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By: Russell Hsiao

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On July 17, Taiwan's ruling Democratic Progressive Party (DPP, 民進黨) held its annual National Party Congress and announced the results of its biennial election for its 30-member Central Executive Committee (CEC, 中執委), which in turn selects the powerful 10-member Central Standing Committee (CSC, 中常委). The composition of these two bodies and still more importantly, the factional affiliation of its members, are a reflection of the influence of the various political cliques that have competed for power and influence within the party since its inception. While the confab was [presented as an opportunity](#) to mobilize party support and readiness for the DPP's campaign for the local elections this November, the more interesting and significant development came from the internal party elections of its executive bodies.

To be sure, the overall balance of power between the factions does not appear to have changed with the recent election, but the entry of two strong supporters of Vice President William Lai (賴清德) into the CSC are notable in that it should make it less challenging for him to run in the party's upcoming presidential primary in early-to-mid 2023. Indeed, it is noteworthy that Chen Shi-kai (陳世凱) and Lin Chun-hsien (林俊憲)—close [associates and supporters](#) of the current vice president—were elected to the CSC. Although local elections are only a few months away, the 2024 presidential election is around the corner, and the placement of Lai's loyalists in the CSC will reduce the likelihood of challenges, procedural or otherwise, to the current vice president as whispers increasingly point to him being the likely presidential candidate for the DPP in 2024.

### **The Role of the CEC and CSC**

The members of the CEC are elected by the DPP National Party Congress and serve for 2-year terms. The 10 members of the CSC are selected by the CEC. This means that the current members of the three committees will be in their positions through the next presidential and legislative elections slated for

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early 2024.

The composition of power in the CEC generally serves as a reflection of the overall power balance within the DPP. According to Taiwan expert [Shelley Rigger](#): “The most important factor in the selection of Central Executive Committee and Central Standing Committee members is the balance of power among party factions, because gaining representation on these committees determines how far a faction will be able to advance its members’ careers.” These factions are perhaps even more important in determining the relative levels of influence among the local party headquarters throughout the country.

The CEC and the CSC are also the primary coordination mechanisms within the DPP in the nomination process for the party’s primary candidates for president, directly-elected national legislators, as well as other political offices at the local levels. While the DPP’s presidential primary is technically an open process wherein candidates (party members) who would like to run for president can register as long as they meet the party’s rules and qualifications for eligibility, negotiations between the factions likely occur within the CEC and CSC to determine if there is a unity candidate. If negotiations fail in reaching a consensus around a unified ticket, the party conducts a series of national opinion polls to determine the party’s candidate. The CEC and CSC also play an instrumental role in setting and modifying the rules for the primaries when necessary. A notable example of this function took place during the [2019 DPP presidential primary](#), resulting in considerable controversy. The move to place [loyalists to the vice president](#) in the CSC may be intended to ensure that such complications do not occur in the future.

### DPP Factions

Factions have existed as a core organizational component of DPP internal politics since the party’s formation in 1986. While the various factions were initially united in opposing the Kuomintang’s (KMT, 國民黨) one-party rule, by the late 1990s, they became less driven by their shared anti-KMT sentiment. While early factions were primarily associated with particular social and political movements and were often quite dissimilar in their ideological bent, DPP factions now are less focused on ideologies and are more personality-driven. As [Courtney Donovan Smith](#), a political commentator based in Taipei, observed: “Unlike their more ideological forebears, today’s factions appear to be more about gaining power, gaining key party and government appointments, and furthering their interests. Unlike the KMT’s local patronage factions, [...] the DPP’s factions operate nationally.”

派系別	中執委
新潮流	桃園市議員呂林小鳳(鄭文燦系統)、立委黃世杰(鄭文燦系統)、台中市議員陳世凱(賴清德系統)、立委林俊憲(賴清德系統)、高雄市議員簡煥宗、台北市議員許淑華、屏東縣長潘孟安、高雄市議員邱俊憲、高雄市議員高閔琳
英系	中常委黃承國、立委蔡易餘、立委蘇治芬、新北市議員彭佳芸、台中市議員陳淑華、中執委郭再欽
正國會	中常委陳茂松、基隆市長林右昌、立委陳亭妃、新北市議員陳啟能、台灣智庫策略長王義川、基隆市府觀光及城市行銷處長曾姿雯
蘇系	立委蘇巧慧、新北市議員彭成龍、新竹市議員鄭美娟(柯建銘系統)
綠色友誼連線	立委何志偉、立委洪申翰辦公室顧問許茜芸(民主活水)、中執委林益邦
湧言會	立委王定宇、新竹市議員李妍慧、全國黨代表紀桂珠(蘇震清系統)
註 中執委 30席、中常委 10席；綠色字為中常委	
製表：記者陳昀	

*Image: A breakdown, by factional affiliation, of members elected to the DPP Central Executive Committee and Central Standing Committee. From top to bottom: the “New Tide” Faction, the Tsai (Ing-wen) Faction, the TNCPA, the Su Faction, the Green Fellowship Association, and the Taiwan Forward/Ocean Faction. (Image source: [Liberty Times](#))*

Although factional infighting is a feature in all political parties, the competition between the groups escalated starting in 2000 following the party’s first presidential election victory. In time, this infighting descended into tribalism. Once the DPP assumed control of the central government, the various factions fought tooth and nail for both policy turf and political positions. Yet, DPP control during this period was only marginal, as the government bureaucracy continued to be dominated by bureaucrats appointed during decades of rule by the former ruling party.

DPP members, organized in their respective factions, felt that they themselves had duly earned the right to govern by deposing the KMT, which led to internecine squabbling that threatened to splinter the party. Consequently, the party moved to dissolve its factions in 2006. Yet, by 2010—as the DPP struggled to regain relevance as the KMT strengthened its grip on political power—factions reemerged and coalesced around key DPP members like Kaohsiung Mayor Chen Chun (陳菊), Frank Hsieh (謝長廷), and William Lai. Despite Tsai Ing-wen and other heavyweight party elders’ perceived associations with certain factions, they have largely avoided directly confirming any kind of affiliation. When speaking on the topic to a supposed

member of her faction, [President Tsai](#) reportedly noted: “In the future, can you please stop telling everyone you’re called the Ing Faction? When you do things, you never let me know in advance.”

