

Recent Developments in China's Relations with Taiwan and North Korea

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Testimony before the U.S.-China Economic and Security Review Commission
5 June 2014

Thank you to the commissioners for organizing this very important and timely hearing and for inviting me to testify. My remarks this morning will focus on the risks, opportunities, and implications of closer cross-Strait economic integration. I will also briefly assess the prospects for the “next steps” for cross-Strait relations.

Cross-Strait Economic Integration: Risks, Opportunities, and Implications

Before former President of the Republic of China Chiang Ching-kuo lifted the ban for Taiwan citizens to visit the mainland in 1987, trade across the Taiwan Strait was practically non-existent, as the two sides were technically still in an unfinished civil war. Whatever indirect trade that did happen went through Hong Kong. Twenty-five years later, this trickle has turned into a flood. In 2013, Taiwan-China trade skyrocketed to US\$126.1 billion (or 22 percent of Taiwan's total trade). China is Taiwan's largest trading partner, top export market (absorbing 27.1 percent of Taiwan's exports, and if adding Hong Kong, which absorbs another 13.2 percent of Taiwan's exports, the China market took in 40.3 percent of Taiwan's exports), and second largest import source (supplying 16.1 percent of Taiwan's imports and is catching up Japan's 17.6 percent).¹

By contrast, in 2013 the U.S. was Taiwan's third-largest trading partner with two-way trade amounting to \$57 billion. The U.S. accounted for 10.3 percent of Taiwan's exports and 9.5 percent of Taiwan's imports. It should be pointed out that as recently as 1985, the United States was Taiwan's largest trading partner, absorbing over 40 percent of Taiwan's exports.² Since the beginning of this century, Taiwan's trade with the U.S. has been growing at a much slower pace than Taiwan's trade with China. Similar patterns exist in Taiwan's trade with other major trading partners, such as Japan. The upshot is this: If trade is a reliable proxy for closeness of bilateral relationship,³ then in the 1970s-80s, Taiwan was firmly in the U.S. camp. Taiwan's economic closeness with the U.S. supported its export-led development strategy (in terms of capital, market, and technology knowhow) and solidified its politico-strategic relationship with the U.S. during the Cold War. For Taiwan, the reversal of roles between the U.S. and China as its most important economic partner represents China's ascendance regionally and globally and

¹ Author's calculation of data from the *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html>.

² Author's presentation at “The Future of U.S.-Taiwan Economic Relationship,” the Heritage Foundation, Washington, DC, 5 February 2010, <http://www.heritage.org/events/2010/02/the-future-of-the-us-taiwan-economic-relationship>.

³ Cf. Charles Lipson, *Reliable Partners: How Democracies Have Made a Separate Peace* (Princeton University Press, 2005).

America's relative declining economic influence to Asian nations.

However, Taiwan is not alone in this regard. China has replaced the U.S. as the largest trading partner of such traditional U.S. Asian partners as Japan, South Korea, Australia, Thailand, Malaysia, and even India.⁴ In a sense, the strategic rationale for the Obama Administration's Trans-Pacific Partnership (TPP) can be seen as an attempt to reestablish the closeness the U.S. once had with its major Asian partners, or at least make up for some of the lost ground.

Whereas trade with allies may solidify security relationship, trade with enemies may entail negative security externalities – in this case, Taiwan's largest trading partner is also its largest source of security threat.⁵ Although former Taiwanese presidents Lee Teng-hui and Chen Shui-bian had each tried to regulate or slow down cross-Strait economic relations,⁶ cross-strait economic interdependence continued to grow throughout the late 1990s and 2000s during KMT or DPP administrations alike.

Trade was hardly the only manifestation of the growing cross-Strait economic interdependence (or more accurately, Taiwan's asymmetric dependence on China). It is estimated that about 90 percent of Taiwan's outward investment goes to only one country – China. On any given day, an estimated over one million Taiwanese business people and their families live and work in China. This is equal to about five percent of Taiwan's entire population.

