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## **TAIWAN ELECTION RESULTS: PRESIDENT MA WINS A SECOND TERM**

**January 15, 2012**

Yesterday, January 14, Taiwan held its presidential and legislative elections.

President Ma Ying-jeou of the Kuomintang (KMT) won a second term in office with 51.6% of the total vote, out-dueling his principal opponent Tsai Ing-wen of the Democratic Progressive Party (DPP) by almost 800,000 votes. Tsai received 45.63% of the ballots cast in the presidential contest, while the third candidate, James Soong of the People's First Party (FPF), came in a distant third with 2.77% of the vote.

While the DPP failed to gain the presidency, it improved its position in the Legislative Yuan (LY) elections, taking 40 seats in the 113 seat legislature, while the KMT held on to 64 seats. The DPP gained 13 seats over its dismal showing in the 2008 election, while the KMT lost 17 seats.

Taiwan continued to show its vibrancy as a democracy, with 74.4% voter turnout out of 18 million eligible voters.

### **Presidential Election Results**

| <b>Party</b>                       | <b>Candidate<br/>(Running Mate)</b> | <b>Number of Votes</b> | <b>Percentage</b> |
|------------------------------------|-------------------------------------|------------------------|-------------------|
| Kuomintang (KMT)                   | Ma Ying-jeou<br>(Wu Den-yih)        | 6,891,139              | 51.6024%          |
| Democratic Progressive Party (DPP) | Tsai Ing-wen<br>(Su Jia)            | 6,093,578              | 45.6301%          |
| People's First Party (FPF)         | James Soong<br>(Lin Ruey-shiung)    | 369,588                | 2.7676%           |

### **Legislative Election Results**

| <b>Party</b>                       | <b>2008<br/># of Seats</b> | <b>2012<br/># of Seats</b> | <b>Change</b> | <b>Affiliation</b> |
|------------------------------------|----------------------------|----------------------------|---------------|--------------------|
| Kuomintang (KMT)                   | 81                         | 64                         | -17           | Pan-blue           |
| Democratic Progressive Party (DPP) | 27                         | 40                         | +13           | Pan-green          |
| People's First Party (FPF)         | 1                          | 3                          | +2            | Pan-blue           |
| Taiwan Solidarity Union (TSU)      | -                          | 3                          | +3            | Pan-green          |
| Non-Partisan Solidarity Union      | 3                          | 2                          | -1            | -                  |
| Other                              | 1                          | 1                          | 0             | -                  |



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### ***Implications of Ma's Victory for Taiwan***

While there had been much speculation over the possibility that the DPP's Tsai would garner enough votes to unseat Ma, in the end Ma's margin of victory was comfortable – thereby avoiding legal challenges such as those that followed the 2004 presidential election.

The Ma victory is likely to have an uplifting effect on the Taiwan stock exchange (TAIEX), which in the run-up to the election has underperformed when compared to its regional neighbors. In particular, those companies with high exposure to China are likely to see some upward movement in their share prices, as investors position themselves to take advantage of what they believe will be four more years of bilateral trade growth between China and Taiwan, and a continuation of steadily improving cross-Strait ties. GDP growth for Taiwan will likely be around 4% in 2012, unless unforeseen events further cripple European and American growth prospects.

With Ma remaining at the helm, Taiwan can expect another four years of steady macro-economic leadership, focused on improving national infrastructure and opening new global markets to Taiwan's goods and services. However, we are unlikely to see any new or bold moves on the domestic front in respect to economic and regulatory reforms. While the Ma government has often discussed the need for substantial reform of government regulation practices, as well as reform of state involvement in specific enterprises and sectors, the Ma Administration has generally balked at actual change, given opposition by vested interests – such as that of the permanent government bureaucracy.

Any substantial improvement in Taiwan competitiveness is likely to instead come through bilateral and multilateral trade deals that require Taiwan to reform. Indeed, I believe that this is the policy of the Ma government. They are unprepared to tackle domestic constituencies directly, and are instead looking at international trade deals to drive reform of the thorniest areas of domestic self-interest (such as agriculture).

