

Taiwan and South Korea Enhancing Their Engagement as Chinese Aggression Intensifies

Russell Hsiao

Taiwan Announces an Increased Defense Budget for 2024

John Dotson

The “Chip 4 Alliance” and Taiwan–South Korea Relations

Eric Jung

One Year Later: How Has China’s Military Pressure on Taiwan Changed Since Nancy Pelosi’s Visit?

Thomas Shattuck

Taiwan’s Companies Look beyond China, But Key Challenges Remain

Zoë Weaver-Lee

Taiwan and South Korea Enhancing Their Engagement as Chinese Aggression Intensifies

By: Russell Hsiao

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

Against the backdrop of increased Chinese aggression, and in parallel with the United States, Japan, and many Western nations, the Republic of Korea (ROK) is beginning to publicly voice its concerns about the potential for a military contingency in the Taiwan Strait. Accordingly, Seoul is stepping up its level of engagement with Washington, Taipei, and other like-minded partners. Beginning with high-level statements in 2021 such as the unprecedented US-ROK Leaders’ [Joint Statement](#), which emphasized for the first time the two governments’ concerns about “the importance of preserving peace and stability in the Taiwan Strait,” Seoul has been gradually signaling a potential rethink in its approach to regional security issues—and by extension, the Taiwan Strait.

While current trends in Seoul’s strategic rethinking predate the current presidential administration, the realignment between Seoul and other like-minded partners began in earnest in May 2022 with the election of Yoon Suk Yeol as the country’s president. The new Korean president’s [vision](#), which he laid out during the presidential campaign, strategically aligns the ROK’s national security interests on the US-ROK treaty alliance with the country’s shared democratic values and interests with neighboring countries like Japan.

Seoul’s transformative stance—which includes subtle changes in its approach to Taiwan—has helped to create the conditions for the United States to make headway in its longstanding effort to network its treaty alliances in East Asia, as demonstrated by the historic [Camp David summit](#) between the leaders of the United States, Japan, and South Korea. Ancillary to its treaty commitments and the shifting regional security situation, Seoul has also been enhancing engagement with Taiwan, which has taken on three forms: high-level statements, parliamentary diplomacy, and upgraded Track 1.5 diplomacy.

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

Editor-in-Chief
Russell Hsiao
Associate Editor
John Dotson
Staff Editor
Marshall Reid

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

To view web sources cited in the published papers (underlined in printed text), visit <https://global-taiwan.org/issues/vol-8-issue-18/>.

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

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

High-Level Statements

A year later after the landmark US-ROK leaders' summit in May 2022, Presidents Joseph Biden and newly-elected President Yoon released a joint statement, which went further than the prior joint statement between the two governments. The [new document](#) stated that: "The two Presidents reiterate the importance of preserving peace and stability in the Taiwan Strait *as an essential element* in security and prosperity in the Indo-Pacific region" [emphasis added].

That same month, while explaining his rationale for the earlier statement, President Yoon [stated](#): "Because during the previous administration, the Taiwan issue didn't come to the fore, so maybe it wasn't necessary to make that clear. But Taiwan is under a lot of focus right now as an international issue. And, in this sense, I think declaring the universal principle of international law is something that contributes to the peace and prosperity of the region."

In another [interview](#) conducted in April 2023, Yoon went even further: "After all, these tensions occurred because of the attempts to change the status quo by force, and we together with the international community absolutely oppose such a change [...] The Taiwan issue is not simply an issue between China and Taiwan but, like the issue of North Korea, it is a global issue." These statements by the Korean president reflect the continued and sustained high-level attention paid to peace and stability in the Taiwan Strait.

Parliamentary Diplomacy

In the absence of formal diplomatic relations between the Republic of China (Taiwan) and the ROK, Seoul has also been stepping up its parliamentary diplomacy with Taipei in addition to these presidential statements. In late December 2022, Chung Woo-taik, the ROK's deputy assembly speaker, and other members of the ROK National Assembly including Cho Kyoung-tae—who serves as chairman of the Korea-Taiwan Parliamentarian Friendship Association (韓台議員親善協會)—[visited Taiwan](#). Like the United States, and many other Western nations as well as Japan in recent years, the deputy assembly speaker's visit followed similar visits led by speakers and leaders of parliaments from other democracies in recent years—such as the United States, [Czech Republic](#), and the vice president of the European Parliament, [among others](#).

Military Exchanges

While still relatively low-profile, there has also been a perceptible uptick in military exchanges between retired senior mili-

tary officers in Taiwan and South Korea. As the last remaining diplomatic partner in Asia to sever official relations with Taipei in 1992, Taipei and Seoul enjoyed a 40-year-old military [officer exchange program](#) that began in 1974 with three officers being trained in the ROK on a yearly basis with an unidentified number of Korean military officers receiving training in Taiwan, including military officers studying in Taiwan's political warfare colleges. [1] In fact, reflecting the longstanding mil-to-mil ties between Taiwan and South Korea, it was not until 2011 that the People's Republic of China (PRC) managed to [force Seoul](#) to sever most of its military ties with Taipei in exchange for setting up reciprocal programs with the People's Liberation Army. In the mid-2010s, these ties between Seoul and Taipei appeared to slowly re-emerge in lower-profile forms.

For instance, in 2018, General (ret.) Lee Changhyung, a senior advisor of the ROK's military former chief of staff under Moon Jae-in, visited Taiwan. This visit was hailed in the [Taiwanese media](#) as the first reported resumption of military exchanges between the two sides since the severing of diplomatic relations. More recently in May 2023, Park In-ho, former chief of staff of the ROK Air Force and an advisory member of the Korean Institute of Defense Analyses (KIDA), also [visited Taiwan](#) and conducted exchanges with the MND-sponsored Institute for National Defense and Security Research (國防安全研究院). In August 2023, in conjunction with a US-based [Atlantic Council delegation](#) led by former Secretary of Defense Mark Esper, the former Chairman of the Republic of Korea Joint Chiefs of Staff Admiral (ret.) Choi Yoon-hee also visited Taiwan for a round of exchanges with senior Taiwanese officials.

In a further sign of the rethinking within Seoul about its relationship with Taipei, in late 2022 the Yoon administration was reportedly considering sending a former ROK Army chief of staff and minister of defense, General (ret.) Kim Yong-woo, to serve as the representative of the country's *de facto* embassy in Taiwan. However, it was confirmed in November 2022 that Seoul had pulled the plug on that idea. In February 2023, it was [announced](#) that Lee Eun-ho, who served as former director of the Korean Security Agency of Trade and Industry, would be the new representative to Taiwan. The new director may have been selected to deepen the "[Chip 4 Alliance](#)" (between the United States, Japan, South Korea, and Taiwan) and coordination in semiconductor supply chain issues.

The ROK's Role in a Taiwan Contingency

In September 2022, United States Forces Korea (USFK) Commander General Paul LaCamera revealed that USFK command-

ers do “contingency planning” for “anything.” In an [interview](#) with Radio Free Asia, General (ret.) Robert Abrams, the former commander from 2018 to 2021, further explained that the United States will keep open “all options” in deciding what forces might be used in the event of a military conflict between China and Taiwan, “including those assigned to the USFK.”

