sup> Despite her rhetoric, growth has stagnated and even her supporters admit that it would take years for the new policies to bear fruit.<sup>31</sup> Taiwan's growing economic dependence on China comes as the island is feeling increasingly isolated in the international arena. Only 20 United Nations member states and the Holy See have full diplomatic relations with Taiwan; with the exception of the Vatican, the countries that recognise Taiwan have limited diplomatic clout. The list would be even shorter if Beijing ends the informal "diplomatic truce" where it has refrained from enticing the remaining states from switching their recognition to the People's Republic of China.<sup>32</sup> Taiwan's ability to participate in international institutions has also been curtailed by its

ambiguous international status. The Trump factor only adds to this uncertainty.

### The DPP's cross-strait policy

Beijing reacted negatively to Tsai's failure to recognise the 1992 Consensus and affirm the 'One China' principle; Tsai's 'four noes' were interpreted as a creeping move towards Taiwanese independence.<sup>33</sup> As a result, Beijing froze official contacts with Taipei. According to Zhang Yushao, a DPP-aligned academic and a member of the "Cross-strait Policy Association" (兩岸政策協會, *liang'an zhengce xiehui*), Tsai had to rethink the cross-strait relationship when the DPP came to power.<sup>34</sup> Tsai has moderated her position vis-à-vis mainland China by emphasising the importance of cross-strait cooperation and she has attempted to strike a more conciliatory tone by referring to China as "mainland China". But Tsai faces opposition from more radical elements inside the DPP and the growing "third force movement" (第三勢力, *disanshili*), which is popular among Taiwan's youth and which calls for pro-independence (台獨, *taidu*) policies.

Zhang would like Tsai and the DPP to maximise the use of Taiwan's soft power to help resolve the current cross-strait impasse."

Zhang would like Tsai and the DPP to maximise the use of Taiwan's soft power to help resolve the current cross-strait impasse. In his opinion, Taiwan's greatest assets are: its strong individual rights and liberties; the

intellectual and political legacy of China's revolutionary founding father Sun Yat-sen's "Three Principles of the People" (三民主義, *sanminzhuyi*); and traditional Chinese culture. Interestingly, Zhang sees Sun Yat-sen's third principle of People's livelihood (民生主義, *minshengzhuyi*) in particular as a means for mainland China to better discuss growing income inequality and matters regarding the broader social compact between the people and the Chinese Communist Party. Zhang worries that the government has so far failed to formulate a long-term strategy that recognises the importance of shared historical and cultural values. He hopes the DPP will build more unofficial contacts with Beijing.

Since the suspension of official relations between Beijing and Taipei, the importance of think-tanks and academic institutions related to cross-strait affairs has greatly increased. Such bodies have traditionally been an important conduit for backchannel diplomacy. In December 2016, Taiwanese media devoted significant attention to statements made by Zhou Zhihui, the current head of the influential Chinese Academy of Social Sciences

29 Yang Weiren, "Trump's One China crisis has given Taiwan a revelation" (川普的「一中風暴」給台灣的啟示, *chuanpu de [yizhongfengbao] gei taiwan de qishi*), *Apple Daily*, 16 December 2016, available at <http://www.appledaily.com.tw/appledaily/article/headline/20161216/37487218/>.

30 For more details see Antoine Bondaz's article in this issue.

31 Zhang Yushao, "The DPP's crossstrait policy should emphasise soft power" (張宇韶: 民進黨的兩岸政策, 應着重軟實力攻勢策略, *zhang yushao minjindang de liang'an zhengce. ying zhuzhong ruanshili gongshi celue*), *The Initium*, 14 February 2017, available at <https://theinitium.com/article/20170214-opinion-changyushao-tsaisof-power/>. Hereafter: Zhang Yushao, "The DPP's cross-strait policy should emphasise soft power."

32 In December 2016, São Tomé and Príncipe announced that it was switching its recognition from the Republic of China to the People's Republic of China. This was widely interpreted as a warning from Beijing to Taipei.

33 "We promise to not change [no amending of the ROC constitution], our good will [towards the Mainland] will not change, we will also not yield to pressure, will not revert to old confrontation."

34 Zhang Yushao, "The DPP's cross-strait policy should emphasise soft power."

Institute of Taiwan Studies (ITS).<sup>35</sup> Speaking at an academic gathering of cross-strait experts, Zhou suggested that a “substitute” could be found for the 1992 Consensus as long as it recognised the ‘One China’ principle.<sup>36</sup> Although it is far from certain that the DPP government could devise an alternative that would be satisfactory both to Beijing and its political base, the comment made by Zhou was seen by some Taiwanese analysts as evidence that the mainland is willing to compromise.

