

Political Warfare Alert: CCP Updates United Front Regulations Expanding Foreign Influence Mission
Russell Hsiao

Good Cop, Bad Cop: Expanding US-Taiwan Relations under the Biden Administration
Eric Chan

Taiwan Supports Australia against PRC Pressure
I-wei Jennifer Chang

Taiwan Must Erect New Pillars of Deterrence
J. Michael Cole

Parsing Signals from US and Chinese Patrols around Taiwan
Michael Mazza

Taiwanese Outward Investment in 2020 a Positive Sign for US-Taiwan Economic Relations
Riley Walters

Political Warfare Alert: CCP Updates United Front Regulations Expanding Foreign Influence Mission

By: Russell Hsiao

Russell Hsiao is the executive director of the Global Taiwan Institute (GTI) and editor-in-chief of the Global Taiwan Brief.

In a quiet move that largely flew below the radar of Western media outlets, the Chinese Communist Party (CCP) issued an updated version of the [CCP United Front Work Regulation](#) (中國共產黨統一戰線工作條例) on December 20, 2020. This regulation was accompanied by a [circular](#) from the CCP Central Committee that was sent to all the regions and units, ordering them to abide by the newly issued regulations. The issuance of the new regulation was publicly announced by the state-run *Xinhua News Agency* on January 5, 2021. This release was preceded in May 2015 by a “[trial implementation](#)” (試行) version of the regulation—representing the first substantive effort by the CCP since the establishment of the United Front in 1920s to centralize a bureaucratic system dispersed among party, state, and military organs engaging in [political warfare](#) both domestically and since the 1990s increasingly overseas. A significant portion of the new regulation is focused on codifying the mission of United Front work towards socially stratified sectors and institutionalizing the authorities among central, provincial, and local organizations. Most notably, the new regulation highlights the United Front’s expanding foreign influence missions, including its “overseas United Front work” and “overseas Chinese work,” as well as its efforts to target “overseas Taiwanese compatriots.”

United Front work boils down to two lines of efforts that are increasingly intertwined. As a [2018 Congressional study](#) highlighted: “To carry out its influence activities abroad, the UFWD [United Front Work Department] directs ‘overseas Chinese work’ [...] while a number of other key affiliated organizations guided by China’s broader United Front strategy conduct influence operations targeting foreign actors and states.”

Taiwan and Hong Kong

Three articles in Chapter 9 (of 14) of the regulation are focused on Taiwan, Hong Kong, and Macau.

The Global Taiwan Brief is a bi-weekly publication released every other Wednesday and provides insight into the latest news on Taiwan.

Editor-in-Chief

Russell Hsiao

Staff Editor

Katherine Schultz

Copy Editor

Marshall Reid

The views and opinions expressed in these articles are those of the authors and do not necessarily reflect the official policy or position of the Global Taiwan Institute.

To view web sources cited in the published papers (underlined in printed text), visit <https://globaltaiwan.org/2021/03/vol-6-issue-3/>.

Global Taiwan Institute
1836 Jefferson Place NW,
Washington DC 20036
contact@globaltaiwan.org

To subscribe, visit
<http://globaltaiwan.org/subscribe/>

Specifically, [Article 35](#) describes the mission of United Front work towards Taiwan as:

“Implementing the CCP’s Central Committee’s work on Taiwan, adhering to the “One-China Principle,” broadly uniting Taiwan compatriots at home and abroad [廣泛團結海內外台灣同胞], developing and strengthening Taiwan’s patriotic reunification [sic] force, opposing Taiwan’s secessionist activities, and continuing to promote peace in the motherland for the process of reunification and jointly realize the great rejuvenation of the Chinese nation with one heart.”

The new regulation [clarifies](#) the 2015 language from “broadly uniting Taiwan compatriots” to “broadly uniting Taiwan compatriots at home and abroad.” In doing so, it emphasizes that the CCP’s United Front targets are expanding to include not only Taiwanese persons in the PRC and Taiwan, but those living overseas as well.

Consistent with the trial version, the newly released United Front regulation also covers efforts targeting Hong Kong. Specifically, [Article 34](#) of the new regulation stipulates that the main objective of United Front work in Hong Kong and Macao is to:

“[F]ully and accurately implement the principles of “one country, two systems” [一國兩制], “Hong Kong people administering Hong Kong” [港人治港], “Macao people administering Macao” [澳人治澳], by the guidance of a high degree of autonomy; adhere to and improve the “one country, two systems;” [...] safeguard the safe development of national sovereignty and national security; and to maintain the long-term prosperity and stability of Hong Kong and Macao, and ensure the stability and long-term practice of “one country, two systems.”

Taking stock of the significant political unrest in Hong Kong over recent years, the new [regulation](#) represents a notable shift in tone and makes explicit the United Front’s purpose for ensuring national security. The new regulation adds “safeguarding the safe development of national sovereignty and national security” (維護國家主權安全發展利益) as an objective of United Front work in Hong Kong, which did not appear in the previous version. This suggests that there will be enhanced coordination and integration between United Front work and the security services operating in Hong Kong.

Overseas United Front Work and Overseas Chinese Work

[Chapter 10](#), which includes two articles, centers on overseas work and overseas Chinese work. Specifically, [Article 37](#) of the regulation states that the mission of “overseas United Front work” (海外統一戰線工作) is to:

“[S]trengthen ideological and political guidance, enhance the love of overseas Chinese and students studying abroad and their understanding of the CCP and socialism with Chinese characteristics [...] to contain the separatist forces such as Taiwan independence, to safeguard core national interests; to play a role as a bridge and link to promote Sino-foreign friendship, and create a good international environment.”

Distinguishing such efforts from more general overseas United Front work, [Article 38](#) of the new regulation stipulates the task of “overseas Chinese work” (僑務工作) as “focusing on the theme of cohesiveness and concerted efforts to share the Chinese dream, strengthen the work of representatives of overseas Chinese, returned overseas Chinese and overseas Chinese dependents, gather the hearts of overseas Chinese, gather their wisdom, exert their strength, and safeguard their interests.”

The [regulation](#) specifically states as one of its objectives in engaging with overseas Chinese is to “protect the legitimate rights and interests of overseas Chinese, care about the survival and development of overseas Chinese, and promote the construction of harmonious overseas Chinese associations.” Perhaps in an acknowledgement of the growing number of instances wherein United Front mobilization efforts have [provoked social conflict](#) in foreign countries, the [regulation](#) includes a provision to “educate and guide overseas Chinese to abide by the laws of the country where they live, respect local culture and customs, and better integrate into the mainstream society.”

