

# Taiwan's political survival in a challenging geopolitical context

## SUMMARY

Since the landmark victory of Tsai Ing-wen from Taiwan's pro-independence Democratic Progressive Party (DPP) in the 2016 presidential elections, mainland China has intensified the island's international isolation and intimidation through political pressure, economic coercion and military drills. In a January 2019 speech commemorating the 40th anniversary of the 1979 'Message to Compatriots in Taiwan', China's President, Xi Jinping, alluded to the inevitability of unification based on a 'one country, two systems' formula, which is widely rejected in Taiwan.

Taiwan's successful transition from an authoritarian anti-communist bulwark led by the Nationalist Party or Kuomintang (KMT), to a liberal multi-party democracy that embraces individual political freedoms, the rule of law and universal human rights, is a challenge for the authoritarian one-party system of the People's Republic of China (PRC), as it belies mainland China's rhetoric that a liberal multi-party democracy is unsuitable for Chinese people.

Taiwan's political survival within the fragile status quo of cross-strait relations ultimately depends on the United States' continued national interest in ensuring that Taiwan's defence capabilities and the US's military supremacy over the PRC act as a deterrent against a potential invasion of Taiwan by mainland China's military forces. Against the backdrop of the PRC's increasingly aggressive Taiwan policy and growing US-China strategic competition on multiple fronts, the US has expanded its long-standing commitments in support of Taiwan's defence and democracy, and considers the island as a partner in promoting the goals and values of the US's free and open Indo-Pacific strategy.

The EU maintains a 'One China' policy, which recognises the PRC government as the sole legal government of China. However, since the EU and Taiwan are like-minded in many regards and the EU respects Taiwan's governance system, it is interested in closer cooperation with Taiwan on non-political issues, even in the absence of diplomatic recognition.



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- The PRC's policy of intimidating and marginalising Taiwan
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## Taiwan's uncertain future amid growing Sino-US rivalry

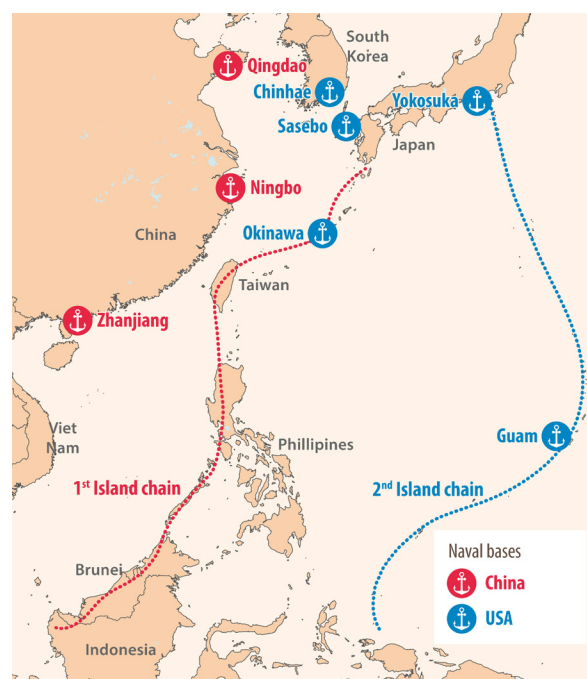
Home to more than 23 million citizens, present-day Taiwan is a [vibrant](#) and [well-established](#) liberal multi-party democracy embracing the rule of law, individual political freedoms and universal human rights. Its success story poses a systemic challenge to the authoritarian one-party regime of the PRC, which considers the island a renegade province that must be brought under its sovereignty, if necessary by force, to secure the [legitimacy](#) of the Chinese Communist Party (CCP) and fulfil the [China dream of national rejuvenation](#). Taiwan faces serious external contingencies – such as US policies and the PRC's political, economic and military development – that are beyond its control. The PRC's increasing political and economic pressure on Taiwan to accept unification on mainland China's terms, coupled with growing Sino-US strategic rivalry in the trade, technological and military realms, make Taiwan a flashpoint for a potential military conflict with far-reaching ramifications for the security and stability in the Asia Pacific. Taiwan is located in the first island chain (see Figure 1) which is of significant geo-strategic importance to the US.