While Tsai has recalibrated her rhetoric, other developments in Taiwan continue to be viewed with suspicion by Beijing. Chinese media warned Taiwan not to “exploit” the commemoration of the 70th anniversary of the February 28 Massacre and the recent debate about “DeChiangification” (去蔣化, *qujianghua*) has also been seen as an attempt to undermine the historical basis for eventual unification. One of Taiwan’s biggest magazines, *Wealth Magazine* (財訊, *caixun*), succinctly laid out some of the concerns shared by the Chinese leadership in regard to Taiwan: from Beijing’s perspective, the Republic of China constitutional framework that currently proscribes Taiwanese independence rests on shaky ground. Tsai’s promises to not amend the constitution notwithstanding, there are multiple potential mechanisms (such as a popular referendum or judicial appeal) that could establish the legal basis for Taiwanese independence and upend the status quo.<sup>37</sup> Furthermore, growing cooperation with Tokyo and rumours of a major arms deal with the new Trump administration are sure to harden Beijing’s views.

### The KMT’s dilemma

The KMT’s defeat in last year’s election was of seismic proportions. In addition to losing the presidential election by 25 percentage points, the KMT lost control of the Legislative Yuan for the first time in history. Since the election, the party has been undergoing an intense debate about its future, which is overshadowed by uncertainty around how relations with mainland China should progress. Due to the growing unpopularity of the current DPP government (largely due to domestic reasons), the KMT is optimistic about its prospects in the local elections in 2018. Currently attention is focused on the upcoming party chair election in May. One of the hopefuls, the controversial erstwhile KMT presidential candidate, Hung Hsiu-chu, has been sharply critical of Tsai and has called for moving towards unification, which the previous KMT Ma administration did not support.<sup>38</sup> The other five candidates have not been as radical in their views on cross-strait relations. There is speculation that the party may reassess its position after

35 Zhou is also the executive vice-president of Mainland China’s National Society of Taiwan Studies.

36 See “Parsing Signals from the 2016 Academic Forum of Cross-Strait Think Tanks” by Jessica Drun and Yevgen Sautin, *Global Taiwan*, 18 January 2017, available at <http://globaltaiwan.org/2017/01/18-gtb-2-3/#DrunSautin011817>.

37 Gao Damei, “Xi Jinping’s New Taiwan Strategy Revealed: Pressure the US to discuss ‘One China’, quickly change personnel internally” (習近平對台新戰略 3月亮底牌 對外施壓美國談一中 對內火速調整人事, *Xi jīnpíng duì Tāiwān zhānlüè 3 yuè liàngdǐpái: duìwài shīyā měiguó tán yìzhōng, duìnèi huósù tiáozhèng rénshì*), *Wealth Magazine*, 2 March 2017, available at [http://www.wealth.com.tw/article\\_in.aspx?nid=9924&pg=1](http://www.wealth.com.tw/article_in.aspx?nid=9924&pg=1).

38 Zhang Yushao, “The DPP’s cross-strait policy should emphasise soft power.”

the chair election, as was done in 2005 following the DPP’s victory then.

For their part, the Chinese authorities have made it no secret that they prefer working with the KMT. In the same speech discussed above, Zhou Zhihui was keen to emphasise that, in addition to continued adherence to the ‘One China’ principle, the two sides must not dismiss or devalue the historic role of the KMT in forging cross-strait relations, particularly during the previous Ma administration. Such praise is a double-edged sword for the KMT. On the one hand, the party can claim that it is best positioned to maintain stability across the strait and to facilitate economic growth. On the other hand, there is a fear that, if the KMT is portrayed as being ‘too close’ to mainland China, voters will

Taiwanese experts are wary that Taiwan may become a bargaining chip in a yet-to-be-determined grand

continue backing the DPP which has prominently adopted a more cautious stance on China.

Taiwan as a bargaining chip

Trump’s penchant for deal-making has made some Taiwanese experts wary that Taiwan may become a bargaining chip in a yet-to-be-determined grand bargain with China. When Trump commented on the ‘the call’ between him and Tsai he told Fox News that: “I fully understand the ‘One China’ policy, but I don’t know why we have to be bound by a ‘One China’ policy unless we make a deal with China having to do with other things, including trade.”<sup>39</sup> Although Trump has since reaffirmed that the United States will continue to support the ‘One China’ policy, if taken at face value Trump’s earlier statement suggests a willingness to link questions of Taiwan’s status with unrelated trade issues impacting on the US-China bilateral relationship.

The mere possibility of trading Taiwan for other concessions, no matter how remote it is, has touched a raw nerve in Taipei. Among the Taiwanese public, there are habitual fears that Taiwan will be handed over to China in exchange for resolving the North Korean nuclear issue or some other pressing security threat. Trump’s potential willingness to bargain over Taiwan has been seized upon by the small but well-organised pro-mainland activist base, who argue that the US is an unreliable partner which treats Taiwan as a pawn. In their view, Trump’s election will inexorably hasten the unification of Taiwan and mainland China.<sup>40</sup> In addition to fears that Taiwan could lose out politically, there are also concerns that Trump’s economic protectionism will negatively impact Taiwan’s exports and could even cause some manufacturing to leave the island.<sup>41</sup>

39 “Trump says U.S. not necessarily bound by ‘one China’ policy”, *Reuters*, 12 December 2016, available at <http://www.reuters.com/article/us-usa-trump-china-idUSKBN1400TY>.

