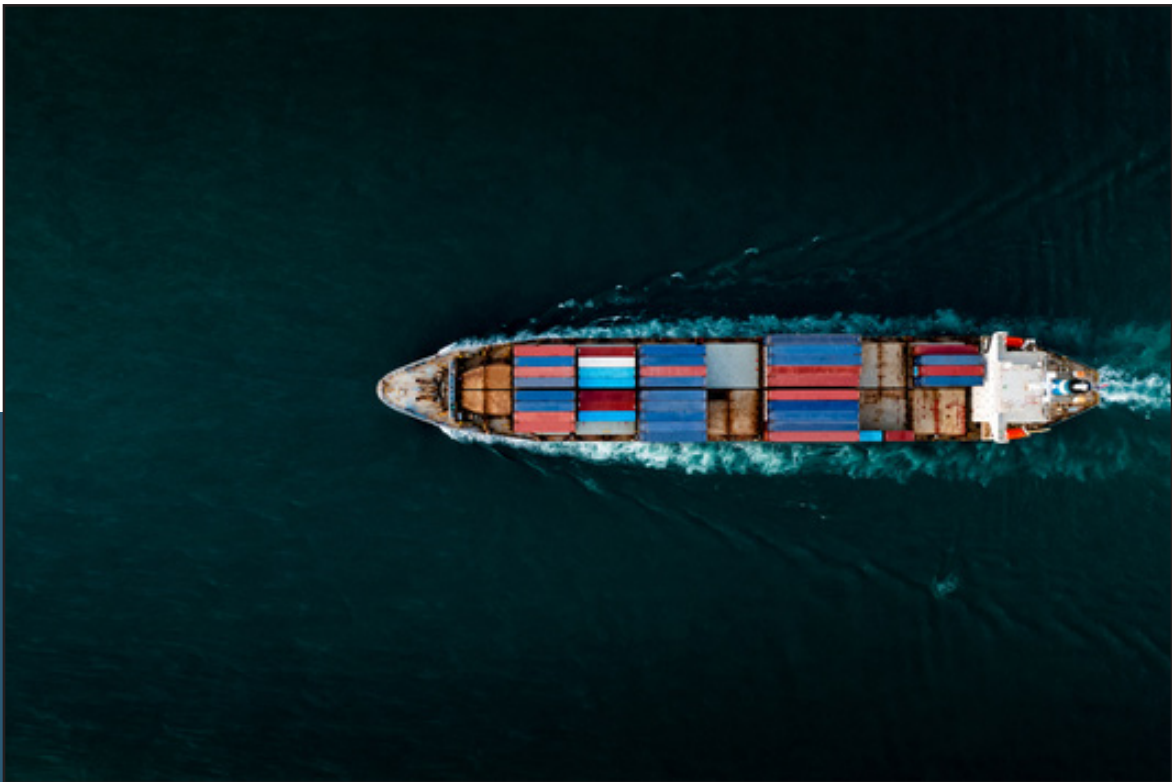


# A Geoeconomic Strategy for Enhancing the US-Taiwan Partnership



Christian M. Castro, Bonnie Glick,  
Russell Hsiao with Zoë Weaver-Lee

December 2023

## About the Global Taiwan Institute

GTI is a 501(c)(3) non-profit policy incubator dedicated to insightful, cutting-edge, and inclusive research on policy issues regarding Taiwan and the world. Our mission is to enhance the relationship between Taiwan and other countries, especially the United States, through policy research and programs that promote better public understanding about Taiwan and its people.



**Christian M. Castro** is the director of CMCastro Global Consulting and previously served as a senior foreign service career diplomat at the US Department of State. During his diplomatic career, Mr. Castro's assignments included director of the ASEAN Affairs Office, director of the Taiwan Coordination Office, and chief of the American Institute in Taiwan (AIT) Kaohsiung Office. He also served as the Department of State's first-ever senior advisor for cyber policy in the Bureau of East Asian and Pacific Affairs.



**Bonnie Glick** was an American diplomat and businesswoman who served as the deputy administrator/chief operating officer of the United States Agency for International Development (USAID) from 2019 to 2020. Nominated for the post by President Donald Trump in April 2018, she was unanimously confirmed by the United States Senate in January 2019. Following her service at USAID, she was the inaugural director of the Krach Institute for Tech Diplomacy at Purdue and continues to serve on the Institute's Board.



**Russell Hsiao** is the executive director of the Global Taiwan Institute, senior fellow at The Jamestown Foundation, and adjunct fellow at Pacific Forum. He is a former Penn Kemble fellow at the National Endowment for Democracy and visiting scholar at the University of Tokyo's Institute for Advanced Studies on Asia. He previously served as a senior research fellow at The Project 2049 Institute and national security fellow at the Foundation for Defense of Democracies.



**Zoë Weaver-Lee** is a programs coordinator at the East-West Center in Washington, where she heads the program's communications efforts and seminars. She previously served as a program associate at the Global Taiwan Institute, prior to which she studied Mandarin in Taiwan as part of the Huayu Enrichment Scholarship. She graduated from Stetson University in 2019 with a Bachelor's Degree in Global Development and minors in Political Science and Asian Studies.

## Acknowledgements

This report was made possible by the generous support of the Taipei Economic and Cultural Representative Office in the United States.

The authors would like to thank Adrienne Wu, Ben Levine, Daniela Martinez, and Will Kiern for their assistance with the report.

*The views expressed in this paper are the author's own and do not necessarily represent the positions of the Global Taiwan Institute.*

Cover Photo Source: Shutterstock

## Board of Directors

Jennifer Hu  
(Chairperson)

Howard Huang  
(Vice Chairperson)

Anthony Kang  
(Vice Chairperson)

Betty Wang  
(Secretary)

Mary Yeh  
(Treasurer)

Danny Chiang  
(Audit Committee Chair)

John Huang

Patrick Huang

Dr. Hong-tien Lai

Minly Sung

Dr. Thomas Su

Spencer Wu

## Advisory Council

Dr. David Tsai

Dr. Chien-ping Chen

Dr. Kuei-Hsien Chen

Dr. Wen Yen Chen

Dr. Peter Chow

Jennifer Hu

Dr. Tun-hou Lee

James Wang

Chieh-Ting Yeh

Charles Pan

## Board of Advisors

Joseph Bosco  
Former China Country Desk Officer in the Office  
of the Secretary of Defense

Gordon Chang  
Columnist for *The Daily Beast*, author of *The Coming Collapse of China*

Ralph Cossa  
Former President of the  
Pacific Forum

June Teufel Dreyer  
Professor,  
University of Miami

Dafydd Fell  
Director, Centre of Taiwan Studies, School of  
Oriental and African Studies

Richard Fisher  
Senior Fellow, Asian Military Affairs International  
Assessment and Strategy Center

Wallace Gregson  
Former Assistant Secretary of Defense for Asian  
and Pacific Security Affairs

Thomas Hughes  
Consultant, Hughes And Company

Shirley Kan  
Independent Specialist in Asian Security Affairs  
who worked for Congress at CRS

Michael Reilly  
Former British Representative to Taiwan

Matt Salmon  
Vice President for Government Affairs, Arizona  
State University; Former Member of Congress  
from Arizona

Fang-long Shih  
Co-director, Taiwan Research Programme, London  
School of Economics and Political Science

William Stanton  
Vice President, National Yang Ming University  
(Taiwan); Former AIT Director (2009-2012)

Mark Stokes  
Executive Director Emeritus,  
Project 2049 Institute

John Tkacik  
Senior Fellow and Director, Future Asia Project  
International Assessment and Strategy Center

Gerrit van der Wees  
Professor at George Mason University; formerly  
editor of *Taiwan Communiqué*

Masahiro Wakabayashi  
Emeritus Professor of Political Science and Economics,  
Waseda University in Japan

Arthur Waldron  
Lauder Professor of International Relations  
Department of History, University of Pennsylvania

Robert Wang  
Senior Associate  
Center for Strategic and International Studies;  
former AIT Deputy Director (2006-2009)

Toshi Yoshihara  
Senior Fellow,  
Center for Strategic and Budgetary Assessments

Stephen M. Young  
Former AIT Director (2006-2009); Former US  
Consul General to Hong Kong (2010-2013)

Lanhee J. Chen  
David and Diane Steffy Fellow in American Public  
Policy Studies, Hoover Institute, Stanford Uni.

Hsin-Huang Michael Hsiao  
Chairman of the Taiwan-Asia Exchange Founda-  
tion; Adjunct Research Fellow at Academia Sinica

Shelley Rigger  
Brown Professor of East Asian Politics at  
Davidson College

Vincent P. Chen  
Former Commander, United States Navy

Bonnie Glick  
Inaugural Director, Krach Institute for Tech Diplo-  
macy at Purdue; former USAID Deputy Adminis-  
trator (2019-2020)

Kelley Currie  
Former US Ambassador-at-Large  
for Global Women's Issues

## Table of Contents

---

Introduction.....	1
Foreign Assistance: More Different Than Alike.....	7
• <i>Context: China's International Development Assistance Strategy.....</i>	7
• <i>PRC Carrots: Global Development Assistance Strategy.....</i>	8
• <i>PRC Sticks: Manipulation of Assistance by the CCP.....</i>	8
• <i>The White Hats: A Domestic Approach to Assistance.....</i>	9
• <i>A Test Case: The Island Contest.....</i>	9
• <i>The Case of Paraguay.....</i>	10
• <i>America's Backyard: Latin America and the Caribbean.....</i>	11
• <i>Mitigation Efforts Required to Protect Democracy.....</i>	11
• <i>What Drives Taiwan's Lending and Assistance?.....</i>	12
• <i>How Should the United States Partner with Taiwan to Deliver Foreign Assistance?....</i>	12
• <i>When Taiwan Leads.....</i>	12
• <i>Toot That Horn: Taiwan is Vital.....</i>	13
Energy, Commodities, and Raw Materials.....	14
• <i>A Monstrous Appetite: China's Approach to Energy Markets.....</i>	14
• <i>Child's Play: China's Gamesmanship.....</i>	14
• <i>A Formidable Challenge: The Cynicism of China's Green Energy.....</i>	15
• <i>New Solutions? Try R&amp;D.....</i>	15
• <i>Naming Names: How to Preserve Sovereignty and Order.....</i>	16
• <i>Diplomatic Partnership and Investment Needed: Learn from Others.....</i>	17
• <i>Affirmative Next Steps.....</i>	17

Cyber.....	19
• <i>PRC's Cyber Strategy Is Geoeconomics</i> .....	19
• <i>Everyone, Everywhere, All at Once: PRC Cyber Aggression Ubiquitous</i> .....	19
• <i>One-Way Street: Digital Silk Road</i> .....	20
• <i>Us Vs. Them: Competing Cyber Visions</i> .....	20
• <i>Hunt Forward: Proactive US Cyber Shift</i> .....	20
• <i>New Reality: US Government Cyber Reshuffle</i> .....	21
• <i>US Engagement with Foreign Partners</i> .....	21
• <i>Taiwan is an Ideal Cyber Partner</i> .....	22
• <i>Help Wanted: Taiwan Primed for Further Support</i> .....	23
• <i>Unfinished Business: Taiwan's Case for Cyber Storm</i> .....	23
• <i>Further Strengthening US-Taiwan Cyber Ties</i> .....	24
• <i>Backing Taiwan's Multilateral Cyber Push</i> .....	24
Trade and Investments.....	26
• <i>Dulcet Tones: PRC's Soothing Message</i> .....	26
• <i>PRC's Trade and Investment Push</i> .....	26
• <i>Hurt Feelings: PRC Deploys Trade Weapons</i> .....	27
• <i>US Response to Mounting Challenge</i> .....	27
• <i>US Challenges After CHIPS</i> .....	28
• <i>Clean House: the United States Wants to Build Better</i> .....	28
• <i>New US Trade Approach</i> .....	29
• <i>Express Lane: United States and Taiwan Seek 21<sup>st</sup> Century Trade</i> .....	29
• <i>Need for Speed: Quest for US-Taiwan Bilateral Trade Agreement</i> .....	30
• <i>Tear Down That Wall: Breaking Through Bureaucratic Barriers</i> .....	31
• <i>Get to the Point: Sharpening Existing Trade Initiatives</i> .....	32
• <i>Step Ladder: Climbing Towards a BTA</i> .....	32

• <i>Among Friends: More International Cooperation with Taiwan</i> .....	33
Economic Sanctions and Export Controls.....	34
• <i>PRC Trade Restrictions and Blocking of Assets on Taiwan</i> .....	34
• <i>Incremental Coercion in Tsai's Second Term</i> .....	35
• <i>Implications for Taiwan's National Elections</i> .....	35
• <i>Leveraging Taiwan Businesses in the PRC</i> .....	36
• <i>Counter-measures on PRC Trade Restrictions on Taiwan</i> .....	37
• <i>Comprehensive Sanctions Regime for Deterrence</i> .....	38
• <i>Effective Regulatory Coordination for Inbound and Outbound Controls</i> .....	39
• <i>International Cooperation</i> .....	40
• <i>Countries are Hedging against the Risks of Overreliance on Taiwan</i> .....	41
Fiscal and Monetary Policies.....	43
• <i>Incentivizing Taiwanese Investments into the United States through Smart Taxation Laws</i> .....	43
• <i>The Hidden Dangers of Currency Swap Agreements</i> .....	44
• <i>Prospects and Challenges for the Formosa Bond</i> .....	45
• <i>Regulating Investments</i> .....	45
• <i>Outbound Investment Controls</i> .....	45
• <i>Bolstering Taiwan's National Stabilization Funds and Making Taiwan More Financially Resilient</i> .....	46
• <i>An Economic Han Kuang Exercise</i> .....	46
• <i>Including Taiwan in IMF</i> .....	47
Policy Recommendations.....	49



## Introduction

When US and Taiwan officials confirmed the visit of US House Speaker Nancy Pelosi to Taiwan in late July of 2022, many warned of the potential military retaliations from the People's Liberation Army (PLA).<sup>1</sup> While military exercises and missile launches in the Taiwan Strait eventually did become part of Beijing's response, the first phase of its reaction was, instead, sweeping suspensions of imports from hundreds of Taiwanese food producers.<sup>2</sup> By the beginning of the week, over two thousand products were suspended by the China Customs Administration, possibly making it the most extensive import ban of its kind in cross-Strait economic history. Following the bans, Taiwan's Mainland Affairs Council Deputy Chair Chiu Chui-cheng remarked: "This is probably only the beginning. We are certain that they will further step up their economic coercion measures."

While the impact of these trade restrictions was somewhat limited—with estimates suggesting that the bans totalled around USD \$20 million in lost revenue, less than 2 percent of Taiwan's total agricultural exports to China in 2020—the arbitrary restrictions imposed on cross-Strait goods flow is only one of the many economic tools China has employed to meet political ends. But China is not acting alone, as geoeconomic tools have been widely used by governments all over the world for some time.

In 1990, Edward Luttwak coined the term "geoeconomics" to describe the interplay between international economics, geopolitics, and strategy.<sup>3</sup> As capitalism overtook communism as the globally

dominant economic system, he argued, commerce would replace military methods of coercion and negotiation. Prior to the Cold War and China's rise as a major economic player, the international economic world order existed in a context in which security and trade were not inherently connected. In fact, economic integration between states was generally considered as a method to promote peace and cooperation. As argued by Michael Mastanduno, the principal security challenger to a state was not an economic challenger, "and the principal economic challengers were security allies."<sup>4</sup>

Despite Luttwak's avant-garde political philosophy, geoeconomics as a concept did not gain significant applicability until the rise of China in the late 2010s. As the People's Republic of China (PRC) grew in both population and GDP, along with the revival of state capitalism and state-owned enterprises, the Chinese Communist Party (CCP) began to use its economic might to enforce its foreign policy.<sup>5</sup> And, as global trade links became stronger and financial markets became increasingly intertwined, these tools carry significant leverage.

In her 2011 remarks to the Economic Club of New York, then-Secretary of State Hillary Rodham Clinton outlined the importance of considering economics in the future of diplomacy.<sup>6</sup> Clinton noted: "Around the globe, economic forces are transforming foreign policy realities." Former Secretary of State Mike Pompeo took this several steps further

1 Helen Davidson, "Pelosi's Taiwan trip plan apparently confirmed by US lawmakers," *The Guardian*, July 2022, <https://www.theguardian.com/world/2022/jul/28/nancy-pelosi-invited-us-lawmakers-to-visit-taiwan-hears-committee>.

2 Kathrin Hille and William Langley, "China suspends 2,000 food products from Taiwan as Nancy Pelosi visits," *Financial Times*, August 2022, <https://www.ft.com/content/ff15198f-cdc2-48fa-bed5-4a59bebbf01a>.

3 Edward N. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, no. 20, Center for the National Interest, 2022, 17-23, <https://www.jstor.org/stable/42894676>.

4 Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* 52, no. 4 (The MIT Press, Autumn, 2022) 825-854, [https://www.jstor.org/stable/2601359?seq=1#metadata\\_info\\_tab\\_contents](https://www.jstor.org/stable/2601359?seq=1#metadata_info_tab_contents).

5 Marianne Schneider-Petsinger, "Geoeconomics explained," *Chatham House*, December 2016, <https://www.chathamhouse.org/2016/12/geoeconomics-explained>.

6 Hilary Rodham Clinton, "Economic Statecraft," (live meeting, Economic Club of New York, New York City, October 14, 2011), <https://2009-2017.state.gov/secretary/20092013clinton/rm/2011/10/175552.htm>.

by employing novel geoeconomic tradecraft tools to direct US-China relations as well as US bilateral relations with countries *vis-à-vis* China, particularly regarding 5G networks.<sup>7</sup> Combined with the growing economic strength of its principal actors, geoeconomics not only became the preferred tool of diplomatic interaction, but also a potentially dangerous one. By 2017, there was a clear global concern regarding China's rise and its implications for the existing world order.

A major focal point for global geoeconomics at present is, of course, cross-Strait relations even though economic issues have always been a constant feature of ties between Taiwan and China. Not only have China and Taiwan continued to be economically co-dependent, Beijing is increasingly comfortable using coercion as a means of meeting its political ends.<sup>8</sup> Taiwan's supply of technology to China, coupled with China's continuous flow of exports to Taiwan, has created an environment in which both countries—by some accounts—are vulnerable to each other's geoeconomic shocks. Taiwan has attempted to reduce this dependence through diversification and encouraging private investment in other regions (such as ASEAN through the New Southbound Policy).<sup>9</sup> Meanwhile, China's pursuit of dual circulation remains its main strategy of fostering dependence while also building its own autonomy. The result had been a highly interdependent yet politically volatile partnership in which both governments may be hesitant to utilize their geoeconomic tools. Those seams are coming loose in the context of global geoeconomic shifts.

Geoeconomic tools are economic in nature, and can manifest as both “carrots” and “sticks.” In *War by*

*Other Means*, Robert D. Blackwill and Jennifer M. Harris identify seven central tools of geopolitical application.<sup>10</sup> For the purpose of the discussion here, the authors will analyze how each tool is currently used in cross-Strait relations and provide recommendations for engagement in the future.

### 1. Trade and Investment Policy

Restrictions and expansions on trade policy are perhaps the most frequently-used geoeconomic tools. Manipulations of trade flow usually take the form of product bans, bilateral or multilateral agreements, tariffs, export controls, and domestic production policy changes. For the United States, Taiwan, and China, each economy has become highly interdependent through supply chains and trade, increasing the risks when applying such tools. Despite the incentive to build domestic industries, the balance between competition and cooperation is tricky to achieve.

Similarly to trade, the manipulation of investment to achieve political goals has been prevalent in the US-Taiwan-China trilateral relationship. Since the election of President Tsai Ing-wen in Taiwan, much of Taiwan's foreign diplomacy has been aimed at gaining and maintaining official allies through investment as China continues to strengthen its grip through its own investment schemes such as the Belt and Road Initiative (BRI).

While the race for support in Latin America and the Pacific islands has been particularly fierce, the lending practices of China and Taiwan do bear drastically different characteristics.<sup>11</sup> Specifically, critics note the relatively short grace period and the “tied nature” of China's loans, which require recipient

7 Pompeo says confident will be effective competitors to Huawei from Western vendors,” *Reuters*, September 15, 2020, <https://www.reuters.com/article/usa-china-pompeo-5g-idINKBN2662G2>.

8 Bonnie S. Glaser and Jeremy Mark, “Taiwan and China Are Locked in Economic Co-Dependence,” *Foreign Policy*, April 14, 2021. <https://foreignpolicy.com/2021/04/14/taiwan-china-economic-codependence/>.

9 Taipei Economic and Cultural Office in Brunei, “The guidelines for ‘New Southbound Policy,’” August 23, 2016, [https://www.roc-taiwan.org/bn\\_en/post/644.html](https://www.roc-taiwan.org/bn_en/post/644.html).

