

SPECIAL REPORT

No. 280 | MARCH 27, 2024

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ASIAN STUDIES CENTER

## About the Author

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# The American Case for Taiwan

*Michael Cunningham*

**T**his Special Report explains why keeping Taiwan free from an attack or takeover by mainland China is critical to America's national security and economic prosperity. It also outlines principles that Washington should apply while working with Taipei to help preserve the island's security amid changes in regional and cross-Strait dynamics. By strengthening deterrence in the Indo-Pacific and employing the wisdom and determination that helped America win the Cold War, policymakers can strike an effective balance between preserving Taiwan's security and not inadvertently provoking a conflict with China, thereby enabling the U.S. to outlast its "new cold war" adversary and ensure peace and stability on this island that is indispensable to U.S. security and prosperity.

In recent years, tensions in the Taiwan Strait have reached a fever pitch, making it one of the world's preeminent military flashpoints and the issue most likely to spark a conflict between the United States and China. Currently, few international issues are subject to more discussion and speculation, yet most commentators struggle to explain why Taiwan matters to America.

If decisionmakers in Washington are unable to explain to the farmer in Kansas, the teacher in Indiana, or the welder in Maine how their lives are affected by what happens in Taiwan, they will struggle to justify sending American treasure, let alone soldiers, halfway across the globe to defend the self-governing island should the need ever arise.

Some politicians and pundits have already begun to question America's long-standing policy of support for Taiwan. While still in the minority, these views appear to be gaining traction and reinforce the need to explain why Taiwan matters to everyday Americans and why preventing America's top geopolitical rival, the People's Republic of China (PRC), from gaining control of Taiwan is a vital U.S. national interest.

It is also important that policymakers know how best to act to protect this interest. Action is urgently needed to strengthen America's deterrence posture in the Western Pacific; arm Taiwan to defend itself; and expand certain forms of economic, diplomatic, and military cooperation with Taipei in ways that are consistent with Washington's long-standing Taiwan policy as outlined in such documents as the Taiwan Relations Act, the "Six Assurances," and the three U.S.–China joint communiqués.<sup>1</sup>

At the same time, some proposals that are being touted, including diplomatic recognition of Taiwan or a formal defense treaty, are not supported by Taiwan's government and could trigger an armed response from Beijing, precipitating the very crisis that policymakers hope to avoid. This report cautions against such extremes and calls instead for bold, thoughtful action to preserve peace, stability, and deterrence. Above all, U.S. policy should continue to emphasize preserving the status quo, which is that Taiwan continues to enjoy *de facto* sovereignty and freedom from the PRC without either side forcing a final resolution of the island's diplomatic status—the position that is overwhelmingly supported by Taiwan's people and government.

## **Taiwan: More than a Beleaguered Democracy**

When asked why U.S. policymakers should care what happens to Taiwan, most default to the island's status as a fellow democracy under threat from a larger authoritarian regime that seeks to extinguish its freedom.

The U.S. has a concrete interest in preserving Taiwan's free democratic system. The very existence of a democratic Republic of China (Taiwan's official name) threatens the legitimacy of the Chinese Communist Party (CCP). It shows that democracy can indeed thrive in a Chinese society, disproving the CCP's condescending narrative that the Chinese people are unsuited to the exercise of the rights and responsibilities bestowed on citizens of democratic states and that the absence of authoritarian rule would only lead to chaos.<sup>2</sup>

As robust as this interest is, however, it alone would likely be insufficient to justify risking war with America's most powerful geopolitical rival, which not only is a near-peer competitor in conventional military strength, but also has significant cyber capabilities along with nuclear and non-nuclear missiles capable of striking targets anywhere in the United States. A President's foremost duty is to provide for the security and prosperity of the American people, and the stronger China becomes, the harder it will be to justify confronting Beijing to protect the freedoms of residents of a small island on the other side of the globe.

However, behind the David and Goliath story of Taiwan's struggle for survival lies a more robust case for defending it. The security and prosperity of the United States depend to a shocking extent on a secure Taiwan that functions independently of the PRC.

## Taiwan's Security Is Linked to America's Security

The most important reason why Washington should remain committed to keeping Taiwan safe and free from Beijing's grip is that the island is vitally important to America's national security. This may not be as readily apparent to everyday Americans as it is to those who are tasked with preserving their security. Taiwan sits roughly 5,000 miles from Hawaii and Alaska and 7,000 miles from the continental United States. The U.S. is separated from Asia by a vast ocean, and Taiwan's status may not seem obviously relevant to the direct threats China poses to the U.S. homeland.

Those who view Taiwan as a security liability point out that the U.S. government's main foreign policy responsibility is to keep Americans safe. They fear that the government's support of Taiwan will only aggravate tensions with China and make it more likely that the U.S. will get drawn into a war with Beijing.

Taiwan, however, has retained a critical position in U.S. defense strategy in the Western Pacific since World War II. The strategic necessity of keeping Taiwan out of the control of hostile adversaries was first identified in the early days of the Cold War and remains just as important today. In 1950, General Douglas MacArthur wrote a classified "Memorandum on Formosa" laying out Taiwan's importance in relation to the Soviet Union. His argument applies equally well to today's strategic competition with China:

[T]he western strategic frontier of the United States rests today on the littoral islands extending from the Aleutians through the Philippine Archipelago. The geographic location of [Taiwan] is such that in the hands of a power unfriendly to the United States it constitutes an enemy salient in the very center of that portion of our position.... [Taiwan] in the hands of the Communists can be compared to an unsinkable aircraft carrier and submarine tender ideally located to accomplish Soviet offensive strategy...<sup>3</sup>

Little has changed in the decades following the Cold War. The Biden Administration's 2022 National Security Strategy (NSS) states that America has "an abiding interest in maintaining peace and stability across the Taiwan Strait, which is critical to regional and global security and prosperity."<sup>4</sup> The document

links Taiwan's defense to the greater competition with China, which it calls "America's most consequential geopolitical challenge" and "the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it."<sup>5</sup>

This assessment is in line with that of the Trump Administration and its 2017 NSS, which warned that "China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor."<sup>6</sup> The document highlighted the national security threats that such a change in the balance of power would produce, concluding that the U.S. "must marshal the will and capabilities to compete and prevent unfavorable shifts [in the balance of power] in the Indo-Pacific," among other regions.<sup>7</sup>

Indeed, Taiwan is central to the U.S.–China competition for regional leadership, and preventing a Chinese takeover of the island is essential to countering the security threats posed by an ascendant China. A change in Taiwan's status might not directly threaten the U.S. homeland in the immediate term, but it would irreversibly alter regional dynamics in ways that would benefit America's chief geopolitical adversary and make every American less safe.

**Geography Reigns Supreme.** Taiwan's raw, fundamental importance to U.S. national security can be summarized in one word: geography. Taiwan's topography, consisting of a thick mountainous interior and very few beaches suitable for a landing by enemy troops, makes it a natural fortress, but its greatest value is its location. As one observer has noted, "Taiwan's inherent military value cannot be wished away... [I]ts location dictates that its fate will in large part determine the balance of power in the region."<sup>8</sup> This balance of power in turn affects the security of U.S. allies and American citizens in Asia, the likelihood that regional tensions will escalate into armed conflict, and ultimately the safety of the U.S. homeland.

Taiwan sits directly astride some of the world's most important sea lanes, which have both commercial and security importance. These include the roughly 100-mile-wide Taiwan Strait between Taiwan's main island and China, through which most of the world's container ships pass, as well as the 160-mile-wide Luzon Strait that divides Taiwan from the Philippines.<sup>9</sup> The Luzon Strait connects the South China Sea to the Western Pacific, making it a particularly strategic waterway in the context of U.S.–China competition.<sup>10</sup>

The importance of these sea lanes bestows considerable leverage on whichever country controls them. Such leverage is rarely exploited during peacetime, but it can be weaponized to block access or cut off supplies to an adversary during times of war or diplomatic tension.

