New Direction

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STRAIT OF TENSIONS

Understanding Geopolitics of the Taiwan-China Conflict

New Direction

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The first and second island chains. Wikipedia

1

INTRODUCTION

Taiwan is an island of roughly 23 million inhabitants that lies 160km off the Chinese coast. Known officially as the Republic of China (ROC), Taiwan[1] first became an independent entity after the end of the Chinese Civil War in 1949 and has since developed into a crucial hub for technology, including the development of semiconductors: In 2024, the country was producing more than 60% of semiconductors globally and more than 90% of the most advanced ones[2]. Alongside its growing economic significance, Taiwan holds a crucial and yet still not fully evident role in global peace and security, especially for the EU and its member states, and increasingly for the US.

The People's Republic of China's President Xi Jinping has set a 2030 target for reunifying Taiwan with mainland China, a territory that has long claimed to be the legitimate Chinese government. The Russian invasion of Ukraine made everything seem possible: The threat of military response or sanctions did not prevent Vladimir Putin from launching a military operation in Ukraine, paving the way for China to exercise its own "reunification" idea. The United States has already committed to defending Taiwan on several occasions. This commitment, coupled with Taiwan's transformation from a nationalistic authoritarian regime into one of the strongest democracies, makes Taiwan of even greater value for a possible confrontation between the United States and China.

In part, it is Taiwan's location that holds significant strategic importance for both players, as each seeks to secure a dominant position in the region. Due to its strategic location, Taiwan is often called *"China's gateway to the Pacific."* Situated just 130 kilometres from mainland China, Taiwan's geographic position offers potential control over key maritime zones, including the South China Sea to its southwest and the East China Sea to its north.

Moreover, the island is strategically positioned at the centre of three critical chokepoints: **The Taiwan Strait** to the west, a vital trade route through which nearly all global containerships pass, serving Beijing, Taiwan, and the broader international community; **the Miyako Strait** to the north, lying between Taiwan and Japan's islands; and **the Bashi Strait** to the south, linking Taiwan to the Philippines. Both the Miyako and Bashi Straits are crucial pathways that could provide China with direct access to the Pacific Ocean.

Taiwan also serves as a pivotal node in the *"first island chain,"* a network of islands considered essential by U.S. strategists for curbing China's expanding military influence. This chain extends southward from Japan through Taiwan to the Philippines. The United States has carefully developed its strategic presence along this chain since John Foster Dulles's 1951 proposal to surround China and the Soviet Union with naval bases in the western Pacific, projecting American power and restricting adversaries' sea access.

Today, the U.S. maintains naval bases in South Korea, Japan, and the Philippines, with Taiwan as a cornerstone of this defence network. From Taiwan, the U.S. can project power directly onto China while safeguarding allies and their strategic interests. However, if Taiwan were to reunify with mainland China, the U.S. would be forced to retreat to Guam, located within *the second island chain,* significantly reducing its ability to exert influence in the region. If Taiwan were to come under Beijing's control, whether through peaceful means or by force, the strategic balance in the Western Pacific would be fundamentally altered. Regional nations would perceive it as the collapse of U.S. military dominance in the area.

There are even claims that China is already asserting control over the maritime areas of the Western Pacific, regardless of Taiwan's status. As early as 1948, Chiang Kai-Shek produced a map delineating China's strategic maritime zone, extending southward through the South China Sea and into the waters near the Philippines. These sea lanes, which traverse the South and East China Seas, are among the busiest in the world. Control over these vital routes would grant immense leverage over the flow of commerce and military supplies, providing significant influence over the political and economic stability of every nation in the region.

Chinese military invasion of Taiwan would be also a point of concern for Europe, which is still reliving the shock of the Russian aggression in Ukraine[3]. In 2020, Taiwan was the EU's 14th largest trading partner with approximately €49.3bn in bilateral trade in

1 The entity that we refer to Taiwan is officially the Republic of China (ROC) and includes beyond the main island group of Taiwan also includes Penghu, Kinmen, Matsu and some minor islands. In literature and news POC and Taiwan are used interchangeably, an approach that we adopt here as well.

2 Le Corre, P. (2021)

3 Grano, S. (2024)

goods[4]. The EU is Taiwan's largest foreign investor: Over 40% of the EU's trade passes through the Taiwan Strait.

Assessing Taiwan's critical role in the global supply chain, the EU has started regarding Taiwan as a like-minded partner in economic and security matters. Taiwan's semiconductor manufacturer, Taiwan Semiconductor Manufacturing Company, builds almost all of the world's most advanced processor chips. When the COVID-19 pandemic hit nearly every country in the world, it disrupted the chip industry, and with that the global economy. A single missile strike on TSMC's most advanced chip manufacturing facility could easily cause hundreds of billions of dollars in damages due to possible delays to the production of phones, data centres, cars, telecom networks, and other electronics.

A potential conflict in the Taiwan Strait would not only disrupt global supply chains and challenge the international order but also have significant economic consequences for the EU. Also, Europe can no longer ignore the Taiwan issue from a strategic and political standpoint. As a self-declared champion of democracy, human rights, and self-determination, the EU has a responsibility to support Taiwan, a mature democracy of over 23 million people. Failing to act in the event of a conflict in the Taiwan Strait would undermine Europe's credibility in defending and promoting democratic values.

In the light of an increasing US-China rivalry on the global change, the EU's realisation that to become a competitive actor it must develop technologies at home, and the war in Ukraine, the West's relations with Taiwan are signalling a significant shift. In this report, we are looking at the historic multilateral relationship between Taiwan, China, and the United States, as well as the recently increasing role of the European Union in developing a deterrence strategy against an invasion that could shake the whole world and build a new global order.

4 European Commission (n.d.-a)

2

CROSS-STRAIT DYNAMICS
The Republic of China and the People's Republic of China

In January 2024, Taiwan held national elections to renew the mandate of the Parliament and elect a new president. For the third election in a row, a candidate of the Democratic Progressive Party (DPP) - a party with pro-independence sentiments - was elected as president. Former vice president Lai Ching-teh (DPP) and former Taiwanese representative to the United States Hsiao Bi-khim (DPP) won the election with 40% of the votes[5]. While the balance in Parliament shifted with the DPP failing to secure a majority, Taiwan's elections did not fail to raise attention across the strait in mainland China, where the DPP is seen as a 'separatist' party[6].

This tension is not new. While Taiwan functions almost entirely as an independent country, its formal status is disputed and not universally acknowledged. Only 12 countries worldwide have official diplomatic relations with Taiwan. In the eyes of the EU, Taiwan is a thriving democracy, a like-minded partner and an attractive destination for investment. Yet, neither the EU nor the US though recognise the island's sovereignty. To understand these tensions, from China's intimidation to the EU and the US's stance, we must look back to the origins of Taiwan at the end of the Japanese rule over the island after the Second World War and the Chinese Civil War.

The end of the Japanese Rule over Taiwan and the Chinese Civil War

The surrender of the Japanese Empire on 02 September 1945 opened a new chapter in Taiwanese history, as the island was liberated from a 50-year rule by Japan. The Japanese rule over Taiwan significantly changed the political and cultural landscape of the island which was previously under the rule of the Qing Dynasty and an independent region from 1885[7]. Alongside harsh oppression which sought to forcibly integrate Taiwanese culture and instil a sense of loyalty to Japan, the Japanese Empire also undertook a policy of modernisation and investment, aimed at strengthening the country's infrastructure and economic development. Japan promoted agricultural and industrial development and envisioned Taiwan as a strategic island to expand its economy and improve its security.

In October 1945, Taiwan became part of the Republic of China, although years of Japanese rule had dug a deep fault line between Taiwan and mainland China. This division was further exacerbated when leaders of the defeated Republic of China, alongside 1.5 million people fled to Taiwan in 1949, pushed by Mao Zedong's Communist forces. While mainland China became the People's Republic of China, the defeated Nationalist Party – the Kuomintang – took root in Taiwan, maintaining the name 'Republic of China'. Nonetheless, Mao denied such independence and claimed that the PRC was the only legitimate successor to the Republic of China and the Chinese government, controlling Taiwan as well[8].

Beijing and Taipei fundamentally proclaimed positions which happened to be two competing versions of the same Chinese identity. On one side, according to Kuomintang leaders, Taiwan was not an independent state but the home to the Republic of China's government in exile that would eventually return to take its rightful place on the mainland. However, for Beijing Taiwan's separation and alliance with foreign powers represented one more episode in *"China's century of humiliation"*, in which China's legitimate sovereign territory was fragmented. While both sides agreed that Taiwan and mainland China were part of the same political entity, the disagreement was about which government was the legitimate ruler[9].

In the years after the conflict, the international community was largely split along the lines determined by the Cold War and the division between Communist and Capitalist-Democratic countries: The Soviet Union backed Mao's regime and recognised the ROC as its ally, while Western powers upheld diplomatic relations with POC instead. Many European nations relocated their embassies to Taiwan, except for the UK,

5 Chen, M. (2024, October 25)

6 Staats, J. & Kuo, N. (2024); Davidson, H. & Hawkins, A. (2024, January 18)

7 Blanchard, B. & Lee, Y. (2024, October 29)

8 Copper, J.C. (2024a)

9 Kissinger, H. (2011)

Nordic countries and countries that belonged to the Eastern or Socialist block, such as Romania, Hungary and Czechoslovakia. The US also engaged more closely with Taiwan, at least since the 1950s when then President Truman stationed a US fleet in the Taiwan Strait to protect the island from a possible invasion – mindful of the ongoing Korean War. Periodically, Washington and its allies supported the idea of recognising both the Republic of China and the People's Republic of China as separate states, a sort of "two-China solution".

Throughout the 1960s the leading Kuomintang Nationalist party continued elaborating its offensive plans against the PRC, although the lack of military support from the United States, proved to be a determining factor against such plans materialising[10]. Despite the protection granted to ensure the US's security in the western Pacific, this remained to all effects a **strategically ambiguous commitment**, centred on preventing conflict in the region through a fine balance of deterring attacks from mainland China and committing to Taiwan security while avoiding deploying full military force. This meant limiting POC's attacks to mainland China as well, to avoid an escalation that could lead to a Communist victory over Taiwan[11].

Still, Western powers supported the POC as a legitimate representative of China in international organisations, including the UN. For instance, following the first Taiwan Strait Crisis, the Taiwan issue created a permanent cause of confrontation between the US and Beijing, so long as the United States treated Taiwan as the legitimate government of all China: China would not discuss any issue as long as the US wouldn't withdraw from Taiwan, and the US wouldn't talk about anything until China would renounce its determination to use force to solve the Taiwan issue[12].

It was under President Nixon that relations shifted as his administration started engaging more with Beijing to prevent future regional involvement, while at the same time addressing competition with the Soviet Union and foreseeing an exit strategy from Vietnam[13].

The Taiwan Straits Crises

Following the Korean War, the relations between the POC and the PRC were deteriorating. As North Korea launched an attack against South Korea, the US made a commitment to defend both South Korea and Taiwan and established a defence command in Taipei, along with the Taiwan Patrol Force, a mini-surveillance fleet, and sent submarines and destroyers stationed around an island[14].

An armed conflict followed soon after, as the Chinese army bombed islands controlled by the POC on two occasions in 1954 and 1955. These islands held strategic importance to Taiwan and China, as when the POC government of Chiang Kai-Shek was fleeing the mainland, they established troops on the islands of Jinmen (Quemoy), located two miles from the mainland Chinese city of Xiamen, and Mazu, ten miles from the city of Fuzhou, as well as the Dachen Islands further north. These islands were viewed by both the PRC and POC as a potential launch pad for military invasion by POR to retake control over the mainland.

