

Time to start worrying again?

Cross-strait stability after the 2016 Taiwanese elections

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The Taiwan Strait has long been considered one of East Asia's most dangerous flashpoints and a potential catalyst for a war between China, Taiwan and the US, Australia's major treaty ally. Yet, during the leadership of Taiwanese President Ma Ying-jeou, cross-strait relations experienced eight years of stability as well as improved political and economic ties. Both sides signed 23 non-political accords, established hotlines and created measures to extend other commercial and semi-official communication channels. As a result, a number of analysts believe that the possibility of a military escalation between mainland China and Taiwan is now remote.¹

However, in the Taiwanese presidential and legislative elections on 16 January 2016, Ma's China-friendly Kuomintang (KMT) was decisively defeated by the pro-independence Democratic Progressive Party (DPP) under the leadership of Madame Tsai Ying-wen. Is it time to start worrying about Taiwan again, as some Australian analysts have argued?² And what are the strategic implications for regional security and Australia? This paper argues that the election marked a watershed in Taiwan's political evolution and requires significant adjustments in Taipei and Beijing to maintain cross-strait peace and stability. On the positive side, Tsai's victory will not automatically lead to greater instability in cross-strait relations and there are reasons to be optimistic that both sides will find a new *modus vivendi*.



Supporters of Taiwan's Democratic Progressive Party, DPP, presidential candidate, Tsai Ing-wen, cheer as she declares victory in the presidential election in Taipei, Taiwan, 16 January 2016. AP Photo via AAP/Wally Santana

However, we would also caution against too much optimism and the notion that cross-strait conflict is now all but unlikely. Under President Xi Jinping, China has demonstrated a rather uncompromising approach to territorial disputes and the status of Taiwan is a declared 'core interest' of Beijing. As well, China continues to change the cross-strait military balance in its favour, potentially inviting miscalculations and instability. Moreover, Taiwan is also likely to become more important in the context of emerging East Asian power shifts and Sino-US strategic competition.

The Taiwan Strait will thus remain dangerous, and Australian decision-makers need to pay close attention to the evolving cross-strait situation. Indeed, Canberra needs to consider its strategic options in case the strait becomes more contested. This includes the core question: to what degree would the ANZUS alliance tie Australia to a cross-strait contingency? Australia should also acknowledge Taiwan's potentially vital and constructive role in South China Sea (SCS) and East China Sea territorial disputes as part of a regional strategy to maintain the rules-based maritime order in Asia. Finally, Canberra should take steps to enhance Taiwan's regional political and economic integration.

Why the DPP win matters

The DPP win was a milestone in Taiwan's political evolution. First, the party secured an overwhelming majority in both the presidential and legislative elections. Tsai received 56.1% of the votes, compared to 30.1% for the KMT's candidate, Eric Chu, and 12.8% for James Soong of the People First Party.³ The 25% margin between the two main candidates was the biggest since Taiwan's first democratic presidential election in 1996. The DPP for the first time also won an absolute majority in the Legislative Yuan, securing 68 out of 113 seats. Meanwhile, the KMT's seats dropped by 29 to a mere 25. This result hands Tsai and the DPP considerable political manoeuvring space to pursue their agenda and mandate.

Second, it's important to analyse the voter motivations that led to Tsai's victory. To an extent, it was the result of growing voter frustration with the KMT's difficulty in tackling domestic problems, such as a stagnating economy, rising labour costs and a widening income gap. Moreover, hostility among the KMT leadership alienated the party's voter base and contributed to the lowest voter turnout since 1996 (66.3%), which played into the hands of the DPP. Yet, many voters had also become concerned about greater dependence on mainland China and the associated dangers to Taiwan's democracy. Misgivings over President Ma's China-friendly policies had led to mass protests by students and civil activists (the Sunflower Movement) in March and April 2014 after the KMT tried to pass the Cross-Strait Service Trade Agreement. The KMT's disregard for public opposition to getting too close to China led to its biggest electoral defeat since 1949 in the November 2014 local 'nine-in-one' elections, when the DPP managed to win 13 of the 22 cities and counties, while the KMT dropped from 15 to 6. Moreover, the DPP secured 47.6% of the popular vote and the KMT only 40.7%. As a result, President Ma had to resign as chairman of the KMT and the party didn't recover in time before the presidential elections.

