



# **U.S.-Taiwan Relations:** Prospects for Security and Economic Ties

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# Table of Contents

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Preface .....	IV
Why Taiwan (Still) Matters in the Era of Trump and Tsai Shelley Rigger .....	1
Taiwan’s Security in an Era of Uncertainty Dennis Hickey .....	7
Outlook for U.S.-Taiwan Economic Partnership under President Trump’s “American First” Trade Policy Peter Chow .....	21
Contributors .....	32

# Preface

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Taiwan has always been a key partner for the United States. At the heart of the relationship remains the fact that Taipei and Washington share the same principal values of promoting free markets and democracy, which are critical to ensure stability in East Asia and beyond. A peaceful and prosperous Taiwan is also clearly in the U.S. national interest too, not least because it is the ninth-biggest trading partner for the United States.

Yet prospects for Taiwan's autonomy have come increasingly under the spotlight, as worries about heightened tensions in cross-Strait relations remain. While President Donald Trump assured the Republic of China's President Xi Jinping in an early February phone conversation that the United States would honor the One China policy, concerns about President Trump's earlier remarks about reconsidering the long-standing policy have remained.

On January 25, 2017, the Wilson Center hosted a conference with three scholars focused on Taiwan to discuss prospects for the new administration's policy toward Taiwan. It was an opportunity to discuss not only the significance and



subsequent reactions from then-President Elect Trump's phone call with Taiwan's President Tsai Ing-wen in December 2016, but more broadly, to discuss the role that the One China policy has played to ensure regional stability, and also to highlight some of the challenges facing Taipei's political as well as economic outlook.

This is a collection of three essays from the three U.S. academics who participated in the conference. We hope that the contributions from **Shelley Rigger** of Davidson College, **Dennis Hickey** of Missouri State University, and **Peter Chow** of the City University of New York will further discussions about the future of Taiwan's relations with the United States and contribute to strengthening relations between Taipei and Washington.

### **Shihoko Goto**

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March 2017







# Why Taiwan (Still) Matters in the Era of Trump and Tsai

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Shelley Rigger

Taiwan matters, but it doesn't matter for the same reasons for everyone. Who we have in mind when we ask why Taiwan matters makes a big difference in how we answer that question. It also shapes our actions toward the island. The new U.S. administration includes a number of individuals who have a long history of treating Taiwan as if it mattered greatly, and in its own right. Unfortunately, the White House appears to believe Taiwan matters because of what it can do for the United States. Senior administration officials appear to view Taiwan as a means to an end. If that is true, then U.S. policy could soon pose a significant threat to Taiwan's security.

Globally, Taiwan matters because it is an exemplary team player in world affairs. Despite being excluded from most important international organizations, Taiwan contributes in important ways to global governance through functionally-based multilateral agreements and voluntary compliance with agreements it has been barred from joining, as well as foreign assistance and economic growth. It is also a critical link in global production chains that put affordable electronics and other products in millions of hands around the world. And, of course, it is an example of what is possible, both in economics, where it stands as an unparalleled example of growth and development with equity, and in politics, thanks to its peaceful democratization.

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Taiwan also matters to the United States as a long-standing friend and security partner with a strongly pro-American population. It is also the ninth-largest trading partner for the United States, and Taiwanese companies are key suppliers to some of America's most successful and innovative companies. And it is a shining example of how policies of democracy promotion and economic collaboration—cornerstones of U.S. foreign policy for decades—can help developing countries attain peace, stability, freedom, and prosperity.

Most importantly, though, Taiwan matters to itself, to 23 million Taiwanese who deserve to be treated with respect. Beginning in the 1980s, Taiwanese began to discover and promote what scholars labeled “subjectivity.” Taiwan subjectivity means Taiwan does not exist solely as the object of others’ intentions and desires, but as the subject of its own history, with a legitimate claim to self-government. Subjectivity is not the same as Taiwan independence; it does not prescribe any particular relationship with Beijing. But it does insist that the people of Taiwan have a right to decide for themselves what that relationship will be.

As the People’s Republic of China’s economic, political, and military strength increases, Taiwan subjectivity and autonomy face growing challenges. The island’s leaders have very little freedom of action; they must navigate a narrow passage between becoming so close to the PRC that they fall under its influence and drifting so far from the PRC that they provoke Beijing to unleash damaging economic or military responses.

Since Taiwan democratized, its politicians sought a stable balance between protecting the island’s subjectivity and avoiding confrontation with the PRC. At times, including under President Chen Shui-bian (2000-2008), Taiwan has leaned away from China, so far, at times, that U.S. officials have openly questioned its direction. At other times, such as under President Ma Ying-jeou (2008- May 2016), Taiwan steered more toward the PRC.

The island's current president, Tsai Ing-wen, is very much within this tradition. She is navigating a course within the same constraints as her predecessors, a course which lies between theirs, close to the centerline. Hers is not the course Beijing would prefer, both because she has not accepted its precondition for good relations, namely to endorse the so-called 1992 Consensus, and because they do not trust her. Nor is Tsai's course the one fervent supporters of Taiwan independence would prefer.

Tsai did not come to her policy thoughtlessly. She has been working to define a position that steers clear of both extremes for more than five years, and she has done so in consultation with officials in the United States and mainland China as well as many within Taiwan. In the end, Tsai decided to base her policy on a commitment to the status quo—neither independence nor unification—with the goal of avoiding confrontation and provocation while not allowing Beijing to dictate the terms of the relationship.

There is no question that Tsai anticipated a challenging, perhaps even hostile, response from Beijing. What she may not have foreseen is that in the early weeks of Donald Trump's presidency, her ability to steer the ship of state safely would be threatened by, of all places, the United States. Why? Because Trump himself seems to have decided Taiwan matters only in so far as it matters to him, that he regards the island and its people as means to his own ends, rather than ends in themselves.