I believe that an important trend, one of the least reported upon trends presently in play in Taiwan, is the steady growth in the number of countries engaging Taiwan in bilateral trade discussions. Taiwan will likely complete its trade deal with Singapore at the end of 2012, and New Zealand, India, Japan, Australia and the EU have all signaled a willingness to engage with Taiwan in substantial trade negotiations. In some of these cases, those negotiations are going to result in Free Trade Agreement-like deals. President Ma himself noted that the Economic Cooperation Framework Agreement (ECFA) with China was not a deal unto itself, but part of his administration's global trade policy that could open the door to other possible agreements with Taiwan's leading trade partners. I fully expect Taiwan to complete at least one to two major FTA-like agreements with major global economies, along with several smaller deals with countries such as New Zealand, by the end of Ma's second term.

The importance of momentum for Taiwan garnered through trade negotiations cannot be underestimated. The challenges in the global economy are acute, and an export-driven market such as Taiwan needs continued growth in market access and demand for goods to grow its own GDP. Europe and the U.S. are likely to continue to underperform economically at least over the next 1-2 years, leaving only China as Taiwan's principal engine for demand growth. Yet here too there are serious worries about the sustainability of China's economic expansion, and its ability to prop up the shortfalls in Taiwan's other global markets.

This brings me back to the importance of domestic reform. Taiwan's domestic market remains parochial, and if the country is ever to compete with Korea toe-to-toe it must improve its domestic competitiveness. The Ma government's international trade policy seems to be working. But if he is to move Taiwan and its people to greater prosperity, President Ma will need to



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show considerably more courage and conviction in tackling the domestic constituencies opposing reform.

If there is single domestic issue that will bear watching over the next year or more, it is the wealth-gap. The DPP did an excellent job of highlighting this issue in their election campaign. Whether the government's present macro-economic course is correct or not, President Ma's government will look to close the credibility gap that the DPP has opened up on this issue. They will have to focus on tackling issues surrounding dislocated workers, as well as the very real challenge of affordable housing – particularly in the northern parts of the country.

### ***Implications of Ma's Victory for U.S. Policy***

With Ma's victory, the heavy sigh of relief in Beijing was matched only by that of the Obama Administration. The U.S. did much in the run up to the Taiwan presidential election to boost President Ma's fortunes, while also hedging against the possibility of a DPP victory.

During the first three years of the Obama Administration, I can point to only a single instance – the January 2010 arms package sent to Congress – in which the Administration seemed engaged on America's interests in regards to Taiwan. However, I believe that several factors started to move the administration into a more active engagement with Taiwan starting in the late summer of 2011.

First, after a decade of dormancy, the U.S. Congress has returned to its leadership role in U.S.-Taiwan policy. This is a trend that is most welcome. The leadership of Congresswoman Ileana Ros-Lehtinen, Chairwoman of the House Foreign Relations Committee, has already had meaningful results. Under her leadership, we have seen public hearings on Taiwan policy and enthusiastic championing of new legislation designed to boost U.S.-Taiwan ties. She is also supported by many in the House's Taiwan Caucus.

On the Senate side, Senator John Cornyn has led the charge on Taiwan, with a specific focus on U.S. support for Taiwan's national security needs. His highlighting the administration's unwillingness to make available no less than 66 F-16s to Taiwan to replace their aging fighters is a fight that must and will likely continue. He works closely with his Senate colleagues on this issue, with Senator Menendez, Senator Lieberman, Senator McCain and others offering leadership. Indeed, 47 Senators wrote to President Obama in 2011 decrying the administration's unwillingness to provide Taiwan with all the equipment its military requires to mount a reasonable defense of the island.

This increased pressure from the U.S. Congress is having an impact, and was arguably the principal reason that a second significant arms package was sent by the Administration to Congress in September of 2011.