While the defense community in Seoul remains laser-focused on North Korea, the emergence of a more strategically flexible posture towards Taiwan in the ROK is likely related in part to the backdrop of increased cooperation between Beijing, Moscow, and Pyongyang. Indeed, the risks of a contingency over Taiwan, in tandem with a simultaneous crisis on the Korean peninsula, are increasingly [in the minds](#) of the strategic communities across like-minded capitals.

In highlighting the cause of this apparent shift in the perspectives of the ROK national security community, Sungmin Cho, a professor at the Daniel K. Inouye Asia-Pacific Center for Security Studies (APCSS), [noted](#) clearly that “there is a new reality that we are facing that [a] Taiwan contingency and contingency on the Korean peninsula are increasingly linked. That was not the case before.”

Further underscoring Seoul’s growing concerns about the Taiwan Strait, according to a [Taipei Times report](#), former South Korean Ministry of Foreign Affairs official Lee Yong-jun stated, that, in the event of a war: “In that scenario, it would be very difficult for South Korea to only provide humanitarian aid to Taiwan, as it did during the Ukrainian war, or to remain on the sidelines [...] US troops stationed in South Korea may be transferred to the Taiwan front at that time, and North Korea may be incited to take military action.” Lee concluded that Seoul would not escape the possible diplomatic, military, and economic repercussions of the war.

Putting a finer point to Seoul’s growing concerns and Korea’s evolving perspective on the security situation in the Taiwan Strait and its implications for South Korea, Han Suk-hee, president of the Institute for National Security Strategy, [stated at a public forum](#) in the United States in June 2023:

“From Korea’s perspective, Taiwan’s contingency is Korea’s contingency because Taiwan contingency includes economic containment. Eighty percent of our importation of energy goes through the Taiwan Strait. So, if anything were to happen in the strait, we would be directly affected [...] [f]rom the Korean perspective Taiwan contingency is very important to our security. Secondly, if there was anything to happen in the Taiwan Strait, US

forces will intervene. In that case, China declared that it would launch missiles onto US bases in Korea. So, that would cause a natural or some automatic involvement of the Korean military in the Taiwan Strait crisis.”

South Korean Public Opinion on a Taiwan Contingency

In addition to the policy elites, the South Korean public is also increasingly concerned about a military contingency in the Taiwan Strait. According to a [survey](#) conducted by the *Joong-Ang Ilbo* and the East Asia Institute in August, 64.5 percent of South Korean respondents agreed that South Korea should provide direct or indirect support for US military operations in a Taiwan contingency, and only 18 percent of respondents opposed any involvement of South Korea in a Taiwan contingency. Of those who supported South Korean involvement, 22.5 percent said they would support its participation in the joint military operation with the US forces, whereas 42 percent responded that South Korea’s military role should be limited to providing rear-area support for US forces. [2]

Conclusion

Ancillary to its treaty commitments with the United States, Seoul has been enhancing engagement with Taiwan. While Taipei and Seoul are enhancing their engagements, the two sides are still keeping direct talks between the two nations quiet. Even with Washington, Seoul’s [official position](#) has been that South Korea has had no discussion with [US Forces Korea](#) (USFK) or the US government about ROK’s role in a Taiwan contingency. Yet, according to [Victor Cha](#), senior vice president for Asia and Korea Chair at CSIS who served in the National Security Council during the Bush Administration, “[M]y sense is that President Yoon is even more forward-leaning on these issues [related to Taiwan] than his bureaucracy is [...] it is inconceivable to me at least that they’re [US-South Korea] not having conversations about it [a Taiwan contingency].”

The main point: In line with increasing regional concerns over cross-Strait tensions, Seoul has shown increasing willingness to align with the positions of the United States, Japan, and Western nations in expressing support for preserving “peace and stability” in the Taiwan Strait. Seoul has also displayed an increased willingness to engage with Taiwan in three areas: high-level statements, parliamentary diplomacy, and upgraded Track 1.5 diplomacy.

[1] As a testament of the longstanding mil-to-mil ties between Taiwan and South Korea, Seoul [reportedly](#) has had active-duty military officers posted in Taiwan. Senior military officers like

General (ret.) [Kim Dong-myeong](#) (金東明) is the current president of the Alishan Association (阿里山會)—a group composed of Korean military officers who had previously trained and served in Taiwan. Kim graduated from Taiwan’s National Defense University and served previously as a defense attaché in the Republic of China (Taiwan) from 1988-1991 when the two countries maintained official diplomatic relations.

[2] Fleshing out what ‘rear-area support’ could include, APCSS Professor Cho [explained](#), “for example, through base access, provision of ammunition, noncombatant evacuation and non-combat operations such as maintenance of weapon systems and augmentation of US reconnaissance capabilities.”

The author would like to thank GTI Program Associate Will Kielm for his research assistance.

Correction: An earlier version of this brief incorrectly referred to Lee Changhyung as the ROK military’s chief of staff under Moon Jae-in.

Taiwan Announces an Increased Defense Budget for 2024

By: John Dotson

John Dotson is the deputy director of the Global Taiwan Institute and associate editor of the Global Taiwan Brief.

August 23, 2023 marked the 65th anniversary of the outbreak of the Second Taiwan Strait Crisis in 1958 (also referred to in Taiwan as the “823 Artillery War” [八二三砲戰]), which began when troops of the People’s Republic of China’s (PRC) People’s Liberation Army (PLA) commenced artillery bombardments of Republic of China (ROC) Army-held positions on the islands of Jinmen (金門) and Matsu (馬祖). Senior Taiwan government officials—including President Tsai Ing-wen (蔡英文), Defense Minister Chiu Kuo-cheng (邱國正), and National Security Council Secretary-General Wellington Koo (顧立雄)—[marked the occasion with a visit to Kinmen](#), in which they participated in ceremonies to honor the memories of those who served, and died, during the conflict. Tsai also used the occasion to call for an increase in the ROC’s military capabilities, stating in a speech that “To keep the peace, we need to strengthen ourselves [...] we need to continue to reform the national defense, push for self-reliance, [and] strengthen our defense capabilities and resilience.”

Perhaps not coincidentally, on the following day Premier Chen

Chien-jen (陳建仁) and other senior officials announced the administration’s [proposed defense budget for 2024](#). The new baseline budget (主管預算) would stand at NTD \$440.6 billion (approximately USD \$13.8 billion)—an increase of 7.7 percent from the 2023 budget, and the seventh consecutive year-on-year increase in defense spending. The overall planned budget would increase to NTD \$606.8 billion (approximately USD \$19.1 billion) when expected supplemental defense budgets (特別預算) are calculated in. Per government officials, these projected expenditures would raise Taiwan’s overall defense spending to a new benchmark of approximately 2.5 percent of GDP.