Interestingly, the new regulation appears to draw a distinction between the missions of “overseas United Front work”—which includes ethnic Chinese who are foreign nationals—from “overseas Chinese work” focusing on PRC nationals. This represents a departure from the [2015 trial version](#), which combined Hong Kong, Taiwan, Macau, and overseas United Front work into one chapter. Moreover, the trial version only referred to overseas work with a focus on overseas Chinese without distinguishing between PRC and non-PRC nationals. Such ambiguities raised concerns by analysts analyzing the applications of United Front work. As not-

ed in a [Center for Strategic and Budgetary Assessment study](#): “In geographic terms, the United Front is tasked to form ‘an alliance of two perimeters’ that extends from the mainland to Greater China and beyond. All Chinese nationals and ethnic Chinese, wherever they may reside in the outer perimeter, fall within the scope of United Front operations.”

The scope of United Front operations continues to include both Chinese nationals and ethnic Chinese overseas, but the new regulation appears to—at least on the surface—make a distinction in terms of how the CCP views these two groups. It is worth noting that the new regulation spells out in great specificity the CCP’s guidance for United Front work targeting both groups. While this distinction is conceptually significant, its practical effects remain to be seen. Realistically, it will likely have little impact on how the CCP utilizes the United Front, especially in terms of its covert activities. Indeed, while the United Front had once been primarily domestically focused, this has radically changed, as Alex Joske, an analyst with Australian Strategic Policy Institute (ASPI), observed in his study “[The Party Speaks for You](#)”:

“United front work encompasses a broad spectrum of activity, from espionage to foreign interference, influence and engagement [...]. There’s no clear distinction between overseas and domestic work. Premier Zhou Enlai (周恩來), one of the PRC’s founding revolutionaries and a pioneer of the CCP’s United Front, advocated ‘using the legal to mask the illegal; deftly integrating the legal and the illegal’ (利用合法掩护非法, 合法与非法巧妙结合), ‘nestling intelligence within the United Front’ (寓情报于统战中) and ‘using the United Front to push forth intelligence’ (以统战带动情报).”

According to the state-owned [Xinhua News Agency](#), “the revised regulations are of great importance as they bring together the will and strength of the people to fully build a modern socialist country and realize the Chinese Dream of national rejuvenation.” While the issuance of the new regulation does not signal any significant, previously unknown new measures, it confirms the expansion of the foreign influence mission of United Front that has become more visible in practice since General Secretary Xi Jinping (习近平) assumed power in 2012. On Hong Kong, it has become more overtly hardened, while its campaign against Taiwan has expanded in scope. The elevated importance of the foreign influence mission of the United Front presents a unique challenge to the United States and other democracies, including Taiwan.

The main point: The updated United Front Work Regulation highlights its expanding foreign influence mission in terms of “overseas United Front work” and “overseas Chinese work,” as well as efforts targeting the “overseas Taiwanese compatriots.”

Good Cop, Bad Cop: Expanding US-Taiwan Relations under the Biden Administration

By: Eric Chan

Eric Chan is an adjunct fellow at the Global Taiwan Institute and a senior airpower strategist for the US Air Force. The views in this article are the author’s own and do not represent the views of his affiliate organizations.

As the Biden administration begins to articulate its Indo-Pacific strategy and outline its engagement plans with Taiwan, the US media and some commentators have focused on what they call “[foreign policy traps](#)” left by the previous administration. One of the mentioned so-called traps is then-Secretary of State Pompeo’s [order](#) to lift “self-imposed restrictions” on US-Taiwan engagement, with traps [defined](#) as “moves [...] meant to lay a trap for Mr. Biden, forcing him to either pay a domestic political cost if he unwinds them or to sour relations with Beijing if he does not.” However, given what we already know from statements made by the Biden foreign policy team, this is an incorrect understanding of how the administration views the prospect of either US-PRC relations or US-Taiwan engagement. Instead, a better way of understanding this may be through the concept of *good cop, bad cop*.

Stated Administration’s Views of the PRC and Taiwan

In the lead-up to the inauguration, a considerable number of Taiwan observers expressed fear that a Biden administration would seek a reversion to Obama-era discussion of a [US-PRC “G-2”](#) at the expense of allies and partners. These fears were in part sparked by then-candidate Biden’s May 2019 remarks that the PRC had serious corruption issues and was thus “not competition for us.” Also, a number of Taiwan commentators have noted that then-Senator Biden wrote a [May 2001 op-ed](#) emphasizing the importance of strategic ambiguity.

However, there are multiple indications that Biden’s views have changed significantly since then. The first indication that then-presidential candidate Biden had re-thought his

earlier comments was his [July 2019 speech](#) emphasizing the need to “get tough on China.” This was followed by a [May 2020 Foreign Affairs article](#), in which he reiterated his intention to compete with the PRC by leading a united front with US allies and partners. Finally, in [September 2020](#), he committed to convene a “Summit of Democracies” within the first year of his presidency, with the summit [being the heart](#) of his China policy.

The second indication is Biden’s Cabinet picks. During the confirmation hearings for the Secretary of State (Antony Blinken) and the Secretary of Defense (Lloyd Austin), both nominees expressed views on the US-PRC relationship that would not have been out of sync with the previous administration.

At his hearing, [Blinken stated](#):

“As we look at China, there is no doubt that it poses the most significant challenge of any nation-state to the US in terms of our interests, the interests of the American people.”

Building on this, [Austin emphasized](#):

“Globally I understand that Asia must be the focus of our effort, and I see China in particular as a pacing challenge for the department [...] I’ll put a laser-like focus on developing the right capabilities, plans, operational concepts, that’ll ensure that we maintain a competitive edge.”

This is not limited to the traditional national-security Cabinet members, either. At the confirmation hearing for the US Treasury Secretary, Biden’s nominee Janet Yellen was notable for her [surprisingly hawkish](#) comments:

“China is clearly our most important strategic competitor [...] We need to take on China’s abusive, unfair, and illegal practices [...] And these practices, including China’s low labor and environmental standards, are practices that we are prepared to use the full array of tools to address.”

On a similar note, Blinken and US Ambassador to the UN nominee Linda Thomas-Greenfield have both commented favorably on US-Taiwan ties. For instance, Blinken stated:

“I want to [...] make sure that we’re acting pursuant to the mandate in the (Taiwan Assurance) act that looks at creating more space for contacts.”

Similarly, [Thomas-Greenfield asserted](#):

“Taiwan is one of the strongest democracies in the region. We need to support them as a democracy and stand by them as a democracy, and provide them the security that they need to push against any efforts by the Chinese to compromise their security.”

The third indication is through the maxim of personnel in policy. Below the Cabinet-level, the administration has nominated a number of national security experts who have long championed competition with the PRC and expanded engagement with Taiwan. Examples of this include:

- Kurt Campbell, nominated as National Security Council (NSC) Indo-Pacific Coordinator (“Asia Czar”). Over the last few years, he has written a number of articles emphasizing competition, including [“The China Reckoning,”](#) arguing that the Trump administration rightly questioned previous assumptions of US engagement with the PRC, as well as [“How America Can Shore Up the Asian Order”](#) and [“Competition Without Catastrophe,”](#) both focusing on how the US can empower Indo-Pacific partners to sustainably compete.
- Rush Doshi, nominated as the NSC Senior Director for China. He has written extensively on [PRC information warfare against Taiwan](#) and [lessons learned](#) from Taiwan reshoring and supply chain diversification.
- Ely Ratner, nominated as special China Advisor to the Secretary of Defense (and [likely later to be nominated](#) as Assistant Secretary of Defense for Indo-Pacific Security Affairs). He co-wrote the above [“China Reckoning”](#) and also co-wrote a [Washington Post op-ed](#) on building flexible “coalitions of the willing” to support Taiwan.

