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ASIA MAIOR

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Asia in the Waning Shadow of American Hegemony

Edited by

Michelguglielmo Torri, Elisabetta Basile, Nicola Mocci

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TAIWAN 2017: STALEMATE ON THE STRAIT*

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After a tumultuous 2016, cross-Strait relations between the Republic of China (ROC) and the People's Republic of China (PRC) continued to be tense throughout 2017. The increasing divergence over the issue of national unification between Beijing and Taipei, epitomised by President Tsai Ing-wen's refusal to acknowledge the 1992 Consensus, shaped Taiwan's cross-Strait, regional, and domestic politics. Neither Beijing's intensive pressure campaign, nor Taipei's repeated proposals to establish a new model of interaction between the two sides produced tangible results. Within the context of a protracted stalemate with China, the Tsai administration responded by pursuing an ambitiously proactive agenda. Abroad, Taipei adapted to the new, disruptive Trump administration, deepened its relations with a sympathetic Abe administration in Japan, and pushed for a more relevant role in the Indo-Asia-Pacific via its New Southbound Policy. At home, it pushed an aggressively localist agenda, and started implementing an expansive industrial policy. These measures were taken with the aim of reducing the weight of the existent historical, cultural, political, and economic ties with the Mainland.

However, Beijing's growing clutch in the region, widespread uncertainty over the future role of the United States in the region, as well as the structural malaise of the Taiwanese economy, severely constrained the efficacy of the agenda designed by the Tsai administration.

1. Introduction

This essay explores the developments which occurred in Taiwan in the fields of cross-Strait relations, regional politics, domestic politics and its economy in 2017. The section on cross-Strait relations, which constitutes the bulk of the essay, consists of three subsections. The first subsection provides an analysis of the People's Republic of China (PRC) pressure campaign against Taiwan, which aimed to force the Tsai administration to

*. 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.

acknowledge the 1992 Consensus. The second subsection deals with the «rhetorical battleground» of cross-Strait relations, focusing on both Taipei's proposals aimed at overcoming the stalemate without acknowledging the Consensus, and Beijing's responses to such moves. The third subsection assesses, instead, the impact of the Tsai administration's defence policy and its identity politics agenda on relations between the two sides. Section three reframes Taiwan's position in international politics within the broader Indo-Asia-Pacific transregional context. This section focuses on Taiwan's relations with the United States of America, on Taiwanese-Japanese relations, and on the Republic of China's (ROC) attempts to break its economic and diplomatic isolation in the region through deeper engagement with its neighbours. Finally, section four shifts the focus back to Taiwan's internal situation, evaluating the major events which occurred in the realms of domestic politics and economy against the backdrop of the analyses of cross-Strait and transregional relations previously provided.

2. Cross-Strait relations in 2017: Taipei faces Beijing's pressure

The collapse of the cross-Strait rapprochement, which followed the victory of Tsai Ing-wen and her Democratic Progressive Party (DPP) in the 2016 general elections, turned into a stalemate in 2017. The reason behind this deadlock was President Tsai's refusal to acknowledge the so-called «1992 Consensus» (九二共识) reached between Beijing and Taipei during the Ma Ying-jeou presidency (2008-2016). Throughout those years, Beijing unilaterally reinterpreted the Consensus, which states that «the Mainland and Taiwan both belong to One China» (大陆与台湾同属一个中国), as the baseline for a «soft unification» agenda driven by economic integration.¹ This was an attempt to overcome an ambiguous political situation, one in which Taiwan could enjoy the benefits of warmer relations with the Mainland without fully committing to a roadmap for national unification.² The Beijing regime's failure to acknowledge the Taiwanese public's opposition to its agenda, however, created a deeply fraught scenario. Aware of Taiwanese popular sentiment towards Beijing, the Tsai administration aimed at re-establishing a context that would guarantee both economic prosperity and political ambiguity over the future of cross-Strait relations, while at the same time advancing an identity politics agenda reaffirming a localist Taiwanese identity. Conversely, Chinese policymakers insisted on resuming relations only after a Taiwanese commitment to a path eventually leading to national unification. Even though it is still possible that Taipei and Beijing will adjust

1. On the emergence of the 1992 Consensus during the Ma presidency, see: Aurelio Insisa, «Taiwan 2012-2016: From Consolidation to the Collapse of Cross-Strait Rapprochement», *Asia Maior* 2016, pp. 53-88, here pp. 54-56.

2. *Ibid.*, p. 55.

their respective positions in the future, their respective policies resulted into a year-long impasse.

2.1. Beijing's pressure campaign against the Tsai administration

Following the closure in May 2016 of all the official channels of communication with the ROC established during Ma's two terms, the PRC intensified its pressure campaign against the Tsai administration. The aim was to force Tsai to accept the 1992 Consensus through three measures: further reducing the ROC's already limited international space through diplomatic and economic pressure; intimidating the Taiwanese state and public opinion through high-profile military drills on the island's proximities; and dismantling public support for the current cross-strait policy through the «weaponisation» of people-to-people relations. Beijing's heaviest diplomatic barrage against Taipei occurred between May and June, when the PRC forbade the participation of ROC delegations to the World Health Assembly, the annual meeting of the International Labour Organization, and the Kimberley Process meeting on conflict diamonds.³ During this period, Beijing also orchestrated Panama's switch of diplomatic recognition from the ROC to the PRC. In addition, the PRC obtained the downgrading of Taiwan's representative offices in Nigeria, Ecuador, Bahrain, United Arab Emirates, and Jordan.⁴ The PRC coupled diplomatic pressure with high-profile «encirclement patrols» of Taiwan by the People's Liberation Army (PLA) Air Force and the PLA Navy first from July to August, and later from November to December.⁵

The Chinese government combined diplomatic and military pressure with the «weaponisation» of Taiwanese citizens' relations with the Mainland. It did so through carrot-and-stick tactics. On the one hand, Beijing implemented both short and long-term measures to lure Taiwanese citizens. Together with renewed promises of «national treatment» (國民待遇) for

3. D. D. Wu, 'WHO déjà vu: Taiwan not invited to World Health Assembly', *The Diplomat*, 13 May 2017; '«Disgusting» and «Extraordinary» Scenes as Chinese Delegation Shouts Down Welcome Ceremony', *The Sidney Morning Herald*, 3 May 2017; 'Taiwan Suffers New Setback in Trying to Attend ILO Conference', *Focus Taiwan*, 3 June 2017.