Since 2008, however, cross-Strait economic integration entered a new era. After eight years of rocky cross-Strait relationship, President Ma Ying-jeou of the KMT, placed great importance to improving cross-Strait relations. In addition to declaring his "Three Noes" pledge – he pledged that during his term(s) in office, he would not pursue *de jure* independence or negotiate unification, and therefore war would not be an issue⁷ -- he approved cross-Strait air links (the last of the so-called Three Links), allowed mainland tourists to visit Taiwan (first in organized tours, then also as DIYs), and restored cross-Strait dialogue. Under the premise of the so-called 1992 Consensus,⁸ the two semi-official bodies – Taiwan's Straits Exchange Foundation (SEF) and China's Association for Relations Across the Taiwan Strait (ARATS) quickly restored

⁴ See <https://www.cia.gov/library/publications/the-world-factbook/fields/2050.html> and <https://www.cia.gov/library/publications/the-world-factbook/fields/2061.html>.

⁵ See *Cross-Strait Economic Ties: Agent of Change, or a Trojan Horse?* The Wilson International Center for Scholars Asia Program Special Report, no. 118 (February 2004), <http://www.wilsoncenter.org/sites/default/files/asiarpt118.pdf>.

⁶ E.g., Lee's "No Haste, Use Caution" (*jieji yongren*) and Chen's "Proactive Management and Effective Opening" (*jiji guanli, youxiao kaifang*).

⁷ See his platform, "A Golden Decade – the Nation's Vision" (*huangjin shinian, guojia yuanjing*), , <http://www.president.gov.tw/Default.aspx?tabid=1070>.

⁸ It is doubtful that China and Taiwan interpret what they agreed to in 1992 similarly. China interprets The 1992 Consensus as *gebiao yizhong* (the two sides each verbally accepts the one China principle), whereas Taiwan interprets it to mean *yizhong gebiao* (one China, but each side has its own interpretation). Nonetheless, this ambiguous term of art allowed the KMT and the Chinese Communist Party to "agree to disagree" and move on.

working relationship and were given new authority to negotiate and conclude a series of cooperation agreements. To date, twenty-one cross-Strait agreements have been signed under the aegis of SEF and ARATS.⁹

Economic normalization was clearly an important pillar for the Ma Administration's effort to normalize cross-Strait relations. He laid out an incremental strategy, "First the Urgent, Then the Less Urgent; First the Easy, Then the Difficult; First Economics, Then Politics" (*xianji houhuan, xianyi hounan, xianjing houzheng*). In 2010, Taiwan and China signed a historic Economic Cooperation Framework (ECFA) with additional agreements on trade in service, trade in goods, dispute settlement, and exchange of representative offices to be negotiated and added on later. This approach suffered a significant setback over the student occupation of Taiwan's legislature to oppose the ratification of the Cross-Strait Service in Trade Agreement (CSSTA) in March-April this year – a movement known as the Sunflower Movement.

The Sunflower Movement initially caught many by surprise – the KMT, the CCP, and the United States Obama Administration, which had officially blessed the cross-Strait rapprochement.¹⁰ This is because the post-2008 cross-Strait rapprochement is based on the liberal assumption (also known as the commercial peace thesis or "the soothing scenario") which holds that growing economic interdependence will create more common interests and make war more costly¹¹ and that economic engagement will lead to democracy.¹² Ma himself opines that economic engagement with China is the best way to help Taiwan "maximize its economic opportunities and minimize its security threat." His administration has also argued that passage of CSSTA and other follow-up economic agreements is important to opening the door for regional economic integration (such as entry into TPP and Regional Comprehensive Economic Partnership, or RCEP) for Taiwan. During the 2012 presidential debate, his DPP opponent Tsai Ing-wen described his approach as "globalization through China." The Sunflower Movement combined an assortment of factors that opposed this soothing scenario and particular approach (from KMT-CCP consensus to SEF-ARATS negotiation with little public input to ratification by the Legislative Yuan where the KMT enjoys a large majority) – anti-globalization, anti-China, anti-Ma, anti-KMT, disappointment with representative democracy, and a sense of existential threat.

The U.S. government might have also knowingly or unwittingly contributed to this "surprise backlash." For more than 35 years since its normalization of relations with the People's Republic of China (PRC) in 1979, the United States has set reducing tension and encouraging dialogue across the Taiwan Strait as an important policy goal and a pillar for peace and stability

⁹ For a list of these agreements and status of their implementation, see <http://www.mac.gov.tw/ct.asp?xItem=67145&CtNode=5710&mp=1> and <http://www.mac.gov.tw/ct.asp?xItem=102611&CtNode=7526&mp=1>.

