

TAIWAN 2018: HEAVY SETBACKS FOR THE TSAI ADMINISTRATION*

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Relations between Taiwan and the People's Republic of China remained frozen, as President Tsai Ing-wen continued to refuse Beijing's diktat to accept the 1992 Consensus as a roadmap for national unification. With no breakthrough in sight, both sides across the Strait remained firmly entrenched in their positions, relying on military signalling to communicate their commitment to their respective agendas. The escalation of the Sino-American strategic competition also contributed to shape the course of cross-Strait relations, as Taipei consolidated its security relations with Washington against Beijing's threat. The support of the Trump administration partially balanced a string of diplomatic defeats that Taiwan suffered throughout the year, as the government of the People's Republic of China further shrank Taiwan's international space, poaching diplomatic allies and excluding the self-governed island from international organisations. Despite stronger ties with Washington, Taipei neither avoided the Trump tariffs, nor recommenced negotiations for a free trade agreement with the United States. Similarly, the maintenance of stable and friendly relations with the Abe administration was not sufficient to obtain Japan's support for access to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership free trade agreement.

Burdened by the need to implement painful structural reforms to the economy, and unable to guarantee short-term windfalls to an impatient electorate, the Democratic Progressive Party (DPP) suffered a devastating defeat in the November electoral round, which merged local elections with referenda on themes relevant to the long-term success of the Tsai agenda. The elections saw an impressive performance of the Kuomintang but also raised concerns over China's capability to infiltrate and affect Taiwan's democratic processes. The magnitude of the DPP's defeat appeared to have severely hindered Tsai's prospects for re-election in 2020.

* Relevant terms and expressions are reported in English followed by a transcription in Chinese characters. Traditional characters are used for terms and statements drawn from Taiwanese sources, while simplified characters are used for terms and statements drawn from PRC's sources. Given the lack of a standardised system for proper nouns in Taiwan, people's names and place names are transliterated either in Wade-Giles or in Gwoyeu Romatzyh, following their most common usage. Proper nouns from the PRC are transliterated in Hanyu Pinyin.

1. Introduction

This essay explores the developments which occurred in the Republic of China (Taiwan) – hence ROC – in the fields of cross-Strait relations, regional politics, domestic politics and the economy in 2018. The section on cross-Strait relations, which constitutes the bulk of the essay, consists of three segments. The first assesses the articulation of the Taiwan policy of the People's Republic of China (PRC), and its impact on the ROC's international presence. The second provides an analysis of the triangular relations between China, Taiwan, and the United States, with a focus on political communication, military signalling, and the impact of the Sino-American trade-war. The third stands as a counterpart to the first, examining the development of the defence policy of the administration of President Tsai Ing-wen 蔡英文.

The second part of the essay – section three – analyses Taiwan's role as a regional actor in the Indo-Pacific. This section starts with a synopsis of the development of relations between Washington and Taipei beyond the cross-Strait dimension, focusing on trade relations. Successively, it discusses the evolution of Taiwan's relations with Japan and its implications for Taipei's request to access the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Finally, it examines the evolution of the Tsai administration's policy of engagement with its regional neighbours in the context of the New Southbound Policy initiative started in 2016.

The last part of the essay, section four, covers domestic economics and politics, revolving around the key political events of the year, local elections and the referendum held on 24 November. While the cross-Strait and regional ramifications of the electoral results are analysed in the previous sections, this portion of the essay informs such events to the domestic social, political, and economic processes occurring in Taiwan. In order to do so, it is divided into three segments. The first segment delivers a general sketch of the main structural challenges testing the economy of the ROC in recent years, and presents estimates and official data on the performance of the local economy in 2018. Against this backdrop, the second segment discusses the policies of the Tsai administration and of the major opposition forces in the period leading up to the election. Finally, the third segment maps the result and short-term implications of the November vote.

2. Cross-Strait Relations in 2018

Throughout the year, President Tsai predictably continued to reject Beijing's unification agenda under the banner of the so-called «1992 Con-

sensus».¹ Firmly entrenched in their respective positions and unwilling to allow any room for manoeuvre, Taipei and Beijing remained trapped in the same conflictual logic that emerged after Tsai's victory in 2016. The PRC persisted in adopting a variety of diplomatic and economic tools aimed at punishing the Tsai administration on the global stage, while the ROC continued to muster resources and advance a multidimensional agenda aimed at enhancing its capacity to withstand the PRC threat. In doing so, Taipei found support in a Trump administration squarely looking at Beijing as a strategic competitor. By the end of the year, the two sides across the Strait were as far as ever from a reset of their relations.

2.1. China's Taiwan policy

The PRC government remained determined to suffocate the ROC's feeble international presence as well as shape the attitudes of Taiwanese public opinion in its favour.² Between May and August, with the support of generous packages of loans and investments, Beijing established relations with three former diplomatic allies of the ROC – the Dominican Republic, Burkina Faso, and El Salvador – leaving Taipei with just 17 countries providing diplomatic recognition.³ Further concerns over Taiwan's «diplomatic survival» emerged after the signature of the historical Sino-Vatican Provisional Agreement on the Appointment of Bishops between Beijing and the Holy See in September. Fears of a switch of diplomatic recognition by the Vatican, however, were quelled by the announcement of a 2019 pastoral visit of Pope Francis to the ROC few weeks later.⁴ China also continued to bar Taiwanese officials from participating in a variety of international and

1. On the origins, the emergence and the evolution of the «consensus» during the Ma presidency, see: Aurelio Insisa, 'Taiwan 2012-2016: From Consolidation to the Collapse of Cross-Strait Rapprochement', *Asia Maior 2016*, pp. 54-56.

2. Aurelio Insisa, 'Taiwan 2012-2016', pp. 70-72; Aurelio Insisa, 'Taiwan 2017: Stalemate on the Strait', *Asia Maior 2017*, pp. 115-117.

3. Ministry of Foreign Affairs of the People's Republic of China (FMPRC), *Joint Communiqué on the Establishment of Diplomatic Relations between the People's Republic of China and the Dominican Republic*, 1 May 2018

(https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1555850.shtml); FMPRC, *People's Republic of China, Republic of El Salvador Establish Diplomatic Ties*, 21 August 2018 (https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1587195.shtml); FMPRC, *China, Burkina Faso Agree to Open New Chapter of Bilateral Friendly Cooperation*, 31 August 2018 (https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1591291.shtml); 'Taiwan Says China Dangled \$3 Billion to Grab Ally Dominican Republic', *Reuters*, 1 May 2018.

4. Holy See Press Office, *Communiqué Concerning the Signing of a Provisional Agreement between the Holy See and the People's Republic of China on the Appointment of Bishops*, 22 September 2018 (<https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/09/22/180922d.html>); 'Pope Francis Responds Favorably to Invitation to Visit Taiwan: VP', *Focus Taiwan*, 16 October 2018.

multilateral meetings, from UN climate talks, to the World Health Organization and Interpol annual general assemblies.⁵ Noticeably, the continuous exclusion of Taiwan from international organisations affected the island's security. For instance, in early January Beijing announced the beginning of northbound flights over the pre-existent M503 flight route located close to the median line of the Taiwan Strait, a unilateral move which exploited the ROC's exclusion from the ICAO (International Civil Aviation Organisation).⁶ The security implications of such a move emerged in May, when ROC sources reported a People's Liberation Army Air Force (PLAAF) electronic surveillance aircraft deviating from the M503 route to reach the proximity of the Strait's median line.⁷

In addition to diplomatic pressure, the Chinese government also stepped-up the weaponisation of its consumer market to further limit the ROC's «international footprint». Beijing coerced numerous international companies, such as hotel-sector giant Marriott, fast-fashion retailer Zara, and the US airlines American, Delta, and United, into changing their policy of listing Taiwan as a separate country on their Chinese websites.⁸ Noticeably, the intensification of China's punishing campaign against the Tsai administration served to highlight the different treatment that Beijing reserved for the Taiwanese people. Building upon plans first unveiled in 2017, the PRC openly attempted to co-opt the Taiwanese, especially those with business, professional, and educational interests on the Mainland. The centrepiece of this effort was the «Several Measures to Promote Cross-Strait Economic and Cultural Exchange and Cooperation» (关于促进两岸经济文化交流合作的若干措施), a set of initiatives aiming at benefitting Taiwanese businesses and people which came into force on 28 February.⁹ The package, usually described on Chinese media as the «31 Measures» (31 措施), provides Taiwan-funded businesses «equal treatment» (同等待遇) to their Mainland counterparts regarding a range of initiatives including the «Made

5. 'Taiwan Shut Out of WHO Assembly for Second Year', *Nikkei Asian Review (NAR)*, 9 May 2018; Chris Horton, 'As U.N. gathers, Taiwan, frozen out, struggles to get noticed', *The New York Times*, 21 September 2018; 'Taiwan Says Shut Out of U.N. Climate Talks Due to China Pressure', *Reuters*, 14 November 2018; 'Interpol Kowtows to China by Rejecting Taiwan's Assembly Bid', *Taiwan News*, 19 October 2018; 'Tai-chung Stripped of Right to Host East Asian Youth Games in Taiwan Due to Chinese Pressure', *Taiwan News*, 24 July 2018.

