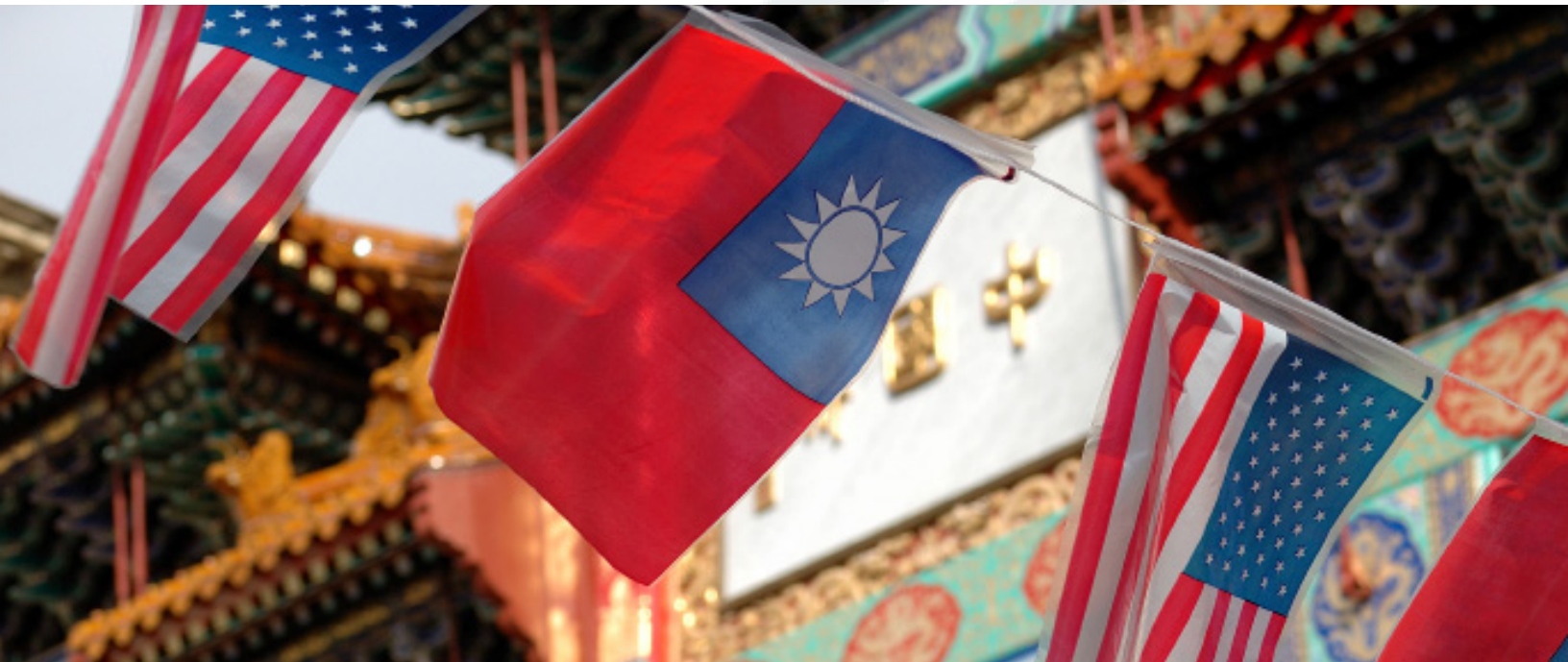




## Enhancing Taiwan's Role in Asia under the Trump Administration



David An

September 2017



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GTI is a 501(c)(3) non-profit policy incubator dedicated to insightful, cutting-edge, and inclusive research on policy issues regarding Taiwan and the world. Our mission is to enhance the relationship between Taiwan and other countries, especially the United States, through policy research and programs that promote better public understanding about Taiwan and its people.

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## Executive Summary

The United States' longstanding engagement with, and enduring commitment to, East Asia have created the conditions for democracy to take root, for economic progress to lift hundreds of millions to prosperity, and for the possibility of securing peace in the region. Growing economic opportunities and intensifying security concerns in Asia make it necessary that the United States maintains an interest in the region and remain engaged in the future. In this context, Taiwan's history of close cooperation and friendship with the United States, its central geographic location, and its strong political and economic ties throughout Asia make it a valued partner for the United States. Taiwan's involvement in the region spans its political, economic, and security activities, in ways that, much of the time, align deeply with US interests. US support for a greater role for Taiwan in each of these areas will therefore benefit the United States, Taiwan, and the region.

In recent decades, Taiwan has transformed itself and grown closer to the United States. It has democratized its politics, developed its economy, and collaborated closely with the United States on its security. Over the years, Taiwan's annual GDP has grown to over \$500 billion, and it has become the United States' 10th largest trading partner, with \$84.9 billion in bilateral trade in 2016.<sup>1</sup> The United States has also continued to provide Taiwan with arms of a defensive character, in accordance with the Taiwan Relations Act, going so far as to officially designate Taiwan a major "non-NATO ally."<sup>2</sup> US-Taiwan relations are strong, and could become stronger in the new Trump administration, if the new administration seeks to leverage Taiwan's valuable contributions to US interests in East Asia. Tangible, real-world areas for further cooperation include

- Political: Taiwan can be a supporter and ally to the United States in international organizations (IOs). The United States should therefore support Taiwan's expanded participation in IOs.
- Economic: US-Taiwan free trade agreements and investment agreements would benefit both economies. The United States and Taiwan should also work closely to expand their business in the rapidly

developing economies of Southeast Asia.

- Regional security: The United States should sell arms to Taiwan that match Taiwan's military requirements, establish a military equipment refurbishment depot in Taiwan, and plan naval vessel visits to Keelung or Kaohsiung harbors.

With these suggestions in mind, this report provides a primer for officials in the Trump administration to strengthen cooperation between the United States and Taiwan, with mutual interests and the broader East Asia region in mind.