This is by no means a complete list of senior Biden nominees and officials who hold these views. Other significant figures include US Trade Representative nominee, Katherine Tai, noted for [her effectiveness in forming global coalitions](#) against PRC trade abuses; NSC Senior Director for China Laura Rosenberger, who has written extensively on [the role of democratic values against authoritarian competition](#); NSC Senior Director for Technology and National Security appointee Tarun Chhabra, who wrote about the dangers of technology being used in conjunction with the PRC’s [“supple authoritarianism,”](#) NSC Coordinator for Democracy and Human Rights Shanthi Kalathil, who testified about the PRC’s [use of AI in repression and global ideological competition](#).

In short, there will be continuity in the [whole-of-government strategy](#) of competition against the PRC and support for Taiwan.

Good Cop, Bad Cop

Given this broad consensus, the concept of “foreign policy traps” does not apply here. Instead of undoing the actions of the Trump administration, as the [PRC is clearly hoping](#), there are indications that the Biden administration will pocket those actions as the gains of the *bad cop*. As the *good cop*, they can accurately state that their approach avoids surprise and public loss of face to Beijing, all while applying a more methodological, steady pressure behind the scenes to build on those previous actions. For instance, the administration will likely not surprise Beijing with new broad, unilateral tariffs, but will *instead* continue US tariffs while supplementing this with a long-term, multilateral effort to [selectively decouple](#) in key technological fields. As a result, Taiwan’s tech industries will likely be an economic winner.

Similarly, on the broader scale of overall Taiwan engagement, the administration will likely [shift away](#) from the routine use of flashy but arguably low-gain announcements that invite PRC retaliation. Under the rubric of low-publicity, high-gain policies, there are several potential areas of engagement which would greatly assist Taiwan in improving its economic, diplomatic, and military resiliency:

1. Expand the American Institute in Taiwan (AIT).

There was [significant media attention](#) in the fall of 2018 with the revelation that AIT was requesting US Marines to guard the compound. While this move had symbolic power, on a practical day-to-day basis, a quiet expansion of AIT staffing would have a far stronger effect. Increased staffing would allow for improved US-Taiwan engagement bandwidth on everything from commercial ties, collaboration against PRC information/political warfare, medical and cultural exchanges, and security cooperation.

2. Move beyond the US-Taiwan free trade agreement (FTA) discussion.

The US and Taiwan have been [talking on and off](#) about the prospect of an FTA for years now, culminating with Taiwan President Tsai Ing-wen (蔡英文) taking [significant domestic political heat](#) over her [decision to ease restrictions](#) on the import of US pork and beef. Unfortunately, a deal is [unlikely to occur in the near-future](#) due to prevailing focus on US

domestic priorities. As such, a single-track focus on an FTA would not be useful for Taiwan, as it risks [political fissures](#) that the PRC could use to weaken the US-Taiwan partnership. Instead, both the US and Taiwan should look at the upcoming Summit of Democracies to highlight the Taiwanese economy’s critical ability to provide supply chain diversification for fellow democracies. This would improve the economic resilience of the US as well as other partners and allies from PRC economic pressure. It would also allow Taiwan to shift manufacturing from the PRC, reducing the vulnerabilities Taiwan faces from CCP political warfare against Taishang (台商, Taiwanese businesspeople working in China).

3. Regularize and develop US-Taiwan security cooperation beyond platform acquisition.

Under the Trump administration, US Foreign Military Sales (FMS) to Taiwan shot up dramatically: at USD \$11.77 billion, Taiwan was the top US FMS partner for 2020. Given the convoluted process needed for FMS approval to Taiwan, though, there is a “feast or famine” approach to Taiwan acquisitions. This is problematic in multiple ways: arms sales tend to be packaged into huge amounts for one-time approval, engendering significant PRC responses; the use of fiscally disruptive special budgeting results in significant domestic Taiwan political debate; and long lead-times for approvals on both sides badly disrupt already lengthy acquisition cycles. Regularizing the FMS process for Taiwan would reduce these disruptions. Even more importantly, though, increased security cooperation in the form of training and coordination would be highly helpful for Taiwan as it seeks to integrate its new platforms—all while the PRC steadily raises operational pressures. Multilateral collaboration would be a relatively cheap method to address a common problem across multiple Pacific nations: Japan, the US, Vietnam, and the Philippines all suffer from some form of PRC salami-slicing, with responses ranging from insufficient to unsustainable.

Conclusion

Given the current state of US domestic politics, the bipartisan accord on both US-PRC competition and US engagement with Taiwan is remarkable. The Biden administration will likely continue many of the general policies of the Trump administration *vis-à-vis* the PRC and Taiwan. To the extent that there will be differences, they will likely be tactical rather than strategic in nature. There is one major exception to this: the Biden administration will likely employ a *good cop, bad cop* methodology to manage US-PRC competition, which

will present the PRC with a less openly confrontational, more strategically predictable competition in exchange for greater diplomatic space for the US to expand its relationships with allies and partners—including, and especially, Taiwan.

The main point: The Biden administration, given its statements and nominations, will probably continue the Trump administration's policy of strategic competition against the PRC. The Biden administration will likely use a *good cop, bad cop* approach to manage US-PRC competition, while attempting to increase American power and leverage by expanding ties with allies and partners, including Taiwan.

Taiwan Supports Australia against PRC Pressure

By: I-wei Jennifer Chang

I-wei Jennifer Chang is a research fellow at the Global Taiwan Institute.

Amid the worsening of [trade and political tensions](#) between Australia and China, Taiwan has offered to purchase Australian goods sanctioned by China, such as Australian wine. In December 2020, Taiwan's Legislative Yuan bought 200 bottles of Australian wine—dubbed "[freedom wine](#)" (自由紅酒)—to express solidarity with Canberra as it faces intense pressure from Beijing to change its anti-China policies. [Taiwanese legislators](#) also publicized their support for a global campaign spearheaded by the [Inter-Parliamentary Alliance on China](#) (IPAC, 對華政策跨國議會聯盟), a group of more than 200 lawmakers from 19 countries that urged people around the world to "stand against [Chinese President] Xi Jinping's (習近平) authoritarian bullying" by buying Australian wine. Taiwan President [Tsai Ing-wen](#) (蔡英文) stated that Taipei "empathizes with the same feeling of tremendous pressure that Australia faces" and is working with Canberra to boost [economic and trade cooperation](#) to help relieve some of the trade pressures imposed by Beijing. Taipei also hopes that its efforts to stand with Australia will translate into greater [Australian](#) cooperation and support for Taiwan's struggles against its more powerful rival.

