

## CHAPTER 4

### TAIWAN

#### Key Findings

- The year 2020 was pivotal for cross-Strait relations. China's imposition of the national security law in Hong Kong and its intensifying military activities around Taiwan proved that Chinese leaders are determined to pursue their political objectives without concern for their existing commitments or the reputational costs they might incur by violating them. Events this year underscored the urgency of ongoing discussions in Washington over whether the United States should alter its longstanding policy toward Taiwan and how China's annexation of the island could affect U.S. national security interests.
- Taiwan President Tsai Ing-wen won reelection by a landslide in January 2020, easily defeating her opponent with an historic number of votes in a victory many experts viewed as improbable just a year earlier. President Tsai's late surge in the polls was driven largely by voter dissatisfaction with Beijing's heavy-handed approach to the island and its destruction of basic freedoms in Hong Kong. The Chinese Communist Party's (CCP) imposition of the national security law in Hong Kong discredits Beijing's assurance that Taiwan could preserve its chosen way of life under a prospective unification model and proved Chinese leaders intend to pursue their sovereignty claims regardless of the international reaction.
- In 2020, Beijing continued its multifaceted pressure campaign against Taiwan. Both of Taiwan's dominant political parties rejected Beijing's pursuit of unification under its "one country, two systems" framework, affirming their commitment to the island's free, multiparty democracy. The Tsai Administration continued initiatives introduced during its first term to deepen ties with the United States and other countries in the Indo-Pacific region.
- The outbreak of the novel coronavirus (COVID-19) underscored the consequences of Beijing's politically motivated exclusion of Taiwan from international organizations. Despite Beijing's attempts to marginalize the island, Taiwan's impressive domestic epidemic control and prevention efforts earned it the admiration of countries around the world, with many expressing strong opposition to Beijing's actions.
- Through stringent measures for case identification and containment, Taipei mounted a model response to the COVID-19 pandemic and averted a largescale economic shutdown. As a result, Taiwan's economy continued to expand in 2020, albeit

at a slower pace, even as its neighbors suffered contractions. Taipei may face challenges in the medium term, however, as the pandemic roils the global economy and threatens to reduce external demand for the island's exports.

- The COVID-19 pandemic brought into stark relief the risks associated with China-centric supply chains and led Taipei to accelerate its push to reduce Taiwan's economic reliance on mainland China. The Taiwan government reinvigorated its efforts to incentivize Taiwan companies operating on the Mainland to relocate production to the island and unveiled other investment incentives and subsidies to encourage multinational technology firms to expand operations in Taiwan. These developments led to some preliminary recalibrations of global technology supply chains.
- The foundations of the U.S.-Taiwan economic relationship began to shift in 2020 as Taipei and Washington took significant steps to upgrade economic engagement. President Tsai removed a longstanding source of friction in bilateral trade ties by lifting restrictions on U.S. meat imports, while the Trump Administration announced it would launch a new Economic and Commercial Dialogue with Taipei focused on supply chain security, among other objectives.
- The Peoples Liberation Army's (PLA) military activities around Taiwan in 2020 were more frequent and more aggressive than those recorded in 2019. The PLA's moves abrogated norms that once managed tensions across the Strait and expanded Beijing's operations in the air and waters around Taiwan. The more frequent presence of PLA aircraft and naval vessels around Taiwan also increases the chance of a crisis stemming from an accident or miscalculation.
- Taiwan stepped up its missile production, upgraded its unmanned aerial vehicles, and continued to develop other asymmetric capabilities in 2020 even as it sought to replace aging conventional legacy systems with modern aircraft and tanks. Despite these efforts, Taiwan's military continued to grapple with ongoing problems related to equipment, readiness, and its transition to an all-volunteer force as the cross-Strait military balance remained deeply tilted in Beijing's favor.
- The U.S. government demonstrated its support for Taiwan through multiple avenues of engagement in late 2019 and 2020. In the political realm, the United States sent U.S. Department of Health and Human Services Secretary Alex Azar to Taipei in August, making him the highest-ranking U.S. cabinet official to visit the island since 1979. In the military realm, the United States dispatched a senior defense official to Taiwan; initiated the sale of multiple major weapons systems to Taiwan; enabled Taiwan's participation in U.S.-led multilateral security consultations; and continued U.S. air and maritime transits around the island.
- The U.S. Department of State reaffirmed longstanding policy by releasing declassified cables containing its "Six Assurances"

to Taiwan and emphasizing that the United States regards the question of Taiwan's sovereign status as unresolved. Assistant Secretary of State for the Bureau of East Asian and Pacific Affairs David R. Stilwell said in a speech, however, that the United States was making "important updates" to its engagement with Taiwan in response to "changing circumstances." These changes will be "significant, but still well within the boundaries of [the] One China policy."

## Recommendations

The Commission recommends:

- Congress consider enacting legislation to make the Director of the American Institute in Taiwan a presidential nomination subject to the advice and consent of the United States Senate.
- Congress amend the TAIPEI Act to provide that the United States, as a member of any international organization, should oppose any attempts by China to resolve Taiwan's status by distorting the language, policies, or procedures of the organization.
- Congress evaluate the opportunity to strengthen economic relations with Taiwan in key sectors where there are unique reciprocal opportunities, with technology as the initial sector for evaluation.
- Congress encourage the Administration to include Taiwan in multilateral efforts to coordinate and strengthen supply chain cooperation and security. This could be done through the expansion of Global Cooperation and Training Framework programming or a new multilateral arrangement with likeminded democracies. This multilateral engagement should focus on securing critical inputs and assuring supply chain resilience in strategic industries critical to economic competitiveness and national security, including information and communications technology, integrated circuits, and electronic components.

## Introduction

As China dismantled the last vestiges of institutional autonomy guaranteed to Hong Kong under "one country, two systems" and attacked the territory's vibrant civil society in 2020, it simultaneously escalated its coercion of Taiwan to intimidate the island's leadership into accepting a unification agreement on Beijing's terms. Displeased with the outcome of Taiwan's January elections, which saw President Tsai Ing-wen of the Democratic Progressive Party (DPP) reelected by a landslide despite intense political interference from the Mainland, Beijing intensified its efforts to isolate Taiwan on the global stage by continuing to prevent its participation in the World Health Organization (WHO) amid the COVID-19 pandemic. At the same time, the PLA conducted frequent military operations in the air and waters near Taiwan, organized large-scale training for a conflict with Taiwan, and continued procurement and reforms that would support an island invasion.

Taipei remained defiant in the face of Beijing's coercion, affirming its commitment to its own democratic system and active participation in the international community. President Tsai began her sec-

ond term by continuing her efforts to deepen Taiwan's relations with the United States, expand its global engagement, and reform its military to better prepare for a PLA attack. Meanwhile, the United States took several actions to express strong support for Taiwan and its self-defense capabilities. Taiwan's exemplary response to the COVID-19 pandemic also afforded it a rare opportunity to demonstrate to the world its medical expertise and political transparency, winning it praise from foreign leaders as they grappled with the outbreak. Taiwan donated millions of masks and medical equipment such as ventilators to countries in need and initiated partnerships with the United States and EU to develop a vaccine and treatments for COVID-19.\*

Taipei's robust and comprehensive response to the COVID-19 outbreak enabled Taiwan to avoid full lockdowns and mitigate disruptions to economic activity, but the pandemic also highlighted longstanding concerns regarding Taiwan's economic reliance on China. In 2020, the Tsai Administration stepped up its efforts to strengthen Taiwan's domestic industrial base, fortify Taiwan's position in global technology supply chains, and bolster its international economic relationships. U.S. policy measures to mitigate the risks of U.S.-China economic interdependence converged with Taipei's economic initiatives, generating new momentum toward deepened U.S.-Taiwan economic ties.

This section analyzes developments in Taiwan's external relations, economic policy, cross-Strait security issues, and relationship with the United States between late 2019 and late 2020. It is based on the Commission's consultations with experts, open source research, its June 2020 hearing on "The Chinese View of Strategic Competition with the United States," and its September 2020 hearing on "U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges."

## **Taiwan's External Relations**

Taipei's handling of the COVID-19 pandemic in 2020 attracted widespread acclaim despite Beijing's attempts to marginalize its contributions to global public health. The island's successful elevation of its global standing followed years of public diplomacy intended to preserve for Taipei a role in international venues and counteract the isolation created by the Chinese government's multifaceted pressure campaign. Taipei responded to Beijing's coercion this year by affirming its free and democratic way of life while deepening its relations with like-minded countries, including the United States.

### ***COVID-19 Highlights Beijing's Pressure on Taiwan's International Space***

As the novel coronavirus spread throughout the world in the early months of 2020, Beijing operationalized ties it had developed over decades within the WHO to exclude Taiwan from the international response to the pandemic. In the months that followed, WHO officials consistently ignored Taiwan's requests for information and

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\*The official name of the novel coronavirus responsible for the pandemic is "severe acute respiratory syndrome coronavirus 2," which is abbreviated SARS-CoV-2. COVID-19 is the name of the disease caused by the SARS-CoV-2 virus. World Health Organization, "Naming the Coronavirus Disease (COVID-19) and the Virus That Causes It," 2020.

efforts to share best practices for containing the virus even as they praised China's response and consistently referred to Taiwan as a province of China in official documents.<sup>1</sup> The WHO's leading official, Director-General Tedros Adhanom Ghebreyesus, also made the unfounded claim that Taiwan was behind a slew of racist online attacks and death threats against him.<sup>2</sup> A study by the Australian Strategic Policy Institute concluded the social media messages in question were in fact connected to a coordinated disinformation campaign originating from mainland China.<sup>3</sup> The messaging of the social media campaign led Taipei-based analyst J. Michael Cole to conclude that its purpose was "to discredit Taiwan, to further alienate it from the WHO, and to draw attention away from Taiwan's success in handling the COVID-19 outbreak and generous medical assistance to international partners."<sup>4</sup> Beijing advanced all three of these aims in May when it foiled a U.S.-led diplomatic push to secure observer status for Taiwan at the WHO World Health Assembly by successfully dissuading enough countries from supporting a proposed vote on the matter.<sup>5</sup>

Beijing leveraged its growing influence in other UN organizations to further narrow Taiwan's international space. In late January 2020, the International Civil Aviation Organization (ICAO) blocked Twitter accounts criticizing the organization's exclusion of Taiwan from membership.<sup>6</sup> Critics charged that ICAO's sidelining of Taiwan, a major regional and international transit hub,\* limited its ability to both share and receive information and coordinate international air travel across the region.<sup>7</sup> ICAO communications staff subsequently claimed that "to the best of [their] understanding, [information is] being promptly shared by China with all of the applicable aviation stakeholders and officials in its sovereign territories," referring to Taiwan as a part of China's sovereign territory.<sup>8</sup> ICAO later reinforced this claim in a news release about COVID-19's impact on the travel industry, explicitly labeling Taiwan a province of China † and underscoring Beijing's influence over the organization.<sup>9</sup> Former Chinese government official Fang Liu has led ICAO since 2015 and has presided over the organization's moves to marginalize Taiwan.<sup>10</sup> (For more on China's influence in international organizations, see Chapter 1, Section 2, "The China Model: Return of the Middle Kingdom.")

### *Taiwan's Humanitarian Outreach Wins Global Praise amid COVID-19 Pandemic*

Despite Beijing's exclusionary efforts, Taiwan earned global praise with its early and aggressive measures ‡ to identify suspected cases

\*Taiwan's 17 airports connect travelers to 32 countries and 150 global cities, with more than 72 million passengers transiting through Taiwan's airports annually. In 2019, 15 percent (10.8 million) of these passengers were traveling to or from the Mainland. Taiwan's Ministry of Transportation and Communications, *Aviation: East Asian Hub for Global Travel*, January 15, 2020; Taiwan's Ministry of Transportation and Communications, *Cross-Strait Passenger and Cargo Traffic*.

†Since the outbreak of the COVID-19 pandemic, ICAO has begun to explicitly label Taiwan a province of China in its economic impact estimates of the pandemic on the global aviation industry. The altered description is notable as ICAO publications have otherwise identified Taiwan as "Taiwan, China," in an implicit but less forceful affirmation of Beijing's position on Taiwan's sovereignty. International Civil Aviation Organization, "Economic Impacts of COVID-19 on Civil Aviation," October 8, 2020; Matthew Strong, "ICAO Describes Taiwan as Province of China in Coronavirus News Release," *Taiwan News*, February 15, 2020.

‡Critical measures Taiwan took to contain the spread of the virus included screening passengers from Wuhan, the epicenter of the outbreak, starting in late December; standing up its

of the novel coronavirus, trace infected individuals' contacts, and enforce quarantines. As of October 16, Taiwan had just 531 confirmed cases and seven deaths, while global cases surpassed 39 million and the death toll exceeded one million.<sup>11</sup> Taiwan's success in mitigating the virus' spread is especially notable given its proximity to the Mainland, robust people-to-people contacts across the Strait, and population density. According to the 2019 UN *World Population Prospects* report, Taiwan is the 17th most densely populated area in the world, with 671.4 people per square kilometer.<sup>12</sup>

With the pandemic firmly under control within Taiwan's borders, Taipei leveraged its robust supply of personal protective equipment and expertise to launch a global assistance campaign. Though it initially ramped up face mask production exclusively for domestic use, by April the Taiwan government moved to donate its excess supply of face masks to virus-stricken countries, including the United States, Canada, Japan, and European countries.<sup>13</sup> As of October 1, Taiwan has donated more than 30 million face masks to the international community,\* with 12.6 million sent to the United States.<sup>14</sup> Taipei notably did not limit its support to fellow democracies or its diplomatic allies; it also sent masks to China-friendly countries in Africa through the Vatican, one of its remaining diplomatic allies, and held a videoconference for medical professionals from countries that recently switched diplomatic recognition to Beijing.<sup>15</sup>

Taipei's outreach opened new avenues of partnership between the United States and Taiwan. For example, Taiwan's Ministry of Foreign Affairs and the American Institute in Taiwan (AIT), the United States' de facto embassy in Taipei, issued a joint statement in March outlining efforts to cooperate in the research and development (R&D) of tests, medicines, and vaccines for COVID-19, as well as in the exchange of medical supplies.<sup>16</sup> One manifestation of this cooperation emerged in the form of a vaccine development partnership between Taiwan-based Medigen Vaccine Biologics Corporation and the U.S. National Institutes of Health.<sup>17</sup> U.S. Health and Human Services Secretary Alex Azar also praised Taiwan's success

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Central Epidemic Command Center in January to coordinate various ministries' responses to the virus; developing rapid test kits to identify cases; requiring recent travelers to self-quarantine and imposing fines on those who broke the restrictions; boosting domestic production of masks and developing a cloud-computing system to monitor and effectively manage their distribution; closing public spaces upon confirming cases of the virus; combating novel coronavirus-related disinformation; and providing financial assistance to workers furloughed during the outbreak. Taiwan drew particular praise for its approach to managing face mask distribution. As news of the COVID-19 outbreak spread in Taiwan and sparked panic buying of face masks, supplies quickly ran low. Taiwan Digital Minister Audrey Tang collaborated with Taiwan software developers to design and implement a mobile application tracking face mask inventories in real time. Citizens could download the application to see which local storefronts had face masks on hand, alleviating confusion over supply, while the government could monitor where masks were in short supply and address shortfalls. Andrew Leonard, "How Taiwan's Unlikely Digital Minister Hacked the Pandemic," *Wired*, July 23, 2020; C. Jason Wang, Chun Y. Ng, and Robert H. Brook, "Response to COVID-19 in Taiwan: Big Data Analytics, New Technology, and Proactive Testing," *Journal of the American Medical Association*, March 3, 2020.

\*The actual number of masks donated is likely higher because Taiwan's Ministry of Foreign Affairs does not uniformly disclose the specific quantities donated to all countries. For example, Taiwan's Ministry of Foreign Affairs enumerates the specific number of masks (12.665 million) donated to the United States, but elsewhere indicates it donated individual "shipments" of face masks to African and Latin American countries. Taipei has donated face masks and other medical equipment to countries in Central Asia, the Middle East, Africa, and Latin America and the Caribbean. Taiwan's Ministry of Foreign Affairs, *Taiwan and North America Cooperation and Assistance to Combat COVID-19*, September 2020; Taiwan's Ministry of Foreign Affairs, *Taiwan and Latin America & the Caribbean Cooperation and Assistance to Combat COVID-19*, June 2020; Taiwan's Ministry of Foreign Affairs, *Taiwan and West Asia & Africa Cooperation and Assistance to Combat COVID-19*, May 2020.

in combatting COVID-19 during his August trip to Taipei, where he met with President Tsai, visited a memorial for the late former President Lee Teng-hui, and oversaw the signing of a memorandum of understanding on public health cooperation between Taiwan's Ministry of Health and Welfare and the U.S. Department of Health and Human Services.<sup>18</sup>

Taipei advanced vaccine research partnerships and exchanges with other democracies beyond the United States. After a March telephone call between Taiwan's premier research institution Academia Sinica and multiple officials from the EU, Brussels and Taipei agreed to work together in vaccine research and development of rapid testing options for COVID-19.<sup>19</sup> Taiwan's Ministry of Science and Technology announced in May that Taiwanese and Australian university researchers will work together to identify existing and new drugs effective against COVID-19.<sup>20</sup> In March, Academia Sinica also held talks with the Canadian Trade Office in Taipei on possible collaboration related to COVID-19.<sup>21</sup>

### ***Rebuked by Taiwan's Voters, Beijing Escalates Threats and Intimidation***

The CCP ramped up its intimidation tactics after President Tsai's election to a second term in January, continuing to insist on the application of "one country, two systems" to the island despite international criticism of Beijing's decision to renege on its promise to respect Hong Kong's autonomy under the framework. Meanwhile, Taiwan's dominant parties flatly rejected "one country, two systems" and several public opinion polls conducted in the summer showed the Taiwan public's views became increasingly inhospitable to unification with the Mainland.<sup>22</sup> Hong Kong's loss of freedom cast a pall over Taiwan politics in 2020, fueling concerns that Beijing could soon take action to compel unification or attack the island.

### ***Beijing Promotes "One Country, Two Systems" for Taiwan***

Beijing expressed dismay at what it viewed as negative developments in cross-strait relations throughout 2020 but continued to invoke its "one country, two systems" model as the only acceptable solution to the impasse over Taiwan's sovereign status.\* China's Taiwan Affairs Office responded to President Tsai's reelection by reiterating its adherence to "one country, two systems" despite the categorical rejection of this framework by the people of Taiwan.<sup>23</sup> A Xinhua commentary blamed foreign agitators for the outcome of Taiwan's January elections, alleging that "anti-China political forces in the West openly intervened in Taiwan's elections and supported President Tsai in order to contain the Chinese mainland and to prevent the two sides of the Taiwan Strait from getting closer."<sup>24</sup> Beijing emphasized its disappointment with the election results by sailing a Chinese aircraft carrier near the island in April one month before President Tsai's inauguration, and the PLA planned large-scale exercises potentially applicable to a Taiwan contingency throughout the summer months (see "Cross-Strait Military and

\*In January 2019, General Secretary of the CCP Xi Jinping delivered a major speech on Beijing's Taiwan policy in which he claimed Taiwan's unification with China was inevitable and indicated the "one country, two systems" model was the only acceptable arrangement for unification.

