



## China in Asia Seminar Series

### Seminar 4: China, Taiwan and Asia: Is Economics Reshaping Politics?

June 15, 2005

#### CORE GROUP SUMMARY

Discussion began with a China analyst outlining the three ways in which China has been trying to manipulate actors in Taiwan to achieve its objectives. First, China hopes over the long term to win over the Taiwanese electorate through a growing sense of economic linkages such that Taiwanese see a close cross-Strait economic relationship as necessary and inevitable. Second, the Chinese leadership is aiming for a shift in the balance of the Taiwanese political elite. The PRC hopes that the necessity and benefits of the economic relationship will cause the electorate to put pressure on politicians to support a pro-China stance. Third, Beijing has been trying to cultivate a good relationship with the Taiwanese business community, although Beijing alternates between courting Taiwan businesses and publicly threatening them. China has difficulty monitoring whether pressure has actually been applied effectively, and ever since the 2004 presidential election there is a sense that the Taiwanese business community has not come through for Beijing. Many members of the Taiwanese business community have decided to get out of politics – to “fly below the radar,” as it were. Therefore Beijing cannot as easily influence the Taiwan political system via business connections as Chinese officials might hope.

The discussion then turned to two primary themes –the impact of China’s Taiwan policy across Asia, particularly Southeast Asia, and the interplay between China and Taiwan in the cross-Strait relationship.

An Asian specialist indicated that in recent travels in Southeast Asia, officials in the region specifically remarked on the importance of the Taiwan business community and how they did not want to put business links with Taiwan at risk. However, at the same time Southeast Asian officials appear to be buying China’s argument that Taiwan is a domestic issue and that China’s behavior toward Taiwan is not necessarily an indicator of its future behavior elsewhere in the region. Whether Southeast Asian governments really take that argument at face value is another matter; they may just be seeking a way to diplomatically appease China.

According to an ASEAN business expert, China’s economic profile outpaces any of the individual Southeast Asian nations’ profiles. Countries in the region feel they have a lot of common issues and support from China that they do not get from the U.S. China is now laying a foundation for expanding its influence.

Following up on this point, a Southeast Asian specialist said that as much as China would like to talk about Taiwan as a separate issue, it has serious implications for Southeast Asia. Governments are trying to finesse this issue with China. Singapore leader Lee Hsien Loong’s visit represented a setting of parameters, not simply bowing to China’s will. What if China did use force against Taiwan? According to a China analyst and several others, the response in Southeast Asia would depend on answers to a number of questions. Who started

it? How serious was the military force? What did the U.S. do? There is a determined optimism in Southeast Asia to play up the positives and downplay the negatives. This was further supported by a Northeast Asia expert, who said that Southeast Asians are trying to explain away China's behavior because they feel there is little they can do about it.

One analyst objected to this opinion and argued that Southeast Asian countries would follow the U.S. lead on China, standing up against Chinese aggression towards Taiwan when the United States leads the way. Additional participants agreed on a middle position that that Southeast Asia is hedging its bets on China. A business expert gave the example of Southeast Asia's response to a WTO dispute settlement case filed against China's two-tier pricing system in the semiconductor industry. Japan and the EU were the first to take action. Although contacts were made with Southeast Asian countries that clearly would be hurt should the unfair pricing system remain in place, they preferred to let U.S., the EU, and Japan initiate the case in order to not risk future retribution from China.

An expert on cross-Strait relations laid out three general patterns of Chinese trade. The first is designed to fuel China's appetite for commodities and raw materials needed for growth. We can see examples of this in recent deals with Australia and Indonesia. Another pattern is aimed at feeding high-value Chinese goods directly into the global supply chain without relying on foreign multinationals. With a few important exceptions, Chinese companies are not faring well in this area so far. The third pattern centers on forging new economic relationships, particularly with poor, marginalized, or repressive countries like Myanmar and certain African countries.

An expert on Taiwanese business noted that Taiwan, too, spends a great amount of time cultivating business communities around the globe, particularly Chinese business communities abroad.

A specialist in international affairs raised the question of the role of the 2008 Olympics in Beijing in possibly constraining Beijing's short-term and long-term behavior. However, a strategist thought that China's behavior will hinge more on expectations of U.S. behavior than on the Olympics. A China expert added that the Olympics do not really affect China's politics. The greater concern is that Taiwan might take the opportunity presented by the run-up to the Olympics to push the limits of risky behavior.

Participants then discussed Taiwan's options and the role of democracy. A China specialist asked whether Chen Shui Bian had enough domestic support to call China's bluff on opening negotiations, but an expert on Taiwan affairs saw such a move as suicidal. First, there is not support for such a move, which would be perceived as offering to give away Taiwan's future security. Second, China's likely rejection would be seen as a failure for Chen. This speaker further emphasized that Taiwan's options are severely constrained by U.S. goals and decision-making as well as by Taiwan's democratic process, particularly in the case of the U.S. arms package.

Is there a point of no return for Taiwan? In other words, will Taiwan's economy become so dependent on the mainland that independence and/or autonomy become meaningless or

impossible? Taiwan has tried many policies – “go slow,” “go patient,” “go South,” and now “effective management” – in order to keep the problem of economic dependence under control.

A China analyst pointed out that in the short term, China is merely looking to stall Taiwanese independence. But in the long term, the hope is to work through the Taiwan business community in order to use economic leverage for political influence. One participant, however, said that Taiwanese business people only care about making money and will avoid politics. Another discussant said that the force driving investment decisions on both sides of the Taiwan Strait is not politics but globalization. Companies such as GM and Siemens are responding to the imperatives of the global market. Officials in Taipei and Beijing may think they are determining policy but in fact they have little control over the companies.

A cross-Strait specialist said this is precisely the problem – that Beijing and Taipei think they can influence the politics through economics. They look at the situation from a cross-Strait perspective first and then globally, when it should be the other way around. An expert on Taiwan agreed, saying that Taiwanese leaders are concerned about a pro-China backslide on the part of the younger generation. But although young Taiwanese may go to China to work for a few years, they do not do so to become Chinese but to gain experience. Continuing on this theme, another participant agreed that the idea that either side can gain political ground through economics is misplaced because the side with the advantage changes all the time. In his opinion, the Taiwan’s strongest asset is democracy, which has strong appeal throughout Southeast Asia. An Asian specialist said that Taiwanese are looking for a relationship with China such as the U.S. has with Canada, but that the PRC wants a relationship with Taiwan such as the U.S. has with Hawaii. This was summed up by another participant as “their modest goals are incompatible; their visionary goals are totally incompatible.”

A political economist noted that whether or not China’s growing economic influence threatens U.S. interests depends on what kind of regime we face in the future. The Chinese regime has changed markedly over the last 20 years, but we do not know to what extent China’s engagement in the global economy will change the future character of the Chinese leadership and the Chinese political system from within.

Another participant pointed out that it is not just Taiwanese businesses that are singled out for punishment when things don’t go Beijing’s way. He described a situation in which Credit Suisse Bank inadvertently referred to Taiwan in its literature as the “Republic of China” and was kicked out of China for 6 months. Any effort to improve Taiwan’s diplomatic standing meets fierce and rigid opposition from Beijing.

Final remarks centered on some of China’s weaknesses. Participants noted the gaps in China’s financial system and the absence of a flexible, freely functioning capital market. Another member highlighted how dependent China has become on the global economy. Additionally, India’s is emerging as a global economic player, so that China will not be the only major global market mover in Asia. China will have to come to grips with the fact that it has promoted itself, with the help of media “hype,” as a player with a far more robust profile than it has in reality.