In 1954, as the situation between the POC and PRC deteriorated, in January 1955, the U.S. Congress passed the "Formosa Resolution," which gave President Eisenhower total authority to defend Taiwan and the offshore islands. On March 3, 1955, Washington formally cemented a mutual defence treaty with Taipei. President Dwight Eisenhower also received permission from Congress to exercise special powers in the defence of Taiwan, granted by the Formosa Resolution. In 1958, Beijing launched a surprise attack on Jinmen and Mazu to test the determination of the US to defend Taiwan, to which they later had to agree to a cease-fire[15].

Becoming an Asian Tiger: Economic growth and technology in Taiwan from the 1960s

Beginning in the 1960s, several Asian countries—Hong Kong, Taiwan, Singapore, and South Korea—experienced rapid economic growth driven by exports and industrialization. World Bank defined them as the "Four Asian Tigers" or "the Asian Miracle". These economies stood out for their sustained growth and relatively equitable income distribution.

After suffering defeat in the Chinese Civil War and fleeing mainland China to Taipei, Kuomintang discovered Taiwan was plagued with divisions between native and immigrant populations, weakened infrastructure, and extreme poverty. The newly installed Kuomintang government thus launched reforms aimed at stabilizing the Taiwanese dollar and curbing hyperinflation, supported by US economic aid and the entrance into the market of Japanese companies, attracted by Taiwan's' low manufacturing costs, low wages, and quite educated workforce. By the 1960s, the country's GPD growth rate averaged more than 10.3%[16].

10 Igarashi, T. (2021)

11 Newmann, W.W. (2022, December 19); Dickey, L. & Kent, M. (2024, November 27)

12 Kissinger, H. (2011)

13 Dickey, L. & Kent, M. (2024, November 27)

14 Easton, I. (2021, June 30)

15 USA Department of State, (n.d.-a)

16 Berkeley Economic Review (2020, February 17)

Under the leadership of Taiwan's economy minister K.T. Li Taiwan changed from a poor agrarian society into an expert-driven manufacturer. Supported by government policies favouring economic growth, Taiwan became a vivid exporter of consumer goods, including shoes, toys, and umbrellas. The government enacted the Statue for the Encouragement of Investment to encourage international trade by offering businesses tax incentives. Additionally, the government enacted several Export Processing Zones (EPZs) to provide investors with infrastructure, labour, and tax benefits. In the 1970s, Taiwan also invested in heavy industries, such as petrochemicals and steel. Exports from both light and heavy industries carried Taiwan's economy forward until other countries with low-cost labour started competing. That's when the country focused its industrial policy on science and technological development[17].

Already in the 1960s, Taiwan placed itself at the heart of semiconductor manufacturing through heavy national investments in the sector. In the light of increasing competition from neighbouring countries, such as South Korea and others, the POC established the Taiwan Semiconductor Manufacturing Company (TSMC), attracting experts with experience working on the top companies in Silicon Valley at the time, as well as individuals educated and formed at prestigious US universities[18].

This choice was not causal, but rather the result of Li's belief that Taiwan would benefit from deeper integration with the US, given that the security guarantees after the country's fall in Vietnam did not look promising. As Beijing was testing its first atomic weapon, Li started to develop strategic ties with Texas Instruments, a US-based semiconductor manufacturing company. He realised that a relationship with Texas Instruments could transform Taiwan's economy – build industry and transfer technological know-how. While the US government might not be interested in defending Taiwan, they might be interested in defending Texas Instruments. Texas Instruments' manufacturing facility in Taiwan, in turn, rejuvenated Taiwan's economy and technological capability[19].

The Taiwan Semiconductor Manufacturing Company

In 1985, after the two decades of successful presence of Texas Instruments, K.T. Li invited Morris Chang – China-born and Harvard, MIT, and Stanford-educated Taiwanese electrical engineer who has built up business operations at Texas Instruments, to lead Taiwan's semiconductor industry. Chang returned to Taiwan following several requests from K. T. Li previously, to take a position as a president of the Industrial Technology Research Institute (ITRI). Chang used his position at ITRI to later on start the first wafer fabrication plant of Taiwan's Semiconductor Manufacturing Company on ITRI's campus. Before Chang was hired, Taiwan was one of Asia's leaders in assembling semiconductor devices – chips that were made abroad Taiwan assembled, tested, and then attached them to the plastic or ceramic packages. However, Taiwan was still competing with Hong Kong, South Korea, Singapore, and Malaysia. Taiwan was also feeling economic pressure from China, which due to its lower wages and high volume of population seeking jobs started taking on basic manufacturing and assembly jobs from Taiwan[20].

Back at TI, Chang conceived the idea of creating a semiconductor company that would manufacture chips designed by other companies. However, his employer at the time did not entertain the idea. But K.T. Li did. The Taiwanese government provided 48 per cent of the startup capital to launch Taiwan Semiconductor Manufacturing Company with the rest of the capital raised from wealthy Taiwanese businessmen. TSMC also benefited from generous tax incentives provided by the government, which allowed the company to retain a significant portion of its revenue to reinvest in business development. Another critical factor contributing to TSMC's success was its strong ties with U.S. chip designers. Throughout most of the 1990s, half of TSMC's sales were to American companies. TSMC had one rule – they did not compete with their customers. TSMC would build chips but never design them, which in return helped their customers succeed.

As demand for their technology continued to grow, TSMC established its 8-inch wafer fabrication facility in 1987. Over the next 30 years, the company expanded its technology portfolio from just 2 products to 249. It became the first Taiwanese company to be listed on the New York Stock Exchange in 1997[21].

At the international level: UN Resolution 2758 One China Policy and One China Principle

Although the Kuomintang had claimed that they would reclaim mainland China, by the early 1970s it became clear that this was a remote possibility, and that the ROC did not represent the millions of individuals on the mainland. In short, despite historical claims, the ROC had increasingly become separate from China.

17 Lin, M.C.Y. & Wong, P. (2016)

18 Miller, C. (2022)

19 Miller, C. (2022)

20 Miller, C. (2022)

21 Anysilicon (n.d.)

The existence of the PRC was a reality that could not be changed. This, at least, was the main line of argument of an explanatory memorandum submitted by 17 States to the UN in 1971 before the General Assembly[22]. The memorandum was attached to a request to "Restore the lawful rights of the People's Republic of China in the United Nations". The PRC followed up on the request to outline that it was strongly opposed to "two Chinas" and "one China, one Taiwan" as well as any scheme of creating an independent Taiwan and that it would not engage with the UN anymore if that was the line taken by the organisation[23].

In 1971, the General Assembly voted to "restore all its rights to the People's Republic of China" recognising Beijing as the legitimate government to represent China at the UN (UN Resolution 2758)[24]. This was not a novel discussion. The United Kingdom in 1950 was the first Western country to recognise the PRC and to stop its recognition of the People's Republic of China, followed by an agreement that acknowledged the PRC's position on Taiwan as the sole legal government of China[25]. The UK was followed by the Netherlands the same year and soon after by Germany and France, who recognised the PRC in 1964 and 1972 respectively[26].

The shift towards Beijing under Nixon's administration was also a determinant in changing global diplomatic relations. In 1972 Nixon was the first US President to visit mainland China while in office and to articulate a position for normalisation of the Taiwan issue. While Mao Zedong reaffirmed his position that there was but one China which also included Taiwan, the U.S. declared that it "acknowledges that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is a part of China", and that the U.S. did not support Taiwan's independence. Nixon claimed that he would remove U.S. troops from Taiwan and that it was crucial to find a peaceful resolution to the Taiwan issue[27].

With the Carter administration's recognition of Beijing in 1979, the U.S. 'one China' policy was formalized. A crucial document in defining this policy was the 1979 "Taiwan Relations Act," which aimed to maintain U.S. relations with the people of Taiwan, mainland China, and the Western Pacific region. It also underscored that U.S. diplomatic relations with the PRC were contingent on the expectation that Taiwan's future would be resolved through peaceful means. Furthermore, the Act outlined the U.S. policy toward Taiwan, focusing on the provision of defence articles and services to ensure Taiwan's self-defence capabilities, while refraining from establishing formal diplomatic relations or official recognition[28].

The U.S.'s one China policy thus rested upon several crucial principles that have shaped the relations with Taiwan and PRC to this day including:

- Recognition of the PRC as the sole legal government of China.
- Acknowledgement of the Chinese position that Taiwan is part of China, without formally accepting this position.
- Recognition that Taiwan's status is "undetermined" and that Taiwan is not a sovereign state in the international system.
- The right to provide Taiwan with arms with the sole purpose of defence in case of threats in the region.
- The expectation of a peaceful resolution to any cross-strait differences or disputes[29].

A shift in internal policies: End of martial law and democratisation in Taiwan

In the mid-1970s, the question of Taiwan's future as well as the relations between Western countries and PRC were affected by two closely linked events: The death of ROC leader and Kuomintang party leader Chiang Kai-shek in April 1975 and the death of PRC leader Chairman Mao Zedong in September 1976. The situation led to a stabilisation of relations across the Taiwan Strait, centred on maintaining the status quo rather than on active confrontation between the two parties.

In Taiwan, caretaker president Yen Chia-kan was replaced by Chiang's son Chiang Ching-kuo, who was elected by citizens in 1978. Aware of Taiwan's increasing diplomatic situation, internal tensions and the requirements of the island's rapid economic growth, Chiang strongly pushed for Taiwan's democratisation. Through several anticorruption campaigns, which saw the imprisonment of top-ranking officials, austerity measures on the government, the introduction of transparency rules and the lifting of martial law, Chiang determined the future course of Taiwan towards democratisation[30]. In 1983, Taiwan's first real opposition party – the **Democratic Progressive Party** – was formed, and in 1986 participated in the first-ever two-party elections in the country.

Changing relations with Beijing

In 1986, the defection of a Taiwanese plane to Communist China forced the two parties to engage in conversation and increased Cross-Strait relations that culminated in the 1992 Consensus – an informal agreement between the two parties to find a compromise on the nature of cross-strait ties[31]. The agreement was not meant to determine the legal status of Taiwan, but rather to find a compromise.

The Agreement that the parties came to in 1992 did not set aside the question of One China but rather was built on a mutual recognition that relationships existed within a framework of an 'irresolvable conflict' that had led to a political and military stalemate. They agreed that cooperation would continue with both parties adhering to the 'One China' principle, although the specific definition of 'China' was not clarified. Cooperation or any agreement would not alter the status quo[32].

The balance allowed the parties to focus on cooperation and leaving in the background the most controversial aspect of the relationship. Between 2008 and 2015 the balance allowed the Kuomintang and the CCP to sign 23 cross-strait agreements covering aimed at improving cross-strait relations, enhancing economic ties, and fostering practical cooperation. A key achievement was the Economic Cooperation Framework Agreement (ECFA) in 2010, which reduced tariffs on numerous goods and services to boost trade between Taiwan and China. Agreements were also reached to expand direct flights, streamline maritime transport, and improve logistical connectivity. These efforts facilitated tourism, bringing a surge of Chinese visitors to Taiwan and promoting cultural and educational exchanges. Further collaboration included access to Chinese markets for Taiwanese farmers and fishers, measures to combat crime, and mechanisms for judicial cooperation, including extradition[33].