Security Issues” later in this chapter). Premier Li Keqiang adopted a threatening tone in his May work report before China’s National People’s Congress, notably dropping the word “peaceful” while referring to Beijing’s desire to “reunify” with Taiwan despite the standard inclusion of the word in official discourse.\*<sup>25</sup>

Beijing also continued to apply the tactics it had deployed after President Tsai’s election in 2016 to poach Taiwan’s 15 remaining diplomatic allies. For example, Beijing continued to pressure Paraguay’s government and encourage its business elite to lobby for a decision to switch diplomatic recognition to China.†<sup>26</sup> Beijing also threatened to cut off all economic ties with the African nation of Eswatini, Taiwan’s sole diplomatic partner in Africa, if it did not break relations with Taipei.‡<sup>27</sup> In July, Taiwan and Somaliland, a breakaway part of Somalia, announced they would establish representative offices in their respective territories.<sup>28</sup> In response, Beijing accused Taiwan’s government of “plotting separatist activities” and violating Somalia’s sovereignty.<sup>29</sup>

### **Beijing’s Aggression in Hong Kong Factors Prominently in Taiwan’s Elections**

The CCP’s abolition of Hong Kong’s autonomy played a significant role in Taiwan’s January elections and their aftermath. While the DPP suffered significant losses in the 2018 local elections, over the following year the party successfully linked the deterioration of Hong Kong’s freedoms under Beijing’s “one country, two systems” framework to the DPP’s cross-Strait relations platform, which insisted on Taiwan’s freedom to determine its own political system and ultimately resonated with voters. President Tsai’s campaign rallies regularly featured the slogan “Hong Kong today, Taiwan tomorrow,” and a DPP campaign video drew widespread praise from the Taiwan public for its split-screen depiction of unrest in Hong Kong in contrast to peaceful daily life in Taiwan.<sup>30</sup>

Beijing’s decision to impose a national security law in Hong Kong ignited debate among Taiwan’s major political parties over how to assist Hong Kongers seeking asylum or residency, since the island lacks a formal refugee law.<sup>31</sup> President Tsai faced

\*By contrast, Premier Li used the phrase “peaceful unification” in his 2019 work report for the National People’s Congress. China’s 2019 defense white paper, *China’s National Defense in the New Era*, also invoked the phrase to describe its preferred resolution to the dispute over Taiwan’s sovereign status.

†Paraguay is the only remaining country in South America that maintains official ties with Taipei. Kuo Chien-shen and Emerson Lim, “Paraguayan President Rejects China, Maintains Ties with Taiwan: Envoy,” *Focus Taiwan*, July 21, 2020; Tom Long and Francisco Urdinez, “Taiwan’s Last Stand in South America,” *Americas Quarterly*, May 7, 2020.

‡Several African countries broke diplomatic ties with Taipei as a result of Chinese pressure following President Tsai’s election in 2016. Sao Tome and Principe and Burkina Faso ended their recognition of Taiwan in 2016 and 2018, respectively. Ankit Panda, “Beijing Ups Pressure on Taipei’s Sole Remaining African Diplomatic Partner,” *Diplomat*, February 11, 2020.

§Prior to the July 2020 opening of the Taiwan-Hong Kong Services and Exchange Office, which processes applications from Hong Kongers wishing to immigrate to Taiwan on humanitarian grounds, Taipei had created several low-profile avenues for de facto asylum. These included granting student visas to students from Hong Kong who, as of late 2019, were no longer subject to visa quotas Taipei universities previously observed in admissions, and by extending tourist visas on a case-by-case basis. Nick Aspinwall, “Taiwan Opens Office to Help People Fleeing Hong Kong in Wake of National Security Law,” *Diplomat*, July 2, 2020; *Washington Post*, “For Hong Kong Refugees, New Life in Taiwan Means Traversing a Legal Twilight Zone,” February 24, 2020.



### **Beijing's Aggression in Hong Kong Factors Prominently in Taiwan's Elections—Continued**

criticism from opposition parties for allegedly abandoning the people of Hong Kong after she suggested in a May Facebook post that she could respond to Beijing's imposition of the national security law by suspending the Act Governing Relations with Hong Kong and Macau,\* a law that extends special treatment to Hong Kongers wishing to visit, work, study, and invest in Taiwan.<sup>32</sup> She subsequently abandoned her proposal to suspend the law and announced that her government would draft a plan to offer humanitarian assistance to Hong Kongers.<sup>33</sup> In July, Taiwan's Mainland Affairs Council opened a dedicated office called the Taiwan-Hong Kong Services and Exchange Office in Taipei to help people and businesses wishing to relocate from Hong Kong.<sup>34</sup>

After the elections, Hong Kong's loss of autonomy continued to fuel debate in Taiwan about the likelihood of a PLA attack on the island. Wu Jieh-min, a research fellow in sociology at Academia Sinica, argued at a July seminar in Taipei that China's national security legislation has created a figurative "Berlin Wall" in Hong Kong setting apart Mainland-controlled territories from the free world.<sup>35</sup> As Beijing plans for a prolonged confrontation with the United States, he said, it may invade Taiwan in a manner reminiscent of Nazi Germany's invasion of Poland.<sup>36</sup> During an August press conference in Taipei held with visiting Secretary Azar, Taiwan's Minister of Foreign Affairs Joseph Wu also framed Beijing's actions in Hong Kong as reflective a broader struggle between democracy and authoritarianism in the Indo-Pacific region. "Our daily lives have become increasingly difficult as China continues to pressure Taiwan into accepting its political conditions, conditions that will turn Taiwan into the next Hong Kong," said Minister Wu.<sup>37</sup> "We know this is not just about Taiwan's status, but about sustaining democracy in a phase of authoritarian aggression. Taiwan must win this battle so democracy prevails."<sup>38</sup>

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\*Because Taiwan does not have formal refugee legislation, asylum cases are processed on an ad hoc basis. Debates about the legal basis for protections for Hong Kongers therefore revolved around Taiwan's Act Governing Relations with Hong Kong and Macau, a 1997 law that set out general principles regulating trade, economic, legal, and cultural relations with Hong Kong and Macau. It is distinct from the 1991 Act Governing Relations between the People of the Taiwan Area and the Mainland Area, which applies a considerably stricter set of rules to mainland Chinese nationals wishing to visit, study, work, or invest in Taiwan. Article 18 of the Act Governing Relations with Hong Kong and Macau states that "necessary assistance shall be provided to Hong Kong or Macau Residents whose safety and liberty are immediately threatened for political reasons." However, Article 60 also states that "should any change occur in the situation of Hong Kong or Macau such that the implementation of this Act endangers the security of the Taiwan Area, the Executive Yuan may request the President to order suspension of the application of all or part of the provisions of this Act." Beijing's imposition of the national security law in Hong Kong and President Tsai's Facebook post floating a potential suspension of the Act Governing Relations with Hong Kong and Macau sparked vigorous debate within Taiwan about the special treatment and support afforded to Hong Kongers. Ultimately, Taipei did not revise the Act, instead opting to cite Article 18 as sufficient authority to establish the Taiwan-Hong Kong Office for Exchanges and Services under the Mainland Affairs Council. Chen Hui-ju and William Hetherington, "Experts Urge Law Change to Clarify HK Assistance," *Taipei Times*, May 26, 2020; Sherry Hsiao, "Suspending Act Bad Idea, KMT Says," *Taipei Times*, May 26, 2020; Taiwan's Mainland Affairs Council, *Act Governing Relations with Hong Kong and Macau*, 1997.

*In Hong Kong's Shadow, Taiwan's Dominant Political Parties Reject "One Country, Two Systems"*

Both the DPP and Kuomintang (KMT) condemned Beijing's suppression of Hong Kong's freedoms and flatly rejected its calls for Taiwan to accept "one country, two systems." Mindful of public sympathy for Hong Kong's prodemocracy protests, DPP and KMT party leaders emphasized their commitment to Taiwan's democracy while highlighting the island's engagement with the United States.

The Tsai Administration continued to pursue a cross-Strait policy in 2020 that opposed "one country, two systems," rejected the "1992 Consensus,"\* and emphasized political dialogue between the two governments. In her May inauguration speech, President Tsai argued that "both sides have a duty to find a way to coexist over the long term and prevent the intensification of antagonism and differences."<sup>39</sup> She invited General Secretary of the CCP Xi Jinping to "work with us to jointly stabilize the long-term development of cross-Strait relations" even as she insisted on the island's freedom to determine its own political system.<sup>40</sup> President Tsai continued to defend Taiwan's democracy, condemn events in Hong Kong, and improve defense ties with the United States. "We are very disappointed that China is not able to carry out its promises," President Tsai said in response to Beijing's passage of the Hong Kong national security law in late June.<sup>41</sup> "It proves that 'one country, two systems' is not feasible [for Taiwan]."<sup>42</sup>

Meanwhile, the opposition KMT party sought to regain voter confidence after its disappointing performance in the January elections by taking an overtly critical stance on Beijing.<sup>†</sup> In the course of his unsuccessful presidential run, KMT candidate Han Guo-yu famously declared in a June 2019 speech that Taiwan would accept Beijing's "one country, two systems" framework "over [his] dead body," a major departure from the KMT's traditional approach of finding ways, such as use of the 1992 Consensus, to avoid directly opposing Beijing's terms.<sup>43</sup> In May, the KMT also issued a statement opposing Beijing's proposed national security law for Hong Kong that was notable for its full-throated condemnation of Beijing: "'One country, two systems' has no market in Taiwan," the statement said, adding that "Taiwan's society cares about the rights and the situation of the people of Hong Kong regardless of party."<sup>44</sup> Seeking to invoke the United States as a strategic counterweight to Beijing, the KMT has

\*The "1992 Consensus" refers to a tacit understanding that the KMT under President Ma Ying-jeou and Beijing said was reached between representatives of Taiwan and China in 1992 regarding the idea that there is only one state called "China" and that both mainland China and Taiwan belong to that state. The KMT defined the consensus as "one China, respective interpretations," interpreting "one China" as the Republic of China, the formal name of Taiwan's government. By contrast, Beijing accepts only the definition embodied in its "one China" principle: mainland China and Taiwan are part of one and the same China, the People's Republic of China, and Taiwan is a subnational region. Although in official documents and statements Beijing has never acknowledged that the consensus allows different interpretations of "one China," in practice it has at times officially ignored, but grudgingly tolerated, the KMT's definition of the consensus. By contrast, the ruling DPP and current Taiwan Administration have consistently refused to recognize the 1992 Consensus or the "one China" principle. For more, see U.S.-China Economic and Security Review Commission, Chapter 5, "Taiwan," in *2019 Annual Report to Congress*, November 2019, 459.

†President Tsai was reelected in a landslide against her KMT opponent, Kaohsiung Mayor Han Guo-yu, and the DPP retained its majority in the national legislature by winning 61 seats (losing only seven), leaving the KMT with 38 seats (adding only three). Thomas J. Shattuck, "The Future of the Kuomintang in Taiwan: Reform, Recalibrate, or Stay the Course?" *Foreign Policy Research Institute*, January 16, 2020.

also publicized its interactions with personnel of AIT and is exploring the possibility of re-opening its long-closed representative office in Washington, DC.<sup>45</sup> The KMT briefly mulled a complete abandonment of the 1992 Consensus, a legal position that has allowed the party flexibility to argue it holds a “differing interpretation” of the idea that there is but “one China,” but ultimately chose to continue endorsing the consensus at the party’s annual national congress in September 2020.<sup>46</sup>

The Taiwan public’s views also became increasingly inhospitable to unification with the Mainland in 2020. An August survey conducted by Taiwan’s Mainland Affairs Council found that almost 90 percent of citizens oppose Beijing’s proposal to implement “one country, two systems” on the island, and 86 percent support maintaining the political “status quo” until some undefined point in the future.\*<sup>47</sup> The same survey showed that almost 91 percent of respondents disapprove of Beijing’s use of military assets to intimidate Taiwan, while 82 percent support strengthening the island’s military to protect its sovereignty and democratic system.<sup>48</sup> A separate survey by National Chengchi University exploring Taiwan citizens’ perceptions of national identity found that the percentage of people in Taiwan calling themselves exclusively “Taiwanese” (as opposed to “Chinese” or “both Taiwanese and Chinese”) rose from 60 percent to 70 percent between December 2019 and March 2020, an historic high.<sup>49</sup>

### ***United States Signals Stronger Support for Taiwan***

The U.S. government took several notable steps in 2020 to demonstrate support for Taiwan and enhanced bilateral ties in a manner consistent with longstanding U.S. policy. Taiwan Vice President-elect William Lai’s February trip to the United States, which included stops at the National Prayer Breakfast and a roundtable held by the Senate Foreign Relations Committee, was the highest-profile visit to Washington by a Taiwan politician since 1979.<sup>50</sup> In March, President Donald Trump signed into law the TAIPEI Act, legislation that advises the president to strengthen bilateral economic ties with Taiwan and encourage third-party countries to increase their engagement with Taiwan.<sup>51</sup> Ambassador James F. Moriarty, the U.S.-based chairman of AIT, told President Tsai in March that the United States would “redouble [its] efforts to expand Taiwan’s participation on the global stage.”<sup>52</sup> This assurance was paired with robust though ultimately unsuccessful U.S. advocacy for Taiwan’s observer status in the WHO’s World Health Assembly on the basis of its exemplary handling of the coronavirus outbreak.<sup>53</sup>

Senior U.S. officials sent messages congratulating President Tsai on her inauguration and traveled to the island, moves reflecting a

\* Respondents who expressed support for maintaining the political status quo fell into four categories: those favoring the status quo for now, but eventual unification (7 percent); those favoring the status quo for now, but willing to reconsider the question of unification with China or formal independence at some point in the future (28.9 percent); those favoring indefinite maintenance of the status quo (24 percent); and those favoring the status quo for now, but eventual formal independence (26.2 percent). Their responses illustrate the fact that while the vast majority of Taiwan’s population reject the specific unification framework known as “one country, two systems,” some remain open to the idea of eventual unification with China in another form. Taiwan’s Mainland Affairs Council, “*People’s Views on the Current State of Cross-Strait Relations*”: *Routine Poll Results and Distribution Table* (「民眾對當前兩岸關係之看法」例行民調結果配布表), August 1, 2020. Translation. <https://ws.mac.gov.tw/001/Upload/295/refile/7837/76094/f02a6ff0-7720-425e-8f37-cc4e4002ef22.pdf>.

more publicly supportive U.S. stance than before. Secretary of State Mike Pompeo's written remarks were read aloud at the inauguration ceremony, marking what Taiwan's Ministry of Foreign Affairs said was the first time a U.S. secretary of state had publicly congratulated the island's president on an election victory, while Assistant Secretary Stilwell and U.S. Deputy National Security Adviser Matthew Pottinger offered their congratulations in video messages.<sup>54</sup> China's Ministry of National Defense denounced Secretary Pompeo's congratulatory remarks and sternly warned against perceived U.S. meddling in China's "internal affairs." "The Chinese People's Liberation Army has the strong will, full confidence and sufficient capability to thwart any form of external interference and any separatist attempts for 'Taiwan independence,'" the ministry's spokesperson said.<sup>55</sup>

Secretary Azar became the highest-ranking cabinet official to travel to Taiwan since 1979 when he visited the island in early August,\* a move signaling strong U.S. support for its democracy.<sup>56</sup> China's Ministry of Foreign Affairs slammed Secretary Azar's visit as a "serious breach of [U.S.] commitments pledged on the Taiwan question,"<sup>57</sup> and two PLA fighter jets pointedly crossed the Taiwan Strait median line on the first day of his stay in Taipei.<sup>58</sup> The September visit to Taipei by Under Secretary of State for Economic Growth, Energy, and the Environment Keith Krach to attend a memorial service for former President Lee elicited a similar response from China's Ministry of Foreign Affairs and state-run media.<sup>59</sup> The PLA dispatched 18 warplanes to fly repeatedly into different sectors of Taiwan's Air Defense Identification Zone (ADIZ) and across the median line on the first full day of Under Secretary Krach's visit.†<sup>60</sup>

The United States also declassified several cables clarifying U.S. commitments to the island, and a senior State Department official publicly discussed the need for a policy responsive to changing circumstances in the Strait. In late August, AIT posted on its website two declassified 1982 documents containing a series of promises known as the "Six Assurances" and a statement of the Reagan Administration's position on U.S. arms sales to Taiwan. The first document expressed the idea that U.S. policy toward both sides of the Strait was dependent on the level of threat posed by China and made six promises to Taipei, thereby demonstrating that the United States would continue to support Taiwan's security needs despite a lack of diplomatic ties.‡<sup>61</sup> The second document made clear that the United States' willingness to reduce arms sales to Taiwan over time

\*U.S. cabinet officials to visit Taiwan prior to Secretary Azar were Environmental Protection Agency (EPA) Administrator Gina McCarthy in 2014 and Transportation Secretary Rodney Slater in 2000. The EPA Administrator and Transportation Secretary both rank lower than the Health and Human Services Secretary in the U.S. government's protocol order. Chen Yun-yu and Christie Chen, "U.S. Plans First Cabinet-Level Visit to Taiwan in 6 Years," *Central News Agency*, August 5, 2020.

†Other U.S. engagements with Taiwan officials in the leadup to Under Secretary Krach's visit may have contributed to Beijing's provocative actions. On the eve of Under Secretary Krach's arrival in Taipei, U.S. Ambassador to the UN Kelly Craft met with James Kuang-jang Lee, director of the Taipei Economic and Cultural Representative Office in New York, in the first such meeting between a U.S. envoy to the UN and a top Taiwan official. Sarah Zheng and Wendy Wu, "China Protests after U.S. Envoy to UN Meets Taiwanese Official in New York," *South China Morning Post*, September 18, 2020.

