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By: Russell Hsiao

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### Beijing's Sabre-Rattling Leading to Calls for Enhanced US-Japan Cooperation to Defend Taiwan

China's increasingly aggressive behaviors and coercive actions—including ramped up [air and naval maneuvers](#) around Taiwan—are leading to growing calls among experts in Washington and Tokyo for expanded coordination among the two treaty allies and co-operation with Taipei to counteract the growing threat. Most notably, in a recent report published by the Center for Strategic and International Studies (CSIS), [“The US-Japan Alliance in 2020,”](#) co-chaired by Ambassador Richard Armitage and Dr. Joseph Nye—both senior Japan hands who served in senior positions in the US government—the study participants, which included other seasoned Asia hands—observed:

*“China’s so-called “grey zone” coercion has illuminated the importance that the United States and Japan place on the strategic integrity of the first island chain, which stretches from Japan through Taiwan and the Philippines to Malaysia. Japan does not have a legal or diplomatic obligation to support Taiwan’s security as the United States does through the Taiwan Relations Act, but there should be no doubt that Tokyo shares Washington’s concern over growing Chinese military and political pressure on Taiwan. This growing Chinese pressure calls for increased coordination between the United States and Japan on their respective political and economic engagement with Taiwan.”*

This unambiguous recognition of the shared concerns between Washington and Tokyo regarding China's growing pressure campaign towards Taiwan follows a similar set of forward-leaning recommendations from another group of senior retired American and

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international military and civilian officials. This group, which includes a retired admiral and former director of national intelligence, called for stepped up military coordination among US allies with Taipei in order to better prepare for and respond to the possibility of a military crisis in the region. [In a May 2020 report](#) published by the US-based Sasakawa Peace Foundation—which organized a tabletop exercise involving hypothetical scenarios in the South China Sea—the participants specifically recommended that the United States:

*“Expand 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.”*

And suggested that:

*“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.”*

While such voices in Washington have existed before, they have become louder in recent years, particularly on the need to better integrate Taiwan into US allied responses to regional contingencies. However, the challenges to deepening trilateral cooperation have traditionally [been on the Japanese side](#) due to Tokyo’s concerns about China’s reaction. Yet, even in Tokyo, there are signs that such conservative views are starting to change in the face of China’s increasing belligerence. Nobukatsu Kanehara, who served in a variety of high-level positions within the Japanese government, including as Assistant Chief Cabinet Secretary to former Prime Minister Shinzo Abe from 2012 to 2019, recently stated at a [Project 2049 Institute webinar](#):

*“[...] whether we are ambiguous or not, China doesn’t care. They are preparing for war, the invasion of Taiwan [...] under the screen of ambiguity. We have to have some communication among Washington-Taipei and Tokyo-Taipei [...]. We have to be clear that we do not accept the status quo change in Taiwan.”*

What explains Tokyo’s apparent reversal in concerns about China’s intentions vis-à-vis Taiwan? Ian Easton, a senior director at the Project 2049 Institute, cited

in his study *The Chinese Invasion Threat: Taiwan’s Defense and American Strategy in Asia* the PLA handbook *Japanese Air Self Defense Force*, which explicitly states the military advantages for China and costs to Japan if Taiwan were to unify with China:

*“As soon as Taiwan is reunified with Mainland China, Japan’s maritime lines of communication will fall completely within the striking ranges of China’s fighters and bombers. [...] Our analysis shows that, by using blockades, if we can reduce Japan’s raw imports by 15-20%, it will be a heavy blow to Japan’s economy. After imports have been reduced by 30%, Japan’s economic activity and war-making potential will be basically destroyed. After imports have been reduced by 50%, even if they use rationing to limit consumption, Japan’s national economy and war-making potential will collapse entirely [...] blockades can cause sea shipments to decrease and can even create a famine within the Japanese islands. [1]”*

The implications of Taiwan’s subjugation by China for Japan are even more bluntly called out by Tanner Greer at [Scholar Stage](#):

*“Taiwan is the keystone of China’s naval containment. Lose Taiwan, and Japan loses the ability to keep the PLA Navy hemmed up against their own coast line. Lose Taiwan, and Japan loses control of its most important supply lanes. Lose Taiwan, and Japan loses the extended island chain defense system that protects its home waters.”*

In addition to [Armitage and Nye](#), other prominent voices in Washington are similarly calling for increased security consultations between Washington, Tokyo, and Taipei. For instance, the former Assistant Secretary of Defense for Indo-Pacific Affairs Randall Schriver wrote a recent [memorandum](#) published by the Project 2049 Institute in support of such cooperation. Specifically, the former top defense official for the Indo-Pacific during the Trump administration recommended:

*“The United States and its regional partners should work with Taipei in innovative ways to expand Taiwan’s international space in meaningful ways so that Taiwan can prove its value as a good regional and global citizen.”*

More specifically, he suggested:

*“The US should undertake bilateral military planning with regional allies (such as Japan, Australia, and the Republic of Korea) and associated training for a Taiwan Strait contingency.”*

Despite these growing calls from experts for increased cooperation between the United States, Japan, and Taiwan, officials in Washington and Tokyo have remained relatively quiet about the extent of security cooperation over Taiwan. In response to a question about security cooperation between Taipei and Tokyo at a [webinar](#) hosted by GTI earlier this year, Deputy Assistant Secretary of Defense for East Asia Heino Klinck stated:

*“We certainly encourage any of our allies to enhance their security dialogue with Taiwan. We believe that giving Taiwan as much international space as possible is in the interest of like-minded democracies, in the region and globally, quite frankly. So, if Tokyo and Taipei are able to enhance the types of relationships that already currently exist, Washington is certainly in favor of that.”*

While official documents released by the two governments, such as the [US-Japan Defense Guidelines](#), have pointed towards greater alignment on the role that Japan would play in a potential Taiwan contingency—as well as emphasizing Japanese interests in counteracting Chinese coercion of Taiwan—planning for such contingencies appears limited. For its part, Taipei has continuously [called for security cooperation](#) between Taipei and Tokyo. As Kanehara [bluntly admitted](#): “Being ambiguous is one thing; preparing quietly is quite another. China is doing that, we are not doing this [...]. We don’t have a plan, we don’t have an exercise. Can we do that?”