### 'One country, two systems' versus the 'Taiwan consensus'

President Xi Jinping's [speech](#) on 2 January 2019 commemorating the 40th anniversary of the 1979 'Message to Compatriots in Taiwan', a speech delivered only every ten years, sent a clear message to Taiwan about the inevitability of unification and the potential use of force to achieve it in the absence of peaceful unification. In 1979, the PRC stopped artillery strikes against Taiwan and shifted to a process of peaceful unification. President Xi's speech however stressed that mainland China's patience as regards unification is running short, and that Taiwan – irrespective of the preference of the Taiwanese people for the status quo – is expected to endorse the **'one country, two systems' formula**, originally designed for Taiwan but subsequently applied to Hong Kong since the UK returned its former crown colony to the PRC in 1997. Given the undeniable [erosion](#) of Hong Kong's autonomy – [political freedoms](#) in particular – under this unification formula, there seems to be [no market](#) in Taiwan for these terms. A 2019 [poll](#) suggests that 81 % of Taiwanese reject the formula, and [83.4 %](#) are in favour of preserving the status quo. Taiwan's President, Tsai Ing-wen, has [opposed](#) the PRC's unification formula, calling public opposition to it a **'Taiwan consensus'**. She has stressed ['four musts'](#) that mainland China would need to respect as preconditions for negotiations with Taiwan.

One of these preconditions – a fairly unrealistic one – is that 'China must face the reality of the existence of the Republic of China (Taiwan)'. In response, the PRC is likely to continue or even step up its broad range of efforts to divide and destabilise Taiwanese society, including through [disinformation campaigns](#) and [political warfare](#), to bring about a leadership change in the 2020 presidential election in favour of the KMT and a revival of a cross-strait [rapprochement](#). Young Taiwanese voters, who have a strong [Taiwanese identity](#) but also a keen interest in mainland China's economic opportunities, will play a [decisive role](#) in this election. Aware of this, mainland China has specifically targeted Taiwanese students, academics, and investors by offering them an attractive package of [31 'incentives'](#), based on equal treatment with mainland Chinese, including research grants and tax breaks. To stop this [brain drain](#), Taiwan has devised [eight major strategies](#).

Figure 1 – Taiwan's strategic position



Source: EPRS; Chinese bases are [naval headquarters](#) for the North, East, and South Sea Fleets.

## The PRC's policy of intimidating and marginalising Taiwan

Following the victory of DPP candidate Tsai Ing-wen in the presidential election in 2016, mainland China suspended all major communication channels with Taiwan to weaken the government. By refusing to engage with the DPP while at the same time courting the KMT, the PRC attempts to divide Taiwan's domestic political forces. It has terminated a diplomatic truce against poaching Taiwan's diplomatic allies, and has further limited Taiwan's international space by winning over [five countries](#) (Burkina Faso, the Dominican Republic, El Salvador, Panama, and Sao Tome and Principe) to its side. Moreover, since 2016 Taiwan was [no longer invited](#) as an observer to the World Health Assembly (WHA) and to the International Civil Aviation Organization (ICAO). The PRC has [unilaterally](#) expanded [flight route M503](#) in the Taiwan Strait and exerted pressure on [multinationals](#) to label Taiwan a part of China. The PRC has also taken steps to discourage group tourism from mainland China to Taiwan, resulting in a [dramatic decline](#) in the number of PRC tourists visiting Taiwan. The PRC [allegedly](#) interfered in the 2018 local elections. The landslide victory for the KMT has been [interpreted](#) as an expression of voters' dissatisfaction with Tsai's hard-line approach to mainland China and Taiwan's sluggish economic performance. Tsai Ing-wen resigned as DPP head, possibly hampering her chances of winning a second term.

## Taiwan's reform and economic diversification policies

The Tsai government has made some headway in delivering on election promises as regards [tax](#), [labour](#), [pension](#) and [transitional justice](#) reforms, and [energy policy](#). Being highly controversial and unpopular, these issues have affected the government's [approval ratings](#). Systemic challenges – such as increasing inequality, high [youth unemployment](#), stagnant wages, a low birth rate coupled with a rapidly [aging society](#), and foreign migrant workers' vulnerability to [exploitation](#) – undermine both Taiwan's inclusive and sustainable development and its resilience. Economic prospects for young Taiwanese are grim, making mainland China's package of incentives increasingly attractive. To boost innovation and job creation, Taiwan has launched its ['5+2' industrial innovation programme](#). It seeks to develop [five pillar industries](#) (biomedical, defence, green energy, smart machinery, and the Internet of Things) and two ancillary sectors (the circular economy and high-value agriculture). It furthermore aims to encourage Taiwanese firms to stay home rather than relocate to the PRC. A [forward-looking infrastructure development programme](#) is set to develop infrastructure in eight areas, including the digital economy and green energy.