MAP 1

## Taiwan and Luzon Straits



SOURCE: Heritage Foundation research.

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If China ever gained control of Taiwan, it would be better positioned to control the strategic waterways around the island. Recent experience in the South China Sea demonstrates that China does not respect freedom of navigation and routinely challenges the right of the U.S. and other countries to operate in those waters.<sup>11</sup> Control of both sides of the Taiwan Strait would enable Beijing at the very least to curtail the U.S. military’s ability to navigate the waters surrounding Taiwan.

Beijing’s history of cutting off Japan’s supplies of some rare earth minerals in response to diplomatic disputes<sup>12</sup> indicates that it would also not be averse to exploiting this leverage in the commercial sphere. It might even seek to restrict passage of container ships from or destined to certain countries.

**The First Island Chain.** Even more important, Taiwan is a critical node in what military strategists call the “first island chain,” a network of islands between Japan and maritime Southeast Asia controlled by U.S. allies, many of which house American military bases. This island chain is America’s first line of defense against Chinese aggression and the only significant barrier between the Chinese mainland and U.S. territories in the Pacific.

MAP 2

## Two Pacific Island Chains



SOURCE: Heritage Foundation research.

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Taiwan's importance to the first island chain cannot be overemphasized. Taiwan is the biggest island between Japan and the Philippines. American and Chinese strategists agree that if China gained control of Taiwan, it would effectively have broken through the first island chain and would be in a position to execute sea-denial operations against the U.S., Japan, and other allies and use Taiwan as a springboard from which to expand its military reach deep into the Pacific.<sup>13</sup>

Retaining control of the first island chain is the best way to contain China's aggressive ambitions and deter it from acting on its revisionist aims. Failure to do so would have several dire implications for U.S. national security. Specifically, it would:

- **Undermine America's alliance network.** America's network of regional allies is one of its greatest assets in the Indo-Pacific. The United States' global alliance system helps to keep adversaries and conflicts largely contained far from the U.S. homeland. It also raises the costs associated with aggressive military action by hostile powers abroad, especially against U.S. allies. Arguably, nowhere are America's alliances more important than in Asia, a region characterized by world-class powers, mutual hostilities, and numerous territorial disputes that is now at the center of global economic activity.

Taiwan is not part of the U.S. alliance system, and Washington does not have a formal security commitment to the island. The mutual defense treaty that then-President Dwight Eisenhower signed with his Taiwanese counterpart Chiang Kai-shek in 1954 was dissolved on January 1, 1980, a year after the U.S. forged diplomatic relations with Beijing.

However, the U.S. is widely viewed as Taiwan's committed security guarantor, and discussions with officials and diplomats from throughout the region confirm that failure to fill this role would spark concern about Washington's commitment to regional security. More important, a loss of Taiwan would weaken America's ability to fulfill the obligations that it does have, including its security obligations toward Japan and the Philippines.

Perhaps no country stands to lose more from a Chinese takeover of Taiwan than Japan, which in many respects is America's most important ally in Asia. Contrary to conventional wisdom, Taiwan's main island is closer to Japan than it is to China: Japan's Yonaguni Island is just 70 miles from Taiwan's eastern coast. With Taiwan under Beijing's control, the security of this island and the other islands that make up Okinawa Prefecture would be compromised.

Even more worrying, Japan relies on the waters around Taiwan for most of its energy and resource imports and would face an existential danger if these waters fell into the hands of its principal geopolitical

adversary. Ian Easton of the Project 2049 Institute reports having reviewed a confidential handbook for the PRC's mid-career People's Liberation Army (PLA) officers, which states that 90 percent of Japan's oil imports, 99 percent of its mineral resources, and 100 percent of its nuclear fuel flow through the waters around Taiwan.<sup>14</sup> The same source states that 80 percent of Japan's cargo ships travel directly through the Taiwan Strait at a rate of approximately one ship every 10 minutes.<sup>15</sup>

The PLA handbook outlines a post-Taiwan unification plan to use blockades to limit Japan's imports of raw materials gradually until its "national economy and war-making potential will collapse entirely" and there is "a famine within the Japanese islands."<sup>16</sup> Were China ever to execute such a plan, Japan would be at its mercy.

Ultimately, the responsibility for Japan's security falls primarily on Tokyo, which must take bold steps to improve its own defense posture and contribute to Taiwan's security so that this threat does not materialize.<sup>17</sup> Fortunately, the Japanese government in recent years has been moving in the right direction by increasing defense spending, boosting foreign security assistance, and relaxing constitutional limits on arms exports and tactical defense cooperation with the U.S. Most recently, in December 2022, Japan announced new plans to double defense spending as a share of gross domestic product (GDP) by 2027; acquire new counterstrike missile capabilities, including hundreds of U.S. tomahawk missiles; and "cooperate [with America] in counterstrikes just as they do in defending against ballistic missiles."<sup>18</sup>

Nevertheless, as Japan is a treaty ally and host to 56,000 U.S. soldiers, its security is also of critical importance to the United States.<sup>19</sup> If China controlled Taiwan and its surrounding waters, it would have extreme leverage over Japan. Even if Beijing did not act on this leverage, Tokyo would likely question the commitment of a U.S. government that was either unable or unwilling to keep one of the world's most strategically important islands from falling into the hands of its primary geopolitical rival.

This crisis of confidence would be shared by the Philippines and other regional allies and could result in any number of unfavorable outcomes. For one, the lack of a credible U.S. security guarantee could lead some allies to develop their own nuclear weapons as a deterrent

against China and other potential adversaries. This is exactly what South Korea flirted with doing recently amid concerns about the durability of the U.S. commitment to that alliance.<sup>20</sup> The downstream consequences of such a development are hard to foresee, but in a region saturated with strategic distrust and historical grievances—even between U.S. allies—this would not be a healthy development from the perspectives of international security or alliance cohesion, let alone the damage it would inflict on the nonproliferation regime.

A crisis of confidence in U.S. leadership could also prompt regional capitals to adopt a more conciliatory approach to China, possibly even band-wagoning with Beijing.<sup>21</sup> Even U.S. treaty allies would be likely to hedge by appeasing China in areas that are not immediately relevant to their sovereignty. This would weaken not only U.S. alliances, but also America's broader influence in this critical region.

- **Heighten U.S.–China military tension.** Some might hope that the U.S. could avoid war with China by compromising with Beijing over Taiwan. In fact, however, doing so could actually make a U.S.–China conflict more likely.

Beijing seeks to become the dominant power in Asia, and the United States is its greatest obstacle to achieving this aim. General Secretary Xi Jinping has consistently called for an “Asia for Asians,” a not-so-subtle euphemism for a China-dominated regional order in which powers from other regions, such as the United States, would have to operate within bounds set by Beijing.<sup>22</sup>

Controlling Taiwan is a critical step that Beijing must take to achieve regional hegemony—a condition under which no country or coalition could challenge its regional dominance militarily.<sup>23</sup> By definition, regional hegemony also requires pushing the U.S. military out of Asia. After breaking through the first island chain by controlling Taiwan, the PLA would be free to act more aggressively against the U.S. and its allies, thereby causing the risk of escalation to rise. The PLA's aggressive actions in recent years, which have led to near-collisions with U.S. aircraft and sea vessels, are likely only a prelude to what the U.S. and its allies would face without the constraints imposed by nearly complete U.S. control of the first island chain.<sup>24</sup>

Not all of China's attempts to drive the U.S. out of Asia would be military in nature. Beijing is already using its existing influence and strategic leverage in an attempt to exclude Washington from regional affairs, drive a wedge between the U.S. and its regional allies, and make U.S. military activities in Asia more costly and burdensome. The increased strategic leverage and credibility that Beijing would gain by capturing Taiwan would make these efforts more widespread and effective. Even if a misguided U.S. Administration acquiesced to Beijing's takeover of Taiwan, the ultimate result would probably be a U.S.–China relationship that was more contentious and more likely to lead to a military confrontation.