¹⁰ See, for example, the speech by Deputy Assistant Secretary of State for East Asian and Pacific Affairs David Shear, "Cross-Strait Relations in a New Era of Negotiation," at Carnegie Endowment for International Peace, 7 July 2010, <http://www.state.gov/p/eap/rls/rm/2010/07/144363.htm>.

¹¹ The German philosopher Immanuel Kant considered commercial peace as one of the three pillars for "perpetual peace." *Perpetual Peace, and Other Essays on Politics, History, and Morals* (Hackett, 1983).

¹² James Mann, *The China Fantasy: Why Capitalism Will Not Bring Democracy to China* (Penguin, 2007).

in the Western Pacific region. Further, in recent years the U.S. has blessed cross-Strait economic integration or at least did not seek to slow its development or strengthen its economic engagement with Taiwan in order to offset China's growing influence over Taiwan. Whereas in the past, the U.S. was more concerned about China's use of force against Taiwan to force unification, today the U.S. appears either nonchalant or preoccupied about an opposite possibility: Taiwan's absorption by China or Taiwan willingly unify with China – a previously unthinkable scenario first raised by former Georgetown professor Nancy Tucker:¹³ nonchalant because “our policy is working,” as economic integration has made peaceful resolution more possible than before; preoccupied because the U.S. is bogged down by other challenges in the world, such as Syria, Ukraine, and North Korea, and can really use the peace in the Taiwan Strait. Combined with the growing Chinese influence, as vividly illustrated by the trade figures, U.S. inability to elevate Taiwan's profile in America's bilateral (free trade agreements) and multilateral (TPP) geoeconomic strategies has caused imbalance on Taiwan's statecraft. In a way, the Sunflower Movement was a reaction against these perceived “narrowing straits.”¹⁴

Cross-Strait economic integration has presented opportunities and risks. For Taiwan, this allows its entrepreneurial businesses, especially those occupying critical places in the regional or global production networks, to continue surviving or even flourishing in the global value chain. Since exports are still important to Taiwan, persistent trade surplus in trade with China allows Taiwan to maintain overall trade surplus and modest rates of growth. It also could prove the Ma Administration argument that closer cross-Strait economic integration is key or prerequisite to FTAs with other nations or membership in TPP and RCEP.

For the U.S., closer cross-Strait economic integration could encourage Taiwan and China to reap common benefits, accumulate mutual trust, and even lay the material foundation for future political dialogue. It could gradually predispose a “peaceful resolution” of the impasse across the Taiwan Strait, solving a decades-old diplomatic problem for the U.S., and improving the chance for a more cordial U.S.-China relationship.

However, as USCC analyst Matthew Southerland aptly points out that despite their shared interests in expanding and deepening cross-Strait economic integration, Taipei's and Beijing's end goals are different. “Taipei seeks to leverage cross-Strait economic agreements to enhance Taiwan's integration into the Asia Pacific economy and prevent further isolation, whereas Beijing aims to use expanding cross-Strait economic ties to bind Taiwan closer to China and make progress toward Beijing's long-term goal of unification.”¹⁵ With such fundamentally different end goals, cross-Strait economic integration also entails considerable risk. For Taiwan, its businesses in China risk three effects: hollowing out, taken hostage, and advocating unification.¹⁶ Critics contend that cross-Strait economic cooperation so far has not benefited

¹³ Nancy Bernkopf Tucker, “If Taiwan Chooses Unification, Should the United States Care?” *The Washington Quarterly* 25(3)(Summer 2002): 15-28.

¹⁴ See Robert Sutter, “Taiwan's Future: Narrowing Straits,” *Asia Policy* (May 2011).

¹⁵ Matthew Southerland, “Taiwan and China Agree to Enhance Communication, but Cross-Strait Economic Agreements Face Uncertainty,” U.S.-China Economic and Security Review Commission Staff Report, 29 April 2014, 4.