‡The "Six Assurances" were that the United States had not set an end date for arms sales, had not agreed to consult with China on arms sales, would not mediate between Taipei and Beijing, had not agreed to revise the Taiwan Relations Act, had not altered its position on the question of Taiwan's sovereignty, and would not pressure Taipei to negotiate with Beijing.

was “premised on a continuation of the Chinese policy of seeking a peaceful resolution of the Taiwan issue.”<sup>62</sup> Speaking at a public event hosted by the Heritage Foundation the same day the cables were declassified, Assistant Secretary Stilwell emphasized the distinction between the U.S. “one China policy” and China’s “one China principle”\* by clearly stating the United States considers the question of Taiwan’s sovereign status unresolved.<sup>63</sup> Assistant Secretary Stilwell also said the United States would make “some important updates” to its engagement with Taiwan to account for Beijing’s growing threat to regional stability and the deepening of amicable ties with Taipei.<sup>64</sup>

### ***Taiwan Strengthens Relations with Other Democracies***

Bolstered by international acclaim for its response to the COVID-19 outbreak, Taiwan’s relations with other democracies grew more robust and overt throughout 2020. President Tsai foreshadowed the island’s diplomatic push in her inaugural address, saying Taiwan would “fight for [its] participation in international institutions, strengthen mutually beneficial cooperation with [its] allies, and bolster ties with the United States, Japan, Europe, and other like-minded countries.”<sup>65</sup> She also emphasized that Taiwan would “play a more active role” in regional cooperation mechanisms and make “concrete contributions to peace, stability, and prosperity in the Indo-Pacific region.”<sup>66</sup>

Democratic countries around the world responded to Taiwan’s overtures for deepened interaction with shows of support, at times in the face of Beijing’s pressure. Japan’s State Minister for Foreign Affairs Keisuke Suzuki wrote in a May blog post that Taiwan’s welfare was important to Japan’s national security and that the CCP should not be allowed to “ravage” Taiwan on the global stage.<sup>67</sup> Japan also called Taiwan an “extremely important partner” in the 2020 edition of its annual foreign policy report, the *Diplomatic Bluebook*, an elevation from the report’s 2019 characterization of Taiwan as a “crucial partner and an important friend.”<sup>68</sup> Two members of parliament from India’s ruling Bharatiya Janata Party sent video congratulations to President Tsai’s inauguration, emphasizing in their message that “both India and Taiwan are democratic countries, bonded by shared values of freedom, democracy and respect for human rights.”<sup>69</sup> The Netherlands changed the name of its de facto embassy in Taipei from the Netherlands Trade and Investment Office to Netherlands Office Taipei to reflect an expansion in bilateral ties with the island beyond trade, prompting Beijing to lodge a diplomatic complaint.<sup>70</sup> In retaliation, Chinese state media threatened disruptions in exports of medical supplies and boycotts of Dutch

\*The “one China principle” refers to the Chinese government’s position that Taiwan is an alienable part of the state called “China” ruled by the People’s Republic of China. By contrast, the “one China policy” refers to the U.S. government position that the People’s Republic of China—rather than the Republic of China government on Taiwan—is the sole legal government of the state called “China.” It is because of this commitment that the United States acknowledges the People’s Republic of China as the only representative of the state called “China” in international organizations that require statehood for membership. It is also why the United States conducts relations with Taiwan on an unofficial basis. However, as Brookings Institution non-resident senior fellow Richard Bush notes, the United States “has not taken a position on what ‘one’ means substantively for a possible unification between Taiwan and China, and it has generally remained agnostic on the key question of whether the Taiwan government possesses sovereignty.” Richard C. Bush, *Untying the Knot: Making Peace in the Taiwan Strait*, 2005, 254.

products just as the rate of COVID-19 infections was accelerating in the country.\*<sup>71</sup> In May, France's Ministry for Europe and Foreign Affairs dismissed Chinese warnings about selling Taiwan equipment to update the missile defense systems of the island's six French-made frigates, saying it was implementing existing deals and that China should focus on managing COVID-19 instead.<sup>72</sup>

Another striking example of a fellow democracy's support for Taiwan was the visit by the head of the Czech Senate to Taiwan in late August. Czech Senate speaker Milos Vystrcil defied threats from Beijing that he would "pay a heavy price" by leading an 89-member delegation to Taiwan to promote business ties and underscore what he said was the Czech Republic's tradition of "values-based" foreign policy.<sup>73</sup> During the visit, Vystrcil met with President Tsai, engaged with several other top Taiwan officials, and addressed the Legislative Yuan, where he declared, "I am Taiwanese" in a show of solidarity.<sup>74</sup> The speaker was accompanied by eight Czech senators, the mayor of Prague, and representatives from Czech business and civil society. The visit led to the signing of several memorandums of understanding with Taiwan companies, an agreement that Taiwan state-run banks could open branches in the Czech Republic, and the Czech Republic's permission for Taiwan's state-owned national carrier, China Airlines,† to operate direct flights there.<sup>75</sup>

## **Economics and Trade**

Taiwan's economy had advantages that enabled it to face the COVID-19 pandemic from a position of strength. Prior to the outbreak, Taiwan maintained steady economic growth and a low unemployment rate, supported by Taipei's concerted efforts to attract Taiwan businesses back to the island amid slowing growth in China and U.S.-China trade frictions. These foundations, together with Taipei's robust response to the outbreak, enabled Taiwan's economy to weather the initial phases of the COVID-19 pandemic with relatively little disruption. Despite this early success, challenges mounted for Taiwan's economy as COVID-19's global spread accelerated, sapping external demand for Taiwan's exports. Depressed consumption and disruptions to services sector activity also led to fresh spikes in unemployment. In response, the Tsai Administration leaned on fiscal support to shore up business sentiment and reinvigorated its efforts to encourage investment in its information and communications technology (ICT) manufacturing sector amid global technology supply chain reshuffling.

### ***Taipei's Response to COVID-19 Mitigates Initial Economic Disruption***

Taipei's comprehensive and rapid response to COVID-19 limited the outbreak's initial impact on Taiwan's economy. As news of the novel coronavirus outbreak in Wuhan began to emerge in late

\*The threats were made as the Netherlands grappled with nearly 40,000 confirmed coronavirus cases by the end of April and more than 4,800 deaths, which is a higher toll than the official number reported by China's authorities. Johns Hopkins University Center for Systems Science and Engineering, "Coronavirus COVID-19 Global Cases."

†China Airlines is Taiwan's state-owned national carrier; the "China" in the airline's name refers to the state claimed by the Republic of China, the government currently on Taiwan. Taiwan's government is in the process of considering whether to change the airline's name so as to avoid confusion with carriers from mainland China.

December 2019, Taipei instituted stringent measures for case identification and containment to stem the virus' transmission within Taiwan. For example, Taipei integrated its national health insurance and immigration customs databases to enable authorities to identify potential cases based on travel history and clinical symptoms.<sup>76</sup> These and other measures enabled Taiwan to avoid an economic lockdown, with Taiwan registering positive economic growth of 2.2 percent year-on-year in the first quarter of 2020 while growth in other Asian economies contracted in the same period.\*<sup>77</sup> With factories still running, industrial production in Taiwan's export-reliant economy grew 9.1 percent year-on-year in the first quarter of 2020.<sup>78</sup> Underpinning this growth was strong global demand for electronic products† as the pandemic forced people to telecommute and schools moved to online learning. Overall, Taiwan's exports grew nearly 4 percent in the first quarter, driven by a 20 percent year-on-year surge in electronics components exports.<sup>79</sup>

Though Taiwan's economy capably weathered the COVID-19 pandemic's initial disruptions, sluggish demand in Taiwan's export markets wore on the economy as the year progressed. Consequently, in the first six months of 2020, Taiwan's gross domestic product (GDP) grew only 0.41 percent year-on-year.<sup>80</sup> Export growth was also weak, inching up just 0.16 percent in the same period.<sup>81</sup> Taiwan's Ministry of Finance stated exports may "come under pressure" in the second half of the year due to potential second waves of global COVID-19 infections and ongoing tensions in the U.S.-China trade relationship.<sup>82</sup> Taiwan's Directorate General of Budget, Accounting, and Statistics also forecasted full-year exports will narrow from \$391.1 billion in 2019 to \$374.1 billion in 2020, a decline of 4.3 percent year-on-year.<sup>83</sup>

The pandemic's disruptions to consumer sentiment and services industries pose sharper challenges to Taiwan's economy in 2020. Domestic retail sales contracted 1 percent year-on-year in the first eight months of 2020 as consumers opted to shop online.‡<sup>84</sup> Taiwan's food and beverage services sector was hard hit, with sales falling 6.7 percent year-on-year in the same period.<sup>85</sup> Separately, while Taipei's restrictions on inbound travel to Taiwan protected the island from importing COVID-19 cases, they also upended the tourism sector. Hotel earnings plummeted 40.3 percent year-on-year to \$566.1 million in the first six months of 2020, an 11-year low, as fewer tourists visited the island and Taiwan citizens deferred domestic travel plans amid the pandemic.<sup>86</sup>

Disruptions to Taiwan's services industries, which accounted for nearly two-thirds of GDP§ and 60 percent of jobs in 2019, pushed

\*For example, Q1 2020 growth in Singapore, South Korea, and China contracted 2.2 percent, 1.4 percent, and 6.8 percent, respectively. Andrew Salmon, "South Korea GDP Shrinks 1.4 Percent in First Quarter," *Asia Times*, April 23, 2020; Singapore's Ministry of Trade and Industry, *Singapore's GDP Contracted by 2.2 Percent in the First Quarter of 2020. MTI Downgrades 2020 GDP Growth Forecast to '-4.0 to -1.0 Percent.'* March 26, 2020; China's National Bureau of Statistics via CEIC database.

†Electronic products are Taiwan's top export. In 2019, Taiwan exported \$135.2 billion of electronic products, accounting for 44.4 percent of total exports. Taiwan's Bureau of Foreign Trade, *Trade Statistics*.

‡In contrast to the fall in retail sales, online retail sales grew 17.2 percent year-on-year in the first eight months of the year. Taiwan's Ministry of Economic Affairs, *Sales of Wholesale, Retail and Food Services in August 2020*, September 23, 2020.

§Services accounted for 62.4 percent of Taiwan's GDP in 2019, while manufacturing and agriculture accounted for 36 percent and 1.7 percent, respectively. Taiwan's National Statistics from

up unemployment in early 2020 before moderating to 3.9 percent in June and holding steady through August, in line with the monthly average recorded in the Tsai Administration's first term.<sup>87</sup> The slowdown in job losses in June was notable as it was the first time in 29 years unemployment declined in that month. Typically, fresh college graduates looking for work drive up the jobless rate in the summer months.<sup>88</sup>

To contain the economic fallout, Taipei enacted \$38.4 billion worth of fiscal stimulus measures, including low-interest rate loans to companies hit by the pandemic, wage subsidies, and discounts on utility and rent payments in industrial parks.<sup>89</sup> Taiwan's Ministry of Economic Affairs (MOEA) announced a separate subsidy program tailored to the services sector in April, with support for payroll and overhead costs for any business whose income has dropped by at least 50 percent.<sup>90</sup> The generation of \$38 billion (new Taiwan dollars [NT] \$1.1 trillion)\* in investment from Taiwan companies with overseas operations and other Taiwan manufacturers since July 2019 further provides Taipei with a sustainable revenue base, limiting the drain of fiscal stimulus measures on government coffers.<sup>91</sup>

### ***Taiwan Makes Mixed Progress in Reducing Economic Reliance on China***

Although the Tsai Administration remains committed to its long-standing goal of reducing economic reliance on China, Taipei's progress on this front has been mixed. The Administration's signature New Southbound Policy,† which seeks to expand economic relations with countries in South and Southeast Asia and Oceania, has not significantly diversified Taiwan's trading relationships.‡ China remained Taiwan's largest trading partner for a sixth consecutive year in 2019, with cross-Strait goods trade accounting for nearly a quarter (\$140.8 billion) of Taiwan's total trade in 2019 (\$589.6 billion), a share that has held steady since 2015.<sup>92</sup> New Southbound Policy countries' share of Taiwan's total trade has hovered around 19 percent since the launch of the initiative, and the share fell to 18.5 percent (\$108 billion) in 2019.<sup>93</sup>

The resilience of cross-Strait trade ties stems from complex and tightly linked consumer electronics supply chains, with goods trade between China and Taiwan consisting primarily of integrated circuit products and other electronic devices. For example, in 2019, equipment and intermediate goods used in semiconductor and other elec-

the National Statistics Bureau, *Principal Figures*.

\*Unless otherwise noted, this section uses the following exchange rate throughout: \$1 = \$NT 29.6.

†Launched in 2016, the New Southbound Policy seeks to reduce Taiwan's economic reliance on China by expanding economic, trade, tourism, and investment ties with 18 countries across South and Southeast Asia and Oceania. The specific countries are Australia, Bangladesh, Bhutan, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. Taiwan's Executive Yuan, *New Southbound Policy Promotion Plan*, September 5, 2016.

‡Though the New Southbound Policy has not yet meaningfully diversified Taiwan's trading relationships, some countries targeted as part of the initiative expressed interest in developing closer trade ties with Taiwan in 2020. In September, for example, a trade and investment attaché at the Embassy of Pakistan in Cairo, Egypt tweeted that she met with the director of the Taiwan Trade Center in Cairo, a non-profit trade promotion organization co-sponsored by the Taiwan government, to discuss bilateral trade relations. The post was later deleted, presumably due to concerns about Beijing's reaction given Pakistan's close economic relations with China. Ching-Tse Cheng, "Pakistan Pursues Trade Ties with Taiwan," *Taiwan News*, September 4, 2020; *Times of India*, "China's Ally Pakistan Secretly Developing Trade Ties with Taiwan," September 3, 2020.



tronics manufacturing accounted for 60.3 percent of Taiwan's total exports to China and 65.1 percent of total imports from China.<sup>94</sup>

Taipei's efforts to diversify investment ties away from the Mainland have been comparatively more successful than trade diversification efforts. Even before the COVID-19 outbreak, Taiwan companies sought to reduce their presence in China, with Taiwan's foreign direct investment (FDI) flows into the Mainland declining dramatically from their peak in 2010 (see Figure 1, Panel A).<sup>95</sup> The main reason for this decline is increased operational costs due to rising wages and more stringent regulatory standards in the Mainland.<sup>96</sup> The Tsai Administration has also presided over a decrease in investment flows from mainland Chinese companies into Taiwan, with the value of approved investment from these companies contracting 60.7 percent over three years, from \$247.6 million in 2016 to \$97.1 million in 2019.<sup>97</sup> Taipei's scrutiny of Chinese investment tightened further in 2020. In August, Taiwan's Investment Commission at MOEA unveiled draft regulations that would, among other things, bar mainland Chinese investors from indirectly acquiring stakes in Taiwan technology firms through third-party companies registered in Hong Kong or Macau and enhance investment review procedures to consider whether the Chinese investor has links to the CCP or PLA.<sup>98</sup>

Meanwhile, Taiwan's FDI in New Southbound Policy countries is gradually trending upward, reaching \$2.7 billion in 2019, a 16.1 percent increase year-on-year (see Figure 1, Panel B).<sup>99</sup> The rise in Taiwan's FDI in New Southbound Policy countries in 2019 is made more notable by the fact that Taiwan's total FDI in other countries fell by half in the same period. Though uncertainty created by the COVID-19 pandemic may crimp such investment activity in the short term, Taiwan's sustained efforts to deepen economic partnerships with New Southbound Policy countries are likely to push Taiwan manufacturers to continue reorienting operations toward them. For example, in December 2019 the Taiwan and Vietnam governments updated their bilateral investment agreement to provide strengthened protections for Taiwan investors in Vietnam, and Taiwan's MOEA has indicated it is in talks with other New Southbound Policy countries regarding similar agreements.<sup>†</sup><sup>100</sup>

### ***Taiwan Technology Supply Chains Evolve amid Trade Frictions, COVID-19***

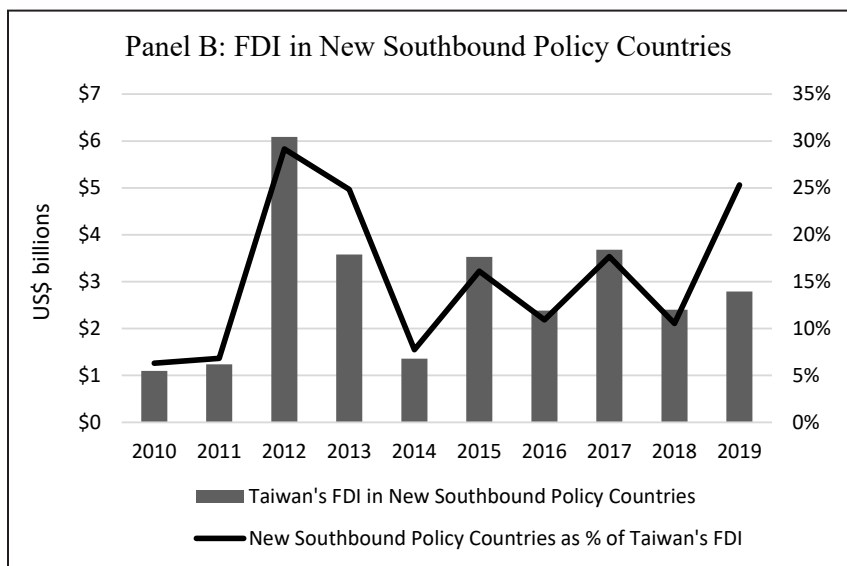
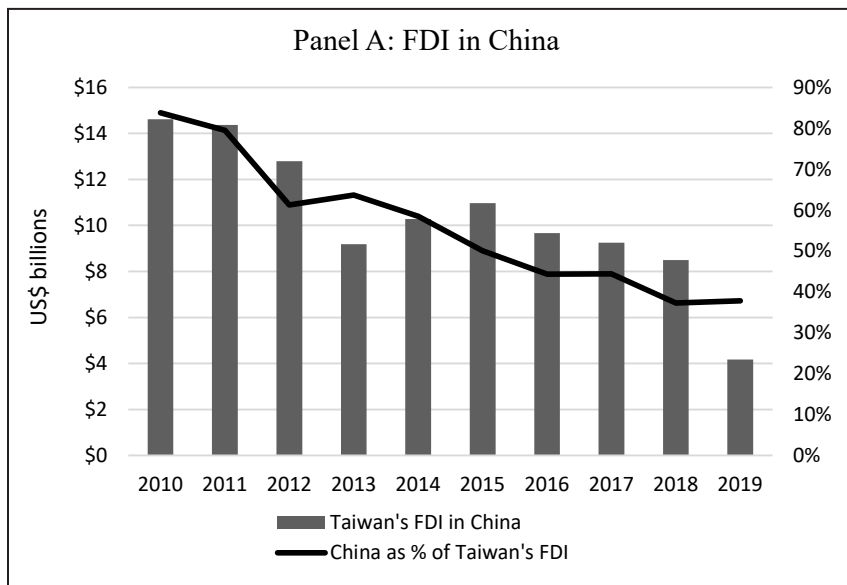
Taiwan companies play a central role in global consumer electronics supply chains and are of increasing geopolitical relevance to the United States and China. Because they use U.S. designs and

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\*Vietnam has been one of the largest beneficiaries of this diversification, with Taiwan contract manufacturers and suppliers following the multinationals they serve from China to the Southeast Asian country to reduce costs and circumvent U.S. tariffs. The trend continued in 2020, with several Taiwan suppliers to U.S. technology companies such as Microsoft, Apple, and Google announcing plans to deepen production in Vietnam as well as India and Indonesia. Huang Tzu-ti, "Google, Microsoft to Move Production Away from China over Coronavirus Concerns," *Taiwan News*, February 27, 2020; Michael Reilly, "Can Taiwan Decouple from the Chinese Economy?" *Taiwan Insight*, February 17, 2020; Debby Wu, "Apple Partner Pegatron to Set Up Production in Vietnam," *Bloomberg*, January 20, 2020.