- **Make a regional or world war more likely.** As noted above, China desires to dominate Asia. While a takeover of Taiwan would not make this a *fait accompli*, it would place Beijing in a position to begin pursuing this goal in earnest.

Such a change in security dynamics would be dangerous in any region, but this danger is particularly elevated in Asia, a region of world-class powers that is often compared with Europe in the years leading up to World War I.<sup>25</sup> Few Asian countries would welcome Chinese hegemony. China is the biggest threat to most regional actors, and it has territorial disputes with several of them. These disputes are serious political issues in each of the countries involved, making them particularly explosive, and the more power dynamics shift in its favor, the more likely Beijing is to press its claims.

The U.S. security presence is widely viewed as the main factor preventing an outbreak of great-power conflict in a region that is so critical to global economic and political affairs that such a conflict could easily spread to assume a global scale. Many regional states have historical grievances with China, and while they may not be terribly excited about extensive military involvement in their region by the United States, they view it as preferable to domination by Beijing.

The U.S. also has a record of using its dominant position to secure freedom of navigation rather than constraining it for political motives as regional governments believe China would do. For this and other reasons, most regional capitals welcome the U.S. alliance system and consistently call on Washington to maintain or increase its regional

security presence.<sup>26</sup> For the reasons discussed above, maintaining the United States' mutually beneficial role as the region's prevailing military power would be harder, if not impossible, with Taiwan under Beijing's control.

Anyone who wishes to placate China by weakening the U.S. commitment to Taiwan in hopes that this will remove the most likely determinant of war is bound to be disappointed. Chinese control of Taiwan and its resulting boldness, freedom of movement, and assertiveness in its neighborhood would only make a regional or world war more likely.

**Potential Longer-Term Threats.** If China gained control of Taiwan, it would set in motion a series of events that could make every American less secure.

As noted above, unification with Taiwan is a critical step in Beijing's quest for regional hegemony and would place it in a strategic position to pursue this ambition more aggressively. Achieving true regional hegemony would require Beijing to push the U.S. out of Asia, neutralize or coopt the region's other great powers, subjugate the rest of the first island chain, and expand its influence to include domination of the second island chain. If successful, this would position China for a strategic breakout into the Pacific.

Scholars debate the precise nature and scope of China's hegemonic ambitions. While Beijing's immediate objectives focus on its own region, since at least 2017, Xi Jinping has sought to turn the PLA into a "world-class" military with the capability to "fight and win" wars anywhere on the globe.<sup>27</sup> This would be difficult under current conditions, in which China is preoccupied with challenges close to home, but if it did manage to subdue the Asian region, the PLA would be able to more directly threaten America's Pacific territories such as Guam and the Northern Mariana Islands, as well as the U.S. state of Hawaii and, ultimately, the continental United States.

To be sure, a Chinese kinetic attack on the U.S. homeland would be highly unlikely under most circumstances. However, should U.S.–China tensions ever escalate into armed conflict, it would be in the best interest of everyone in the United States to ensure that the battle lines are as far away from America's borders as possible.

If Beijing managed to push American forces out of Asia and was better positioned to project power globally, the likelihood that a conflict with China would directly threaten civilians in the United States would grow commensurately. Imperial Japan's surprise assault on Pearl Harbor, brief

occupation of two of Alaska's Aleutian Islands, and attacks on targets on the U.S. west coast during World War II stand as stark reminders of what is possible when an adversary commands the strategic geography of the Pacific.

Even in the absence of open hostilities with China, Americans would be less secure. A China firmly in control of its own region would seek to emulate the U.S. by stationing forces in strategic locations throughout the world. The PRC's growing global economic and political interests already make this more a question of *when* than of *if*. Currently, the PLA has one confirmed overseas military base in Djibouti as well as what the Defense Department has said is a PLA facility at the Ream Naval Base in Cambodia.<sup>28</sup> The PLA also participates in several military task forces overseas (including U.N. peacekeeping and anti-piracy operations); conducts a growing number of port calls abroad and surveillance missions in several foreign locales; and is believed to be planning additional military bases.<sup>29</sup>

Granting Beijing free reign in the Western Pacific would allow it to shift its focus to other regions. Chinese military bases in the Western Hemisphere or along the Atlantic coast of Africa would be of particular concern. They would enable Beijing to throw its weight around America's periphery, either to form a coalition aimed at challenging U.S. hemispheric leadership or to foster instability aimed at keeping American forces preoccupied close to home. Either scenario would constitute a serious threat to U.S. national security.

**Why Neutrality Might Not Be an Option.** Finally, it is important to point out that even a U.S. Administration that sought to avoid involvement in Taiwan would likely have difficulty remaining neutral in the event of war. Taiwan is home to tens of thousands of American citizens.<sup>30</sup> Unless most of them could be evacuated before the conflict started—an unlikely and Herculean task that historically has proven difficult in other conflict areas—a Chinese assault on the island would almost certainly result in a substantial number of American casualties given the proximity of the PLA's likely targets to population centers.<sup>31</sup>

The deaths of just 128 Americans on the *Lusitania* in 1915 turned U.S. public opinion squarely against Germany and were cited as a leading factor in the Woodrow Wilson Administration's ultimate decision to enter World War I.<sup>32</sup> Similar dynamics played out with Japan's surprise attack on Pearl Harbor in 1941, which brought the U.S. into World War II, and the September 11, 2001, terrorist attacks that led the George W. Bush Administration to launch the war on terrorism. Although this would not be an attack on American soil, thousands of Americans dead at the hands of the CCP would likely produce a substantial public backlash and pressure on the President to respond forcefully.

There also is a high likelihood that U.S. treaty allies would get pulled into a Taiwan Strait conflict, making it very hard for Washington to stay on the sidelines. Philippine President Ferdinand Marcos Jr. acknowledged in February 2023 that his country would be “on the front lines” of any such conflict and that “it’s very hard to imagine a scenario where the Philippines will not somehow get involved.”<sup>33</sup>

Chinese control of Taiwan would make Japan so vulnerable that in 2021, former Prime Minister Shinzo Abe candidly declared that “a Taiwan emergency is a Japanese emergency, and therefore an emergency for the Japan–U.S. alliance.”<sup>34</sup> Similar remarks were made by former Prime Minister Taro Aso in 2023.<sup>35</sup> Statements like this show that the likelihood of a Japanese intervention in a Taiwan conflict is higher than any sitting government in Tokyo cares to admit publicly. If a Chinese attack on Taiwan turned into a Sino–Japanese war, the U.S. would almost certainly be compelled to defend its treaty ally where roughly 56,000 U.S. servicemembers are stationed.

In fact, Beijing is so convinced that both the U.S. and Japan would intervene on Taiwan’s behalf that it might even preemptively strike Japanese and U.S. forces in Japan at the outset of a Taiwan contingency.<sup>36</sup> This would eliminate any possibility of U.S. and Japanese neutrality, yet Beijing’s military strategists might conclude that the likelihood of intervention is so high that the best course of action is to strike first and buy time by slowing down America’s ability to mobilize for Taiwan’s defense.

