TRENDS IN THE STRATEGIC TRIANGLE:
U.S.-CHINA-TAIWAN RELATIONS IN THE COMING DECADE

May 28-29, 2010
Stanford University

Sponsored by the Taiwan Democracy Program
Center on Democracy, Development and the Rule of Law (CDDRL)
Freeman Spogli Institute for International Studies (FSI)
Stanford University, Stanford, CA, USA
Preface

Over the course of two days, May 28-29, the Taiwan Democracy Program, CDDRL, and FSI sponsored a symposium at Stanford University on trends in the relationship between the United States, People’s Republic of China, and Taiwan. Eighteen policymakers, scholars, and political leaders gathered to discuss various aspects in the complex relations bound up in this strategic triangle. Panels comprising policymakers and scholars with experience in Sino-U.S., U.S.-Taiwan, and PRC-Taiwan relations offered thoughts on future prospects. Observations and opinions were grounded in past and present experience with key events and actors in the strategic triangle. In addition to candid discussion and information exchange, the symposium organizers sought to consider various views on the political, social, economic, and military dimensions of the relationships in the triangle. Mainland Chinese views were offered by participants from the U.S. and Taiwan who have extensive experience and knowledge of the PRC.

All presentations and discussion were conducted under Chatham House Rules in order to encourage open discussion. This report was written on a not-for-attribution basis.
**INTRODUCTORY STATEMENT**

This is an important time in U.S.-China-Taiwan relations. All three political entities face elections and/or leadership transition within the next five years. China’s rise in the twenty-first century and the global importance of relations between the G2 – Beijing and Washington DC – demands in-depth discussion of strategic issues facing the two countries. In particular, this symposium was organized to highlight the U.S.-Taiwan relationship, which initially focused on economic ties but has taken on an important political dimension with Taiwan’s transition to democracy in the late 1980s. The U.S. now has a moral obligation to maintain this relationship. With this in mind, participants were asked to consider the history and present circumstances of Taiwan as a key actor in the geopolitical relations between two of the biggest economies in the world.

The principal focus of this meeting was to consider where relations along the three sides of the “strategic triangle” might head in the next 15 years. By 2025, China is projected to have reached the GDP per capita level at which other countries, such as South Korea, transitioned to democracy. Furthermore, informed conjectures about the trajectory of each leg of the strategic triangle over the next 15 years would build upon the momentum and knowledge in the National Intelligence Council’s *Global Trends 2025* (available online at http://www.dni.gov/nic/NIC_2025_project.html).

**SESSION I**

**WHAT WE CAN LEARN FROM HISTORY: LOOKING BACK ON THE EVOLUTION OF U.S.-CHINA-TAIWAN RELATIONS**

The purpose of this session was to look back at trends in the relations among the three actors. The chair noted that the broader context is one of a relatively peaceful phase in relations between members of the strategic triangle, though new issues may arise and existing issues become more complex.

The first speaker elaborated upon four themes, or “common threads,” that have run through U.S.-Taiwan relations over the past six decades:

- *Difficulty of relations.* Taiwan is a small island with complicated, interesting politics, and has consistently proven to be a difficult foreign policy puzzle for policymakers in the U.S.
The mainland issue as a source of tension. U.S. and Taiwan policy toward the mainland has been a recurring source of conflict between the two sides. In conceptual terms, there have been three paradigms that have influenced U.S.-Taiwan relations over the PRC:

- **Entrapment vs. abandonment.** There exist fears in the U.S. that Taiwanese leaders will entrap the U.S. government in Taiwan’s aspirations for independence, while in Taiwan there exist concerns that U.S. support for Taiwan will wane.

- **Free rein vs. abandonment.** Policymakers in the U.S. have had to strike a balance between supporting Taiwan policymakers in their actions – and perhaps mistakenly giving Taiwanese counterparts the impression that they have a blank check of support from the U.S. – and leaving Taiwanese policymakers feeling under-supported.

- **Granting concessions to both sides.** There appears to be a need on the part of U.S. policymakers to balance concessions or improvements in relations with one side with equivalent concessions to the other. The result of this is a dilution of the significance of concessions granted to any one side.

Isolation in global politics. For both the U.S. and Taiwan, they have been mostly alone in their relations with one another. With the exception of Japan, which in the last decade has expressed some interest in Taiwan’s status, most of the traditional friends and allies of the U.S. have looked upon the U.S. relationship with Taiwan with puzzlement.

The role of domestic politics. Domestic politics have been an important driver of policy in all three arms of the strategic triangle. This is significant considering the upcoming elections in Taiwan and 2012 leadership turnover in the PRC.

The second speaker agreed that there are common threads running through these historic relationships in the strategic triangle, and he focused more specifically on themes from the Clinton (1992-2000) and early Bush (2000-2008) presidencies. In particular, Taiwan’s transition to democracy has added a new dimension to the U.S.-Taiwan relationship. The U.S. has learned many important lessons from its quasi-alliance with this young democracy:
Engagement needs to take place at higher levels of government. In 1996, a channel was created between the deputy-level at the National Security Council of the U.S. and the secretary general-level at the National Security Council of Taiwan. This lent stability to the relationship.

Maintaining relations with all major political forces in Taiwan. The U.S. has done this in order to condition the expectations of parties that come to power in Taiwan.

Personalities count. Lee Teng-Hui and Chen Shui-Bian, for example, are unique individuals, and reaching them with a particular foreign policy message requires different strategies.

