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By: Russell Hsiao

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In February of this year, the Sasakawa Peace Foundation USA (SPF)—a nongovernmental think tank based in Washington, DC focused on US-Japan relations—hosted a private tabletop exercise (TTX), codenamed *Pacific Trident III*, involving teams of former senior government officials and military officers from the United States, Japan, South Korea, and Taiwan. The exercise simulated multiple hypothetical crisis scenarios in the Indo-Pacific region in order to assess how various allied and partner governments could better respond in real life situations. Specifically, the two-day exercise presented an interesting situation that included a military occupation of the Taiwan-administered Pratas Islands (東沙群島) by the Chinese military and a seizure of Taiping Island (太平島) by a combined force of China Coast Guard (CCG) and People's Armed Police (PAP). The TTX asked participants to role-play different actors that could conceivably be involved in the regional crisis and evaluated their responses. According to the [final report](#) of the exercise detailing the scenarios:

*"A combined China Coast Guard (CCG)/People's Armed Police (PAP) task force arrived and offloaded 300 policemen with relief supplies for the Taiwanese garrison. The police force closed the C-130 capable airfield to all except Chinese aircraft, and announced the mission was purely humanitarian to assist Taiwanese compatriots in distress.*

[...]

*In a major escalation of its activities in the South China Sea, China also sent forces to seize the Dongsha (Pratas) Islands, three strategically located atolls with a*

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*small airfield located 200 nm west of the Luzon Strait. The PLA quickly accomplished this mission without bloodshed. Dongsha has been occupied by Taiwan since the 1950s and unlike other small land features in the South China Sea, it is claimed only by China and Taiwan. In another move directed at a vulnerable Taiwanese-held island, Beijing cut the water supply to two small Taiwan-occupied island groups very close to the Chinese mainland, Kinmen and Mazu [sic].”*

According to a briefing on the exercise hosted by SPF on June 16, Washington declined Taipei’s initial request to assist it in an immediate military intervention to retake the Taiping Island. At the on-the-record event rolling out the report from TTX, Admiral (ret.) Dennis Blair, who served as the former United States Director of National Intelligence and as the commander of US forces in the Pacific region, explained the context for the US team’s rationale for not supporting Taipei’s request to assist in retaking the features. Blair, who designed the exercise and currently serves as an SPF distinguished senior fellow, [stated](#) that US “security guarantee [to Taiwan] is a conditional” and there are “geographic limitations.” That guarantee does not include “new areas” claimed by Taiwan and traditionally in the past did not cover offshore islands, with the possible exception of Penghu (澎湖). Specifically, the retired admiral [stated](#):

*“The US security guarantee to Taiwan is a conditional guarantee [...] [t]here are some geographic limitations. For example, it’s a matter of open policy that the security guarantee does not cover the offshore islands Kinmen and Matsu, but it does cover Penghu, the islands that are much closer to Taiwan [...] Those geographic questions have been discussed in American policy, previously. The Taiwanese claimed islands in the South China Sea were a newer area and are not available in openly available US policy. We poked around in policy ambiguity because it can expose some new ideas.”*

While Taiping Island is around 863.9 nautical miles south of Taiwan, Pratas is only 239.7 nautical miles from Taiwan’s southern metropolis of Kaohsiung and is administered by the city’s Cijin District (旗津). [ROC Coast Guard](#) personnel are in fact stationed on both

territories.

Shedding light on the US thinking, Kelly Magsamen, a participant on Team USA and the vice president for National Security and International Policy at the Center for American Progress, [explained](#) Washington’s decision to decline supporting Taipei’s expedition to retake Taiping Island as a move based on a fundamental objective to “deter Beijing from taking further actions against Taiwan.” The former senior NSC official mentioned that the United States wanted to negotiate directly with Beijing to secure the withdrawal of Chinese forces from those islands. This was aimed at controlling any potential escalation—such as Taiwanese military action to retake Taiping—through what she described as “a wider play” to “control the initiative.” This was in reference to other actions taken by the US team—such as inserting a SEAL team—designed to exert pressure in other places to build leverage over Beijing and coerce it into withdrawing from Taiping Island. Other participants from Team USA on the call suggested that the ambiguity in US policy towards Taiwan and the South China Sea at times took decision-makers down different paths, depending on the broad directive from the US president.

One of the participants on Team Taiwan was Admiral (ret.) Lee Hsi-ming (李喜明), who most recently served as chief of the general staff of the Republic of China (ROC) military, before retiring in late 2019. Sharing his personal observation on the exercise—and specifically on the US decision to reject Taipei’s request to retake the island, Admiral Lee [stated](#):

*“For Taiwan team to deal with Taiping Island is not easy to have so many friendly nations together with us to deal with China. So we [Taiwan Team] wanted to take this opportunity. However, to be very frank, we were always disappointed when we got the answer from the US.*

*[...]*

*We considered that Taiwan needs to solve two issues. First, [...] we needed US support to bring our forces onto the Taiping island. Second, we were acting as a coalition, so we had to respect the US decisions. [...] [T]he action that we [coalition forces] took like the joint patrols through the Taiwan strait, showed that China didn’t really*

*take it for certain. The US wanted to maintain the status quo [...] Instead this was a good time to create a new status quo and the new status quo could provide benefits to the allied nations.”*

Other American participants in the exercise [suggested](#) that the lack of clarity over the United States’ willingness to go to war over territorial disputes in the South China Sea could be an issue going forward. This ambiguity stands in contrast to its clear commitments elsewhere in East Asia and could potentially limit the actions that the United States may be willing to take in response, in coordination with allies and partners, to Chinese military and gray zone actions in the area. One of the explicit conditions of the [exercise](#) for the US is that it included a presidential direction to not get into a war with China over its conflict with Taiwan in the South China Sea given US positions on territorial disputes in the region. Ultimately, the exercise revealed that it may be necessary for the United States to assess what it would be willing to fight for in the South China Sea.