While these agreements highlighted a period of improved relations and pragmatic collaboration, they were met with criticism from some Taiwanese factions, who viewed them as potentially compromising Taiwan's autonomy. While Taiwan's Kuomintang accepted the framework to facilitate negotiations on practical issues, the Chinese Communist Party (CCP) viewed it as affirming China's sovereignty over Taiwan[34].

Multiple "One China" policies?

The PRC and Taiwan are not the only differences in their interpretation of the One China policy. Authors have increasingly pointed out that it might be possible to talk about multiple **One China policies**, defining One China based on the country's relations with the PRC, the United States, and Taiwan when establishing diplomatic ties with Beijing[35]. This notwithstanding, these One China policies are not equivalent to the **Chinese One China principle**, which states that there is only one China of which Taiwan is an inalienable part and over which the PRC is the only legitimate government, and that denies any possibility of sovereignty for the island.

Over time the PRC has sought to promote its interpretation and has increasingly conflated States' definitions with its own. In particular, the CCP leadership has made numerous claims that its One China principle has been recognized by UNGA Resolution 2758 in 1971 and that the countries that have established diplomatic relations have done so based on said principle. Alongside its growing assertiveness in claims over Taiwan, this distortion of already expressed differences is being employed by Beijing as a tactic to create the perception of widespread consensus. Through this Beijing is seeking to legitimize its stance and claim moral superiority, enabling it to call out what it views as inconsistencies or betrayals by other nations[36].

But what are the real geopolitical balances today? Following up on this historical context, the following section explores current geopolitical dynamics through the lenses of Taiwan, the US and the EU as international actors. It assesses the changing relations, technological developments, trade dependencies, investment and shifting perceptions to understand the balance of power in Taiwan and assess future opportunities and challenges.

22 The report was submitted by: Albania, Algeria, the Congo, Cuba, Guinea, Iraq, Mali, Mauritania, the People's Democratic Republic of Yemen, Romania, Somalia, Sudan, the Syrian Arab Republic, the United Republic of Tanzania, Yemen, Yugoslavia and Zambia (15 July 1971)

23 Representation of China in the United Nations (1971)

24 Representation of China in the United Nations (1971)

25 Curtis, J. & Walker, N. (2024)

26 Hsieh, P. L. (2020)

27 USA Department of State, (n.d.-b)

28 American Institute in Taiwan (AIT) (2022)

29 Goldstein, S.M. (2023)

30 Copper, J.C. (2024b)

31 Resar, A. (2022)

32 Chen, Y. & Cohen, J.A. (2019)

33 Chen, Y. & Cohen, J.A. (2019)

34 Resar, A. (2022)

35 Ian, Chong Ja (2023, February 09)

36 Ian, Chong Ja (2023, February 09)

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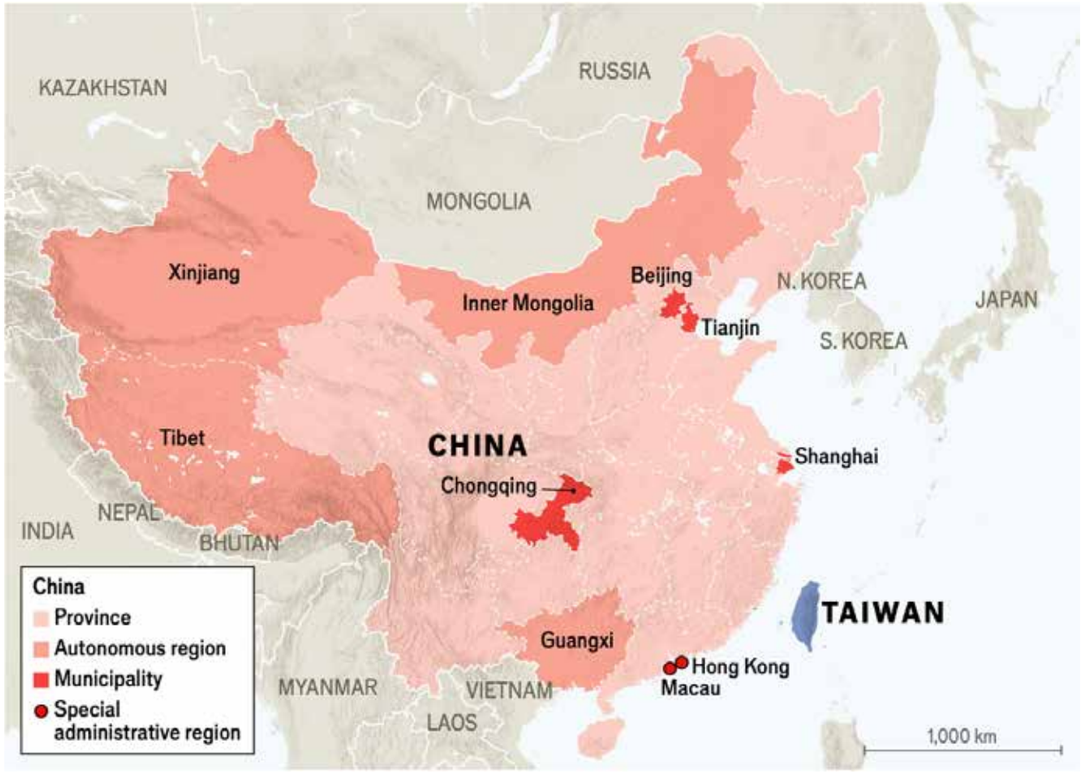
3

CHANGING GEOPOLITICAL BALANCES
Taiwan in the Indo-Pacific, the EU and the US

Taiwan as a geopolitical actor



Source: The Economist (2024, July 10) A short history of Taiwan and China, in maps, The Economist, https://www.economist.com/graphic-detail/2024/07/10/a-short-history-of-taiwan-and-china-in-maps

Only 12 countries in the world maintain official diplomatic relations with ROC. These include Belize, Guatemala, Haiti, Paraguay, Saint Lucia, St. Kitts and Nevis, and St. Vincent & the Grenadines in Latin America; Palau, Tuvalu, and the Marshall Islands in Southeast Asia; the Kingdom of Eswatini in Southern Africa; and the Holy See (Vatican City). Taiwan is not represented in international fora: Its participation is limited to the WTO, which it joined in 2001 as **'Chinese Taipei'** (fully: Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu). Both the EU and the U.S. engage with Taiwan with caution, and although ties are increasing, these are still guarded and limited attempts that centre mostly on cultural and economic relations and never touch upon the island's independence from China or its membership in international organisations.

This notwithstanding, Taiwan is a growing economy that has become indispensable in global trade relations. With a GDP

growth of an average of 1.28 per cent since 1981[37], in 2024, Taiwan ranked 4th in the world and 2nd in Asia in the economic freedom index released by the Heritage Foundation[38]. It is also ranked number 14 on the World's 100 Richest Countries 2024 by Forbes, one spot above Hong Kong, with €73,770 GDP per capita (data as estimated by IMF)[39].

Ever since its economic boom in the 1960s, Taiwan has become increasingly linked to the global economy, especially when it comes to crucial technologies such as semiconductors. The ruling Democratic Progressive Party, which has been in power almost without interruptions since the 1990s, has conducted relentless soft diplomacy to place Taiwan high on the radar of Western countries including the U.S. and European states. Although the country does not have *de facto* independence, it enjoys free elections, control over a defined territory, a military and its passport[40]. Additionally, Taiwan closely cooperates with countries worldwide on trade, investment and green technology.

As Taiwan has focused on the production of high technology, with the big role played by TSMC, since 1987 its economy has continued growing and thriving. In 1997, the World Bank and the IMF listed Taiwan as an advanced economy, and in the 2010s Taiwan became one of the world's high-income countries. According to the IMF, Taiwan surpassed Japan in 2007, the UK in 2009, France in 2010, and Germany in 2014. In 2018, Taiwan produced 72 per cent of the world's IC (integrated circuits) foundries, 49 per cent of the world's IC packaging and testing, and, if offshore production is included, 85 per cent of the world's computer motherboards (in value) and 79 per cent of the world's notebook computers (in volume)[41]. Today, Taiwan is a high-tech powerhouse, economically speaking. However, when it comes to geopolitical affairs, there are still some issues to be wary about.

Taiwan and semiconductors

Taiwan manufactures over 60% of the world's semiconductors and around 90% of the most advanced semiconductors globally. Semiconductors are fundamental in numerous technologies that are utilised daily from smartphones to automobiles and industrial machinery (and others). Not only is semiconductor manufacturing an extremely complex process that requires highly specialised machinery, but the production chain for semiconductors is also incredibly intertwined, relying on specialised knowledge, materials and machinery which all stem from different countries. A disruption to Taiwan's production of semiconductors could cause serious repercussions across the chain and affect industries worldwide.

SEMICONDUCTORS MARVEL[42]

Semiconductors are one of the world's most traded products after crude oil, refined oil, and cars. Most of the world's GDP is produced with devices that rely on semiconductors. And what is more importantly, chips from Taiwan provide 37% of the world's new computing power each year. Semiconductors are everywhere, from cars, and computers, to home appliances.

A semiconductor is a chemical element or compound that conducts electricity under certain conditions and blocks it under other conditions. Chips are at the heart of any electronics that we use in our everyday life and chips are made out of semiconductors. Due to their exceptional importance for growth and prosperity and extremely high demand, semiconductors have become a political entity and, as the COVID-19 pandemic has demonstrated, in times of shortage it has gained international importance.

The semiconductor production process comprises only 3 steps: design, fabrication and assembly, and test. Developing a modern chip requires advanced tools, called electronic design automation software (EDA). Most of the chip design companies are concentrated in the United States – nearly every chip in the world uses software from at least one of the three U.S.-based companies, including Cadence Design Systems, Synopsys, and Mentor. The finished chip design is then sent to a wafer fabrication plant (fab) for production. The overall manufacturing process is quite complicated, consisting of up to 1400 steps and requiring up to 300 different inputs, mainly chemical ones of which Japan is the major supplier.

To process these inputs, the manufacturer requires over 50 types of highly engineered precision equipment. For example, EU's Netherlands-based company ASML is the only producer of Extreme Ultra-Violet (EUV) scanners used to manufacture chips under 7 nanometers. What is more, the world's entire semiconductor manufacturing capacity below 10 nanometers is currently located in two countries alone, South Korea (8%) and Taiwan (92%). And the name of the marvel is TSMC – Taiwan's Semiconductor Manufacturing Company.

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37 Taiwan GDP Growth Rate (n.d.)

38 Italian Trade Agency (ITA) (2024, March 24)

39 Focus Taiwan (2024, August 10)

40 Blanchard, B. & Lee, Y. (2024, October 29)

41 Hsiao, F.S.T. (2024)

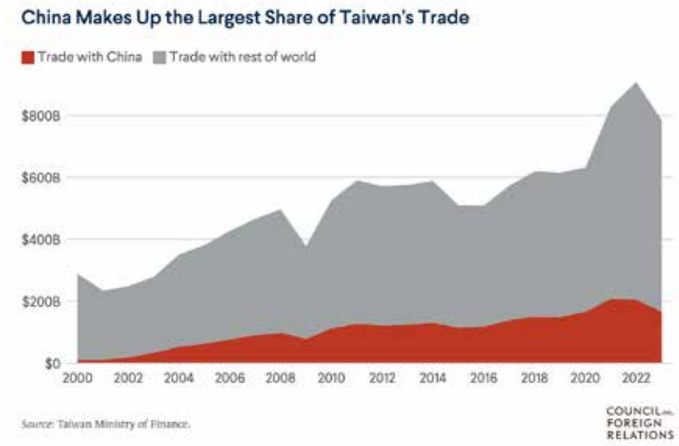
42 Stanford Report (2023) & Miller, C. (2024)

As Taiwan's leading semiconductor company, TSMC expands its global footprint by investing in regions like Europe, the United States, and Japan, Taiwan continues to play a central role in the global semiconductor market. While these international ventures strengthen global supply chain networks, Taiwan remains indispensable to the advanced manufacturing and innovation processes that underpin semiconductor production. For now, the island remains essential to worldwide semiconductor production and remains strong in the foreseeable future.[43]

Diversifying trade and investment

While this places Taiwan in a strategic position – a position which in its mind enhances the protection that it can expect from the US and other international powers – the country's focus on technologies also affects the possibility of attracting diversified foreign direct investments that target other industries. The crowding out of opportunities for other industries is a serious concern for the Taiwanese.

