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Taiwan

**How Taiwan's High-Income Trap Shapes Its Options in
the U.S.-China Competition**

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EXECUTIVE SUMMARY

This chapter examines Taiwan's options in navigating the growing rivalry between China and the U.S. and what its choices reveal about Taiwanese assessments of U.S. credibility and Chinese intentions.

MAIN ARGUMENT

As the rivalry between China and the U.S. intensifies, the Taiwan Strait remains one of the most important arenas of competition. The double bind of trying to preserve a strong Taiwanese identity against increasing Chinese pressure, while integrating more closely with the Chinese market to address the severe economic problems produced by Taiwan's high-income trap, has made China both an increasingly important economic partner to Taiwan and a dangerous existential threat. As a new democracy, Taipei sees the U.S. as a natural ideological ally as well as a security partner, but it also worries about Washington's unreliability as China grows stronger. This complex situation leaves Taiwan with three main options: moving closer to the U.S. to balance China, accommodating Beijing, and hedging.

POLICY IMPLICATIONS

- The U.S. must review its "one China" policy in light of changes in both cross-strait and U.S.-China relations and reassess whether and how to pursue its traditional interest in preserving a future for Taiwan that is prosperous, democratic, peaceful, and secure.
- The U.S. must increase its attractiveness as an economic partner and investment base for Taiwanese firms that may otherwise feel that they have no choice but to work more closely with China as it becomes the world's largest economy and the center of global supply chains.
- The U.S. must demonstrate the effectiveness of market economics and democratic institutions based on individual freedom in order to reinforce Taiwan's commitment to these models.

How Taiwan's High-Income Trap Shapes Its Options in the U.S.-China Competition

Syaru Shirley Lin

Since the Taiwan Relations Act was passed 40 years ago, U.S.-China relations have changed from a cooperative to a competitive relationship, while Taiwan has transformed itself from an authoritarian regime to a free and democratic nation. This means that the values of the United States and Taiwan are increasingly aligned. However, rising pressure from Beijing for unification may require the United States to re-examine its strategy toward Taiwan.¹ As the U.S.-China rivalry intensifies, there is now some reason to question whether the United States would welcome Taiwan's socioeconomic integration with China, let alone unification with the mainland, even if those developments were to occur peacefully and voluntarily. All three governments have begun to challenge the status quo. With the tension between the United States and China rising and Taiwan's interest in unification decreasing, Taiwan remains one of the most important issues in U.S.-China relations.

After Xi Jinping became China's leader in 2012, and especially after the two-term limit for the presidency was lifted in 2017, Beijing has intensified its efforts to persuade Taiwan to agree that it is part of "one China" and ultimately to accept unification on Beijing's terms. But Beijing has not been able to increase support among the Taiwanese people for unification, and few endorse Xi's insistence on the "one country, two systems" model as practiced in Hong Kong, especially after the 2019 protests.

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¹ Russell Hsiao, "U.S.-Taiwan Relations: Hobson's Choice and the False Dilemma," in *Strategic Asia 2014-15: U.S. Alliances and Partnerships at the Center of Global Power*, ed. Ashley J. Tellis, Abraham M. Denmark, and Greg Chaffin (Seattle: National Bureau of Asian Research [NBR], 2014), 266.

In response to Beijing's more assertive and provocative posture on Taiwan, and in competition with China on economic and military issues, the U.S. government has also changed course under the Trump administration. Together with an increasingly unified Congress, the administration has focused on balancing, or even restricting, the rise of China's comprehensive national power. Under Trump, the United States has also adopted several pieces of legislation to strengthen ties with Taiwan and has approved four arms sales packages containing advanced weapons.

But perhaps more important than the policy changes in China or in the United States have been the profound changes that have occurred in Taiwan since its democratization in the late 1980s. Although the Kuomintang (KMT) and the Democratic Progressive Party (DPP) have alternated in occupying the presidency since the first free election in 1996, 2016 was the first time that the DPP won both the presidency and the legislature. This prompted Beijing, which sees the DPP as promoting independence, to immediately cut off all official dialogue with Taipei. Taiwan has responded to this growing pressure by diversifying its economy away from China and working more closely with the United States not only in defense but in other areas of foreign policy as well. In addition to unveiling a new *de facto* embassy building in Taipei that cost \$255 million and expanding exchanges of both civilian and military officials, the United States is collaborating with Taiwan on several initiatives to elevate Taiwan's role in the region as part of a new "free and open Indo-Pacific" strategy.

The nomination process leading up to the January 2020 presidential election revealed deep divisions within both major parties and intense debate over Taiwan's policy toward the United States and China. The two leading nominees, current president Tsai Ing-wen of the DPP and Kaohsiung mayor Han Kuo-yu of the KMT, represented two starkly contrasting foreign policy positions. Beijing continues to support the KMT and openly punishes the DPP and its supporters, hoping to project the inevitability of unification. The United States will need to decide how to respond.

This chapter analyzes the objectives and strategies of the United States and China with regard to Taiwan as well as their appeal to Taiwan's major parties, political leaders, the Taiwanese business community, the military, and other interest groups. It then identifies three long-term options available to Taiwan and assesses their costs and benefits. Finally, the chapter concludes by examining the implications of this analysis for Taiwan and the region and considering policy options for the United States.

U.S. and Chinese Aims in Taiwan

Changing U.S. Strategy within Consistent Historical Objectives

In most ways, official U.S. objectives toward Taiwan have remained the same since normalization: to assure a future for Taiwan that is peaceful and acceptable to both sides of the strait without expressing a preference for the final outcome. But the United States' strategies for advancing those objectives are changing, largely in response to China's growing power and assertiveness.² Washington is upgrading its relationship with the island, which has been hailed as "one of the world's great trading economies and beacons of Chinese culture and democracy" by Vice President Mike Pence.³ Under the Trump administration, the implementation of the United States' one-China policy has become more favorable to Taiwan than ever, and there seems to be greater consensus on Taiwan policy between Congress and the White House.⁴ So far, the U.S. approach to Taiwan has arguably remained within the one-China framework. However, some in the United States and Taiwan, as well as in Beijing, are concerned that these changes will threaten stability in the Taiwan Strait and in the broader Asia-Pacific region.⁵ Others, such as President Donald Trump's adviser Peter Navarro, have argued that the one-China policy is obsolete and needs careful review and possible revision.⁶

As part of its closer security relationship with Taiwan, the United States and its allies are conducting an increasing number of freedom of navigation operations in both the Taiwan Strait and the South China Sea to counter Chinese encroachment and to balance against increasing Chinese threats.⁷ Some critics of this policy in the United States say that supporting Taiwan's security is becoming too costly and risky, while, more recently, others argue that upgrading U.S. defense relations with Taiwan is impeding a resolution

² Harry Harding, "Change and Continuity in American Policy toward Taiwan," in *Taiwan's Economic and Diplomatic Challenges and Opportunities*, ed. Dafydd Fell (London: Routledge, forthcoming); and Evan S. Medeiros, "The Changing Fundamentals of U.S.-China Relations," *Washington Quarterly* 42, no. 3 (2019): 93–119.

³ Mike Pence (remarks at the Frederic V. Malek Memorial Lecture, Washington, D.C., October 24, 2019), <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-frederic-v-malek-memorial-lecture>.

⁴ Dean P. Chen, "The Trump Administration's One-China Policy: Tilting toward Taiwan in an Era of U.S.-PRC Rivalry?" *Asian Politics and Policy* 11, no. 2 (2019): 250–78.

⁵ See, for example, Richard N. Haass, "Asia's Scary Movie," Project Syndicate, July 17, 2019, <https://www.project-syndicate.org/commentary/asian-stability-in-jeopardy-by-richard-n-haass-2019-07?barrier=accesspaylog>.

⁶ Peter Navarro, "America Can't Dump Taiwan," *National Interest*, July 19, 2016, <https://nationalinterest.org/feature/america-cant-dump-taiwan-17040?page=0%2C1>.

⁷ Karen Leigh and Dandan Li, "Taiwan Sees Most U.S. Navy Sail-Bys Since Trump Took Office," Bloomberg, July 25, 2019, <https://www.bloomberg.com/news/articles/2019-07-25/u-s-warship-sails-through-taiwan-strait-ahead-of-trade-talks>.

of the trade dispute with China.⁸ However, Taiwan's geostrategic importance as part of the first island chain is a cornerstone of U.S. efforts to balance or contain Chinese power projection in the Pacific.⁹ There is bipartisan support to provide more advanced weapons, including the \$8 billion sale of 66 new F-16 fighter jets and the \$2.2 billion sale of Abrams main battle tanks and Stinger missiles to Taiwan in 2019.¹⁰ There is also more engagement between defense officials from the two sides, presumably to discuss the further upgrading of Taiwan's defense capabilities and coordination of strategy in the event of a Chinese attack. These developments have been accompanied by the passage of the Taiwan Travel Act, the National Defense Authorization Act, and the Asia Reassurance Initiative Act (ARIA), as well as the introduction of the proposed Taiwan Assurance Act and the Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act. All these initiatives reflect greater U.S. support for Taiwan. With Trump's approval, Tsai Ing-wen visited the United States in July 2019, making stops in New York and Denver. She also met with the representatives of Taiwan's diplomatic allies in the United Nations, and received perhaps the warmest welcome given to any leader of Taiwan. In the past, the United States seemed more concerned about Taiwanese leaders who might provoke Beijing by showing sympathy for formal independence. Now, however, it is increasingly worried about leaders who might be too accommodating to China.