The second dynamic seemingly prodding the Administration into action was the possibility that the DPP's Tsai might win the presidential election. That realization resulted in some very poor decision making, but also some welcome movement in several areas.

On September 15, 2011, an article in the Financial Times<sup>1</sup> quoted a very senior U.S. Government official as saying “*She [Tsai] left us with distinct doubts about whether she is both willing and able to continue the stability in cross-Strait relations the region has enjoyed in recent years.*” At the time, Tsai was visiting Washington to explain her policy positions, and with this statement she was greeted with what can only be seen as a slap across the face. This was not only meddling with the Taiwan

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<sup>1</sup> <http://www.ft.com/intl/cms/s/0/f926fd14-df93-11e0-845a-00144feabdc0.html#axzz1jTBd6dzO>



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elections, it was also inhospitable as it relates to Dr. Tsai being a guest in the United States. More troubling still, this was a clear effort to telegraph to the Chinese that America doesn't like the DPP either.

Following the reprehensible attack on Tsai, however, it has seemed that the Obama Administration has been more willing than before to engage on Taiwan issues. It notified Congress in September of a package to upgrade Taiwan's F-16 fighter fleet, it announced that the bilateral Visa Waiver deal had taken an important step forward, and Taiwan's President Ma hosted a visit by Daniel Poneman, Deputy Secretary of the Department of Energy – the most senior U.S. official to visit Taiwan since 2001.

These positive developments are welcomed. However, the question becomes which Taiwan policy the Obama Administration intends to pursue in 2012. Will it be a continuation of the past four months of activity, or now that President Ma has been re-elected will U.S. policy slip back into the morass?

It does look like the long stalled Trade & Investment Framework Agreement (TIFA) talks should resume at some point in 2012. The expectation in Washington seems to be for a rapid change of heart in Taiwan that will resolve the remaining issues over beef imports. I do not support the view that the TIFA talks are on a path to quick resolution sometime in the period between now and Ma's inauguration in May. It is simply wrong to believe that Taiwan sees resolution of differences in U.S.-Taiwan commercial ties as its top trade priority. Taiwan's trade negotiators continue to champion other bilateral commercial relationships, and that change in focus comes at the expense of American interests in Taiwan.

While it is correct to assume that Taiwan will need U.S. support for inclusion in the Trans Pacific Partnership (TPP) in the next 10 years, Taiwan is making its own inroads with its Asian trading partners and the willingness of other TPP players to support Taiwan will increase. When other countries become increasingly willing to engage with Taiwan in substantive trade liberalization talks, American equities will continue to take a step down in importance.

When we look at the sum total of U.S.-Taiwan trade relations since 2001, we have spent 8 of the past 11 years not talking with Taiwan. That approach may have worked when Taiwan had no options in engaging on trade liberalization, but that is not the case anymore. President Ma's victory will add further trade momentum and open more global trade doors to Taiwan, and therefore America's positioning is increasingly counterproductive.

On arms sales, the Ma government will continue to face serious head-winds in Washington, D.C. While the Obama Administration has notified to Congress a headline-grabbing US\$13 billion in sales, none of those programs represent a decision on the part of the Obama Administration to release a new capability to Taiwan. The sales are simply hold-overs from the Bush years of programs that required formal notification during the Obama presidency. Will Mr. Obama's government be prepared to release new systems to Taiwan? To what extent will the Chinese be kept in the loop regarding new sales – similar to how they were informed of sales this fall, as Defense Secretary Panetta noted in Asia last October? There remains only the submarine program from the Bush Administration, so moving forward the Obama Administration is going to have to consider new platforms and systems. To only view the upgrading of legacy equipment, or partial assistance to domestic procurement programs, will invite further Chinese pressure to end U.S. support.

### ***Implications of Ma's Victory for China Policy***

In the lead-up to the election, China worked hard to boost Ma's fortunes. It made a concerted effort to fly China-based Taiwan citizens back to vote in the election, and a relatively restrained Chinese leadership avoided ruffling feathers by foregoing the inflammatory remarks and outright threats that has been part and parcel of previous elections. In the end, China kept a low



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profile – as sound an approach as they have ever taken, and in sharp contrast to the first Taiwan presidential election in 1996 and China’s missile-testing tantrum.