40 Yan Zhongjie, “Blue Representative: Trump’s inauguration will speed up Taiwan-China unification” (藍議員：特朗普上台會加速兩岸統一, *Lan yiyuan: telangpu shangtai hui jiasu liangan tongyi*), *DW News*, 21 January 2017, available at <http://taiwan.dwnews.com/news/2017-01-21/59795693.html>.

41 Zhao Xiaohui, “With Trump in office, Lai Zhengyi is worried that Taiwan will become



Uncertainty about US intentions has led Taiwanese experts to turn to studying the backgrounds of the China hands that are seen to be influential in the Trump administration. Academia Sinica's John Chuan-tiong has written that the conservative think-tank Heritage Foundation and former Republican national security experts such as Stephen Yates have shaped the Trump administration's nascent Taiwan policy.<sup>42</sup> According to him, while it is unlikely that the 40-year-old 'One China' principle will be reversed, Heritage Foundation publications on Taiwan clearly show a willingness to adopt a more confrontational position towards Beijing.

## Conclusion

Whether in Washington, Beijing, or Taipei, experts continue to adjust their expectations for the Trump presidency. When surveying the Taiwanese media, most of the commentary avoids simplistic arguments that Trump will either reinvigorate Taiwan's international standing or trigger a crisis with mainland China. Although Trump figures prominently in Taiwanese commentary, when it comes to cross-strait relations the focus continues to be on the political calculations within the two major political parties in Taiwan and the Chinese Communist Party on the mainland.

## Tsai Ing-wen's New Southbound Policy: The view from the mainland

Antoine Bondaz

The New Southbound Policy (NSBP—新南向政策, *Xin nanxiang zhengce*) is President Tsai Ing-wen's key diplomatic and trade initiative. It was first introduced during the presidential campaign, and launched in August 2016. It officially aims to realign "Taiwan's role in Asian development" by advancing the country's comprehensive relations with 18 target countries and raising "the awareness of an economic community" (经济共同体意识, *jingji gongtongti yishi*).<sup>43</sup> As speeches by officials have indicated, its sectoral focus is mostly on the economy while its regional focus is mostly on south-east Asia. If the president has been personally implicated in the design of the initiative, two experienced politicians were appointed to oversee its implementation.<sup>44</sup>

However, as a comprehensive strategy, its objectives are not only to sign economic cooperation agreements and open trade offices abroad, but also to further increase tourism and even academic exchanges. If mainland China is not formally mentioned in official speeches and documents, Taiwanese and Chinese scholars agree that NSBP's real aim is to reduce the island's economic dependence on the mainland in order to further ensure Taiwan's political autonomy. For that main reason, and since Tsai has so far refused to acknowledge the 1992 Consensus, mainland experts are in agreement that NSBP not only goes against mainland interests, but is doomed to fail due to Taiwan's economic and political weaknesses. Some believe that this "diversification" (多元化, *duoyuan hua*) will even lead to Taiwan's "marginalisation" (边缘化, *bianyuan hua*).<sup>45</sup> As China is Taiwan's main economic partner but also a regional competitor, it could well further hinder the chances for success of such an initiative.

### NSBP: Mere replica or Version 2.0?

Taiwan's desire to bring itself closer to south-east Asian countries is neither new nor particular to Democratic Progressive Party foreign policy. Indeed, three different southbound policies have been implemented before, in 1994, 1998, and 2002 by different politically oriented presidents.<sup>46</sup> Chinese scholars disagree about whether

43 The ten members of the Association of Southeast Asian Nations, six south Asian countries (India, Pakistan, Bangladesh, Nepal, Bhutan, and Sri Lanka), Australia, and New Zealand.

44 James Huang, former minister of foreign affairs (2006-08), is the key coordinator and director of the New Southbound Policy Office and newly appointed chair of the Taiwan External Trade Development Council; John Deng, former minister of economic affairs (2014-16) was appointed to oversee trade negotiations.

45 Shan Yuli is the director of the Institute of Modern Taiwan Studies at the Fujian Academy of Social Sciences. Shan Yuli, "Tsai Yingwen's economic and trade policy, and Taiwan's economic prospects" (蔡英文的经贸政策与台湾经济前景, *cai yingwen de jingmao zhengce yu taiwan jingji qianjing*), *Taiwan Studies*, Vol.5, 2016.

