



DETERRING THE DRAGON

A multi-faceted inquiry into the China-Taiwan Conflict

The Economics Society
Shri Ram College of Commerce



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INTRODUCTION

Taiwan, also known as the Republic of China (**ROC**), is an island located in the western Pacific Ocean, east of the People's Republic of China (**PRC**). The ROC has a democratically elected government and a population of over 23 million people. The island has a strong economy and is a major producer of electronics and semiconductors. The PRC has threatened to use force if Taiwan declares independence. The PRC claims Taiwan as its 23rd province, but the ROC has governed itself independently since 1949.

Moreover, the United States has pledged to defend Taiwan if it is attacked. The **US-Taiwan** relationship is complex and has evolved over time. In recent years, the US has increased its support for Taiwan, including arms sales and military training, however, they have not blatantly come out in support of Taiwan. This has led some analysts to believe that the US would be willing to defend Taiwan in the event of a Chinese attack. The future of Taiwan is uncertain.

The PRC continues to pressure the island to unify with the mainland, but the ROC has shown no signs of backing down. The two sides (PRC and Taiwan) have never officially declared war, and the status of Taiwan remains unresolved.



Cross-strait tensions between Taiwan and China have risen since the election of Taiwanese President Tsai Ing-wen in 2016. Tsai has rejected the "**1992 Consensus**", an informal agreement between the two sides that there is only one China, but with different interpretations of what that means. Beijing considers this a rejection of its sovereignty over Taiwan and has responded by increasing military exercises and

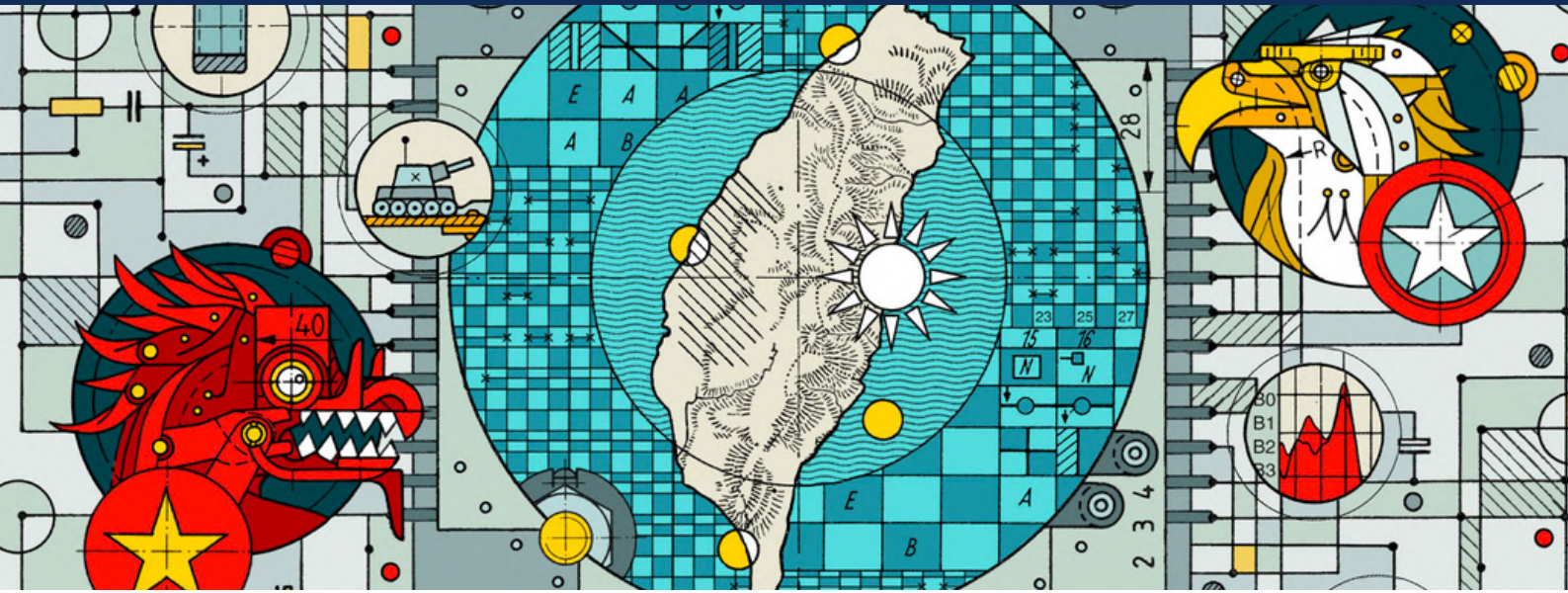
patrols in the Taiwan Strait. In 2019, Chinese President Xi Jinping gave a speech wherein he stated that China would "**reunify**" with Taiwan "no matter how long it takes." This speech was seen as a warning to Tsai and the Taiwanese people, and it raised concerns about the possibility of a Chinese military attack on Taiwan.

The future of cross-strait relations is uncertain. Tsai has said that she is committed to maintaining peace and stability in the Taiwan Strait, but she has also refused to rule out the possibility of Taiwan declaring

independence. Beijing has said that it will not tolerate Taiwan's independence, and it has warned that it will use force if necessary to prevent it (BBC News, 2023). The tensions between Taiwan and China are a major source of instability in the Asia-Pacific region. A Chinese attack on Taiwan could have serious consequences, including a possible war between the US and China. It is important for both sides to continue to engage in dialogue and avoid taking any actions that could escalate the tensions.