10 Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Belknap Press, October 23, 2017), <https://www.hup.harvard.edu/catalog.php?isbn=9780674979796>.

11 Data source: World's Top Exports (for [China](#) and [Taiwan](#)), Statista ([United States](#)).





Graphic: China, Taiwan, and the United States remain closely connected through trade. (Data source: World's Top Exports (for [China](#) and [Taiwan](#)), Statista ([United States](#)))

countries to work solely with Chinese companies and import at least 50 percent of necessary materials from China. The long-term goals for development assistance in these regions also contrast, as China seems to focus on its grand ambitions for a “China-Oceania-Pacific blue economic passage” while Taiwan rather seeks diplomatic recognition.

In pursuit of greater geoeconomic influence, Taiwan has also developed initiatives to engage in Southeast Asia, Europe, and with the United States.<sup>12</sup> The New Southbound Policy, for example, has made significant strides in increasing the flows of trade and investment between Taiwan and ASEAN.<sup>13</sup> In Europe, Taiwanese businesses and investors are

prioritizing market access in the region, although more progress can be made to lead to political outcomes. As argued by Kuancheng Huang, Taiwanese investment outside of manufacturing might result in more people-to-people exchanges, which in turn could benefit Taiwan's political goals in the region.<sup>14</sup>

In this context, the authors will discuss the positions and interests of the United States, Taiwan, and China in both applying and mitigating trade and investment manipulation as a geoeconomic tool: What will be the future of US-Taiwan trade, and is it important for the resilience of Taiwan's economy? How will multilateral trade groupings play a role in mitigating cross-Strait economic tensions? Will the investment initiatives of Taiwan and China create opposing geopolitical spheres?

<sup>12</sup> Manik Mehta, “Taiwan eyes a greater geo-economics role to assert its presence in the international arena,” *AJOT Insights*, August 9, 2021, <https://ajot.com/insights/full/ai-taiwan-eyes-a-greater-geo-economics-role-to-assert-its-presence-in-the-international-arena>.

<sup>13</sup> Matthew Strong, “Taiwan praises positive impact of New Southbound Policy,” *Taiwan News*, September 5, 2023, <https://www.taiwannews.com.tw/en/news/4989932>.

<sup>14</sup> Ágnes Szunomár, Kuancheng Huang, and Gregory Coutaz, “Comparing Economic Engagement: Taiwan and China in Eastern Europe,” (virtual panel, Stimson Center, May 3, 2022), <https://www.stimson.org/event/comparing-economic-engagement-taiwan-and-china-in-eastern-europe/>.

## 2. Sanctions and Export Controls

As noted by Jacob J. Lew and Richard Nephew, sanctions can exist on two planes:

*“Regular, or ‘primary,’ sanctions bar US citizens and firms from doing business with particular companies or individuals. Secondary sanctions, by contrast, prohibit Americans from doing business not only with sanctioned companies and people but also with any third parties dealing with them.”*<sup>15</sup>

As Russia’s invasion into Ukraine continues, some analysts argue that coordinated economic sanctions have proven to be a powerful weapon in the geoeconomic arsenal. Despite criticisms that negative employment of geopolitical tools has brought about an era of deglobalization, analysts such as Brookings’ David Dollar argue that the efforts by Japan, Taiwan, the United States, and various other countries to economically punish Putin have brought about positive, tangible political outcomes.<sup>16</sup>

Researchers at the Atlantic Council have explored what such outcomes would look like in the event of orchestrated sanctions against China, noting that USD \$3 trillion in trade and investment flows could be at risk.<sup>17</sup> While discussions of deleveraging and derisking seem to have come to an impasse, researchers at CSIS have found through translated documents that leaders in China do in fact have a real fear and aversion to facing sanctions from the West.<sup>18</sup>

15 Jacob J. Lew and Richard Nephew, “The Use and Misuse of Economic Statecraft: How Washington Is Abusing Its Financial Might,” *Foreign Affairs*, October 15, 2018, <https://www.foreignaffairs.com/articles/world/2018-10-15/use-and-misuse-economic-statecraft>.

16 David Dollar, Shihoko Goto, Taro Kono, and Takashi Yamashita, “US-Japan relations in an era of economic statecraft,” (online event. Brookings, May 4, 2022), <https://www.brookings.edu/events/us-japan-relations-in-an-era-of-economic-statecraft/>.

17 Charlie Vest and Agatha Kratz, *Sanctioning China in a Taiwan crisis: Scenarios and risks*, Atlantic Council, June 21, 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/report/sanctioning-china-in-a-taiwan-crisis-scenarios-and-risks/>.

18 Jude Blanchette, Martin Chorzempa, Barry Naughton, Maria Shangina, and Gerard DPippo, “Chinese Assessments of Countersanctions Strategies,” (online seminar, Center for Strategic and Interna-

In this context, how can the United States and Taiwan cooperate on the planned use of sanctions or export controls? What are the implications of such tools for the global economy? What international partners will be essential in applying these tools?

## 3. Financial and Monetary Policy

Particularly for the United States, the use of financial measures can be particularly powerful in an era of geoeconomic competition. Dr. Carla Norrlöf argues that financial sanctions, although not always geoeconomic in nature, specifically refer to the freezing of financial assets, financial prohibitions, and financial inducement.<sup>19</sup> There are also several methods of neutralizing the risks posed by financial geoeconomics, such as legislative pushback, currency alternatives, financial decoupling and independence, delisting, and investment screening. These measures may create severe ripple effects, as argued by Norrlöf: “Ironically, despite privileging economic statecraft over military statecraft, this new geoeconomic game—unless carefully managed—may usher in a more menacing, less prosperous, future.”

In fact, as argued by James Fok in his book *Financial Cold War: A View of Sino-US Relations from the Financial Markets*, China’s rise in a dollar-dominated global monetary system exacerbated pre-existing imbalances.<sup>20</sup> Particularly, state-led policy in both the United States and China that favored economic elites has created domestic political polarization that in turn feeds into the geopolitical rivalry between the two countries.

tional Studies, Washington, DC, May 16, 2023).

19 Carla Norrlöf, “Economic Statecraft: Finance and Money,” Atlantic Council, November 2021, <https://www.atlanticcouncil.org/wp-content/uploads/2021/11/Economic-Statecraft-Finance-and-Money.pdf>.

20 James A. Fok, *Financial Cold War: A View of Sino-US Relations from the Financial Markets* (Wiley, December 2021), <https://www.amazon.com/Financial-Cold-War-Sino-US-Relations/dp/1119862760>.

Of course, several pressing questions remain regarding trilateral fiscal and monetary policy between the United States, China, and Taiwan. Namely, what are the prospects for a double taxation agreement between the United States and Taiwan, and how important is such an agreement for enhancing trade and economic ties, and, in particular, for mitigating the effects of China's economic coercion? What opportunities lie ahead for Taiwan to use its unique currency position in this relationship?

#### 4. *International Aid (referred to in this study as "Foreign Assistance")*

As Taiwan has transitioned from an aid recipient to a donor state, a cross-Straits contest has played out in the foreign assistance space as Taiwan and China have vied intensely for diplomatic recognition. With the ongoing pressure of the PRC's campaign to restrict Taiwan's international space, it will become increasingly important to adopt alternative methods of engagement with the international community, as well as forms of assistance that are more responsive to the development needs of the recipients.

When it comes to foreign assistance, the PRC's USD \$3.3 trillion budget for funding stadiums, highways, scholarships, schools, and power plants dwarfs Taiwan's USD \$502 million spent on development assistance in 2020.<sup>21</sup> Under these circumstances, how can Taiwan use foreign assistance as a differentiator? Where can the United States be a complementary partner for Taiwan in the development space? How should Taiwan and the United

States respond to China's foreign assistance strategy? How can Taiwan move from its perceived role as a provider of less flashy "technical assistance" to a hands-on partner in larger scale development challenges including climate change, financial technology, and cybersecurity?

#### 5. *Cyber*

In the context of cross-Straits relations, China has increasingly employed cyber tools in a more sophisticated and diverse manner during Xi Jinping's term. This presents a significant challenge to the United States and Taiwan, which have room for growth in terms of cooperation and development of policy. As such, how can Taiwan and the United States be proactive in their cyber policies? Where can Taiwan present itself as an ideal partner on cyber?

#### 6. *Energy and Commodities*

A primary concern of states in a geoeconomic context is energy security, or the "uninterrupted availability of energy sources at an affordable price." Despite the fact that the manipulation of energy commodities to achieve foreign policy goals is not a new concept, there is still no agreed upon method of measuring energy security. Major factors to consider include GDP per capita, sovereign credit rating, energy dependence, and production through renewable resources.

In addition to energy, the manipulation of commodity flows based on geopolitical trends poses substantial geoeconomic risks. The control of rare earth elements (REE) in particular, which are essential components in many modern technologies, can be especially volatile. As reported in *Parameters*, China's near-monopoly on rare earth materials has been steady in scope and depth. At present, China holds 37 percent of the world's rare earth reserves, which is the highest global share of any country (for comparison, the United States only holds 1 percent). The CCP in particular holds unparalleled control of these resources, as it has merged

21 Republic of China (Taiwan) Ministry of Foreign Affairs, International Cooperation and Development Report, May 10, 2021, <https://ws.mofa.gov.tw/Download.ashx?u=LzAwMS9VcGxvYWQvNDZlL3JlbGZpbGU-vMjM2LzQxNS9hZTUyYTBkMS1hNjhmLTQzNzQtYm-M2Yy0xNDEyNjRkNDVmNmUucGRm&n=MTEwM-TAwNS0xMDNlubTluqblnIvkljloLHlkYroi7HmlofniYgt57ay6Lev54mILnBkZg%3d%3d>.

existing state firms into the mega-enterprise, China Rare Earth Group. For Taiwan, the manipulation of mineral flows poses a threat to its semiconductor industry and the possibility of developing its own nuclear weapons. Acknowledging this threat, Taiwan has turned its attention to rare earth recycling and sustainable use of precious metals.

What risks are posed by the manipulation of energy and commodity flows? How can the United States and Taiwan partner for a more resilient energy supply chain?

The authors of this study begin with the acknowledgement that the United States, Taiwan, and like-minded partners have not yet developed a competitive strategy to counteract China's geoeconomic influence. As such, the objective of this study is to map out how China is increasingly leveraging economic tools to advance its geopolitical objectives, as well as provide the much-needed assessment of how the various geoeconomic instruments reviewed above could be better utilized to deepen and expand US-Taiwan relations as well as Taiwan's standing on the global stage. In doing so, the United States and Taiwan can better address this strategic dimension of China's comprehensive national power and its coercive effects on Taiwan, the United States, and the rules-based order. Our hope is that this study will help provide policymakers in Washington, Taipei, and like-minded capitals with a blueprint to develop a collective competitive geoeconomic strategy.

Economic security is national security for strategic competition with the PRC due to the full spectrum nature of the challenges and threats posed by the PRC to the global rules-based order, notably for their geoeconomic components.

The PRC is leveraging geoeconomic tools like trade and investment, sanctions and export/import controls, financial and monetary policy, foreign assistance, cyber, and energy and commodities in a ho-

listic manner to threaten Taiwan and challenge the existing order. And, taken together with increased PLA military aggression, it is no surprise that senior US policymakers have repeatedly stated: "China is the only country with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it."

Given the state of heightened military tensions in the Taiwan Strait, there are also understandably growing concerns about the risks of relying on Taiwan as the primary supplier of the world's most advanced semiconductors and the necessity to re-shore capacity back to the United States.

While the urge to develop domestic capacity is understandable, a fault with relying entirely on this approach, however, is that it assumes that military conflict is inevitable, and *ipso facto* reliance on Taiwan is bad despite the many complementary benefits. Instead, the United States, Taiwan, and like-minded partners should focus on deterring a military conflict and that the US, Taiwan, and other like-minded partners must leverage geoeconomic tools to strengthen their collective economic security and resilience.

Several measures that can be taken immediately to mitigate the risks and strengthen collective economic resilience would be to start thinking strategically again about free trade agreements and sign a US-Taiwan bilateral trade agreement, working on an agreement on avoidance of double taxation to incentivize more Taiwanese businesses to invest in the United States and vice versa, to create a more synergistic ecosystem for the chips industry, and preparing a preemptive list of economic sanctions that would be credibly signaled and imposed on the PRC should it take military action against Taiwan, to name just a few.



## Foreign Assistance: More Different Than Alike

The United States considers its foreign assistance around the world as a tool in its national security toolbox. Taiwan does as well. However, the United States spreads its foreign assistance widely—to over 100 countries—and Taiwan focuses mostly on the countries with whom it enjoys diplomatic relations. The approach each country takes to foreign assistance may warrant a periodic review in order to consider the use of foreign aid as a national security tool to be used both as a carrot and as a stick.

### *Context: China's International Development Assistance Strategy*

China's short-lived foreign minister, Qin Gang, announced when he was first named to the new role that his first trip abroad would be to Africa. It is no surprise that the PRC's highest foreign ministry official selected Africa for his first trip, as it is from Africa that the PRC currently extracts raw materials and natural resources to power its economic machine. Those extractions from things like rare earth elements, lithium, aluminum, cobalt, natural gas, among others, are vital both to power China's massive energy needs as well as to support China's manufacturing leadership. As part of the trip, former Foreign Minister Qin Gang visited Egypt, Benin, Angola, and Ethiopia.

Egypt and Ethiopia are two of America's largest recipients of foreign assistance. Billions of US dollars have been invested in them (militarily, economically, medically, and for humanitarian assistance). Alongside American investments, China aims to control the strategic decisions these countries make about the roll out of their 5G systems. Despite billions of dollars of US investment in these countries, China exerts influence over decisionmakers with short term deliverables demonstrating Beijing's commitment to them.

Additionally, China has recently positioned itself as

a dealmaker and peacemaker in the Middle East. Egypt's increased dependence on China could hamper the United States' strategic interests there related to Israeli interactions with Palestinians, particularly in Gaza. Diminished US influence could also impact America's military sales to Egypt, one of the most important elements of the bilateral relationship between Washington and Cairo.

The most significant role that China has played in East Africa has been through its financing of the controversial Grand Ethiopian Renaissance Dam project with over USD \$3 billion invested in Ethiopian infrastructure. This dam project has been the source of ongoing tension and violence between Ethiopia, Egypt, and Sudan, the stewards of the Blue and White Nile. Chinese companies including Sinohydro, the Gezhouba Group, Voith Hydro Shanghai, and the state-owned China International Water and Electricity Corporation have all provided construction support to the dam.<sup>22</sup> It can be assumed that Qin's visit to the two sparring countries included efforts to quell the tensions created by Chinese preference of Ethiopia over Egypt.

China also has seeds of influence on the continent's western coast. Benin, a very poor country on the Gulf of Guinea, produces cotton as its major export. The CCP may be looking at ways to capitalize on this industry for its manufacturing—raw materials from Benin being turned into finished goods in China—but more likely, Benin's strategic location in coastal West Africa with access to a port facility was at the top of its agenda. Finally, Angola is one of the wealthiest nations in Africa with enormous oil and natural gas deposits. Always energy-hungry, China certainly looked for ways in which Beijing could offer “goodies” to the leaders in Luanda in order to win access to their natural resources.

Angola presents an interesting case study in terms of

<sup>22</sup> Lisa Klaassen, “‘Everywhere and Nowhere to be Seen’: How China's role in the GERD dispute challenges Beijing's non-interference principle,” London School of Economics (blog), October 27, 2021, <https://blogs.lse.ac.uk/cff/2021/10/27/everywhere-and-nowhere-to-be-seen-how-chinas-role-in-the-gerd-dispute-challenges-beijings-non-interference-principle/>.



what countries can do when they are able to act independently of China, and sometimes with encouragement from the United States. Angola rejected lower-cost 5G solutions from Huawei in favor of one that includes no Huawei equipment in a nationwide solicitation. This large country with massive natural resources acted in its national self-interest in the face of Chinese efforts to control its broadband future. Qin's discussions no doubt included efforts to woo Angola toward Huawei and away from their preferred option, Nokia. In the case of Angola, the United States exerted soft power in the 5G competition. Former Deputy Secretary of State Wendy Sherman visited Luanda and its telecommunications partner (American company Africell) to highlight Angola's independence from Beijing's influence in its 5G future.<sup>23</sup>

### *PRC Carrots: Global Development Initiative*

In September 2021, Xi Jinping rolled out China's Global Development Initiative (GDI) at the UN General Assembly (through a virtual speech due to the ongoing COVID-19 pandemic). In keeping with China's efforts to present itself as a member of the "Global South" and in brotherhood with the world's developing countries, Xi presented a "demand-driven development" plan with a focus on multilateralism, the UN's Sustainable Development Goals (SDGs), and its own 2030 Agenda.

Chairman Xi's remarks were well-received, albeit vague and without definition, as he presented to the UN virtually. He voiced the concerns of people around the world, highlighting the devastation wrought by climate change, the economic and health damages due to COVID-19, the need for poverty alleviation and food security, etc. In so doing, he rallied support from over 100 countries and international organizations for his aspirational initiative, despite the GDI demonstrating no ways in which it will advance the SDGs. The soundbites were far more impactful than

the substance.

### *PRC Sticks: Manipulation of Assistance by the CCP*

The CCP would have the world believe that it is one of the great contributors to global development through its massive Belt and Road Initiative now through Xi's Global Development Initiative, his manipulation of facts serves the CCP well as it positions itself as a "partner" to developing countries and contends that China is also a developing country. This cynical approach to south-south collaboration in China's language, "a community of common destiny," belies the reality that the CCP exploits developing countries and international lending institutions such as the World Bank. Even with a GDP of USD \$17.73 trillion, making China the second-largest economy in the world, it still demands that the World Bank categorize it as a 'developing' nation. Similarly, it is considered a developing nation in the purview of its own creation, the Asian Infrastructure Investment Bank (AIIB) in which it is the largest shareholder as well as one of the largest borrowers. China has received USD \$49.75 billion in foreign lending dollars for infrastructure and development projects *within its own borders* from the World Bank alone, and still more from the smaller AIIB.

When China lends to other countries, it does so through loans that are exploitative of small, lower GDP, developing countries that rely on Chinese trade and must avoid antagonizing the aggressive CCP. Chinese lending practices focus on large-scale infrastructure building projects and on expensive loans that promise greater returns to borrowers that often do not end up materializing. When the small countries that sign up for these loans default on their debts, which they frequently do as a result of the disproportionate size of the infrastructure projects compared to the receiving nation's GDP (and their level of need), the PRC may seize the asset. China has often called in failed loans rather than renegotiating them thus allowing Beijing to control major assets like ports, coal mines, copper mines, and other supply chain

<sup>23</sup> "US Deputy Secretary Visits Africell Angola," *Africell*, not dated, <https://www.africell.com/en/news/42>.

necessities around the world in countries that now owe the PRC millions post-default.

Currently, 60 countries comprising two-thirds of the world's population have signed on to BRI projects or have indicated interest. Eight of these countries are currently vulnerable to debt crises, and overall debt to China has soared surpassing 20 percent of GDP in some countries. This is a precarious position for the global economy to be in as economic collapse for even a few of these dependent nations could cause ramifications for the global economy.

The practices of Chinese international lending, in both receiving loans and administering non-concessionary loans, show the aggressive and antagonistic use of aid that currently threatens national sovereignty and global economic security.

Despite China's boast of lending USD \$4.8 billion in 2020, the Center for Global Development (CGD) ranks China nearly last of the international donor countries for a number of reasons including: its financing is opaque and non-concessional, its commitment to the environment, its commitment to migration, and its development finance.

## *The White Hats: A Democratic Approach to Assistance*

Taiwan is frequently overshadowed by the PRC as the CCP attempts to reduce the neighboring island's aid contributions to the region using raw numbers in reports. Contrary to this disillusioned boasting, a much better picture is garnered when considering per capita aid contributions that adjust for the population and size discrepancies between these two nations. For example, the PRC's per capita aid spending is USD \$108 in the Indo-Pacific compared to Taiwan's per capita aid spending of USD \$237 in the region. That said, Taiwan can and should do more, both to boost its spending as well as to use foreign assistance as a strategic, national security tool.

Because Taiwan suffers from having very few diplomatic relations worldwide, it has tended to focus its development assistance on 13 of the 14 countries with whom it maintains diplomatic ties. It has used its largesse to shore up countries' commitments to Taiwan's security and position as an independent country. Additionally, because Taiwan has so few diplomatic relations, it runs into a tricky problem when it offers assistance to countries that maintain diplomatic ties with Beijing—the perception can be that there are countries that can benefit from formal relations with China while simultaneously receiving development assistance from Taiwan.