**The main point:** China’s increasingly aggressive behaviors and coercive actions are leading to growing calls among experts in Washington and Tokyo for better coordination among the two treaty allies and cooperation with Taipei to counteract the growing threat.

*(The author would like to thank Marshall Reid for his research assistance.)*

[1] Ian Easton, *The China Invasion Threat: Taiwan’s Defense and American Strategy in East Asia* (Washington DC: Project 2049 Institute, 2017), 27-28.

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### **Record Number of Hong Kongers Obtain Residence Permits in Taiwan in 2020 as Beijing Clamps Down on Dissent**

As Beijing clamps down even harder on political dissent in Hong Kong—demonstrated by the recent chilling [charges and convictions](#) of prominent pro-democracy activists under the draconian Hong Kong National Security Law (香港國家安全法)—Taiwan revealed that it has issued increasing numbers of residence permits to people from Hong Kong. According to [Chiu Chui-cheng](#) (邱垂正), the deputy minister of Taiwan’s Mainland Affairs Council (MAC, 大陸委員會)—the cabinet level agency in charge of implementing cross-Straits policy—from January to October of this year, Taiwan has already issued 7,474 resident permits (居留許可) to Hong Kong residents (for work, study, etc.) and 1,272 Hong Kong residents obtained permanent residency permits (定居許可). The 2020 count already [exceeds](#) the 5,858 residency permits that Taiwan issued in 2019 and the 4,148 it issued in 2018.

Specifically, the numbers from July to October of this year were [reportedly](#) 4,313 and 550, for resident permits and permanent residency permits, respectively. Among the former group, 1,974 Hong Kong residents obtained residence permits in Taiwan in October alone, a [record number](#) for a single month.

Critics of the Taiwan government’s approach to Hong Kong have argued that the current administration is not going far enough to proactively help the people of Hong Kong. Specifically, they are calling for Taiwan’s Legislature to [pass a law](#) in order to provide asylum for Hong Kong persons fleeing the SAR and entering Taiwan through extrajudicial means. There have been several recent [incidents](#) in which Hong Kong political activists have fled to Taiwan by speedboat, which have put Taiwanese aid agencies and organizations in a bind over how to offer support, since Taiwan [bans illegal entry](#) and offers no explicit, legal guarantee of asylum.



To this end, MAC announced the Hong Kong Humanitarian Aid Project (香港人道援助關懷行動專案) in June, which is intended to assist “Hong Kong or Macau residents whose safety and freedom are urgently endangered due to political factors” with immigration, settlement, investment, employment, schooling, and other matters in Taiwan, or to provide necessary assistance in compliance with Article 18 of Taiwan’s Hong Kong and Macau Regulations. Subsequently, MAC [inaugurated](#) the “Taiwan-Hong Kong Service Exchange Office” (臺港服務交流辦公室) on July 1 of this year.

The recent surge of Hong Kong residents ostensibly moving to Taiwan is consistent with the uptick in new immigrants from the SAR during the first half of 2020. Taiwan’s Ministry of the Interior (內政部)—which is responsible for homeland affairs—released statistics showing that the number of Hong Kong residents who had received resident permits in the first half of 2020 reached 3,161, which marked a 116 percent increase from the 1,464 who received permits during the same period last year. Immigration officials [pointed out](#) that the number of Hong Kong residents staying and settling in Taiwan is on the increase. “Of course, it is mainly related to the turmoil in Hong Kong,” according to local officials.

At a recent forum organized in Taipei called the “[2020 Taiwan-Hong Kong Cultural Forum](#)” (2020台港文化合作論壇), MAC Deputy Minister Chiu [said that](#) Taiwan and Hong Kong should join hands to protect freedom, democracy, and human rights.

**The main point:** Amid Beijing’s hardening clampdown on political dissent in Hong Kong, Taiwan has granted record numbers of residence permits to people from Hong Kong. Still, critics argue that the current administration is not going far enough to help the people of Hong Kong.

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### Errata: USG Records Highest Authorized FMS to Taiwan in 2020

A previous *Global Taiwan Brief* entitled “[US Authorizes Record Amount of Arms Sales to Taiwan as Tensions Mount](#)” appearing in Volume 5, Issue 23 had mistakenly claimed that the United States made the largest number of arms sales to Taiwan in terms

of dollar amount in 2019. In fact, according to the most recent [official data](#) released on December 4 by the Defense Security Cooperation Agency (DSCA) on authorized foreign military sales (FMS), the United States Government (USG) authorized the most arms sales to Taiwan in 2020 compared to any other security partner in the world. Receiving a record USD \$11.77 billion in arms sales, Taiwan was the United States’ top FMS partner globally in 2020 (note that this total does not include direct commercial sales (DCS)). [1] Since 2016, the USG [has authorized](#) USD \$16.7 billion in arms sales to Taiwan—second only in Asia to treaty ally Japan’s USD \$19.3 billion during the same period.

| Country | Fiscal Years 1950 To 2015 | Fiscal Year 2016 | Fiscal Year 2017 | Fiscal Year 2018 | Fiscal Year 2019 | Fiscal Year 2020 | Fiscal Years 1950 to 2020 |
|---------|---------------------------|------------------|------------------|------------------|------------------|------------------|---------------------------|
| Taiwan  | \$28,212,637,801          | \$1,806,455,922  | \$563,512,718    | \$1,677,157,778  | \$875,552,468    | \$11,777,425,598 | \$44,912,742,285          |

(Numbers courtesy of [Defense Security Cooperation Agency](#))

[1] According to the DSCA: “FMS is a security assistance program authorized by the Arms Export Control Act (AECA) and conducted on the basis of formal contracts and agreements between the USG and authorized recipient governments or international organizations. FMS includes government-to-government sales of defense articles or services from current Department of Defense (DOD) stocks or DOD managed contracts.”