U.S. strategy of dual deterrence. When Taiwan alarms the PRC, or vice versa, the U.S. is unavoidably implicated. A strategy of dual deterrence is one in which the U.S. dispatches appropriate officials to both Beijing and Taipei. This strategy also implies that the right balance of warnings and assurances must be applied, along with clarity and respect for the interests of each side.

China’s rise as reflected in its behavior toward Taiwan. China is shaping its identity as a great power, and how it handles the Taiwan issue offers many insights into how it learns within the international system and the kind of global power it aspires to be.

The third panelist focused on arms sales to Taiwan and noted that these sales are consistent with the core principles laid out in historic relations between the U.S. and Taiwan. First, the arms sales are not an unnecessary provocation of the mainland because Taiwan is currently pursuing partnerships with the mainland rather than unilateral independence. Second, arms sales are important because they allow Taiwan’s leaders to show their own public and the mainland that they are negotiating from a position of strength. Third, arms sales to Taiwan are not based on the politics of the day because they represent long-term investments in Taiwan’s defense capabilities. In conclusion, the most realistic route to unification is for the mainland to present itself as an attractive political partner to Taiwan, most likely by way of political reforms, rather than discouraging U.S. arms sales. Although there was no one from the mainland present to hear this message, react, and take the message to Beijing, it was hoped this report would come to the
attention of PRC think-tankers and thus indirectly engage the absent third party in the triangle.

During the discussion that followed, audience members commented that the trilateral relationship should be noted for its many successes and the many crises that the three sides have weathered. This may be due to the pragmatism demonstrated by each side. However, China’s rise over the past three decades now gives it the potential to challenge the status quo. Another line of inquiry concerned mistakes made by the U.S. and lessons learned. Panelists responded that clear messaging by any U.S. administration is critical – though it is also possible that receiving countries may choose not to hear a signal, no matter how clear its articulation and transmission. A third point of discussion concerned whether structural factors or individual personalities drive the outcomes observed, and it was agreed that both matter. Finally, the participants considered what countercurrents to successful trends might arise. These included complications in the ratification of the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan and missteps by Washington that might lead Beijing to attempt to “trade” Taiwan independence for cooperation on other key U.S. foreign policy issues.

SESSION II
CROSS-Straits Economic and Social Ties: Current Trends, and What Will They Look Like in 2025?

This panel shifted focus from state-to-state relations to societal factors that may affect relations across the Taiwan Strait. Two presentations by scholars with long histories of research on Taiwanese society, one trained as an economist and the other as a sociologist, provided the basis for subsequent discussion.

The first presenter indicated that there have been three periods in Taiwan’s economic development: rapid growth from 1952 to 1987, when the island enjoyed an average growth of 8.9 percent, then steady growth under Lee Teng-Hui, from 1993 to 1999, and slow growth under Chen Shui-Bian, from 2001 to 2007. Most importantly, trade between Taiwan and the PRC (including Hong Kong) has reached significant levels: in 2009, China was Taiwan’s largest trading partner (28.9 percent of Taiwan’s total trade, and Taiwan’s largest export market, comprising 41.1 percent of total exports).
political relations with the mainland, a breakthrough came in 2005 when KMT Chairman Lien Chan met with the CCP leader Hu Jintao. Both parties agreed to various mechanisms for reducing hostilities across the Strait. Since May 2008, Taiwan President Ma Ying-Jeou has strengthened cross-Strait ties through economic cooperation and increases in tourist visitation, but this has been conditional on a policy of “no negotiation” on unification or unilateral independence.

The presenter then noted trends in Taiwanese public opinion by drawing upon survey results from the Taiwan Public Mood Index, a public opinion survey conducted by the Global Views Survey Research Center in Taipei.

- Trust. In contrast to the Chen administration, the current Ma Ying-jeou administration has increasing public trust, while mistrust toward the mainland has been increasing slowly over the past two years. Furthermore, approval of President Ma has been increasing over the past year and falling for Hu Jintao.

- Unification. With respect to unification, 75.4 percent of survey respondents supported the status quo (“no unification, no independence, no use of force”). Nearly 18 percent of respondents were in favor of independence in the present and/or as a possibility for the future. Overall, there seems to be general public support for cross-Strait exchanges. At the same time as sentiment toward the mainland has been warming up, support for defensive arms purchases has increased from 48 percent in 2009 to 53 percent in 2010.

- Economic ties with the mainland. The largest share of survey respondents, 46 percent, support ratification of ECFA, compared to 36 percent opposing the economic agreement (18 percent expressed no opinion).

- Party identification. In terms of party identification, a surprising 34.6 percent of survey respondents were independent, compared to 37.8 percent and 24.2 percent for the Pan Blue and Pan Green parties, respectively.

In the discussion that followed this presentation, one participant noted the significance of 35 percent of the electorate self-identifying as independents and asked what the driving issues might be for this group. The presenter noted that regional and urban/rural divides may be as salient as party affiliation. Another participant inquired whether the high number of independents speaks to dissatisfaction with existing political
parties, but the presenter pointed out that party identification levels are not unusual compared to other young democracies such as Thailand and the Philippines.

The second presenter focused on business ties across the Taiwan Strait. His research drew on more than 600 interviews with Taiwan businessmen, mostly from small- and medium-sized enterprises. Based on these interviews, he found that the business sector in Taiwan developed during the Cold War in response to demand for outputs from American and European retailers. By the mid-1980s, with the appreciation of Taiwanese currency against the US dollar, the costs of manufacturing rose and Taiwan lost ground as an original equipment manufacturing (OEM) platform. The consequence of these shifts was the unplanned migration of Taiwanese businessmen to the mainland despite political and ideological differences. Over one million Taiwanese businessmen work in Shanghai today, for example.