In the most recent party election, President Tsai managed to keep appointments to the CEC [fairly balanced](#) between the factions. Currently, the New Tide Faction (新潮流) holds the most seats in the CEC with 30 percent (nine); with TNCPA ([正常國家促進會](#)) and the Ing Faction (英系) each holding 20 percent (six each), while the Taiwan Forward/Ocean Faction ([湧言會/海派](#)), Su Faction (蘇系), and the Green Fellowship Association ([綠色友誼連線](#)) each command 10 percent (three each). This distribution of power among the factions is also proportionally reflected in the CSC: New Tide Faction with three seats, Ing Faction with two seats, TNCPA with two seats, while the Su, Green Fellowship, and Taiwan Forward Factions each with one seat. Throughout President Tsai’s tenure, the share of appointments between these factions has remained fairly consistent and the distribution of power between the factions has remained largely unchanged. [1]

### ***The Road to 2020 and 2024?***

In contrast to the factional infighting that spilled out into the open in the 2000s, internal disputes between the factions have been kept carefully managed in recent years. Even during William Lai’s primary challenge for the DPP presidential bid in 2019—which came as a surprise to even some of the most seasoned Taiwan watchers—the New Tide Faction (with which both he and Tsai are seen to be associated) remained mostly stable. Although their respective supporters sparred openly and vigorously, the candidates themselves avoided direct conflict with one another. This may be a reflection of the cohesion and strength of this faction.

Disputes between the factions have also apparently lessened or become less visible than in the 2000s. This may in part be attributed to the leadership of President Tsai as chair of the DPP and her ability to carefully manage the balance of power between the factions. Tsai has served as chair of the DPP since 2020, a position she previously held from 2008 to 2012, and 2014 to 2018 (she stepped down in 2018 to take responsibility for the party’s defeat in the 2018 local elections). As [noted by Smith](#): “Tsai Ing-wen brought the factions under control by enforcing a status quo on their relative power. This was done by carefully apportioning out party and political appointments according to roughly the approximate strength and power of each faction, and then maintaining that.”

While commenting on the implications of the recently held DPP National Party Congress, [Professor Wang Yeh-lih](#) (王業立) of National Taiwan University also noted: “The most important thing is that it will affect the nomination of the president and the country’s legislators in 2024. This is especially true for William Lai who is ambitious about a presidential run in 2024. In the last nomination process in 2019, William Lai lacked enough party support and struggled in the primary. So for the future presidential landscape, the election of central committee members can be said to be quite important.” “They [the factions] are becoming more and more organized and clearer like [those in] Japan’s ruling Liberal Democratic Party,” [Wang added](#).

At this point, there does not appear to be a clear challenger with the necessary factional support to seriously challenge Lai for the party’s nomination. Also, the DPP would prefer to avoid if possible a bruising primary contest and present a united front for what will be an uphill 2024. The election of Lai’s loyalists into the CSC will minimize the likelihood that there could be a repeat of the 2019 primary process. The only other potential challenger may actually come from within his own faction in the form of Taoyuan City Mayor Cheng Wen-tsan (鄭文燦). Yet, any substantial disagreements will likely be worked out within the faction. The election of Lai’s supporters into the CEC—and especially the CSC—at the recently held DPP National Party Congress shows that support within the party for Lai as the 2024 candidate may be slowly coalescing.

**The main point:** While the overall balance of power between the factions within the DPP does not appear to have changed with the recent Central Executive Committee elections, the entry of supporters of the vice president into the Central Standing Committee is notable in that it should make it less challenging for him to run as the party’s presidential candidate in 2024.

[1] For a description of the various DPP factions, see, e.g., Courtney Donovan Smith, “The who and what on the DPP factions vying to shape Taiwan’s future,” *Taiwan News*, July 25, 2022, <https://www.taiwannews.com.tw/en/news/4605745>.

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## Reducing Taiwan's Dependence on the Chinese-Dominated Market for Rare Earth Elements

By: Alayna Bone

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In an international environment fraught with geoeconomic uncertainty caused by the global pandemic, trade disputes, and war in Eastern Europe, the supply of rare earth elements (REEs)—a set of 17 elements that are critical to the manufacturing of high-tech products—are increasingly at the forefront of concerns over supply chain risks across the globe. The importance of REEs was clearly reflected in the recent US-led [Supply Chain Ministerial Forum](#) to strengthen interstate cooperation in alleviating near-term disruptions and building long-term supply chain resiliency for [critical minerals](#). This challenge stems in part from over 20 years of unsuccessful attempts by other global powers to match China's industry positioning in the REE sector. Despite being a comparatively small consumer, Taiwan's dependence on the stability of the international rare earth market makes its most strategic sectors extremely vulnerable to Chinese market manipulation. Nonetheless, Taiwan can still take steps to secure its rare earths supply, decrease its own import reliance, and become more self-sufficient.

### **What are Rare Earth Elements?**

REEs exist abundantly in reserves throughout the earth's crust, but because they occur at low concentrations in mined materials, the costs associated with their extraction and refining processes make them relatively [scarce](#). Charges for the necessary capital and labor to source REEs from mountainsides, ocean floors, and riverbanks are already exorbitant, but the environmental expense of unearthing radioactive minerals and generating toxic waste in their processing and refining makes REE production even more challenging.

Over the last few decades, because of its affordable labor, lower regard for environmental impact, and aggressive state subsidies, many governments and private entities have outsourced their own mining and processing to China. By [2020](#), China was responsible for 58 percent of the world's rare earth mining, and 86 percent of processing and refining. In 2021, international rare earth output peaked: with China producing over 168,000 tons, the United States coming in second at 43,000 tons, and

Australia following at 22,000 tons. The same year, US REE imports continued to be dominated by China, which achieved a [78 percent](#) import share. By comparison, Taiwan currently plays no role in the rare earth production chain and imports [3,000 tons yearly](#) for use in its most critical manufacturing sectors.

### **Chinese Sector Dominance and Further Consolidation**

Since the early 2000s, China has been accused of [adjusting](#) rare earth production quotas and subsidies to not only undercut its competitors, but to favor its own REE-consuming tech firms. After territorial disputes in 2010, international concerns over supply chain security spiked when China targeted Japan's automotive industry by [blocking](#) rare earth shipments. Five years later, and following a World Trade Organization (WTO) [ruling](#) on the restrictions, Beijing relaxed its export quotas. Yet, instead of providing global relief to the sector, this move resulted in a market-wide flood of supply and a severe price drop, forcing China's largest foreign [rare earths competitor](#) into bankruptcy. While many companies and governments have sought to diversify and onshore segments of the REE supply chain since then, serious alternatives have failed to materialize. China's [high state subsidies and massive market share](#) have suppressed industry profits to razor-thin margins, while also ensuring that barriers to market entry are sustained at artificially high levels.