In light of the events of the exercise, the TTX report recommended:

- [Expanding](#) Japan’s and South Korea’s mechanisms to consult and coordinate with Taiwan so they resemble the robust connection between the United States and Taiwan. Establish a secure VTC link between the United States and Taiwan that can be used for consultations at all levels and among all national security departments. Ensure that this secure VTC can be expanded to other American strategic partners or allies in the event of crisis or conflict.
- [Planning](#) associated with US military options in support of the TRA should recognize the requirement for a rapid expansion of consultative and cooperative mechanisms with Taipei. There has always been a moral hazard that expanded US-Taiwan joint military planning would encourage provocations from China. Clear guidance about the importance of consultation, but the conditional nature of contingency plans, can provide the same benefits without incurring the hazard.

The circumstances presented in the TTX scenario seem to assume that the most plausible motivation for Bei-

jing’s decision to occupy the Taiwan-administered Pratas and Taiping Islands would be a prelude to imminent military actions against the mainland of Taiwan. Indeed, this is how it appears to have been interpreted by Team USA. However, it is worth considering whether the Chinese motivation in a real scenario could be just as much about control of the South China Sea than taking further military action against Taiwan—which could result in direct military conflict with the United States that both Washington and Beijing want to avoid. Indeed, the location of the Pratas Islands could be essential in the longer term for Beijing to control the access points to the vast expanse of the South China Sea, given its central geographic location between the Chinese mainland and the South China Sea.

Since it is in the clear interest of all sides to try to avoid direct military conflict, the Chinese action would likely have taken into account the possibility of a military response from the United States and thus the probability of war should it attack Taiwan. The assumption of the United States that an attack on the mainland of Taiwan may be enough to raise the stakes high enough for Washington to preclude a military response to Beijing’s seizures of those islands may serve its objectives (if Washington is unable to convince or force Beijing to withdraw from those islands) were focused only on preventing that possibility and thereby not countenancing the costs of losing those islands—certainly for Taiwan but also for the broader region as well.

The TTX, which was held in early February 2020, is now being rolled out against the backdrop of intensifying friction in the South China Sea, making the scenarios envisioned by the exercise more than a mere remote possibility. Indeed, in April, Beijing unilaterally [expanded administrative controls](#) over the features and islands in the South China Sea, including both Taiping Island and the Pratas. In May, [reports](#) emerged that China may soon declare an air defense identification zone (ADIZ) over the area covering the Pratas, Paracel, and Spratly islands. Another surge of Chinese military exercises around Taiwan have since occurred, and Taiwan’s defense minister [revealed](#) how China may already have established an ADIZ in the South China Sea—although it has not formally declared one. Of particular relevance to the TTX exercise, [reports](#) began to emerge in May that the [PLA’s Southern Theater Command](#) is



planning a beach-landing exercise in the South China Sea in August to simulate a takeover of the Pratas Islands. Ostensibly in response to these reports, Taiwanese marines have been temporarily deployed to the Pratas Islands, a Taiwanese defense official [confirmed](#) in late June. It is worth pointing out that Taiwan's military [recalled all soldiers](#) stationed on the main island features it holds in the South China Sea in 2000—Taiping Island and the Pratas Islands—and replaced them with Coast Guard personnel.

As noted by a participant playing Team China during the exercise, any sign of US inaction, such as with Taiwan early in the game, or any hesitation by allied partners will be seen by Beijing as small victories. “We should encourage Tokyo and Seoul to create a political and military network for contingencies [with Taiwan]. In reality, we’ve tried this for many years but never were successful. We need the US to lead in establishing this network,” [said](#) Admiral Lee.

**The main point:** A think tank tabletop exercise has highlighted challenges in responding to Chinese military and gray zone actions in the South China Sea. In response, the recently released report on the exercise calls for expanding military consultations between Japan, South Korea, and Taiwan.

*(The author would like to thank Joseph Ross for his research assistance.)*

## The COVID-19 Factor and Impact of US-China Trade War on Taiwan

By: Eric Bouchard Siddiq

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The outbreak of the novel coronavirus (COVID-19) is wreaking havoc on the [global economy](#), bringing even greater uncertainty to a world order already in flux. As a result, Taiwan's economy is experiencing a slowdown, with a lower than expected gross domestic product (GDP) growth in the first quarter of 2020. To be sure, the Taiwanese economy seems to have

been [spared from the worst effects of COVID-19](#), yet the intensifying trade war between the United States and China will likely compound the complexity for the Taiwanese economy going forward. For instance, the US-China trade war has raised the issue of Taiwan's trade reliance on the Chinese market in the face of US tariffs while encouraging businesses from Taiwan to reinvest in the island. The COVID-19 pandemic has also highlighted global dependence on the supply chain for many critical products—such as in the pharmaceutical industry—that are mostly sourced from China with Taiwanese input. However, it has also helped to increase demand for other exports from Taiwan. Overall, both the COVID-19 pandemic and the ongoing trade war are likely to have significant implications for the island.

### **How Did We Get Here?**

Since the 2016 American presidential election, President Donald Trump has focused on making “better” trade deals in order to benefit the US economy and increase American manufacturing jobs. Doing away with “[unfair](#)” trade deals and not allowing other countries to “[take advantage](#)” of the United States have been his administration's most important policy positions. [Starting in 2017](#), Trump began talks with China over trade. When the two governments failed to reach an agreement, the United States slapped tariffs on China throughout 2018, with an average tariff increase of [8.2 percent](#). These actions eventually led to large-scale US tariffs on [many goods](#) from China, such as plastic tableware, handbags, luggage, and clothing. Meanwhile, China retaliated against the United States with [tariffs](#) on US agricultural goods, including soy beans, crude oil, and 5,078 other product categories.

After nearly three years, the US-China trade war has yet to be resolved, and many [other countries](#), especially [Taiwan](#), have been caught in the crossfire. Taiwan has been placed in a difficult position as a key trade partner of both China and the United States. What has happened to Taiwan's economic and trade relations with the two countries since the onset of the trade war, and how has the COVID-19 outbreak affected Taiwan's position between China and the United States?