The United States is also helping Taiwan create a more innovative and dynamic economy by working with civil-society organizations to promote innovation, women's empowerment, and entrepreneurship. Under the Global Cooperation and Training Framework, which was created during the Obama administration, and the new Consultations on Democratic Governance in the Indo-Pacific Region, Washington is also helping Taiwan share its development experience with countries in Southeast Asia. The joint efforts to promote entrepreneurship are important for reversing Taiwan's brain drain, particularly to China. Through these efforts, the United States is trying to reduce the international marginalization of Taiwan and enhance its relations

⁸ Ted Galen Carpenter, "Taiwan's Growing Political Turbulence Creates a Problem for Washington," Cato Institute, May 15, 2019, <https://www.cato.org/publications/commentary/taiwans-growing-political-turbulence-creates-problem-washington>.

⁹ Robert D. Kaplan, "The Geography of Chinese Power: How Far Can Beijing Reach on Land and at Sea?" *Foreign Affairs*, May/June 2010, 22–41.

¹⁰ Chris Horton, "Taiwan Set to Receive \$2 Billion in U.S. Arms, Drawing Ire from China," *New York Times*, July 9, 2019, <https://www.nytimes.com/2019/07/09/world/asia/taiwan-arms-sales.html>; and Ryan Browne, "Trump Admin Formally Approves Fighter Jet Sale to Taiwan amid China Trade Fight," CNN, August 21, 2019, <https://edition.cnn.com/2019/08/20/politics/taiwan-fighter-jet-sales/index.html>.

with the region by leveraging Taiwan's position as an advanced economy with an open market and a democratic system.

The weakest link in the U.S.-Taiwan relationship is trade and investment, which, unless repaired, may steer Taiwan more toward the Chinese market in the long term.¹¹ There has been little progress in negotiating a trade and investment framework agreement or a bilateral free trade agreement, given Taiwan's lack of resolve to lift restrictions on pork imports from the United States.¹² More recently, Taiwan has become an unintended victim of changing U.S. trade policy under the Trump administration. First, the United States withdrew from the Trans-Pacific Partnership (TPP), which Taiwan had hoped to join in the future. Then, the U.S. trade war against China hurt Taiwanese exporters, initially by subjecting their steel and aluminum exports to higher global tariffs. Taiwan's economy is also particularly vulnerable to Washington's threat to raise tariffs on Chinese information and communications technology, since so much of that technology is produced by Taiwanese-owned firms.¹³

One of the United States' key objectives in its rivalry with China is to maintain U.S. technological superiority, and Taiwan plays a particularly important role in that regard because of its leadership in semiconductor fabrication. Even the most advanced Chinese companies such as Huawei still cannot make cutting-edge chips.¹⁴ The United States is pressuring Taiwan to refrain from being a conduit of advanced technology to China and is promoting cooperation between U.S. and Taiwanese technology companies, especially in semiconductor manufacturing, to fend off technology theft by China.¹⁵

Xi Jinping's Accelerating Progress toward Unification

Beijing's policy toward Taiwan remains within the strategy set by Deng Xiaoping but exhibits a greater sense of urgency. Like previous Chinese leaders, Xi continues to stress that unification with Taiwan is one of China's

¹¹ Ashley J. Tellis, "Sign a Free-Trade Deal with Taiwan," *Wall Street Journal*, December 2, 2018, <https://www.wsj.com/articles/sign-a-free-trade-deal-with-taiwan-1543786364>.

¹² "Taiwan's Ban on American Beef, Pork a Trade Barrier: U.S. Report," *Taiwan News*, March 30, 2019, <https://www.taiwannews.com.tw/en/news/3669693>.

¹³ Tariffs that could significantly hurt Taiwan's economy have not been implemented yet. For more information, see Ralph Jennings, "Trade War: Why Next U.S. Tariffs on China Could Halve Taiwan's Growth," *South China Morning Post*, May 17, 2019, <https://www.scmp.com/news/article/3010524/trade-war-why-next-us-tariffs-china-could-halve-taiwans-growth>.

¹⁴ James A. Lewis, "Learning the Superior Techniques of the Barbarians: China's Pursuit of Semiconductor Independence," Center for Strategic and International Studies (CSIS), January 2019, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190115_Lewis_Semiconductor_v6.pdf.

¹⁵ Heather Timmons, "The U.S.'s Newest Partner in Fighting Chinese Intellectual Property Theft Is Taiwan," *Quartz*, November 2, 2018, <https://qz.com/1447913/the-us-is-partnering-with-taiwan-to-fight-chinas-intellectual-property-theft>.

core interests.¹⁶ But Chinese objectives regarding Taiwan are now being stated more explicitly and pursued more aggressively than ever, backed by bigger sticks and sweeter carrots.¹⁷ On January 1, 2019, Xi explicitly demanded that Taiwan agree to eventual unification on the basis of the same one country, two systems framework that Beijing has applied to Hong Kong, perhaps with some as yet unspecified variations.¹⁸ While this position was implicit in Beijing's previous interpretation of the 1992 Consensus—the tacit agreement that each side is committed to eventual unification—it is now being stated more unequivocally. Moreover, Xi's demand that the Taiwan issue not be passed “from generation to generation” suggests a deadline that many interpret as being during his leadership.¹⁹

Moreover, Beijing has repeated that it will not renounce the use of military force against Taiwan to achieve unification and has dispatched naval and air forces in and around the Taiwan Strait to demonstrate its ability to use force. In China's white paper on national defense released in July 2019, the language on the United States and Taiwan is aggressive and unambiguous. Secessionist movements in Taiwan, and also those in Xinjiang and Tibet, are listed as leading security threats, and unification with Taiwan is identified as one of China's primary goals. Compared with the 2015 white paper, this report devotes greater attention to Taiwan, emphasizes the potential use of force, and openly states that drills in the Taiwan Strait are stern warnings against secessionists:²⁰

To solve the Taiwan question and achieve complete reunification of the country is in the fundamental interests of the Chinese nation and essential to realizing national rejuvenation. China adheres to the principles of “peaceful reunification,” and “one country, two systems,” promotes development of cross-Strait relations, and advances peaceful reunification of the country. Meanwhile, China resolutely opposes any attempts or actions to split the country and any foreign interference to this end. China must be and will be reunited....We make no promise to

¹⁶ Michael S. Chase, “A Rising China's Challenge to Taiwan,” in *Strategic Asia 2019: China's Expanding Strategic Ambitions*, ed. Ashley J. Tellis, Alison Szalwinski, and Michael Wills (Seattle: NBR, 2019), 113–19.

¹⁷ Syaru Shirley Lin, “Xi Jinping's Taiwan Policy and Its Impact on Cross-Strait Relations,” Hoover Institution, China Leadership Monitor, June 1, 2019, <https://www.prclleader.org/lin>.

¹⁸ Xi Jinping, “Working Together to Realize Rejuvenation of the Chinese Nation and Advance China's Peaceful Reunification” (speech, Beijing, January 2, 2019), http://www.gwytb.gov.cn/wyly/201904/t20190412_12155687.htm.

¹⁹ For Chinese articles on Xi's Taiwan policy, see Zhou Zhihui, “Xi Jinping de guojia tongyiguan yu duiTai gongzuo lunshu de hexin lilun chuangjian” [Xi Jinping's View on Reunification and His Insightful Theorization of Taiwan-Related Initiatives], *Cross-Taiwan Strait Studies*, no. 2 (2019): 1–7; and Teddy Ng, “Xi Jinping Says Efforts Must Be Made to Close the China-Taiwan Political Divide,” *South China Morning Post*, October 6, 2013, <https://www.scmp.com/news/china/article/1325761/xi-jinping-says-political-solution-taiwan-cant-wait-forever>.

²⁰ Helena Legarda, “China Global Security Tracker, No. 5,” International Institute for Strategic Studies, August 1, 2019, <https://www.iiss.org/blogs/research-paper/2019/08/china-security-tracker-jan-to-june>.

renounce the use of force, and reserve the option of taking all necessary measures....The PLA will resolutely defeat anyone attempting to separate Taiwan from China and safeguard national unity at all costs.²¹

In response, the United States, sometimes joined by France, Canada, and Australia, has conducted regular freedom of navigation operations through the Taiwan Strait, which have further angered Beijing. China conducted three more sets of drills off the coast of Taiwan after the July and August announcements of arms sales and the U.S. Navy's transit through the Taiwan Strait.²²

As part of a strategy to isolate Taiwan internationally, Beijing has persuaded several of the island's longtime diplomatic allies, such as Panama, El Salvador, and the Solomon Islands, to sever ties with Taipei after Tsai Ing-wen became president. This campaign has left only fifteen states that recognize Taipei. Taiwan's participation in international organizations has also been severely restricted. Furthermore, multinational corporations with a presence in China are under pressure from Beijing to describe Taiwan on their websites and printed materials as part of China rather than as a separate country.²³

On an individual level, China is punishing Taiwanese whom it regards as hostile by denying them visas to visit China, blocking their access to Hong Kong, and even arresting some of those who traveled to China.²⁴ This hard-line strategy has been reinforced through the exercise of "sharp power" to infiltrate and influence Taiwanese society and "sticky power" to provide the Taiwanese people with economic incentives and create dependence.²⁵ In an attempt to influence the 2018 local elections and the 2020 presidential and legislative elections, China augmented its traditional "united front" strategy through friendly media and civil-society

²¹ State Council Information Office of the People's Republic of China, *China's National Defense in the New Era* (Beijing, July 2019), http://english.www.gov.cn/archive/whitepaper/201907/24/content_WS5d3941ddc6d08408f502283d.html.

