

III. Taiwan's Hedging Strategy

In the Chapter I, it was demonstrated that there is extensive critique of the Waltz & Walt argument. The main idea behind different critical approaches is that the scholars promoting balance of power (threat) theory tend to formulate their theories too restrictively and thus miss crucial dynamics that might fall within its purview. As T.V. Paul writes:

Traditional conceptions of balance of power may not be able to capture fully the security behavior of states. Part of the problem lies in the dichotomous arguments of realists and their critics: states either balance or they do not. There are no in-between categories of security behavior that can be derived from different approaches. As a result, these rigid theories cannot satisfactorily explain the empirical reality of contemporary world politics. States could pursue tacit and indirect means other than open arms buildup and alliance formation to balance a powerful state or one threatening their security. The exclusive focus of classical and neo-realists on interstate military balancing has made balance of power theory, although useful, narrow and inflexible. What is needed, perhaps, is to broaden concepts of balancing behavior to explain the various strategies states use to limit the power of a hegemonic actor or a threatening state, at both the global and regional levels.¹

Schweller stresses that the literature on the international relations has incorrectly treated many of states' strategies as mutually exclusive. However, it is easily shown that different behaviors and their respective goals can be achieved in one strategic move. The reason why various strategies can be implemented simultaneously is that, as Waltz has pointed out, balancing can be

¹ T.V. Paul, "Introduction: The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance," in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 3

accomplished by both internal and external means, a threatened state, therefore, can bandwagon by joining the stronger or more dangerous side in order to redirect the threat elsewhere and/or gain time, resources, and space in preparation for war.²

The test of Walt's balancing-bandwagoning hypothesis in the previous chapter proved that concept of balancing or bandwagoning is not completely adequate in explaining the responses of small states (Taiwan) to preponderant powers (rising China). Though itself both bandwagoning and balancing hypotheses are able to explain and predict some features of state behavior, Taiwan's mainland policy obviously combines elements of both strategies. Therefore, we'd better think of balancing and bandwagoning as polar extremes between which there is a broad field for mixed strategies. In fact, balancing and bandwagoning are "ideal types" which are very rarely, if never, observed in the real practice of international relations. Therefore, any state's response to a preponderant power is just approximation to one of extremes at most and should rather be judged as a combination of balancing and bandwagoning in different proportions.

Purely empirically, we have established that ever since the beginning of the cross-Strait relations Taiwan's mainland policy was not purely balancing. Quite surprisingly, even Chen Shui-bian's China policy embraced some elements of the bandwagoning. Another conclusion was that the share of the bandwagoning elements has drastically increased in the Taiwan's mainland policy under Ma Ying-jeou administration.

In the Chapter I some alternative theories were discussed in brief. The concept of hedging will be used in this chapter since it is the most suitable for the explanation of the Taiwan's mainland policy. This concept combines strengths of balancing-bandwagoning and to a certain extent eliminates its flaws.

² Randall L. Schweller, "Rise of Great Power: History and Theory," in *Engaging China. The management of an emerging power*, ed. Alastair Iain Johnson and Robert S. Ross (London and New York: Routledge, 1999), 17

Defining Hedging

The term “hedging” is highly underdeveloped both in the international relations theory and the security studies literatures. However, recently it has got some popularity among the scholars of the international relations.³ Particularly, it has been widely used to explain the responses of the Southeast Asian states to the challenges of the rising China.

In order to proceed to the analysis the first step to be done is to provide a satisfactory definition of the concept of which many people talk but very few understand what it really means.

The term “hedging” was originally borrowed from finance,⁴ and was brought into international relations to refer to an alternative strategy distinguishable from balancing and bandwagoning. It has been used not only to describe small states’ reaction to power ascendance by also big-power strategies⁵. The term “hedging” is defined here as a behavior in which a country seeks to offset

³ For the elaboration and use of hedging in the scholar literature on international relations see among others Robert J. Art, "Europe Hedges Its Security Bets," in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 179-213; Evelyn Goh, "Great Powers and Hierarchical Order in Southeast Asia. Analyzing Regional Security Strategies," *International Security* 32:3 (2008): 113-157; Eric Heginbotham and Richard J. Samuels, "Japan's Dual Hedge," *Foreign Affairs* 81:5 (2002): 110-121; David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007); Byung-Kook Kim, "Between China, America, and North Korea: South Korea's Hedging," in *China's Ascent. Power, Security, and the Future of International Politics*, ed. Robert S. Ross and Zhu Feng (Ithaca and London: Cornell University Press, 2008), 191-217; Cheng-chwee Kuik, "Essence of Hedging: Malaysia and Singapore's Responce to a Rising China," *Contemporary Southeast Asia* 30:2 (2008): 159-185; Evan S. Meideros, "Strategic Hedging and the Future of Asia-Pacific Stability," *The Washington Quarterly* 29:1 (2005-2006): 145-167; Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27:2 (2005): 305-322; Robert G. Sutter, *China's Rise: Implications for the U.S. Leadership in Asia*. (Washington: East-West Center, 2006) etc.

⁴ In finance hedging is “risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities. In effect, hedging is a transfer of risk without buying insurance policies. It employs various techniques but, basically, involves taking equal and opposite positions in two different markets. Hedging is used also in protecting one's capital against effects of inflation through investing in high-yield financial instruments.” See "Hedging," *BusinessDictionary.com*, <http://www.businessdictionary.com/definition/hedging.html>

⁵ See for example Meideros, Evan S. "Strategic Hedging and the Future of Asia-Pacific Stability." *The Washington Quarterly* 29, no. 1 (Winter 2005-2006): 145-167

risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes.⁶

Talking about Sino-American relations Evan Meideros describes hedging as follows: “To hedge, the United States and China are pursuing policies that, on one hand, stress engagement and integration mechanisms and, on the other, emphasize realist-style balancing in the form of external security cooperation with Asian states and national military modernization programs.”⁷ Similarly, Robert J. Art writes about post-Cold War Europe: “In their policies toward Germany, Russia, and the United States, the nations of Europe have generally hedged their security bets by utilizing both balancing and integrating mechanisms.”⁸ Dennis Roy observes the behavior of the Southeast Asian nations in the view of rising China and comes to conclusion that they employ a mix of balancing and bandwagoning which sometimes (most prominently in cases of Philippines and Singapore) takes a form of hedging.⁹ Hedging is a general strategy that may or may not include balancing.

Evelyn Goh’s preferred definition of hedging is “a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality.” In hedging, states “cultivate a middle position that forestalls or avoids having to choose one side [or one straightforward policy stance] at the obvious expense of another.”¹⁰ (Goh 2005, 3) Perhaps,

⁶ Cheng-chwee Kuik, "Essence of Hedging: Malaysia and Singapore's Responce to a Rising China," *Contemporary Southeast Asia* 30:2 (2008): 163. For David Kang “hedging” is the mixed strategy which is closer to balancing and the one closer to bandwagoning he calls “accommodation.” See David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007), 52

⁷ Evan S. Meideros, "Strategic Hedging and the Future of Asia-Pacific Stability," *The Washington Quarterly* 29:1 (2005-2006): 145

⁸ Robert J. Art, "Europe Hedges Its Security Bets," in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 184

⁹ Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27:2 (2005): 305

¹⁰ Evelyn Goh, *Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies*. Policy Studies 16 (Washington: East-West Center, 2005), 3

Evelyn Goh is right claiming that “hedging behavior is the norm in international relations – most states adopt insurance policies.” But as Goh’s work shows, states pursue different hedging strategies and the concept needs to be differentiated from traditional balancing concepts.¹¹

The rationale for hedging is that due to the uncertainties of the regional order in the East Asia and due to the double-edged role of the great powers, the smaller states can no longer afford to develop too close or too distant relationships with any of the major powers. This is because getting too close to a great power may entail the loss of independence and intervention which in turn may undermine the elite’s legitimacy in the eyes of their constituencies. It can also drag the state in the great powers conflict. On the other hand, keeping too far from the superpower may cost elite the opportunity of winning the sort of benefits that can be utilized to boost their domestic political standing. Worse, it may arouse distrust or hostility. Hence, the stakes for adopting the right position are high.¹² The problem for the small states that though they know that power structure will fluctuate at some point, it is almost impossible to know how and when this will occur. That’s because the distribution of power is a systemic process which cannot be controlled by a single state and because the commitment of the great power is always open to changes. Given the uncertainties the smaller states would always have a tendency to hedge and to avoid taking sides.

Based on the above defining parameters hedging is conceived as a multiple-component strategy between two ends of balancing-bandwagoning spectrum. This spectrum is measured by the degree of acceptance and rejection on the part of the smaller states toward a great power.

