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The Indo-Pacific: what strategy vis-à-vis China?

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# **Taiwan's Indo-Pacific strategy: innovating under constraint**

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## Introduction

Few countries rely on the future of the Indo-Pacific region for their survival more than Taiwan. Because of its geography, the territory of the Republic of China (ROC) lies at the core of the region. It is located about only 100 miles away from the coast of continental China, part of what Beijing refers to as the “first island chain”. It is also located in the geopolitically tense South China Sea and nearly half of the world maritime trade passes through the Taiwan Strait between Taiwan and China. Because of its history, Taiwan is linked to the People's Republic of China (PRC) politically, culturally and economically and most states in the world diplomatically consider it as a mere Chinese province. It is also linked economically and for its security to the United States (US), historical protector thanks to which Taiwan enjoys nowadays *de facto* sovereignty and independence vis-à-vis China. Heir of the Cold War, Taiwan is today the bone of contention in the Sino-American rivalry.

“Shrimp between two whales”, Taiwan’s engagement in the Indo-Pacific is to a great extent shaped and channeled by the two main powers in the region: the PRC and the US. The former seeks to marginalize Taiwan on the international scene and is a very strong economic pull for the island. The latter has offered the island ambiguous support and has overall ensured the island’s sovereignty despite subtle changes in policy. It is caught in and shaped by the tensions between these two giants that Taiwan has to engage with the Indo-Pacific region. It took a long time for Taiwan to carry out a strong involvement strategy in the Indo-Pacific. Building on the “Go South” policies of previous governments, Taiwanese President Tsai Ing Wen launched in 2016 the New Southbound Policy (NSP) directed towards countries of the Indo-Pacific. This NSP highlights the uniqueness of challenges faced by Taiwanese diplomacy due to its ambiguous sovereignty, as well as the innovative ways through which Taiwan seeks to engage with the region on a people-to-people based approach rather than a government-to-government one.

This paper will first take a close look at the relation Taiwan has with the two “whales”: the US and then China. It will then look at the strategy carried out by Taipei to engage with the Indo-Pacific.

## **A - The United States: historical protector of the ROC**

### *Security relations*

Born during the Cold War, the close relationship between Taiwan and the US has been long lived. The ROC of Chiang Kai Shek was initially military supported by Washington but as the Chinese civil war was coming to an end, they decided to “let the dust settle” and the Truman administration initially intended to let Taiwan in the hands of the communists. However this policy did not last long: with the outbreak of the Korean War in June 1950, Taiwan came back in the US alliance system designed to contain the spread of communism in Asia. Security commitments were codified in the Mutual Defense Treaty of 1954. Despite small adjustments in US policy vis à vis Taiwan, the security commitment of the US became from then on the backbone of Taiwan’s *de facto* sovereignty. In the Cold War framework, the US supported the ROC in Taiwan through military support, namely with the presence of the US 7th fleet in the Taiwan Strait. This support however came with strings attached: to keep on benefiting from US support, the ROC and Chiang Kai Shek had to comply with US will. Chiang Kai Shek had to agree to political and economic reforms towards liberalization. The US also made sure that Chiang Kai Shek would not attack mainland China without explicit support from the Washington administration.

Another paradigm shift took place in the early 70’s as the long and costly VietNam war was raging and communism was spreading across the region. The US policy towards China shifted and the Nixon administration sought to normalize its relations with the PRC. To do so, Washington had to terminate its diplomatic relations to Taiwan and recognize the status of China in 1978. In ambiguous speeches, the US administration even challenged the sovereignty of the ROC. However, despite this policy shift, the US maintained extensive unofficial political relationship with Taiwan and full commercial relations. The Mutual Defense Treaty was terminated but replaced with the Taiwan Relations Act in 1979. This piece of legislation invalidates all agreements made between Taiwan and the US before 1979 namely military agreement. It however defines a new framework through which the US can provide defensive weapons to Taiwan. As a result the American policy towards Taipei became more nuanced: it sought to preserve the integrity of Taiwan while claiming its commitment to the “One China principle”. This “strategic ambiguity” as coined by the Clinton administration has a double purpose: deterring the PRC to make use of force to regain the island and deterring in parallel the ROC from claiming its independence. This is the

balance that has been at play for the last four decades: despite subtle changes in American discourse, protection of the island through American security support has been effective and has been the backbone of Taipei's security policy in the region, ensuring its *de facto* sovereignty.