## Taiwan’s Outsized Role in the Global Economy

Perhaps Taiwan’s most underappreciated attribute is the outsized role it plays in the global economy. On paper, Taiwan may not appear to be a major economic player. Its population of less than 24 million gives it a consumer market the size of a large Chinese city. It is an economy dominated by small and medium-sized businesses, many of them family-owned, and has few brands with name recognition outside its domestic market. It also has one of the world’s lowest birth rates, and its economic growth has mostly hovered in the low single digits in recent years.<sup>37</sup>

However, this small island punches well above its weight in the global economy. U.S.–Taiwan economic ties are flourishing despite the lack of bilateral free trade or investment agreements. Taiwan is the United States’ eighth largest trade partner,<sup>38</sup> and U.S. exports to the island accounted for 188,000 American jobs in 2019.<sup>39</sup>

Taiwan is also a major investor in the U.S., and some states benefit disproportionately. In 2020, for example, the island contributed \$3 billion in

greenfield investment in Texas, accounting for roughly one-sixth of the foreign direct investment (FDI) the state attracted that year.<sup>40</sup> In recent years, Taiwan has also been by far the largest source of FDI in Arizona thanks to multiple investments by Taiwan Semiconductor Manufacturing Company (TSMC) that are now set to total \$40 billion.<sup>41</sup>

More important still, the waters around Taiwan are among the world's most vital commercial sea lanes. The Taiwan Strait is a key shipping route for Asian exports to "Europe, the US and all points in between."<sup>42</sup> According to data compiled by Bloomberg, nearly half of the world's container ships and 88 percent of the largest such ships transited the Strait in 2022.<sup>43</sup>

However, these figures do not even begin to tell the complete story of Taiwan's economic importance. Nor do macroeconomic statistics exist to quantify the impact if war ever broke out or if China gained control of the island and adjoining shipping lanes, though some have tried to extrapolate.

U.S. Director of National Intelligence Avril Haines testified before the Senate Armed Services Committee in May 2023 that the loss of Taiwan would cost the global economy around \$1 trillion each year.<sup>44</sup> Similarly, a 2022 report by the Rhodium Group estimated that a Chinese blockade of Taiwan would cost the global economy "well over two trillion dollars."<sup>45</sup> Rhodium acknowledged that this was a "conservative" estimate based on the best-case scenario from the perspective of economic impact.<sup>46</sup>

In reality, a Chinese assault on Taiwan would most likely be a drawn out, bloody affair. The destruction of infrastructure and business assets caused by the bombardment that would be expected in most conflict scenarios would likely result in losses several orders of magnitude greater than Rhodium's estimate. Bloomberg Economics has estimated that a war over Taiwan would cost far more: \$10 trillion, or 10 percent of global GDP.<sup>47</sup>

These are all just estimates, however. The total cost of a Taiwan Strait conflict would likely be known only long after its conclusion. As one analyst argued in July 2023:

A Chinese blockade or invasion of Taiwan would force supply chains around the world to grind to a halt, shaving trillions of dollars off economic output and plunging the world into an economic depression. Many of the biggest U.S. companies, from Apple to General Motors, would struggle to produce anything, and replacing lost Taiwanese capacity would take years.<sup>48</sup>

If this assessment is accurate, Chinese military action against Taiwan would cause an economic catastrophe of a magnitude not experienced in almost a century that would affect Americans of all stripes.

**Taiwan's Semiconductor Hegemony.** The U.S. is dependent on Taiwan for semiconductors and will remain so for the foreseeable future. Semiconductors (also called integrated circuits or microchips) are highly complex components made of materials that conduct electricity and enable electronic devices to process, store, and transmit data.<sup>49</sup> These components, most of which are made in Taiwan, power almost everything in the modern economy, from washing machines and smartphones to automobiles and ballistic missile systems. Even products with no electronic parts rely on machines or computer systems powered by semiconductors either for manufacturing or to get to market.

If war over Taiwan disrupted access to semiconductors, the impact on the U.S. and global economies would be extreme—and even more so if the conflict resulted in the destruction of production facilities. Moreover, a takeover of Taiwan's semiconductor industry by Beijing would give China a dangerous technological advantage and make the U.S. dependent on its greatest adversary for the chips necessary for the regular functioning of society.

Most of the discussion with respect to Taiwan and semiconductors focuses on the island's role in manufacturing the chips. Taiwanese fabrication facilities (fabs) produce 60 percent of the world's semiconductors and 92 percent of the most advanced logic chips—those measuring seven nanometers (nm) or smaller. (The smaller the chip, the more advanced and valuable it is.) The other 8 percent are made in South Korea.<sup>50</sup> In fact, as of late 2023, only two companies in the world—TSMC and South Korea's Samsung—were capable of producing chips measuring 5 nm or smaller, which are used in advanced electronics products and artificial intelligence.<sup>51</sup>

Until recently, Taiwan's semiconductor dominance garnered little attention outside of industry circles. This is partly because Taiwan's foundries lack the name recognition in the U.S. that chip giants such as Qualcomm and NVIDIA have. Yet these and most other big U.S. semiconductor brands only *design* chips. The process of *manufacturing* semiconductors is so expensive and technologically complex that these brands decided decades ago to focus narrowly on designing increasingly sophisticated chips—which requires significant research and development expenditures—while relying on foundries (contract manufacturers of semiconductors), which are predominantly based in Taiwan, to make the chips. The minority of U.S. chip designers that have in-house production capability, such as Intel, still rely on TSMC to help manufacture their most advanced chips.<sup>52</sup>

The extent of America's reliance on Taiwan-produced semiconductors is exemplified by the experience of Apple. Like other fabless chip designers,

Apple develops many of its own integrated circuits in-house, but it relies on foundries—most of which are located in Taiwan—to manufacture them. The company is believed to be one of TSMC’s biggest customers with some reports stating that it buys more than 50 percent of the Taiwanese foundry’s 5 nm chips.<sup>53</sup>

Reliance on Taiwan for semiconductors has implications throughout the U.S. economy. Countless sectors rely on semiconductors for products, operations, or both. This is not only true of consumer goods like automobiles and home appliances; it also affects military equipment and critical infrastructure, such as energy grids, and emergency services like police forces and hospitals. While many of these products and services use older-generation chips, Taiwan is a significant producer of many of these “legacy” chips as well.

Without semiconductors from Taiwan, the U.S. economy would face disruptions far exceeding the chip shortages that accompanied the COVID-19 pandemic in both severity and duration. Much of the economy would come to a standstill. Such reliance on any one country for what is essentially a crucial commodity presents risks, but Taiwan’s semiconductor dominance is a fact of life today and will remain so for many years to come, regardless of U.S. policy interventions, given the unique ecosystem built and inhabited by Taiwan-based producers.

**A Unique Ecosystem.** Taiwan has spent more than four decades developing its semiconductor industry, and it dominates multiple critical nodes in the supply chain. The semiconductor supply chain is one of the most complex and globalized in the modern economy, involving companies from dozens of countries. Thus, while Taiwan is not the only place where a natural or man-made disaster could cripple chip production, a disproportionate number of supply chain choke points are on the island.<sup>54</sup>

However, it is the island’s industry clusters, which are the world’s most complete, that make Taiwan truly indispensable. Every node in the semiconductor supply chain requires access to specific chemicals and materials, and while many of these must be imported from abroad, Taiwan boasts by far the largest concentration of upstream suppliers, be they manufacturers or importers. Taiwan’s *Commonwealth Magazine* has likened TSMC to an ever-expanding “flagship leading a massive fleet of smaller vessels.”<sup>55</sup> And TSMC is not the only Taiwanese foundry for which this is true. The U.S. Department of Commerce’s lofty ambitions to create industry clusters around fabs currently under development in Arizona and Ohio may attract a handful of businesses in other nodes of the supply chain, but there is little chance that the U.S. or any other country can replicate what Taiwan has built at a comparable cost or scale.