China has continued efforts to gain greater dominance into 2022 by [weaponizing](#) rare earth export controls and [merging](#) many of its rare earth firms. Intense domestic consolidation has driven up international concern for REE supply chain security as fewer and larger firms will allow China to control global production more effectively. These conditions will also increase the risks of longer-lasting economic disruptions if China is faced with events that could limit production. Already, the worst pandemic-induced supply chain shortages have occurred in sectors that are [heavily concentrated in China and East Asia](#). The rare earth industry is not distinct from these issues.

### **Taiwan and the Rare Earth Elements Industry**

Taiwan's role as a consumer in the global rare earths industry is comparatively small, making up only [2.49 percent](#) of total global imports. The central role of rare earths in Taiwan's most successful manufacturing industries, however, makes them strategic to the island's economic security. Rare earths are key components in Taiwan's semiconductor production. Because of their unique properties, they function as necessary elements capable of creating both the channels for powerful conduction and the insulation necessary to keep electric signaling concentrated to increasingly microscale wafers. Currently, [Taiwan's semiconduc-](#)

[tor chip manufacturing](#) represents over 50 percent of the global market share, 30 percent of the country's exports, and 14 percent of its GDP. As such, the importance of industry access to REEs cannot be overstated, not only for Taiwan but for the international community as a whole.

Taiwan is also a major player in the [smart machine](#) supply chain. From the production of smaller components to the assembly of completed instruments, products that require REEs along the smart machine supply chain are critical to the success of not only Taiwan's own sector, but also the expansion of industrial automation in manufacturing all over the world. In addition, Taiwan's [medical technology industry](#) has grown significantly over the last decade. Its indigenous treatment and virus detection products have gained the island worldwide attention, and the sector has become increasingly central to Taiwan's soft power strategies. These high-tech industries all rely on a stable global supply of rare earth resources. Even Taiwan's robust bicycle manufacturing industry, which relies on frames made from [rare earth components](#), would be stunted if the international REE supply chain was to experience excessive instability.

Seeing the risks to its economy, Taiwan has also taken steps over the last two decades to decrease REE import reliance by addressing electronic waste and rare earth recycling. Since 2002, its Environmental Protection Administration (EPA, 行政院環境保護署) has worked to promote a more [sustainable use](#) of precious metals and improve the infrastructure needed for them to be recycled and reused in manufacturing. In recent years, the topic of creating a circular economy, with the inclusion of rare earth products, has become a larger focus within other bureaucratic departments, including the [Ministry of Economic Affairs](#) and the National Development Council. [1] Taiwan's civil society has also moved to reduce its reliance on REE imports. Through the [Taiwan Rare Earths and Rare Resources Industry Alliance](#) (TRERRIA, 台灣稀土及稀有資源應用產業聯盟) established in 2018, private entities, nonprofits, and academic institutions have worked to develop a domestic rare earth supply chain through industry collaboration and cyclical use of REE components.

Despite these actions, Taiwan's rare earth imports have remained at roughly the same level over the last decade, and a shock caused by shifts in Chinese output or prices would have serious impacts on its entire economy. In addition, Taiwan's defense capabilities have recently been targeted by Chinese export controls: in February of this year, Beijing announced [restrictions](#) of rare earth exports to Raytheon and Lockheed Martin after Washington approved deals to perform maintenance and

upgrades on Taiwan's missile systems.

### **Recommendations**

Because the international rare earths market is vulnerable to manipulation by China's dominance, Taiwan's efforts to stabilize its own import reliance and become more self-sufficient must be through an international approach.

- [Invest in international mining and refining firms to diversify the supply chain.](#) Since the production process of usable rare earth materials is so costly, more development is necessary to make extraction more affordable and refining and processing less pollutive. Taiwan does not currently have the technological edge to act as a single innovator in the industry, but [similarly positioned states](#) have worked around their own disadvantages by financing foreign REE firms that are leading diversification efforts. By following this precedent, Taiwan can secure access to a more efficient supply chain while simultaneously strengthening relations with allies.
- [Partner with other states and foreign firms to make the circular use and substitution of rare earths standard practice in the manufacturing industry.](#) Because the rare earth industry exists at a global scale, REE circular economy policies would be most effective if implemented at an international level and in partnership with other states. It would also be most cost-effective to find REE substitutions by working across global supply chains, as [Japan](#) was able to do in areas of its auto sector in the wake of China's 2010 export restrictions. To reform rare earth use in manufacturing, companies and states must commit to collaborate in areas that are usually defined by competition. Taiwan should push for these changes abroad and continue to work with allies in seeking these forms of solutions. By leveraging its position in the semiconductor industry, it may find the best platform for collaboration by working with members of the Quadrilateral Security Dialogue, taking advantage of their [recent focus](#) on REE supply chain stability.
- [Start with US partnerships.](#) Since Taiwan lacks widespread international recognition, its participation in official rare earth security dialogues and trade agreements is extremely limited. Taiwan will likely find more success in becoming self-sufficient if it first takes a bilateral approach to rare earth solutions with its closest allies. One of the most advantageous of these approaches may be through Taiwan Semiconductor Manufacturing Company's (TSMC, 台灣積體電路製造股份有限公司) US-based facilities. Part

of TSMC's indigenous success has been attributed to the knowledge spillover and efficient collaboration channels that exist in [Taiwan's science parks](#). TSMC's facility in Portland's Silicon Forest and a second fab in Phoenix's Silicon Desert put the company in close contact with American chip manufacturers, and the same geographic advantages that proved innovative in Taiwan's Hsinchu Science Park could be replicated in the American tech arena. By working hand-in-hand with companies like [Intel](#), [Qualcomm](#), and [Nvidia](#)—three corporations that already have collaborative relationships with TSMC—the development of rare earth substitutes and recycling programs in chip design and fabrication could be most cost-effective for all stakeholders. TSMC is also a trusted company in Washington and may be in the running to receive a portion of the [over USD \\$50 billion](#) in subsidies from the US government designated to strengthen its domestic chip-making capabilities. By working with the US and its own tech leaders, Taiwan will be able to shrink a larger share of its dependence on REE imports while maximizing its position as a global leader in the semiconductor sector.