†The upgrading of the investment agreement with Vietnam follows similar updates to other agreements made between Taiwan and countries targeted as part of the New Southbound Policy. In 2017 and 2018, for example, Taipei signed updated investment accords with the Philippines and India, respectively.

Figure 1: Taiwan's FDI, 2010–2019



Note: New Southbound Policy countries include Australia, Bangladesh, Bhutan, Brunei, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, and Vietnam.

Source: Taiwan's Ministry of Economic Affairs, Investment Commission, *Monthly Report*, August 2020.

equipment to manufacture semiconductors and other components but sell much of their production to China, Taiwan's companies are particularly vulnerable to U.S.-China trade tensions and technology frictions.\* As a result, Taiwan technology companies have taken steps since 2019 to relocate production capacity away from China and back to the island (see Table 1).<sup>101</sup>

**Table 1: Selected Companies' Investment Plans in Taiwan Since January 2019**

<b>Company</b>	<b>Business Line</b>	<b>Investment Plan</b>
Innolux	Liquid crystal display panel manufacturer	Spending \$2.4 billion to relocate some panel production out of China and build an automated manufacturing facility in Taichung.
Yageo	Supplier of electronics components (e.g., chip resistors and capacitors)	Spending \$1.1 billion to expand manufacturing capacity in Kaohsiung.
Unimicron Technology	Printed circuit board maker	Spending \$895.2 million to expand production in Taoyuan, with 80 percent of planned capital expenditure in 2020 earmarked for Taiwan.
Kinsus	Printed circuit board maker	Spending \$557.4 million to expand manufacturing operations in Taoyuan and Hsinchu.
ChipMOS	Semiconductor testing services provider	Spending \$510.1 million to expand testing capacity in Tainan.
Quanta Computer	Electronics manufacturing services provider	Spending \$506.8 million to build facility producing server parts for U.S. customers in Taoyuan.
Pegatron	Electronics manufacturing services provider	Spending \$503.4 million to expand production and R&D facilities for telecommunications equipment in Taoyuan.
Ardentec	Semiconductor testing services provider	Spending \$209.4 million to develop testing technology for semiconductors used in 5G telecommunications infrastructure and Internet of Things devices.

*Source:* Various.<sup>102</sup>

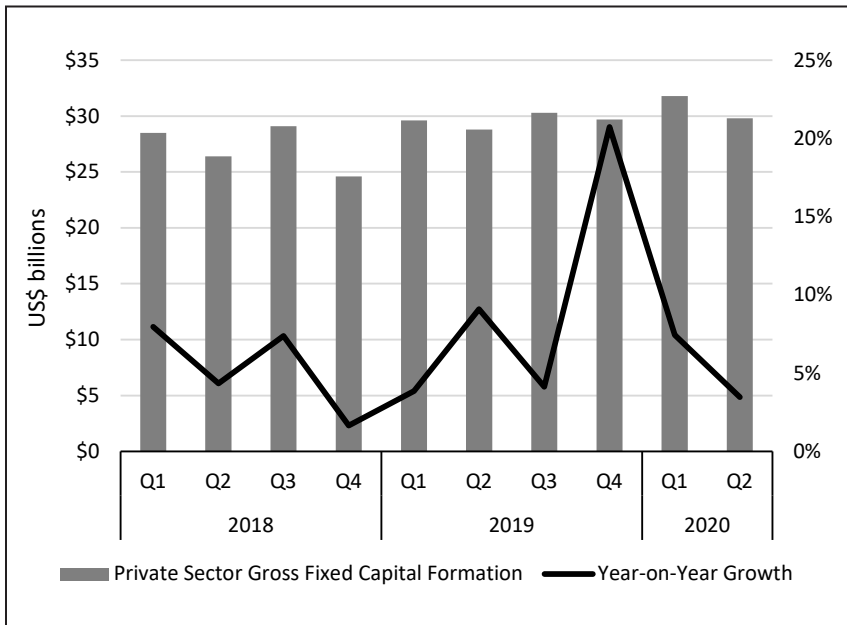
Taiwan electronics manufacturers' renewed interest in Taiwan as a base for industry is driven partly by investment incentive programs advanced by the Tsai Administration. In July 2019, Taipei launched "Invest Taiwan," a three-year program incentivizing Taiwan firms to increase their domestic investment through preferential loan financing, land rental concessions, assistance in ensuring stable water and electricity supplies, and other perks.<sup>103</sup> The initiative specifically targets Taiwan small- and medium-sized enterprises as well as companies with manufacturing operations in the Mainland that are adversely impacted by the U.S.-China trade dispute.<sup>104</sup> Taipei set a target for the initiative to generate \$45.7 billion

\* For background on the U.S.-China trade dispute and technological conflict and competition, see U.S.-China Economic and Security Review Commission, Chapter 1, Section 1, "Year in Review: Economics and Trade" in *2019 Annual Report to Congress*, November 2019.

(NT \$1.3 trillion) in domestic private sector investment and create 118,000 new jobs by December 31, 2021.<sup>105</sup>

Taiwan is on track to meet these targets ahead of schedule, with \$38 billion (NT \$1.1 trillion) in investment already generated and more than 94,000 new jobs created as of October 8, 2020.<sup>106</sup> Taiwan businesses returning from overseas have underpinned this success, accounting for nearly three-quarters (\$26.6 billion) of total investment and 69.3 percent (65,219) of new jobs created.<sup>107</sup> Success of the program is further evidenced through a steady uptick in gross fixed capital formation by private enterprises in Taiwan, a proxy measure for investment, which grew 20 percent year-on-year to \$29.6 billion by the fourth quarter of 2019 (see Figure 2).<sup>108</sup> It will take time, however, for such investments to be realized, and China remains a key market and production base for Taiwan companies, particularly in ICT sectors.\* Additionally, dampened business sentiment arising from the COVID-19 pandemic is slowing the growth rate of private sector investment in Taiwan. In the second quarter of 2020, gross fixed capital formation by private enterprises grew just 3.5 percent year-on-year, reversing the gradual upward trend observed in 2019.<sup>109</sup>

**Figure 2: Taiwan's Private Sector Gross Fixed Capital Formation, Quarterly, 2018–Q2 2020**



Source: Taiwan's Directorate-General of Budget, Accounting and Statistics via CEIC database.

\*For example, according to a study conducted by the McKinsey Global Institute, China accounted for 40 percent of global mobile phone sales and 19 percent of global computer sales from 2013 to 2017. Jonathan Woetzel et al., "China and the World: Inside the Dynamics of a Changing Relationship," *McKinsey Global Institute*, July 2019, 57.

Taipei indicated it will strengthen support for Taiwan companies seeking to move production out of China amid the pandemic. In February, Taiwan's then Minister of Economic Affairs Shen Jong-chin observed that "U.S. and European firms require [Taiwan] suppliers to adjust their production in China in light of the spreading pandemic" in offering the ministry's support to help Taiwan companies relocate to the island.<sup>110</sup> Taipei unveiled separate investment incentives targeting multinational ICT firms in 2020 as Taiwan manufacturers repatriated operations to the island. In June, Taiwan's MOEA announced it would spend more than \$337.5 million in subsidies over the next seven years to attract R&D investment by foreign ICT companies, targeting \$1.3 billion worth of total investment in 5G, artificial intelligence, and semiconductors.<sup>111</sup> The program would also apply to local Taiwan chip manufacturers that convince foreign suppliers of intermediate inputs to expand operations in Taiwan.<sup>112</sup> President Tsai reaffirmed Taipei's commitment to strengthening Taiwan's semiconductor industry, saying in a September forum with Taiwan chip manufacturers that her administration "will continue to consolidate the advantages of Taiwan's semiconductor industry" and "accelerate its transformation and development."<sup>113</sup>

### TSMC Straddles U.S.-China Technology Frictions

With China accounting for 53 percent of global semiconductor consumption and Taiwan leading the world in semiconductor manufacturing capacity, Taiwan companies are uniquely exposed to U.S.-China technology frictions.<sup>114</sup> No company exemplifies these vulnerabilities better than Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest semiconductor fabrication company, with 52 percent of global market share.<sup>115</sup> TSMC manufactures the semiconductor chips that underpin an array of emerging technologies, from 5G telecommunications infrastructure and Internet of Things-connected devices to those used in military applications such as aircraft, satellites, and drones. TSMC manufactures these chips across 17 foundries, two of which are in the Mainland.\*<sup>116</sup>

In 2020, the Trump Administration held talks with TSMC to encourage expanded manufacturing investment in the Unit-

\*Of the 17 foundries, 14 are located in Taiwan, two are located in mainland China, and one is located in the United States. The quality of chips TSMC manufactures across these foundries varies significantly. For example, TSMC's two foundries in Nanjing and Shanghai, China, can only produce chips as small as 16 nanometers (nm), while its Taiwan-based foundries can produce a greater variety of more advanced and smaller-sized chips, including those as small as 10 nm, 7 nm, and 5 nm, which are often used in 5G-enabled smartphones or to support artificial intelligence applications. Chinese customers, including Huawei semiconductor design firm HiSilicon, import these higher-end chips from TSMC's leading-edge facilities in Taiwan. Though strengthened U.S. export controls in 2020 have limited such transactions, HiSilicon already moved in 2019 to stockpile imports of TSMC chips as U.S.-China trade and technology frictions escalated that year. HiSilicon accounted for 14 percent of TSMC's sales in 2019. Scott W. Harold and Justin Hodiak, "China's Semiconductor Industry: Autonomy through Design?" *Institut Montaigne*, September 25, 2020; Josh Ye, "Huawei's HiSilicon Becomes First Mainland Chinese Chip Company to Enter Top 10 in Global Sales, Says IC Insights," *South China Morning Post*, May 7, 2020; *Economist*, "A Look inside the Factor around Which the Modern World Turns," December 18, 2019; Mathieu Duchatel, "Huawei's 5G Supply Chain: Taiwan Winning Twice?" *Institut Montaigne*, October 29, 2019; Michael S. Chase et al., "Shanghai? The Economic and Political Implications of the Flow of Information Technology and Investment across the Taiwan Strait," *RAND Corporation*, July 2004, 91; TSMC, "GIGAFAB Facilities."

### **TSMC Straddles U.S.-China Technology Frictions— *Continued***

ed States.<sup>117</sup> TSMC subsequently announced on May 15 that it would build a \$12 billion chip production plant in Arizona and would no longer accept orders from Huawei.<sup>118</sup> The decision to halt sales to Huawei came after the U.S. Department of Commerce Bureau of Industry and Security (BIS) published an interim final rule strengthening control over semiconductor exports to the company.<sup>119</sup> The preliminary rule effectively bars TSMC and other semiconductor firms that use U.S. technology or equipment for production from selling to Huawei without first securing a license from BIS.

The combination of tightened business ties between TSMC and its U.S. customers, including the U.S. military,\* and strengthened U.S. export controls with respect to Huawei may complicate TSMC's ability to serve both U.S. and Chinese customers. Preliminary indications suggest TSMC is preparing to pare back its China business to comply with U.S. law and prioritize the U.S. market, with TSMC Chairman Mark Liu claiming U.S. customers could "fill the gap" of business lost from cutting sales to Huawei and its affiliates.<sup>120</sup> Despite these claims, financial and operating data reported by TSMC suggests the company will struggle to extricate itself from the Chinese market. Though U.S. clients account for the majority of TSMC's net revenue by geography, their share of total revenue has declined from 69.1 percent in 2014 to 60 percent in 2019, while China's grew from 6.6 percent to 19.4 percent in the same period.<sup>121</sup> Additionally, annual revenue growth from Chinese clients has averaged 33.5 percent since 2014, compared to a more modest 4 percent for U.S. clients.<sup>122</sup>

In response to tightened U.S. export controls and TSMC's planned investment in the United States, the Chinese government unveiled plans to invest \$1.4 trillion by 2025 to increase China's self-sufficiency in emerging technologies.<sup>123</sup> Separately, China's state-backed China National Integrated Circuit Industry Investment Fund and the Shanghai Integrated Circuit Industry Investment Fund pledged a combined \$2 billion of investment into Chinese chipmaker Semiconductor Manufacturing International Corporation.<sup>124</sup> Despite this enormous financial and policy support, Chinese semiconductor firms remain one to two generations behind international competitors and highly reliant on foreign semiconductor technology, with TSMC serving as China's largest semiconductor contract supplier.<sup>125</sup>

As U.S. policy pushes TSMC and other semiconductor firms to cut sales to China, Beijing may redouble its efforts to secure access to Taiwan's semiconductor innovation and expertise. Media reports suggest Chinese state-owned semiconductor manufacturers are strengthening their efforts to poach Taiwan engineering

\*TSMC sells high-performance chips to U.S. military suppliers such as Xilinx, which in turn makes components for U.S. F-35 fighter jets and satellites. Lauly Li and Cheng Ting-Fang, "Exclusive: Washington Pressures TSMC to Make Chips in U.S.," *Nikkei Asian Review*, January 15, 2020.

### **TSMC Straddles U.S.-China Technology Frictions— *Continued***

talent and locate R&D centers near TSMC facilities in southern Taiwan, raising the possibility of industrial espionage.<sup>126</sup> The Taiwan business community has also expressed concern that the Chinese government could move to nationalize semiconductor manufacturing facilities of TSMC and other Taiwan companies in the Mainland.<sup>127</sup>

#### ***U.S.-Taiwan Economic and Trade Relations***

Congress and the Trump Administration took steps in late 2019 and 2020 to deepen the U.S.-Taiwan trade and investment relationship and expand economic cooperation. Following an uptick in Beijing's political demands on foreign companies to recognize Taiwan as a part of China and to adhere to other policy positions held by the Chinese government,\* the U.S. Departments of Commerce, Agriculture, and State issued a letter to Fortune 500 companies in late 2019 encouraging them to strengthen commercial engagement with Taiwan.<sup>128</sup> Separately, a bipartisan group of 161 Members of Congress sent a letter to the Office of the U.S. Trade Representative in December 2019 calling for "work toward beginning negotiations for a bilateral trade agreement with Taiwan."<sup>129</sup> The TAIPEI Act further expressed the sense of Congress that the U.S. Trade Representative should consult with Congress on opportunities to strengthen the U.S.-Taiwan economic relationship.<sup>130</sup> In an address at the National Taiwan University during his visit to Taiwan in August 2020, Secretary Azar affirmed that the United States expects its economic relationship with Taiwan to deepen, and noted in a separate statement to the press that his discussions with Taiwan officials touched upon prospects for a "bilateral trade agreement."<sup>131</sup>

Taipei also signaled renewed determination to upgrade the U.S.-Taiwan economic relationship. On August 28, President Tsai announced the Taiwan government would lift restrictions on U.S.

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\*The Chinese government has pressured individual U.S. companies to modify their products, online activity, and websites and social media accounts to reflect Beijing's views and preferences. For example, in January 2018, China's Civil Aviation Administration ordered all foreign airlines to change their designation of Taiwan to indicate Taiwan is a part of China. U.S. airlines American Airlines, Delta Airlines, and United Airlines complied with the demand. Separately, Beijing shut down Marriott's China website after the hotel company distributed an online survey to customers listing Taiwan as a country, while clothing retailer Gap apologized to the Chinese government for selling a t-shirt in North American retail stores showing a map of China that did not include Taiwan. Jinshan Hong and Iain Marlow, "NBA Loses More Sponsors as China Flexes Economic Muscle," *Bloomberg*, October 8, 2019; Sui-Lee Wee, "Giving In to China, U.S. Airlines Drop Taiwan (in Name at Least)," *New York Times*, July 25, 2018; Peter Harrell et al., "China's Use of Coercive Economic Measures," *Center for a New American Security*, June 2018, 8; Simon Denyer, "Gap Apologizes to China over Map on T-Shirt that Omits Taiwan, South China Sea," *Washington Post*, May 15, 2018; *BBC*, "China Shuts Marriott's Website over Tibet and Taiwan Error," January 12, 2018.

beef and pork imports,\* a politically fraught decision† that removes a longstanding source of friction in U.S.-Taiwan trade relations.<sup>132</sup> President Tsai stated the “decision is in line with the country’s overall interests and the goals of the nation’s strategic development” and will also serve as “an important start for Taiwan-U.S. economic cooperation at all fronts.”<sup>133</sup> Trump Administration officials and several U.S. senators lauded the announcement, with Vice President Mike Pence and Secretary Pompeo noting it “opens the door” for further economic and trade cooperation.<sup>134</sup> Separately, in early October, 50 U.S. senators sent a letter to U.S. Trade Representative Robert Lighthizer urging him to begin the “formal process of negotiating a comprehensive trade agreement with Taiwan,” citing President Tsai’s decision “to greatly increase accessibility for [U.S.] farmers and ranchers to do business in Taiwan.”<sup>135</sup>

President Tsai’s announcement catalyzed a broadening of U.S.-Taiwan economic engagement across several domains. Following President Tsai’s announcement, Assistant Secretary Stilwell said the United States and Taiwan would launch a new Economic and Commercial Dialogue.<sup>136</sup> A statement from AIT further detailing the dialogue added it will be led by Under Secretary Krach and serve as a platform to “forge new areas of economic cooperation.”<sup>137</sup> Taiwan’s Minister of Economic Affairs Wang Mei-hua said in a press conference following Under Secretary Krach’s visit to Taipei in September that U.S. and Taiwan officials held informal talks on the dialogue, with preliminary discussions focused on supply chain realignment and investment review policies, among other topics.<sup>138</sup>

Separately, AIT and the Taipei Economic and Representative Office (TECRO) announced in late September that both sides would form a “Framework to Strengthen Infrastructure Finance and Market Building Cooperation.”<sup>139</sup> The framework will focus on strengthening U.S.-Taiwan cooperation in infrastructure investment and development finance in Southeast Asia and Latin

\*Taiwan has restricted imports of U.S. beef and pork products since 2003 due to some U.S. farmers’ use of ractopamine, a feed additive that produces leaner meat products, and other health and food safety concerns. In 2012, Taiwan’s legislature changed regulations to allow U.S. beef imports with trace amounts of ractopamine, but it continued to limit other U.S. beef imports to cattle younger than 30 months, citing risks of mad cow disease. Proposals to similarly ease restrictions on imports of ractopamine-treated pork have faced stiff opposition from civic groups and Taiwan’s local pig farming industry. President Tsai’s August 2020 announcement resolves these outstanding issues, allowing imports of U.S. pork with trace amounts of ractopamine and U.S. beef products from cattle aged 30 months and older. President Tsai promised her government would set up a \$340 million fund to support local Taiwan pig farmers to mitigate any impact on domestic industry. Chun Han Wong, “Taiwan to Ease Limits on American Pork and Beef, Smoothing Path for Trade Talks,” *Wall Street Journal*, August 28, 2020; Miaojung Lin and Chris Horton, “Taiwan Eases U.S. Meat Limits in Step toward Trade Talks,” *Bloomberg*, August 28, 2020.

