

Research China

Taiwan election points to status quo, but not further escalation

Key takeaways

- **As expected, the independence-leaning DPP secured the presidency for the third time in a row** as their candidate Lai Ching-te won with a 6.7 percentage points margin to KMT's Hou Yu-ih.
- **However, Lai's victory was smaller than his predecessor Tsai Ing-wen and DPP lost the majority in the parliament.** Hence Lai is ruling with a weaker mandate than Tsai Ing-wen. Lai's victory was also secured by keeping a more moderate tone on independence than before he became presidential candidate suggesting that he is unlikely to increase confrontations with China. It also reflects a mood among the Taiwanese where polls show a clear majority in favour of the status quo – and more so over the past year (see charts).
- **Overall, the election points to continued tensions in the Taiwan Strait but not a further escalation.** China will continue to deter Taiwanese independence with military drills around the island and Taiwan and the US are likely to continue to have closer relations but without crossing China's red line. US president Joe Biden repeated after the election that the US did not support Taiwanese independence.

Result: DPP's Lai win presidency but loses the parliament

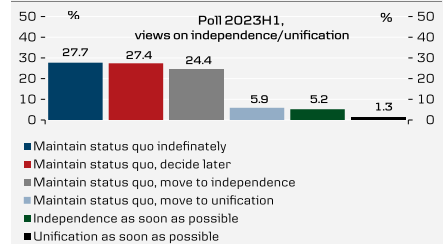
DPP's Lai Ching-te won 40.1% of the vote ahead of KMT's Hou Yu-Ih who got 33.5%. The third candidate Ko Wen-je from Taiwan's People's Part (TPP) won 26.5%, suggesting that the fairly new party is going to play an increasing role in Taiwanese politics in the years to come. As KMT, the TPP is leaning towards a more moderate line towards Beijing than DPP in favour of keeping the status quo with less confrontation with the mainland.

While winning the election, Lai's 40.1% voter support was a decline from four years ago where Tsai Ing-wen secured 57.1%. DPP also lost the majority in the parliament as the KMT took the most seats with 52 ahead of DPP's 51. TPP secured 8 seats while two independents secured a seat each. After the election no single party has the majority in the parliament.

Reactions: China repeats unification is inevitable, Biden states US do not support independence

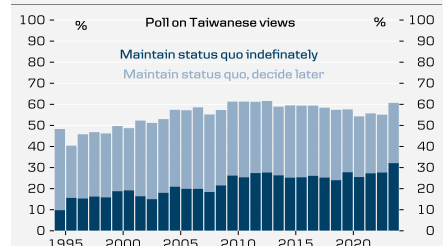
China's reaction to the election has so far not pointed to an escalation of tensions but as could be expected a spokesperson for the State Council Taiwan Affairs Office, Chen Binhua, *stated that "our stance on resolving the Taiwan question and realizing national reunification remains consistent, and our determination is as firm as rock"*. He also said that *"the results reveal that the Democratic Progressive Party cannot represent the mainstream public opinion on the island"* suggesting that Beijing sees a slight encouragement in the fact that the while retaining the presidency, DPP did not secure the majority of votes this time. It remains to be seen whether they will perform new high-scale military exercises in response to the DPP's victory of the presidency.

Most Taiwanese want status quo...



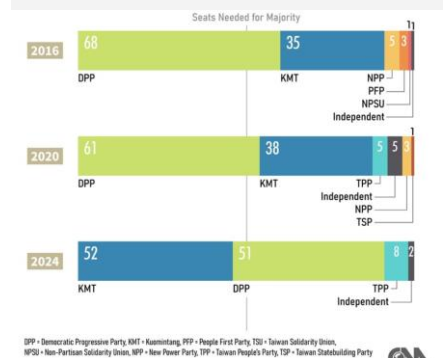
Sources: Election Study Center, National Chengchi University

... and increasingly so



Sources: Election Study Center, National Chengchi University

DPP lost majority in the parliament



Sources: Central Election Commission, Focustaiwan.tw

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The reaction from Washington has also been muted so far suggesting there is no wish to rock the boat in the Taiwan Strait. US president Joe Biden told reporters Saturday that “*We do not support independence*” as he departed from Camp David. The comments appear intended to calm any concerns in China and continues a less confrontational line of communication seen after the Xi-Biden meeting in November. US Secretary of State, Anthony Blinken, stated the election shows the strength of Taiwan’s “*robust democratic system*” and he repeated that the US is committed to maintain cross-strait peace and stability, and the peaceful resolution of differences, free of coercion and pressure.

To conclude, while the election of Lai points to continued tensions, there is so far no reason to expect a further escalation. We continue to be of the view that China is not likely to invade Taiwan in the next couple of years due to the devastating consequences it would have for China’s economy as well as high military losses - and with no guarantee of success. If an invasion is deemed necessary at some point, it will likely not take place before China’s military has become stronger and the economy more resilient, which will probably take many years. But it *does* mean that the threat is real in the long term.

Markets: Muted reaction

As the election results were widely in line with the surveys ahead of the election, there has been a limited reaction in the markets. Taiwan stocks are up 0.6% this morning while Chinese stocks are broadly flat, slightly held back by the PBOC refraining from cutting rates. The Taiwan dollar has weakened which most likely reflects the split parliament that can make it difficult to push through decisions. The Chinese CNH was unchanged on the opening and has gained a bit after the release of PBOC’s rate decision.

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