**The main point:** Taiwan's most strategic industries are threatened by its reliance on the Chinese-dominated rare earths supply chain. Taiwan must work with allies to diversify production in this sector, find and implement rare earth substitutes, and create infrastructure that allows for better recycling and reuse of rare earth products.

[1] A circular economy is [defined](#) as a system of production and consumption that, through the cyclical use of resources, maximizes the value of materials and uses them for as long as possible. A circular economy reduces material use, redesigns products and manufacturing to be less resource intensive, and captures “waste” as a resource to be used in the manufacturing of new products.

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## The CCP's 14th Straits Forum and United Front Outreach to “Taiwan Youth”

By: John Dotson

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From July 11-13, the “[14<sup>th</sup> Cross-Strait Forum](#)” (第十四屆海峽論壇) was convened in the city of Xiamen, in China's Fujian Province. First held in 2009, the Cross-Strait Forum is a yearly

conference that serves as a centerpiece of the People's Republic of China's (PRC) calendar of united front outreach events directed at individuals and groups in Taiwan. The [2021 forum](#) was delayed until December due to complications following from the COVID-19 pandemic, but this year's event was back on track for its normal spring-summer timeframe, well in advance of the PRC's major political events expected to be held later this year. [1]

The 14<sup>th</sup> Cross-Strait Forum largely adhered to a predictable script of appearances by PRC officials and testimonial speeches by persons from “grassroots” (基層) groups—which is to say, Chinese Communist Party (CCP, 中國共產黨)-controlled front organizations. Even the official slogan of “Expanding People-to-People Exchanges, and Deepening Integrated Development” (擴大民間交流, 深化融合發展) was carried over from [last year](#). Yet, such events remain useful for providing insights into the propaganda themes and cooptation practices employed by the CCP in its overt united front outreach to persons and groups in Taiwan. This year's event was particularly notable for its focus on recruiting “Taiwan youth” (臺灣青年) as supporters of unification. As a component of this effort, this year's forum featured the reading of an open letter issued in the name of CCP General Secretary Xi Jinping (習近平)—a new step, which possibly portends an increased public focus on Taiwan issues by Xi and other senior figures in the CCP hierarchy as the 20<sup>th</sup> CCP Party Congress approaches this autumn.

### Themes and Events at the 14<sup>th</sup> Straits Forum

The three days of the 14<sup>th</sup> Straits Forum featured a range of events, including speeches, meetings, and musical and drama performances—all intended to reinforce a message of the common bonds between people in the PRC and Taiwan. Per the event's [official description](#), the conference included:

*“[...] youth exchanges, grassroots exchanges, cultural exchanges, [and] economic exchanges... [including] 43 events [...and] 12 district-city events [...] with about 2,000 honored Taiwan guests attending [...] This year's forum continues providing service to grassroots mass [organizations] and youth groups, grasping hands with Taiwan compatriots to advance together the Chinese people's traditional culture, taking the lead with Taiwan compatriots to commonly enjoy development opportunities, [and] aiding cross-strait economic and social integrated development.”*

Most noteworthy among the events of the conference were statements by two members of the CCP Politburo Standing

Committee, the CCP's highest policy-making and executive body, including supreme leader Xi Jinping. Also noteworthy was the stress placed on two central united front propaganda themes: the cultivation of Taiwanese young adults and the expansion of social and economic "people-to-people" exchanges (*see further below*).

### ***Xi Jinping's Open Letter to "Taiwan Youth"***

One of the centerpieces of the highly scripted forum, presented on the opening day of July 11, was the reading of an [open letter](#) nominally written by CCP General Secretary Xi Jinping in response to messages from Taiwanese young people. The letter praised the forum's participants for their "bonds of affection with the mainland," and declared that "in the mainland [you may] find an arena for the fulfillment of your dreams, personally experience the developmental transformations day by day in the motherland, [and] feel the fervent emotion of cross-Strait compatriots as one family."

The letter encapsulated one of the most prominent themes of the conference: encouraging young adults from Taiwan to study, work, and make new lives for themselves in the PRC. The letter went on to state:

*"When youth prospers, the country prospers; when youth are strengthened, the country is strengthened. The future prospects of the motherland and nation [民族] lie in the hands of youth. As always we look to cross-Strait youth mutual study and mutual reflection to create positive conditions for Taiwan youth to study in the mainland, to take up work, to be entrepreneurs, [and to find] life with many benefits. [We must] allow more Taiwan youth to understand the mainland, [and] proceed together in one heart with mainland youth, cooperating and striving [together], persevering, moving rapidly, allowing youth to blossom in the great course of realizing the rejuvenation of the Chinese people and the Chinese dream."*

As expressed in one PRC [state media article](#), Xi Jinping's letter "made Taiwan youths participating in the forum feel a surge of emotion and endless inspiration."

To further buttress this message, the forum featured a series of media statements and testimonial speeches from selected "Taiwan youth," who were trotted out to repeat expressions of praise for Xi Jinping, as well as to extol the business opportunities available in the PRC. One such example was the statement attributed to Li Wei-guo (李偉國), chairman of the Taiwan Chinese Youth Economic and Trade Exchange Association (台灣中

華青年經貿交流協會), who was [quoted in PRC media](#) as stating that "In the course of the great revival of the Chinese nation, cross-Strait youth are indispensable. Being a young person from Taiwan in the mainland's development, [and] a representative of Taiwan youth innovating and making a career, I hope to allow more Taiwan youth to understand the mainland, to come to the mainland to develop their skills, [and] write together a new chapter in new era cross-strait integration."



