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The *TAIPEI Act*: Origins, Tools, Results, and Remedies

By: Sen. Cory Gardner and Igor Khrestin

Cory Gardner is a former US Senator from Colorado who served as Chairman of the Foreign Relations Committee's East Asia, the Pacific and International Cybersecurity Policy Subcommittee.

Igor Khrestin is the Bradford M. Freeman Managing Director for Global Policy at the George W. Bush Institute.

At the recently concluded Olympic Games in Paris, spectators were once again reminded that geopolitics and sports often go [hand in hand](#). For Taiwanese athletes, this again meant the ritual humiliation of competing under the fictional name of “Chinese Taipei.” Taiwanese Olympians are forced to compete under a fictional flag and national anthem and are subjected to the additional indignity of the organizers [unceremoniously confiscating](#) any Taiwan-branded items in the stands. This sad state of affairs only provided fuel to the pro-People’s Republic of China (PRC) [propagandists](#) and their [fellow travelers](#).

In practice, there was little difference in the International Olympic Committee’s treatment of Taiwan and Russia and Belarus—nations that were suspended for the Games because of their ongoing war against Ukraine but whose athletes were still allowed to compete as [“individual neutral athletes.”](#)

The Olympics are a classic case of the international community’s moral blinders when it comes to Taiwan, where one of the world’s [freest democracies](#) and the [“only democracy on Chinese soil”](#) is continually treated like a bully, not the bullied.

The Origins

Taiwan’s Olympic experience is a glaring reason why the United States, as a matter of policy, should seek to change the gross mistreatment of Taiwan and the Taiwanese people in the international arena. This is why Congress unanimously passed the [Taiwan Allies International Protection and Enhancement \(TAIPEI\) Act](#) four years ago. Then-President Donald Trump [signed it into law](#) on March 20, 2020.

The *TAIPEI Act* was originally drafted and [introduced in September 2018](#) by a bipartisan

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

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group of senators to stem Taiwan's loss of international allies. Beijing began to aggressively poach after Tsai Ing-wen's (蔡英文) election as president of Taiwan in 2016.

On May 20, 2016, when then-President Tsai assumed office, 22 nations maintained full diplomatic relations with Taiwan. Between President Tsai's inauguration and the introduction of the *TAIPEI Act*, five nations ended their diplomatic relations with Taiwan under PRC duress: São Tomé and Príncipe in 2016; Panama in 2017; and, in rapid succession in 2018, the Dominican Republic, Burkina Faso, and El Salvador—the latter only [two weeks](#) before the *TAIPEI Act*'s introduction.

By the time the bill made its way through Congress in 2019 and was finally signed into law, two more nations (the Solomon Islands and Kiribati) ended their diplomatic ties with Taipei. In three short years, Taiwan's formal global recognition footprint had shrunk by a third.

The Tools

The *TAIPEI Act*'s [proposed remedy](#) for this alarming state of affairs was straightforward: As a matter of urgent priority, the United States should be actively—and assertively—involved in: 1) preventing the loss of Taiwan's formal diplomatic allies; 2) encouraging Taiwan's informal global relationships; and 3) supporting Taiwan's participation in international organizations, especially those in which nationhood was not a requirement and the United States was a member. In so doing, the United States would take positive actions toward nations that are friendly to Taiwan and take certain negative actions against those who were not.

These provisions were, by and large, more forceful re-statements of already-existing requirements under US law, starting with Section 4(d) of the [Taiwan Relations Act \(TRA\)](#) and reinforced by subsequent legislation, including the [Asia Reassurance Initiative Act \(ARIA\) of 2018](#), among others. Supporting Taiwan's international participation had already been established as official US [policy](#), and, at least in theory, should have been part of the US State Department's routine diplomatic practice. What the *TAIPEI Act* sought to address was the motivation and the political will of the US executive branch to execute these policies appropriately—and, most importantly, to execute them effectively.

The *TAIPEI Act*, which passed unanimously in both chambers, should have clearly signaled to the State Department that it needed to get its act together before it was too late. The bill also required the administration

to produce an annual report on US efforts to help Taiwan. According to congressional sources consulted by the authors, this report has indeed been produced and delivered to Congress, but never publicly disclosed.

The Results

While the *TAIPEI Act* was still in the legislative process and in the months after it became law, the Trump Administration laid important groundwork for its implementation. In December 2019, during his nomination hearing, the future US Ambassador to Palau John Hennessey-Niland [stated](#) that the *TAIPEI Act* would be “a very important contribution to supporting allies as Palau.” Ambassador Hennessey-Niland [eventually became](#) the first sitting US Ambassador to visit Taiwan in March 2021 since 1979.

As the Biden Administration assumed office in January 2021, US policy toward Taiwan became [marked with contradictions](#). President Joe Biden's strong statements in support of Taiwan were followed by “[clarifications](#)” that would often entirely contradict those strong statements.

Beijing has seen this US hesitancy and incoherence on Taiwan as a sign of weakness and has continued to press on, unabated, to restrict Taiwan's international policy space. As a result, three more nations have ended their formal diplomatic ties with Taiwan so far during the Biden Administration: Nicaragua in 2021, Honduras in 2023, and Nauru [earlier this year](#). According to author conversations with high-level Taiwan officials, little to no US diplomatic effort was expended to prevent these losses. After Nauru's switch, the State Department issued a [statement](#) calling it a “sovereign decision,” albeit a “disappointing one.”

Likewise, the situation did not improve Taiwan's access to international organizations, including specialized United Nations (UN) agencies such as the World Health Organization (WHO) and the International Civil Administration Organization (ICAO), where the PRC has successfully continued to block Taiwan's access. The pressure was not just limited to UN agencies. In August 2023, the Central American Parliament [expelled Taiwan](#) as an observer after two decades and installed the PRC in its place.

Despite some [notable activities](#), the Biden Administration seems to have limited itself to public statements and bilateral discussions when it came to preventing Taiwan's diplomatic losses. For instance, Secretary of State Antony Blinken in 2021 [called on](#) UN members to support Taiwan's participation. And, in 2022, the State

Department [convened](#) a high-level bilateral working group with Taiwan government officials on Taiwan's participation in international organizations, which the parties have maintained since on a biannual basis.

This lackadaisical approach has clearly raised additional concerns in Congress, which sought to build on the *TAIPEI Act* to keep up the pressure on the administration as well as send a strong message to Beijing.

Congress enacted the *Taiwan Enhanced Resilience Act (TERA)* as part of the [fiscal year 2023 National Defense Authorization Action \(NDAA\)](#), signed into law in December 2022. *TERA* further enhanced the *TAIPEI Act*'s provisions, including stating that it is US policy to "support Taiwan's diplomatic relations with governments and countries."

Section 5518 of the FY2023 *NDAA* also required the administration to provide Congress with a "strategy to support Taiwan's meaningful participation in international organizations" 180 days after enactment of the bill, or by June 2023. The strategy was to include several specific components, such as a list of "no more than 20" international organizations that the administration would prioritize for "using its voice, vote, and influence" to advocate for Taiwan, as well as the "diplomatic strategies and coalitions" the administration plans to develop to achieve these goals. The bill allowed the administration to submit the report in classified form, with an unclassified annex. As there is no public record of the strategy, it was likely produced only as a classified document, if it was produced at all.