¹¹ Evelyn Goh, "Understanding “hedging” in Asia-Pacific security." *Pacific Forum CSIS*, <http://csis.org/files/media/csis/pubs/pac0643.pdf>

¹² Cheng-chwee Kuik, "Essence of Hedging: Malaysia and Singapore's Responce to a Rising China," *Contemporary Southeast Asia* 30:2 (2008): 164-165



Figure 3. Graphical Representation of the Hedging Strategy by Kang

Source: David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007), 53

<i>Balancing Strategy (Pure form)</i>	<i>Hedging Strategy</i>					<i>Bandwagoning Strategy (Pure form)</i>
	<i>Risk-Contingency Options</i>		<i>Return-Maximizing Options</i>			
	<i>Indirect-Balancing</i>	<i>Dominance-Denial</i>	<i>Economic-Pragmatism</i>	<i>Binding-Engagement</i>	<i>Limited-Bandwagoning</i>	

← Degree of Power Rejection ↑ Degree of Power Acceptance →
 Neutrality Point

Figure 4. Graphical Representation of Hedging Strategy by Kuik

Source: Cheng-chwee Kuik, "Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia* 30:2 (2008): 166

The hedging in essence is a two-pronged approach because it operates by simultaneously pursuing two sets of mutually counteracting policies, which can be called as "return-maximizing"

and “risk-contingency” (or security-maximizing) options. The former gives a possibility to reap economic, political and diplomatic profits from the great power. The latter aims at reducing the hedger’s loss if things go bad. Hedging is, thus, a strategy which works for the best and prepared for the worst.¹³

Hedging necessarily implies a present condition of strategic of uncertainty.¹⁴ Actually, that is fundamental uncertainty which makes states to hedge, even though pursuing hedging strategy decreases potential returns in favor of increasing security. Taiwan’s is uncertain about Chinese intentions, but it is also uncertain about American security commitments, the uncertainty which Washington deliberately emphasized by the policy of “strategic ambiguity” conducted in order to prevent the violation of the status-quo in the Taiwan Strait by any side. Indeed “the uncertainty that results from flexibility of alignment generates a healthy caution in everyone’s foreign policy.”¹⁵

To what extent does hedging differ from balancing, bandwagoning, and soft balancing? In contrast to traditional balance of power theory which emphasizes “forming and maintaining open military alliances to balance a strong state or to forestall the rise of a power or a threatening state”, hedging is more conditional.¹⁶ A state adopts a hedging strategy to be able and prepared for the eventuality that it may need to balance against another state in the future. Hedging, therefore, can be seen as developing the ability to balance, if that becomes necessary.

¹³ Cheng-chwee Kuik, "Essence of Hedging: Malaysia and Singapore's Responce to a Rising China," *Contemporary Southeast Asia* 30:2 (2008): 171

¹⁴ Denny Roy, "Southeast Asia and China: Balancing or Bandwagoning?" *Contemporary Southeast Asia* 27:2 (2005): 306

¹⁵ Kenneth N. Waltz, *Theories of International Politics* (New York: McGraw-Hill, 1979), 168

¹⁶ T.V. Paul, "Inroduction: The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance," in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 14

Before proceeding to the actual analysis of Ma Ying-jeou's mainland policy on the current stage it is necessary to refine a few theoretical points which reflect my vision of the complicated problem of states' alignment strategies.

- **First**, since “hedging” embrace wide variety of states' responses, just to say that a state uses hedging strategy is to say almost nothing. Simply put, hedging is a combination of balancing and strategy elements in different proportions, therefore we need to clarify the meaning of balancing and bandwagoning and to specify their ratio of in a state's strategy in order to explain it accurately.
- **Second**, I do believe, following Schweller's argumentation that states often bandwagon in expectations of gains rather than responding to threats. I also think that domestic factors such as necessity to maintain legitimacy also influence states' decisions¹⁷. States' choice, therefore, is influenced by threats, power, and expectation of gain (profit-seeking) in different proportions.
- **Third**, I dismiss Walt's “capitulation-like” understanding of bandwagoning and use “bandwagoning” not as alliance choice but rather as one of the responses to the rising (preponderant) power, as following the strategic interests of the bandwagon; therefore in my analysis bandwagoning is possible even in the absence of any institutionalized agreements between two states. As Julian Kuo puts it: “To bandwagon with a big power does not mean to become a dependent or client state but refers to a strategy which tacitly reduces one's political autonomy and complies with a big power's interests, at least to an extent of not offending the latter. On the other hand, for a strategy of balancing against a big power to be effective, there must be antagonisms between two great powers thus making alliance with one of them sustainable.”¹⁸ Moreover, bandwagoning in Walt's understanding signifies a zero-sum

¹⁷ Walt few times makes casual remarks about the importance of domestic legitimacy as a determinant of alliance choices, however he doesn't elaborate much on this idea.

¹⁸ Julian J. Kuo, "Cross-Strait Relations: Buying Time Without Strategy." in *Assessing Lee Teng-hui's Legacy in Taiwan's Politics. Democratic Consolidation and External Relations*, ed. Bruce J. Dickson and Chien-min Chao (New York: An East Gate Book, 2002), 212

scenario for a bandwagoning state, that is, when a state bandwagons with one power, it simultaneously distances itself from all other powers. I don't accept this idea either.

- **Fourth**, expanded understanding of balancing I used. I believe that traditional focus on security and alliance building as elements of balancing is too narrow. Since the ultimate purpose of any balancing strategy is to reduce or match the capabilities of a powerful state or a threatening actor, the various means that states adopt, besides increasing their military strength or forming alliances, should be a part of an analysis to better understand today's balancing strategies.¹⁹ Traditional balancing through alliance formation and military buildups is significant, but it seems able to capture only one, albeit the most important, form of balance of power behavior. My position is the understanding of the balancing must be broadened in order to incorporate economic, political, diplomatic, institutional, and, in the case of Taiwan's mainland policy, ideological (or legitimacy) dimension along with security one. It is also necessary to stratify balancing empirically into different levels of intensity. However, using this broadened understanding of balancing I need to be careful not to lose focus and accuracy in the analysis since many policies of states can be mistakenly viewed as balancing.²⁰

The analysis suggests that features of both original Walt's theory and Schweller's development are used. Therefore, the assumption is that Taiwan pro-Chinese behavior is driven by combination of profit seeking, security maximization, and legitimacy support.

¹⁹ T.V. Paul, "Introduction: The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance," in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 3

²⁰ David Kang, for instance, rejects to use broad versions of balancing including 'soft balancing' and "under-balancing" in his book and argues for the tight definition of the concept. See David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007), 52-53

Taiwan's Hedging Strategy

Does Taiwan need to balance China? Extensive literature on the East Asian international relations finds that despite prediction of the Walt's theory states don't balance China directly, and even if they balance they bandwagon at the same time. It might look that this situation is not applicable towards Taiwan. Indeed, the essence of Taiwan-China relation is very different from relation of China with any of its neighbors. China doesn't threat any of its neighbors and doesn't deny their legitimacy and sovereignty. Taiwan's case is different. China considers Taiwan to be part of its territory, doesn't recognize Taiwan as a sovereign state, and threatens to use military force to achieve unification. In the view of clear Chinese military threat consisted of both offensive capabilities and offensive intentions, Taiwan seemingly has no choice but to balance.

However, even despite legitimacy dispute which lies in the basis of the Taiwan-China relations Taiwan doesn't employ pure balancing strategy. In the previous chapter we have seen that mainland policy of all democratically elected presidents contained some elements of bandwagoning with the rising power of China. In the following sections I will review main directions of Ma Ying-jeou's mainland policy to find out what is the essence of Taiwan's strategy towards China.

Direct Links and Economic Cooperation. “Ma’s election presents a huge opportunity to lay a new framework in Taiwan-PRC relations—one that moves toward cross-Strait improvements and new understandings, and away from the more confrontational policies of the past.”²¹

President Ma promised to return to the “1992 consensus” so Taipei could reopen a dialogue with Beijing. Then, as a first step, Ma will work toward a normalization of economic relations. Once this is accomplished, he believes Taipei and Beijing might be able to reach an understanding that will provide Taiwan with more “international space.” Ma reasons that mainland China’s cooperation in this area is “essential to improving relations between the two sides of the Taiwan Strait.” Finally, Ma hopes that the two sides may eventually develop together some sort of peace

²¹ Kerry Dumbaugh, *CRS Report for Congress, Taiwan: Recent Developments and US Policy Choices* (Washington: Congressional Research Service, 2008), 18

agreement. As the president explained, “I think that’s the order—first is economic normalization, and then international space and then the peace accord.”²²

Since the opening up of cross-Strait economic relations in the late 1980s, Taiwan’s investment in the PRC has soared. In fact, the Taiwanese are presently the chief investors in China. According to some estimates, by 2006, they had plowed over US \$240 billion into the mainland. Bilateral trade has also escalated steadily and now exceeds over US \$120 billion. Taiwan enjoys a huge trade surplus with the mainland (its chief trading partner) and would suffer from a massive international trade deficit without the cross-Strait trade relationship.

Despite the upsurge in cross-Strait trade and investment, economic relations have long been hobbled by numerous irrational governmental policies. For example, travel from Taipei to Beijing had to be “indirect,” meaning that flights to and from the mainland were routed through Hong Kong or foreign countries such as Japan and South Korea. Limits on Taiwanese investment in the mainland and a host of other restrictions also appeared increasingly irrational. Moreover, Taipei enforced a number of anachronistic policies designed to prevent mainland compatriots from investing in Taiwan or even visiting the island as tourists. Other initiatives—such as the “go south” policy that encouraged Taiwanese businesses to invest in Southeast Asia rather than China—appeared ridiculous.