¹⁶ Tun-jen Cheng, “Doing Business in China: Taiwan's Three Main Concerns,” in *Cross-Strait Economic*

Taiwan much and follow-up agreements may actually do more harm than good, as it gives Beijing more leverage toward accelerating unification.¹⁷ One criticism of the CSSTA was that the trumpeted benefits would go to few well-connected business tycoons or conglomerates, leaving ordinary folks further behind. To safeguard their interests, these business elites might then do Beijing's bidding, turning Taiwan's body politic much like Hong Kong's oligopolistic rule.

For the U.S., further cross-Strait economic integration could cause Taiwan to further gravitate toward China's orbit, causing Taiwan's further isolation, which ironically was caused by China's policies, and further diminish U.S. prestige and influence in the Asia-Pacific. As a starter, it would cause a serious dent in the "Pivot" or "Rebalancing" policy. USCC Commissioner June Dreyer points out, "Taiwan's geographic position makes it an important part of any strategy aimed at constraining the expansion of the PRC's territorial claims."¹⁸ The fact that the Obama Administration's nearly total silence on Taiwan all official documents defining the "Pivot" policy adds to the risk of policy adrift.^{19,20} In sum, while economic integration may have its own

Ties: Agent of Change, or a Trojan Horse?, 12-18.

¹⁷ William Pesek, "What Has Taiwan Gotten for Cozying up to China? Not Much" *Bloomberg View* (10 April 2014), <http://www.bloombergview.com/articles/2014-04-10/what-has-taiwan-gotten-for-cozying-up-to-china-not-much>.

¹⁸ June Teufel Dreyer, "What Does the US Focus on Asia Mean for Taiwan," in Shihoko Goto, ed., *Taiwan and the U.S. Pivot to Asia: New Realities in the Region?* (Wilson International Center for Scholars, 26 February 2013), 6. http://www.wilsoncenter.org/sites/default/files/ASIA_130308_Taiwan%20US%20web%20FOR%20WEB_0.pdf.

¹⁹ The three most important documents defining the "Pivot" or "Rebalancing" policy – Former Secretary of State Hillary Clinton's October 2011 "America's Pacific Century" article in the *Foreign Policy* magazine, President Barak Obama's November 2011 speech at the Australian Parliament, and Former National Security Advisor Thomas Donilon's March 2013 speech at the Asia Society – mentioned Taiwan a total of zero times. See Hillary Clinton, "America's Pacific Century," *Foreign Policy* (11 October 2011), http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century?page=full; "Remarks By President Obama to the Australian Parliament," 17 November 2011, <http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>; and "Remarks By Tom Donilon, National Security Advisor to the President: 'The United States and the Asia-Pacific in 2013,'" Asia Society, 11 March 2013, <http://www.whitehouse.gov/the-press-office/2013/03/11/remarks-tom-donilon-national-security-advisory-president-united-states-a>. However, Hillary Clinton, in her 10 November 2011 speech "America's Pacific Century" at the East-West Center in Hawaii, called Taiwan "an important security and economic partner," and the United States "applaud the progress...seen in cross-Strait relations between China and Taiwan..." and looked forward to "continued improvement so there can be peaceful resolution of their differences." Remarks by Secretary of State Hillary Clinton, "America's Pacific Century," 10 November 2011, <http://www.state.gov/secretary/20092013clinton/rm/2011/11/176999.htm>.

²⁰ In a paper prepared over summer 2014 for presentation at the American Political Science Association annual meeting in late August, I am examining three hypotheses for this official reticence: (1) "The Lost Cause" thesis (i.e., Pivot without Taiwan), (2) "The Fate Undetermined" thesis (i.e., Pivot, then Taiwan), and (3) "The Tacit Alliance" thesis (i.e., Pivot with Taiwan, in deed if not in word) against available evidence and assesses the positive and negative implications of the evolving cross-strait relations for the

logic, deliberate and decisive policy interventions can affect the pace and extent of economic integration. Further cross-Strait economic integration entails the risk of rendering Taiwan a “lost cause” and thus complicates U.S. policy in Asia.