### **Taiwan's Economic Links with China**

China has a huge role when it comes to Taiwan's economy, accounting for approximately 30 percent of Tai-

wan's total trade, making China Taiwan's [largest trading partner](#). This amounted to USD \$150.5 billion dollars in bilateral trade in 2018. Many Taiwanese businesses have [established production](#) operations in China. For instance, Taiwanese technology companies such as Taiwan Semiconductor Manufacturing Co. (TSMC, 台灣積體電路製造股份有限公司) are [heavily reliant](#) on the Chinese supply chain. During a recent slowdown in the Taiwanese economy, turning to China [seemed like an excellent solution](#) to some Taiwanese, as shown in Han Kuo-yu's (韓國瑜) 2019 election victory as mayor of Taiwan's second largest city, Kaohsiung. Han's campaign focused on selling more Taiwanese fish, vegetables, and other goods to the Chinese market as a way to revitalize the city's economy, which has been [stagnant](#) since 2017. [Taiwan's GDP](#) is expected to reach 2.5 percent growth in 2019, down 0.3 percent from 2018, while its wages have [remained stagnant](#). These problems, combined with significant links between the Chinese and Taiwanese economies, further reinforce Taiwan's need to diversify economic links with foreign trade partners and to not rely on Chinese investment to help improve the sluggish economy.

Taiwan has implemented multiple policies in order to combat this economic stagnation and reliance on China. To this end, the Tsai administration has launched the [New Southbound Policy](#) (NSP, 新南向政策) and the [InvesTaiwan office](#) (投資台灣事務所). Both of these initiatives have had moderate success, but [have not](#) yet yielded their desired results. The NSP has brought more international attention to Taiwan and has helped to [build stronger relations](#) with some Southeast Asian countries, including the Philippines and New Zealand. Since the announcement of the NSP in 2016, Taiwan's trade with the 18 targeted countries has increased by [22 percent](#). Despite this progress, Taiwan has yet to create strong and sustained economic growth, as shown by its [reduced GDP growth rate](#). InvesTaiwan, on the other hand, is starting to see some [success](#), with many businesses moving production back to Taiwan, a phenomenon also spurred by rising US-China trade tensions and the supply chain disruption in China caused by the coronavirus.

### ***Costs and Benefits of the US-China Trade War***

The US-China trade war could have significant economic consequences for Taiwan. In many cases, the main

costs from the trade war are not from direct US tariffs on Chinese goods, but rather from [decreasing US demand](#) for Chinese goods, which often use Taiwanese components such as semiconductors. One of the most significant risks to Taiwan is the [disruption of the supply chain](#) in China, which could dampen global demand for Taiwanese electronics. This disruption is the result of an array of factors, including the coronavirus pandemic, US tariffs, and the Trump administration's increasing policy focus on limiting imports of Chinese products from companies such as Huawei, which uses components from Taiwanese firms such as TSMC.

While the trade war has had negative impacts on Taiwan, there are also many upsides for Taiwan's economic outlook. As a result of shifting trade patterns, Taiwan has sent an additional [USD \\$4.2 billion in Taiwanese exports](#) to the United States in 2019 compared to the previous year. Of that amount, USD \$2.8 billion comes from office machinery and communication equipment from Taiwan, according to a [UN report](#). This is compared to a [USD \\$10 billion drop](#) in exports of office machinery and communication equipment from China. These immediate gains are crucial to support Taiwan's long-term goal of increasing its economic footprint in the global economy.

The trade war is also one of several factors behind the relocation of Taiwanese firms [back to Taiwan](#). [US tariffs](#) are increasing the costs of exporting goods from China to the United States and lowering US demand for Chinese goods. As a result, Taiwanese firms are [considering moving](#) production from China back to Taiwan or to ASEAN countries. Taiwan has the most to gain from the production relocation resulting from the trade war. Not only could Taiwan grow economically, but more Taiwanese businesses investing back into the island over the long-term would help to relieve Chinese leverage and influence over the Taiwanese economy. However, Taiwan will need to ensure that the relocation costs are low and that the large-scale influx of businesses does not drive up labor and land costs, which could discourage further companies from returning. Taiwanese businesses that require high-skilled labor may find Taiwan the most suitable destination for relocation, whereas those seeking low-skilled labor could turn to Southeast Asian countries such as Vietnam.

### ***The COVID-19 Factor***

The outbreak of the novel coronavirus in Wuhan, China, which has since spread around the world, has complicated the transfer of production from China to Taiwan and other ASEAN countries. Taiwanese firms at first [struggled](#) to deal with the pandemic and its ramifications in China, as the halt in production in China led to a shortage of raw materials, which are usually imported from China. While Chinese factories are [restarting production](#), the significant supply chain disruption during the outbreak has exposed the level of Taiwan's economic dependence on China and its supply chain. The coronavirus pandemic is making a more compelling case for Taiwanese firms to move production back to Taiwan or to shift manufacturing to ASEAN countries.

The economic outcome of the COVID-19 outbreak is yet to be fully determined, as Taiwan's [GDP growth](#) reportedly slowed to 1.54 percent in the first quarter of 2020, down from 3.31 percent in the previous quarter in 2019. Many European countries have closed their borders and shut down economically, while the United States is suffering a pronounced economic recession. These factors are [threatening imports](#) from Asian exporters, including China and Taiwan, as global demand falls during the economic downturn. While the Phase 1 of the US-China trade deal [took effect](#) in February, it may be difficult for both countries to implement the deal in light of the outbreak. The COVID-19 crisis creates additional uncertainty for Taiwan on top of the trade war, while also creating an opportunity to accelerate the tide of Taiwanese businesses reshoring to the island. The US-China trade war and the COVID-19 pandemic have created a unique situation for Taiwan. In order to navigate it successfully, Taipei will need to mitigate the potential adverse effects arising from a global economic slowdown and capitalize on Taiwanese firms returning to the island.

**The main point:** While both the US–China trade war and COVID-19 have had adverse effects on Taiwan immediately, Taipei has the potential to come out of these two unique circumstances in a much stronger position than it was in previously if both are handled properly.