Additionally, Taiwan's trade remains linked to China, which is the island's largest trading partner. The trading links between the countries solidified with agreements such as the 2010 Cross-Straits Economic Cooperation Framework Agreement, in which the two parties agreed to lift trade barriers and resume direct sea, air and mail links banned for decades[44]. Nonetheless, before the latest elections, the PRC initiated the process of reviewing Taiwan's compliance with the ECFA and found that Taipei had violated its commitments, publishing a list of minor penalties. According to experts though Beijing might use the review – especially in the context of the electoral results – to restrict trade with Taiwan and set hurdles for Taiwanese firms in mainland China. The suspension of the agreement is a remote but still tangible possibility with serious repercussions for Taiwan[45].



Maizland, L. (2024) Why China-Taiwan Relations are so Tense, Council on Foreign Relations, https://www.cfr.org/backgrounder/china-taiwan-relations-tension-us-policy-biden

Expanding Taiwan's trade ties has been on the agenda of the governing DPP at least since 2016, given the increased frequency of disruptions in cross-strait trade. One notable effort is the New Southbound Policy, introduced in 2016, which has bolstered economic relationships with countries in Southeast Asia and the Indo-Pacific. Between 2016 and 2022, trade with eighteen countries nearly doubled, and Taiwanese investments in those regions have grown consistently[46]. In 2019, the DPP also launched a plan to incentivize manufacturers to relocate operations from China back to Taiwan.

Despite these efforts, Taiwan remains economically tied to China, with exports to the mainland reaching unprecedented levels in 2021. Beijing has actively worked to isolate Taiwan by discouraging nations from forming free trade agreements with it. Only a few countries, including New Zealand and Singapore, have signed such agreements, with the latter being the only developed nations to do so. Furthermore, China has successfully lobbied against Taiwan's inclusion in major trade partnerships like the Regional Comprehensive Economic Partnership (RCEP), which includes China, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Taiwan is also excluded from the United States Indo-Pacific Economic Framework.

43 Yang, San-Yi (2024)

44 Maizland, L. (2024)

45 Hart, B., Kennedy, S., Blanchette, J. & Lin, B. (2024, January 19)

46 The Economist (2023, March 06)

PRC Pressure on Taiwan

Taiwan's economic importance and strategic relations with other powers, as well as its geographical location, pose significant concerns to the CPP. Firstly, Taiwan's location is crucial for the PRC's access to key maritime routes in the East and South Seas. If Taiwan were to align with rival powers, the country's access to these vital sea lanes could be disrupted, impacting trade and military operations. Taiwan's close relationships with countries like the U.S. are perceived as a channel for foreign military presence, which Beijing perceives as a direct threat to its national security and regional dominance. Taiwan's increased collaboration with other countries in cybersecurity has increased fears that this could be leveraged against China in potential conflicts. Finally, China fears that Taiwan's de facto independence could inspire separatist movements within its territories, such as Tibet and Xinjiang, undermining its territorial integrity.

For this, the PRC's policies towards Taiwan have been relentlessly warning against a possible independence of the island. On 21 February 2000, the PRC published a White Paper in which it threatened to use military force, not only if Taiwan should proclaim independence, but also if Taiwan kept delaying indefinitely talks on an eventual reunification with China[47]. In 2005, China's Parliament passed the Anti-Secession Law, which would give the country the legal basis for military action against Taiwan in case of (seeming) secession. While the law is vague in terms of the details and the context in which it would take effect, on multiple occasions the CPP leadership has reiterated that it would be willing to initiate military action if the possibility for peaceful reunification is lost. One instance was the 15th anniversary of the Law itself in 2020[48].

In the past years in particular, tensions across the region have built up, leading to hardened positions on both sides of the Strait. China has on multiple occasions displayed its preparedness to act. The frequency and scale of patrols of fighter jets, and surveillance aircraft over and around Taiwan, and the display of warships and aircraft carriers in the Taiwan Strait has increased over the years. For instance, in 2022, during U.S. Speaker of the House of Representatives Nancy Pelosi's visit to the island, China decided to launch military exercises encircling Taiwan, displays of force that it has also conducted on the occasion of elections in 2016 and 2020 when the DPP obtained winning majorities in national elections.

Beyond displays of military force, Beijing has also adopted several grey-zone military tactics such as cyberattacks, disinformation campaigns, information manipulation and covert influence information, which usually culminate around the period of elections. Ahead of the elections in 2024, Taiwan faced a 3,370 per cent increase in cyberattacks against the government[49]. Furthermore, the PRC has sought to pressure Taiwan through other covert practices, from halting cross-strait communication with Taiwan's main liaison office to restricting tourism from mainland China to Taiwan or coercing global companies, such as airlines and hotel chains, to label Taiwan as a province of China. It has also targeted countries maintaining ties with Taiwan, for instance by severing trade with Lithuania in 2021 after the country allowed a Taiwanese representative office to open in its capital[50].

In case of an armed confrontation, Taiwan would be seriously put under strain. In Taiwan, defence spending has taken centre stage under the last presidencies. Former President Tsai increased defence spending significantly, reaching a record €18.2 billion for 2023 and the Parliament approved spending an additional €8.25 billion on defence over the next five years, partially to acquire cruise missiles, naval mines, and advanced surveillance systems to defend Taiwan's coasts. While this trend is bound to continue under Lai's presidency, China's defence budget is still estimated to be twelve times larger[51].

Without the active support of the U.S. military or other regional powers, it is unlikely that Taipei would be able to respond or resist an attack by mainland China. Nonetheless, experts disagree on whether such a confrontation could happen, if ever. Some point to 2049 as a potential date, marking the 100th anniversary of Taiwan's independence and a crucial date by which Beijing has set a deadline to achieve its Chinese Dream to return to its great-power status[52]. According to some, the PRC might also be weary of having to wage a war against Taiwan. Recent political developments in the country might contribute to reinstating dialogue between the parties rather than escalating conflict.

A shifting national identity

Beyond the different interpretations of the One China policy and its link to the One China principle, in the past years, sentiments in Taiwan have remained strongly in favour of independence from the PRC. According to research conducted after the latest elections on the island, the majority of people in Taiwan see themselves as being Taiwanese (67%), while only 3% identify as 'Chinese' and close to one-third (28%) as both, numbers have not changed since a similar study was conducted in 2019[53].

47 Joint Motion for a Resolution, Resolution on Taiwan 2000/2554(RSP)

48 Tian, Y.L. (2020, May 29)

49 Ferenczy, Z.A. (2024)

50 Maizland, L. (2024)

51 Maizland, L. (2024)

52 Maizland, L. (2024)

53 Huang, C. & Starr, K.J. (2024, January 16)

Even across the different identities, polls have shown that the appeal for unification with the PRC has consistently declined over time. Beyond the already small percentage of people who wanted to unify immediately with the PRC (3%), only 5% of individuals believe that Taiwan should move towards unification, a share that has fallen threefold in the past 30 years[54]. Those identifying with Taiwan are also more likely to perceive China's power and influence as a major threat, especially among young adults and highly educated[55].

These forms of identity are closely reflected in the politics in the country, where the Democratic Progressive Party has obtained subsequent electoral victories since 2015. The DPP is a central force in Taiwan's political landscape with a political position shaped by a firm commitment to safeguarding Taiwan's sovereignty and promoting democratic values. The party has been strongly in favour of Taiwan's independence, distinct identity and right to self-determination, and its leaders are therefore seen as "secessionist" by PRC's leadership[56].

While the party has sought to balance its approach to cross-strait relations by maintaining the status quo, it firmly opposes the "One China" principle and advocates for Taiwan's inclusion in international organizations. This position often contrasts with the KMT's approach, which traditionally favours closer ties with China. Domestically, the DPP has been instrumental in progressive reforms, from labour and pension changes, reflecting a broader vision of modernizing Taiwan while consolidating its status as a vibrant democracy[57].

Elections in Taiwan: Shift in balances?

In January 2024, Taiwan held elections to vote for the new President and 113-seat Parliament. The DPP candidate for Presidency was elected, following previous DPP victories since 2016. Nonetheless, while the Democratic Progressive Party was favoured in the polls, the party did not manage to secure a majority in Parliament, where the largest number of seats was allocated to the opposition Kuomintang party (52 seats) for the first time in the past 8 years[58].

Since taking office Lai has said on several occasions that the Republic of China and People's Republic of China are "not subordinate to each other", which Beijing says means he believes the two are separate countries and so he is therefore pushing an independence narrative. Nonetheless, the victory of the Kuomintang is telling of the priorities of the Taiwanese and their growing concerns with the economy. While Taiwan enjoys high standards of living, the cost of living has been consistently a source of discontent for citizens, as well as increasing inequalities.

The re-emergence of the Kuomintang in the political polls represents a significant political shift with likely repercussions on the approach that Taiwan is going to take in its relations with mainland China, and China's approach to dialogue with Taiwan. Unlike the DPP, the Kuomintang party has always had a more moderate stance, at least in its willingness to promote dialogue and seek reconciliation with mainland China[59]. Even if the Kuomintang might not be able to define the island's relations with Beijing, their presence in Parliament might be enough to constrain certain policies that might be pursued by Lai. Nonetheless, the concerns with the DPP's new victory might be excessive. While Beijing may warn of secessionism, there is no evidence that the new leadership will seek change. Additionally, over the past 8 years, experts have noted that the DPP has moderated its policies and did not push aggressively for outright *de jure* independence anymore[60]. Seen through this perspective, Beijing's silence after the elections could signify that on both sides there might be an interest in maintaining the status quo.

Taiwan, China and the United States

Taiwan has been the most important and challenging issue in U.S.-China relations. Since the 1960s, strategic ambiguity has dominated the U.S. stance on Taiwan – as highlighted already in the first part of this report. The United States government acknowledged the People's Republic of China's "One China" principle without actively endorsing it.

As part of President Nixon's policy of "détente" during the Cold War, the U.S. sought to normalise relations with China. Following a series of attempts at negotiations, in 1972 President Nixon along with the National Security Advisor Henry Kissinger visited Beijing. The visit resulted in Shanghai Communiqué, in which each articulated its position

54 Batto, N.F. (2022, December 12)

55 The perception of Beijing as a major threat is not unique to Taiwan but widespread in Southeast Asia, as research shows. Refer for instance to: Silver, L., Hunag, C. & Clancy, L. (2023, December 05)

56 Blanchard, B. (2024, July 21)

57 Associated Press (2024, May 19)

58 Hart, B., Kennedy, S., Blanchette, J. & Lin, B. (2024, January 19)

59 Casarini, N. (2024)

60 Hart, B., Kennedy, S., Blanchette, J. & Lin, B. (2024, January 19)

on a crucial obstacle to normalization, the Taiwan issue. The People's Republic of China affirmed that Taiwan was a part of China and that it opposed all attempts to create two Chinas, one China and one Taiwan, or an independent Taiwan. The United States declared that it "acknowledges that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is a part of China," and that it did not challenge that position, however stated the need for a peaceful resolution over Taiwan issue. The principles established in the Shanghai Communiqué provided the basis for the formal diplomatic relations established by President Carter in 1979[61].

