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By: Uma Baron

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Since President Santiago Pena was elected in August 2023, Paraguay’s struggle to balance its agricultural trade with the People’s Republic of China (PRC) with its diplomatic relationship with Taiwan has been in the spotlight. [As of May 2024](#), only 11 countries have official diplomatic relations with Taiwan. In the wake of an ever-shrinking list of diplomatic allies, it is worthwhile to examine Taiwan’s relationship with one of its longest-held and largest diplomatic partners, Paraguay.

During President Tsai Ing-wen’s (蔡英文) tenure in office (2016-2024), Taiwan lost [five official diplomatic allies](#) in Latin America: Panama, the Dominican Republic, El Salvador, Nicaragua and Honduras. As a result, there were renewed concerns in 2024 about the longevity of Taiwan’s diplomatic relationship with Guatemala, one of Taiwan’s three remaining diplomatic partners in Latin America (Paraguay, Belize and Guatemala). In an environment of such turmoil, Taiwan should look critically at its relationships with remaining diplomatic partners—particularly Paraguay, which President Tsai Ing-wen referred to in 2018 as “[an eternal brother](#)”—to find further areas of unique and meaningful cooperation that can strengthen bilateral ties.

Historical Background of Taiwan-Paraguay Relations

When official diplomatic relations were formed in 1957, the governments of Taiwan and Paraguay had significant areas of overlap. Both nations were ruled by anti-communist, authoritarian regimes, and as a result Taiwan and Paraguay quite naturally formed a strong relationship built upon these commonalities. In addition to both nations being ruled by dictators with military backgrounds, both authoritarian leaders were also heads of right-wing parties that still exist in their respective nations today—in Paraguay, this would be the Colorado Party, and in Taiwan, the Kuomintang (KMT, 國民黨). Moreover, both nations were previously colonized by European powers, suffered through post-World War II civil wars, and are home to indigenous populations. In their respective transitions to democracy, each country faced stumbling blocks, but eventually achieved free and fair elections in the 1990s.

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In an era of established and secure democracy in the 21st century, the two nations have moved towards opposite sides of the political spectrum. While the conservative Colorado Party dominates elections in Paraguay, Taiwan's Democratic People's Party (DPP, 民進黨), a progressive party, has significantly risen in political strength, even securing an unprecedented continuation of DPP power in the [2024 presidential elections](#). Taiwan and Paraguay's enduring diplomatic relationship, while seemingly akin to that of unlikely bedfellows, has "[transcended any one political and diplomatic moment](#)" and has remained steadfast. [1]

Current State of Affairs

Currently, Taiwan's relationship with Paraguay is built upon state visits, bilateral agreements, people-to-people exchanges, and targeted aid. In terms of aid, the Taiwanese government has strived to provide an average of [USD \\$150 million every 5 years](#) to Paraguay for projects in target areas such as [public health, agriculture and education](#). [2] However, Taiwan backed projects are small [compared to](#) Paraguay's USD \$27 billion economy, which is still [bound to the PRC](#) through its agro-exports. In the period between 2005-2014, Taiwanese foreign direct investment (FDI) into Paraguay was around USD \$4 million a year. While Taiwanese aid to Paraguay grew in 2019, it still did not—and cannot—match the scale of PRC aid and investment in Paraguay's neighboring countries. Likely aware of the growing temptation of PRC investments, the United States has recognized the strategic benefits of cooperating with Taiwan in Latin America, [signing a memorandum of understanding \(MOU\) and two cooperation agreements](#) in 2022 aimed at advancing cooperation on development in Latin America.

At the governmental level, the relationship between Paraguay's ruling Colorado Party, currently led by President Santiago Pena, and Taiwan is strong. Under various leaders, Taipei has successfully outmaneuvered the PRC's attempts to poach Paraguay through its dedication to providing aid and facilitating people-to-people exchanges. While President Santiago Pena's desire to deepen trade with the PRC caused some uncertainty at the beginning of his presidential term, there has since been a steady stream of positive statements about Taiwan from the Paraguayan government, particularly in [international fora](#).

Still, rifts between Taiwan and Paraguay occasionally appear. A recent example of instability occurred in September 2022, when former Colorado Party President Mario Abdo Benitez (2018-2023) asked Taiwan for an [investment of USD \\$1 billion](#) to ensure that Paraguay would resist PRC poaching attempts. Taiwan's Ministry of Foreign Affairs (MOFA) adamantly pushed

back on the *quid pro quo* nature of this request, but did reiterate that Taiwan would continue to encourage Taiwanese businesses to invest in Paraguay. Arguably, President Benitez's demand stemmed from envy over Taiwan's relationships with countries such as the United States and EU countries, whose relationships are prized by Taiwan, despite not having official diplomatic relations. As a result, increased public engagement between the United States, Taiwan, and Paraguay seems to have put the issue to rest. In addition to the aforementioned MOU, in February, Senator Marco Rubio made an official visit to Paraguay and met with President Benitez and [Taiwan's ambassador](#) to Paraguay. During the meeting, he praised Paraguay's diplomatic commitment to Taiwan, further cementing the United States' support for Taiwan-Paraguay relations. While this has helped Paraguay's position with Taiwan remain secure for now, a series of long term joint cooperation deals in underdeveloped sectors, such as its [digital economy](#), would help to reinforce the economic worth of the relationship with Taiwan.