<sup>1</sup> "Taiwan," US Trade Representative, accessed January 27, 2017, <https://ustr.gov/countries-regions/china/taiwan>

<sup>2</sup> Shirley Kan, Taiwan: US Major Arms Sales Since 1990, (Congressional Research Service, December 2, 2009), p. 50.

## Introduction

"The Department of Defense remains steadfastly committed to working with Taiwan and with its democratic government to provide [it with] the defense articles necessary, consistent with the obligations set out in our Taiwan Relations Act. Because we stand for the peaceful resolution of any issues in a manner acceptable to people on both sides of the Taiwan Strait."  
- James Mattis, Secretary of Defense  
shangri La Dialogue, June 2017.<sup>3</sup>

Since Donald Trump's inauguration on January 20th, 2017 as the 45th president of the United States, his administration has devoted relatively significant time and effort to reassure US allies in East Asia of the enduring nature of America's commitments there. These activities include early visits to the region by Vice President Pence, Secretary of Defense Mattis and Secretary of State Tillerson, as well as the announcement of the sale of US \$1.3 billion worth of defensive armaments to Taiwan. In light of concerns over US staying power in East Asia, it is important to examine carefully Taiwan's contribution to the region and its role in ongoing US efforts.

Taiwan already plays a significant political, economic, and security role in Asia, and it is eager to do more alongside the United States. It has a vibrant democracy that arose out of an authoritarian regime, which now serves as a model for other countries in the region.<sup>4</sup> Its economy is strong: in the latter half of the last century, it earned the nickname "Asian tiger," along with Hong Kong, South Korea, and Singapore, due to its rapid economic growth and strong technology-manufacturing sector.<sup>5</sup>

Today, Taiwanese brands like Foxconn and HTC are synonymous around the world with quality and innovation. With its location in the geographical center of East Asia, Taiwan plays a critical security role in ensuring open sea-lanes for the delivery of oil and resources from the rest of the world to Northeast Asia, and in

helping to defend freedom of navigation. In addition, Taiwan's military is advanced and potentially interoperable with the United States and NATO+4, a designation that includes Japan, South Korea, Australia and New Zealand. For these and other reasons, Taiwan is and will remain one of the US' key partners in the region.



In Jun 2016, Taiwan President Tsai Ing-wen met with US Senator Marco Rubio<sup>6</sup>

The goal of this report is not to provide a comprehensive overview of the complicated historical and present-day connections between the United States, Taiwan, and the East Asia region; rather, it is an outline of the most important ways in which the United States and Taiwan can cooperate.

<sup>3</sup> Research contributions from GTI staff Russell Hsiao, Melissa Newcomb, Anna Scott Bell, Lily Lin and special thanks to interns Matt Schrader, David Elber, Shu Ching Yang, Chin yen Cheng, and Lauren Kao.

<sup>4</sup> ChiChu Liu, "If Taiwan Can, Why Can't Other Chinese Speaking Areas?" (In Chinese) BBC News, January 18, 2012.

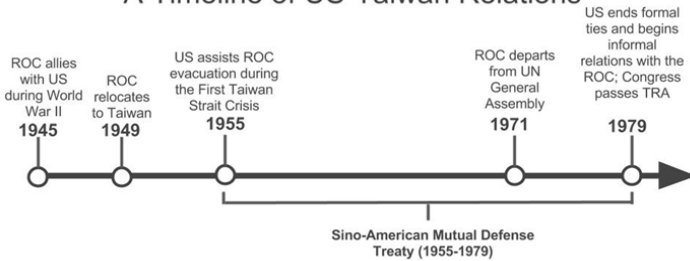
<sup>5</sup> John Page, *The East Asian Miracle: Four Lessons for Development Policy*, (Washington, DC: National Bureau of Economic Research, 1994)

<sup>6</sup> Credit: Office of Senator Marco Rubio

# A Brief History of the US-Taiwan Relationship

In the not-too-distant past, Taiwan, under its official name “Republic of China,” (ROC) was recognized as a sovereign state and a prominent member of the international system. The Kuomintang (KMT) helped the United States win World War II in the Pacific Theater before relocating to Taiwan in 1948. Taiwan was a founding member of the United Nations and one of the five permanent members of the UN Security Council until 1971, when formal recognition in the United Nations was transferred to the PRC, initiating a gradual decline in international recognition that culminated with the US’ cessation of formal bilateral ties in 1979. Despite these setbacks, Taiwan continued to enjoy strong economic growth, emerged as a vibrant liberal democracy and became the close partner to the United States that it is today.

## A Timeline of US-Taiwan Relations



## A Timeline of US-Taiwan Relations

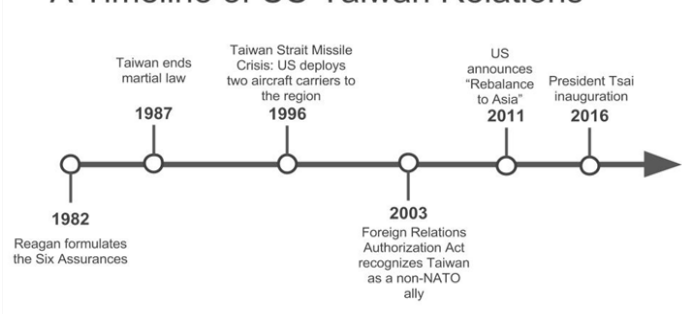


Figure 1: Historical timeline of key events in US-Taiwan relations

There is a deep history of US-Taiwan military cooperation. From 1955 to 1979, Taiwan and the United States were signatories to a mutual defense treaty, and enjoyed a close military relationship as allies bound to come to each other’s defense in the event of an attack on the other party. Taiwan and the United States

signed their defense treaty in December 1954, around the time that the United States signed similar treaties with South Korea (1953), and with Japan (1960). To this day, South Korea’s and Japan’s alliances with the United States endure, and are the centerpieces of their bilateral relations. The US-Taiwan security relationship followed the same model until 1979, and though the treaty is no longer in force, the US-Taiwan military relationship remains strong because of the Taiwan Relations Act (TRA) and the Six Assurances, which commit the United States both diplomatically and militarily to the peaceful resolution of Taiwan’s dispute with the PRC (see below).