²² Laura Zhou, "Chinese Military Starts Taiwan Strait Drills amid Rising Tension with U.S. over Island," *South China Morning Post*, July 29, 2019, <https://www.scmp.com/news/china/military/article/3020544/chinese-military-starts-taiwan-strait-drills-amid-rising>.

²³ See, for example, "Three Biggest U.S. Airlines Bow to China Taiwan Demand as Deadline Passes," BBC, July 25, 2018, <https://www.bbc.com/news/world-asia-china-44948599>; and "China Fines Retailer Muji for Listing Taiwan as a Country," BBC, May 24, 2016, <https://www.bbc.com/news/world-asia-china-44234270>.

²⁴ Brian Hioe, "China Retaliates against Continued Advocacy for Lee Ming-Che's Release," *New Bloom*, February 4, 2019, <https://newbloommag.net/2019/02/04/lee-ming-che-retaliate>.

²⁵ For a definition of sharp power, see Christopher Walker and Jessica Ludwig, "The Meaning of Sharp Power: How Authoritarian States Project Influence," *Foreign Affairs*, November 16, 2017. For a definition of sticky power, see Walter Russell Mead, "America's Sticky Power," *Foreign Policy*, March 2004, 46–53.

organizations and disinformation campaigns.²⁶ These efforts have focused on supporting pro-Beijing individuals as well as friendly political parties such as the KMT. In 2017, Xi enacted 31 preferential policies for Taiwanese “compatriots,” allowing Taiwanese to work and live in China with the same privileges as Chinese nationals. These incentives targeted Taiwanese who have traditionally not supported the KMT or closer relations with China, including farmers, doctors, PhD students, and young people, as well as small and medium-sized business owners and other professionals.²⁷ Chinese investment in Taiwan, while still largely prohibited by Taipei, is increasingly taking place through proxy individuals and pro-Beijing offshore and onshore companies.

The Convergence of Taiwanese Interests with U.S. and Chinese Interests

As the rivalry between the United States and China increases, the challenges that Taiwan faces in navigating between the two countries become greater. China has become more attractive as a partner that can provide solutions to Taiwan’s slowing economic growth, even though China’s own growth rates are also experiencing a gradual decline. The United States is still viewed by most Taiwanese as an irreplaceable security partner, but some doubt its reliability under the Trump administration and its credibility as China becomes more powerful. For many Taiwanese leaders, working more closely with the United States militarily and politically, but maintaining or even increasing economic and societal ties with China, is a necessary balancing act. It is within this context that the preferences of Taiwan converge or diverge with the interests of the two rivals.

As Taiwan faces the severe socioeconomic challenges typical of any high-income economy, it is caught in a double bind that is difficult for its leaders to resolve. The first imperative is to preserve a strong Taiwanese identity with democratic values against increasing Chinese pressure to

²⁶ Gary Schmitt and Michael Mazza, “Blinding the Enemy: CCP Interference in Taiwan’s Democracy,” Global Taiwan Institute, October 2019, <http://globaltaiwan.org/wp-content/uploads/2019/10/GTI-CCP-Interference-Taiwan-Democracy-Oct-2019-final.pdf>; and Sonny Shiu-Hing Lo, “Co-opting Individuals with External Implications: Business Elites, Democrats, Civil Servants, Educators and Taiwanese,” in *China’s New United Front Work in Hong Kong: Penetrative Politics and Its Implications*, ed. Sonny Shiu-Hing Lo, Steven Chung-Fun Hung, and Jeff Hai-Chi Loo (London: Palgrave Macmillan, 2019), chap. 10.

²⁷ See “Huitai 31 tiao quanmian luoshi tongdeng daiyu” [31 Preferential Measures: Full Implementation of Equal Treatment], *China Times*, May 2, 2019, <https://www.chinatimes.com/newspapers/20190502000129-260301?chdtv>; and Ralph Jennings, “China Stockpiles Options for Taiwan Charm Offensive,” Voice of America (VOA), September 11, 2019, <https://www.voanews.com/east-asia-pacific/china-stockpiles-options-taiwan-charm-offensive>.

restore a Chinese identity. The second is to integrate more closely with the Chinese market to alleviate the economic problems associated with the high-income trap. The dilemma created by this double bind partly explains the political debates and the resulting oscillations in Taiwan's policies in the last three decades.

The Double Bind of Strong Taiwanese Identity and the High-Income Trap

The first half of the double bind is the need to defend a consolidated Taiwanese identity, which has sharply diverged from the Chinese identity that the Nationalist government tried to impose on Taiwan and that Beijing wishes to promote. Although it was taboo to question Chinese identity under the previous dictatorship, soon after the lifting of martial law in 1987 the residents of Taiwan became able to explore what it meant to be Taiwanese and began to develop a distinctive political culture of their own. Ironically, Beijing's attempts to use its own definition of a Chinese identity to replace the one promoted by the Nationalists accelerated Taiwan's search for its own identity. What emerged was a way of life rooted in civic nationalism and democratic values that has become very difficult to reverse, despite Beijing's painstaking efforts, especially among younger generations that have grown up in a democracy.²⁸

Surveys and polls that began three decades ago demonstrate this consolidation of a Taiwanese identity. That identity can be measured in two ways: as self-identification and as a preference regarding Taiwan's future political status. Self-identification is usually gauged through a three-way question: are you Chinese, Taiwanese, or both? In 1989, over half of the respondents called themselves exclusively Chinese. That figure has fallen to around 4% for over a decade, replaced by identities that have a Taiwanese component. In terms of preference for Taiwan's political future, respondents can select from a range of options on the spectrum from independence to unification. Support for the most extreme option (immediate unification), which implies absorption into China, has hovered around 1%–3% for decades. Conversely, for more than a decade, over 85% of Taiwanese have supported some other form of autonomy.²⁹ In recent years, Taiwanese have rejected

²⁸ Syaru Shirley Lin, *Taiwan's China Dilemma: Contested Identities and Multiple Interests in Taiwan's Cross-Strait Economic Policy* (Stanford: Stanford University Press, 2016); and Syaru Shirley Lin, "Analyzing the Relationship between Identity and Democratization in Taiwan and Hong Kong in the Shadow of China," *ASAN Forum*, December 20, 2018, <http://www.theasanforum.org/analyzing-the-relationship-between-identity-and-democratization-in-taiwan-and-hong-kong-in-the-shadow-of-china>.

²⁹ "Trends of Core Political Attitudes (1992/06~2019/06)," National Chengchi University, Election Study Center, July 10, 2019, <https://esc.nccu.edu.tw/course/news.php?class=203>.

leaders whose cross-strait economic policies they perceived as allowing the mainland to threaten or undermine Taiwan's identity and values. While older generations remain focused on economic prosperity and have strong views on China, whether favorable or unfavorable, young people are pragmatic about seizing opportunities in China without sacrificing Taiwan's autonomy. They prefer leaders who are firmly Taiwanese, have progressive values, and can effectively manage both domestic governance and cross-strait relations.

The second half of the double bind is to find a solution to Taiwan's high-income trap. At the same time that it liberalized politically, Taiwan also attained the status of a high-income economy, joining the ranks of Japan, South Korea, Singapore, and Hong Kong as well as the advanced economies of Western Europe and North America. The rise in Taiwanese living standards was achieved after decades of double-digit growth fueled by the export of higher value-added products. But as soon as Taiwan reached high-income status, it faced fierce competition from lower-cost manufacturing economies, especially China, and its position in the global value chain deteriorated. Taiwan entered a trap whereby society expects higher standards of living and increasing welfare entitlements, but those expectations become more difficult to meet as growth rates decline and painful trade-offs must be made.³⁰

Like other East Asian economies caught in the high-income trap, Taiwan's interrelated symptoms include slower growth, stagnating wages, demographic decline, a high youth unemployment rate, and the inequalities and risks produced by financialization. These structural issues are hard to resolve. The Ma Ying-jeou administration attempted to do so between 2008 and 2016 by relying on China to stimulate growth while maintaining cross-strait stability. After several years of closer integration, including increased Taiwanese investments in China, in Ma's last full year as president Taiwan's GDP growth rate dropped to less than 1% and Taiwan's trade surplus with China fell to a nine-year low. As growth stagnated, average real wage levels for Taiwanese workers in nine out of nineteen sectors also declined after 2000, especially in export-oriented manufacturing.³¹ Although business and political elites benefited from closer integration with China, workers suffered and inequality grew. While many in high-income societies blame the trap on globalization, Taiwanese, especially the younger generations, have identified China and cross-strait economic liberalization as the more specific culprits for job losses,

³⁰ Syaru Shirley Lin, "Taiwan in the High Income Trap and Its Implications for Cross-Strait Relations," in Fell, *Taiwan's Economic and Diplomatic Challenges and Opportunities*.