The Remedies

It is clear that the Biden Administration's efforts to help Taiwan in the international arena have not successfully deterred Beijing, despite the clear mandate under the *TAIPEI Act* and subsequent legislative efforts. The next US administration, whether Republican or Democrat, must take the lessons of the past four years and seek to chart a new course.

The next administration should seek to fully implement the spirit and the letter of the *TAIPEI Act*, including Section 5(a), which states that the United States should consider "increasing its economic, security, and diplomatic engagement with nations that have demonstrably strengthened, enhanced, or upgraded relations with Taiwan" while, inversely, "altering its economic, security, and diplomatic engagement with nations that take serious or significant actions to undermine the security or prosperity of Taiwan."

Understandably, the United States cannot base its entire foreign policy around its support for Taiwan, especially considering the inconvenient fact that the United States has not maintained diplomatic relations with the island since 1979. Yet it can certainly take specific decisive actions, both in private and public, to leverage sizable US influence to affect Taiwan's relationship with the outside world.

The next administration should also work hand in hand with Congress to implement a sound and sustainable strategy to expand Taiwan's international space and to protect its current memberships. As [suggested](#) in a recent paper by the Heritage Foundation's Brett Shaffer, "this [strategy] might require countering Chinese financial incentives with US and Taiwanese investments," which is a reflection of the transactional reality of global affairs from which Taiwan is not immune.

Time is of the essence. As [we wrote](#) after Taiwan's presidential elections earlier this year, the United States "must not allow the Chinese Communist Party to bully Taiwan because Taiwan's future is essential to U.S. national security and economic prosperity." The last thing we want is for Henry Kissinger's [famous quip](#) that "it may be dangerous to be America's enemy, but to be America's friend is fatal" to become a reality with regard to our friends in Taipei.

The main point: Passed in 2020, the *TAIPEI Act* was intended to stem Taiwan's loss of international allies and to incentivize the United States to act. Since then, however, the Act has failed to deter Beijing's diplomatic aggression against Taiwan because it was not adequately implemented by the executive branch. The next US administration should take active steps to fully implement the spirit and the letter of the Act.

Taiwan Stands on the Frontline of the Global Tech Competitiveness and Semiconductor Standoff

By: Armando Aliu

Armando Aliu is Assistant Professor in the Faculty of International and Political Studies at the Jagiellonian University in Krakow (Poland).

Since the beginning of the COVID-19 pandemic, the People's Republic of China (PRC) has gained ground in the US-PRC tech competition by accelerating the ["Digital Silk Road"](#) (DSR), the technological arm of the Belt

and Road Initiative (BRI, formerly known as “One Belt, One Road,” 一帶一路). Initially introduced in 2015, the DSR initiative aims to strengthen both the technological development and the [geopolitical potential of the PRC’s cyberspace capacity](#). As Jake Sullivan, National Security Advisor at the White House, highlighted in [2022 remarks](#), computing-related technologies (such as artificial intelligence [AI], big data, advanced logic, and memory chips), biotech, and clean tech are force multipliers throughout the tech ecosystem. As a result, [leadership in these areas is a national security imperative](#).

Thus, there has been a major shift from a general focus on US-PRC trade competitiveness, to a more complex perspective of US-PRC tech rivalry. From 2019 to 2023, Nintendo, Foxconn, Samsung, Amazon, Microsoft, Apple, Volkswagen, chip giant Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司), Intel, Dell, Google, and many other multinational tech companies (MNCs) decided to [move all or some of their manufacturing away from the PRC](#). Since 2023, the share of investments by US companies in Chinese technology industries has fallen rapidly due to the [ban on US investments in some of China’s critical tech industries](#) targeting three high-tech sectors: AI, advanced semiconductors, and quantum information technologies.

Taiwan: Global Tech Competitiveness and the United States-PRC Semiconductor Standoff

Taiwan stands at the front of the US-PRC tech rivalry and semiconductor standoff. In particular, [TSMC](#)—the world’s largest multinational Taiwanese semiconductor contract manufacturing and design company since 1987—[has been resisting Chinese pressure take over a leading role in the global semiconductor manufacturing market](#). TSMC is the world’s largest contract chip-maker and produces approximately [90 percent of the world’s leading-edge semiconductors](#) that are used for applications in AI and quantum computing. Therefore, the involvement of the PRC and Taiwan in the supply chain, and the remaining regional political tensions and divergent strategic interests, have created geopolitical risks in the global semiconductor value chain.

The strong integration of Chinese digital technologies and the increasing role of China in exporting semiconductor materials (e.g., silicon, germanium, gallium arsenide, silicon carbide, gallium nitride, etc.) worldwide both pose potential risks in terms of the PRC taking control of the global semiconductor market. Tit-for-tat responses by the Chinese government, in collaboration

with Chinese MNCs, have pushed the United States and its allies to take necessary measures to prevent any further advancement of Chinese MNCs into the global semiconductor market share. First, semiconductor sanctions have maintained the United States leadership status in the tech rivalry. Second, in 2022 the US Congress passed the [CHIPS and Science Act](#), which provided funding for the “Creating Helpful Incentives to Produce Semiconductors [CHIPS] for America Defense Fund” to implement initiatives for microelectronics research and development.



Image: TSMC Arizona Team in Phoenix, Arizona, April 8. (Image source: [Greater Phoenix Economic Council](#))

Recently, TSMC announced that the US Department of Commerce and TSMC Arizona have [signed a preliminary memorandum of terms](#) (PMT) for up to USD \$6.6 billion in direct funding under the [CHIPS and Science Act](#). This third fab will produce the most advanced leading-edge semiconductors in the United States, bringing TSMC’s total investment in Arizona to [over USD \\$65 billion](#)—the largest foreign direct investments in a greenfield project in the history of the United States.

In response, the PRC aims to increase semiconductor subsidies and [advance the global leading position of Chinese tech MNCs](#), such as Huawei, Cambricon, Longi, Willsemi, Baidu, Hisilicon, Smic, and so on. Therefore, the United States and its allies in Europe must consolidate their interests to protect their superiority in the global semiconductor market. US semiconductor leaders (e.g., Intel, Nvidia, AMD, Qualcomm, Broadcom, Texas Instruments, Micron) still dominate the global semiconductor market; however, the US presidential elections in November 2024 may pose a risk for diverging interests between national security stakeholders, political actors, and private sector shareholders.