Image: Premier Chen Chien-jen (fifth from left, center) and other senior officials hold a press conference in Taipei on August 24 to discuss the Tsai Administration’s proposed budget for 2024. In the displayed pie chart, military expenditures (國防支出) are shown as 15 percent of the overall government budget. (Image source: [CNA](#))

Particulars of the New Defense Budget

Aside from the broad overview of the budgetary numbers, much about the budget’s content remains classified, and only limited information has been made public regarding the further specifics of the budget. Per [press reporting](#) on data from the Executive Yuan’s Directorate-General of Budget, Accounting, and Statistics (行政院主計總處), out of the 2024 defense budget NTD \$130.6 billion (USD \$4.1 billion) would be dedicated for “military investments” (軍事投資). Within that column, the [“military purchase” budget](#) (軍購預算) would stand at NTD \$26.5 billion (USD \$830 million) for acquisition programs to include a new trainer aircraft, combat systems upgrades to the *Kang Ding* class (康定級) frigates, and investment in an Air Force special project codenamed “Falcon 5” (天隼5號).

While new acquisition programs will often attract the greatest attention, it is likely that much of the Ministry of National Defense (MND, 中華民國國防部) budget remains dedicated to personnel and routine operating costs. Legislative Yuan Na-

tional Defense Committee (立法院國防委員會) member [Liu Shih-fang \(劉世芳\)](#) was cited by press as saying that the budget increase reflected both higher personnel costs associated with the plan to extend conscripted service to one year, as well as higher operating costs (e.g., fuel and maintenance) associated with ROC air and naval forces responding to sea and airspace encroachments by PLA units.

It seems clear that special budget supplementals will continue to be a significant part of overall Taiwan defense spending, particularly as it pertains to the acquisition of new hardware. In late 2021, Taiwan's government adopted a major [defense supplemental budget](#) for the years 2022-2026, which was intended primarily to increase the production of indigenously manufactured anti-ship and anti-aircraft missile systems. This also pertains to some of Taiwan's most prominent arms purchases from the United States: for example, the discussions of the defense budget in August included a [special budget of NTD \\$94.3 billion \(USD \\$2.96 billion\)](#), which is to be applied towards the purchase of F-16V fighter jets and other equipment.

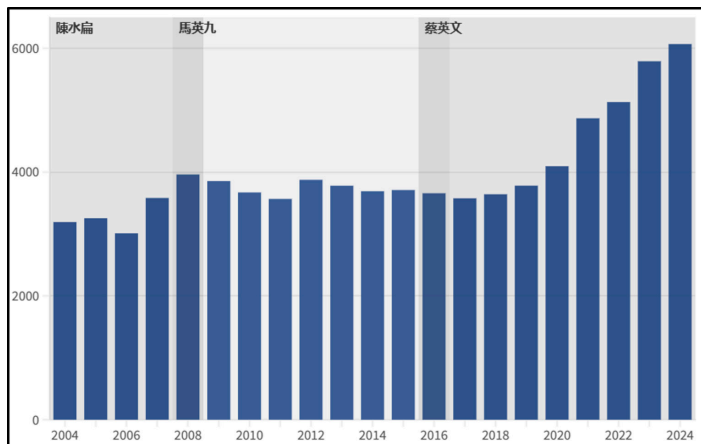


Image: Taiwan's defense budgets from 2004 to 2024 (projected)—in units of ten million New Taiwan dollars—under the administrations of Chen Shui Bian (陳水扁) (2000-2008), Ma Ying-jeou (馬英九) (2008-2016), and Tsai Ing-wen (蔡英文) (2016-present). Note the dramatic upward trend in defense budgets beginning in 2020, after the PRC commenced more regular and aggressive military coercive activities directed at Taiwan. (Image source: [Kung Shih News](#) [from government statistics], August 26, 2023).

A Trend of Steadily Rising Defense Budgets, from 2020 to the Present

As coercive military pressure by the PRC directed against Taiwan has steadily increased from 2019 to the present (see illustrative discussions [here](#) and [here](#)), Taiwan's Democratic Progressive Party (DPP, 民主進步黨)-led government has sought to boost

both defense spending and the overall capabilities of the ROC armed forces. The past year has also seen other measures intended to boost defense capacity, including a [plan announced in December 2022](#) to extend conscripted service time for young men and to undertake a limited restructuring of roles within the ROC Army. The planned defense budget increase for 2024 follows this broader program of efforts to increase military readiness.

As may be seen in the accompanying graphic (*on the left*), overall defense spending in the first two years of the Tsai Administration actually dipped slightly relative to the levels maintained in the latter half of the Ma Ying-jeou (馬英九) Administration. This changed markedly beginning in 2020, reflecting an increased sense of threat that followed the PRC's elevation of coercive military activity in 2019. The trend towards significant year-over-year defense spending increases has continued since then, to the extent that the projected budget for 2024 would represent a [63 percent increase over the defense budget for 2017](#).

Per [BBC analysis](#) of government figures, the MND's baseline defense budgets (excluding special supplemental budgets) for the previous five years and 2024 are listed below. (Note that the actual overall budgets, which include special budget supplementals, would be higher.)

- 2019 base budget: NTD \$240.4 billion (USD \$7.55 billion)
- 2020 base budget: NTD \$351.2 billion (USD \$11 billion)
- 2021 base budget: NTD \$361.7 billion (USD \$11.36 billion)
- 2022 base budget: NTD \$367.6 billion (USD \$11.54 billion)
- 2023 base budget: NTD \$415.1 billion (USD \$13 billion)
- 2024 base budget: NTD \$440.6 billion (USD \$13.8 billion)

These trends clearly point toward likely continued growth in defense budgets. Furthermore, the likelihood that this trend will continue is backed up by [reporting on spending projections](#) from the Executive Yuan's Directorate-General of Budget, Accounting, and Statistics. This indicates that expected overall outlays for "military purchases" (軍購) within the budgets from 2024-2027 will be NTD \$231.85 billion (USD \$7.28 billion), with average annual expenditures exceeding NTD \$50 billion (USD \$1.57 billion)—nearly double the NTD \$25.2 billion figure (USD \$790 million) for 2023, and almost triple the NTD \$17.9 billion (USD \$560 million) figure for 2017. (These figures likely reflect spending included in the large, multi-year [supplemental budget passed in late 2021](#), but this is unclear from the available report-

ing.)

Conclusions

The significant increases in Taiwan’s military budgets over the past five years are part of a [larger trend in the Asia-Pacific region](#) of increased attention to security issues and rising defense spending—much of this occurring in [direct reaction to Beijing’s increasingly aggressive behavior](#) towards its maritime neighbors. It is only natural that Taiwan, as the state most directly threatened by potential PRC aggression, would also be seeking to build up its own military capabilities as a precautionary measure. There remain, however, a number of questions about the direction and scale of Taiwan’s defense spending.