President Ma came to office determined to put an end to such practices. During the presidential campaign, he even spoke of establishing a “cross-Strait common market.” As Francisco Ou, Taiwan’s Foreign Minister, explained, “we cannot keep blindfolding ourselves by pretending China does not exist.”²³

The president fueled expectations of business community by arguing that an improvement in cross-Strait ties is not an end in itself but “a way to boost the island’s economy.” Some want to

²² Keith Bradsher and Edward Wong, “Taiwan Leader Outlines His Policy Toward China.” *The New York Times*, www.nytimes.com/2008/06/19/world/asia/19taiwan.html

²³ “Ou talks about Taiwan’s ‘diplomatic truce’,” *Taipei Times*, August 10, 2008

accelerate the pace of the cooperation and view an expansion of cross-Strait ties as “panacea” for all Taiwan’s economic problems. The recent global economic downturn and accompanying financial turmoil has fueled arguments that the pace of expanded economic linkages cannot come fast enough. Some academics and business leaders argue that thawing of cross-Strait Taiwan opportunities sign Free Trade Agreements (FTAs) with other countries and join numerous international organizations. As Sun Chen, an economist and former president of National Taiwan University explained, “when you’re faced with an opponent you can’t out compete, your best bet is to ally with him.”²⁴

In order to conduct negotiation two sides had agreed to renew talks between SEF and ARATS (suspended in 1999 after Lee’s *Deutsche Welle* interview). The first round of SEF-ARATS negotiations started in Beijing in June 11, 2008 after 9-year pause. The sides decided to put political issues aside and concentrate on practical economic issues. They quickly hammered out a transportation pact that would allow regular “weekend charter flights” to cross the Taiwan Strait beginning July 4, 2008. Moreover, a separate tourism agreement was signed enabling up to 3,000 PRC tourists to visit Taiwan each day for a maximum of 10 days.²⁵

Taiwan has announced a number of unilateral initiatives. These include allowing the conversion of the PRC yuan (renminbi) into New Taiwan dollars (NT\$) and a series of moves to ease restrictions on investment in China.

The second round of the SEF-ARATS talks took place in Taipei in November 3-7, 2008. The arrival of the ARATS Chairman Chen Yunlin bears historical significance. This was the highest level visit to Taiwan by a representative of the Mainland authorities in the six decades since the political division of the two sides of the Taiwan Strait in 1949. Though the visit was held in the atmosphere of mass demonstrations against Ma’s mainland policy, the outcomes of the visit were

²⁴ Kerry Dumbaugh, *CRS Report for Congress, Taiwan: Recent Developments and US Policy Choices* (Washington: Congressional Research Service, 2008), 1

²⁵ "Full Text of Cross-Strait Agreement Signed Between SEF and ARATS Concerning Mainland Tourists Traveling to Taiwan," *Mainland Affairs Council*, <http://www.mac.gov.tw/english/english/csdialog/970613a.pdf>

important. The four agreements were signed on direct air transport, direct sea transport, postal cooperation, and food safety. The realization of direct cross-Strait air and sea transport is a key step forward in promoting the normalization of cross-Strait relations. At the same time, it also re-establishes Taiwan's strategic position in the economies of Asia and even the Asia-Pacific region, raises Taiwan's overall competitiveness, and bolsters connections between Taiwan and international markets.²⁶

The third Chiang-Chen talks convened at April 26, 2009 in Nanjing, mainland China. As a result three agreements, including the "Agreement on Joint Cross-Strait Crime-fighting and Mutual Judicial Assistance," "Cross-Strait Financial Cooperation Agreement" and "Supplementary Agreement on Cross-Strait Air Transport" were signed. The two sides also reached a consensus on jointly promoting mainland Chinese investment in Taiwan.²⁷

Overall, three meetings already held during Ma's presidency are a great leap to the peaceful and stable cross-Strait relations. They have been creating the institutional framework for the discussion of pragmatic issues of bilateral relations and by this built firm foundation for both sides to proceed to more complicated issues.

Another logical step in the cross-Strait relation is the developing of deeper economic integration. Taiwan is seriously dependent on the Mainland in the economic sense. China is No.1 destination for Taiwan's exports and foreign direct investments. Discussion of the EFCA (which was originally called the Comprehensive Economic Cooperation Agreement or CECA) began in late February 2009 and it is scheduled to be ratified in the end of the year 2009 or in the very beginning of the year 2010. Only scant mention of the plan had surfaced during Ma Ying-jeou's electoral campaign leading up to the Taiwanese presidential election in February 2008.

²⁶ Shin-Yuan Lai, "Outcome and Explanation of the 2nd "Chiang-Chen Talks", " *Mainland Affairs Council*, <http://www.mac.gov.tw/english/english/cc2/971107.pdf>

²⁷ "Third Chiang-Chen Talks Proceeds Smoothly and Produces Fruitful Results," *Mainland Affairs Council*, <http://www.mac.gov.tw/english/english/news/09426.htm>

Although the CECA proposal only emerged in mature form in March 2009, ECFA had clear and identifiable antecedents: 1) the creation in 2000 of the Cross-Strait Common Market Foundation by the current Taiwanese vice-president, Vincent Siew, following his loss in Taiwan's 2000 Presidential election to Chen Shui-bian; 2) the formal accession of China and Taiwan to the World Trade Organization in December 2001; and 3) the signing of the China and Hong Kong closer economic partnership arrangement (CEPA) in June 2003.²⁸

There are few factors which stimulate Taiwan to seek signing ECFA with Chin. First, of all Taiwanese economy was hardly hit by the current financial crisis. In the first quarter of 2009, Taiwan's GDP contracted by 10.24% year on year basis and the contraction of the GDP in 2009 is expected to be 4.25%; exports of goods and services plummeted by 27.15%.²⁹ Therefore, Taiwan needs to secure its markets and promote in its position on the Chinese market which continues to boom even despite global crisis. Second, in 2010 the ASEAN-China free trade agreement takes effect which would effectively decrease Taiwan's competitiveness on the Chinese market. Third, Taiwan hopes that EFCA with China will open doors for opening possibility of establishing free trade agreement with the United States – the biggest and the most lucrative market for Taiwan.³⁰

In Taiwan, maintaining high levels of economic growth has been a traditional priority of any government. Therefore to maintain its stability and legitimacy in the eyes of the Taiwanese it is crucially important for the Ma's administration to find some solutions for economic troubles. Engaging China even more looks natural choice. In the Ma administration's opinion, the EFCA represents its best near-term option for reviving the economy.

²⁸ Terry Cooke, "Cross-Strait Matrix: The Economic Cooperation Framework Agreement," *China Brief*, [http://www.jamestown.org/single/?no_cache=1&t_x_ttnews\[tt_news\]=35041&t_x_ttnews\[backPid\]=7&cHash=f0b872132a](http://www.jamestown.org/single/?no_cache=1&t_x_ttnews[tt_news]=35041&t_x_ttnews[backPid]=7&cHash=f0b872132a).

²⁹ "Taiwan's Economic Situation and Outlook," *Council For Economic Planning And Development*, www.cepd.gov.tw

³⁰ "ECFA with China to Help U.S. FTA: Yuan," *The China Post*, April 16, 2009

ECFA is the target of fierce critique from the opposition which criticizes Ma for non-transparent process of negotiating this economic agreement and for the potential negative consequences of ECFA.³¹ President Ma nevertheless emphasizes the necessity of the establishment of an ECFA with China, stressing that it would be similar to an FTA and there would be no political strings attached.³²

Diplomatic Truce. In order to breakthrough the international isolation China tried to impose on Taiwan, President Lee launched the so called flexible diplomacy. Initially very successful flexible, pragmatic diplomacy, as well “vacation”, “checkbook” and others diplomacies of Taiwan have proved to be increasingly inefficient. During President Chen tenure, Taiwan tried to buy off Chinese allies and managed to gain three new diplomatic allies but at the same time lost nine, bringing the number of the diplomatic allies down to 23 in 2009. Moreover, the nontransparent process of fund allocation for alluring new allies created a fertile soil for corruption as it was revealed in particular in the case of Papua New Guinea diplomatic fraud scandal.³³ Foreign Minister Francisco Ou described this policy: “It is not only a monumental waste of money, but it also creates animosity from the international community about creating instability in a certain region.”³⁴

In attempts to enter the United Nations, Chen also put emphasis on the name issues rather than on the pragmatism and predictably failed.

Ma Ying-jeou decided to stop this policy which not only didn’t achieve goals but also led to situation when the mutual trust with non-diplomatic allies has fallen, number of diplomatic allies has decreased, participation in international activities has encountered unprecedented pressure, and Taiwan’s international image has worsened.