Now that the Taiwan election hurdle has been safely passed – as Beijing would see it – with the reelection of Ma, China’s approach to Taiwan will surely remain low-key through the next 12 months, particularly as the leadership transition in China gets underway and the Chinese Communist Party anoint Hu Jin-tao’s successor (likely Xi Jinping).

I defer to China scholars such as Bonnie Glaser of CSIS, Richard Bush at Brookings, and Dan Blumenthal at AEI for the best insights into how China’s leadership transition affects Taiwan. However, I believe that Ma’s solid election victory should fortify the case in China for the present path to continue. Therefore, we will likely see China allowing further economic engagement through negotiated improved market access, along with tighter controls over disputes, better intellectual property rights protection, and other open market initiatives. This is the carrot for Taiwan.

What isn’t focused on enough is the other part of China’s policy toward Taiwan – the stick! While President Ma has done much to put bilateral relations on a positive path – and he has had some to work with in China who are willing to incentivize this behavior – the continued expansion of the Chinese military threat to Taiwan is deeply worrying. President Ma has been in office for almost four years, and China hasn’t reduced its threat posture in any meaningful way during that period. On the contrary, China continues to invest significantly in capabilities that will improve its ability to take Taiwan by force, while at the same time deterring the United States from coming to Taiwan’s aid. This remains a volatile and deeply troubling situation.

President Ma won the election with a solid margin, but it was a far cry from the 2008 result. This has important implications for Ma’s second term and his ability to continue to move forward with China – which is likely to demand far greater concessions from Taiwan moving forward. In China’s mind, Ma owes Beijing for his election victory, and payment will be due after the Chinese complete their leadership transition. I reject the view that the Chinese leadership won’t lean on Ma because they understand the constraints he’s under. Rather, they believe that they have helped him, and in-turn they will expect him to reciprocate.

In the election, the DPP gathered over 6 million votes and substantially increased their seats in the Legislative Yuan (LY). This is a reflection of the deep antipathy a large and highly active constituency of Taiwan voters has for the direction that the Ma government is taking regarding China. Given the drop in support in comparison to 2008, he does not have the same mandate to pursue greater economic and possibly political cooperation with China. Any movement by him on political cross-Strait issues – particularly as thornier economic issues brush against sovereignty issues and as China begins more openly pressing for political talks – will mean that the political climate in Taiwan heats up further, as these issues are discussed. In addition, it will likely add pressure in the cross-Strait relationship, as China grapples with the limits of Ma’s mandate.

### ***Implications of Ma’s Victory for the DPP***

Tsai Ing-wen should be heartily congratulated by her party for the remarkable job she has done rehabilitating the DPP since its poor showing in 2008 and given the many issues surrounding former DPP President Chen Shui-bian. In many ways she set the tone for this presidential election by championing the wealth gap and raising other economic issues impacting Taiwan. She also challenged the Ma government to continue to explain where the Taiwan-China relationship stands, and in what direction it is heading. This is important, as it has forced President Ma to openly discuss limits to how far and how fast Taiwan will travel in the direction of cross-Strait cooperation.



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The DPP is well positioned to continue to play an active and highly relevant role in Taiwan's democracy over the next four years. Their opposition will curb the Ma government's appetite for cross-Strait concessions that may be destabilizing both domestically and for the trilateral U.S.-China-Taiwan relationship. In addition, the party's 40 seats in the legislature increase its weight when it comes to negotiations, and may force more coalition-building from the KMT majority.

I also believe that the DPP is gifted with an incredibly strong group of capable young leaders, ready to start assuming real control and to actively influence the party. There is no corresponding group within the KMT that has such an important mix of legislative and executive branch experience, and it is a group that is primed to shape a DPP that will be well positioned to challenge the KMT in the 2016 presidential election. The DPP is by no means a spent force, and we can look to an energetic and relevant role for the party in opposition.