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## US-Taiwan Plan to Counter China’s Belt and Road Initiative

By: I-wei Jennifer Chang

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Taiwan and the United States have kick-started their plans to [finance infrastructure and energy projects](#) in Asia and Latin America in an apparent pushback against [China’s Belt and Road Initiative](#) (BRI, formerly known as “One Belt, One Road,” 一帶一路). On September 17, the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office (TECRO)

in the United States signed a memorandum of understanding on the “[Framework to Strengthen Infrastructure, Finance, and Market Building Cooperation](#)” (台美基礎建設融資及市場建立合作架構), which would raise funds through private sector capital to provide greater transparency for infrastructure and construction projects, drawing a direct contrast to the standard practices of BRI projects. Representatives from both sides held their first online [working group meeting](#) on October 29 to discuss elevating bilateral cooperation in regional infrastructure investment financing and the creation of sustainable supply chains. Washington seeks to utilize this cooperation framework to help Taipei enhance its influence in Asia and Latin America amid concerns of expanding Chinese [economic and political encroachment](#) in those regions, while also elevating the [US-Taiwan partnership](#) to a new level of cooperation in global development finance.

### ***Countering China’s Belt and Road Initiative***

Chinese President Xi Jinping’s (習近平) signature foreign policy initiative, [the Belt and Road Initiative](#), has been an overarching framework for promoting Chinese connectivity and economic and financial ties with a large swathe of countries around the world. Last year, the World Bank estimated that nearly [USD \\$575 billion](#) in BRI infrastructure projects have been built or are in the process of being constructed. However, the United States has [raised concerns](#) about China’s rising economic and political influence in BRI countries, as well as the precarious debt traps it has deployed in developing countries. In 2019, the Trump administration put forth its [Free and Open Indo-Pacific Strategy](#), which included corresponding economic and investment targets. However, US absence from other regional economic arrangements—particularly following Trump’s withdrawal from the [Trans-Pacific Partnership](#) (TPP)—has given Beijing the upper hand, allowing it to continually promote BRI in its foreign diplomacy and redraw relations with many countries around the world.

In its strategy to counter BRI, Washington has enlisted the participation of several Asia-Pacific democracies to cooperate on infrastructure investment in developing and emerging economies. [Japan, South Korea, and Australia](#), for example, have agreed to have their companies collaborate with the US International Development Finance Corporation (DFC) to jointly fund infra-

structure projects. Moreover, the [Blue Dot Network](#) formed by the United States, Japan, and Australia last year seeks to promote higher-quality infrastructure investment that is “open and inclusive, transparent, economically viable, financially, environmentally, and socially sustainable, and compliant with international standards, laws, and regulations.” Taiwan, which has voiced support for the [Blue Dot Network](#), has become the latest Asian democracy to join the US strategy on infrastructure investment financing and raising the bar on quality for investment projects.

### ***US-Taiwan Infrastructure Investment Cooperation***

Through the [US-Taiwan framework agreement](#) signed in September, Washington has welcomed Taiwan’s contribution to infrastructure development in the Indo-Pacific region and its extensive support for the “Free and Open” Indo-Pacific region. AIT said the new plan would support “[quality infrastructure in emerging markets](#).” Meanwhile, Taiwan’s Foreign Minister [Joseph Wu](#) (吳釗燮) stated that this new level of cooperation is bringing the US Indo-Pacific Strategy and Taiwan’s New Southbound Policy (新南向政策) into greater focus and alignment. Previously, in 2017, President Tsai Ing-wen (蔡英文) announced a [USD \\$3.5 billion](#) financing plan for infrastructure development as part of its New Southbound Policy. Whereas Chinese [companies](#) and [banks](#) are involved in both the construction and finance of infrastructure projects under BRI, Taiwan’s role in the US infrastructure development scheme is largely limited to undertaking clean and transparent infrastructure [finance](#).

In November, Taiwan and the United States held their first [Economic Prosperity Partnership Dialogue](#), in which they discussed safe and secure supply chains, investment screening, and clean infrastructure cooperation. Both sides also signed a five-year [memorandum of understanding](#), pledging to bolster cooperation on issues including infrastructure finance and protection of economic innovations and technologies. In the near future, [Taipei and Washington](#), as well as through their respective [working groups](#) set up by the US Treasury Department and Taiwan’s Finance Ministry, will continue to discuss increasing private sector participation, introducing more private sector funds, and developing regional debt markets, according to Taiwan’s finance minister Su Jain-rong (蘇建榮). Both sides will also as-

sist the [Indo-Pacific region and Latin America](#) to build a financial and legal environment for infrastructure and energy sectors. With the broader aim of creating new and more resilient [supply chains](#) in the Indo-Pacific, the US-Taiwan collaborative platform will help South and [Southeast Asian countries](#) reduce their reliance on China and shift production to a friendly, alternative supply chain.

### ***Boosting Taiwan's Diplomatic Relations and Influence***

The new US-Taiwan infrastructure investment cooperation is meant to not only [contain Chinese expansionism](#) in the Indo-Pacific and Latin America, but also to shore up Taiwan's relations with its remaining diplomatic partners in those regions and help the island gain more international support. China's tried-and-true tactic of promising [infrastructure development projects](#) and hefty financial assistance to Taiwan's diplomatic allies that switch recognition from the Republic of China (ROC) to the People's Republic of China (PRC) has led to several diplomatic losses for Taipei over the past several years. Beijing took away [Panama](#), a long-time ROC ally, in June 2017, and successfully pressured Panama City to withdraw from its [free trade agreement](#) with Taipei. [The Dominican Republic](#) and [El Salvador](#) later switched recognition from Taipei to Beijing in May and August 2018, respectively. In 2019, two of Taiwan's diplomatic partners in Oceania—the [Solomon Islands](#) and [Kiribati](#)—broke off diplomatic relations with Taipei. China has also sought to lure Tuvalu, one of Taiwan's [four remaining allies](#) in the Pacific, with a [USD \\$400 million investment](#) proposal to build artificial islands, but this offer was reportedly rejected by Tuvalu's government late last year. Nonetheless, China's outsized economic resources remain potent threats to Washington and Taipei's economic and diplomatic strategies in these regions.

The United States has deep reservations about China's rising economic profile and political influence in [South-east Asia](#), [the Pacific Islands](#), and [Latin America](#), which have become three concurrent arenas of US-China great power competition. Southeast Asian economies have a huge need for at least [USD \\$210 billion annually](#) in infrastructure investment to maintain economic growth until 2030, according to an estimate by the Asian Development Bank. Chinese infrastructure investment in Southeast Asia has mainly been concen-

trated in Indonesia ([USD \\$93 billion](#)), Vietnam ([USD \\$69 billion](#)), Malaysia ([USD \\$34 billion](#)), and Singapore ([USD \\$28 billion](#)), though China's overall infrastructure investments in the region lag behind those of [Japan](#). Furthermore, in a crowded field where China, Japan, [South Korea](#), and other countries are competing for infrastructure projects in Southeast Asia, Taipei may serve itself well to utilize its comparative advantages, such as in [information and communication technology](#) and [smart cities](#), to make a deeper imprint.