6. For a detailed synopsis of the events concerning the opening of the M503 and the ROC's response see: 'A Primer on M503 and Civil Aviation in East Asia', *Asia Maritime Transparency Initiative - CSIS*, 14 March 2018.

7. 'Chinese Shaanxi Y-8 Aircraft Traces Center of the Taiwan Strait, M503 Flight Path', *Taiwan News*, 14 May 2018.

8. Chris Horton & Shuhei Yamada, 'How Beijing enlists global companies to pressure Taiwan', *NAR*, 26 July 2018.

9. The initiatives were first unveiled in March 2017, see: Aurelio Insisa, 'Taiwan 2017', pp. 115-116.

in China 2025» strategic plan, the reform of China's State Owned Enterprises (SOEs), and Belt and Road-related projects. It also enables Taiwanese people resident in Mainland China to access a variety of national schemes, funds, and examinations for professional qualifications, previously available only to PRC nationals.¹⁰

PRC President Xi Jinping 习近平 himself emphasised this «sticky power» dimension of China's Taiwan policy later in April during a meeting with a delegation led by former ROC Vice-President Vincent Siew Wan-cheng 萧万长 on the side lines of the Boao Forum for Asia, when he affirmed China's will to share the «tangible benefits» (实实在在的好处) of its economic development with Taiwanese business.¹¹ The efficacy of the 31 Measures remains, however, debatable. A year after this announcement, China's Taiwan Affairs Office (TAO) issued a statement vaunting the success of the benefit package, but failed to provide detailed data.¹² A subsequent statement by the ROC's Mainland Affairs Council (MAC) predictably played down the TAO's claims, stressing instead the decrease of Taiwanese investments to the Mainland in 2018 and disputing Chinese accounts of preferential treatment for Taiwanese businesses and people.¹³

On a parallel track, Beijing kept fostering a network of alternative platforms to sustain cross-strait ties, bypassing the ROC institutions controlled by the Democratic Progressive Party 民主进步党 (DPP). Among numerous initiatives, it is worth mentioning the first Cross-Strait Roundtable Forum (两岸民间圆桌论坛) held in Beijing weeks before the ROC's local elections in late November, which functioned as a platform to sponsor the 31 Measures and cross-strait cooperation.¹⁴ Indeed, the result of the Tai-

10. Taiwan Affairs Office of the State Council PRC (TAO), 国台办发布实施「关于促进两岸经济文化交流合作的若干措施」的相关情况 (TAO *Issues Relevant Information on the Implementation of the «Several Measures for the Promotion of Cross-Strait Economic and Cultural Exchange and Cooperation»*), 28 February 2018

(http://www.gwytb.gov.cn/31t/qwjtd/201805/t20180518_11956028.html).

11. ‘习近平会见萧万长一行’ (‘Xi Jinping Meets Delegation Led by Vincent Siew’), *Xinhua*, 10 April 2018.

12. TAO, 国台办: 以「钉钉子」精神持续做好«31条措施»落实工作 (TAO: We Continue to Do Our Best in the Spirit of «Pinning One Nail after Another» for the Implementation of the «31 Measures»), 27 February 2019 (http://www.gwytb.gov.cn/wyl/201902/t20190227_12142935.htm).

13. Mainland Affairs Council, ROC (Taiwan), 中國大陸公布「對臺31項措施」周年, 其實施成果「言過其實」, 所謂「惠臺融合」意在「利中促統」(A Year After Mainland China Announced the 31 Taiwan-Related Measures, the Implementation Results are Overstated, and the so-called «Favour Taiwan and Encourage Integration» Intends to «Benefit China and Promote Unification»), 27 February 2019 (https://www.mac.gov.tw/News_Content.aspx?n=05B73310C5C3A632&sms=1A40B00E4C745211&s=29884F260639C6E3).

14. ‘首届两岸民间圆桌论坛举行「牵起两岸交流合作的线」’ (The First Cross-Strait Roundtable Forum Held to «Sustain Cross-Strait Exchange and Cooperation»), *Xinhua*, 31 October 2018.

wanese local elections, which saw the resounding defeat of Tsai and her DPP and the surprising success of Kuomintang 國民黨 (KMT) candidates, emboldened this agenda. Thus, Beijing green-lighted the intensification of inter-city relations with non-DPP local administrations at the end of the year.¹⁵ For example, the 2018 annual Taipei-Shanghai Twin-City Forum, hosted in December by the independent administration of the mayor Ko Wen-je 柯文哲, saw the participation of a sizeable 135-man Shanghainese delegation. Around the same time, reports of Chinese plans to implement a surge of Mainland tourists to KMT-ruled cities emerged in the Taiwanese media.¹⁶ President Tsai publicly pushed back against the consolidation of these ties between local administrations and the PRC, stating that the management of cross-Straits policy remains the prerogative of the central government. However, it is unclear whether Taipei will be able to rein in local administrations.¹⁷ This predicament points to CCP-KMT relations and to contacts between the PRC and ROC local administrations as being possible hotspots of cross-Straits relations in 2019.

2.2. *The Beijing-Taipei-Washington triangle*

Three inter-related dynamics further shaped the course of relations between Taipei and Beijing: the entrenchment of the respective positions over the issue of unification symbolised by the 1992 Consensus; the intensification of military signalling on both sides; and the stepping-up of American support for Taipei within the broader context of the Sino-American trade war and strategic confrontation. These processes placed the Beijing-Taipei-Washington triangle at the centre of international politics in 2018.

During the annual Taiwan Affairs Meeting of the Chinese Communist Party Central Committee held in February, the Politburo Standing Committee member Wang Yang 王洋 broke the litany of standard pledges to national unification with an assertive quote from a Mao Zedong poem, affirming that it was now necessary to act with a «time waits for no man, seize the day seize the hour» attitude (以时不我待、只争朝夕的精神状态).¹⁸ Wang's quote sparked a month-long debate among Chinese commentators on state media on the possibility of forcing national unification by 2049, on the oc-

15. 'Beijing Seeks to Build Ties with Taiwanese Cities', *South China Morning Post (SCMP)*, 25 November 2018.

16. Hsiao Yu-hsin and William Hetherington, 'KMT-led cities to see surge in Chinese tourism: source', *Taipei Times*, 22 December 2018; 'Taipei-Shanghai Twin-City Forum Opens in Taipei', *Focus Taiwan*, 20 December 2018.

17. 'Cross-Straits Policy Is the Responsibility of Central Government: Tsai', *Focus Taiwan*, 27 November 2018.

18. TAO, 2018年对台工作会议在京召开汪洋出席并讲话 (*The 2018 Taiwan Affairs Meeting Opens in Beijing: Wang Yang Attends and Delivers a Speech*), 2 February 2018 (http://www.gwytb.gov.cn/wyly/201802/t20180202_11919672.htm).

casation of the centennial of the PRC foundation.¹⁹ This debate was arguably allowed to flourish on Chinese media to increase the pressure on Taiwanese decision-makers and local public opinion. The cross-strait debate was successively monopolised by ROC Premier William Lai Ching-te's 賴清德 statements on Taiwan independence. Pressed by pro-independence Legislative Yuan (LY) members during a session on 20 March, Lai reaffirmed his past claim of being a «political worker for Taiwan independence» (台獨政治工作者). However, the Prime Minister added that «Taiwan is a sovereign and independent country» (台灣是主權獨立國家), a «fact» (事實) that cannot be changed by any external force.²⁰ Lai attempted to pivot from endorsing the establishment of a «Republic of Taiwan», a position popular among the DPP hardliners to which he pandered during his days as mayor of Tainan, to a status-quo approach, which equates «Taiwan independence» to the ROC's self-rule, in line with the cross-strait policy of President Tsai. The Premier's rhetorical contortionism mainly aimed at maintaining his credentials in the Pan-Green camp without damaging the Tsai administration, but he ultimately ended up highlighting the unresolved tensions within the DPP on Taiwan's status. Moreover, his words damaged Tsai's more nuanced approach to the issue, and bolstered Beijing narratives portraying the ROC President as a supporter of independence in disguise.²¹

Indirectly responding to Lai a few days later, President Xi, during the Chinese Party-State Two-Sessions event, admonished Taiwan's «separatist forces» claiming that they would «receive [...] the punishment of history» (受到...历史的惩罚).²² This speech marked the beginning of more direct involvement of Xi in the cross-strait rhetorical battleground throughout 2018, a dynamic partially explained by the concurrent consolidation of Washington's support for Tsai as the Sino-American trade war unfolded. Moreover, the People's Liberation Army Navy (PLAN) aircraft carrier Liaoning passed through the Taiwan Strait following Xi's Two-Sessions statement, highlighting a pattern in which assertive statements were followed by

19. For the details of this debate, see: Hong Chi-chang, 'China's new approach on Taiwan', *Taipei Times*, 10 February 2018.