Image: Taiwan's then-Vice President Lai Ching-te speaking with his counterpart, Paraguayan Vice-President Pedro Alliana, during a visit to Paraguay in August 2023. (Image source: ROC Presidential Office / Wikimedia Commons).

Gaps in the Relationship

Within Paraguay, dissatisfaction with Paraguay's relationship with Taiwan is a common recurrence that becomes [especially prominent during election periods](#). Paraguay's main opposition party, the Authentic Radical Liberal Party (PLRA, also known as the Liberal Party), is particularly critical of the relationship, with members of this opposition party often openly voicing their dissent. One sticking point is the perception that Taiwan makes significant effort to cultivate its relationship with the Colorado Party, but tends to ignore the Liberal Party and its members. Paraguayan politics place an emphasis on people-to-people relations, which Taiwanese government officials deeply under-

stand. Accordingly, they have focused their efforts on cultivating people-to-people relationships with those in and affiliated with the politically dominant Colorado Party. However, this favoritism may have prompted some of the pro-PRC sentiment within Paraguay's Liberal Party—who, having not received the same attention, have turned elsewhere. PLRA politicians have been members of the small fringe group, Paraguayan Association of Friends of the People's Republic of China (APACHIN), while others [introduced a failed bill](#) into the Paraguayan Congress to re-evaluate Paraguay's relationship with Taiwan. While the Colorado Party remains in power and has weathered significant periods of instability, there is significant risk that a change of leadership could alter Paraguay's relationship with Taiwan, especially because Paraguayan presidents can only serve a single 5-year term. While the Taiwanese government has cultivated very close relationships with the Colorado Party, this blatant favoritism has had repercussions—and Taipei should be careful to build relationships with Paraguayan politicians from differing political backgrounds.

A secondary issue stems from the agricultural sector in Paraguay, which is dominated by soybean and beef production. The PRC is Paraguay's [largest export market](#) for its beef and soy products, with Taiwan's [export share of 2.2 percent](#) seeming limited in comparison. Paraguay's farmers have long been envious of their PRC-allied neighbors, whose agricultural sectors have greatly benefited from trade with the PRC, and [benefits from direct agricultural trade with the PRC](#) are obvious to Paraguay's farmers and ruling political elites alike. Facing pressure from the agricultural lobby, President Santiago Pena [expressed in July 2023](#) that he wished to increase trade with the PRC while still maintaining official diplomatic relations with Taiwan.

Currently, Paraguayan agricultural exports travel [along complicated trade routes](#) that pass through secondary countries allied with the PRC. As a result, PRC-allied countries end up reaping the majority of the trade benefits since Paraguay has little negotiating room as an ally of Taiwan. It is important to note that because of these trade routes, the PRC [claims](#) that it does not import any of these goods from Paraguay, and continues to [publicly browbeat](#) them for their relationship with Taiwan. While there [have been attempts](#) to maneuver around these difficulties—particularly in the Southern Common Market (Mercosur), within which only Paraguay is allied with Taiwan—the PRC [remains defiant](#) in its refusal to negotiate economic and trade deals that would benefit Paraguay while it is allied with Taiwan, preferring to negotiate with Latin American countries individually so as to cut out Paraguay. This has only increased

the tension between pro-PRC farmers in Paraguay and the government.

With the agricultural lobby in Paraguay closely aligned with the Colorado Party, the party already faces a large amount of pressure to capitalize on Chinese markets. If those in the beef and soy agricultural sectors express even larger amounts of discontent, the Colorado Party would find itself in the difficult position of having to choose between bending to the demands of the agricultural sector or remaining diplomatically aligned with Taiwan. While the connections Taiwan has cultivated with a wide variety of Paraguayans in sectors from education to healthcare have allowed it to gain popularity with the Paraguayan electorate, a close eye must be kept on those in the beef and soybean industries who could very easily disrupt the pro-Taiwan status quo.

As discussed earlier, the existing Taiwan-Paraguay partnership has been focused on providing aid for technical and agricultural programs. However, the former president's demand for USD \$1 billion to maintain the relationship with Taiwan reveals a wound in Taiwan-Paraguay relations which can easily be reopened if not mended. Furthermore, the desire for increased Taiwanese investment in areas of importance to Paraguay goes beyond technical programs. For instance, President Santiago Pena has emphasized the importance of digitalization to Paraguay's development, viewing it as a natural next step since Paraguay has become [a top exporter of sustainable energy](#). Pena is actively seeking to attract global technology enterprises to help transform Paraguay into a "[regional tech hub](#)." Taiwan—a leader in the tech and communications industry as well as home to Asus, Foxconn, and Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司), among others—is placed in the prime position to help facilitate investment by Taiwanese tech enterprises into Paraguay, which will help to further solidify the relationship.

In March 2024, Paraguay's Minister of Information and Communication Technologies visited Taiwan to attract partnerships in this field. However, [education and training](#), rather than investment, appeared to be top of the agenda, with [official reports](#) following the meeting only highlighting collaboration on the Taiwan-Paraguay Polytechnic University and its role as a conduit for educational exchange. Additionally, the US Department of Trade [reported](#) that foreign direct investment (FDI) in Paraguay was comparatively weaker than its neighbors, further demonstrating that the Taiwanese government has an ample opportunity to facilitate FDI from Taiwanese tech businesses to Paraguay. With Paraguayan politicians [openly asking](#) for Taiwanese

assistance in garnering investment to help diversify their economy and develop its tech and communications sector, Taiwan must step up.