Beijing is also steadily making inroads into Latin America, the traditional backyard and sphere of influence of the United States. [Nineteen countries](#) in Latin America have signed up to participate in China's BRI, while Chinese companies have invested over [USD \\$123 billion](#) in regional economies—coupled with [USD \\$137 billion](#) in Chinese bank loans for projects in the region—since 2005. In addition, Chinese companies [Huawei and ZTE](#) are constructing telecommunications network systems in 24 countries in Latin America, triggering security concerns. In an apparent response to BRI, Washington has been promoting the [América Crece](#) program, also known as the Growth in the Americas program, which aims to “catalyze private-sector investment in Latin America and the Caribbean.” This program could also provide an alternative business framework that prioritizes projects that benefit the region and promote [good governance](#) practices. Taiwan can also serve as a partner in this US initiative by emphasizing clean and transparent infrastructure investment projects in the region.

Given that Taiwan's role is narrowly focused on development finance and smaller projects—in contrast to the sprawling and massive construction projects undertaken by Chinese companies—Taiwan is unable to outcompete China for infrastructure projects across the board in Southeast Asia. Thus, it may be more feasible and efficacious for Taipei to focus on financing infrastructure projects in more diplomatically crucial areas such as the Pacific Islands, where it has [four remaining diplomatic allies](#) (Marshall Islands, Palau, Nauru, and Tuvalu), as well as in its [five existing allies](#) in Latin America (Belize, Nicaragua, Guatemala, Honduras, and Paraguay). Taipei could draw on its new infrastructure investment financing platform with the United States and work alongside like-minded partners

such as Japan and Australia to pack more of a punch to counter China's expansionism in these diplomatically critical regions.

**The main point:** The new US-Taiwan infrastructure investment cooperation agreement seeks to counter China's sprawling Belt and Road Initiative while also shoring up Taiwan's relations with its diplomatic allies in the Pacific Islands and Latin America against the threat of Chinese economic and political encroachment.

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## A Taiwanese Perspective on the Need for a US-Taiwan Free Trade Agreement

By: Kai-Chih Chang

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On November 20, 2020, the first US-Taiwan bilateral dialogue on economic prosperity was held in Washington, D.C. A [memorandum of understanding](#) that lays the foundation for further cooperation was signed by Taiwan Representative to the United States Ambassador Hsiao Bi-khim (蕭美琴) and American Institute in Taiwan Managing Director Ingrid Larson. During the dialogue, both countries committed to [seeking and strengthening cooperation](#) in supply chain security, a clean and secure 5G network, and in other key areas. Recently, many think tanks and commentators have also [openly called](#) for a US-Taiwan Free Trade Agreement (FTA). President Tsai Ing-wen (蔡英文) has also openly called for a US-Taiwan FTA.

The prospect of a US-Taiwan FTA has also been [mooted on-and-off](#) over the past two decades. Although Taiwan has long [wished](#) for such an agreement, numerous obstacles have prevented the deal from moving forward. Yet as the COVID-19 pandemic forces the global economy to transform and China rises as a regional hegemon threatening the US' interests in the Indo-Pacific region, previous political and economic concerns that hindered the realization of the US-Taiwan FTA should

no longer seem valid. Now is the right time to initiate the negotiation of a US-Taiwan FTA.

### ***The Political and Economic Aspects of US-Taiwan Relationship***

Taiwan has always been a reliable US political ally. Although the United States and Taiwan no longer maintain formal diplomatic relations, the partnership between the two nations has remained strong and has continued to progress over the past four decades. US-Taiwan cooperation on security and economic matters has helped to maintain stability in the region and has created economic prosperity for both countries.

The stance of the US Congress has been clear and evident, as it has repeatedly urged for a US-Taiwan FTA. The executive branches' attitude have, however, been conservative—the current administration, despite its forward leaning posture on Taiwan, has also been reluctant to engage in free trade negotiations with Taipei. The fear that a US-Taiwan FTA would irritate Beijing [was said](#) to be the main reason for hesitation. It is also believed that the [USTR was taking a conservative position](#) since it worries that a US-Taiwan FTA would jeopardize the ongoing US-China trade deal. Some even argue that it is not worth pushing for such an agreement since a US-Taiwan FTA would only [limited benefits](#) to the parties.

Economically speaking, the United States and Taiwan are also closely connected. In 2019, Taiwan was the US' 10<sup>th</sup>-largest [trading partner](#) for goods and services and the 15<sup>th</sup>-largest investor. The total trade volume between the two nations in 2019 amounted to USD [\\$85.5 billion](#). More importantly, the two economies are highly complementary. For example, as the largest [semiconductor manufacturing economy](#), Taiwan provides chip manufacturing services to the US' fabless integrated circuit (IC) design companies. Meanwhile, Taiwanese firms purchase state-of-art semiconductor manufacturing equipment from the US. [Close ties and cooperation](#) between US and Taiwanese industries can also be found in the chemical, machinery, and automobile manufacturing sectors.

### ***A Turning-Point for the International Economy***

Since the outbreak of the US-China trade war and the COVID-19 epidemic, the global economy has tasted the



bitter repercussions of its over-reliance on China as “the world factory.” Consequently, a supply chain revolution has emerged, as countries and industries are now [reversing their over-reliance on Chinese manufacturing](#). Although the change in the global supply chain is not necessarily targeting China, its impact may be irreversible. Firms and investments are now moving out of China and relocating to India and [Southeast Asian states](#). Countries are also [restructuring their trade policy](#) and enhancing cooperation with [reliable allies and like-minded countries](#) to prepare for future threats. Like all other nations, Taiwan also faces the question of how to position itself in the global economy. Should Taiwan continue to embrace the still-tempting market opportunities and increase its economic dependence on China? Or should Taiwan reduce such reliance and develop cooperation with other allies?