46 The first southbound policy dates back to 1994. It initially covered seven ASEAN countries and enjoyed some success with Taiwanese outward direct investment to the region exceeding that to mainland China for two years, before being severely hit by the 1997 Asian financial crisis. The second southbound policy was implemented in 1998 with a strong focus on Malaysia but ended abruptly in September in the same year due to regional economic turbulence. Eventually, a third southbound policy was launched by the Chen Shui-bian administration starting in July 2002.

a bargaining chip" (川普上任 賴正鑑憂心台灣成為談判籌碼, *Chuanpu shangren lai Zhengyi youxin Taiwan chengwei tanpan chouma*), *Now News*, 23 January 2017, available at <http://www.nownews.com/n/2017/01/23/2385>.

42 John Chuan-tiong, "Trump's call with Tsai Ing-wen: uncovering the prologue to the new Sino-US rivalry," (林泉忠: 川普通話蔡英文, 揭開中美角力新序幕, *Lin quanzhong: chuanpu tonghua cai yingwen, jiekai zhongmei jueli xin xumu*), *Aisixiang*, 9 December 2016, available at <http://www.aisixiang.com/data/102476.html>.

Tsai's initiative represents something new. Some Chinese scholars consider NSBP to be merely the continuation of previous initiatives. Liu Xiangping, for example, describes NSBP as a "replica" of former policies.<sup>47</sup> Sheng Jiuyuan insists that Tsai's policy follows very much in the footsteps of her predecessor President Ma Ying-jeou's policy, even though the former president refused to name it.<sup>48</sup>

Bai Guangwei argues that NSBP is not a simple copy but a real upgrade. Indeed, it is set to be more comprehensive than earlier policies because it seeks to "kill three birds with one stone" (一石三鸟, *yishi san niao*): namely, to reduce the dependence on the mainland market, to further transform Taiwan's economy, and to expand Taiwan's "area of international activity" (国际活动空间, *guoji huodong kongjian*).<sup>49</sup> The argument is shared by Xiong Junli who believes NSBP "restarts, reorganises, and replenishes" (再启动、重组和补充, *zai qidong, chongzu he buchong*) former policies while extending the number of countries targeted. Since Taiwan's economy is facing sluggish growth and a decline in its competitiveness, NSBP aims to be a "bright spot" (亮点, *liangdian*) of Tsai's leadership in taking advantage, at least theoretically, of ASEAN countries' great potential for development, due to their attractive markets, strong growth, low-cost labour, and ongoing economic reforms and integration.<sup>50</sup>

### Heavy criticism from the mainland

These small divergences aside, Chinese scholars are largely united in their heavy criticism of "President Tsai's initiative", as the NSBP is often referred to. One set of critics considers it to be an ideology-led initiative rather than an economy-led one. Indeed, Shi Zhengfang maintains that reducing dependency on the mainland would be self-deceptive since the future development of Taiwan's economy is "still inseparable from the mainland market" (仍然离不开大陆市场, *rengran li bu kai dalu shichang*).<sup>51</sup> However, this argument relies on a political analysis rather than an economic one, since the current NSBP bolsters an already existing economic trend. First, foreign direct investment (FDI) to ASEAN countries doubled between 2006-10 and 2011-15, while FDI to China fell from 84 percent in 2010 to 51 percent in 2015. This is partly due to the slowdown in China,

rising wages and declining manufacturing, leading to a readjustment of overseas investment strategies.<sup>52</sup> Second, trade and investment diversification means a rebalance, not necessarily a decrease, in cross-strait trade relations.

Another set of critics argues that economic, people-to-people, and political weaknesses will prevent Taiwan from fulfilling the policy's ambitious initial objectives. For example, on the economic weaknesses, Xiong Junli argues that Taiwanese companies are mostly chasing land and labour in low-cost manufacturing industries, which can extend the industrial life cycle of Taiwanese industries only temporarily. Shan Yuli underlines the lack of innovation and industrial competitiveness, especially compared to South Korea, and talent shortage due to a brain-drain of Taiwanese talent to Singapore, Hong Kong, and other countries. A second strand to the criticism of this group is that Taiwan lacks expertise on south-east Asia. According to Andrew Xia, Taiwan's former Mainland

NSBP aims to be a "bright spot" of Tsai's leadership in taking advantage, at least theoretically, of ASEAN countries' great potential for development.