4. Ministry of Foreign Affairs of the People's Republic of China (MOFA), *The People's Republic of China and the Republic of Panama Establish Diplomatic Relations*, 13 June 2017 (http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1470840.shtml); 'China Pressures Taiwan to Change Names in 5 Countries: MOFA', *Taiwan News*, 14 June 2017. The Chinese move was a retaliation for the new denomination of Japan and Taiwan respective representative offices in the two countries, which now use the term «Taiwan». See: 'Taiwan Changes Name of Semi-Official Body Handling Ties with Japan, Irking China', *Japan Times*, 18 May 2017.

5. Ministry of the National Defense of the ROC (Taiwan) (MND), 106年國防報告書 (2017 National Defense Report), 26 December 2017, p.38 (<https://www.mnd.gov.tw/NewUpload/歷年國防報告書網頁專區/歷年國防報告書專區.files/國防報告書-106/國防報告書-106-中文.pdf>).

Taiwanese people and business on the Mainland, Beijing launched a series of new initiatives to facilitate study and career prospects in the PRC for Taiwan's youth.⁶ Commentators have generally discussed such measures in terms of soft power. In fact, they should be described as exercises in «sticky power»,⁷ as China attempted to lure Taiwanese people mainly with promises of personal profit, rather than by engaging them at an emotional level and emphasising cultural ties. On the other hand, Beijing did not refrain from sending ominous signals to the Taiwanese people. Two cases stood out: the arrest and condemnation for subversion on the Mainland of the Taiwanese human rights activist Lee Ming-che, and the orchestration of forced repatriations to the Mainland of ROC citizens who committed crimes in third countries such as Vietnam and Spain, a measure already implemented in 2016.⁸ Finally, mirroring tactics previously employed against Japan during the heyday of the Senkaku/Diaoyu dispute, and against South Korea during the controversy surrounding the deployment of the Terminal High Altitude Area Defense (THAAD) missile system, Beijing continued to use tourism as a tool of economic statecraft. As a result, the number of Chinese tourists visiting Taiwan continued to decrease during most of 2017.⁹ Thus,

6. See: Taiwan Affairs Office of the People's Republic of China (TAO), 李克強談港澳台工作 (*Li Keqiang Discusses Work Related to Hong Kong, Macao, and Taiwan*), 5 March 2017 (http://www.gwytb.gov.cn/wyly/201703/t20170305_11714155.htm). For details on the measures implemented see: TAO, 国台新闻发布会辑录 (2017-05-10) (*Minutes of the TAO Press Conference on May 10, 2017*), 10 May 2017 (http://www.gwytb.gov.cn/m/speech/201710/t20171027_11858522.htm).

7. Namely the economic policies and institutions of a dominant country, which attract other countries to its system, then trap them in it. For a definition of «sticky power». See, e.g., Walter Russell Mead, 'America's Sticky Power', *Foreign Policy*, March/April 2004, p. 14.

8. 'China Jails Taiwan Activist Lee Ming-che for Subversion', *Deutsche Welle*, 28 November 2017; 'Taiwan Protests after Vietnam Deports Fraud Suspects to China', *South China Morning Post*, 4 January 2017; 'Taiwan Regrets Spanish Decision to Deport Taiwanese Fraud Suspects to Mainland China', *South China Morning Post*, 19 February 2017.

9. The number of Chinese tourists who visited Taiwan in 2017 was 2,732,549, registering a 22.37% decrease compared to 2016. While a rising number of tourists from other markets balanced the decrease of arrivals from the Mainland (the overall data registered a 0.46% increase compared to 2016), Beijing's strategy severely impacted the growth rate of Taiwan's tourist sector. See: Tourism Bureau of the Ministry of Trade and Commerce of the ROC (Taiwan), *Visitor Statistics for December 2017*, 23 February 2018 (http://admin.taiwan.net.tw/statistics/release_en.aspx?no=7). On previous Chinese use of tourism as a tool of economic statecraft during the heyday of the Senkaku/Diaoyu dispute, see: James J. Przystup, 'Japan-China Relations: 40th Anniversary: Fuggetaboutit!', *Comparative Connections*, Vol. 14, No. 3, January 2013, p. 111. On the impact of the THAAD's deployment on Sino-Korean relations see: Scott Snyder & See-Won Byun, 'China-Korea Relations: North Korea, THAAD Overshadow Beijing and Seoul's 25th anniversary', *Comparative Connections*, Vol. 19, No. 2, September 2017, p. 86.

Beijing's pressure campaign further reduced Tsai's margins of manoeuvre to overcome the deadlock in cross-Strait relations.

