

ISSUE BRIEF

No. 4717 | JUNE 15, 2017

Panama, Taiwan, China, and the U.S.: Responding to an Increasingly Hardline China

Dean Cheng and Walter Lohman

Panama, which had been one of the last countries maintaining diplomatic relations with Taiwan, severed those ties and established relations with the People's Republic of China (PRC). Per Chinese demands, this means that Panama also ends its recognition of the Republic of China (ROC).

Panama's decision reflects the deteriorating state of cross-Strait relations. Under the previous Kuomintang/Nationalist (KMT) President Ma Ying-jeou, a détente was reached between Beijing and Taipei. Ma pursued a more moderate course than his Democratic Progressive Party (DPP) predecessor Chen Shui-bian, avoiding any discussion of independence. Instead, his administration negotiated more than 20 agreements, including a cross-Strait trade agreement (the Economic Cooperation Framework Agreement or ECFA). Beijing and Taipei also suspended "checkbook diplomacy," where each sought to buy the support and recognition of countries. In November 2015, Ma and Chinese leader Xi Jinping held an unprecedented meeting in Singapore.

The warming of cross-Strait relations, however, was not enough to ensure a win for the KMT in the 2016 elections, as Tsai Ing-wen and her DPP won overwhelming victories in both presidential and legislative elections. Beijing has refused to accept the

reality that a convincing majority of the Taiwanese people support the DPP. They have demanded that Madame Tsai affirm the "1992 Consensus," which is the agreement that there is "one China," and from the Chinese perspective, that Taiwan is a part of it.

China-Taiwan relations have steadily declined since Tsai's election, although she has carefully avoided antagonizing Beijing. Despite her party's doctrinal support for independence, she has avoided specific reference to it, and she has not engaged in activities such as pushing a referendum seeking U.N. membership, as Chen Shui-bian did. Tsai has also emphasized her commitment to maintaining the status quo in cross-Strait relations, preserving the current constitutional order (which is essentially a reference to one China), and supporting the historical fact of the 1992 consensus and the accumulated outcomes of cross-Strait meetings since then. She has even expressed an openness to dialogue with Beijing. Nonetheless, Beijing has been unhappy, wanting Tsai to publicly restate verbatim a position that would be political suicide, especially because the DPP dominates the legislature and controls the presidency.

To underscore its unhappiness with Tsai, the Chinese have employed a range of measures to increase pressure on Taiwan. Overall levels of cross-Strait trade have dropped since Tsai was elected, with Chinese exports to Taiwan declining by over 12 percent, and imports from the island dropping by nearly 9 percent.¹ Employing weaponized tourism as it has against South Korea and the Philippines, China has curtailed the number of tourists visiting Taiwan, with a decline of 30 percent from 2016 to 2017.² China has also blocked Taiwan's participation in the

This paper, in its entirety, can be found at
<http://report.heritage.org/ib4717>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

World Health Assembly for the first time in nearly a decade,³ as well as the International Civil Aviation Organization. The Panama situation suggests that Beijing has also reinstated “checkbook diplomacy,” to eliminate Taiwan’s remaining diplomatic contacts. In short, Xi Jinping appears to be employing all the elements of “comprehensive national power” to coerce Taiwan.

An Increasingly Hardline China

China’s actions against Taiwan are not surprising given the long-standing dispute with what it considers to be a “rogue province.” Beijing has never accepted the idea that Taiwan is anything other than a part of China, and if it was willing to be more conciliatory during the Ma administration that was only to persuade the Taiwanese that Beijing was not implacably hostile, and because it saw trends moving in its direction. The increase in Taiwan’s international space was a byproduct.

In the past several years, however, Beijing has demonstrated that it will brook no dissent from its positions. This has been made abundantly clear in its dealings with Hong Kong. As part of the process of the former British colony’s reversion to PRC rule in 1997, China signed an international treaty, the Sino-U.K. Joint Declaration, and agreed to the Hong Kong Basic Law (a de facto constitution for the territory), whereby Hong Kong’s political rights were guaranteed and its capitalist system would operate without interference for 50 years. This was embodied in the concept of “one country, two systems.” Many have looked upon Hong Kong as a test case for any reordering of China–Taiwan relations. Yet, 20 years after reversion, “one country, two systems” has lost much of its luster.

In 2014, as Hong Kong debated establishing an electoral system for territory-wide elections in 2017, China’s leadership took the position that while the territory’s citizens had the right of universal suffrage,

candidates would require approval from Beijing. When Hong Kong citizens protested in the “Occupy Central” movement, the Chinese issued a white paper emphasizing that Hong Kong’s autonomy was only at the sufferance of the central government in Beijing. In short “one country” trumps “two systems,” whatever the terms of the Basic Law.