### ***The Legislative Yuan***

Since the Legislative Yuan instituted major reforms that included halving the number of seats from 225 to 113, the KMT has held a disproportionately large majority in the legislature. However, that majority has now dwindled and after this weekend's elections we find an LY that is far more heterogeneous and broadly reflective of Taiwan's highly diverse political views.

President Ma has never had a particularly strong relationship with the LY. The barely hidden dislike that LY Speaker Wang Jin-pyng and Ma have for one another is well documented. With a further diversification of the chamber, the Ma government is likely to have its work cut out for itself as it undertakes its duty to keep the legislature informed of government policies – a blood sport if you have cause to witness Cabinet and sub-Cabinet officials testifying weekly to the LY's myriad committees – or championing legislation important to President Ma's government and his legacy.

As I noted above, I believe that bilateral and multilateral trade deals will increase in Ma's second term. However, in the absence of a Taiwan version of "fast-track" authority, the Ma government (and future Taiwan governments) is going to have to grapple with each deal as it passes through the LY. This is likely a prospect that President Ma's economic team does not welcome, so I believe some effort will be made to pass legislation similar to "fast track" authority – although there is, of course, no guarantee that the LY will cooperate.

Finally, much was made of the PFP's James Soong and his candidacy for President, yet there is a real case to be made that his primary goal was to ensure that the PFP – his political legacy – did not slip into irrelevance. The PFP's >5% showing will ensure that it remains represented in the LY, and it will be an important partner in the pan-Blue coalition. The Taiwan Solidarity Union (TSU), which also posted >5%, still gained some additional influence and will remain an important partner for the DPP in the pan-Green coalition. The TSU and PFP will both play an important role in the LY as they advocate their own policy priorities, while challenging not just the opposition but their own alliance partners as well.

### ***Conclusions***

President Ma's victory in the election means that we will see short-term stability in Taiwan. President Ma and Taiwan is likely to be left to their own devices through 2012, as China anoints a new leader and the U.S. votes on its next president. Ma is therefore likely to focus on domestic stimulus measures that promote improved infrastructure, access to affordable housing, and efforts to promote industries suffering under the global slow-down (sunset industries and sectors particularly).

The worry is 2013 and beyond. Ma's job in his second term is going to be much harder. His own citizenry is restive and increasingly vocal regarding the apparent disproportionate distribution of opportunities. This issue has an important role to play in influencing cross-Strait economic initiatives. With ECFA, Taiwan's China-focused businesses are booming, while



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Taiwan-based and Taiwan-focused small and medium sized businesses are suffering from greater competition and reduced government support.

The Chinese will continue to press the Ma government for movement into new areas of negotiations, including political and military confidence building measures. This might take place through 2012, albeit quietly. However, it is more likely to become an issue in 2013, as the new Chinese leadership asserts itself in negotiations while wanting to demonstrate to China's political players – including the PLA – that the ECFA is not a goal unto itself but the first significant step toward full unification under terms favorable to the PRC.

As noted above, the question becomes where we can expect the Obama Administration to focus. They will likely return to a lower profile, pointing to the Chinese leadership transition and a desire not to rock the boat. This would be a mistake. The Obama Administration had to play catch-up this past fall when it became apparent that Ma might not win re-election – they had been pocketing improved relations across the Strait for the prior 3 years, while investing practically no political capital in U.S.-Taiwan relations.

To marginalize Taiwan's democracy through ill-planted media stories or disinterest in the bilateral relationship is to invite the Chinese to continue to push back American resolve to stand by Taiwan's democracy and to ensure that China's next government doesn't coerce Taiwan into arrangements that cannot be supported in Taiwan.

Ma will have to step lightly during his second term if he is to avoid the minefields laid for him by Beijing, by domestic opposition groups such as the DPP, and by the United States whose extended bouts of disinterest leave Ma's flank dangerously exposed.

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