### **East China Sea Dispute Simmers after Japanese Name Change**

By: I-wei Jennifer Chang

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On June 22, the city of Ishigaki in the Japanese prefecture of Okinawa—which has administrative jurisdiction over the disputed Diaoyutai (釣魚台)/Senkaku Islands (尖閣諸島) in the East China Sea—[passed a bill](#) to change the district name of these islands from Tonoshiro to “Tonoshiro Senkaku” (登野城尖閣), purportedly in response to increased [Chinese incursions](#) near the islands. This recent Japanese name change, which will take effect on [October 1](#), has once again renewed tensions in a nearly [half-century](#) territorial dispute between Taiwan, Japan, and China, and has led [local interest groups](#) and [opposition party](#) politicians within Taiwan to press the central government to defend the Republic of China's (ROC) sovereignty. President Tsai Ing-wen's (蔡英文) administration has thus far managed to prevent its ongoing fisheries and sovereignty disputes over the Diaoyutai Islands from exacerbating tensions in its partnership with Tokyo.

#### ***Taiwanese Local Reactions***

Politicians from both [major parties](#) in northeastern Yilan County criticized Ishigaki's [impending](#) name change of the disputed islands. In advance of the Ishigaki vote, the [Yilan County Council](#) (宜蘭縣議會) approved a motion on June 11 proposing that the Diaoyutai Islands be renamed “Toucheng Diaoyutai” (頭城釣魚台) in order to highlight that the county's [Toucheng Township](#) (頭城) has administrative authority over the islands. The county council moved to [pre-empt the Ishigaki vote](#) through its own name change in order to defend ROC sovereignty over the Diaoyutai Islands.

The Ishigaki bill sparked new protests from politicians and fishermen in Yilan County, as the Diaoyutai Islands, from Taiwan's perspective, fall under the jurisdiction of [Dasi Village](#) (大溪里) in the county's Toucheng Township, while the waters surrounding the Diaoyutai have been the [traditional fishing grounds](#) for several generations of Yilan fishermen. Fishing groups in Yilan County's [Suao](#) (蘇澳) Township, concerned about



their fishing rights, protested the new Japanese name change, as they had done previously in [2017](#) when the current name change was [initially proposed by Ishigaki's mayor](#). Yilan County Councilor [Tsai Wen-yi](#) (蔡文益) suggested gathering a group of fishing boats from the Toucheng and Suao townships on July 7—the anniversary of the 1937 Marco Polo Bridge Incident (七七事變) that ignited the Second Sino-Japanese War—to defend the islands.

In addition, Yilan County Magistrate [Lin Zi-miao](#) (林姿妙), who is a member of the opposition Kuomintang (KMT) party, called on President Tsai to visit the Diaoyutai Islands to assert ROC sovereignty. KMT Chairman [Johnny Chiang](#) (江啟臣) backed this bold move and also put pressure on the Tsai government “to take all necessary measures” to safeguard the sovereignty and fishing rights of the ROC on the islands. Taiwan’s [Ministry of Foreign Affairs](#) (MOFA) responded that the Japanese name change would not change the fact that the Diaoyutai Islands remain an integral part of Taiwanese territory. President Tsai reiterated [Taiwan’s claim](#) over the Diaoyutai Islands and urged other claimants to [put aside their disagreements](#) and [jointly develop](#) the islands with Taiwan. Unlike her predecessors Chen Shui-bian (陳水扁) and Ma Ying-jeou (馬英九), who made [trips to Pengjia Islet](#) (彭佳嶼)—the closest ROC-held territory to the disputed island chain—to claim sovereignty over Diaoyutai, Tsai thus far has refrained from participating in this nationalistic overture. Instead, she has taken a more cautious and less confrontational approach vis-à-vis Japan, which has been a vocal advocate for Taipei’s [participation in the World Health Assembly](#) and has grown in strategic importance for Taiwan as cross-Strait tensions sharpen. Indeed, the renewed tensions in the East China Sea come at a time when Taipei critically needs Japanese diplomatic support to buffer against increasing political and military pressure from Beijing.

### **East China Sea Dispute**

Japan currently [administers](#) the uninhabited, resource-rich Diaoyutai Islands, but both [China](#) and [Taiwan](#) claim sovereignty over them. In January 1895, after the outbreak of the First Sino-Japanese War, the [Japanese Empire](#) secretly invaded and occupied the islands in the East China Sea. In April 1895, the Qing Dynasty and the Japanese Empire ended the war with

the signing of the [Treaty of Shimonoseki](#), which ceded Taiwan and all affiliated islands to Japan. Following the end of World War II, [the United States](#) assumed trusteeship over the Diaoyutai/Senkaku Islands until May 15, 1972, when Washington handed over administrative management of the Ryukyu and Diaoyutai Islands to Tokyo but took [no position on the sovereignty](#) of Diaoyutai. Taipei has argued that the islands and Taiwan were both [returned to the ROC](#) after 1945, a strikingly similar position to the one held by [Beijing](#).

Regional tensions rose after the Japanese government announced the [“nationalization”](#) of the Diaoyutai in September 2012. Large-scale [anti-Japanese demonstrations](#) in China led to the destruction of Japanese offices, restaurants, and shops. In Taiwan, the Suao Fishermen’s Association (蘇澳區漁會) organized a demonstration involving [58 fishing boats and 292 fishermen](#), which sailed under the protection of the ROC Coast Guard to the waters near the Diaoyutai Islands in a four-hour standoff against the Japanese Coast Guard. Northern Taiwanese fishermen have long complained about [harassment from the Japanese Coast Guard](#) while fishing near the Japanese-administered islands.

The territorial dispute took center stage during Ma Ying-jeou’s administration, which sought to gain greater [fishing rights](#) without compromising Taiwan’s claims of sovereignty over the islands (主權不讓步，漁權大進步). Ma proposed an [“East China Sea Peace Initiative”](#) (東海和平倡議) on August 5, 2012, intended to resolve the territorial dispute through bilateral and trilateral negotiations with China and Japan. Ma emphasized that all three sides could [jointly explore and develop resources](#) in the East China Sea and create a [code of conduct](#) to prevent confrontations in the area.