³¹ "Tsai Pans Ma Over ECFA," *Taipei Times*, April 12, 2009

³² "ECFA crucial to Taiwan's competitiveness: SEF chairman," *The China Post*, June 28, 2009

³³ Jimmy Chuang, "Diplomatic fraud suspect found guilty, gets jail term," *Taipei Times*, October 24, 2008

³⁴ "Ou talks about Taiwan's 'diplomatic truce'," *Taipei Times*, August 10, 2008

Taiwan's small group of diplomatic allies are important to Taipei as they bestow a degree of international legitimacy upon the ROC government, speak for Taipei in the international community and provide the island's leaders with an excuse to make so called "transit stopovers" in more important countries. President Ma believes that for China, "the marginal utility of adding one country to that 171 list is getting less and less. On the other hand, the 23 countries that represent Taipei are very important to us as a source of dignity."³⁵

The Ma administration has called for a "diplomatic truce" with mainland China in an effort to create a "win-win" situation for both sides and signal a more conciliatory approach to cross-Strait relations. The new president wants to end the long-standing competition that has enabled little countries to "blackmail" Taipei and Beijing - expenditures that Foreign Minister Ou describes as "just a waste of money."³⁶

In addition to seeking an end to the scuffle over diplomatic allies, Taiwan has embraced a less confrontational approach toward participation in the world's international governmental organizations (IGOs). President Ma branded the Chen administration's efforts to join the UN as "tantamount to disaster" and believes that it succeeded only in antagonizing the island's friends. He has signaled a willingness to accept participation in IGOs as "a tariff territory, an economic entity, a NGO [or] a geographic region like 'Chinese Taipei.'" In August, 2008, Taipei dropped Chen's campaign to join the UN as "Taiwan," and requested that the 63rd General Assembly figure out some way that would permit the island's "meaningful participation," in the global body's auxiliary agencies like the World Health Organization (WHO), International Monetary Fund, and International Civil Aviation Organization. Shortly afterward, the president formally junked President Lee's characterization of cross-Strait relations as a "special state-to-state" relationship and described it simply as a "special relationship."

³⁵ Keith Bradsher and Edward Wong, "Taiwan Leader Outlines His Policy Toward China." *The New York Times*, www.nytimes.com/2008/06/19/world/asia/19taiwan.html

³⁶ "Ou talks about Taiwan's 'diplomatic truce'," *Taipei Times*, August 10, 2008

This new policy started to pay off almost immediately. Though Beijing did not officially recognize “diplomatic truth”, it obviously tries not to distract the positive development of cross-Strait relation by buying off Taiwan’s allies. One of the biggest of Taiwan’s diplomatic allies, Paraguay, was considering switching recognition from Taipei to Beijing however allegedly PRC didn’t accept this move.³⁷ So it seems that new diplomacy is working. However, both sides need to exercise in restraint and patience.

Another significant result of new diplomacy is the offer of invitation to Taiwan to participate in the World Health Assembly as an “observer” under the name of “Chinese Taipei.” President Hu Jintao, in his Six Points proposal given at the end of 2008, endorsed Taiwan’s “reasonable participation” in international organizations, including the WHO, as possible fruit of improved cross-Strait relations.³⁸ In March, Premier Wen Jiabao confirmed China’s willingness to talk about Taiwan’s WHA participation.

Taiwan’s acceptance “may well provide a template for Taiwan’s greater, but still limited, access to other global bodies and also may augment such institutions’ universal reach and effectiveness. But the WHA deal does not yet provide an easily replicated precedent.”³⁹ After a dozen failed efforts at the WHA and for the first time since the ROC left the UN after the PRC took the Chinese seat in 1971, Taiwan will participate in a UN-affiliated organization. That is great result of new cross-Strait relations.

Taiwan’s acceptance to the WHA is important and so controversial largely because of its implications for Taiwan’s international stature. Within the much-quoted framework of “economics first, politics later; easy first, difficult later,” addressing the WHA issue has meant moving cross-Strait relations beyond the economic toward the political and from the easy toward

³⁷ “Lugo Says Paraguay to Maintain Ties,” *Taipei Times*, August 15, 2008

³⁸ Russel Hsiao, “Hu Jintao’s ‘Six-Points’ Proposition to Taiwan,” *China Brief*, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=34333](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=34333)

³⁹ Jacques deLisle, “Taiwan in the World Health Assembly: A Victory, With Limits,” *Brookings Institutions*, http://www.brookings.edu/opinions/2009/05_taiwan_delisle.aspx

the harder. Although the WHA and WHO focus on public health, questions of sovereignty and state-like status nonetheless permeated the wrangling over Taiwan's role, and both sides have shown some flexibility. For China, acquiescing in Taiwan's inclusion as an "observer" meant relaxing a long-held position that Taiwan was ineligible to participate (independently rather than under Beijing's mantle) in the states-member-only UN and affiliated organs—a position pressed strongly at the WHA in the aftermath of SARS in 2004. It also meant accepting a more state-like nomenclature at the WHO than the previous "Taiwan, China" or "Taiwan, province of China." For the Ma government, formal access to the WHA and attendant enhancement of Taiwan's "international space" meant accepting a lesser status than the membership accorded sovereign states and tolerating a label—Chinese Taipei—that Ma characterized as third-best (Taiwan lives with this name in other organizations including APEC and the Olympics). For Taiwan's opposition DPP, the outcome and the nontransparent process raised alarm that Ma had paid too high a price in Taiwan's sovereignty, security, democracy, and economic leverage for a dubious gain.

As a result, Taiwan was granted a status that differs from full membership only in the lack of voting rights. Although Taiwan's future engagement might depend formally on annual invitation, that was technically true for all participants and there was every reason to expect that Taiwan would continue to attend. There had been no visible sacrifice of Taiwan's sovereignty or dignity. The WHA breakthrough and the improving cross-Strait relations that it reflected showed potential for expanding Taiwan's international role, including in UN-affiliated bodies, provided Taiwan chose a pragmatic, flexible approach. This precedent might be used to arrange Taiwan's participation in other specialized agencies of the United Nations structure despite recurrent claims of the Chinese officials that a WHA accord had no necessary application to other organizations, each of which would have to be addressed individually.

Political Dialogue. The Taiwan Strait has long been acknowledged as one of the principle "flashpoints" for conflict in East Asia. Taipei unilaterally declared an end to the Chinese Civil War long ago. But Beijing has not reciprocated. Indeed, the PRC has never ruled out the use of

force to take Taiwan and has deployed roughly 1,500 ballistic missiles directly opposite the island—the highest concentration of missiles anywhere on earth.

President Ma's urgent task was to reassure Beijing in Taiwan's status quo policy and in its desire to promote pragmatic relation in the Strait. In his inaugural address President Ma pronounced the policy of "no unification, no independence, and no use of force," a clear step to assure Beijing. Ma has also recognized the importance of the so called "1992 consensus" as a base for holding the a platform for the negotiations with the PRC.⁴⁰ By this Ma recognized "one China" principle in the interpretation given by the ROC Constitution.⁴¹ However, Ma suggests that after establishing this common ground, political issues must be put aside: "Once we reached a consensus in 1992 then we could temporarily forget about the "one China" issue."⁴²

The situation of unfinished Civil war which still pertains in the political relations absolutely doesn't correspond to essence and spirit of the current cross-Strait relations and is anachronistic. There is a necessity to formally abandon hostilities and make a peace agreement. For Taiwan it is especially important since it is Taiwan who suffers the most from hostile atmosphere in political realm. However, it seems there is a tacit understanding between two sides that political issues including the negotiation of a peace accord must be postponed until economic, social, and other substantial ties would be strong enough. PRC President Hu Jintao expressed the idea of a peaceful agreement in the year 2005. President Ma accepted this idea with enthusiasm, noting however, that signing peace accord would take a lot of time and that it was not an urgent task.⁴³

The attempts of President Ma to avoid action which might harm improving cross-Strait relations have been seen on many occasions. Ma kept low-profile during ethnic unrest in Tibet and refused

⁴⁰ Ying-jeou Ma, "Taiwan's Renaissance," *Taiwan Security Research*, <http://taiwansecurity.org/2008/Inauguration-2008.htm>

⁴¹ "Exclusive Ma Ying-jeou Interview. Nothing to fear from CECA with Beijing: Ma," *Taipei Times*, February 20, 2009

⁴² Jane Macartney, "Ma Ying-jeou on the wisdom of improved relations between China and Taiwan." *Times Online* <http://www.timesonline.co.uk/tol/news/world/asia/article4636132.ece>

⁴³ Ibid.

to hold the previously scheduled meeting with Dalai Lama. Being a staunch proponent of democracy before election Ma didn't criticized Beijing on the occasion of the 20th anniversary of the Tiananmen massacre. Quite critically, Tsai Ing-wen, the leader of the DPP, said: "For short-term economic interests from China, Ma has paid a high cost by abandoning the values of human rights and democracy."⁴⁴

Despite many positive developments both sides are still suspicious about each others intentions. That might be the most important obstacle to overcome; that will demand significant improvement of the general atmosphere in the Strait and, particularly, the implementation of the confidence building measures (CBM's).⁴⁵

Military Dimension. In the second chapter it was concluded that the mainland policy of the ROC maintains some continuity even under Presidents of different political affiliation. One of the elements which has been present in all President's policy is the necessity to maintain good relation with the United States and, particularly, necessity to continue the practice of arms acquisition.