The main point: While the Paraguay-Taiwan relationship remains strong, shoring it up against potential pitfalls can only increase its stability. As the United States seeks to find ways to support Taiwan internationally, Paraguay is a worthy country for mutual cooperation. The importance of Paraguay to Taiwan, as its largest official diplomatic ally remaining in Latin America, cannot be understated and Taiwan should actively seek to pursue positive evolution of the relationship.

Defense Policy Recommendations for the Lai Government

By: Eric Chan

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The recent inauguration of Taiwan President Lai Ching-te (賴清德) and [his speech](#) emphasizing Taiwan's existence as a "sovereign, independent nation in which sovereignty lies in the hands of the people" ("中華民國臺灣是一個主權獨立的國家、主權在民") set off a pre-planned coercion operation by the People's Republic of China (PRC). This operation was centered around the People's Liberation Army's (PLA, 中國人民解放軍) 23-24 May [Joint Sword-2024A](#) (聯合利劍-2024A) exercise, advertised as "punishment for Taiwan separatist acts."

The amount of force used was clearly regulated by the Chinese Communist Party's (CCP) Central Military Commission (中央軍事委員會) to match their assessment of the political "acceptability" of Lai's speech. Lai did not mention any of the Party's [favored phrases regarding Taiwan](#)—such as "One Country, Two Systems" (一國兩制), or the "1992 Consensus" (九二共識). However, it is unlikely that the CCP leadership expected this from the leader of the Democratic Progressive Party (DPP, 民進黨), which never agreed to the "1992 Consensus" in the first place. Instead, the CCP was likely anticipating a repeat of Tsai Ing-wen's (蔡英文) phrase elliptically referencing the 1992 Consensus, "the Republic of China Constitution and the Act Governing Relations Between the People of Taiwan Area and the Mainland Area." [Lai's omission](#) of this phrase probably constituted the basis for the Party's post-inaugural propaganda that Lai was sending a "[dangerous signal of seeking independence](#)"—[even when Lai clearly did not call for revision to the Republic of China](#)

[Constitution](#), Taiwan independence, or the rejection of dialogue with the PRC.

Accordingly, the Party's response was a "medium" coercion operation—with several escalatory "innovations," particularly with respect to lawfare. A large number of troops were involved, but compared to the [2023 Joint Sword exercise](#), the [length was shorter and the exercise zones were slightly smaller as well](#). The PLA Rocket Force (PLARF, 解放軍火箭軍) notably did not launch ballistic missiles over Taiwan, [as they did](#) following then-House Speaker Pelosi's visit to Taiwan in August 2022. Instead, the main escalation was through the use of lawfare: the announcement of a concurrent "comprehensive law enforcement exercise" around Wuqiu (烏坵) and Dongyin (東引) islands by the Fujian branch of the China Coast Guard (CCG, 中國人民武裝警察). The PRC tabloid *Global Times* (環球時報) darkly [noted](#) that the CCG might replicate the "Kinmen model" there, referencing the February 2024 [CCG boarding and inspection of a Taiwanese tourist boat](#). This was followed by the PRC publication of guidelines [threatening the death penalty](#) for "ringleaders" of Taiwan independence. With the continuation of the pressure campaign against Taiwan, concurrent with a broader push by the PRC to intimidate its other regional neighbors, it is clear that Taiwan needs to be prepared for a heightened level of gray zone warfare and boundary-breaking aggression in the near-future.

In this article, I will look at defense priorities that the new government should focus on to both craft a sustainable strategy to counter gray zone operations, as well as to increase deterrence against an all-out attack.

Wargame Responses to Heightened Gray Zone Warfare

Over the last decade, the PRC has [created, resourced, and refined its gray zone strategy](#). Many of the techniques used against Taiwan to create "[new norms](#)" (新常態)—such as the aggressive use of the CCG, as well as the People's Armed Forces Maritime Militia (PAFMM, 中國海上民兵)—were first tested against Vietnam, Philippines, and Japan. The PRC is now experimenting with a [much wider regional and international employment](#) of gray zone operations, as well as even sharper tactics. In December 2023, the CCG used a [suspected acoustic weapon](#) against the Philippines in the Scarborough Shoal; at the time of this writing, CCG personnel are now [wielding knives and axes](#) against Philippine naval crew in the Second Thomas Shoal, replicating on sea what the PLA has done against the Indian army on land.

Taiwan has already taken a number of steps to counter maritime gray zone coercion. Taiwan's Coast Guard is [expanding in](#)

[size](#), while demonstrating the capability to militarize at need by test-firing [anti-ship missiles](#) from Coast Guard ships. Taiwan's Navy is [standing up a Littoral Combat Command](#) (立濱海作戰指揮部) to defend Taiwan's territorial waters, integrating fast-attack boats and anti-ship missile groups. These steps all provide incremental, separate improvements to Taiwan's capability and capacity to respond to increased incursions. However, just as the PRC has repeatedly tested a whole-of-government gray zone strategy, Taiwan should also integrate its own efforts as part of a national defense strategy.