For instance, the US government has long been under pressure to revoke a license, issued by the Trump

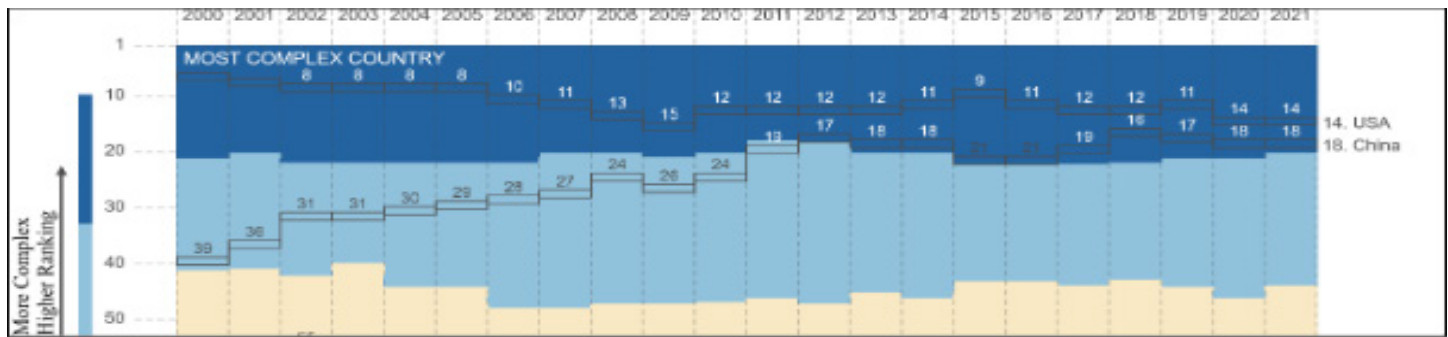


Image: Comparison of the United States-PRC Economic Complexity Index. (Image source: [Harvard Growth Lab's Country Rankings](#))

Administration, that allows [Intel to open a new fab to ship advanced central processors to Huawei](#) (a heavily sanctioned Chinese telecoms company) for use in laptops. Recently, Republican US lawmakers criticized governmental bodies after sanctioned Chinese telecoms equipment giant Huawei unveiled a laptop powered by [an Intel AI chip Core Ultra 9 processor](#). Thus, Intel's US rivals rightly criticized this unfair license that breached the principles of a fair market in liberal economies. This case also damaged the collaboration of US semiconductor leaders in defending national and transatlantic security interests.

Strategic Investments of TSMC and Digital Geopolitics

Chinese tech giants (e.g., Huawei, China Telecom, China Mobile, ZTE, China Unicom) have been increasing their influence in the global tech market by developing digital infrastructure, telecommunications, AI, technology-oriented businesses, and digital payment platforms in the context of the DSR initiative. The PRC will likely increase the [export of superfast fifth-generation wireless networks in the global tech market](#). Overall, the PRC's ultimate objective is to increase its competitive advantage by investing in digital infrastructure and technological innovation, and by strengthening its relations in the areas of the digital economy, the semiconductor market, and digital cooperation. The PRC's current digital expansionism prioritizes the DSR as a way to boost the market share and market value of Chinese tech giants, lead the way in advanced high-tech development, and raise profits in mobile device markets, the automotive system-on-chip market, the foundry market, semiconductor assembly and test services markets, and the integrated circuits market.

In a fracturing digital economy shaped by digital geopolitics, the transatlantic world has deep concerns about the PRC's digital expansionism, and Chinese

tech superpowers and their interventionist moves to the digital transformation and mega investments in the global digital sector. The PRC has huge buying power and is being galvanized by US sanctions into developing its own chip sector. China has the capacity to retaliate through increasing exports of Chinese semiconductor materials, and by using its geopolitical influence through a more offensive DSR and its overall BRICS+ diplomacy worldwide. [1]

The Harvard University's Growth Lab annually announces the [rankings of countries in terms of the Economic Complexity Index \(ECI\)](#). Countries develop their ECI by raising the complexity of the products they successfully export. ECI clarifies income differences across countries and anticipates future trends and dynamics—and further explains income differences across countries and predicts future growth better than any other single measure. Both the United States and the PRC are home to a range of sophisticated, specialized capabilities and are therefore able to produce a highly diversified set of complex products. Comparison of the US-PRC rankings in ECI reveals the level of transition in these states towards a digital economy, and can be used as a measurement of both comparative advantage and the extrapolation of future growth trends in the global technology market.

According to the [Observatory of Economic Complexity](#) (OEC), semiconductor devices were the world's 20th most traded product in 2022, with a total trade of USD \$156 billion. Between 2021 and 2022 the exports of semiconductor devices grew by 12.9 percent, from USD \$138 billion to USD \$156 billion. Most of the exports of semiconductor devices are produced by 10 countries. The top exporters of semiconductor devices were China (USD \$70.2 billion), Japan (USD \$9.88 billion), Malaysia (USD \$9.24 billion), Germany (USD \$9.02 billion), and Singapore (USD \$7.25 billion). In the same year,

the top importers of semiconductor devices were China (USD \$23 billion), Hong Kong (USD \$18.3 billion), United States (USD \$16.6 billion), Germany (USD \$9.59 billion), and Netherlands (USD \$5.44 billion).

As a response to the PRC's digital expansionism and the DSR initiative, US-Taiwan tech partnerships and strategic investments have become more effective in order to balance global and regional digital geopolitics, and to reduce the geopolitical risks in the global semiconductor value chain. In particular, TSMC is leading the global semiconductor market, and stands on both the frontline of global tech competitiveness and the US-PRC semiconductor standoff. Moreover, TSMC will advance the core competencies and competitive advantage of the US technology industry, uphold a vibrant global semiconductor ecosystem, and trailblaze future advancements in semiconductor technology (e.g., mobile communications, AI, high-performance computing, chip design, hardware systems or software, algorithms, large language models) through the company's strategic mega investments in Phoenix, Arizona. The Biden Administration has [praised the strategic investments of TSMC](#) and highlighted that semiconductors power everything from smartphones to cars to satellites and weapons systems. Advanced chips come with significant economic benefits and national security advantages. Thus, TSMC Arizona will support the next generation of semiconductor research, innovation, development, and production.

The main point: The United States and its allies are taking measures to protect their interests and prevent Chinese tech companies from dominating the global semiconductor market. US-Taiwan tech partnerships and the strategic investments of TSMC effectively balance global and regional digital geopolitics, and significantly reduce the geopolitical risks in the global semiconductor value chain. By attracting the mega investments of TSMC, the United States will not only increase its competitive advantage in the global semiconductor market and create high-wage jobs, but it will also protect national security through increasing the capacity for leading-edge innovations in multiple fields of technology.

[1] From a global digital transformation viewpoint, there are three digital connectivity projects: (1) the European Union's Global Gateway Initiative (GGI, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway_en), (2) China's Digital Silk Road (DSR) of Belt and Road Initiative (Kassenova & Duprey 2021, <https://daviscenter.fas.harvard.edu/sites/default/>

[files/files/2021-10/Digital Silk Road Report 2021.pdf](#)), and (3) the USA's Build Back Better World (3BW, The White House, <https://www.whitehouse.gov/build-back-better/>). Semiconductor materials (e.g., silicon, germanium, gallium arsenide, phosphorus, boron, gallium, etc.) are the raw materials of high tech industries: AI chip processors, supercomputers, smartphones, laptops, electric cars, satellites, spacecraft, rockets, etc. Thus, the global stock markets are highly dominated by global technology companies and are dependent on the global supply chain and distribution channels of the semiconductor materials. Unlike the Western global powers using the rules of chess, the PRC has diversified its strategic components and grand strategy, and used the rules of *weiqi* (the game of go) surrounding the entire supply chain and distribution channels of the semiconductor materials in the Indo-Pacific region and beyond. See: Aliu, A. *Artificial Intelligence and Rule of Law: The Age of Legal Tech and Digital Governance in a Fractured Digital World*. London: Palgrave Macmillan (forthcoming, 2025)

Why Countries Abandon Taiwan: Indicators for a Diplomatic Switch

By: Jonah Bock and Haley Parilla

Jonah Bock is an Analyst Intern with the Australian Strategic Policy Institute DC Office, where he studies Indo-Pacific Regional Security. Jonah was previously a Virtual Student Federal Service Intern with the US Department of State.