2.2. *The cross-Strait rhetorical battleground*

In response to the Chinese pressure campaign, the Tsai administration repeatedly tried during 2017 to establish a new *modus vivendi* with Beijing, one that would not require the public acknowledgement of the 1992 Consensus. The first relevant move occurred in May, when the ROC President presented her «three new» (三新) vision of the future of cross-Strait relations. The first point of Tsai's vision was the need to acknowledge the emergence of a «new situation» (新情勢) in their relations: the coming to power of the DPP. The second point was the need for a «new test sheet» (新問卷) between the two sides. This was a reference to a Taiwan Affairs Office (TAO) comment on her inauguration speech in 2016, which was deemed as an «incomplete test answer». This point signalled Tsai's willingness to provide Beijing the necessary guarantees on the future of cross-Strait relations (most likely a promise to avoid taking any steps towards independence), short of committing to the 1992 Consensus. Finally, the «third new» was the need for both sides to envision a «new model» (新模式) for managing the future of cross-Strait relations.¹⁰ Tsai repeated the call for a «new model of cross-Strait interactions» (兩岸互動的新模式) first in August, and then in her speech for the ROC National Day on 10 October.¹¹ Beijing, however, did not change its posture. During his report at the 19th Chinese Communist Party (CCP) Congress (19-24 October), General Secretary and PRC President Xi Jinping clearly reinstated that acknowledging the «One China Principle» (一中原則), and the 1992 Consensus that was its «embodiment» (體現), was the *sine qua non* for restoring relations.¹² Particularly indicative in Xi's speech was also

10. Qiu Caiwei, '蔡英文拋兩岸「三新」主張 - 需有結構性合作關係' ('Tsai Ing-wen lays out «Three New» position on cross-Strait relations, requires structural, cooperative relations'), 聯合新聞網 (*United Daily News*), 3 May 2017.

11. Office of the President of the ROC (Taiwan), *President Tsai's Remarks at 2017 Asia-Pacific Security Dialogue*, 8 August 2017 (<http://english.president.gov.tw/NEWS/5186>). The speech was given in English. See also: '蔡英文國慶談話全文' (Tsai Ing-wen's Speech for the ROC National Day - Complete Text), 大紀元時報 (*Epoch Times*), 10 October 2017.

12. '习近平强调: 坚持「一国两制」, 推进祖国统一' ('Xi Jinping Stresses the Need to «Continue with the One Country Two Systems Model and Carry Forward the Unification of the Motherland»'), *Xinhua*, 18 October 2017. Liu Jieyi, former PRC Permanent Representative at the UN, was nominated TAO Deputy Director days before the Congress. Liu is expected to succeed current TAO Director Zhao Zhijun in 2018. The Taiwan policy of the Beijing regime, however, is planned by the party's Central Committee Leading Group for Taiwan Affairs (中央对台工作领导小组), rather than by the TAO. Post-19th Congress analyses expect the Committee

the reaffirmation of the «six any» (六个任何) as the main «formulation» (口号) codifying his administration's policy towards Taiwan. This was a warning against «any individual», «any organisation», and «any political party» attempting, at «anytime» and in «any form», to split «any part» of the Chinese territory. While echoing remarks previously made by Hu Jintao in March 2008 and by Xi himself in 2013, the CCP General Secretary had introduced the current formulation in November 2016, and later reinstated it on the 90th anniversary of the PLA in August 2017.¹³ By juxtaposing the acknowledgement of the 1992 Consensus to the «six any» warning, Xi signalled that his administration continued to consider Tsai's cross-Straits policy as a poorly covert form of support for Taiwanese independence.

The Chinese show of resolve in the period leading up to the Congress did not refrain commentators from speculating about a possible breakthrough in its aftermath. These speculations assumed that, after having further solidified his grip on political power, Xi would have greater freedom to reshape the course of cross-Straits relations.¹⁴ Expectations for a possible breakthrough rose after the end of the Congress, as President Tsai went as far as recognising the relevance of the 1992 Consensus to cross-Straits relations in a speech given on 26 October.¹⁵ Even though the TAO issued a relatively accommodating reply after Tsai's speech,¹⁶ such expectations for a breakthrough rapidly vanished by November, as the PLA resumed its encircling patrol operations over Taiwan.

to carry forward an aggressive agenda against the Tsai administration. See Lauren Dickey, 'Taiwan Policymaking in Xi Jinping's «New Era»', *China Brief*, Vol. 17, Issue No. 14.

13. '反獨習近平拋「6個任何」' ('Xi Jinping Lays Out «Six Any» against Taiwanese Independence'), 世界日報 (*World Journal*), 11 November 2016; '习近平: 在庆祝中国人民解放军建军90周年大会上的讲话' ('Xi Jinping's Speech at the Celebration for the Ninetieth Anniversary of the Foundation of the People's Liberation Army'), *Xinhua*, 1 August 2017.

14. David G. Brown & Kevin Scott, 'China Increases Pressure, Tsai Holds the Line', *Comparative Connections*, Vol. 19, No. 2, September 2017, p. 69.

15. '兩岸交流30週年 蔡總統致詞全文 (影)' ('Full Text of Tsai Ing-wen's Message for the Thirtieth Anniversary of Cross-Straits Exchanges – (Video)'), 中央通訊社 (CNA), 26 October 2016. Tsai had already stated that the 1992 Consensus was a «historical fact» (歷史的事實) during the presidential campaign in December 2015, see: '蔡英文: 1992年是有香港會談 應求同存異' ('Tsai Ing-wen: There Were Talks in Hong Kong in 1992 – It Is Necessary to Seek Common Ground While Reserving Differences'), *China Times.com*, 27 December 2015.

16. Taiwan Affairs Office, 国台办: 只有回到「九二共识」政治基础上来, 两岸关系发展才能拨云见日, 开辟新前景 (Taiwan Affairs Office: *Only by Restoring the «1992 Consensus» as the Political Foundation of Cross-Straits Relations Will It Be Possible to Overcome Current Difficulties and Open New Horizons*), 26 October 2017 (http://www.gwytt.gov.cn/wyly/201710/t20171026_11857530.htm).