While socio-cultural affinities may have enabled such migration of Taiwan’s business class, these businessmen have also brought global networks to China and spurred the mainland’s economic liberalization. Over the next 15 years, Taiwan businessmen will increase their investment in the mainland. In the absence of an opportunity to hear mainland perspectives, the panelist predicted co-existence and competition across the Taiwan Strait. To demonstrate these themes, he showed a television advertisement by a Taiwanese enterprise (designed by a U.S. firm) that was aired in the mainland before the Beijing 2008 Olympics.

The discussion that followed this presentation focused on the nature of the economic cooperation between Taiwan and the mainland. One participant asked what percent of Taiwanese exports to the mainland are then re-exported out of the mainland. The panelist responded that it was probably 80 percent before 1998, but it will likely drop closer to 60% by 2015. When asked whether Taiwanese businessmen are treated as domestic or foreign businessmen, the panelist responded that Taiwanese businessmen take every possible advantage in their business relationships. Another participant advocated more maritime cooperation between Taiwan and the mainland with respect to natural disasters, with U.S. participation serving to “lubricate” the mechanisms that might allow this to be added to other forms of cross-Strait cooperation already ongoing. In terms of the larger implications of these deepening economic ties between Taiwan and
the mainland, it is unclear whether they reinforce the status quo or give the mainland greater leverage over Taiwan’s leaders. No one advocated their abolition, suggesting that emphasis should be directed to getting the most positive spinoff from this major feature of cross-Strait relations.

LUNCHEON ADDRESS AND DISCUSSION

ASSESSING THE FIRST TWO YEARS OF THE MA YING-JEOU PRESIDENCY

The address began with a discussion of the initial conditions facing the Ma administration when it assumed power in May 2008. It then turned to assessing factors that would hinder or help the Ma administration in the present and near future. Third, the speaker turned to guiding principles of the Ma administration. The final portion of the address considered accomplishments and future objectives.

In terms of initial conditions, the Ma administration faced significant difficulties in 2008: a weak economy, low public trust, troubled relations with China, and “troublemaker” status in the international community. Economic difficulties, which were the worst encountered since 1949, have raised anxieties and doubt in the minds of Taiwan citizens. On the economic front, President Ma has faced a great deal of pressure as a consequence of campaign promises to turn things around. The isolation of Taiwan’s top officials and diplomats from international negotiations and contact has also been an ongoing problem. Finally, on the domestic political front, a very skillful opposition party has continued to manipulate public fear of China.

However, these discouraging circumstances have been offset by several factors in favor of Ma’s leadership. These include relatively high public approval ratings (as discussed in the previous presentation) and generally positive relations with international partners, in particular the U.S. Most important, China has been ready and willing to build a cross-Strait relationship and grasp a “historic opportunity.”

Guiding principles of the Ma administration include the following:

- Trust-building. This has been a priority of the administration as a result of the low public regard for political leaders noted earlier. The Ma administration has sought to build trust with the people of Taiwan, but it also seeks to build trust with the
U.S. and China. The goal internationally is for Taiwan to be regarded as a trustworthy, responsible democracy.

- **Being “surprise-free and low-key.”** This principle calls for following through on promises and maintaining a predictable profile. Consultation with key stakeholders before making a final decision is paramount.

- **Pragmatism.** Based on this principle, the government’s policies are not ideologically driven. Instead, they are built on the knowledge that Taiwan sits in the middle of a key economic triangle – comprising the U.S., Japan, and China. Taiwan’s linguistic advantages and China’s rise on the world stage call for pragmatism, not ideology.

In terms of the accomplishments to date of the Ma administration, they number at least five. First, there has been a push to clean up the government, particularly in the realm of judicial independence. Second, there have been efforts to stabilize domestic politics. For example, the administration has refrained from sponsoring referenda, revising the constitution, and organizing rallies. Politics have become less frivolous, though they remain volatile. Third, there has been improvement in cross-Strait relations. The relationship with China has moved from one of “arch enemies to bitter opponents to good neighbors.” Direct contact with the Chinese government has also taken some of the burden off of the U.S., though the Ma administration continues to keep both the Democratic and Republican parties in the U.S. apprised of the cross-Strait situation. Fourth, the economy is coming along. Fifth, Taiwan’s international standing has improved.

Looking to the future, there is likely to be “more sweet than sour” in cross-Strait relations. Much is uncertain, but the key factor is the economy. If Taiwan’s economy improves, then the public’s anxieties may decrease. If ECFA is approved, then citizens will also have more confidence in the future of Taiwan-China relations.

The discussion focused on the application of the guiding principles to actual policies. When asked for an assessment of Taiwan’s response to China’s rise, the speaker responded that the KMT does not have a grand design, preferring instead to adjust to circumstances as they arise. Another audience member noted that Ma’s policies have removed some of Beijing’s national security challenge and asked whether this would
change Taiwan’s defense policies. The speaker responded that Taiwan should assume a
greater role in its own defense and not rely so much on the U.S. When asked about his
position on Taiwanese independence, the speaker stated that independence would unite
China and divide Taiwan. Again, applying the principle of pragmatism, this policy
position was reached because reducing rhetoric about independence would give Taiwan
more room to maneuver, relieve the U.S. of some of its diplomatic and military burden,
and allow China to focus on solving its domestic problems.