Although the proposed new figures for 2024 (including supplemental spending) would reportedly bring Taiwan’s overall military spending to approximately 2.5 percent of GDP, many sympathetic foreign critics maintain that Taiwan’s defense budget needs to be raised even further. For example, Mark Esper, a former US Secretary of Defense during the Trump Administration, has [recently commented](#) that Taiwan’s overall defense budget should be raised to a benchmark over 3 percent of GDP. Questions also remain regarding the focus of the ROC armed forces, in terms of both force structure and strategic orientation. Comments by Taiwan government officials on the 2024 budget noted that, due to the increasing disparity in scale and capabilities between PRC and ROC forces, future acquisitions would increasingly [emphasize “asymmetric operations”](#) (不對稱作戰). This indicates that policymakers are increasingly adopting at least the language of an “asymmetric” defense approach—however that may be defined—although the extent to which such ideas actually permeate force structure and strategy remain an open question. [1]

The course of Taiwan’s domestic politics will also play a role. Current DPP presidential candidate Lai Ching-te (賴清德) has clearly [signaled continuity with the policies of the Tsai Administration](#), and defense budgets would likely see continued growth under a future Taiwan government in which the DPP continued to hold both the executive and a majority position in the legislature. By contrast, the defense priorities of the other three figures in the presidential race—Kuomintang (KMT, 國民黨) candidate Hou You-yi (侯友宜), Taiwan People’s Party (TPP, 台灣民眾黨) candidate Ko Wen-je (柯文哲), and independent candidate Kuo Tai-ming (郭台銘)—are less clear, but tend to emphasize seeking better relations with the PRC rather than increased military investments. [2] As is the case with many other critical areas of policy, the future of Taiwan’s defense spending

may be dependent on the outcome of Taiwan’s presidential and legislative elections in January 2024.

The main point: In late August, the Tsai Administration announced a proposed 2024 defense budget of NTD \$606.8 billion (approximately USD \$19.1 billion), including both the baseline budget and expected supplemental spending. This would represent a 7.7 percent increase from the previous year, and would reportedly bring Taiwan’s overall defense spending to approximately 2.5 percent of GDP. This continues a trend in significantly increased defense spending from 2020 to the present. However, debates continue regarding both the necessary scale of Taiwan’s defense spending, as well as the focus of that spending on weapons acquisitions and other programs.

[1] For further discussions on the debate within Taiwan defense policy circles regarding either “asymmetry” or a more conventional approach, see GTI’s panel discussion event [“Taiwan’s 2021 Quadrennial Defense Review and the Direction of Taiwan’s Defense Strategy”](#) (June 30, 2021). See also: John Dotson, [“Taiwan’s New Weapons Acquisitions and the Continuing Debate Over Defense Strategy,”](#) *Global Taiwan Brief* (August 25, 2021).

[2] The three opposition candidates have adopted varying positions on defense policy, most of which are vaguer than the position of continuity adopted by Lai Ching-te. After the promulgation of the new defense budget in August, Hou You-yi [stated](#) that he did not object to the budget increases, but blamed the DPP for elevated cross-Straits tensions, and indicated that improved cross-Straits relations would allow for the budget to be “flexibly adjusted” (彈性調整). Kuo Tai-ming has spoken little about military affairs, stressing instead his [initiatives for peace with the PRC](#). Ko Wen-je’s defense policy statements have been vague, although he has expressed support for [raising defense spending to 3 percent of GDP](#) and reforming the conscription system.

The “Chip 4 Alliance” and Taiwan–South Korea Relations

By: Eric Jung

Eric Jung was a summer 2023 intern at the Global Taiwan Institute.

With the impacts of economic competition between the United States and China spilling over to the rest of the world, the semiconductor industry has increasingly become a centerpiece

of discussions on global economic security. In March 2022, President Joseph Biden proposed the establishment of the so-called “[Chip 4 Alliance](#)” between the United States, Japan, South Korea, and Taiwan, with the aim of creating a more secure global semiconductor supply chain through the formation of a democracy-based, multilateral grouping. Specifically, the agreement sought to foster cooperation between member nations on advanced semiconductor production by geographically diversifying production, protecting the intellectual property (IP) of private firms, imposing uniform export controls on China, and promoting “friend-shoring.”

While [Japan](#) and [Taiwan](#) were generally supportive of the initiative, initial reactions in the Republic of Korea (ROK) were more hesitant and unclear. ROK President [Yoon Suk Yeol](#) and Minister of Trade, Industry, and Energy [Lee Chang-yang](#) have agreed to South Korea’s participation in the talks, and the Yoon Administration’s position demonstrates a notable change in willingness to engage—with President Yoon’s outspoken support for Taiwan and warming relations with Japan providing a rare and crucial opportunity to develop stronger multilateral relations. However, significant skepticism remains regarding the nation’s commitment. The ROK’s reservations are linked to broader flaws in US efforts to facilitate South Korea-Taiwan cooperation. Furthermore, the Chip 4 Alliance’s overemphasis on isolating China, its preoccupation with securing US interests, and the lack of consideration for regional politics are all underlying issues reminiscent of past failed attempts to persuade the ROK to become more involved with cross-Strait issues.

Possible Challenges to Cooperation

Although President Yoon is making an effort to change the status quo between South Korea and its democratic neighbors, full commitment to the Chip 4 Alliance remains elusive. The initiative’s focus on excluding China and securing US interests could undermine the development of meaningful ties between member states, which could in turn lead to a failure to overcome underlying obstacles. Without strong relations and trust within the collective, it will be difficult to successfully and uniformly execute provisions in the alliance—for instance, on matters related to relaxing export controls, and regulations affecting re-shoring.

There are three major obstacles that exist in the road to cooperation between Taiwan and South Korea. First, the two states are direct competitors in the integrated circuit and semiconductor industries, with Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司) and Samsung—the two powerhouses of the industry—combining

to account for 74.3 percent (58.5 percent for TSMC, 15.8 percent for Samsung) of global foundry market revenue as of the [fourth quarter of 2022](#). This competition illustrates the inherent challenge of convincing private firms to re-shore production and technology to their competitors, particularly as Taiwan-South Korea political relations remain distant. Industrial competition between the two is unlikely to cool anytime soon, with TSMC looking to challenge Samsung’s superiority in [two-nanometer node production](#), and Samsung aiming to catch up to TSMC by implementing its gate-all-round (GAA) transistor architecture in chip manufacturing.

Furthermore, even with intellectual property protections in place to alleviate re-shoring concerns, South Korean enterprises may remain reluctant to share their intellectual property (IP). This sentiment is also shared by the South Korean public, with many viewing the Chip 4 Alliance as an attempt to take advantage of South Korea’s advanced technology. These concerns have only been exacerbated by US domestic policies—such as the [Chips and Science Act](#), which sought to boost US chip production. In polling conducted by the *Dong-a Ilbo* and the ROK Ministry of Patriots and Veteran Affairs, [82.6 percent](#) of South Koreans feel that US semiconductor policies should consider the interests of South Korea and other allies, while 80 percent believe that US inflation control policies should do the same. This implies that the general public is dissatisfied with US policies regarding semiconductor cooperation, stemming from Washington’s over-concentration on national interests in its approach to alliance-building.

Second, Chip 4’s emphasis on isolating China from semiconductor and technology supply chains highlights another flaw in US policy. It is a well-known fact that South Korea’s export markets rely heavily on China, with [24.1 percent](#) of South Korea’s total exports flowing to China in 2021. This reliance is even more pronounced in the semiconductor sector, as [41.1 percent](#) of the ROK’s chip exports in 2020 went to China, with a further 20.8 percent shipped to Hong Kong. Moreover, China remains a keystone component in South Korea’s semiconductor production chains. Approximately [40-50 percent](#) of dynamic random-access memory (DRAM) and 20 percent of NAND flash memory chips produced by South Korea’s SK-Hynix are manufactured in China. [1] This is also the case for Samsung, as around 40 percent of its NAND chips are produced in China. Not only will this dependency make it difficult for South Korean companies to practice export controls and geographically diversify, but it has also raised concerns in the South Korean public over possible threats to overall economic security.