Haley Parilla is a postgraduate student at University College Dublin studying international political economy. Haley previously served as a Virtual Student Federal Service Intern with the US Department of State.

Amid recent efforts to pass the [Compacts of Free Associations Act of 2023](#), the strategic importance of the Pacific Island nations has come into public view. Of the three "Freely Associated States" (FAS), two of them—Palau and the Marshall Islands—maintain diplomatic ties with Taiwan. Across the globe, another nine countries—mostly in the Americas—recognize Taiwan. In a world of increasing competition with China, the diplomatic and military value of these relations cannot be understated. However, these relationships face continuing pressure from the People's Republic of China (PRC): most recently, shortly after the January 2024 Taiwanese election of Democratic Progressive Party (DPP, 民進黨) candidate Lai Ching-te (賴清德) to the presidency, the nation of Nauru announced that it

would be [cutting ties with Taiwan](#) in favor of China.

After DPP President Tsai Ing-wen (蔡英文) was elected in 2016, the PRC ended an [informal diplomatic truce](#) with Taiwan and began an aggressive campaign to poach Taiwan's diplomatic partners. Since then, 10 nations have ended their diplomatic relations with Taiwan. In the Pacific, the Solomon Islands and Kiribati recognized China in 2019, followed by Nauru in 2024.

With an aggressive China seeking to eliminate Taiwan's presence on the world stage, it is necessary to understand why countries have switched their diplomatic allegiance—and whether such moves can be accurately predicted in advance. Are there similarities between the 10 states that have switched recognition since 2016? What events transpired immediately before they cut ties? And, were there any identifiable long-term trends affecting these decisions?

We have identified four primary indicators that may help predict a shift in diplomatic recognition from the Republic of China (ROC, Taiwan) to the PRC. These indicators include: (1) dollar diplomacy and promises of development assistance from the PRC; (2) requests from the diplomatic partner country for massive financial aid from Taiwan; (3) PRC investment in regional neighbors; and (4) changes in trade patterns between the PRC and Taiwan's allies.

Dollar Diplomacy and Development Assistance

Many nations that ally themselves with Taiwan face significant challenges to economic growth and development. The PRC frequently exploits their poor economic conditions to lure these nations away from Taiwan. Since 2016, Taiwan has consistently accused the PRC of promising vast amounts of financial assistance [in exchange](#) for recognizing the "One-China Principle" (一個中國原則) (the PRC's position that maintains that Taiwan is a province of the PRC). In 2002, Taiwan accused Beijing of [purchasing Nauru's allegiance](#) by providing USD \$137 million in grants and debt repayments. Again in 2024, [China allegedly offered](#) Nauru USD \$100 million in aid, easily surpassing Taiwan's capabilities. In the case of Nauru, government officials have been accused of [receiving money](#) from China on multiple occasions.

Taiwan has emphasized that it will not attempt to [compete financially](#) with the PRC to secure allies, since the PRC's capacity to provide financial aid greatly outweighs its own. Accordingly, Kiribati opted for a [USD \\$66 million grant](#) from China in 2019. Soon after receiving the money and officially cutting ties with Tai-

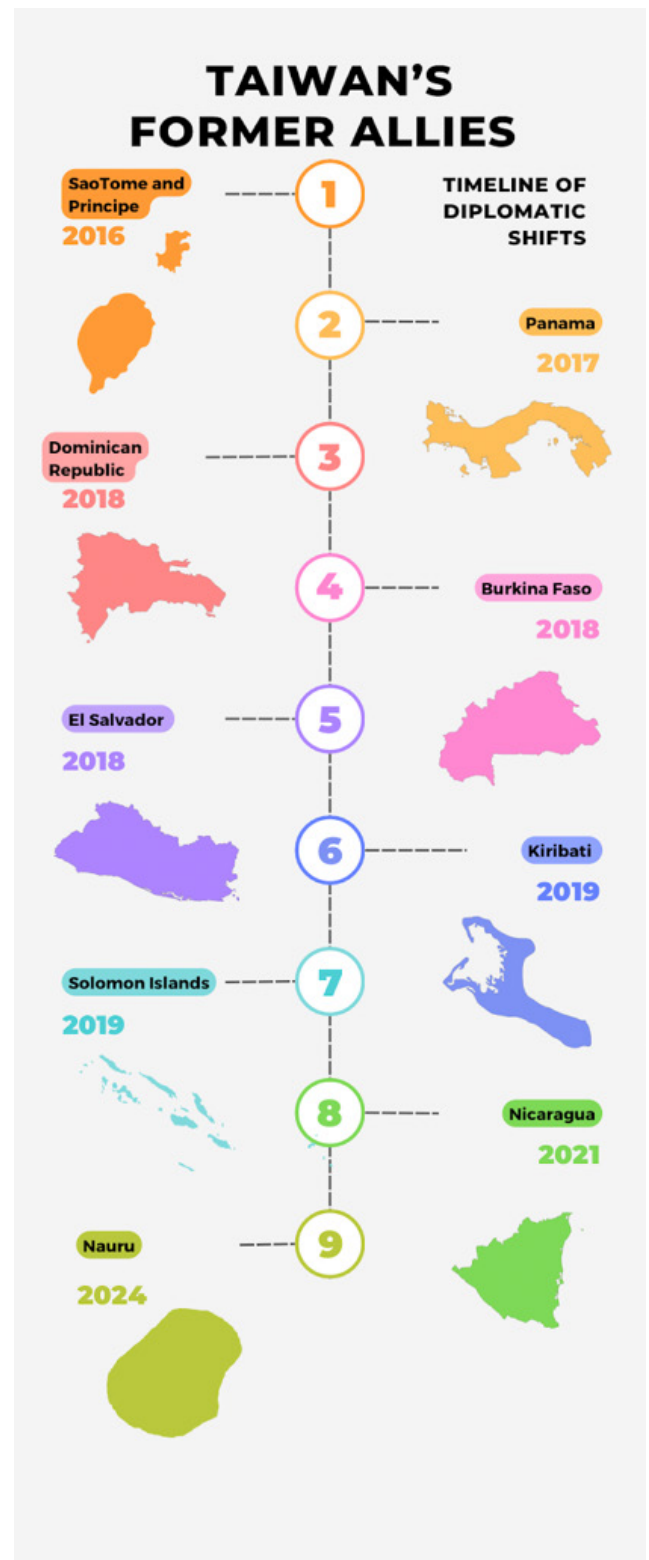


Figure 1: A timeline for the nine former diplomatic partners of Taiwan who switched recognition from the ROC (Taiwan) to the PRC from 2016 to the present. (Figure source: original work by authors via Canva)

wan, Kiribati signed [10 trade agreements](#) with the PRC.