*Images: The 14<sup>th</sup> Straits Forum featured multiple speeches from "Taiwan youth," who offered testimonials about their success and the economic opportunities available in the PRC. On the left, Lin Shu-ren (林書任), the deputy general manager of an agricultural company in Sichuan Province; on the right, Li Peichen (李佩珍), chairwoman of the Xiamen City, Haixia Township Development Fund. (Image Source: [FuJianTV](#))*

### ***Wang Yang's Keynote Address***

As has been [standard practice in past years](#), the forum's keynote address was delivered by the CCP Politburo Standing Committee member who acts as chairman of the Chinese People's Political Consultative Conference (CPPCC, 中國人民政治協商會), and who bears simultaneous responsibility for the united front policy portfolio—a position currently held by Wang Yang (汪洋). In his [address to the forum](#) on July 13, Wang reaffirmed the connections between China and Taiwan, stating that "cross-Strait compatriots" are "one family united by blood" (血濃於水的一家人). He also reiterated the standard calls to uphold the "One-China Principle" (一個中國原則) and the "92 Consensus" (九二共識). Wang further offered de rigueur affirmations of loyalty to Xi Jinping, noting that since the CCP's 18<sup>th</sup> Party Congress (in 2012, when Xi took office), progress had made in implementing the "[Party's Comprehensive Plan for Resolving the Taiwan Problem in the New Era](#)" (新時代黨解決台灣問題總體方略).

Wang's address was also noteworthy for emphasizing the two primary propaganda themes of the event. The first of these, echoing the content of the Xi letter, was an appeal to Taiwan's

young adults to make new lives for themselves in the PRC. Wang stated:

*"[We must] create good conditions to encourage Taiwan compatriots, especially Taiwan youth, to come to the mainland to study, take up a career, [and] innovate. It is only with reliance on the great motherland, that Taiwan compatriots may find a better livelihood and happiness, [and] that their space for development will be larger. The mass of Taiwan compatriots should see clearly the general trends in the development of cross-strait relations, [and] stand firmly on the correct side of history, resolutely opposing various types of "Taiwan independence" splittist actions, firmly grasping happiness and dreams in their own hands."*

Wang also hit upon the second major theme, stating that the forum was a "distinguished gathering" for "cross-strait cooperative people-to-people exchanges" (兩岸民間交流合作). This slogan of "people-to-people" exchanges (or "exchanges among the people"), a theme advanced at last year's forum as well as in other CCP propaganda channels (see [here](#) and [here](#)), is a central component of CCP united front work directed at Taiwan. With government-to-government relations between the two sides of the strait largely at a standstill—a situation produced by Beijing's determination to deny any legitimacy to what it identifies as a separatist administration in Taipei—the CCP has placed an emphasis on exchange activities that bypass government channels, at least on the Taiwan side. These nominally third-party civic exchanges are generally channeled through events such as the forum, or else through the CCP's [network of front organizations](#) for Taiwan engagement.

### ***Kuomintang Participation in the Straits Forum and Controversy in Taiwan***

In a pattern consistent with both [last year's forum](#) and other [recent united front events](#), the 14<sup>th</sup> Straits Forum included participation by selected figures from the Pan-Blue spectrum of Taiwan politics. New Party (新黨) Chairman Wu Ch'eng-tian (吳成典), long a [fixture at CCP-organized united front events](#), delivered an address to the forum that [repeated CCP talking points](#) about Taiwan. Kuomintang (KMT) Vice Chairman Hsia Li-yan (夏立言), who also participated in last year's event, [presented a recorded speech](#) to the forum via video link on July 13. Hsia invoked "three appeals" (三點呼籲) in his speech, which called for: (1) using the so-called "92 Consensus" as the basis for returning to cross-strait negotiations; (2) opposing Taiwan independence; and (3) using the basis of "seeking common grounds

while accepting differences" (求同存異) to move towards "seeking common grounds while respecting differences" (求同尊異) between the two sides. [2] Hsia [characterized these proposals](#) as the best means to offer constructive exchanges and to uphold peace and stability across the Taiwan Strait.

Yet, the messages presented at the 14<sup>th</sup> Straits Forum, as well as the participation of persons from Taiwan, drew criticism from both Taiwan's government and representatives from the Pan-Green spectrum of Taiwan politics. On July 7, representatives of the Democratic Progressive Party (DPP) [convened a press conference](#) to preemptively criticize both the forum and the planned participation by the KMT's Vice Chairman Hsia, calling the event a "back door" employed by the PRC to undercut Taiwan's government. DPP legislative caucus Secretary-General Cheng Yun-peng (鄭運鵬) opined that "No other country would permit a political party to supersede the nation's interests by engaging in talks and negotiations with a foreign country's government, or a foreign political party," and further criticized attendant efforts by the PRC to engage with local administrations in Taiwan, bypassing the central government. For its part, the Mainland Affairs Council (MAC, 大陸委員會), Taiwan's primary body for conducting official negotiations with the PRC, [criticized](#) the conference on July 12 by stating that "Its claims of mutually beneficial exchanges are insincere," and that "It is clear that China's exchanges and proclamations of mutual benefits for young Taiwanese are nothing but propaganda to poach talent to fill capability gaps in its economy."

### ***Conclusions***

The 14<sup>th</sup> Straits Forum offered no surprises, and like its predecessors was a tightly scripted event that reiterated and reinforced existing CCP propaganda messages on Taiwan. Even the official event slogan was unchanged from the previous forum, held only seven months earlier. Yet, this in itself is significant, as it suggests a severe state of policy ossification on the part of the CCP, with party institutions implementing a rigid and unimaginative set of slogans and policies directed downwards from the upper echelons of the party hierarchy. The Xi letter presented no new policy initiatives, but it did potentially signal an increased readiness by the party's supreme leader to link himself more directly and personally with Taiwan policy and the "historical trend" of unification. Whether or not this will translate to new policy guidelines directed at Taiwan—and potentially, enhanced coercive measures—to be unveiled at the 20<sup>th</sup> Party Congress will be well worth watching.

**The main point:** The 14<sup>th</sup> Straits Forum, an annual centerpiece



event of the PRC's united front efforts directed at Taiwan, was held in Xiamen in mid-July. One of the event's most prominent themes, reinforced by an open letter from PRC supreme leader Xi Jinping, focused on encouraging "Taiwan youth" to live and work in China, and to support measures for unification.

[1] Although no dates have been publicly announced, the CCP 20<sup>th</sup> Party Congress is expected to be convened this year in the mid- to late autumn timeframe. If historical trends are followed, the party congress will likely be preceded by a late summer senior leadership retreat in the seaside city of Beidaihe (北戴河), in Hebei Province.

