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***SPECIAL COMMENTARY:
TAIWAN'S NEW ADMINISTRATION AND THE U.S.***

Commentary by Rupert Hammond-Chambers

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Tsai Ing-wen of the Democratic Progressive Party (DPP) won an impressive victory in the Taiwan presidential election on Jan. 16, a victory enhanced by a new DPP majority in the Taiwan legislature. The resounding win gives the incoming Tsai government a mandate to address many of the issues prioritized by Taiwan voters, including the island's over-reliance on China, lack of access to affordable housing, a stagnant job market, and substantial infrastructure needs.

This victory is also an opportunity for Taiwan to move beyond the issue of China, the singular focus of the past 8 years, although President-elect Tsai will still need to be consistent, reasonable, and clear on the cross-Strait relationship. That should entail a continued commitment to the economic and cultural ties that she has inherited, but does not have to include fealty to China's "One China" principle and the "1992 Consensus."

Tsai will also need to deepen her relationship with the United States, which has had to be rebuilt after poor U.S. treatment of her and her candidacy in 2012. The remainder of 2016 will therefore necessitate a feeling-out period, as she will need the U.S. to appear willing to support her, while the U.S. needs to demonstrate its credibility with the new Taiwan government.

The U.S. relationship could be boosted significantly if Tsai were to immediately prioritize tackling the most contentious issue in bilateral trade ties - imports of U.S. pork containing the additive ractopamine - and she has already commented on U.S. pork import arrangements with Korea and Japan as potentially providing a solution. Addressing this issue would not only improve the Taiwan-U.S. relationship, it would also boost Taiwan's bid for consideration as a second round entrant into the Trans-Pacific Partnership (TPP).

Indeed, Tsai's primary external goal must be membership in the TPP. Taiwan's over-reliance on China must be addressed, and access to the world's most important multilateral trade initiative could play a key role. Preparations for joining could act as a catalyst for much needed domestic trade and economic reforms, and membership would afford Taiwan renewed engagement with the TPP member countries, thereby boosting relationships with its Asia Pacific neighbors.

China will not be happy with the outcome of Taiwan's elections, but it has only itself to blame. The PRC leadership has not persuaded the people on Taiwan that unification is the best course forward. Instead, tensions are going to rise over Taiwan because China now views that to be in its own best interest. China will keep Taiwan and the U.S. on the defensive, intimidating both sides into negotiating with themselves in the hope that unilateral concessions to China will prevent the possibility of PRC belligerence. It will require strong U.S. leadership to fend off this strategy.

Tsai does have one significant card to play with China; Taiwan's dormant cross-Strait trade legislation. If she persuades the legislature to pass a China fast-track authority in the next four months that would be a major gesture of goodwill. The sequencing of such a move would depend on how quickly China spikes tensions and any U.S. politics affecting Taiwan's effort to join the TPP.



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Taiwan's role in the global supply chain is an economic and strategic imperative for the island. China's ambition to build a "red supply chain" is not designed to compete against the legacy supply chain but to replace it, and could have dire implications for Taiwan and for global tech companies. It was spotlighted by recent hostile attempts by Tsinghua Unigroup to acquire companies in Taiwan's chip sector, specifically in IC design and in semiconductor packaging and testing. Security and business concerns over relying on Chinese suppliers include intellectual property and trade secrets protection, competitiveness, and innovation. With Taiwan a major player in the global technology supply chain, Tsai will need to frame policies that keep domestic businesses competitive and free of Chinese control.

Tsai should enjoy a honeymoon period in which to tackle some early issues, but she will need strong reciprocal support from the U.S. as well. If any coercive behavior from China isn't met head on, China may see an ambivalent U.S. as an opportunity to define and set the tone for Tsai's presidency before potentially more assertive U.S. leadership is in place to push back. That will boost the fortunes of small but growing political parties whose views are more radical than the DPP and KMT. That could result in further estrangement for the island, in radicalization of Taiwan independence politics, and a bigger headache for both China and the U.S. down the road.

Rupert Hammond-Chambers is president of the US-Taiwan Business Council.

About the US-Taiwan Business Council:

The US-Taiwan Business Council (www.us-taiwan.org) is a membership-based non-profit association, founded in 1976 to foster trade and business relations between the United States and Taiwan. The Council provides its members with business intelligence, offers access to an extensive network of relationships, and serves as a vital and effective representative in dealing with business, trade, and investment matters.

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