Taiwan's mature industry materialized over time thanks to a providential and highly unlikely combination of fabless design firms' growing demand for higher-quality, lower-cost chips; the unrivaled ability of Taiwan's well-trained and lower-cost workforce to meet this demand; TSMC founder Morris Chang's pioneering vision that predicted these trends before they manifested; the lack of serious competitors at the outset; the desires of other local entrepreneurs to profit from the success of TSMC and other Taiwanese foundries; and committed government support that has remained constant through the decades.<sup>56</sup>

For context, China has poured tens of billions of dollars into its semiconductor industry since 2015. That year, Beijing set a target of 40 percent self-sufficiency by 2020 and 70 percent self-sufficiency by 2025. Yet even the Chinese government—with its single-mindedness, seemingly endless amounts of government cash, and record of almost always finding ways to hit (or at least appear to hit) official targets—was only around 20 percent self-sufficient in 2023 and remains far behind the leading countries in terms of technology.<sup>57</sup> Ultimately, China will remain reliant on Taiwan for its most sophisticated semiconductors for years (and likely decades) to come.

For its part, America is admittedly more vulnerable to geopolitical shocks because of its dependence on Taiwan for semiconductors. However, the existing model of leveraging Taiwan's foundries and industry clusters to produce chips designed by American firms is also one of the reasons the U.S. has managed to remain so far ahead of other countries in chip design. It costs tens of billions of dollars to build a fab and much more to operate it. By absorbing these costs, foundries like TSMC give American fabless firms the financial freedom to invest in developing future generations of technology and ensure that competitors in China never catch up with them.<sup>58</sup>

The Taiwan foundry model also makes semiconductors less expensive, which translates into lower costs for American end-users. TSMC founder Morris Chang has estimated that it is 50 percent more expensive to manufacture semiconductors in the U.S. than in Taiwan.<sup>59</sup> A 2020 report by the Boston Consulting Group and Semiconductor Industry Association stated that the cost of owning a fab is 25 percent–30 percent more in the U.S. than in Taiwan or Singapore.<sup>60</sup> Unless these cost discrepancies disappear—and TSMC's rocky experience so far with its operation under development in Arizona indicates that they will not—chips made in the U.S. will remain significantly more expensive than those from Taiwan.<sup>61</sup>

**Beyond Semiconductors.** Even if the U.S. did not rely on Taiwan for semiconductors, a Chinese attack on the island would still significantly harm the economic livelihood of everyday Americans. Taiwan's dominance in semiconductors is just one manifestation of a broader Taiwanese

business model that has placed the island at the center of global manufacturing. The disproportionate role that Taiwan firms play in manufacturing is not widely known because of their lack of recognition and the fact that few final products are currently assembled in Taiwan. Nevertheless, their dominance is prevalent in two areas.

*First*, Taiwan is a world leader in a range of materials and components the absence of which, if they were suddenly taken off the market, would disrupt supply chains and cripple manufacturing in multiple economic sectors. The island is home to a plethora of small and medium-size firms that are at the forefront of everything from high-performance fasteners that hold together automobiles, heavy machinery, and infrastructure to composite metals for commercial trucking and engines for dental drills.<sup>62</sup> A particularly large cluster of Taiwanese firms focus on the electronics industry and are among the leading suppliers of (in addition to semiconductors) everything from processors to camera lenses.

Few people outside of industry circles have ever heard of these companies, but in many cases, these “invisible champions” dominate critical niches and could not easily be replaced.<sup>63</sup> To lose access to just a few of these components at a time would have limited impact on the overall economy. However, a war or other emergency that took Taiwan-produced components off the market for an extended period would create shortages in a wide range of consumer industries, depriving Americans of both consumer goods and jobs.

*Second*, Taiwan is a central node for global manufacturing, as companies from diverse industries depend on Taiwanese firms to make their products. Global brands selling everything from tennis shoes to smartphones outsource production—and in many cases even product development—to overseas factories. The manufacturing of these products relies on inputs from a number of countries, with many of the highest-value components coming from Taiwan. Additionally, although the final assembly of these products often occurs in China, Vietnam, and other lower-cost labor markets, a disproportionate share of this assembly is conducted by companies headquartered in Taiwan.<sup>64</sup>

“Contract manufacturing,” as this model is known, is not unique to Taiwan, but Taiwanese firms were among the first players in this space. Those that managed to survive the cutthroat competition and periodic market transformations over the years did so because of an unrivaled ability to foresee future market trends and to become the only companies capable of making a particular product “under certain conditions of time, price, and manufacturing procedures.”<sup>65</sup> By so doing, they gradually pushed competitors out of the market and became the go-to partners for many brands selling similar products.<sup>66</sup>

Industries dominated by Taiwanese firms are wide-ranging and diverse. For example, Taichung-based Pou Chen Corporation is the world's largest manufacturer of branded athletic footwear. It makes such a large portion of the shoes sold by Nike, Adidas, and other leading brands that savvy investors look at its monthly sales figures for insight into the financial health of these top brands.<sup>67</sup>

In electronics, Taiwan boasts as nearly complete a supply chain as has ever existed, from chips and circuit boards to casings and lenses to assembly and packaging. The “Made in China” label that appears on most laptops and smartphones is deceptive: Final assembly of these products does occur in China, but they are largely made by Taiwanese firms.

Taiwanese companies such as Foxconn, Wistron, Pegatron, and Compal do most of the manufacturing for the likes of Apple, Dell, Hewlett Packard, and Microsoft.<sup>68</sup> Many of the highest-value components—such as modems, wi-fi chips, and camera lenses—are manufactured by suppliers in Taiwan before being shipped to these companies' factories in countries with lower production costs where the final products are assembled, packaged, and shipped throughout the globe.<sup>69</sup>

Apple's iPhone supply chain is a case in point. Each iPhone consists of roughly 1,500 different components, many of which are either manufactured in Taiwan or produced by a Taiwanese-owned factory abroad.<sup>70</sup> Though Apple's most up-to-date list of suppliers identifies slightly more Chinese than Taiwanese firms, most of the Chinese suppliers produce relatively low-value, replaceable components, while the high-value processors, circuit boards, and camera lenses are supplied by Taiwanese companies.<sup>71</sup> As for the iPhone's final assembly, 70 percent of the devices are put together by Foxconn, Taiwan's most famous contract manufacturer.<sup>72</sup> Taiwanese firms Wistron and Pegatron are also among the product's top manufacturers.

Apple is just one typical example of the industry norm. As the *Financial Times* wrote in May 2023, even in the nearly impossible scenario in which semiconductor supply chains could be moved to the U.S. in short order, war in the Taiwan Strait would result in “‘Made in America’ chips and no devices to put them in.”<sup>73</sup>

**Here to Stay.** Nor does it appear likely that Taiwan's hold on manufacturing will decrease substantially in the coming years. The most plausible time for this to happen would have been in the 1990s when multinational brands and retailers determined that Taiwan had become too expensive a manufacturing hub. Rather than let go of their business, however, Taiwanese manufacturers—often reluctantly—moved production to the PRC to comply with their customers' price demands.<sup>74</sup>

Manufacturing is currently undergoing another geographic shift driven largely by these same Taiwanese firms and the brands they serve, which are increasingly wary of China's rising operating costs and political risks. While Taiwanese manufacturers are not exiting China en masse, they are gradually moving some of their operations into other countries. Almost 90 percent of Taiwan's FDI outflows in 2023 went to places other than China, and investment in the country decreased 40 percent year-over-year, hitting its lowest level since 2001.<sup>75</sup> Meanwhile, Taiwanese investment outside of China rose 137 percent, largely because of big TSMC investments in the U.S. and Germany but also reflecting a notable increase in manufacturing investment in India and Southeast Asia.<sup>76</sup> This shows that even as China's relative importance is declining, Taiwan is set to remain the most important player in manufacturing for the foreseeable future.

These facts are not presented as an argument for globalization or the outsourcing of manufacturing, but rather as a reflection of the critical role that Taiwan plays in keeping U.S. firms in business so that Americans have the jobs and products they depend on for their livelihoods. Just as the TSMC fab in Arizona will remain reliant on capital, technology, processes, and decision-making from its corporate headquarters in Taiwan, manufacturing facilities in China, India, or Vietnam—or even the United States—cannot operate without the direction, expertise, and support of their headquarters. In manufacturing, as in semiconductors, Taiwan is simply indispensable.