Indeed, the United States has remained committed to Taiwan’s security, even after the end of the formal defense alliance. In 1995 to 1996, when China fired missiles into the ocean within 35 miles of Taiwan’s Keelung and Kaohsiung harbors in a bid to forestall Taiwan’s first democratic election, the United States made an unprecedented show of support for Taiwan by sending two aircraft carrier battle groups into Taiwan’s immediate vicinity.<sup>7</sup> The presence of the Nimitz and the Independence carrier battle groups immediately calmed the situation and ensured regional peace. It signaled that the United States was behind Taiwan, and it valued Taiwan’s security.

## US Laws and Policies Ensuring Taiwan’s Future

The special historical relationship between the United States and Taiwan has seen both sides seek to strengthen their mutual partnership through laws and policies such as the Taiwan Relations Act of 1979 and the Six Assurances of 1982. Though both the TRA and the Six Assurances were formulated decades ago, support for them remains strong; the US Senate unanimously passed legislation reaffirming the TRA and the Six Assurances in July 2016.<sup>8</sup> The Taiwan Relations Act of 1979 was passed into law by Congress and makes clear the United States’ expectations regarding Taiwan’s security. It reads:

<sup>7</sup> Shirley Kan, “Taiwan Strait Crisis of 1995-1996: Lessons Learned for Policy,” Global Taiwan Brief, Volume 2, Issue 1, (January 4, 2017)

<sup>8</sup> William Lowther, “US Senate Affirms TRA, Six Assurances,” Taipei Times, (July 9, 2016)

*"...the future of Taiwan will be determined by peaceful means; to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, is a threat to the peace and security of the Western Pacific area and of grave concern to the United States; to provide Taiwan with arms of a defensive character; and to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan."*<sup>9</sup>

In 1982, the Reagan Administration delivered the US' Six Assurances to Taiwan to reiterate the US' commitment. Speaking on behalf of President Reagan, then-director of the American Institute in Taiwan (AIT), James Lilley, delivered America's policy to the people of Taiwan, assuring them that the United States:<sup>10</sup>

1. has not agreed to set a date for ending arms sales to Taiwan;
2. has not agreed to hold prior consultations with the PRC on arms sales to Taiwan;
3. will not play any mediation role between Taipei and Beijing;
4. has not agreed to revise the Taiwan Relations Act;
5. has not altered its position regarding sovereignty over Taiwan;
6. will not exert pressure on Taiwan to negotiate with the PRC.

The US-Taiwan security relationship—based on their historic mutual defense alliance—in many ways resembles the US' dedication to other international partners. In the Foreign Relations Authorization Act of 2003, the US Congress went so far as to require that "Taiwan shall be treated as though it were designated a major non-NATO ally" by the US government in arms sales considerations and "any other provision of law."<sup>11</sup> In

response, the George W. Bush Administration submitted a letter to Congress on August 28, 2003, officially

## Taiwan's Political Importance in Asia

designating Taiwan a major non-NATO ally.<sup>12</sup> The United States' increasing attention to Asia corresponds with the region's growing strategic importance. Asia's global significance will likely continue to grow for the foreseeable future; United States' activities in the region will likewise continue to reflect this fact. In this context, Taiwan's role in Asia is consequential, especially in setting an example as a liberal democracy and responsible partner in international organizations.

### *Vibrant Democracy*

Among the many interests and values that the United States and Taiwan share, democracy stands out as especially remarkable. Official Congressional documents and US laws note that "Taiwan has flourished to become a beacon of democracy."<sup>13</sup> Taiwan's strong rule of law, vibrant elections, and regular political turnover demonstrate that Taiwan has matured into a true liberal democracy in the space of only two decades.<sup>14</sup> Following the election of Tsai Ing-wen in 2016, the US State Department commented, "The people of Taiwan showed the world again what a mature, Chinese-speaking democracy looks like."<sup>15</sup>

Taiwan's Legislative Yuan is always filled with lively debate; legislators routinely and openly critique the policies of the president, ministers and other senior government officials. The Sunflower protests in Taiwan in 2014 not only occurred freely, but helped give rise to a host of new political parties—such as the popular New Power Party—which have fundamentally transformed Taiwan's political landscape.<sup>16</sup>

9 "Taiwan Relations Act," American Institute in Taiwan, accessed April 5, 2017, <https://www.ait.org.tw/en/taiwan-relations-act.html>

10 Shirley Kan, "China/Taiwan: Evolution of the 'One China' Policy—Key Statements from Washington, Beijing and Taipei," Congressional Research Service, (October 10, 2014), p. 43.

11 Kan, Taiwan: US Major Arms Sales Since 1990, 50; and "Foreign Relations Authorization Act of 2003," US Congress, (September 30, 2002) section 1206.

12 Kan, Taiwan: US Major Arms Sales Since 1990, 50

13 "Concurrent Resolution 88: Reaffirming the Taiwan Relations Act and the Six Assurances as Cornerstones of United States-Taiwan Relations," US Congress, May 7, 2016

14 Lee Hsin-fang and Hsiao Ting-fang, "Tsai Yingwen, the First Female President of Taiwan" (in Chinese). Liberty Times, January 1, 2016

15 "Concurrent resolution 88," US Congress, quoting Deputy Secretary of State Antony J. Blinken's statement on March 29, 2016

16 Cheng Chung-Lan, "Two Year Anniversary of Sunflower Movement" (in Chinese). BBC News, March 18, 2016.



The people of Taiwan have experienced the domestic freedoms allowed under a democratic system of governance; many Taiwanese therefore wonder why they must struggle for self-determination on the international stage. According to polling done by an important study of Taiwan's political attitude trend distribution, by the Election Study Center at National Chengchi University (NCCU), 56 percent of respondents identified as only Taiwanese, whereas 36.6 percent identified as being both Taiwanese and Chinese, and only 3.6 percent identified themselves as only Chinese.<sup>17</sup> Taiwan's shifting national identity makes its citizens more inclined to question China's efforts to restrict Taiwan's international space and determine Taiwan's future. These expectations from the Taiwanese people are a normal part of the transition toward a liberal democracy as they experience increasing freedom.



