

SIGUR CENTER ASIA REPORT

Evolving Cross-Strait Relations and Challenges and Implications for the U.S.

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Recent developments across the Taiwan Strait have important implications for the future of U.S.-China relations as well as America's strategic and economic interests in the larger Asian region. While political stability in the cross-strait relationship over the past few years has been welcomed by U.S. policymakers, it has not alleviated concerns about China's increasing military strength and territorial ambitions. Likewise, although the signing of an economic cooperation agreement between Taiwan and China is seen as a positive sign of cross-strait stability, some analysts raise questions about what it means for U.S. economic clout in the region. These issues have been discussed at a number of recent events organized by the Sigur Center for Asian Studies and are highlighted in this edition of the *Asia Report*.

A Growing Military Imbalance

U.S. policymakers view China as the century's biggest strategic challenge for the U.S., and this is the strategic lens through which they view cross-strait relations. As Patrick Cronin of the Center for a New American Security points out, "from this vantage point, the U.S. worries about whether China is gaining too much leverage over Taiwan, and whether the U.S. is losing too much leverage over Taiwan." [1] Militarily, the PRC's growing clout has raised the transaction costs of delivering on U.S. arms sales to Taiwan. Most recently, regarding the sale of F-16 fighter jets, Chinese Foreign Ministry spokesman Hong Lei said the U.S. should "refrain from selling arms to Taiwan so as to avoid impairing bilateral relations as well as the peaceful development of cross-strait relations." [2] Earlier this month, the Obama administration announced that the U.S. will upgrade Taiwan's existing 146 F-16 A/B jets, rather than selling it the 66 C/D models that the island has been requesting since 2006. [3]

Despite this growing military imbalance against Taiwan in favor of China, the recent warming in political relations across the Strait has pushed Taiwan issues off the radar of U.S. officials, says Cronin. [4] This stands in sharp contrast to the view held by many U.S. officials only a few years ago that utilized Taiwan as a "control rod" for the U.S.-- the notion that Taiwan could be used to shape China - an idea that has not picked up momentum. [5] The long-term strategic implication of the military imbalance is important, argues Robert Sutter of George Washington University, because it constitutes one of the factors limiting Taiwan's freedom of action in cross-strait affairs and pushes Taiwan along the path of deeper engagement with China. [6] Meanwhile, Taiwan's deterrence capabilities have suffered as a result of a declining defense budget. Although Taiwan still has sufficient military strength to deter a full-scale amphibious or air assault on the island, its edge is declining. [7]

Ramifications of Deepening Economic Cooperation

On the economic front, closer commercial and financial relations between Taiwan and China also paint a mixed picture for U.S. interests in the region. The most prominent cross-strait developments thus far include: establishment of the "Big Three Links" of direct passenger

flights, maritime shipping and postal links; facilitation of visits and exchanges; and the passage of the Economic Cooperation Framework Agreement (ECFA), which has liberalized trade across the Strait.

In one sense, deepening economic cooperation could help to offset the growing military imbalance. Scott Kastner of the University of Maryland identifies three mechanisms through which economic ties could decrease the likelihood of conflict between Taiwan and China. First, economic integration potentially affects the costs associated with military conflict. As China and Taiwan become more integrated economically, they have more to lose in the event of military conflict in the Taiwan Strait. Second, economic ties potentially facilitate the transmission of credible information. For example, integration provides China with more tools at its disposal through which to signal results for Taiwan. Rather than making verbal threats against Taiwan, China has the ability to impose costly economic sanctions as a way of signaling its resolve. Lastly, Kastner argues, economic integration has the potential to create a vested interest in stability. As Taiwan's economy comes to depend more on the PRC, more actors in Taiwan will view themselves as having an economic stake in stable cross-strait relations. From the other side, China hopes that economic ties will make Taiwan citizens more amenable to some sort of political unification eventually.[8]