## *A Test Case: The Island Contest*

It can be useful to look at the Pacific Islands specifically as a test case for Taiwan's foreign assistance. There is an ongoing struggle over who has diplomatic relations with whom in this geostrategic region in the Indo-Pacific. Similar solutions for Taiwan can play out among the Caribbean Islands with whom it maintains some diplomatic ties as well.

China's approach to the Pacific Island Countries (PIC) should be seen less as altruistic (combating climate insecurity, promoting food security, advancing digital technology) and more as a strategic effort to undercut Taiwan and gain military footholds in the Pacific. China exercises an ongoing campaign to cleave countries away from the Taiwanese sphere through foreign assistance "goodies." In return, China gains access to ports, fisheries, and national security infrastructures in a region long-considered to be in Australia's sphere of influence. Most recently, the Solomon Islands switched diplomatic allegiance from Taipei to Beijing. In return, the government in the Solomon Islands received a Chinese security pact, as well as defense and police/anti-riot assistance in order to quell domestic unrest.

The Solomon Islands and Kiribati switched diplomatic alliances to Beijing in 2019 and, today, only

four countries in the region maintain diplomatic relations with Taiwan: the Marshall Islands, Nauru, Palau, and Tuvalu. How can Taiwan use the strategic benefit of foreign assistance in order to keep nations in their fold as well as, potentially, to win others back?

The answer in the Pacific Islands may lie in Taiwan's relations with Australia, and the answer in the Caribbean may hinge, similarly, on Taiwan's relations with the United States. One of the keys to Taiwan's success should be through leveraging relationships with larger players in both foreign assistance and in countering China's narrative.

Taiwan has resources, financial and technical. However, its distribution network is limited and its public diplomacy efforts should be enhanced. How can Taiwan play a bigger role given its limited sphere of diplomatic influence?

Partnering with Australia in the Indo-Pacific and with the United States in the Western Hemisphere will extend Taiwan's reach significantly. It will also afford Taiwan the opportunity to extend into countries where it does not maintain formal diplomatic relations while also earning it a seat at the table in discussions among countries in the Organization for Economic Cooperation and Development (OECD). While Taiwan won't be able to be the lead contributor to assistance programs in countries where it does not have an embassy, it should be included on donor lists with its assistance logo alongside other donors.

This will come into play most directly when donors fund large-scale infrastructure projects. The PRC is perceived in the developing world relatively favorably—its healthcare and education projects are viewed by many developing countries as delivering aid directly to citizens. Even its flashy stadium buildings are perceived as helpful to countries as they establish their national brands through global sporting events. Thus, the infrastructure play,

which traditionally is not an area where the United States or Taiwan focus, may be the landscape where the United States, Taiwan, and Australia are well-positioned to partner in an effort to redirect the narrative away from Beijing.

It is often said that the US government cannot match China dollar-for-dollar in development projects. However, if the US government partners both with the private sector and with other donors to launch meaningful and impactful large-scale projects, it can put the "China is our most reliable partner" story to bed. The United States and other allied donors, including Taiwan, should focus less on a large number of small development projects and, instead, on a smaller number of large-scale, globally-deployable, and replicable projects along the lines of the US President's Emergency Plan for AIDS Relief (PEPFAR) that began in 2003 and continues to this day. Some ideas could include programs to alleviate poverty and to promote food security as after-effects of COVID-19 and Russia's invasion of Ukraine. A global vaccination campaign using supply chain components from Taiwan and vaccines from the United States would speak volumes to countries that have been on the short end of China's ineffective SINO-VAC vaccines.<sup>24</sup>

Prioritizing countries that are important to Taiwan's and America's national security interests are the key areas in which this focus should begin. And Taiwan, whenever possible, will benefit by being the lead partner in an assistance consortium and by publicizing its role accordingly.

## *The Case of Paraguay*

Paraguay is the only country in South America that has diplomatic relations with Taiwan and as such it has sometimes felt at a disadvantage when it comes to foreign assistance when compared with neighboring South American countries such as Bolivia, Ecuador, Peru, Colombia, and Venezuela. Indeed, there was a public relations dust-up in

<sup>24</sup> Nick Schiffrin, Layla Quran, and Lynsey Jeffery, "China's vaccine faces scrutiny as Indonesians die despite shots, US pledges donations," PBS News Hour, September 22, 2021, <https://www.pbs.org/newshour/show/chinas-vaccine-faces-scrutiny-as-indonesians-die-despite-shots-u-s-pledges-donations>.

September 2022 when Paraguay's former president, Mario Abdo Benitez questioned why Paraguay remains loyal to Taiwan and intimated that a Taiwanese "investment" of USD \$1 billion into Paraguay might be required to maintain diplomatic ties. The tension over the statement diffused and Paraguay's President-elect Santiago Peña pledged in a meeting with Taiwan's president in Taipei that Paraguay will remain aligned with Taiwan. Indeed, when he attended the inauguration, he was warmly received by Paraguayan and other South American leaders. There were no PRC officials there to steal his thunder.<sup>25</sup>

A lesson learned from the Paraguay experience should be that as Paraguay ushers in a new president, Taiwan should be seen more visibly and more often. That was on display in August 2023 when Vice President Lai Ching-te led the high-level Taiwanese delegation to the inauguration of President Peña.

The lesson of Paraguay holds true in all of the countries that recognize Taiwan. Beijing, with its enormous diplomatic footprint worldwide, has an ability to flood the end zone around the world. Taiwan must take advantage of strategic opportunities to visit countries like Paraguay and, while "on the road," to hold strategic meetings with friends in the United States and elsewhere.

### *America's Backyard: Latin America and the Caribbean*

Over half of Taiwan's allies are in Latin America and the Caribbean, but China has exercised an enormous amount of pressure in the region over the past 20 years to chip away at more and more of those alliances and to encourage countries in the region to switch their diplomatic allegiance from Taiwan to the PRC.<sup>26</sup> Chi-

na has done this in a variety of different ways, but one of the primary forces has been the use of development incentives, including large-scale infrastructure projects. China has offered its Belt and Road Initiative and countries from Mexico to Argentina have responded with access to natural resources, raw materials, and agricultural exports.

China's insatiable appetite for commodity products from Latin America represents a threat to the United States and its allies in the region. An influential PRC is one that leads large countries in America's backyard, countries like Brazil and Argentina, to consider migration away from the dollar as the world's reserve currency. It leads smaller economies to default or to near default on loans to China as happened in Ecuador which was forced to renegotiate its debt with the PRC. It leads countries like Venezuela and Nicaragua, dictatorships in their own rights, to further repress their populations with the provision of China-supplied surveillance and security infrastructures.

China's efforts to win friends and influence countries in the Western Hemisphere represents a threat to the United States much as China's efforts in the Pacific Island Countries represents a threat to Australia's long standing bilateral and multilateral relationships.

### *Mitigation Efforts Required to Protect Democracy*

The United States and Taiwan, both independently and within the context of their bilateral and regional geoeconomic partnerships, have struggled to counter China's development narrative because there is a lack of an alternative to China and its Belt and Road Initiative and Global Development Initiative (GDI). The false narrative generated by the PRC is hard to counter. In order to offer a viable alternative to BRI and GDI in developing countries, the US should leverage

<sup>25</sup> Simina Mistreanu, "Paraguay's president-elect recommit to ties as Taiwan's last ally in South America," *Associated Press*, July 12, 2023, <https://apnews.com/article/taiwan-paraguay-pena-tsai-china-2a20c194f6ccf8deb9831a3143b5d685>.

<sup>26</sup> Ryan C. Berg & Rubi Bledsoe, "Divergent Approaches to Development: Taiwan vs. China in Latin America & the Ca-

ribbean," Center for Strategic and International Studies, August 31, 2023, <https://features.csis.org/divergent-approaches-to-development/>.



its USD \$60 trillion private sector as well as the business interests of its allies. The United States and Taiwan have significant shared interests in building an infrastructure investment portfolio with international capital pooled together with their private sectors and with allies. Allies and partners can do this through joint financing, through pressure on global lending institutions to award loans based on best value to receiving nations, not on best price (which more often than not leads to an award to China), and through national development finance and export-import institutions. The narrative that a journey to self-reliance is better than a journey to perpetual indebtedness is an important one for Taiwan and America to articulate.

## *What Drives Taiwan's Lending and Assistance?*

Taiwan is motivated to provide technical assistance in order to bolster its national security. Utilizing foreign assistance as one of the important tools in its national security toolbox is a strategic priority for Taiwan, but Taipei does not currently use the tool for maximum advantage. The lever of foreign assistance is one that Taiwan should exercise prudently but also strategically.

Taiwan needs allies as well as global recognition to combat Chinese influence. The United States and Taiwan should find synergies in their strengths to provide a viable alternative to Chinese loans to protect shared interests in democracy and national security as well as to visibly advance development needs and rise to the challenges faced by developing countries.

## *How Should the United States Partner with Taiwan to Deliver Foreign Assistance?*

The United States should work with Taiwan in order to better meet developing countries' needs and to leverage US-Taiwanese strengths in cutting-edge

technologies, world-class companies, transparent business principles, and more. Together, this can drive a movement away from the CCP through joint global efforts with Taiwan. Partnering with the United States will also drive other Organisation for Economic Co-operation and Development (OECD) countries to include Taiwan in their own development strategies, as a partner. Taiwan has real-world experience in overcoming CCP pressure and has become a thriving economic miracle despite, not because of the PRC. Access to best-in-class infrastructure from Taiwan and free-market capital flow from OECD capitals should be more appealing to developing countries over the 'poison pill' of Chinese loan projects. Deliberate, strategic projects, undertaken jointly by Washington and Taipei, will help build recognition and partners for Taiwan while countering China. Joint, strategic investments in developing countries with partners in the Quad, in Europe, and other free markets will follow, especially when endorsed by the United States.

Partnering on development projects, showcasing Taiwan as a strategic partner of the United States, will raise Taipei's visibility on the world stage. It is a strategic decision, to recognize Taiwan as a development partner and to give it top billing, and it is one that the United States must take. Taiwan should also increase and more strategically use its foreign assistance funds. While Taiwan is lending more per capita than China, it still only contributes 0.073 percent of its Gross National Income (GNI). Taiwan should take steps to increase its foreign assistance and use it to woo countries away from Beijing. It should also market its assistance and the end results achieved in order to highlight the benefits of sustainable development and technical assistance over Chinese loans that carry all sorts of unplanned "costs" upon default.

## *When Taiwan Leads*

Taiwan should advance its own strategic priority in its discussions of foreign assistance with developing countries. It should highlight to countries with whom it does not enjoy diplomatic relations the benefits of a part-



nership with Taiwan. It should also consider gently conditioning its assistance on greater international recognition of Taipei. Currently, Taiwan does not require partner countries to offer full diplomatic recognition. Countries like Nicaragua have received large amounts of Taiwanese assistance, including an emergency loan in 2019 for USD \$100 million while the countries maintained diplomatic relations with Taiwan.<sup>27</sup> However, Nicaragua then recognized Beijing's "One-China Principle" when the People's Republic of China exerted pressure on Managua and questioned the Ortega government's relations with Taiwan in 2021. Nicaragua's actions forced Taiwan to cut relations with the country even after contributing cash inflows to the nation.<sup>28</sup> As such, Taiwan should require some loyalty from countries receiving assistance, and the United States should stand by Taiwan when it stipulates its requirement.

With increased international partnership with the United States, Taiwan would have the backing of the only world economy larger than China. A partnership of this kind would provide Taiwan the regional leverage it needs, particularly in the Western Hemisphere to require assistance and allyship from its aid recipients.

The United States has an additional and vital opportunity to strengthen this partnership. It is paramount to the safety of US industry and national security to combat Chinese attempts to weaken Taiwan, which could threaten the island's surrounding

network of the largest submarine cable connections. This network delivers a massive contribution to the operation of a free and open Internet which is accessed by US companies like Google, which has one of its largest Asian server farms in Taiwan, along with Apple and Microsoft digital investment projects. Ensuring that friendly nations like the United States, some European countries, Australia, and others understand that their free markets are only assured through a secure Taiwan is an important messaging point for America and Taiwan to verbalize regularly.

Partnerships with Taiwan on OECD-led development projects are a viable way to deploy soft power to enhance Taipei's reputation in countries around the world. Taiwanese partnerships with multinational corporations to demonstrate the high value of Taiwan's contributions to the global economy can take Taiwan's presence on the world stage even farther.

### *Toot That Horn: Taiwan is Vital*

China cannot remain unchecked in the development space. This is the natural geoeconomic base from which the US and Taiwan should collaborate in the developing world. Taiwan, a democratic nation sharing the same values as the US, should see an enhanced relationship to benefit the national security of both countries as well as global democracy.

Taiwan uses aid practices that are driven by a goal of helping neighboring countries become self-reliant. The PRC approach of dismantling national sovereignty of the nations to which it lends promotes a culture of perpetual dependence on the largesse offered by Beijing and comes with strings attached. Taiwan's aid, in the form of grants, is motivated by its own history of accepting aid (USD \$1.4 billion over 15 years), and seeing it as a way to give back. By partnering with the country that was in a significant way responsible for its economic success, Taiwan will solidify both its strategic relationship with the United States as well as its role as an important player in global development.

27 Ismael Lopez and Yimou Lee, "Loan of \$100 million from Taiwan gives lifeline to Nicaragua's Ortega," *Reuters*, February 19, 2019, <https://www.reuters.com/article/us-nicaragua-protests-taiwan/loan-of-100-million-from-taiwan-gives-lifeline-to-nicaraguas-ortega-idUSKCN1Q903T>.

28 Republic of China (Taiwan) Ministry of Foreign Affairs, Department of Latin American and Caribbean Affairs, "The R.O.C. (Taiwan) government has terminated diplomatic relations with the Republic of Nicaragua with immediate effect to uphold national dignity" (press release), December 10, 2021, [https://en.mofa.gov.tw/News\\_Content.aspx?n=1328&s=96924#:~:text=On%20December%2010%2C%202021%2C%20the,government%20deeply%20regrets%20this%20decision.](https://en.mofa.gov.tw/News_Content.aspx?n=1328&s=96924#:~:text=On%20December%2010%2C%202021%2C%20the,government%20deeply%20regrets%20this%20decision.)

## Energy, Commodities, and Raw Materials

The PRC's development agenda is inextricably linked to its own economic growth and energy strategies as well as to its Global Security Initiative—first proposed by Xi in April 2022. The United States and Taiwan should undertake an approach to energy and commodities that allows them to compete with China's current global dominance in this space. China secures access to raw materials and natural resources in order to maintain steady and open supply chains for energy into the PRC. The strategic approach ensures energy “independence” in the sense that while raw materials may not be available in China, they are almost all processed (upwards of 70 percent) in China, thus guaranteeing Chinese access to the vital inputs required for energy generation and exports as well as energy control.

It's no small feat for a sovereign country to retain enough access to the raw materials and energy needed to power its domestic economy. The PRC, the most energy-hungry country in the world, has taken its requirements across borders and across continents. Beijing's ham-fisted control over developing countries' natural resources through its manipulative development programs ensures China receives all of the necessary commodities it needs for its own vast energy requirements. While trade is always necessary, the CCP approach of interfering in national sovereignty and maliciously attempting to thwart other nation's access to minerals is dangerous for the international order.

### *A Monstrous Appetite: China's Approach to Energy Markets*

China began its global hunt for rare earth elements, vital natural resources, and access to petroleum and natural gas through its Belt and Road Initiative. It invested enormous capital in building large-scale infrastructure projects in countries with deposits of its needed inputs. In exchange for rights to deposits like lithium, cobalt, natural gas, transportation hubs, shipping lanes, etc., China offered large scale infrastruc-

ture projects with concessionary financing and simple contracts. China deployed its own citizens to run operations in the extraction business while paying low wages to local laborers for rich deposits.

China has an almost insurmountable need for energy in order to continue to charge toward its once hoped-for economic year-over-year growth of 10 percent.<sup>29</sup> In its efforts to meet this need, China strategically disrupted world markets for minerals beyond its borders, seemingly while other countries were not paying attention. In so doing, not only has Beijing been able to satisfy its own needs, regardless of the cost to international economic security, global climate concerns, and the world order, it also obstructs the ability of other nations to secure their needs for critical minerals. In the eyes of the CCP leadership, this is a win-win scenario: Beijing wins while the rest of the world is left weaker. The PRC circumvents a rules-based order for one of jagged CCP domination.

Other countries' assets and projects excavating and procuring critical minerals all over the world have been targeted by CCP debt diplomats and wolf warriors. In Zambia, copper plants could potentially be seized by the CCP after Zambia defaults<sup>30</sup> on loans to China. China is building up its ownership of debt to exploit the weakened financial positions of developing countries. The exploitation can take the form of “conciliation” on certain debts provided that debtor countries then export critical minerals and commodities back to Chinese processors and manufacturers.

### *Child's Play: China's Gamesmanship*

It's no secret that China has been effective in engaging in a so-called Global Development Initiative strategy in order to build and strengthen south-south partner-

<sup>29</sup> “The World Bank in China,” The World Bank, April 20, 2023, <https://www.worldbank.org/en/country/china/overview>.

<sup>30</sup> Jean-Christophe Servant, “China steps in as Zambia runs out of loan options,” *The Guardian*, December 11, 2019, <https://www.theguardian.com/global-development/2019/dec/11/china-steps-in-as-zambia-runs-out-of-loan-options>

ships and solidarity for over a decade. Focus, however, has not been paid to the geographic areas where China has deployed its most significant investment capital.

China is famous for building soccer stadiums throughout the developing world. This is part of the PRC's soft diplomacy efforts to exert its influence on populations throughout the global south. Large-scale stadiums help to elevate China's name and reputation while helping national and sub-national governments demonstrate their abilities to "deliver" for their populations. Soccer is an immensely popular sport and stadiums are fairly inexpensive to build, even large ones, and they consist of largely one-time costs and very little funding needed for upkeep. It is hard to find an African or Southeast Asian country without at least one stadium built or financed by the PRC.

This approach to soft diplomacy belies the approach China takes to targeted countries, those with deposits of raw materials, rare earth elements, energy sources, infrastructure like ports, airports, telecommunications, electricity, and water supplies. Indeed, pundits refer obliquely to Africa as if it is a single country with, for example, a single vote in UN bodies and with singular development aspirations.

A more accurate assessment of the PRC's Global Development Initiative would look directly at the countries where China "partners" for development. Quickly apparent will be the evidence that China, with the world's second largest economy, invests in development projects primarily in countries with significant natural resources to sustain China's insatiable need for energy. The GDI is a strategy to partner with developing countries where the PRC can strike deals to ensure that through its south-south partnership, China can maintain secure and open access to the raw materials and energy it needs to continue to grow, and without which its growth will slow to a halt. The impact this has on developing countries is irrelevant to the PRC, strip mining, child labor, and environmental havoc are immaterial to Beijing leadership – the need for raw

materials trumps everything else.

### *A Formidable Challenge: The Cynicism of China's Green Energy*

When looking at the PRC's obviously self-interested development strategy and plans, the US and Taiwan would be well-advised to look for ways to challenge China's cynical south-south partnerships, especially as it relates to energy and other commodities. China now dominates the world in "both clean energy technologies such as batteries and solar cells and the raw material supply chains that underpin them."<sup>31</sup> The PRC extracts these raw materials from developing countries like the Democratic Republic of Congo and Indonesia, but also from developed countries like Chile and Australia. All the while, as the world hungers for clean energy, it ignores many of the environmental, social, and exploitation costs incurred to power the Green Agenda. China is manufacturing to supply the clean energy the developed world hungers for. However, as it is well-known, China remains the world's largest polluter. Clean energy comes at great cost.

### *New Solutions? Try R&D*

A key element of the US-Taiwan solution is to call out China's so-called south-south partnerships for what they really are, a cynical, if cunning, way to curry favor with developing countries in order, subsequently, to gain access to their raw materials and natural resources, oftentimes with terms and conditions that turn out to be highly unfavorable. This can be done through conditioning development assistance on improved relations with Taiwan and recognition of US support.

Conditioned assistance, however, will not be enough to turn the dial in the global rush for natural resources for energy. This is where true partner-

31 Henry Sanderson, *Volt Rush* (Oneworld Publications, September 13, 2022), p. 4.

ship opportunities lie.

The United States and Taiwan have two of the most sophisticated research and development ecosystems of any countries in the world. An effort to collaborate with other countries that are rich in raw materials and natural resources, to train their researchers, to incentivize their industries, and to allow them to reap the benefits of their national treasures will go a long way. Of course, unwinding decades of Chinese involvement in and exploitation of national assets will take time and encouragement, but the long term benefits will accrue to dozens of countries, other than China.