Anxiety over national and economic security is already keenly felt among South Koreans, with many viewing US-China competition as the country's [primary national security issue](#), surpassing even North Korea. In reality, the Chip 4 Alliance does little to assuage South Korea's concerns over economic coercion and a potential trade war with China. Without precise mechanisms and provisions to help mitigate the ROK's economic and security costs of commitment, it will be challenging to gain South Korea's confidence and engagement on initiatives like Chip 4.

The third significant challenge to collaboration is the turbulent state of diplomatic relations between South Korea and its neighbors. Due to bitter historical legacies, it is no secret that South Korea's society holds significant distrust toward Japan. This sentiment continues to shape ROK politics and policies, as reflected in controversies surrounding the [Dokdo Islands](#), "[comfort women](#)," and [Fukushima wastewater](#). Such skepticism of Japan was on full display in the wake of President Yoon's recent [visit to Japan](#). Yoon's comments on fostering relations with Tokyo were met with immense public backlash, and his [approval rating](#) since the visit has been on a continuous [decline](#)—demonstrating the public's disdain for the administration's attempts to develop cooperative relations with Japan.

Coupled with economic rivalry, Taiwan's perception of South Korea has long been characterized by mistrust and insecurity, and South Korea-Taiwan relations have seen little to no development since former ROK President Roh Tae-woo decided to recognize Beijing over Taipei in 1992. For the Taiwanese people, especially among older generations, this switch was a bitter betrayal. Chiang Kai-shek's (蔣介石) Republic of China (ROC) was [historically](#) an advocate for the ROK—being one of the first nations to recognize the ROK's status as a sovereign state in 1948, and [supporting](#) the UN resolution to provide aid to South Korea in 1950.

Implications for Taiwan-South Korea Relations

The shortcomings of the Chip 4 Alliance could potentially have significant implications for Taiwan-South Korea relations. The initial hesitation and continuing lack of initiative from South Korea both suggest that Seoul feels little commitment to the agreement, reducing Taiwan's confidence in the alliance. Given Chip 4's status as a high-profile opportunity for relationship-building, this lack of confidence may cause Taiwan to be more reluctant to engage with South Korea on other political and economic issues in the future.

However, the agreement could still have positive benefits for ROC-ROK relations, the primary one being that Chip 4 presents

an opportunity—despite the lack of formal diplomatic relations between Taiwan and South Korea, the grouping could still provide a forum for interaction. Experience and exposure remain crucial prerequisites for developing strong diplomatic partnerships. As two nations collaborate and accumulate experiences, they can work to build a relationship based on trust and mutual respect. For South Korea and Taiwan, Chip 4 could be the perfect opportunity to improve a distant and complicated relationship.

A Step in the Right Direction

Although a flawed proposal, the Chip 4 Alliance is nevertheless a step in the right direction, potentially serving as a key steppingstone. Something that the alliance does address is the crucial absence of a multilateral agreement that can create a more cohesive and effective international order in the region. China's aggression and coercion have not only exposed the vulnerability of regional economies, but have also drawn attention to the insecurity that exists in Asia's international system. Despite talks of [democratic cooperation](#), instances of China weaponizing its economic gravity for coercive purposes have been met with minimal collective action in response. The development of uniform export controls and coordinated geographical diversification are both practices that could act as a precursor for future multilateral efforts.

Taiwan can help provide solutions to the challenge of fostering cooperation between the participating Asian nations. Taiwan's semiconductor manufacturing capabilities have taken the spotlight, but Taiwan is also a country with a vibrant democratic and civil society, whose sovereignty and freedom are constantly under threat. For Taiwan's democratic neighbors, support for Taiwan does not just mean opposing China's actions; it is also a means of preserving the values of the liberal international order and security in the region. This is a stance echoed by President Yoon and President Biden, who have "reiterated the importance of preserving peace and stability in the Taiwan Strait as an indispensable element of security and prosperity in the region." This sentiment is shared by Japan, with Chief Cabinet Secretary Hirokazu Matsuno [stating](#) that "The importance of peace and stability in the Taiwan Strait is not only important for the security of Japan, but also for the stability of the international community as a whole." The topic of Taiwan's security is evidently one that all parties can agree upon. Therefore, cross-Strait tensions may prove to be key in facilitating cooperation through solidarity.

At the same time, Chip 4 is an essential step in Taiwan's participation in the international system. An ongoing challenge for Taiwan is its ostracism from global institutions. Therefore, Taiwan's

participation in such an alliance could be a significant step in signaling solidarity, which could potentially help promote Taiwan's participation on the broader international stage. Furthermore, with the increased value of semiconductors, it is possible that the Chip 4 Alliance could become a model for a more globalized alliance in the future.

Conclusions

If the United States and Taiwan want to engage the ROK on cross-strait issues and secure full commitment to multilateral initiatives, it is crucial to first address the challenges and concerns faced by the ROK, and devote more attention to bilateral relations between South Korea and Taiwan. For there to be an effective and enduring coalition, there must be a foundation of trust and belief—not just between governments, but between people. If an alliance between two nations does not have the support of their respective populations, healthy relations will be difficult to sustain. To achieve closer bilateral relations, Taiwan and South Korea should promote greater exposure and interactions between their citizens through economic and cultural exchange. In the context of technology, there should be an emphasis on facilitating cooperation on semiconductors through their respective private firms. In doing so, the two countries can build up the fundamentals of trust that can later pave the way for more diplomatic cooperation.

Historically, the ROK has maintained an ambiguous position on cross-strait tensions issues, content to strike a balance between the United States and China. However, times have changed. South Korea is now willing to take a harder stance against China and is showing support for peace within the Taiwan Strait. However, with the limit of one five-year presidential term in South Korea and low approval ratings, President Yoon's time in office may prove short-lived. Furthermore, there is no guarantee that his successor will have the same platform regarding Taiwan. Although there is no certainty whether the rhetoric from President Yoon will be met with action, it is important for both nations to recognize how valuable an expanded ROK-ROC relationship is. If there ever was an opportunity for Taiwan and South Korea to rekindle their relationship, now is the time.

The main point: ROK President Yoon Suk Yeol's recent actions to change the status quo with Japan and Taiwan have provided the rare opportunity to secure greater South Korean commitment on cross-strait issues. However, the United States' attempt to engage South Korea through the Chip 4 Alliance seems to be ineffective, and Seoul is showing itself to be reluctant to commit to the initiative.

[1] According to [TechTarget](#), “Dynamic random access memory (DRAM) is a type of semiconductor [memory](#) that is typically used for the data or program code needed by a computer processor to function.” Also per [TechTarget](#), “NAND flash memory is a type of [non-volatile storage](#) technology that does not require power to retain data [...] NAND flash saves data as blocks and relies on electric circuits to store data.”

One Year Later: How Has China's Military Pressure on Taiwan Changed Since Nancy Pelosi's Visit?

By: Thomas Shattuck

Thomas Shattuck is the Global Order program manager at the University of Pennsylvania's Perry World House, a member of Foreign Policy for America's NextGen Foreign Policy Initiative and the Pacific Forum's Young Leaders Program, as well as a non-resident fellow at GTI.