In this context, the 2016 election provided an opportunity for many voters to reassert their distinct Taiwanese identity and reinforce the democratic political system. Indeed, long-term socio-political trends demonstrate that a wide majority of citizens now identify as 'solely Taiwanese' and that there's hardly any support for reunification with China.⁴ Moreover, the incompatibility between the political systems across the Taiwan Strait has grown. The 2016 election was the third peaceful transfer of power in Taiwan and a reaffirmation of the vitality of its democratic system. Not only did Taiwan elect a female president for the first time, but 38.1% of its legislators will be women, ranking the Republic of China (ROC) 10th in the world on the issue of female parliamentary participation.

The 2016 election therefore reflects a fundamental shift in Taiwanese political attitudes and goes beyond mere dissatisfaction with President Ma's pro-China policies. The result was consistent with a generational shift among Taiwanese voters who have little or no cultural affinity for the mainland.⁵ This shift is likely to change the balance of power within Taiwan and will make it very difficult for any future party to advocate policies seen as too China-friendly and as undermining Taiwan's identity and democracy. It also means that China's goal of peaceful unification on its terms (that is, the reintegration of the 'renegade province') becomes a very distant prospect. Since China's strategy rests on the expectation that Taiwan must become part of the mainland, the election outcome could contribute to renewed tensions across the strait.

A return to instability?

While the 2016 election introduces a new dynamic in cross-strait relations, it's too early to predict how things will evolve. A case can be made that despite the DPP's victory the relationship between the ROC and the People's Republic of China (PRC) will remain manageable and stable. There's some evidence that the President-elect will seek a pragmatic course that refrains from steps consistent with a move towards a declaration of independence, such as the development of a new Taiwanese constitution. During her election campaign, Tsai promised a 'consistent, predictable, and sustainable cross-strait relationship', a pledge she repeated in her victory speech. She also emphasised that 'both sides of the strait have a responsibility to find mutually acceptable means of interaction that are based on dignity and reciprocity. We must ensure that no provocations or accidents take place.'⁶

Tsai has very good reasons to maintain the status quo across the strait. The mainland is Taiwan's most important trading partner, and most of its outbound foreign direct investment flows to China. Given its struggling economy, Taipei needs stable relations with Beijing. Moreover, Tsai very likely remembers that during the previous DPP government of President Chen Shui-bian (2000–2008) his pro-independence rhetoric not only angered both Beijing and Washington, Taipei's principal security partner, but also raised fears among many Taiwanese voters about increasing the risk of war with the mainland. In other words, the new Taiwanese government wouldn't want to cross a clear red line set by Beijing, possibly triggering a war that the island nation is unlikely to win. The strong expectation that the US would withdraw its support in such a scenario should act as an additional deterrent.

At the same time, however, Tsai is likely to seek a different foundation for the cross-strait relationship. In her victory speech, she stressed the importance of 'protecting this country's sovereignty' and emphasised the need for China to recognise Taiwan's democratic political system. She also stated that the future cross-strait relationship had to be based on:

the Republic of China constitutional order, the results of cross-strait negotiations, interactions and exchanges, and democratic principles and the will of the Taiwanese people ... The results of today's election showcase the will of the Taiwanese people. It is the shared resolve of Taiwan's 23 million people that the Republic of China is a democratic country. Our democratic system, national identity, and international space must be respected. Any forms of suppression will harm the stability of cross-strait relations.⁷

In a signal to Beijing, Tsai stated after the election that she 'understands and respects' the historical fact that Taiwan and China held talks in 1992—known as the '1992 Consensus' between the KMT and the Chinese Communist Party (CCP) on the 'One China' formula. Following the DPP win, Beijing had urged strongly that the 1992 Consensus needed to remain the political foundation underpinning the relationship. Tsai also stated that the accords reached during President Ma's government should be continued. At the same time, however, she insisted that Taiwan's democratic constitution and the will of the people had to be an integral part of the cross-strait political relationship.⁸

In sum, Tsai seems prepared to reach a new accommodation between Taipei and Beijing that recognises both sides' interests but that impresses upon her Chinese interlocutors that a new 'Taiwan consensus' must guide the relationship. That is, even interim steps such as a semi-autonomous status for Taiwan (similar to Hong Kong's situation) won't be acceptable for the DPP leadership and, indeed, the vast majority of Taiwanese people. Therefore, the big question is whether the communist leadership in Beijing can accept that the political landscape in Taiwan has fundamentally changed and that this requires a more flexible approach.