[2] At the 13<sup>th</sup> Straits Forum in December 2021, Hsia Li-yan [presented a speech](#) that similarly promoted initiatives in "three directions" (三個方向): (1) supporting the rights of young people to engage in "lawful and legitimate exchanges" (合法正當交流); (2) expanding the scope of exchanges across a range of areas, to include politics, economics, history, and culture; and (3) employing exchanges as a means to "seek common ground while acknowledging differences [...] [to promote] mutual understanding, [and] from this point resolve differences [and] eliminate the distance between the two sides."

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## Lithuania's Confrontation with China Over Taiwan: Lessons from a Small Country

By: Tomas Janeliūnas and Raigirdas Boruta

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Last year, Lithuania became one of the primary targets of Chinese propaganda and trade sanctions. The ongoing Sino-Lithuanian diplomatic standoff should not come as a major surprise, as Lithuania caused great outrage in China in November 2021, when it allowed Taiwan to open a new representative office in Vilnius. The office was notable for its bold choice of names: rather than the typical "Taipei Representative Office," the office was officially dubbed the "Taiwanese Representative Office in Vilnius" (駐立陶宛台灣代表處). Such a move was significant, as it marked the first opening of a new Taiwan representative office in Europe in 18 years (the last office opened in 2003 in Slovakia); as well as the second such office to exist under the

name "Taiwanese" in the world, after Somaliland.

For a long time, China paid little attention to Lithuania, a small and distant country in Europe. Yet, after the opening of the Taiwanese Representative Office in Vilnius, Beijing decided to make Lithuania an example of how China could punish another country if it did not respect China's interests.

### ***The Example of China's Revenge***

Lithuania has been clearly indicating its intention to distance itself from China for some time. In the spring of 2021, the Minister of Foreign Affairs of Lithuania announced [Vilnius' withdrawal from the 17 + 1 initiative](#) (formally titled "Cooperation between China and Central and Eastern European Countries"). Additionally, [the Parliament prohibited](#) Chinese companies from developing a 5G network in Lithuania under national law, while Lithuanian diplomats openly supported granting observer status to Taiwan in the World Health Organization (WHO). Those were not accidental moves. As the US-China rivalry intensified, Lithuania joined the anti-People's Republic of China (PRC) coalition formed by the United States, and became one of the most vocal critics of China in the European Union.

Yet, the opening of a Taiwanese Representative Office in Vilnius unleashed the full wrath of China. As a result, Beijing downgraded the status of its diplomatic representation in Lithuania to the level of the *chargé d'affaires*, renamed its embassy in Lithuania as the Office of the Chargé d'Affaires (中國駐立陶宛代辦處), and began urging the Lithuanian side to do the same. Shortly thereafter, Lithuanian diplomats in China [were forced to leave Beijing](#) urgently because their diplomatic status was simply revoked. Then, in December 2021, Lithuanian exports to China were almost completely blocked, with more than 90 percent of the usual flow of goods prevented from entering the Chinese market. These unofficial trade sanctions (China never issued a formal decision to sanction Lithuanian goods) had little impact on Lithuania's economy, as exports to China accounted for less than one percent of Lithuania's total exports.

However, concern rose significantly following unofficial reports that China had blocked exports from other EU companies [when they contained components of Lithuanian origin](#). "Nobody expected that Beijing would go after Lithuania's trading partners in Europe," [said Deputy Foreign Minister Mantas Adomėnas](#), the main advocate for Vilnius' so-called values-based diplomacy toward China. Some Lithuanian companies, especially those working in the laser sector, publicly expressed criticism that the Lithuanian government was unprepared for the Chinese sanctions and did not warn Lithuanian businesses about possible eco-

conomic retaliation. Several heavily impacted foreign investment companies asked Lithuania's political leaders to deescalate the dispute with China, while [the German-Baltic Chamber of Commerce stated](#) that imports of Chinese machinery and parts—as well as the sale of Lithuanian products to China—had ground to a halt, and that some firms may have to leave Lithuania.

At the end of January 2022, the EU requested World Trade Organization (WTO) dispute consultations with China concerning alleged Chinese restrictions on trade with Lithuania. Later, Taiwan, Australia, Canada, Japan, the United Kingdom, and the United States requested to join the WTO's consultations on this case. This was seen in Lithuania as sorely needed political support from the democratic allies of Vilnius.

More than half a year after China's trade sanctions began, the situation has stalled. Lithuania refuses to change its decisions and is preparing to [open a trade representative office in Taipei](#). Likewise, China continues to stop Lithuania's goods at customs, only occasionally allowing a small part of the goods to pass (for example, small quantities of copper have still been accepted by China). [The president of the Association of Lithuanian Chambers of Industry, Trade and Crafts has stated](#) that while exports to China are almost nonexistent, imports from China have stabilized. Lithuanian importers still face increased risks and strict requirements, such as full, up-front payment for goods instead of the 15-20 percent prepayment that was the norm before relations soured.

Despite China's economic revenge, Lithuania has not experienced a resultant economic collapse. The EU's quick reaction seems to have slowed down China's aggressive actions, and there have been no recent reports of EU companies being openly discriminated against in China due to supply-chain connections with Lithuanian businesses. The Lithuanian government also [allocated up to €130 million \(USD \\$130 million\)](#) as loans for companies that suffered from China's actions. This kind of financial strategy to help businesses that are facing challenges due to the coercive actions of third countries was the first of its type in the EU.

On the other hand, it is clear that the Chinese market is already closed for Lithuanian companies. However, some Lithuanian businesses have found new ways to transport goods from neighboring countries' ports, thus avoiding labelling their products "made in Lithuania," while others have hidden from China's sanctions by moving company branches to other EU countries.

### ***Gains and Losses for Lithuania***

In January 2022, [the Lithuanian National Bank issued estimations](#) of the economic impact on Lithuania's economy resulting from China's restrictions on Lithuanian businesses. Preliminary calculations showed that Chinese sanctions could lead Lithuania's GDP growth to decrease by between 0.1 to 0.5 percent in 2022, and between 0.3 to 1.3 percent in 2023. The lower numbers represent the impact of ceasing direct trade with China only, while the larger negative numbers include the indirect results on investments.