The new administration's initiatives regarding Taiwan have two important flaws. One is a combination of wishful thinking and overconfidence that causes officials to underestimate the risks their actions pose for Taiwan's security. For the past eight years, some foreign policy specialists who came to prominence during the George W. Bush administration have been developing the idea that China is both more dangerous (in terms of its ambition) and weaker (in terms of its capabilities) than other China-watchers appreciate. In their view, the Obama administration was too ready to accommodate Beijing's political and economic demands because it underestimated China's willingness to challenge U.S. interests—if it thought it could do so

without adverse consequences—and overestimated China’s resolve and capacity to push back against challenges from the United States.

Whether this judgment is correct is debatable, but debating it is not the purpose here. Rather, the objection is not to this analysis in itself, but to its extension to Taiwan. If one doubts that China’s intentions are serious and its capabilities are dangerous, it is easy to wish away any danger to Taiwan from pressing the PRC. Indeed, some of Taiwan’s friends in the United States seem to believe that any action that frustrates, thwarts, or weakens the PRC must automatically benefit, elevate, and strengthen Taiwan.

Unfortunately, that is not true. Taiwan’s relationship with the PRC is complex and interdependent. Actions aimed at hurting the PRC or exposing its fragility can also hurt Taiwan. On the economic front, Taiwan and the mainland are deeply intertwined. The PRC is Taiwan’s top trading partner and investment target. Taiwan’s industries export massive amounts of high-value components to the mainland, where they are assembled and re-exported. If the United States were to impose a tariff on Chinese imports, as Trump has proposed, Taiwanese firms—both on the mainland and in Taiwan—would suffer massive losses. Already, the Trump administration has delivered a heavy blow to Taiwan’s economy by withdrawing the United States from the Trans-Pacific Partnership, an agreement that represented Taiwan’s best option for avoiding economic marginalization.

On the political front, the sensitive relationship between Taipei and Beijing can be seriously harmed by what may seem to people in Washington like small, symbolic gestures. The December 2 phone call between then president-elect Trump and Tsai Ing-wen apparently was intended as a supportive move. But when he faced criticism for the gesture, Trump reacted with a burst of tweets that made Taiwan responsible for the incident and dragged the island into a series of policy disputes between the United States and China that have little to do with Taiwan. The incident ended up damaging the fragile relationship between Taipei and Beijing far more than it benefitted the relationship between Taipei and Washington.

Rather than assuming they know what's best for Taiwan, U.S. officials and presidential advisors need to listen to Taiwanese leaders' own assessments of what they need, and to believe and act on what they hear. If scoring points against Beijing at Taiwan's expense is more important than helping Taiwan manage its relationship with the PRC, the United States is no better than the Chinese leadership: it too, is treating Taiwan as an object, suppressing and ignoring its subjectivity.

Trump's tweeting in response to criticism of the phone call with Tsai epitomizes the second flaw in his team's Taiwan policy: poor execution. Why the Trump transition team wanted the president-elect to have a phone call with Tsai is understandable. It was an opportunity—before the inauguration, when Trump could still plausibly claim to be a private citizen—to build rapport with Tsai that would help the two sides weather the storms that are sure to come. Unfortunately, what might have been a subtle, clever move blew up in Tsai's face when Trump taunted Beijing on Twitter.

Even worse were Trump's comments about the one China policy in a Fox news interview. Whatever his intentions were, when Trump said "I don't know why we have to be bound by a 'one China' policy unless we make a deal with China having to do with other things," he effectively made Taiwan policy—and by extension Taiwan itself—a bargaining chip in his efforts to obtain concessions from Beijing on other issues. The fact that Beijing's spokesmen retorted that the Taiwan issue is "non-negotiable" sounds scary, but it actually is good news: it would be far worse for Taiwan if the PRC accepted Trump's offer to put Taiwan on the table in exchange for a more favorable trade policy or pressure on North Korea's nuclear program.

Taiwan genuinely matters to Trump's advisors on East Asian affairs. They honestly hope to help Taipei expand its international role and increase its security. But because they believe that what is bad for China is good for Taiwan, and because of their boss's reckless swaggering, they are in imminent danger of weaponizing Taiwan, objectifying it in a particularly horrifying way. If they do, they will betray the very people and nation they are claiming to help.

核生北偵檢車





# Taiwan's Security in an Era of Uncertainty

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Dennis Hickey

Recent developments are conspiring to cause Taiwan to reemerge as a flashpoint for conflict in the Western Pacific. More than military equipment and close ties to the United States will be needed to protect Taiwan. In fact, stability in the Taiwan Strait is contingent upon the ability of the People's Republic of China (PRC or China) and Taiwan to come to terms with each other on a political basis.

## Taiwan's Security

Taiwan's national security rests primarily upon three pillars: military ties with the United States, stable relations with the PRC and a formidable military.<sup>1</sup>

### *U.S.-Taiwan Security Ties*

On December 15, 1978, President Jimmy Carter announced plans to establish diplomatic relations with the People's Republic of China and sever ties with the Republic of China (Taiwan). This prompted the U.S. Congress to pass the Taiwan Relations Act (TRA)—a law that has guided “unofficial” relations between Washington and Taipei for 38 years. The TRA is not the only document that guides U.S. policy. The three U.S.-PRC Communiqués (the 1972 Shanghai Communiqué, the 1979 Joint Communiqué on the Establishment of Diplomatic Relations and the August 17, 1982 Joint Communiqué on Arms Sales to Taiwan)

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also form the foundation of America's Taiwan policy. Moreover, some point to President Ronald Reagan's "Six Assurances" as a factor shaping policy.<sup>2</sup> These documents—along with various statements, proclamations and secret assurances—often appear contradictory. However, legal authorities agree that the TRA—which carries the force of law—supersedes the three communiqués and other declarations of policy.