Kiribati and Nauru are not the only countries to switch ties due to promises of financial aid. In Nicaragua, China promised to pay for the construction of an airport and liquefied gas terminal totaling [USD \\$430 million](#) in value. The Solomon Islands and El Salvador expressed hopes of economic growth through PRC investment in both nations—which has seemingly materialized, with the PRC [promising USD \\$500 million](#) to the Solomon Islands, and El Salvador receiving [USD \\$150 million](#) from the PRC only a few months after its shift of diplomatic recognition.

Massive Financial Assistance Requests

Prior to a change in diplomatic ties, Taiwan's former allies had reportedly requested massive financial assistance from Taiwan. These requests were considered outside the scope of Taiwan's international aid laws. For example, Taiwan was asked to fund the [re-election campaign](#) for El Salvador's president Sánchez Cerén, and a port development initiative that Taiwan deemed unviable. Taiwan believed the port initiative would cause both countries to accumulate [excessive levels of debt](#). Despite Taiwan's good intentions, El Salvador decided to recognize the PRC soon after.

Taiwan had also refused a request made by Kiribati President Taneti Mamau for money to purchase a [commercial aircraft](#) just before the shift in recognition. Not long after Kiribati cut ties, the PRC purchased the aircraft for the island nation. Likewise, Burkina Faso switched ties even after [signing a deal with Taiwan](#) to obtain USD \$47 million to support education, agriculture, and, defense projects. Before the decision to recognize China, the country requested an additional USD \$23 million to fund various development projects, which Taiwan refused. Finally, São Tomé and Príncipe had also [demanded USD \\$200 million](#) in financial support from Taiwan. Combined with the pressures from dollar diplomacy, such high financial expectations of Taiwan's allies indicate that the economic incentives of siding with China often outweigh those offered by Taiwan.

Chinese Investments in Regional Neighbors

Before a shift in recognition, a state's neighbors will have likely previously switched recognition, and China will likely have increased the "carrots" given to other countries in the region. Each country that recognizes the PRC is thereafter showered with "gifts" for switching. Both in the headlines and in material terms, these gifts are highly visible to the neighboring countries. El

Salvador sees the aid given to [Panama](#), Nicaragua sees the aid to [El Salvador](#), and Honduras sees the aid to [Nicaragua](#), cascading the PRC's impact. This is also observable in terms of China's increasing aid and engagement with surrounding nations that already recognize it.

Trade Flows

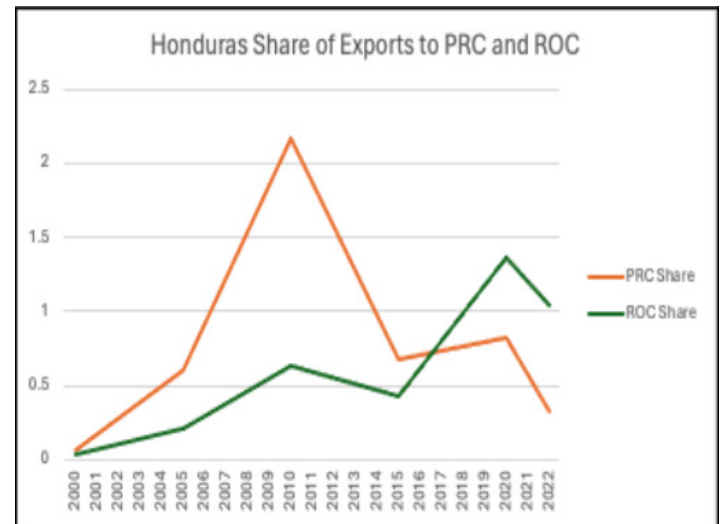


Figure 2: Shares of total exports from Honduras to the PRC and ROC (Figure source: original work by authors)

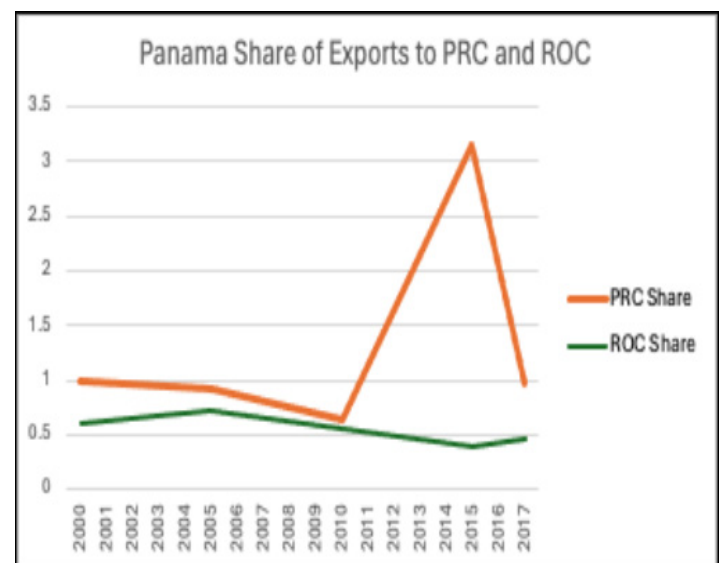


Figure 3: Share of total exports from Panama to the PRC and ROC (Figure source: original work by authors)

In all cases considered here, in the year before each country changed recognition, China was one of the top three sources of imports. Similarly, the share of Chinese imports into the country rose rapidly in each case over the past 20 years, while imports from Taiwan gen-

erally declined in the same period.

In most cases, the share of exports to China dramatically decreased before the country changed recognition to the PRC. The share of Nicaraguan exports to the PRC dropped by over 50 percent from 2015 to [2020](#)—the year before Nicaragua switched recognition. In Honduras the share dropped by 60 percent from 2020 to [2022](#), when Honduras switched recognition. The share for Panama dropped by nearly 70 percent from 2015 to [2017](#), when it changed recognition. In the Pacific, China’s share of Kiribati’s exports decreased by 85 percent from its high in 2016, to [2019](#) when it switched recognition.

By buying less, China may be punishing Taiwan’s allies for recognizing the ROC. This also provides a “carrot” that China can offer to states, promising to improve their terms of trade if they switch recognition. China signed a trade deal with [Panama](#) in 2018, and with [Nicaragua](#) in August 2023; and entered into negotiations with [El Salvador](#) in 2022, and [Honduras](#) in 2024. In countries that have not penned trade deals, exports and imports have also risen.

Taiwan’s recent loss of allies highlights the importance of the PRC’s strategic investments and “dollar diplomacy” in these nations. Financial incentives are a powerful tool China uses to weaken Taiwan’s influence worldwide, and to motivate numerous countries to alter their strategic alignment. Recognizing indicators including economic pressures and changing trade dynamics is vital for predicting future shifts in diplomatic alignment, and reflects the broader trends in international relations that will shape the global order in coming years.