It is imperative that the United States and Taiwan, as well as other advanced economies, undertake these efforts with haste as the more time that passes, the more China will shore up its already strong relations with targeted countries. This is evident from former Chinese Foreign Minister Qin Gang taking his first trip in his new (albeit short-lived) role to Africa, to countries with natural resources that China is interested in exploiting or wishes to continue to exploit.

China is currently under the gun to adapt and change its approach to developing markets. Its Belt and Road Initiative has been unmasked as a crude effort to exploit countries for their natural resources and to saddle them with untenable debt burdens. Additionally, it was financially costly to Beijing. Because of its failed BRI, it has attempted to create better “partnerships” through its Global Development Initiative, but underlying the GDI is the continued military-civil fusion, Global Security Initiative, and other CCP-led campaigns to enhance Beijing’s control over the global marketplace of natural resources and raw materials to address its energy needs. A constructive and engaged global community, concerned about individual countries’ access to energy but also concerned about China’s drive for global domination

will be key to this effort’s success. It can be led by the US, Taiwan, the Quad, and the UK. Others will join.

This approach is particularly valuable for small countries, but especially for the government in Taipei. Taiwan imports 98 percent of its national energy needs.<sup>32</sup> This poses a vulnerable choke point for Taiwanese military and society. If faced with a direct military challenge from China, Taiwan’s imports would be almost entirely cut off. Taiwan is incentivized to develop its domestic renewable energy and its access to energy from friendly countries, both for national security and climate change purposes.

### *Naming Names: How to Preserve Sovereignty and Order*

The United States, Taiwan, and other global leaders have been reluctant to call out China as the world’s largest global polluter. The US, along with other G-7 countries, vowed to restrict government spending for investments in new fossil fuel projects abroad.<sup>33</sup> While there is an environmental need to transition energy and to limit climate change, not requiring the same commitment by China opened a vacuum in the region. China is one of the only sources for coal projects in developing countries which ensures China’s continued access to cheap coal and to further the unequal partnership Beijing enjoys with its developing nation “partners.”

Not requiring China to play by the same rules as the world’s other advanced economies left a gap through which the CCP now leads the world in coal production. The United States, G-7 countries, Taiwan, and

32 Evan A. Feigenbaum and Jen-Yi Hou, “Overcoming Taiwan’s Energy Trilemma,” Carnegie Endowment, April 27, 2020, <https://carnegieendowment.org/2020/04/27/overcoming-taiwan-s-energy-trilemma-pub-81645>.

33 Brady Dennis and Steven Mufson, “Key nations agree to halt funding for new fossil fuel projects,” *The Washington Post*, May 27, 2022, <https://www.washingtonpost.com/climate-environment/2022/05/27/g7-coal-phaseout-fossil-fuel/?request-id=54400fd2-889d-4e7b-9755-edaaae9b8f7e&pm=1>.



others need to use their international influence to communicate the risks of debt and carbon traps and the alliance of the free world should require the PRC to face economic and international pressure for its actions.

The United States also must take direct action in support of Taiwan and shared national security interests. Taiwan's inevitable energy crisis in the event of Chinese People's Liberation Army military activities would be catastrophic for a vital asset to US and global economies and national security. Ensuring that "the lights stay on" in Taiwan should China exercise some sort of military or economic blockade is vital not just for Taiwan's 20 million citizens, but to keep the global economy from collapse due to its dependence on Taiwan's semiconductor manufacturing industry.

### *Diplomatic Partnership and Investment Needed: Learn from Others*

The United States must promote an exchange of information and investment for high-technology energy solutions both in Taiwan and with Taiwan.

To meet energy needs, it is estimated that Taiwan will need an additional USD \$59 billion in foreign direct investment to transition to low-cost renewables.<sup>34</sup> The US, particularly the US private sector, can and should take a larger investment role to help it get there. Certainly there is interest in securing and maintaining access to Taiwan's high-end semiconductors, and this will go a long way toward closing the USD \$59 billion gap.

Perhaps Scandinavian investment activities will offer an example. Nordic countries are investing in Taiwan's ability to secure reliable and clean energy. Denmark currently has 35 percent ownership of Taiwan's state-of-the-art wind energy technology, paving the way for each country's cost-affordable renewable energy

strategies.<sup>35</sup> US companies should be encouraged to look at increasing their FDI in Taiwanese clean energy to promote the island's energy security as well as to build investment returns. With Taiwan's access to energy guaranteed, the US, Taiwan, and allies can focus on Taiwan's success to bring clean energy to other markets as well.

Further investment both by the US government in securing critical mineral and renewable energy supply chains onto friendly shores around the world, as well as promoted investment by US businesses in Southeast Asia, would increase risks and costs of a Chinese invasion of Taiwan. Advanced preparation would certainly be more economical and less costly than waiting for China to take preemptive action and risk having to commit weapons or forces to protect Taiwan in the event of a hot war.

### *Affirmative Next Steps*

National sovereignty and a country's ability to procure the critical minerals and energy its economy requires is a basic principle that must be satisfied for a global rules-based order. China has taken many steps without significant international push back that render both of these objectives less secure. The United States and Taiwan should use their power and interests to promote democracy and national sovereignty while protecting access to critical global energy supplies. This will take time, but the key is to begin the public diplomacy campaign around the significance of the action. Investments in the built-out infrastructures in countries with important natural resources will come next.

The US-Taiwan partnership is a key component in securing continued access to energy for Taiwan. It is also important to demonstrate the bilateral partnership to other like-minded countries

<sup>34</sup> Feigenbaum and Hou, *Overcoming Taiwan's Energy Trilemma*.

<sup>35</sup> Ibid.



in order to engage them directly in support of Taiwan. Additionally, shoring up Taiwan with what it needs helps ensure Taipei's agreement to work with Washington to counter Beijing's efforts to dominate in other areas, like emerging technologies, which depend on advanced technologies like semiconductors that are largely developed in Taiwan.

## Cyber

### *PRC's Cyber Strategy Is Geoeconomics*

Which actions in the cyber domain fit the classic definition of a geoeconomic tool remains an active topic of theoretical debate. Nevertheless, under Xi Jinping's rule, the PRC's penchant for blurring the line between economics and politics suggests that virtually any cyber-related approach the PRC pursues against economic targets has the same political endpoint—maintaining the Party's primacy and achieving global influence. As an inherently insecure and anonymous space with no discernible borders and a lack of accountability, the cyber domain is an ideal arena for malign PRC activities, particularly against countries with high rates of digitalization and highly accessible digital platforms like the United States. During Xi's term, the PRC has actively used the full range of cyber methodology and vastly increased cyber resources to pursue its mercantilist economic vision and degrade competitors. Practically no critical sector has remained untouched, with PRC hacks detected in sensitive areas like microelectronics, artificial intelligence, quantum computing, aerospace, and biotechnology.

### *Everyone, Everywhere, All at Once: PRC Cyber Aggression Ubiquitous*

As the PRC's most significant economic competitor, the United States is one of the top targets of malicious PRC cyber campaigns. In a June 2022 speech, FBI Director Christopher Wray frankly stated that “(China) has a bigger hacking program than all other major nations combined. (China has) stolen more American personal and corporate data than all nations combined.... It's really a whole-of-government operation to steal research and proprietary secrets from US companies and then undercut prices on the global market so that companies that play by the rules can't compete.”<sup>36</sup> Wray also warned in July 2023 that relentless PRC efforts to steal US-developed artificial

intelligence (AI) technology would exponentially enhance PRC hacking capabilities and foreign influence campaigns.<sup>37</sup> PRC-sponsored cyber hacking is hardly restricted to the United States. Taiwan has been especially victimized, and a growing list of countries from Europe to Southeast Asia and beyond report frequent PRC cyber intrusions.

Within the PRC, the official operating environment for companies has become increasingly fraught. Statutory measures like the PRC's 2017 National Intelligence Law and a range of other cybersecurity-related laws provide the government a quasi-legal basis to compel companies to report security vulnerabilities, provide proprietary information, and share personal data of private individuals for potential exploitation. Other onerous PRC requirements like data localization and mandatory software downloads which often contain malware further exacerbate vulnerabilities for foreign companies operating in country. PRC state security has even clandestinely planted agents in some foreign companies' PRC-based offices to help state-sponsored hackers steal trade secrets.<sup>38</sup> Most recently, the PRC promulgated ambiguous updates to its Counter-Espionage Law, which could expose PRC-based foreign companies' proprietary information and intellectual property if deemed by PRC authorities as relevant to PRC national security.<sup>39</sup>

37 Masood Farivar, “FBI Warns About China Theft of US AI Technology,” *Voice of America*, July 28, 2023, <https://www.voanews.com/a/fbi-warns-about-china-theft-of-us-ai-technology/7202760.html>

38 Christopher Wray, “Responding Effectively to the Chinese Economic Espionage Threat,” FBI Press Office, February 6, 2020

39 National Counterintelligence and Security Center, “Safeguarding our Future: US Business Risk: People's Republic of China (PRC) Laws Expand Beijing's Oversight of Foreign and Domestic Companies,” [https://www.dni.gov/files/NCSC/documents/SafeguardingOurFuture/FINAL\\_NCSC\\_SOF\\_Bulletin\\_PRC\\_Laws.pdf](https://www.dni.gov/files/NCSC/documents/SafeguardingOurFuture/FINAL_NCSC_SOF_Bulletin_PRC_Laws.pdf).

36 Federal Bureau of Investigation, “Director's Remarks to the Boston Conference on Cyber Security 2022” (press release), June 1, 2022.

### *One-Way Street: Digital Silk Road*

The PRC's audacious and aggressive use of these tactics reflects a longstanding objective—to dominate the cyber, digital, and technology domain. The PRC invests heavily in cutting-edge cyber tools to serve the Party's interests, from surveilling its own citizens internally to undermining competing nations externally. Commercially, it seeks to command the digital space, championing its leading tech companies in search of partner countries to adopt a full suite of “Made In China” products and services. Emblematic of this latter effort is the “Digital Silk Road” (DSR) campaign, loosely positioned under the overarching Belt and Road Initiative umbrella. The “Digital Silk Road” concept is more amorphous than BRI, with the PRC's private sector companies playing a bigger role than government in on-the-ground decision-making, funding, and implementation in partner countries. However, DSR's appeal closely resembles BRI's—recipients in emerging countries prize the all-in-one easy financing, low cost, and relatively rapid delivery of projects with DSR branding. But potential negative consequences for those countries are also reminiscent of BRI—large debts with non-transparent terms, risky systems susceptible to external abuse, and long-term dependence on PRC technology and standards.

### *Us Vs. Them: Competing Cyber Visions*

Harmful PRC cyber activity, its relentless campaign to achieve technological superiority, and unyielding efforts to command digital infrastructure abroad have exacerbated a deepening divide between competing spheres of influence in cyberspace. On one side is an authoritarian vision shared by countries like the PRC and Russia, which prioritizes a state-directed, centralized, and top-down model, sharply focused on control and limiting personal freedoms. On the other is a liberal vision, long championed by democratic countries like the United States, which promotes a free and open internet and rules-based

order, driven by a grass-roots, multi-stakeholder model and transparent, consistent standards. Reflecting this split, a years-long battle has been playing out in international organizations like the United Nations to determine universally accepted norms of behavior in cyberspace, with both sides vigorously promoting their opposing visions. Little noticed but highly significant, the marathon struggle over cyber norms has brought into full view an increasingly bifurcated cyberspace, which requires the United States and its partners to remain fully engaged in defending their side from hostile activity so that all like-minded countries can effectively uphold and reap the full benefits of a broad and positive digital expanse.

### *Hunt Forward: Proactive US Cyber Shift*

Reflecting a new cyber defense paradigm, the United States has shifted to a more active posture in a comprehensive effort to prevent ever-increasing cyberattacks and intrusions attributed to the PRC and other adversaries. In 2018, US Cyber Command deployed its “persistent engagement” and “defend forward” strategies, which proactively seek to disrupt cyber threats, degrade adversarial capabilities, and harden US defense information networks. To help carry out the more active approach, Cyber Command can dispatch “Hunt Forward Operations” to partner countries at their behest to observe malicious cyber activities on host nation networks and share relevant information on adversarial tactics. “Hunt Forward” teams have been in high demand, with Cyber Command conducting more than two dozen operations with partners from 2018-2022.<sup>40</sup>

On the civilian side, US policymakers have sought to increase interoperability with the private sector, whose technological expertise, ground-level visibility, and rapid innovation are critical to a comprehensive cyber defense. In 2021, the United States

40 US Cyber Command, “CYBER 101: Hunt Forward Operations” (press release), November 15, 2022

established a congressionally-mandated Joint Cyber Defense Collaborative (JCDC) involving all pertinent US stakeholders, including private sector partners, to provide a single platform for cyber defense planning and operations.<sup>41</sup> Like “Hunt Forward” activities, JCDC tasks can also include engagement with foreign partners. Furthermore, other US government initiatives like “Shields Up” aim to help private sector organizations defend against malicious cyber activity and upgrade their cyber security practices. More broadly, the Biden administration finally unveiled in March 2023 its hotly-anticipated National Cybersecurity Strategy, which ditched previous voluntary compliance attempts and required private sector operators in critical economic sectors to meet mandatory cybersecurity standards. And to heighten accountability among adversaries, the new US strategy endorsed offensive actions to deter or respond to cyberattacks on US networks.<sup>42</sup>

### *New Reality: US Government Cyber Reshuffle*

As it upgrades its external and internal cyber defense capabilities, the United States has also been involved in an extensive effort to reform its cyber-related government structures, increase government-wide resources for cyber defense, and develop greater cyber expertise in all relevant departments and agencies. A fundamental driver behind this transformation was the bipartisan Cyberspace Solarium Commission, formed in 2019, which made a series of 82 recommendations for Congressional and executive branch action to reduce the probability and impact of cyberattacks against the United States. To date, 70 of the Commission’s recommendations have either been implemented or are primarily on track, including essential tasks like the establishing a National Cyber Di-

rector, strengthening the Cybersecurity and Infrastructure Security Agency (CISA), and improving coordination with the private sector.<sup>43</sup> The Commission’s work also culminated in a long-cherished goal – institutionalizing a full-blown Cyber Bureau in the State Department. Having assumed a variety of improvisational bureaucratic forms in previous administrations, the newly-minted Bureau of Cyberspace and Digital Policy (CDP) finally brought under one roof a complete diplomatic entity covering cyberspace, critical and emerging technologies (CET), digital technology, and digital policy, with a Senate-confirmed Ambassador-at-large as Bureau head and a clear mandate to elevate the impact of US tech-oriented diplomacy.

### *US Engagement with Foreign Partners*

With the US government’s cyber reorganization steadily maturing, the United States is ideally positioned to broaden and deepen cyber cooperation with like-minded partners. In fact, the National Cybersecurity Strategy’s recently-released implementation plan includes a comprehensive stand-alone pillar specifically instructing US government agencies “to forge international partnerships to pursue shared goals.”<sup>44</sup> The Department of Homeland Security has already been hosting the biennial Cyber Storm exercise involving multi-stakeholder participants from government and industry at the federal, state, and local levels. Although the exercise focuses on domestic scenarios, an “International Working Group” consisting of cyber-related officials from a few select countries also takes part. At Cyber Storm VIII in March 2022, thirteen foreign countries

41 Cybersecurity and Infrastructure Security Agency, “Joint Cyber Defense Collaborative” (press release), <https://www.cisa.gov/jcdc>.

42 The White House, “National Cybersecurity Strategy” (press release), March 2023, <https://www.whitehouse.gov/wp-content/uploads/2023/03/National-Cybersecurity-Strategy-2023.pdf>.

43 “Cyberspace Solarium Commission Recommendations Tracker,” Foundation for the Defense of Democracies (FDD)Visuals, <http://www.fdd.org/analysis/2022/09/21/cyberspace-solarium-commission-recommendations-tracker/> (accessed January 25, 2023).

44 The White House, “National Cybersecurity Strategy Implementation Plan” (press release), July 2023, [https://www.whitehouse.gov/wp-content/uploads/2023/07/National-Cybersecurity-Strategy-Implementation-Plan-WH.gov\\_.pdf](https://www.whitehouse.gov/wp-content/uploads/2023/07/National-Cybersecurity-Strategy-Implementation-Plan-WH.gov_.pdf).



participated, including close Indo-Pacific partners Australia, Japan, New Zealand, and Singapore.<sup>45</sup> Furthermore, a range of US government agencies continues to work with foreign partners to help secure their digital and communications networks using transparent international standards and trusted suppliers.

Elsewhere, the State Department's new Cyberspace and Digital Policy Bureau inherited stewardship of an existing interagency Digital Connectivity and Cybersecurity Partnership (DCCP) to promote high-quality cyber and digital capabilities in recipient countries. With the August 2022 passage of the *CHIPS Act*, DCCP is poised to receive additional funding, as will other ongoing US government foreign assistance programs directed at critical issues ranging from cybersecurity R&D to secure supply chain enhancement. And while the long march at the United Nations to achieve favorable outcomes on cyber norms enters yet another protracted slog, the United States will again have to marshal like-minded countries to battle “no-limits” partners China and Russia at the next session of the UN Open-Ended Working Group on Cyber.

### *Taiwan is an Ideal Cyber Partner*

As the United States seeks to enhance its international cyber partnerships, Taiwan is a prime candidate for increased cooperation. In a 2022 World Competitiveness Center Report, Taiwan ranked ninth of 63 countries in government cybersecurity capacity.<sup>46</sup> As far back as 2018, an Australia Strategic Policy Institute cyber maturity report had already ranked Taiwan in the top ten Asia-Pacific countries using criteria such as governance, cybercrime enforcement, military application, and the digital economy, despite being “con-

strained by its diplomatic isolation.”<sup>47</sup> In the notional 2022 *Taiwan Policy Act*, bipartisan Congressional supporters urged more robust US-Taiwan cyber cooperation, calling on the State Department “to develop and implement a strategy to respond to... information and disinformation campaigns, cyberattacks, and nontraditional propaganda measures supported by the People’s Republic of China and the Chinese Communist Party that are directed toward persons or entities in Taiwan.”<sup>48</sup> In April 2023, the US House and Senate concurrently introduced legislation directing the Defense Department to maximize US-Taiwan cyber defense cooperation.<sup>49</sup>

Like the US government, Taiwan’s government has been consolidating its structures to manage cyber issues more effectively. However, in the face of longstanding cross-Strait PRC cyber aggression, Taiwan began the process far earlier. In 2001, Taiwan formed the National Information and Communication Security Taskforce (NICST) to coordinate all aspects of Taiwan’s major ICT policies. Powered by its own think tank for strategic planning and technical expertise (called the National Center for Cybersecurity Technology or NCCT), NICST operates at a senior level under the Vice Premier’s auspices. In 2017, Taiwan also created the world’s first independent military cyber command – the Information, Communication, and Electronic Force Command (ICEF) – whose responsibilities include offensive cyber operations. Most recently in August 2022, Taiwan established a new and innovative Ministry of Digital Affairs (MODA), which subsumed previous iterations of government cybersecurity bureaus under a broad mandate.<sup>50</sup>

45 Cybersecurity and Infrastructure Security Agency (CISA), “Cyber Storm VIII: After-Action Report” (press release), August 2022.

46 “Taiwan Country Profile,” *IMD World Competitiveness Yearbook 2022*, IMD World Competitiveness Center, December 2022, <http://wwwcontent.imd.org/globalassets/wcc/docs/wco/pdfs/countries-landing-page/TW.pdf>.

47 “Cyber Maturity in the Asia Pacific Region 2017,” International Cyber Policy Center, Australian Strategic Policy Institute, December 2017, p. 81.

48 US Congress, Senate, S. 4428 - *Taiwan Policy Act of 2022*, September 2022, <https://www.congress.gov/bills/117/congress/senate/bills/4428/text>.

49 Ibid.

50 Ministry of Digital Affairs (MODA), “Ministry of Digital Affairs History,” <https://moda.gov.tw/en/aboutus/history/410> (accessed January 24, 2023).

### *Help Wanted: Taiwan Primed for Further Support*

The need to increase international support for Taiwan's cyber efforts has become more urgent in recent years as the PRC has exponentially stepped up its cross-Strait cyber operations. A 2023 Japan National Institute for Defense Studies report cited estimates that Taiwan's major political, economic, and military entities were hit by more than 1.4 billion cyberattacks between September 2019 and August 2020.<sup>51</sup> After US House Speaker Nancy Pelosi's August 2022 Taiwan visit, the PRC unleashed a prominent wave of cyberattacks on Taiwan government, transportation, and business websites to undermine systems and spread disinformation. To manage intensified PRC cyber belligerence, Taiwan has sought assistance from foreign partners to harden its cybersecurity and communications infrastructure, informed in part by lessons learned from Ukraine's success in warding off Russian cyberattacks. For example, aware of the vulnerability of subsea fiber cables connecting Taiwan to the internet, officials hope to develop additional connections to friendly countries while potentially tapping into satellite networks similar to Starlink as backup. Furthermore, Taiwan continues to work with like-minded partners to ensure the security of its 5G communications networks and future 6G infrastructure.<sup>52</sup>

### *Unfinished Business: Taiwan's Case for Cyber Storm*

Taiwan and the United States have already established a firm foundation for stronger cyber cooperation.