In recent years, the global economy has [swiftly integrated](#), mainly through FTA negotiations. Despite Taiwan’s strong economy and advanced industrial capacity, the political pressure from China has prevented Taiwan from engaging in meaningful FTA negotiations. In the [2002 US International Trade Commission’s \(USITC\) report](#) assessing the possible economic impact of a US-Taiwan FTA, an interviewed Japanese trade official explained how China deters other countries from engaging in FTA talks with Taiwan. By limiting Taiwan’s economic outreach, China lured and forced trade-dependent Taiwan to integrate with China’s economy. By doing so, China’s ultimate goal is to project its political influence over Taiwan once the cross-Straits economic integration is forged. As the Japanese trade official observed, if the US does not take the lead in signing an FTA with Taiwan, it would be difficult for any country that is considering an FTA with Taiwan to endure the pressure from China.

Maintaining Taiwan’s economic distance from China is vital to both Taiwan and the US. The strategic value of Taiwan’s advanced semiconductor industries is particularly notable. Currently, Taiwanese firms control nearly [70 percent](#) of global semiconductor foundry production. Taiwan is also one of the few countries that can supply superior-quality chips for civilian and military use without worrying that the chips are compromised for espionage purposes. Out of [security concerns](#), the US would surely want to prevent China

from gaining access and influence over Taiwan’s highly sensitive industry. In the past several years, the US has [repeatedly urged](#) Taiwanese semiconductor firms to move their production facilities to the US. This past June, Taiwan Semiconductor Manufacturing Company (TSMC), the world’s largest and most advanced semiconductor foundry firm, announced its USD [\\$12-billion investment plan](#) to develop an advanced semiconductor manufacturing plant in Phoenix, Arizona. The new plant will utilize TSMC’s cutting-edge 5-nanometer technology for semiconductor fabrication, directly creating more than 1,600 high-tech professional jobs. As US Secretary of State Michael Pompeo [tweeted](#), the TSMC investment plan “bolsters US national security at a time when China is trying to dominate cutting-edge tech and control critical industries.”

Strategically, the US needs to reduce Taiwan’s economic dependence on China and ensure that Taiwan’s advanced information and communications technology (ICT) industry is free from China’s direct and indirect control. On the other hand, Taiwan also needs the US’ support to maintain its economic and political independence. A US-Taiwan FTA would significantly expand economic cooperation between the US and Taiwan, mitigate China’s influence, and secure Taiwan’s political and economic stability. The value of entering into a trade pact with Taiwan should not only be evaluated by the amount of revenue generated. The geopolitical and military-strategic impacts should also be taken into consideration.

### ***Changing Geopolitics in Asia***

Robust economic growth since the 1980s has allowed China to develop into a regional superpower. Although the leadership in Beijing repeatedly [claims](#) that “China will never seek hegemony or engage in military expansion now or the future,” their actions suggest otherwise. China’s recent expansive [territorial claims](#) and [intrusive measures](#) in the South China Sea have threatened freedom of navigation in the area. Through projects like the Belt and Road Initiative (formerly “One Belt, One Road,” 一帶一路), China has also used its economic might to influence countries in the region. Just as Paul Kennedy famously proclaimed that “the rise of new great powers [...] one day would have a decisive impact on the military/territorial order,” China is now on the path toward actively projecting its influ-



ence and challenging US hegemony in East Asia. Unsurprisingly, Taiwan is undoubtedly the prime target that China wishes to gain control over.

### ***It's Time for a US-Taiwan FTA***

[The United States has always used FTAs as tools to forge and strengthen partnerships with its allies.](#) In the past 35 years, among the [20 countries](#) that the United States has concluded FTAs with, only four (Mexico, Canada, South Korea, and Japan) were among the [US' top 15 trading partners](#). The [recent plan](#) for a US-Kenya FTA also demonstrates that economic gain has never been the US' primary concern when selecting FTA partners. Considering that Taiwan has consistently been among the US' [top 15 trading partners](#)—and there is a critical security need to strengthen the US-Taiwan partnership—a US-Taiwan FTA is politically and economically supported.

The negotiation of a US-Taiwan FTA would certainly irritate China and affect US-China relations. In fact, any US' actions that prevent Beijing from gaining influence over Taiwan uniformly provoke China. But should this be the reason for the US to give up its reliable ally and surrender its economic, political, and security interests in the region? Of course not. Since FTA negotiation is the most effective way to consolidate the US-Taiwan alliance and is beneficial to both parties, the US should not be overly concerned about China's reaction. Not to mention that a trade agreement is already the least politically sensitive option, since it would not involve discussions of sovereignty or statehood-recognition issues. As Ambassador Kurt Tong [notes](#), “the biggest impediment to a US-Taiwan trade agreement over the years has not been commercial considerations, but a lack of political will.” The leaders in Washington and Taipei have long placed too much emphasis on Beijing's reactions. It is time to change and move forward.

In the past, skirmishes over Taiwan's restrictions on the import of US beef and pork products have also delayed US-Taiwan trade talks. However, after President Tsai [announced](#) that Taiwan will ease US beef and pork restrictions starting in January 2021—a decision that caused President Tsai's popularity to [fall by 10 percent](#)—such concern is no longer warranted. Taiwan has also paved its way and is prepared to strengthen its cooperation with the US.

For Taiwan, a US-Taiwan FTA would help to consolidate ties with a significant trade partner and ease its economic dependence on China. The FTA would enable Taiwan to break through China's blockade and may even open up opportunities for Taiwan to engage in trade talks with other countries. Economically, the United States would benefit from ensuring the security of supply chains of high-end technologies. Politically and militarily, a US-Taiwan FTA would help the United States to strengthen its partnership with Taiwan and counter China's expansion. As such, the conclusion of a US-Taiwan FTA is beneficial to both nations.

China's power will likely continue to grow, and the US-China rivalry will not fade away anytime soon. Both Taiwan and the US should be prepared to face their common adversary and a rising hegemon. Taiwan's Minister without Portfolio and chief trade negotiator, Deng Chen-Chung (鄧振中), has also expressed that Taiwan will [“always be ready”](#) for reaching an agreement with the United States. A US-Taiwan FTA would be the perfect answer for the US to respond to its ally's call and the best way for the US to demonstrate its willingness to continue its leadership role in Asia. Now is the perfect time to push for a US-Taiwan FTA.