Whither Cross-Strait Relations

To speculate the future prospects for cross-Strait relations in the two remaining years of the Ma Administration (Ma is serving his second term and cannot be reelected), it is useful to revisit his roadmap for cross-Strait relations -- “First the Urgent, Then the Less Urgent; First the Easy, Then the Difficult; First Economics, Then Politics.” The twenty one cross-Strait agreements hitherto signed indicate that the easy and the urgent are about all done – that is, most of the “low-hanging fruits” have been reaped. What lie ahead are more difficult, politically sensitive, and arguably not as urgent – or more likely results of positive spillover from a prolonged period of economic interaction – such as military confidence-building measures (CBMs), peace accord, Taiwan’s international participation, and negotiation of a final political settlement between Taiwan and China. Even in the economic realm, the future looks uncertain. After the Sunflower Movement, the civil society has awakened, opponents to closer cross-Strait economic integration (or at least concerned about its pace and direction) energized, and the opposition party mobilized. Rather than viewing the Sunflower Movement as an isolated unexpected episode propelled mainly by fear (loss of sovereignty, stagnation of income, uncertainty about future), it may be more useful to view it as a “safety valve” that gives early warning on an initially expedient but ultimately unsustainable path – namely, a vision endorsed by the two ruling parties across the Taiwan Strait, negotiated between two semiofficial bodies (albeit with government officials participating talks as “advisors”), and potentially rubber-stamped by the legislature.²¹

As a condition for their withdrawal from the legislature, the students demanded, and Speaker Wang Jing-ping agreed, to postpone the review of CSSTA until a Cross-Strait Agreements Review Act (CSARA) is passed and a review body is established first. The wrangling over the text of the Review Act was very controversial. The government accused the opponents attempting to draft the “two states theory” into the Act,²² which admittedly violates the 1992 Consensus – the political basis for all the cross-Strait relations thus signed – and will not be accepted by Beijing. Cross-Strait relations thus risk stagnation or even setback. The opposition party boycotts legislative sessions to consider the Review Act. Since the Review Act is the prerequisite to CSSTA and all other future cross-Strait agreements, and it is not even being rationally discussed, let alone passed, CSSTA could face considerable delay. The service-in-goods agreement (CSSGA), which was inexplicably sequenced after the CSSTA, faces even bleaker prospects. Even the agreement to exchange SEF and ARATS offices, which made an

U.S. pivot to Asia as well as the U.S. policy’s impact on cross-strait relations.

²¹ The Ma Administration has argued that the signed cross-Strait agreements are not treaties between states, which need the Legislative Yuan’s ratification, but agreements between two semiofficial bodies (as if they did not involve official authority), therefore they should only be submitted to the legislature after the fact for pro-forma post-facto filing (*bei cha*), rather than substantive review (*shen cha*). Even a vote is required, the KMT enjoys over two-thirds of the seats in the legislature, ensuring passage.

²² The “two states theory” or “special state-to-state relationship theory” was used by President Lee Teng-hui in 1999 to describe the relationship between Taiwan and China.

important advance when Beijing in March gave in to Taipei's insistence that henceforth SEF offices on the mainland must have the right to pay detained Taiwan citizens "humanitarian visits" – a pseudo-consular visits right, and reciprocal visits of top officials from the two sides' ministries in charge of cross-strait policy – Taiwan's Mainland Affairs Council (MAC) and China's Taiwan Affairs Office (TAO) – are facing delays. Other issues such as the Taiwan-proposed meeting between Taiwanese leader Ma Ying-jeou and Chinese leader Xi Jinping at this year's APEC (Asia Pacific Economic Cooperation) meeting in Beijing, CBMs, and peace accord are even more far-fetched. Although the two sides had publicly expressed interest to sign a peace accord, the idea was fraught with problems and the suitable political window appears closing with Taiwan's upcoming election schedules (municipal elections in November 2014 and presidential & legislative elections in early 2016).²³

Although President Ma allegedly has issued a marching order to the KMT parliamentarians to pass the CSSTA next week during LY's special session, it is doubtful that, given his low approval rating and the prevailing charged environment, the CSSTA or the CSARA can be passed. Cross-strait relations appear entering a period of caution and uncertainty. How much patience can Beijing afford during this period would be a critical unknown. Meanwhile, the cooling-off period may offer an opportunity for the KMT and the DPP to work toward a consensus between them (as the recent "Greater One China" idea proposed by several prominent politicians across the Blue-Green divide), as whichever party wins in 2016 must continue dealing with China's steadfast economic statecraft. This period can also offer U.S. decision-makers to reflect on the wisdom of their liberal-inspired policy toward cross-strait economic integration.