†President Tsai’s announcement carries some political risk, as the DPP has otherwise long opposed easing restrictions on ractopamine in deference to the island’s pig farming industry and public concerns regarding food safety. For example, after President Tsai’s announcement, Taiwan health experts called for a risk assessment on the health impacts of the long-term consumption of ractopamine, arguing food safety risks should not be shouldered by consumers. Separately, Taiwan pig farmers raised concerns that opening the Taiwan market to U.S. imports will increase competition and damage their economic livelihoods. The opposition KMT party submitted a petition in late September to hold a referendum on the decision. One public opinion poll conducted just before President Tsai’s announcement found that 73.7 percent of Taiwan citizens opposed removing restrictions on U.S. pork imports in order to begin bilateral trade negotiations, while only 17.9 percent were in favor of doing so and 8.4 percent expressed no opinion. Chen Chunhua et al., “KMT Submits Petition for Referendum on Government Pork Policy,” *Focus Taiwan*, September 23, 2020; Nick Aspinwall, “Tsai Takes a Political Risk to Pursue a Taiwan-U.S. Trade Agreement,” *Diplomat*, August 31, 2020.



America.\*<sup>140</sup> An AIT statement describing the framework added it will contribute to concurrent efforts to bolster supply chain resilience, while Taiwan Minister of Foreign Affairs Joseph Wu said it complemented the U.S. Indo-Pacific Strategy and Taiwan's New Southbound Policy.<sup>141</sup>

Other pronouncements from Taiwan officials underscored Taiwan's interest in enhanced economic engagement with the United States. In an August interview with Taiwan news media, TECRO Representative Hsiao Bi-khim asserted that global supply chain realignment and rising U.S. concerns about supply chain security presented an opportunity for Taiwan to establish itself as a reliable economic partner to the United States.<sup>142</sup> Taiwan's MOEA separately announced it would work to establish a Taiwan-U.S. Business Center to expand "industrial cooperation" with the United States.<sup>143</sup>

The increased momentum toward expanded U.S.-Taiwan economic ties follows growth in overall bilateral trade in 2019. Taiwan's total trade with the United States grew 12.2 percent year-on-year to \$79.2 billion in 2019, underpinned by an 18.4 percent year-on-year surge in exports as U.S. tariffs on Chinese exports diverted trade to Taiwan.<sup>144</sup> As a result, Taiwan became the United States' tenth-largest trading partner in 2019, moving up from the 11th spot in 2018 and halting a slide in the rankings over the past five years.<sup>145</sup>

While the sharp increase in Taiwan's overall exports to the United States in 2019 may signal expanded trade ties, the composition of trade raises concerns about transshipment by Taiwan companies to bypass U.S. tariffs. Many Taiwan companies manufacture computer and electronics products in China and may have rerouted their exports of such products via Taiwan to circumvent U.S. tariffs. For example, Taiwan exports of electronic components, computers, and related equipment (Chinese exports of which were subject to U.S. tariffs) jumped 34.6 percent year-on-year in 2019.<sup>146</sup>

Trade flows may also mischaracterize the significance of Taiwan to the U.S. economy due to global supply chain configurations. In 2019, U.S. firms placed export orders<sup>†</sup> with Taiwan manufacturers worth \$140.3 billion, nearly three times the value of U.S. imports from Taiwan (\$54.2 billion) in the same year (see Figure 3).<sup>147</sup> The United States also served as the largest source of Taiwan's export orders that year, accounting for 29 percent of the total.<sup>148</sup>

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\*The framework establishes a working group, led by the U.S. Department of the Treasury and Taiwan's Ministry of Finance, to identify and promote opportunities for public and private sector collaboration in the infrastructure sector through investment promotion. The first meeting of the Working Group is scheduled for Fall 2020. American Institute in Taiwan, "AIT-TECRO Infrastructure Financing Framework Strengthens U.S. and Taiwan Cooperation on Infrastructure Development in the Indo-Pacific," September 30, 2020.

†An export order is a document conveying the choice of a foreign purchaser to buy goods from an exporter, typically in two to three months' time. Once the goods are exported to the foreign buyer, they are recognized as exports for the country in which they were produced, not for the country in which the firm that manufactured the goods is based. This explains the divergence in U.S. imports from Taiwan and export orders placed with Taiwan firms. Taiwan manufacturers have moved the bulk of their labor-intensive manufacturing processes overseas, with 91.8 percent of export orders fulfilled by Taiwan firms in the ICT sector produced outside of Taiwan. Export orders for Taiwan are typically seen as a bellwether of global technology demand, with export orders for ICT products accounting for nearly a third (\$144.8 billion) of all export orders received by Taiwan firms in 2019 (\$484.5 billion). Ben Blanchard, "Taiwan May Export Orders Up, Flags Better Outlook though Wary of Pandemic," *Reuters*, June 20, 2020; Taiwan's Ministry of Economic Affairs, Department of Statistics, *Export Orders Survey*.

**Figure 3: Comparison of U.S. Export Orders Placed with Taiwan Firms and U.S. Data on Merchandise Imports from Taiwan, 2002–2019**



Source: U.S. Census Bureau, *Trade in Goods with Taiwan*, May 5, 2020; Taiwan's Ministry of Economic Affairs, Department of Statistics, *Export Orders Survey*.

### **Cross-Strait Military and Security Issues**

The PLA intensified its provocative operations in the air and waters near Taiwan in 2020 while continuing its efforts to train and equip the force for a wartime campaign against the island. As the PLA dialed up its pressure, the Tsai Administration continued to emphasize asymmetric capabilities in the island's defense modernization drive as the United States took several notable steps to deepen its support for Taiwan in the military realm. U.S.-Taiwan defense ties remained consistent with the framework established by the Taiwan Relations Act as the cross-Strait military balance tipped further in Beijing's favor.

#### ***Beijing Increases Military Pressure on Taiwan***

The PLA conducted numerous and frequent military activities around Taiwan in 2020, actions China's Ministry of National Defense framed as consistent with its longstanding efforts to deter "Taiwan separatist forces" and improve the PLA's operational capabilities.<sup>149</sup> The PLA's activities around Taiwan this year, however, surpassed those recorded in 2019 both in their frequency and aggressiveness. The increase in PLA activity around Taiwan in 2020 fits an historical pattern whereby China displays military might in proximity to important political events on the island and signals to both Taipei and Washington its resolve to achieve unification.\*

\*China has historically displayed its military might around important events in Taiwan's electoral cycle or the CCP's political calendar. During the Taiwan Strait Crisis of 1995–1996, the PLA carried out a series of live-fire missile tests landing in the waters near Taiwan after then President Lee Teng-hui delivered a speech at Cornell University in 1995 and in the months before Taipei's first direct presidential election in 1996. Several PLA exercises—including live-fire naval and air exercises near the Penghu Islands and a large-scale amphibious landing near Matsu—stoked fears of an imminent invasion. China's military pressure prompted the United States to send two aircraft carrier battle groups to the area and contributed to a 5 percent boost for then

Yet the PLA's activities also create new facts on the ground by abrogating norms that once managed tensions across the Strait, such as earlier practices to avoid crossing the median line\* or entering Taiwan's ADIZ, and by asserting Beijing's prerogative to operate in the air and waters around Taiwan, which it claims as its sovereign territory. The more frequent presence of PLA aircraft and naval vessels around Taiwan also increases the probability of an incident that could lead to a crisis in the Strait.

*The PLA Aims to Deter "Taiwan Independence Forces"*

The PLA's operations around Taiwan in late 2019 and 2020 served both to express Beijing's displeasure at political developments on the island and to attempt to deter moves by Taipei toward independence. China's newest aircraft carrier, *Shandong*, sailed north through the Taiwan Strait in late December in an apparent effort to frighten voters ahead of the January presidential and legislative elections.<sup>150</sup> PLA fighter jets, early warning and control aircraft, and H-6K bombers circumnavigated the island during a joint aerial and naval exercise in February that Chinese state media framed as a response to Taiwan Vice President-elect Lai's contemporaneous visit to the United States.<sup>151</sup> China's other aircraft carrier, *Liaoning*, passed by the eastern and southern coasts of Taiwan in April several weeks ahead of President Tsai's inauguration, forcing the island to dispatch warships to monitor its movements.<sup>152</sup> Chinese military aircraft entered Taiwan's ADIZ nine times in June alone, incursions that potentially expressed Beijing's displeasure with Washington's approval of a possible sale of heavyweight torpedoes to Taiwan in May or the island's preparations to accept refugees from Hong Kong throughout the spring.<sup>†</sup><sup>153</sup>

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President Lee in the March election, an indication that Beijing's efforts to intimidate Taiwan's electorate were counterproductive. Cross-Strait tensions mounted during then Taiwan President Chen Shuibian's second term (2004–2008) after Chen proposed a referendum on the island's bid to enter the UN under the name of "Taiwan" rather than its official name, the Republic of China. China responded to moves by Chen perceived as "provocative" by staging a large-scale, multiservice exercise in 2005 tied explicitly to a Taiwan invasion, passing the Anti-Secession Law—which promoted a purposely ambiguous definition of activities Beijing regarded as "red lines"—and unveiling a powerful new air defense system to complement its force of surface-to-air missiles targeting Taiwan. The PLA began to conduct circumnavigation flights around Taiwan after the election of current President Tsai in 2016, and the frequency of its training flights near the island appeared to increase after the CCP's 19th Party Congress in October 2017. David A. Shlapak et al., *A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute*, RAND Corporation, 2009, 20–21; David Lague, "China and Taiwan Flex Military Muscles," *New York Times*, October 10, 2007; U.S. Department of Defense, *Annual Report to Congress: Military Power of the People's Republic of China*, 2006, 3; Qimao Chen, "The Taiwan Strait Crisis: Causes, Scenarios, and Solutions," in Suisheng Zhao, ed., *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995–1996 Crisis*, Routledge, 1999, 127.

\*The median line, also known as the center line, is an informal demarcation extending down the middle of the Taiwan Strait. The line was drawn in 1955 by General Benjamin O. Davis, then commander of the U.S. Air Force's Taiwan-based 13th Air Force. In the decades following the drawing of the median line, Taiwan's military superiority made it too dangerous for PLA aircraft to cross the line. In fact, the Taiwan military never publicly acknowledged the median line until 1999, when the PLA's previous deliberate crossing occurred, because it could control the airspace over the entire Taiwan Strait. With the shift in the cross-Strait military balance in China's favor over the last two decades, this is no longer the case. For more, see U.S.-China Economic and Security Review Commission, Chapter 5, "Taiwan," in *2019 Annual Report to Congress*, November 2019, 449.

† Most of these incursions involved Chinese military aircraft entering the southwest corner of Taiwan's ADIZ and included the following: two H6-K bombers on June 28; one H6-K bomber and one J-10 fighter jet on June 22; one J-10 fighter jet on June 21; one J-10 fighter jet on June 19; one J-10 fighter jet and one J-11 fighter jet on June 18; one J-10 fighter jet and a Y-8 transport plane on June 17; one J-10 fighter jet on June 16; one Y-8 transport plane on June 12; and several Su-30 fighter jets on June 9.

China's government also made clear that it would deviate from longstanding norms underpinning cross-Strait stability by asserting that it did not recognize the existence of the median line and repeatedly dispatching PLA aircraft to fly in the area. China's Ministry of Foreign Affairs announced in September that "there is no median line," despite the fact that the PLA had previously observed a tacit practice by which aircraft from both militaries stayed on their respective sides of the line.<sup>154</sup> Chinese military aircraft had crossed the median line of the Taiwan Strait on at least four days in 2020 as of October 15, after only one such incursion in 2019 and none in the 20 years prior.<sup>155</sup> Two of those occurred during Under Secretary Krach's September visit to Taiwan, when the PLA flew several types of its advanced fighter jets over the median line on two consecutive days as its bomber and transport aircraft intruded on the southwestern corner of Taiwan's ADIZ.<sup>156</sup> The PLA had responded to Secretary Azar's visit the month before by dispatching an unspecified number of J-10 and J-11 fighter aircraft to cross the median line, activity Taiwan's Ministry of National Defense said it had tracked with its land-based anti-aircraft missiles and "strongly driven out" with its own patrol aircraft.<sup>157</sup>

Beijing paired this military signaling with threatening rhetoric that underscored its willingness to punish Taiwan for behaviors it deemed steps toward de jure independence. Speaking at a gathering in Beijing to mark the 15th anniversary of the Anti-Secession Law,<sup>\*</sup> Central Military Commission member and Joint Staff Department Chief Li Zuoqiang said China would attack Taiwan if it felt there was no other way to prevent its independence.<sup>158</sup> While Beijing consistently refuses to renounce the use of force against the island, public statements of this type from such a high-ranking military official could be viewed as a direct warning to Taipei.†

The PLA also conducted trainings and large-scale exercises that honed operational capabilities relevant to a Taiwan contingency. The PLA's February exercise practiced what the Eastern Theater Command described as "air-ground assault and firepower support" operations while focusing on jointness between air and sea forces, one of the stumbling blocks in the PLA's efforts to cultivate a credible invasion capability.<sup>159</sup> Eastern Theater Command Air Force spokesman Zhang Chunhui said in a press conference that the exercise was intended to deter "Taiwan independence forces" and emphasized the PLA's combat readiness for a Taiwan campaign, breaking with

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<sup>\*</sup>The 2005 Anti-Secession Law is a domestic law that asserted Taiwan is a part of China, despite the fact that the People's Republic of China has never exercised control over the island, and laid out a vague set of conditions under which Beijing could employ "non-peaceful" means to forestall Taiwan's separation or independence from China. Article 8 states the following: "In the event that the 'Taiwan independence' secessionist forces should act under any name or by any means to cause the fact of Taiwan's secession from China, or that major incidents entailing Taiwan's secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity." *Xinhua*, "Anti-Secession Law Adopted by the NPC (Full Text)," March 14, 2005.

†"If the possibility for peaceful reunification is lost, the People's Liberation Army will, with the whole nation—including the people of Taiwan—take all necessary steps to resolutely smash any separatist plots or actions," General Li said. "We do not promise to abandon the use of force, and reserve the option to take all necessary measures, to stabilize and control the situation in the Taiwan Strait." However, Li Zhanshu, chairman of the standing committee of the National People's Congress, emphasized at the same event that nonpeaceful means were the option of last resort. Yew Lun Tian, "Attack on Taiwan an Option to Stop Independence, Top China General Says," *Reuters*, May 28, 2020.

Chinese officials' usual practice of portraying exercises that target the island as routine.<sup>160</sup> Chinese military aircraft also conducted nighttime sorties over the waters southwest of Taiwan for the first time ever in March, marking an improvement in the PLA's ability to operate in challenging conditions.<sup>161</sup>

In May, the PLA began a 78-day joint exercise in the Bohai Sea that reportedly included pitting multiple regiments against each other for scenarios such as an amphibious landing, a seizure of small islands, and establishing an invasion beachhead, as well as anti-air and antimissile maneuvers.<sup>162</sup> Although the PLA often trains and tests weapons in the Bohai Sea, the timing of the exercise around President Tsai's inauguration, as well similarities between the width and hydrogeological features of the Bohai Sea and the Taiwan Strait, led some Chinese analysts and observers in the press to conclude the exercise was intended to send a deterrent signal to Taipei.<sup>163</sup>

The PLA also conducted several exercises this summer relevant to a Taiwan contingency. Just a day after Secretary Azar completed his visit to Taiwan in August, the PLA Eastern Theater Command announced that multiple services took part in simultaneous exercises at the northern and southern ends of the Taiwan Strait.<sup>164</sup> Eastern Theater Command spokesperson Senior Colonel Zhang Chunhui said the exercises were "a necessary move responding to the current security situation in the Taiwan Strait and were meant to safeguard national sovereignty."<sup>165</sup> The August exercises came several weeks after the PLA held two large-scale drills involving the Eastern and Southern Theater Commands in waters to the west and north of Taiwan in late July.<sup>166</sup> Media reports had also indicated that the PLA planned to conduct a large-scale beach landing drill in August near Hainan to simulate a seizure of Taiwan's Pratas Islands, spurring Taiwan to hold an annual firing exercise around the islands in June and send a Marine company of 200 personnel to reinforce the garrison on the Pratas Islands in early August.<sup>167</sup> No corresponding PLA exercise ultimately materialized that month, however.

The PLA appeared to make good on its implicit threats to the Pratas Islands, however, when it conducted a large-scale joint air and naval exercise in early September in the area between the Pratas and Taiwan's southwestern coast, which falls within Taiwan's ADIZ.<sup>168</sup> Major General Young Ching Se, vice minister for intelligence at Taiwan's Ministry of National Defense, remarked afterward that the PLA was "using the pretext of an exercise to squeeze [Taiwan's] operating space."<sup>169</sup> The PLA also conducted an exercise simulating an island invasion on Taiwan's National Day holiday on October 10, moving forces between multiple locations in the coastal provinces of Guangdong and Fujian.<sup>170</sup> The exercise reportedly involved drones, special forces, and airborne troops.<sup>171</sup>

### *The PLA Asserts Beijing's Prerogatives in the Taiwan Strait*

PLA activity near Taiwan occurred more often in 2020 than it did in the past five years and exhibited sophisticated capabilities relevant to an island campaign, suggesting Beijing is seeking to assert its prerogative to control the area around Taiwan and potentially mulling a shift in military strategy toward the island. As depicted in Figure 4, PLA air

operations around Taiwan over the last five years remained under ten flights per year in 2015 and 2016; reached 24 flights in 2017; declined throughout 2018 and 2019 to 14 and seven flights, respectively; and then rose to 38 flights in 2020 as of October 14. The PLA flew more than five times more often around the island in 2020 than in 2019, crossing onto Taiwan's side of the median line on four occasions as of mid-October and making frequent incursions into Taiwan's ADIZ.

Compared to previous years, when the PLA's operations involved mostly transport, reconnaissance, and H-6K bomber aircraft flying through the Miyako Strait and Bashi Channel, PLA activity around Taiwan in 2020 featured a greater diversity of flight routes, more types of advanced fighter aircraft, larger formations, and a first-ever nighttime exercise in March.\* The increase in flights in 2020 followed President Tsai's reelection, an outcome Beijing had hoped to avoid, and mirrored the spike in 2017 flights after the CCP's 19th Party Congress.