In 1978, the Chinese Communist Party declared its "united front" with the United States, Japan, and Western Europe against the Soviet Union, which to diplomatic relations with the U.S. CCP supported American operations in Afghanistan and Vietnam, in exchange for which President Carter cancelled the Sino-American Mutual Defence Treaty (SAMDT) with the Republic of China. In 1979, the US Congress passed the Taiwan Relations Act, which determined a new position towards Taiwan: *de facto* diplomatic relations with the governing authorities with Taiwan, maintaining commercial, cultural, and other relations with the island. However, the Act does not recognise the terminology of "Republic of China" but uses the terminology of "governing authorities on Taiwan"[62].

This act underscored America's commitment to providing defence arms and services to Taiwan should the PRC attack or invade the island. The Act states that "the United States will make available to Taiwan such defence articles and defence services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defence capability". The TRA further stipulates that the United States will "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"[63]. Following the Taiwan Relations Act, the Chinese counterparts were not satisfied that the Act did not include the cut-off against arms sales to Taiwan, pressuring the United States government. This led to the third joint communiqué in 1982 under President Ronald Reagan's administration, which stated that the US did not intend to sell arms to Taipei on a long-term basis and planned to gradually reduce sales[64].

Besides the TRA, in 1982 Raegan offered "six assurances" to Taiwan which ensured that the U.S.: 1) has not agreed to set a date for ending arms sales to Taiwan; 2) has not agreed to consult with the PRC on arms sales to Taiwan; 3) will not play any mediation role between Taipei and Beijing; 4) has not agreed to revise the Taiwan Relations Act; 5) has not altered its position regarding sovereignty over Taiwan; 6) will not exert pressure on Taiwan to enter into negotiations with the PRC[65]. The "six assurances," together with the TRA, established a strong foundation for U.S. policy toward Taiwan, contributing to Taiwan's security and prosperity while enabling bilateral relations to flourish in the following decades.

In 1992, President Bush, in violation of a 1982 U.S.-China arms sales communiqué, sold Taiwan 150 F-16 fighter aircraft. In 1995, the Clinton administration allowed Taiwanese leader Lee Teng-hui to visit the United States for a class reunion at Cornell University. No Taiwan leader has visited the United States since Washington and Beijing established diplomatic relations in January 1979 under an agreement that downgraded Taiwan's diplomatic status[66]. From China's perspective, Washington seemed determined to continue revising its Taiwan policy, thus encouraging Taiwan's leaders to move closer to- ward a declaration of sovereignty from mainland China[67].

Following Lee's visit to Cornell, the U.S. and China reopened their negotiations over US policy on Taiwan for over ten months. During 1995-1996, China started exercising a series of missile tests in the waters surrounding Taiwan, including the Taiwan Strait. The climax was reached in March 1996 when the US had to deploy two carrier groups in response to the Chinese show of military force. This confrontation was the closest the United States and China had come to a crisis since the early 1960s. The crisis boosted Lee's rating by 5%, leading to his election in 1996 as the first Taiwanese president.

Some scholars argue that because of the confrontation both China and the United States achieved their objectives at the time. The Taiwan Strait confrontation reflected the interaction of Chinese coercive diplomacy and U.S. deterrence diplomacy. China used coercive diplomacy to pressure the U.S. and Taiwan into changing their policies, while the United States used force to defend its strategic reputation by influencing perceptions of the US resolve to defend Taiwan. China also aimed to coerce Taiwan into abandoning its effort to redefine the "one China" principle and Taiwan's status in international politics[68].

61 USA Department of State, (n.d.-b)
62 Goldstein, S.M. (2023)
63 American Institute in Taiwan (AIT) (2022)
64 Copper, J.C. (2024a)
65 Taipei Economic and Cultural Representative Office in United States (2024)
66 Tyler, P.E. (1995, May 24)
67 Ross, S.R. (2000)
68 Ross, S.R. (2000)

Trump, Biden, and Nancy Pelosi's historical visit to Taipei

Under President Trump, U.S. policy toward Taiwan became more explicit and openly supportive, largely driven by worsening relations between the U.S. and China. During his administration, Trump bolstered military support for Taiwan, including naval operations in the Taiwan Strait, dispatched senior officials to visit the island, and directed his Secretary of State to ease restrictions on meetings between U.S. diplomats and Taipei representatives. Unlike the Obama administration which has declined to sell military jets to Taipei which wanted to update the jets purchased in 1992 under the Bush administration[69], Trump has encouraged Taipei to purchase dozens of F-16s, selling 66 of those in 2019[70].

Trump expressed his support in non-military measures too: Following the 2016 Presidential election, Trump spoke on the phone with President Tsai Ing-wen in what was believed to be the first time a U.S. president or president-elect spoke directly with a Taiwanese leader since at least 1979. In 2018, the US government also approved a €245.7 million upgrade package to the *de facto* U.S. embassy in Taiwan – American Institute in Taiwan, a non-governmental organization mandated by the Taiwan Relations Act to carry out the United States' unofficial relations with Taiwan, with several U.S. politicians and officials attending the ceremony. It was yet another act disapproved by Chinese officials, as the spokesperson for the Chinese foreign ministry Geng Shuang said that "the U.S., by sending officials to Taiwan under whatever pretext, severely violates the one-China principle and three China-U.S. joint *communiques*, interferes in China's internal affairs and exerts a negative impact on China-U.S. relations."

To add to the strengthening of the relations, in 2018, Congress unanimously passed the bill to allow visits between the U.S. and Taiwanese officials at all levels, under the "*Taiwan Travel Act*"[71]. In 2017, there was also a bill on the books, *"Taiwan Security Act",* aimed to enhance the security of Taiwan and bolster its participation in the international community, and for other purposes, which was a way for the U.S. Congress to say that Taiwan should be managed as a normal U.S. security cooperation partner in Asia. Most importantly, in his first presidency, Trump kept delineating the U.S. "One China Policy" from the PRC's "One China Principle."

President Biden continued stepping away from the U.S. policy of "strategic ambiguity" as he made statements on several occasions on the American obligation to protect Taiwan should Taiwan be attacked by the People's Republic of China, stating that "the United States strongly opposes unilateral efforts to change the status quo or undermine peace and stability across the Taiwan Strait"[72]. Biden publicly made that pledge on at least six occasions: August 2021, October 2021, May 2022, September 2022, and twice in May 2024.

In August 2022, while serving as the Speaker of the U.S. House of Representatives paid a visit to Taiwan's capital, sparking a new line of tensions between Washington and Beijing. Beijing's government perceived it as another push towards Taiwan's independence: For them, the visit constituted a "major political provocation" and sent the "wrong signal." Pelosi's meetings with both Taiwan's president and the leadership of the opposition Kuomintang party—traditionally more inclined toward friendly relations with Beijing—reinforced Beijing's perception that Taipei is becoming increasingly estranged from the mainland.

In response, Beijing launched joint military exercises around Taiwan and suspended or terminated eight official military dialogues and cooperation channels with the U.S. Taiwan experienced unprecedented provocations, including ballistic missile launches over the island, air and naval operations crossing the centreline and approaching its territorial waters, as well as a surge in cyberattacks that were reported to be "23 times higher than the previous daily record"[73].

Nancy Pelosi's trip to Taipei happened at a weak moment for the U.S.-China relations, as Beijing has been supportive of the Russian invasion of Ukraine. While China's leader has stopped short of fully endorsing Russia's war in Ukraine, Beijing has expressed support for "the efforts of the Russian side to ensure security and stability." In return, Putin has reaffirmed Russia's unwavering support for China's claims over Taiwan, as Xi prepares for the possibility of a military campaign to unify Taiwan with the mainland if other approaches fail. Meanwhile, China and Russia have been conducting joint military and naval exercises near Taiwan's waters, heightening the likelihood of closer strategic cooperation between these two nuclear powers in a potential Taiwan Strait conflict. Consequently, it is in the United States' national interest to respond decisively to ensure Taiwan's security[74].

As one of his last acts as an American President, Biden approved €522.3 million in defence support to Taiwan in September 2024 to boost the island's military in the face of rising tensions with China. Later in October, the U.S. approved a €1.9 billion arms sale package to Taiwan with an advanced

69 Landler, M. (2011, September 18)
70 Wong, E. (2019, August 2016)
71 Dwyer, C. (2018, June 12) & Taiwan Travel Act (2018)
72 Liptak, K. (2022, July 29)
73 Haenle, P. & Sher, N. (2022, August 17)
74 Chen, D.P. (2024, June 07)

air defence missile system battle-tested in Ukraine. The sale was approved soon after China conducted another round of war games around the island last week, the second time it has done so since Lai Ching-te took office as Taiwan's president in May 2024. This was the 18th military sale to Taiwan announced during the Biden administration since 2021, said Karen Kuo, Spokesperson of the office of the President of the Republic of China Lai Ching-te, emphasizing that the deepening Taiwan-US security partnership is a critical cornerstone for peace and stability in the Indo-Pacific region[75].

The U.S. policy on Taiwan under Trump 2.0

As U.S.-China tensions continue to escalate, Taiwan's strategic importance is more pronounced than ever. Moreover, considering the ongoing war in Ukraine, the future of Taiwan as a beacon of democracy in Asia is hanging on the outcome of the Russian military operation in Europe.

Before the election, Trump criticised Taiwan's defence spending as insufficient given the growing threat from China. When asked if he would defend Taiwan against China, Trump stated that Taiwan should pay for its protection. During his first term, Trump pushed Taipei to strengthen its defence capabilities and expanded arms sales to Taiwan, including advanced fighter jets and missile systems. Most likely, the second term can potentially bring even greater pressure on Taiwan to increase defence spending or purchase even more advanced military systems[76]. In the same interview with Bloomberg Businessweek, Trump stated that Taiwan took almost 100% of the US semiconductor business, mostly due to TSMC operations[77]. In response to the interview, Taiwanese Premier Cho Jung-tai responded that Taiwan is grateful for the US support and the country is ready to strengthen its defence capabilities. He also noted that while TSMC is expanding to the US, notably spending €62.4 billion on three plants in the US state of Arizona, its core manufacturing and R&D will remain in Taiwan[78].

Trump's appointed Secretary of State Marco Rubio and National Security Advisor Michael Waltz, both strong advocates for Taiwan's interests, could play a pivotal role in shaping U.S. policy toward Taiwan. For instance, Senator Rubio has consistently advocated for increased engagement with Taiwan, which could result in updates to the U.S. Department of State's contact guidelines to enable more high-level interactions with the Taiwanese government. Meanwhile, Representative Waltz has emphasized the need to strengthen the U.S. stance in the Indo-Pacific to deter the Chinese Communist Party. Given these strong positions, the White House may initiate a top-down effort to ensure that national security agencies allocate their resources in alignment with this strategy[79].