**MADE in Taiwan.** Taiwan's asymmetric semiconductor and manufacturing dominance represents a vulnerability for the United States and its allies, but it also makes any use of military force against the island a risky and costly proposition for China. Though discussions about Taiwan's so-called silicon shield<sup>77</sup> tend to oversimplify a complex situation (there are still circumstances under which Beijing would likely not hesitate to use military force against the island), disruption of Taiwan's semiconductor production and economic activity would likely pose an even greater threat to China than it would to the U.S.

While the PRC makes it hard to track down information regarding the supply chains that feed its strategic industries, it imports approximately 80 percent of its semiconductors<sup>78</sup> and therefore almost certainly relies on chips from Taiwan for its core infrastructure, emergency services, and military systems, not to mention its manufacturing output (manufacturing accounted for 28 percent of China's GDP in 2022).<sup>79</sup> Beijing's urgency regarding indigenous production of semiconductors likely reflects its consciousness of this dependence and its associated risks.

In addition, while China boasts a growing number of leading manufacturing firms, the biggest players in this industry upon which so much of its

economy depends are still Taiwanese. If a war hampered the ability of these Taiwanese firms to operate—or caused them to pause or cease their China operations to comply with international sanctions or an order by Taiwan’s government—the impact would seriously damage China’s economy.

The impact would be even greater in the highly developed localities where clusters of Taiwanese firms operate. For example, Kunshan, located in Jiangsu province west of Shanghai, has ranked as China’s wealthiest county for 17 consecutive years. More than 5,300 Taiwanese firms directly account for 30 percent of Kunshan’s GDP, 50 percent of its industrial output, 60 percent of its foreign investment, and 70 percent of its foreign trade.<sup>80</sup>

Admittedly, the CCP is not overly concerned about GDP growth when it conflicts with greater political interests, such as its claim over Taiwan. However, the economic impact of attempting to enforce that claim could threaten an even more fundamental interest of the party and its leaders—remaining in power and controlling the population at home.

Taiwanese firms reportedly employ 10 million people in China and are the biggest employers in some of its geographic regions.<sup>81</sup> It is widely reported that Taiwanese contract manufacturer Foxconn is the largest private-sector employer in all of China, employing roughly 800,000 people.<sup>82</sup> If Taiwanese businesses stopped operating for any reason, or if they ceased their China operations, unemployment would skyrocket in China, and the likelihood of social unrest—one of the party’s greatest fears—would soar.

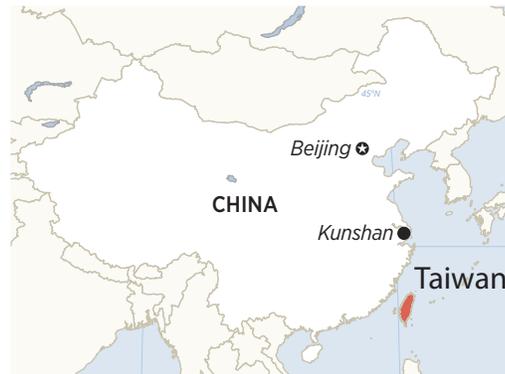
Further exacerbating the situation, the entire ecosystems of Chinese suppliers and partners of these firms would lose much, and in some cases all, of their business. Some regions could see a large percentage of their residents laid off all at once. This prospect is particularly frightening to China’s leaders in the near term as China in 2024 continues to grapple with record levels of youth unemployment, one of the most dangerous economic indicators from the perspective of political stability.<sup>83</sup>

In other words, China’s economy relies on Taiwan at least as much as America’s does, and this reliance has implications both for the PRC’s national security and for the CCP’s regime security. As Washington rightly encourages Taiwan’s government to acquire more asymmetric warfare capabilities, policymakers should not be blind to what may be the greatest asymmetric *deterrence* capability already at Taipei’s disposal. While narratives popular a decade ago about a U.S.–China conflict being impossible because of “mutually assured economic destruction,” also called “mutually assured destruction of the economy” (MADE), were at best optimistic, China’s economic reliance on Taiwan does impose a substantial level of deterrence given its political implications.<sup>84</sup>

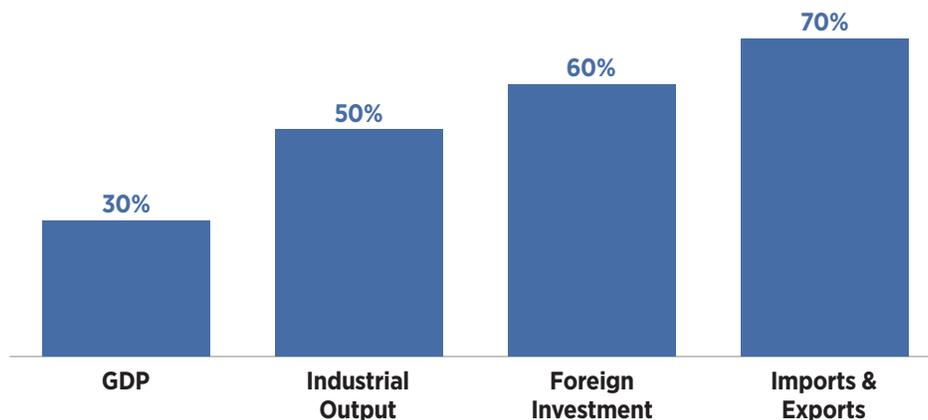
FIGURE 1

## Taiwan-Funded Enterprises' Direct Impact on Kunshan's Economy

For the past 17 years, Kunshan has been China's richest county. As of 2020, there were more than 5,300 Taiwanese companies operating in Kunshan.



TAIWAN-FUNDED ENTERPRISES SUPPORT OF KUSHAN



**SOURCE:** Ji Siqi, "Taiwanese Firms in China's Richest County Are All the Buzz – Will They Stay or Will They Go?" September 1, 2023, <https://www.scmp.com/economy/china-economy/article/3232976/taiwanese-firms-chinas-richest-county-are-all-buzz-will-they-stay-or-will-they-go> (accessed January 23, 2024).

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It is important to note, however, that these dynamics in no way render war in the Taiwan Strait impossible or reduce the urgent need to strengthen military deterrence. Although the economic and social impact of a cross-Strait conflict—not to mention the delegitimizing effect of a possible failed attempt to seize the island—likely make such a move prohibitively risky under normal circumstances, if the CCP felt that its domestic legitimacy depended on acting to preserve its claim over Taiwan, it would probably do so without regard to the economic consequences. China has repeatedly stated that it would go to war to prevent formal Taiwan independence.<sup>85</sup> Furthermore, China's frequent military provocations around Taiwan already significantly heighten the risk of conflict due to escalation or miscalculation.

## Principles for Preserving Taiwan's Security

Given that Taiwan is critically important for America's prosperity and national security, one of the goals of U.S. foreign policy should be to ensure that Taiwan remains safe from attack and free from the CCP's control. To this end, Washington should adopt the following principles in developing and implementing its Taiwan policy and take care to avoid certain pitfalls that could inadvertently cause the conflict it hopes to prevent. Specifically, the United States should:

- **Preserve the status quo.** The main imperative of an effective U.S. Taiwan policy must be to preserve the status quo, which is that Taiwan continues to enjoy de facto sovereignty without either side of the Strait forcing a change through unification or formal independence. This has been the bottom line of America's policy toward Taiwan since 1979. It is also what Taiwan wants: The government in Taipei, all major political parties, and nearly 90 percent of Taiwan's people favor preserving the status quo.<sup>86</sup> This means that, while helping to ensure Taiwan's freedom from CCP control, policymakers in Washington must resist the urge to try to "fix" the problem.