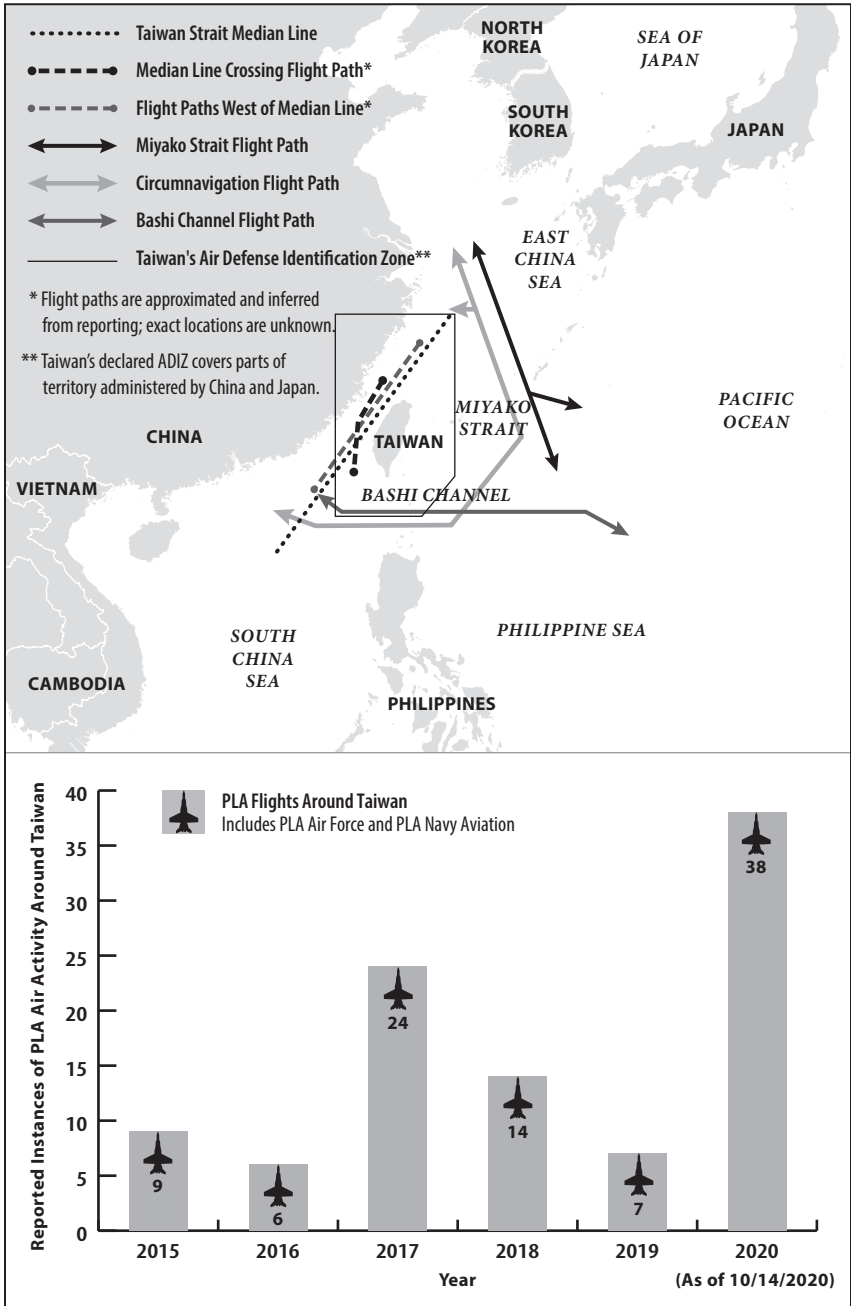
The PLA's activity around Taiwan creates new precedents by normalizing its presence around the island, identifying the limits of Taiwan's defense capabilities, straining its capacity to respond militarily, and eroding the public's morale.<sup>172</sup> The spate of incursions by Chinese military aircraft into Taiwan's ADIZ in June, for example, appeared to probe Taiwan's defensive capabilities and occurred over Taiwan's southwestern waters, an area Taipei-based think tank researcher Chieh Chung believes corresponds to the Penghu Islands and some analysts regard as a potential target in a PLA campaign.<sup>173</sup> DPP legislator Tsai Shih-ying acknowledged the strain PLA activities place on Taiwan's defenses when he told the *Liberty Times* that PLA aircraft violating Taiwan's airspace now often take off from bases in central China rather than sticking to their previous practice of taking off from bases in southeast China.<sup>174</sup> If the PLA continues to routinely fly its aircraft from different locations, Mr. Tsai said, Taiwan's military will find it increasingly difficult to detect and assess PLA activities of concern.<sup>175</sup> PLA activity such as the June aerial incursions could also arguably be considered "gray zone" activities, or coercive actions to change the status quo that remain below the threshold justifying a kinetic military response.<sup>†</sup><sup>176</sup> In their totality, the PLA's activities are significant because they increase the dangers and pressures Taiwan faces in its security environment.

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\* PLA flights in 2020 involved crossings of the median line, flights along the western side of the median line, circumnavigations, flights through the Miyako Strait, flights over Taiwan's southwestern waters that entered various portions of Taiwan's ADIZ, flights through the Bashi Channel and back, and flights into the Western Pacific via the Bashi Channel and Orchid Island. Flights in 2020 appeared to be conducted mostly by the PLA Air Force, whereas flights in 2015 frequently involved PLA Navy Aviation. Aircraft the PLA has flown near Taiwan this year included J-10 fighters, J-11 fighters, H6-K bombers, Y-8 transport aircraft, Su-35 fighters, Su-30 fighters, KJ-500 early warning and control aircraft, KJ-600 early warning and control aircraft, and an additional unspecified type of electronic reconnaissance aircraft. In contrast to previous years, in which most aircraft flown were transport and reconnaissance aircraft, most of those flown in 2020 were fighters or bombers. Commission staff database of PLA training flights around Taiwan, derived from a variety of sources over the last five years, including press releases and products from Taiwan's Ministry of National Defense; Japan's Ministry of Defense Joint Staff; the Institute for National Defense and Security Research; and media coverage.

† Chieh Chung, a research fellow at the Taiwan-based think tank National Policy Foundation, observed that the June aerial incursions displayed similarities with China's approach to the Senkaku Islands. China's fighter aircraft have flown frequent missions near Japan's Senkaku Islands since 2012, straining the capacity of Japan's Air Self Defense Force to respond and reinforcing erroneous perceptions within the international community that the territory is rightfully in dispute. Matt Yu and Matthew Mazzetta, "China Fighter Jet Enters Taiwan's Air Defense Identification Zone," *Central News Agency*, June 16, 2020.

**Figure 4: PLA Air Activity Near Taiwan, 2015–2020**



Source: Created for the U.S.-China Economic and Security Review Commission. Various.<sup>177</sup>

### China's Gray Zone Tactics in the Taiwan Strait

Security analysts in both Taipei and Washington have argued that China uses gray zone tactics to bolster its sovereignty claims over Taiwan by normalizing its presence around the island and establishing the trappings of administrative control when possible.<sup>178</sup> A 2019 RAND Corporation study defined the “gray zone” as “an operational space between peace and war, involving coercive actions to change the status quo below a threshold that, in most cases, would prompt a conventional [kinetic] military response, often by blurring the line between military and nonmilitary actions and the attribution for events.”<sup>179</sup> Gray zone tactics can occur through military intimidation, paramilitary activity, the economic activities of state-owned enterprises or private proxies, information operations, diplomacy, and economic coercion.<sup>180</sup>

China perpetrates a number of activities around Taiwan consistent with this definition of gray zone:

- *Military intimidation:* The PLA frequently flies fighters, bombers, transport, and reconnaissance aircraft around Taiwan, at times entering its ADIZ or crossing the median line, which it declared in September does not exist (see Figure 4).
- *Paramilitary activity:* Speedboats likely affiliated with China's maritime militia swarmed and attacked two Taiwan Coast Guard Administration cutters in March, hurling rocks and bottles.<sup>181</sup>
- *Economic activity of state-owned or private actors:* Chinese fishermen and dredgers frequently engage in illegal fishing and sand collection in Taiwan's territorial waters, depleting fish stocks and damaging the local marine ecosystem while establishing a presence that can bolster claims to administrative control.<sup>182</sup> In response to recent sightings of Chinese fisherman operating around the Pratas Islands, Taiwan's Coast Guard Administration announced in July it would step up enforcement of laws against mainland fishermen engaged in illegal activity.<sup>183</sup> Taiwan's Ocean Affairs Council also publicized statistics in July showing a sharp increase in the presence of mainland dredging vessels in Taiwan's waters in 2020. While Taiwan Coast Guard Administration patrol vessels only intercepted two Chinese dredgers in 2017 and 71 in 2018, they intercepted 600 in 2019 and 2,988 between January and July of 2020 alone.<sup>184</sup>
- *Information operations:* China is engaged in a robust disinformation campaign against Taiwan over social and traditional media to sow public distrust of the DPP leadership, a feeling of hopelessness about the island's future, and false information about the origins of the COVID-19 pandemic.<sup>185</sup>
- *Diplomacy:* China has leveraged diplomacy to bolster its claims to sovereignty over Taiwan and administrative control over its affairs. For example, the WHO and ICAO both refer to Taiwan as a province of China, due to Beijing's in-



### **China's Gray Zone Tactics in the Taiwan Strait— Continued**

sistence that these organizations abide by its “One China” principle.<sup>186</sup> China’s government has also insisted on its prerogative to provide Taiwan’s COVID-19 case numbers to the WHO.<sup>187</sup>

- *Economic coercion:* China has successfully pressured multinational companies and airlines to describe Taiwan as a province of China in their products and on their websites.<sup>188</sup>

The PLA’s operations near Taiwan in 2020 may also reflect experimentation with new wartime strategies. For example, the PLA’s circumnavigation flights and naval transits through the Miyako Strait suggest the PLA could attack Taiwan from the north or the east in addition to launching attacks on the island’s western side as Taiwan defense planners and U.S. analysts have traditionally assumed. It is also possible, however, that the increase in PLA activity near Taiwan this year simply reflects the fact that the PLA now has many more capabilities and types of equipment to employ in its routine operations east of the first island chain. Moreover, the PLA’s flights through the Miyako Strait and into the Western Pacific serve to pressure Japan and the United States, not just Taiwan.

### **PLA Activities around Taiwan Increase Odds of a Crisis**

The increase in aggressive PLA activity documented near Taiwan in 2020 highlighted Beijing’s tolerance for risk and challenged longstanding U.S. interests in the peace and stability of the Taiwan Strait. While the CCP has staked its legitimacy on the resolution of the “Taiwan question” for decades, the PLA has historically displayed little appetite to confront Taiwan forces directly for fear of provoking intervention by the United States. This year’s activities in the Taiwan Strait, however, suggest the PLA is more confident of its capabilities and more willing to test the limits of U.S. and Taiwan forbearance than before.

Moreover, the PLA’s activities increase the probability of a future crisis or other dangerous situation in the Strait. Greater numbers of PLA aircraft, ships, and even maritime militia vessels operating near Taiwan or its outlying islands will lead to more frequent, close interactions with Taiwan’s Air Force or responding Coast Guard units, which could result in miscalculations, collisions, or other accidents that might challenge the two sides’ ability to communicate about and resolve a crisis. Two events in 2020 underscored the possibility of such unsafe encounters: a PLA fighter jet took the provocative step of briefly locking its radar onto an intercepting Taiwan fighter jet in February,\* while speedboats likely affiliated with China’s maritime militia

\*Radar lock-on indicates that a target has been acquired by an aircraft’s missile guidance system and precedes the firing of a missile.

### **PLA Activities around Taiwan Increase Odds of a Crisis— *Continued***

rammed two Taiwan Coast Guard vessels off the coast of Kinmen in March.\*<sup>189</sup>

China's announcement that it does not recognize the median line and repeated crossings of the line by Chinese military aircraft in 2020 reflected a deterioration of longstanding expectations governing military activity in the Taiwan Strait that previously contributed to cross-Strait stability. Chinese military planners' doctrinal approaches to escalation control may also predispose the PLA to use force in ways it believes are consistent with deterrence but which could seem like warfighting to Taiwan or other actors in the region.<sup>190</sup> All of these factors raise the worrying possibility that an accident or skirmish could escalate into a crisis or conflict in the Taiwan Strait.

#### *The PLA's Current Capabilities and Limitations for a Taiwan Campaign*

The increase in PLA activity this year occurred in tandem with the debut of capabilities that better position the PLA to carry out a range of operations against Taiwan. China's Type 055 (RENHAI) guided-missile destroyer was commissioned in January and would play a crucial role in an amphibious invasion scenario, small or large, by protecting China's landing force from intervening U.S. forces and attacks by Taiwan's air and maritime forces.<sup>191</sup> The PLA also launched its second Type 075 (YUSHEN) flattop landing helicopter dock, the PLA Navy's largest and most capable amphibious assault ship, at a Shanghai shipyard in April.<sup>192</sup> If the PLA were to attempt any number of coercive scenarios, the Type 075 would be instrumental in transporting troops and landing craft, hovercraft, and helicopters on Taiwan or the smaller islands and features.<sup>193</sup> The PLA has also acquired hundreds of ground-launched cruise missiles and between 750 and 1,500 short-range ballistic missiles that can be used to strike targets across the island for the purpose of punishing Taiwan or executing the early stages of a campaign.<sup>194</sup>

The U.S. Department of Defense (DOD) assesses that the PLA is capable of carrying out a range of military operations against Taiwan short of a large-scale amphibious operation to punish Taiwan or accomplish other military objectives. These operations include an air and maritime blockade of Taiwan, air and missile strikes against targets across the island, or a seizure of Taiwan's offshore islands, all options that could be implemented individually or in combination.<sup>195</sup> (See Chapter 3, Section 2, "China's Growing Power Projection and Expeditionary Capabilities," for further discussion of the PLA's modernization and continued capability shortfalls, re-

\*The 9th (Kinmen) Offshore Flotilla of the Taiwan Coast Guard Administration reported that more than ten Chinese speedboats attacked its vessels. Crew aboard the speedboats hurled rocks, threw bottles, and rammed two cutters. Coast Guard Administration officers responded by throwing six stun grenades and firing five bean bag rounds at the Chinese boats, prompting them to retreat. One Coast Guard Administration officer told the Taiwan media outlet *Liberty Times*, "We've never seen more than 10 Chinese speedboats swarm and aggressively attack like this." See Keoni Everington, "10 Chinese Speedboats Attack Taiwan Coast Guard Cutters," *Taiwan News*, March 20, 2020.

spectively.) The PLA could supplement these options with actions designed to disrupt critical infrastructure on Taiwan or its offshore islands, or use special operations forces to assassinate Taiwan's leaders.<sup>196</sup>

A successful large-scale amphibious invasion, most commonly described in terms of an operational concept known as the Joint Island Landing Campaign,\* would require the PLA to control the air and waters around Taiwan, land on one or more of the island's few accessible beaches, and continuously transport both forces and materiel to the designated landing sites.<sup>197</sup> The PLA's most immediate limitation in executing a Taiwan campaign is a shortage of amphibious lift, or ships and aircraft capable of transporting the troops the PLA needs to successfully subjugate the island.†<sup>198</sup> According to independent analyst Kevin McCauley, the PLA is currently capable of transporting the main combat elements (though not all personnel and equipment) of one or two infantry brigades and two armored and/or mechanized brigades.‡<sup>199</sup> U.S. intervention would also greatly increase the complexity of a PLA invasion of the island.<sup>200</sup> Retired PLA Air Force Major General Qiao Liang, a notoriously hawkish voice within China's security establishment, alluded to the danger a failed invasion could pose to the CCP when he remarked in early May that a war with Taiwan would be "too costly" because it could jeopardize China's ambitions for national rejuvenation.<sup>201</sup>

Yet the PLA is working to rectify its lack of amphibious lift in creative ways that may challenge foreign preconceptions of what the PLA can and cannot do in an invasion of Taiwan. One of the PLA's most notable adaptations is its growing use of civilian vessels and aircraft for military logistics, a strategy that has been employed by the force since its failed attack on the Taiwan-controlled island of Kinmen in 1949.§<sup>202</sup> China's 2017 National Defense Transportation Law and 2010 National Defense Mobilization Law have sought to resolve longstanding problems involving the mobilization of civilian assets in wartime, the incorporation of military standards into civilian construction, and compensation for requisitioned civilian assets.<sup>203</sup> The PLA continued limited training with civilian shipping vessels in 2020 that could support the landing of second echelon

\*According to DOD, the Joint Island Landing Campaign "envisions a complex operation relying on coordinated, interlocking campaigns for logistics, air, and naval support, and electronic warfare. The objective would be to break through or circumvent shore defenses, establish and build a beachhead, transport personnel and materiel to designated landing sites in the north or south of Taiwan's western coastline, and launch attacks to seize and occupy key targets or the entire island." For more, see U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China*, 2019, 84–85.

†DOD concludes that there is "no indication China is significantly expanding its landing ship force at this time—suggesting a direct beach-assault operation requiring extensive lift is less likely in planning." U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China*, 2019, 88.

‡DOD does not provide a public estimate of how many troops and how much equipment China is capable of transporting across the Strait at this time.