In the view of drastically improved cross-Strait relations does it make sense for Taiwan to increase its military spending and to continue military cooperation with the United States? We may suggest that spending 3 percent of GDP on defense is plenty for Taiwan—maybe even too much considering that it would likely impinge on some of the government's other budgetary priorities. But other experts argue that Taiwan still needs a strong defense because China's growing military capabilities pose an imminent threat to Taiwan's security. Indeed, China is continuing to modernize its military and develop more credible options to use force against Taiwan and deter or at least complicate U.S. military intervention in a cross-Strait conflict. Recent statements by Chinese military officers about the necessity of making even greater

⁴⁴ Flora Wang and Rich Chang, "KMT caucus blocks Tiananmen resolution," *Taipei Times*, June 3, 2009

⁴⁵ For the prospects of CBM's in the Strait see Francis Yi-hua Kan, "Cross-Strait CBM's in the Framework of a Comprehensive Peace Accord" (paper presented at the Seminar on the Confidence Building Measures and the Progress of the Cross-Strait Relations, Taipei, February 17, 2009)

progress in military modernization underscore the PRC's commitment to enhancing the People's Liberation Army's (PLA) professionalism and operational capacity.

Though cross-Strait tensions have diminished, China has never given up the threat of using force against Taiwan, nor has it relaxed its military preparations. Since 2007, the military imbalance in the Taiwan Strait has increased. It is forecast that by 2020, the People's Liberation Army (PLA) will be able to send its forces to the area between the first and second island chains and decisively engage Taiwan in large-scale warfare with victory assured. Since 2007 the number of ballistic and cruise missiles deployed against Taiwan has grown from about 1,000, according to a U.S. count, to about 1,500 in early 2009.⁴⁶

Security relations with the United States and continuation of the weapon acquisition program is a crucial element of Taiwan's hedging strategy towards China. It is virtually only realm in which Taiwan implements balancing against China. However, this balancing is softer and more sophisticated. Its essence is to provide necessary military deterrence capabilities in case the situation changes to worse but at the same time not to sour relations with China when they are on the rise.

During the eight-year tenure of former Taiwan President Chen Shui-bian, political infighting between the ruling Democratic Progressive Party and the opposition Kuomintang stalled the funding for these weapons purchases. At the same time, Chen's independence-leaning policies angered China's leaders. Washington was displeased by Chen's inability to push through the arms purchases, and because his provocative actions interfered with improving U.S.-China relations. The damage those eight years did to Taiwan's defense capabilities and to the U.S.-Taiwan relations was considerable. Taiwan's relative air, missile defense, and antisubmarine warfare capabilities fell further behind as important Taiwan military acquisitions were postponed. China, however, purchased advanced weapons from the Soviet Union and increased funding for its own military research and development programs.

⁴⁶ Richard D. Fischer, "Taiwan's Call to Arms." *The Wall Street Asia*, <http://online.wsj.com/article/SB123740840622475841.html>

In one of his campaign speeches Ma Ying-jeou recognized the weakness of Taiwan's security stance and outlined his vision of Taiwan's security and defense policy. He identified Taiwan's soft power as the major asset in maintaining security of the island. The second pillar of national defense mentioned was strong military deterrence. Ma criticized Chen's administration for causing delay in weapons acquisition and for Chen's generally confrontational and provocative policy. The ultimate goal of Taiwan's military deterrence was identified as follows: "We believe that Taiwan's defensive stance should be to arm and armor ourselves only to the point that the Mainland cannot be sure of being able to launch a "first strike" that would crush our defensive capacity and resolution immediately. If the Mainland lacks confidence in this respect, its strategic calculations will become more complex and difficult, and the temptation to make a surprise attack will diminish. Taiwan's national security will naturally increase."⁴⁷ Another major point of Ma's security strategy is restoring mutual trust with the United States. Recognizing the importance of the U.S. as Taiwan's last defense, Ma pledged to repair relations between Taiwan and the United States and promised that Taiwan would bear responsibility for its own self-defense through reasonable procurement of defensive armaments and by never involving the U.S. in an unnecessary conflict. The same idea was voiced in Ma's inaugural address.⁴⁸

After entering his office President Ma has shown much determination to implement his vision of Taiwan's security. Some in Taiwan have suggested that China's growing military power does not really pose an imminent threat to Taiwan's security, because China would only use force in response to a move toward formal independence that crosses one of Beijing's "red lines," and President Ma will refrain from any such missteps since he is committed to a stable and constructive relationship with the mainland. Yet others argue that even if the possibility of war with China appears to be declining, Taiwan must still make the investments required to strengthen its defense. For example, Taiwanese Defense Minister Chen Chao-min stated in early

⁴⁷ Ying-jeou Ma, "A SMART Strategy for National Security," *Taiwan Security Research*, <http://www.taiwansecurity.org/TS/Ma-SMART.htm>

⁴⁸ Ying-jeou Ma, "Taiwan's Renaissance," *Taiwan Security Research*, <http://taiwansecurity.org/2008/Inauguration-2008.htm>;

June 2008 that Taiwan's defense buildup "is still necessary" despite Beijing's recent goodwill gestures.⁴⁹ Moreover, President Ma has stated that Taiwan still needs to purchase defensive weapons from the United States even though cross-Strait ties are warming: "Our stance will definitely not change just because we have improved relations with the mainland."⁵⁰

Some scholars argue that military acquisitions made by Taiwan inevitably lag behind the pace of Chinese military build-up and therefore they are not able to change the military situation in the Strait. William Murray argues that Taiwan needs to switch to a so called "porcupine strategy" and abandon hopes to maintain military equality in air and naval capabilities. "Taipei can no longer expect to counter Chinese military strengths in a symmetrical manner. Taiwan must therefore rethink and redesign its defense strategy, emphasizing the asymmetrical advantage of being the defender, seeking to deny the People's Republic its strategic objectives rather than attempting to destroy its weapons systems".⁵¹ Murray recommends that Taiwan should forego naval and air superiority, digging in and relying on passive defense by ground forces. Another point of view stresses fundamental inequality in military capabilities and claims that Taiwan doesn't believe in efficiency of its military deterrence whatever Taiwan does to improve it; thus, the only rationale for military acquisition is to show self-defense determination to Washington.⁵²

However, observers from both ends of the political spectrum in Taiwan have pointed to at least four reasons why Taiwan must continue to strengthen its defense capabilities: first, raising the defense budget reflects Taiwan's commitment to its security, which will help improve the strained relationship with the United States that the new KMT administration has inherited from President Chen; second, in the short term, a formidable defense posture is required to bolster Taiwan's desire for greater "international space" and participation in international bodies; and

⁴⁹ "Goodwill doesn't mean peace: defense minister," *The China Post*, June 5, 2008

⁵⁰ "Taiwan needs weapons from U.S.: president," *The China Post*, July 13, 2008

⁵¹ William S. Murray, "Revisiting Taiwan's Defense Strategy," *Naval War College Review* 61: 3 (2008): 13

⁵² Robert S. Ross, "Explaining Taiwan's Revisionist Diplomacy," *Journal of Contemporary China* 15:48 (2006): 47; David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007), 96-97

third, in the longer term, if cross-Strait relations continue to improve to the point that political talks become a more realistic possibility, Taiwan needs to be able to negotiate from a position of strength. This point would appear to be especially important, given that at the very least Taiwan must ensure that it avoids negotiating from an unnecessarily weak security position in any future negotiations on a mutually acceptable resolution of its relationship with the mainland.⁵³ Fourth, strengthening defense provides some security insurance in case of peaceful development of the cross-Strait relations would be halted and/or reversed.

Probably taken this or similar considerations into account President Ma pushed through to prompt Washington to finalize the weapons deal. Finally, after 8 years of uncertainty in October 3, 2008 United States agreed to sell more than \$6 billion in advanced weapons in the package which included 30 Apache attack helicopters, 330 advanced capability Patriot (PAC-3) missiles, 32 Harpoon sub-launched missiles, 182 guided Javelin missile rounds, and four E-2T system upgrades.⁵⁴ However, some advanced weapons Taiwan requested were missing from the approved list.

President Ma Ying-jeou hailed that the move by the United States to sell weapons to Taiwan symbolized as an initial improvement in trust between the two countries after it had been seriously undermined during the tenure of the previous Democratic Progressive Party administration. The sale was very important to both Taiwan and the U.S. because the weapons systems will meet Taiwan's defense needs and demonstrate Taiwan's determination to defend itself, Ma asserted.⁵⁵

⁵³Michael S. Chase, "Taiwan's Defense Budget Dilemma: How Much is Enough in an Era of Improving Cross-Strait Relations?" *China Brief*, [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=5061&tx_ttnews\[backPid\]=168&no_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=5061&tx_ttnews[backPid]=168&no_cache=1)

⁵⁴ Tom Shanker, "Arms Deal to Taiwan Riles China," *The New York Times*, http://www.nytimes.com/2008/10/05/world/asia/05taiwan.html?_r=1&ref=world&pagewanted=print

⁵⁵ "Sales symbolize improved trust: Ma." *The China Post*, October 12, 2008

This long expected sale was welcomed in Taiwan. However, Taiwan doesn't consider this package as an ultimate guarantor of its security. President Ma announced about the plans to build near 300 short and middle range missiles in order to counter Chinese missile threat.⁵⁶ Defense Minister Chen Chao-min also reiterated Taiwan's will to purchase U.S.-made F-16C/D jet fighters as well as to upgrade F-16A/B jet fighters currently in service.⁵⁷

The new security strategy was elaborated and confirmed in the first ever Quadrennial Defense Review. The Taiwan Legislative Yuan revised article 31 of the National Defense Act on July 17, 2008, mandating that the Ministry of National Defense submit a Quadrennial Defense Review to the legislature once every four years, within ten months of each Presidential Inauguration.³ The QDR allows the incoming President the opportunity to review existing defense policies and determine a future course of action based on his or her own strategic vision. It also provides lawmakers with an opportunity to review and oversee MND policy implementation. These steps further consolidate civilian control over the military. Yet, most importantly, the QDR is meant to provide a road map for future national defense planning.