The main point: While the recent US-Taiwan bilateral dialogue on economic prosperity is a key step forward in the US-Taiwan relationship, it is only the beginning. In order to safeguard Taiwan and further US interests in the Indo-Pacific, both nations should work to negotiate a free trade agreement.

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## **Taiwan-Vietnam Economic Relations in the Age of Disruption**

By: Ines I-Yin Chung

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In December 2019, Taiwan's economic relations with Vietnam reached a key milestone when the two sides signed an [updated bilateral investment agreement \(BIA\)](#), which later came into force on May 24, 2020. Taiwan's Ministry of Economic Affairs (MOEA) [viewed](#) the BIA as a major achievement of the New South-

bound Policy (NSP, 新南向政策), which aims to diversify Taiwan's investments and strengthen relations with neighboring countries in the Indo-Pacific. Since President Tsai Ing-wen (蔡英文) initiated her signature NSP in 2016, Vietnam has come into the limelight as one of the next global manufacturing hubs. The disruptions in international supply chains caused by the US-China trade war has further facilitated the relocation of a swarm of overseas Taiwanese businesses to northern Vietnam. The rapid growth of foreign investment inflows into Vietnam, however, has raised concerns about overheating Vietnam's markets, while the threat of US punitive tariffs on Vietnam's exports may also diminish the prospects of greater Taiwanese investment in Vietnam.

### ***Government Efforts to Promote Bilateral Economic Relations***

To deepen and broaden bilateral economic ties, Taiwan's government has focused on people-to-people and business-to-business exchanges. A series of higher education and vocational training projects have been launched under the [New Southbound Talent Development Program](#) (新南向人才培育計畫) to cultivate talent among Taiwanese and Vietnamese youth, who play critical roles in bridging the two countries and enhancing mutual understanding. Additionally, Taipei has organized various showcase events and networking platforms, such as the [New Southbound Market Networking](#) (新南向國家企業聯誼會), to help Taiwanese businesses navigate Vietnam's market. These efforts are largely devoted to Ho Chi Minh City, Vietnam's most populous metropolitan area, where MOEA has set up a dedicated investment help desk—"Taiwan Desk" (台灣投資窗口)—to offer advisory services. In the hope of complementing these services, Taiwan External Trade Development Council (TAITRA, 中華民國對外發展貿易協會) further [launched an online "Southern Star Club"](#) (指南星俱樂部) in January 2019. This interactive website has provided instant information and support to more than 1,400 Taiwanese businesses that can directly interact with TAITRA overseas offices.

Vietnam, as the host country, is committed to creating an attractive business environment to attract foreign investment. According to the [Five Year Socio-Economic Development Plan for 2016-2020](#), Vietnam's focus has continued to center on three strategic goals: putting

a socialist-oriented economy in place, improving the quality of its workforce, and constructing infrastructure systems in synchronization with urban modernization. Vietnam also has [18 coastal economic zones with up to 325 state-supported industrial parks](#), which are designed to offer an array of incentives to foreign investors. These incentive schemes include tax breaks, elimination of tariffs on selected items, lower rates for corporate income taxes and value-added taxes, and reduced land rents and land fees. Lu Chih-sheng (盧智生), chairperson of the Hanoi branch of the Council of Taiwanese Chambers of Commerce in Vietnam (越南台灣商會聯合總會河內分會), [pointed out](#) that a two-year tax exemption and 50 percent reduction in payable taxes for four subsequent years is currently applied to most Taiwanese businesses based in Vietnam's industrial parks.

### ***Updated Taiwan-Vietnam Bilateral Investment Agreement***

As a result of these mutually beneficial policies, Taiwan has emerged as the [fifth-largest foreign investor](#) in Vietnam in 2019, while Vietnam has become the [seventh-largest importer](#) of Taiwanese goods. Clearly, the Vietnamese government has gradually [realized](#) that better legal protections for Taiwanese investors could boost investor confidence and bring in more businesses. This growth in economic cooperation strengthened the two sides' determination to update the existing bilateral investment agreement (BIA), which was first signed in 1993. At that time, President Lee Teng-hui's (李登輝) Southbound Policy (南向政策) used Taiwan's investment in Southeast Asian countries to gain political advantages for Taiwan, including the resumption of substantive semi-official interactions by establishing *de facto* embassies and consulates. However, the original BIA's policy objectives were outdated and incompatible with the current need for diversified investments. The agreement fell behind with international standards in many ways; for instance, the BIA's [exclusion](#) of Taiwanese investment in Vietnam via a third country was an arguable defect. Taiwan and Vietnam did not seriously acknowledge the defects until Vietnam's nationwide anti-China protests in 2014, which marked a [turning point](#) and brought the two sides to the negotiation table.

Even though 425 Taiwanese businesses were [report-](#)

[edly](#) affected by the protests, causing direct losses of between USD \$150 million to \$500 million, only a [limited number](#) requested compensation from the Vietnamese government in accordance with the BIA. Roughly ten of the most severely damaged Taiwanese businesses finally [declined](#) to take legal action, which suggests that the old BIA was more symbolic than substantial. After more than [four years of negotiation](#), Taiwan and Vietnam eventually [signed an updated BIA](#) in December 2019. In a bid to provide more comprehensive protection for Taiwanese businesses operating in Vietnam, both sides incorporated the lessons learned from the experience of dealing with compensation for Vietnam's 2014 protests into the revised clauses. These are reflected in the updated BIA's more comprehensive investor-to-state dispute settlement mechanism and the inclusion of the Taiwanese government as a mediator in investment issues on behalf of its nationals. Moreover, the Vietnamese government is expected to announce any amendments to its investment-related legal instruments in a timely manner so as to ensure regulatory transparency. A large majority of Taiwanese businesses in Vietnam recognized the governments' joint efforts. Some highlighted that the new BIA would stimulate higher inputs from [newcomer](#) businesses and accordingly bring more benefits for them than for those who have already been running businesses in Vietnam for a long time.