³¹ Earnings Exploration and Information System database, Directorate-General of Budget, Accounting and Statistics, Executive Yuan (Taiwan), <https://earnings.dgbas.gov.tw>.

wage stagnation, and inequality.³² Therefore, while some people view China as a solution to the high-income trap, many young people and marginalized groups see it as exacerbating the problem.

This double bind—the tension between efforts to consolidate Taiwanese identity threatened by China and the perception that China can help Taiwan escape the high-income trap—has had far-reaching political consequences. In 2014 the student-led Sunflower Movement successfully blocked the ratification of an agreement that would have allowed greater Chinese investment in Taiwan. Subsequently, the DPP won a landslide victory in the local midterm elections in late 2014 and in the presidential and legislative elections in 2016. The expectation was high that the DPP would better safeguard Taiwan's values, invigorate the economy, and escape the high-income trap, which had been aggravated, rather than alleviated, by further integration with the Chinese economy. Since 2016, the DPP government under Tsai Ing-wen has tried to pursue this agenda by moving beyond the lower-end consumer electronics industry that has dominated Taiwan's export economy for decades and promoting higher value-added software and manufacturing. However, the higher costs of a wide range of inputs, excessive financial regulation, lack of innovation, and increasing competition from emerging markets are creating what seem to be insurmountable obstacles to these policies. In response, Tsai has tried to diversify Taiwan's foreign trade and investment by adopting the New Southbound Policy to encourage trade and investment with the Association of Southeast Asian Nations (ASEAN) members and South Asian countries as well as a set of painful domestic structural reforms.³³ Because many of these reforms were poorly conceived and executed, the DPP lost the midterm local elections in 2018 in a landslide defeat to the KMT, which regained all the seats it had lost in the previous election cycle.³⁴

Just as economic policy toward China has fluctuated, Taiwan's political parties have traded places three times, from the KMT to the DPP in 2000, to the KMT in 2008, and back to the DPP in 2016. The victory of the KMT and its relatively pro-China candidates in the local midterm elections of 2018 boosted its confidence regarding the national elections in 2020. However, neither party has been able to permanently convince Taiwanese voters that it can simultaneously promote economic prosperity and national security, and

³² Thung-hong Lin, "Ni shi 1977 nianhou chusheng dema? Kuayue 25 nain shuju da diaocha 30 duosui yishi shouru gaofeng, cisheng buhui zai zhuangengduo" [Are You Born after 1977? Survey Data for 25 Years Show That You Will Peak at Age 30 and Never Make More], *Business Today*, July 31, 2019.

³³ Bonnie S. Glaser et al., "The New Southbound Policy: Deepening Taiwan's Regional Integration," CSIS, January 19, 2018, <https://www.csis.org/analysis/new-southbound-policy>.

³⁴ Richard C. Bush, "Taiwan's Local Elections, Explained," Brookings Institution, December 5, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/12/05/taiwans-local-elections-explained>.

subsequent developments make a KMT victory increasingly improbable as of the time of writing.

Taiwan's Political Parties and the Double Bind

After three decades of democratization, the two leading political parties and several smaller ones allied with them dominate Taiwan's politics, even though third-party candidates continue to emerge during every presidential election, including James Soong, who ran for the fourth time in the 2020 election.³⁵ The two major parties serve as interest aggregators, advocating distinctive policies on issues ranging from international relations and economic reform to social justice and environmental sustainability. Historically, they have been divided over national identity and Taiwan's future political status. The DPP had an emerging Taiwanese identity and leaned toward independence, while the KMT was led by elites from the mainland who were more sympathetic to a Chinese identity and unification. Over time, however, this distinction began to blur as all presidential candidates embraced Taiwanese identity and promoted Taiwan's autonomy to varying degrees.

On economic policies, the two parties' more recent strategies for lifting Taiwan out of the high-income trap have differed because of their other domestic priorities. The DPP has upheld labor rights, social welfare, and environmental sustainability and prioritized safeguarding Taiwan's sovereignty. To the DPP, therefore, distributional issues are far more important than economic growth, although the two DPP presidents—Chen Shui-bian and Tsai Ing-wen—have often been criticized as too accommodating to businesses and as failing to carry out important reforms. In contrast, the KMT has focused on improving economic growth and the business climate. The DPP has enjoyed strong grass-roots ties, especially in southern Taiwan, whereas the KMT has been elite-led but maintained a strong network of specific interest groups across the island.

On foreign policy, both parties have acknowledged the importance of the United States, but they have differed on policy toward the mainland, specifically on how much to integrate with the Chinese economy. But the elite-led KMT has been far more adept at dealing with both the United States and China than its rival. This is because the KMT has strong links to Washington dating back to World War II. Both popularly elected KMT presidents—Lee Teng-hui and Ma Ying-jeou—were U.S.-educated, and KMT-trained officials, often educated in the United States, have dominated

³⁵ Kharis Templeman, "The Dynamics of Taiwan's Party Politics" (conference presentation, Nottingham, June 27–28, 2019), https://www.kharistempleman.com/uploads/1/5/8/5/15855636/templeman.dynamics_of_taiwans_party_system.20190614.pdf.

the foreign ministry and intelligence bureaucracies. Although staunchly anti-Communist, the party ironically has shared a common vision of Chinese nationalism and eventual unification with the Chinese Communist Party (CCP). They also share common Leninist roots, at least before Taiwan's democratization. In 1992, the KMT resumed communication with the CCP on a party-to-party basis after a gap of over four decades.

For its part, the DPP was a newly formed party with personal ties to Japan and the United States, especially the Taiwanese diaspora, but with limited institutional ties abroad.³⁶ The DPP's first president, Chen Shui-bian, pushed the issue of Taiwanese sovereignty and was therefore regarded as a troublemaker by Washington and *persona non grata* by Beijing. Thus, the KMT was preferred by both the United States and China for maintaining predictability and stability in the Taiwan Strait until the KMT lost control of the legislature and presidency in 2016. Beijing then realized that it could no longer count on the KMT to defeat the DPP, let alone deliver unification,³⁷ and the United States realized that the KMT might move closer to China than Washington preferred.

The KMT Turns Populist and Favors Relying on Beijing

Today's political map has been significantly redrawn, in large part due to changes in Washington and Beijing. KMT president Ma Ying-jeou's eight years of détente with Beijing were welcomed by the United States and lauded as promoting regional stability.³⁸ But Ma's cross-strait policies did not resonate with Taiwanese voters, especially the youth and the working class, who believed that economic dependence on China exacerbated Taiwan's inequality and diluted its democratic values. Furthermore, Ma failed to meet Beijing's expectation of opening political negotiations. After the KMT's humiliating defeat in the 2016 presidential and legislative elections, a new group of populist leaders replaced Ma and the mainstream old guards who had been familiar to both the United States and China. The most prominent of these was the KMT's 2020 presidential nominee Han Kuo-yu, a charismatic outsider and second-generation mainlander, who in 2018 won the mayorship of Kaohsiung, a former DPP stronghold. Without any formal U.S. education,

³⁶ Shelley Rigger, *From Opposition to Power: Taiwan's Democratic Progressive Party* (Boulder: Lynne Rienner, 2001).

³⁷ Chen Hongjin, "Xi Jinping miandui de shi yige shenmeyangde Guomindang?" [What Kind of Kuomintang Is Xi Jinping Faced With?] Initium Media, November 1, 2016, <https://theinitium.com/article/20161101-taiwan-KMT>.

³⁸ Yu-Shan Wu, "Pivot, Hedger, or Partner: Strategies of Lesser Powers Caught between Hegemons," in *Taiwan and China: Fitful Embrace*, ed. Dittmer Lowell (Berkeley: University of California Press, 2017), 197–220.

Han often cites Chiang Ching-kuo, Lee Kuan-yew, and Deng Xiaoping as his heroes, appealing to a nostalgic authoritarian past where stability and growth were the primary goals along with a strong sense of Chinese identity.³⁹

Han's main popular appeal is on economic issues, and he presents deeper integration with China as the key to continued economic growth. He has proposed creating a free economic pilot zone in Kaohsiung to attract more Chinese investment. Although Han has agreed to the 1992 Consensus, he and other leaders supportive of the KMT all eventually rejected unification under Beijing's one country, two systems formula, with Han colorfully saying that Taiwan would accept it "over my dead body."⁴⁰ However, Han has yet to articulate a coherent cross-strait policy.⁴¹ So the double bind—to promote the economy while preserving Taiwan's autonomy and identity—is reflected in the ambiguity of Han's policy toward China. Nonetheless, Han's presidential campaign was supported by pro-Beijing media, and there were allegations that the CCP invested heavily in his campaign.⁴² Although business elites with ties to China (who have traditionally supported the KMT) welcomed his more accommodative approach to Beijing, they have also been concerned that Han is an inexperienced populist who may harm their interests in the end.