It has been over one year since then-US House Speaker Nancy Pelosi [traveled to Taipei](#) to meet with Taiwan President Tsai Ing-wen (蔡英文) in early August 2022. To retaliate for the visit, Beijing initiated sanctions [against Pelosi](#), other US officials on the trip, and Pelosi family members. However, the brunt of the response focused on Taiwan, which included [military exercises](#), [missile tests](#), [sanctions](#), and import bans on over [100 Taiwanese goods](#). This article analyzes how the military dimensions of the cross-strait status quo have changed in the year since Pelosi made her historic trip.

After Pelosi and her colleagues were safely out of Taiwan, the People's Liberation Army (PLA) initiated joint [air and naval live-fire exercises](#) that included [missile tests over Taiwan and in Japan's exclusive economic zone \(EEZ\)](#), as well as a [simulation of a military blockade](#) of the island. The drills occurred in six declared closure areas around Taiwan, with Chinese military aircraft and naval vessels dominating the Taiwan Strait throughout the exercises. The aircraft made regular median line crossings, essentially eliminating the tacit military demarcation line between Beijing and Taipei once and for all. [Nearly 450 aircraft](#) flew into Taiwan's air defense identification zone (ADIZ) in August 2022 alone, the highest monthly total ever recorded. The second-highest recorded month for ADIZ activity was April 2023 (the month that Tsai met with current US House Speaker Kevin McCarthy in California), with 259 incursions. [1]

In the immediate aftermath of the exercises and air defense

identification zone (ADIZ) incursions, I argued that the post-Pelosi response [would mark the beginning of a new phase](#) in Chinese military pressure against Taiwan in the Taiwan Strait. I also predicted that this second phase of ADIZ incursions would be characterized by regular median line crossings, with less emphasis on flights into the southwestern ADIZ region near Pratas/Dongsha Island (東沙島).

After one year of post-Pelosi Chinese ADIZ incursions and military pressure against Taiwan, it is worth considering the patterns in PLA activity that have changed relative to the period before Pelosi's visit—and to consider the near-term prospects for additional changes to the military balance and cross-Strait status quo in the lead-up to Taiwan's 2024 presidential election.

Removing "Taiwan" from the "Taiwan Strait"

Since August 2022, the nature of ADIZ incursions has inextricably changed. Before Pelosi's visit to Taipei, Chinese military aircraft only crossed the median line of the Taiwan Strait a total of 23 times (on [September 18 and 19, 2020](#) and [May 10, 2022](#)). The number jumped to 563 incursions in 2022 following Pelosi's visit (although that figure is less than half the total number of southwestern ADIZ incursions, which was 1,166 in 2022). Between January and August 23, 2023, there have been 461 median line crossings and 560 southwestern incursions. [2] By the end of 2023, this year's total median line crossings will likely exceed the number for 2022.

The trend line of overall ADIZ activity continued to increase between August 2022-2023, with the lowest recorded month of activity (October 2022) seeing 96 incursions. The monthly totals since the Pelosi visit—even at their lowest—represent an overall increase in activity. By making a greater focus on the Taiwan Strait, Chinese military aircraft are conducting their operations closer to Taiwan proper. In turn, this increases the risk for Taipei, by leaving less time to respond to a median line crossing (the median line is about 25 miles from Taiwan's territorial waters) than to an incursion in the southwestern ADIZ. It also demonstrates to the international community (and people of Taiwan) that the Chinese military has the upper hand—and possibly even control—of the Taiwan Strait, as Taiwan's military does not have the resources to respond to so many median line crossings. The crossings represent a concerted effort by Beijing to reduce Taiwan's sovereignty and international image by making the Taiwan Strait less Taiwanese, and more of a PLA training ground. These crossings have also created new questions: how far beyond the median line is too far for Taiwan?



Image: Taiwan President Tsai Ing-wen (second from right) meeting with on August 24 with an Atlantic Council delegation led by former Lithuanian President Dalia Grybauskaitė (second from left). Former US Secretary of Defense Mark Esper was also present (rear left). PRC military flights across the Taiwan Strait centerline rose significantly following this visit. (Image source: [ROC Presidential Office](#))

Two Case Studies: Tsai and Lai's US Stopovers

In the year since Pelosi visited Taipei, she was replaced as Speaker of the House by Rep. Kevin McCarthy, who had announced plans to visit Taipei himself. However, McCarthy later changed course after Taipei allegedly warned against such a trip. The two sides compromised, and Speaker McCarthy met President Tsai during her stopover visit in California on April 5, 2023. China's response to the meeting was a stark contrast to its August 2022 paroxysm. Compared to the 302 median line crossings in August 2022, there were only 135 in April 2023. [1] The overall military response was much shorter and more muted as well, with the bulk of the incursions peaking on April 10. The ADIZ response to the Pelosi visit was much more drawn out over many more days.

However, the McCarthy-Tsai meeting resulted in a new development: Beijing announced a three-day ["special joint patrol and inspection operation"](#) in the Taiwan Strait, whereby Chinese military vessels would search ships transiting the waterway. While the operation did not result in any actual vessel stoppages, the announcement sets the stage for a future expansion of this initiative, which could cause a military standoff between the Chinese and Taiwanese militaries in the Taiwan Strait. The operation, if carried out to the fullest extent, would have similarities to Chinese military and militia practices in the South China Sea.

It also set down a clear precedent for Beijing's future coercive responses: a high-level US official visiting Taiwan will result in a much more significant military response than a similar meeting

happening in the United States. The recent stopovers in New York and San Francisco by vice president and leading presidential candidate William Lai (賴清德) demonstrate this point. In the immediate aftermath of his stopovers in mid-August, there were only 26 median line crossings over two days (August 14 and 19). In fact, since the Lai stopover (between August 14 and 19), there only were a total of 37 incursions throughout the entire ADIZ. [1] Granted, Lai's visits themselves were relatively low-key and less public in the wake of his [recent remarks](#) about how it is the long-term goal of Taiwan for its president to visit the White House. On the economic front, Beijing also announced another import ban, [this time on Taiwanese mangoes](#), in response to Lai's trip.

Based on these two cases, it appears—for now—that Taiwan's top two government officials traveling through the United States and meeting with US counterparts corresponds to a less robust military response than does a visit to Taiwan by a high-level US government official, such as the Speaker of the House. Since Speaker McCarthy has not completely ruled out a visit to Taiwan, this lesson should be instructive for how to proceed with future US-Taiwan engagements. Also, the muted response to Lai's stopovers was somewhat surprising given his current lead in the presidential race. This would seem to be something of a missed opportunity by Beijing, as the other two leading candidates—the Kuomintang's (KMT, 中國國民黨) Hou You-yi (侯友宜), and the Taiwan People's Party's (TPP, 台灣民眾黨) Ko Wen-je (柯文哲)—are trying to demonstrate that they can work to reduce cross-Strait tensions, and that Lai's presidency would result in further deterioration of relations across the Strait. Foxconn (富士康) founder Terry Gou (郭台銘) has also attempted to make this case while [announcing](#) his own independent run for the presidency. At the same time, Beijing, determining that the Taiwanese populace has soured on Chinese military adventurism, could have calculated that an overreaction on its part could work in Lai's favor.