§The PLA planned to rely on fewer than 300 civilian fishing boats to transport 20,000 troops to Kinmen's shores in groups for the 1949 assault. After the fisherman dropped off the first three regiments of PLA troops, or about 8,700 men, on the beachhead, they became stranded on their return journey to pick up the second landing group as the tide went out. The KMT defenders on Kinmen destroyed every single boat, and subsequently annihilated the three PLA regiments stranded on the shore. The defeat has remained a painful memory informing PLA military planning ever since. See Maochun Miles Yu, "The Battle of Quemoy: The Amphibious Assault That Held the Postwar Military Balance in the Taiwan Strait," *Naval War College Review* 69:2 (Spring 2016): 94–96.

forces in a wartime scenario after the PLA seizes one of Taiwan's ports or constructs temporary wharves to offload civilian ships.<sup>204</sup> In June, for example, a Chinese television report showed personnel and equipment from at least three battalions of the PLA 74th Group Army's heavy 16th Combined Arms Brigade practice loading a large civilian roll on-roll off ("ro-ro") ship.<sup>205</sup>

China has also invested heavily in rotary-wing aircraft, which could supplement the PLA's ability to transport troops or provide fire support for landing amphibious forces. The army aviation brigades and air assault brigades of the five group armies falling under the PLA Eastern and Southern Theater Commands have about 350 helicopters, while the PLA Air Force Airborne Corps has about 40 helicopters.<sup>206</sup> According to the China Aerospace Studies Institute, images of PLA Army Aviation attack helicopters under the Eastern Theater Command flying frequent low-altitude missions over water, carrying large fuel tanks, and refueling on China's coastal islands suggest helicopters may play a prominent role in an invasion of Taiwan.<sup>207</sup> In August, multirole helicopters from the 71st Group Army aviation brigade also practiced a medical evacuation operation that involved taking off from land, moving over water, and landing on a prepositioned civilian ship for refueling and rearming.<sup>208</sup> Dennis Blasko, an independent analyst and former U.S. military attaché in Beijing, argues that this particular exercise has clear applications to a Taiwan contingency and represents an "important evolutionary step" in the PLA's development of effective procedures for creating Forward Arming and Refueling Points, or designated areas where aircraft such as helicopters can refuel and rearm.<sup>209</sup>

The PLA still regards its own capabilities as lagging behind those of the United States, a fact that may inform Chinese leaders' assessment that they would be unlikely to win a conflict over Taiwan that involved the United States if it were to happen today.<sup>210</sup> At the Commission's June hearing, CNA principal research scientist Alison Kaufman argued that China's perception of the credibility of the U.S. commitment to fight is the most crucial determinant of a decision to attack the island in the near term. "If China's leaders believe that attacking Taiwan will certainly trigger an overwhelming U.S. response in some domain, military or otherwise, then they'll probably calculate it's not worth that risk, unless Taiwan independence is truly imminent," Dr. Kaufman said.<sup>211</sup> "If, on the other hand, they're fairly certain that the U.S. won't intervene, or that the PLA could preclude the U.S. from intervening effectively, then the odds in China's favor become much better."<sup>212</sup> Putting aside a full-scale invasion, Beijing is likely currently capable of seizing one or more of Taiwan's outlying islands, a contingency for which it routinely practices.<sup>213</sup>

### ***Taipei Invests in Asymmetric and Conventional Capabilities to Counter Beijing's Military Advantages***

In her May inauguration speech, President Tsai affirmed Taiwan's commitment to developing asymmetric capabilities and promised that a slate of national defense reforms would enable her military to achieve its strategic goal of multidomain deterrence.<sup>214</sup> The island's

procurement agenda throughout 2020 partly reflected this ambition, but it also involved efforts to acquire conventional capabilities that critics charged were big-ticket purchases contributing little to Taiwan's actual defense capability. At the same time, Taiwan's military grappled with ongoing problems related to its equipment, readiness, and transition to an all-volunteer force as the cross-Strait military balance remained deeply unfavorable to Taipei.

*Taiwan Pursues Combination of Asymmetric and Conventional Capabilities*

Taiwan ordered, acquired, or continued to develop several weapons systems conducive to asymmetric warfare in line with its 2017 Overall Defense Concept, which emphasizes capabilities that are small, mobile, and survivable.<sup>215</sup> Taiwan is stepping up its missile programs, with the island's premier defense manufacturer, the National Chungshan Institute of Science and Technology (NCSIST), playing a leading role in this effort. During an inspection tour of NCSIST in January 2020, President Tsai asked the institute and Taiwan's Ministry of National Defense to accelerate mass production of its updated Tien Kung-3 and supersonic Hsiung Feng-3 missiles.<sup>216</sup> The Tien Kung-3 surface-to-air missile system, which was modified in September 2019 to be deployable on ships, has an operational range of 200 kilometers (km) (124 miles [mi]) and could improve the Taiwan military's ability to intercept PLA cruise missiles or to counter fighter aircraft during a conflict.<sup>217</sup> By contrast, the Hsiung Feng-3 supersonic cruise missile has an operational range of between 120 km and 300 km (75 mi and 168 mi) and is capable of hitting both PLA Navy ships and targets on the Chinese mainland during a conflict.<sup>218</sup> NCSIST is also developing the medium-range Yun Feng land-attack cruise missile, which can reportedly hit major inland targets like Beijing and Shanghai and is expected to begin production at the end of 2020.<sup>219</sup>

Taiwan's military is also investing in unmanned aerial vehicles (UAVs) and torpedoes to counter China's conventional maritime advantages. Media reported in August that the United States was negotiating the sale of at least four of its sophisticated SeaGuardian surveillance drones to Taiwan, an acquisition that could complement the Taiwan Navy's announcement in May that it will upgrade its entire fleet of Albatross UAVs.<sup>220</sup> While both technologies have reconnaissance and target acquisition capabilities, the SeaGuardian drones' 6,000-nautical mile (11,100 km) range far exceeds that of Taiwan's current UAV fleet and would enhance its ability to observe military activity within China.<sup>221</sup> It is unclear whether U.S. officials have approved exporting the UAVs with weapons attached. Several months earlier, the United States approved a possible sale of 18 MK-48 Mod 6 advanced heavy weight torpedoes to Taiwan for an estimated \$180 million, a deal that could improve the Taiwan Navy's ability to sink the PLA Navy's nuclear-powered submarines and surface combatants.<sup>222</sup>

The island has also reportedly made a request to purchase M109A6 Paladin self-propeller howitzers from the United States, artillery that could improve Taiwan's coastal defense.<sup>223</sup> Reuters

reported in October that the White House had sent informal notifications to Congress regarding its intent to sell to Taipei MQ-9 drones, land-based Harpoon antiship missiles, a truck-based rocket launcher, long-range air-to-ground missiles, and external sensor pods for F-16 jets that transmit data and imagery back to ground stations in real time.<sup>224</sup>

These requests take place against the background of Taiwan's ongoing efforts to acquire small fast-attack missile craft and mine-laying ships, the kinds of small and survivable assets prioritized by the Overall Defense Concept.<sup>225</sup> Taiwan launched the construction of its third and fourth MIN JIANG-class mine-laying ships in April, with the first expected to be delivered later this year.<sup>226</sup>

At the same time, Taipei continued to upgrade its conventional military capabilities. In April, Taiwan's Ministry of National Defense announced it would buy decoy-launcher upgrade kits from France for \$112 million to equip the Taiwan Navy's six KANG DING-class missile frigates.<sup>227</sup> The facility that will house the construction of Taiwan's first indigenously produced submarine fleet was completed in September 2020 and reportedly was built with the assistance of foreign consultants and engineers from the United States, Europe, Japan, and South Korea.<sup>228</sup> The Tsai Administration has framed the submarine program, expected to cost about ten percent of Taiwan's defense budget, as an asymmetric capability consistent with its Overall Defense Concept that would play a role in a cross-Strait conflict by targeting PLA Navy surface ships.<sup>229</sup> In July, the United States approved a \$620 million sale to Taiwan of a package to extend the operational life of its Patriot Advanced Capability-3 surface-to-air missiles and related equipment.<sup>230</sup> Taiwan officials are also looking forward to 2023, when they will begin to take possession of the latest deliveries of the 66 F-16V fighter jets and the 108 M1A2T Abrams tanks approved for sale by the United States in 2019.<sup>231</sup> Taiwan-based advocates of the F-16V sale, which has a price tag equivalent to 70 percent of Taiwan's 2019 military budget, argue it will improve the warfighting capability of Taiwan's Air Force and boost public morale.<sup>232</sup> But critics argue such acquisitions are inconsistent with the Overall Defense Concept and are financially imprudent given the island's defense budget.<sup>233</sup>

Taiwan is complementing its acquisitions with reforms to its reserve force, mobilization system, and military management institutions, all areas highlighted by President Tsai in her inauguration speech.<sup>234</sup> During the 36th annual Han Kuang exercises in July, for example, Taiwan's military debuted its new combined arms battalions but also showed progress toward reform goals by including its reservists in live-fire exercises.<sup>235</sup> According to DOD, Taiwan's military is also working to improve its joint operations and crisis response capabilities, build its war reserve stocks, and strengthen its officer and noncommissioned officer corps.<sup>236</sup>

### *Taiwan's Military Struggles with Reform and Talent Recruitment*

Taiwan grappled in 2020 with ongoing problems related to its equipment, readiness, and transition to an all-volunteer force. Pres-

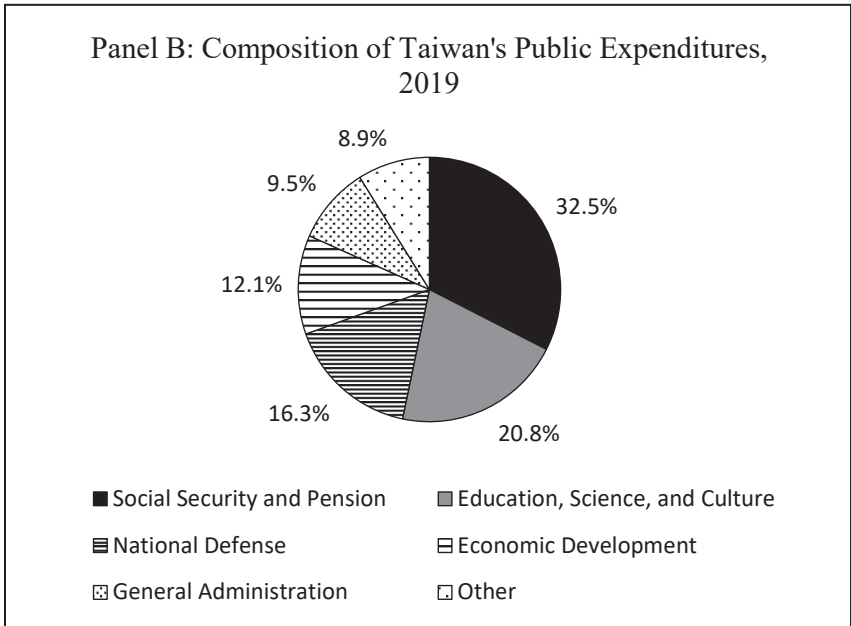
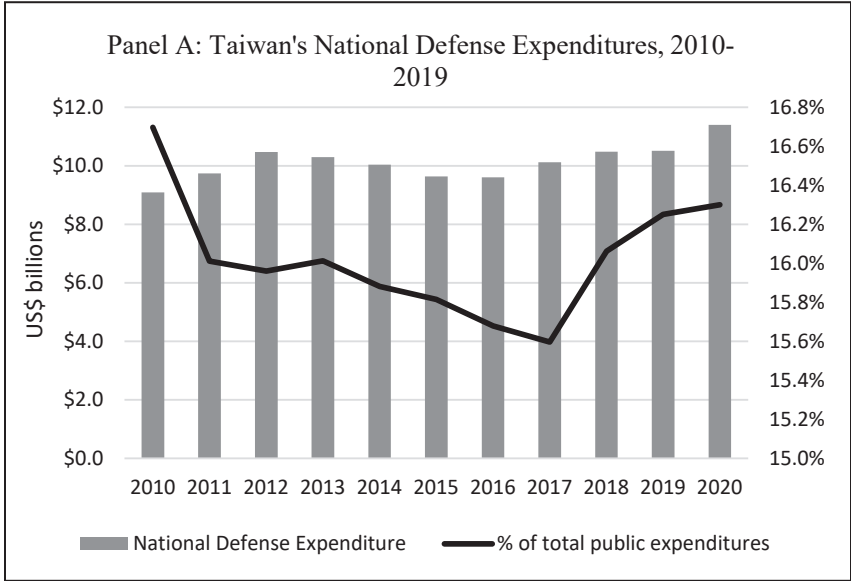
ident Tsai acknowledged the urgency of these challenges in her May inauguration speech, arguing that Taiwan “need[s] to enhance the quality of [its] reserve forces, as well as [its] weapons, equipment, and training, in order to achieve effective jointness with [its] regular forces.”<sup>237</sup> She also called on the military to more effectively recruit young people, highlighting serious personnel shortfalls that complicate the island’s efforts to rectify an increasingly unfavorable cross-Strait military balance.<sup>238</sup>

The Taiwan military’s transition from one based on conscription to an all-volunteer force remains a particular challenge. The island’s civilian leadership has argued that the new, smaller force will be better suited to operate modern weapons. The Ministry of National Defense has facilitated this transition by raising salaries for personnel and developing a suite of attractive professional benefits but has still fallen far short of its recruitment targets.<sup>239</sup> In 2018, only 153,000 of the Ministry of National Defense’s 188,000 active duty billets were filled, but anecdotal evidence suggests the army’s frontline combat units have just 60 to 80 percent of the manpower they need.<sup>240</sup> Longtime Taiwan-based journalist Wendell Minick observed in a 2019 article that the island’s 153,000 warfighters constituted only 81 percent of the minimum number of troops Taiwan’s military believes it needs to fend off an invasion.<sup>241</sup>

The costs of enhanced recruitment for active duty personnel have also had second-order effects on the Taiwan military’s equipment and readiness. According to DOD, “The unanticipated magnitude of transition costs has led Taiwan to divert funds from foreign and indigenous defense acquisition programs, as well as near-term training and readiness.”<sup>242</sup> Some critics have argued that Taiwan’s training and exercises are small, scripted, and lack jointness.<sup>243</sup> The shortfall in active duty personnel is exacerbated by the fact that Taipei has reduced the length of compulsory service required for Taiwan’s reserve force, the last line of defense in an invasion scenario, from one year to four months in addition to inadequately funding it.<sup>244</sup>

Taipei has moderately increased its defense expenditures in recent years to counter these challenges. After contracting during President Ma Ying-jeou’s administration, Taiwan’s spending on national defense resumed growth in 2017 and has gradually accounted for a larger share of its total public expenditures (see Figure 5, Panel A).<sup>245</sup> In 2019, Taiwan’s national defense expenditures grew 0.2 percent year-on-year to \$10.5 billion, accounting for 16.3 percent of total public expenditures (\$64.7 billion) (see Figure 5, Panel B).<sup>246</sup>

**Figure 5: Taiwan's National Defense Expenditures, 2010–2019**



Source: Taiwan's Ministry of Finance via CEIC database.



Though Taipei increased its defense budget to \$11.4 billion for 2020 and has proposed hiking it further to \$11.9 billion for 2021,\* this target is not adequate to fund the new platforms, training, maintenance, ordnance, reserve force, and other areas essential to the Taiwan military's readiness in light of the growing threat from China (see Figure 6).<sup>247</sup> Ambassador James F. Moriarty, chairman of AIT, expressed concerns about the island's limited defense spending in remarks at the October 2019 U.S.-Taiwan Defense Industry Conference. "Taiwan must do its part to invest wisely in capabilities that deter aggression and would help Taiwan mount an effective defense should deterrence fail," he said.<sup>248</sup> "That will require further investment in national defense, including strengthening its reserve and call-up systems, as well as more investment in mobile, survivable, and cost-effective asymmetric systems."<sup>249</sup>

If Taiwan's leaders maintain defense spending at current levels, they risk disadvantaging it in a conflict with the PLA, which has substantial forces and an increasingly impressive array of advanced equipment in its order of battle.<sup>250</sup> According to DOD, PLA ground forces in the Eastern and Southern Theater Commands numbered 412,000 personnel as of 2020, compared with Taiwan's 88,000 active duty army personnel.<sup>251</sup> China had 600 fighter jets within range of the island versus Taiwan's 400 fighters, 34 diesel and nuclear attack submarines versus Taiwan's two operational submarines, and a range of missiles capable of hitting Taiwan's ships, aircraft, and land-based targets.<sup>252</sup> In the face of such robust capabilities, Taiwan's government has given varying estimates of how long the island could hold out against a PLA attack before help from the United States arrived, ranging from two weeks to one month.<sup>253</sup>

Yet a narrow focus on these numbers overlooks the limitations the PLA's own deficit of amphibious lift may place on how much heavy equipment and personnel it can transport in the opening phases of an invasion, as well as how such assets would fare during the long, vulnerable transit or once landed on Taiwan's inhospitable terrain, which varies from mountain ranges to rice paddies. Certain PLA capabilities, such as tanks, may be more useful for propaganda or deterrence than they would be in combat.<sup>254</sup> How much advance warning Taiwan has of an impending PLA invasion, the combat effectiveness of elements of its 1.5 million-man-strong reserve force, and its use of heretofore secret indigenous missiles also introduce uncertainty into the outcome of any conflict.

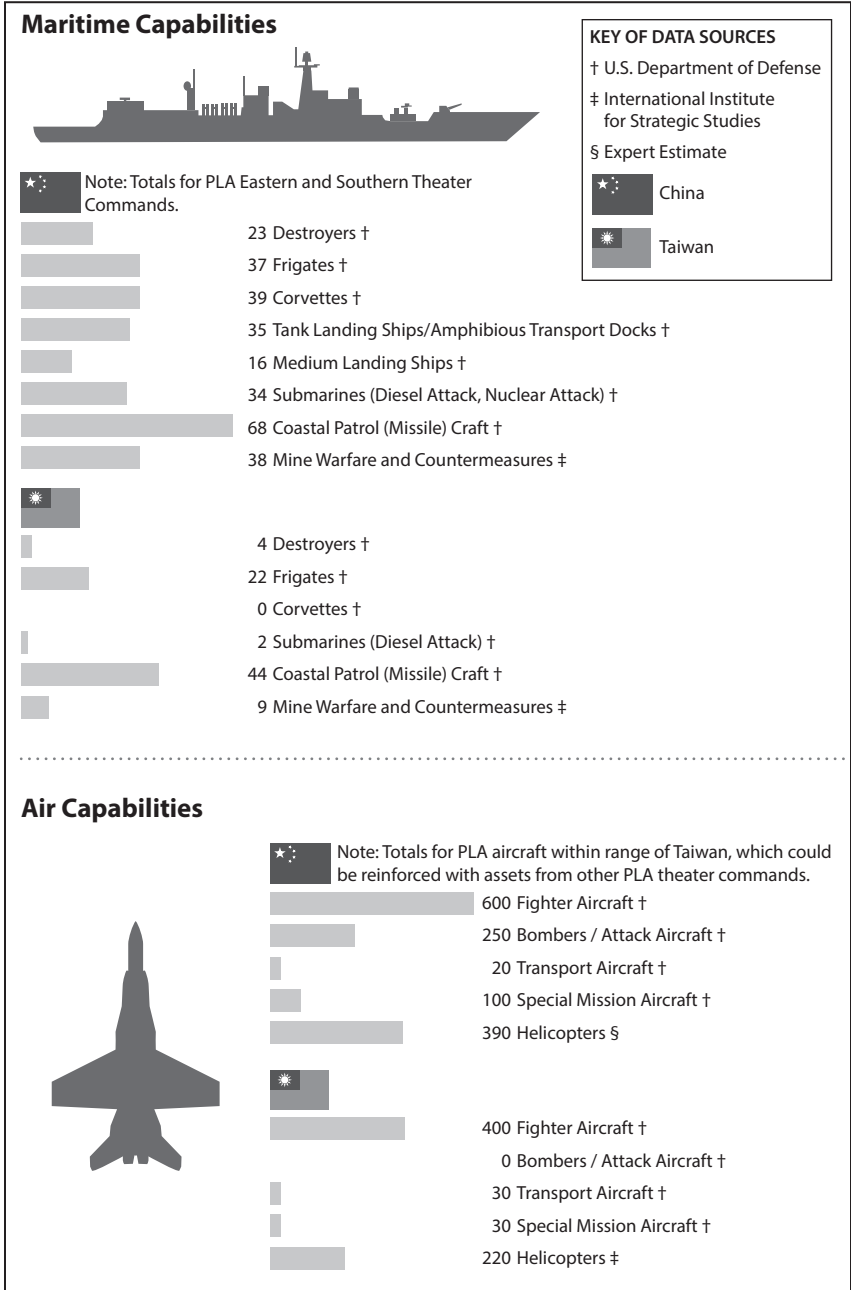
### ***U.S.-Taiwan Security Cooperation***

The U.S. government took a number of important steps to support Taiwan in late 2019 and the first half of 2020, reflecting strong backing within the Trump Administration and Congress for measures enhancing Taiwan's defensive capabilities in line with the Taiwan Relations Act.