Sino-Australian Tensions

China-Australia relations have heated up in recent years, following the public exposure of [Chinese influence operations](#) and interference in Australian domestic politics. Canberra re-

sponded to these revelations by passing [foreign interference laws](#) and banning Chinese companies [Huawei \(華為\)](#) and [ZTE \(中興通訊\)](#) from the roll-out of 5G technology in 2018 over national security concerns. More recently, tensions mounted after Australia called for an inquiry into the origins of COVID-19 in April 2020, which was later compounded by Chinese tariffs and bans on [USD \\$20 billion](#) worth of Australian exports including barley, beef, wine, lobsters, timber, and coal in apparent retaliation for Canberra's actions.

Speaking at a press conference in November 2020, Chinese Foreign Ministry Spokesperson [Zhao Lijian](#) (趙立堅) cited Australia's "series of wrong moves related to China" as the main reason behind the current deterioration in Sino-Australian relations. [Zhao](#) expressed dissatisfaction with Canberra's positions on China's core interests regarding Hong Kong, Xinjiang, and Taiwan, including endorsing Taipei's participation in the World Health Assembly. Later that month, the Chinese Embassy in Canberra sent a [list of 14 grievances](#) to Australian media. The [list](#) of complaints includes Australia's "incessant wanton interference in China's Xinjiang, Hong Kong, and Taiwan affairs," statements on the South China Sea, and accusations against China on cyber attacks. The Chinese further argued that Canberra had to [change its policies](#) on this list for the resumption of bilateral dialogue at the ministerial and leadership levels. [Australian politicians](#), however, have pushed back against these Chinese demands, arguing that their nation's [sovereignty](#) was at stake.

In its series of trade sanctions, [Beijing](#) has sought to teach Canberra, a close US security ally, a lesson for participating in what it believes to be [anti-China campaigns](#) led by the former Trump administration. Indeed, Liberal National Member of Parliament (MP) George Christensen said that Australia has become a "[guinea pig](#)" for China's strong-arm tactics against countries that do not abide by Beijing's policies. [Christensen](#) observed that "China is giving us a big shake in order to spook other countries from doing things which China might not be happy with including domestic laws that they're not happy with." He [called on the free world](#) to band together and jointly stand up against China's use of trade tactics to interfere in other countries' domestic politics. [Taipei](#) has responded earnestly to this call for help, while also calling for [Canberra's assistance](#) in standing up to Chinese security and political threats against the island.

Australia's Enhanced Profile in Regional Affairs

In recent years, [Australia's role](#) in Asia-Pacific affairs has in-

creased, as countries in the region have become more active amid perceptions of [waning US influence](#) under the Trump administration. US allies such as Japan and [Australia](#), led by then-Prime Minister Malcolm Turnbull, had a major influence on the [US national security document](#) on the Indo-Pacific strategy released during the last days of the Trump administration. The document's [major objectives](#) include "defending the first-island-chain nations, including Taiwan" and enabling Taiwan "to develop an effective asymmetric defense strategy and capabilities." In line with the Trump administration's positions on regional issues, Australia has spoken out against the mistreatment of [Uyghurs](#) in Xinjiang and Beijing's [national security law](#) for Hong Kong, as well as endorsed [Taiwan's participation](#) in the World Health Organization. After signing the [Reciprocal Access Agreement](#) in November 2020, Australia and Japan expressed concerns about destabilizing developments in the East China Sea, South China Sea, and Hong Kong, and leaders from both governments said that "trade should never be used as a tool to apply political pressure," in an apparent rebuke of Beijing's strong-arm methods.

Taipei has also recognized the benefits of Australia's expanded commitments to regional stability. "We are deeply impressed by Australia's rapid actions, taken to protect not only itself but the region," [President Tsai](#) said in an address to an Australian think tank in August of last year. [Tsai](#) added, "It is my hope that Taiwan can also collaborate with Australia in these efforts to maintain stability and peace in the region," referring to Canberra's "[Pacific Step-up](#)" policy and "[Indo-Pacific Endeavor](#)." Moreover, the [Taiwan Allies International Protection and Enhancement Initiative Act of 2019](#) (TAIPEI Act) acknowledges that "Taiwan's unique relationship with the United States, Australia, India, Japan, and other countries are of significant benefit in strengthening Taiwan's economy and preserving its international space."

Opportunities for Taiwan-Australia Cooperation

In light of Australia's growing role in the region, Taiwanese politicians such as [Wang Ting-yu](#) (王定宇), the co-chair of Taiwan's Foreign Affairs and National Defense Committee in the Legislative Yuan, are calling for greater cooperation with other democracies including Australia to promote regional security. [Wang](#) proposed that Taiwan join the Quad framework—alongside the United States, Australia, Japan, and India—as a means to further deter Chinese aggression against the island. Likewise, Taiwan's Foreign Minister [Joseph Wu](#) (吳釗燮) highlighted the urgency of bringing together Australia and other like-minded neighbors to contain Chi-

nese expansionism in the region and to help defend Taiwan against Beijing's military maneuvers and threats of invasion. While [Wu](#) said he did not expect Canberra to send troops to defend Taiwan in the event of a cross-Strait conflict, he suggested that Taiwan and Australia could cooperate in sharing [information and intelligence](#) on China. Furthermore, Taiwan could benefit economically from the trade fall-out between China and Australia. Faced with trade sanctions imposed by China, Australia is searching for alternative [export markets](#) for its goods, including Taiwan. The island constitutes Australia's [sixth-largest](#) export market and is a major consumer of Australian [agricultural products and energy resources](#) such as coal and natural gas. Meanwhile, Taiwanese [high-tech exports](#) to the continent include computers and telecommunication equipment and parts. Officials in Canberra and Taipei launched [talks](#) in December last year to discuss expanding bilateral trade, which reached [USD \\$11.4 billion](#) in 2020.

Ultimately, Taipei would like to sign a formal [economic cooperation agreement](#) with Australia—ideally a free trade agreement (FTA)—as it had done with Australia's neighbor [New Zealand](#) in 2013. As a competitor with New Zealand in [beef](#) and agricultural products, Australia may stand to lose its competitiveness on such exports to Taiwan in the absence of an FTA. Furthermore, Australia, China, and other Asia-Pacific countries recently formed a major regional trading bloc, the [Regional Comprehensive Economic Cooperation Partnership](#) (RCEP), which Taipei aspires to join but has thus far been excluded from. [Tsai's](#) government has pinned its hopes on participating in another economic grouping, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and views an [economic cooperation agreement with Australia](#) as facilitating that broader objective.

However, as it currently stands, [Prime Minister Scott Morrison's government](#) is not seeking to sign an FTA with Taiwan for concerns that doing so would add fuel to the fire in an already bitter Sino-Australian relationship. In 2018, [Canberra](#) shelved plans to pursue a bilateral trade deal with Taipei in a bid to prevent a falling-out with Beijing, reportedly after Chinese Foreign Minister [Wang Yi](#) (王毅) told then-Foreign Minister Julie Bishop in a series of meetings in 2017 and 2018 that China did not want Canberra to expand ties with [Tsai's](#) Democratic Progressive Party (DPP) government.