Taiwan's first QDR has two main themes: prevention and transformation. The overall modernization of the nation's defense is necessary to prevent military conflict in the Taiwan Strait, while transformation of defense is necessary to enable the military to deal with the changing nature of modern warfare, advanced weapons systems, demographic change, an aging society and limited financial resources. For prevention, the Ma administration does not rely solely on modernizing and building up its forces, but also strives for manageable cross-Strait relations and closer defense collaboration with friends and allies in the Asia-Pacific region. Shaping a peaceful environment by using a defensive strategy, Taiwan intends to adopt a combination of political, diplomatic and military confidence-building measures to minimize the threat of military conflict so that the country can earn precious time to focus more on revitalizing the economy and transforming the military.

⁵⁶ "Taiwan to produce 300 cruise missiles: report." *The China Post*, October 28, 2008

⁵⁷ "Taiwan still looking to buy new F-16 jets," *The China Post*, June 21, 2009

The QDR states that the Taiwanese military would maintain its long-standing military strategic guideline of "resolute defense and effective deterrence."⁵⁸ Even with the political detente across the Taiwan Strait, the ministry remains committed to modernization of the military, targeting key joint capabilities through doctrinal refinement, professional military education reform and intelligent procurement. The QDR did not fully adopt the "porcupine" concept recommended by some U.S. officials, but maintains the doctrine of keeping invasion forces from landing in Taiwan. The QDR also advocates reforms that signal comprehensive defense transformation and the desire to streamline and organize the defense structure for greater efficiency. It calls for the creation and staged implementation of an all-volunteer force (AVF) while maintaining conscript training and reserve Services. The rationale is to recruit competent career personnel and mold them into a more elite fighting force. Other key aspects of the reforms address armaments acquisition systems, mechanisms for joint operations command, human resources development, defense expenditure management, and the need to combine defense with civilian needs.⁵⁹ Another historical novel in the QDR is the proposal for a military "Confidence Building Mechanism" (CBM) between two sides of the Taiwan Strait.

Scholars generally appreciated the QDR as a progressive and innovative component in its strategic and military planning and build-up and stressed that the positive relation in the Strait facilitates full-scale military reform.⁶⁰

Analysis of Taiwan's Mainland Policy

In my opinion, the brief analysis of main directions of mainland policy under President Ma Ying-jeou administration supports the view that this policy combines elements of both balancing and bandwagoning and therefore can be described as hedging.

⁵⁸ *Quadrennial Defense Review* (Taipei: Ministry of National Defense, 2009), Ch. 2

⁵⁹ *Ibid.*, Ch. 5

⁶⁰ Michael M. Tsai, "An Assessment of Taiwan's Quadrennial Defense Review," *China Brief*, [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=34870&tx_ttnews\[backPid\]=25&cHash=9ec4afa3d8](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=34870&tx_ttnews[backPid]=25&cHash=9ec4afa3d8); Alexander Huang, "The road ahead for ROC military," *Taipei Times*, March 20, 2009.

Taiwan hedges China. However, within the framework of hedging Taiwan has now obviously more elements of bandwagoning than of balancing. If Lee employed almost pure balancing against China, then Chen had to engage and bandwagon China in economic sphere. Ma went even further and abandoned balancing in all spheres except security which is ultimately important for the survival of the state. Does Taiwan's trend to bandwagon signify "surrender" to China as Walt could have said? Obviously, it does not.

The continuation of balancing elements in the Taiwan's mainland policy is predetermined by a uncertainty in China's long-term intentions. From one point of view, China's has steadily been improving its international image of a responsible stakeholder. China has managed to settle border disputes with almost all of its neighbors, China has become an active participant in multilateral institutions in the East Asia (following the idea known "peaceful rise").⁶¹ Particularly in relation with Taiwan China has demonstrated goodwill and desire to promote cross-Strait relation peacefully. On the other hand, China's skyrocketing military budget and its particular focus on offensive weapons is disturbing. China has not yet shown any determination to withdraw missiles aimed at Taiwan. PRC's current military buildup and power projection capability are clearly designed to coerce Taiwan from declaring independence and to prevent the United States from intervening and saving Taiwan from coercion and conquest. China's long-term intentions are also unclear and though we can not predict the exact nature of China policy we can that it will more expansive and assertive.⁶²

Walt writes: "The decision to bandwagon with the threatening state is based ultimately on the hope that such a step will moderate its aggressive intentions. The lesson is extremely important: the states are more likely to bandwagon when it will not increase the threat they will face in the

⁶¹ On "peaceful rise" or "peaceful development" see Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security*, (Stanford: Stanford University Press, 2005)

⁶² Robert J. Art, "The United States and the Rise of China. Implication for the Long Haul," in *China's Ascent. Power, Security, and the Future of International Politics*, ed. Robert S. Ross and Zhu Feng (Ithaca and London: Cornell University Press, 2008), 263

future should their powerful ally decide to turn on them.”⁶³ Taiwan lacks confidence in China and therefore having some elements of balancing in its mainland policy is a natural and necessary measure.

The reasons Taiwan uses balancing in its hedging China are quite obvious. What are the reasons to implement bandwagoning? Is Taiwan giving up to Chinese threat? Or does it choose bandwagoning despite the clear threat from China? In my opinion, following reason can explain Taiwan’s changing strategy:

I. One of the main reasons that has impacted the revision of Taiwan’s mainland policy is that balancing strategy against China has in fact decreased Taiwan’s security. Put in other words, it failed to achieve its intended goals. Balancing China militarily Lee and Chen didn’t manage to increase the security of Taiwan; quite to the contrary, security decreased since Taiwan just can not maintain the pace of military modernization of China (see Point 2). Apart from that, relations with the U.S. were also frequently spoilt. Balancing China economically, Taiwan didn’t decrease its dependence on China but only forced businessman to relocate to China or operate through third countries thus deteriorating Taiwan’s competitiveness. Balancing in diplomatic field materialized in “pragmatic diplomacy” which soon degraded to notorious “checkbook diplomacy,” number of diplomatic allies decreased.

II. Growing imbalance between Taiwan and China. Walt claims that weak states are more prone to bandwagoning. Taiwan by no means can be called a ‘weak state’: it is one of the largest trading powers in the world, its currency reserves are the 4th largest in the world etc. Taiwan’s military also is well equipped and trained. However, sided by China Taiwan looks as a tiny country. The growing inequality between China and Taiwan in aggregate power. Rise of China also makes balancing increasingly more costly as it was demonstrated in the Chapter II. What is more important is that the imbalance between Chinese and Taiwanese capabilities keeps

⁶³ Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987), 176

increasing. Another important dimension of Taiwan-China relations is the increased Taiwan's dependency on economic opportunities of China.

III. The decreasing American commitment to defend Taiwan.⁶⁴ The U.S. has been a long term supporter of Taiwan. However, recently we can see the trends which show us the diminishing U.S. commitment. The reasons for that are quite obvious. The United States increasingly relies on the Chinese assistance in the problematic regions of the world such as Pakistan and North Korea. This trend has become increasingly visible after the 9-11 attack when U.S. completely concentrated on its fight with the international terrorism and started to rely on cooperation of China, Russia, and other opponents who in return for this support have got greater freedom in dealing with their problematic regions (Chechnya for Russia, Xingjian, Tibet, and Taiwan for China). Recent financial crisis showed another vital reason to cooperate with China. China owns huge stocks of American debt obligations and American currency which can significantly influence the economic situation in the world. China therefore becomes a very important player. The U.S. put a lot of hope in China as an engine of the world economy which would eventually drag out the rest of the world from the abyss of the financial turmoil. Another reason for the decreased American commitment is the rapid modernization of the Chinese military which makes the outcome of any military conflict around Taiwan increasingly uncertain for the U.S.⁶⁵ One more reason for the U.S. to be more reluctant is the domestic turmoil and instability of Taiwan particularly during Chen's administration. Provocative actions of Chen such as referendum initiative were met with dissatisfaction and annoyance in the U.S. The arms procurement odyssey in the Legislative Yuan also sowed seeds of distrust towards Taiwan in the U.S. The case was perceived as a Taiwan's lack of self-defense determination and as a free-riding on the American security obligations.⁶⁶ Though this was due to Chen's policy the inertia is quite strong and it will

⁶⁴ I am aware that this is a highly controversial statement.