According to the TRA, Washington will "consider any attempt to resolve the Taiwan issue by other than peaceful means, including boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States." However, the legislation does not formally commit the United States to Taiwan's defense.

In terms of arms sales, the TRA states that the United States will sell Taiwan such weapons as may be necessary for its security and an adequate defensive capability. But security ties are not limited to arms sales. Beginning in the 1990s, U.S. and Taiwan defense officials began to hold regular meetings on national security issues. Moreover, American military teams have been dispatched to Taiwan to assess the island's military capabilities and observe military exercises, while Taiwan's fighter pilots receive training in the United States.

The two sides have boosted defense cooperation in other ways. For example, a defense hot line has been established, an active duty defense attaché has been assigned to the American Institute in Taiwan, and Taiwan was designated as a "major non-NATO ally" in 2003. Moreover, the two sides reportedly engage in intelligence sharing operations.

The discussion above provides only a brief overview. A more complete discussion of U.S.-Taiwan security ties would include other elements in U.S. policy as well. Perhaps most important, the United States has long insisted that any resolution of the Taiwan issue must be settled peacefully by the two sides of the Taiwan Strait.<sup>3</sup>

## ***Stable Cross-Strait Relations***

Since the late 1970s, Beijing has pushed its “one country, two systems” formula for the “peaceful unification” of China. The new policy squared nicely with Deng Xiaoping’s emphasis on China’s economic reform and modernization. Washington’s adherence to a “One China policy” purportedly served to “pacify” Beijing and “reassure” China’s leaders that military action against Taiwan was unnecessary.<sup>4</sup>

In the 1990s, Taiwan’s economic linkages with the PRC began to soar. But cross-strait relations only entered an era of détente after Ma Ying-jeou’s election as ROC president in 2008. Ma endorsed the “1992 consensus,” an understanding whereby both sides of the Taiwan Strait agree that there is “one China,” but hold different interpretations of the concept. By the time Ma left office in May 2016, 23 landmark agreements had been inked and the leaders of two sides had met for the first time since the Chinese Civil War. U.S. officials applauded the rapprochement as “one of the few good news stories” in global politics. Indeed, in 2010, a seasoned ROC diplomat assessed the probability of a cross-strait military at “zero.”

Despite progress in cross-strait relations between 2008 and 2016, the PRC still refused to renounce the use of force to take Taiwan. The country’s massive military buildup continued. China’s military spending has been trending upward for decades. In 2016, the People’s Liberation Army’s (PLA) stated budget was US \$146.67 billion (compared to roughly US \$10 billion for Taiwan). The actual figure is higher. Moreover, as a U.S. Department of Defense (DoD) study observed, “preparation for a Taiwan conflict with the possibility of U.S. intervention continues to play a prominent role in China’s military modernization program.”<sup>5</sup>

The military buildup opposite Taiwan includes the highest concentration of missiles anywhere on earth.<sup>6</sup> The PLA possesses the ability to annihilate crucial leadership facilities, pulverize military bases and knock out communication and transportation nodes with minimal advance warning. It has also deployed new anti-ship ballistic



missiles, torpedo and mine systems, and combat aircraft. Moreover, the DoD warns that China is “also focusing on counterspace, offensive cyber operations, and electronic warfare capabilities meant to deny adversaries the advantages of modern, information-driven warfare.”<sup>7</sup> In short, China’s military is “capable of increasingly sophisticated military actions against Taiwan” and the costs of American intervention are rising.<sup>8</sup> The PLA is only one instrument in Beijing’s toolbox. China’s economic muscle and political clout may also be employed in an effort to shape cross-strait relations.

Economic links between the two sides have exploded. The PRC is Taiwan’s largest trading partner absorbing roughly 30 percent of Taiwan’s exports by value. Hong Kong S.A.R. is Taiwan’s second largest export destination and the United States is a distant third. Over 70,000 Taiwan businesses (including conglomerates like Foxconn) have set up shop in the PRC with investments totaling roughly US \$150 billion. Out of Taiwan’s 23 million people, between one and two million now live and work in the PRC. Given such statistics, it is easy to see that the PRC can employ economic pressure on Taiwan.

Finally, brief mention should be made of China’s growing political influence. As almost all governments abide by the “One China policy,” Taiwan’s participation as a “non-state actor” in intergovernmental organizations is contingent upon Beijing’s acquiescence. Moreover, only a handful of countries recognize Taipei. Some want to dump Taiwan. But from 2008 to 2016, the mainland rebuffed all such efforts in keeping with a “diplomatic truce” set up after Ma’s election in 2008.

### ***A Formidable ROC Military***

While China’s military budget has skyrocketed, Taiwan’s defense outlays have remained flat. Defense spending as a percentage of GDP hovers close to 2 percent—despite pledges to sustain an investment in defense of at least 3 percent. Compounding problems is a plan to shift to an all-volunteer force—meaning a larger share of military resources must be allocated to cover personnel costs. Despite deep cuts in force levels, implementation of the program has been delayed due to an inability to attract recruits. Furthermore, morale is low

among the armed forces and much of Taiwan's military equipment is growing old and obsolete.