Photo: "Love" at Taipei Station<sup>18</sup>

## Active Participation in International Organizations

Not only is Taiwan a model of democracy for other Asian countries, but it also plays an active role in some international organizations (IOs). Taiwan joined the World Trade Organization (WTO) in 2001 as a full member and is a valuable participant. Representatives from Taiwan have helped with trade remedy investigations concerning countries like Brazil and Indonesia.<sup>19</sup> More examples of IO participation include Taiwan's role in the Asia Pacific Economic Cooperation (APEC), Asian Development Bank (ADB), and the International Olympic Committee (IOC). Consider-

ing Taiwan's important global economic and manufacturing role, its participation in the WTO, APEC, and ADB makes sense. Taiwan also has the opportunity to participate internationally in less politically-charged capacities, such as the Olympics.

APEC membership in particular is viewed within Taiwan as perhaps the island's most important representation in an international forum. It is also a forum in which the United States and Taiwan have successfully advanced mutual interests. Robert Wang, former deputy director of the American Institute in Taiwan and former senior US representative to APEC, has gone on public record saying that Taiwan's backing inside the organization has proven key in consolidating the support of other APEC members for US initiatives.<sup>20</sup> There is great scope for the United States to help boost Taiwan's visibility within APEC, if it chose to do so. For example, because of PRC resistance, Taiwan is the only member of the body not represented at high-level forums by a head of state. For the same reason, Taiwan has, to date, only hosted relatively low-level APEC gatherings. The United States could push to rectify both of these oversights, and strengthen the position of an important partner within the organization.

As Taiwan seeks a greater role on the global stage, it faces strong political resistance from the PRC.<sup>21</sup> The more opportunities Taiwan wins to participate actively in international organizations, the more it can help address regional and global problems, such as improving global public health through the World Health Organization (WHO) (in which it gained observer status in 2009), contributing to aviation safety in the International Civil Aviation Organization (ICAO) (to which it was admitted as a guest in 2013), and fighting transnational crime through INTERPOL, if it were admitted. Taiwan can also act as a strong partner of the United States and others in all of these organizations.

<sup>18</sup> Credit: Shupin Zeng, Unsplash, public domain

<sup>19</sup> "Taiwan Participation in Relevant [WTO] Trade Remedy Committees," Taiwan Ministry of Economic Affairs, November 11, 2013

<sup>20</sup> Chris Horton, "APEC: Taiwan's Most Important International Forum," The News Lens, February 15, 2017

<sup>21</sup> Shirley Kan and Wayne Morrison, US-Taiwan Relations: Overview of Policy Issues, (Congressional Research Service, December 11, 2014), accessed April 5, 2017, p. 23

As an indicator of Taiwan's shrinking international space, Taiwan is gradually losing its diplomatic partners to the PRC. After a decade-long break from the dollar diplomacy contest between Taiwan and China, the number of Taiwan's diplomatic partners recently dropped from 23 to 20 after the PRC gained diplomatic recognition from the The Gambia and Sao Tome and Principe in 2016, and Panama in 2017.

That Taiwan has few diplomatic partners stands in major contrast to the years prior to Taiwan losing its seat in the United Nations in 1971, when Taiwan was recognized by the majority of the world as the "sole government" of China.<sup>22</sup> In 1969, Taiwan was recognized by 71 countries while the PRC was recognized by just 48. By 1973, the number of countries recognizing Taiwan dropped to 31. Today, Taiwan has only 20 diplomatic partners, in contrast to the PRC's 174. Interestingly, the United Nations Charter still explicitly refers to the "Republic of China" in Articles 23 and 110, though China's seat is currently occupied by the PRC.<sup>23</sup>

While both the US executive and legislative branches have supported Taiwan's efforts to carve out a larger international space for itself by encouraging Taiwan's active participation in international organizations, there is more to be done. Former Deputy Assistant Secretary of State David Shear stated in March 2010 that, "the United States is a strong, consistent supporter of Taiwan's meaningful participation in international organizations."<sup>24</sup> He also stated, "Taiwan should be able to participate in organizations where it cannot be a member, such as the World Health Organization, the International Civil Aviation Organization, and other important international bodies whose activities have a direct impact on the people of Taiwan."<sup>25</sup> His remarks reflect the US support that would help Taiwan gain observer status in some of these organizations in the years that followed. In 2013, President Obama signed a bill into law directing the Secretary of State to develop a strategy to obtain observer status for Taiwan in the

ICAO. The President also instructed the US Secretary of State to develop a strategy to "endorse and obtain observer status for Taiwan in appropriate international organizations, including INTERPOL."<sup>26</sup> These actions may lay the groundwork for Taiwan's future participation in such international organizations, but Taiwan has yet to actually join many of them.

## Future Directions

Former US Ambassador to the UN John Bolton has made a number of bold recommendations for the new Trump administration seeking to chart the future direction of the political relationships between the United States, Taiwan, and the region. These include:

"Receiving Taiwanese diplomats officially at the State Department; upgrading the status of US representation in Taipei from a private 'institute' to an official diplomatic mission; inviting Taiwan's president to travel officially to America; allowing the most senior US officials to visit Taiwan to transact government business."<sup>27</sup>

While some of these are realistically attainable long-term goals, the United States should only pursue them in open dialogue with its allies in the region with due consideration for the cross-Strait political situation.