This will not come naturally to many Americans, who are culturally predisposed to tackle problems head-on and fight for causes they deem just. Yet this is not the first time the U.S. has had to wait out a protracted, uncomfortable standoff. During the Cold War, the U.S. met threats from the Soviet Union effectively, neither backing down nor making its fear of nuclear war a self-fulfilling prophecy through reckless action. America outlasted the Soviet Union and emerged victorious following a half-century of uncertainty and discomfort. Americans sacrificed much during those decades, but despite the proxy wars and nuclear scares, they succeeded at defeating their greatest adversary without engaging in a catastrophic confrontation with a nuclear-armed peer competitor.

The Korean Peninsula today provides another instructive example. However uncomfortable Washington and Seoul are with the unresolved status of the Korean War, Pyongyang's regular provocations, and the development of North Korea's nuclear capabilities, they maintain a firm yet measured approach, recognizing that the uncomfortable status quo is far less damaging to their interests than a deadly and highly costly war to change the status quo would be.

Unlike the situation in Korea, dealing effectively with the China challenge—and the Taiwan issue in particular—does not mean putting American military bases on Taiwan. It does, however, require the same wisdom, fortitude, and patience that American policymakers exhibited throughout the Cold War and continue to exercise in Korea today. This in turn requires understanding what drives Chinese decision-making regarding Taiwan.

A Chinese invasion of Taiwan would be operationally difficult and would involve extreme political risks for China's leaders. Decades of propaganda tying the CCP's legitimacy to the Taiwan issue have made it one of the most sensitive matters in Chinese politics. While Xi and the party's other top leaders are under no immediate pressure to take control of Taiwan, they believe they cannot afford to forfeit their claim over the island. The CCP's top brass fear that a failed attempt to seize Taiwan would discredit China's claim, delegitimizing their leadership and possibly even threatening the survival of their regime.<sup>87</sup>

These risks suggest that Beijing is unlikely to proactively attempt to seize Taiwan unless its leaders feel assured of victory at a cost they can accept. However, these same pressures would also make it difficult for Beijing to resist using military force—regardless of the perceived chance of victory—if its leaders felt their claim over Taiwan had been seriously challenged by the actions of Taipei or Washington and concluded that failure to act urgently and in force to prevent “losing” Taiwan constituted a more immediate threat to their legitimacy than did potentially losing a war.<sup>88</sup>

This creates a delicate situation in which both bolstering deterrence and properly managing cross-Strait and U.S.–China tensions are necessary to avoid a military conflict. U.S. policy must therefore focus on preserving Taiwan's de facto sovereignty while not letting eagerness to help Taiwan turn into unnecessary action that would make China's leaders more likely to use military force. Consequently, the U.S. must hold fast to its own one-China policy (which is distinct from Beijing's One China Principle<sup>89</sup>) and refrain from promoting changes in Taiwan's status.

This approach is consistent with long-standing U.S. policy as outlined in the Taiwan Relations Act, the Six Assurances, and the

Three Communiques.<sup>90</sup> It is also aligned with the policy of Taiwan's government and the reality that the status quo *is de facto* Taiwanese sovereignty. Most important, it is the approach that is most in line with U.S. economic and security interests.

- **Strengthen deterrence.** Since the U.S. cannot force a solution to the Taiwan Strait issue, it should ensure that neither side acts in a way that would make war likely. Given that Taiwan no longer seeks to reclaim the mainland and that, at least for now, a formal declaration of independence (the primary red line China says would prompt military action) is a fringe issue in Taiwan, this mostly means using military power to deter Beijing from attempting to seize the island, whether by invasion, blockade, or any other method. The following are a few recommendations for enhancing deterrence.<sup>91</sup>

1. **Bolster America's military position in the Indo-Pacific.** The best way to deter aggressive action by China is to make clear to Beijing that the United States and its allies are ready and able to deny any attempt to seize Taiwan. Most urgently, this requires prioritizing the strengthening of America's deterrence posture in the Western Pacific and ensuring that the U.S. has sufficient submarines, ships, aircraft, and other military assets in the region to sustain a great-power conflict. It also calls for accelerating the dispersal and hardening of U.S. operating locations in the Western Pacific, increasing the production and stockpiling of relevant weapons for U.S. and allied forces, accelerating the adoption and development of new capabilities like certain unmanned systems, and intensifying the gathering of intelligence on Chinese forces.

At the same time, U.S. allies such as Japan, Australia, the Philippines, and South Korea are also essential to projecting American power in the region. Washington must continue to cultivate and strengthen these alliances, especially by working with them to strengthen their own defense capabilities and plan for Taiwan contingencies, as part of a broader effort to deter China or, if deterrence fails, ensure that U.S. and allied forces are positioned to prevail. Japan in particular should implement a number of steps in coordination with the U.S., including bilateral contingency exercises and the development of common operational concepts.

2. **Strengthen Taiwan’s defense capabilities.** The U.S. should remain committed to arming Taiwan, especially with the asymmetric defense capabilities required to defeat an invasion, such as mobile anti-ship missiles, air and missile defenses, anti-armor weapons, and their enablers.<sup>92</sup> Sales of military equipment to the island increased substantially during the Trump Administration but have fallen under President Biden.<sup>93</sup> Just as important as selling the equipment, however, is ensuring that it arrives in Taiwan in a timely manner. To date, the vast majority of the weapons sold to Taiwan during the Trump Administration have not been delivered.<sup>94</sup> In addition to arms sales, the U.S. should implement the provisions of the Taiwan Enhanced Resilience Act—included in the 2023 National Defense Authorization Act—which provide new authorities for security assistance programs, military training, and joint drills with Taiwan.<sup>95</sup>

3. **Encourage the Taiwanese government to prioritize defense.** Washington must continue to encourage Taiwan’s government to spend more on defense and reform its failing conscription and reserve systems. The administration of current President Tsai Ing-wen made important progress by returning the conscription service period from four months to one full year. President-elect Lai Ching-te, who will succeed Tsai in May 2024, has pledged continuity, and the U.S. should encourage him, his party, and the opposition parties in the legislature to work together to build on Tsai’s progress. Of particular urgency is improving the overall quality of training—a task with which the U.S. can help—and tightening the loopholes that allow many able-bodied young men to forego conscription in favor of “substitute service,” which in most cases fails to contribute to Taiwan’s security.<sup>96</sup>

Washington should also work with Taipei to safeguard Taiwan’s energy security and communications networks against potential Chinese sabotage. Taiwan relies on imports for nearly 98 percent of its energy needs and currently lacks reliable alternatives on which to rely if these imports are cut off for a prolonged period due to a blockade or war.<sup>97</sup> Similarly, the island’s Internet and telecommunications networks are served predominantly by undersea cables, the severance of which could paralyze communications on the island. Washington should work with Taiwan’s relevant officials to develop workable solutions to these vulnerabilities.

- **Strengthen Taiwan's economy and international standing.** Not all of the support the U.S. can and should give Taiwan relates directly to the military. Washington should also work toward trade, investment, and double taxation agreements with Taipei. The U.S.–Taiwan Initiative on 21st Century Trade signed in May 2023 sent the right signal, but much remains to be done. Trade and investment agreements could help Taiwan's economy significantly, and this in turn would make it easier for the government to implement bolder increases in military spending. They would almost certainly benefit the U.S. economy as well. Investment and double taxation agreements would also make it less costly for Taiwanese firms to invest in the U.S. (and U.S. firms to invest in Taiwan), facilitating the reshoring of some critical supply chains from China, where Taiwanese contract manufacturers currently house most of their factories.

Washington should also work to help preserve and expand Taiwan's international standing in bold and creative ways that are consistent with its one-China policy. It can push for Taiwan to be granted observer status in international organizations (IOs) such as the World Health Organization (WHO) and the International Civil Aviation Organization (ICAO).<sup>98</sup> There is ample precedent for Taiwan's participation in these organizations. Beijing even supported Taipei's participation in some IOs during a period of unprecedented cross-strait peace and cooperation when Tsai's predecessor Ma Ying-jeou was the island's president.