### ***Impact of US-China Trade War***

This argument regarding increased benefits for newcomers into Vietnam's market came against the backdrop of escalating trade tensions between the United States and China. US tariffs on Chinese goods have [reportedly](#) driven American importers to look for alternative supplier locations, particularly in terms of electronic products and electrical machinery. These current shifts in the global supply chain appear to come at an excellent time, allowing smaller Asian manufacturers of electronic components and accessories to fill in the vacuum left by the decline of the "red supply chain" of China. Vietnam is [reportedly](#) the biggest beneficiary of the relocation effect from the trade war, exporting more [phone parts and automatic data process machines](#). This increase in exports contributed to [7.9 percent](#) of Vietnam's 2019 gross domestic product (GDP). Taiwan is [reportedly](#) the second-largest winner of the

trade war after Vietnam, with an increase in exports of typewriter parts, office machines, and phone parts, which constituted 2.1 percent of Taiwan's GDP in 2019. Accordingly, Taiwanese investors with manufacturing bases in China have begun to [adjust their investments and overall strategy layouts](#).

### ***Taiwanese Businesses Look towards Northern Vietnam***

Even though Taiwan government has rolled out the red carpet for returnees from China, a large number of overseas Taiwanese businesses have decided to shift their focus to Southeast Asian countries instead, where they [believe](#) that the assembly and mass production of gadgets can be done in a more efficient and cost-effective manner. According to Kung Ming-hsin (龔明鑫), Taiwan's Minister without Portfolio in charge of economic affairs, [Vietnam is the most preferred destination](#) for Taiwanese technology companies. [Investors](#) point to Vietnam's stable political system and economic growth, improved business climate and infrastructure, skilled and trained workforce, and deeper integration into the global economy as signs of the country's strong investment environment. Taiwan's private sector is also ahead of the government in determining locations to set up production lines, a trend that can be seen in the increasingly frequent Taiwanese business field trips and surveys. Unlike the small and medium-sized Taiwanese enterprises in traditional industries that have taken root in [southern Vietnam](#), these newly arriving Taiwanese electronics companies are increasingly looking towards the north.

Vietnam's capital city Hanoi and the northern coastal city Hai Phong have emerged as Taiwanese investors' top choices due to their strategic locations and relatively low land and labor costs. [Electronic giants](#), including Foxconn (富士康), Compal (仁寶), Lite-On (光寶), Gemtek (正文), AmTRAN (瑞軒), Synnex (聯強), and Chilisun (奇力新) are increasing investments and constructing new plants to expand production capacity in those Vietnamese cities. As a result, Vietnam's electronics components, computer, electronics, and optical product manufacturing industries made up [22.1 percent of the total Taiwanese investments in 2019](#), an 18.8 percent increase compared to 2018. This marks a shift in Taiwan's investment in Vietnam away from the long-running focus on traditional textiles, base metals,



and chemical industries. Riding on this trend, MOEA and TAITRA organized [the third Taiwan Expo](#) (台灣形象展) to promote Taiwanese brands and products in Hanoi, rather than Ho Chi Minh City, where the event was previously held for two consecutive years.

The continuous flow of investment from Taiwanese technology manufacturing industries is undoubtedly music to the ears of the Vietnamese government. Taiwanese investment is in line with Vietnam's [new foreign direct investment strategy](#) aimed at attracting more high-quality investment from sectors where Taiwan has strong expertise, such as the mechanical and electronic sectors. The memorandum of understanding (MOU) signed by Vietnam's first and largest high-tech park, Hoa Lac Hi-Tech Park, and Southern Taiwan Science Park (南部科學園區) could be regarded as a cornerstone for future bilateral cooperation. Nevertheless, some Taiwanese businesses are concerned about Vietnam's [overheating markets](#), which have raised land costs and wages. Vietnam's lack of a holistic electronics manufacturing ecosystem also suggests that the country still has a long way to go before it can rival China. When reaping the benefits from strengthened Taiwan-Vietnam economic relations, Taiwan's government and businesses should take these potential risks into considerations so as to map out countermeasures timely and appropriately.

**The main point:** Economic relations between Taiwan and Vietnam have strengthened under President Tsai Ing-wen's New Southbound Policy, notably with an updated bilateral trade agreement as a key milestone.

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## Resumption of Cross-Strait Dialogue is Desirable, Realistic and Practical Aims are Necessary

By: J. Michael Cole

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With growing military activity in and near the Taiwan Strait increasing the risks of an accident, it has become clear that Taipei and Beijing should find ways to reopen communication channels lest a collision or miscom-

munication escalate into a major armed conflict. This point was implied in President Tsai Ing-wen's (蔡英文) recent [speech](#) delivered virtually at a Washington think tank: "What we seek is constructive cross-strait dialogue ... [w]e see a necessity for both sides to find a way to coexist peacefully based on mutual respect, goodwill, and understanding." Indeed, with more than [120 Chinese military aircraft](#) entering Taiwan's Air Defense Identification Zone (ADIZ) since mid-September, some sort of confidence-building mechanism (CBM) is required to help reduce tensions and serve as a conduit for de-escalation should an incident (e.g., a mid-air collision involving an aircraft from the People's Liberation Army Air Force (PLAAF) and a Taiwanese interceptor) require quick dialogue.

Following the election of Tsai Ing-wen of the Democratic Progressive Party (DPP, 民主進步黨) in 2016, [Beijing shuttered all official means of communication](#) with Taiwan, chief among them the line that had previously been set up to link the Mainland Affairs Council (MAC, 大陸委員會) on the Taiwanese side and the State Council's Taiwan Affairs Office (TAO, 國務院臺灣事務辦公室) in China. In the past, ad hoc mechanisms were occasionally used to facilitate dialogue between the two sides when situations arose that made radio silence impossible. This was the case when several Chinese nationals died in a [bus accident in the summer of 2016](#) as well as when Taiwan—using the semi-official Straits Exchange Foundation (SEF, 海峽交流基金會)—sought to make it possible for relatives of [Taiwanese nationals who were facing prosecution in China](#) to attend their trial, as occurred following Lee Ming-che's (李明哲) arrest and prosecution. No doubt the two sides have also relied upon trusted envoys and quiet channels to ensure a modicum of dialogue.