Image: Taiwan Coast Guard CG-601 Anping (安平) cutter test-firing a Hsiung Feng II (雄風二型) anti-ship missile, May 27, 2022. Frequent Coast Guard/Navy cross-training is critical for demonstrating that Taiwan Coast Guard assets are capable of contesting gray-zone aggression, while complicating adversary targeting during wartime. However, these capabilities need to be broadly fielded and connected to a robust common operating picture to provide credible deterrence. (Source: [Wikimedia Commons](#))

For instance, Taiwan's current gray zone response is split between two sometimes conflicting political imperatives: *demonstrating sovereignty and ensuring non-escalation*. While Taiwan's defense establishment has of late been [leaning more towards the first imperative](#), the PRC's fielding of escalatory tools such as [destructive water cannons](#), [barriers](#), and acoustic weapons will likely force continued debate over which imperative Taiwan should prioritize.

As a first step, Taiwan should proactively war-game responses to a heightened level of gray zone coercion. These wargames or crisis simulations could be modeled off the multiple games that the US House China Committee conducted in 2023-2024 to educate US [politicians](#) and [business leaders](#) on how an invasion might develop, as well as to explore potential responses. Accord-

ingly, a Taiwanese version centered on gray zone warfare could include participants such as members of the Legislative Yuan and the Taiwanese business community, and could be run by a Taiwanese think tank with experience in wargaming—such as the Institute for National Defense and Security Research (INDSR, 國防安全研究院). American participants or observers could provide insight into Washington's interpretations of Taiwanese actions. The goals of the wargame would be to gain a baseline level of bipartisan agreement over responses to aggression, and to understand the opportunity costs that a symmetric response would place on Taiwan's military. Follow-on games might incorporate civilian ministries as well, "stress-testing" government functions across a variety of coercive scenarios and assisting Taiwan's leadership in developing a strategic framework for imposing costs on the PRC.

Reimagine Air Force Operations for both the Gray Zone and Invasion

The PRC's coercion has not been limited to maritime operations alone. During *Joint Sword-2024A*, 50-60 aircraft per day were detected in the vicinity of Taiwan, with roughly two-thirds crossing the median line. These figures were actually a reduction from [previous spikes in aerial incursions](#), but serve as a reminder that the Taiwan Air Force's sustainability challenge is even greater than that of their maritime brethren. There is no burden-sharing with a civilian organization in the air, and the response time is much reduced.

All of this has resulted in two corrosive effects. The first is a straightforward operational numbers issue for pilots and aircraft. Taiwan's air force faces a [longstanding pilot shortage](#), made worse by the grueling demands of keeping pilots on scramble alert for intercepts against a numerically superior adversary. Similarly, there are also pressures on the aircraft and maintenance crews, with frequent intercepts burning through engine flight hours and [necessitating increasingly costly maintenance](#).

The second is a more invidious but more serious threat. The gray zone challenge threatens to "swallow" Taiwan's air force as an organization. If leadership attention is focused on solving the operational numbers issue, this cognitively locks strategic/operational planning and effort into achieving short-term readiness metrics. As the PLA [extends its reach](#) into Taiwan's eastern "sanctuary," the effects of prioritizing scramble alert readiness will only worsen, with serious ramifications for Taiwan's air force in combat.

For instance, given the [lessons of the Russia-Ukraine War](#), the

PLA is clearly interested in the intensification of expected Joint Firepower Strike Operations (大型島嶼聯合火力突擊作戰) at the start of an invasion. As PLA joint command and control improves, this firepower strike will increasingly be conducted concurrently with a blockade or full-scale invasion, potentially disguised as an exercise. The PLA will seek to collapse Taiwan's government as soon as possible, both to present a *fait accompli* to the United States against intervention and to prevent a Taiwanese leader from rallying both domestic and international support, like President Zelensky has done for Ukraine.

Against this style of warfare, Taiwan's air force cannot [assume a long period of indications and warning](#), and can no longer simply [wait out the strikes](#) in mountain bunkers. Yet both the early destruction of Taiwan's air force, or else its absence from combat due to prolonged self-preservation, would represent a catastrophic loss for Taiwan's overall defense. As the Russians have demonstrated over Ukraine, even a [badly-run air force](#) armed with cheap [glide bombs](#) is capable of dealing significant damage to ground forces in the absence of resistance from manned aircraft. An effective defense will only be possible if Taiwan's air force is tasked by the Ministry of National Defense to design an innovative yet realistic concept of operations—and is freed to conduct the more complex training for the tactics needed to execute that concept. This will likely need to include the ability to [fight at night](#), employ [low-altitude terrain masking](#), and being able to [mass force in a high-threat environment](#)—none of which can be practiced if aircraft are busy conducting intercepts. In many ways, this is [similar to the challenges experienced by the US Air Force](#) during the wars in Afghanistan and Iraq: it took years for the USAF to reorient away from providing constant coverage for counter-insurgency operations to [readying for the "high-end fight"](#).

In Taiwan's case, a potential approach to addressing both the gray zone as well as the invasion contingency might be two-fold: first, establishing a dedicated unit for incursion intercepts, freeing up the rest of the air force; second, redouble efforts to establish an integrated common operating picture with Taiwan's navy and coast guard, leaning more heavily on UAVs and ships to provide persistent presence and incursion response as opposed to manned aircraft.