Furthermore, most Taiwanese businesses want to maintain good relations with both parties and tend to keep a low profile during elections. Taiwanese firms that operate in China and Southeast Asia (*taishang*) are in a particularly awkward position because their business has depended on exports to the United States, which makes both U.S.-Taiwan and U.S.-China relations important. Taiwanese technology companies, especially the semiconductor leaders Taiwan Semiconductor Manufacturing Company (TSMC) and United Microelectronics Corporation (UMC) that manufacture products in Taiwan and China for U.S., European, and Chinese clients such as Huawei, face conflicts of interest and evidence of intellectual

³⁹ Han Kuo-yu, "Wei Zhonghua Minguo buxi fenshen suigu" [Smashed into Pieces without Regret for the Republic of China], *China Times*, June 1, 2019, <https://www.chinatimes.com/realtimenews/20190601002380-260407?chdtv>.

⁴⁰ Minnie Chan, Kristin Huang, and Matt Ho, "How the Storm over Hong Kong's Extradition Bill Battered Beijing's 'One Country, Two Systems' Ambitions for Taiwan," *South China Morning Post*, June 22, 2019, <https://www.scmp.com/news/china/politics/article/3015578/how-storm-over-hong-kongs-extradition-bill-battered-beijings>.

⁴¹ "Tongpi Tsai bitan Zhonghua Minguo, Han Kuo-Yu: Wo yeyou henshen de wangguogan" [Criticizing Tsai's Refusal of Mentioning the Republic of China, Han Kuo-Yu Said He Deeply Felt the Downfall of the Nation], *China Times*, October 10, 2019, <https://www.chinatimes.com/realtimenews/20191010001176-260407?chdtv>.

⁴² Kathrin Hille, "China Is Influencing Taiwan's Elections—Through TV," *OZY*, July 26, 2019, <https://www.ozy.com/fast-forward/china-is-influencing-taiwans-elections-through-tv/95666>; and Paul Huang, "Chinese Cyber-Operatives Boosted Taiwan's Insurgent Candidate," *Foreign Policy*, June 26, 2019, <https://foreignpolicy.com/2019/06/26/chinese-cyber-operatives-boosted-taiwans-insurgent-candidate>.

property theft among these customers, making producing for them more problematic than ever.⁴³ A China-friendly government can provide some assistance to these businesses but may not be able to eliminate the growing risks of manufacturing in China. Furthermore, few businesses, especially taishang, are interested in asserting themselves politically and becoming active in Taiwan's domestic politics out of fear that they will be scrutinized at home by the DPP or penalized in China by the CCP.⁴⁴ While some business groups are openly supportive of Beijing, the business community as a whole welcomes promoting a closer relationship with the United States without provoking China.

The DPP Turns Technocratic and Favors Closer Ties with the United States

The double bind also puts the DPP in a difficult position. The DPP has traditionally appealed to native Taiwanese, many of whom have been sympathetic to Taiwan's independence for decades and oppose dealing with China in any form, and to working-class families who have been the losers in globalization and in "mainlandization." Many DPP leaders began their careers as activists under the KMT's authoritarian rule and care deeply about transitional justice, progressive social values, and environmental sustainability. However, the DPP has been commonly viewed as hostile to China and unfriendly to business; therefore, some voters have doubted that it could effectively deal with Taiwan's economic challenges.

Tsai Ing-wen is a technocrat who was deeply involved in Taiwan's accession to the World Trade Organization and a moderate who has demonstrated restraint by toeing the official one-China line rather than endorsing independence. But she has disappointed both Beijing and the deep blue by refusing to reaffirm the 1992 Consensus and the deep green who saw her election as an opportunity to move toward independence.⁴⁵ Compared with her provocative predecessors, the KMT's Lee Teng-hui and the DPP's Chen Shui-bian, Tsai is a voice of moderation and reason, while being far less enthusiastic about deepening relations with China than Ma Ying-jeou. Economically, she has a solid record of overseeing rising wages, the lowest unemployment rate in decades, and record-level exports. The Sino-U.S.

⁴³ Matthew Fulco, "Semiconductor Firms Strive to Contain Trade-Secret Theft," *Taiwan Business TOPICS*, September 19, 2018, <https://topics.amcham.com.tw/2018/09/semiconductor-firms-strive-to-contain-trade-secret-theft>.

⁴⁴ Gunter Schubert, Ruihua Lin, and Jean Yu-Chen Tseng, "Are Taiwanese Entrepreneurs a Strategic Group?" *Asian Survey* 57, no. 5 (2017): 856–84.

⁴⁵ "Blue" refers to individuals and parties supportive of the KMT and unification, while "green" refers to supporters of the DPP and an independence-leaning agenda.

trade war and China's economic slowdown have made China less appealing as an investment destination, and the DPP has had some initial success in helping taishang return to Taiwan or move to Southeast Asia through the New Southbound Policy.⁴⁶ Still, while Tsai has advocated the diversification of Taiwan's markets, its export and trade surplus with China actually reached an all-time high in 2018, and its investments in China have steadily increased as well.⁴⁷ Overall, Taiwan's economic growth in 2019 is estimated to outpace its high-income neighbors.⁴⁸

However, Tsai's labor, pension, and energy reforms were viewed as badly designed and executed and were a primary reason for the DPP's abysmal performance in the 2018 local elections. Energy reform is an issue that illustrates the challenges facing Tsai in implementing structural changes. Although the DPP had promised for years to create a nuclear-free homeland, phasing out nuclear energy increased the use of fossil fuel, which worsened carbon emissions and air pollution as well as power outages, all of which led to mounting criticism.

Tsai has sought positive relations with both the United States and China, with mixed results. Beijing failed to accept Tsai's overtures and instead intensified its hard-line tactics, leaving her with little room to maneuver. However, Xi Jinping's pronouncement in January 2019 that reasserted China's right to use force to compel unification and equated the 1992 Consensus with acceptance of unification under the one country, two systems policy backfired badly and revived Tsai's popularity after the DPP's 2018 electoral defeat. Her support, particularly among young Taiwanese, was further enhanced by the enactment of same-sex marriage legislation in May 2019 and the mass antigovernment protests in Hong Kong that started in June 2019.⁴⁹ Beijing was seen as threatening Hong Kong's autonomy as well as its freedoms of speech, press, and assembly, and this united the city's students, professionals, and businesses in opposition. The protests only reinforced the long-standing view that China's one country, two systems formula is

⁴⁶ In January 2019, the government issued the "Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan" to assist Taiwanese companies with reinvesting in Taiwan. By October 2019, NT\$622.3 billion of Taiwanese reinvestment had been approved. For more details, see Elaine Huang and Liang-Rong Chen, "Made in Taiwan, Straight to the United States," *Common Wealth Magazine*, July 15, 2019, <https://english.cw.com.tw/article/article.action?id=2471>. For results of the New Southbound Policy, see data from Office of Trade Negotiations, Executive Yuan (Taiwan), <https://www.ey.gov.tw/otn/52AE1A9E6029676F>.

⁴⁷ For data related to cross-strait trade and investment, see "Cross-Strait Economic Statistics Monthly," Mainland Affairs Council (Taiwan), https://www.mac.gov.tw/en/Content_List.aspx?n=13E6E9C4BE15A3CA.

⁴⁸ Huang Tzu-ti, "Taiwan's Economy Grows by 2.91% in Third Quarter," *Taiwan News*, November 1, 2019, <https://www.taiwannews.com.tw/en/news/3807881>.

⁴⁹ Hilton Yip, "Xi Jinping Is Tsai Ing-wen's Best Poster Boy," *Foreign Policy*, July 10, 2019, <https://foreignpolicy.com/2019/07/10/xi-jinping-is-tsai-ing-wens-best-poster-boy>.

unacceptable to Taiwan.⁵⁰ The suppression of the protests by the Hong Kong police produced widespread outrage among Taiwanese, increasing opposition to this policy to an all-time high and boosting Tsai's support.⁵¹

As a result of the protests in Hong Kong, solving Taiwan's high-income trap through diversification of economic relations became more appealing, especially in light of the U.S.-China trade war. In July 2019, Tsai made several public speeches during transit stops in New York and Denver, clearly distinguishing herself from Han, who had visited the United States earlier but without high-profile appearances. Partly due to her cautious approach to cross-strait relations and her outreach to the United States, Tsai may be the Taiwanese president with the highest level of U.S. support since democratization.

Although Taiwan's military historically has been one of the island's most important interest groups, its political orientation has changed dramatically in recent decades. Traditionally a KMT stronghold, after democratization and the dismantling of much of the party's apparatus within both the government and society, the officer corps has made clear that it is faithful to the constitution and is no longer partisan, and some have even become more sympathetic to Tsai and the DPP. In part, this is because the KMT has an uneven record in supporting funds for the military. During the Chen presidency, KMT legislators obstructed approval of arms purchases from the United States, saying that they "opposed wasteful arms procurement" that appeared necessary only because Chen was provoking Beijing.⁵² After the KMT returned to power in 2008, Ma also proposed to buy less advanced weapons in order to avoid irking Beijing. During the 2019 KMT primary, candidate Terry Gou argued that his pro-China policy would reduce conflict in the strait, and that Taiwan could stop purchasing arms from the United States.⁵³ The military has thus come to see the KMT as a less reliable ally. In contrast, the Tsai administration has endorsed the transformation of the military to increase its ability to defend Taiwan and deter Beijing's use of force.

⁵⁰ Chan et al., "Storm over Hong Kong's Extradition Bill."