20. '疑回应习近平对台重话赖清德: 台湾找不到九二共识' (Taiwan Doesn't Get the 1992 Consensus, Says Lai Ching-te in Reply to Xi Jinping's Key Speech on Taiwan), 多维新闻 (*DW News*), 20 March 2018. Lai also repeated his statement in April, see: '賴清德講「務實」: 台灣是主權獨立國家不必宣布獨立' (Lai Ching-te Clarifies «Being Pragmatic»: Taiwan Is a Sovereign Independent Country, There Is No Need to Declare Independence), *UDN*, 16 April 2018.

21. See: Aurelio Insisa, 'Taiwan 2012-2016', pp. 64-65, 67-68.

22. '以习近平总书记对台工作重要思想引领新时代对台工作' (General Secretary Xi Jinping's Important Ideas on Taiwan Affairs Ushers a New Era in Taiwan Work), *Xinhua*, 15 March 2018; '习近平: 我们伟大祖国的每一寸领土都绝对不能也绝对不可能从中国分割出去' (Xi Jinping: It Is Utterly and Absolutely Unacceptable to Separate from China Any Single Inch of Our Great Fatherland's Territory), *Xinhua*, 20 March 2018.

military signalling.²³ The Liaoning deployment was followed by the PLAN first live-fire exercise in the Strait since 2015 on 18 April, in an area 45 km from the ROC-controlled Kinmen archipelago.²⁴ Importantly, the Taiwan Affairs Office explicitly framed the live-fire drills as a message destined for the pro-independence forces on the island.²⁵ Chinese military signalling continued in mid-May with a series of PLAAF encircling patrols both southward, above the waters of the Bashi Channel between Taiwan and the Philippines, and northward, on the Miyako Channel between the island and Japan.²⁶ Arguably, the widening scope and the routinization of PLA operations close to the ROC's territorial waters and airspace constituted one of the most relevant developments in cross-Strait relations in 2018. Indeed, the ROC National Defense Ministry publicly acknowledged the emergence of this «new normal» in December.²⁷

Taipei articulated its response to Chinese military signalling by upholding a full schedule of exercises throughout the year, with major drills staged in January, June, September, and October.²⁸ Among them, the 2018 annual Han Kuang exercise staged in June stood out as being the largest

23. 'China Sends Carrier through Taiwan Strait after Xi Warning', *SCMP*, 21 March 2018.

24. Kensaku Ihara, 'China conducts live-fire drills in Taiwan Strait', *NAR*, 19 April 2018. The live-fire drills were announced in concomitance with the 12 April PLAN South China Sea parade.

25. '国台办谈解放军台湾海峡水域军演: 我们有意志、信心和能力挫败任何形式「台独」' (TAO Talks about the PLA Military Exercise in the Waters of the Taiwan Strait: We Have the Will, the Confidence, and the Capacities to Foil Any Form of «Taiwan Independence»), *Xinhua*, 12 April 2018; TAO, '国台办新闻发布会辑录 (2018-05-16)' (*Minutes of the TAO Press Conference on 16 May 2018*), 16 May 2018, (http://www.gwyttb.gov.cn/xwfbh/201805/t20180516_11955430.htm).

26. 'Beijing Again Flexes Muscle, Sending Fighter Jets, Bombers around Taiwan', *SCMP*, 11 May 2018. PLAAF aircrafts started operating in the Bashi Channel in 2015. On the strategic significance of these exercises for the PLA, see: Ankit Panda, 'China's Air Force Revisits the Bashi Channel. Here's Why That Matters', *The Diplomat*, 13 September 2016.

27. '共军频向海峡中线靠近国防部: 严密监控' (The PLA Gets Closer to the Taiwan Strait's Median Line – National Defence Ministry: We Are Closely Monitoring), 大纪元 (*The Epoch Times*), 3 December 2018. A noticeable exception to this process of routinization occurred in the weeks immediately before and after the November elections, during which PLA forces suspended the encircling patrols operations. The PLA resumed operations only in mid-December. See: 'Chinese Military Aircraft and Ships Appear Close to Southern Taiwan', *Taiwan News*, 18 December 2018.

28. 'Taiwan Mounts Live-Fire Drills to Test Defences against Invasion', *SCMP*, 30 January 2018; 'Taiwan Concludes 4-Day National Security Drill', *Focus Taiwan*, 11 September 2018; 'Taiwan Hosts Paraguayan Leader at Military Drill amid Rising Tensions with Mainland China', *SCMP*, 9 October 2018; 'Taiwan War Games Simulate Attack by Mainland Forces', *SCMP*, 16 October 2018.

ever conducted on the island.²⁹ On that occasion, ROC forces practised anti-landing drills in the north, anti-airborne drills in the south, and joint air-sea operations, following the guidelines of the 2016 Quadrennial National Defense Review and the 2017 National Defense Report.³⁰ Moreover, President Tsai echoed Taiwan's military preparedness with defiant statements. In August, before leaving for a diplomatic tour of the ROC's Latin American allies, she stated that «no one can obliterate Taiwan's existence» (沒人可抹滅台灣的存在).³¹ On the occasion of the ROC National Day on 10 October, she dubbed the Beijing authorities «a source of conflict» (衝突的來源), and vowed to «establish Taiwan's irreplaceable strategic importance» (建構台灣不可取代的戰略重要性) in global affairs.³²

At the same time, the Tsai administration reiterated its willingness to restart cross-strait relations, free from the straitjacket of the 1992 Consensus. Tsai expressed her wish to meet Xi in April, while the MAC voiced its efforts to organise a Tsai-Xi meeting in July.³³ These overtures, however, were designed exclusively with the intent to project an image of Taiwan as the responsible stakeholder in the current crisis, without any realistic expectation of success. Indeed, deaf to Taiwanese calls for a cross-strait reset, the Chinese authorities remained, as expected, entrenched in their position. Days after the Mainland Affairs Council publicised its attempt to set a breakthrough meeting, President Xi, on the occasion of former KMT Chairman Lien Chan's 連戰 visit to the Chinese capital, spoke instead of «four unswerving adherences» (四个坚定不移) guiding Beijing's cross-strait policy.³⁴ Xi's new «formulation» (提法) on Taiwan did not introduce any innovative content but merely reinstated the Chinese Party-State's commitment to unification and national «rejuvenation».

Against this backdrop, the Trump administration's confrontational China policy became an increasingly relevant factor in the unfolding of cross-strait relations during the year. In March, President Trump signed into law the Taiwan Travel Act, encouraging American officials of «all levels» to travel to the island, and «high-level» ROC officials to enter the US.³⁵ Days later, Deputy Assistant Secretary of State Alex Wong visited Taiwan for three days.

29. Michal Thim, 'Three loud and clear messages from Taiwan's military exercise', *SCMP*, 10 June 2018.

30. See: Aurelio Insisa, 'Taiwan 2017', p. 119.

31. '蔡: 沒人可抹滅台灣的存在' (Tsai: No One Can Obliterate Taiwan's Existence), 自由時報 (*Liberty Times Net, LTN*), 12 August 2018.

32. '國慶日蔡總統談話全文' (Full Text of President Tsai Ing-wen's National Day Speech), *CNA*, 10 October 2018.

33. 'Taiwan Leader Tsai Ing-wen Willing to Meet Xi Jinping for «Peace and Stability»', *SCMP*, 28 April 2018; 'MAC Pushing for Tsai-Xi Meeting', *Focus Taiwan*, 2 July 2018.

34. '习近平对两岸关系提出4个«坚定不移»' (Xi Jinping Introduces 4 «Unswerving Adherences» to cross-strait relations), 中国日报 (*China Daily*), 14 July 2018.

35. Library of Congress, *H.R.535 - Taiwan Travel Act*, 16 March 2018, (<https://www.congress.gov/bill/115th-congress/house-bill/535/text>).

Initiating the flow of high-level visits of ROC officials to the US, the Minister for Health and Welfare Chen Shih-chung 陳時中 met his counterpart in Washington in August.³⁶ This course of US policy over Taiwan was also symbolised by the opening of the new, imposing headquarters of the American Institute in Taipei, the *de facto* embassy on the island.³⁷ The momentum of American pro-activism in the Strait accelerated in early July as the Sino-American trade war flared up with new American tariffs on Chinese goods.