Conclusion and Recommendations

Until recent years, the Taiwan Strait had sometimes been seen as a potential flashpoint that could embroil two nuclear powers – the U.S. and China. The main operational concern for the U.S. for over 35 years was to prevent China's forceful unification of Taiwan. But to manage alliance with Taiwan (entrapment vs. abandonment), the U.S. adopted the policy of "strategic ambiguity" to deter both Beijing and Taipei from taking destabilizing moves that could alter the U.S.-constructed "status quo," while fostering conditions for exchanges and dialogues between the two. The U.S. roles were clear.

Relations between Taiwan and China since 2008 have improved so dramatically that the roles for the U.S. have become less clear. Some analysts begin to ask whether the U.S. should now be more concerned about Taiwan willingly (albeit peacefully) joining China or being economically absorbed by China. Cross-strait relations have indeed entered uncharted waters. While the U.S. may be less clear about its roles and may have questions about the pace and direction of cross-strait reconciliation, it does have important interests in the development of cross-strait relations. I will end this testimony with several policy recommendations:

²³ On the practical aspects of a possible peace agreement, see Phillip C. Saunders and Scott L. Kastner, "Bridge over Troubled Water? Envisioning a China-Taiwan Peace Agreement." *International Security* 33, no. 1 (Spring 2009): 87-114, and Vincent Wei-cheng Wang, "Commentary: The Eight Dimensions of a Cross-strait Peace Agreement," in Chung-sen Lin and Shu-fan Ding, eds., *The Conference on the Twentieth Anniversary of the "1992 Consensus" Proceedings* (Taipei: the Strait Exchange Foundation and Institute of International Relations, 2012), pp. 137-146 (in Chinese).

1. Closely monitor the developments in cross-Strait relations and assess the risks and opportunities presented by various economic, political, or even security cooperation agreements on U.S. interests.
2. Maintain regular and frequent high-level dialogue with Taipei to better understand Taiwan's plans and capabilities for future cross-Strait engagement and provide any necessary support so as to shore up Taipei's bargaining position vis-à-vis China's.
3. The U.S. should allow the main stakeholders in Taiwan's young democracy to work out their differences and forge a common understanding and avoid intervening in Taiwan's domestic politics to pick those that are expected to pursue policies which the U.S. favors. Democracy may be messy. Taiwan's democracy has the added challenge of fending off pressure from powerful external players. The U.S. has supported Taiwan's democracy against military coercion and is watching the implications of cross-Strait economic integration closely, it should also resist the temptation to intervene in Taiwan's domestic politics, especially when public discourse during election times often involves debates over the country's relationship with China.
4. To prevent Taiwan's further marginalization from Asian regional integration and prevent China from unilaterally denying Taiwan's reasonable and necessary international space (particularly in the economic realm, which is critical for a trade-dependent nation like Taiwan) and deepening Taiwan's dependence on Beijing, the United States must faithfully carry out the provisions in the Taiwan Relations Act to support Taiwan's entry or participation in the international community.
5. The U.S. should consider inviting Taiwan to negotiate accession into TPP as soon as the current round involving twelve nations is completed. This makes not only economic sense (because Taiwan is a leading economy and a major trader) but also strategic sense (as a part of the Asia Rebalancing policy). While the U.S. understandably may still have concerns over the liberalization and opening of certain sectors in Taiwan, the U.S. can actually leverage Taiwan's desire to join the TPP in achieving further liberalizing Taiwan's economy. This will strengthen Taiwan's position in Asian regional economy by giving it a good option, which may engender Taiwan's prospects in RCEP. That prospect makes sense, because both the U.S. and China are important to Taiwan and each leads a respective economic grouping. Taiwan can serve as a bridge between the U.S. and China.
6. The U.S. should also consider signing a free trade agreement (FTA) with Taiwan. The adage that FTAs are often signed for good political as much as good economic reasons applies here. In the aftermath of 9/11, the U.S. signed FTAs with Jordan, Israel, and Colombia for more security than economic reasons. Taiwan is economically more important than all current US's FTA partners, except South Korea. If the U.S. views Taiwan as indispensable to its Asia Rebalancing policy, then there is an added strategic imperative to conclude FTA with Taiwan.