Currently, in the context of intensifying US-China rivalry and growing dependence of supply chains on Taiwan, US-Taiwan security relationship has become increasingly intense. The presence of the US 7th fleet in the Taiwanese Strait through 'freedom of navigation' operations intensified. The last one took place mid April 2023 as a response to the military exercises of the PRC around Taiwan which in turn was a response to the visit of Tsai Ing Wen to the US. Moreover, President Joe Biden himself has confirmed several times that in case of an invasion by China of Taiwan, the US would defend Taiwan with the military.

### *Political relations*

But the support of Taiwan by the US does not only pertain to the security field, but also has a political and economic dimension. Taipei soon found itself excluded from most international organizations to the benefit of the PRC as most countries shifted their recognition to the PRC. Due to its weak diplomatic status, Taipei gradually had to rely on other countries to voice its opinions and concerns. The US made clear in order to normalize relations with Beijing that Taiwan was not an independent country but belonged to China and could therefore not be a member of the international community as a state would. However, Taiwan gradually liberalized and finally became a full democracy after the presidential elections of 1991. Its values kept aligning more and more with that of the US and both cultural and economic ties between the two countries kept developing. The US in 1994 declared in a statement known as the Taiwan Policy Review that the US would "support [Taiwan's] membership in organizations where statehood is not a prerequisite, and will support opportunities for Taiwan's voice to be heard in organizations where its membership is not possible". The US supports Taiwan's meaningful participation in the World Health Assembly (WHA), International Civil Aviation Organization (ICAO), and the International Criminal Police Organization (INTERPOL). In 2015, both countries launched the Global Cooperation and Training Framework (GCTF), aiming at providing a platform for Taiwan to share expertise on different areas of global interests. Japan and Australia, close partners of the US in the Indo-Pacific have joined the framework.

The US also allowed for the unofficial relations with Taiwan to become more intense. In addition to the increase of unofficial trips taken by Taiwanese officials to the US, the US

administration allowed for more American officials to travel to Taiwan. President Donald Trump when elected accepted a congratulation call from Taiwan's President Tsai Ing Wen. The US Congress passed in 2019 the Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act aiming at enhancing the scope of US relations with Taiwan but also at encouraging the international community (states and international organizations) to deepen their official and unofficial ties with the island. In doing so, the US signaled China and the rest of the world that Taiwan is backed up by the US. It obviously is part of the broader US-China rivalry.

### *Economic relations*

Economically speaking, the US is the second largest economic partner of Taiwan in 2019 representing 13.2% of Taiwanese total trade (China is first). In 2019, trade between Taiwan and the US amounted to US\$103.9 billion: this represents more for the US than its trade with France, Italy or India! Trade relations between the US and China have been strong for a long time. In 1994, Taiwan and the US signed the Trade and Investment Framework Agreement (TIFA), a trade agreement aiming at reinforcing the commercial ties between the two countries. TIFA talks recurrently take place to enhance the agreement, but often encounters difficulties due to the Taiwanese administrations seeking to protect Taiwanese farmers from US agricultural exports. In addition to the quantity of trade between the US and Taiwan, the quality of the trade is also very important to understand the importance of the commercial relationship. In 2019, the US received  $\frac{1}{3}$  of Taiwan's exports of Information and Communication Technology (ICT) goods. These goods and especially the semiconductors produced in Taiwan are critical for the US industry and it is crucial for Washington to secure Taiwanese supply chains: 86% of Taiwan's exports to the US comprise intermediate goods that US companies use to make final products in the US. Foreign Direct Investment (FDI) is also an important aspect of this economic relationship as both countries invest a lot in the other. Announced in 2020 for instance, chip maker Taiwan Semiconductor Manufacturing Company (TSMC) will invest up to \$12 billion to build a new 5 nanometer (nm) capable foundry near Phoenix, Arizona. Both the US and Taiwan are very aware of the interlinks and mutual dependencies on each other's economies and the economic partnership keeps tightening. In December 2022 was held the third US-Taiwan Economic Prosperity Partnership Dialogue (EPPD) discussing technological trade, securing the supply chains as well as addressing security concerns. The American Institute in Taiwan (AIT) and the Taipei Economic Cultural Representative Office (TECRO) are discussing a bilateral trade and

investment initiative while Taiwan has submitted its application to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Politically, economically, and regarding security, Taiwan heavily relies on the US. Without US security guarantees, it is very likely that Taiwan would not be enjoying its *de facto* independence vis-à-vis China. Moreover, Taiwan benefited from US support in order to exist on the international stage. It is important however to understand that it is not a one-sided relationship of dependence of Taiwan vis-à-vis the US. If Taiwan's Indo-Pacific and international strategies are shaped by the need to preserve its relationship with the US, the US also critically needs Taiwan for its industry as well as in order to compete with China in the field of advanced technologies.