On 7 July, the day after the imposition of additional tariffs on Chinese goods, two US Navy destroyers passed through the Taiwan Strait for the first time in more than a year, responding to increasing Chinese activity in the area.³⁸ Predictably, China responded with a six-day PLAN exercise in the East China Sea explicitly designed to «test combat strength against Taiwan».³⁹ In turn, the Assistant Secretary of Defense for Asian and Pacific Security Affairs Randall Schriver described Taiwan as a «partner» of the US Indo-Pacific strategy the day after the Chinese announcement of the exercise.⁴⁰ Later in August, the US Congress passed the 2019 National Defence Authorization Act (NDAA). The new defence bill framed Beijing as a US long-term strategic competitor, and, in line with the previous version of the bill, outlined a series of provisions for supporting Taiwanese military forces.⁴¹ The passing into law of the NDAA coincided with what was arguably the most high-profile stopover in the US of a ROC President since the end of diplomatic relations. On her way to an official tour to Paraguay and Belize, Tsai was permitted to visit the Reagan Library in Los Angeles as well as a high-profile visit to the NASA Johnson Space Center in Houston.⁴² In addition, the US guaranteed a

36. American Institute in Taiwan, *Deputy Assistant Secretary of State Alex Wong to Taiwan March 20-22, 2018*, 20 March 2018 (<https://www.ait.org.tw/deputy-assistant-secretary-state-alex-wong-taiwan-march-20-22-2018>); 'U.S. and Taiwan Health Ministers Hold Unprecedented Meeting in Washington', *Taiwan News*, 30 August 2018

37. 'U.S. Shows New De Facto Embassy in Taiwan amid China Tensions', *Reuters*, 12 June 2018.

38. 'U.S. Warships Pass through Taiwan Strait amid China Tensions', *Reuters*, 7 July 2018. The US Navy conducted similar operations also in October and November. See: 'U.S. Warships Pass through Taiwan Strait amid China Tensions', *Reuters*, 22 October 2018; 'Two U.S. Navy Ships Pass through Taiwan Strait, Opposing China', *Reuters*, 29 November 2018.

39. 'Beijing Launches Live-Fire Drill to «Test Combat Strength against Taiwan»', *SCMP*, 18 July 2018.

40. 'American Official Deems Taiwan Partner in U.S. Indo-Pacific Strategy', *Focus Taiwan*, 19 July 2018.

41. Library of Congress, *H.R. 5515 - John S. McCain National Defense Authorization Act for Fiscal Year 2019*, 13 August 2018 (<https://www.congress.gov/bill/115th-congress/house-bill/5515/text>).

42. Office of the President of the Republic of China (Taiwan) (OPROC), *President Tsai Visits Ronald Reagan Presidential Library*, 14 August 2018, (<https://english.president.gov.tw/News/5476>); OPROC, *President Tsai Visits NASA Space Center in Houston, Texas*, 20 August 2018 (<https://english.president.gov.tw/News/5489>).

modicum of international relevance to Taiwan at the APEC 2018 meeting in Port Moresby, during which the Taiwanese envoy Morris Chang 張忠謀 was allowed to meet with Vice President Mike Pence.⁴³

Further signals of the Trump administration's willingness to disrupt post-1979 approaches to US-Taiwan relations emerged in September when the State Department, in an unprecedented move, recalled its chiefs of mission to El Salvador, the Dominican Republic, and Panama, in response to those countries' switch of diplomatic recognition from the ROC to the PRC.⁴⁴ However, the most concrete evidence of American support was the approval in September of a new US\$ 330 million military sale, the second in two years. While it mostly consisted of spare parts for jet fighters, this round of arms sales marked the shift from the occasional bundle sales to regular annual sales, as stated by Randall Schriver later in October.⁴⁵ Finally, on 31 December, Trump signed the Asia Reassurance Initiative Act (ARIA). Within the framework of a broader Indo-Pacific strategy aimed at China, the ARIA reinstated the American commitment to regularise arms sales to Taiwan and to enhance relations in accordance with the Taiwan Travel Act.⁴⁶

2.3. *The Tsai defence agenda: progress and setbacks*

Parallel to the consolidation of security relations with Washington, the Tsai administration also continued to pursue a strategy of internal balancing against the threat of Chinese military intervention. Following this blueprint, the Lai cabinet proposed an expansive NT\$ 346 billion (US\$ 11 billion) defence budget for 2019, recording a 7% increase over the previous fiscal year.⁴⁷ The planned rise of defence spending under the

43. 'Taiwan's APEC Envoy Meets with Pence', *NAR*, 17 November 2018.

44. U.S. Department of State, *U.S. Chiefs of Mission to the Dominican Republic, El Salvador, and Panama Called Back for Consultations*, 7 September 2018, (<https://www.state.gov/r/pa/prs/ps/2018/09/285792.htm>).

45. 'U.S. Approval of \$330m Military Sale to Taiwan Draws China's Ire', *NAR*, 25 September 2018; 'U.S. Moves Toward Normal Military Sales to Taiwan: Official', *Focus Taiwan*, 12 October 2018. Conversely, the Obama administration allowed only two arms sales, in 2011 and 2015.

46. Library of Congress, *S.2736 - Asia Reassurance Initiative Act of 2018*, 31 December 2018 (<https://www.congress.gov/bill/115th-congress/senate-bill/2736/text/toc-HBC83E05F3CB54A088207211061CF43FA>).

47. Directorate General of Budget, Accounting, and Statistics, Executive Yuan, ROC (Taiwan), *The General Budget Proposal of Central Government – Summary Comparison Table for Annual Expenditures by Agencies – FY2019* (<https://eng.dgbas.gov.tw/public/Attachment/8927114561GB4GCIN.pdf>). The final total budget approved by the Legislative Yuan suffered a 1.19% decrease compared to the proposed amount. See: 'Legislature Approves NT\$1.998 Trillion Government Budget for 2019', *Focus Taiwan*, 10 January 2019. At the time of writing, official data on how the total budget reduction may have affected the defence budget have not been released yet.

Tsai presidency, in turn, drove the expansion of the Taiwanese defence industry. Thus, a variety of weapon systems were scheduled for construction for the period 2019-2021: one amphibious transport ship, armoured vehicles, extended and medium-range missiles, jet trainers, navy corvettes, and prototypes for a future small assault boat fleet.⁴⁸ However, the «holy grail» of Taiwan's indigenous defence remained the construction of a new fleet of submarines. A first key step was the decision in April of the US State Department to grant the licence to sell Taiwan the necessary technology for the submarine project.⁴⁹ This was rapidly followed by the first Taiwan-US Defense Industry Conference in May, which enhanced contacts with US defence contractors.⁵⁰ Due to these developments, the target date of the project is expected to be from 2027 to 2025.⁵¹

Beyond the military dimension of internal balancing, new institutions enabled the ROC to strengthen its frontline in an increasingly distressful regional environment. In April the Executive Yuan (EY) established the Ocean Affairs Council, a new minister-level organisation tasked with coordinating maritime policy, which includes issues ranging from cross-Strait tensions to territorial and fishing disputes.⁵² Chinese interference in the ROC electoral process constituted however the most pressing and immediate security challenge. Beijing used the November electoral round as a testing ground for the presidential elections of 2020, mostly through the funding of pro-PRC candidates via local businessmen with ties to the Mainland, and by shaping voters' opinions via information warfare on social media.⁵³ The

48. «Made-in-Taiwan» Amphibious Transport Ship to Begin Construction This Year', *Taiwan News*, 16 April 2018; 'Taiwan Begins Assembly of New Advanced Jet Trainers', *Focus Taiwan*, 1 June 2018; 'Taiwan Military to Expedite Production of New Navy Corvettes', *Taiwan News*, 14 May 2018; 'Taiwan Set to Mass Produce Missiles Capable of Reaching Beijing: Reports', *Taiwan News*, 24 April 2018; 'Taiwan to Manufacture 284 Armored Military Vehicles', *Taiwan News*, 24 October 2018; 'Taiwan Lawmakers Say Yes to Navy Micro-Boats, but Want to See a Prototype First', *SCMP*, 12 December 2018.

49. 'US Gives Boost to Taiwan's Plans to Build Submarines', *SCMP*, 8 April 2018.

50. Kensaku Ihara, 'Taiwan invites US defense contractors as diplomatic chess heats up', *NAR*, 11 May 2018.

51. Aurelio Insisa, 'Taiwan 2017', p. 120; Matthew Strong, 'Taiwan to complete first domestic submarine in 2025', *Taiwan News*, 1 September 2018.

52. Executive Yuan, ROC (Taiwan) (EY), '海洋委員會28日成立賴揆：系統性統合海洋事務' (*The Oceanic Affairs Council Will Be Established on the 28th – Prime Minister Lai: It Will Systematically Unify the Management of Oceanic Affairs*), 26 April 2018 (<https://www.ey.gov.tw/Page/9277F759E41CCD91/fd6a23af-7a01-45c2-8c59-4a4bb48cb442>). The establishment of the agency had been originally planned by the Ma Ying-jeou administration in 2015. Law & Regulations Database of the Republic of China, *Organization Act of the Ocean Affairs Council*, 1 July 2015 (<https://law.moj.gov.tw/ENG/Law-Class/LawAll.aspx?pcode=D0090030>).