Despite these challenges towards achieving an FTA, there are still many arenas for bilateral collaboration. [Gary Cowan](#), the previous Australian representative to Taiwan, believes that there are opportunities for Taiwan and Australia to cooper-

ate more closely on energy development and biomedicine. Australia is Taiwan's [second-largest](#) natural gas supplier, and the continent started supplying Taiwan with [liquefied natural gas](#) (LNG) on a long-term contract starting in 2018, reaching more than [4 million tons](#) of LNG annually. As Taipei seeks to transition towards cleaner energy supplies, [Cowan](#) argues that Australia will be its closest supply partner and can provide assistance in natural gas, wind, and solar energy. Australian companies, for example, have assisted Taiwan in setting up [offshore wind farms](#). Furthermore, in the area of public health and medicine, [researchers](#) from Taiwan's Chang Gung University (長庚大學) and Australia's Monash University have been jointly working on a treatment for COVID-19. Taipei and Canberra had also provided each other critical [materials and resources](#) needed in their national prevention efforts in the early months of the COVID-19 outbreak.

Going forward, as the Biden administration's policies towards the Indo-Pacific will likely affect strategic calculations and alignments in the region, there will be opportunities and challenges for Taiwan-Australia relations. Currently, Canberra is under extensive pressure from Beijing to tone down its public support of Taiwan's participation in international organizations. At the same time, the Biden administration's evolving stance on Taiwan could create additional pressure on Australia to uphold US interests in the region, which would likely expose Canberra to even more Chinese browbeating. Ultimately, the Australian government will need to decide where it comes down between the United States and China, which will, in turn, affect the potential room for growth in its relations with Taiwan. In any case, Taipei should seize on the economic and trade openings created by the China-Australia trade spat to further strengthen bilateral relations with Canberra.

It is clear that even as the Biden administration formulates its regional strategy, Taiwan's security, diplomatic space, and economy will be affected not only by the actions of the United States, but also of US allies in the region such as Australia. Therefore, Taipei must tap into the regional alliance structure and other security arrangements such as the Quad to better safeguard itself against Chinese military and political coercion.

The main point: Amid trade and political tensions in China-Australia relations, Taipei has voiced support for Australia in confronting intense Chinese pressure and interference, in hopes that Canberra could also support Taiwan's ability to safeguard its democracy against Chinese military threats.

Taiwan Must Erect New Pillars of Deterrence

By: J. Michael Cole

J. Michael Cole is a senior non-resident fellow at the Global Taiwan Institute.

With the People's Republic of China (PRC) continuing a military buildup that Taiwan cannot hope to match on its own and a leadership in Beijing that appears increasingly willing to use force to resolve disputes, it is essential for Taiwan and its allies to give renewed attention to the means by which China can be deterred from launching an attack across the Taiwan Strait. The former Deputy National Security Adviser Matt Pottinger called attention to the need for "substantive actions" that can "deter" China in recent remarks at a [video conference](#). While traditional means of deterrence have been parsed out at length by [officials and experts](#) alike in the United States and Taiwan, what are some non-traditional means of deterrence against a Chinese invasion of Taiwan?

Preparing and [training](#) for various military contingencies across the Taiwan Strait, [acquiring](#) defense articles from the United States, and developing an [indigenous defense capability](#) are all crucial components of Taiwan's defense posture and should continue to be augmented as much as is feasible. On its own, however, military deterrence may no longer be sufficient to change the calculations of the Chinese Communist Party (CCP, 中國共產黨). This is due to the power imbalance that has developed across the Taiwan Strait in recent years, as well as to the [belief by analysts](#) that Chinese leader Xi Jinping (習近平)—having acquired new powers over war and peace following [amendments to the National Defense Law](#) (中華人民共和國國防法) that came into force on January 1—may be ready to mesh *capabilities* with *intent*. Taiwan's relative weakness *vis-à-vis* China in terms of ability to counter on its own a dedicated and sustained assault by the People's Liberation Army (PLA, 中國人民解放軍), as well as continued uncertainty over whether the United States would intervene in an attack on Taiwan scenario, have compelled Taipei and its supporters around the globe to think of non-military means by which an invasion against Taiwan can be deterred.

As Michael O'Hanlon suggests in his 2019 book [The Senkaku Paradox: Risking Great Power War Over Small Stakes](#), traditional deterrence can include both punishment—which he describes as centering on "economic reprisal after an initial enemy aggression," as well as "military forms of cost im-

sition”—and denial, which would seek to “prevent any further conquests after an initial attack, especially those of a more strategically significant scale.” Whether such a strategy succeeds in deterring against attack—in other words, in convincing a potential assailant that the costs of such a gambit would be too high to justify action—is in turn contingent on signaling by the United States and its allies that they mean business and would undoubtedly activate such retaliatory measures in full.

New Pillars of Deterrence

In addition to traditional deterrence, recent developments in Taiwan’s positioning within the international community have created new opportunities that can be exploited to complement that deterrence. The first is a growing recognition by the United States and other regional partners that due to its location as a node in the “[first island chain](#),” the preservation of Taiwan as a sovereign entity is crucial to arresting the full expression of Chinese military assertiveness. Were Taiwan to fall under Chinese control and become a base for the PLA Navy (PLAN) and Air Force (PLAAF), the potential for destabilization in the region would grow immensely. This would begin with much greater exposure of US forces based in Guam to an attack by China and an [increased sense of vulnerability in Japan](#), which could in turn compel rearmament (possibly leading to Japan acquiring nuclear weapons) and an arms race with the PRC. The geopolitical value of Taiwan amid Chinese assertiveness and territorial expansionism has therefore gained primacy and is increasingly [appreciated](#) by security analysts and military establishments within the region. This recognition in turn creates incentives for governments with a stake in regional stability to signal that Chinese military adventurism in the Taiwan Strait would bear serious costs.

China’s authoritarian turn under Xi Jinping, with the [crackdown in Hong Kong](#) and [ethnic cleansing/genocide of Uyghurs](#) in the Xinjiang Uyghur Autonomous Region (XUAR, 新疆維吾爾自治區) serving as the two most visible manifestations of that shift, has also forced governments worldwide—and democracies in particular—to reassess the value of Taiwan as a partner in the defense and promotion of democracy, liberalism, and good governance. This reassessment has resulted in greater engagement with Taiwan in recent years, both at the governmental and non-governmental level, amid fears of [China’s growing clout and influence](#) within international institutions. Moreover, with the environment in China and Hong Kong becoming increasingly inhospitable to NGOs

and media organizations, many have decided to reduce or shutter their presence in China and relocate to Taiwan. The presence of organizations like [Reporters Without Borders \(RSF\)](#), the [National Democratic Institute \(NDI\)](#), the International [Republican Institute \(IRI\)](#), and several others that are lining up to do so in the coming year, increases Taiwan’s global visibility, counters longstanding Chinese efforts to isolate it internationally, and further connects it to a fledgling alliance of democracies that are pushing back on China’s authoritarian form of governance.