Figure 2: Taiwan's central geographical position for sea lines of communication, trade, and regional security<sup>28</sup>

22 Michael Y.M. Kao "Taiwan's and Beijing's Campaigns for Unification," in Harvey Feldman, Michael Y.M. Kao, eds., *Taiwan in a Time of Transition*, (New York: Paragon House, 1988) p. 188

23 "Charter of the United Nations," United Nations, 1945, p.6 and 20

24 Kan and Morrison, *US-Taiwan Relations*, 24

25 Kan and Morrison, *US-Taiwan Relations*, 24

26 Taiwan INTERPOL Observer Status. US Congress Public Law 114-139, US Congress, March 18, 2016.

27 John Bolton, "The US Can Play a Taiwan Card." *Wall Street Journal*, January 17, 2016

28 Based on Annual Report to Congress: Military Power of the People's Republic of China 2006, US Department of Defense, p. 15; also public domain image Wikimedia, Geographic Boundaries

## United States, Taiwan, and Regional Trade: Everyone Prospers

Taiwan and the United States share a strong economic partnership. Trade of goods between the two in 2016 totaled \$65.4 billion, making Taiwan the United States' 10th largest trading partner for the year. In 2016, the United States imported \$39 billion in goods, and exported \$26 billion to Taiwan, which resulted in a US trade in goods deficit.<sup>29</sup> In the same year, the United States imported \$8 billion in services, and exported \$12 billion to Taiwan, resulting in a US trade in services surplus.<sup>30</sup> Similarly, the United States has long been one of Taiwan's most important trading counterparts. In 2015, the United States was Taiwan's third-largest trading partner, behind only China, and the 10-country bloc of ASEAN.<sup>31</sup>

Taiwan is also an important regional economic player. Its small and medium-sized enterprises have contributed to growth in Asia by investing \$20 billion in business and manufacturing operations in the countries of the Association of Southeast Asian Nations (ASEAN), while President Tsai plans to make Taiwan a hub for high tech innovation in Asia through her "New Silicon Valley" project.<sup>32</sup>



Figure 3: US Exports to Taiwan<sup>33</sup>

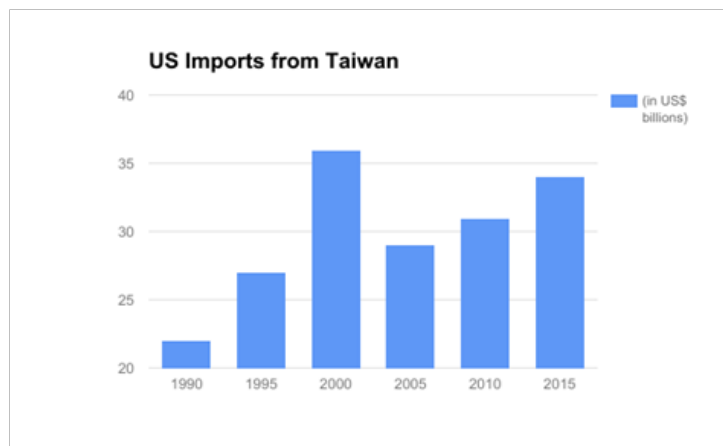


Figure 4: US Imports to Taiwan<sup>34</sup>

Taiwan is already a strong regional and global economic player in its own right, and therefore a valuable partner for the United States. Many of the items labeled "Made in China" that consumers around the world purchase are actually manufactured by Taiwanese factories in the PRC as a way to ensure quality based on Taiwan's superior standards.<sup>35</sup> In addition to being among the top trading partners of the United States, Taiwan also currently ranks among the top 20 economies in the world.<sup>36</sup> Its trade amounted to \$511 billion with the rest of the world in 2016, an incredible number for a relatively compact island.<sup>37</sup> Taiwan's exports alone dwarf those of India, Thailand, Saudi Arabia, Brazil, Australia, Vietnam, South Africa, Israel, and over 160 other countries.<sup>38</sup>

In addition, Taiwan's geographical position between Northeast Asia and Southeast Asia, with the shortest average flight time to all major cities in the Western Pacific, makes it useful as a trade and operations hub for the entire region.<sup>39</sup> It is also a critical node in Northeast Asia's densely woven web of high-tech supply chains.

29 Ibid

30 Ibid

31 The Development of International Trade in the Republic of China (Taiwan), 2016-2017, Taiwan Ministry of Economic Affairs, Bureau of Trade.

32 "Taiwan Trade and Investment," Taiwan Ministry of Economic Affairs

33 Da-Nien Liu. Key Trends Affecting Taiwan's Overall Foreign Trade. Brookings, November 2016.

34 Ibid

35 Shelley Rigger, *Why Taiwan Matters*, (Lanham, MD: Rowman and Littlefield Publishers, 2011) p. 125

36 "Taiwan Trade and Investment," Taiwan Ministry of Economic Affairs

37 "Overview of Economic Statistical Indicators," Taiwan Ministry of Economic Affairs

38 International Trade Statistics 2015, World Trade Organization

39 "Taiwan Trade and Investment," Taiwan Ministry of Economic Affairs

## US-Taiwan Trade Partnership

Taiwanese companies actively benefit from access to the US market, and vice versa, as both sides invest heavily in one another, profiting from the robust trade partnership. Over 600 Taiwanese companies have set up operations in the United States,<sup>40</sup> and according to Taiwan's Ministry of Economic Affairs, "Taiwanese and Taiwan-affiliated companies support more than 97,122 American jobs."<sup>41</sup> In the integrated circuit technology industry, Taiwan's Foxconn famously runs facilities in the PRC that manufacture Apple products, while Taiwan Silicon Manufacturing Company (TSMC), the world's largest independent semiconductor foundry, builds cutting-edge 7nm chips for Apple's iPhones.<sup>42</sup> In July, Foxconn announced that it will invest \$10 billion to build a new manufacturing plant in Wisconsin.<sup>43</sup> Transportation companies like China Airlines, EVA Airlines and Evergreen Marine connect American passengers and goods with the rest of the world.<sup>44</sup> In these ways, Taiwanese companies touch American lives and many facets of the American economy.