53. J. Michael Cole, 'Chinese Interference in Taiwan's Elections is Part of a Two-Pronged Attack on Democracy', *Taiwan Sentinel*, 24 October 2018. See also: 'PRC

Tsai administration and the DPP majority in the LY reacted to this threat in the months immediately before and after the elections. In July, the EY established the National Center for Cyber Security Technology. In September the Lai cabinet proposed a NT\$ 1.5 billion (US\$ 489 million) budget to counter Chinese hacking, while in October the DPP lawmakers proposed a controversial «anti-fake news bill».⁵⁴ With the elections approaching, the national authorities attempted then to raise attention among the public, speaking of the «national security threat» posed by the spread of Chinese fake news among social media.⁵⁵ Finally, weeks after the elections, DPP lawmakers in the LY proposed a new bill banning the foreign purchase of political advertisements.⁵⁶

The electoral results, and in particular the mayoral election in the traditional DPP stronghold of Kaohsiung, did not bode well for the ruling party's aim to fend off Chinese interference. Fringe KMT candidate Han Kuo-yu 韓國瑜 unexpectedly won the election in the southern city following a Chinese disinformation campaign characterised by the spread and diffusion of fake news aimed at the DPP candidate Chen Chi-mai 陳其邁.⁵⁷

3. *Taiwan's Position in the Indo-Pacific*

Against a backdrop of protracted deadlock in cross-Strait relations, the Tsai administration continued to pursue a foreign policy agenda aiming to transform Taiwan into a relevant regional actor in the Indo-Pacific region, by further enhancing relations with the US, Japan, and the target countries of its New Southbound Policy (NSP) initiative.

The Sino-American strategic competition contributed to a noticeable strengthening of Taiwan's relations with the US, especially its security dimension, but Taipei still needed to recalibrate its trade relations with the Trump administration due to its trade surplus with Washington. However, even after repeated pleas, the Tsai administration was not able to obtain an exemption from the American steel and aluminium tariffs im-

Funding of Campaigns Probed', *Taipei Times*, 23 October 2018.

54. ROC National Center for Cyber Security Technology, *About the NCCST* (<https://www.nccst.nat.gov.tw>); 'Taiwan Proposes NT\$1.5 Billion in Budget to Counter Chinese Hacking', *Taiwan News*, 5 September 2018; 'Taiwan's Bid to Tackle «Fake News» Raises Fears over Freedom of Speech', *SCMP*, 1 October 2018.

55. 'Taiwan Officials: Spread of Fake News a «National Security Threat»', *Taiwan News*, 24 October.

56. 'Taiwan Moves to Ban Foreign Purchase of Political Advertising', *Taiwan News*, 7 December 2018.

57. '網傳政見會戴耳機 陳其邁: 沒有戴' (Internet Spreads Rumor of Earphones-Supported Political Presentation – Chen Chi-mai: I Did Not Wear Earphones), *LTN*, 22 October 2018; J. Michael Cole, 'Chinese Interference in Taiwan's Elections is Part of a Two-Pronged Attack on Democracy'.

posed in March.⁵⁸ In addition, the two sides failed to restart negotiations of their prospective bilateral free trade agreement (FTA), the Trade and Investment Framework Agreement, previously stalled during the Obama administration. The continued ban on pork imports from the US, due to local producers' vested interests and health concerns among the Taiwanese population, proved to be a major obstacle for resuming trade talks.⁵⁹ An attempt to soften the Trump administration was made in November, with the decision to considerably raise soybean imports from Minnesota and Iowa in 2019, two states crucial to Trump's re-election prospects, but weeks later the Ministry of Foreign Affairs (MOFA) confirmed that the two sides had failed to reach agreement.⁶⁰ On a more positive note, Taiwan appeared ready to take advantage of Sino-American trade tensions, and, more broadly, of China's increasing labour costs. Amazon and Microsoft followed the path of fellow US tech giants Google and IBM by opening AI research centres on the island.⁶¹ Investments such as these are of particular importance for the future of the local economy, as mainland companies have been systematically poaching the Taiwanese qualified labour force to the Chinese semiconductor industry.⁶² At the same time, widespread concern on the impact of the trade war led major Taiwanese companies such as Advantech and Ta Chen, to plan the relocation of production from the Mainland to the US.⁶³ The Tsai administration also tapped into these broader structural trends by supporting, through a plan of fiscal incentives, the relocation of Taiwanese business from China.⁶⁴

Since Tsai came to power in 2016, Tokyo and Taipei have enjoyed particularly warm relations rooted in their commitment to a rules-based international order. This synergy, however, failed to translate into immediate, tangible benefits for Taiwan, such as access to the Tokyo-led CPTPP free trade agreement. In order to facilitate negotiations with Tokyo, and to soften the transactional stance of the Trump administration, in October

58. 'No Exception for Taiwan Steelmakers', *Taipei Times*, 31 August 2018.

59. 'Pork Ban an Obstacle to Potential Taiwan-US Trade Deal: Academics', *Taiwan News*, 18 November.

60. Kensaku Ihara, 'Taiwan courts Trump by boosting soybean imports from US', *NAR*, 17 October 2018; 'Taiwan-US Trade Talks Unlikely This Year: MOFA', *Taiwan News*, 6 December 2018.

61. Kotaro Hosokawa & Kensaku Ihara, 'US tech companies return to Taiwan as China ties sour', *Financial Times*, 20 June 2018.

62. 'US Fears Attempts by Chinese Chipmakers to Grab Top Talent', *Financial Times*, 2 November 2018.

63. '«Made in USA» Push is Here to Stay: Taiwan Tech Giant', *NAR*, 7 August 2018; 'Taiwan Company Buys US Aluminum Plant to Skirt Trump Tariffs', *NAR*, 3 October 2018.

64. 'Trade War Fuels Taiwanese Producers' Withdrawal from China', *NAR*, 23 August 2018; 'Taiwan Keen on Luring Businesses Back from Mainland China', *NAR*, 15 September 2018; Chris Horton, Lauly Li, & Cheng Ting-fang, 'Trade war traps Taiwan between two superpowers', *NAR*, 6 December 2018.

Taipei decided to change its largely obsolete status of «developing country» in the World Trade Organization (WTO) to that of «developed country». This decision allowed Taipei to nominally renounce the «special and differential» treatment associated with its developing status.⁶⁵ As publicly stated by ROC Minister of Economic Affairs Shen Jong-chin 沈榮津, this change of status aimed to facilitate Taiwan's negotiations to the trans-continental trade agreement.⁶⁶ However, the result of the November referendum on the continuation of the food imports ban from areas affected by the Fukushima disaster dramatically jeopardised the negotiations with Tokyo. Shortly after the referendum, Japanese Ministry of Foreign Affairs Kōno Tarō stated that its result «has made it unlikely for Taiwan to join the partnership».⁶⁷

Another obstacle in Taipei-Tokyo relations was the renewal of tensions between Taiwanese and Japanese fishermen operating in the shared fishing area established in 2013 around the Diaoyu/Senkaku Islands, controlled by Tokyo but claimed by both the PRC and the ROC. Both the seventh and eighth Taiwan-Japan Fishing Commission meeting, held in March and October respectively, failed to resolve grievances.⁶⁸ The result of the November referendum also affected maritime cooperation. Days after Kōno's statement, the Japanese Coast Guard disseminated reports claiming a three-fold rise in Taiwanese intrusions in Japanese territorial waters, in violation of the bilateral agreement signed in 2013.⁶⁹ This situation created a climate of uncertainty over the third Taiwan-Japan Maritime Cooperation Dialogue, held in Tokyo on 27 December and resulted in two memoranda of understanding on maritime cooperation of minor relevance.⁷⁰ Against these setbacks, disaster assistance provided the Tsai

65. Kensaku Ihara, 'Taiwan quits «developing economy» status in WTO with eye on China', *NAR*, 18 October 2018.

66. 'WTO定位已開發國家經長: 為加入CPTTP鋪路' (WTO Developed Economy Status – Minister: It Will Pave the Way to Join the CPTPP), *Epoch Times*, 24 October 2018.

67. 'Trade Bid Derailed by Japan Food Ban', *Taipei Times*, 8 December 2018.

68. Ministry of Foreign Affairs, ROC (Taiwan) (MOFA), 「第7次臺日漁業委員會」在臺北順利舉行 (*The «Seventh Meeting of the Taiwan-Japan Fishing Commission» Was Successfully Held in Taipei*), 17 March 2018 (https://www.mofa.gov.tw/News_Content.aspx?n=8742DCE7A2A28761&s=22BBBDBA1DB8793B); '台日漁業我方提八重山海域漁業署: 僅民間交流非正式' (Our Side Mentioned the Yaeyama Water Area at the Taiwan-Japan Fishing Commission – The Fisheries Agency: Only People-to-People Unofficial Exchanges), *UDN*, 23 October 2018.

69. 'マグロ目当て? 尖閣領海に台湾船急増...警告3倍' ('Searching for Tuna? Surge of Taiwanese Ships in the Territorial Waters of the Senkaku Islands... Warnings Triplicated'), 読売新聞 (*Yomiuri Online*), 19 December 2018; 'Taiwan Reiterates Claim over Diaoyutais amid Japan Protest', *Focus Taiwan*, 20 December 2018.