## **B- China: main economic partner and greatest threat**

The ties between China and Taiwan take their roots in the history of colonization of the island. Both Dutch and Spanish colonizers in the 17th Century fostered the arrival of farmers from continental China. By taking over the land of the aborigines, the island gradually became inhabited by a population of Chinese culture and today more than 95% of Taiwan's population is considered Han Chinese. At the end of the 17th Century, Zheng Cheng Gong (Koxinga) chased the European colonizers out of Taiwan and established Chinese control over the island. In 1895 China signed the Shimonoseki treaty leading to the Japanese occupation of the island until 1945 when Taiwan came back under Chinese rule. In 1949 Jiang Zhong Zheng (Chiang Kai Shek) and the Nationalists fled to Taiwan fearing the Maoist revolution. From this moment on, ROC and PRC became *de facto* two different political entities. Both however sought to regain control over the other. With the growing power of the PRC, the power ratio between both countries shifted to the advantage of the PRC. Today, reunification with Taiwan is an issue of political nationalism for Xi Jin Ping as there is an emotional aspect taking its roots in the "Century of Humiliation" when foreign powers deprived China of its sovereignty. Reunification with Taiwan is also geopolitically significant for China as it would provide it access to the deep pacific waters useful for submarine operations. Today, Beijing's campaign to marginalize the ROC and reunify continues on both political and economic fronts.

### *Political pressures*

On the political front, the PRC seeks to marginalize Taiwan by limiting and reducing its role in the international system. It seeks to do so politically but also by pressuring the private sector worldwide. The most prominent achievement of the PRC in this regard was to drive the ROC out of the United-Nations (UN). Due to the growing strength of the PRC and its achievement in establishing relations with newly independent states during the decolonization in the 50's and 60's, it became harder for the US and Taiwan to keep the PRC out. As a result, the PRC won over "China's" seat in the UN security council in October 1971 following the UN resolution 2758, gradually replacing Taiwan in the UN system. The PRC later also replaced Taiwan in the institutions of the Bretton Woods system (International Monetary Fund and World Bank) in 1980. The few organizations in which Taiwan managed to exist along the PRC are: the Asian Development Bank, in which Taiwan stayed as 'Chinese Taipei' (thank to the US); the Asia-Pacific Economic Cooperation forum (APEC) where the US managed to include Taiwan as the PRC was not yet part of it; and the World Trade Organization (WTO) where the PRC and Taiwan joined at the same time.

As Taiwan became a democracy in the 70's and 80's, it became more and more important for Taiwanese politics to seek international recognition. It was growingly seen by Taiwanese opinion as a matter of dignity as well as a way to share experience with the rest of the world. It thus became an objective for Taiwanese political leaders, namely from the Democratic Progressist Party (DPP) to seek membership in international organizations which the country had to leave because of the PRC. It however proved difficult because most of these organizations operate with consensus and the PRC therefore has an absolute veto right preventing Taiwan from joining these organizations. It is the case for instance with the WHO which Taiwan sought to join but could never fully participate or at the WHA (World Health Assembly) in which the PRC has complete power over the ROC's participation or not.

It is the same for multilateral trade groupings such as the Regional Comprehensive Economic Partnership (RCEP), the Association of Southeast Asian Nations (ASEAN) or the East Asia Summit. The consensus rule also prevails in these groupings and the PRC, even when not part of the grouping, can make sure through a third party country that Taiwan will remain excluded. When it comes to bilaterals Free Trade Agreements (FTA), once again countries that would seek to engage with Taiwan would have to face pressure from Beijing and most countries would seek not to go against the PRC for their own long term interests. The PRC is also undertaking a campaign to deter countries from establishing or maintaining diplomatic

ties with Taipei. To do so, Beijing operates a mixture of economic incentives and pressure to drive Taiwan's allies to shift their recognition from Taiwan to China and abandon official recognition of the island. The Chinese government pledges to grant loans to and direct Official Development Aid (ODA) towards countries that switch their recognition from Taiwan to the PRC. On the other hand, it won't allow any countries it has diplomatic ties with to recognize Taiwan as an independent state. This Chinese "Anaconda strategy" has been very successful and since the recent switch of Honduras recognition from Taiwan to the PRC in March 2023, Taiwan is left with only 13 diplomatic allies (many low and middle income countries in the Pacific islands and Latin America).