American analysts have warned that "Taipei's low defense spending raises questions about Taiwan's commitment to its own defense, which could have implications for U.S. willingness to help defend the island in the event of a PRC attack."<sup>9</sup> This constitutes a problem for Taiwan as the United States is the island's only potential security partner. Some voices in Washington have express frustrations about Taipei's proclivity to be a "free rider" with respect to defense. In 2013, one exasperated U.S. official complained, "we cannot help defend you, if you cannot defend yourself."<sup>10</sup> More recently, Abraham Denmark, U.S. Deputy Assistant Secretary of Defense for East Asia, called on Taiwan to "increase its defense spending, and to invest in asymmetric and innovative capabilities and concepts" and emphasized that "we believe that they [Taiwan] need to spend more."<sup>11</sup> And during a recent visit to Taipei, top U.S. lawmakers asked President Tsai to boost the island's defense spending to 3 percent of GDP.<sup>12</sup>

## ANALYSIS

Taiwan's security rests primarily upon three pillars, but pillars must arise from strong roots. How firm are the roots of these pillars? As the world moves into an era when established economic, political and military commitments are challenged, questions are being raised.

### *The American Pillar: Trump and the Art of a Taiwan Deal?*

A brief overview of U.S.-Taiwan security ties reveals that there was a consistent trend in bilateral relations from December 31, 1978 (when the United States severed diplomatic ties with Taipei) to January 20, 2017. Namely, the two sides moved steadily closer. This observation applies with special force to the Barrack Obama administration. Since 2009, Obama approved arms sales to Taiwan totaling roughly US \$14 billion—meaning he sold more arms than all other U.S. presidents combined since 1979.<sup>13</sup> The weapons boost Taiwan's defenses while underscoring Washington's support for Taipei. Officials responded to PRC complaints by explaining that the president was only following

the law while also reassuring the Chinese that “we remain committed to our one-China policy.”

The Obama administration augmented Taiwan’s security in other ways. It championed Taipei’s drive to secure a voice in intergovernmental

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On December 23, 2016, Obama signed legislation calling for an increase in the level of military exchanges with Taiwan.

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organizations and praised its democracy. In 2012, the United States announced Taiwan’s membership in its visa-waiver program. The following year, the two sides signed an agreement giving Taiwan’s diplomats the same privileges and immunities

enjoyed by diplomats from other countries. On December 23, 2016, Obama signed legislation calling for an increase in the level of military exchanges with Taiwan.

Following the election of Donald J. Trump as U.S. president, an element of uncertainty was added to American policy. On December 1, 2016, Trump took a call from President Tsai. Analysts were divided over the significance of the call and whether it was little more than another Trump faux pas or if it signaled a forthcoming change in American policy.<sup>14</sup> Then, on December 11, Trump appeared to question the foundation of US-China relations when he declared, “I don’t why we have to be bound by a one-China policy, *unless we make a deal with China having to do with other things, including trade* [emphasis added].” The “other things” include help with North Korea, changes in China’s monetary policy and/or an adjustment in PRC policy toward the South China Sea dispute. In an interview published on January 13, 2017, Trump repeated that “the ‘One China policy’ is up for negotiation.”

Analysts do not know what to make of Trump’s call for a “deal.” Some think it means that an upgrade in Washington’s relations with Taipei is possible. More seasoned observers fear that Trump—a self-described “deal maker”—plans to use Taiwan as a “bargaining chip.” Nathan Liu, a professor of diplomacy at Taiwan’s prestigious Ming Chuan University, observed that “most of my colleagues are really, really

worried about that, because Taiwan would serve as a pawn between major powers.” He fears that “Taiwan will be virtually abandoned by the United States because it’s that bargaining chip.”<sup>15</sup> Lin Chong-pin, the ROC’s former deputy defense minister, has warned that “when he (Trump) turns, carrots can immediately become sticks. That’s his style.”<sup>16</sup> There is evidence to support such concerns.

It appears unlikely that Trump has any deep affection for Taiwan. During his campaign, the candidate never praised Taiwan. Rather, he accused the island of stealing American jobs (Taiwan enjoyed a US \$15 billion trade surplus with the United States in 2015). Moreover, given Trump’s complaints about foreign countries that do not spend enough on their own defense, Taiwan has earned a place among the ranks of Japan, South Korea, and Western European nations on his list of “freeloaders.”

Some of Trump’s advisers have links to independence elements in Taiwan and want to upgrade bilateral relations. But others do not. Trump appointed an individual with close ties to President Xi Jinping as U.S. Ambassador to China. Furthermore, the new president receives counsel from Henry Kissinger, an architect of the policy that led Washington to dump Taipei in the 1970s. And during a conversation with President Xi, President-elect Trump declared that he wanted to “strengthen” relations with China and create a win-win relationship.

Some are hopeful that Taiwan’s democratization will continue to bind the island to the United States. But President Trump is not a champion of democracy. In 2016, Thomas Carothers predicted, “if the American people choose Donald Trump for president, democracy promotion would likely fall off the stage of U.S. foreign policy almost entirely.”<sup>17</sup> During the run-up to Trump’s inauguration, Carothers argued that economic and security interests will be paramount in the new administration, while “democracy and human rights in other countries, and other “soft” interests, are to be put aside in the pursuit of a get-tough, America-first foreign policy.”<sup>18</sup>

Finally, one might review Trump’s approach to business. In his book, *The Art of the Deal*, Trump argues that the way to make a great deal

is to come to the negotiation table from a position of strength and convince the other side that you have something that they *really* want. Trump might use leverage provided by America's support for Taiwan to seek concessions from China.

### ***The PRC Pillar: The Death of Détente?***

Throughout Taiwan's 2015-16 election cycle, Tsai Ing-wen, the presidential candidate of the Democratic Progressive Party, a party supporting Taiwan's independence from China, refused to endorse the 1992 Consensus. The understanding had helped reduce cross-strait tensions to an unprecedented level. Rather, Tsai opted to sidestep the issue by claiming she supported the status quo and would handle relations with Beijing in accordance with the will of the Taiwan people and Taiwan's Constitution. This vague approach to cross-strait relations prompted Xi Jinping to warn that "without a solid foundation, the earth and mountains will tremble. We must adhere to the '1992 Consensus.'" But Tsai's ignored all warnings.