⁶⁵ Wendell Minnick, "Rand Study Suggests U.S. Loses War With China," *Defense New.*, <http://www.defensenews.com/story.php?i=3774348&c=ASI&s=AIR>

⁶⁶ Justin Logan and Ted Galen Carpenter, "Taiwan's Defense Budget. How Taipei's Free Riding Risks War," *CATO Institute*. September <http://www.cato.org/pubs/pas/PA600.pdf>

take a lot of time and efforts for President Ma to restore mutual trust between Taipei and Washington. There are also increasingly more opinions voiced in the U.S. about non-significance of Taiwan for the U.S. grand strategy in the Asia. Apart the United States no single state can be viewed as Taiwan's ally. Despite occasional Taiwan's attempts to upgrade Taiwan-Japan relations to a new level,⁶⁷ Japan is highly reluctant to commit itself to Taiwan's defense even though it is highly interested in the political autonomy of the Taiwan from the PRC.

IV. Profit-seeking behavior in the view that China is appeasable. This is very important factor which proves Schweller's "bandwagoning for profit argument." The controversies between China and Taiwan lie mostly in the symbolic dimension. Therefore, in the calculus of Taiwanese decision-makers satisfying some symbolic claims of China such as diplomatic truce, "1992 consensus," the abolishment of the constitutional revisions, ceased support for Tibet and democracy movement in China etc.⁶⁸ and showing up the benevolence to China would be able to bring real profits to Taiwan especially in the view of the global financial crisis. Indeed, just in one year since Ma Ying-jeou's election Taiwan have managed to achieve a lot: participation in the WHA, safeguarding Taiwan's existing diplomatic allies, prospects of EFCA, preferential treatments of Taiwanese companies, direct links, Chinese investment etc. Exaggeratedly, what China got instead was just acceptance of "1992 consensus" and 3 no's pledge of Ma Ying-jeou. Though, in the long term these developments would rather suit China's strategic goals, now they address Taiwan's urgent problems and goals. The argument of Schweller finds here its typical implementation.

V. Regime legitimatization. One of the most widely cited reason for DPP failure in 2008 Legislative Yuan and Presidential election is its allegedly sluggish economic policy. Therefore, the promises to boost economy were frequently and prominently featured in KMT's election propaganda. So it looks like the KMT put a stake at economic success which if happen would

⁶⁷ Shu-ling Ko, "Chen urges Japanese 'Taiwan relations act'," *Taipei Times*, October 31, 2006

⁶⁸ In this regard I can not agree with the relentless DPP criticisms that Ma's policy downgrades Taiwan's sovereignty

give a boost to its legitimacy. As the financial crisis disabled the president Ma from delivering his election campaign promises of '3-6' engaging with China started to look increasingly attractive as a mean of quickly improving the economic situation in the country. Indirectly, that is necessity to boost economic record which forces Ma to push for quick negotiation on ECFA. China's rise (economic and military) is inevitable reality for Taiwan. Beijing will also never renounce its claim that Taiwan is part of China taking into consideration high nationalistic sentiment within China and the potential disastrous consequences for other separatist regions.

VI. Decreased Chinese offensive intentions. The balance of threat in the Strait is dynamic and depends not only on physical offensive capabilities but also on the intentions to use those capabilities. Therefore, I claim the election of Ma Ying-jeou reduced Chinese threat and thus necessity to balance. In Taiwan Chinese belligerent stance has firmly associated with the Chen's policy and therefore the perception of threat must have decreased since it is supposed that China would have no reason to use weapons under condition of pro status-quo Taiwanese president. China has switched its strategy so at the moment it wants to prevent the pursuit of de jure independence much more than promotion of unification. Since president Ma announced that he would not pursue independence there is no reason to feel imminent threat from China. Ironically, Chen Shui-bian might have contributed to a current thaw in the cross-Strait relations. First, his relentless attempts to promote Taiwan's international participation have created a bottom line which Beijing cannot cross without offending much of Taiwan's population. Secondly, and purely subjectively, Chen was such an irritant for Beijing that any other President (and especially a candidate from the KMT) *ipso facto* would be more suitable. Another reason for more benevolent approach from China is failure of intimidation and harassment policy. Threatening Taiwan proved inefficient both in 1995-1996 and in 1999-2000; even more, in both cases threat of use of force brought negative results for China and strengthened anti-Chinese sentiment in Taiwan. However, China has adjusted its strategy and tries to build support in Taiwan and promote pragmatic interests in the Taiwanese society. Indeed, China looks more and more

benevolent. In even tries to reach hearts and minds of “green” voters in Taiwan. Hu Jintao Six Points represent probably first attempt to attract all parts of Taiwan society.⁶⁹

Summarizing the Taiwan’s hedging strategy we can say that it combines bandwagoning elements with balancing elements. Taiwan’s shift toward bandwagoning is driven in my opinion by combination of security maximization, gain expectation, and necessity to maintain domestic and international legitimacy. Balancing part of Taiwan’s hedging represent long-standing element of Taiwan’s mainland policy, however it differs from balancing in Lee’s or Chen’s era in that it is much narrower in scope (includes only security dimension) and intensity (less hostile).

As a policy that is pursued in order to reduce the risk of other policies, hedging contains both cooperative and competitive elements. The logic of the Taiwan’s hedging strategy is understandable, as it allows maintaining the extensive and mutually beneficial economic ties with the mainland and with the rest of Asia while addressing uncertainty and growing security concerns about the consequences of a rising China. It is a strategy designed to minimise exposure to unwanted risk, for example that China became aggressive, while still allowing the Taiwan–China relationship to profit and develop.

In this sense, the Taiwan’s choice of hedging strategies could arguably be a manifestation of security dilemma dynamics at work in a globalized world characterized by deep economic interdependence and the need for bilateral and multilateral cooperation in political and security field.

We thus can refute Walt’s argument that bandwagoning is relatively rare case in the international relations. This conclusion is correct if we accept strict dichotomy of states’ responses and Walt’s definition of bandwagoning as capitulation in view of the dominating power. However, the evidences suggest that in many cases weak states themselves choose to bandwagon in order to

⁶⁹ Russel Hsiao, "Hu Jintao's 'Six-Points' Proposition to Taiwan." *China Brief*, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=34333](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=34333)

maximize security or get profits preserving at the same time some security options. This makes bandwagoning behavior (within broader strategy of hedging) if not the norm of the international politics than at least much more common than Walt suggested. My observations also put some doubts on the Walt's claim that threats are most important factor determining states' strategy choice. I argue that though threats stimulate balancing they don't stimulate bandwagoning.

Prospects of Taiwan's Hedging Strategy

Taiwan has been, is being, and will be affected by the rise of China. The geographic proximity, growing economic (inter-)dependency between two sides of the Strait, and the ongoing legitimacy and identity conflict have combined to compelled Taipei to reconsider its mainland policy. This is going to be a difficult process which would require Taiwan to make adjustments in its relations with the long-standing ally, the United States, and to mitigate the results of domestic volatility in public opinion over closer ties with China. The crucial challenge for Taiwan is therefore to maintain a cooperative security ties with the U.S. while having close and beneficial ties with China.

Robert Art suggests that the rise of China might facilitate peaceful resolution of two existing regional conflict which otherwise could elicit U.S.-China hostilities – Taiwan issues and North Korea issue. Taiwan is increasingly dependent on China's economy and increasingly vulnerable to China's military power. "These trends compel Taiwan to abandon its aims of de jure independence, the most immediate potential for U.S.-China war, while likely leading to a peaceful evolution of Taiwan into Chinese "vassal", and perhaps even eventual unification should

China democratize.⁷⁰ Because the United States has little interest in Taiwan's alignment, it can accommodate such a peaceful resolution of Taiwan conflict."⁷¹

Taiwan will probably have space to maneuver to implement its hedging strategy for quite a long time. Since one of its elements is close informal alliance with the United States, the American presence in the region is necessary but not sufficient precondition for guaranteeing security of Taiwan. Despite some predictions that the U.S. might abandon the East Asian region, it is highly unlikely taking into consideration the grave consequences this move may have for the U.S. led system of alliances worldwide. Therefore, the East Asian region will likely remain as a field of strategic competition of China and the United States. Robert Ross mentions that the U.S. maintains superiority in the sea, and China maintains superiority in the mainland.⁷² Therefore both powers are likely to remain dominant in their respective domains thus providing opportunities for great power competition. China, though, won't be able to match the strength of the U.S. even despite its tremendous growth.

Ma's shift to bandwagoning is based on the presumption that negotiating and approaching China is inevitable. His new approach might have indeed mitigated the threat China poses to Taiwan. Unlike, Lee who consciously procrastinated with negotiations and laid down political precondition for any talks, even on functional issues, Ma decided to reverse the sequence and start from simple functional issues which don't involve the sensitive issues of sovereignty, and then step-by-step proceed to more complicated political issues.

⁷⁰ The possibilities of China's democratization are highly debated in the scholar community. However, it seems to be unanimously accepted that democratization won't occur soon.