### *Economic pressures*

A second aspect of the Chinese strategy aiming at marginalizing Taiwan is directed towards the private sector and the economy. In the Indo-Pacific, the PRC is the main economic player, being the first trade partner of most countries in the region. It is therefore easy for China to deter other countries from setting up an FTA with Taiwan as it would imply retaliations from the PRC. The negotiations of RCEP for instance have been designed by China so that Taiwan cannot enter if it does not agree to the Economic Cooperation Framework Agreement (ECFA) aiming at bringing closer Taiwan and PRC's economies. Taiwanese companies however can set up in other countries so that their business could still be integrated, it would result mainly in job losses on Taiwanese territory.

The Chinese economy also acts as a huge economic gravity pull. The complementary economic profiles of the PRC and Taiwan as well as the huge Chinese market have pushed Taiwanese businesses to have strong economic links to the PRC. As a result, mainland China is today Taiwan's main economic partner accounting for more than 25% of its total trade (import and export). Pursuing a closer integration of Taiwan and PRC's economies is an objective for China as it would make Taiwan even more reliant on China and pull it away from the rest of the world. This strategy is a great concern among Taiwanese, mainly the young generations as it could be seen during the Sunflower movement in 2014 whose main concern was a FTA bringing Chinese and Taiwanese economies closer. To counter this economic squeeze, successive Taiwanese governments have undertaken policies to diversify its economic partners, namely in the Indo-Pacific region (discussed later).

Finally, the Chinese government through economic incentives and pressures makes countries and companies adopt the PRC's preferred nomenclature for Taiwan may it be 'Taipei,



province of China' or 'Chinese Taipei'. The PRC seeks to downgrade the status of Taiwan from a country to a mere province of mainland China.

### **C- Carrying out the Indo-Pacific strategy: innovative diplomacy**

It is in this context that Taiwan is undertaking its Indo-Pacific strategy: caught in the rivalry between the two big powers and tied to both of them in a mixture of dependency and threat. Its hedging strategy between the two giants trying to maintain the status quo and making sure to keep China distant and the US involved shape the way Taiwan engages with the Indo-Pacific. Moreover, due to the extremely limited number of countries recognizing Taiwan in the Indo-Pacific (and in the world), Taipei only enjoys a very weak international and diplomatic status forcing it to deploy its Indo-Pacific strategy in an innovative and unconventional way.

#### *The New Southbound policy*

First of all, Taipei does not fear to use the term Indo-Pacific. Current politics in Taiwan are greatly concerned with the quest for identity as a Taiwanese (in opposition to Chinese) and refer to Taiwan as a multiethnic Indo-Pacific nation. President Tsai Ing Wen often mentions the Indo-Pacific in her speeches. However, the main policy carried out by the Taiwanese government for the Indo-Pacific is called the New Southbound Policy (NSP), launched in 2016. The NSP builds on two previous policies coined "Go South" carried out by her predecessors Lee Teng Hui in 1994 and Chen Shui Bien in 2001. Lee's and Chen's policies aimed at diversifying the Taiwanese economic links away from China in order to make Taiwan less dependent on trade with the mainland. However these policies had limited success and Taiwan today still depends primarily on China for its trade (25% of total Taiwanese trade). Tsai Ing Wen's NSP also aims at expanding and deepening trade links with partners in the Indo-Pacific region, leading many to think that this policy is also doomed to fail. However, those who see it this way fail to understand the specificities of this NSP. Unlike previous policies, the NSP places the emphasis on people-to-people, cultural and human exchanges rather than merely economic links. This is a very creative approach that aims at fostering bilateral relations among peoples in the Indo-Pacific in the absence of formal diplomatic ties and government-to-government relations due to Taipei's ambiguous

sovereignty. The NSP is directed toward 18 key countries in the Indo-Pacific: all 10 ASEAN countries, India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Australia and New Zealand. The policy has been designed as a whole-of-government approach. The economic component of the NSP has 5 main objectives: updating and upgrading the trade and investment agreements with NSP target countries, identifying Taiwanese industries and companies that are most promising for overseas expansion, promoting those industries and companies in NSP target countries, educating Taiwanese industry about the opportunity that could be exploited in NSP target countries, and providing credit guarantees to Taiwanese Small and Medium Enterprises (SME) going abroad. The people-to-people, interpersonal component has very different goals aiming at strengthening Taiwan's integration in the Indo-Pacific region by leveraging its soft power advantage as a free and open society. The main priority has to do with fostering educational exchanges by sending Taiwanese students to study in NSP target countries as well as attracting students from the region to study in Taiwan. Taiwan can benefit from the attractiveness of its high-quality education, as well as its openness towards Muslims from ASEAN countries. In 2016, the Ministry of Education outlined the New Southbound Talent Development Plan which included fundings for scholarships, recruitment programs and subsidies for universities. Another emphasis is placed on tourism. In addition to the economic potential for the Taiwanese tourism industry, attracting tourists helps to share Taiwan's cultural heritage and soft power, while fostering relations between individuals from across the region. Here as well, the goal is to strengthen the links between Taiwan and the general public of the region.