A more recent element of this phenomenon is Taiwan’s emergence in 2020 as a leader in combating the COVID-19 pandemic and a [partner to the international community](#), which has struggled to respond to the global health emergency. Besides [showcasing](#) its high levels of preparedness and utilization of IA to combat the disease, Taiwan has also demonstrated its ability to maintain a [very respectable level of economic growth](#) even in times of crisis. In the process, it has put the lie to the [notion](#) that authoritarian regimes are better equipped to rapidly mobilize in response to an emergency. Taiwan’s support for international partners, as well as the opportunities which COVID-19 has created for Taiwan joining forces with other countries in developing a vaccine and technologies to contain future pandemics—despite [Taiwan’s continued exclusion from the World Health Organization \(WHO\)](#)—have further strengthened its role as a member of the community of nations.

In the aggregate, all these non-military elements—democracy, press freedom, health—contribute to Taiwan’s deterrent by making its loss to China even more of a loss for the international community. Moreover, the greater Taiwan’s integration into the international system, the greater the number of foreign organizations and nationals who will be present physically in Taiwan, which not only contributes to Taiwan’s knowability and visibility, but should also serve as a deterrent against Chinese attack due to the risks of collateral damage. These positive developments also make it clear that more than ever, Taiwan must regard the modernization of old rules, which have long undermined its ability to attract foreign organizations, as a matter of national security. While Taipei has begun to address the problem, far too much of its response has, to date, been handled in an *ad hoc* fashion.

Silicon Shield

The last and newest pillar of Taiwan’s deterrence stems from its recent success in attracting investment by global high-

tech companies and in positioning Taiwan as an indispensable link in the global supply chain. Google, for example, announced in late January that it had selected Taiwan as its main hardware R&D hub outside the US. Reporting on the matter, [Nikkei Asian Review](#) wrote that the move is “a sign of the democratically ruled island’s growing significance in the global supply chain.” Additionally, Taiwan has emerged as the leader in the semiconductor sector, with Taiwan Semiconductor Manufacturing Co. (TSMC, 台灣積體電路製造), the world’s largest foundry, [making headlines worldwide](#) amid the growing realization that the world has become extremely dependent on Taiwan. The “comprehensive ecosystem” that has been built around TSMC—with ASE Technology Holding (日月光投資控股股份有限公司) becoming the world’s top chip assembler and MediaTek (聯發科技) the largest smartphone chipset vendor—has also put Taiwan on the map like nothing else has before. With hundreds of billions of dollars and the health of the global economy at stake, the security of Taiwan is now a matter of international concern. As with democracy promotion and other NGOs deepening their ties with Taiwan, two-way, multi-billion-dollar investments in high-tech industries playing on Taiwan’s strengths also contribute immensely to Taiwan’s deterrent capabilities, as it deepens international reliance on Taiwan through integration in the global supply chain and creates a physical foreign presence on Taiwanese soil which could become a collateral during a military assault by China. The consequences of an attack, therefore, would not be limited to Taiwan but to the multinational businesses that have set up shop in Taiwan as well, not to mention the foreign nationals who are employed at such firms and their dependents.

Unlike abstract concepts such as liberal democracy, press freedom, and justice, high-tech can now serve as a means to underscore the importance of preserving Taiwan’s sovereignty by appealing to the self-interests of people everywhere. The disruptions in integrated circuit (IC) manufacturing and assembly that would be caused by a Chinese assault on Taiwan would have global ramifications on a scale which dwarfs even the 7.6-magnitude 921 Jiji Earthquake (921大地震) in Taiwan in 1999, which [drove up the price of computer memory worldwide threefold](#).

Taiwan can further strengthen the [silicon shield](#) it has erected over the years by maintaining its leading edge in the semiconductor sector, primarily through further investment in R&D and the creation of a greater number of companies like TSMC. With the authoritarian resurgence led by China and

Russia, Taiwan’s silicon shield must be better integrated with the alliance of democracies and a strengthened supply chain, with a view that the military and AI uses of such advanced technological know-how should be denied to states that do not play by international rules.

O’Hanlon [observes](#) that economic sanctions and embargoes should be part of the non-traditional deterrence described earlier, adding that “for sanctions to be economically sustainable, the United States and its allies need to understand the vulnerabilities in their supply chains, financial dealings, and other economic relationships and develop strategies in advance to mitigate those vulnerabilities.” The opportunities for Taiwan have never been better, both for the sake of its economic viability and, perhaps more importantly, as a means to bolster its deterrent capabilities against a Chinese assault.

The main point: Facing extraordinary odds on the military front, Taiwan’s best strategy is to consolidate its deterrence through continued investment in the military sector and by exploiting Taiwan’s growing indispensability in both the defense of democracy and the global high-tech supply chain.

Parsing Signals from US and Chinese Patrols around Taiwan

By: Michael Mazza

Michael Mazza is a senior non-resident fellow at the Global Taiwan Institute, a visiting fellow with the American Enterprise Institute, and a nonresident fellow at the German Marshall Fund of the United States.

Over the past year, People’s Liberation Army (PLA) air patrols in and around the Taiwan Strait have become [commonplace](#). Sorties have regularly entered Taiwan’s air defense identification zone (ADIZ) and, on a few occasions, have crossed the median line—the tacitly agreed-upon air and maritime border between Taiwan and the People’s Republic of China (PRC). Now, rather suddenly, these cross-Strait interactions have ceased to be primarily bilateral affairs. In recent weeks, American forces have been on the chessboard in a way that, at the very least, had not been previously acknowledged in the public sphere. With operations conducted by just four aircraft over a two-day period, the Biden administration has taken its first steps towards solidifying the American security commitment to Taiwan.

Reviewing Recent Events

On January 23, [13](#) Chinese aircraft—one anti-submarine warfare (ASW) aircraft, eight bombers, and four fighter jets—entered the southwest corner of Taiwan’s air defense identification zone. The following day, another [15](#) PLA aircraft—two ASW aircraft, one reconnaissance aircraft, and twelve fighter aircraft (Su-30s, J-16s, and J-10s)—again entered the southwestern quadrant of the ADIZ.

PLA air activities in Taiwan’s ADIZ, especially in its southwest, are now routine occurrences. While there have been incidences of larger excursions like those on January 23 and 24, the autumn and early winter were marked by near-daily incursions of just one or two patrol aircraft. As such, the size and makeup of the sorties on January 23 and 24 were of note. In a previous *Global Taiwan Brief*, I [explained](#) what China was up to with its frequent flights near Taiwan:

“The recent spate of Chinese military activities near Taiwan clearly serves an expressly political purpose—to pressure the Tsai government, to intimidate the Taiwanese people, and to convey seriousness of purpose to third parties. But it is easy to overlook the PLA’s potentially more narrow ends. Put simply, there is good reason to believe that the PLA is seeking to better prepare itself for the day when Beijing orders military action against Taiwan.”