Toward the January Election

The year since Pelosi visited Taiwan and changed the nature of Chinese military incursions into Taiwan's ADIZ has demonstrated that Beijing used the trip to alter the military status quo by breaking the previously existing taboo against crossing the median line. At the same time, the less significant responses to the Tsai and Lai stopovers demonstrated that US officials visiting Taiwan constitute an apparent red line. Chinese Communist Party (CCP, 中國共產黨) officials issued stern warnings and threats in response to the Tsai and Lai visits, but that rhetoric did not necessarily translate into ADIZ incursions, as the pattern since 2020

might indicate. In fact, the visit of former US Defense Secretary Mark Esper and former Lithuanian President Dalia Grybauskaitė to Taiwan in late August resulted in [more provocative flight paths](#) than the Tsai-Lai stopovers. In days after President Tsai met with the delegation, [Chinese military aircraft](#) and unmanned aerial vehicles (UAVs) crossed the median line and circumnavigated Taiwan—seemingly confirming this hypothesis.

The second phase of Chinese ADIZ incursions has stabilized since August 2022, when Chinese military aircraft broke through the median line that had created a relatively stable military balance for decades. Incursions still regularly occur in the southwestern region, but now receive less attention because they are considered less provocative than the median line crossings. When Taiwan's Ministry of National Defense (MND, 中華民國國防部) first started publicly reporting the incursions, a large-scale southwestern incursion was considered major news. However, such provocations are barely notable now that Beijing has upped the ante.

The current pattern will likely continue—until Beijing has an opportunity to blame Taipei or Washington for forcing it to change course, with still further pressure. It happened when Under Secretary of State for Economic Growth, Energy, and the Environment [Keith Krach visited Taipei](#) in September 2020, and again when Speaker Pelosi visited in August 2022. Will the next high-level US government official spark the next change? Could the election of William Lai and the further deterioration of Beijing's chances for peaceful annexation lead to the next phase?

The main point: In the year since then-House Speaker Nancy Pelosi made her historic trip to Taiwan, Chinese military incursions across the median line of the Taiwan Strait have stabilized and have become another regular part of Beijing's military coercion of the island. However, it is notable that stopover visits in the United States by President Tsai Ing-wen and Vice President William Lai have not resulted in the same level of military response as occurred after Pelosi's visit.

[1] These figures are drawn from the database of ADIZ incursions compiled by Ben Lewis and Alex Kung, which draws information from the regular reports released by Taiwan's Ministry of National Defense. The database is available at: <https://docs.google.com/spreadsheets/d/1qbfYF0VgDBJoFZN5elpZwN-TiKZ4nvCUcs5a7oYwm52g/edit?sharingacti#gid=454305972>.

[2] Ibid.

Taiwan's Companies Look beyond China, But Key Challenges Remain

By: Zoë Weaver-Lee

Zoë Weaver-Lee is programs coordinator at the East-West Center in Washington and a former program associate at the Global Taiwan Institute.

In April 2023, [Quanta Computer](#) (廣達電腦)—a Taiwanese electronics maker and top manufacturer for Apple MacBooks—solidified an agreement with a plant in Vietnam to begin production “as soon as possible.” iPhone assembler [Foxconn](#) (also known as Hon Hai Precision Industry, 鴻海精密工業股份有限公司) has also invested heavily in the northern region of Vietnam, with estimates that 30 percent of its production will be done outside of China by 2025. Such moves are part of a larger trend of Taiwanese companies looking to diversify production away from China, especially at a time of rising labor costs, tense geopolitical circumstances, and heightened supply chain risks. Yet, this shift has thus far not been coupled with an interest in returning these industries to Taiwan—instead, these manufacturers are moving to regions with limited regulations, favorable taxation environments, and low-cost labor.

The history of Taiwanese companies, or Taiwanese-owned companies, in China is a long and complex one. Entrepreneurs from Taiwan (also known as *tai shang*, 臺商) initially moved production capacity to the People's Republic of China (PRC) in pursuit of lower operating costs following the end of Taiwan's martial law period. Prior to China's economic boom, these industries had a significant impact on the business environment in China. Taiwanese entrepreneurs not only brought along the capital and innovation necessary to spur economic growth, but also the systems, know-how, and practices along with it. [1] Since then, however, operating in China as a Taiwanese company has become more financially costly and risky.

Taiwanese Workers and Businesses Begin to Look Beyond China

It is not just tech companies that have plans in motion to expand operations beyond China. For instance, [Pou Chen Group](#) (寶成工業股份有限公司)—a producer for shoe brands such as Nike and Adidas—has ramped up production in India, while production in China now represents only 10-20 percent of its output. Overall, [new investments in China](#) by Taiwanese companies are down, declining by over 10 percent year-on-year in the first quarter of 2023. This trend is also [not unique to Taiwanese](#)

[companies](#), as South Korea's Samsung, the United States' Hasbro, and Sweden's Volvo have all made the move to relocate or expand production outside of China.

While some analyses indicate that these companies are leaving China entirely, there are indications that many companies are not necessarily removing parts of the supply chain from China, but are instead adding or expanding operations elsewhere. During a [GTI panel on Taiwan's economic security](#), the Center for International Private Enterprise's (CIPE) Catherine Tai highlighted that risk mitigation at the firm level for Taiwanese companies focuses on the diversification of the supply chain, rather than wholesale relocation.

In this context, several key drivers of this shift have been identified. While US-China competition has long been a concern for Taiwanese companies, former President Donald Trump's [trade war with China](#) increased economic tensions between the two substantially. In addition to this volatile business environment, companies also faced rising costs for inputs, including [labor](#) and [electricity](#). These challenges were further exacerbated by the COVID-19 pandemic, during which China's [zero-COVID policy](#) forced companies and individuals to navigate substantial logistical and financial barriers. According to a [survey conducted by the Center for Strategic and International Studies \(CSIS\)](#) in 2022, over 70 percent of Taiwanese companies stated that Taiwan needed to reduce its economic dependence on China, citing risks posed by a potential US-China conflict, cross-strait conflict, and China's zero-COVID policy.

Additionally, while such cases are usually not officially reported, instances of political intimidation of Taiwanese entrepreneurs by PRC officials have also contributed to heightened risks of operations in China. Even as [research has shown](#) that *tai shang* tend to remain non-political while conducting business in China, authorities have [threatened and fined](#) businesses or groups they deem to be “pro-independence,” or of having political ties to Taiwan's Democratic Progressive Party (DPP, 民進黨). Taiwanese businesspeople are often subject to frequent questioning by local officials—euphemized as “[having tea](#)”—regardless of political affiliation (or lack thereof).

Alongside these shifts, the number of Taiwanese citizens working in China has also dropped steadily since 2014. While there were [once concerns](#) that China's enticement of Taiwanese talent and labor was contributing to—or at least benefitting from—Taiwan's “brain drain,” [data seems to indicate](#) that labor flows are leaning toward Southeast Asia instead. While the causes of this transition have not been fully surveyed, there are

several reasons why this is unsurprising. Of course, the number of Taiwanese working abroad correlates with Taiwanese companies based abroad. As these companies move operations, their labor forces must follow suit. Additionally, Taiwan’s government has put forth several policies in recent years that may have guided talent flows away from China: such as [banning staffing companies](#) from posting China-based job openings in Taiwan, and increasing investment in Southeast Asia as part of the [New Southbound Policy](#) (NSP, 新南向政策).