70. MOFA, 第三屆「臺日海洋事務合作對話」圓滿舉行, 會中簽署「走私及非法入出國應處合作」及「海洋科學研究合作」備忘錄 (*The Third Taiwan-Japan Maritime Cooperation Dialogue Was Held Successfully. MOUs Regarding «Cooperation on Smuggling and Cross-Border Trafficking» and «Cooperation on Maritime Sci-*

administration opportunities to maintain solid ties with Tokyo. In the aftermath of the February earthquake in Hualien, the Tsai administration snubbed Chinese offers of help, accepting instead Japanese relief. Then following the June earthquake that hit Osaka, Japanese Prime Minister Abe Shinzō thanked Taiwan for its support with a post on Twitter written in Chinese.⁷¹ Taiwanese authorities also donated JP¥ 20 million (US\$ 180,000) following the torrential rains that hit the country in July.⁷²

Given its «people-centred» approach, long-term goals, and the impact of Chinese diplomatic pressure on target countries it remains difficult to assess the effectiveness of the New Southbound Policy (NSP), now in its third year. The Tsai administration clearly designed the initiative in 2016 with the aim of fending off security threats from China and to detach the island from the economic orbit of its giant neighbour.⁷³ ROC sources reported in October (just before the elections) a notable 5.5% increase in the volume of trade between Taiwan and the NSP target countries between January and August 2018, amounting to US\$ 77.07 billion. This was coupled with an increase in the number of public projects won by Taiwanese firms in the same countries (from 17 to 20), and by a 16.9% increase in the number of visitors from NSP-countries to the island.⁷⁴ The NSP's capacity to benefit Taiwan's security environment remains disputable. For example, Taipei failed to sign any new relevant bilateral agreements with NSP target countries in 2018, with the sole exception of an updated investment agreement with India.⁷⁵ In fact, the press revealed that another target country, Australia, had scrapped a planned FTA with Taiwan after direct pressure from the Chinese Minister of Foreign Affairs Wang Yi 王毅 in a series of meetings between 2017 and 2018.⁷⁶ Ultimately, this indicates that an underlying issue of «power conversion» affects the NSP. More time and data are needed to assess the actual feasibility and success of the detachment of Taiwan's economy from the Chinese market. In addition, given China's geo-economic influence in the region and Taiwan's particular

ence Research» *Were Signed in the Meeting*), 27 December 2018, (https://www.mofa.gov.tw/News_Content_M_2.aspx?n=8742DCE7A2A28761&sms=491D0E5BF5F4B-C36&s=C06409A9B9C36C47). Representatives of the newly established ROC Oceanic Affairs Council (see note 52) also attended the meeting.

71. 'Japanese Quake Rescue Team Arrives after Taipei Rejects Beijing's Offer', *SCMP*, 8 February 2018; 'Japanese Prime Minister Thanks Taiwan President Tsai in Twitter Post in Wake of Osaka Quake', *Taiwan News*, 20 June 2018.

72. 'Foreign Aid Rushes into Japan after Deadly Rains', *NAR*, 19 July 2018.

73. For a synopsis of the objectives and past achievements of the NSP initiative, see: Aurelio Insisa, 'Taiwan 2012-2016', pp. 82-83; Aurelio Insisa, 'Taiwan 2017', p. 125.

74. 'Southbound Policy Boosts Trade, Tourism', *Taipei Times*, 15 October 2018. At the time of writing there are no year-long data.

75. 'Taiwan, India Update Investment Pact', *Focus Taiwan*, 18 December 2018.

76. Fergus Hunter, 'Australia abandoned plans for Taiwanese free trade agreement after warning from China', *The Sydney Morning Herald*, 24 October 2018.

diplomatic status it remains questionable whether the NSP will provide the necessary boost to effectively change Taiwan's international status.

4. *Taiwan's Domestic Politics and Economy in 2018*

Cross-Strait and regional developments in 2018 illustrate the limits of any analysis of Taiwanese politics which rigidly separates external and internal affairs. Nonetheless, there are inherent domestic dynamics that deserve to be singularly assessed, such as the unfolding of the Tsai administration's agenda of economic reforms, and its negative perception among the local electorate, which resulted in a clear rejection of Tsai and the DPP in the local elections and referenda held in November.

4.1. *The Taiwanese economy in 2018*

Since the 1990s, diminishing international competitiveness, an unsustainable pension system, and stagnating wages, in the context of increased cost of living and difficult access to housing, have plagued the Taiwanese economy. In its attempt to confront this challenge, former president Ma Ying-jeou's 馬英九 administration introduced unpopular reforms on taxes, pensions, and inefficient State Owned Enterprises (SOE), while also reducing national energy subsidies. However, widespread public opposition as well as from KMT lawmakers in the Legislative Yuan (LY) sank the Ma agenda.⁷⁷ The failures of the Ma administration were exacerbated by a cross-Strait policy appearing to sacrifice Taiwan's autonomy vis-à-vis Beijing on the altar of uncertain economic benefits.⁷⁸ Because of this, the Taiwanese electorate punished the KMT in 2014 and 2016 at local and national level, providing a broad mandate to Tsai and the DPP. The necessity to implement structural reforms, however, did not diminish. The Ma administration had pursued a de-facto economic unification with the mainland under the ECFA agenda in order to generate the windfalls necessary to render unpopular structural reforms more palatable. Conversely, the Tsai administration has been trying to achieve the same result by means of disengaging the island's economy from China, thus repositioning Taiwan as an Indo-Pacific regional actor.

Major economic indicators in 2018 did not provide encouraging signs of the effectiveness of this economic agenda. Real GDP growth was estimated at 2.6% in 2018, compared to the 3.1% registered in 2017.⁷⁹ Estimates of the 2018 current-account balance indicate a US\$ 77.3 billion surplus, compared to US\$ 82.9 billion recorded in 2017. The 2018 current-account percent-

77. Aurelio Insisa, 'Taiwan 2012-2016', pp. 76, 79-80.

78. *Ibid.*, pp. 58-59.

79. Economist Intelligence Unit, 'Country Forecast: Taiwan', January 2019, p.12.

age of GDP, an indicator of international competitiveness, was estimated at 12.9% compared to 14.4% the previous year.⁸⁰ Average consumer-prices inflation instead was estimated at 1.4% compared to 0.6% in 2017.⁸¹

Labour force estimates saw a small contraction in the growth rate of employment from 0.6% in 2017 down to 0.4% in 2018 respectively, and a small decrease in the unemployment rate from 3.8% to 3.6% of the total workforce.⁸² Significantly, Taiwanese exports to China during the year totalled US\$ 138,390.8 million, compared to US\$ 130,279.9 million in 2017, up 6.2%.⁸³ Imports from the PRC instead totalled US\$ 55,207.2 million compared to US\$ 51,561.8 million recorded the previous year, up 7%.⁸⁴ While broader long-term structural trends indicate a decrease of Taiwanese investments across the Strait, these data suggest that piloting a detachment of the island from the Chinese market remains a gargantuan task.

In response to uncertain regional forecasts and persistent domestic challenges, the Tsai administration has planned an expansive 2019 budget, with expenditure growing by 2.8% to reach US\$ 71 billion.⁸⁵ Beyond the previously mentioned focus on national defence and cyber security, the new budget guarantees funding for the plethora of projects introduced at the beginning of the administration: the New Southbound Policy, the Asian Silicon Valley, the Industry 4.0 initiative, and the Forward-looking Infrastructure Development Program.⁸⁶ Despite its efforts, the proactive macroeconomic agenda of the Tsai administration in its first two years in office failed to produce perceivable benefits for the Taiwanese public. The heavy defeat in the local administrative elections dramatically highlighted these shortcomings.

4.2. Domestic politics leading up to the November elections

Throughout the year, consistently negative approval rates for President Tsai forecast an electoral catastrophe for the DPP in the November local elections.⁸⁷ Widespread, cross-party popular opposition for the controversial Labor Standards Act passed in late 2017 had set the tone for a difficult 2018 for the Tsai administration. In March, the administration tried to address

80. *Ibid.*, p. 14.

81. *Ibid.*, p. 13.

82. *Ibid.*

83. Ministry of Finance, ROC (Taiwan), *Monthly Statistics of Exports and Imports*, (<https://www.mof.gov.tw/Eng/Detail/Index?nodeid=259&pid=57876>).

84. *Ibid.*

85. Chen Yu-fu and Jake Chung, 'Premier details budget for fiscal 2019', *Taipei Times*, 27 October 2018. The final budget approved by the LY in January amounted to NT\$ 1.98 trillion, 1.19% less than the original plan. See: 'Legislature Approves NT\$1.998 Trillion Government Budget for 2019', *Focus Taiwan*, 10 January 2019.