Affairs Council minister from February 2015 to May 2016, many south-east Asian students come to Taiwan – 40 percent of exchange students based in Taiwan in 2016 – but this is not reciprocal.<sup>53</sup> As a result, Taiwanese businessmen do not understand south-east Asia. The same idea has

been put forward by the president of the Taiwan business association in Vietnam, Xie Minghui, who insists that Taiwan should make use of its particular characteristics: i.e. the fact that a large number of south-east Asian migrants live on the island, including second generation Taiwanese-Vietnamese families who could act as a potential bridge.<sup>54</sup>

Third, in these critics' view the absence of formal diplomatic relations with the target countries makes it difficult for Taiwanese businessmen to improve business. Indeed, Taiwan has already encountered some political setbacks. Cambodian prime minister Hun Sen recently declared that "the flag of Taiwan was banned from being raised in Cambodia", even though the country's door was open to Taiwanese investment. Cambodia then repeated that it would prevent Taiwan from opening a trade centre in Phnom Penh, something Taiwan has tried to do for years, due to Cambodia's strict adherence to the 'One China' policy.<sup>55</sup>

47 Liu Xiangping is the deputy director of the Taiwan Institute, Nanjing University. Liu Xiangping, "The NSBP cannot go away from China" (新南向政策不能去中国化, *xin nanxiang zhengce buneng quzhongguohua*), *Relations across Taiwan straits*, No.4, 2016.

48 Indeed, during Ma's 10-year presidency, Taiwan's dependency on the Chinese market did not further increase. Exports to the mainland stagnated at around 40 percent, while exports to south-east Asia increased from 14 percent to 19 percent. This was partly due to the signing of a free-trade agreement with Singapore in 2013. Sheng Jiuyuan is the executive director of the Center for Taiwan Studies at the Shanghai Academy of Social Sciences, and the vice-president of the Shanghai Institute of Taiwan Studies. Sheng Jiuyuan, "Tsai Yingwen's NSBP and its Impact on Cross-strait Relations" (蔡英文的“新南向政策”及对两岸关系的影响, *cai yingwen 'xin nanxiang zhengce' jidui liang' an guanxi de yingxiang*), *Perspective on the Taiwan Economy*, Vol.3, Autumn 2016.

49 Bai Guangwei is the director of the Taiwan Military Research Center of the Academy of Military Sciences. "Experts: how to handle Taiwan authorities' NSBP?" (专家: 如何看待当局的“新南向政策”?, *zhuanjia: ruhe kandai taidangju de 'xin nanxiang de zhengce'*), *China Taiwan Network*, 25 October 2016.

50 Xiong Junli is a researcher at the Taiwan Institute at the Chinese Academy of Social Sciences. Xiong Junli, "The myth of Taiwan's NSBP" (台湾“新南向”的迷思, *taiwan 'xin nanxiang' de misi*), *World Affairs*, Vol.9, 2016.

51 Shi Zhengfang is an associate professor at the Taiwan Institute, Xiamen University. Shi Zhengfang, "To diversify from China through the NSBP will be difficult to implement" ("去中国化" 注定“新南向政策” 难有成效, *quzhongguohua' zhuding 'xin nanxiang zhengce' nanyou chengxiao*), *Huaguangwang*, 19 April 2016.

52 "Taiwan: Diversifying into Southeast Asia", DBS Group Research, 21 October 2016, available here [https://www.dbs.com/aics/templatedata/article/generic/data/en/GR/102016/161021\\_insights\\_diversifying\\_into\\_southeast\\_asia.xml#](https://www.dbs.com/aics/templatedata/article/generic/data/en/GR/102016/161021_insights_diversifying_into_southeast_asia.xml#).

53 "Taiwan does not understand Southeast Asia" (台湾不了解东南亚, *taiwan bu liaojie dongnanya*), *Taiwan Huanqiu*, 23 November 2016, available here <http://bj.crntt.com/doc/1044/8/0/2/104480221.html?coluid=46&kindid=0&docid=104480221&mdate=1123142409>.

54 During the first-ever Taiwan-ASEAN Dialogue held in 2016, President Tsai announced 40 percent of foreign students in Taiwan came from ASEAN countries. Zheng Zhonglan, "Can Tsai Yingwen's NSBP be implemented?" (蔡英文“新南向政策”能否落实?, *cai yingwen 'xin nanxiang zhengce' nengfou luoshi?*), *BBC Chinese edition*, 28 May 2016, available here [http://www.bbc.com/zhongwen/simp/china/2016/05/160528\\_taiwan\\_southward\\_tsai\\_interview](http://www.bbc.com/zhongwen/simp/china/2016/05/160528_taiwan_southward_tsai_interview).