Indeed, shifting labor flows to Southeast Asia has been paralleled by an expansion of Taiwanese companies’ operations in the region. In fact, the [CSIS 2022 survey](#) indicated that over 63 percent of Taiwanese businesses leaving China were relocating production to Southeast Asia. Rather than reshoring—that is, returning operations and productions to the country of origin—Taiwanese companies have fully embraced “friendshoring.” In this case, Taiwan’s “friendly countries” in Southeast Asia may not refer to a strong sense of allyship in the region, but rather a low-risk, low-cost environment for fruitful business operations. Additionally, as mentioned by [Catherine Tai](#), “TSMC [Taiwan Semiconductor Manufacturing Company, 台灣積體電路製造股份有限公司] and other companies cannot move alone—they need the whole cluster to move with them.” For Taiwanese companies, Southeast Asia offers a more predictable political environment and can accommodate entire manufacturing ecosystems.

		Moving To*						
		Southeast Asia	Taiwan	Mainland China	Northeast Asia	South and Central Asia	North America	Oceania
Moving From	Mainland China	63.1	51.3	-	19.5	10.3	10.3	7.2
	Taiwan	67.8	-	20.9	29.4	14.1	9.6	13.6

Graphic: The majority of Taiwanese companies in China and Taiwan looking to move production elsewhere favor Southeast Asia as a new destination. (Graphic source: [CSIS](#))

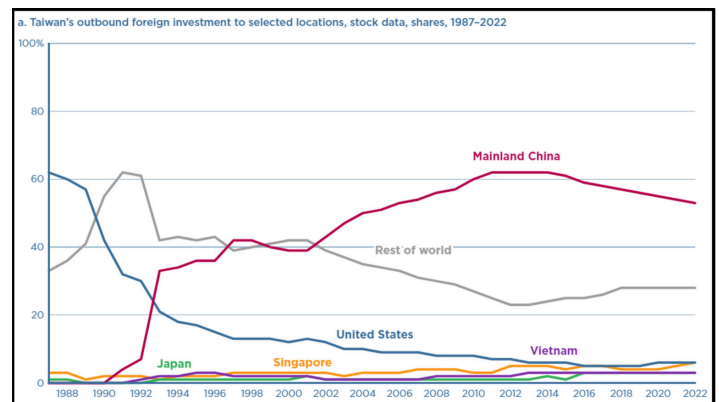
Moving Out, But Not Always Moving On

While Taiwanese business expansion beyond China has been widespread, it has not been simple. Corporations [with a long history in China](#) have established comprehensive networks with local authorities and other businesses, have access to key manufacturing infrastructure, and have developed well-organized supply chains. As such, the transition from China to Southeast Asia has required significant commitment and investment.

In addition to these complications, Taiwanese enterprises face new challenges in expanding operations into other regions.

Southeast Asian states such as Vietnam, Thailand, and Singapore each come [with their own set of regulations](#), which require Taiwanese businesses to seek new certifications and permissions, as well as adapt to new taxation systems. While not a new issue, companies expanding abroad must also adjust to new work culture environments, which has not always been an easy barrier to overcome. Despite its fabrication plant in Arizona being relatively new, Taiwan’s TSMC has already received [91 reviews on its Glassdoor page](#)—less than one third of which recommend employment with the company. Comments cite TSMC’s “brutal” work culture and long hours, which have long been considered standard and necessary practices in the company’s Taiwan branches.

At the same time, not all Taiwanese business leaders have been on board with lessening economic engagement with China—at least not at the macro level. In May 2023, Matthew Miao (苗豐強), the head of the Chinese National Federation of Industries (CNFI, 中華民國全國工業總會)—one of the largest and most influential business groups in Taiwan—[issued a statement](#) urging Taiwanese companies to continue engagement with China. Both trade and investment, he argued, are key to “maintain[ing] cross-Strait peace.” While the security implications of economic engagement between Taiwan and China are beyond the scope of this discussion, the practical and logistical barriers to disengagement are legitimate concerns.



Graphic: Despite incentives and controls, Taiwan’s foreign investment in China still surpasses all other destinations. (Graphic source: [Peterson Institute for International Economics](#))

Indeed, [data still indicates](#) that the majority of Taiwan’s outbound foreign investment—specifically in the field of technology—still largely goes to China. While industries such as textiles have seen a decline, and overall investment seems to have stalled, other regions have yet to surpass China as an investment destination. This slow transition cannot necessarily be attributed to Taiwan’s interest in Southeast Asia as a “recent de-

velopment,” as businesses have been looking to Southeast Asia for as long as they have to China.

The Future of Investment in Taiwan

As mentioned previously, an exodus of Taiwanese businesses from China has not necessarily been coupled with a return to Taiwan. In fact, around 33 percent of Taiwan-based companies [surveyed](#) indicated that they have already moved or are considering moving from the island, with the majority moving to Southeast Asia. Taiwanese companies reshoring to Taiwan from China is also [not a new concept](#), as businesspeople have argued [since 2012](#) that Taiwan’s educated workforce and stable political environment make it a viable alternative for industrial development. But with the logistical barriers discussed above, and ongoing concerns regarding Taiwan’s national security—which can [undermine investor confidence](#) in the country—the Taiwanese government has a substantial challenge ahead to encourage reshoring.

In a crucial first step, the Ministry of Economic Affairs (MOEA, 經濟部) launched the “[Invest Taiwan](#)” initiative in 2019, which has an action plan to specifically target overseas Taiwanese businesses: a plan they estimate has attracted over NTD \$1 trillion (roughly USD \$32 billion) in investment. Beyond incentives for overseas Taiwanese companies, also addressed by [the initiative](#), Taiwan still lacks key structures in place to support inbound foreign investment. As candidly noted by [Crossroads](#) Founder David Chang, Taiwan’s business environment [still poses key barriers](#) to international investors, some of which are ingrained in Taiwanese society: complex and unforgiving banking systems, language and cultural barriers, and arduous immigration policies have stood in the way of Taiwan’s path to becoming an investment destination for foreign companies. To attract more foreign investment—especially in the face of Taiwan’s [aging population](#)—Taiwan will first need to address these foundational issues.

As the competition between the United States and China continues to manifest itself in the fields of economics and business, and costs in China continue to rise, Taiwanese companies and businesspeople will likely continue to seek destinations for business development elsewhere. For Taiwan, positioning itself as a destination for reshoring or inbound investment may be key in maintaining its economic growth. Of course, it is difficult to compete with the low-cost, low-risk environment offered by Southeast Asian states. In this context, Taiwan must think creatively about the role its companies play in its own economic strength.

The main point: While Taiwanese companies look to diversify production away from China, this shift has not been coupled with an interest in returning these industries to Taiwan, but rather to regions with limited regulations, favorable taxation environments, and low-cost labor.

[1] Shelley Rigger, *The Tiger Leading the Dragon: How Taiwan’s Propelled China’s Economic Rise* (Maryland: Rowan & Littlefield, 2021).