At present, China's leadership seems yet to figure out how to respond to the DPP's win. China's first official response to Taiwan's election results predictably reiterated the position that the 1992 Consensus must be the basis for the cross-strait relationship. It also warned Taiwan of any move towards formal independence, referring to China's 2005 Anti-Secessionist Law, which makes clear that such a development would lead to war.⁹ A few days after the election, China's People's Liberation Army (PLA) also staged a live-fire exercise close to islands controlled by the ROC, most likely as a reminder about China's willingness to use force if required. The ROC Special Forces responded by holding a small-scale military drill.¹⁰ At the same time, in early February 2016 the mainland's annual Taiwan Affairs Work Conference recommended the further promotion of cross-strait economic integration, strengthening

the protection of Taiwan business people's rights and interests, and increasing people-to-people exchanges and exchanges with parties and groups in Taiwan that uphold the One China principle.¹¹

However, it's far from guaranteed that this positive momentum will be maintained and there are reasons to caution against too much optimism. President Xi Jinping has taken a strong stance on the issue of sovereignty and stressed on one occasion that he doesn't wish the issue of unification to be 'passed on generation after generation'. This statement was widely interpreted as a signal to Taiwan's leadership that under his leadership Beijing would press for a political dialogue that focused on concrete steps towards unification, a direction which met with strong opposition in Taipei.¹² Moreover, like his predecessors, Xi would wish to avoid domestic criticism for going soft on Taiwan. For the CCP, Taiwan remains a symbol of enormous national prestige and its future status as an integral part of the Mainland is one of China's declared 'core interests'. Furthermore, in the context of increased tensions over maritime disputes in the East China Sea and SCS, the political stakes for Beijing when it comes to unification with Taiwan are even higher. Upholding and, if necessary, enforcing its territorial sovereignty claims is fundamental to protecting the CCP's political legitimacy, and Taiwanese independence would be an existential threat to its survival. In more recent times, a more nationalistic public has only added pressure for the leadership to remain firm on Taiwan.

Therefore, the Chinese leadership could adopt a tougher approach towards Taiwan, guided by the belief that long-term political trends in Taipei and the closeness of US–Taiwan relations will be against its interests and that a military attack could alter the trajectory of those trends.¹³ One indication of this direction would be if Beijing suspends official exchanges or tries to 'steal' some of the ROC's remaining 22 diplomatic allies. In that case, the DPP government would face domestic pressure to retaliate, creating a negative spiral in cross-strait relations that could be very difficult to reverse.¹⁴ Therefore, while alarmist assessments of future cross-strait relations should be avoided, there's no reason to become complacent about the possibility of serious conflict. Indeed, aside from the potentially complicating political dynamics between the ROC and the PRC, additional strategic factors could contribute to a worsening of the situation.

Why Taiwan matters for Australia

There's a tendency in Canberra to avoid the Taiwan issue. It raises difficult strategic questions about Australia's commitments to the ANZUS alliance in the event of a cross-strait contingency. On the one hand, Australia is a strong supporter of the US 'strategic rebalance' as a means of upholding the 'rules-based order' in Asia—a position the new Defence White Paper makes amply clear.¹⁵ On the other hand, supporting the US over Taiwan would bring Australia into direct conflict with China, our biggest economic partner and an increasingly capable military power. Just like the US and most other nations, Australia also pursues a 'One China' policy that doesn't recognise Taiwan as a sovereign state. Canberra's approach to Taipei has thus been influenced by calculations of the potential responses in Beijing. And China has warned in the past that Australia would face 'very serious consequences' if it sided with the US in a Taiwan conflict.¹⁶ Given the enormous stakes involved, any Australian government would need to think carefully about its interest in getting involved.