In 2019, the two sides co-hosted in Taiwan the first multilateral Cyber Offensive and Defensive Exercises (CODE) including other invitees Japan, Australia, and Indonesia. US Computer Emergency Readiness Team (CERT) and DHS representatives have observed Taiwan's home-grown biennial cybersecurity exercises and offered after-action recommendations. In December 2021, the United States and Taiwan initiated a Cybersecurity Cooperation Strategy Forum with some 700 government and private sector cybersecurity experts in vital industries to develop a joint cybersecurity management and defense mechanism.<sup>53</sup> In a discreet *ad hoc* April 2023 meeting, US and Taiwan interagency cyber teams discussed how Taiwan companies could adopt US defense supply chain standards.<sup>54</sup>

However, one essential piece is missing – including Taiwan in DHS's Cyber Storm exercise – which would offer the most impactful near-term boost for US-Taiwan cyber cooperation. Long sought by Taiwan officials, Taiwan's participation would immediately deepen its substantive engagement with cyber-related organizations from a significant group of like-minded partners and strengthen its understanding of how national, state, and local entities collaborate in a crisis environment. Sharing how Taiwan responds rapidly to an exceedingly high volume of cyberattacks would also benefit the exercise overall. Foreign participation in Cyber Storm is restricted to countries in the International Watch and Warning Network (IWWN), of which Taiwan is not a member, so some bureaucratic sleight-of-hand would be required to give potential Taiwan participants an appropriate moniker, i.e., IWWN “trusted observers.” Furthermore, to address any lingering information security concerns,

51 Yamaguchi Shinji, Yatsuzaka Masaaki, and Momma Rira, “China's Quest for Control of the Cognitive Domain and Gray Zone Situations,” *NIDS China Security Report 2023*, National Institute of Defense Studies, Japan, December 2022, p. 46.

52 Philip Heijmans, Cindy Wang, and Samson Ellis, “Taiwan Tensions Raise Alarms Over Risks to World's Subsea Cables,” *Bloomberg News*, October 27, 2022, <https://www.bloomberg.com/news/articles/2022-10-27/us-china-tensions-over-taiwan-puts-focus-on-underwater-internet-cables>.

53 Republic of China (Taiwan) Ministry of Economic Affairs, Department of International Cooperation, “Taiwan, US Join Hands on Forging Cybersecurity Defense Strategy” (press release), November 9, 2021.

54 Cindy Wang, “Taiwan, US Cyber Teams Held Rare Meeting at California Consulate,” *Bloomberg News*, June 1, 2023, <https://www.bloomberg.com/news/articles/2023-06-01/taiwan-us-cyber-teams-held-rare-meeting-at-california-consulate#xj4y7vzkg>.

Taiwan could offer appropriate safeguards similar to those already utilized to facilitate extensive US-Taiwan defense cooperation.

## *Further Strengthening US-Taiwan Cyber Ties*

An enduring lesson from the Ukraine crisis is that practical cyber experience cultivated early on pays major dividends later—Ukraine ramped up cyber exercises and capabilities after Russia’s 2014 Crimea invasion, with highly effective results in the current war. Therefore, the United States and Taiwan should increase the pace and scope of their cyber cooperation across the board to keep pace with constantly evolving methods and tactics of cyber adversaries. Ideally, Cyber Storm (notionally including Taiwan) and CODE exercises could be sequenced annually to prevent any major time gaps (i.e., Cyber Storm in even years, CODE in odd). Absent Taiwan in Cyber Storm, both sides could recruit like-minded countries such as Japan to host CODE exercises as well, rotating annually between Taipei and Tokyo. To supplement infrequent exchanges between US and Taiwan CERTs, entities like the US Joint Cyber Defense Collaborative (JCDC) could engage Taiwan counterparts on interagency and public-private sector cyber coordination. Both sides could also raise their Cybersecurity Cooperation Strategy Forum to an operational level, developing a joint process to validate the safety of government and private sector systems using National Institute of Standards and Technology (NIST) metrics. On the defense side, Taiwan

should discreetly invite US “Hunt Forward” teams to Taiwan on a regular basis to scour the latest data and help close vulnerabilities.

To promote strategic-level understanding, direct face-to-face contact among US and Taiwan senior cyber officials remains indispensable. With both the sides now consolidating their government cyber structures, Taiwan’s new MODA Minister should visit Washington at an early date to meet with the US National Cyber Director, Deputy National Security Advisor responsible for cyber issues, and CISA Director to align views on how to confront PRC cyber challenges

**Emphatically free and democratic, Taiwan needs a stronger voice in multilateral cyber discussions to expand its international reach and help other like-minded partners promote a shared, positive vision.**

and break down internal bureaucratic stovepipes. The State Department’s new cyber Ambassador-at-large should launch a broad-based annual dialogue under his Cyber Bureau’s auspices covering the full range of cyberspace and digital policy issues, similar to existing US-Taiwan dialogues on political-military and international organization matters. And Taiwan’s Legislative Yuan

could organize a caucus focused specifically on urgent cyber and technology issues to meet regularly with a corresponding bipartisan and bicameral US Congressional grouping.

## *Backing Taiwan’s Multilateral Cyber Push*

US efforts to support Taiwan’s multilateral engagement on cyber and digital policy issues are also key. Emphatically free and democratic, Taiwan needs a stronger voice in multilateral cyber discussions to expand its international reach and help other like-minded partners promote a shared, positive vision. While the UN’s Open Ended Working Group on Cyber remains

off-limits, Taiwan can still work with other countries on a Track 1 or Track 1.5 basis in forums such as the US Summit for Democracy to coordinate views on UN cyber norms deliberations. Taiwan also needs a direct channel to the NATO Cooperative Cyber Defense Centre of Excellence (CCOE) so that its legal experts can contribute to the ongoing “Tallinn 3.0” process defining the role of international law in cyberspace.<sup>55</sup> Under the US-Taiwan Global Cooperation and Training Framework (GCTF), Taiwan can directly help countries in strategic regions like Southeast Asia to improve cyber hygiene and strengthen supply chain security. With the International Telecommunication Union now under a US Secretary General, Taiwan’s influential private sector merits a stronger voice in ITU’s multistakeholder bodies to support high-quality standards setting and resist harmful PRC and Russian efforts to impose a state-led approach.

---

55 The NATO Cooperative Cyber Defence Centre of Excellence (CCDOE), “CCDOE to Host the Tallinn Manual 3.0 Process” (press release), not dated, <https://ccdcoe.org/news/2020/ccdcoe-to-host-the-tallinn-manual-3-0-process/>.



## Trade and Investments

### *Dulcet Tones: PRC's Soothing Message*

Following the PRC's 20<sup>th</sup> National Party Congress in October 2022, and President Biden's meeting with Party Chairman Xi Jinping one month later, PRC officials have been fanning out across the globe to reassert the PRC's free-trade and investment bona fides and deliver soothing messages of business as usual. At the January 2023 World Economic Forum in Davos, outgoing PRC Vice-Premier and longtime economic czar Liu He regaled CEOs with promises that the PRC's door to the outside world would only open wider" and reiterated the PRC's determination to pursue its all-encompassing "dual circulation" policy to stoke domestic demand and promote exports higher up the value chain.<sup>56</sup> With the PRC facing anemic economic growth and persistent tension with the West, Xi Jinping has doubled down on dual circulation, insisting that it would safeguard the PRC's economy "under extreme circumstances."<sup>57</sup> Now enshrined in the Party's constitution, the dual-circulation policy, particularly its emphasis on reducing supply chain vulnerabilities, has galvanized the PRC to expand its global trade and investment footprint in key strategic sectors.

### *Backing Taiwan's Multilateral Cyber Push*

PRC attempts to achieve higher-value exports are longstanding. While its nomenclature is no longer in vogue, "Made in China 2025" goes back to 2015 and continues to inform the PRC's overall approach today. However, Xi Jinping's increasingly centralized, authoritarian rule and policies like

"dual circulation" have given those efforts greater urgency, tying them ever more closely to national security prerogatives and upholding the Party's primacy. Driven by a nationalistic win-at-all-costs mentality, the PRC's "dual circulation" and related trade policies have taken on a pernicious character, more reminiscent of an import substitution, mercantilist export promotion regime with the resultant malign consequences.

Under Xi, the PRC's playbook has become distressingly familiar—facilitate the meteoric rise of domestic business champions via state subsidies, forcible tech transfer, and intellectual property theft; promote strategic exports at below-market rates thereby driving foreign competitors out of business; and expand domination of critical export sectors to increase political leverage and create dependencies among trade partners. Most recently, the PRC has committed hundreds of billions of dollars in an all-out effort to dominate a broad range of critical high-tech export sectors, including semiconductors, communications networks, artificial intelligence, quantum computing and beyond. A blue-chip panel of US tech titans recently warned that the PRC's tech sector influence "is translating to geostrategic leverage around the globe as countries dependent on China vote differently in international bodies, change their position on Taiwan, and toe the PRC's foreign policy lines on issues ranging from human rights to cyberspace norms."<sup>58</sup>

On the investment side, while the PRC's official mention of its highly-touted Belt and Road Initiative has given way to the more benign-sounding Global Development Initiative, hallmarks of BRI's dubious achievements continue to arise in case after case around the globe.<sup>59</sup> BRI partner-country leaders

56 "Davos 2023: Special Address by Liu He, Vice-Premier of the People's Republic of China," World Economic Forum, January 17, 2023.

57 William Zheng, "Dual Circulation Needed to Protect China Economy in 'Extreme' Circumstances, Xi Jinping Warns," *South China Morning Post*, June 9, 2023, <https://www.scmp.com/news/china/politics/article/3223483/dual-circulation-needed-protect-china-economy-extreme-circumstances-xi-jinping-warns>.

58 Eric Schmidt and Yili Bajraktari, Mid-Decade Challenges to National Competitiveness, Special Competitive Studies Project, September 2022, p. 23.

59 Ryan Dube and Gabriel Steinhauer, "China's Global Mega-Projects Are Falling Apart," *Wall Street Journal*, January 20, 2023, <https://www.wsj.com/articles/china-global-mega-projects-infrastructure-falling-apart-11674166180>.

adore the superficial tangible evidence and attendant near-term political benefits of BRI projects in their respective countries. In contrast to investment offered by traditional donors like the World Bank, many BRI projects are expedient, thrilling BRI partner country elites by moving from concept to groundbreaking to delivery with relative light speed. However, few constituents are aware of the opaque loan terms, substandard quality control, questionable feasibility, and one-sided labor requirements inherent in many BRI projects. Like many of the PRC's targeted export policies, BRI is self-interested, aimed primarily at subsidizing the PRC's own businesses and industries, providing outlets for PRC labor, currying favor with strategically-significant countries and their local elites, and building up long-term political leverage. The BRI hangover has recently begun to wear off for some. Italy, BRI's only major Western participant, quietly left the pact in December 2023, in the wake of its Defense Minister's comments calling the previous government's decision to join BRI an "improvised and atrocious act" which provided far more benefits to the PRC than Italy.<sup>60</sup>

### *Hurt Feelings: PRC Deploys Trade Weapons*

During Xi Jinping's term, the PRC has intensified its use of trade and investment leverage to pressure and punish other countries whenever it might take offense. Typically, the bans are carefully crafted to send a clear political message and ensure no significant harm to the PRC's own domestic constituencies. Examples of this capricious approach abound. In 2020, after Australia called for an independent investigation into the cause of COVID, the PRC government suspended import licenses for a raft of Australian products. A new Australian govern-

ment has since assumed power using a less-strident tone, and Australian exports to the PRC subsequently hit record highs as bilateral tensions subsided and the PRC gradually lifted some restrictions. In 2021, when Lithuania agreed to include "Taiwan" in the name of Taiwan's new Vilnius-based representative office, the PRC promptly responded by banning some 80% of Lithuanian products bound for the PRC. In August 2022, following then-US House Speaker Pelosi's Taiwan visit, the PRC coupled its full-throated military display with symbolic but specious bans on specific agricultural products emanating primarily from Taiwan's ruling-party strongholds.<sup>61</sup>

### *US Response to Mounting Challenge*

Signaling its strategic approach to ongoing PRC economic predation, the Biden Administration decided early in its term to maintain the trade tariffs and targeted export restrictions which the Trump administration originally imposed on the PRC. With the PRC showing no signs of meeting its purchasing commitments under the Trump-era US-China Phase One trade deal, the tariff regime is likely to remain in place for the remainder of President Biden's term as is, and officials from the Office of the US Trade Representative (USTR) have maintained the hard line. Separately, to counter the PRC's aggressive high-tech sector ambitions, the Biden Administration has chosen to expand export restrictions and tighten investment screening after grappling with an acute shortage of vital semiconductor supplies and achieving passage of the landmark CHIPS and Science Act. In a September 2022 speech, National Security Advisor Jake Sullivan frankly laid out the rationale behind the more combative stance: "(The United States) previously maintained a 'sliding scale' approach that said we need to stay only a couple generations ahead. That is not the strategic environment we are in today. Given the foundational nature of certain technologies, such as advanced logic

60 Arvise Armellini, "Italy Minister: Joining China's Belt and Road Was 'Atrocious' Decision," *Reuters*, July 30, 2023, <https://www.reuters.com/world/joining-china-belt-road-was-an-atrocious-decision-italy-minister-2023-07-30/>.

61 Laura He, "China Hits Taiwan with Trade Restrictions after Pelosi Visit," *CNN*, August 3, 2022, <https://www.cnn.com/2022/08/03/economy/china-suspends-imports-taiwan-products-intl-hnk/index.html>.

and memory chips, we must maintain as large of a lead as possible.”<sup>62</sup>

### *US Challenges After CHIPS*

With the ramp up of this effort still in its early stages, the administration must also manage a host of unresolved questions. Most significant is whether other major like-minded countries involved in the semiconductor manufacturing process will adopt similar restrictions to prevent the PRC from exploiting loopholes. While an actual “CHIP 4 Alliance” coordinating major semiconductor powers including Taiwan, Japan, and South Korea currently exists more in theory than practice, the Biden Administration has reportedly convinced Japan and the Netherlands to restrict exports to the PRC of several key categories of the world’s most-advanced semiconductor manufacturing equipment.<sup>63</sup> Another question is how broadly to apply restrictions given likely impacts on US businesses and strategic foreign partners. At first glance, the administration looks poised to cast a wider net due to increasingly entrenched links between PRC tech companies and the Party/state, hence recent signals that the United States will expand export restrictions even further against leading PRC tech companies. Nevertheless, US semiconductor companies have been intensively lobbying for more carefully targeted export restrictions, particularly on less-advanced legacy chips, given their importance to revenue streams.

Also essential is how effectively can the United States implement exponentially increasing requirements for export licensing and investment screen-

ing to ensure they are minimizing loopholes and meaningfully achieving their goals of constraining the PRC’s malign behavior. Much of the burden on those fronts falls on the under-resourced Commerce Department’s Bureau of Industry and Security (BIS) and the overburdened Treasury Department-led Committee on Foreign Investment in the United States (CFIUS), both of which may need expanded authorities to deal with PRC-related issues that go beyond their traditional portfolios. Furthermore, the US interagency also needs to put in place new regulatory processes now that the administration has unveiled an outbound investment screening mechanism mirroring the CFIUS process. And with the Republican House majority activating its hawkish Select Committee on China, bureaucracies will likely have to handle even more regulation directed at the PRC in the near term.

### *Clean House: the United States Wants to Build Better*

Meanwhile, the United States has been scrambling to mobilize like-minded countries to call out the PRC’s harmful actions, provide feasible alternatives, and address supply chain vulnerabilities. Under the Trump administration, US officials launched the Clean Network Initiative, which enlisted democratic countries’ commitment to uphold high trust and security standards in their telecommunications networks and guard against intrusion by risky companies like Huawei and ZTE.<sup>64</sup> In 2019, the United States, Japan and Australia initiated the Blue Dot Network, which aims to certify infrastructure projects meeting high-quality international standards.<sup>65</sup> In a nod to its “Build Back Better” agenda, the Biden administration sought to offer a conspicuous alternative to

62 The White House, “Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit” (press release), September 16, 2022.

63 Ana Swanson, “Netherlands and Japan Said to Join US in Curbing Chip Technology Sent to China,” *New York Times*, January 28, 2023, <https://www.nytimes.com/2023/01/28/business/economy/netherlands-japan-china-chips.html>.

64 US Department of State, “The Clean Network,” US Department of State Archive 2017-2021, accessed January 14, 2023, <https://2017-2021.state.gov/the-clean-network/index.html>.

65 US Department of State, “Blue Dot Network,” accessed January 14, 2023, <https://www.state.gov/blue-dot-network/>.

BRI by unveiling the Partnership for Global Infrastructure and Investment (PGII) under G7 auspices, which hopes to generate \$600 billion in five years to invest in high-standard infrastructure projects. Unlike BRI's narrow hard infrastructure focus, PGII also incorporates broader sustainability priorities such as climate, gender equality, and health security. To elevate supply chain discussions to a strategic level, the Quad grouping of the United States, Japan, Australia, and India in 2021 instituted a Supply Chain Initiative to promote supply chain resiliency and security for semiconductors and related vital components.<sup>66</sup>

### *New US Trade Approach*

In contrast, the United States' multilateral trade efforts have lagged, dragged down by long-standing internecine political divisions and the persistent domestic aftereffects of malign PRC trade practices. After pulling the United States out of US-led Trans-Pacific Partnership (TPP) trade negotiations, the Trump Administration only lightly dabbled in the international trade liberalization space with revisions to the United States-Mexico-Canada Agreement (USMCA, formerly known as NAFTA) and the United States-Korea Free Trade Agreement (KORUS). Despite earnest entreaties from allied trade partners, the Biden Administration has staunchly resisted joining Japan's largely productive effort to revive a semblance of the TPP process, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Meanwhile, the PRC continues to pursue its multilateral trade agenda at full throttle. In 2020, the PRC and 14 other Asia-Pacific countries concluded the Regional Comprehensive Economic Partnership (RCEP) agreement, which aims to reduce most tariffs on goods traded among those countries within twenty years. In November 2022, the PRC and ASEAN's ten member states officially launched talks to up-

grade ASEAN-China Free Trade Area (ACFTA). The PRC even submitted its own formal bid to join CPTPP, although its membership prospects are uncertain.

The Biden Administration's external trade policy continues to eschew the traditional tariff reduction model and focuses inward on labor constituencies, balanced economic growth, standards, and sustainability. In a December 2022 speech, USTR Ambassador Katherine Tai defended the unorthodox strategy, stressing that the "preceding decades gave us cheap goods but growing inequality; more production but sprawling, vulnerable supply chains; and workers and communities displaced and left behind.... That is why we are placing workers and everyday people at the center of our trade policy..."<sup>67</sup> The administration's highly-touted Indo-Pacific Economic Framework (IPEF), launched in May 2022 along with thirteen other Indo-Pacific nations, bears all the hallmarks of this new blueprint. Absent any tariff reduction proposals to entice participants, IPEF instead focuses on wide-ranging issues such as trade facilitation, supply chains, clean energy, and anti-corruption. While the PRC subtext is clear in the choice of pillar areas, the PRC's name is never explicitly mentioned in IPEF's founding documents to assuage concerns over the PRC's reaction among potential members, particularly those in Southeast Asia. Despite being clearly suited to the effort, Taiwan was noticeably absent from IPEF's membership list, signaling the administration's intent to downplay IPEF's implicit PRC angle and ensure a robust number of participants.

### *Express Lane: United States and Taiwan Seek 21<sup>st</sup> Century Trade*

Just nine days after IPEF's high-profile unveiling, the Biden administration in June 2022 announced the US-Taiwan Initiative on 21<sup>st</sup> Century Trade (21CI), its most prominent overarching effort to date to broaden

<sup>66</sup> The White House, "Fact Sheet: Quad Leaders' Summit" (fact sheet), September 24, 2021.