⁵¹ A record-high percentage of 89% of Taiwanese opposed the one country, two systems model as of October 2019, a 14% rise since January 2019. See surveys conducted in January, March, May, July, and October 2019 commissioned by the Mainland Affairs Council: "Taiwan zhuliu minyi jujue Zhonggong yiguoliangzhi de bilv chixu shangsheng, geng fandui Zhonggong duiwo junshi wajiao daya" [Taiwanese Mainstream Public View against One Country Two Systems by the Chinese Communist Party Keeps Rising, Objecting to the Chinese Communist Party's Military and Diplomatic Coercion], October 24, 2019, <https://www.mac.gov.tw/cp.aspx?n=0E7480E052A6E5AA>. Support for Tsai's presidency in the 2020 election rose from 15% in January to 52% in October 2019. See TVBS Poll Center, <https://www.tvbs.com.tw/poll-center/1>.

⁵² Chen Kuan-Fu, "Meaningless Rhetoric by Gou, KMT on U.S. Arms," *Taipei Times*, May 12, 2019, <http://www.taipetimes.com/News/editorials/archives/2019/05/12/2003714979>.

⁵³ *Ibid.*

The former chief of the General Staff, Admiral Lee Hsi-ming, emphasized the need to develop innovative asymmetric capabilities, improve mobility and survivability, and identify and maximize Taiwan's defensive advantages to deter a Chinese attack.⁵⁴ This requires a larger military budget and the acquisition of more advanced weapons systems from the United States and its allies.⁵⁵

Voters Caught between a Rock and Hard Place

Opinion surveys show that most Taiwanese support the status quo and prioritize safeguarding Taiwan's freedom and democracy without necessarily supporting either unification or formal independence.⁵⁶ But for those still sympathetic to either unification or independence, particularly in the older generations, the two parties now offer completely different positions with little overlap. The KMT and its candidate Han Kuo-yu recognize the 1992 Consensus and want to work more closely with Beijing for the economic benefits it can provide. Han reflects the views of those who think accommodating Beijing is necessary to maintain peace in the Taiwan Strait, even if they do not support unification under one country, two systems. Furthermore, the Chinese economy seems to provide the answer for many individuals, entrepreneurs, organizations, and companies that want larger markets, faster growth, and better jobs.

However, economic growth is no longer the biggest issue for many Taiwanese voters, the majority of whom are not committed to either the DPP or the KMT.⁵⁷ A primary driver in Taiwanese politics is that the priorities of younger Taiwanese, more than a million of whom were eligible to vote in a presidential and legislative election for the first time in 2020, are quite different from those of their parents.⁵⁸ Surveys show that young voters, who have even lower levels of party affiliation, are presently drawn to the DPP because it is more committed than the KMT to equality, environmental

⁵⁴ Ministry of National Defense (Taiwan), *Guarding the Borders, Defending the Land: The ROC Armed Forces in View* (Taipei, December 2017), <https://www.ustaiwandefense.com/taiwan-ministry-of-national-defense-reports>.

⁵⁵ "Junfang guanyuan: Zhengqu tiaozeng guofang yusuan, dan nan yibu daowei" [Military Official Says Must Strive for Increase in Defense Budget, but Hard to Get It All at Once], *Liberty Times*, October 14, 2017, <https://news.ltn.com.tw/news/focus/paper/1143250>; and "Taiwan: Incremental Rises in Defense Spending," *Asia Times*, April 16, 2019, <https://www.asiatimes.com/2019/04/article/taiwan-incremental-rises-in-defense-spending>.

⁵⁶ "Objecting to the Chinese Communist Party's Military and Diplomatic Coercion."

⁵⁷ For reference, see "Party Preferences" chart in "Trends of Core Political Attitudes (1992/06~2019/06)."

⁵⁸ "Zhongxuanhui: 2020 xuanju renshu 1934 wanren, shoutouzu 118 wanren" [Central Election Commission: Number of Voters in 2020 General Election Is 19.34 Million, with 1.18 Million First-Time Voters], SET News, September 12, 2019, <https://www.setn.com/News.aspx?NewsID=601301>.

sustainability, and democracy.⁵⁹ But unlike some of their parents who are devoted to the DPP because of its historic commitment to independence, they also believe that Taiwan has already achieved de facto independence and does not need to run the risk of making any formal declaration to that effect.⁶⁰

To be sure, the DPP's poor record in governance and economic planning may give these younger voters pause. With a youth unemployment rate over 12% (twice the national average), Taiwan's high-income trap has afflicted many young people who are unable to save and therefore are marrying later and not having children. Fewer of them are able to care for their parents in a super-aged society. Therefore, young professionals are tempted by the opportunities being offered to them in China, even though they prefer not to live there on a long-term basis. Although young entrepreneurs would like to raise capital from quality investors in U.S. markets, they have found China to be much easier to access due to policy incentives, high liquidity, and a similar culture.⁶¹ Accordingly, the DPP still needs to prove to younger voters that it can not only defend Taiwan's democracy but also provide an economic future.

Taiwan's Response to the Evolving U.S.-China Competition

Taiwan faces three alternative strategies for navigating the intensifying U.S.-China rivalry, and consensus will be difficult to reach. Throughout the Cold War, Taiwan was allied with the United States to ensure its security against China. In recent decades, however, it has become increasingly dependent on China economically, and there is now a tendency in some quarters to see China as a successful model of effective authoritarian governance, as compared with the dysfunctionality of many Western democracies. Tilting away from the United States and toward China is therefore a second option—albeit one that so far has only received minority support from some in the business community or the KMT. Several other small states in Asia are trying to hedge against both the United States and

⁵⁹ For party affiliation by age group, see “Taiwan National Security Survey,” Duke University, Asian Security Studies Program, <https://sites.duke.edu/pass/taiwan-national-security-survey>.

⁶⁰ Chen Fang-yu, “Taiwan nianqing shidai de zhengzhi taidu mindiao: Yuanwei Taiwan erzhan, zhichi minzhu, fandui tongyi” [Survey on the Political Attitudes of Younger Generation in Taiwan: Willing to Fight for Taiwan, Supporting Democracy and Opposing Unification], Inition Media, April 17, 2018, <https://theinition.com/article/20180417-opinion-chenfangyu-taiwan-teenagers>. Also see polls commissioned by Taiwan Public Television Service Foundation, <https://d1onng0u0flh7y.cloudfront.net/ourcountry/index.html> and <https://news.ltn.com.tw/news/politics/breakingnews/2942002>.

⁶¹ Ralph Jennings, “China Offers Special Breaks to Attract Taiwanese Startups, but Only 1% Find Success,” *Forbes*, March 26, 2019, <https://www.forbes.com/sites/ralphjennings/2019/03/26/china-offers-special-breaks-to-attract-taiwanese-startups-but-only-1-find-success>.

China, and this third strategy is becoming more attractive for Taiwan as well. But Taiwan faces more intense security challenges from China than most other Asian countries do, and therefore it will be more difficult for Taiwan to exercise a hedging option successfully. Accordingly, the alliance with the United States is still widely regarded in Taiwan as indispensable, and therefore serves to some degree as the basis for the other two options.

Option One: Move Closer to the United States to Balance against China

Given the heightened threat from China and the deteriorating Sino-U.S. relationship, the first option is for Taiwan to move even closer to the United States to both ensure its autonomy and find solutions to its economic problems. As already noted, this option is supported by the military, a wide segment of the younger generation, and many interest groups that have been marginalized economically through Taiwan's closer integration with China. In part because of China's refusal to engage with the DPP, this also seems to be the course that Tsai Ing-wen has chosen. In line with this strategy, Taiwan is working more closely with both the United States and Japan and has been welcomed to participate in their vision of a free and open Indo-Pacific. The U.S. Department of Defense's June 2019 *Indo-Pacific Strategy Report* declared that "the United States has a vital interest in upholding the rules-based international order, which includes a strong, prosperous, and democratic Taiwan." The report also included Taiwan in a list of four countries that, though not formal allies, are described as "reliable and capable partners."⁶²

Some in Taiwan hope that an extreme form of this option would include re-establishing official relations with the United States, gaining membership or observer status in major international organizations, or even achieving independence. Others, in contrast, including a majority of Taiwanese, probably consider any movement toward formal independence to be unnecessarily dangerous and provocative under foreseeable circumstances. Nonetheless, the small but committed group of Taiwanese advocating such a strategy are determined, and any further deterioration in U.S.-China relations could give them more hope of success.⁶³ Furthermore, this first option has many variants. Less extreme versions include more frequent meetings between

⁶² U.S. Department of Defense, *Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region* (Washington, D.C., June 2019), <https://media.defense.gov/2019/Jul/01/2002152311/-1/-1/1/DEPARTMENT-OF-DEFENSE-INDO-PACIFIC-STRATEGY-REPORT-2019.PDF>.

⁶³ Ralph Jennings, "Who's Behind the Quick Rise in U.S.-Taiwan Relations," VOA, March 27, 2019, <https://www.voanews.com/east-asia/whos-behind-quick-rise-us-taiwan-relations>.

national security and foreign affairs officials, enhanced military coordination, and further cooperation in international development efforts.