Taiwan can best work with the United States in areas where Taiwan has a comparative advantage. Taiwan's leading position in global trade and investment results from a combination of outstanding foresight and its favorable geographical situation. Starting in the 1950s, Taiwan's government had the vision to target specific industries—plastics, synthetic fibers, and electronics components, in particular—for growth based on Taiwan's comparative advantage as a labor market, using investment partnerships with the United States and Japan.<sup>45</sup> Decades later in the 1990s, Taiwan enjoyed a first mover advantage when the PRC liberalized its economy and welcomed foreign manufacturers to set up factories there. Today, Taiwan's world-class industries include integrated circuit technology, transportation, finance, chemicals, and food production, all of which are among the promising areas for US-Taiwan business cooperation.<sup>46</sup>

1. China	9. India
2. Canada	10. Taiwan
3. Mexico	11. Italy
4. Japan	12. Switzerland
5. Germany	13. Netherlands
6. South Korea	14. Brazil
7. UK	15. Ireland
8. France	

Figure 5: Top US Trade Partners for 2016<sup>47</sup>

## Working with Taiwan in East Asia

Taiwan is a valuable partner when it comes to doing business in China and Southeast Asia. There are many benefits available to US companies working with and through Taiwan to access China and East Asia. While US companies often struggle with intellectual property (IP) concerns in countries like the PRC and fear losing core technologies to copycats, Taiwan's government encourages innovation through strong IP laws and enforcement, including dedicated courts and police units.<sup>48</sup> In addition, many US companies, including Corning, Microsoft, IBM, Dupont, and 3M, enjoy preferential tax, investment, and R&D policies in Taiwan, while over 80 US companies have established 105 research and development centers in Taiwan to tap into its highly educated workforce and favorable labor costs.<sup>49</sup> These US companies also use Taiwan as a base for doing business in China, as well as the rest of Asia.<sup>50</sup>

Taiwan can be a preferred gateway for American companies to conduct business in China to take advantage of special cross-strait economic policies. The Economic Cooperation Framework Agreement (ECFA) that Taiwan and China signed in 2010 codified a favorable position for Taiwanese companies doing business in China's market. Since then, multinational companies can work more closely with Taiwan in part to utilize Taiwan's more trusted management standards to access the labor market in China.<sup>51</sup> This arrangement can benefit at least 30 multinationals based in the United States—many of them high-tech Fortune 500 companies—that have operations in Taiwan.

40 "Taiwan Companies in the US," Taiwan Ministry of Economic Affairs

41 Ibid

42 Christian DeLooper, "TSMC is Building Chips with a 7nm Process for the 2018 iPhone and iPad," Digital Trends, January 3, 2017.

43 Julia Horowitz, "Foxconn's Deal to Create 13,000 Jobs in Wisconsin," CNN News, August 21, 2017.

44 "Taiwan Companies in the US," Taiwan Ministry of Economic Affairs

45 Rigger, *Why Taiwan Matters*, 50

46 "2015 Global Top 20 Taiwanese Brands," Taiwan Ministry of Economic Affairs

47 "Top Trading Partners 2016," US Census Bureau

48 "Taiwan Companies in the US," Taiwan Ministry of Economic Affairs

49 Ibid

50 Ibid

51 "Taiwan Trade and Investment," Taiwan Ministry of Economic Affairs

**Corning:** Invested heavily in Taiwan since 1971, especially in the areas of applied material technology in optics, semiconductors, and other optical communications. Opened a \$1.5 billion glass substrate plant in 2006, and currently operates two manufacturing facilities in Taiwan.

**Microsoft:** Established a Microsoft Technology Center (MTC), RFID Excellence Center, and Windows Media Engineering Center in Taiwan.

**IBM:** Starting from a subsidiary in Taiwan in 1956, IBM's business in Taiwan has grown to include an x86 server development center.

**DuPont:** DuPont Taiwan was established in 1968 and has grown to include three manufacturing plants, five joint ventures, and five major enterprise groups. It has invested over \$1 billion in Taiwan to date.

**3M:** Established a manufacturing presences in Taiwan in 1969 selling industrial products, and has grown to focus on broad regional industrial developments since then.

Figure 6: Major US Companies in Taiwan<sup>52</sup>

<p><b>Integrated Circuit industry:</b> TSMC, UMC, Foxconn, Acer, ASUS, First International Computer, MiTAC Information Technology, Chunghwa Telecom, Transcend</p> <p><b>Transportation industry:</b> China Airlines, EVA Airways, Evergreen Marine, Yang Ming Marine, Wan Hai Lines</p> <p><b>Finance industry:</b> Bank of Taiwan, First Bank, Hua Nan Bank, LandBank, E. Sun Bank, Mega International Commercial Bank</p>	<p><b>Chemical Industry:</b> Nan Ya Plastics Corporation, Formosa Plastics Corporation, Grand Pacific Petrochemical Corporation, Eternal Chemical Corporation</p> <p><b>Food Industry:</b> Uni-President Group, Ten-Ren Group, Wei Chuan Corporation, 85°C Bakery Cafe, Lianhwa Foods Corporation</p>
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Figure 7: Major Taiwanese Company Investments in the US<sup>53</sup>

Taiwanese businesses have invested heavily in manufacturing facilities in China, but increasing labor and production costs there have led them to diversify their manufacturing base toward Southeast Asia. Taiwan's government has sought to embrace and amplify this trend with its recently introduced New Southbound Policy. In this sense, the US' and Taiwan's efforts are aligned: both want to do business in Southeast Asia and contribute to the region's economic growth. The most fruitful ways for the two sides to cooperate to this end are at the government-to-government level. US officials can gain valuable perspectives when they

meet with trade officials from Taiwan's economic and cultural offices in Southeast Asia, and new opportunities are created for both sides when diplomats share notes, or when both sides invite each other to join their respective chambers of commerce, such as American Chambers of Commerce (AmCham), or Taiwan's overseas business communities.