SESSION III
THE CHANGING MILITARY BALANCE: CURRENT TRENDS AND FUTURE PROSPECTS

This panel comprised three presenters, each with significant experience studying
military developments across the Taiwan Strait. Each presenter offered his assessment of
military capabilities and strategy across the Taiwan Strait, with varying emphasis on
“hardware” versus “soft power.”

The first presenter argued that “there is now good and increasing reason not to
have a pressing concern that China will attack Taiwan.” At the same time, there have
been significant developments in PRC military capabilities. Modernization of the
People’s Liberation Army (PLA), centered on deft missilery, represents a potential ability
to defeat an unaided Taiwan and complicate timely and effective U.S. intervention. The
PLA’s air, airborne, and amphibious forces would follow in the wake of an initial assault
by very numerous and accurate missiles. At the same time, the PRC has invested in its
naval and air capabilities and is working to link the naval forces to space assets. All of
these programs have been part of China’s dominance in the cross-Strait arms race.
Nevertheless, Taiwan has succeeded remarkably in making tenable its situation as a
smaller, militarily inferior democracy facing a much larger, authoritarian, militarily
superior neighbor.

The presenter asserted that attacking Taiwan would be unwise for the PRC
because of multiple factors. Attacking Taiwan would lead to regional instability,
disruption in China’s trade, and a decline in China’s international standing. Furthermore,
a military engagement, despite the likely associated costs, would not necessarily achieve
reunification with Taiwan because the inexperienced PLA may prove inept in conducting
this complex dual campaign. Thus, a key question is whether, despite the PLA’s
impressive hardware, Beijing has the actual or perceived capability to defeat Taiwan
promptly and thwart timely U.S. intervention. Taiwan’s defense strategy should be
directed to increasing the costs to Beijing of attacking Taiwan. Military efforts should
focus on areas that slow or complicate PLA attack. Taiwan can usefully hide, harden, and
disperse, but a counter-strike missile against vast, powerful China is folly, the speaker
opined—analogous to “pin pricks” to a dragon. The prudent course is taking the
diplomatic road and convincing Beijing that it is not in China’s best interests to use
military force against Taiwan. This is admittedly a daunting task for Washington; it is
also an exceedingly sensitive task for Taipei, which, in addition to the need to act
responsibly, will often have to swallow hard and accept a tangential role in fostering a
cooperative U.S.-PRC relationship. Improved U.S.-PRC relations must not be seen as
necessarily detrimental to Taiwan-U.S. relations.

During the discussion following this presentation, the speaker was asked to
comment on China’s specific vulnerabilities. He responded that it is not possible for
China to surprise the U.S. with an amphibious assault across the Strait. Other
vulnerabilities include China’s dependence on sea-lanes for trade and resources, spotty
air defenses, and lack of experience in planning and conducting major operations in the
modern warfare environment. However, China is developing a strategic petroleum
reserve, and its ballistic missiles are essentially invulnerable.

The second presenter corroborated the point made in the first presentation by
suggesting that Beijing’s first option is to absorb Taiwan without war, and military
conflict remains a least favored option. In this sense, military strategy plays a supporting
role, and “it is cheaper to buy rather than attack Taiwan.” Instead, Beijing has pursued a
three-prong strategy to co-opt Taiwan:

- **Charm offensive.** The objective here is to win over the Taiwanese population with
goodwill and generosity.
- **Blocking arms sales.** This includes using diplomatic pressure to get the U.S. to
cease arms sales to Taiwan.
- **Military confidence-building.** All forces have been mobilized to establish
confidence-building measures (CBMs) between Taiwan and the PRC.
With respect to the last point, such measures place Taiwan in a bind. If Taiwan refuses to participate in these confidence-building exercises, then it will be accused of threatening cross-Strait peace. If it agrees, this will give Beijing leverage to call for the end of U.S. arms sales to Taiwan. In the long term, this reduces the prospect of military conflict. However, this may increase the difficulty of maintaining the U.S. defense commitment to Taiwan.

The discussion following this presentation focused on how policymakers in the U.S. view CBMs between Taiwan and China. Participants noted that U.S. presidents, including President Obama, have endorsed CBMs between Taiwan and the PRC, but the pivotal issue is how much these will reduce Taiwan’s sense of vulnerability. In the past, serious CBMs have been based on the condition of Taiwan’s adhering to China’s “one-China” policy, hence they have been rejected almost immediately. Participants also asked the speaker to clarify whether he thought CBMs have a pernicious effect on Taiwan-U.S. relations. The speaker responded that CBMs cannot be stopped and that they can be used by the PRC to “sow the seeds of suspicion in Taiwan.”

The third presenter focused on the detrimental effect of introducing theater missile defense (TMD) to Taiwan. While it is clear that Beijing does not intend to use military force to solve its Taiwan problem in the near future, it is possible that Beijing will resort to more limited military action to frustrate the initial introduction of TMD to Taiwan. Beijing might also take countermeasures, including 1) strengthening relations with Russia, and 2) increasing investment in its missile arsenal and long-range launch vehicles. He also argued that the U.S. introduction of TMD to Taiwan would be counterproductive in terms of U.S. policy toward the island, i.e., by compromising the ambiguity the U.S. has maintained thus far toward Taiwanese separatists. One implication of pursuing TMD for Taiwan would be the possibility of triggering an arms race and increasing the probability of military conflict in the region. Another would be reducing the likelihood that China will be cooperative in diminishing its nuclear arsenal. Overall, China is expected to be less cooperative on arms sales and arms control should TMD be introduced to Taiwan.