Since Tsai's election, Beijing has gradually applied different measures to convince Taipei to return to the 1992 Consensus. In June 2016, Beijing suspended official communication with Taiwan. The Chinese government then slashed number of mainland tourists to Taiwan—a development igniting protests by those in the tourism industry. Taiwan was also locked out of the 39th assembly of the International Civil Aviation Organization. And Beijing has recently begun to slowly accede to requests by Taipei's remaining diplomatic allies to switch recognition to Beijing (São Tomé and Príncipe dropped Taiwan in December), while also convincing states like Nigeria to downgrade "unofficial" relations.

President-elect Donald Trump's actions have exacerbated cross-strait tensions. China blasted Tsai's call to Trump as "a Taiwan trick." Not surprisingly, Beijing was outraged by Trump's follow-up statement indicating Washington might no longer abide by the One China policy unless Beijing makes concessions. In December, the PLA navy conducted military drills around Taiwan and state-run media outlets now warn that China's military should prepare to take the island by force.

## ***ROC Military: Another Freeloading Friend?***

For decades, the ROC maintained military muscle believed sufficient to deter a PRC attack or repel an invasion if deterrence failed. Times have changed. In November 2016, polls showed that over 88 percent of Taiwan's people believe that the ROC military is incapable of defending Taiwan against an attack from the PRC.<sup>19</sup> But a plurality (more than 47 percent) think the United States will come to the rescue.<sup>20</sup> According to the ROC Ministry of National Defense, the island might be able to hold out for as long as a month.

In December 2016, Assistant Defense Secretary Denmark warned that China's military advantage over Taiwan is widening and "this makes it incumbent on Taiwan to prepare and invest in capabilities to deter aggression and mount an effective defense if deterrence fails...Taiwan's defense budget has not kept pace with the threat developments and should be increased."<sup>21</sup> Denmark acknowledged that the TRA provides a president with the *option* to help Taiwan in an emergency, but "he stressed that any decision to do so was *up to the president* and the primary responsibility remained with Taiwan itself."<sup>22</sup>

Secretary Denmark's observations are noteworthy on several levels. First, the TRA is not an iron-clad security pact and President-elect Trump opposes costly U.S. military interventions in foreign conflicts—particularly civil wars.

Second, Trump has called on friends and allies to develop their own independent defensive capabilities and criticized those who do not as freeloaders. Third, public opinion polls consistently show that an overwhelming majority of Americans oppose the use of U.S. troops to defend Taiwan in a conflict with the PRC (only 28 percent favor using military force to help Taiwan).<sup>23</sup>

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...China's military advantage over Taiwan is widening and "this makes it incumbent on Taiwan to prepare and invest in capabilities to deter aggression and mount an effective defense if deterrence fails..."

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## CONCLUSIONS

After eight years of relative calm, Taiwan became headline news again in 2016. The island's security equation is under pressure from all sides. What is to be done?

Taiwan's leaders claim that the island's policies are guided by "the will of the people." When pressed to explain how they gauge public opinion, however, officials are evasive. They claim to "listen to many polls." But most of Taiwan's surveys—particularly those administered by the island's political parties and partisan think-tanks—are "nonsense polls." They are methodologically flawed—often intentionally.<sup>24</sup> The *Taiwan National Security Survey* (TNSS), which is conducted by the prestigious Election Study Center of Taiwan's National Chengchi University, under the auspices of the Program in Asian Security Studies at Duke University, is different. Since 2002, this scientific survey has been conducted nine times—most recently in November 2016. The results are important on many levels. Due to space constraints, however, only two important takeaways will be discussed below.

First, when asked whether they support the idea of Taiwan and PRC conducting relations under the "One China with own interpretation" formula, the TNSS survey found that 62.67 percent of respondents either "agree" or "strongly agree" with the proposition. In other words, polling results show that a solid majority of Taiwanese do support the "1992 consensus." Consequently, the Tsai administration should stop playing word games and endorse the 1992 Consensus. The move might anger extremists, but it will be supported by most Taiwanese and help restore cross-strait relations to an even keel. It is likely that cross-strait tensions will decline markedly, the island's economy will improve and the president's low approval ratings will rise.

Second, the TNSS survey reveals that almost 70 percent of Taiwanese agree that Taiwan is already an independent nation and its name is the Republic of China. And they believe that there is no need to seek further independence. At the same time, nearly 83 percent

support a peace agreement with the mainland whereby Taipei will pledge not to seek independence and Beijing promises not to attack Taiwan. This indicates that President Tsai should push ahead with her calls for a peace agreement between Taipei and Beijing. And any such a pact must be based on reality. Namely, Beijing's leaders must recognize that, while there is only one China, there are two Chinese governments controlling separately—the ROC and the PRC. This is mainstream opinion within Taiwan and an accurate reflection of reality.<sup>25</sup> The ROC has existed as a sovereign and independent state since 1912.

Taiwan's return to the 1992 consensus and a cross-strait peace pact will yield numerous dividends for both sides of the Taiwan Strait and promote peace and stability in the Western Pacific. The time is now for politicians in both Beijing and Taipei to "serve the people" (人民服務) and respond to their preferences. To do otherwise invites outside elements to interfere in their affairs and seek to profit from their differences.