On the other hand, if Taiwan chooses any version of this option, it will potentially be penalized by China. Ever since the DPP was voted into power, Beijing has imposed economic sanctions by drastically reducing the number of group and individual tourists to Taiwan.⁶⁴ Beijing is on the alert for any signs of further upgrades in U.S.-Taiwan relations and vehemently protested when Taiwan's national security adviser met with U.S. officials in the United States in May 2019, the first time since derecognition in 1979.⁶⁵ For this option to be accepted by the Taiwanese public, it must also include signs that Taiwan is benefiting economically from closer cooperation with the United States, particularly through the conclusion of free trade and investment agreements, and is not simply enhancing its military security. As already noted, this may prove difficult.

A second risk produced by this option is that if tensions between the United States and China deepen, Taiwan will become entrapped in the Sino-U.S. rivalry, at some risk to its security. As the United States offers to sell larger numbers of more advanced arms to Taiwan, Taiwan will need to decide whether to increase its defense expenditures in order to purchase them. Opponents will argue that civilian needs should have priority, that the likelihood of a Chinese attack is low as long as Taiwan does not provoke Beijing, or that any resistance to a Chinese attack would be futile and that Taiwan should just rely on the United States. Taiwan already spends over 2% of its GDP on defense, equal to NATO's goals for 2024, and increasing the defense budget has been contentious.⁶⁶ Moreover, Tsai's expensive decisions to upgrade Taiwan's existing indigenous defense fighters, develop a sixth-generation stealth fighter, and build its own submarines have aroused public skepticism.⁶⁷ Taiwan is also transitioning from a conscription system

⁶⁴ Chinmei Sung, "Taiwan Set for First Tourist Drop since 2003 after China Ban," Bloomberg, October 28, 2019, <https://www.yahoo.com/news/taiwan-set-first-drop-tourists-055928464.html>.

⁶⁵ "Rare Meeting between Taiwanese, U.S. Security Officials Angers Beijing," Reuters, May 27, 2019, available at <https://www.scmp.com/news/china/diplomacy/article/3011978/rare-meeting-between-taiwanese-us-security-officials-angers>.

⁶⁶ Teng Pei-ju, "Defense Budget to Increase by NT\$18.3 Billion in 2019: Taiwan Premier," *Taiwan News*, July 27, 2018, <https://www.taiwannews.com.tw/en/news/3492793>. For further analysis of Taiwanese attitudes on defense spending, see Wang Hong'en, "Guofang, Who Cares?—Cong mindiao taolun Taiwan guofang zhichu lunshu ying congh zhuoshou" [National Defense, Who Cares?—How to Interpret Survey Results of Discussion about National Defense Budget], Voice Tank, May 2, 2019, <https://www.voicetank.org/single-post/2019/05/02/050201>.

⁶⁷ Lawrence Chung, "Taiwan Offers Glimpse of Home-Built Submarine Designed to Deter Beijing," *South China Morning Post*, May 9, 2019, <https://www.scmp.com/news/china/military/article/3009573/taiwan-offers-glimpse-home-built-submarine-designed-deter>; and Ministry of National Defense (Taiwan), *Guarding the Borders, Defending the Land*.

to an all-volunteer army, which is challenging given its declining birth rate and the increased personnel costs that this transition will entail.

Option Two: Accommodate China and Rely on It Economically

Given the rise of China economically and militarily and the uncertainties surrounding a continued U.S. commitment to the region, support for accommodating China is growing. The variants of accommodation run across a wide spectrum, but their common prerequisite is the reaffirmation of the 1992 Consensus or some other commitment to eventual unification. Accommodation might also require voting the DPP out of office because Beijing is highly suspicious of any DPP government, given the party's historic commitment to independence.

Accommodation is supported by the old guard within the KMT and by many mainlanders who see eventual unification as desirable and unavoidable. This option may also be supported by some Taiwanese multinational corporations, especially those with a strong Chinese presence. During his presidency, Ma Ying-jeou accepted the 1992 Consensus—but with the proviso that “each side has its own interpretation”—allowing him to claim that the 1992 Consensus means unification under the Republic of China.⁶⁸ But after Xi's pronouncement in 2019 that eventual unification means one country, two systems under the rule of the CCP, the KMT can no longer insist on its own interpretation. And given recent developments in Hong Kong, any version of unification under one country, two systems will be unlikely to gain the support of the majority of Taiwanese citizens.

The primary reasons to choose this option would be to strengthen the economy and alleviate the fear of U.S. abandonment, especially given the Trump administration's unpredictability. But Taiwanese people will be debating whether a recommitment to unification on China's terms would be an acceptable price to pay.

As with the first option of moving closer to the United States, the option of accommodating China has several variants. At one extreme, it could involve the negotiation of a peace agreement with China, as proposed by KMT chairman Wu Den-yih in early 2019.⁶⁹ A more moderate version could be attractive to the majority of Taiwanese who hope that there is a way to reap economic benefits from China and stabilize the Taiwan Strait without sacrificing Taiwan's autonomy and alliance with the United States. This might

⁶⁸ Yu-Jie Chen and Jerome A. Cohen, “China-Taiwan Relations Re-examined: The 1992 Consensus and Cross-Strait Agreements,” *University of Pennsylvania Asian Law Review* 14, no. 1 (2019): 11.

⁶⁹ Shih Hsiao-kuan and Jonathan Chin, “Wu Den-Yih Says KMT Could Sign Peace Treaty If It Regains Presidency Next Year,” *Taipei Times*, February 15, 2019, <http://www.taipetimes.com/News/front/archives/2019/02/15/2003709751>.

include joining Chinese-led free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP), participating in China's Belt and Road Initiative, and joining the Asian Infrastructure Investment Bank (AIIB), as many U.S. allies have already done. This would be especially important for Taiwan because it has been unable to join any free trade agreements due to Beijing's pressure and is less likely to join the successor to the TPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, as long as the United States is not a member. Furthermore, accommodating China economically could lead to more Chinese investment in Taiwan that could invigorate the economy by creating jobs and growth, as well as to increased Chinese agricultural imports from Taiwan. Another possibility would be to include Taiwanese technology companies in the Made in China 2025 project. Politically, accommodation could give Taiwan more international space to maneuver, as it did during Ma's eight years in office. Before 2016, Beijing allowed Taiwan to participate in certain international organizations on an ad hoc basis.

The costs and benefits of these various forms of accommodation are difficult to quantify. It is hard to predict whether accommodating China politically for greater economic and diplomatic benefits would weaken Taiwan's connection with the United States and whether even a vague commitment to unification could eventually be invoked to demand a nominally peaceful but involuntary absorption by an increasingly powerful China. Although this Faustian bargain has some supporters in the business community and among the mainlanders, there is no sign that this option has any appeal to the younger generations of Taiwanese.

Option Three: Join the Others and Hedge

The last option is what most small countries in Asia have been attempting: to hedge between China and the United States by building economic ties with the former while developing some form of security relations with the latter.⁷⁰ This corresponds with the meaning of hedging in the financial world, where it denotes employing two contradictory strategies to maximize gains and minimize risks. For Taiwan, hedging would mean a combination of the first two options. Advocates of hedging argue that it would be undesirable for Taiwan either to balance with the United States against China's rise or to bandwagon with China by voluntarily submitting to Beijing's demands.

⁷⁰ See, for example, Jürgen Haacke, "The Concept of Hedging and Its Application to Southeast Asia: A Critique and a Proposal for a Modified Conceptual and Methodological Framework," *International Relations of the Asia-Pacific* 19, no. 3 (2019): 375–417; and Kuik Cheng-Chwee, "Malaysia between the United States and China: What Do Weaker States Hedge Against?" *Asian Politics and Policy* 8, no. 1 (2016): 155–77.

It would also be infeasible to try to remain neutral by seeking parallel and balanced relations with both.

For Taiwan, hedging would entail further purchases of U.S. arms and even closer security relations through joint military exercises and coordination of defense policies, alongside increased two-way trade and investment with China and participation in the Belt and Road Initiative, RCEP, and the AIIB. Most Taiwanese presidents in the past have claimed to know how to walk this tightrope during their electoral campaigns, but in the end, each president alienated either Beijing or Washington or both.

Given the deterioration in U.S.-China relations, trying to improve relations with both superpowers while not crossing this red line may become even more difficult. If Taiwan accepts opportunities to solidify its economic relations with China, can it ever be certain that Washington will not abandon Taipei in order to maintain its own relations with Beijing? And if Taiwan can gain economic and political benefits from China, how can it be sure that China will not use the resulting economic dependence as leverage one day?

Another version of hedging is therefore to diversify Taiwan's international relations by seeking economic and security ties with other countries in the region that are facing the same threats and opportunities and are adopting similar hedging strategies. These would include South Korea, Japan, and the members of ASEAN. With the New Southbound Policy, Taiwan is in fact pursuing this form of hedging by promoting economic and social exchanges with like-minded democratic countries interested in enhancing their international relationships with Taiwan either officially or unofficially. But Tsai faces a serious challenge in this regard because both Beijing and the United States can exert great pressure on these countries to make a choice. While some proponents of a free and open Indo-Pacific strategy, such as the United States and Japan, may be willing to work more closely with Taiwan, other countries, such as India, will try to remain neutral; some like Australia and Vietnam will be guarded; and still others, like the Philippines, may choose to tilt toward China in their responses to Taiwan's overtures.