2.3. *The domestic front: the impact of Taiwan's defence policy and identity politics on cross-Strait relations*

The Tsai administration's defence policy and identity politics are two other dimensions to analyse for providing a comprehensive understanding of cross-Strait relations in 2017. Two correlated issues dominated Taiwan's defence policy. The first was the search for a response to the challenges posed by the 2016 Chinese military reforms. Within the wide scope of the PLA reforms, the changes directly concerning Taiwan were the creation of an *ad hoc* «theatre command» (战区) addressing Taiwan – the Eastern theatre supplanting the former Nanjing Military Region – and a renewed emphasis on joint forces training for «amphibious operations, blockades, and joint firepower strikes» against ROC forces.¹⁷ The Taiwan Quadrennial National Defense Review (QNDR), published in March, acknowledged the implications of the PLA reforms by introducing a subtle reconceptualisation of Taiwan's military doctrine vis-à-vis Beijing from «effective deterrence» (有效嚇阻) to «multi-domain deterrence» (重層嚇阻). The aim of the new strategy was to pose «multiple dilemmas» to the Chinese forces invading the island and to «deter aggression» via «innovative/asymmetric means». In accordance with this strategic shift, the tactical concept of «destroying the enemy on the beachhead» was changed into the more articulated «resist the enemy on the other shore, attack the enemy on the sea, destroy the enemy in the littoral area, and annihilate the enemy on the beachhead».¹⁸

The second major issue dominating the defence policy agenda was the planning of an effective internal balancing strategy, given Taiwan's severely constrained capabilities to balance externally.¹⁹ Between 2015 and 2016, the DPP and the Tsai administration had repeatedly pledged to both boost defence spending and kick-start a resurgence of the national defence industry, eyeing possible spill-overs to other national sectors.²⁰ Even though Taiwan was able to secure the first US arms sales

17. Joel Wuthnow & Phillip C. Saunders, 'Chinese Military Reforms in the Age of Xi Jinping: Drivers, Challenges, and Implications', *China Strategic Perspective*, No. 10, March 2017, pp. 16-17, 43.

18. Taiwan Ministry of National Defense (MND), *Taiwan Quadrennial National Defense Review*, March 2017, pp. 38-39. The 2017 National Defense Report, issued in December (and the first published by the Tsai administration), was developed within the strategic guidelines outlined by the QNDR. See: MND, 106年國防報告書 (2017 National Defense Report), p. 57.

19. Balancing is a strategy aimed at maintaining a state of equilibrium when facing more powerful or more threatening states. This can be achieved «externally» by establishing security ties with other states, or «internally», by building up indigenous capabilities. See: Hans J. Morgenthau, *Scientific Man versus Power Politics*, Chicago: University of Chicago Press, 1965, p. 11. Taiwan's limited international recognition severely constrained its options for external balancing.

20. Aurelio Insaia, 'Taiwan 2012-2016', p. 83.

deal since 2015, the national defence budget for 2018, which amounted to NT\$ 327.8 billion (US\$ 10.79 billion), left partially unfulfilled these repeated pledges. Despite the fact that the budget figures amounted to a 1.9% increase from the previous year, the final amount was far from the government's promise to raise defence expenditure to 3% of the national GDP. In fact, the defence budget slumped to a record low 1.8% of the GDP.²¹ Beyond affecting the enhancement of the ROC's military capabilities, the economic constraints of the 2018 defence budget also hindered the ambitious industrial policy of the Tsai administration.²² In addition, it remained unclear to what extent the budget would affect the development of the ROC Navy's autarkic «indigenous submarine project», which was officially announced in April and aimed at providing operative units by 2027.²³

Whilst Taiwan's defence policy was fundamentally reactive, the identity politics agenda of the Tsai administration and the DPP majority in the Legislative Yuan (LY) was aggressively proactive. The aim of the agenda was twofold: to further weaken the Kuomintang (KMT) at a financial, political, and ideological level, and to decisively assert a localist Taiwanese identity on the island as a bulwark against Beijing's charm offensive towards the Taiwanese public. In July, the Ill-gotten Party Assets Settlement Committee of the Executive Yuan (EY), established in 2016, ordered the KMT to forfeit assets obtained from the Japanese colonial government after World War II for a total amount of US\$ 28.5 million.²⁴ Successively, on 5 December, the LY passed the Act on Promoting Transitional Justice. The bill was followed two days later by the establishment of a new EY Committee tasked to «declassify political files, remove authoritarian-era symbols and retry cases of injustice» during the KMT authoritarian rule over Taiwan between 1945 and 1992.²⁵ The KMT group in the LY requested to extend the period under investigation to the Japanese colonial era, in an attempt to both reconnect Taiwan's traumas in the past century to the broader Chinese experience, and to curtail the localist subtext of the legislation. Predictably, these requests were repelled by the DPP majority in the LY.²⁶ Changes introduced to the Taiwanese secondary school curriculum, such as the reduction of teaching content in classical Chinese, and the elimination

21. 'Defense Ministry Sets Preliminary 2018 Budget at NT\$327.8 Billion', *Focus Taiwan*, 7 October 2017. On the US arms sale deal, see section 3.

22. See section 4.

23. 'Taiwan to Build Eight Submarines Under Indigenous Shipbuilding Project', *Reuters*, 5 April 2017.

24. 'KMT Properties in Taiwan Valued at NT\$865 Million to Be Seized', *Taiwan News*, 28 August 2017. On the Act Governing the Handling of Ill-gotten Properties, see: Aurelio Insisa, 'Taiwan 2012-2016', p. 78.

25. Sean Lin, 'Transitional Justice Act: analysis: judge law in terms of security act: academics', *Taipei Times*, 10 December 2017.