Looking forward, Taiwan would be able to contribute more in the international realm if it were to play a greater role in international economic organizations. It is a strong supporter of international trade and rule of law, in line with US interests in the region. Taiwan has already proven how helpful it can be through its role in the WTO as a full member, where it is both an unabashed supporter of a "free and open multilateral trade regime" and an active user of WTO dispute resolution mechanisms, and through its active participation in the ADB and APEC.<sup>54</sup> Though the United States has stepped away from the TPP, Japan and other countries in the region are intent on continuing TPP plans, opening the possibility for Taiwan to be a helpful partner in this regard as well. In addition to multilateral trade agreements such as TPP, Taiwan can work with others to formulate bilateral investment agreements (BIA) and free trade agreements (FTAs).<sup>55</sup> Indeed, the negotiation of a bilateral FTA with the United States is a priority of Taiwan's government<sup>56</sup> and its business community.<sup>57</sup> Taiwan is a cooperative partner that shares liberal values and supports the regional trade regime; it would therefore benefit the United States to engage more with Taiwan both multilaterally and bilaterally, especially as Taiwan seeks a greater international presence.

<sup>52</sup> "US Companies in Taiwan," Taiwan Ministry of Economic Affairs

<sup>53</sup> "Taiwan Companies in the US," Taiwan Ministry of Economic Affairs

<sup>54</sup> "The Development of International Trade in the Republic of China (Taiwan) 2016-2017," Taiwan Ministry of Economic Affairs, Bureau of Trade

<sup>55</sup> Ibid

<sup>56</sup> Ibid

<sup>57</sup> "Testimony of Council President Rupert Hammond-Chambers before the US House of Representatives Subcommittee on Asia and the Pacific," US-Taiwan Business Council, June 15, 2017

## Taiwan as a Regional Security Partner

Decades ago, US General Douglas MacArthur called Taiwan an “unsinkable aircraft carrier.” He meant that Taiwan’s critical geographic position in East Asia ensures that it will always be a valuable security partner to the United States. As indicated in Figure 1, Taiwan is located between Northeast Asia and Southeast Asia, and is immediately east of China. The same geographic advantages that Taiwan holds apply to both security and trade,<sup>58</sup> since it is in a key position within the first island chain.<sup>59</sup> Keeping any potential military conflict within this first chain rather than allowing it to spill east into the second and third island chains will be critical in protecting the Central and Eastern Pacific, and thus the continental US, and US Pacific Command in Hawaii.

Taiwan can use its favorable geographical position to do more alongside the United States in the region to counter threats that range from traditional to non-traditional. Taiwan and the United States face a common threat from North Korea. In addition, Taiwan could perform more freedom of navigation operations in the South China Sea and East China Sea. Like the United States, Taiwan has a vital strategic interest in protecting freedom of navigation in the South China Sea, a region through which the preponderance of its oil imports are shipped.<sup>60</sup> On non-traditional threats, although it participates in counter-terrorism training with the United States and other regional partners, it should also work with its neighbors to counter the growing ISIS terrorist threat in the region.<sup>61</sup> It can also do more to address hacking and other cyber threats. Taiwan could bring to bear its potential military equipment interoperability with the United States and NATO (see below), recent progress in US attention to Taiwan’s military requirements, and the possibility of enhanced military cooperation between the United States and Taiwan in the region to address these shared concerns.

### *Potential for Equipment Interoperability*

As a result of decades of consistent US security commitment toward Taiwan, an important feature of Taiwan’s military is its potential interoperability with the US military, allowing both sides to work together on regional disaster relief, an area that is one of the Taiwanese military’s core missions, and in which it has considerable expertise. Interoperability refers to the ability of different military organizations from different nations or armed services to conduct joint operations.<sup>62</sup> For this to be possible, it is important that equipment from these different organizations be able to communicate.<sup>63</sup> With potentially compatible communications systems, Taiwan’s military would be able to work alongside the United States and US allies in a humanitarian assistance/disaster relief scenario. In the event a typhoon or tsunami hit one of its East Asian neighbors, Taiwan has the capability to join US relief efforts with its heavy lift helicopter capabilities by using Taiwan’s UH-60M Black Hawk helicopters to distribute food and other forms of aid. Taiwan’s military capabilities should therefore be viewed by the United States as an important partnership asset.

The majority of Taiwan’s military hardware is US-origin and therefore potentially interoperable with the US military in a conflict scenario. Taiwan’s F-16 aircraft, naval vessels, and ground vehicles use US-manufactured systems to communicate with each other, facilitating potential interoperability with the United States and US allies. In 1999, the United States approved the sale of a command, control, communications, and computer system for Taiwan that integrates the services into a joint system.<sup>64</sup>

58 Michael Mazza, “Why Taiwan Matters,” *The Diplomat*, March 8, 2011.

59 Alan Wachman, *Why Taiwan? Geostrategic Rationales for China’s Territorial Integrity*. (Redwood City, CA: Stanford University Press, 2007)

60 Military and Security Developments Involving the People’s Republic of China 2017, US Department of Defense, June 6, 2017