While firmly defending Taiwan's bottom line, President Tsai has repeatedly extended an olive branch to the regime in Beijing, stating on several occasions that she would be [willing to sit down](#) with Chinese Communist Party Secretary-General Xi Jinping (習近平), so long as no preconditions are set for such talks. In return, Beijing has insisted that Taipei must first [recognize](#) the so-called "1992 Consensus" (九二共識) and its corollary "One-China Principle" (一個中國) before such dialogue can resume. Insistence on both sides, therefore, has contributed to the impasse. However, it is import-

ant to point out that while the relationship is at its nadir, only one side has responded by adopting a military threatening posture to compel the other side—and that is China. Therefore, while it may be possible to blame both sides of the Taiwan Strait for the current state of affairs, the asymmetry in how each government has reacted to it undermines the argument that the two sides are equally responsible.

While Taipei's stubbornness can arguably be said to have contributed to the chill, only the Chinese side is truly to blame for the dangerous instability that currently prevails in the Taiwan Strait. It is Beijing that has decided to militarize the matter. This, in turn, should guide how countries like the United States—the incoming Biden administration above all—formulate their policy vis-à-vis Taiwan and China on this matter. Treating the escalation of tensions as if there were a moral equivalence to Taiwan's defensive and China's offensive postures, or as if both sides were equally responsible for the current crisis, will only result in failed policy.

Everybody, therefore, seems to agree that dialogue is necessary. This point was also emphasized by participants in a recent [webinar](#) in which former President Ma Ying-jeou (馬英九) hosted and former American diplomat Susan Thornton, among others, participated. There was general agreement that dialogue has become necessary and that the United States should encourage the two sides to pursue it. While it is difficult to disagree with this contention, we should also be wary of setting immoderate expectations of what can be achieved through renewed dialogue. At best, some sort of CBM could in theory contribute to a reduction in tensions in the Strait and serve as a mechanism through which incidents can be addressed before they escalate into something with more potential to destabilize the region. However, the idea that a resumption of dialogue would help resolve the tensions that underlie conflict in the Taiwan Strait can only lead to disappointment.

For one thing, even when bilateral relations were at their best—which Ma [argues](#) occurred during his tenure—it is important to note that little, if any, progress was made on the critical issue of Taiwan's status. Although Ma, by [embracing the "1992 Consensus,"](#) was able to move forward on economic and social matters

across the Taiwan Strait, he was unable to make any progress on the more complex political issues. And when he approached those, such as by proposing a peace treaty, he was quickly forced to pull back. Moreover, even when agreements which were ostensibly purely economic in nature—such as the Cross-Strait Service Trade Agreement (CSSTA, 海峽兩岸服務貿易協議)—were perceived to have potential for political repercussions, Taiwanese society responded by taking action, this time in the form of the Sunflower Movement (太陽花學運).

Democratic forces within Taiwan, therefore, impose limits on how far their government can go in its talks with China. On the Chinese side, frustration with the lack of progress on the "Taiwan issue" and signs of a more activist US involvement on Taiwan's side have also undermined the appeal of dialogue. Various [commentators](#)—among them academics, retired PLA generals, as well as pro-unification elements from Taiwan appearing on Chinese internet and TV programs—have all bemoaned the limits that Taiwan's politics and democracy have imposed on the kind of progress that Beijing would like to see. More and more, those analysts have concluded that politics in Taiwan are such that no "peaceful" resolution of the longstanding conflict is possible without either the use of force or some form of military coercion. In their view, neither the DPP nor the "China-friendly" Kuomintang (KMT, 中國國民黨) is willing to engage in serious dialogue on Taiwan's political future within "One-China." Furthermore, they increasingly recognize that democratic forces are such that any politician who proposed to negotiate over the public's head would quickly be dispensed with through electoral retribution. Only small parties, such as the New Party (新黨), China Unification Promotion Party (CUPP, 中華統一促進黨), and the Red Party Taiwan (中國台灣紅黨—紅黨), have the will to engage in such talks, and presumably the desire to do so on Beijing's non-transparent and non-accountable terms. But Beijing knows that those outliers have no chance of being elected to office, let alone playing a role in the central government.

Speaking at the [Global Times Annual Forum](#) 2020 in Beijing in early December, Zhu Feng (朱鋒), a professor of international relations at Nanjing University, observed that "We have seen enough political farce

within the island and we attach no hope to the political forces within the island to change the status quo and make joint efforts with the mainland to realize the reunification. [...] The key is that to what extent China can dominate the situation in the West Pacific. As long as China has enough strength and influence,” unification “will only be a matter of time.” Echoing such views, Chiu Yi (邱毅), a pro-unification former legislator from Taiwan [stated](#) that “If [peaceful unification] means reunification without pressure from the mainland, then the peaceful reunification won’t happen. If it means peaceful reunification under military pressure, then it would be possible.”

If such views are any indication of the official position within the upper echelons of the CCP, then even the possibility that a resumption of dialogue could bring some stability back to the Taiwan Strait may be premature, if not naïve.

It may well be that China has concluded that no dialogue—and no “peaceful reunification”—will be possible absent the use of force or coercion. And the trends being what they are in Taiwan, it could be correct in reaching that conclusion. Consequently, the resumption of limited dialogue between Taipei and Beijing, whatever form it takes, would from this point on likely be accompanied by continued—albeit possibly reduced—PLA activity in Taiwan’s ADIZ. And unless Taiwan capitulates and agrees to dialogue on Beijing’s terms (i.e., the “One-China Principle”), the likelihood that the situation in the Taiwan Strait would return to the status quo ante (i.e., the Ma years) is very slim. In fact, for all its successes in reducing tensions and facilitating exchanges at the economic and social level, the Ma administration also highlighted, if inadvertently, the limits of what dialogue can achieve.

In light of all this, decision makers in Taipei, Beijing, and Washington, D.C., should set realistic and practical aims for the resumption of dialogue across the Taiwan Strait. The most that can be achieved, arguably, is a CBM that can help clarify signals, reduce the risks of accidents, and facilitate de-escalation and collaboration (e.g., search and rescue) in the case of a collision or accident in contested areas. Pressuring Taiwan to aim for anything more than that would put it at an unfair disadvantage; expecting that Beijing would agree to go beyond that, meanwhile, would very likely be an

exercise in futility.

**The main point:** While renewed dialogue between the two sides of the Taiwan Strait may be desirable, it is unlikely that talks would succeed in achieving more than a temporary reduction in tensions and providing a platform to address emergencies.