The main point: Latin America and the Pacific Islands have proven to be regions of intense competition between Taiwan and China for diplomatic relationships. There are four main indicators that can predict a change in diplomatic recognition from Taiwan to the PRC: dollar diplomacy and promises of development assistance from the PRC, requests for significant financial aid from Taiwan, PRC investment in regional neighbors, and changes in trade patterns between the PRC and Taiwan’s allies.

Statecraft as Problem-Solving: Taiwan Needs Practical Policies, Not Merely Aspirational Rhetoric

By: Huynh Tam Sang

Huynh Tam Sang is a lecturer at Ho Chi Minh City-University of Social Sciences and Humanities, a Young Leaders Program member of the Pacific Forum, a research fellow at the Taiwan NextGen Foundation, and a visiting scholar at National Taiwan University as part of the 2024 Ministry of Foreign Affairs Taiwan Fellowship.

On May 20, Lai Ching-te (賴清德), a 64-year-old member of the ruling Democratic Progressive Party (DPP, 民進黨), was sworn in as Taiwan’s new president. International officials, scholars, and attendees listened to his 30-minute inaugural address with a mix of anticipation and apprehension. Countries sharing Taiwan’s democratic values kept their fingers crossed that the new administration could navigate Taiwan through the arduous tide of [authoritarian coercion](#) waged by its giant neighbor, China. They also had high hopes that Lai would be able to bolster Taiwan in its role—as Lai described it in his [inaugural speech](#)—as a “global beacon” of democracy.

Lai [pledged](#) to “deepen international cooperation” by “using Taiwan’s democratic vitality as a force for good,” indicating his sincere intent to strengthen the self-governed island’s resilient bonds with its partners. Additionally, countries sharing values with Taiwan felt that they could count on Lai’s commitments given his [reputation](#) as a strong advocate of the island democracy’s freedom and sovereignty, along with his determination to [transform](#) Taiwan into a bulwark against authoritarianism.

Nevertheless, observers are right to be concerned about the bumpy road ahead for the vulnerable island of Taiwan. A strenuous reality confronts Lai: US ties with Taiwan are becoming more fragile in the run-up to November’s presidential election in Washington. In April, US President Joe Biden had a telephone call with Chinese strongman Xi Jinping in which both leaders [underlined](#) “the importance of maintaining peace and stability across the Taiwan Strait.” Biden seems to [believe](#) that he can prevent war over Taiwan just by maintaining warm diplomacy with Xi, who has repeatedly [vowed](#) that “reunification” with the mainland is inevitable.

On the other hand, a return of former US President

Trump to the White House may break the equilibrium Former President Tsai Ing-wen's (蔡英文) has achieved in Taipei's relations with Washington and Beijing. A Trump presidency would expose Taiwan to [vulnerabilities](#) and unpredictable policies as he would likely take domestic issues first, rendering less clarity on US commitments towards supporting Taiwan. Trump could also use matters in chip industry as a *quid pro quo* for backing the Asian democracy. His grievances were plain when he [decried](#) Taiwan for allegedly stealing American semiconductors—implying a trade-off approach to foreign relations, even with the superpower's allies and partners. “We should have taxed them. We should have tariffed them,” Trump [said](#) when asked about the geopolitical risks Taiwan endured when targeted by China's duress.

With Chinese military power on the rise, however, Taiwan faces an ever-increasing challenge. While China's defense budget is set to rise by [7.2 percent](#) (making it world's second-highest, behind the United States), the People's Liberation Army (PLA) is becoming increasingly formidable, and its power heft [poses](#) “a potent challenge to US military dominance in East Asia.” Chinese leaders have laid out concrete policies to modernize, reform, and transform the PLA into a “more potent force” with [comprehensive](#) and [competitive](#) adaptations to modern warfare through massive research and development schemes, an increased military budget, and military apparatus restructuring.

The Lai Administration Needs a New Approach to International Relations

Lai will have a lot on his plate as he endeavors to shield the island from China's coercion while also forging ties with like-minded partners. Yet what are Lai's strategic assets? Lai inherits his predecessor's [legacy](#), including legalizing same-sex marriage, safeguarding Taiwan's sovereignty from Chinese pressure, successfully curbing the spread of the coronavirus, kickstarting military modernization and national defense reforms, launching the New Southbound Policy (NSP) to increase Taiwan's room for geopolitical maneuvering, and refashioning unofficial ties with the United States and like-minded partners. Former President Tsai's proactive leadership on both domestic and international fronts have endowed Lai with essential leverage to [advance](#) Taiwan “into a new era that is full of challenges, yet also brimming with limitless hope.”

To weather the storm from Beijing, Lai should continue to strengthen Taiwan's relations with Indo-Pacific powers, particularly Japan, Australia, and the Philip-

ines, under the “[values-based diplomacy](#)” motto. In recent years, Australia, Japan, and the Philippines have raised [concerns](#) over Beijing's dangerous provocations in the Taiwan Strait, while reasserting the significance of preserving peace and stability across Strait. The Sydney-based Lowy Institute's 2023 [survey](#) indicates that Australians support responding to a Chinese attack on Taiwan with sanctions, arms and military supplies, and using the deployment of Australian Navy to prevent Beijing from imposing a blockade around Taiwan. Japan showcased its support for Taiwan by sending a 35-parliamentarian delegation to Lai's inauguration: Chief Cabinet Secretary Yoshimasa Hayashi even [called](#) Taiwan “an extremely important partner and a dear friend” of Tokyo. In the Philippines, a US-funded port, which could serve dual commercial and military functions, is under construction. In times of crisis, Washington, Manila, and Tokyo could [use the port](#) to block China from using the Bashi Channel to enter waters east of Taiwan.

While Taiwan's ties with Japan and the Philippines are being reinforced, its engagement with the United States has become delicate. The USD \$95 billion foreign aid package to Taiwan, Ukraine, and Israel, [approved](#) by Congress in April, is helpful—yet, it is “[not a silver bullet](#)” for effectively defending the island. Taipei has every reason to [question](#) the extent to which Washington can help the nation build its military capabilities in the coming years, especially at a time when the [waning hegemon](#) is preoccupied with the protracted wars raging in Ukraine and the Middle East, neither of which are expected to end anytime soon.

With bewilderment beclouding the US-Taiwan relationship, Lai needs to be quick on his feet because—despite Washington's current strong bipartisan backing—Taiwan still [faces](#) a more perilous world and a more powerful China than when Tsai took office in 2016. But Lai may have a moment of solace. Although China has [stepped up](#) military drills around Taiwan in the days following Lai's inauguration to undermine his presidential position and “[punish](#)” Lai for his unwavering stance on China, the great power has refrained from triggering military clashes, as such move could entangle the United States and its allies. Given Xi's attempts to [mend fences](#) with Washington and his preoccupation with [fixing](#) China's flagging economy, Beijing may [hold off on](#) taking decisive action against Taiwan until at least after the US presidential election.