Another point to pay close attention to is Trump's possible decision to put more pressure on China and ease its economic dependency by imposing trade tariffs. This could in turn force Taiwan to strengthen its economic ties with the US and lessen its dependency on China. Taiwan's central bank warned that it could negatively affect Taiwan's economic growth, which is very sensitive to such shifts. The bank said that Trump's aggressive tariff policies could escalate trade conflicts and hinder competition in the tech industry[80].

In 2023, before Taiwan's 2024 election, President Biden told Xi Jinping, "[W]e oppose any unilateral changes to the status quo from either side. We do not support Taiwan independence. We support cross-Strait dialogue, and we expect cross-Strait differences to be resolved by peaceful means, free from coercion, in a manner that is acceptable to the people on both sides of the Strait. We do not take a position on the ultimate resolution of cross-Strait differences, provided they are resolved peacefully."[81] The question remains, whether Trump's 2.0 policy on Taiwan would continue that of his predecessor.

Taiwan and the European Union

In 2023, Taiwan was the EU's 13th largest trading partner with around €77.7 billion in bilateral trade in goods, and the EU was the fourth foreign investor in Taiwan after China, the USA and Japan[82]. While this equals only around 10% of the EU's trade with China – its second-largest trading partner after the US, counting for €739 billion in bilateral trade in 2023[83] - it still represents a significant sum for an island of about 23 million inhabitants.

While no European state recognises Taiwan's independence or supports its participation in international fora (except for the Vatican State), none has severed ties with the island either.

To this day, most EU Member States (19 in total, plus the United Kingdom and Switzerland) host a Representative Office of Taipei, be it an Economic and Cultural Office as in Austria, Czechia, Portugal and Spain or simply a Taipei Representative Office[84]. The Offices represent the interests of Taiwan in Member States and promote bilateral relations on a wide range of issues such as trade, investment, tourism, scientific and technological cooperation, and cultural exchanges. Crucially, they also act as *de facto* embassies and provide services to Taiwanese citizens abroad, supporting them with passports, visas or emergencies.

Since the 1970s, EU Member States have subscribed to a one-China policy which recognises the sole sovereignty of the People's Republic of China over one China and have simultaneously entertained varying diplomatic ties with Taiwan. Over the years, this network of diplomatic relations has strengthened. Additionally, since the 1990s at the European level, the European Parliament has been a driving force in pushing forward the narrative that Taiwan is a "thriving democracy and likeminded partner" that should be monitored and supported lest it faces threats from its authoritarian neighbour China. In light of the EU's focus on competitiveness and the realisation that technology plays a crucial role in its future as a leading world power, as well as the increased security questions raised by Russia's invasion of Ukraine, a new light is being shed on the EU's relation to Taiwan.

The EU's soft diplomacy approach

While the willingness to uphold a One China policy sets some boundaries on the EU's cooperation with Taiwan, the EU has been widely active in upholding and increasing relations with the region. Diplomatic relations between countries are not only carried out through embassies and ambassadors, and the EU is a thriving example of unofficial diplomatic ties centred on culture, economic and trade offices and exchanges on technological expertise. It does help that in East Asia the EU is perceived differently than other countries (such as the U.S.), mostly as a civilian and soft power actor rather than an actual security force[85]. Over the past decades, the number of such ties with Taiwan has increased, some argue, also as a reaction to the EU's shifting relations with China[86].

From the beginning, research, technology, and economic exchange played a crucial role in strengthening relations between Taiwan and European counterparts, even in the absence of official diplomatic relations. In the late 1970s, numerous centres were established in Europe to foster dialogue between governments, such as the German Cultural Centre in Taipei, the Spanish Chamber of Commerce, and the French Association for Cultural and Scientific Development in Asia [87]. In the 1980s, the European Chamber of Commerce Taipei was also established in the city, to represent the interests of EU businesses in Taiwan across 30 established sector committees[88]. Taiwan likewise opened similar centres in Europe. Examples are the Free China Centre in the U.K., the Far East Trade Service in Germany, the Asian Centre for Economic and Trade Promotion in France, and the Taipei Information Centre in the Netherlands.

Over the years, relations have been furthermore consolidated through numerous visits by delegations of elected officials to Taiwan, and likewise of Taiwanese representatives to Europe. For instance, in 2022 Germany sent four separate delegations to Taipei, including a delegation led by the Federal Minister for Education and Research Betting Stark-Watzinger. Following the visit, the minister signed a Germany-Taiwan Science and Technology Agreement to expand collaboration on AI, batteries and semiconductors. MEPs have also been increasingly present in Taiwan. Notable were the visits of seven members of the Special Committee on Foreign Interference and Disinformation of the European Parliament in September 2021 and of four members of the European Parliament's Taiwan Friendship Group in 2023, during which MEPs met with former President Tsai Ing-wen[89].

The increased visits and expanded cooperation between governments are indicative of a clear shift that is taking place in Europe. It appears that over time, the EU and its Member States are increasingly seeing Taiwan outside of the EU-China context as an entity of its own, a like-minded partner beyond their relations with Beijing[90]. In its first Strategy on China in 2023, Germany noted that it has 'economic and technological interests regarding Taiwan" recognising the entity's importance as a location for German companies, as a trade partner and significantly, underlining the importance of security in the Taiwan Strait[91]. Another noteworthy development was the choice of Lithuania to open a Representative office of Taiwan in the country in 2021 and, crucially, to name it 'Taiwanese Representative Office in Lithuania'. The country became the

75 Stone, M. & Blanchard, B. (2024, October 26)
76 Satake, H. (2024, December 03)
77 Bloomberg Businessweek, (2024, July 16)
78 Davidson, H. (2024, July 17)
79 Kowalewski, A.E. (2024)
80 Reuters (2024, November 13)
81 Lawrence, S.V. (2024)
82 European Commission (n.d.-a)
83 European Commission (n.d.-b)
84 ROC Embassies and Mission Abroad (n.d.)
85 Casarini, N. (2024)
86 Yang, San-Yi (2024)
87 Le Corre, P. (2021)
88 European Commission (n.d.-a)
89 Le Corre, P. (2021)
90 Ferenczy, Z.A. (2024)
91 German Federal Government (2023) p.51

first with a representative office with 'Taiwan' in its title, rather than the 'Taipei' generally used.

This shift is evident also at a European level, where the European Parliament – composed of the elected representatives of the 27 Member States – is calling for a different approach to Taiwan. Security and an investment agreement to solidify economic relations and greater Taiwanese representation in international fora are at the heart of the narrative pursued by the institution.

"A like-minded partner": The EP support to Taiwan

Although the European Parliament has a limited role in foreign policy or trade agreements, the political discussions and resolutions that are adopted in the Parliament can play an important agenda-setting role which the EP has embraced on multiple occasions. Since the 1990s, the European Parliament has been a driver in redefining the block's attitude towards Taiwan and in envisioning the country as a thriving democracy and like-minded partner, a position that it has reiterated on multiple occasions in several crucial, albeit non legally binding, resolutions.

In 2000, for instance, the European Parliament adopted a Resolution which already highlighted three main tenets of the EP's approach to Taiwan. The Resolution called on both Taiwan and the PRC to refrain from any military escalation in the region, underlining the importance that Taiwan played in the region "with regard to the respect of human rights, the development of democracy and the consolidation of the rule of law". Additionally, it stressed that the EU should support greater representation for Taiwan in international fora, most notably the World Trade Organisation. Finally, in the Resolution the EP called for the opening of a European Commission Representative office in Taipei and invited its Delegation for Relations with China to find "ways of establishing relations with the Parliament of Taiwan"[92].

MAIN ELEMENTS OF EP RESOLUTIONS ON TAIWAN OVER THE YEARS:

1. **Taiwan's representation** in international fora, both in calling for Taiwan to have observer status in several mechanisms and activities of international organisations and supporting international activities that call for Taiwan's participation in international organisations. While still supporting a One China policy, the EU has also denounced the PRC's repeated attempts to misinterpret UN Resolution 2758.

2. **Stronger EU relations with Taiwan**, through EU and Member State offices in the country, cooperation with the Parliament of Taiwan, and the adoption of initiatives to enhance bilateral economic relations and cooperation across sectors (including connectivity projects and co-investment partnerships). In this, an important concrete call has been an **EU-Taiwan Bilateral Investment Agreement (BIA)** that has not been picked up by any other institution to this date.

3. **Security**, in particular calls for no escalation in the region, recognising the importance of peace in the Indo-Pacific for the EU, expressing deep concerns over China's military presence and pressure and disinformation campaigns, and condemning any unilateral attempt to change mainland-China – Taiwan cross-state relations.

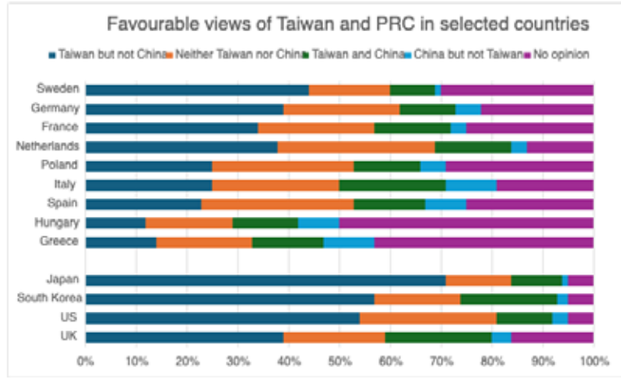
In 2023, the EP went further in calling for "greater Coordinated Maritime Presence (CMP) and capacity building with the EU's partners in the region"[93] and in 2024 welcomed the "increase in freedom navigation exercises conducted by several EU countries" to counter PRC expansive claims and underscore the importance of maintaining a rules-based international order.

These elements have continued to dominate the narrative of the European Parliament over the years, especially after Taiwan joined the World Trade Organisation (WTO) in 2002 as Chinese Taipei. The following year, in 2003, the European Commission established a **European Economic and Trade Office in Taipei**[94]. According to its website, the office "is responsible for all policy areas of the relationship between the EU and Taiwan", representing and promoting EU interests in Taiwan, supporting a better understanding of the EU and its functioning and developing strong bilateral relations in trade and investment, policy cooperation, education, culture, research and innovation[95]. The website goes further to highlight the strong partnership that ties the EU and Taiwan centred on common values (democracy, rule of law and human rights) and on common goals (promoting stability, security and sustainable growth).

In October 2021, in another crucial Resolution – crucial at least in indicating the EP's propensity to good relations with Taiwan – the European Parliament called for the EU to rename the office in Taiwan to 'European Union Office in Taiwan' reflecting the broader scope of relations between the countries. Furthermore, the Resolution called for the launch of an impact assessment, public consultation and scoping exercise for an EU-Taiwan Bilateral Investment Agreement (BIA)[96] a call echoed in another 2023 Resolution calling for closer economic engagement with the island[97] and again in 2024[98].

Following the European election, the new parliament is taking an even stronger stance in support of Taiwan. In October 2024, the European Parliament passed a resolution condemning China's continued military provocations and misinterpretation of the UN Resolution 2758. The Parliament stressed that the Chinese military build-up in the Taiwan Strait and the South China Sea changes the power balance in the Indo-Pacific and called on the EU and its Member States to step up their own maritime capacities in the region. Following the adoption of the resolution, a cross-party delegation from the European Parliament visited Taipei to explore possibilities for deeper trade relations, which was followed by the Third EU-Taiwan Trade and Investment Dialogue in December 2024[99].