### **Taiwan-Japan Fisheries Agreement of 2013**

After [16 rounds](#) of fisheries talks that began in 1996, Taipei and Tokyo reached a landmark bilateral agreement in 2013 aimed at resolving their 40-year fisheries dispute. The [Taiwan-Japan Fisheries Agreement](#) (臺日漁業協議), signed on April 10 of that year, was the first agreement that addressed each side’s fishing privileges in the overlapping Taiwanese and Japanese exclusive economic zones (EEZ). This pact enabled Taiwan’s fishing vessels to operate freely within a [74,300-square-kilometer area](#) around the Diaoyutai Islands and north

of Japan's Yaeyama and Miyako Islands, giving Taiwanese fishermen an additional [4,530 square kilometers](#) (or 1,400 square nautical miles) to fish without interference from Japan. However, the agreement did not apply to the maritime zone within [12 nautical miles](#) of the Diaoyutai Islands, which both countries continue to contest. Ma suggested that a similar approach could be taken between Taiwan and [the Philippines](#) in their fishery talks, which resulted in a fishing agreement in [2015](#). The Taiwan-Japan Fisheries Agreement has also been proposed as a model for cooperation between the myriad of countries vying for territorial and sovereignty rights in the [South China Sea](#).

### *Lingering Tensions over Fishing Rights*

Although former President Ma claimed that [fisheries disputes declined](#) significantly in the years following the 2013 agreement, the issue has yet to be resolved and continues to be a source of friction between Taiwan and Japan. [Japanese fishermen in Okinawa](#) want to amend the fisheries agreement by reducing the perimeter of the permissible maritime area for Taiwanese fishermen. However, the [Suao Fishermen's Association](#) argued that changing the agreement would decrease their catch, given that most [bluefin tuna](#) live in the proposed excluded area.

The [Taiwan-Japan Fisheries Commission](#) (臺日漁業委員會), established by the Taiwan-Japan Fisheries Agreement, has convened annually to discuss amendments to the 2013 pact. At the latest meeting in late March 2020, the two sides failed to agree on changes to the existing maritime zone, according to MOFA. The stalled progress comes against the backdrop of several new incidents involving Taiwanese fishing vessels chased off by Japan's coast guard. In March, two [Taiwanese fishing vessels](#) that were operating in Taiwan's EEZ off the coast of Hualien and Taitung were driven off by Japanese official vessels. Then, in early April, Japan warned Taiwanese fishing boats not to enter its [EEZ around Okinotori Islet](#) (沖之鳥), which is not internationally recognized under the [United Nations Convention on the Law of the Sea](#) (UNCLOS).

The recent spat over Ishigaki's name change to the Diaoyutai/Senkaku Islands has once again brought the East China Sea dispute between Japan, Taiwan, and China back into the political limelight. [Beijing](#) called the

Japanese name change "a serious provocation to China's territorial sovereignty," arguing that it is "illegal, invalid, and cannot change the fact that the Diaoyu Islands belong to China." In Taiwan, the contention over the Diaoyutai Islands is as much about pragmatically securing [fishing rights](#) for northern Taiwanese fishermen as it is about safeguarding ROC sovereignty from foreign interference, regardless of whether the threat comes from a traditional adversary (China) or a friendly nation (Japan). The territorial dispute has been politicized in Taiwanese politics, as opposition parties—namely the KMT—have called the Tsai administration "[weak](#)" for not being more assertive in protecting Taiwanese fishermen against repeated interference by Japanese ships and failing to defend the ROC's sovereignty over the Diaoyutai Islands.

However, the main geopolitical factor that may have affected Taipei's management of its fisheries dispute with Tokyo is the state of cross-strait relations. Former President Ma's [outreach to Beijing](#) seemingly created a new political alignment that could pit both Taiwan and China against Japan. Backed by [improved relations with China](#), the Ma administration presumably had more leeway to up the ante against Japan on the issue of Taiwanese fishing rights. By contrast, the Tsai administration may have calculated that it cannot afford to alienate Japan over the longstanding territorial dispute given the current regional environment. Beijing's political and military [pressure campaign](#) against Taipei has made Japan's support all the more indispensable.

**The main point:** The recent spat over a local Japanese government's name change to the Diaoyutai/Senkaku Islands has renewed tensions with Taiwan. Despite reaching a landmark fisheries agreement in 2013, the fisheries dispute remains a continual source of tension between both sides.



## Leveraging Technology in Taiwan and South Korea’s “Southbound” Policies

By: Sahana Kumar

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Unlike previous policies focused primarily on diversifying Taiwan’s economic ties, Taiwan’s leaders frame the [Southbound Policy \(NSP, 新南向政策\)](#) as a comprehensive political, diplomatic, and even social initiative to create a “regional strategy for Asia.” Taiwan should take advantage of similar efforts promoting regional connectivity in countries like South Korea (ROK) and India. Taiwan and South Korea are both technology leaders that want to develop vibrant startup sectors; deepening technology cooperation with India could help achieve the strategic and economic goals contained in their regional strategies. Both Taiwan and South Korea’s diversification plans emphasize a “bottom-up” approach to connectivity, including significant people-to-people components. That approach, especially relevant in the tech sector, offers a low-cost way to develop connections that will deliver long-term economic benefits.

Fears of economic dependence on the People’s Republic of China (PRC) loom large over Taiwan’s efforts to look south, as they do to a lesser extent in South Korea. China’s Belt and Road Initiative (BRI, 一帶一路) has sparked wider discussions throughout the region and in the United States over how to create alternative options to strengthen regional integration. Despite efforts by Japan and other countries to boost regional infrastructure development, realistically it is impossible to match China’s state-directed efforts to drive lending and investment in third countries. Given the legacy of some of [the BRI projects](#), mimicking China’s approach does not seem smart, either. While it won’t deliver the type of immediate impact that appears in the latest trade and investment numbers, Taiwan and South Korea’s ability to expand technological partnerships with India could offer a more sustainable basis for regional integration that serve all three countries’ interests.