26. *Ibid.*

of the 1943 Cairo Declaration from the history curriculum, also confirmed the DPP's «localist push».²⁷

In turn, China's concerns for the Tsai administration's identity politics agenda resulted in the re-emergence of the so-called «de-Sinification» (去中国化) discourse on Chinese media, already popular during the Chen Shui-bian presidency (2000-2008). The tone of the debate on the Mainland verged, at times, towards a virulent strain of Chinese ethno-nationalism. For instance, PRC legacy media (namely those media that act as mouthpieces for the state) accused the Tsai administration of attempting to create an artificial «Taiwanese nation» (台湾民族) by «elevating» (拔高) minorities and new immigrants and severing the existent «blood ties» (血缘) with the «Chinese nation» (中华民族).²⁸ While this localist agenda emboldened the DPP's constituencies and could help fend off Chinese attempts to soft unification in the future, its pursuit further damaged Tsai's credibility as a reliable interlocutor in Beijing's eyes.

3. *Taiwan's international position in the Asia-Pacific*

Beyond the bilateral dimension of cross-Strait relations, Taiwan's position in the Asia-Pacific in 2017 can be analysed from three distinct but correlated perspectives. The first pertains to Taiwanese-American relations; the second concerns Taiwan's relations with Japan, whilst the third, at a broader level, regards Taiwan's efforts to escape diplomatic, security and economic isolation through proactive engagement with its neighbours. In early 2017, Taipei's relations with Washington suffered the aftershock of Tsai's congratulatory call to the then-US President-elect Donald J. Trump on 2 December 2016.²⁹ Following Trump's statements over the uncertain

27. 'Ministry Reduces Classical Chinese Ratio', *Taipei Times*, 24 September 2017; Michael Thim & Michael Turton, 'The Chinese cult of Cairo and the status of Taiwan', *The Diplomat*, 17 July 2017. The Cairo Declaration of November 27, 1943 was signed by US President Franklin Roosevelt, UK Prime Minister Winston Churchill, and Republic of China President Chiang Kai-shek. The Declaration cemented China's status as one of the four allied Great Powers and agreed that territories taken from China by Japan, including Manchuria, Taiwan, and the Pescadores, would be returned to the control of the Republic of China after the conflict ended. Historically, the Cairo Declaration highlights the fact that, in the patriotic war against the Japanese invaders, the key role was played by nationalist China, headed by Chiang Kai-shek, rather than by *the Chinese communists*.

28. '蔡当局「文化台独2.0」危害不可小觑' ('The risk posed by the Tsai administration's «cultural Taiwanese independence 2.0» should not be underestimated'), 中国台湾网 (*China Taiwan*), 18 August 2017. *China Taiwan* is the TAO's official media platform.

29. For a synopsis of the events surrounding the «Trump call», see Aurelio Insisa, 'Taiwan 2012-2016', pp. 72-73.

future of the US' «One China Policy» after the phone call, there was widespread concern that Taiwan had turned into a «bargaining chip» in the hands of a disruptive White House concerned with cornering the PRC into a sweeping renegotiation of Sino-American relations. Such concerns repeatedly emerged through the year, especially following Xi's first meeting with Trump in Mar-a-Lago in March, and after Trump's own state visit to Beijing in November.³⁰ In addition, Trump's hasty decision to abandon the Trans-Pacific Partnership (TPP) in January inflicted immediate damage to Taiwan's interests. Even though Taipei's participation in the TPP was never certain due to Beijing's predictable opposition, and its diplomatic and economic pressure over the smaller countries involved in the agreement, Washington's presence had provided a possible pathway for Taiwan's participation.³¹ However, with the US gone, Taiwan's opportunity to strike its first free trade agreements since 2013 rapidly vanished.³² Finally, Taiwan's trade prospects were further complicated by the cancellation of the Trade and Investment Framework Agreement (TIFA) talks with the US in 2017, apparently because of the Trump administration's delay in filling vacancies for trade representatives.³³

In fact, the policies of the Trump administration in the second half of 2017 contradicted the gloomiest speculations on the solidity of the US' commitment to Taiwan's defence. On 29 June, the White House completed a US\$ 1.42 billion arms sale deal with Taiwan, the first since December 2015.³⁴ Successively, in October, Washington allowed Tsai to transit through the US territory on occasion of her visit to the ROC's diplomatic allies in Oceania, scheduled for November.³⁵ On 12 December, the White House signed the 2018 National Defense Authorization Act. Within the first of the two subsections concerning Taiwan, the bill stated that Washington would «consider the advisability and feasibility of re-establishing port-

30. See: Chen-Dong Tso and Gratian Jung, 'Where was Taiwan in the Trump-Xi meeting?', *The Diplomat*, 12 April 2017; Adam Taylor, 'With Trump in China, Taiwan worries about becoming a «bargaining chip»', *The Washington Post*, 9 November 2017.

31. See: Richard C. Bush, 'Taiwan and the Trans-Pacific Partnership Agreement: the political dimension', *Brookings*, 14 February 2014.

32. Taiwan's latest FTAs were the ASTEP, signed with Singapore, and the ANTEC, signed with New Zealand. See: Aurelio Insisa, 'Taiwan 2012-2016', p. 81.

33. 'TIFA Talks Unlikely This Year: Minister', *Taipei Times*, 27 November 2017. The TIFA is the main dialogue platform on trade between the US and Taiwan.

34. US-Taiwan Business Council, *The Trump Administration Announces U.S. Arms Sales to Taiwan*, 29 June 2017 (<http://www.ustaiwan.org/pressrelease/2017june29congressionalnotificationsofarmsalestotaiwan.pdf>). The strategic value of the arms sale was partially defanged by the exclusion of the F-35 fighters, which the MND previously identified as a key purchase of strategic importance in the 2017 QNDR. See: Derek Grossman, Michael S. Chase & Logan Ma, 'Taiwan's 2017 Quadrennial National Defense Review in Context', *Global Taiwan Brief*, Vol. 2, No. 24, June 2017.