The expanding economic ties between Lithuania and Taiwan could at least partly compensate for those projected losses. Lithuania and Taiwan have [exchanged several business and diplomatic missions](#) already. The Lithuanian government believes in the potential benefits of enhanced trade and investment flows with Taiwan. The biggest hope for Lithuania is to become a part of the semiconductors supply chain. In February 2022, the Taiwan and Lithuania Center for Semiconductors and Materials Science (TLCSM, 臺立半導體暨材料科學中心) was established in Vilnius. In addition to this, [Taiwan set up a USD \\$200 million fund](#) to invest in Lithuania and other Central and Eastern European countries, while also offering USD \$1 billion in loans for joint projects between the countries. [Taiwanese governmental representatives](#) have also expressed intentions to help Lithuania expand its semiconductor industry in areas ranging from integrated circuit design, packaging, and testing to manufacturing. With competition for semiconductors increasing, Lithuania's involvement in this technology field would be particularly important for the country's economic potential, and even for its geopolitical significance.

On the other hand, the political lessons for other European countries are ambiguous. Lithuania has shown that it is possible to resist China's economic coercion. Vilnius' fight against Beijing encouraged the entire EU to seek solutions to protect itself from third-party economic sanctions against EU countries. To this end, on December 8, 2021, the European Commission published its [proposal for an EU Anti-Coercion Instrument](#). Previously, in October 2021, the European Parliament for the first time formulated [recommendations to the European Commission on strengthening relations with Taiwan](#). All these trends show that Europeans are increasingly aware of the risks of economic ties with China—while at the same time, they are willing to strengthen political support for Taiwan's sovereignty. Lithuania has become another wakeup call for the EU and other democratic countries, which have long ignored the political risks due to the benefits of trade with China.

Yet, other EU countries do not seem to be in any hurry to fol-

low the example of Lithuania and establish new representative offices in Taiwan or to rename existing offices. It could be that China's economic sanctions were more effective in deterring other small European countries that do not want to repeat Lithuania's path and face China's economic aggression. Many European governments are trying to solve numerous economic problems simultaneously—including Western sanctions against Russia, broken supply chains, high prices of energy resources, extremely high inflation, as well as other pressing issues. During economically rough times, getting into a row with China is not a desirable choice, it seems.

Nevertheless, Lithuania has provided one precious lesson: sooner or later, uncomfortable decisions regarding economic dependence on China will have to be made. Lithuania's decision to stand against China and its growing ambitions in the region was possible due to its insignificant bilateral trade volumes: according to 2020 trade statistics, [Lithuania had weaker economic links to China](#) than almost every country in the region. Despite Eastern and Central Europe's relatively low dependence on China, the situation with the rest of the EU is alarming. Germany, the EU's economic powerhouse, is highly dependent on trade with China, [Germany's most important trade partner for the sixth consecutive year](#). This situation creates new challenges for the EU and significantly affects its ability to form a tougher, more united stance against China that would better reflect and safeguard the shared values of the EU. Given the increasing number of cases in which China has employed its economic leverage as a weapon, reducing dependence on China should be one of the most important long-term goals for the EU. Economic diversification would ensure that China will lose significant leverage against the EU. The war in Ukraine is already showing how reliance on an authoritarian regime can result in dire economic consequences for the whole bloc.

Practically speaking, it would be better to cut off the most sensitive links with China now, so as not to suffer painful consequences later. And most importantly, the potential fight against China will require concentrated efforts by the entire EU, as well as the support of all democratic partners. China is a large country, but it is mostly alone. The consolidation and unity of many countries, even small ones, is the most effective way to withstand bullying by authoritarian regimes like the PRC.

**The main point:** The ongoing Sino-Lithuanian diplomatic standoff has already demonstrated how China might use its economic leverage to coerce countries into submission, and shows that a joint EU response is the best way to counter China's bullying. In Lithuania, Taiwan is seen as an increasingly important partner

that could help to offset the politically motivated costs, but both sides must work to ensure the sustainability of the relationship.

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## Subnational Economic Partnerships in Semiconductor Manufacturing Point the Way for Deepening US-Taiwan Ties

By: Roman Shemakov

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Taiwan is one of the United States' most reliable economic partners. Taipei [maintains a USD \\$600 billion gross domestic product \(GDP\) and was the United States' 9<sup>th</sup> largest trading partner in 2020](#) (with USD \$90.6 billion in total goods traded during 2020). According to the [Office of the US Trade Representative \(USTR\)](#), Taiwan imported USD \$30.2 billion worth of American goods in 2020 (including machinery, optical instruments, and agricultural products); this was a 16 percent increase from 2010, and represents 2.1 percent of total US exports. Simultaneously, Taiwanese firms are responsible for 60 percent of the [global semiconductor](#) supply, a fundamental component in phone, computer, and car manufacturing. Due to semiconductor shortages in 2021, firms ranging from [General Motors](#) to [Apple](#) were forced to significantly curtail production. The United States is currently [considering national legislation](#) to improve domestic semiconductor supply.

In the last few years, US-Taiwan industrial collaboration has significantly expanded, marking a major turn in bilateral relations. SelectUSA, a federal program housed in the US Department of Commerce that it designed to facilitate foreign investment into the United States, has recently emphasized its [focus on attracting Taiwanese firms](#). On June 27, the Taipei Economic and Cultural Representative Office, the American Institute in Taiwan, and the United States Trade Representative Office [launched the US-Taiwan Initiative on 21<sup>st</sup>-Century Trade](#). The initiative [is focused on](#) "digital economy, trade facilitation, enhanced reg-

ulatory practices, support of small and medium enterprises, environmental and climate action, and promotion of standards, non-market practices and policies.” In October 2022, the Taiwan External Trade Development Council (TAITRA, 中華民國對外貿易發展協會) [will host an event in Washington D.C.](#) “inviting 50 leading Taiwanese tech suppliers in [electric vehicles], smart medical equipment and 5G technologies to participate in the expo. The event is intended to demonstrate to Americans that Taiwan not only shares the same ‘democratic values’ with the US but also has technological strengths that go beyond semi-conductors.”

While national-level frameworks are important channels for setting top-down expectations for long-term economic development, mutual cooperation between Taiwan and the United States at the subnational level offers a more flexible and expansive opportunity for joint ventures in emerging industries. Such a bottom-up approach can establish the building blocks for economic and regulatory cooperation in the most important technological fields of this century. Some of the effort for cooperation must come from Taiwanese firms partnering directly with American states, a process that will be dependent on state-level regulatory frameworks to ensure that bilateral links are properly nurtured.