<sup>67</sup> Office of the United States Trade Representative, "Remarks by Katherine Tai at the Council on Foreign Relations" (press release), December 19, 2022.



and deepen US-Taiwan economic ties. The carefully sequenced timing suggests that the administration had already worked out a timetable and deployment plan to manage fallout from Taiwan's IPEF exclusion and minimize the PRC's reaction to the initiative. Most likely consulted closely prior to the rollout per usual custom, Taiwan's officials betrayed no outward sense of disappointment over Taiwan's IPEF snub and played up the newfangled initiative's potential to bolster Taiwan's freedom and stand up to aggressive PRC attempts to isolate Taiwan.<sup>68</sup>

Fortunately for the Taiwan side, 21CI holds some inherent advantages over IPEF—it is more substantive than IPEF with a broader scope of relevant topics and potential agreements; should proceed more quickly as a bilateral and not plurilateral discussion, especially with seasoned negotiators on both sides; and could bolster Taiwan's readiness for other bilateral and regional trade negotiations. Furthermore, bringing the full range of interagency officials to the table can build up genuine trade negotiating muscle memory, which had atrophied over the years due to stalled or long-drawn-out TIFA discussions. In a clear sign of both sides' willingness to move ahead at all deliberate speed, negotiators inked a May 2023 early harvest agreement covering customs administration and trade facilitation, good regulatory practices, services domestic regulation, anticorruption, and small and medium-sized enterprises.<sup>69</sup> With its focus on high standards, transparency, and reform, both sides hope that 21CI, if successfully implemented, could meaningfully boost two-way investment and en-

hance Taiwan's global appeal as a trading partner and investment destination.

### *Need for Speed: Quest for US-Taiwan Bilateral Trade Agreement*

Nevertheless, given its glaring lack of increased market access and tariff reduction provisions, perhaps 21CI's greatest value as a geoeconomic tool lies in its potential to create momentum towards an actual bilateral trade agreement (BTA), long the most important economic goal for most constituencies seeking enhanced US-Taiwan relations and broader international engagement for Taiwan. Compelling economic arguments are frequently cited—two complementary and sophisticated economies, respective top trading partners, numerous large trade sectors ripe for considerable potential trade growth – and the list goes on. Yet even setting aside the strictly economic rationale, the United States does have a long history of signing Free Trade Agreements with major security partners as varied as Australia, Jordan, ROK, and Colombia, whose geopolitical significance often outweighs their overall economic value to the United States. In 1985, the United States signed its first-ever free trade agreement with Israel, aimed in part at widening and deepening the relationship beyond simply defense ties, reducing its trading partner's reliance on a single market, and providing a roadmap for other countries on how to achieve similar arrangements with a geopolitically-isolated partner.<sup>70</sup> Much of the same rationale could apply to a prospective bilateral trade agreement with Taiwan.

As the PRC continues to intensify its pressure on Taiwan on all fronts and relentlessly pursue its mercantilist policies globally, the need for a comprehensive US-Taiwan bilateral trade agreement has become more urgent than ever. Nevertheless, even the 21CI's avowed “fast-track” timeline means that any consid-

68 Doug Palmer, “Taiwan Sees US Trade Deal as Vital to Maintaining its Democracy,” *Politico*, July 4, 2022, <https://www.politico.com/news/2022/07/04/taiwan-sees-u.s.-trade-deal-as-vital-00043556>.

69 Office of the US Trade Representative, Executive Office of the President, “USTR Announcement Regarding US-Taiwan Trade Initiative” (press release), <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/may/ustr-announcement-regarding-us-taiwan-trade-initiative>.

70 Howard Rosen, *Free Trade Agreements as Foreign Policy Tools: The US-Israel and US-Jordan FTAs* (Washington D.C.: Peterson Institute for International Economics, 2004), 52.

eration of a more ambitious approach may not occur until the end of 2023 as major political transitions loom in both Taiwan and the United States. Therefore, both sides must seize a rapidly closing window of opportunity. In Taiwan, a uniquely trade-literate President who took political risks to address a major bilateral trade irritant on ractopamine pork steps down in 2024 following term limits. Given Taiwan's characteristic raucous domestic politics, a stable and politically-astute government is essential to managing nearly-certain political blowback to free trade agreement-related concessions and aggressive PRC-stoked media disinformation exacerbating local fervor. In the United States, Presidential election season swings into action at the end of 2023, after which the chances for any major new US-Taiwan policy initiative diminish until the next administration.

### *Tear Down That Wall: Breaking Through Bureaucratic Barriers*

Despite the steadily deteriorating cross-Strait geopolitical imbalance, successive US administrations have stubbornly resisted a US-Taiwan bilateral trade agreement for numerous reasons, e.g., a bureaucratic preference to work through the established Trade and Investment Framework Agreement (TIFA) process, unresolved Taiwan agricultural trade restrictions, larger issues surrounding US-China trade, and now the Biden administration's preference for non-traditional arrangements like IPEF. With 21CI now on the table and an early-harvest agreement signed, US negotiators should immediately broaden the second phase of discussions and incorporate market access proposals into a broader agreement. The administration could also use near-term 21CI progress to include Taiwan in ad hoc discussions with willing IPEF participants using the practical, results-oriented model already established for Taiwan in multilateral groupings such as APEC.

As 2022 US mid-term elections and Republican takeover over the House did little to alter long-standing

bipartisan support for Taiwan, Congress remains well placed to continue asserting its prominent role in influencing the direction of US-Taiwan policy, a dynamic which previously generated such landmark achievements as the foundational Taiwan Relations Act. Building on a concept floated by former US Ambassador Kurt Tong,<sup>71</sup> Congress should take full advantage of ongoing 21CI talks to mandate an expanded discussion which encompasses actual bilateral trade agreement provisions, provide the administration a budget and personnel resources to do so, and pass narrowly-defined trade promotion authority (TPA) exclusively for a US-Taiwan BTA to ensure rapid Congressional consideration following the conclusion of negotiations. The “all politics is local” dynamic inherent to free-trade discussions, particularly on sensitive issues like agriculture, almost certainly guarantees a long, drawn-out timeline for negotiation and eventual approval. Therefore, historically-strong US bipartisan Congressional support for Taiwan, especially in the wake of Russia's invasion of Ukraine, merits testing now to deliver a more impactful outcome to current 21CI talks. Congress has already clearly signaled its willingness to engage, passing bicameral, bipartisan legislation endorsing the early-harvest agreement and asserting its bona fides to approve any second phase 21CI outcome. President Biden eventually signed the bill on August 7, 2023, albeit with some reservations on what role Congress could play in an ongoing negotiation with a foreign partner.<sup>72</sup>

71 Kurt Tong, “Congress Should Get Creative on Taiwan,” *The Hill*, May 11, 2022, <https://thehill.com/opinion/international/3484872-congress-should-get-creative-on-taiwan/>.

72 The White House, “Statement from President Joe Biden on H.R. 4004, the United States-Taiwan Initiative on 21st Century Trade First Agreement Implementation Act” (press release), August 7, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/07/statement-from-president-joe-biden-on-h-r-4004-the-united-states-taiwan-initiative-on-21st-century-trade-first-agreement-implementation-act/>.

### *Get to the Point: Sharpening Existing Trade Initiatives*

In the absence of a BTA and pending the uncertain outcome of the 21CI process, the United States and Taiwan should focus on sharpening existing trade and investment-related tools to counter PRC pressure and meet the current moment's most pressing needs. In November 2020, the State Department launched the Economic Prosperity Partnership Dialogue (EPPD), which sought to fill the void left by a long-moribund TIFA process. EPPD has since convened annually, with senior-level State Department participation but no senior USTR involvement. Characteristic of most broad policy frameworks, EPPD initially captured a large basket of issues, covering topics ranging widely from global health security, science and technology, telecommunications security, supply chains, women's economic empowerment, infrastructure cooperation and investment screening.<sup>73</sup> However, as a State-led policy dialogue and not a trade negotiation per se, EPPD should streamline its agenda and play to its strengths, honing in on a few key strategic areas critical to safeguarding Taiwan's economic security and its ability to withstand PRC pressure. The fourth EPPD meeting which took place on December 7, 2023, moved somewhat in that direction, as participants discussed "responding to economic coercion, supply chain resilience and investment, addressing tax-related barriers to increase investment between the United States and Taiwan and ensuring a secure energy transition toward Taiwan's NetZero 2050 goals."<sup>74</sup>

Similarly, the Commerce Department-led Technology, Trade and Investment Collaboration

(TTIC) which began on December 6, 2021, should fill a practical, business-oriented role, laser-focused on delivering deals which support US and Taiwan efforts to rebuff the PRC's existential high-tech and semiconductor challenge. As billions of dollars in Taiwan investment flow into the United States to support cutting-edge semiconductor production and US businesses seek more opportunities to find partners in those sectors in Taiwan, TTIC still has further potential to help both sides shore up vertical supply chains and identify relevant commercial opportunities, particularly for small and medium-sized enterprises. With PRC disinformation running rampant spreading claims that such moves will inevitably hollow out Taiwan, TTIC can effectively counter the false narrative by using the ongoing hi-tech scramble to convince businesses to increase two-way investment levels and make new investments beneficial to both sides.

### *Step Ladder: Climbing Towards a BTA*

While occasionally overlapping, the current tracks involving 21CI, EPPD and TTIC usefully tie in three necessary US interagency players and an influential range of Taiwan senior officials. Tactically, however, the overall effort still lacks substantive building blocks which could build momentum towards a notional bilateral trade agreement and overcome coercive PRC actions. With the US *CHIPS Act* injecting new vigor into the US-Taiwan investment space, both sides would benefit from a strong bilateral investment agreement to reduce risks, provide reassurances, and offer protection to prospective investors in both the United States and Taiwan. A double taxation avoidance agreement (ADTA) would resolve nagging double taxation irritants and deepen integration of both economies. A bilateral supply chain agreement covering the range of semiconductor products and inputs would facilitate joint efforts to off-shore, re-shore or "friend-shore" vulnerable supply chains away from the PRC. And a digital trade agreement would facilitate the burgeoning growth of one of the most

<sup>73</sup> American Institute in Taiwan (AIT), "Fact Sheet to be Released by AIT and TECRO on US-Taiwan Economic Prosperity Partnership Dialogue" (fact sheet), November 21, 2020.

<sup>74</sup> US Department of State, Office of the Spokesperson, "The Fourth U.S.-Taiwan Economic Prosperity Partnership Dialogue" (press release), December 8, 2023.

significant, forward-looking sectors in US-Taiwan commercial relations. Structurally, 21CI negotiations have the capability to address these areas but require a White House signal or even a Congressional mandate to go far beyond its modest early-harvest goals and engage other relevant US agencies like the Treasury Department.

### *Among Friends: More International Cooperation with Taiwan*

More broadly, the United States should assist Taiwan to engage multilaterally with other like-minded partners to resist the PRC's malign trade practices and offer high-standard alternatives to the PRC's fraught investment model. In May 2023, G7 leaders "reaffirmed the importance of peace and stability across the Taiwan Strait as indispensable to security and prosperity in the international community" and called for "a peaceful resolution of cross-Strait issues."<sup>75</sup> The G7's recognition of provocative PRC behavior offers a unique opportunity for Taiwan to participate in signature G7 initiatives like the Partnership for Global Infrastructure and Investment (PGII) as a trustworthy democratic partner and responsible member of the international community. Taiwan would also benefit from G-7 efforts to boost resilience and deterrence in the face of PRC economic coercion. Thanks to its economic-oriented New Southbound Policy and longstanding

assistance programs with diplomatic allies, Taiwan could usefully promote and support high-quality G7 infrastructure alternatives in the ASEAN and Pacific Island regions, where the PRC's aggressive and opaque investment model is already ubiquitous.

Already a global trading powerhouse, Taiwan still seeks to join multilateral trade groupings like RCEP and CPTPP to strengthen its economic security and enhance its international recognition. While Taiwan's push to join CPTPP faces significant headwinds due to PRC pressure and the PRC's own concurrent CPTPP application, the United States should encourage its closest allies in CPTPP like Japan and Australia to work closely with Taiwan to make the necessary reforms and meet the required standards for CPTPP membership. At a minimum, even if its CPTPP membership is delayed indefinitely, these steps will strengthen Taiwan's appeal

as a trading partner and investment destination, provide a pathway for other potential bilateral trade agreements, and accelerate progress in trade talks with the United States.

The United States should encourage its closest allies in CPTPP like Japan and Australia to work closely with Taiwan to make the necessary reforms and meet the required standards for CPTPP membership.

<sup>75</sup> The White House, "G7 Hiroshima Leaders' Communique" (press release), May 20, 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-hiroshima-leaders-communique/>.



## Economic Sanctions and Export Controls

Sanctions are a tool in a state's geoeconomic toolkit. Taking the US Treasury's definition as the standard: "sanctions can be either comprehensive or selective, using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals."<sup>76</sup> In order to address the issue of how to counter PRC threats against Taiwan and the international economic order, we have to first understand how the PRC is engaged in a comprehensive geoeconomic strategy aimed at creating economic dependencies on China that would increase its leverage and lead to political deference to Chinese interests. With leverage, Beijing can utilize tools like trade restrictions and blocking of assets for their desired political effects—this is particularly the case with Taiwan.

### *PRC Trade Restrictions and Blocking of Assets on Taiwan*

On the defensive side, the United States and Taiwan should consider how to mitigate the effects of PRC-targeted sanctions, which are deliberately coercive in nature.

Beijing is rolling out a suite of economic measures to ostensibly influence Taiwanese voters. Immediately following the overt military pressure demonstrated by PLA exercises encircling Taiwan after President Tsai Ing-wen met US Speaker Kevin McCarthy in California during a transit through the United States, the Ministry of Commerce of the PRC issued a public notice<sup>77</sup> on April 12 that Beijing was initiating a trade barrier investigation into

Taiwan's alleged restrictive trade measures against China. Specifically, the investigation will involve 2,455 products,<sup>78</sup> mainly agricultural, mineral, and chemical products and textiles. Lying in plain sight is the political motivation of the decision, the investigation is slated to conclude on or before October 12, while also explicitly indicating that it could be extended to January 12, 2024—a day before people in Taiwan head to the polls—"under special circumstances."<sup>79</sup>

Beijing's announcement of its alleged trade barrier investigation should not be viewed in isolation from the other economic measures targeting Taiwan that China has ramped up in greater scale and intensity since the start of President Tsai's second term. In an interview with *Vox*, Chiao Chun, the author of *Fruits and Politics—A Recollection of Cross-strait Agricultural Interaction Over the Past Decade*, astutely observed: "The motivations behind China's ban are politics and elections. China's ambition for Taiwan has always been unification [...] It's a comprehensive top-down strategy, wrapping around Taiwan's agriculture, farmers, and agricultural products like a net."<sup>80</sup>

During Tsai's first term (2016-2020)—as the Trump Administration launched a trade war with China—Beijing emphasized doling out economic enticements to lure more businesses and people from Taiwan. This strategy was exemplified by the two tranches of preferential economic measures<sup>81</sup> that Beijing imposed in 2018-2019. During Tsai's second term, Beijing has decidedly changed this approach and is now leaning heavily on coercive economic tools through a combination of targeted bans of select goods, expanded

76 US Department of the Treasury, Office of Foreign Assets Control, "Sanctions Programs and Country Information," accessed September 9, 2023, <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information>.

77 People's Republic of China (PRC) Ministry of Commerce, "商务部公告2023年第11号 商务部关于就台湾地区对大陆贸易限制措施进行贸易壁垒调查的公告 [Announcement No. 11 of 2023 of the Ministry of Commerce]" (press release), April 12, 2023, <http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202304/20230403403369.shtml>.

78 Ibid.

79 Ibid.

80 *Vox*, "How China uses fruit to punish Taiwan," YouTube video, April 1, 2022, [https://www.youtube.com/watch?v=eFdMUPTM\\_9Y](https://www.youtube.com/watch?v=eFdMUPTM_9Y).

81 Russell Hsiao, "Fortnightly Review," *Global Taiwan Brief* 4, no. 22, November 20, 2019, <https://globaltaiwan.org/2019/11/fortnightly-review-v4-i22/>.

import restrictions of a range of products beyond just agricultural and aquatic goods, arbitrary regulatory enforcements targeting select companies for their political activities, and the sanctioning of individuals and organizations.

### *Incremental Coercion in Tsai's Second Term*

In the first wave of this new campaign, China targeted the farmers—a traditional constituency of the ruling Democratic Progressive Party that is mainly situated in the southern parts of the island. Beijing accomplished this by banning the import of major Taiwanese agricultural products: pineapples in February 2021, sugar apples and wax apples in September 2021, and finally grouper fish in June 2022. Although Chinese government officials cited harmful pests, chemicals, or other irregularities as justifications, Beijing was using these bans primarily as a tool of economic coercion. It is no surprise that many of Taiwan's top 10 agricultural exports to China in 2020—namely pineapple, sugar apple, grouper, other fresh and frozen fish (i.e., largehead hairtail, fourfinger threadfin), skipjack tuna, squid, other frozen fish, and java apple—have all been banned by Chinese authorities.

In addition to import bans, Beijing began issuing stern warnings to Taiwanese businesses operating in the PRC to mind their political contributions within Taiwan. In November 2021, Chinese textile and cement subsidiaries of Taiwan's Far Eastern Group—a major donor to the two major political parties within Taiwan—were arbitrarily fined USD \$13.87 million for a series of supposed regulatory violations, including breaches of environmental protection rules.

Then, in a clear escalatory move—after then-Speaker of the House Nancy Pelosi visited the island in August 2022—China suspended natural sand exports, while also blocking imports of citrus fruits, chilled white scallops, frozen mackerel, as well as confectionery products, including suspending imports from 35

Taiwanese exporters of biscuits and pastries. In total, the PRC's General Administration of Customs (GAC) suspended imports of more than 2,000 of about 3,200 food products from Taiwan.

In comments made to the *Financial Times* following the announcement of these broad bans, Chiu Chui-cheng, deputy chair of Taiwan's Mainland Affairs Council (MAC), stated:

*"In the past, China hit single products from the primary sector such as specific fruit or fish—that way, they kept the overall macroeconomic impact on Taiwan limited but could target regions where the Democratic Progressive party is strong [...] But now they are broadening this immensely as they are targeting processed foods, which gives them enormous extortion powers. This is probably only the beginning. We are certain that they will further step up their economic coercion measures."*

### *Implications for Taiwan's National Elections*

The most recent investigative action taken by the PRC follows the long-established pattern of employing a mix of economic enticements and punishments to influence Taiwan's politics and elections. However, the effects of the recently announced measure by the PRC Ministry of Commerce may be more subtle and potentially more effective than its previous tactics. The investigation, depending on how it is implemented, would make Chinese economic leverage a semi-permanent fixture in Taiwanese politics—at least right until the January elections. This would represent a notable departure from the one-off effects that targeted bans or sanctions have had in the past.

The investigation will essentially hang as the backdrop for the national elections and could make the viability of the Economic Cooperation Framework Agreement (ECFA) into a national election issue.

Beijing could use the ongoing review to justify and indirectly threaten the cancellation of the agreement, which was struck in 2010 between the Kuomintang (KMT) government under Ma Ying-jeou and the PRC. This could have significant economic ramifications for Taiwan, as the ECFA cut tariffs on 539 Taiwanese exports to China and 267 Chinese products entering Taiwan—“mainly in the fields of petrochemicals, machinery, textiles, and transport, and tariff-free preferential terms for agricultural and fisheries products, including fruit, cut flowers and fisheries goods.” Still, despite these seemingly high numbers, Taiwan’s Ministry of Economic Affairs forecasted that a termination of the agreement would affect less than five percent of trade exchanges with China.

Since 2016, when the Democratic Progressive Party (DPP) took back power from the KMT, Beijing has hinted that it could rescind ECFA as a means to punish the ruling administration. These concerns reached a fever pitch in 2022 during the Pelosi controversy when China significantly escalated its rhetoric regarding the future of the agreement. Accordingly, right as Speaker Pelosi visited Taiwan—and while the PLA was conducting unprecedented exercises around Taiwan—the KMT’s Vice Chairman Andrew Hsia flew to Beijing to obtain reassurances that China would not scrap the ECFA.

### *Leveraging Taiwan Businesses in the PRC*

In addition to political parties, another clear target of Beijing’s action is Taiwanese businessmen. China has long used Taiwanese business interests in the PRC to interfere in Taiwan’s political process. The Association of Taiwan Investment Enterprises on the Mainland (ATIEM) is the most prominent vehicle for Chinese influence.

Founded in 2007, ATIEM is a business association—managed under the auspices of the Taiwan

Affairs Office (TAO)—consisting of around 300 Taiwanese-funded enterprises and their members in China. The organization acts as a lobbying group for Taiwanese businesses both in China and in Taiwan. According to a 2012 investigative report by *Reuters*, ATIEM previously tried unsuccessfully to lobby the Taiwan government to overturn a rule that bars citizens of Taiwan from taking positions in state or party bodies in China, such as the Chinese People’s Political Consultative Conference (CPPCC).