55 Cui Mingxuan, "Taiwan worries Cambodian diplomacy may hit again Tsai Ing-wen's NSBP" (台忧心遭柬埔寨外交迫害蔡英文新南向再受重创, *Tai youxin zao jianpuzhai waijiao zhuisha cai yingwen xin nanxiang zai shou zhongchuan*), *Global Times*, 8

## Few incentives but potential threats to Taiwan

Facing Tsai's determination to pursue her initiative, Chinese scholars mostly argue that Taiwan's refusal to acknowledge the 1992 Consensus represents a huge opportunity-cost for the island, since it will lead to less integration and less cooperation with China. Sheng Jiuyuan is one of the most vocal, arguing that Taiwan's current initiative "sets back" (倒退, *daotui*) the institutionalisation of cross-strait economic cooperation, whereas Taiwan would benefit much more from joining the One Belt One Road (OBOR) and the Regional Comprehensive Economic Partnership (RCEP) initiatives. Indeed, the RCEP would enable Taiwan to reach a multilateral free-trade agreement and the OBOR initiative would further integrate Taiwan into the Eurasian continent, even though Chinese officials have not mentioned such scenario so far. The same incentive has been proposed by members of Taiwan's business community, such as Xie Qingyuan, vice-president of the Association of Taiwan investment enterprises on the mainland.<sup>56</sup>

Mainland experts do not raise the possibility of potential sanctions, since they are already sceptical about NSBP's chances of success. Yet Taiwan's tourism industry is already suffering. If the simplification of visa applications for ASEAN citizens has boosted the numbers of south-east Asian tourists, there has nevertheless been a steep decline in mainland tourists following the inauguration of Tsai, with a drop of almost 50 percent during the first two weeks of the October after her election.<sup>57</sup> Since mainland tourists still account for one-third of the total number of tourists, any further decline would affect the Taiwanese tourism industry and economy, and would echo the sanctions that China has imposed on South Korea over the deployment of the THAAD anti-ballistic missile system.

Mainland scholars are sceptical about the likelihood of NSBP succeeding, believing that, if Taiwan has failed on this front for two decades, then Tsai's effort is not likely to succeed. However, the initiative still raises questions on the mainland. For the last 10 years, China's economic engagement and military modernisation have prevented Taiwan from moving towards independence. However, with the DPP back in power and promoting a strategy like NSBP, China may be forced to reconsider how to engage an island that seems no longer satisfied to trade economic benefits for political autonomy.

## Is an economic reset possible for Taiwan?

Hubert Kilian

President Tsai Ing-wen has been in office since May 2016. Her Democratic Progressive Party (DPP) enjoys a majority in parliament and runs 13 of Taiwan's 23 cities and county assemblies. In an expected political transition, she was elected in January 2016 with 56 percent of the vote on the promise to regrow (拚經濟, *pin jingji*) the Taiwanese economy and to reduce social tensions. "My plan for 2017 is for Taiwan to renew its role as a pioneer, preserving our basic social safety net while revitalising the economy with a new development model. We will simultaneously work to reform political institutions, ensuring that economic and social transformations are combined with transparency and a strong democratic culture",<sup>58</sup> wrote Tsai in November 2016. At the beginning of 2017, approaching a year since she came to power, public approval of Tsai had dropped from nearly 70 percent to around 30 percent, according to opinion polls.<sup>59</sup> Which reform path has she sought to beat and what obstacles has she come up against? If the Taiwanese authors presented here are well aware of the structural constraints that give Taiwan smaller room for manoeuvre, they are also far from being convinced of Tsai's leadership on the socio-economic reform front.<sup>60</sup>

### Economy reforms in the spotlight

Tsai Ing-wen wasted no time in launching a wave of fundamental reforms to reshape Taiwan's economic and social systems. Unfortunately, her willingness to go fast and deep has not been interpreted as she intended it. Critics of Tsai are questioning the lack of clarity of her economic reforms. For the conservative *United Daily News* editorial, the direction and the cost of reforms is a problem.<sup>61</sup> More specifically, the editorial argues that "Taiwan's plan for broadening domestic market needs and strengthening investments", one of the main four-year economic plans proposed under the Tsai government, covers too many sectors – from green energy, water environment to transport, infrastructure, and construction – with a financial cost reaching NT\$1 trillion (around €30 billion).<sup>62</sup> With that huge amount mobilised in state special budgets, the lack of clarity and promises of massive investment in the cities and counties have

58 "Tsai Ing-wen, "Turning Taiwan into a tiger again", "The World In 2017" (*The Economist's* special edition website). Available at <http://www.theworldin.com/article/12618/turning-taiwan-tiger-again>.

59 "Economic performance marks Tsai's approval ratings", *The China Post*, 24 January 2017. It can be accessed here: <http://www.chinapost.com.tw/taiwan/national/national-news/2017/01/24/490248/Economic-performance.htm>.

60 According to the National Statistics of Republic of China, the 2017 forecast economic growth rate is estimated at 1.92 percent. For the last quarter of 2016, it has been estimated at 2.88 percent. It can be accessed here: <https://eng.stat.gov.tw/point.asp?index=1>.

61 "Does one trillion is enough for Taiwan to buy a new vitality?" *United Daily News*, 10 February 2017, available at: <https://udn.com/news/story/7338/2275741>.

62 NT\$400 billion will be invested in land and sea fan, solar photovoltaic, smart grid and other projects, water environment will absorb 60 billion including water supply, flood detention, hydrophilic environment. Another NT\$60 billion will be spent on the 5G environment, 8K high-definition television, including the digital content industry and personnel training.