Some observers raise questions about what this economic integration means from a U.S. perspective. Cronin points out that U.S. trade volume with Taiwan previously accounted for 20 percent of Taiwan's GDP, but it now only accounts for 10 percent of Taiwan's GDP. Meanwhile, the prospects for a US-Taiwan free trade agreement, which could offset China's growing economic impact on Taiwan, appear at odds over issues concerning beef. As Cronin notes, "the whole idea is not that a U.S.-Taiwan free trade agreement would make up for this relative decline of U.S. economic influence, but rather it could then foster more regional free trade agreements between other Asian countries in Taiwan, which could offset China's growth and growing economic impact on Taiwan." As the presidential elections ramp up in Taiwan, the trajectory for China-Taiwan economic relations will be a point of scrutiny for both the ruling Kuomintang Party (KMT) and opposition Democratic Progressive Party (DPP).

Domestic Politics: Taiwan's Elections Loom Large

Just four months away, Taiwan's presidential elections have served as a debating ground for examining its economic and political relations with China. According to Jacques DeLisle of the University of Pennsylvania, President Ma Ying-jeou's challenge will be to demonstrate that improved cross-strait relations has actually helped Taiwan's economy and improved its security, a key plank in his campaign platform of 2008. However, as Shelly Rigger from Davidson College points out, despite Taiwan's economic recovery from the recession, ordinary Taiwanese voters are not feeling the trickle-down benefits. Instead, they see a transfer of jobs away from home to China as a result of increased economic integration with China.[9] Additionally, Ma's pledge that signing ECFA with China would enable Taiwan to conclude free trade agreements with other countries in the region has yet to be fulfilled, although a FTA with Singapore is in the pipeline. Rigger also notes that the DPP has raised questions about whether Ma has undermined Taiwan's sovereignty through excessive economic dependence on China.[10]

Meanwhile, China has watched Taiwan's domestic political developments carefully, but has refrained from intervening or voicing its opinion as it has in the past. There is a growing sense on both sides of the Strait that Beijing and Taipei are approaching exhaustion of the 'low-hanging fruit' issues - that is to say, economics. Thus, future discussions would need to delve beyond the economic realm into questions that more directly address Taiwan's international status and ability to secure international space, says DeLisle. While these sensitive issues are unlikely to be discussed in any concrete fashion before the 2012 election, they are politically and ideologically divisive questions that not only loom large in Taiwan's future, but also have important ramifications for U.S. interests in the region. Such questions will continue to be examined in upcoming events at the Sigur Center.

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- [1] Patrick Cronin, "US Perspectives on Evolving Cross Strait Rapprochement," Roundtable on Cross Strait Agreements: Legal, Political, and Strategic Implications, George Washington University, Washington, DC, July 7, 2011.
- [2] Peter Enav, "China Criticizes US Deal to Upgrade Taiwan F-16s, Despite US Rejection of Companion F-16 Sale," *Associated Press*, September 19, 2011, http://www.washingtonpost.com/world/asia-pacific/china-criticizes-us-deal-to-upgrade-taiwan-f-16s-despite-rejection-of-companion-f-16-sale/2011/09/19/gIQAB9DXeK_story.html
- [3] Jeremy Page, "U.S., China Ease Stance on Taiwan," *Wall Street Journal*, September 20, 2011, <http://online.wsj.com/article/SB10001424053111904194604576580392496567246.html>
- [4] Patrick Cronin.
- [5] Robert Sutter, Conference on Taiwan and Evolving Cross-Strait Relations, George Washington University, Washington, DC, May 9, 2011.
- [6] Ibid.
- [7] Nancy Tucker, Conference on Taiwan and Evolving Cross-Strait Relations, George Washington University, Washington, DC, May 9, 2011.
- [8] Scott Kastner, Conference on Taiwan and Evolving Cross-Strait Relations, George Washington University, Washington, DC, May 9, 2011.
- [9] Shelly Rigger, Conference on Taiwan and Evolving Cross-Strait Relations, George Washington University, Washington, DC, May 9, 2011.
- [10] Ibid.



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