## Taiwan and South Korea—The Two NSPs

### Shared Visions

President Tsai announced the NSP in 2016, targeted at building Taiwan’s relationships with 18 countries including ASEAN nations, Australia, New Zealand, and India. While covering a range of activities, the NSP’s “four pillars” are comprised of:

- 1) strengthening economic ties,
- 2) enhancing people-to-people exchanges,
- 3) promoting resource sharing and cooperation on issues like healthcare and agriculture, and
- 4) strengthening regional and institutional links through, for example, Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs).

The [strategy](#) aims to use exchanges in a range of target fields to advance regional connectivity. In 2017, South Korean president Moon Jae-in also announced a “New Southern Policy” aimed at elevating ties with ASEAN countries and India, to bring them to the level of South Korea’s four strategic partners—the United States, China, Russia, and Japan. [The Southern Policy](#) focuses on three main components: 1) peace, 2) people, and 3) prosperity. The “peace” component refers to improving security cooperation with target countries, representing a more overt strategic component than can be found in Taiwan’s NSP. China’s economic retaliation against South Korea for installing the US-made Terminal High Altitude Area Defense (THAAD) system provided a catalyst for the ROK to [try and diversify](#), economically and politically, away from traditional partners. Like Tsai, Moon has also outlined a broader positive vision for engagement with South and Southeast Asian countries beyond just mercantilist or realpolitik considerations. Similar to Taiwan’s NSP, South Korea’s [New Southern Policy](#) also underscores using a people-driven approach.

### The Challenges

While both Taiwan’s and South Korea’s leaders have prioritized these policies compared to previous efforts by past governments, achieving the promised economic linkages with South and Southeast Asian countries faces major hurdles. Challenges range from institutional capacity and bandwidth issues to political

resistance on topics like trade and immigration liberalization. Though governments in Seoul and Taipei have increased funding for these initiatives in recent years, the total amounts allocated remain relatively limited. [1] While investment into NSP countries has risen over the past several years overall, [Taiwan's investment in mainland China](#) still exceeds its investment into NSP countries by roughly four times. Though increasing in countries like India in 2018, Taiwan's investment overall in NSP countries actually fell from 2017 to 2018. Meanwhile, despite longer investment ties, navigating ASEAN's diversity has challenged South Korea. While the country has developed a strong economic relationship with Vietnam (which is also the largest recipient of South Korean development assistance), there is, nonetheless, considerable space for South Korea to enhance its trade and investment with—and its understanding of—Southeast Asian countries.

Even measuring the strategies' impact through economic indicators poses problems. It is difficult to separate the effect of these policies from wider market factors, like a slowdown in China, that could be leading to greater investment in South and Southeast Asia. In economies not dominated by state-owned entities, it is market conditions, not foreign policy interests, that ultimately drive the trade and investment decisions of private companies. Targeting developing countries, which lag behind in infrastructure and regulatory frameworks, becomes that much harder. For example, former President of Taiwan [Lee Teng-hui's "Go South Strategy"](#) in the 1990s struggled when private companies were put off by underdeveloped infrastructure and regulation in Southeast Asian countries. Offsetting these costs in the short term by providing significant subsidies or financial incentives to companies is neither economically nor politically feasible. [2]

Finally, both South Korea and Taiwan have bandwidth limitations in pursuing their respective southern-focused policies. Each faces a dominant geopolitical challenge—China for Taiwan and North Korea for the ROK—which inevitably takes up the bulk of public and government focus. For example, South Korea had to delay the implementation of its [New Southern Policy](#) as engagements with North Korea ramped up. The [his-toric focus](#) on traditional foreign policy priorities also means that it will take both governments time to build

up government capacity to engage in less familiar territory.

### ***Potential Opportunities***

Despite the challenge of diversifying economic partners in the short term, Taiwan and South Korea's strategies can help create more organic, long-term linkages in critical areas. Both Taiwan's and South Korea's policies include a new focus on India, where Prime Minister Narendra Modi's administration has tried implementing its own "Act East" policy. Taiwan, South Korea, and India all independently have strong technology sectors, and connectivity between them could act as an achievable initial step towards more interconnection. Taiwan's NSP specifically [emphasizes e-commerce](#), including plans to develop cross border e-commerce partnerships between Taiwan's businesses and local providers in NSP countries. While South Korea's policy lacks an explicit technology component, the country could leverage its strength as one of the world's most technologically advanced nations as a means to [engage India](#).

E-commerce has driven the [internet economy in Asia](#), which now represents the largest e-commerce market in the world. Business-to-business e-commerce, which makes up a large majority of e-commerce sales in the region, could help connect small businesses in Taiwan, India, and South Korea, especially since Taiwan's NSP also emphasizes engaging small and medium enterprises. For South Korean companies facing an increasingly competitive domestic consumer e-commerce market, cross-border business-to-business e-commerce could provide a [valuable area of potential growth](#). Meanwhile, Taiwan's [relatively small domestic market](#) can hinder startups' ability to expand quickly, compared to places like the United States and China where large domestic markets help spur development. India's [450 million internet users](#) (though representing around only 35 percent internet penetration) could offer new customers and help offset these challenges for Taiwan and South Korea. For [companies in India](#), where the country's lower average income levels still pose a ceiling on how rapidly a startup can expand and the types of products and services that can be sold, access to higher-income markets like Taiwan and South Korea could help startups grow, as well.