Taiwanese businessmen in China interviewed by the Singapore-based *Lianhe ZaoBao* stated their belief that if Beijing wanted to take action on cross-strait economic and trade, the CCP could simply terminate the ECFA. Instead, Beijing’s announcement of the trade investigation was intended to send a strong warning to Taiwan that “if it continues to seek independence and allow external forces to interfere, it must be prepared to face a large-scale trade punishment.” Wu Jiaying, executive vice president of ATIEM and chairman of Jiahao Group (Xiamen) Co. Ltd., said that all those engaged in cross-strait economic and trade exchanges were worried when they heard about the investigation. While he stated that Beijing’s trade investigation may be more symbolic than substantive, it nevertheless carries with it a strong sense of foreboding.

It is worth noting that voter turnout in Taiwan’s general election is generally relatively high, which could have an impact on the election results. According to the Directorate General of Budget, Accounting and Statistics (DGBAS), 163,000 Taiwanese worked in China in 2021—representing a decrease of 76,000 people (19.2 percent) from 2019 and 261,000 persons (61.6 percent) from 2011. A quarter of a million Taiwanese residents in China reportedly voted in the country’s 2012 presidential election, and an estimated 100,000 Taiwanese businessmen voted in 2016. Despite these decreased numbers, Taiwanese citizens located in China continue to represent a significant political constituency both in terms of their votes and

campaign contributions. With polls predicting an increasingly tight race in January 2024, every vote will count.

Chinese economic statecraft includes not just enticements, but also punishments. Beijing's recent measures reflect a hardening of its coercive economic approach through a combination of targeted bans of select goods, broadened import restrictions, arbitrary regulatory enforcements, and sanctions of individuals and organizations. Although recent measures do not appear to represent a major departure from Beijing's longstanding strategy, these measures do represent a doubling down of Xi Jinping's campaign to pressure Taiwan and its voters. While there are currently significant proposals under consideration in the US Congress to mitigate the effects of Chinese economic coercion, the question remains whether the relief will arrive in time to have any meaningful effects.<sup>82</sup>

The arbitrary and capricious enforcement of regulations demonstrates the validity of growing concerns that Beijing is willing and able to utilize its economic levers of power for political leverage by deterring businesses and the public from support-

Beijing is willing and able to utilize its economic levers of power for political leverage by deterring businesses and the public from supporting policies that the CCP opposes.

ing policies that the CCP opposes. It is worth noting that these conglomerates, as well as small and medium enterprises, have significant assets located in China and as such would be susceptible to economic coercion should Beijing threaten to seize these assets either in the event of a military conflict or exact undue financial burden during a period of tense political relations—as cross-strait relations are in at present.

While China still represents a large and lucrative market for many businesses, the questionable reliability and increasing propensity with

which it is utilizing its economic power to serve its political objectives, often through coercive means, raises serious doubts and questions about the viability of the existing neo-liberal economic order.

### *Counter-measures on PRC Trade Restrictions on Taiwan*

As Taiwan tries to diversify from its excessive dependence on the China market to reduce its risk exposure—it will likely do so incrementally. It is worth pointing out that Taiwan is engaging in geoeconomics as well, for example, the large-scale investments in American, Japanese, and Lithuanian chip production.<sup>83</sup> It would be impossible for Taiwan to divest completely barring a military conflict but it needs to reduce its exposure which is an increasing risk.

Taiwan's New Southbound Policy, launched in 2016, serves as an important vehicle for this strategy by deepening economic and people-to-people cooperation with the region as well as the other countries.

<sup>82</sup> There are at least two notable legislative efforts that have been introduced that address two prongs of these efforts. While the [Stand with Taiwan Act](#) focuses on deterrence by economic punishment, the [Countering Economic Coercion Act](#) addresses deterrence by denial of the effects of PRC economic coercion. According to [a recent study published by CSIS](#), "Deterrence by denial--focused on resilience and relief for targeted countries—is more likely to mitigate, and over time deter, China's problematic behavior by decreasing its likelihood of success, frustrating Beijing's intent."

<sup>83</sup> Andrius Sytas, "Taiwan to invest 10 mln euros towards chip production in Lithuania," *Reuters*, November 10, 2022, <https://www.reuters.com/technology/taiwan-invest-10-mln-euros-towards-chip-production-lithuania-2022-11-07/>.



As the United States seek to strengthen economic ties abroad and enhance the security of the global supply chain, especially in advanced technology and other critical sectors, to reduce China's leverage and ensure US economic security, these priorities clearly reflect and complement Taiwan's own national and foreign policy interests and potentially create opportunities for greater bilateral cooperation with the United States. The United States should assist Taiwan in expanding its economic space by including it in multilateral agreements within the region.<sup>84</sup>

On a more global scale, the US and her allies and partners through G-7, for instance, the G-7 Finance Ministers meet semi-annually, and encourage this trend in Taiwan and pro-actively follow Japan's lead in off-setting the trade sanctions placed on Taiwan in providing relief to the agricultural product bans put in place by Beijing to punish the government's policies.

To put a finer point on the matter, the former foreign secretary and prime minister of the United Kingdom have noted the need to protect Taiwan. Specifically, Liz Truss stated that "The G7 should act as an economic NATO, collectively defending our prosperity. If the economy of a partner is being targeted by an aggressive regime, we should act to support them. All for one and one for all."<sup>85</sup> In the

84 Satu Limaye, Robert Wang, and Russell Hsiao, "Trends in Taiwan's New Southbound Policy and Impacts, Southeast Asia's Demand Signals for NSP, and Building a US-Taiwan Development Assistance Coordination Mechanism and Programs," *Assessing Trends and Demand Signals for Taiwan's New Southbound Policy and Building a US-Taiwan Coordination Mechanism*, Global Taiwan Institute (Washington DC: December 2022), [https://globaltaiwan.org/wp-content/uploads/2023/02/TAEF-GTI\\_2022\\_Final.pdf](https://globaltaiwan.org/wp-content/uploads/2023/02/TAEF-GTI_2022_Final.pdf).

85 Liz Truss, "The return of geopolitics: Foreign Secretary's Mansion House speech at the Lord Mayor's 2022 Easter Banquet" (speech, London, updated April 29 2022), UK Foreign, Commonwealth, and Development Department, <https://www.gov.uk/government/speeches/foreign-secretarys-mansion-house-speech-at-the-lord-mayors-eas>

same speech, Truss added: "We need to pre-empt threats in the Indo-Pacific, working with our allies like Japan and Australia to ensure the Pacific is protected. And we must ensure that democracies like Taiwan can defend themselves."

### *Comprehensive Sanctions Regime for Deterrence*

As the Ukraine War has laid bare, the complete toolkit must be considered if the international community is seriously concerned about deterring PRC military aggression against Taiwan. In the case of Ukraine, the threat of economic sanctions alone as a means of deterrence failed. Military or economic means alone cannot deter Beijing. As noted by a former senior sanctions advisor at the US Treasury, the lessons in the case of economic sanctions from Russia's invasion of Ukraine for a Taiwan scenario is that a 1) multilateral campaign can significantly damage and degrade capabilities; however, 2) it did not deter (cannot change their decision).<sup>86</sup>

While the suite of sanctions enacted by the international community led by the United States did place enormous pressure on the Russian regime, the way that it was implemented in succession did not deter Putin's Kremlin from invading Ukraine in the first place. This is not to say that sanctions themselves are unimportant and not critical tools for deterrence or tools for degrading the capacity of the adversary after the fact, it is not possible at this point to know whether the sanctions had been signaled more powerfully and communicated with allies that could have deterred Russia. At the very least, a far more forceful and comprehensive set of sanctions would need to be considered in the case of China. The key may be scale, coordination, and implementation.

ter-banquet-the-return-of-geopolitics.

86 GOP Financial Services, "Hearing Entitled: Combating the Economic Threat From China," Youtube video, February 7, 2023, <https://www.youtube.com/watch?v=RGJAPZY-fjAc>.

To be sure, the cost of sanctions on China would be far greater and more complicated than the one imposed on Russia. For one, the PRC is far more integrated into the global economy than Russia, therefore the costs would be far more widespread and impact on the global economy. Yet, the consequences of war in the Taiwan Strait would also far outweigh that of Ukraine. Does this mean that, as one former Treasury adviser noted, it would depend more on the negative economic effects than its political objectives?<sup>87</sup> This could also mean that it is more susceptible to the economic effects of sanctions on its political stability.

The international community should consider a preemptive sanctions list for preparation and deterrent signaling. This would require intense discussions to foster greater alignment with allies and like-minded partners. The strategy would necessarily have to be comprehensive to be an effective approach for deterrence since unilateral sanctions will inevitably fail. At the same time, allies and like-minded should be discussing new modes for multilateral export controls.

A similar model to consider is Coordinating Committee for Multilateral Export Controls (CoCOM) model put in place after WWII,<sup>88</sup> which was established by the Western Bloc during the Cold War, to put an embargo on COMECON countries.

The *Sanctions Targeting Aggressors of Neighboring Democracies (STAND) with Taiwan Act* of 2023 introduced by Representative Mike Gallagher and Senator Dan Sullivan underscore the necessity of economic measures for deterrence. The *Act* if signed

into law would require the imposition of “crippling, comprehensive economic and financial sanctions on China if the PLA or its proxies initiate a military invasion of the island democracy of Taiwan.”<sup>89</sup> The *Act* “would also prohibit US financial institutions—including investment companies, private equity firms, venture capital firms, or hedge funds—from making any investments in a Chinese entity that benefits or is affiliated with the CCP. The bill would also block the importation of certain goods mined, produced, or manufactured wholly, or in part, in the People’s Republic of China.”<sup>90</sup>

While China’s technology sector should be a clear target of concerns and possible sanctions for its malign practices, the impact of secondary sanctions, direct or indirect, will need to be carefully considered to not overly burden allies and partners—or at the least relief measures should be on the table to ensure that allies and partners remain aligned with the efforts. The *Countering Economic Coercion Act* addresses deterrence by denial of the effects of PRC economic coercion.

### *Effective Regulatory Coordination for Inbound and Outbound Controls*

Effective export controls require effective regulatory coordination among allies and like-minded partners. As such, US regulatory bodies such as the Federal Trade Commission (FTC) and Federal Communications Commission (FCC) should be having regular discussions and actively coordinating with counterparts in Taiwan as well as other allies and like-minded partners, to protect their industries against the harmful practices by PRC. This should

<sup>87</sup> Ibid.

<sup>88</sup> In the United States, CoCom compliance was implemented in the 1960s via the *Arms Export Control Act* (AECA) and the State Department’s regulatory supervision on AECA via International Traffic in Arms Regulations (ITAR), which are still in effect. [https://en.wikipedia.org/wiki/Coordinating\\_Committee\\_for\\_Multilateral\\_Export\\_Controls](https://en.wikipedia.org/wiki/Coordinating_Committee_for_Multilateral_Export_Controls).

<sup>89</sup> Congressman Mike Gallagher, “Gallagher, Sullivan Introduce STAND with Taiwan Act” (press release), March 30, 2023, [https://gallagher.house.gov/media/press-releases/gallagher-sullivan-introduce-stand-taiwan-act#:~:text=Mike%20Gallagher%20\(R%2D\),Army%20\(PLA\)%20or%20its%20proxies](https://gallagher.house.gov/media/press-releases/gallagher-sullivan-introduce-stand-taiwan-act#:~:text=Mike%20Gallagher%20(R%2D),Army%20(PLA)%20or%20its%20proxies).

<sup>90</sup> Ibid.

start with harmonizing regulations, and administrative processes, and strengthening law enforcement coordination among these bodies to more effectively regulate China's behaviors. At the same time, this would require competitive tax and regulatory policies.

### *International Cooperation*

A high-level inter-governmental vehicle by which to coordinate an international response to potential Chinese aggression would be through G-7 or a D-10.<sup>91</sup> The *Taiwan Allies International Protection and Enhancement Initiative Act* signed into law in 2020 authorizes bolstering US relations with other countries that help to support or downgrade support in consideration of their relations with Taiwan.

*“(2) consider, in certain cases as appropriate and in alignment with United States interests, increasing its economic, security, and diplomatic engagement with nations that have demonstrably strengthened, enhanced, or upgraded relations with Taiwan; and*

*(3) consider, in certain cases as appropriate, in alignment with United States foreign policy interests and consultation with Congress, altering its economic, security, and diplomatic engagement with nations that take serious or significant actions to undermine the security or prosperity of Taiwan.”<sup>92</sup>*

In effect, the United States should accelerate the

91 Erik Brattberg and Ben Judah, “Forget the G-7, Build the D-10,” Carnegie Endowment, June 10, 2020, <https://carnegieendowment.org/2020/06/10/forget-g-7-build-d-10-pub-82062>.

92 US Congress, House, *Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act of 2019*, PL 116-135, 116th Cong., passed in House March 26, 2020, <https://www.congress.gov/bill/116th-congress/senate-bill/1678/text>.

formation of a realigned trading bloc that is more aligned with US national security interests, and make economies far less susceptible to Chinese economic coercion.

There could also be a more concerted effort to encourage other legislative bodies to enact their version of the *STAND with Taiwan Act*, according to Senator Sullivan:

*“I’ve been going around the world, the EU, allies, the Germans, the Brits, the Dutch, the Koreans, the Japanese, with my legislation saying that ‘[...] you guys should be doing something too.’ Think about it, if we can get 70% of the world’s GDP to essentially say [...] here’s what you’re to go to get, Xi Jinping if you invade Taiwan from an economic, financial, and energy sanctions package. That could likely have the biggest deterrence impact on an invasion than anything [...] even two carrier strike groups.”<sup>93</sup>*

The clearest articulation of the need to think strategically about the economic dimension of countering Chinese coercion on Taiwan by an international leader was expressed by Japanese lawmaker Kono Taro. The Japanese politician who had previously served as the country’s foreign and defense minister under the late Abe Shinzo, made the following comments during a discussion hosted by the Brookings Institution:

*“If we are to be ready for Chinese coercion vis-à-vis Taiwan we need to consolidate strategy among the like-minded countries. And where we’re going to start and which timeframe, and what is the product[s] that we are to divest out of China or to onshore to each country? We need a coordinated strategy, otherwise, if some country wanted to divest on shore, someone else might try to come*

93 Project 2049 Institute, “Why We Stand with Taiwan and Allies in the Indo-Pacific,” Youtube video, March 28, 2023, <https://www.youtube.com/watch?v=3biTOqxdXHc>.

*in and cut the market share in China or try to steal the production capacity in China. So we're going to be fighting among ourselves, [and] that would [defeat] the original objectives.*

*So we need a consolidated strategy vis-à-vis China. So that would sort of deny any selfish subsidy or selfish industrial policy using China as a pretext. So I think it's time for us to sit down and come out with [a] consolidated strategy for how we're going to be ready [...] [not only] for China's [...] invasion, but [also] coercion vis-à-vis Taiwan.”<sup>94</sup>*

The United States, in addition to allies and like-minded partners, should conduct TTX on economic sanctions to assess retaliatory and impact assessments. At the same time, there needs both defensive measures and affirmative (creating new opportunities) by encouraging market access agreements to meaningful incentives to realign the supply chain. Serious trade policy (bilateral trade agreement, UK, Kenya, Taiwan, and CPTPP) and look at other subnational initiatives.

For its part, Taiwanese officials are also appealing to the European Union (EU) and individual European governments to consider sanctions on China and to form a common position before, *not after*, the outbreak of conflict.<sup>95</sup> It is worth noting that the EU's new ambassador to China, Jorge Toledo Albiñana, stated: “In the event of a military invasion [of Taiwan] we have made it very clear that the EU, with the US and its allies, will impose similar or even greater measures than those we have now taken against Russia.”<sup>96</sup>

94 Dollar, Goto, Kono, and Yamashita, “US-Japan relations in an era of economic statecraft.”

95 David Hutt, “Should Europe Discuss Sanctioning China Now?” *Internationale Politik Quarterly*, October 10, 2022, <https://ip-quarterly.com/en/should-europe-discuss-sanctioning-china-now>.

96 Xavier Mas De Xaxás, “Jorge Toledo: “Necesitamos

As an indicator of how such discussions have progressed, even the government of Switzerland, a neutral country, has also indicated that it would adopt EU sanctions against China.<sup>97</sup> The imperative is that allies and like-minded partners need to be thinking about a sanction package now. The National Security Council should be actively discussing the matter with its partner. Perhaps somewhat counter-intuitively the best way to help Taiwan's long-term security is by signing a free trade agreement that weans its economic dependence on China.<sup>98</sup>

### *Countries are Hedging against the Risks of Overreliance on Taiwan*

As countries are considering ways to economically deter China from invading Taiwan, it is also worth remembering that they are also hedging against the risks of their overexposure and reliance on Taiwan, particularly for its critical semiconductors. This concern was also explicitly conveyed by the Japanese lawmaker, who noted that “we cannot continue relying on Taiwan's capability to develop [the] latest technology on semiconductors. So we'll probably need to create some kind of consortium among the like-minded countries to try to develop semiconductor technology among ourselves, so just in case something happened to TSMC or something happened to [the] Taiwan semiconductor industry we can replace them with our capability.”

---

a China para gobernar el mundo [Jorge Toledo: We need China in order to govern the world],” *La Vanguardia*, July 17, 2022,

<https://www.lavanguardia.com/internacional/20220717/8402380/necesitamos-china-gobernar-mundo.html>.

97 “Swiss set to match EU sanctions if China invades Taiwan - agency chief,” *Reuters*, July 30, 2022, <https://www.reuters.com/world/asia-pacific/swiss-set-match-eu-sanctions-if-china-invades-taiwan-agency-chief-2022-07-30/>.

98 GOP Financial Services, “Hearing Entitled: Combatting the Economic Threat from China.”



The current situation has created a dilemma for Taipei. On the one hand, Taiwan welcomes increased attention to its importance in the global tech supply chain. On the other, however, it is concerned that countries becoming less dependent on Taipei for such materiel might make it less likely that they would come to the defense of Taiwan in the event of a military conflict. It is therefore not surprising that part of Economic Minister Wang's central message in Washington was that: "If Taiwan is safe, the global supply chain will also be secure. This is in the world's greatest interest for Taiwan to work with [the] US and other allies to maintain the most efficient production."<sup>99</sup>

On the one hand, Taiwan welcomes increased attention to its importance in the global tech supply chain. On the other, however, it is concerned that countries becoming less dependent on Taipei for such materiel might make it less likely that they would come to the defense of Taiwan in the event of a military conflict.

---

<sup>99</sup> David Shepardson and David Brunnstrom, "If Taiwan is safe, chip supply chains will be secure, says Taiwan minister," *Reuters*, October 11, 2022, <https://www.reuters.com/world/asia-pacific/if-taiwan-is-safe-chip-supply-chains-will-be-secure-says-taiwan-minister-2022-10-11/>.

## Fiscal and Monetary Policies

### *Incentivizing Taiwanese Investments into the US through Smart Taxation Laws*

While tax policy may not be what comes immediately to mind when one thinks about foreign policy, an effective tax policy is essential in any strategy to direct capital flows and so must be considered a tool to further this strategic objective. The United States has an obvious interest in encouraging greater capital investments into the United States, and Taiwan has a strong national security interest to diversify its investments from its current China-heavy allocations to alternatives—ideally to the United States, its most important security partner.

For starters, to encourage greater capital investments from Taiwan into the US, the United States should immediately implement an avoidance of double taxation agreement (ADTA) and, if that is not possible immediately, consult with state governors on facilitating subnational initiatives as a stopgap measure. It is worth noting that in 2020, the American Institute in Taiwan's Taipei office—the *de facto* embassy of the United States—commissioned a survey in which 79 percent of respondent Taiwanese companies with a presence in the US consider the current 30 percent dividend withholding tax to be a considerable factor preventing investment in the United States.<sup>100</sup>

It is also worth noting that the US already has multiple tax agreements in place with Taiwan, including a transportation income tax agreement and an agreement to facilitate the implementation of the *Foreign Account Tax Compliance Act* (FATCA).<sup>101</sup> But these do not cover the critical areas that would help level the

playing field for Taiwanese businesses competing with other international companies when doing business in the United States.

Given the importance, some US lawmakers are calling for an ADTA. In this context, in July 2022 Senator Chris Van Hollen and Senator Ben Sasse passed a resolution calling on President Biden to negotiate a tax agreement with Taiwan. According to Senator Chris Van Hollen: “For decades, Taiwan has been a key economic partner of the United States. Yet, right now Taiwanese and US businesses are double-taxed due to the lack of a formal joint tax agreement. It’s time to address this gap in our trade policy, and our resolution urges the Biden Administration to begin negotiations to that end.”<sup>102</sup>

- Encourage the President to begin negotiations and encourage the House to work with the Senate on a congressional-executive agreement to establish an income tax agreement between the United States and Taiwan.
- Recognize the importance of Taiwan’s security and prosperity to the United States security and prosperity and that eliminating double-taxation of US and Taiwanese firms could boost bilateral trade and investment, potentially creating new job growth in the United States.
- It would also encourage the President to seek other ways to increase trade, technology, and investment ties between the United States and Taiwan.<sup>103</sup>

However, due to the lack of diplomatic relations, the United States is constrained in its ability to sign a traditional treaty with Taiwan, which is the instrument for international agreements to solve double taxation. At the very least to start negotiations and find an instrument for authorization.

