The Problem with Power:

Taiwan

in the Era of Great Power Competition

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THE TAIWAN QUESTION

Within the "Triangular Relationship" between the United States, the People's Republic of China (PRC), and Taiwan, the role of Taiwan is often overlooked and undervalued due to its relative lack of power. Taiwan's modest military and economic capability, limited diplomatic relations, and shrinking population place Taiwan at a power disadvantage. Meanwhile, the United States and China both seek to influence Taiwan in opposing ways. As a result, the "Taiwan Question" is widely considered the most likely factor that risks drawing the two great powers into conflict. For the former Vice President and newly-elected President of the Republic of China (ROC), Lai Ching-te, the stakes could not be higher. Since his inauguration on May 20th, 2024, international audiences are considering how President Lai will lead Taiwan into a future dominated by Great Power Competition.1

THE PROBLEM WITH POWER

The unequal balance of power is a pervasive underlying theme in the "Triangular Relationship,", where the overwhelming focus is on Great Power Competition between the United States and the PRC. The United States considers the PRC "the only competitor with both the intent to reshape

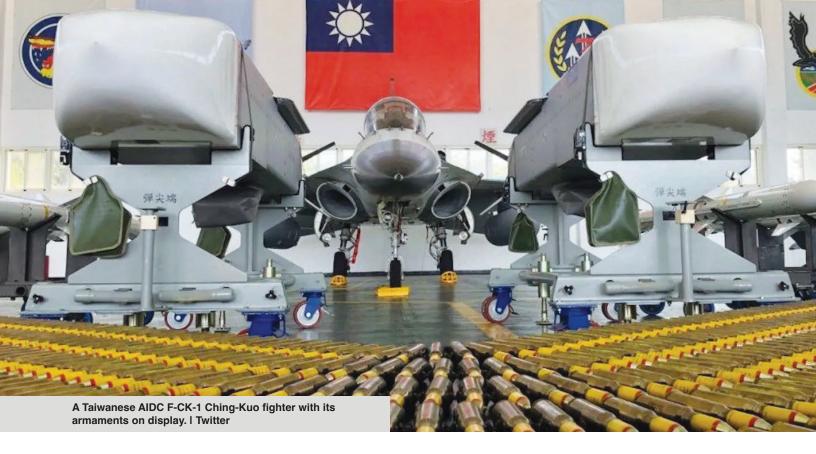


Lai Ching-te (elected as the 8th President of the Republic of China) accepting the Seal of Honour from Han Kuo-yu (president of the Legislative Yuan), on the swearing-In ceremony of his presidential position. I Simon Liu / Office of the President, Republic of China (Taiwan) I CC BY 2.0

the international order and increasingly, the economic, diplomatic, military, and technological power to do it."² The United States strives to maintain the international system and keep PRC ambitions in check. On the other hand, the PRC aims to create a sphere of influence in the Indo-Pacific and condemns U.S. "containment and suppression" for standing in the way of "national rejuvenation," a concept commonly linked to the "Taiwan Question."³

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The United States and the PRC hold opposing positions on the "Taiwan Question." The 1979 Taiwan Relations Act affirms U.S. commitment to Taiwan's defense by providing weapons and services to promote Taiwan's self-defense capability."4 The Act also considers "any effort to determine the future of Taiwan by other than peaceful means...a threat to the peace and security of the Western Pacific area and of grave concern to the United States."5 Conversely, the PRC emphasizes that Taiwan "reunification" is a strategic priority that "cannot be dragged on generation after generation."6 At the 20th National Congress of the Chinese Communist Party (CCP), PRC President Xi Jinping stated, "We will continue to strive for peaceful reunification... but we will never promise to renounce the use of force."7 Despite the PRC's coercive behavior and



sharpened rhetoric, Taiwan refuses to accept "reunification" under the PRC's proposed "One Country, Two Systems" model.8

Nevertheless, the United States and the PRC both discourage Taiwan's independence. Both states understand that if Taiwan were to formally declare independence, it would compel both parties to respond, potentially escalating towards military conflict. By attempting to influence Taiwan's behavior, both great powers implicitly recognize Taiwan's role in making or breaking their respective strategies. In this way, Taiwan maintains a powerful point of leverage in the "Triangular Relationship," as it could take actions that trigger future conflict between the United States and the PRC.

TAIWAN'S UPHILL BATTLE

In comparison to the United States and the PRC, Taiwan faces a power disadvantage across four key areas: military strength, economic capacity, diplomatic relations, and domestic population.

First, Taiwan is outmatched by the PRC's military spending and manpower. Taiwan's national defense budget for 2023 was \$19 billion USD, whereas the PRC's national defense budget for 2022 was \$230

billion USD.10 Budgetary differences have created a wide disparity between the two states' military stockpiles, equipment, and advanced technology. Taiwan maintains an estimated 169,000 active military personnel and 1.66 million reservists, while the PRC maintains approximately 2.04 million active military personnel and 510,000 reservists. However, the United States is poised to help Taiwan make up some of the difference in military capability through Foreign Military Sales (FMS). From 2020 -2022, Taiwan became the largest purchaser of U.S. defense equipment through the FMS process. U.S. Congress also passed measures, such as the Taiwan Enhanced Resiliency Act (TERA), to expedite financial and material assistance to Taiwan.11 As a result, the 2023 U.S. defense budget of \$848 billion USD included \$10 billion USD to finance weapons for Taiwan.¹² The United States also maintains approximately 1.40 million active military personnel and 843,450 reservists that could be mobilized in Taiwan's defense if the PRC pursues "reunification" with force. Although an estimated 200 U.S. troops remain in Taiwan to support training and self-defense capabilities, without additional manpower, Taiwan will likely struggle to counter PRC influence using domestic military capabilities alone.13