President Tsai's [new southbound policy](#), which [aims](#) to reduce Taiwan's economic over-reliance on the PRC by diversifying economic relations with south Asia and south-east Asia, Australia and New Zealand, has partly delivered, notably in terms of [enhanced](#) people-to-people exchanges. Although trade with these countries increased by 15 % in 2017, the [reluctance](#) of some of them to conclude preferential trade agreements with Taiwan gradually erodes its global competitiveness. In 2018, foreign direct investment (FDI) flows to Taiwan from these countries [rose](#) by 43 % to US\$392 million compared to 2017, while Taiwan's FDI to them dropped by 34.7 % to US\$2.4 billion. Approved FDI from the PRC to Taiwan [decreased](#) to US\$231 million, down by 13 %, while total FDI to Taiwan more than doubled to US\$11.4 billion. Taiwan's FDI to the PRC reached US\$8.5 billion, up by 8.1 %, while all other outbound FDI amounted to US\$14.3 billion, up by almost 24 %.

## Enhanced support for Taiwan under the current US policy

Taiwan's political survival under the fragile status quo of cross-strait relations rests heavily on the continued US national interest in ensuring that Taiwan's defence capabilities and US military supremacy over the PRC's military capabilities act as an effective deterrent against an invasion of Taiwan by mainland China's military forces. However, against the backdrop of the rapid [modernisation](#) of the PRC's military, the [military power balance](#) in cross-strait relations and between the PRC and the US is shifting to mainland China's advantage. The threat of a [forceful incorporation](#) of Taiwan into the PRC is looming large. Taiwan therefore needs an asymmetrical [deterrence](#) posture

that increases prohibitively the PRC's risks of a [strategic defeat](#) and raises the political and economic costs of its [Taiwan contingency](#).

The US maintains a [policy](#) of strategic ambiguity of not recognising Taiwan as an [independent state](#) officially ([joint communiqués](#)), yet supplying it with arms ([US\\$1.4 billion arms sales in 2017](#)) and pledging to defend its security and democracy from an unprovoked military attack. The US commitments are formalised in the 1979 [Taiwan Relations Act](#). The Trump Administration has [enhanced support](#) for Taiwan, which it deems a partner, to boost the goals and values of the [US's free and open Indo-Pacific strategy](#) under the 2018 US Asia Reassurance Initiative Act ([ARIA](#)), a move which is likely to [benefit](#) Taiwan. In March 2018, President Trump signed the [Taiwan Travel Act](#) into law, [eliminating](#) US self-imposed restrictions for visits between higher-level US and Taiwanese officials. In September 2018, four US Senators [introduced](#) the [Taiwan Allies International Protection and Enhancement Initiative Act \(TAIPEIA\)](#) to strengthen Taiwan's global standing.

## EU policy for Taiwan and state of play of economic ties

The EU maintains a 'One China' policy, which [recognises](#) the PRC government as the sole legal government of China. Yet, through its [European Economic and Trade Office](#), the EU engages with Taiwan as an economic and commercial entity in [non-political areas](#) such as [trade](#), [climate change](#), the [circular economy](#), and [research](#). The EU supports the peaceful resolution of differences between Taiwan and mainland China based on constructive dialogue, and rejects the use or threat of force, in line with the EU's 2016 [China strategy](#). On 30 January 2019, the European Parliament held a plenary debate on '[developments in cross-strait relations between China and Taiwan](#)', in which [MEPs](#) regretted the deterioration in cross-strait relations and called for the preservation of the status quo. In his [speech](#) on behalf of HR/VP Federica Mogherini, Commissioner Christos Stylianides stated that while maintaining its 'One China' policy, the EU had 'an interest in developing closer relations with Taiwan', since the EU and Taiwan shared common values, adding that the EU has 'always encouraged Taiwan to be an active player in international affairs'.

In 2017, total EU-Taiwan trade in goods reached [€50 billion](#), with the EU running a trade deficit of about €8 billion. In 2016, total EU-Taiwan trade in services amounted to [€7.9 billion](#), with a surplus of €1.7 billion for the EU. While the EU was Taiwan's largest investor in 2016, accounting for an FDI stock of €17.2 billion, Taiwan's FDI stock in the EU stood at only €1.8 billion. In 2017, EU FDI flows to Taiwan reached [€2.9 billion](#). By contrast, Taiwan's FDI flows to the EU were a pale €191 million. In its [resolution](#) of 12 September 2018 on the state of EU-China relations, the EP reiterated its support for the launch of negotiations for an EU-Taiwan bilateral investment agreement. On 19 February 2019, the EP's Committee on International Trade (INTA) organised a recorded [public hearing](#) on [EU-Taiwan trade relations](#) to discuss further economic prospects.

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