China in Asia Seminar Series
Seminar 4: "China, Taiwan and Asia: Is Economics Reshaping Politics?
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SUMMARY
Dr. Phillip C. Saunders (National Defense University)
Taiwan in China's Asia Strategy.

Chinese leaders face two key dilemmas in integrating their Taiwan and Asia strategies. Deterring Taiwan independence requires military threats that are at odds with the goal of peaceful reunification and that also undercut China's ability to present itself as a responsible regional power. Taiwan deterrence is a short to medium term goal, while China's rise and greater regional role are in the medium to long-term.

China's Taiwan policy is straightforward – to deter moves toward independence, to tilt the military balance in China's favor, to build economic ties, and to use united-front tactics to build ties with pro-China groups and isolate independence advocates. The goal is to isolate Taiwan and make Taiwan independence untenable.

The one-China principle resonates with Asian concerns about sovereignty and separatism. Limiting Taiwan's role in regional and international organizations has been fairly successful. In APEC Taiwan takes part only as an "economy." In other organizations China has used the threat of boycotts in order to enforce its position on Taiwan. Beijing has also found considerable success in presenting Taiwan as a regional troublemaker. Countries in the region may not necessarily agree with China's tactics, but they understand that they must accept the sensitivity of the Taiwan issue to deal effectively with China. However China's line that Taiwan is an internal issue with no applicability to the rest of Asia has met with only marginal success. Some Asian countries fear that the use of force against Taiwan could signal a similar use of force in other areas such as the South China Sea. Finally, the PRC has had some success in circumscribing the role of U.S. alliances vis-à-vis Taiwan. U.S. allies in the region do not want to get involved in a Taiwan conflict and want Washington to keep the situation under control. China has gained some ground by establishing what by mutual consent are considered strategic relationships with Thailand, the Philippines and South Korea, but has failed with Japan. A debate is now underway in Australia over the Australian role in a possible Taiwan conflict.

Is China's Taiwan policy undercutting its regional strategy? China has been very successful in its regional diplomacy – supporting regional economic integration and strategic partnerships, often in areas that the U.S. is not involved. Chinese leaders listen and respond to regional concerns in ways that resonate positively in the region. However that flexibility disappears and the PRC exhibits diplomatic clumsiness whenever Taiwan comes into play. Beijing's bullying of South Korean parlimentarians and Singapore's Lee Hsien Loong not to visit Taiwan in 2004 elicited negative responses in Asia and undercut PRC diplomatic messages about "peaceful rise."

On the other hand, the belief that China's military modernization is aimed only at Taiwan has diverted regional attention from significant increases in PRC military capabilities.

Countries in the region want a continued U.S. presence in the region to prevent conflict over Taiwan. Support for a U.S. security role may increase as China's rise continues. East Asian countries support a long-term U.S. presence in the region independently of the Taiwan issue. There is however no desire to confront or contain China. The U.S. should not count on overt support or even use of regional facilities in the event of a Taiwan conflict, with the possible exception of Japan. This creates tension with U.S. military strategy, which emphasizes the need for flexibility and rapid deployment capabilities. The U.S. needs to consider whether its thinking matches Asia's current geopolitical realities.

Mr. Terry Cooke (Foreign Policy Research Institute)
On the cross-Strait relationship – is economics reshaping politics?

Across the Strait the answer to the question "is economics reshaping regional dynamics?" would be a resounding yes, but for different reasons. In Taiwan the discussion is about how much longer they may have before China shuts the window. In China the thinking is their economy is so large that it can pull in Taiwan like a tractor beam. But the thinking in both countries is largely politically driven and not based on economic drivers.

In cross-Strait trade, there is complementarity between the Taiwanese and Chinese economies. I have examined broad trends in cross-Strait trade over time. Trade started in the 1980s, accelerated in the 1990s with Taiwan's golden period in information technology, and rebounded again most recently in the period since Chen's first administration. In terms of upward trajectory of involvement and the breadth of commercial development, there has been no major discontinuity in the underlying pattern of trade regardless of political posturing.

There are drivers of continuity which explain this. If we look at the pillars of the Taiwan IT market – PCs, integrated circuits and global capital movements - we see that Taiwan manufacturers of PCs and laptops do not ultimately control the decisions on where to put their factories. It is their partners, the Hewlett-Packards, the Dell Computers, and the IBMs that make these decisions. The vast majority of these companies have moved their manufacturing to the mainland.

Of these drivers of continuity, global capital is having the greatest impact now. Prior to the 2001 "tech wreck," basically anything involving dot.com and China could be funded. After the bust there was a rethinking and a more cautious approach to funding in China. Due to an absence of exit strategies from China, Taiwan has benefited from a position of arbitrage, in helping capital to exit the Chinese market. With the assistance of Taiwanese industrialists and financiers, Hong Kong has also emerged in a mitigating role in the past few years.