86. Chen Yu-fu & Jake Chung, 'Premier details budget for fiscal 2019'.

87. Taiwanese Public Opinion Foundation (TPOF), '2018 年終台灣重大民意走向' (2018 Year-End Report on Major Public Opinion Trends in Taiwan), December 2018, p. 5.

popular concerns by partially backtracking on the original version of the Act with a package of amendments that softened some of the most unpopular measures through the introduction of mechanisms of employee consent.⁸⁸ By spring, however, the domestic political conversation was monopolised by a comprehensive reform of the pension system, which drastically reduced pensions for veterans, public-school teachers, and civil servants, all traditional KMT constituencies which had enjoyed generous retirement packages in the past. According to government estimates, the reform will save US\$ 45.8 billion and guarantee the viability of the Taiwanese pension system up to 2030.⁸⁹

Another flashpoint in the domestic debate was the new national energy plan, which aimed to phase-out nuclear power plants by 2025, reduce carbon emissions and raise the consumption of renewable sources.⁹⁰ The plan addressed widespread environmentalist concerns on the island, but the government appeared unable to maintain a coherent energy policy throughout the year, as it allowed the opening of a new coal-fired power plant in 2018, a move that alienated sympathizers and traditional constituencies on the left of the Taiwanese political spectrum.⁹¹

The DPP's problems in implementing the much-needed structural reforms promised and never delivered by the Ma administration, created new opportunities for the other major political forces in the country. The KMT's path to the elections was particularly complex. Since 2017, under the chairmanship of Wu Den-yih 吳敦, the party had shifted from the deeply unpopular pro-unification agenda of former Chairwoman Hung Hsiu-chu 洪秀住 to a more moderate stance. Wu aimed to realign the party's cross-Straits policy to the «three noes policy» (三不政策) of former President Ma Ying-jeou, which called for opposing independence, unification, and military intervention.⁹² The KMT Chairman clearly stated this position in an interview with the Financial Times in May saying that «we

88. Nathan Snyder & Jeffrey Lien, 'Taiwan's latest labor standards act amendments', *Taiwan Business TOPICS*, 6 March 2018. See also: Aurelio Insisa, 'Taiwan 2017', pp. 126-127.

89. On the details of the pension reform for teachers and public servants, see: Michael Katz, 'Taiwan enacts deep pension cuts for teachers, civil servants', *Chief Investment Officer*, 12 July 2018. Estimates on the impact of the reform for veterans were reported in: 'New Pension Systems Come into Force Sunday', *Focus Taiwan*, 30 June 2018. For government studies comparing the ROC's pension system to those of the OECD countries, see: Pension Reform Office of the EY, 年金制度國際比較 (*International Comparison of Pension Systems*), 2013.

90. Department of International Cooperation, Ministry of Economic Affairs, ROC (Taiwan), *Taiwan's New Energy Policy*, (https://www.moega.gov.tw/MNS/ietc_e/content/Content.aspx?menu_id=21511).

91. The government had already green-lighted the re-opening of two nuclear power plants in 2017. See: 'Taiwan's President Has Upset both Business and Workers', *The Economist*, 26 May 2018; Lisa Tai, 'Taiwan Takes a Step Back with New Coal Plant', *The Diplomat*, 12 May 2018.

92. See: Aurelio Insisa, 'Taiwan 2017', p. 128.

don't think that right now is the time to talk about cross-Strait reunification». ⁹³ Thus, in the months leading up to the elections, KMT candidates mostly focused on domestic issues and the lacklustre performance of the economy. Cross-Strait issues and the 1992 Consensus were then generally mentioned only in vague terms but meaningfully so, in order to put the blame for the current cross-Strait freeze and local economic woes squarely on the Tsai administration; a move explicitly denounced by DPP candidates during the campaign. ⁹⁴ At the same time the KMT was re-energised by the successful mobilization of its «local factions» (地方派系) in major urban centres, thanks largely to former LY speaker and party heavyweight Wang Jin-pyng 王金平. ⁹⁵ The sudden rise in popularity and eventual victory of the KMT candidate Han Kuo-yu in Kaohsiung, vindicated such tactics, though in his case the influence of the anti-DPP Chinese fake news, previously discussed, should be taken into account. ⁹⁶

The KMT also benefited from the successful campaign to obtain a referendum on the continuance of the food imports ban from the Fukushima prefecture. It allowed the party to link local environmental concerns to the disruption of the Tsai administration's foreign policy agenda, which relied on Tokyo for access to the CPTPP. ⁹⁷ Furthermore, even though the KMT was not directly involved in the campaign for a referendum to stop the new energy policy of the central government, the main figure behind the Nuclear Myth Buster (核能流言終結者) committee, Huang Shih-hsiu 黃士修, had in the past been part of the KMT political machine. ⁹⁸

93. 'Taiwan Opposition Ditches Pro-China Overtures Ahead of Polls', *Financial Times*, 8 May 2018. The KMT contested the interpretation of Wu's statement by the British newspaper. Party sources stated that the KMT remains committed to reunification and claimed that 'the content of the interview is not exactly in line with the news story's title'. See: National Policy Foundation, *KMT Denies British Media FT's Reference to Ditching Pro-China Stance*, 10 May 2018, (<http://www.taiwannpfnews.org.tw/english/page.aspx?type=article&mnum=112&anum=20946>). The *Financial Times'* interpretation, however, is correct: in the first months of the Wu chairmanship the KMT downplayed the issue of reunification compared to the period under the short-lived leadership of Hung Hsiu-chu.

94. '陳其邁：九二共識變來變去韓國瑜瑞共' (Chen Chi-mai: the 1992 Consensus Changes All the Time, Han Kuo-yu Must Explain Where He Stands), *UDN*, 9 November 2018.

95. Liu Lan-shu, '九合一大選民進黨慘敗 關鍵：中間選民與王金平' (The Key Factors behind the DPP's Crushing Defeat in the Nine-in-One Elections: Centrist Voters and Wang Jin-pyng), *天下雜誌 (Common Wealth Magazine)*, 24 November 2018. On local networks in Taiwan politics see: Stefan Braig, 'Local Factions', in Gunter Schubert (ed.), *Routledge Handbook of Taiwan Politics*, Abingdon: Routledge, 2016, pp. 137-152.

96. Kensaku Ihara, 'Taiwan's ruling party faces unexpectedly tough battle in local elections', *NAR*, 23 November 2018

97. Kensaku Ihara, 'Tsai's Taiwan foes aim to put Fukushima on the ballot', *NAR*, 25 July 2018.

98. '「一中同表」？洪秀柱背後的青年人' («One China, Same Interpretation»?) The Young People behind Hong Hsiu-chu, 端 (*The Initium*), 26 October 2015.

At the same time, the Tsai administration also faced mounting opposition from its left flank. The left-wing of the DPP, the New Power Party 時代力量, and the other pro-independence groups that coalesced in April in the Formosa Alliance (喜樂島聯盟), severely criticised the status-quo-pursuing China policy of the Tsai administration.⁹⁹ The Taiwanese left achieved a minor victory in October, when it obtained the necessary signatures to hold a referendum to change the name of Taiwan in international sports competitions from «Chinese Taipei» (中華臺北) to «Taiwan» (臺灣). The referendum was conceived as a proving ground for a future independence referendum, to change the country's name from «Republic of China» (中華民國) to «Republic of Taiwan» (台灣共和國).¹⁰⁰ Beyond the issue of Taiwan independence, the post-Sunflower Movement political galaxy attacked the DPP for its centrist, pro-business economic agenda unable to provide the necessary improvement in living conditions for Taiwanese youth, a segment of the population particularly affected by low wages and difficult access to housing.¹⁰¹ Extremely cautious political tactics also damaged the DPP's standing among the younger generations. The main example was the refusal to pass a bill on same-sex marriage despite a favourable ruling by the Constitutional Court, in order to maintain the support of the Presbyterian Church in Taiwan.¹⁰² The staging of two separate popular rallies – one in Taipei requesting an independence referendum, and an «anti-annexation» (反併吞) one in Kaohsiung organised by the DPP – on 20 October, weeks before the electoral round, highlighted the faltering of the diverse political coalition that guaranteed the DPP's victory in 2016.¹⁰³

4.2. *The November elections and their impact*

The DPP suffered a predictably heavy defeat in local elections and the referenda held in November. The ruling party lost to the KMT seven of the 13 municipalities and counties which it previously controlled, while the independent candidate and incumbent mayor Ko Wen-je won in Taipei City with a razor-thin margin over the KMT candidate. The most shocking defeat for the DPP occurred in Kaohsiung, where the victory of the KMT

99. Kensaku Ihara, 'Pro-independence forces in Taiwan align to push referendum', *NAR*, 9 April 2018.

100. 'Referendum Petition on Name Change Passes Signature Threshold: CEC', *Focus Taiwan*, 8 October 2018.