Those rationales persist, but the January 23 and 24 activities may not have been solely—or even primarily—directed at Taiwan. As I told the *Telegraph*, from the [sanctions](#) on former Trump administration officials announced during the presidential inauguration to the ADIZ incursions days later, Beijing’s early signaling to the Biden administration was clearly focused on Taiwan. Xi Jinping (习近平) was saying, in effect, “We are not going to moderate our approach to Taiwan. The United States should do so instead, or Taiwan will be a constant thorn in the side of US-Taiwan relations.” The Biden administration appeared to correctly view those early moves as tests. Statements in response to both the [sanctions](#) and the PLA [flights](#) indicate bipartisan support for a resolute approach to China, continuing comfort with an at-times confrontational relationship, and strong support for allies and partners.

But it appears Chinese signaling was only part of the story. On January 23, the *USS Theodore Roosevelt* [entered](#) the South China Sea via the Bashi Channel—separating Taiwan from Luzon in the Philippines—which American flattops do as a mat-

ter of course. On January 29, the *Financial Times* [reported](#) on US and allied intelligence indicating that Chinese “bombers and some of the fighter aircraft involved were conducting an exercise that used the *USS Theodore Roosevelt* carrier strike group” as a target. It is unclear whether this was new behavior or just newly *acknowledged* behavior.

After the simulated strikes on the US aircraft carrier, Chinese aircraft entered Taiwan’s ADIZ on January [25](#), [26](#), [27](#), [28](#) (in the [daytime](#) and the [evening](#)), [29](#), and [30](#). After incursions consisting of four aircraft took place on three consecutive days (January 26-28), Taiwan’s Ministry of National Defense (MND) [reported](#) that five PLA aircraft—a reconnaissance plane and four fighters—entered the southwest ADIZ on January 31. For the first time since MND began regularly issuing releases on PLA air activities, the ministry reported in the same announcement that a US reconnaissance airplane had likewise entered the southwest ADIZ. MND later [reported](#) a separate flight of two Chinese fighters in the ADIZ that night. Whether that second sortie was pre-planned or was a response to the US plane’s presence (or to MND’s publicizing its presence) is unclear.

The next day, February 1, MND [reported](#) the presence of one Chinese ASW aircraft and three US aircraft—two reconnaissance planes and a tanker. On both days, MND provided little identifying information about the American planes, contrasting with its approach to PLA aircraft. MND provided neither aircraft models, nor flight paths, nor photographs.

Analysis

Whether US aircraft have previously flown through Taiwan’s ADIZ at or around the same time as their PLA counterparts is unclear. It is possible that this is a regular occurrence, but that the decision to publicize it was novel. Either way, it seems likely that both the US flights and MND’s public reporting of them were a result of prior US-Taiwan coordination.

Whether it is the flights that are new or the revelation thereof, the Biden administration is demonstrating a level of tolerance for risk in US-China relations that may have caught Beijing off-guard. The new administration is in its early days, but it is staking out a position in which allies come first, in which it does not mince words about Chinese [atrocities](#), and in which American commitment to Taiwan is “rock-solid,” as State Department Spokesperson Ned Price put it in a [statement](#) on PRC military pressure against Taiwan.

If US flights are new, it suggests that the Biden administra-

tion has determined that it needs to put more “skin in the game” in the Taiwan Strait. Occasional naval [transits](#) through the strait, which have [continued under Biden](#), have perhaps been deemed insufficient for conveying a willingness to play an active role in deterring Chinese malfeasance. The PLA must now grapple with the fact that American aircraft will occasionally be present—observing, and perhaps willing to intervene. In my *Global Taiwan Brief* [piece](#), I argued that “a new normal marked by a higher operational tempo may make tactical surprise easier for the PLA to achieve.” If US aircraft continue to occasionally show up in the vicinity when Chinese aircraft are operating near Taiwan, tactical surprise becomes harder to pull off and riskier to attempt.

Even if it is the case that these US flights are nothing new, divulging them would still be significant. First of all, publicizing them makes it more difficult for the United States to cease those operations without reputational blowback; it is a way of conveying to Beijing that the US commitment to Beijing is not a matter for negotiation. Nor is that message intended only for Beijing. American allies and partners—including Taiwan, of course—see an America willing to incur risk as it stands by an old friend and, importantly, following up its words (that “rock-solid” commitment) with action.

Conclusion

As of this writing, MND has reported six additional days (February [2](#), [4](#), [5](#), [6](#), [7](#), and [8](#)) on which PLA flights took place, but has reported no further US aircraft operations in Taiwan’s ADIZ. With Chinese aircraft flying in the ADIZ nearly every day, the US military cannot and should not be expected to match the PLA’s tempo. Nor does it need to. Occasional American operations like those of two weeks ago should be sufficient for complicating both the PLA’s operational planning and Beijing’s calculus regarding potential hijinks near Taiwan; for further enmeshing the United States in cross-Strait dynamics in a way that will contribute to a more sustainable strategic stability; and, relatedly, for shoring up American credibility at a time when allies and partners doubt US will and commitment.

With his [sanctioning](#) of former Trump administration officials during Joe Biden’s swearing-in and his major air exercises near Taiwan just days later, Xi Jinping attempted to caution Washington about continuing to advance strong ties with Taipei. President Biden has countered with what amounts to a warning of his own: the United States stands by its friends and will not give Beijing a veto when it comes to pursuing

long-standing American interests.

The main point: By sending US military aircraft to operate in Taiwan’s ADIZ when PLA aircraft are in the vicinity and by publicizing those operations, the Biden administration has taken its first steps towards solidifying the American security commitment to Taiwan.

Taiwanese Outward Investment in 2020 a Positive Sign for US-Taiwan Economic Relations

By: Riley Walters

Riley Walters is a senior non-resident fellow at the Global Taiwan Institute and deputy director of the Japan Chair at Hudson Institute.

American and Taiwanese officials just held one of their first economic [dialogues](#) since President Joseph Biden was sworn into office. The urgency for the meeting was reportedly to discuss a shortage of semiconductors for the automobile industry and ways Taiwan, a global leader in chip manufacturing, can help meet demand. Just in the last year, Taiwanese companies have announced big plans to invest more in semiconductor manufacturing in the United States. In fact, Taiwan may be one of the few economies to have seen its total outward direct investments (ODI) actually increase in 2020—an impressive feat since Taiwan is no stranger to the economic impact of the COVID-19 pandemic. The amount of Taiwan’s new ODI [increased 61 percent](#) last year. This should be welcome news given direct investment can support job growth, increase productivity, and can help mitigate disruptions to supply chains.

Inward Foreign Direct Investment

Direct investment is either foreign (coming into a country) or outward (going from a country) depending on the direction it’s going. One country’s outward investments are another country’s foreign investments.