China and Taiwan also differ significantly in their business models. China is a hypercompetitive market, offering high levels of competition and low returns. This contrasts with the Taiwan model, which offers high returns and low competition. Although business in China does offer some benefits (large market potential, lower labor costs), Taiwan remains successful due to business practices developed over 50 years. Taiwanese businesses are able to operate better in a cultural market (Chinese language) and in a business market. They have spent years aligning themselves with North American, European and Japanese markets and therefore are much better adapted to the global market.

China has been attempting to emulate Taiwan's success through foreign direct investments in other countries and the introduction of brands in foreign markets. However, attempts to use local labor have proved unsuccessful thus far and China is investing too much in "prestige purchases."

The basic point is that it is the global market that drives the cross-Strait trade and investment relationship, not politics. Local leaders in China are directly benefiting from Taiwan's success and the Taiwanese electorate demands strong economic development.

Dr. Shelley Rigger (Davidson College)
On Chinese and Taiwanese dilemmas

In the PRC, Taiwan and the U.S. there are pundits who are excited, hopeful, or worried that economic interdependence will lead to a political stalemate. Just as we are unwise to assume cross-Strait economic integration will lead to Taiwan's absorption into the Chinese economy, we should also not think that the Taiwanese will surrender their long-term political objectives for a pro-PRC solution. The interaction between economic and political forces in the cross-Strait relationship is more complicated than it appears.

Both China and Taiwan have short-term and long-term goals. In the short-term China wants to arrest trends that make a Taiwan resolution in their favor difficult and to deter a strong assertion of independence. The Chinese are particularly worried about the possibility of "desinicization" – that somehow Taiwan will be stripped of its Chinese characteristics. Over the long-term, China wishes to incorporate Taiwan back into China – perhaps back into the PRC or perhaps in another kind of model like Hong Kong ("Reunification Lite"), or some other model that is not the "Republic of China" today.

Taiwan's short-term goal is to defy incorporation into an entity on PRC terms. Over the long-run Taiwanese wish to avoid the loss of Taiwan's autonomy. Taiwan has difficulty responding to Chinese overtures when there is no clear-cut understanding of what "Reunification Lite" for Taiwan might look like, except that long-term PRC goals permanently rule out any idea of Taiwan independence.

There is no consensus in Taiwan on how to achieve these goals. The Green party mainstream resists any resolution of any issue in the cross-Strait relationship. Their members feel the need to

stress a Taiwanese identity separate from the mainland in order to reduce the seductive power of Beijing. They look for opportunities for minimum engagement with Beijing to buy time and hope for a change within China or the international community which strengthens Taiwan's position. The Blue mainstream also believes in pacification and stalling, but they are stalling for a more positive pro-China outcome – an enforceable and meaningful "Reunification Lite." The recent visits by James Soong and Lien Chan indicate that symbolic engagement can be useful in reducing cross-Strait tensions.

Beijing's basic dilemma is that its short term goals subvert its long-term goals. This is where the economic dimension comes in. Taiwan's economy is increasingly intertwined with China's. This doesn't necessarily mean that reunification is inevitable, but the economic relationship could bring about changes in public opinion toward "Reunification Lite." Therefore, in the long run economic engagement is the best hope the PRC has for bringing about cross-Strait dialogue on Taiwan's future status. You don't get that with hostile messages like the anti-succession law.

Taiwan's dilemma is how to keep a robust economy without losing autonomy. There is a growing sense of resignation in Taiwan. If they do not get involved with China economically they will become marginalized in the global economy. If they do get involved there is a growing level of dependence. Taiwanese may come to accept that they will not get everything they want, but they are not quite ready to concede this.

Q&A

Please elaborate on Taiwan's critical advantages over China.

Terry Cooke – As Dr. Rigger stated, Taiwan's dilemma is choosing between becoming an economy that is heavily dependent on China or simply becoming a marginalized economy. But national economies do not make or influence business decisions; the global economy does. There are economic and commercial tensions on one hand and political tensions on the other. It is attractive to businesses that China provides an opportunity to set up a factory and move whatever inhabitants are there quickly instead of having to deal with Taiwan's 23 million constituents in a democracy. However, global businesses require a productive "soft" infrastructure and Taiwan is better positioned here. On the other hand, businesses will always be more interested in China due to its sheer scale. Taiwan, and for that matter Singapore, will never be attractive in that sense. But the presence of vast numbers of consumers in China does not mean that Taiwan will be replaced in the global market chain. Taiwan's democracy will serve it well in the future, just as China's huge population will serve China well.

Please comment on the composition of China's influence in Asia vis-à-vis Taiwan.

Phillip Saunders – China has had difficulty setting clear "red lines" and stopping creeping moves toward independence. So far economics has not played a major role. But it could be argued that Taiwan's actions are starting to have economic disadvantages – that the desire for economic development of which China is clearly a part of, is beginning to have a constraining effect on Taiwan politics.