Conclusion

The PRC will continue to rely on a long-term pressure campaign to both cover up its military weaknesses, as well as slowly grind down Taiwan's defenses. Specific coercion operations are used not only as a method of political messaging, but also as vehicles

for escalation and boundary testing. Taiwan should make long-term plans to counter the gray zone campaign, while also taking some risks in the short-term to carry out sustained reforms of Taiwan's military.

The main point: The PRC is clearly ramping up a regional gray zone campaign, testing out tactics on other regional actors prior to utilizing them against Taiwan. Taiwan should war-game responses at a national level in preparation for a heightened pressure campaign. Moreover, one of the key goals of the PRC gray zone campaign is to weaken the Taiwan military. Taiwan's air force should be better insulated against such pressure, so as to conduct the reforms and training necessary to provide the unique, strategic benefits of airpower on the battlefield.

The *STAND with Taiwan Act*: Can Congress Make a Play in Deterring China?

By: Benjamin Sando

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In April 2023, the US House members of the Select Committee on the Chinese Communist Party (CCP) [clustered around a tabletop exercise](#) simulating a Chinese invasion of Taiwan. One striking conclusion was the inefficacy of sanctions in stopping a cross-strait conflict after it occurs. [The key finding](#): only by threatening sanctions early and unambiguously could the United States deter the People's Republic of China (PRC) through economic means.

The *Sanctions Targeting Aggressors of Neighboring Democracies with Taiwan Act* ([STAND with Taiwan Act](#))—introduced in the US Congress by Senator Dan Sullivan (R-AL)—would codify such sanctions in the event of serious armed aggression by Beijing against Taiwan. The bill is the latest step in a [sustained effort](#) by Sullivan to marshal Congress to participate in deterrence against China. During a recent visit to Taiwan alongside Sullivan, Senator Tammy Duckworth, a Democrat from Illinois, [announced](#) her support for the bill. This marked the first instance that the legislation has achieved bipartisan support and the bill is expected to be reintroduced with Duckworth's co-sponsorship in the coming weeks.

Unique Benefits of the STAND with Taiwan Act

It is generally uncommon for Congress itself to mandate a sanctions regime on a particular country. Congress usually passes legislation [that offers authorization](#) for a president to sanction

foreign targets. Indeed, most of the cutting sanctions imposed on Russia after its full-scale invasion of Ukraine came from [executive orders](#) based on authorizations already available to the president. The primary benefit of the *STAND with Taiwan Act* is to offer a strategic advantage in deterrence, rather than granting the president new powers in economic statecraft. By codifying a minimum level of economic sanctions to follow in the event of a cross-Strait conflict, Congress would thus ensure that Xi Jinping (習近平) is certain about the economic devastation the PRC would face if it attacks Taiwan. Codifying sanctions into law is a kind of “[costly signal](#)” in deterrence that the US president is unable to replicate alone.

The *STAND with Taiwan Act* outlines a suite of economic measures strangling trade and investment with the PRC. Based on a draft of the soon-to-be reintroduced edition of the bill—shared with the Global Taiwan Institute by the Office of US Senator Dan Sullivan—the measures include:

- Freezing the assets of and denying visas to senior PRC officials and CCP members.
- Freezing US-based assets of PRC state-owned banks and barring them from the US financial system.
- Freezing the US-based assets of other entities owned by or affiliated with either the Chinese state or the CCP.
- Secondary sanctions barring financial institutions registered in the US from conducting transactions with the PRC.
- Barring PRC entities from US equity markets.
- Preventing US financial institutions from investing in PRC high-tech industries or PRC state-owned enterprises.
- Barring exports of US-origin energy to the PRC, and US investments in PRC energy production.
- The revocation of permanent normal trade relations (PNTR) with the PRC.

The sanctions proposed under the *STAND with Taiwan Act* are as extensive as the [ones placed](#) on Russia after its full-scale invasion of Ukraine in 2022. The critical difference is that the sanctions under the *STAND with Taiwan Act* can be signaled well in advance of a planned invasion by the PRC, offering a deterrent effect that the Russia sanctions, which were instituted after Moscow attacked Ukraine, [could not](#). An initiative by Congress to codify sanctions offers the US president workarounds to two obstacles in signaling economic deterrence: one of which is practical, while the other one is strategic and uniquely related

to the case of Taiwan.

The first obstacle that a US president may encounter when signaling deterrence based on economic sanctions is that there are [few established pathways](#) to—for lack of better words—“put it in writing.” Although the president can verbally announce a set of economic responses to PRC aggression, words alone cannot codify this commitment in a written document—the traditional bedrock of deterrence—as is the case for military alliances. Alliance treaties signal to all parties that mutual defense is the concrete consequence of an attack. There is no analogous practice in economic deterrence (even though [some scholars have proposed](#) such methods). The *STAND with Taiwan Act* is the closest Congress has come to an alliance treaty based on economic tools in recent memory. Just like an alliance treaty based on mutual defense, the Act will “[tie the executive’s hands](#)” in the event of a conflict and commit the United States to a devastating economic response, thus offering a credible deterrence to CCP aggression.

