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A Chance To Build On Taiwan's Progress
Essay by Paul Wolfowitz
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Relations with the People's Republic of China will inevitably be one of the top foreign-policy concerns of the next U.S. administration, and not only for President Barack Obama and his secretary of state, but for the secretary of the treasury as well. One of the subjects that is certain to come up as a new administration thinks about its relations with China will be Taiwan.

Taiwan is also important in its own right. It is among the 25 largest economies in the world, bigger than Saudi Arabia, South Africa, Egypt, Israel, Singapore or Malaysia, to name a few. And it has also become one of the most successful new democracies in the world after a peaceful transition from dictatorship in the late 1980s and early '90s.

Yet, neither the new president nor his secretary of state nor many other senior U.S. officials will visit Taiwan, for one simple reason: Since the U.S. recognition of the People's Republic of China in 1979, U.S. relations with Taiwan have been "unofficial." These unofficial relations have included very close commercial, cultural and even security relations, including political contacts at lower levels, particularly through the American Institute in Taiwan in Taipei and the Taipei Economic and Cultural Representative Office in Washington. This is, to say the least, an unusual way to manage relations with an entity as important as Taiwan, but it has worked remarkably well over a period of almost three decades, although the unofficial relationship should be deepened.

Some officials in the new U.S. administration—like some of their predecessors—will likely view this important but unofficial relationship as burdensome and wish that it would go away, particularly after they receive the usual litany of complaints from Chinese diplomats. But the issue of Taiwan is not going to go away, and American officials and diplomats should recognize that the relationship with Taiwan provides not only challenges but enormous opportunities.

Taiwan has the misfortune of being strategically located. Being strategically located means having difficult—or at least powerful—neighbors. It is much more comfortable to be located in a quiet neighborhood. But it is our good fortune that Taiwan, though it is so close to China, has managed in the last 40 years to become not only a spectacular economic success story but a kind of political miracle as well.

Taiwan's spectacular economic progress over the last half century has not only brought prosperity for the people of Taiwan but has had an influence far beyond that island. Although the scale of mainland China's economic success in the last 25 years has overshadowed Taiwan's, Taiwan's progress—and that of Asia's other "little tigers," South Korea, Hong Kong and Singapore—started much earlier and indeed helped to inspire economic reforms on the mainland. When Chinese decision-makers could see that people with similar cultural heritages and, in the cases of South Korea and Singapore, similar tragic histories of colonial occupation and Japanese invasion could succeed economically, they were forced to confront the fact that China's continued poverty was the result of its radical collectivist policies.

This empowered Deng Xiaoping to undertake the historic economic reforms that have transformed China and have enabled hundreds of millions of Chinese to escape poverty. Taiwanese entrepreneurs directly contributed to China's success by bringing investments and know-how to the mainland. And China's success,



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in turn, has inspired reforms in India and other developing countries that are now considered “emerging markets” rather than “less developed countries.”

More recently, in a quieter and more subtle, but no less important, fashion, Taiwan has undergone a political transformation that may eventually have an equally broad influence. With the death of its last dictatorial president, Chiang Ching-kuo—who in fact prepared the way—Taiwan underwent a peaceful democratic transition. The recent election of President Ma Ying-jeou marks the fourth successive democratic election of Taiwan’s president, and the second time the opposition party has won the elections. It is a demonstration that Taiwan’s democratic institutions are achieving real solidity and maturity.

These developments have not gone unobserved on the mainland. During the vote counting in Taiwan’s most recent election, mainland Chinese were reportedly glued to their televisions and one mainland commentator said “We are all Taiwanese now.” This intense interest arises partly because relations with the mainland were one of the central issues in Taiwan’s presidential campaign. But the fact that such a critical foreign-policy issue could be debated openly and resolved in a democratic fashion must have made an impression—even among those who argue that democracy is somehow alien to Chinese (or Asian) values and culture.

Taiwan’s democratic transition has not only benefited the people of Taiwan; it has also been a critical element in generating American support for Taiwan. When the democratic transition began in Taiwan, there was a significant and positive change in the attitudes of members of Congress and the American public more broadly. American support for Taiwan no longer rested on outdated attachments going back to Chiang Kai-shek but on the fact that Taiwan’s freedom was empowering its people to make extraordinary political as well as economic progress. It is important to pass that message to the Obama administration. The people of Taiwan are working on one of history’s great experiments of building a democratic country in a Chinese culture, and the U.S. should do everything it possibly can to support that.

Following Taiwan’s presidential elections this spring, there has been another new and important development. Taiwan’s new President Ma Ying-jeou has moved quickly to improve relations with the mainland, including opening up direct flights between China and Taiwan for the first time, opening Taiwan to mainland tourists, and easing restrictions on Taiwan investment on the mainland. Improved relations with the mainland not only reduce the chances of conflict, but it also strengthens the U.S.-Taiwan relationship. This is particularly important with a new U.S. administration and a new team of policy makers about to come into office.