101. Edward White, 'Taiwan's youth shun government ahead of local polls', *Financial Times*, 24 October 2018.

102. Bruce Jacobs, 'Analyzing the DPP Electoral Debacle', *Taiwan Insight*, 4 December 2018.

103. 'Taiwanese Protesters Set Up Calls for Independence', *Financial Times*, 20 October 2018; 'DPP Holds Parallel Taiwan Independence March in Kaohsiung', *Taiwan News*, 20 October 2018.

candidate Han Kuo-yu ended two decades of DPP rule.¹⁰⁴ Moreover, while referenda campaigners did not strictly align with the KMT and DPP camps, the final result of the consultations did not favour progressive and localist groups. The referendum for adopting the name Taiwan instead of Chinese Taipei in international sports competitions did not reach the quorum. Taiwanese voters also rejected same-sex marriage and public education on homosexuality; they favoured the continuance of the ban on food imports from Fukushima and other Japanese prefectures affected by the 2011 disaster; and rejected, in another group of three referendum-questions, the government's plans to phase-out nuclear energy on the island.¹⁰⁵

Focusing on the implications of the vote for cross-strait relations, early interpretations ranged from a flat-out refusal of Tsai's cross-strait policy, to depictions of a Brexit-like scenario emphasising voters' fascination for unrealistic electoral promises, a scarce familiarity with the intricacies of the 1992 Consensus, and concern about Chinese infiltration in the Taiwanese democratic process.¹⁰⁶ Predictably, the official responses of the Chinese and Taiwanese authorities reflected such analyses. The Chinese Taiwan Affairs Office interpreted the vote as punishment by the Taiwanese electorate for the pro-independence policies of the Tsai administration.¹⁰⁷ Conversely, the MAC readily minimized the cross-strait relevance of the vote.¹⁰⁸ Days later President Tsai herself reiterated that the electoral result would not change her administration's policy towards Beijing.¹⁰⁹

104. Central Electoral Commission, EY (CEC), 公告107年直轄市長、縣（市）長、直轄市議員、縣（市）議員選舉當選人名單 (*Announcement of the List of Elected Candidates in the 2018 Elections for Special Municipalities Mayors, County Magistrates, Provincial Cities Mayors, Special Municipalities Counsellors, County and Provincial Cities Counsellors*), 30 November 2018

(<http://db.cec.gov.tw/histQuery.jsp?voteCode=20181101A1B1&qryType=ctks>).

105. CEC, '中選會發布全國性公民投票案第7案至第16案投票結果公告' (*The Central Electoral Commission Issues the Announcement of the Results of the National Referenda on the Propositions from Number 7 to Number 16*), 30 November 2018 (<https://www.cec.gov.tw/central/cms/107news/29588>).

106. See: Lawrence Chung, 'Taiwan's leader is asking for more misery at the polls if she plays the «America card», analysts warn', *SCMP*, 10 December 2018; Keoni Everington, 'After Electing Han, Kaohsiung Voters Madly Google «1992 Consensus»', *Taiwan News* 26 November 2018; Winston Chiu, 'Why Taiwan's Referendum May Have Been Swayed by an Ill-Informed Public', *Hong Kong Free Press*, 26 January 2019.

107. TAO, '台办发言人: 团结广大台湾同胞, 走两岸关系和平发展道路' (*TAO Spokesperson: Unite Taiwanese Compatriots, Proceed towards the Peaceful Development of Cross-Strait Relations*), 25 November 2018, (http://www.gwytb.gov.cn/wyly/201811/t20181125_12115704.htm).

108. 'MAC Urges Beijing Not to «Misjudge» Voting Results', *Focus Taiwan*, 25 November 2018.

109. '选后首谈两岸蔡英文: 维持现状不变' (Tsai Talks for the First Time after the Elections about Cross-Strait Relations: There Will be No Changes in the Upholding of the Status-Quo), 中時電子報 (*China Times*), 30 November 2018.

More nuanced and non-partisan analyses stressed the interplay of different factors such as the specific local dimension of the elections, the perceived shortcomings of the economic agenda of the Tsai administration, the growing gap between the DPP and the post-Sunflower Movement, and the DPP leadership's strategic mistakes in the referenda campaigns.¹¹⁰ Against this backdrop it is particularly difficult to evaluate the specific significance of the vote for the future of cross-Strait relations. End-of-year polls by the Election Study Center of the National Chengchi University showed a slightly encouraging shift in public opinion for Beijing. For instance, the KMT overtook the DPP for the first time since 2013: the Nationalists polled at 25.4% while Tsai's party plummeted to 20.1%, the lowest since 2009. However, 49.1% of those polled identified as independent or preferred not to respond.¹¹¹ Similar trends emerged in polls on the preferred future outcome of cross-Strait relations. Support for a «maintain status quo, move towards unification» stance reached 12.8% – the highest recorded since 2002, whilst support for a «maintain status quo, move towards independence» stance decreased to 15.1%, the lowest since 2012. To provide a further benchmark, the two positions stood at 8.5% and 18.3% respectively at the end of 2016, after the first eight months of the Tsai presidency. However, the «maintain status quo, decide at later day» and the «maintain status quo indefinitely» options remained the most favoured, polling 33.4% and 24% respectively.¹¹²

The electoral result obviously reshaped the prospects of the 2020 presidential election contenders. In the DPP, the resignation of Tsai Ing-wen from the party chairpersonship raised speculations over the emergence of a new presidential candidate.¹¹³ Lai Ching-te rapidly appeared as the DPP frontrunner as he left office in early January 2019 in an attempt to distance himself from Tsai and her administration.¹¹⁴ Han Kuo-yu looked instead as the most exciting presidential prospect in the KMT, after the

110. Richard C. Bush, 'Taiwan's Local Elections: Explained', *Brookings*, 5 December 2018; Bruce Jacobs, 'Analyzing the DPP Electoral Debacle'.

111. Election Study Center, National Chengchi University, *Changes in the Party Identification of Taiwanese as Tracked in Surveys by Election Study Center, NCCU (1994-2018.12)*, 28 January 2019 (https://esc.nccu.edu.tw/pic.php?img=165_d7861944.jpg&dir=news&title=Image).

112. Election Study Center, National Chengchi University, *Changes in the Unification – Independence Stances of Taiwanese as Tracked in Surveys by Election Study Center, NCCU (1994-2018.12)*, 28 January 2019 (https://esc.nccu.edu.tw/pic.php?img=167_8a40dd84.jpg&dir=news&title=Image).

113. 'Tsai Resigns as DPP Chairwoman for Election Setback', *Focus Taiwan*, 25 November 2018.

114. Kensaku Ihara, 'Taiwan's cabinet to resign, as Premier Lai eyes presidency', *NAR*, 8 January 2019. Former PM Su Tseng-cheng 蘇貞昌 assumed office after Lai's resignation. Lai had previously offered his resignation immediately after the vote in November but withdrew it under pressure from Tsai. 'Su Tseng-chang takes up post as premier (update)', *Focus Taiwan*, 14 January 2019.

surprising victory in Kaohsiung. Polls in December projected him as the second most popular political figure in Taiwan, with an approval rate of 62.1%.¹¹⁵ The November vote, however, mainly strengthened the national profile of the re-elected mayor of Taipei, Ko Wen-je. Skilfully following contemporary populist blueprints, Ko gained re-election by successfully engaging with local public opinion mainly via social media, presenting himself as a disruptive, independent candidate distant from the traditional parties of Taiwanese politics. By the end of the year, he was the most popular politician on the island with an approval rate of 65.8%, placing him in a uniquely advantageous position for the 2020 elections.¹¹⁶

Running for mayoral positions, neither Ko nor Han needed to put cross-Strait relations at the centre of their campaigns, but neither candidate could propose his vision of economic revival without proposing a way out of the current deadlock with Beijing. Han publicly endorsed the 1992 Consensus before and after the elections.¹¹⁷ Ko, instead, maintained broad popular approval while pursuing an ambiguous China policy, oscillating between parroting Beijing's language on unification to echoing Tsai's proposals, all in the space of a few months.¹¹⁸ Ultimately, it is telling that Ko and Han achieved widespread credibility at a national level while sponsoring – or at least providing a platform for – positions on the unification issue, which are at best ambiguous and at worst simply unrealistic. Their success, even after taking into account their different campaigning style and constituencies, demonstrates that after the two terms of Ma Ying-jeou and two years of the Tsai presidency, the Taiwanese electorate has not come to terms yet with the increasingly zero-sum trajectory of cross-Strait relations.

115. Taiwanese Public Opinion Foundation (TPOF), '2018 年終台灣重大民意走向' (2018 Year-End Report on Major Public Opinion Trends in Public Trends), December 2018, p. 18.

116. *Ibid.*; Kensaku Ihara, 'Taipei mayor emerges as contender for Taiwan presidency', *NAR*, 24 October 2018.

117. See for instance: '高雄選戰 韓國瑜直認「九二共識」' (Kaohsiung Electioneering: Han Kuo-yu Directly Recognizes the «1992 Consensus»), *大公報 Ta Kung Pao*, 21 November 2018; '韓國瑜: 兩岸關係 強調九二共識、一中各表和中華民國' (Han Kuo-yu: Cross-Strait Relations Stress 1992 Consensus, One China – Respective Interpretations Principle, and the Republic of China), *UDN*, 25 December 2018.

118. '「兩岸一家親」已深入台灣民心' (The «One Family on Both Sides of the Strait» Concept Is Already Deeply Rooted in the Hearts of the Taiwanese), *Xinhua*, 16 May 2018. '柯文哲: 九二共識、兩岸一家親在台灣已被污名化' (Ko Wen-je: The 1992 Consensus and the One Family on Both Sides of the Strait Concepts Have a Tainted Reputation in Taiwan), *早報 (Zaobao.com)*, 28 December 2018.