Since then, China has further tightened the reins on Hong Kong. In 2015, several Hong Kong booksellers were abducted for apparently selling books that are banned in China. In the case of one of the booksellers, the Chinese claim that he was arrested because of his involvement in a fatal car accident more than a decade ago was greeted with incredulity. In 2016, during elections for the Hong Kong Legislative Council, candidates were required to sign an additional form affirming their understanding of Hong Kong being an inalienable part of China as a precondition for being allowed to run. Candidates who refused, or who expressed an interest in Hong Kong independence, were kept off the ballot. Most recently, various members of the “Occupy Central” movement were informed that they may also face arrest for their actions three years ago.⁴

Xi Jinping has made clear that the PRC will not tolerate challenges to what it considers its territory, whether it is Hong Kong, the South China Sea, or Taiwan. To that end, he will employ both subtle and blatant means to assert dominance—Panama being one example of the latter. As Xi prepares for a major transition in the Chinese Communist Party’s leadership this fall, he is likely to pursue even harder lines on these issues.

The Challenge to the U.S.

For the U.S., Taiwan’s main supporter, the shift in Panama’s position reinforces the need to demonstrate its continued support for the island, especially given recent mixed signals about where the U.S. stands with regard to China, Taiwan, and its East

1. “Trade Between Chinese Mainland, Taiwan Drops 9.8 pc Year on Year in First Seven Months,” *South China Morning Post*, September 24, 2016, <http://www.scmp.com/news/china/policies-politics/article/2022284/trade-between-chinese-mainland-taiwan-drops-98-year> (accessed June 15, 2017).

2. Chris Horton, “China’s Attempt to Punish Taiwan by Throttling Tourism Has Seriously Backfired,” *Quartz*, February 9, 2017, <https://qz.com/907429/chinas-attempt-to-punish-taiwan-by-throttling-tourism-has-seriously-backfired/> (accessed June 15, 2017).

3. Nicola Smith, “Taiwan’s Vice President Talks to TIME About the Global Health Risks Arising from the Island’s Isolation,” *Time*, May 18, 2017, <http://time.com/4783772/taiwan-health-who-wha-china/> (accessed June 15, 2017).

4. Deutsche Welle, “Hong Kong Activists Fear Crackdown after City Election,” March 27, 2017, <http://www.dw.com/en/hong-kong-activists-fear-crackdown-after-city-election/a-38132632> (accessed June 15, 2017).

Asian alliances. Where the U.S. stands on the “one China policy” is especially pressing as Taiwan suffers diplomatic blows.

It is important, given the extent of U.S.–Chinese interactions on other issues, such as North Korea and burgeoning trade frictions, that Washington make clear to Beijing that its commitment to Taipei is not a political bargaining chip. Beijing should not be misled into thinking that by cooperating in one area (often through short-term gestures), it will realize major policy shifts and concessions in others. Such a move would not only grant China massive gains, it would devastate American credibility with allies such as Japan and South Korea, who would logically wonder if our commitments to them also come with expiration dates.

For these reasons, the United States should undertake the following actions:

- **The President should publicly reaffirm the Taiwan Relations Act (TRA).** In addition, President Trump and Congress (through a joint resolution) should make clear that the TRA remains a central element of U.S. policy toward Taiwan. As with the recent summit with Japanese Prime Minister Shinzo Abe and the impending summit with South Korean President Moon, reaffirming the TRA would make clear that the U.S. is not stepping back from its commitments to long-standing friends and allies.
- **The U.S. should finalize a major new arms sale to Taiwan.** Part of the deterioration in cross-Strait stability may be attributed to the eroding balance of power in the militaries of the two sides. As the recently released 2017 Department of Defense report on the Chinese military highlights, China’s military has been steadily modernizing, with a Taiwan contingency a major part of its planning parameters. This, in turn,

threatens Taiwan’s fundamental strategy, which has “historically been rooted in the PLA’s inability to project power across the 100 nm Taiwan Strait.”⁵ For Taiwan to prevent the PLA from projecting power requires that it be able to field sufficiently capable forces, which in turn requires access to modern military technology—which only the United States is willing to provide.

- **The U.S. should initiate a Free Trade Agreement with Taiwan.** It is unclear whether the shift in Panama’s position will affect the Panama–Taiwan Free Trade Agreement (FTA). But even if it does not, the United States should strive for an FTA with the island and its \$500 billion economy. This is especially important in the wake of the dissolution of the Trans-Pacific Partnership (TPP). The American position in the Pacific has always included an economic as well as military component, and bilateral FTAs are one means of underscoring that ongoing commitment to the region.
- **The U.S. should welcome greater Taiwanese investment in the United States.** President Tsai Ing-wen is dispatching a major business delegation to participate in next week’s 2017 SelectUSA Investment summit in Washington. The companies in this delegation, which represent some of the largest manufacturers in Taiwan, have indicated a willingness to invest up to \$30 billion in the U.S. Given recent developments, the delegation, including more than 30 CEO-level executives, should be welcomed at the White House with open arms by the President himself.

—*Dean Cheng is a Senior Research Fellow in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute, at The Heritage Foundation. Walter Lohman is Director of the Asian Studies Center.*

5. U.S. Department of Defense, Office of the Secretary of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China*, 2017, p. 75, https://www.defense.gov/Portals/1/Documents/pubs/2017_China_Military_Power_Report.PDF (accessed June 15, 2017).