## Endnotes

- 1 In the past, most thought the term, "national security" implied only protection of a country against physical assault. Today most believe that it has a more extensive meaning and that "national security also implies protection, through a variety of means, of a broad array of interests and values." See Amos Jordan, William Taylor, Michael Meese and Suzanne Nielsen, *American National Security, Sixth Edition*, (Baltimore: Johns Hopkins University Press, 2009), p.4
- 2 The "six assurances" are that the United States will not set a date for ending arms sales to Taiwan; the United States will not hold prior consultations with the PRC over arms sales to Taiwan; the United States will not mediate between Beijing and Taipei; the United States will not revise the TRA; the United States will not alter its position regarding sovereignty over Taiwan; and the United States will not pressure Taipei to enter into negotiations with Beijing.
- 3 See Dennis V. Hickey, "America's Two Point Policy and the Future of Taiwan," *Asian Survey*, Vol.XXVIII, No.8, August, 1988, pp. pp. 881-896.
- 4 See John Hsieh, "Cross-Strait Relations in the Aftermath of Taiwan's 2016 Elections," Paper delivered at the *2016 Annual Meeting of the American Political*



Science Association, September 1-4, 2016, Philadelphia, Pennsylvania, pp.3-4.

- 5 Office of Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China, 2016* (Washington, DC: U.S. Department of Defense, 2016), p.90.
- 6 See Dennis V. Hickey, "Imbalance in the Taiwan Strait," *Parameters: The US Army War College Quarterly*, Volume 43, Number 3, Autumn 2013, pp.43-53.
- 7 *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China, 2016*
- 8 Ibid.
- 9 See Anastasia Mark and Bonnie Glaser, *Taiwan's Defense Spending: The Security Consequences of Choosing Butter Over Guns*, (Washington, DC: CSIS, May 18, 2015), on the world wide web at <https://amti.csis.org/taiwans-defense-spending-the-security-consequences-of-choosing-butter-over-guns/>
- 10 Dennis V. Hickey, "Imbalance in the Taiwan Strait," *Parameters: The US Army War College Quarterly*, p.44.
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# Outlook for U.S.-Taiwan Economic Partnership under President Trump’s “America First” Trade Policy

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Peter C.Y. Chow

*“After all, the chief business of the American people is business “*

- John Calvin Coolidge (1872-1933)

**E**conomic and security concerns have made Taiwan one of the most important partners for the United States. Further economic integration between the United States and Taiwan through trade and investment will not only enhance economic and trade growth in both countries, but also contribute to regional stability which is vital to U.S. economic and strategic interest in the region.

## **U.S.-Taiwan trade relations to date**

In 1985, the United States accounted for just over 48 percent of Taiwan’s total export to the world, but this ratio dropped to 12 percent in 2015. Nevertheless, Taiwan is still the ninth largest goods trading partner for the United States with \$63.74 billion in total commodity trade in 2015. Two-way trade in services totaled \$20.3 billion, with \$4.7 billion trade surplus in favor of the United States in the same year. According to Department of Commerce, U.S. exports of goods and services to Taiwan supported an estimated 217,000 jobs in 2014.

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Among them, 135,000 supported by goods exports and nearly 82 thousand supported by services exports. Further growth of trade and investment flows between the United States and Taiwan will enhance the economic growth in both countries and create more jobs for American workers desired by President Trump.

## Taiwan's trade relations with the United States to date

U.S.-Taiwan economic partnership can be strengthened under President Trump's "America First" trade policy since the United States and Taiwan have high degree of complementarity in their trade structures. Taiwan has relatively higher complementarity indexes than many other Asian countries with the United States most of the time in the past decades. The complementarity index is calculated from actual trade flows which are affected by foreign direct investment (FDI) through mechanism of the trade investment nexus. Hence, to compare Taiwan-U.S. trade complementarity indexes with those between the United States and South East Asian countries, one has to consider that much of the trade flows from those countries to the United States are directly or indirectly induced by Taiwan's outward FDI in those countries. Therefore, the degree of trade complementarity

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This policy likely stemmed from the assumption that these individuals would have no choice but to shield Kim Jong-un if complications arose due to a lack of progress in the transition of power.

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between the United States and Taiwan will be greatly increased if the destination of Taiwan's outward FDI changes. This phenomenon explains why it is necessary for the U.S government to provide more incentives for Taiwanese entrepreneurs to invest in the United States.

The United States has strong comparative advantage in service

trade, especially in royalties/licenses fees, financial/commercial services and other professional services. The surplus of service trade in the United States has an average of more than \$700 billion annually in 2013-15 periods. Taiwan has one of the strongest market potentials

for the United States to expand its export of service in Asia which account for about 25 percent of total service trade in the United States. Amid the structural transformation of its economy, Taiwan itself would need to further liberalize its service industry to reach the levels of OECD countries, and to avoid falling into the “middle-income’s trap” as well.

To make America great again, U.S. trade policy must be based on its comparative advantage in the world market. Further growth of U.S. export of service trade to Taiwan will create more jobs for American workers and to speed up structural transformation in Taiwan’s economy.

### **President Tsai’s “Five plus Two” policy initiative and the U.S. free trade policy**

Taiwan economy is far beyond the factor-driven stage of development which generated its enviable economic miracles in the decades between the 1960’s to 1980’s. It began to move from investment-driven to “innovation-driven” stage by focusing on knowledge-based economy. Nevertheless, Taiwan faces unprecedented severe challenges of sluggish economic growth. When President Ing-wen Tsai took the office in May 2016, she launched a series of socio-economic reforms to diversify its trade and investment destination in order to avoid too much on mainland China’s economy.

The “Five plus Two” innovative industrial policy and the “New Southbound” initiative, both have strong linkages with the United States and global economy. The five major innovative industries are the biotech, defense industry, green energy, intelligent machinery, and internet of things (IoT), or Asian Silicon Valley. The other two are the new agriculture and circular economy.

The “New Southbound” policy, meanwhile, is to expedite trade, investment and cultural interactions with south east and south Asian countries. As well as with the United States. Hence, there are great opportunities for the United States and Taiwan to further their collaborations for mutual interests.