61 Quadrennial Defense Review, 2017, Taiwan Ministry of National Defense

62 Interoperability, NATO, 2012

63 Ibid

64 Kan and Morrison, *US-Taiwan Relations*, 19

In 2001, the United States proposed a sale of Joint Tactical Information Distribution Systems/Link 16 terminals to Taiwan, the same type of system that the US military uses to support battlefield data distribution and communication. In testimony before the US-China Economic and Security Review Commission, then-US Deputy Assistant Secretary of Defense Richard Lawless called on Taipei to continue to enhance interoperability with the United States and other security partners.<sup>65</sup>

### *Taiwan's Requirements*

Taiwan's new Quadrennial Defense Review for 2017 (released in March) focuses on the role that Taiwan can plan in regional security concerns. It mentions concerns such as China's new Air Defense Identification Zone and China's construction and militarization of islands in the South China Sea, demonstrating that Taiwan's goals in the region include extending its naval range to patrol the South China Sea. The US Department of Defense's most recent report to Congress on the development of China's military power likewise notes that the "PLA is capable of increasingly sophisticated military actions against Taiwan," a reality to which Taiwan's government and military must adapt.<sup>66</sup>

The United States can work with Taiwan by continuing to help improve its military capabilities so that it can assist with regional concerns. Taiwan is planning to produce naval vessels indigenously, including submarines.<sup>67</sup> It is interested in unmanned aerial vehicles (UAVs) and vertical lift aircraft. It plans to enhance cyber security information technology for warfighting, as well as to increase the ability of its armed services to operate jointly.<sup>68</sup> Since these are all American areas of expertise, US assistance to Taiwan in each will contribute to the military partnership and ensure regional stability. In the same way, the resumption of arms sales by the United States to Taiwan on at least an annual basis, putting an end to the current practice of 'packaging' these sales for politically propitious moments in the US-China bilateral relationship, would do much to

promote cross-Strait ties based on negotiation and mutual respect.

### *Possibilities for Enhanced Military Cooperation*

A practical, effective way to boost military-to-military cooperation would be for the US government to enhance military exchanges with Taiwan. At the working level, the government or a private contractor (with US approval) could set up a military equipment refurbishment depot in Taiwan. Taiwan currently sends much of its high-tech military equipment back to the United States for repairs and maintenance. However, the costs of transporting heavy military equipment containing classified technology across the Pacific and back can be prohibitive. Placing a refurbishment depot in Taiwan would give US defense companies direct access to the equipment that they initially sold to Taiwan, and would cut transportation costs considerably, both of which could help improve Taiwan's military readiness.

In addition, several former senior US officials with extensive experience on China and Taiwan issues suggest new ways for the United States and Taiwan to work together. In reference to finding friendly ports for US naval vessels to call on, former US Representative Randy Forbes stated: "As Beijing's direct control of Hong Kong intensifies, the US Navy should strongly consider shifting its carrier port calls to more stable and welcoming locations ... including Taiwan."<sup>69</sup> The US Senate Armed Services Committee's vote to authorize Taiwan port visits by US naval vessels as part of the broader National Defense Authorization Act is a step forward in this respect. If approved by the full Congress, this provision of the Act would provide the Trump administration with a unique opportunity to strengthen defense ties with a longtime partner.

<sup>65</sup> John Tkacik, "Taiwan Boosts Defense, Must Do More," Heritage Foundation, 2004.

<sup>66</sup> Military and Security Developments Involving the People's Republic of China 2017, US Department of Defense, June 6, 2017

<sup>67</sup> Taiwan Quadrennial Defense Review 2017, Taiwan Ministry of National Defense

<sup>68</sup> Ibid

<sup>69</sup> Randall Schriver, "The Case for Ship Visits to Taiwan," The Diplomat, May 9, 2016.

## Recommendations for the Future of US-Taiwan Relations

The Trump administration has a broad range of Taiwan policy options to choose from, ranging from the status quo to more creative suggestions. The laws and policies set forth in the TRA and Six Assurances are a firm foundation from which to build, but beyond these the president has a free hand in taking future steps toward Taiwan. Moving forward, the United States should:

### Politically:

- Further support Taiwan's participation in IOs, because Taiwan can be a helpful partner to the United States in such organizations (See page 11)
- Upgrade Taiwan's political and diplomatic status (Page 12)

### Economically:

- Work together with Taiwan in Southeast Asia on a government-to-government level to further the United States' and Taiwan's shared vision of regional economic development (Page 16)
- Create a US-Taiwan bilateral FTA and BIA, and push for Taiwan's inclusion in possible future TPP negotiations (Page 17)

### In security:

- Sell arms to Taiwan that align with Taiwan's military requirements, on a regular rather than a 'package' basis (Page 19)
- Establish a refurbishment depot in Taiwan (Page 20)
- Implement US naval vessel visits to Keelung or Kaohsiung harbors (Page 21)



## A Way Forward for the Trump Administration

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Recent visits to Asia by Secretary of Defense Mattis and Secretary of State Tillerson reveal that the United States remains focused on the region, and the US' enduring interests there of political stability, economic growth, and security. Mattis has also reaffirmed the US commitment to its bilateral alliances in Asia, particularly the US-Japan alliance.<sup>70</sup>

In the context of the US commitment to Asia, Taiwan is doing its part in the region, and is a willing partner to the United States. It plays a helpful political role in the international organizations in which it has membership, and has the bandwidth to do more. With regard to trade, Taiwan plays a key role in the East Asia supply chain for high tech products, and manages factories in China and Southeast Asia. In both trade and security, Taiwan's geographical position squarely in the middle of East Asia makes it a valuable US partner. Furthermore, its advanced military assets could be interoperable with the United States, carving out a unique role for Taiwan in regional humanitarian assistance and disaster relief, as well as in conflict scenarios.

Taiwan already contributes enormously to the security and stability of Asia; given the opportunity, it can and will do more, in partnership with the United States.

<sup>70</sup> Alastair Gale, "US Defense Chief Jim Mattis Reaffirms Ties in Visit to South Korea, Japan," Wall Street Journal, February 4, 2017