In the discussion that followed, participants introduced additional complications in the issue of TMD in Taiwan. One participant pointed out that Taiwan is uniquely
threatened by missiles, so it must be open-minded with respect to TMD and remain allied with the only friendly country (i.e., the U.S.) that is serious about missile defense. Another participant asked the speaker to clarify whether he was referring to the integration of Taiwan into a more international system of TMD, one where the island would be part of a networked navy-missile defense system alongside the U.S. and Japan, making it a de facto ally of these two countries – and closer to independence. The speaker responded that he was referring to a broader definition of TMD. Another participant noted that there are subtleties in TMD, for example, limited missile defense can be used to defend very specific things such as critical air fields. Furthermore, there is a difference between the deterrent effect of TMD and the actual war-fighting capability of any given missile defense option. Another participant commented that the suitability of TMD for Taiwan depends on what the PRC is targeting. TMD is insufficient for complete defense, but it can be useful for shoring up citizen morale in the case of attack. On ambiguity, a participant pointed out that the U.S. is likely to devise ways to maintain this in U.S.-Taiwan relations.

Other issues discussed included:

- *Lines of authority between China’s Central Military Commission and central (Politburo) leadership.* The speaker clarified that the Politburo Standing Committee (PSC) of the CCP makes the decision to go to war, but the CMC makes tactical decisions. This is complicated by the fact that the PSC often reaches military decisions based on recommendations, analyses, and reports submitted by the CMC.

- *The potential for cyber warfare.* On this point, a participant noted that cyber warfare has a built-in deterrent effect similar to the mutually-assured destruction (MAD) logic applied to the deployment of nuclear arms.

**SESSION IV**

**WHAT KIND OF (SUPER) POWER WILL CHINA BE IN 2025? POLITICAL SCENARIOS AND IMPLICATIONS FOR CHINA’S FOREIGN POLICY AND TAIWAN POLICY**

This panel shifted focus to thinking about the kind of power China might be in the near and medium terms, its aspirations and objectives on the global stage.
The first speaker pointed out two questions embedded in the title of the panel: What kind of power does China seek to be now? What kind of power will China prove to be? The short answer is, we don’t know. While it is broadly understood that China seeks military power, more work is needed on how China seeks to translate economic power into other capacities such as diplomatic and intellectual power. In terms of international considerations, China reacts to the power environment that it is in, and the decline of Europe and Japan are significant. More pessimistically, it is not clear that China and the U.S. will be able to contain their “mutual strategic suspicion” in the medium term. Domestically, China’s internal stability cannot be taken for granted.

The speaker offered three scenarios:

- **China as a responsible stakeholder.** This is the most likely outcome. In this scenario, China will continue its economic rise and gain an increased share in the international system and international institutions. One prerequisite for this outcome would be for the current leadership to remain focused on resolving internal problems. In terms of Taiwan, this scenario would give China the greatest capacity to push for integration and give the U.S. the weakest incentives to resist integration. This would probably be the most attractive scenario to Taiwan.

- **Game-changing China.** In this scenario, China would expect the U.S. and other powers to acquiesce to its demands. At the same time, the PRC would not take a leadership role on the global stage.

- **Implosion.** This is the least likely scenario and would entail China’s being overwhelmed by domestic problems. This scenario is disastrous not only for China, but also for the U.S. and Taiwan.

On balance, the speaker concluded, China is moving toward a more positive role in the international system. This is good overall for Taiwan, but it also means that integration will be an increasingly difficult option for Taiwanese leaders to sidestep.

The second speaker began by pointing out that the recent economic crisis has shown China’s willingness to make policy adjustments. At the same time, Beijing is growing more assertive. This is evident in China’s willingness to challenge the U.S. on the PRC’s core national interests, which include:

1. Maintenance of its fundamental system and internal security,
2. Respect for state sovereignty and territorial integrity, and
3. Continued economic and social development.

Among these core interests, the second refers almost exclusively to Taiwan and Tibet. In the second part of his presentation, the speaker pointed to three variables that will affect China’s interests:

- *How the West handles the global economy.* The recent economic meltdown gives China’s authoritarian system more legitimacy.

- *Chinese perception of anti-China forces in the West.* The speaker noted how Chinese friends often refer to global “structural conflict” in which China, as a rising hegemon, must challenge the incumbent U.S. There is thus the perception that the U.S. wishes to contain China, and nationalist politicians can exploit these sentiments. The speaker cited popular books in China such as *Zhongguo Meng (China’s Dream)* in which predictions of war with the U.S. are spelled out and influential writers call for China to build up its military power “while the West is weak.”

- *Domestic issues.* Uncertainty over economic development and the coming leadership transition will continue to shape how China behaves on the global stage.

The implications of shifts in these variables with respect to China’s foreign policy and Taiwan policy are several. China is rising, but the speaker argued that China has not made a commensurate commitment to assume more responsibility in the system. Because of this, China’s core interests will still be the focus of Beijing for at least the next 10 years, and Taiwan will continue to be a territory that China will not relinquish.

At the conclusion of the presentations, the chair of the panel presented the following questions for discussion:

- Given the rapid pace of change in China, can we assume that the current status quo will remain constant for the next 15 years? The burden of proof is on those who don’t think things will change, that there isn’t momentum for change. What might affect this momentum?

- What about Taiwan as an active player in the rise of China? How are Taiwanese leaders and citizens trying to shape the decision space?
• Is China becoming a more assertive and/or a more responsible player on the global stage?
• What might change China’s trajectory, whichever one you think China will take?
  What would change China’s behavior from what we have seen?