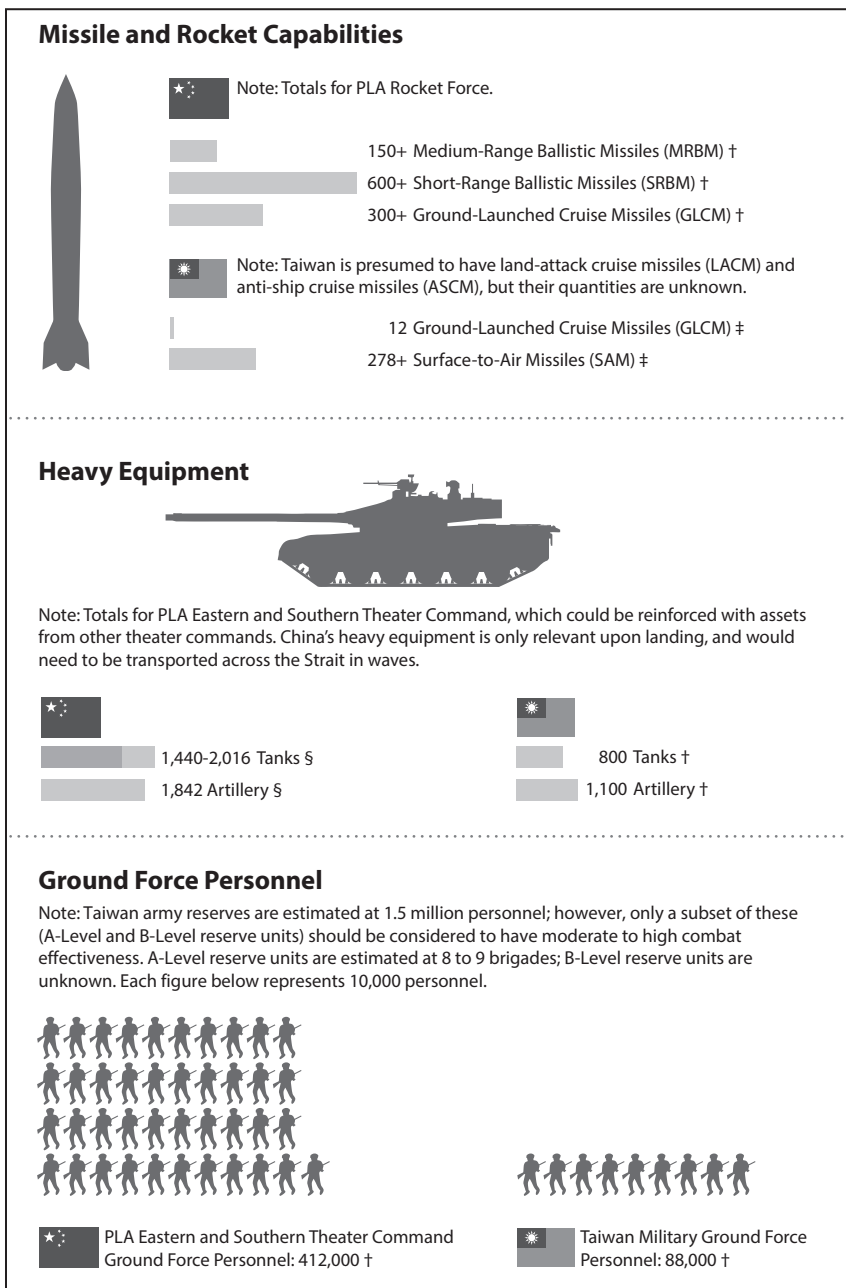
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\*The 2021 budget must be approved by Taiwan's Legislative Yuan. Since President Tsai's DPP holds a majority in the Legislative Yuan, the proposal is likely to pass. Taiwan's Legislative Yuan is expected to deliberate the central government's budget in sessions held from September to December 2020. Lee Hsin-fang and Jake Chung, "Budget Talks Likely Central to Next Legislative Session," *Taipei Times*, August 24, 2020; Yimou Lee and Ben Blanchard, "Taiwan to Raise Defense Spending as China Details Combat Drills," *Reuters*, August 12, 2020.

**Figure 6: The Cross-Strait Military Balance**



**Figure 6: The Cross-Strait Military Balance—Continued**



*Source:* Created for the U.S.-China Economic and Security Review Commission; U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China*, 2020, 164–166; International Institute of Strategic Studies, *The Military Balance: 2020*, 2020, 259–268, 311–314; and expert interviews with Commission staff, August 17–19, 2020.

### **The Taiwan Relations Act and the U.S. Practice of Strategic Ambiguity**

U.S. government policy toward Taiwan is based on the 1979 Taiwan Relations Act (TRA) and an informal practice known as “strategic ambiguity” whereby the United States does not explicitly state whether it will come to Taiwan’s defense in the event of a Chinese attack.

The TRA laid the legal foundation for continued ties between the United States and Taiwan after Washington switched diplomatic recognition to Beijing in 1979.<sup>255</sup> In addition to creating a non-profit corporation called the American Institute in Taiwan, through which U.S.-Taiwan relations are conducted, the TRA states that it is U.S. policy to:

- “consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States,”<sup>256</sup>
- “make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability,”<sup>257</sup> and
- “maintain the capacity ... to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.”<sup>258</sup>

The TRA has provided the legal basis for U.S. arms sales to Taipei over the last 40 years. It directs the president to promptly inform Congress of any threat to Taiwan’s security, its social or economic system, and any related danger to U.S. interests. Under its provisions, “[t]he President and the Congress shall determine, in accordance with constitutional processes, appropriate action by the United States in response to any such danger.”<sup>259</sup>

The practice of strategic ambiguity is not codified in public legislation but is nonetheless a crucial part of what Brookings Institution senior fellow Richard Bush calls the “unstated operational guidelines” that have informed U.S. policy in Asia for decades.<sup>260</sup> By remaining opaque about U.S. intentions, the policy aims to create sufficient uncertainty among leaders both in Beijing and Taipei to deter moves the other would regard as intolerably provocative, such as a PLA attack on Taiwan or a move by Taiwan leaders to establish *de jure* independence.

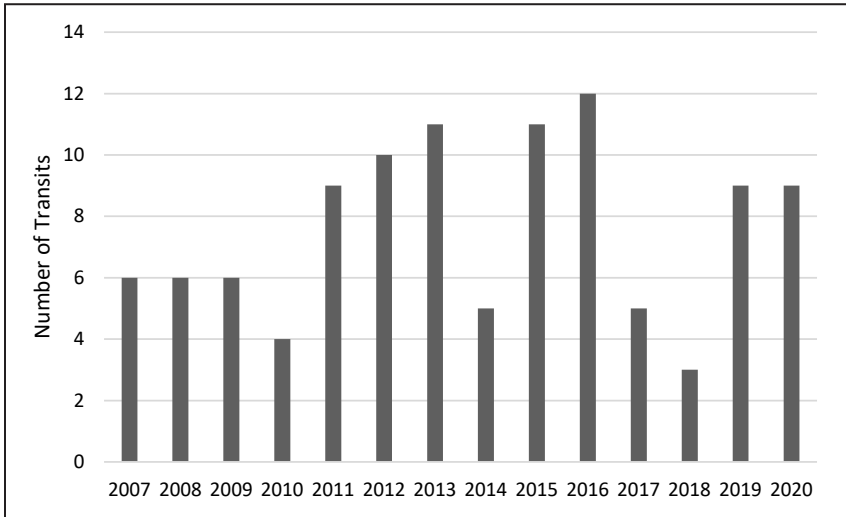
Proponents of strategic ambiguity argue that the practice affords the United States flexibility to decide whether or not it wishes to become involved in a contingency, a calculation that depends not only on the costs of a potential conflict but also on U.S. public opinion. They also argue it incentivizes both Taipei and Beijing to avoid destabilizing actions for fear of an undesirable U.S. response.<sup>261</sup> Critics argue that strategic ambiguity fosters conditions that could lead Beijing to miscalculate the likelihood of a PLA victory in a conflict given the dramatic imbalance in military capabilities across the Strait, the absence of clear costs for belligerent action, and the inevitable delay of a U.S. response due to the time required to transport personnel and assets across the Pacific Ocean.<sup>262</sup>

Notable events in U.S.-Taiwan defense relations since late 2019 included a visit by a senior defense official, the establishment of a committee for joint defense consultations, and new opportunities for Taiwan to participate in U.S.-led multilateral security discussions. The United States sent Deputy Assistant Secretary of Defense for East Asia Heino Klinck to Taiwan in November 2019 as China ramped up its intimidation tactics ahead of January's elections, continuing a practice of sending senior defense officials to the island.<sup>263</sup> Just a month earlier, an official in Taiwan's Ministry of National Defense told Taiwan's Legislative Yuan that the United States and Taiwan would form an ad hoc joint committee to help the island assess its combat capabilities and improve its adherence to the Overall Defense Concept.<sup>264</sup> The committee would reportedly involve both civilian and active duty U.S. personnel drawn from across DOD and U.S. Indo Pacific Command, with expertise in fields like special operations, army aviation, unmanned vehicles, and mines.<sup>265</sup>

Taiwan also participated in two video conferences the U.S. military held in May with a large number of regional partners to discuss approaches to fighting COVID-19. The first videoconference, held by the U.S. Pacific Air Force, discussed cooperation between the air forces of the 19 countries in attendance across the Indo-Pacific during the pandemic, while the second was hosted by the U.S. Army Pacific under the auspices of the Indo-Pacific Land Power Conference and involved 26 countries in discussions about the role of ground forces during the pandemic.<sup>266</sup> In the cybersecurity realm, the United States and Taiwan followed up their first-ever cybersecurity exercises in November 2019 with an August 2020 forum to discuss information security risks stemming from 5G technology.<sup>267</sup>

The United States military also made itself visible in the region with a number of aerial and naval transits around Taiwan. A U.S. C-40 Clipper military transport aircraft made a rare flight over Taiwan's western coast within its airspace in June, the same day Taiwan's Air Force chased off multiple incursions by Chinese Su-30 Flanker fighter jets into the island's ADIZ.<sup>268</sup> The C-40 flight elicited an angry reaction from China, which claimed that "this move by the U.S. side severely breaches international law and basic norms guiding international relations."<sup>269</sup> In February, a U.S. Air Force MC-130J special operations transport aircraft flew north to south along the airspace over the Taiwan Strait, while two U.S. Air Force B-52 Stratofortress bombers flew along Taiwan's east coast.<sup>270</sup>

U.S. Navy guided missile destroyers also transited the Taiwan Strait at least nine times between January and September 2020 (see Figure 7), on occasion coinciding with significant PLA activity near Taiwan.<sup>271</sup> For example, the U.S. guided-missile destroyer *Barry* sailed through the Taiwan Strait in April as PLA fighter jets drilled in the waters nearby, while the *McCampbell* made the same trip a week before President Tsai's May inauguration.<sup>272</sup> By contrast, the U.S. Navy sailed through the Taiwan Strait 9 times in 2019, 12 times in 2016, and 11 times in 2015.<sup>273</sup> Considering the higher figures in past years, University of Maryland professor Scott Kastner argues, "It isn't clear how much the recent increase in transits represents a fundamental break with the past."<sup>274</sup> Nonetheless, the naval transits in 2020 contributed to the United States' multifaceted display of support for Taiwan.

**Figure 7: Yearly U.S. Navy Transits through the Taiwan Strait, 2007–2020**

Source: *Central News Agency*, “U.S. Destroyer Passes through Taiwan Strait During Vystrcil’s Visit” (維特齊訪台之際 美驅逐艦通過台灣海峽), August 31, 2020. Translation; *Central News Agency*, “U.S. Pacific Fleet Actively Discloses Destroyer Transited the Taiwan Strait” (美軍太平洋艦隊主動披露 驅逐艦通過台灣海峽), May 14, 2020. Translation; John Power, “U.S. Warships Made 92 Trips through the Taiwan Strait since 2007,” *South China Morning Post*, May 3, 2019.

## Implications for the United States

The year 2020 was pivotal for cross-Strait relations, highlighting the growing risk of a miscalculation in the Strait or a decision by China to use force against Taiwan. China’s imposition of the national security law in Hong Kong and its repeated violations of longstanding norms underpinning cross-Strait stability indicated that Chinese leaders are determined to pursue their political objectives without concern for their international obligations or the costs they may incur on the global stage for violating these obligations. President Tsai’s reelection and public support for the prodemocracy movement in Hong Kong underscored the island’s resolve to remain free in the face of Chinese pressure to accept unification on Beijing’s terms. Events this year injected urgency into the ongoing debate in Washington over U.S. policy toward Taiwan. Actions U.S. policy-makers take now to address the situation in the Taiwan Strait will have far-reaching consequences for U.S. interests in the region and the world.

Beijing’s imposition of the national security law in Hong Kong was not only the death knell for the territory’s autonomy but also a clarifying moment for the people of Taiwan and the rest of the world. Chinese leaders’ swift move to dismantle the last vestiges of Hong Kong’s institutional independence in the face of international outrage proved that Beijing is willing to break its commitments, tolerate a high level of risk, and act with impunity to achieve its goals. Chinese leaders have long emphasized Taiwan’s status as a “core interest,” staked the CCP’s legitimacy on unification, and invested significantly over the last few decades in capabilities that create a

grave military threat to the island. For General Secretary Xi, bringing Taiwan back into the fold is necessary to his plans for the “great rejuvenation of the Chinese nation.” Beijing’s actions against Hong Kong bring to the fore the existential threat the CCP’s intended solution poses to Taiwan’s vibrant democracy.

Beijing’s claims to speak on Taiwan’s behalf in global discussions ranging from public health to aviation, paired with its frequent incursions into the island’s air and waters this year, reflect an unprecedented assertion of its prerogatives to treat Taiwan as its sovereign territory. Chinese leaders have intensified their pressure on Taiwan without concern for the established norms underpinning cross-strait stability, suggesting they are willing to act in incremental and surprising ways to alter the strategic situation. There is still much space for Beijing to assert control over Taiwan’s affairs, from sanctioning third-party countries doing business with the island to dispatching its fishermen, dredgers, and coast guard to create a constant presence around Taiwan. Beijing’s imposition of the national security law in Hong Kong was shocking in large part because it was a nonmilitary action that nonetheless dealt a fatal blow to the territory’s autonomy. Taiwan is a different case; it governs itself through free elections, has a standing military, and conducts its own foreign relations. Even so, U.S. policymakers should be vigilant about the nonviolent means Beijing could employ to fundamentally alter Taiwan’s existence as a free polity.

U.S. policymakers should also consider a variety of potential cross-strait contingencies and determine whether U.S. policy in its current configuration can deter a forced resolution of the controversy over Taiwan’s sovereign status. A Taiwan free from coercion advances the overriding U.S. interest in a peaceful and stable Indo-Pacific by embodying democratic governance and denying the PLA a forward base from which it can prosecute further military expansion. China’s annexation of Taiwan would bring 23 million people under the CCP’s authoritarian rule, alter the balance of power in the region, and damage the United States’ credibility in the eyes of its allies and the rest of the world.

Though Beijing has long supplemented its military intimidation of Taiwan with its economic leverage over the island, Taipei is demonstrating new fortitude in seeking to reduce its vulnerability to Beijing’s coercion. Taipei’s diplomatic outreach in the wake of the pandemic, increased defense expenditures, and efforts to reshore supply chains together reflect how Taiwan increasingly seeks to conduct its own affairs regardless of Beijing’s reaction. The United States stands to benefit from this transformation amid heightening competition with China. Taipei’s efforts to reshore electronics manufacturing capabilities, for example, suggest Taiwan can serve as a valuable partner to the United States in mitigating the risks posed by China’s outsized presence in their production. As Taiwan firms and their U.S. clients move production and supply lines out of China and toward some democracies like Taiwan, the components underpinning emerging technologies become sourced from and assembled in places that share the same values as the United States. This realignment creates the opportunity for the United States to augment supply chain security.

Separately, Taipei's decision to lift restrictions on U.S. meat imports, a longstanding source of friction in U.S.-Taiwan trade ties, underscores the Taiwan government's commitment to deepening ties with the United States. As Taipei moves to address these and other concerns of U.S. stakeholders, the United States is presented with opportunities to develop new export markets and forge a tighter trade relationship with one of the Indo-Pacific region's most dynamic economies.

As U.S.-Taiwan economic ties deepen, the risk that Beijing may retaliate against the United States or Taiwan actors rises. Beijing may move to forcefully secure access to Taiwan's technological ecosystem and innovation. From renewed theft of Taiwan intellectual property in high-tech industries to more aggressive efforts to poach the island's engineering talent, Beijing's willingness to exploit Taiwan economically may strengthen as the CCP becomes more emboldened in its push for global technological leadership and pursuit of national rejuvenation.

Beijing's violation of its treaty obligations in Hong Kong and its imposition of authoritarian rule on the territory's unwilling populace illustrate two unfortunate truths: that China's leaders cannot be trusted to uphold their obligations and that they are not interested in compromise. There is little reason to believe that concerns about international condemnation or the opposition of Taiwan's people will constrain Beijing's decisions to exert pressure on—or in the worst-case scenario, invade—the island in the future.

Though the United States reaffirmed its historical longstanding commitments to Taiwan in the recently declassified "Six Assurances," the PLA's aggressive actions toward the island this year may require the United States to consider changes to its policy. Some U.S. observers argue that the historic value of strategic ambiguity may be dwindling, or that aspects of the current policy framework for U.S.-Taiwan relations such as the Taiwan Relations Act should be enhanced in light of Chinese leaders' greater appetite for risk and the PLA's military superiority over Taiwan. Whatever U.S. policymakers decide is the most compelling basis for policy, and however they choose to articulate it, they must expect Beijing to test the United States' willingness to back up its words with deeds.



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