The EP's Resolutions might not be legally binding, but they are significant in underlining the widespread sympathy with Taiwan that is becoming increasingly evident in Europe. According to some experts, Taiwan's approach to the COVID-19 pandemic reinforced the image of the government as being prepared cohesive, and ready to respond through effective policies centred on transparent information sharing, the protection of citizens' rights and involvement of civil society. Additionally, public opinion seems to be shifting unfavourably towards China, due to human rights violations, crackdowns against freedoms in Hong Kong and disinformation campaigns[100]. Finally, the recent war in Ukraine has led leaders to rethink the potential implications of an armed conflict in the Taiwan Strait and to re-evaluate Beijing's propensity to annex the island by force.



Source: Hunag, C. & Clancy, L. (2023, August 11) Taiwan seen more favourably than not across 24 countries, Pew Research Institute, https://www.pewresearch.org/short-reads/2023/08/11/taiwan-seen-more-favorably-than-not-across-24-countries/

Trade, Investment and Technology with the EU

Trade, investment and technology play a key role in defining the EU's attitude towards Taiwan. First and foremost, Taiwan is considered a trading partner like others in the Indo-Pacific with whom questions of trade barriers, investments in Europe and high-tech supply chains must be discussed[101]. In the past years, while there has been a small decline after 2020, the EU has sustained a strong trade in services and goods with Taiwan, and bilateral investment between the EU and Taiwan has also been strong.

In 2023, the EU's bilateral trade with Taiwan amounted to €77.7 million with EU exports to and imports from Taiwan amounting to €30.5 billion and €47.8 billion respectively. The most imported goods in the EU are products in information and communication technology, including telecommunication equipment (such as computers and their parts and phones) and electronic components, in particular integrated circuits such as microchips (or semiconductors). The EU's most exported goods, on the other hand, are semiconductor machinery, passenger cars, integrated circuits and pharmaceuticals[102], with the exports of power-generating machinery to Taiwan doubling

92 Joint Motion for a Resolution, Resolution on Taiwan 2000/2554(RSP)

93 European Parliament resolution of 28 February 2024 on the implementation of the common foreign and security policy – annual report 2023 (2023/2117(INI))

94 European Commission (n.d.-a)

95 Who we are (n.d.), European Economic and Trade Office in Taiwan

96 Recommendation of 21 October 2021 to the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy on EU-Taiwan political relations and cooperation (2021/2041(INI)) & European Parliament (2021)

97 European Parliament resolution of 13 December 2023 on EU-Taiwan trade and investment relations (2023/2829(RSP))

98 Joint Motion for a Resolution on the misinterpretation of UN resolution 2758 by the People's Republic of China and its continuous military provocations around Taiwan (2024/2891(RSP))

99 EU and Taiwan hold third Trade and Investment Dialogue, European Commission (2024)

100 Le Corre, P. (2021)

101 Legarda, H. & Vasselier, A. (2023)

102 European Commission (n.d.-a); Taipei Representative Office in the EU and Belgium (2024)

the amount in 2021. The picture is not surprising given Taiwan's leadership in microchips and semiconductors production, and the highly integrated supply chain in the production of these goods. In the EU Austria, Denmark, Finland, and the Netherlands had a trade surplus with Taiwan[103].

Historically, bilateral investment between the EU and Taiwan has also been strong. Between 1952 and 2023 the EU's Foreign Direct Investment (FDI) to Taiwan reached €55.3 billion, making the EU the largest investor in Taiwan. Likewise, Taiwan is also actively investing in the EU. In the past five years, Taiwanese investments in Europe totalled €8.05 billion, accounting for 62.4% of overall Taiwanese in the EU and representing a 10-fold increase compared to the previous 8 years[104].

To underpin the importance of Taiwan as an economic partner, the EU has been holding annual Trade and Investment Dialogues with Taipei's representatives. The Dialogues were launched in June 2022 and co-chaired by the EU's Director-General of DG TRADE (the Commission's directorate working on trade) and Taiwan's Minister of Economic Affairs. In both its iterations in 2022 and 2023, the discussions focused on the priority sectors of digital trade, offshore wind development, and market access for agriproducts.

The EU recognised that Taiwan is a "high-tech leader and producer of critical goods" and that it plays a central role in supply chains, security and technology in the semiconductors sector. The two parties also decided to explore how to deepen their cooperation in the areas discussed, for instance through monitoring supply chains in semiconductors – in line with the EU's European Chips Act, the EU's approach to strengthen Europe's semiconductor ecosystem, increase its semiconductor market share and build a strong semiconductor supply chain in Europe[105].

Additionally, in 2024 the European Chamber of Commerce in Taiwan (ECCT) and the European Economic and Trade Office in Taiwan (EETO) - functioning as the *de facto* EU representation in Taipei – co-hosted an EU Investment Forum in Taipei. Aimed at Taiwan companies, the Forum centred on strengthening EU-Taiwan cooperation to build more resilient and secure global supply chains, with discussions centred on the strategic role of key sectors such as ICT, mobility, telecommunication, semiconductors, and AI. Beyond the discussions, the Forum also featured an 'EU Investment Exhibition' with representatives of EU Member States showcasing investment opportunities in their countries[106].

The Future of the EU's Clean and Digital Transitions

Taiwan is an important trading partner and source of technologies that Europe needs for its green and digital transitions. Most of Europe's semiconductor chip supply derives from Taiwan, and over 40% of the EU's trade passes through the Taiwan Strait. While through the Chips Act, the EU aims to double its global share in semiconductor market share, through large-scale technological capacity building and innovation, experts seem to agree that this is not likely to be achieved in the short run and that the EU will maintain its dependencies on Taiwan[107]. Nonetheless, diversification and attracting investments can ensure that risks to dependencies are addressed and development advances in the Union while building the capacity to increase in-house production.

In this, Taiwan plays a double central role for the EU. On the one hand, it is central in the Union's strategy of de-risking through trade and re-balancing trade with China – a process that requires that the EU assess and de-risk its technological dependencies, risks and vulnerabilities in supply chains. To manage this, the EU must develop resilience in its supply chains and strengthen cooperation with partners such as Taiwan, who display support for the same values as the EU.

On the other hand, Taiwan has demonstrated a strong willingness to invest in the Union for R&D and infrastructure linked to chip manufacturing. In August 2024, TSMC held a groundbreaking ceremony in Dresden, Germany to announce the construction of their first production site in Europe, a 12-inch wafer fab. The ceremony was joined by EU Commission's president Ursula von der Leyen. The project's investment is expected to exceed 10 billion Euros with the plan to launch operations by the end of 2027[108].

Another Taiwanese tech manufacturer, GlobalWafers, has received a grant from the EU Commission to build a facility in Italy. Following the approval from the Commission, the Italian Ministry of Enterprises and Made in Italy (MIMIT) issued an Assignment Decree awarding a research and development grant of up to 103 million euros to MEMC Electronic Materials S.p.A., a GlobalWafer affiliate based in Novara, for construction of a 12-inch chip plant, which is expected to be Europe's most advanced semiconductor chip plant. This step will close a critical gap in the European semiconductor supply chain which has been highly dependent on imports from overseas[109].

103 Ferenczy, Z.A. (2024)

104 Taipei Representative Office in the EU and Belgium (2024)

105 Focus Taiwan (2023, October 12)

106 2024 EU Investment Forum (n.d.)

107 Hmaidi, A. & Chang, W. (2023)

108 Focus Taiwan (2024, August 21)

109 Focus Taiwan (2024, June 18)

Taiwan's links with EU Member States in matters of semiconductors and R&D even predate the Dialogues and the Chips Act. In 2020, Prague established a sister city agreement with Taipei and inaugurated a Supply Chain Resilience Centre in the city. The centre, which is funded by the Taiwanese government, aims to support the development of the semiconductor environment in the country[110].

Taiwanese companies are also tacking batteries for electric vehicles (EVs). ProLogium, an energy innovation company specializing in R&D and manufacturing of next-generation solid-state battery solutions for electric vehicles, announced in 2023 its decision to expand its manufacturing capacity to Europe. The company will set up its first large-scale solid-state battery manufacturing facility outside of Taiwan in Dunkirk, France. The company has allocated €5.2 billion investment to build a 48 GWh Gigafactory and an R&D centre[111].

The EU's relationship with Taiwan is not without conflict though: In 2024, for instance, the EU challenged Taiwan's discriminatory practices in offshore wind projects at the WTO level. According to the EU, Taiwan's local content eligibility and award criteria in energy capacity allocation auctions for offshore wind farms are inconsistent with its WTO commitment to not discriminate against imported goods and services. The EU argued that Taiwan's offshore wind policy harms the sector's strategic importance to the EU[112]. In November 2024, both parties have reached an understanding with Taiwan fully addressing EU concerns.

A Bilateral Trade Agreement with Taiwan

A call that has been made by experts arguing for deepening ties with Taiwan, by the EP and by officials in Taiwan is to institutionalise the growing economic relationship between the EU and Taiwan with a Bilateral Investment Agreement (BIA). The discussions for a BIA have been in place since 2015 when the "Trade for All" Strategy was published. The Strategy focused on using trade policy to promote sustainable development, human rights, and fair economic opportunities globally while ensuring transparency[113].As a part of the strategy, the Commission committed to explore launching negotiations on investment with Hong Kong and Taiwan, as a build-up on investment provisions under negotiation with China.

A BIA would aim to strengthen economic ties, promote fair and equitable investment conditions, and enhance supply chain resilience between Taiwan and the EU. The agreement could involve measures to facilitate mutual investment, ensure investor protection, provide mechanisms for international arbitration, and support the free movement of capital and know-how. It would particularly focus on high-tech industries like semiconductors, artificial intelligence, and green technologies, leveraging Taiwan's advanced capabilities in these fields to strengthen EU industries.

Such an agreement would also provide a legal framework to support the growing investment relationships, like TSMC initiatives in Europe and to reinforce the role of Taiwan as a key partner to diversify supply chains away from reliance on China. Finally, the EU's clean energy technology development and digital trade could be strengthened within the framework of the agreement.

As the new Commission is settling into office, Taiwan is resuming its push for a Bilateral Investment Agreement, but it is not guaranteed that the new Commission will engage in these discussions. Unlike the European Parliament, the EU Commission and Council of Ministers adopted a more cautious stance towards Taiwan and the possibility of a BIA, partly in response to considerations of how this might be seen by Beijing. Officials have already outlined that there is no need for an additional agreement, highlighting that it would be 'redundant' and that there is no demand for one from the business community, which is still privileging cooperation on a technical level[114].

Additionally, the People's Republic of China has made it clear that any formal pact with Taiwan would represent a breach of the EU's "One-China Policy." China has been adamant about this and has warned of the potential retaliatory measures that could ensue from the EU overstepping the One China policy in its relations with Taiwan. This concern has been particularly acute since the EU suspended the ratification process for a Comprehensive Agreement on Investment (CAI) with Beijing, following human rights concerns. The agreement would have granted EU investors a greater level of access to China's market. A potential investment agreement with Taipei might face strong negative reactions from Beijing.

Perhaps a more likely approach is the introduction of a framework for cooperation between the EU and Taiwan, that could cover investments, green energy and technology. Under this framework, there could be an increased space to also establish regular opportunities for exchange on topics such as economic coercion and derisking strategies[115]. Member States are already pursuing such cooperation on a wide range of issues, such as tax evasion, investment promotion and

110 Le Corre, P. (2021)

111 ProLogium (2023)

112 European Commission (2024, July 26)

113 European Commission, Directorate-General for Trade (2014)

114 Malinconi, M. (2023)

115 Lau, S. (2024, January 17)

cultural exchange through agreements negotiated through representative offices[116].