The second obstacle to a president providing an economic deterrent is the US executive branch’s long-held reluctance to outline a clear position on defending Taiwan with force, an approach some have termed as “[strategic ambiguity](#).” This policy is a product of unique historical developments related to Taiwan. Since the United States switched diplomatic recognition from Taipei to Beijing and abrogated the [Sino-American Mutual Defense Treaty](#) in 1979, the US government has [never ruled out](#) the use of force to defend Taiwan. At the same time, the United States has neither committed to using force—a policy that [both discourages Taiwan](#) from declaring independence, and dissuades Beijing from unchecked aggression. As a result, the US president generally steers clear from providing concrete details regarding what the government will do in the event of a cross-Strait conflict. This tendency inhibits clear messaging regarding economic sanctions that could be enacted in response to an invasion. The more details the executive provides regarding the economic sanctions that would follow a PRC invasion, the more the executive will face pressure to clarify a potential military response. If the president articulates an unequivocal set of economic responses to PRC aggression but remains reticent about military measures, Beijing may be encouraged to believe that the White House will employ only economic tools to punish an invasion. A congressional initiative to codify economic sanctions would circumvent this problem, as it allows the president to remain ambiguous about military responses to PRC aggression while delegating responsibility for economic threats to Congress. It is unlikely that a clear signal from Congress on

economic punishments would have the same consequence of weakening the credibility of a president's military response.

Obstacles to Passage of the *STAND with Taiwan Act*

In spite of the *STAND with Taiwan Act's* advantages to US deterrence, meaningful obstacles remain to its passage. The first barrier is [skepticism among policy analysts](#) regarding the power of economic sanctions to deter armed aggression. Critics point to the United States' failure to deter Russia's 2022 invasion of Ukraine through economic threats. Notably, however, the sanctions that Washington threatened prior to Moscow's invasion on February 24, 2022, [were far weaker](#) than the economic punishments the United States and allies eventually imposed after Russia's attack. In failing to communicate the extent of the punishment Russia would face due to their aggression, the United States and allies undercut the mechanism for deterrence—which necessitates that a potential aggressor comprehends the full consequences of action before taking it. By communicating a minimum level of punishing economic sanctions, the *STAND with Taiwan Act* would redress the failures of US deterrence towards Russia and offer a major threat to the PRC economy if the CCP decides to attack Taiwan. The CCP has [long based its political legitimacy](#) on the continued economic prosperity of China, and sanctions of the severity outlined in the *STAND with Taiwan Act* are [potentially sufficient](#) to deter CCP leaders from armed aggression against Taiwan.

Concerns about the ease through which Beijing could circumvent sanctions if imposed, and the potential fallout to the US economy, represent another obstacle. Western policymakers and [analysts](#) were left disappointed by the [enduring strength](#) of the Russian economy despite the sweeping sanctions imposed by the West. The Russian ruble has been [remarkably resilient](#) and Russia continues to export its signature economic output, energy, through [intermediaries](#). Some [suggest](#) that the PRC will be similarly able to evade a West-imposed sanctions regime and perpetuate its export-driven model of economic growth. Nonetheless, China's complex economy and reliance on the manufacturing sector will likely [make sanctions evasion](#) far more challenging.

Unlike Russian exports, China's traded goods are not well positioned for sanctions evasion. Since most of the PRC's exports are manufactured goods designed for consumption by households or specific foreign firms, it is unlikely that PRC manufacturers will be able to export manufactured goods via intermediaries and blur their proof of origin, as Russia [has been able to do](#) with exported oil and gas. Meanwhile, Global South countries—which

have [played critical roles](#) in soaking up sanctioned Russian energy—lack the market size and economic complexity to absorb PRC manufactured goods in industries such as electronics, machines, and pharmaceuticals. Moreover, the US and PRC economies are far more deeply intertwined than the economies of the United States and Russia. At least 15 percent of the PRC's total exports—of which 80 percent are manufactured goods—reach the United States. In contrast, 6 percent of Russia's 2021 exports (the year prior to Russia's full-scale invasion) were destined for America, and only one-tenth of those exports were from manufactures. [1] China's economy is significantly more vulnerable to disruptions from US trade and financial sanctions.

For the same reason that the United States has much more leverage over the PRC's economy, sanctions on China would have a [much more disruptive effect](#) on American citizens' livelihoods than the Russian ones. Consequently, members of the US Congress may balk at the idea of passing the *STAND with Taiwan Act*, which would require these disruptive sanctions in the event of an invasion of Taiwan. Some may prefer to leave economic punishments unexpressed and grant the US president leeway to soften an economic response to a PRC attack, or avoid one altogether. This is a tempting approach, if one believes that there is a scenario under which the United States would not issue a major economic response if the PRC invades Taiwan. After all, why commit the United States to sanctions if it does not seek to actually impose them in the event of a PRC invasion? This consideration may lie at the heart of reluctance to pass the Sullivan-Duckworth bill.