56 Shen Zewei, "Is it difficult for Taiwan's new authorities to implement the 'NSBP'?" (台湾新当局“南向政策”难向?, *taiwan xindangju "nansiang zhengce naxian?*), *Lianhe Zaobao*, 7 June 2016.

57 "Mainland tourists to Taiwan down 44 pct in October", *Xinhua*, 25 November 2016.

ignited a factional war within the party and weakened the central government's position as the conductor of economic revitalisation. As often witnessed in Taiwan, "local politics are kidnapping central governance", notes one of the authors calling for an evolution in how local governance is thought about. Moreover, and will be reviewed here, several authors write that the rationale behind some investment choices in the cities should be questioned in order to avoid mismanagement and waste.

Shi Zheng-ping, a professor from National Taiwan Normal University, develops the same approach, by identifying three main reasons for being worried by concern at the current governance style.<sup>63</sup> Among them, he explains that the NT\$1 trillion economic package might fail in its purpose because of industry is resisting fiscal and social reforms like reform to the legal working week (一例一休公共政策, *yiliyixiu gonggong zhengce*).<sup>64</sup> The fact that those reforms are being adopted without clear coordination between the executive team and parliament could upset economic agents and trigger inflation and unemployment rate rises, he believes. He explains that small- and medium-sized manufacturers, driven by long-term cost considerations, could pursue redundancy strategies in order to alleviate the pressure on capital. Moreover, Shi Zheng-ping notes that the timing of the pension reforms for civil servants could provoke insecurity among Taiwanese pensioners who might stop consuming and stall the demand engine that drives growth.<sup>65</sup> However, the reform is largely welcomed by private sector employees in Taiwan.<sup>66</sup>

This last point is also made by a *China Times* editorial<sup>67</sup> which foresees Taiwan shrinking into a spiral of "new mediocrity" (新平庸時代, *xinpingyong shidai*) with a risk of definitively stagnating into a non-growth state.<sup>68</sup> Citing the Taiwan Central Bank president, Peng Huai-nan, who defined the new mediocrity as "continued low growth", the editorial warns that this risk is higher in Taiwan, where the amount of savings is increasing steadily, reaching NT\$2.6 trillion forecast for 2017, from NT\$1 trillion in 2015. Taiwan's survival and development relies on international trade. But once industries and consumers begin to regard the new mediocrity as normal, companies will reduce investment, consumption will decrease, and the economy as a whole will decline. For all

63 Shi Zheng-ping, "Taiwan economics troubles are big in 2017", *China Times*, 4 January 2017, available at: <http://www.chinatimes.com/newspapers/20170104000418-260109>. Hereafter: Shi Zheng-ping, "Taiwan economics troubles are big in 2017."

64 From 1 January 2017, the Labour Standard Act imposes a five-day working week. It was met with violent reactions from labour activists and opposition politicians and it created worries within the business community ("Tsai orders push for workweek reform", *Taipei Times*, 4 October 2017. It can be accessed here: <http://www.taipetimes.com/News/front/archives/2016/10/04/2003656470>).

65 The pension reform has targeted military personnel, teachers and civil servants, groups which are traditionally pro-KMT. The reform will be gradually implemented in three stages over six years, the retirement age and labour insurance premiums will be raised. Pensions for civil servants could default by 2030, teachers by 2031, and other workers by 2048, government data shows ("Thousands protest outside Taiwan Presidential Office over pension reform plan" *Reuters*, 22 January 2017. It can be accessed here: <http://www.reuters.com/article/us-taiwan-pension-protests-idUSKBN1560EM>).

66 "Wide support for pension reform: poll", *Taipei Times*, 24 January 2017. It can be accessed here: <http://www.taipetimes.com/News/front/archives/2017/01/24/2003663694>.

67 "Taiwan economy need a conceptual change", *China Times*, 31 January 2017.

68 "The euro-zone economy: The new mediocre", *The Economist*, 01 March 2016. It can be accessed here: <http://www.economist.com/news/finance-and-economics/21693974-ecb-will-do-something-its-meeting-next-week-what-effect-new>.

those reasons, the editorial calls for a transformation of economic governance. Since the 2009 financial tsunami, says the editorial, the annual growth rate in the United States, Europe, and Japan has shrunk from 5-6 percent to 1-3 percent. The editorial calls for a new economic policy with few social or environmental considerations. It argues that relying on massive investment during periods of high growth, as in the past, will not work this time.