The U.S. should also help Taiwan preserve its existing diplomatic partnerships. Taipei now has only 12 formal diplomatic partners, down from 22 in 2016. While Taiwan's unofficial relations with countries such as the U.S. and Japan are far more important in terms of concrete support,<sup>99</sup> having some countries formally recognize the island provides a degree of international legitimacy that is not present in these unofficial ties.

The U.S. can strengthen its efforts to prevent additional countries from abandoning Taipei in favor of Beijing by promoting investment in Taiwan's remaining diplomatic partners. Such action, possibly also in the name of friendshoring supply chains, could make it less likely that these countries will turn to Beijing to fill their infrastructure needs.<sup>100</sup>

While the U.S. must avoid re-establishing diplomatic relations with Taiwan (authoritative statements from Beijing imply that it would likely respond to such a move with military force<sup>101</sup>), small countries can switch recognition back to Taipei from Beijing without sparking a conflict. The South Pacific nation of Nauru and the Caribbean state of Saint Lucia, both of which had previously severed their ties with Taipei in favor of Beijing, restored their diplomatic relations with Taiwan in 2005 and 2007, respectively.<sup>102</sup> Though Nauru switched recognition back to Beijing in January 2024, this does not change the fact that both countries were able to re-recognize Taiwan during a period of high cross-Strait tension and that their action did not spark a Taiwan Strait crisis. Washington can consider quietly encouraging additional countries to establish ties with Taipei where there is a reasonable chance of success and where the new diplomatic partner would not burden Taiwan with excessive financial aid commitments. The more countries recognize Taiwan, the harder it is for Beijing to make the case that the island is universally recognized as a part of China.

- **Work closely with Taiwan’s government.** Taipei has been dealing with the CCP for decades and has a wealth of experience navigating Beijing’s fairly ambiguous red lines. Taiwan also bears the brunt of Chinese retaliation against U.S. actions taken in its support, and failure to take its interests into account could alienate Taiwanese citizens and policymakers and strengthen Chinese disinformation narratives that seek to make the island’s residents distrustful of Washington.<sup>103</sup>

Thus, in implementing the above-mentioned policy guidelines, U.S. officials should work closely with their Taiwanese counterparts. The timing and optics of certain shows of support should also be coordinated with Taiwan’s government in advance both to ensure that the island is prepared for any Chinese retaliation and to minimize the likelihood of miscalculation.

- **Prepare for an emergency.** While economic and security interests compel Washington to do all it can to ensure that a war does not break out over Taiwan and the island retains its de facto independence from Beijing, policymakers must also prepare for a worst-case scenario should all other efforts fail. Preparation should be carried out in the military and economic realms. Military preparation can broadly follow the principles presented in the above discussion with respect to strengthening deterrence.

Economically, this report has shown that America's reliance on Taiwan far exceeds what is broadly understood. It includes reliance on Taiwan for essential commodities, such as semiconductors, for which no replacement exists. Most of the discussion around supply chain resilience has focused on moving production of essentials like semiconductors to the U.S. Increasing domestic U.S. capacity for production of these critical components is smart policy, but it will be a costly undertaking that will take years, if not decades, to bear fruit. Moreover, in the near-to-medium term, there is little chance of producing sufficient chips in the U.S. to supply more than the bare minimum required for essential government functions, and the high price of American semiconductors will not make them viable commercial options in most cases.

Given these realities, it may be advisable to stockpile chips and other components that are needed to keep critical infrastructure and the military operating in the event of a prolonged conflict. While stockpiling is not a viable solution for products that are constantly upgraded to smaller chips, such as consumer electronics, most heavy industry, large infrastructure, military equipment, and government systems are run by legacy chips and are not frequently upgraded, so creating a strategic reserve would be prudent.

## Conclusion

The above recommendations constitute basic principles to guide policymakers as they seek to protect American security and prosperity by ensuring that Taiwan remains free from an attack or takeover by China. Washington should work with Taipei to develop the best ways to apply these principles as it responds to changes in regional and cross-Strait dynamics. By strengthening deterrence in the Indo-Pacific and employing the same wisdom and determination that helped America win the Cold War, policymakers can strike the right balance between preserving Taiwan's security and not inadvertently provoking a conflict with China. In doing so, the U.S. can outlast its adversary in the "new cold war"<sup>104</sup> and ensure peace and stability on this island that is so critical to U.S. security and prosperity.

## Endnotes

1. The Taiwan Relations Act was passed in 1979 to provide a basis for unofficial relations with Taiwan following the United States' severing of diplomatic ties with Taipei and recognition of Beijing. The document, while vague, requires certain forms of security support for Taiwan for the explicit purpose of preserving cross-Strait peace and keeping Taiwan safe from Beijing. See H.R. 2479, Taiwan Relations Act, Public Law 96-8, 96th Congress, April 10, 1979, <https://www.congress.gov/96/statute/STATUTE-93/STATUTE-93-Pg14.pdf> (accessed February 8, 2024). The "Three Communiques" are joint statements issued by Washington and Beijing in 1972, 1979, and 1982 in which the U.S. "acknowledged" (but did not accept) that both sides of the Taiwan Strait maintain there is just one China and that Beijing claims ownership of Taiwan. See American Institute in Taiwan, "Three Communiques," <https://www.ait.org.tw/tag/three-communiques/> (accessed February 8, 2024). The "Six Assurances" are a brief clarification of the third communique that the Reagan Administration issued to Taipei in 1982 in response to concerns by the Taiwan government. See Susan V. Lawrence, "President Reagan's Six Assurances to Taiwan," Congressional Research Service *In Focus* No. IF11665, updated June 13, 2023, <https://sgp.fas.org/crs/row/IF11665.pdf> (accessed February 8, 2024).
2. There is a long-standing CCP narrative that China is uniquely unsuited for Western-style democracy because it lacks the cultural or socioeconomic basis for such a political system. See, for example, LuXin Liu, "Why Can't China Be Democratic?" *China News Digest*, July 31, 2011, <http://liu-luxin.hxwk.org/2011/07/31/%E4%B8%AD%E5%9B%BD%E4%B8%BA%E4%BB%80%E4%B9%88%E4%B8%8D%E8%83%BD%E6%B0%91%E4%B8%BB%EF%BC%9F/>; Haiyan Chen, "Why China Cannot Implement Western Democratic System," CPC [Communist Party of China] News, September 11, 2014, <http://theory.people.com.cn/n/2014/0911/c143844-25643143-2.html> (accessed February 8, 2024). In the first decade of the 2000s, this narrative had become so prevalent that it eventually garnered significant pushback from liberal-minded Chinese, such as the author of the following social media post that was translated into English by the China Media Project. See David Bandurski, "Questions for China's Democracy Opponents," China Media Project, January 17, 2012, <https://chinamediaproject.org/2012/01/17/questions-for-chinas-democracy-opponents/> (accessed February 9, 2024).
3. See "Memorandum on Formosa, by General of the Army Douglas MacArthur, Commander in Chief, Far East, and Supreme Commander, Allied Powers, Japan," June 14, 1950, Annex to Document 86, "Memorandum of Conversation, by the Ambassador at Large ([Philip C.] Jessup)," June 25, 1950, in *Foreign Relations of the United States*, 1950, Korea, Volume VII, ed. John P. Glennon (Washington: U.S. Government Printing Office, 1976), <https://history.state.gov/historicaldocuments/frus1950v07/d86> (accessed February 9, 2024).
4. *National Security Strategy*, The White House, October 2022, p. 24, <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>, (accessed February 9, 2024).
5. *Ibid.*, pp. 11 and 23.
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