### *India*

Like most countries with an Indo-Pacific strategy, Taiwan has its eyes on India due to its economic, demographic and military weight. Despite the fact that the country does not recognize the sovereignty of Taipei and commits to the "One-China principle", both India and the island share a common adversary: China. Moreover, Taiwan's NSP converges with the Act East policy of New Delhi, supporting the established rule-based international order. Therefore Taiwan and India appear to be natural partners. As a result, great efforts are being made by Taipei to strengthen ties. Taiwan is seeking to attract Indian students, tourists and businesses and does so by promoting and making easier exchanges between both countries. In 2018, Taipei and New Delhi signed a Bilateral Investment Pact. They started negotiating a Free Trade Agreement in 2021, but it has proved difficult due to India's reluctance to engage in deep partnerships with other countries. Taiwan is very interested in India, attracted to its

huge market that could help the island reduce its dependence on mainland China. Moreover, India is part of the QUAD, with which Taiwan has sought participation from 2018 on.

### *Japan*

Japan occupied Taiwan from 1895 after the signing of the Shimonoseki until 1945 when Japan was defeated by the allies. It impregnated the island with its culture and left mixed sentiments towards the Japanese colonizer. However, Taiwan has been seeking closer links with Japan regarding security. Both countries share the US as the main security provider. Japan also is an island state that is dependent on the well functioning of maritime routes crossing through the Taiwan strait and Tokyo has referred to Taiwan in its 2021 *Defense White Paper* as integral to the security and peace of East Asia. Taiwan, Japan and the US have established a trilateral Taiwan-Japan-US Strategic Dialogue (TJUSSD) to foster better security coordination, namely in the field of cybersecurity. Japan's Prime Minister also declared that in case of an attack on Taiwan, Japan and the US would have to defend Taiwan together.

### *Pacific Island states and Taiwanese Official Development Aid*

The small Pacific islands have been an important diplomatic battlefield for Taiwan and China in the last decades. Through ODA and financial investments, the two countries have wooed these islands. As of today, only four Pacific states still recognize Taiwan: the Marshall Islands, Nauru, Palau, and Tuvalu. Taiwan advertises itself as an island state with a similar climate than Pacific states. It has moreover managed to develop rapidly and reach the status of a highly developed economy recently. It also seeks to promote its high quality infrastructures and logistic expertise. It has however proved difficult to compete with the Beijing campaign to isolate Taiwan by switching allegiance among Pacific countries, namely in the framework of the Belt and Road Initiative (BRI).

## Conclusion

In conclusion, Taiwan's engagement in the Indo-Pacific region is heavily influenced by the US and China, the two major powers in the region. The US has been Taiwan's historical protector since the Korean War, providing security guarantees and support for its *de facto* sovereignty. Despite shifts in policy, the US has consistently maintained its commitment to Taiwan's security, with President Joe Biden reaffirming the US's willingness to defend Taiwan militarily. Moreover, the US has supported Taiwan's participation in international organizations and deepened political, economic, and security ties with the island. Taiwan's reliance on the US is somewhat reciprocal as the US needs Taiwan for its industry and technological competitiveness in the face of China's rise. On the other side, China poses a significant threat to Taiwan. China claims Taiwan as part of its territory and seeks to marginalize the island politically and economically. China's campaign to isolate Taiwan has resulted in its exclusion from most international organizations and pressure on countries to terminate diplomatic ties with Taipei. Reunification with Taiwan is an issue of political nationalism and geopolitical significance for China. The power balance between China and Taiwan has shifted in favor of China, making Taiwan's engagement with the Indo-Pacific even more crucial. Taiwan's strategy to engage with the Indo-Pacific, particularly through the New Southbound Policy, recognizes the challenges posed by its ambiguous sovereignty and innovates by focusing on people-to-people engagement. While Taiwan faces complex dynamics and tensions between the US and China, its strategic location, thriving economy, and democratic values position it as a key player in the Indo-Pacific region. Taiwan's involvement in the Indo-Pacific is shaped by the delicate balance between its reliance on the US for security and international recognition, and the challenges posed by China's political pressure and economic influence. The future of Taiwan in the Indo-Pacific will continue to be influenced by these dynamics, as the island navigates its unique position between the "whales" of the region.

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