Note, though, that efforts to build up an Asian Silicon Valley is not to clone the Silicon Valley in Taiwan, but rather to partner with innovation clusters in Silicon Valley for technology, talent, capital and markets, as well as to link them with Asia to next-generation technology excellence, both in the United States and Asian countries. However, Taiwan faces bottlenecks of developing IoT such as the lack of comprehensive development plans, little involvement in international standard formulation and insufficient integration of local IoT communities. Hence, there is room for collaboration between the United States and Taiwan; the United States can help Taiwan to overcome those bottle necks to develop Taiwan's IoT, which will be mutually beneficial for both countries.

Taiwan has excessive savings of about NT \$2 trillion (about \$ 64.5 billion) annually in recent years, which is equivalent to its annual budget at the level of central government. What Taiwan needs is free flows of talents and technology from the United States to speed up its development to move beyond manufactures subcontracting in its information technology industry. Cooperation of operational discipline of financial institutions, strategic alliances of banking and financial industries and bolstering e-commerce are only some examples of collaboration. If the partnership between the United States and Taiwan can be further strengthened to overcome the bottlenecks of Taiwan's development, it will not only help Taiwan to transform its economic structure by moving toward technology frontier, but also provides more job opportunity for American people.

Taipei will continue to purchase advanced weapons from Washington for its self-defense. But it needs to upgrade its indigenous defense capability for its national security and to maintain the peace and stability on the Taiwan Strait. Cyber-security, shipbuilding for diesel submarine and aviation industries for ingenious military plane are the three major components of President Tsai's innovation plan in defense industry. To achieve this goal, the United States needs to lift the control of exporting high-tech to Taiwan. Therefore, liberalization of US export of high-tech technology to Taiwan is a "must." This will fulfill the obligations under the Taiwan Relation Act. Moreover, it is consistent with President Trump's "America first" policy to let American allies to

share the burden of their national defense because Taiwan, in addition to purchase its weapons, pays its own bills for technology transfer from the United States.

### **Low-profile Economic Partnership: Reciprocal Liberalization and Expanding the Two-way Bilateral Investments**

To avoid any unnecessary political complication, it is better to pursue the economic partnership via low-profile approach on enterprise-specific, industry-specific basis, then to broaden the scope of collaboration and to deepen the degree of partnership between these two countries. The low-profile approach is to exploiting the firm-specific comparative advantages guided by the “invisible hand” of business entrepreneurs. Any policy driven for sustainable partnership between/among any market economies has to be carried out through the ‘animal spirits’ which is the foundation that both the United States and Taiwan enshrined. Already, Foxconn, a Taiwan-based giant manufacture contractor that plays a key role in assembling iPhones for Apple Inc., has considered investing \$ 7 billion to manufacture the flat panel screen in the United States, which could create 50,000 jobs for Americans. Several Taiwanese companies also expressed their interests in investing in the United States too if enough incentive is offered to them.

With the increasing labor cost in China and uncertainty of the trade frictions between Beijing and Washington, more and more Taiwanese firms will follow Foxconn to invest in the United States. Presumably, large scale Taiwanese enterprises are more likely than the small-medium enterprises to invest in the United States instead of China. The likely shifts of the Taiwanese outward FDI will further deepen economic integration between these two countries. Hence, it is important for the Trump administration to provide necessary infrastructure, not only supporting hardware facilities but also in institutional infrastructures such as tax incentives and liberalization of the regulatory regime so to enhance investment environment in the United States.



At this juncture, a bilateral investment treaty between these two countries is imperative to expedite the two-way investment. The mechanism of investment –trade nexus will lead to further economic integration between Taiwan and the United States.<sup>1</sup> Therefore, Taipei and Washington should grab this great opportunity to sign the long overdue bilateral agreement as soon as possible.

## **A Grand Strategy toward Institutionalized Economic Partnership: U.S.-Taiwan Free Trade Agreement or Economic Partnership Agreement**

Any trade agreement has geostrategic as well as economic interests. As such, both Washington and Taipei need a grand strategy to reflect their broader national interests, rather than simply looking for sectoral-specific cost-benefits. The statecraft to reach any trade deal, be it a free trade agreement or economic partnership agreement is for Washington to evaluate Taiwan's role in the overall U.S. economic-strategic interests as a whole for the best interest of American people.

President Trump's decision to withdraw from the Trans Pacific Partnership has caused great apprehension in many America's allies in the region. Asian nations which are members of the China-centric Regional Comprehensive Economic Partnership (RCEP) may lean toward Beijing and to become even more trade dependent on China than they are now.<sup>2</sup> Unless the Trump administration takes some policy actions, economic dependency on China leaves them little option but align politically with China, which will challenge U.S. economic and strategic interests in the region.

However, Taiwan has no such option as other Asian countries because of its asymmetrical trade dependent on China and pushback from Beijing which could block its membership at RCEP. While Taiwan has been actively pursuing FTA with its trading partners, many countries are wary of China on signing any formal trade pact with Taiwan. Taipei's leadership faces a strong challenge of being marginalized from the emerging trade blocs in the Asia Pacific. Hence, there is a strong incentive for Taiwan to pursue a closer economic partnership with the United States. An FTA or EPA with Taiwan will not only help Taiwan

to diversify its trade and investment destinations, but also to relieve the syndrome of being marginalized and to entice Japan and other countries to sign trade pacts with Taiwan.