### **Cooperation Linking Taiwan and the American States**

The [global shortage of semiconductors](#)—for which Taiwan serves as one of two primary global suppliers—has accelerated the need for closer cooperation. One such collaborative model is currently being developed in Phoenix. [Arizona’s](#) economic alignment, friendly regulation, and industrial expertise have attracted Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司) to partner directly with the state in order to build a 5-nanometer semiconductor fabrication lab. The project is expected to inject more than USD [\\$38 billion into the state’s economy over the next 20 years](#), and will stabilize the global production of wafers.

When talking to the author, Peter Cleveland, Vice President at TSMC, explained the firm’s move to Arizona thusly: “Phoenix is the semiconductor capital of the US, so the infrastructure and the supply chains are already there. Arizona has extensive experience with semiconductor manufacturing, so the governor, the commerce authority, and the mayor offered a thoughtful and forward-looking cooperative agreement—it was a great match for TSMC.” Cleveland also points out the future growth potential outside of established industries: “Taiwan as a whole, regardless of industry, is incredibly innovative. Through the right



*Image: The site of the future TSMC semiconductor manufacturing facility under construction in north Phoenix, Arizona (March 2022). (Image source: [AZ Central](#))*

partnerships, there is a lot of room for Taiwanese firms to expand in a range of fundamental technologies.”

Existing industrial partnerships with American states have ranged from semiconductors to electrical vehicles. In June 2022, GlobalWafer, a global semiconductor company based in Hsinchu, [announced plans to begin construction](#) of “a state-of-the-art 300-millimetre silicon wafer factory in Sherman, Texas.” In 2021, Foxconn, the world’s “largest contract electrical producer,” has also [announced plans](#) to build an electric vehicle factory in the United States.

### **State Trade Offices**

Taiwan-led initiatives are only one side of the expanding partnership with the United States. “Four states have opened offices in Taiwan. They are becoming much more proactive. Many are looking at Arizona as a success story and working to emulate it,” said Rupert Hammond-Chambers, the president of the US-Taiwan Business Council, in an interview with the author. These quickly expanding connections are a sign of deeper transnational cooperation, but also of Taiwan’s role in the global supply chain. Hammond-Chambers continues, “if I can use one word essential for supply chains, it is trust. That is the core of Taiwan’s global role.”

So far, the most impactful international partnerships have occurred directly between Taiwanese industry and American states. In October 2021, the Arizona Commerce Authority and Taiwan’s Bureau of Foreign Trade [committed to partnering on trade and economic development](#) by signing a Memorandum of Understanding (MOU). The MOU will remain valid for five years and includes efforts in “exchanging trade, industry and investment information, encouraging organization and programming of delegations for onsite visits, and providing assistance for es-

tablishing or expanding operations in Arizona or Taiwan.”

Other states are establishing a footprint in Taipei with hopes of attracting capital and technology. Last year, New Mexico set up an office in Taiwan following the in-state growth of Admiral Cable, a Taiwanese manufacturer. Back in 2019, Alicia J. Keyes, New Mexico’s Economic Development Secretary, [explained](#) the establishment of the office on grounds that state officials “realized there are quite a few companies in Taiwan” looking to expand into the United States. At the 2021 opening of the Montana Asia Trade Office, [Montana Governor Greg Gianforte said](#) “One of our greatest sources of pride as Montanans is the world-class products grown, raised, or made here in the Treasure State, and we’re fortunate to have a trading partner and friend in Taiwan that recognizes the superior quality of our commodities.” This comes on the heels of Illinois, Wisconsin, and Minnesota [establishing bipartisan groups](#) in their state legislatures dedicated to Taiwan affairs. So far, the majority of these expansions have been focused on agriculture and manufacturing.

The opportunity is ripe for Taiwan to work even closer with American states as both develop aspirations for global markets in emerging technologies. Inspiration should be drawn from TSMC’s cooperation with Arizona and bilateral expansion of state partnerships. Because the majority of regulatory experimentation in the United States happens within state legislatures, rather than at the national level, Taiwanese enterprises should consider developing relationships directly with governor’s offices and local commerce authorities.

With adequate industrial integration and regulatory cooperation, Taiwan can use its comparative advantages of trust, capital, and global supply chain integration to expand into quickly developing markets. Beyond the products and services that will move across the world, supply chains themselves need a trusted partner in Asia. The digital bill of lading, data ports, and smart city integration will require reliable and effective global actors. Right now, Taiwan has the opportunity to diversify its global economic penetration, and become a central node in emerging industries and the digitization of supply chains. As Iris Shaw, a senior political analyst on US-China strategic issues at the Taipei Economic and Cultural Representative Office, stated in an interview with the author: “Taiwan and the US share the same values: democracy, rule of law, and human rights.” Furthermore, industrial cooperation does not stop at economics, “economic security is national security,” Shaw emphasized.

One area where the links between economic security and national security are abundantly clear is in supply chains. In an

interview with the author, Michael Nelson, a senior fellow at the Carnegie Endowment’s Technology and International Affairs Program, proposed that “Taiwan-based players could potentially leverage existing technology advantages and new tech-related investments in the Internet of Things (IoT) and blockchain... So, in a creative and expansive view of supply chains, Taiwan’s ecosystem could deploy these technologies to insert itself into, disrupt, and upgrade global supply networks. This is consistent with the idea of Taiwan as a trusted conduit and technological innovator.”

Another potential area for growth is the Internet of Things (IoT). In an interview with the author, Dr Wei Feng Lee, managing director at Paul Hsu & Partners, noted that “Taiwan remains dominant in component manufacturing, but it has the most room to grow in innovative smart home and smart city systems. [...] [T]he future is in integrating all the manufacturing components with the operating system as a whole, by focusing on the entire system.”

As states across America experiment with regulatory sandboxes to test emerging technologies, they can become effective partners in drafting constructive regulations for emerging industries globally. More importantly, states can become focused conduits for realigning supply chains, reaching American markets, creating American jobs, and fostering cross-cultural dialogue. Novel developments in bilateral relations with American states—as with the case of TSMC and Arizona—can begin to lay the groundwork for future economic and regulatory cooperation in emerging technologies.

**The main point:** Trust and shared values have created the foundation for much of the cooperation between Taiwan and Arizona. TSMC’s move to the state generates space to imagine new possibilities for global engagement between Taiwan and state-level governments in the US—including initiatives beyond the field of semiconductors.