



# Ties that Bind

## U.S.-Taiwan Relations and Peace and Prosperity in East Asia

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# Introduction and summary

The United States, China, and Taiwan share one common interest in this new century—peace and prosperity in East Asia—but also one common divide—the 20th century legacy of political and military competition frozen in time across the Taiwan Strait. The Cold War in East Asia is long over, of course, replaced in the late 20th century by fast-growing economic ties that now bind the United States, China, and Taiwan in a complex web of prosperity and competition. Yet the political and military standoff remains even though Taiwan is now a prosperous democracy, China a rising capitalist but still authoritarian power, and the United States now, as then, the guardian of stability in East Asia and the Western Pacific.

How that one common interest of peace and prosperity plays out against this still volatile political and military divide will determine whether a Pax Americana holds well into the 21st century. China's continuing military buildup, highlighted most recently in the Department of Defense report titled "Military and Security Developments Involving the People's Republic of China," demonstrates the dangers of miscalculation by all three parties.<sup>1</sup> Yet recent steps at further economic integration between China and Taiwan—and how these positive steps might help weave the Taiwan economy more directly into the fabric of East and Southeast Asian trade and finance—offer the promise of further regional peace and prosperity.

Make no mistake: Taiwan and China are registering remarkable strides toward stabilizing cross-Strait relations in the wake of Taiwanese President Ma Ying-jeou's election victory two years ago, which returned his Nationalist Party to power on the promise to improve Taiwan-China relations across the board. Before that 2008 election, cross-Strait relations were sliding toward potential conflict, particularly after China's passage of the 2005 Anti-Secession Law, which formalized China's policy of using "non-peaceful means" in the event of a formal declaration of independence by Taiwan.<sup>2</sup> Correspondingly, U.S.-Taiwan relations had deteriorated over Taiwan's increasingly assertive independence under former President Chen Shui-bian.

Ma moved swiftly to promote better interactions with China through expanded economic ties and people-to-people exchanges. Since 2008, Taipei and Beijing have signed 12 agreements that expanded tourism, direct travel, postal and shipping routes, and financial and investment ties. In June 2010, representatives from Taiwan and China inked the much debated and controversial Economic Cooperation Framework Agreement, or ECFA, which lowers and eliminates tariffs, facilitates greater cross-Strait investment, and liberalizes financial services. The agreement was approved by Taiwan's legislature in August.

Yet as economic reconciliation moves apace, many uncertainties remain. For one, it is still unclear whether increased economic normalization will lead to a meaningful political reconciliation and under what circumstances. Ma has taken the political question off the table in the near term, repeating his oft-stated strategy of “economics first, politics later; easy first, difficult later.” He says his administration will “leave the decisions [on sovereignty] to future generations.” This construct may prove too simple, however, as a number of recent social and demographic trends compound the gravitational pull of economic interdependence and are already shaping the political landscape.

How the political developments unfold will determine how the still bristling military standoff across the Strait eventually is resolved. Currently, China's military modernization is growing at record pace and its leadership shows no indication that it plans to renounce the use of force in the Strait. China continues to spend heavily on its military capabilities vis-à-vis Taiwan and the United States and is “capable of increasingly sophisticated military action against Taiwan,” according to the Department of Defense report.

How should U.S. policymakers handle this dynamic mix of issues? How can they make the most of the opportunities presented by the rapprochement and how can they best hedge against the many uncertainties that remain?

The answer lies first in a sober and forward-looking assessment of the U.S.-Taiwan partnership. Unlike the U.S.-China relationship, the scale of which has expanded to include a global agenda, or the Taiwan-China relationship, which has moved forward quickly on economic and social ties, the U.S.-Taiwan agenda has been stagnant. It is still driven primarily by the common defense interests forged in the height of the Cold War. Although the two sides maintain steady ties across an array of issues—economic, social, educational, and defense—the United States and Taiwan have yet to create a meaningful affirmative agenda for a new age of globalized threats and opportunities.

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China's rise makes the delay of doing so even more consequential. The United States has maintained a durable and productive relationship with Taiwan for more than 50 years but it is now time for the United States and Taiwan to modernize and deepen their relationship.

Fortunately, the Taiwan Relations Act of 1979 continues to offer a useful and durable framework in which to make the relationship more comprehensive. Under the TRA, the United States maintains substantive relations with the island and cooperates on issues ranging from trade and security to health and education. The act provides a firm foundation on which to expand the U.S.-Taiwan agenda to include greater cooperation on global challenges—for example, on climate security.

As an island, Taiwan's sensitive geographic position makes it particularly vulnerable to the consequences of climate change, and the United States bears significant leadership responsibility in addressing global warming. Washington and Taipei can also increase cooperation on other areas of new and shared interest, such as international development and democracy promotion. Such efforts are made easier by the rapprochement between China and Taiwan, which has enhanced Taiwan's ability to have greater participation in international organizations, such as the World Health Organization, and may open up more opportunities for multi-lateral and bilateral engagement.

The United States and Taiwan should also seek ways to deepen their relationship. In the same way that the United States provides defense articles to help Taiwan sustain sufficient self-defense capabilities and to boost Taiwanese confidence to continue engagement with China, the United States should also strengthen U.S.-Taiwan economic and diplomatic ties. Washington should focus on increasing and improving communication with Taipei and on resolving existing U.S.-Taiwan trade disagreements in order to expand trade relations.

Consistent with the TRA, the United States should continue to provide Taiwan with the necessary means to defend itself. China's softening on Taiwan's participation in international organizations also widens the opportunity for the United States to work with Taiwan to secure greater participation in international forums, such as institutionalizing the island's observer status at the WHO and other multilateral forums.

Each of these steps would provide unique opportunities to advance U.S.-Taiwan relations as well as U.S. interests in the region broadly by helping Taiwan maintain

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its independent political system while deepening its economic relationships with China and all of its neighbors.

In this report, we look at the central role Taiwan will play in determining whether common economic interests continue to converge in East Asia or if instead the political and military divides will come to dominate relations. As we will demonstrate, neither outcome is certain. Much will depend specifically on several sets of policies now being hammered out by and among the leaders of China, Taiwan, and the United States—but with Taiwan in many ways taking the lead.

The pages that follow will examine the economic opportunities presented by the recent rapprochement between Taiwan and China, then turn to the more troubling military aspects of the relations between the two neighbors and the United States. We'll then consider the possible political reconciliation scenarios that could unfold depending on these economic and military dynamics. At the end of each of these sections, we will present U.S. policymakers with some recommendations to help ensure the one common interest of the three—peace and prosperity—is not upended by the one common divide—the continuing military standoff on both sides of the Taiwan Strait.

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