35. 'US Gives Tsai Permission to Transit Through Territory', *Taipei Times*, 22 October 2017.

of- call exchanges between the United States navy and the Taiwan navy», a passage which predictably provoked Beijing's heated reaction.³⁶ Finally, on 19 December, the newly issued National Security Strategy explicitly reaffirmed Washington's commitment to «provide for Taiwan's legitimate defense needs and deter coercion».³⁷

Whilst these developments were favourable to Taipei's defensive posture vis-à-vis Beijing, they inevitably concurred in further complicating Tsai's attempts to mend fences with the Xi administration. More broadly, Trump's unpredictability, as well as his taste for brinkmanship and transactional diplomacy, inevitably undermined the trust in the current American administration in the Taiwanese political milieu.

Taiwan's relations with Japan, in comparison, were characterised by stability and progress, even though notable constraints remained present. Throughout the year, the Abe administration did not refrain from providing support for Taipei amid Beijing's increasingly suffocating pressure campaign. Between January and May, both Taiwan and Japan renamed their respective representative offices abroad, making use of the term «Taiwan».³⁸ In March, the vice minister of internal affairs and communications Akama Jirō became Japan's highest-ranking government official visiting Taiwan,³⁹ while the same month Prime Minister Abe Shinzō stated that Taiwan was «an important partner that shares Japan's values and interests».⁴⁰ In November, despite Chinese pressure, Abe decided to meet with the Taiwanese envoy James Soong Chu-yu during the annual APEC summit.⁴¹ Finally, in December, the two sides met for the second annual Maritime Affairs Cooperation Dialogue held in Taipei, which resulted in a memorandum of understanding on maritime rescue between the two

36. US-Taiwan Business Council, *Taiwan in the National Defense Authorization Act (NDAA), 2018*, 12 December 2017 (<http://www.ustaiwandefense.com/taiwan-in-the-national-defense-authorization-act-ndaa-2018>). For Chinese reaction to the NDAA, see: Ministry of Foreign Affairs of the People's Republic of China (MFA), '2017年7月17日外交部发言人陆慷主持例行记者会' (Ministry of Foreign Affairs of the People's Republic of China, *Spokesperson Lu Kang's Regular Briefing on 17 July 2017*), 17 July 2017 (http://www.mfa.gov.cn/web/fyrbt_673021/jzshl_673025/t1478201.shtml); J. Michael Cole, 'Would China go to war over U.S. Navy port calls in Taiwan?', *China Policy Institute: Analysis*, 12 December 2017.

37. The White House, *National Security Strategy of the United States of America*, 18 December 2017, p. 47 (<https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>). Taiwan was not mentioned in the 2015 National Security Strategy issued by the Obama administration.

38. See note 4.

39. Matthew Strong, 'Japanese Deputy Minister Visits Taiwan', *Taiwan News*, 25 March 2017.

40. 'Japan's Abe calls Taiwan «Important Partner»', *Nikkei Asian Review*, 30 March 2017.

41. 'Japan's Abe Meets Taiwan Envoy Hours after Xi Warning', *Bloomberg*, 12 November 2017.

sides. Tellingly, even though Tokyo and Taipei failed to reach a consensus on the status of the disputed Okinotori Atoll, the two sides appeared to have effectively shelved the dispute for the time being.⁴² Commentators had previously noticed how, in the fraught regional context of the Asia-Pacific, the annual Taiwan-Japan dialogue constitutes a significant strategic platform to deepen the level of cooperation between the two sides.⁴³ However, it is worth noting that, contrary to the previous edition of the dialogue, there were no representatives of the ROC National Security Council in the Taiwanese delegation.⁴⁴ The absence was arguably due to the tentative thawing of Sino-Japanese relations attempted in late 2017.

The episode which best highlights the limitations encountered by the current Taiwanese-Japanese relations was Taipei's failure to join the revived rump version of the TPP led by the Abe administration: the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP).⁴⁵ Following a pledge by the then ROC Prime Minister Lin Chuan, Japan's chief cabinet secretary Suga Yoshihide initially welcomed Taiwan to participate in the revived free trade agreement in June. This exchange was followed in July by the Tsai administration's decision to lift a 16-year-old ban over Japanese beef imports, most likely an attempt to solicitate the support of the Abe administration for Taipei's participation to the CPTPP.⁴⁶ However, Taiwan remained side-lined from the initial negotiations for the agreement which began in November. Even a last-resort appeal for Japanese support by the head of the Taiwan-Japan Relations Association, Chiou I-jen, on 11 December did not produce any result.⁴⁷ Two explanations can be given for Tokyo's refusal to help Taiwan. First, Washington's retreat from the TPP meant that there was no more counterbalance to the Chinese pressure to ostracise Taiwan. In this context, the Abe administration could not risk a failure or even

42. Ministry of Foreign Affairs of the ROC (MFA), 第二屆「臺日海洋事務合作對話會議」順利舉行 (*The Second «Taiwan-Japan Maritime Affairs Cooperation Dialogue» Ran Smoothly*), 20 December 2017 (https://www.mofa.gov.tw/News_Content.aspx?n=8742DCE7A2A28761&s=37EA7490720374EB).

43. See: Tinghui Lin, 'The strategic significance of the Taiwan-Japan Maritime Affairs Cooperation Dialogue', *Asia Maritime Transparency Initiative*, 21 December 2016. On Taiwan's role in the regional sovereignty disputes before 2017, see: Aurelio Insisa, 'Taiwan 2012-2016', pp. 84-87.

44. For a list of the participants see: MFA, *The Second «Taiwan-Japan Maritime Affairs Cooperation Dialogue» Ran Smoothly*.

45. 'Who needs America? Eleven countries resurrect the Trans-Pacific Partnership', *The Economist*, 16 November 2017.

46. 'Taiwan to Conditionally Open Market to Beef Imports from Japan', *Focus Taiwan*, 17 July 2017. Because of public pressure, the Tsai administration refused instead Japanese requests to lift a ban on food imports from the areas affected by the 2011 Fukushima Dai-ichi disaster. See: 'Food Ban Not on Agenda of Taiwan-Japan Trade Meeting', *Focus Taiwan*, 14 November 2017.