The time is now for Lai to set priorities for strengthening relations with Washington. The wealth of knowledge, extensive background, and broad networks with

US officials and think tanks that Taiwan's Vice President Hsiao Bi-khim (蕭美琴) possesses are invaluable to Lai in elevating Taiwan's profile and bringing "[relationships and trust](#)" into his foreign-policy agenda. Although Lai's inaugural address touting Taiwan's "resilient democracy" is laudable, getting US diplomatic and financial support demands more than just political rhetoric. Taiwan needs more personal connections with politicians and legislators in Washington, but Taiwan's foreign minister Lin Chia-lung (林佳龍) has [little practical foreign policy experience](#). Hence, Hsiao should use her [expertise](#) and real-world experience to not only serve as the vice president, but also to bolster Lin's role.

Likewise, Taiwan's president should add more substance to the NSP beyond the confines of Sino-Taiwan relations. Still, Lai's inaugural address ignored the NSP and its future trajectories. It is highly probable that Lai failed to advocate for the strengthening of ties with New Southbound countries because he was primarily focused on China's pressure. There may be room for foreign-policy debate and reflection following the notion that Lai is not committed to bolstering the grand strategy laid out by outgoing president Tsai in 2016. This could further perplex observers, who have ample grounds to believe that Lai appears to prioritize cross-Strait relations and the coalescence of Taiwan's relations with democracies—in Lai's words, "[a democratic community](#)"—over Taipei's meaningful engagement with targeted partners.

Now the Lai Administration's priority lies in setting a new stage for an upgraded NSP, the overarching goal of which is to strengthen ties with New Southbound countries. As part of the elevated grand strategy, Taiwan should implement practical measures, such as sharing its expertise in digital technology applications, fostering symbiotic collaboration in the semiconductor sector, and sharing its trove of experiences in combating disinformation. Those initiatives are core elements of Taiwan's proficiency in statecraft, and the next step is to take them southwards. Moreover, Lai's government should [incorporate](#) Palau, the Marshall Islands and Tuvalu—Taiwan's diplomatic allies—in the revised strategy. For Taiwan, solidifying cordial ties with the three allies is crucial, as the elevated strategy must be both effective and inclusive.

Compared to Tsai's entry into office eight years ago, Lai is under much greater pressure to safeguard Taiwan's sovereignty and bolster its democratic standing, which is made even more difficult due to the weight of China and geopolitical fragility across the Strait. For Lai to achieve these aims, he needs to practice [statecraft](#),

the process of setting realistic and attainable goals and marshaling available resources and assets to achieve those ends. In a nutshell, Taiwan should embrace a two-pronged strategy: one, to strengthen multifaceted ties with Washington, focusing on personal links; and second, to foster meaningful engagement with New Southbound Policy countries via sharing state-of-the-art knowledge and practical experience.

The main point: Taiwan's President Lai Ching-te should bring more savvy to foreign policy, particularly through incorporating his "values-based diplomacy" with further outreach to both the United States and countries included within the New Southbound Policy.

Taxing Relations: The Stalled US-Taiwan Tax Treaty in Congress

By: Ben Levine

Ben Levine is a program assistant at the Global Taiwan Institute.

The United States and Taiwan share a strong economic partnership, [with Taiwan ranking as the United States' seventh largest trading partner](#) and the [United States ranking as Taiwan's third largest trading partner](#). This close economic relationship is powered by [extensive two-way trade](#), with the United States exporting agricultural products, machinery and mechanical appliances, and mineral products to Taiwan, while relying on Taiwan for imports of both basic and advanced semiconductors, electronics, and other manufactured goods. In recent years, Taiwan's significance in the global supply chain has been thrust into the spotlight, due to its dominant position in the production of semiconductors—which also fuels the US consumer economy.

Since Congress passed and President Biden signed into law the [Chips and Science Act](#) in 2022 to bring advanced semiconductor manufacturing to the United States, Taiwanese market leader Taiwan Semiconductor Manufacturing Company (TSMC, 台灣積體電路製造股份有限公司) has announced the [largest foreign direct investment \(FDI\) greenfield project in US history](#)—investing a total of over USD \$65 billion—to build three semiconductor fabrication plants in the state of Arizona. In addition to Taiwanese FDI into the United States, American companies are active in the Taiwanese market—[investing in sectors](#) such as cybersecurity, defense, medical devices, and machinery and machine

tools. However, Taiwan is the only country among the United States' top 10 largest trading partners with whom the United States [does not have a formal double taxation agreement](#). This has not only impacted large Taiwanese multinationals such as TSMC but also other and smaller [Taiwanese companies that supply TSMC](#).

[American companies investing in Taiwan](#) have also stated that the lack of a formal double taxation agreement creates uncertainty in their investments. Having this problem solved would help support more cross-border trade and investment by providing a clearer and more stable regulatory framework for economic activities between the two countries. The US House of Representatives recently, [on a strongly bipartisan basis](#), passed [The Tax Relief for American Families and Workers Act of 2024](#) (hereafter referred to as the "Act"), within which is a provision that includes a "treaty-like" tax relief framework for Taiwan residents, effectively serving as a US-Taiwan tax treaty. As the Biden administration aims to "[friendshore](#)" and strengthen economic partnerships with key allies, establishing a double tax agreement with Taiwan emerges as a crucial step to achieve this goal, facilitating enhanced trade and investment flows between the two nations.

The Current Tax System between the United States and Taiwan

In the absence of a formal double taxation agreement between the United States and Taiwan, businesses and individuals have had to navigate the complex tax regimes of both countries, rather than just the tax regime of one. For example, Taiwanese businesses and individuals operating in the United States, in addition to paying US federal and potentially state and local taxes, are also subject to the normal tax rates in Taiwan. Below is a breakdown of how individual and corporate income is taxed in each country:

[2024 Taiwan Income Tax Brackets:](#)

Taxable income (NTD/USD)	Tax Rate (%)
0 to NTD \$560,000 (roughly USD \$17,170)	5%
NTD \$560,001 to \$1,260,000 (roughly USD \$17,170 to \$38,633)	12%
NTD \$1,260,001 to \$2,520,000 (roughly USD \$38,633 to \$77,271)	20%
NTD \$2,520,001 to \$4,720,000 (roughly USD \$77,271 to \$144,730)	30%
NTD \$4,720,001 (roughly USD \$144,730) and above	40%

[Taiwan Corporate Income Tax Brackets:](#)

Taxable income (NTD/USD)	Tax Rate (%)
0 to NTD \$120,000 (roughly USD \$3,680)	0%
NTD \$120,000 (roughly USD \$3,860) and above	20%

[2024 US Income Tax Brackets \(Single\):](#)

Taxable income (USD)	Tax Rate (%)
0 to \$11,600	10%
\$11,601 to \$47,150	12%
\$47,151 to \$100,525	22%
\$100,526 to \$191,950	24%
\$191,951 to \$243,725	32%
\$243,726 to 609,350	34%
\$609,351 and above	37%

