



## Ceasing NUC

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<http://www.ck-wong.ca/China/ceasing%20nuc%2020060306.pdf>

### Introduction

NUC is the mechanism used by the Taiwan governments to achieve the unification of China as its full name tells, National Unification Council. It's the mechanism that allows an unofficial recognition of the Chinese territories including the mainland China and Taiwan. If one does not appreciate its subtlety, it would be the role of the British monarch; there may be no real power but there is a social influence on the decision process. Ceasing NUC has a lot of social, economic and cultural shock not to mention the political implication. What Taiwan's President Chen wants is to stop the unification of China which leads to one and only one agenda which has been long debated: Formosa movement, independent of Taiwan and sever the link to China. This could cause China to take Taiwan by force. American will be bounded by its promise to stop China by escalation the situation to a full scale confrontation. This would create a hard to predict and resolve situation in Asia that interrupting its and world economic growth.

### Events

The whole sequence of events kicked off on February 27, 2006 when Chen announced to 'cease' the NUC without further definition [1]. The interpretation of 'cease' was interpreted by China government as the abolition of the NUC principle which was confirmed later by Chen's supporter's articles. The government Congressman also announced the support of the move but only later retreated to ask Chen to clarify of the meaning of 'ceasing'.

### Why US concerns?

When the National Party of China lost to the Communist Party in 1949, the National Party 'migrated' the government of Republic of China (ROC) to Taiwan. The Communist China set up the People's Republic of China (PRC) on the mainland. To prevent the attack of the Taiwan and to prevent the expansion of the Communism in Asia, the American sent the 7<sup>th</sup> Fleet to station at Taiwan area to maintain the military balance in the area. With the outbreak of the Korean War, the American's interest in Asian had to be fortified by military presents.

The US economy fabric has been knitted tightly to Taiwan and through Taiwan these fabric has been grown to China. Any uncertainty between the Taiwan and China would sever the fabric; economic downfall could be resulted

### American's Industrial Tie

From 1949 to 1973, the investment of American in Taiwan continued and the relationship has been changed from investment to depending. To lower the cost, the American electronic industry has been shifting many low-, mid- and some high-tech production to

Taiwan's foundry (the silicon wafer manufacturer) and chip manufacturing; not to mention the vast OEM industry supporting the American computer industry.

### **American's Foreign Exchange Factor**

There is also another major fact that Taiwan government also holds on vast amount of US\$ as reserve. The number was U\$108B in 2001 and rose to U\$246B in 2005, the biggest behind Japan and China. Any change of government could have the implication of change of policy. This could imply the change of reserve. According to the CIA's Factbook, Taiwan does not only holding the fiat money as reserve, it also holds gold. In 2005, the published number is 423.3 ton or U\$8.5B [7]. The current policy of Central Bank of China (Taiwan) does not sell gold. This does not mean it will not sell U\$ for gold.

### **American's Asian Military Presence**

The American's military presence in Asia was justified on the Korean and Chinese situation. The main reason is the Chinese situation which provides the most economic impacts. Over the year, the advancement of China has convinced American that the probability for China to use military for in Asia has substantially reduced. The fact is based on the improvement of Sino-India relationship at a mega level. Although it is not official Taiwan and China is a single economic body. Investing in one could cause money flow to and from the others. South Korea has been a major investment and technical export to China. The technical and economic tie between China and Korea has been the behind the motivation to disnuclearization of North Korea. Although Japan continuously irritates China by PM's visit to the Shrine, there is no material threat. Although there is the oil right confrontation which has been last over thirty years since the 1970, China has repeated that it is willing to share. So we could call it status quo.

All these positive signs has been inspired American to sponsor Japan's permanent UN Security Council permanent membership. The objective is to let Japan's growing military forces to maintain the Asian equilibrium and protect the American interest. The bottom line is to reduce the military budget which could collapse the American homeland economy. With the new development in Taiwan, American may have to continue it presence despite of Japan gain its UN Security Council's permanent membership. At the end, it pushes the American economy further down the pit.

### **China's Taiwan Agenda**

Taiwan is one of biggest investor in China. There are many companies have manufacturing lines across the two region. Changing the government will mean heavy economic and industry disruption. China has passed the legislation to take Taiwan by military force. With the operation of NUC, China has continuously to emphasis the China Unity issue has to be resolved in peaceful process. If Taiwan becomes non-Chinese territory, the situation may have to be end up in military actions. However, this could be too early to see this step. The stake is big.

## Southeast Asia

Taiwan is also one of the biggest investor in Southeast Asia countries which are friends of China. The change may not be welcomed because trading with independent Taiwan could intimidate China. Retaliation may be resulted.

## No Chicken Game

This is not a game of chicken. The winning is not going to be determined by who is going to back off. It may be too early to call for a preemptive strike by China using force or American using economy. The situation may not be dragged on too long. The resolution may be coming from Taiwan's political parties which could be the best outcome. The National's newly elected chairman Ma Ying Jeou has started to voice the situation. If he could reverse the situation through action and pressure group, the situation could resolve in peaceful measure.

## Market Impacts

In a very short term, the stock market in Asia could be volatile depending on the situations in Taiwan is unfold. The oil price could retreat because the potential world recession caused by the manufacturing disruption.

## Resources

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