However, the Taiwan issue isn't just an isolated conflict in East Asia. Rather, it's directly linked to the much broader question about the future security order in Asia. China is challenging the maritime order in East Asia, and Australia needs to determine what it's willing to contribute to preserve the rules-based order based on the US alliance system.¹⁷ In short, the Taiwan issue is intimately linked to the future of America's strategic position in East Asia. Should Taiwan fall into China's orbit, this position would be seriously weakened because America's failure to defend the island would greatly diminish the credibility of its leadership in Asia. Moreover, as is discussed in more detail below, a failure to support the US in a Taiwan contingency is likely to damage the ANZUS alliance. It's thus time for Australia to put Taiwan back on the political radar screen and pay greater attention to the emerging cross-strait situation. The DPP win creates a new cross-strait dynamic that, if mismanaged, could lead to greater instability and even conflict. One way or another, Australia needs a policy position that can be adjusted as circumstances change, rather than having to invent one in a crisis.

Taiwan, the US and the 'rebalance'

Essential for cross-strait stability is the role (or perceived role) played by the US as Taiwan's informal security guarantor. US policy towards cross-strait stability has traditionally been based on the concept of 'strategic ambiguity' to deter China from using force against Taiwan by creating doubts in the minds of the CCP leadership about whether the US would come to the island's defence. As well, the 1979 Taiwan Relations Act is widely regarded in the US political establishment as an informal US commitment to defend Taiwan against unprovoked Chinese aggression. During a joint press conference with President Xi in September 2015, US President Barack Obama reaffirmed Washington's 'strong commitment to the One-China policy based on ... the Taiwan Relations Act'.¹⁸ In the case of an unprovoked Chinese attack on Taiwan, it would be politically very difficult for any US President to not honour the obligation under the Act.

Yet, America's ability to defend Taiwan has arguably been weakened. Over recent years, China has worked systematically on changing the cross-strait military balance in its favour and on complicating a potential third-party intervention by the US. While it's difficult to truly assess the PLA's likely operational capability in times of conflict with the world's most advanced military power, the US would face a much higher risk environment in a Taiwan contingency. A study by the RAND Corporation concluded in 2015 that American forces would now encounter major operational difficulties in achieving dominance in a contest with the PLA over Taiwan.¹⁹

This challenge is compounded by the difficulties that the ROC Armed Forces face in adapting effectively to the changing cross-strait military balance—a task which hasn't been helped by a steady decline in Taiwan's defence budget. In the event of a Chinese military attack, the best bet for ROC forces would be to hold out as long as possible until US reinforcements arrive in theatre.²⁰ As a result, similarly to Australian analyst Hugh White, some American scholars have argued that, given China's growing power potential, a war over Taiwan would simply not be worth the cost. Instead, the US would be better off to 'abandon' Taiwan as part of a great-power bargain over the future East Asian security order.²¹

However, that remains a minority view within the US strategic expert community. Overwhelmingly, the view is that the defence of Taiwan remains critical for strategic and operational reasons.²² Indeed, in the context of growing US-Sino tensions over the East Asia maritime order, Taiwan is emerging as a key partner in the US 'rebalance' to the region. As a recent independent assessment by the Center for Strategic and International Studies (CSIS) on the future of the US rebalance pointed out:

Deterring China from using coercion or force against Taiwan is critically important to US interests ... Where possible, the United States should consider providing additional assistance to address key gaps in Taiwan's defence capability.²³

As mentioned already, the Taiwan issue is directly linked to the US's leadership role in the Asia-Pacific. As a treaty ally and security guarantor for Japan, South Korea, Australia, Thailand and the Philippines, withdrawing support for Taiwan would erode the credibility of US extended deterrence and deal a major blow to its leadership credentials in the wider Asia-Pacific region. As well, US abandonment of Taiwan as part of a 'great bargain' is likely to be perceived in Beijing as a sign of declining US power and resolve. And it wouldn't make cross-strait unification any easier, given Taiwan's unwillingness to surrender its way of life to China's authoritarian system. As Paul Dibb has argued compellingly, those calling to give up Taiwan fail to make a convincing case about which specific concessions must be made to accommodate a rising China.²⁴

The US is likely to go to war also to preserve Taiwan's democracy in case of an unprovoked Chinese attack.²⁵ In fact, the consolidation of Taiwan's democracy might further harden this position, as reflected in the US State Department's statement on Tsai's victory:

We also congratulate the people on Taiwan for once again demonstrating the strength of their robust democratic system, which will now undergo another peaceful transition of power. We share with the Taiwan people a profound interest in the continuation of cross-Strait peace and stability. We look forward to working with Dr Tsai and Taiwan's leaders of all parties to advance our many common interests and further strengthen the unofficial relationship between the United States and the people on Taiwan.²⁶