In addition to providing new markets, tech sector cooperation can help spur domestic innovation. In Taiwan, President Tsai has advanced the Asian Silicon Valley (ASV) initiative, aimed at making Taiwan a major research and development center for internet of things (IoT) research. In South Korea, creating a [successful startup ecosystem](#) will help diversify the country's economy away from overreliance on major conglomerates like Samsung and Hyundai. While both Taipei and Seoul have provided financial and infrastructure initiatives to spur startup development, promoting talent exchanges and programs offer a lower-cost, and potentially more effective, way of driving innovation. [3]

International networks are playing an increasingly critical role in promoting technology sector development, by creating "a thick web" of links through which entrepreneurs can [exchange ideas and collaborate](#). Human networks matter more for developing [successful startup sectors](#) than the physical infrastructure that countries devote to creating "technology parks." For example, roughly two-thirds of all new patents involve partnerships, while the average team size involved in a patent [has doubled](#) since the 1970s. Taiwan, South Korea, and India all have strong technology hubs in places like Taoyuan, the Pangyo Techno Valley, and Bangalore, respectively. As the role of international collaborations in patent production rises in importance, linking these technological centers could help create a wider community of tech entrepreneurship, accelerating innovation in all three locations. [4]

Taiwan's government has already taken a forward-leaning stance on this issue, pursuing a [New Economic Immigration Act](#) that eases restrictions on foreign workers to attract international talent. While the issue of immigration remains far more sensitive in South Korea (as it does globally), Taiwan's willingness to open its labor markets to skilled workers, including those potentially from South Korea and India, could eventually allow it to become a hub for experts across Asia to work together. The island already hosts AppWorks, which is the [largest startup network in Asia](#) and includes 351 startups. Increasing connections with foreign entrepreneurs and startups will not only help [stimulate Taiwan's local system](#), but will help Taiwan-based startups navigate foreign markets. [Taiwan's NSP](#) recognizes this piece of the puzzle, noting that people-to-people exchanges

could help Taiwan's businesses "develop a deeper understanding of specific industries and economic areas in target countries, and to better identify niche areas for expanded cooperation." Over the long term, becoming familiar with new markets through these connections [can help companies](#) (particularly small companies lacking resources) tackle challenges like cultural and compliance barriers, allowing the development of a more global product.

Given how politically fraught the issue of foreign workers can be, promoting international collaboration on science and technology could offer an easier first step for South Korea. The South Korean and Indian governments signed five joint memoranda of understanding in science and technology in 2018. Their aims include promoting talent exchanges and establishing a [Future Vision Strategy Group](#) that will conduct joint research in fields like artificial intelligence. The two countries could also leverage [each other's strengths](#): South Korea's in commercializing technology and India's in basic sciences research. Strengthening basic science will help the Moon government's wider push for innovation outside the information and communication technology sector and drive the country's growth. Despite being one of the highest spenders on research and development, South Korea's levels of [international partnership](#) in science and technology remain relatively low, both in terms of academic research and in terms of patents. Given that returns to R&D investment are falling and technological breakthroughs are taking longer to materialize, pooling expertise through collaborative efforts is proving especially helpful in promoting innovation and advancement. Aside from government-led initiatives, academic reforms that avoid penalizing researchers for taking part in multi-author international studies could also help South Korea [diversify and advance](#) its tech sector.

### **Limitations**

Increased technology sector cooperation certainly will not address the region's wider development needs, including its vast infrastructure demands and job creation requirements. For Taiwan, South Korea, India, and other Asian countries, only internal economic reforms can drive economic growth. Other domestic policies, like India's data localization initiatives, could further complicate developing technology partnerships with other countries. The Indian government's [repeated use of in-](#)



[internet shutdowns](#) (including the ongoing shutdown in Kashmir) not only damages the country's democratic standing, but impacts digitally-dependent economic activity. Ultimately, the tendency of actors like Taiwan and South Korea to see themselves as economic competitors could undercut efforts to cooperate on technology-related opportunities.

However, cooperation in the tech sector can still provide clear benefits, to the extent that regional countries are willing to commit to it. The digital components of the BRI, which could allow China to export digital surveillance programs and set standards in areas like 5G, are potentially more concerning than the physical infrastructure projects connected with the initiative. On the other hand, US interest in shaping an alternative regional economic architecture—as well as its ability to do so—seems constrained, particularly after withdrawing from the Trans-Pacific Partnership. Other regional actors like Taiwan, South Korea, and Japan will instead need to shoulder more of the burden in driving sustainable regional economic integration. Advancing initiatives to boost ties in the tech sector will not only deliver economic benefits, but also ensure that democratic norms guide technological progress in the face of rising digital authoritarianism.

**The main point:** Despite policy divergences between the two, Taiwan's New Southbound Policy and South Korea's New Southern Policy both offer a shared vision of expanded cooperation with Southeast and South Asia. In particular, both place a strong emphasis on technological innovation, making nations such as India attractive targets for future investment.

[Editor's note: The article was edited for style. The original version of the article is available [here](#).]

[1] While funding for Taiwan's NSP increased from USD \$148 million in 2017 to USD \$241 million in 2018. Meanwhile South Korea increased funding for its New Southern Policy from 1.6 billion Korean won in 2017 to 2.2 billion won in 2018.

[2] Conversations with Taiwan officials during the Taiwan-U.S. Policy Program highlighted difficulties in providing material support to companies seeking to invest in South and Southeast Asia, beyond providing additional information about target markets.

[3] The South Korean government in 2018 launched a USD \$9 billion investment fund over three years to support startups. Taiwan's government meanwhile has offered tax incentives, financial grants, and land contracts to boost its startup ecosystem.

[4] While the level of international collaboration in patents has doubled since the mid-2000s, it remains well below the level of international collaboration in scientific publications.

## KMT's Proposal for Cross-Strait Policy Exposes Generational Differences in Views toward China

By: William Yang

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Since its defeat in the January 2020 presidential election, observers have been anticipating reforms to Taiwan's main opposition party Kuomintang (KMT, 國民黨) to its cross-Strait policy. On June 19, the KMT revealed a set of new proposals for cross-Strait relations that insists on safeguarding the sovereignty of the Republic of China (ROC), protecting democracy and human rights, prioritizing Taiwan's security, and building a win-win situation and prosperity on both sides of the Taiwan Strait. Interestingly, the four new principles for KMT's "possible" cross-Strait policies didn't include the so-called "1992 Consensus," the centerpiece of the party's cross-Strait policy over the last few decades. The consensus is an implied agreement reached between Beijing and the Taiwanese government headed by the KMT in 1992. It states that Taipei and Beijing acknowledge there is only one China, but each side can freely interpret what that "China" is.