The United States has a flat [21 percent federal corporate tax](#), and [44 states](#) also impose a corporate income tax (which ranges from 2.5 percent to 9.8 percent). In addition to the normal corporate tax, both countries also have an alternative minimum tax (AMT) on corporate income. In the United States, the [Inflation Reduction Act of 2021](#) introduced a [Corporate Alternative Minimum Tax \(CAMT\)](#), which is effective for tax years beginning after 2022. This 15 percent minimum tax applies to the adjusted financial statement income (AFSI) of C corporations [1], with an average annual AFSI exceeding USD \$1 billion over a three-year period. The CAMT ensures that corporations pay at least a minimum tax when the tentative minimum tax exceeds regular tax plus the base erosion and anti-abuse tax. In Taiwan, the [Income Basic Tax \(IBT\)](#) functions as an alternative minimum tax for resident companies and non-resident companies with a fixed place of business or business agent in Taiwan. The IBT, set at 12 percent, is calculated on certain tax-exempt income with a NTD \$600,000 deduction. If the IBT amount is higher than the regular corporate income tax (CIT) amount, companies must pay the regular CIT plus the difference. If the regular CIT amount is greater, no additional payment is required.

There is a way to get relief from the current double taxation through the foreign tax credit. In both Taiwan and the United States, the foreign tax credit provides relief from double taxation by allowing individuals and businesses to claim a credit for taxes paid to foreign

governments. In Taiwan, the tax credit is limited to the amount of foreign tax paid, ensuring that the credit cannot exceed the actual tax liability incurred abroad. This tax credit applies equally to both individuals and businesses, providing a straightforward method to mitigate double taxation. Similarly, in the United States, the foreign tax credit is also restricted to the amount of foreign taxes paid. Thus, both countries adopt a comparable system that aims to prevent double taxation while limiting the credit to the foreign tax amount paid. However, the main issue with the current system is that these tax credits are only paid out after an individual or business files their taxes with their respective governments, which can create cash flow challenges and uncertainty throughout the fiscal year.

The Double Taxation Section of the Bill: the US-Taiwan Tax Treaty

A significant portion of the bill [addresses](#) tax issues related to Taiwan. Due to the lack of formal diplomatic relations with Taiwan, the bill provides “treaty-like” relief for Taiwan residents [2], including: reduced withholding rates to prevent double taxation; clear guidelines on the treatment of employment, interest, and dividend income for individuals; and criteria for determining qualified residents of Taiwan. Additionally, the bill [sets a framework](#) for the US president to negotiate a formal tax agreement with Taiwan, enhancing economic ties and reducing tax-related barriers for individuals and businesses. Tax relief for Taiwan residents in the United States is dependent on US residents obtaining similar treatment under Taiwanese law.

The Status of the Bill

The *Act* is currently facing significant hurdles in the Senate. As mentioned above, despite passing the House with strong bipartisan support, Senate Republicans have focused on the inclusion of the expanded child tax credit (CTC) as a reason to oppose the bill. [Key Republican senators](#)—including Senator Mike Crapo (R-ID), who is the Ranking Member of the Senate Finance Committee, and Senator Mitt Romney (R-UT)—have been vocal in their opposition to the bill, with both emphasizing the need for fiscal responsibility and the potential for fraud in the expanded CTC. In addition, [Senate Republicans are taking their cues](#) for supporting or not supporting the legislation through Senator Crapo. In [Senator Crapo’s view](#), because the child tax credit for the current tax year relies on the previous tax year’s income, he is strongly opposed to this provision because “allowing individuals to receive a refundable credit when they have zero annual earnings—as the

prior year’s earnings provision allows—is a departure from longstanding policy tying the CTC to work.”

[Three Senate Democrats](#) have called on Senate Majority Leader Chuck Schumer (D-NY) to put the legislation up for a vote before the election in November. Because Senate rules require a 60-vote threshold to overcome a filibuster and bring the bill to a direct vote, at least 9 Republican Senators would have to vote in the affirmative (assuming all 47 Democrats and the 4 Independents who caucus with the Democrats vote in the affirmative). Once a bill overcomes the 60-vote filibuster threshold, [it needs a simple majority vote](#) of least 51 to pass the Senate. However, the Senate recently [rejected the bill on a 48-44 vote](#), with most Democrats voting in favor and most Republicans rejecting the bill.

Potential for Passage after the Election?

As the United States gears up for the coming election in November, the chances of this bipartisan bill [passing becomes lower and lower as each day passes](#). Due to [key provisions in the 2017 Tax Cuts and Jobs Act expiring in 2025](#)—such as tax cuts for businesses and individuals, certain business tax credits, pass-through business tax changes, widening of the estate tax exemption, and many others—Senate Republicans are hesitant to support this legislation and [give a victory to President Joe Biden](#), a Democrat.

However, there is a scenario in which Congress passes a stand-alone bill “treaty-like” relief for Taiwan residents after the November election in a lame-duck session (i.e., the period between the election and the inauguration of the new Congress). Because political considerations wouldn’t be as much of a factor anymore, Congress could either pass the current *Act* as is—or else pass a stand alone bill that would provide “treaty-like” relief to Taiwan residents, and that would allow the president to enter into negotiations with the Taiwanese government on a double-taxation agreement.

Conclusion

The robust economic partnership between the United States and Taiwan underscores the importance of mutual investments and trade. With Taiwan’s pivotal role in the global supply chain, particularly in semiconductor manufacturing, the United States’ efforts to bring advanced semiconductor manufacturing to its soil through legislation such as the *Chips and Science Act* highlight a strategic move to strengthen this bilateral relationship further. The historic investment by TSMC in Arizona marks a significant milestone, reflecting the

deep economic ties between the US and Taiwan, and a shared commitment to innovation and growth. However, the absence of a formal double taxation agreement poses challenges, adding a layer of uncertainty for businesses on both sides. The recent passage of the *Act* by the US House of Representatives, with its provisions for a “treaty-like” tax relief framework for Taiwan, represents a crucial step towards addressing these issues and fostering a more favorable business environment.

Looking ahead, the bill’s journey through the Senate remains stalled, with political dynamics and differing priorities influencing its fate. The expanded child tax credit provision has been a point of contention, drawing criticism from key Senate Republicans who emphasize fiscal responsibility. Despite this, the potential for passing a standalone bill offering tax relief to Taiwan residents post-election presents a viable path forward. Such a development could significantly enhance US-Taiwan economic ties, providing much-needed clarity and stability for investors. As both nations navigate these legislative hurdles in the US Senate, ongoing dialogue and cooperation will be essential in shaping a resilient and mutually beneficial economic partnership for the future.

The main point: Strong economic ties between the United States and Taiwan necessitate a formal double taxation agreement. However, due to both political considerations and how legislation moves through the US Congress, it remains to be seen whether the proposed double taxation framework within the *Act* will overcome the current legislative hurdles and be enacted into law.

[1] A C corporation is an independent legal business entity owned by its shareholders.

[2] The term “[Taiwan resident](#)” in this context means any person who is liable to tax under the laws of Taiwan, is not a United States person, or is an entity taxed as a corporation in Taiwan.