In the discussion that followed, one panelist asserted that the central organizing question is what would turn China into a responsible international player. The four key variables are: 1) China’s economic growth and integration in the world economy, 2) the rise of China’s middle class and its political views, 3) what Taiwan does, and 4) whether the rest of the world system sends a clear message regarding the conditions for the use of force. The second panelist added that perceptions are key: how the CCP perceives its strength domestically, its perceptions of the political party in power in Taiwan, and perceptions of U.S. actions and interests.

Several other participants noted the two identities projected by Beijing: that of a confident, rising China versus a leadership that is deeply worried and anxious about domestic stability.

On China’s motivations to be a “game-changer”, one participant noted that China has been benefiting from the rules of the current international system, so it is not clear how it would benefit by rewriting them. Another participant commented that his research has led him to believe that China will remain a regional power and not become a global superpower due to natural resource constraints, weak human capital, and limits in its current political system.

A more pessimistic view was offered that China may continue to be a free rider in the international system. Continuing the pessimism, another participant queried whether political reforms in China were at an impasse; the implication of this would be a discontinuous process of political change in China, which has the potential to lead to a more disruptive outcome.

In the more optimistic camp, one participant pointed out that top leaders in China never stop learning and studying from their international environment. Another participant observed that whereas Taiwan was a “textbook case” of economic development and democratization – marching through economic growth, social pluralization, political liberalization, civil society development, and now
institutionalization – China has experienced very uneven development. The best prescription he could offer was for a stable external environment in order for China’s leaders to cope with internal problems.

SESSION V

HOW WILL TAIWAN (RE)DEFINE ITSELF POLITICALLY, ECONOMICALLY, AND INTERNATIONALLY BY 2025?

This panel returned to a focus on challenges facing Taiwan and the island’s capacity for overcoming present and future difficulties. The first panelist noted several challenges, beginning with those more domestic in nature: demographic change, growing income and wealth disparity, more natural disasters, and possible fiscal crisis. On the international front, challenges include adapting to a China-led regional economic community and the development of China’s blue-water navy. One scenario that may emerge from these circumstances is the “finlandization” of Taiwan, whereby Taiwan will succumb to China’s influence. However, Taiwan’s strong cultural capital, its robust economic growth (projected for the next 20 years), and strong ties with the U.S. and Japan mitigate this outcome. This speaker concluded on the optimistic note that “mutual adjustment and accommodation” in cross-Strait relations is possible. The channels for such cooperation include elite networks, joint ventures, collaborative professional organizations, and joint degree programs.

The second panelist took a different tack and considered what Taiwan was like 15 years ago, in 1995, to place its trajectory for the next 15 years in context. By 1995, there was an increasing suspicion of unification with China. Democracy was becoming more established on the island, and multi-party competition and free and fair elections were normalized. Internationally, Taiwan had entered an era of “pragmatic diplomacy.” Economically, Taiwan investors were already in China and receiving a great deal of preferential treatment from local governments. Since 1995, these trends have continued, but they have also been affected by crosscurrents. First, China’s rise has changed things significantly. Second, Taiwan citizens and leaders are no longer debating their national identity in the context of cross-Strait relations. The implication of these changes is that, on the one hand, unification is not very attractive in Taiwan, but, on the other hand, many
citizens of Taiwan now have concrete experiences of China. Overall, it is difficult to see the strong foundations for an independence movement.

In terms of where Taiwan will be 15 years from now, the panelist assessed Taiwan’s trajectory along economic and political dimensions. Economically, there is likely to be greater integration between the Taiwanese business class and the mainland. Along this dimension, there will be a shift from unmanaged interaction to more managed, planned relationships. Politically, much depends on how China develops. While Taiwan has settled into a consensus regarding national identity, independence, and unification, political innovations must come from the PRC side. In short, the mainland must offer durable promises that it will not challenge Taiwan’s preferences for autonomy. The speaker closed by pointing out that she does not see Taiwan disrupting the status quo or the PRC changing its long-term objectives.

The third panelist offered an assessment of Taiwan’s economic prospects. Challenges include:

- **Marginalization.** In particular, the speaker pointed to marginalization in regional trade agreements, which will affect exports.
- **Decline of the OEM platform.** Taiwan’s OEM model is in decline. Not only does the island lack the technological base to support this, but the model is too sensitive to drops in exports.
- **Low R&D expenditure.** This decreases Taiwan’s competitiveness in global trade.
- **Weak service industry.** Taiwan’s service industry is limited to the domestic market and has also suffered from a low level of R&D investment.

With these challenges in mind, one prescription offered by the speaker was to update Taiwan’s service sector. He also suggested focusing on developing China’s domestic market.

In assessing the ECFA, the speaker pointed out that the agreement will relieve political tensions across the Taiwan Strait. However, it is not clear how it will affect Taiwan’s national security or different industries in the Taiwan economy.

The presentation closed with three recommendations. First, Taiwan should participate in regional economic integration. Second, there should be adjustments in Taiwan’s growth model, i.e., shifting from OEM to brand development. Third, there
should be diversification in Taiwan’s industrial base. This includes developing new industries such as energy, biotech, and new services.