Traditionally, Taiwan interprets the "one China" as the ROC, which remains Taiwan's official name internationally, while Beijing would interpret it as the People's Republic of China (PRC). Yet Beijing has never publicly recognized that nuanced position. This so-called "consensus" came

into crisis when current president Tsai Ing-wen (蔡英文) refused to formally endorse it in its entirety when she was elected as president in 2016. Tsai has referred to the acceptance of the consensus as losing Taiwan's sovereignty and freedom, but the KMT has been trying to refute Tsai's arguments by emphasizing that such scenarios did not happen during former president Ma Ying-jeou's (馬英九) time in office.

When KMT's Reform Committee revealed the new proposals last week, some veterans in the party immediately criticized the decision, calling it a total abandonment of the only policy that had allowed Taiwan to peacefully coexist with China over the last few decades. [Two former chairpersons](#) of the KMT asked the current party Chairman Johnny Chiang (江啟臣) to listen to opinions from all sides and publicly address the criticisms made by members in the party. Former Vice President and KMT old guard Lien Chan (連戰) [also issued a statement](#) to refute Johnny Chiang's claim that "the '1992 Consensus' was an important mechanism in history for both sides of the Taiwan Strait to seek consensus while settling differences." Lien wrote in the statement that the "1992 Consensus" has always allowed Taiwan to create a space for expressing its own view on cross-strait relations while dealing with Beijing, and its historical importance should not be erased.

### ***KMT's Youth League Defends Reform***

[In response to criticisms](#) from the party's veterans, KMT Chairperson Johnny Chiang highlighted the generational gap within the party and said the party needs to face the reality in order not to let the reform efforts go in vain. Chiang said the misunderstanding around the "1992 Consensus" among Taiwan's general public was brought about by the ruling Democratic Progressive Party (DPP, 民進黨) and Beijing's actions.

He also [reiterated](#) that the KMT needs something other than the "1992 Consensus" to create more space for the party to redefine its interactions with Beijing. Chiang thinks the important thing is for the KMT to let Taiwanese people know its goals in cross-strait relations, while emphasizing that the consensus has been "seriously defamed while losing its appeal to Taiwan's society."

KMT's youth participation task force also [voiced](#) their

support for the recommendations made by the reform committee, reiterating that the four new proposals were not a move to abandon the "1992 Consensus."

A member of the youth task force, Taichung City Councilor Luo Ting-wei (羅廷瑋), said that while some members of the party, who rely on history for a sense of presence, might think their contributions to the party are erased, the committee's suggestions were hoping to add more content to KMT's cross-strait policies.

Taipei City Councilor Hsu Chiao-hsin (徐巧芯) said the KMT shouldn't focus on whether or not the party still wants the "1992 Consensus," but it should focus on the challenges that the consensus has faced while supervising the ruling DPP.

[On June 27](#), several KMT veterans expressed their views on the internal debate about the role of the "1992 Consensus." Former President Ma Ying-jeou, who called on the current administration to return to the "1992 Consensus" on June 26, said he had shared his views on the debate with Johnny Chiang, while former Chairperson Eric Chu (朱立倫) said he believed the KMT will find a way to agree on the consensus.

Despite the momentum in the new KMT chairman's effort to spearhead reform, it seems very clear that there is still a deep generational gap on the direction of KMT's cross-strait policies. Clearly, the Party's veterans haven't openly endorsed the four new proposals put forward by the reform committee while the younger generation expressed their clear objection against dwelling on the party's traditional stance and argument on cross-strait relations.

### ***An Existential Identity Crisis for the KMT***

The new proposals are coming at a time when the KMT is frantically trying to boost its morale and support among Taiwanese voters. Earlier this month, its member, Kaohsiung Mayor Han Kuo-yu (韓國瑜), became the first politician in Taiwan's democratic history to be recalled, after more than 930,000 eligible voters in the city casted the "Yes" vote. The recall election is the latest of a string of defeats in recent elections for the KMT, including losing in both the presidential and legislative elections in January this year.

Feeling the urgency to launch a much-needed reform, KMT Chairperson Johnny Chiang, who represents the reform faction within the party, proposed the four new

principles for the party's cross-Strait agenda. At a time when the party is struggling to deal with its deep generational divide as well as the power struggle between different factions within the party, it seems like Chiang is having a hard time trying to get all sides within the party on the same page.

[A recent survey](#) conducted by the Pew Research Center found that more than two thirds of Taiwan's population identify as Taiwanese rather than Chinese, which reflects the gradual changes in Taiwanese voters' political identities as well. As the DPP firmly occupies the space that appeals to voters who identify themselves as Taiwanese, the KMT is left with the awkward position of "safeguarding the sovereignty of the Republic of China," a political idea that has become less appealing to voters over the last few years.

With the situation in Hong Kong continuing to deteriorate, the awareness and sentiment of safeguarding Taiwan's sovereignty has become stronger than ever. Beijing's ruthless encroachment of Hong Kong's high degree of autonomy and democratic way of life is a reminder of the risks that would come if Taiwan chooses to build closer ties with Beijing.

Under such circumstances, Johnny Chiang and his reform faction are faced with the tough task of distancing the KMT from the traditional pro-China cross-Strait stance while finding ways to convince Taiwanese voters that the party is also committed to safeguarding democracy, freedom, and Taiwan's sovereignty in its traditional sense. But with political veterans in the party retaining a certain level of influence, Chiang will have to strike a difficult balance between their demands of not throwing away KMT's essence while sticking to his reform agenda.

As a result, Chiang and his faction are now caught in the middle of two opposing forces, and the KMT remains in search of a new identity that can remain connected to the evolution of Taiwanese voters' political identity. Chiang will likely need to display more authority if he wants to break away from the historical baggage of the KMT and successfully launch a fundamental reform. Yet, as the party falls to another unprecedented low point in terms of its morale, popularity, and public image, it will be extremely difficult for the new chairman to gather enough support to make that decisive first

step. The key question is whether he can win the trust and support from political veterans in the KMT and convince them that a fundamental reform is what the party needs in order to resurrect the party.

**The main point:** Following a string of defeats in recent elections, Taiwan's main opposition party Kuomintang has launched a fundamental reform by electing a new party chair and introduced four new proposals for the party's cross-Strait policies. However, challenges remain as new party chair struggles to strike a balance between his reform agenda and pushback from veterans in the party.