Second, Taiwan's reliance on the global economy makes it especially vulnerable to PRC influence. International exports account for almost 70% of Taiwan's Gross Domestic Product (GDP), which reached \$759 billion USD in 2021.14 The PRC is Taiwan's top trade partner, accounting for 22.6% of total trade and 19.6% of Taiwan's imports in 2022¹⁵ The PRC has effectively employed economic "carrots and sticks" to lure away Taiwan's formal allies and punish Taiwan's trading partners. Within the last two years, both Honduras and Nauru chose to cut ties with Taiwan and establish diplomatic relations with the PRC over economic interests.^{16 17} When Lithuania decided to open new representative offices with Taiwan, the PRC downgraded diplomatic relations from "ambassadorial" to "charge d'affaires" level, banned Lithuanian imports, and pressured multinational companies and European Union (EU) member states to reduce investments and trade with Lithuania.18 Meanwhile, the United States remains Taiwan's second largest trading partner, accounting for 13.3% of total trade and 10.6% of Taiwan's imports in 2022.19 However, while the United States aims to deepen economic ties and encourage technological cooperation, Taiwan will not easily escape the shadow of the PRC's economic influence.

Third, Taiwan's diplomatic status and isolation within the international community will make it difficult to attract allies without facing repercussions from the PRC. Due to the "One China Principle," which insists that the PRC is "the sole legal Government of China," many states choose to recognize the PRC over the ROC.²⁰ As of January 2024, only 11 of 193 United Nations (UN) member states (not including the Holy See) have formal diplomatic relations with



Taiwan, the majority of whom are small and microstates in the Pacific, Caribbean, Latin America, and Southern Africa who benefit from Taiwan's foreign aid, loans, and free trade agreements. The PRC has also prevented Taiwan from joining key international organizations, such as the UN. Despite the PRC's purposeful isolation of Taiwan, Taiwan aligns itself with international standards and "continuously strives for international participation" as a matter of policy. The ROC has adopted an optimistic and relatively open foreign policy approach, cultivating limited unofficial relationships with many states, but struggling to develop relationships into meaningful alliances.

Finally, Taiwan faces looming demographic challenges from within its own borders. Taiwan's declining fertility rate and aging population means there will be fewer working age adults to serve in the military, contribute to the economy, and support a growing elderly population. The cultural expectation to achieve economic stability before marriage has increased the number of unmarried

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adults, the average age of marriage, and the average age of first-time mothers, resulting in fewer children.²⁴ Although Taiwan's population fell for the first time in 2020, the government has struggled to implement pro-childbirth policies since the late 1980s, when fertility rates first fell below replacement level of 2.1 children per woman. If the population continues to shrink, it could pose a risk to Taiwan's economic stability and national security. Additionally, a 2020 Pew Research Center study found that Taiwan's domestic population favors closer political and economic relationships with the United States over the PRC. However, Taiwanese people remain open to closer economic ties, but not political ties, with the PRC, suggesting Taiwan's domestic population also cannot ignore the economic opportunities presented by the PRC.25

LOOKING AHEAD

While the United States and the PRC compete for primacy in the Indo-Pacific, President Lai must pick up where his predecessor, President Tsai Ing-wen, left off. As the Democratic Progressive Party (DPP) enters a historic third term in office, President Lai must manage a fruitful, yet potentially overbearing security relationship with the United States, and navigate an increasingly hostile, yet economically important relationship with the PRC, all while maintaining Taiwan's agency and curbing the potential for war. Though these prospects seem daunting, President Lai can build on President Tsai's successes by simply maintaining the status quo. This will preserve Taiwan's ability to continue operations as a de facto independent state, and protect Taiwanese citizens by reducing the risk of conflict.26

President Lai may seek to maintain the status quo by emphasizing that Taiwan's de facto independent status is indispensable to the international system. To convey this message, Taiwan can focus on building unofficial relationships with like-minded allies in the region. As regional neighbors, fellow democracies, trade partners, and U.S. treaty allies who host a high volume of U.S. forces, Japan and South Korea acknowledge that their regional security would be influenced, and potentially compromised, if the PRC takes forceful actions against Taiwan.27 Furthermore, a shift in the status quo could embolden the PRC to escalate aggressive behavior and challenge the jurisdiction of regional actors in the East and South China Sea. Regional organizations, such as the Association of Southeast Asian Nations (ASEAN), consist of similarly small states facing comparable pressures from the PRC. Through its New Southbound Policy, Taiwan seeks to reduce economic dependence on the PRC while offering academic, cultural, economic, and technological exchange primarily to ASEAN states.²⁸ Taiwan can also use its dominance in the semiconductor industry to influence states and attract allies through access to advanced technology.²⁹ In this way, President Lai can leverage Taiwan's specific strengths to create power, deepen relationships, and draw international attention to the broader consequences of Taiwan's plight.

The status quo enables Taiwan to exist as a de facto independent state, but also ensures that the PRC's influence and the uncertain future of the "Taiwan Question" is always looming overhead. Moreover, the status quo is not guaranteed and may grow more precarious if regional tensions rise. Even with U.S. assistance, Taiwan will struggle to overcome military, economic, diplomatic, and demographic challenges. Nevertheless, President Lai should enter office with a simple and clear message for the international community: small powers are not powerless. Small powers outnumber great ones. Most importantly, small powers can send ripples throughout the international arena, touching small and great powers alike. By this logic, Taiwan should focus on convincing international audiences that the "Taiwan Question" is a global guestion, whose resolution will ultimately set the tone for the future of the international system.

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