Moreover, given that it imposes limitations on PLA power projection, Taiwan's geostrategic location has relevance far beyond the question of who dominates the Taiwan Strait. An annexed Taiwan would become a staging ground for PLA air and maritime operations,²⁷ would enable Beijing to more easily project power into the 'second island chain' and would, for example, make the detection of PLA nuclear submarine operations in the Western Pacific a much harder task. This would be to the detriment of forward-deployed US forces and to Japan, America's most important East Asian ally.²⁸

The Obama administration has been rather reluctant to provide greater support to Taiwan. For example, it took until the end of 2015 before it notified the US Congress about another arms sales package to Taiwan. The last such deal occurred in 2011, and the administration had resisted congressional pressure for an additional package because it didn't want to annoy China.²⁹ That said, the latest foreign military sales of US\$1.8 billion to Taiwan include two Perry-class frigates, Javelin anti-tank missiles, TOW 2B anti-tank missiles and AAV-7 amphibious assault vehicles. They also entail follow-on work for Taiwan's Syun-An C4ISR systems, Link 11/ Link 16 for Taiwan's naval ships, F-16 MIDS/NTAMS/Fuzes and Phalanx close-in weapons systems, and Stinger surface-to-air missiles. Therefore, while the US still doesn't provide Taiwan with much-desired advanced major weapon systems, such as F-18 fighter jets, it makes clear that it has a vested interest in Taiwan's defence capabilities.

As well, should US-Sino strategic competition intensify—and there are indicators pointing in this direction—Washington could choose to increase its strategic support for Taiwan. There's already a growing debate among the US strategic community about whether the US approach to engage with China has failed and whether, as a result, a tougher approach is needed.³⁰ It's too early to tell whether after the 2016 elections the next President will adopt a more assertive US-China policy. Arguably, much will depend on China's future behaviour towards Taiwan and in the Western Pacific more generally. However, China's ongoing force modernisation will only add to a potentially destabilising cross-strait relationship. In fact, even those US analysts who argue that the risk of war over the Taiwan Strait has diminished worry that the changing military balance between China and Taiwan could lead to greater risk-taking on the part of Beijing in the mistaken assumption that the US would stay out of the conflict.³¹

ANZUS and Taiwan: does it tie our hands?

This analysis leads to the central question of whether Australia could be involved in a future military crisis in the Taiwan Strait. What would Australia do if its US ally asks for support in the context of an unprovoked Chinese military attack on Taiwan or a Chinese decision to conduct a naval blockade to coerce Taiwan into accepting its calls for unification on Beijing's terms? The former scenario could prove very difficult for the PLA, given that it would need to establish air superiority over Taiwan, master Taiwan's difficult terrain, overcome its own limited amphibious capabilities and operational experience, and face the ROC forces' growing investment in air and maritime denial capabilities. Yet, the Chinese leadership might still choose this option, assuming that it could deter an US intervention, thereby achieving a *fait accompli*.

In the case of an unprovoked Chinese attack on Taiwan, the question about whether to come to the island's defence would raise very difficult issues for Australia. It would not only concern the fate of Taiwan's democracy but also the involvement of our US ally and its expectations of support. Of course, an argument can be made that Washington might conclude that an involvement over Taiwan would be too difficult for Canberra and that the US might have to go it alone. As the Commander of the US Pacific Command (PACOM), Admiral Harry B Harris, has stated, there'd be a significant degree of uncertainty in terms of allied commitments in a potential war against China:

As far as the allies go, we have five treaty allies in the Pacific of varying degrees of capability but whether they would be with us in every fight is a matter for them to decide and the fight at-hand, so while I count the delta in numbers between us and China, I try not to count the quantity of assets our allies have because depending on the situation at hand and their own national decisions we might have to fight alone.³²

Nevertheless, the US would most likely expect Australia to provide support in a cross-strait contingency. A military conflict in the Taiwan Strait involving China, the US and (quite possibly) Japan wouldn't be an isolated event but would have enormous regional ramifications. Its outcome would fundamentally define the regional security order. As a result, for Australia not to be involved

on the part of its US ally would be a major decision affecting its national security. It's prudent to assume that political elites in Washington would agree with former US Deputy Secretary of State Richard Armitage's assessment:

I can't imagine great events in our time taking place without an Australian participation at some level. Now, if the Australian Government made a decision—in the terrible event the United States was involved in a conflict—that it was not in their interest to participate at some level then we would have to take a look at where we are after the dust settled. But as I say, I think the overwhelming view from the United States is that it is hard to imagine a military action of any sort here by the United States, which wouldn't in large measure, also be in Australia's interest.³³

As Paul Dibb has pointed out, 'a refusal on Australia's part to invoke the ANZUS Treaty in such a major conflict, involving Chinese attacks on US armed forces, could well be an alliance-breaking issue.'³⁴

This refers to the key issue: whether the ANZUS alliance does tie Australia's hands in a Taiwan contingency. That is, would Canberra risk becoming 'entrapped' in an unwanted conflict? This issue has been contentious in the past. For instance, in 2004 then Foreign Minister Downer publicly stated that the ANZUS Treaty wouldn't automatically apply in a US-Sino conflict over Taiwan. His remarks were widely criticised in Australia and the US as undermining alliance commitments and raising the prospect of a Taiwan Strait conflict. More recently, former Defence Minister David Johnston also offered the opinion that the ANZUS Treaty wouldn't commit Australia to a military conflict in the East China Sea.

However, while technically correct—the treaty doesn't automatically commit Australia to support the US in any scenario—it would be politically very difficult for Australia to stay out of such a conflict. ANZUS isn't an 'a la carte' alliance in which Australia can pick and choose its participation in Asia-Pacific conflicts involving its major US ally. Moreover, as discussed above, a war over the Taiwan Strait would affect core Australian strategic interests. As a result, the Taiwan issue should be placed high on the ANZUS alliance agenda. Such a dialogue should be confidential (for example, in the context of AUSMIN) and focus on mutual expectations in the event of a Taiwanese contingency. This could lead to classified joint contingency planning in the context of the ADF's increased involvement with PACOM. There also needs to be an understanding about what kind of capabilities Australia might be able to contribute. For instance, the joint defence facilities at Pine Gap and Nurrungar would certainly play an important role in supporting US operations in the Taiwan Strait.

Equally importantly, there should be high-level political consultations between Canberra and Washington about the Taiwan issue. The assumption that in the event of conflict leaders of both countries would just pick up the phone to agree on a joint strategy could prove problematic, as the stakes across the Taiwan Strait have increased significantly. A comprehensive ANZUS dialogue on Taiwan in regard to political and military expectations would be an important instrument to avoid a future 'expectation gap' between the two allies. The alliance dialogue could also include deliberations on how to use the trilateral Australia-US-Japan security and defence relationship. Japan has a strong interest in maintaining the status quo across the Taiwan Strait and, for example, increased trilateral military intelligence sharing could be beneficial.

Finally, both allies should consider Taiwan's potential to play an important and constructive role in SCS territorial disputes. Often overlooked, the ROC is also a claimant and, at least on paper, shares the infamous 'nine dashed line' with China. Under President Ma, Taiwan had made small but important steps towards a more conciliatory approach based on shelving disputes and the promotion of joint exploration. However, one of outgoing President Ma's 'presents' to the Tsai government was a recent visit to Itu Aba (Taiping Island in Taiwanese) to reaffirm Taiwanese sovereignty. The visit drew an angry response from two other claimants (Vietnam and the Philippines), while the US criticised it as 'extremely unhelpful'.³⁵ Yet, the DPP has so far adopted a nuanced approach to the SCS, calling for all parties to assert their claims and positions in accordance with UNCLOS, maintain freedom of navigation and overflight, and work towards peaceful conflict resolution. Therefore, the Tsai government could play a critical role in delegitimising Beijing's extensive SCS claims.³⁶ Thus, rather than seeing Taiwan only as a security problem, Australia should also consider its potential role as a contributor to regional security and the preservation of the rules-based order.

Enhance Taiwan's political and economic breathing space

Aside from the strategic–military dimension, Canberra should also consider ways to help increase Taiwan's political and economic breathing space. Over recent years, China has worked on marginalising Taipei in the diplomatic arena. Only 22 countries officially recognise Taiwan, and many of those could cut their diplomatic ties if Beijing increases its pressure. Even more problematic is Taiwan's struggle to improve economic ties with key partners as a means to maintain its economic prosperity and, ultimately, its status as a *de facto* independent, democratic country. Supporting Taiwan's economic development takes on an increasingly strategic dimension for the US, Australia and other regional players.