Over the past several years, the Bush administration has felt that Taiwan created unnecessary problems, which adversely affected U.S. dealings with Taipei. It is in Taiwan’s interest to continue reducing cross-Strait tensions—not only as a worthy goal of itself, but because it strengthens Taiwan’s position in Washington and strengthens the U.S. commitment to Taiwan’s security.

That commitment is as important as ever, particularly since the warming of cross-Strait relations has so far not led to any reduction in the build-up of Chinese military forces, including hundreds of surface to surface missiles, threatening Taiwan. The recent approval of a substantial package of arms sales to Taiwan is valuable for the military capability that it will bring and equally for the signal that it sends to both sides of U.S. commitment to Taiwan’s security. Unfortunately, the Bush administration has left the issue of Taiwan’s request for F-16s—which Taiwan needs to maintain the capability of its air defenses—to the next administration.

While preserving peace in the Taiwan Strait must be a paramount objective for any U.S. administration, it is also important for the Obama team to recognize that reducing tensions is only part of the answer. The U.S. must remain firmly opposed both to the use or threat of force by China and to any attempt by Taiwan to



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declare de jure independence. This requires patience and perseverance, and firmness in the face of Chinese objections to the sale even of defensive arms to Taiwan. This is the best way to preserve peace and to provide the people and government of Taiwan with the confidence that they need to be able to continue to seek improved relations with the mainland. Hopefully, the Obama administration will give President Ma the support he has earned by his bold efforts to improve cross-Strait relations.

It would also help if the P.R.C. would be more responsive to Taiwan's desire for greater international space. But the people of Taiwan also should recognize that participation in multilateral organizations—as reasonable as it is for them to seek it—is far less valuable than attracting tourists and businesspeople to Taiwan. And that strategy doesn't require the P.R.C.'s approval.

To that end, Taiwan might consider setting for itself the ambition of becoming the most business-friendly place in Asia. After all, Taiwan has abundant competitive advantages to build on—it is a democracy, it has freedom, it has increasing openness and transparency, it has strong intellectual property protection. If Taipei set about removing obstacles to doing business, Taiwan could become a particularly attractive investment destination—particularly for American companies wanting to take advantage of the opportunities presented by improved cross-Strait relations.

This may seem too ambitious a task at a time when Taiwan, like the rest of Asia, is coming face-to-face with a serious global recession. But boldness will help Taiwan to emerge more quickly from the current downturn.

The Ma administration should try to move swiftly to clean up the Taiwan regulatory morass and improve the investment climate. Reform of the Taiwan economy will have a positive impact on the economic welfare of Taiwan citizens, as well as on attracting foreign investments.

Taiwan's energy market is just one example of a sector needing reform. Foreign investors do not look favorably on an environment where there are major questions about the reliability and diversity of electricity supply. Sectors like energy are going to require a significant reduction in the heavy hand of the state.

A second example is the restrictions on technology investments in China. While the Ma administration has moved forward to modernize its semiconductor investment guidelines, Taipei still needs to move away from restrictions that are focused on outdated technology and base future investment guidelines on an efficient export control regime.

A third example concerns the Agreement on Government Procurement under the WTO. Taiwan's participation in that agreement at the earliest possible date is likely to make execution of a number of initiatives more successful, including the i-Taiwan initiative. There are some challenges in shepherding Taiwan's accession, but the Taiwan government should place a high priority on this effort so that Taiwan can accede as soon as possible.

Also in the area of trade, a fourth example concerns an FTA with the U.S. The atmosphere in the United States for any further free trade agreements is bleak and it is likely that the American elections will produce a Congress that is even less friendly to free trade agreements than the present one. While Taiwan should continue to advocate for an FTA, Taipei should also work on advancing the Trade and Investment Framework Agreement, and try to resolve outstanding trade issues—including those surrounding American beef.

Perhaps the most important thing Taiwan could do to become more competitive is tax reform. President Ma seems to understand the importance of reducing Taiwan's tax burden, even despite—or perhaps because of—the slowdown in the global economy. Recently his administration proposed cuts in the inheritance tax that should encourage savings and investment, as well as an increase in the standard deduction on personal



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income taxes that will help ordinary taxpayers. Another thing his administration could do would be to reduce Taiwan's corporate income tax rate; at 25% it is twice the rate of Ireland, a small island on the other side of the world which managed to make itself a financial center for Europe.

Taiwan is an incredible success story, and the more exposure the world has to that story, the more people will come to understand the uniqueness and importance of Taiwan. It is a form of security expenditure to educate the world about the Taiwan economic and democratic miracle. The effort to educate opinion makers—including Americans of all kinds, congressional staff, academics and business people—about Taiwan seems to be bearing fruit, as the Taiwan story that basically sells itself once it is told. It is also a way to create more international space for Taiwan in an informal way.

Taiwan continues to face challenges ahead, but there is no doubt that the people of Taiwan will continue to turn challenges into opportunities as they have done for several decades.

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