47. 'Taiwan Asks Japan for Support in Seeking Membership of CPTPP', *Focus Taiwan*, 11 December 2017.

a stalling of the negotiations over Taiwan's application, as Tokyo had invested considerable political capital in the completion of the agreement. Second, the apparent possibility of a Sino-Japanese détente in late 2017 rendered Taiwan's requests unfeasible and untimely even to a sympathetic Abe administration.

Taiwan's attempts to join the CPTPP resonated with the Tsai administration's efforts to decrease economic dependency from China and fostering trade with the countries of the Indo-Asia-Pacific through its New Southbound Policy (NSP) (新南向政策) initiative.⁴⁸ After a rather uneventful 2016, the NSP brought its first tangible results in 2017, achieving an agreement on industrial collaboration with India and an investment agreement with the Philippines.⁴⁹ The initiative was also supported by the efforts of the DPP majority in the LY, which passed a new Act for the Recruitment and Employment of Foreign Professionals to ease immigration from the countries targeted.⁵⁰ Moreover, the 2018 central government budget presented a 79.1% increase in the funds for the initiative – from NT\$ 2.11 billion to NT\$ 3.78 billion.⁵¹ However, a perceivable mismatch between the magnitude of the NSP's aims and Taiwan's current diplomatic and economic capacities still lingers over the future of the initiative. In particular, it remains unclear how Taipei will be able to counter the expected Chinese opposition to the advancement of the NSP agenda in the future, given the manifest overlap between the Tsai administration's flagship project and Beijing's own Belt and Road initiative.

4. *Taiwan's domestic politics and economy in 2017*

In line with the main guidelines established the previous year, the domestic policies of the Tsai administration in 2017 aimed to provide solid economic foundations to sustain Taiwan's move away from the «suffocating embrace» of

48. The NSP aims to tackle issues such as Taiwan's economic dependency on China, the decrease of working population, its limited international presence, and the need to attract foreign investments. It targets the ASEAN countries, Australia and New Zealand, and the states of the Indian sub-continent. See: Aurelio Insisa, 'Taiwan 2012-2016', pp. 82-83.

49. MFA, *Taiwan, India Sign Industrial Collaboration Agreement*, 19 December 2017 (<http://nspp.mofa.gov.tw/nsppe/news.php?post=126781&unit=370>); MFA, *Taiwan, Philippines Sign Agreements at Joint Economic Conference*, 8 December 2017 (<http://nspp.mofa.gov.tw/nsppe/news.php?post=126233&unit=370>).

50. National Development Council of the ROC (Taiwan), *Act for the Recruitment and Employment of Foreign Professionals Approved*, 7 November 2017 (https://www.ndc.gov.tw/en/News_Content.aspx?n=0E2DCBAA6CB72F12&sms=B079565EECDD8520&s=225ABA2660D863FE).

51. Directorate-General of Budget, Accounting and Statistics, EY, ROC (Taiwan), *The 2018 Omnibus Budget of the Central Government: A Compendium*, 18 December 2017, p. 5 (<https://eng.dgbas.gov.tw/public/Attachment/7121815251GEYIEZG4.pdf>).

Mainland China. However, the political cost of implementing the unpopular structural reforms needed by the Taiwanese economy led to faltering approval ratings. The two major issues adversely affecting the Tsai administration were the reform of the pension system and that of the labour market. A first wave of popular protests followed the reforms of the pensions of civil servants, teachers, and military personnel – all historical KMT constituencies – between June and November.⁵² A second wave of protests started in December, after the cabinet's decision to amend the Labor Standards Act with new regulations significantly and negatively affecting the working week's length and overtime payment in the private sector.⁵³ The labour law reforms partially addressed previous requests of local business groups, but exposed the DPP to criticism from both its right flank, the KMT, and its left flank, the various political and activist offspring which emerged from the Sunflower Movement.⁵⁴ Against the backdrop of such unpopular political battles the Tsai administration and the DPP majority in the EY pushed forward the expansive industrial policy started in 2016. The «5+2 Innovative Industries Program» (五加二產業創新計畫), aimed at enhancing Taiwan's position in a variety of industrial sectors, benefited from the creation of the government-backed venture-capital fund «Taiwania Capital Management» in October, while the passage of a special bill for the Forward-looking Infrastructure Development Program, promised an eight-year NT\$ 840 billion fund for investments in areas of critical importance for Taiwan's future.⁵⁵

Even though the Tsai administration laid the foundations for an ambitious industrial policy, macroeconomic indicators for 2017 continued to confirm the persistence of the structural weaknesses of the Taiwanese economy: over-dependence on the Chinese economy, shrinking advantages for its leading exporting industries, and weak domestic demand. Real GDP

52. See: Gunter Schubert, 'Pension reform made in Taiwan', *China Policy Institute: Analysis*, 28 July 2017; 'New Pension Plan for Military Personnel and Veterans', *Taiwan News*, 15 November 2017.

53. 'Taiwan President Takes Responsibility for Labor Reforms', *Taiwan News*, 5 December 2017. The amendments passed only on 10 January 2018, see: 'Amended Labor Standards Act passed', *Taipei Times*, 11 January 2018.

54. 'Business groups to suspend labor negotiations', *Taipei Times*, 28 June 2016. For an account of the composition and the internal divisions within the anti-amendments front, see: Brian Hioe, 'Why did demonstrations against labor law changes not become another Sunflower Movement', *New Bloom Magazine*, 27 January 2018.