A simple counterpoint would recall the consternation that Western populations felt in the days after Russia poured into Ukraine with unrestrained force. The reality of the total assault, and the [images and videos](#) that accompanied it, jolted the West [into consensus](#) that the aggression could not go without serious punishment. When this reality set in, sanctions that had at one point been actively [ruled out](#)—such as the exclusion of Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT)—were adopted. Yet, by the time that these crippling sanctions had been put in place, the moment for deterrence had already passed. In short, whether or not the *STAND with Taiwan Act* is passed, it is likely that the United States and allies will implement major sanctions on the PRC if it invades Taiwan. It would be deeply regrettable—and strategically foolhardy—if the sanctions were drawn up only after they could have had a deterrent effect.

It will require a sustained effort to pass the *STAND with Taiwan Act*. Passage of the bill would mark the most consequential leg-

isolation on Taiwan since the 1979 [Taiwan Relations Act](#), which reformulated America's unofficial relationship with Taipei after Nixon's pivot to China. The bill would legally bind the United States to Taiwan's defense in a way it has not been since Washington abrogated its mutual defense treaty with Taipei in 1979. Given that the act was proposed by a Republican senator, the legislation may find more purchase if the Republican Party wins control of the US Senate in the 2024 elections. Whatever the outcome of the *STAND with Taiwan Act*, a US deterrent based on economic measures must be outlined firmly, clearly, and early. Codifying economic sanctions via the *STAND with Taiwan Act* would achieve all of these.

The main point: Passage of the *STAND with Taiwan Act* would boost US deterrence against a PRC invasion of Taiwan by ensuring unambiguity regarding American sanctions. The bill allows the US Congress to take the lead in economic deterrence and preserve the US president's flexibility in a military response. Given China's economic interdependence with the United States, it is unlikely that Beijing could evade sanctions in the way Russia has done since its 2022 invasion of Ukraine.

[1] Estimates drawn from the USA country page of the [Observatory of Economic Complexity](#).

Global Technology Decoupling and Taiwan's Conundrum

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The ongoing tech fight between the United States and China—characterized by US-led export control measures, alliance politics, and domestic industrial subsidies—has the potential to lay the groundwork for a new configuration in the future of the global semiconductor landscape. The semiconductor chip value chain, historically concentrated in the East Asian region, is now looking to diversify horizontally—i.e., through more fragmentation, deconcentration, distributed specialization, and diversification towards lower geographical and geopolitical risk areas. The extraterritorial nature of the US sanctions directed against China has furthered the crisis. Under the US [Foreign Direct Product Rules](#), the other key players in the value chain are restricted from supplying chip-related technologies to Chinese vendors. Additionally, provisions in the United States *CHIPS and Science*

Act that call for “national security guardrails” [prohibit](#) funding recipients from engaging in “significant transactions” with China for ten years from the award date. This requires countries to rethink their chip business models.

Is Taiwan in a Distinctive Position?

East Asian countries like Japan, Taiwan, South Korea, Malaysia, and Singapore all hold a strong position in the chip global supply chain. While Japan holds a near monopoly position in the supply of key materials, chemicals, and gases, South Korea's success with the Integrated Device Manufacturing model also sets an example that could not have been replicated elsewhere.

Taiwan stands as a stronger player in the chip global supply chain. Decades ago, when the industry was on the lookout for a destination with comparative and strategic advantages in the chip manufacturing process, Taiwan emerged as the most feasible option offering huge state subsidies, skilled talent, superior work culture, and cheaper lands. Today, Taiwan hosts the world's most advanced fabrication facilities—besides hosting some well-known design and assembly, test, and packaging (ATP) facilities as well. However, a notable dimension that adds complexity to Taiwan's position in the global value chain (GVC) is its reliance on the United States for the upstream of the value chain, as well as its reliance on China for its vast market potential.

In the wake of growing tendencies towards “technological decoupling” and “technology bifurcation”—trends that degrade the innovation systems of trading states—the global semiconductor industry faces a combination of geopolitical and market dilemmas. Both South Korea and Japan derive huge profits from the Chinese market. South Korea directs approximately 60 percent of its chip exports to China: for instance, Samsung's production base in Xian contributes [40 percent](#) of its global output of NAND chips. Additionally, Japan's Tokyo Electron derives approximately one-quarter of its [revenue](#) from sales to Chinese companies, including those affected by the US export controls and other sanctions.

Taiwan's greater reliance on China, compared to its East Asian peers, is of notable importance. While both South Korea and Japan are closely tied to the Chinese chip market for their commercial interests, Taiwan's technology sector is more intricately linked to the Chinese in terms of technology, talent, and market. Through Taiwan's contract manufacturing model, several Taiwanese firms act as the backbone of Chinese chip factories and design firms. Of particular relevance is China's dependence on Taiwanese talent and a more skilled workforce in the chip seg-

ment. Despite a decline in Taiwan's chip exports to China, China has remained in its top position as Taiwan's largest buyer, accounting for nearly 54 percent of [Taiwan's exports](#) in May 2023.

The anti-China chip bans have severely harmed the interests of chipmakers across the supply chain. Let's first talk about numbers. Considering the immediate impact of the chip ban, facilities that dealt with older-generation chips seem to remain unaffected. Additionally, the one-year waiver given to several firms to continue to use American semiconductor manufacturing equipment (SME) in their production facilities in China saved the pockets of certain companies in the short run. Despite that, the ban has largely resulted in declining revenues.

Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司) [reportedly](#) cancelled orders from Chinese companies. Consequently, the annual revenue of TSMC has [suffered](#) a 5.96 percent decline in 2023 as compared to its revenue in 2022. While Samsung's annual revenue [spiked](#) in 2022, it declined from USD \$234 billion in 2022 to USD \$194 billion in 2023. Japan's Tokyo Electron recently revised its earnings forecast, reducing it by 8 percent following the October 2022 restrictions. Overall, the bans have pressured firms to reduce their dependence on the Chinese market, and several market leaders are expected to offshore their facilities away from China in the coming years. For instance, following the announcement of the US export restrictions, SK Hynix [indicated](#) that it might contemplate selling its Chinese operations.

As soon as the US regulators released their export bans, the US government pressured industry leaders like Taiwan, The Netherlands, South Korea, Germany, and Japan to get on board with their anti-China chip sanctions. Disagreements among allies over the sale of SME have emerged discreetly in diplomatic channels. Although Japan [banned](#) the export of 23 kinds of etching equipment without naming China, Japan's trade and industry minister mentioned that Japan's moves were not meant to follow the lead of the United States. Rather Japan's initiatives were linked to de-risking the supply chain due to concerns about Chinese economic coercion. Regardless, Tokyo remains [worried](#) that targeting China will provoke damaging retaliations, such as a ban on Japanese electric cars. The Japanese government has maintained a restrained public stance, but Tokyo Electron [reportedly](#) opposed the US curbs. Similarly, South Korea, though prepared to ["partially"](#) comply with US sanctions, is worried about the already existing gap with competitors in the industry and future domestic competitiveness due to the loss of Chinese markets. While South Korean and Japanese responses reflect market considerations, Taiwan's conundrum is largely attached to the

evolving dimensions of regional security. In contrast to the reactions of Taiwan's counterparts, former President Tsai Ing-Wen (蔡英文) openly expressed interest in producing ["Democracy Chips"](#) with the United States.

What Does Technology Decoupling Mean for Taiwan?

Taiwan's dilemma with the ongoing tussle between the superpowers is more severe. While the political leadership has taken the ongoing changes as an opportunity for diversification, these changes still hold wider implications for Taiwan's critical position in the global value chain—which is ultimately linked to Taiwan's future security and defense.

First, both US and Taiwanese companies are working to move their chip manufacturing away from China. The ["China plus one"](#) strategy—a strategy led by the United States and its allies that avoids investing only in China and promotes diversification—complements Taiwan's New Southbound Policy. Taiwan's diversification efforts may be more successful amid these US-led decoupling efforts. However, Washington's recent strategies, including domestic industrial subsidies and external outreach, indicate a concerted effort not only to shift away from China but also to reduce reliance on Taiwan due to geopolitical tensions with China. The *CHIPS and Science Act of 2022* encourages other chipmakers to establish facilities in the United States while also expanding chip investments in alternatives like India and Vietnam. In short, the United States believes that a chip value chain that reduces the concentration of both Chinese and Taiwanese companies would be in its best interest. This "Taiwan plus" approach suggests a growing disinterest in Taiwan's security, which could weaken Taiwan's deterrence against China.

Second, the anticipated shift in the global supply chain does not guarantee Taiwan's current position in the GVC. According to industry [predictions](#), countries like Malaysia and Vietnam are expected to make significant progress in ATP, achieving a 10 percent global share by 2027. Conversely, Taiwan's share is anticipated to decline from 51 percent in 2022 to 47 percent in 2027. Moreover, Taiwan is under pressure to offshore investments and transfer its technology and IP now more than ever.

Despite severe historical animosity and contemporary geopolitical contestations, China's promising market potential has kept both South Korea and Japan tied to the Chinese economy for decades. When the United States pressured them to de-Sinicize chip supply chains, both countries' panic centered around losing the lucrative Chinese market. In contrast, Taiwan has a stronger geopolitical incentive to side with the United States. Taiwan is more concerned with evolving geopolitical dynamics that also

loom large over its future security and its position in the chip supply chain.

Towards an Uncanny Future

Experts often state that it is an opportune moment for Taiwan to address uncertainties within the semiconductor industry and its fear of Chinese invasion. Recent developments demonstrate the rapidly growing importance of South and Southeast Asia for prospective chipmaking hubs. Though American industrial policies offer investment avenues to Taiwanese chipmakers, they also offer prospects for expanding the role of countries like India and Vietnam in the chip supply chain. Though future diversification away from China remains central to Taiwan's current semiconductor policies as well, it is important to consider what this might look like for Taiwan. We need to consider whether horizontal diversification actually expands the current opportunities for Taiwan—or if it puts greater pressure to export talent, and endangers crucial trade secrets. We also need to consider whether it actually strengthens Taiwan's "Silicon Shield" against a Chinese invasion. An additional question that may prove to be decisive in this context is: Are the alternatives to China better than China itself? Can newcomers like India and Vietnam match China's decades-long industrial and manufacturing experience, and its so-far unmatched competitive advantage? Moreover, considering the nature of the industry, can the current diversification plan of the chip industry be successful?

The main point: Though the ongoing process of chip supply chain diversification seems more like an opportunity than a challenge, it is crucial to Taiwan's technological edge—which is linked to its future security against the PRC—in contrast to the economic and market-related concerns of peers. Taiwan should be more concerned about how a "Taiwan Plus" approach will affect its position in the global value chain.