Therefore, even without China's consent Australia should seek to enhance bilateral trade with the ROC. In this context, it's worth mentioning that Taiwan is already an important trading partner for Australia. In the 2013–14 financial year, Taiwan was Australia's seventh largest merchandise export market (worth A\$7.4 billion), and the 14th largest source of merchandise imports. As well, in 2013 Australian investment in Taiwan amounted to A\$5.1 billion, the largest investors being ANZ and Macquarie Group. Indeed, in 2010 ANZ identified Taiwan as a 'key market in [its] Greater China strategy'.³⁷ Moreover, in February 2013 the Taiwan Chinese Petroleum Corporation secured a 5% equity stake in Shell's Prelude floating liquefied natural gas project in the Browse Basin. Taiwan's largest private company, Formosa Plastics Group, is a major investor in Australia's resource sector, financing A\$1.26 billion into the Pilbara region with Fortescue Metals Group. Finally, Taiwanese investment migration in Australia is significant, particularly in Queensland, where the state's second wealthiest and Australia's 60th wealthiest man, Gordon Fu, is a Taiwanese native. As a result, despite significantly lower Taiwan–Australia trade compared to the trade volume with China, Australia's importance as a supplier of resources and primary products to Taiwan, and the ROC's role in high-technology exports to Australia, reflect a robust and mutually beneficial trade relationship.

To support Taiwan's deeper regional economic integration, it's worth Australia reconsidering Taiwanese proposals made under the Ma administration for a *de facto* Australia–Taiwan free trade agreement (FTA). Canberra's official position in 2014 was that its departmental resources were fully deployed to negotiate other FTAs—with China, South Korea and Japan. Arguably, however, a potential negative Chinese reaction also drove Australia's reluctance.³⁸ With those FTAs concluded, the diplomatic resource argument isn't compelling anymore. As well, Taiwan managed to conclude its first-ever *de facto* FTA with New Zealand in 2013, and subsequently a similar pact with Singapore. At the time, China's Foreign Ministry commented that it had no objection to 'nongovernmental business and cultural exchanges' between Taiwan and other countries.³⁹ The Tsai government has announced its goal to boost trade ties with 'southbound countries' such as Vietnam, Indonesia and India. Moreover, there could be scope for a *de facto* FTA with Japan.⁴⁰

In 2016, the Turnbull government could therefore revisit the idea of *de facto* FTA talks with Taiwan. As well, a key goal of the new DPP government is to secure a spot in the second round of the US-led Trans-Pacific Partnership (TPP) trade accord. The achievement of that goal will significantly depend on Taipei's preparedness to meet key US demands for liberalisation, such as ending Taiwan's import ban on US pork, but Canberra could also work to support Taiwan's eventual accession to the partnership. Again, this would signal not *de jure* recognition of Taiwanese sovereignty but an appreciation that the peaceful solution of the cross-strait issue will require greater tacit regional support for Taiwan.

Notes

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- 20 For a comprehensive overview of Taiwan's emerging defence strategy, see Benjamin Schreer, 'Taiwan's defence options', in Andrew Tan (ed.), *Security and conflict in East Asia*, Routledge International Handbooks, London, 2015, pp. 121–130.
- 21 See, for instance, Lyle Goldstein, *Meeting China halfway: how to defuse the emerging US–China rivalry*, Georgetown University Press, Washington DC, 2015; Charles Glaser, 'Will China's rise lead to war? Why realism does not mean pessimism', *Foreign Affairs*, vol. 90, no. 2 (March/April 2011).
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- 23 Michael Green et al., *Asia–Pacific rebalance 2025: capabilities, presence, and partnerships*, Center for Strategic and International Studies, Washington DC, 2016, p. 94.
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Acronyms and abbreviations

ADF	Australian Defence Force
DPP	Democratic Progressive Party
KMT	Kuomintang
PACOM	US Pacific Command
PLA	People's Liberation Army
PRC	People's Republic of China
ROC	Republic of China
SCS	South China Sea

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