The dilemma for the Taiwanese public is that none of Taiwan's political parties has developed a clear strategy for navigating the U.S.-China rivalry, and their stated positions may actually be disingenuous. Tsai may appear to be a moderate who would prefer to hedge, but with the CPP stonewalling the DPP, she realistically can only adopt option one. Similarly, although the KMT may also claim to have adopted option three by trying to maintain its historical ties with the United States while moving toward China for economic benefits, it has actually been pursuing option two. The real concern of course is that both China and the United States may enforce certain red lines that would prevent Taiwan from hedging effectively.

The majority of Taiwanese people are undecided about their choice of leader and prefer a moderate who can deal with the United States and China on equal terms—a leader who can adopt option three and successfully hedge between the two superpowers. Furthermore, how Taiwan can walk this tightrope without Beijing accusing it of resisting unification and Washington of excessive accommodation of China is unclear. Both China and the United States will be tempted to press Taiwan to clarify its choice rather than allowing it to develop relations with both countries.

Conclusions and Implications

Both Taiwanese voters and leaders face the difficult challenge of finding effective solutions to Taiwan's high-income trap while defending the autonomy, identity, and values that the overwhelming majority of Taiwanese people hold dear. It will be difficult, if not impossible, for a mature economy like Taiwan's to maintain, let alone increase, its standard of living and level of social welfare as it faces growing competitive pressures from lower-cost economies and as its citizens demand greater fairness and environmental sustainability. Taiwan may simply need to adapt to slower growth and re-prioritize its economic goals according to the demands of younger generations, but with relatively fewer resources than in the past. At the same time, as the Sino-U.S. competition intensifies, Taiwan's leaders may find it more difficult to navigate this rivalry, especially if both China and the United States try to discourage, or even punish, smaller nations that try to hedge between them. Indeed, this situation will be just as challenging for Taiwan as managing the domestic double bind.

Taiwan Is an Important Litmus Test

Taiwan is an example of how a U.S. ally facing domestic economic problems can cope with a China that is economically attractive while simultaneously an existential threat. China's neighbors will be looking to see whether Taiwan can successfully rely on the United States for security as it becomes increasingly entangled with the Chinese economy, as well as whether it can engage with China without losing its identity and autonomy in the process. Taiwan is also a test of China's capabilities and intentions. Although China claims to be rising peacefully, its expansive geopolitical aims, increasing comprehensive national power, and growing national ambitions have challenged all of its neighbors. Hong Kong's unrest has also demonstrated China's inability to successfully implement the one country, two systems model that is supposed to be applied to Taiwan. If China ultimately

chooses to use force against Taiwan to compel unification, that will be a more alarming sign to the region about its broader intentions.

Moreover, Taiwan's fate will test U.S. resolve in the region. A free and democratic Taiwan is an indispensable partner in any U.S. attempt to balance China and should have the full backing of the United States.⁷¹ In addition, the region's stability depends on Taiwan's continued support of the United States' regional leadership. The U.S. response to a potential military attack across the strait has historically been characterized by "strategic ambiguity," whereby no unconditional commitment has been made.⁷² But Beijing believes that such a position still enables Taiwan to resist unification and is the root cause of the tension across the strait. Conversely, some Americans are asking whether Taiwan is sufficiently important to warrant the risks and potential costs of a military confrontation with an increasingly powerful China. As such, Taiwan is in doubt as to whether the United States would come to its aid in the event of a Chinese attack, and that doubt has encouraged the rise of pro-Beijing political parties and politicians. How well the United States can manage the Taiwan issue will be an indicator of U.S. leadership in the region in the face of China's rise.

Implications and Policy Options for the United States

As the United States' tenth-largest trading partner and a crucial link in the global technology supply chain, and given its geostrategic position, Taiwan occupies an important place in the United States' Indo-Pacific strategy. The United States cannot afford to lose Taiwan's support, especially through any form of coercion from China. Given the growing awareness of the U.S.-China rivalry and the loss of confidence in the previous U.S. policy of engagement, there is bipartisan support in Congress for balancing China and safeguarding Taiwan. Yet the strategy for doing so remains largely unspecified.

It is important for the United States to help Taiwan escape the high-income trap so that it does not overly rely on China to address its socioeconomic problems. To this end, the United States should reach a mutually acceptable economic agreement with Taiwan, overcoming the objections by pork farmers and consumer groups in Taiwan and the high standards demanded by both the U.S. trade representative and Congress. The United States must also encourage Taiwanese entrepreneurship and innovation and promote the flow of capital between the two countries. In particular, the United States should help Taiwanese companies, especially

⁷¹ Chris Horton, "Taiwan's Status Is a Geopolitical Absurdity," *Atlantic*, July 8, 2019, <https://www.theatlantic.com/international/archive/2019/07/taiwans-status-geopolitical-absurdity/593371>.

⁷² Bill Sharp, "Whither Strategic Ambiguity," PacNet, Pacific Forum, July 30, 2019.

high-tech firms, move toward higher-end research and manufacturing and diversify Taiwan's industrial base.

Second, the United States should continue to reassure Taiwan militarily through arms sales and security coordination. But the United States must also pressure Taiwan to update its defense doctrine and be more self-reliant in weapons production. Washington needs to work with Taipei to develop a military deterrent that would greatly increase the costs of a Chinese invasion while also maintaining its own capabilities so as to preserve the credibility of a possible U.S. intervention. Since Taiwan will never be able to keep up with Chinese defense spending, the United States must help it develop asymmetric capabilities for responding to nontraditional threats, especially cyberwarfare. Supported by forward-thinking elements in the Taiwanese military, this effort will involve high-level exchanges and the re-examination of Taiwan's defense requirements to overcome the expected resistance from both traditional elements in the military and U.S. arms producers that remain committed to conventional approaches to the island's security.

Third, the United States should help the Taiwanese people protect and promote the values that have become important aspects of their new national identity, including democracy, political autonomy, social justice, and environmental sustainability. Taiwan's democracy is threatened not only by its own shortcomings but also by Chinese efforts to undermine it through pro-Beijing ownership of mainstream media and the spreading of misinformation through social media. These efforts require Taiwan and the United States to work more closely to identify and counter such efforts.

Given that China is attempting to present authoritarian and mercantilist alternatives to U.S. models of democratic politics and market economics, it is important for the United States to demonstrate the continued effectiveness of democratic institutions and the dynamism of market economies, as well as to show the compatibility of democracy with Chinese culture against Beijing's claims that democratic systems are suitable only for Western societies. Taiwan will be a key test of the United States' ability to do so. The two sides should further enhance their pursuit of common interests in such areas as women's empowerment, civil society, and governance. The United States should encourage more tourism, educational exchange, and understanding between the two democratic countries, especially among the younger generations.

Conversely, the United States must avoid giving the impression that its policies toward Taiwan are aimed solely at advancing its own interests while ignoring the Taiwanese people's will. China will be looking for any evidence that would support such a characterization, and Washington must demonstrate that it sees its relationship with Taipei as important in its

own right and not merely as a card that it can either play or withhold in its interactions with Beijing.

Finally, the United States must review how to adapt its one-China policy to account for Beijing's changing attitudes and Taipei's evolving views on Taiwan's future relationship with the mainland. Abandoning this policy would remove one of the cornerstones of the U.S.-China relationship and would be provocative and unwise. However, some interpretations of it seem increasingly anachronistic. To imply, as the one-China policy may once have done, that unification is the inevitable future for Taiwan runs counter to the Taiwanese people's preference for continued autonomy. Similarly, while Bill Clinton's interpretation of the one-China policy may still prevent Washington from supporting Taiwan's formal membership in international institutions composed exclusively of sovereign states, the United States should actively promote Taiwan's meaningful participation in international forums where its involvement is important for success.⁷³ Nor should the absence of formal diplomatic relations with Taiwan preclude contacts between the two governments to manage their extensive bilateral relations.

The United States' Taiwan policy thus should recognize that Taiwan is an increasingly important part of the U.S. strategy in Asia, especially among the community of democracies that are facing ever greater threats from an ambitious China. The United States must help Taiwan deal with the growing challenges to its security, safeguard its future as a democracy, and stay deeply engaged in a globalized world. There is much at stake for U.S. leadership in the region in promoting values that matter to the liberal order. If the United States does not show leadership economically and politically, as well as militarily, China has a proven ability to use hard, sharp, sticky, and soft power against Taiwan and other countries in the region.

While Taiwan remains very reluctant to acquiesce to Chinese pressure and demands, the island is so vulnerable that, without U.S. support, it could be absorbed by China involuntarily after fighting so hard for democracy for many decades. The future of Taiwan is important for the Taiwanese people, for the stability of the region and the world, and for U.S. leadership in the liberal democratic order. What is at stake is ultimately which side will win the competition between two entirely different systems. Taiwan's vulnerability and importance make the country a priority as the United States develops strategies to compete with China and balance its rise.

⁷³ Clinton's "three no's" included no U.S. support for Taiwan's membership in international organizations where membership was restricted to sovereign states. For a critical analysis, see Stephen Yates, "Clinton Statement Undermines Taiwan," Heritage Foundation, Executive Memorandum, no. 538, July 10, 1998.