⁷¹ Robert J. Art, "The United States and the Rise of China. Implication for the Long Haul," in *China's Ascent. Power, Security, and the Future of International Politics*, ed. Robert S. Ross and Zhu Feng (Ithaca and London: Cornell University Press, 2008), 276

⁷² Robert S. Ross, "Bipolarity and Balancing in East Asia," in *Balance of Power: theory and practice in the 21st century*, ed. T.V. Paul, James J. Wirtz and Michel Fortmann (Stanford: Stanford University Press, 2004), 267-304; Robert S. Ross, "The Geography of Peace: East Asia in the Twenty-First Century," *International Security* 23:4 (1999): 81-118.

To what limit can Taiwan come in its rapprochement with China? Since the aim of every state is survival and security, Taiwan won't switch to pure bandwagoning strategy which might in case of cross-Strait relations lead to losing effective sovereignty. The rise of national identity will also put obstacles to this scenario. If assume that pure bandwagoning on the part of Taiwan is equal to some form of the reunification than we can see that the public support for such an outcome is extremely low. According to the Election Studies Center of the National Chengchi University, the support for unification (whether as quickly as possible or as a long-term goal) in the June 2008 was very low – near 10.6%, at the same time support for independence was 20%. Majority of respondents – 57.4% - preferred status quo.⁷³ Another survey conducted by the Commonwealth Magazine has revealed that despite improving ties with China support for independence hit the historical record - 23.5% of respondents wanted formal independence for Taiwan (whether as quickly as possible or as a long-term goal), the highest percentage in the history of the poll and far higher than during the pro-independence Chen Shui-bian's eight years in power. In contrast, only 6.5% of respondents hoped for unification with China (either quickly or eventually under certain conditions) – the lowest percentage ever. The same survey indicated that there is a split in public opinion over whether the fast pace of development of this relationship is to Taiwan's benefit. While 38.3 percent of respondents said China policy was on the right course, 35.1 percent disagreed.⁷⁴ Despite the fact that current cross-Strait policy is probably the only domestically well-acclaimed policy of President⁷⁵ there is a significant number of active opponents of the current rapproching with China as mass demonstrations has proved.

⁷³ "Taiwan Independence vs. Unification with the Mainland Trend Distribution in Taiwan (1994/12~2008/06)," *Election Study Center National Chengchi University*, <http://esc.nccu.edu.tw/eng/data/data03-3.htm>

⁷⁴ Sherry Lee, "2009 State of the Nation Survey. Taiwan Searches for a Clear Policy Direction," *Commonwealth Magazine*, <http://english.cw.com.tw/print.do?action=print&id=10742>

⁷⁵ "Survey on Cross-Strait Economic Cooperation Agreement and President Ma Ying-jeou's Approval Rating," *Global Views Survey Research Center*, http://www.gvm.com.tw/gvsrc/200903_GVSRC_others_E.pdf

The realities of domestic politics in Taiwan may impose some constraints on the scope and speed of President Ma's push toward cross-Strait rapprochement.⁷⁶ President Ma also continues to regard China's military posture as an obstacle to realizing the full potential of the current cross-Strait thawing of ties. For example, Ma recently reiterated that China must reduce its military threat to Taiwan before peace talks can be held, specifically calling for China to remove the short-range ballistic missiles it has deployed in the military regions across from Taiwan.

Another problem is that Taiwan is, unlike China, a democratic state with free Presidential elections and with multiparty political system. There is a possibility of drastic revision of Taiwan's mainland policy in case a pro-independence President wins the election. Since, many components of current mainland policy are irreversible and the economic dependency on China is growing, Taiwan might find itself in a very unfavorable position. On the other side, closer ties with China will force even an anti-Chinese administration in Taiwan to exercise restraint and to avoid provocative actions.

A lot will depend on the future Sino-American relations. Balancing part of Taiwan's hedging strategy is almost completely dependent of American support in particular on the continuation of arms sales. Without external assistance and close informal alliance with the United States in particular, Taiwan can still embrace the policy of internal balancing, however its capabilities are no match to Chinese and in the absence of developed weapon industry it would be extremely difficult to balance rising China. The economic costs, both as a result of higher defense expenditures and lost economic opportunities in China, will also be tremendous. Therefore, Taiwan needs to stick to American support which is quite easy to do in times of strained Sino-American relations, but now ties between Beijing and Washington are very close. U.S. support for Taiwan is especially important to provide Taiwan's President Ma Ying-jeou with confidence to continue to negotiate with Beijing in an effort to achieve a more stable and sustainable *modus*

⁷⁶ President Ma addressed PRC's uncertainty about Taiwan's democratic system: "So they are afraid that if somebody else becomes president four years later whether the policy will continue. I think it is quite clear that the foundations of the policy to seek reconciliation are not based on an individual but are based on the common needs of the two sides." See Jane Macartney, "Ma Ying-jeou on the wisdom of improved relations between China and Taiwan," *Times Online*, <http://www.timesonline.co.uk/tol/news/world/asia/article4636132.ece>

vivendi. It is therefore a crucial task for Taiwan's foreign policy to guarantee American determination and support under any conditions. The re-establishing of mutual trust and fruitful relations might take a lot of time and efforts since U.S. President Barack Obama and Taiwan's President Ma Ying-jeou both were elected in 2008 and thus need time to adjust to new realities. Currently, the United States is very satisfied with the development in the Taiwan Strait; encouraging peaceful development of the cross-Strait relation in the future would be essential for the success of Taiwan's hedging strategy. Major point in this regard is the preservation of the cooperation mechanism laid down in the Taiwan Relation Act in 1979.⁷⁷ It particularly important to for the new Obama administration to create an environment in which Taiwan feels secure, yet has incentives to sustain dialogue with Beijing.⁷⁸

Summary of the Chapter III

This chapter has used the concept of hedging to explain the current mainland policy of Taiwan. It have been shown that the concept of hedging has been getting more and more widely accepted as an alternative to the Walt's balancing-bandwagoning hypothesis. Unlike balancing-bandwagoning hypothesis, hedging assumes that states may pursue multiple policies simultaneously in order to offset risks and to avoid choosing one side at the obvious expense of the other. Hedging is therefore a multiple-component strategy between two ends of balancing-bandwagoning spectrum. One of its components can be called "risk-contingency" (or security-maximizing) option. Another one can be called "profit-seeking" or "gain maximization" since it allows to reap economic, political and diplomatic profits from the great power. Hedging is likely to be a normal strategy for small (and not only small) states under situation of uncertainty and big power competition. This is a situation in which Taiwan finds itself.

⁷⁷ On the Taiwan Relation Act see Richard C. Bush, "Thoughts on the Taiwan Relations Act," *Brookings*, http://www.brookings.edu/opinions/2009/04_taiwan_bush.aspx; Pillsbury, Michael. "U.S. Debates about Taiwan's Security, 1979-2009," (paper presented at the International Conference on Taiwan Relation's Act Entering Its 30th Anniversary: Continuities, Changes, and Challenges. Taipei: Academia Sinica, 2009); Vincent Wei-Cheng Wang, "The Taiwan Relations Act at 30: Enduring Framework or Accidental Success?" *Taiwan Review*, <http://taiwanreview.nat.gov.tw/ct.asp?xItem=49428&CtNode=119>

⁷⁸ Bonnie S. Glaser, "A check sheet for Obama's Taiwan test." *Asia Times Online*, <http://www.atimes.com/atimes/China/KA08Ad02.html>

The use of the concept of hedging in the current mainland policy of Taiwan has proved that Ma's policies toward China combines elements of both balancing (security-maximization) and bandwagoning (profit-seeking) behavior, however the elements of bandwagoning are predominating Ma's mainland policy balances China militarily and tries to bandwagon it in economics, diplomacy, and political dialogue. The continuation of balancing elements in the Taiwan's mainland policy is predetermined by a uncertainty in China's long-term intentions, by its military build-up, and by its refuse to renounce right to use force against Taiwan. The presence of the bandwagoning elements can be explained by few reasons: 1) failure of more balancing-oriented policy to achieve goals of increasing Taiwan's security; 2) increased inequality in power distribution in the Strait resulting in greater vulnerability of Taiwan; 3) decreased American security commitment; 4) profit-seeking in view of appeasable China; 5) necessity to maintain regime legitimization by promoting economic growth; 6) weakened China's offensive intentions.

As a policy that is pursued in order to reduce the risk of other policies, hedging contains both cooperative and competitive elements. The logic of the Taiwan's hedging strategy is understandable, as it allows maintaining the extensive and mutually beneficial economic ties with the mainland and with the rest of Asia while addressing uncertainty and growing security concerns about the consequences of a rising China.

Regarding the prospects of Taiwan's hedging strategy the hedging is likely to remain as a predominant and the most rational approach towards China. The shift to pure balancing would be disastrous for Taiwan's economy and international stance. The shift to pure bandwagoning is also unlikely since there is strong domestic and international commitment not to allow unification in any form. Nevertheless, the exact forms Taiwan's hedging will take in the future will depend on the interplay of Taiwan, China, and the U.S. and on numerous other factors.