### An unexpected political fragility

The Kuomintang (KMT), which lost its majority in parliament after a crushing result in January 2016, does not seem to be in a position to conduct a constructive opposition and be a credible alternative.<sup>69</sup> Surprisingly, criticism of Tsai has come from her allies. Her political mentor, the former president and father of Taiwanese democracy, Lee Teng-hui, recently criticised her for "pushing too many things at once".<sup>70</sup> Along these lines, Wang Jia-zhuang, an academic writing for the *United*

**Tsai is working to fix social issues and economic reforms while seeking to avoid being trapped in escalating tensions in the Taiwan Strait.**

*Daily News*, listed the numerous reforms which he believes have been pursued in a "hasty way". On the social front, it includes: a reform of the year-end bonus and legal working time for employees; the introduction of justice reform as well as of a transitional justice legal movement aimed at illegal Kuomintang assets; and finally the legalisation of gay marriage. On the economic front is the large-scale New Southbound Policy aimed at developing economic relations with south-east Asian countries and opening up to Japanese food products from Fukushima region. "None of these resulted in good news", said Lee Tenghui.<sup>71</sup>

Wang Jia-zhuang also criticised Tsai for working in a "bypassing" style (繞過, *raoguo*) that fuels political frustrations and tensions in the DPP. The contention is that Tsai does not consult the relevant authorities on conducting reforms and has developed a personal and centralised decision-making process. She is sidelining ministries to build stronger momentum in her pursuit of reforms while sometimes pushing against the constitutional limits of her power, Wang says.<sup>72</sup> Indeed, in a recent poll cited by the *China Post*, a majority were unable to identify any personalities, or name members, of the Tsai government.<sup>73</sup>

69 T.Y. Wang, "Why Did the Ruling KMT Suffer a Humiliating Defeat in Taiwan's 2016 Presidential Elections?", *China Policy Institute*, 2 February 2016. It can be accessed here: <https://cpianalysis.org/2016/02/02/why-did-the-ruling-kmt-suffer-a-humiliating-defeat-in-taiwans-2016-presidential-elections/>.

70 Wang Jia-zhuang, "Tsai Ing-wen can't rely on confrontation to deal with internal politics", *United Daily News*, 20 November 2016. It can be accessed here: <https://udn.com/news/story/7340/2117238>.

71 Ibid.

72 Ibid.

73 "Gov't approval ratings see rare spike", *The China-Post*, 20 February 2017.

Avoiding the difficult task of evaluating Tsai's economic policy, some editorials of the opposition press are already raising the next question with some duplicity: "Is President Tsai becoming a lame duck president?"<sup>74</sup> Given all the domestic political obstacles that she is facing, the key point of the analysis is turning out to be the DPP. Factional infighting is now on the rise in the party and some heavyweights have already distanced themselves from Tsai. This is the case with the very popular mayor of Tainan, Lai Qing-de, or the mayor of Kaohsiung, Chen Chu, who has decided to distance herself from Tsai. With local elections approaching in 2018, the *China Times* editorial holds that, if Tsai can maintain her high level of support within the DPP camp, which today is still at 50 percent, and turn the local polls into a victory for the DPP, she will be safe and will be able to turn towards seeking re-election in four years' time.

### Unfavourable international environment

Shi Zheng-ping has discussed international structural constraints acting as a drag on Taiwan's economic policy.<sup>75</sup> He underlines the pressure brought to bear by the appreciation of the US dollar against the Taiwanese dollar, which is on a long-term depreciation trend. Shi believes that the unfortunate conjunction of these different social and economic trends could result in rising unemployment and be an unwanted result of reforms implemented by Tsai. He also identifies the political pressure on Taiwan's regional space as a first hurdle to overcome. "The decision of President Trump to abandon the Trans-Pacific Partnership (TPP) will have a direct influence on Taiwan's participation in other Asia Pacific regional economic and trade organisations, while the impact of deteriorating cross-strait relations is lessening the already very thin chance of Taiwan in getting into the RCEP", he writes, pointing out that Taiwanese products are under a strong tariff pressure that is weakening Taiwan's competitiveness in international trade. "If the normal economic and trade dialogue mechanism is not rebuilt with the mainland, Taiwan will face a difficult time", says Shi.<sup>76</sup>

As for the problem posed by the *China Times* 'lame duck' editorial,<sup>77</sup> Tsai can yet overcome her low popularity if she addresses three critical areas: fixing the bleak economic outlook and easing social opposition; adjusting to the US-Japan strategic partnership; and breaking the stalemate with Beijing and rebuilding cross-strait mutual trust. For the time being, Tsai is working to fix social issues and implement economic reforms while seeking to avoid being trapped in escalating tensions in the Taiwan Strait.

<sup>74</sup> "Is President Tsai becoming a lame duck president?" *China Times*, 1 March 2017. It can be accessed here: <http://opinion.chinatimes.com/20170301006063-262101>. Hereafter: *China Times*, "Is President Tsai becoming a lame duck president?"

<sup>75</sup> Shi Zheng-ping, "Taiwan economics troubles are big in 2017."

<sup>76</sup> Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

<sup>77</sup> *China Times*, "Is President Tsai becoming a lame duck president?"

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