A [recent report](#) from the United Nations Conference on Trade and Development revealed that the value of new global foreign direct investment (FDI) fell by 42 percent in 2020 to a total estimate of USD \$859 billion. Developed economies, especially those in North America and Europe, were hit the hardest with new FDI falling 69 percent last year. That’s

because few have been safe from the economic impact of the pandemic. The negative impact makes it hard not just for economies to attract FDI but for companies to increase their outward investments as they struggle at home.

Taiwan's economy has fared relatively well during the pandemic compared to most. Its successful pandemic management and low infection rate is admired as an example of best practices. Generally speaking, [unemployment](#) numbers have rebounded since an initial increase at the onset of the pandemic. The unemployment rate is now roughly the same as it was in 2018 and 2019 (3.7 percent). Gross domestic product (a measurement for the size of an economy) growth has been anemic in 2020 but not as volatile as some other major economies. Taiwan's economy is [expected](#) to have zero growth in 2020 but rebound to 3.2 percent growth in 2021. Meanwhile, advanced economies are [estimated](#) to have seen their economies shrink by 4.9 percent last year.

With the pandemic having just a slight drag on Taiwan's economy, Taiwan saw a USD \$2 billion (roughly 18 percent) decrease in [new FDI](#) in 2020—bringing the total value of new FDI to USD \$9.3 billion. The decrease is not as bad as it was for some of the world's larger economies though. Many [advanced economies](#) saw double-digit decreases in their amount of new FDI including Canada (a decrease of 34 percent), Australia (46 percent), the US (49 percent), Germany (61 percent), and the United Kingdom (over 100 percent).

It's questionable what sort of impact the decrease in new FDI will have on Taiwan's economy, if any. A significant amount of decrease [last year](#) came from known tax havens including the Caribbean (38 percent) and the Netherlands (83 percent). But Taiwan also saw less FDI from Japan (24 percent), Germany (68 percent), and Australia (89 percent) compared to 2019. These decreases were primarily seen in manufacturing, energy, and finance/insurance.

Investment from the United States (historically the largest foreign investor in Taiwan besides the Caribbean or Netherlands) [decreased](#) roughly 28 percent. However, there were also some new major investments and partnerships announced including [Google's](#) plans to invest more in Taiwan's hardware manufacturing and [Microsoft's](#) plan to make Taiwan an "Asian Digital Transformation Hub." There was also a significant [increase](#) (338 percent) in investment from Denmark as companies ([Orsted](#)) look to invest more in Taiwan's demand for energy diversification.

Outward Direct Investment

The world saw investment from Taiwan increase USD \$6.7 billion (61 percent) last year to USD \$17.7 billion. Even though Taiwan's ODI was particularly low in 2019 (making the increase in 2020 seem bigger), ODI in 2020 wasn't that much different from prior years. And these new investments were surely welcome as other countries struggled with high rates of unemployment, supply chain disruptions, and questions over economic resiliency.

Roughly half of Taiwan's annual ODI last year was in manufacturing, most of which is in electronic parts and component manufacturing like semiconductor fabrication. By now, everyone should be familiar with the [announcement](#) Taiwan Semiconductor Manufacturing Company made in May to invest USD \$12 billion in Phoenix, Arizona to build a top-of-the-line semiconductor fab. Last year, Taiwan investors increased their investments particularly in Hong Kong (99 percent), Indonesia (244 percent), Japan (440 percent), and the US (648 percent).

About one-third of Taiwan's total ODI last year went into China, though this shouldn't be surprising. China was one of the [few countries](#) last year to see its new FDI actually increase (4 percent). There are a few reasons for this which I'll skip for now. But for the first time ever, China was the largest destination for FDI in the world (a title historically held by the United States). Depending on how well the Biden administration handles its pandemic response, this honorary title can easily switch back.

Historically speaking, China has often been a popular investment destination for Taiwan. Since the early 2000's, the total stock of Taiwanese investment in China became greater than its investment in the rest of the world. But since 2015, the annual amount of Taiwanese investment in the rest of the world has outpaced investment into China—signaling how much more interest there is in countries like Japan, Singapore, the United States, and Vietnam, and concern there is about the deteriorating investment environment in China. Taiwanese investment [into China](#) has been on a solid downward trajectory for the last ten years now and likely to continue.

Investment Cooperation and Regulations

Towards the end of 2020, American and Taiwanese officials announced plans to work together more on investment. In a [memorandum of understanding](#) signed in November, offi-

cials noted the need to work together on issues like building safe communications infrastructure and advanced manufacturing. What's more, the newly formed US-Taiwan Economic Prosperity Partnership Dialogue includes an effort to protect the United States and Taiwan from investments that might threaten our national security, like those in the semiconductor industry.

According to the Dialogue's [fact sheet](#), "both sides committed to explore ways to increase communication and collaboration between the Committee on Foreign Investment in the United States (CFIUS) and Taiwan's Ministry of Economic Affairs (MOEA) on investment screening, through AIT and TE-CRO."

Over the last few years, governments have become increasingly concerned about certain foreign investments, particularly those investments from China. While foreign investment is often [encouraged](#), a boom in [Chinese investment](#) around 2016 worried American, Japanese, and European lawmakers into rethinking and modernizing their respective rules for screening foreign investment.

In 2018, the United States [passed](#) the Foreign Investment Risk Review Modernization Act to update the authorities of CFIUS. A year later, [Japan](#) would update its Foreign Exchange and Foreign Trade Act. And by late-2020, the [European Commission's](#) guidance for foreign direct investment screening would go into effect, though it's still up to European member states to implement their own national-level screening regulations.

While these regulations are a necessary tool to protect the United States and others from certain investments (and investors), they can also impose a cost on investments coming from countries that are our friends and allies. The updated regulations can also increase the number of investment transactions that are reviewed. While CFIUS has historically focused much of its resources on investments from China, [in 2019](#), CFIUS reviewed almost twice as many investments from Japan (46 transactions) as it did China (25 transactions). CFIUS has reviewed 14 investments from Taiwan since 2005, of which eight reviews occurred in 2018 and 2019—a possible increasing trend.

The new Dialogue's focus on investment screening can hopefully mitigate concerns that potential American and Taiwanese investors have about coming under increased review under these new regulations. And greater collaboration could potentially expedite those investments that do come under

review. The Dialogue will also be good for our national security given there should be regular meetings and [information sharing](#) on "trends in investment and technology that could pose risks" and "information with respect to specific technologies and entities acquiring such technologies." Together we can track and monitor the activities of suspicious investors.

Bilateral US-Taiwan investment is not just increasing in value but becoming increasingly important. The fact that investment from Taiwan increased in 2020, the worst economic year in a lifetime, is something to appreciate and not take for granted. We should hope to see more bilateral investment in the future. Hopefully, efforts to protect from suspicious investments won't hinder the good ones. And so, it'll be important for the Biden administration to continue the good work already started under the US-Taiwan Economic Prosperity Partnership Dialogue.

The main point: Bilateral US-Taiwan investment is not just increasing in value but becoming increasingly important.