The final panelist began with a summary of Taiwan’s current situation and argued that “muddling through” is not a best option for Taiwan’s leaders. He concluded with recommendations for mitigating the negative consequences of Taiwan’s current economic, social, and political trajectories. At present, the general impression of Taiwan, based on reviewing its demographic structure and trends in governance, is of a prosperous, middle class country of small families, with some very wealthy groups, and a GDP per capita that approaches some Western European countries. However Taiwan is not moving toward a Western European model in some important respects. Challenges include:

- A growing elderly population. Options for correcting this are not particularly attractive, among them immigration, increasing taxes and decreasing social services within a limited government budget.
- Preserving economic competitiveness. Taiwan has some very prominent global companies, but if entrepreneurs move up the technology and value chain to offset declines in competitiveness, this risks exacerbating inequalities and human capital development.
- Confronting the “guns versus butter” problem. The challenge here is balancing a good standard of living for all citizens and guaranteeing external security. Given that China’s military threat will not decrease, Taiwan’s leaders must confront constraints in national defense, for example, transitioning to an all-volunteer army. However, without increases in the defense budget, this would mean shifting resources from military investment to personnel.
- Funding public goods. The choice seems to be between “guns, shark fin soup, or wheelchairs.”

The panelist argued that Taiwanese leaders will probably opt to “muddle through,” absent a crisis, but this may have some deleterious effects. The economy may become less competitive, the government may adopt a sub-optimal response to caring for the elderly, and military power may decline relative to the PRC. This may all lead, in turn, to a
decline in public confidence in the government. Beijing could step into this crisis of confidence and increase pressures for reunification. While Taiwan has been very resilient, the social base that has undergirded that resilience is changing.

In short, the panelist argued, letting current trends continue is not a best option, and he offered the following recommendations for an overarching policy of *self-strengthening*:

- **Ratifying ECFA.** Taiwan’s economic competitiveness has been falling recently, and ECFA will benefit the island by forcing a structural readjustment, increasing the competitiveness of protected industries, and stimulating the development of human resources.

- **Improving military capability.** This includes designing a procurement strategy, developing a sensible defense strategy, and devising realistic and effective training programs.

- **Maintaining strong relations with the U.S.** Because the U.S. is central to Taiwan’s defense strategy, DC policymakers must be confident that Taiwan’s interests are aligned with those of DC. A precondition for this is broad consensus on the island regarding what aspects of Taiwan’s sovereignty are critical versus more trivial.

- **Internal political reform.** Politics on the island are polarized, and there does not appear to be a dominant centrist consensus. The constitutional structure needs reform, the media is often not constructive, and legislative politics are flawed.

More optimistically, Taiwan-U.S. relations are strong, and the 1992 Consensus has proven effective at getting through the logjam in cross-Strait relations. A good start has been made, the panelist concluded, but there is a need for more focused self-strengthening, more political leadership, and a rejection of the passive idea that current trends will continue no matter what.

In the discussion that followed, panelists considered possible future scenarios for Taiwan and the constraints facing Taiwan politicians. Possible scenarios included: 1) management of the status quo and preservation of Taiwan’s constitutional framework; 2) a “Hong Kong plus” emerging, where Taiwan has more democratic characteristics than
Hong Kong but is absorbed into China, and 3) some sort of EU-like model in which there is “one China with two constitutions.” On the constraints facing Taiwanese politicians, panelists noted that Taiwanese politicians are pragmatic about including relevant Chinese actors when necessary. One panelist cited the example of a prominent mayor in Taiwan who visited the mainland before hosting a world event so as to obtain the blessing of Chinese officials.

Other points of discussion included recommendations for Taiwan’s commercial development. A participant commented that instead of moving into international branding, many Taiwan companies are quite successful at design work.

Another participant noted a tension between the presentations, where some emphasized integration while others emphasized sovereignty. A panelist responded that there are many levels of sovereignty, and Taiwan leaders must lead a public discussion regarding what kind(s) of sovereignty the leadership is willing to compromise on in negotiations with Beijing.

**SESSION VI**
**HOW WILL THE US RELATE TO CHINA’S RISING POWER AND TAIWAN’S RISING VULNERABILITY?**

This panel turned to the final leg in the strategic triangle, the U.S., and its relations with China and Taiwan. Two panelists offered their analyses of the various ways the U.S. might play a constructive role in the future of cross-Strait relations.

The first panelist highlighted the contingent nature of relations among the three actors. Second, he pointed out that the U.S. relationship to China’s rise is qualitatively different from and not tightly coupled to the U.S. relationship to Taiwan’s rising vulnerability. He asserted that two perspectives are not tenable: 1) that the relationship is zero-sum, i.e., that the U.S. increases Taiwan’s vulnerability by supporting China’s rise, and 2) that the U.S. should encourage Taiwan to acquiesce to pressure from Beijing. On this second point, the U.S. cannot compromise Taiwan’s political liberalization and the long, historic relationship between Taiwan and the United States.
Considering the strategic triangle in a larger context, the panelist also reminded the audience that U.S. interests are global. While China may be a rising power, it is a “fragile juggernaut” that is not likely to displace the U.S. during the next 15 years.

In terms of possible strategies toward China, the panelist recommended against containing or constraining China. Such an approach would likely anger China and its allies. Moreover, he argued that Beijing, in the last 30 years, has been moving toward international norms and accommodationist policies. The safer route is to work for continued cooperation and win-win outcomes but to “hedge” against the possibility of less favorable outcomes.

With respect to Taiwan, the panelist supported arms sales as a useful instrument of U.S. foreign policy in the region, though he cautioned against treating Taiwan as a pawn in U.S.-China relations. He argued that there is “more congruence, less conflict” in Beijing-Taipei relations, and some movement toward a relationship in which there is “no fundamental conflict.” In closing, the panelist noted that there are no strong incentives for any party to thwart development, and the task for the U.S. is to continue “managing a situation that isn’t particularly worrisome but which is still quite vulnerable to dramatic change.”