55. Jane Rickards, 'How Is the «5+2» innovative industry plan progressing?', *Taiwan Business TOPICS*, 16 November 2017. The sectors targeted by the «5+2» initiative are smart machinery, biotech, green energy, defence, advanced agriculture, and recycling-based circular economy. On the special bill see: Executive Yuan (EY), Republic of China, *Forward-Looking Infrastructure Bill Clears Legislature*, 5 July 2017 (https://english.ey.gov.tw/News_Content2.aspx?n=8262ED7A25916ABF&s=41FC415E94D6D931). The areas concerning the programme are: green energy, digital infrastructure, water environments, rail systems, urban and rural development, child care, food safety, and human resources.

growth was estimated at 2.4% in 2017, compared to the 1.4% registered in 2016.⁵⁶ Real domestic demand was projected to grow at 1.2%, compared to the 2.2% growth in 2016.⁵⁷ The current-account balance was assessed to have expanded by 0.9% in comparison to 2016, standing at 13.6% of GDP;⁵⁸ finally, average consumer-prices inflation was expected to be at 0.6%,⁵⁹ and the estimated growth in labour employment was 0.7%.⁶⁰ While it was a positive event in the midst of the current stalemate of cross-Strait relations, the significant growth of trade between Taiwan and China in 2017, which registered a 14% annual increase amounting to NT\$ 1.35 trillion, highlighted once again Taiwan's economic dependence over its giant neighbour.⁶¹

As mentioned, the challenges posed by the structural malaises of the Taiwanese economy severely damaged the popularity of Tsai Ing-wen and her administration, as well as public support for the DPP. While the downward trend began in late 2016, by June 2017 the approval rating of the ROC President reached a low of 29.8%.⁶² A timely cabinet reshuffle in September, with the rise of popular DPP figure Lai Ching-te to the premiership, led to a short-lived rebound of Tsai's own approval ratings, up to 46.4%.⁶³ However, public support for the President plunged to 35.9% in December, mainly because of the contested passage of the amendments to the Labor Standards Act in the EY.⁶⁴ Similarly, support for the DPP suffered a general downturn throughout the year, reaching a year-low 23.4% in December, after a brief rebound in September following the cabinet reshuffle.⁶⁵

Popular dissatisfaction towards Tsai and the DPP did not translate into a rebuttal of the cross-Strait policy of her administration. The polls conducted by the Election Study Center of the National Chengchi University showed that more than half of the Taiwanese people preferred maintaining

56. Economist Intelligence Unit (EIU), 'Country forecast: Taiwan', December 2017, p. 12.

57. EIU, 'Country forecast: Taiwan', p. 11.

58. EIU, 'Country forecast: Taiwan', p. 14.

59. EIU, 'Country forecast: Taiwan', p. 1.

60. EIU, 'Country forecast: Taiwan', p. 13.

61. 'Cross-Strait Trade Picked Up in 2017: Chinese Customs,' *Focus Taiwan*, 1 December 2017.

62. 台灣民意基金會 (Taiwan Public Opinion Foundation) (TPOF), '2017年12月「2017年終台灣民意重大走向」精選文章' ('«Major trends in the Taiwanese public opinion at the end of 2017» - December 2017'), 31 December 2017, p. 4 (<https://www.tpof.org/精選文章/2935>).

63. 'Lai to Replace Two Cabinet Ministers, Retain all Others,' *Taipei Times*, 8 September 2017.

64. TPOF, '«Major trends in the Taiwanese public opinion at the end of 2017» - December 2017', p. 4.

65. TPOF, '«Major trends in the Taiwanese public opinion at the End of 2017» - December 2017', p. 20.

the status quo in cross-Strait relations.⁶⁶ Similarly, the difficulties of the Tsai administration and the DPP did not convert into an increase in popular support for the KMT, still scarred by its *annus horribilis* in 2016, characterised by electoral defeat and internal division. Even though opinion polls in December registered only a 2% gap between the KMT and the DPP (compared to 10.4% in February), this result was due mostly to the collapse of the DPP, rather than a rising appreciation for the KMT's new course.⁶⁷ Following the shambolic chairmanship of Hung Hsiu-chu, which pushed for a radical and deeply unpopular pro-unification agenda, the KMT regrouped after the 20th party congress held in August, as the experienced lawmaker Wu Den-yih became the new Party Chairman. Once in power, Wu rapidly reoriented the KMT's cross-Strait policy towards a mainstream «status quo platform» essentially based upon Ma Ying-jeou's «three noes».⁶⁸ Whilst this move could bolster the KMT's electoral prospects for the 2018 mid-term elections and the 2020 presidential elections, China-watchers noticed Beijing's extremely cold reaction to the party's changed stance on unification.⁶⁹ In a broader perspective, the deterioration of KMT-CCP relations showed how the fundamental divergence between Beijing's acceleration towards unification, on one side, and the Taiwanese public penchant for a politically ambiguous and economically beneficial status quo on the other, remains the crux of current cross-Strait relations.

66. Election Study Center of the National Chengchi University, 'Changes into the unification - independence stances of Taiwanese as tracked in surveys by Election Study Center, NCCU (1994-2017.06)', 31 July 2017 (<http://esc.nccu.edu.tw/course/news.php?Sn=167#>). In detail, 32.9% of the population prefers to «maintain the status quo, decide at later day», whilst 25.1% aims to «maintain the status quo indefinitely». Support for national unification («immediately» or «in the future») remained just above 10%.

67. TPOF, «Major trends in the Taiwanese public opinion at the end of 2017» - December 2017', p. 20.

68. 'KMT Pulls Pro-Unification Plank from Party Platform', *South China Morning Post*, 21 August 2017. On Ma's three noes («no to independence, no to unification, no to the use of force»), see: Aurelio Insisa, 'Taiwan 2012-2016', p. 55.

69. Alan D. Romberg, 'Cross-Strait relations: skepticism abounds', *China Leadership Monitor*, Issue 54, No. 3, September 2017, pp. 2-3.