<sup>100</sup> Taipei Economic and Cultural Representative Office, “Need for a Taiwan-US Avoidance of Double Taxation Agreement (ADTA) to create more attractive environments for two-way investments” (fact sheet), January 2023.

<sup>101</sup> Office of Senator Chris Van Hollen, “VAN HOLLEN, SASSE CALL FOR US TO NEGOTIATE A TAX AGREEMENT WITH TAIWAN” (press release), July 22, 2022, <https://www.vanhollen.senate.gov/news/press-releases/van-hollen-sasse-call-for-us-to-negotiate-a-tax-agreement-with-taiwan>.

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

There is perhaps a need to develop a legislative pathway to address Taiwan's unique status.

### *The Hidden Dangers of Currency Swap Agreements*

While cross-Strait trade in goods and services as well as investments are often referenced to highlight the depth and breadth of economic interactions between the two sides, remittances in both directions are also high. A decade ago in 2013 that amounted to USD \$560 billion, thus creating high demand for more RMB-related services, which had supported the efforts of the Ma administration to turn Taiwan into a significant offshore RMB hub to attract financial services in Taiwan.

In 2012, Taiwan and China signed an MoU on cross-Strait currency-clearing cooperation that established the basic principles and cooperative framework of a currency-clearing mechanism for the two sides of the Taiwan Strait.<sup>104</sup> In 2014, RMB deposits were the second largest among foreign currency deposits in Taiwan, only second to those in the US dollar—reaching a total of RMB 302.2 billion in 2014 and representing the second largest offshore RMB liquidity pool (Hong Kong is first).<sup>105</sup>

As noted by Blackwill and Harris, the “cross-Strait currency swap agreement signed in August 2012 has cleared a path for China to use monetary policy as a means for further influencing Taiwanese behavior at the global level. Renmin-

bi-denominated bonds, or ‘Formosa bonds,’<sup>106</sup> were issued by four Chinese state-owned banks in late 2013, a move that further boosts Taiwan's bond markets and sets a precedent for other mainland Chinese issuers. With combined values of RMB 4 billion, the first issuance of these bonds helps give mainland China broader access to offshore renminbi funds as the market for Formosa continues to develop.”<sup>107</sup>

At the time, and as continues to be the case today, RMB backflow channels were limited due to China's investment regulations.<sup>108</sup> To fulfill this gap, Taiwan authorities eased restrictions on China-based banks to issue Formosa bonds to attract more issuers and investors in 2013. In 2021, the “First Abu Dhabi Bank (FAB), the UAE's largest bank and one of the world's largest and safest financial institutions, has issued the year's first Chinese Yuan (CNY) in the Formosa bond market.”<sup>109</sup>

In 2014, the FSC further catalyzed the market by removing the cap on life insurers' investment in onshore foreign currency bonds. By 2015, the issuance of RMB bonds in Taiwan totaled 11.3 billion yuan, up 132 percent from the previous year. The last major development in this space took place in 2015 when the ceiling on Chinese banks issuing yuan-denominated bonds was raised to 45 billion from 25 billion. Taiwan's FSC did not provide further indications at the time that it would expand Chinese firms' permission to issue Formosa Bonds.

104 Wang Xiaotian, “Cross-Straits currency clearing deal signed,” *China Daily*, August 31, 2012, [http://www.chinadaily.com.cn/business/2012-08/31/content\\_15725895.htm](http://www.chinadaily.com.cn/business/2012-08/31/content_15725895.htm).

105 Chiang-Feng Lin and Tsai-Chia Chen, “The Development and Challenges of Formosa Bond Market” Tamkang University Institutional Repository, October 15, 2015, <https://core.ac.uk/download/pdf/225239484.pdf>.

106 Blackwill and Harris, *War by Other Means*, p. 100.

107 Ibid.

108 Backflow refers to the ability for bond issuers in Taiwan to use their RMB for investments in China. Of course, this substantially undermined the quality of the bonds and investor confidence in them. While there were plans to ease these restrictions, this legislation was also swept away with the suspension of the Cross-Strait Services Agreement.

109 “FAB issues this year's first Chinese Yuan in Formosa bond market,” First Abu Dhabi Bank, accessed September 8, 2023, <https://www.bankfab.com/en-ae/about-fab/group/in-the-media/20211201-fab-issues-this-years-first-chinese-yuan>.

### *Prospects and Challenges for the Formosa Bond*

At the moment, it appears Formosa bonds are more attractive for issuers than for investors, as the market is still small. Even so, Taiwan's life insurance companies present an opportunity to boost this investment, as the island's demographic challenge will force such corporations to fulfill their yields in other ways. Another opportunity is for Taiwan to benefit from its attractive cross-currency basis swaps between the USD and RMB.<sup>110</sup> According to Taiwan Exchange data, issuance continues to grow—if only among specific sectors.

However, according to Kenneth Lin, an economist at National Taiwan University, cited in the Blackwill and Harris study, “[w]ith Taiwan hoarding hundreds of billions of yuan, especially now average citizens are also including renminbi as part of their assets, any significant fluctuation in the yuan's exchange rate may undermine Taiwan's financial stability.” “With the renminbi's exchange rate controlled by the government rather than decided by the free market, Beijing could wield it as a weapon. This is part of the currency war,” he concluded.<sup>111</sup>

### *Regulating Investments*

Undergirding the importance of investment control is the transparency requirements. Mandatory disclosure requirements so investors are more aware of exposure to China.

While allies and like-minded partners should be actively blunting Beijing's ambitions to forcibly take Taiwan, a robust inbound regime (FIRMA/CFIUS, updated 4 years ago) should also be actively developed to guard against malign practices during peacetime. Indeed, the most persistent type of harm has been

incurred during peacetime and it would require measures during peacetime to avoid this worst-case scenario—this would require prudent steps that will minimize the risks of overdependence on the Chinese market.

The United States with Taiwan should begin coordination on sharing intelligence with partner countries to assist with CFIUS reviews with allies and like-minded partners through multilateral coordination and help support other bodies' investigation into the national security risks of Chinese investments in their industries. This includes Taiwanese companies that China may use as intermediaries to steal other countries' technologies as evidenced by the case of Micron Technology in 2018 that involved “United Microelectronics Corporation (“UMC”), a Taiwan semiconductor foundry; Fujian Jinhua Integrated Circuit, Co., Ltd. (“Jinhua”), a state-owned enterprise of the PRC; and three Taiwan nationals.”<sup>112</sup>

### *Outbound Investment Controls*

Taiwan is currently only one of two countries with an outbound regime that controls outbound investment. Through fiscal and monetary policy, Taiwan should be able to encourage or discourage investment behaviors that would help strengthen security. “Taiwan's outbound foreign investment, particularly in tech, continues to go to mainland China despite strict controls.”<sup>113</sup> (53 percent in 2022)

112 US Department of Justice, “PRC State-Owned Company, Taiwan Company, and Three Individuals Charged With Economic Espionage” (press release), November 1, 2018, <https://www.justice.gov/opa/pr/prc-state-owned-company-taiwan-company-and-three-individuals-charged-economic-espionage>.

113 Chad P. Bown and Yilin Wang, “Taiwan's outbound foreign investment, particularly in tech, continues to go to mainland China despite strict controls,” Peterson Institute for International Economics, February 27, 2023, <https://www.piie.com/research/piie-charts/taiwans-outbound-foreign-investment-particularly-tech-continues-go-mainland>.

110 A cross currency swap occurs when two parties simultaneously lend and borrow an equivalent amount of money in two different currencies for a specified period of time

111 Blackwill and Harris, *War by Other Means*, p. 100.



## *Bolstering Taiwan's National Stabilization Funds and Making Taiwan More Financially Resilient*

The fallout from COVID-19—which originated in Wuhan—was felt throughout the world. As the coronavirus pandemic spreads, authorities around the globe are scrambling to mitigate its fatal health effects and its widespread economic disruption. Indeed, global markets are tumbling and hitting new bottoms—at least in recent memory—due to the profound impact that the virus is having on economic activities, and an end does not yet appear in sight. Governments across the world are attempting to respond to the health and economic crisis with various stimulus and stabilization measures—and international monetary and fiscal institutions are calling for a coordinated global response to assist smaller and more vulnerable economies.

The US market just concluded its worst week since the financial crisis of 2008 and lawmakers are finalizing a plan to inject substantial stabilization funds. Also, just in the past week, the Taiwan Stock Exchange (TWSE) fell over 8 percent. In response to growing uncertainty in the domestic and global markets, on March 20, Taiwan's Committee of the National Financial Stabilization Fund (hereafter the "National Stabilization Fund") injected an unprecedented amount of liquidity, valued at NTD \$50 billion (USD \$1.65 billion), to stabilize market conditions in the country. According to the Committee's statement on March 19:

*"... negative factors such as the continued spread of the pandemic, the uncertain prospects for economic recovery, and unstable financial markets have affected the confidence of domestic investors [...] the resolution authorizes the Executive Secretary to use funds to perform market stabilization tasks."*

Created in 2000, the National Stabilization Fund is legally credited with NTD \$500 billion (USD \$16.5

billion) in funds that it may inject into the market to serve as a buffer against unexpected external factors that disrupt the market. Of the total amount of funds, NTD \$200 billion consists of stock held by the National Treasury. The other NTD \$300 billion is comprised of borrowings from Taiwan's four major public funds: the Postal Life Insurance Fund, the Labor Insurance Fund, the Labor Pension and Civil Servant Fund, and Postal Deposit System. The Committee is authorized to issue funds into the market to intervene, smooth market volatility, and shore up investors' confidence. Taiwan's Vice Finance Minister Juan Ching-hwa serves as executive secretary of the NSF Committee.

The NSF's latest injection of funds marks only the seventh time that the Committee has intervened in the last 20 years to stabilize and sustain the economy, thereby highlighting the severity of the current global pandemic. In the past, the NSF stepped in twice: in 2000 after the first transfer of political power, when Beijing issued a stern threat that spooked the market, as well as when the dotcom bubble burst; and in 2004 after the assassination attempt against Taiwan's president and vice-president. The Committee also intervened in 2008 during the global financial crisis, again in 2011 in response to the European Sovereign debt crisis, and most recently in 2015 after the RMB depreciated sharply and the devaluation of many Asian currencies triggered panic selling. The current injection is the largest amount that the Committee has ever authorized since its inception. The NTD \$50 billion is equal to one-tenth of the funds' entire worth, four times more than the NTD \$12.27 billion (USD \$405 million) of liquidity that it injected into the market during the economic turmoil of 2000, and nearly 10 times more than the NTD \$6 billion (USD \$198 million) that it doled out as a result of the 2008 financial crisis.

### *An Economic Han Kuang Exercise*

Growing international concerns about the eco-

conomic consequences of a military conflict should be complemented by efforts from within Taiwan to conduct scenario exercises referred that are akin to the military's annual "Han Kuang Exercise." These exercises could involve the major corporations and financial institutions as well as other monetary institutions in practicing responding to the potential fallout from Chinese economic warfare and military operations. In a range of conflict scenarios, domestic and international funds would likely flow in and out of Taiwan, and financial institutions might not be able to operate properly. Accordingly, there would need to be a coordinated mechanism for early detection and response.

According to William Tseng, a KMT legislator serving as the party's caucus whip—and who served previously as the chair of the Financial Supervisory Commission—such an exercise must address three components: first, cyber-attacks; second, the stock market response; and third, the foreign exchange response.<sup>114</sup> Tseng also argued that the current government is relying too much on the national security fund to protect the financial industry, even though the fund only has around NTD \$500 billion (USD \$15.6 billion)—an amount insufficient to adequately cover the transaction volume of the stock exchange, which averages around NTD \$335 billion in daily trading volume.<sup>115</sup> A couple of immediate steps that Taiwan can take is to shore up its national stabilization fund and establish a Track 1.5 dialogues with think tanks to facilitate a discussion among like-minded partners to discuss economic dimensions of warfare in the Taiwan Strait.

114 Wang Zhicheng [王志誠], "金融漢光演習？今天不做 明天後悔 [Financial Hanguang exercise? If you don't do it today, you will regret it tomorrow]," *Yahoo News*, August 12, 2022, <https://tw.news.yahoo.com/%E9%87%91%E8%9E%8D%E6%B-C%A2%E5%85%89%E6%BC%94%E7%BF%92-%E4%BB%8A%E5%A4%A9%E4%B8%8D%E5%81%9A-%E6%98%8E%E5%A4%A9%E5%BE%8C%E6%82%94-070553207.html>.

115 Ibid.

### *Including Taiwan in IMF*

According to the January 2020 Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, published by the Department of the Treasury, Taiwan held \$471,900,000,000 in foreign exchange reserves, more than major economies such as India, South Korea, and Brazil.<sup>116</sup>

The proliferation of transnational threats and contagion between them should give rise to calls for more effective cooperation and coordination among governments. The ripple effect of pandemics is one of them. Indeed, as the assessment of the US National Intelligence Council's Global Trends 2030: Alternative Worlds highlighted in December 2012: "No one can predict which pathogen will be the next to start spreading to humans, or when or where such a development will occur. An easily transmissible novel respiratory pathogen that kills or incapacitates more than one percent of its victims is among the most disruptive events possible." What may seemingly appear as a purely public health issue can have profound economic consequences. As this analysis published by the International Monetary Fund (IMF) noted:

*"What started as a series of sudden stops in economic activity, quickly cascaded through the economy and morphed into a full-blown shock simultaneously impeding supply and demand .... The coronavirus shock is severe even compared to the Great Financial Crisis in 2007–08, as it hit households, businesses, financial institutions, and markets all at the same time—first in China and now globally."*

In addition to the World Health Organization's

116 US Congress, House of Representatives, *Taiwan Non-Discrimination Act of 2023*, H.R.540, 118th Cong., 1st sess., January 3, 2023, [https://financialservices.house.gov/uploadedfiles/taiwan\\_non-discrimination\\_6029\\_2.pdf](https://financialservices.house.gov/uploadedfiles/taiwan_non-discrimination_6029_2.pdf).

(WHO) slow response to the current global health crisis, the patchwork of global economic responses to the coronavirus highlights another international institution where Taiwan is notably excluded: the IMF. For an organization that boasts about universal membership, its membership remains far from universal even though there are no rules preconditioning membership on being UN member states. Indeed, IMF members include economies such as Aruba, Curaçao, Hong Kong, and Macau, as well as Kosovo. Moreover, as the IMF Managing Director Kristalina Georgieva recently stated: “The human costs of the Coronavirus pandemic are already immeasurable and all countries need to work together to protect people and limit the economic damage. This is a moment for solidarity.” Despite Taiwan’s large population (24 million) and key role in the global economy (22<sup>nd</sup> largest economy by purchasing power parity), it seems that the IMF does not include the island nation in its call for global solidarity.

To be sure, the coronavirus pandemic has taken a heavy toll in terms of disrupting human lives and the economic order. Taiwan has had to undertake measures to shore up its economy during this global crisis, but it is in a position to contribute to a global response as well. Its significant role in the global tech supply chain makes it an essential part of the global recovery process. Taiwan should be a part of a global response, be provided with up-to-date information, and be able to coordinate with other financial bodies.<sup>117</sup>

The size, significance, and connectedness of the Taiwanese economy highlight the importance of greater participation by Taiwan in the International Monetary Fund, given the purposes of the Fund articulated in its Articles of agreement.<sup>118</sup>

In addition to the World Health Organization’s (WHO) slow response to the current global health crisis, the patchwork of global economic responses to the coronavirus highlights another international institution where Taiwan is notably excluded: the IMF.

117 Hsiao, “Fortnightly Review.”

118 *Taiwan Non-Discrimination Act of 2023.*

## Policy Recommendations

### *Foreign Assistance*

- Taiwan can and should do more to boost its spending as well as use foreign assistance as a strategic, national security tool. To do so, Taiwan should focus on a smaller number of larger-scale, globally-deployable projects in countries that are important to Taiwan's and America's national security interests, especially those with which Taiwan does not enjoy diplomatic ties.
- Taiwan should leverage its relationships with larger players on foreign assistance—especially the United States and Australia—in areas not traditionally covered by Taiwan, such as infrastructure. This can be achieved through joint financing and pressure on global lending institutions.
- Taiwan should utilize its strengths and position as a democracy when developing an aid strategy, such as focusing on cutting-edge technologies, transparent business principles, and reliable loan programs.
- Taiwan is expert at delivering technical assistance and capacity building as hallmarks of its assistance. It should branch into more “hands-on” and highly visible development projects that are widely publicized as bringing value to the partner country. These efforts can be undertaken jointly with partner countries and other friends (e.g., the United States and Australia). This can include healthcare centers, schools, bridges, ports, etc.

### *Energy and Raw Materials*

- Taiwan should use its foreign assistance programs to gain an edge in the energy and raw materials sector, by both offering collaborations with countries rich in such resources and conditioning aid on improved relations.
- Taiwan should use international platforms to communicate the risks of China's domination of raw materials and energy resources, while also cooperating with the United States to develop high-technology energy solutions which reduce dependence on China.
- Taiwan enjoys a unique position in the world as the most important country in the development of high end semiconductors. China seeks to chip away at this edge and ultimately to wipe it out by both controlling the flow of vital raw materials to the industry and by advancing its own chip technologies. Taiwan must collaborate with friends and allies to maintain its access to and dominance in semiconductors.

### *Cyber*

- The United States should view Taiwan as a prime candidate for increased cooperation as it seeks to enhance international cyber partnerships, perhaps initiated by annually including Taiwan in its DHS Cyber Storm exercise. In such a partnership, Taiwan could offer the appropriate safeguards similar to those in the US-Taiwan defense cooperation.
- The United States and Taiwan should elevate cyber cooperation in the public sector, such as through launching an annual dialogue, organizing face-to-face contact among senior cyber officials from both parties, and raising their Cybersecurity Cooperation Strategy Forum to an operational level.
- The United States should support Taiwan's multilateral engagement on cyber and digital diplomacy issues under forums such as the Global Cooperation and Training Framework and the International Telecommunication Union.



## *Trade and Investment*

- The United States and Taiwan must seize a rapidly closing window of opportunity to get a comprehensive US-Taiwan bilateral trade agreement across the finish line. To do so, both sides should establish a “step ladder” of agreements that eventually lead to such negotiations. These include a bilateral investment agreement, a bilateral income tax agreement, a bilateral supply chain agreement, and a digital trade agreement.
- Current coordination under the US-Taiwan Initiative on 21<sup>st</sup> Century Trade should be used to include Taiwan in *ad hoc* discussions with IPEF participants.
- Congress should take a more active role negotiating a bilateral trade agreement with Taiwan, leveraging the issue’s current bipartisan support. At the same time, the United States should actively advocate for Taiwan’s role in international economic groupings, such as encouraging Japan to work closely with Taiwan on CPTPP membership.
- In the absence of a formal BTA, the United States and Taiwan should sharpen and refresh its already-existing trade initiatives, such as the Economic Prosperity Partnership Dialogue and the Technology, Trade, and Investment Collaboration.

## *Economic Sanctions and Export Controls*

- To counter China’s trade restrictions on Taiwan, the island should diversify its export and import prospects through initiatives such as the New Southbound Policy, bilateral negotiations with the United States, and multilateral agreements.
- Taiwan’s allies should continue to off-set China’s trade restrictions by managing the trade flows of impacted products. Additionally, the United States should accelerate its efforts to form a realigned trading bloc in the region.
- As an important signal to Beijing, the international community should prepare a preemptive list of sanctions.
- Taiwan’s allies should utilize international regulatory institutions such as the Federal Trade Commission to harmonize regulations, administrative processes, and strengthen law enforcement cooperation to mitigate the risks of China’s trade practices.

## *Fiscal and Monetary Policies*

- The United States should immediately implement an avoidance of double taxation agreement by first encouraging the president to begin negotiations and the House to work with the Senate on a congressional-executive agreement.
- Taiwan should further leverage and promote its cross-currency basis swaps between USD and RMB.
- The United States and Taiwan should coordinate on intelligence sharing to review the national security risks of Chinese investments in key industries. Additionally, Taiwan should have access to international bodies to share this information and remain up-to-date.
- Taiwan should consider evaluating the economic consequences of a cross-Strait contingency through an “Economic Han Kuang Exercise” involving its major corporations and financial institutions.