Taiwan, China and European security

Nonetheless, the EU's increased perception of Taiwan through a security lens – which is increasingly taking hold – could provide a further push to closer ties with the island, while still falling short of official diplomatic relations. In the narratives pursued in the EU, it has become increasingly evident that Beijing's invasion of the island, or anything short of such - such as a blockade - would have a direct repercussion on the EU as well. Not only would the critical supply chains in semiconductors be affected, but conflict in the region would also disrupt the EU's trade and supply chains with China – especially if the US were to become involved[117].

Beyond the EU's increased focus on competitiveness and the role that the green and digital transitions have in this, external factors have also played a central role in shifting the perception of Taiwan and the Taiwan Strait and in framing the situation through a security lens. In the first place, China's crackdown on fundamental freedoms and rights in Hong Kong after the introduction of the 2020 National Security Law, has set a dangerous precedent and highlighted with great clarity the PRC's attitude towards its independent regions.[118] Furthermore, resonating even more in Europe, Putin's invasion of Ukraine has raised the fear that the PRC's increasingly authoritarian regime might be emboldened to pursue similar military actions in Taiwan. China's support for Russia after it invaded Ukraine in 2022 made Europe more aware that security issues in Europe and the Indo-Pacific are deeply connected and affect each other.

According to experts, the EU should now focus on cultivating better trade relations and bolstering security cooperation with Taiwan to deter Chinese aggression. The real question is whether the EU will move beyond seeing Taiwan as a "partner of choice, not obligation". A momentum has ensued in the past years that should be built upon by both parties[119]. This is crucial not only for Taiwan but also for the to build up its EU's economic security in the short to medium term, while it develops the crucial technological, R&D and investment capacities that it needs at home.

116 Malinconi, M. (2023)

117 Shin, F. (2024, February 16)

118 Ferenczy, Z.A. (2023, October 03)

119 Ferenczy, Z.A. (2023, October 03)

4

Conclusion
OUTLOOK FOR THE FUTURE

Taiwan is arguably the most dominant pending issue on the global agenda. Taiwan could spark a military conflict between the United States and China as the global rivalry between the two dominant forces is becoming so high. Direct military conflict between China and the US is much more likely than the one between the United States and Russia. In 2021-2022, President Bident made this quite clear. He explicitly ruled out the presence of US troops in Ukraine should Russia invade back in 2021[120].

According to the U.S. Department of Defense, Chinese President Xi Jinping has a strategic window in the 2030 timeframe to seek forceful annexation of Taiwan if peaceful reunification is not achieved[121]. In February 2023, CIA Director William Burns stated that US intelligence shows that Xi has instructed the Chinese army to be "ready by 2027 to conduct a successful invasion" of Taiwan. Burns said he "wouldn't underestimate Xi's ambitions"[122].

This seems to be exactly the frame that Beijing is endorsing. Taiwan is a central element in China's unification and grandeur as a nation. Amidst tense relations with Taiwan, Beijing's leadership has on multiple occasions reiterated that Taiwan and PRC have "shared roots", and that unification is not an option but a reality to materialise. Likewise, the option of a military confrontation to achieve such unification has not been ruled out. For some analysts, China's endorsement of Putin in the ongoing war in Ukraine, continuous grey zone tactics deployed by the country against Taiwan, and the country's growing military modernization and assertiveness, send a strong signal that Xi Jinping's authoritarian government might feel emboldened to act.

Analysts suggest that Taiwan cannot defend itself against a potential Chinese attack without outside assistance. Recent numbers show that its military potential – while bolstered by the U.S. support – cannot compare with China's forces. Beijing is the second largest global defence spender after the U.S. and counts not only a higher number of active forces but also a wide range of capabilities, from naval power to missile technology, aircraft and cyber-attacks[123]. While Taiwan is expected to keep investing in defence under Lai's presidency, China's defence budget is still estimated to be twelve times larger[124].

The U.S. is the only military power which could realistically stand up to China, being the country with the largest military research and development spending. In case of an attack, it is unclear whether other international actors would step in to militarily defend Taiwan. Despite an increased sense of solidarity towards Taiwan in European public opinion, the island is still too remote for the public to support European involvement in such a conflict. Furthermore, despite commitments to increased military and defence spending, the EU's capabilities are still far too limited to play a crucial role, considering the ongoing war in Ukraine – in which European policymakers are determined to make a difference.

However, as mentioned earlier, on at least six occasions President Biden made a clear pledge that were China to attempt to use force to invade Taiwan, the U.S. will deploy its military forces to defend the island. If China and the U.S. were to eventually engage in a confrontation, not only deployment of nuclear weapons from either side could be considered strategically relevant, but the conflict could take a global significance.

Biden's decision to emphasise his policy to defend Taiwan came in light of the Russian war in Ukraine: Now a risk of a Chinese invasion in Taiwan seems a lot more likely, which he needed to deter by stating the willingness of the U.S. to engage directly. If a military conflict over Taiwan were to erupt, the issue of nuclear threats would also come into question. While China maintains a no-first-use policy on nuclear weapons, some believe that the crisis could still pose a nuclear threat, regardless of this stance. It is widely assumed that if Chinese authorities decided to invade Taiwan, there would be nothing to prevent them. However, the crucial question remains: what would the cost of such a conflict be?

120 Liptak, K. (2021, December 08)

121 Egli, D. & Amonson, K. (2023)

122 Gazis, O. (2023, February 03)

123 BBC (2024, January 08)

124 Maizland, L. (2024)

From trade to turmoil: The economic argument against conflict

A conflict in the Taiwan Strait would have profound economic repercussions for many actors in the region, affecting global trade routes and targeting economic interdependencies between powers. The Taiwan Strait is a vital maritime passage through which a significant portion of global trade flows, including critical imports for countries worldwide, such as semiconductors of which Taiwan is a key producer. Disruptions to these shipping routes would likely result in increased costs for goods, supply chain delays, and higher energy prices due to rerouted shipments and heightened geopolitical risk. Beyond Taiwan, China, the EU and the U.S. would all be deeply affected.

Bloomberg Economics has estimated that a war over Taiwan could incur a staggering €9.6 trillion in costs, equivalent to 10% of global GDP. This would far exceed the economic impact of the Ukraine war, the COVID pandemic, and the 2007-2008 global financial crisis. China's GDP would suffer a 16.7% decline, while Taiwan's economy could face a catastrophic 40% contraction. The economic repercussions of a military blockade of Taiwan, including retaliatory measures between China and the U.S. The forecasted damage includes a 12.2% hit to Taiwan's economy, an 8.9% loss for China, and a 3.3% impact on the U.S. economy[125].

A strike on Taiwan will also have significant repercussions for Europe, and in one of the most painful areas. Taiwan's leading role in the global semiconductor supply chain makes it indispensable to the EU's economic security, particularly as the bloc seeks to enhance its technological resilience. The potential could interrupt semiconductor production or halt exports entirely, leading to severe shortages and escalating production costs in Europe. Developing like-minded partnerships, including with Taiwan, is a central concern for the EU, as was outlined in its Indo-Pacific Strategy adopted in 2021. The Strategy recognised that displays of force in the Taiwan Strait could have a direct impact on European security and prosperity and committed to bilateral maritime transport and security dialogues with strategic partners[126]. In its 2023 Strategic Compass, the EU reconfirmed it would seek tailored partnerships that are mutually beneficial, serve EU interests and support its values, in particular when there is a shared commitment to an integrated approach to resilience[127].

Sensing this European perception, in November 2024 Taiwan President Lai stressed the need for an economic partnership with the European Union during his speech at the Taiwan-EU investment forum in Taipei. Calling for the new steps in bilateral agreements, Lai said that such an agreement would boost cooperation in semiconductors and build a secure supply chain for both democracies, stressing the political motives of enhancing Taiwan's diplomatic standing against China[128]. Nonetheless, the EU will likely maintain a moderate stance to avoid potential escalations in the Indo-Pacific, especially with the possibility of a Sino-Taiwanese confrontation looming.

Economic sanctions as a deterrence strategy

According to an Atlantic Council study, should China exercise military measures against Taiwan, G7 would take a coordinated measure similar to their response to the Russian invasion of Ukraine by imposing targeted economic sanctions and other economic countermeasures targeting China across three main channels: financial channels, individuals and entities associated with political and military leadership, and the industrial complex linked to the military. Such large-scale measures would entail global costs, affecting at least 3 trillion USD in trade and financial costs.

In fact, not only is the EU reliant on Taiwan, but its ties to China also cannot be underestimated. A military conflict might lead the EU to impose sanctions on China, disrupting trade with one of its largest economic partners and further destabilizing European industries that rely on Chinese imports and markets[129]. China remains the EU's second-largest trading partner, and a key supplier of goods for which diversification is still complex. In 2021, a report highlighted that the EU is still heavily dependent on external actors for over 130 products, including pharmaceuticals and green technologies, 52% of which come from China. The latter in particular are a key concern for the EU given its growing green economy and the importance attributed by the European leadership to the green transition. The PRC remains a key actor, controlling both raw materials and finished products[130].

Economic countermeasures might also go beyond the task of deterrence and serve as a means to degrade China's ability to sustain the conflict after the invasion. As in the case of the Russian invasion of Ukraine, the focus of sanctions shifted degrading Russia's ability to continue the war, specifically by limiting the flow of arms and military technology. The same goal would be applied to China.

But sanctions would not be a unilateral concern. Based on the experience of sanctions against Russia, the harshest the EU has ever put in place, EU sanctions against China might inflict significant damage to the Chinese economy[131]. Additionally, the PRC leadership must account for the internal reactions to increased economic pressure. The economic effects of sanctions and the strains of the economic downturn that would follow military action would provoke the discontent of the urban middle class, which has been reaping the benefits of economic growth and has benefitted from rising living standards. This in turn could lead them to question the legitimacy of the PRC.[132]

This view is not unanimously accepted. According to some scholars – including the former Editor-in-Chief of The Economist Bill Emmott – sanctions would only have a limited effect on China, smaller than what other global actors would hope to deter the possibility of military action. Emmott has argued that China has the capabilities to become self-sufficient in case of economic isolation from the international community, given its implementation of a "dual circulation" strategy, which pushes for domestic consumption beyond international exports. Even the disruption in the semiconductor supply chain would only represent a short or medium-term loss. What seems to be crucial is that if conflicts are waged in the name of a historical responsibility, economic questions can be framed to have a lesser importance than the nation's mission[133].

In any case, China remains the biggest geopolitical challenge for both the United States and Europe in military, economic, technological, and cybersecurity terms. China is swiftly rising on the global stage as a more advanced and self-confident nation. Its growing importance as a trade partner, industrial overcapacity, wide spreading investment capacity across the EU, U.S., and their strategic partners, as well as expanding trade routes through the Belt and Road Initiative are strong points for economic considerations. Furthermore, China is becoming a more assertive player in the international arena, and its support of the Russian war in Ukraine is already imposing threats to European security. Whatever the perceptions of the possible military confrontation between China and Taiwan are, the stakes are just too high for the global community to ignore.

125 Welch et al. (2024, January 09)

126 Le Corre, P. (2021) & Ferenczy, Z.A. (2024)

127 Ferenczy, Z.A. (2024)

128 Reuters (2024, November 18)

129 Manca, G. A (2024, October 01)

130 European Commission (2021)

131 Demarais, A. (2024, September 19)

132 Casarini, N. (2024)

133 Chaoyang, F. (2024, July 24)

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