In his testimony before the House Committee on Foreign Affairs' subcommittee on Asia and the Pacific in December 2016, Derek Scissors evaluated numerous possible candidates for signing the bilateral FTA preferred by President Trump, and advocated that "Taiwan might be the happy Asia-Pacific compromise."<sup>3</sup> Hence, signing a bilateral trade pact with Taiwan can demonstrate that the United States does not retreat from Asia. It will have a demonstration effect on "competitive trade liberalization" for the United States to pursue President Trump's preference of bilateral trade deals as well. Hence, Taiwan should be the first candidate for the Trump administration to negotiate the bilateral trade accord in Asia Pacific. Of course, any trade deal would inevitably have some disputes on market access for some sensitive sectors, which are common but manageable if both sides have the political wills to resolve it. On the contentious issue of pork import from the United States, it involves not only the import competition in domestic hog industry, but also the food safety in Taiwan. Taiwan imports about \$ 30 million of U.S. pork annually. What Taiwan opposed is the pork with the additive of ractopamine. The international food safety standard on the maximum residual level (MRL) of ractopamine of 10 parts per billion for muscle cuts of beef and pork, which has been accepted by Korea and Japan, is not accepted by Taiwanese because they consume much more pork than what Japanese and Koreans do (per capita consumption of pork in Taiwan is 34 kg annually whereas it is only 15 kg in Japan and 24 kg in Korea). Moreover, the Taiwanese have unique preference of consuming organs of pigs which have higher MRL than meat itself. Therefore, the public concern for food safety leaves little room for the Tsai Administration to yield to the U.S. demand of lifting the pork import.

Taiwan is willing to accommodate American farmers to expand their exports to Taiwan. Taiwan also sent its agricultural procurement mission to various agricultural state to order large quantities of major crops annually. It is suggested that both sides can find leeway to resolve the issue by finding other substitutes which are not involved

with the food safety. Therefore, if Taiwan and the United States can find alternative agricultural products other than the pork with the additive of ractopamine, then it will make the negotiation of any trade accord much easy to reach the conclusion.

Given the cultural and religious factors,<sup>4</sup> the complexity of the pork import issue in Taiwan will not be easily resolved. Bilateral negotiation should proceed simultaneously on the pending issue of pork import to provide more time and leverage for the Tsai administration to resolve its domestic politics. In fact, the pork import estimated at \$30 million is only a small fraction of U.S. trade surplus of service with Taiwan, which stands at \$4.7 billion. So the United States could put the issue of pork import on the negotiation table but not to insist it as a down payment before proceeding the trade negotiations. A bilateral trade accord with Taiwan will have beneficial effects on the United States. Under the assumption of zero tariff on commodity trade, 25 percent liberalization of service trade, and 10 percent improvement in trade facilitation, a computable general equilibrium model simulation based on Global Trade Analysis Project data bank 9A version by Hsu (2016) shows that a US-Taiwan FTA/EPA will result in welfare increase in the U.S. by \$3.6 billion, real GDP by \$3.5 billion, and the U.S. trade deficit with Taiwan will be slashed by as much as 75 percent to \$ 1.24 billion.<sup>5</sup> Using the USTR estimated that \$ 1 billion of export will create 5,900 U.S. jobs, a U.S.-Taiwan FTA/EPA will generate additional 27,000 U.S. jobs. More job opportunities for Americans will be created if higher degree of liberalization on service trade is implemented.

It is also noted that Taiwan signed the Trade Facilitation Act under the WTO as a signatory. Once the TFA becomes fully effective, the effect of U.S.-Taiwan FTA/EPA will be much more than what the simulation model projected. Moreover, the significance of any trade accord is far beyond the benefit of trade liberalization. The dynamic effect of the U.S.-Taiwan FTA/ERA will be much higher than what the comparative static model has projected.

## **Conclusion: the United States and Taiwan are on the same boat**

The long term economic partnership between the United States and Taiwan is durable because of the complementarity in their trade structures. There is a strong linkage between President Trump's "America first" trade policy and President Tsai's industrial re-structuring initiatives. A low-profile approach to collaborate both economies on a company by company approach will enable business entrepreneurs to exploit their firm-specific comparative advantage. Reciprocal reductions of trade barriers by lifting the control of high-tech export and two-way bilateral investment are the keys to broaden the scope of cooperation and deepen economic integration. Formalizing the economic partnership by signing a bilateral investment agreement will make it sustainable.

Washington has a strong comparative advantage in service trade and many other sectors in manufactures in high tech. Taiwan is one of the great potential markets for the U.S. service trade in Asia and Taiwan needs to import high-tech products from the United States for its own sake. Deregulating service sectors in Taiwan will enable it to escape the middle-income trap as well. Hence, it is mutually beneficial to sign a formal trade accord, be it a free trade agreement or economic partnership agreement to make the partnership sustainable. An overall national economic and security interest rather than interest groups from specific sectors must be considered under the grand strategy for any trade deal. Either FTA or EPA will enable the United States to increase its real GDP, social welfare, export growth, reduce U.S. trade deficit and create more job for Americans. It is a win-win for both sides because United States and Taiwan are on the same boat.

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## Endnotes

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- 2 Seven of the TPP (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam) have dual membership in both the TPP and RCEP. But, Prime Minister Shinzo Abe of Japan still tried to persuade President Trump to remain in the TPP. It is also possible that Japan may lead the TPP without the U.S. by revising the effective criteria of the original TPP.
- 3 Derek Scissors “Trumping Obama in US-Asia Economic Relations.” *December 6, 2016 Testimony before the House Committee on Foreign Affairs, Subcommittee on Asia and the Pacific* from the website at <http://www.aei.org/publication/trumping-obama-in-us-asia-economic-relations/>. Downloaded on February 2, 2017
- 4 Secular Buddhism, which is the majority religion in Taiwan, can eat pork but not beef. Cow used to be working animal and a major energy power in traditional farming whereas the pig is a feeding animal. So, many Taiwanese consume seven times more pork than that of beef.
- 5 Even though it is arguable that a trade deficit is not necessarily hurtful to the national economy, a persistent trade deficit is a punching bag in the electoral politics in the United States for decades, and in the mindset of President Trump.

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