The second panelist was also cautious in his remarks and pointed out that there are too many variables to consider in predicting what the strategic triangle might look like in 2025. He also pointed out, that “big powers have choices, small powers have necessities.”

On Sino-US relations, he offered three observations. First, the U.S. is still by far the greatest power in the world. Second, when thinking about China’s rise, the rise of other countries must also be taken into consideration. China is certainly aware of competitors such as Russia, Brazil and India. Third, the panelist agreed with the previous speaker’s point about viewing China as a “fragile juggernaut.” Chinese society is changing rapidly, and institutions are not sufficiently prepared to cope with these developments. In light of these observations, the U.S. should focus on assisting Beijing with managing internal problems, and this can be done by appealing directly to the Chinese people as well as treating Sino-U.S. relations in the context of the broader U.S. foreign policy agenda.
With regard to Taiwan relations with the U.S. and PRC, the panelist sought to reframe the guiding question of the panel. Rather than discussing Taiwan’s vulnerability, he argued, it is more important to consider the complex interdependence that is developing in the strategic triangle. He asserted that integration is a political choice that can be made by the people of Taiwan, and economic integration is not necessarily a slippery slope to political integration. At the same time, he recommended that Taiwan’s leaders take a more critical, rather than celebratory, look at democracy in Taiwan. He also noted that one indispensable role played by the U.S. in the strategic triangle is with respect to Taiwan’s security.

In the discussion that followed, participants asked how domestic politics and incremental change might affect relations in the strategic triangle. One panelist responded that while domestic politics and personalities may matter, he views systemic, structural factors as more salient in the foreign policy realm. Another participant asked for a clarification of the “hedging strategy” in Sino-US relations. Hedging, the panelist responded, is about building military capabilities, export controls, intellectual property protection, etc., and not about viewing China as an ally. Another participant commented that rather than view the volatility in Taiwan politics as a liability, Taiwan’s democratic institutions should be viewed as a source of soft power.

**Roundtable Discussion**

The discussion began with a summary of the NIC’s *Global Report 2025*. Major findings of the report included the following:

- **Globalization continues.** This may be a lumpy process, but globalization will lead to greater interdependence. One implication is greater vulnerability, as countries will be vulnerable to decisions made in boardrooms far beyond their borders.
- **Waning efficacy of Post-WWII institutions.** They were designed for a very different world and are becoming victims of their own success.
- **Increased demand for resources,** due to prosperity and economic growth. Consequences included increasing competition and the transfer of wealth west to east.
- **Climate change.** By 2030, the effects of climate change will be evident, and these are unavoidable. The effects will be uneven, though the brunt of the burden will fall on poorer populations. China in particular will be affected by these changes. For example, water wells in the North China plain are running dry, and it is predicted that more than 400 million people will be affected by these changes.

- **Demographic change.** We know about the graying of the West, and only three percent of population growth will be in OECD countries. The remainder will be in China, India, and other developing countries, and this places pressure on the social compact in these countries. Immigration may be one solution, but many countries are traditionally not receptive to immigrants. In short, places affected the most by climate and demographic change are also the places with the lowest government capacity.

- **Nuclear proliferation.** The quest for energy is leading to more demand for nuclear power, but this increases the chances of diversion and proliferation.

- **Terrorism waning.** Transnational terrorism appears to be declining, but localized terrorism may increase or at least remain level. Polls show that people in regions of the world where terrorism is rooted actually aspire to more democratic political systems.

With this global context in mind, the conference themes were summed up as follows:

- **Dramatic shift in the balance of power across the Taiwan Strait.** The policy implication is that Taiwan must continue to avoid nudging China into a situation where it might resort to the use of force and remain vigilant and capable enough that it would raise the costs to Beijing of any decision to use military force.

- **Cross-Strait economic ties require some compromise.** While there are skeptics of ECFA in the audience, the data from symposium participants show that Taiwan faces a dilemma. Taiwan will fall further and further behind economically if it does not join ECFA, but if it does join, economic integration with the mainland will increase. An open issue is whether this is tantamount to the “finlandization” of Taiwan.

- **Likelihood of continuity and political pragmatism.** It appears that Beijing will remain pragmatic and exercise restraint in the use of force, barring some dramatic
change in the relationship or provocation. Leadership in Beijing is aware of its enormous domestic agenda and looming social and economic problems. Taiwan, for its part, will also remain pragmatic; in light of the assessment of the PRC’s military capabilities presented earlier, it is unclear who in the U.S. or Taiwan would want to promote independence.

Additional questions were posed to invite discussion:

- What are the dominant views of the emerging generations in Taiwan and the PRC? Is the former less nationalistic and the latter more so? In response to this question, one participant noted that Taiwan youth have a strong sense of themselves as citizens of Taiwan but are also less antagonistic toward the mainland.
- How will mainland China and Taiwan solve their demographic problems?

Several participants commented that it is wise not to underestimate the problem-solving capacity of the CCP leadership, given China’s track record over the past several decades. Leadership in Beijing has “continually outperformed expectations.” Others also noted some uncertainty over whether changes in leadership in Taiwan might change the current trend toward integration in PRC-Taiwan relations. The last word went to a participant from Taiwan who asked the audience to consider yet another triangle, comprising the DPP-KMT-CCP. In this triangle, as in the strategic triangle of the US-PRC-Taiwan, all three parties have adopted pragmatic approaches to policymaking, and this provides additional basis for optimism.