02

STATUS QUO



China sees Taiwan as its own territory, but Taiwan sees itself as an independent country. The two sides have been separated since the **Chinese Civil War** in the late 1940s. In recent years, China's increasing military and economic power has raised concerns in Taiwan and among the international community about a possible military invasion. Despite the tensions, there have been some efforts at rapprochement, particularly under the presidency of Ma Ying-jeou in Taiwan from 2008 to 2016. However, these efforts have stalled under the current administration in Taiwan, which has taken a more assertive stance on its sovereignty and relations with China.

The situation between China and Taiwan remains fluid and unpredictable. Improved relations between the two sides could potentially be beneficial in many ways, but the key obstacle to improving relations is the fundamental disagreement over Taiwan's status.

The world is currently facing a shortage of **semiconductors**, which are **essential** for many products, including laptops, smartphones, and cars. Taiwan is a major producer of semiconductors, and any conflict with China could disrupt the global supply chain. Taiwan produces about 90% of the world's advanced semiconductors.

and 60% of all semiconductors. This means that a disruption of the Taiwanese semiconductor industry would have a major impact on the global economy. China is also a major consumer of semiconductors, and it is trying to increase its own production capacity.

However, China is not yet self-sufficient in semiconductors, and it relies on Taiwan for many of its most advanced chips. If China were to invade Taiwan, it would likely disrupt the global semiconductor supply chain. This could lead to higher prices for electronics and other products, and it could also slow down the global economy. Taiwan's semiconductor industry is often referred to as the "Silicon Shield." This is because it plays a critical role in protecting the global economy from disruption. The Silicon Shield is based on the fact that Taiwan is a major producer of semiconductors, and it is difficult to replace these chips.

If China were to invade Taiwan, it would likely damage or destroy the Taiwanese semiconductor industry. This would disrupt the global supply chain and lead to higher prices for electronics and other products. The Silicon Shield is also based on the fact that China is not yet self-sufficient in semiconductors. A Chinese invasion of Taiwan would hinder the former's

own procurement of semiconductors, leading to economic problems in China. It could also make it more difficult for China to compete with other countries.

The Taiwan Semiconductor Manufacturing Company (TSMC), holds an important position in the world as the world's largest contract chipmaker. This means that TSMC makes chips for other companies, rather than selling its own products. TSMC is a major supplier of chips to Apple, Nvidia, and Qualcomm. These companies are all major players in the global technology industry, and they rely on TSMC for their chips. If TSMC were to be disrupted, it would have a major impact on these companies. This could lead to higher prices for their products, and it could also slow down the development of new technologies.

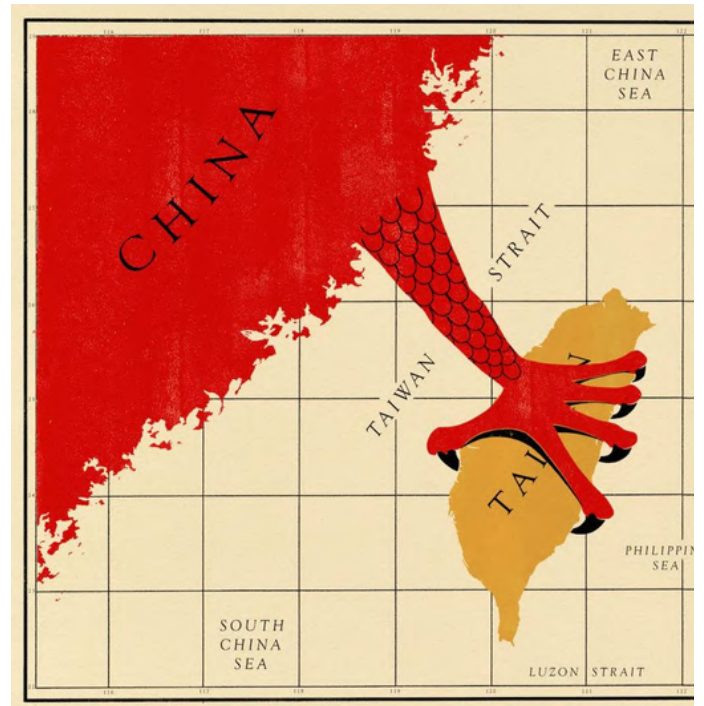
The global semiconductor industry is facing a number of challenges, including the shortage of chips, the rise of China, and the increasing complexity of chips (Foreign Policy, 2023). It is unclear how the global semiconductor industry will evolve in the future. However, it is clear that Taiwan will continue to play a major role in the industry. Taiwan has a number of advantages in the semiconductor industry, including a skilled workforce, a strong research

and development infrastructure, and a supportive government. These advantages will help Taiwan to maintain its position as a major player in the global semiconductor industry.

Amidst this tension, one must also take into perspective the current status of Taiwan, and how it is a complex issue. There are various facets to examining this issue:

- **The Taiwanese perspective:** Most people in Taiwan believe that the status quo means that Taiwan is neither a part of the People's Republic of China (PRC) nor an independent **sovereign state**. The citizens of Taiwan believe that Taiwan is a self-governing entity with its own democratic government and military.
- **The PRC perspective:** The PRC government believes that Taiwan is a part of China and that the status quo means that Taiwan is under its jurisdiction. The PRC has never renounced the use of force to achieve "**reunification**" with Taiwan (CNN, 2022).
- **The Taiwan independence perspective:** Some people in Taiwan believe that the status quo is temporary and that Taiwan should eventually declare independence. They believe that

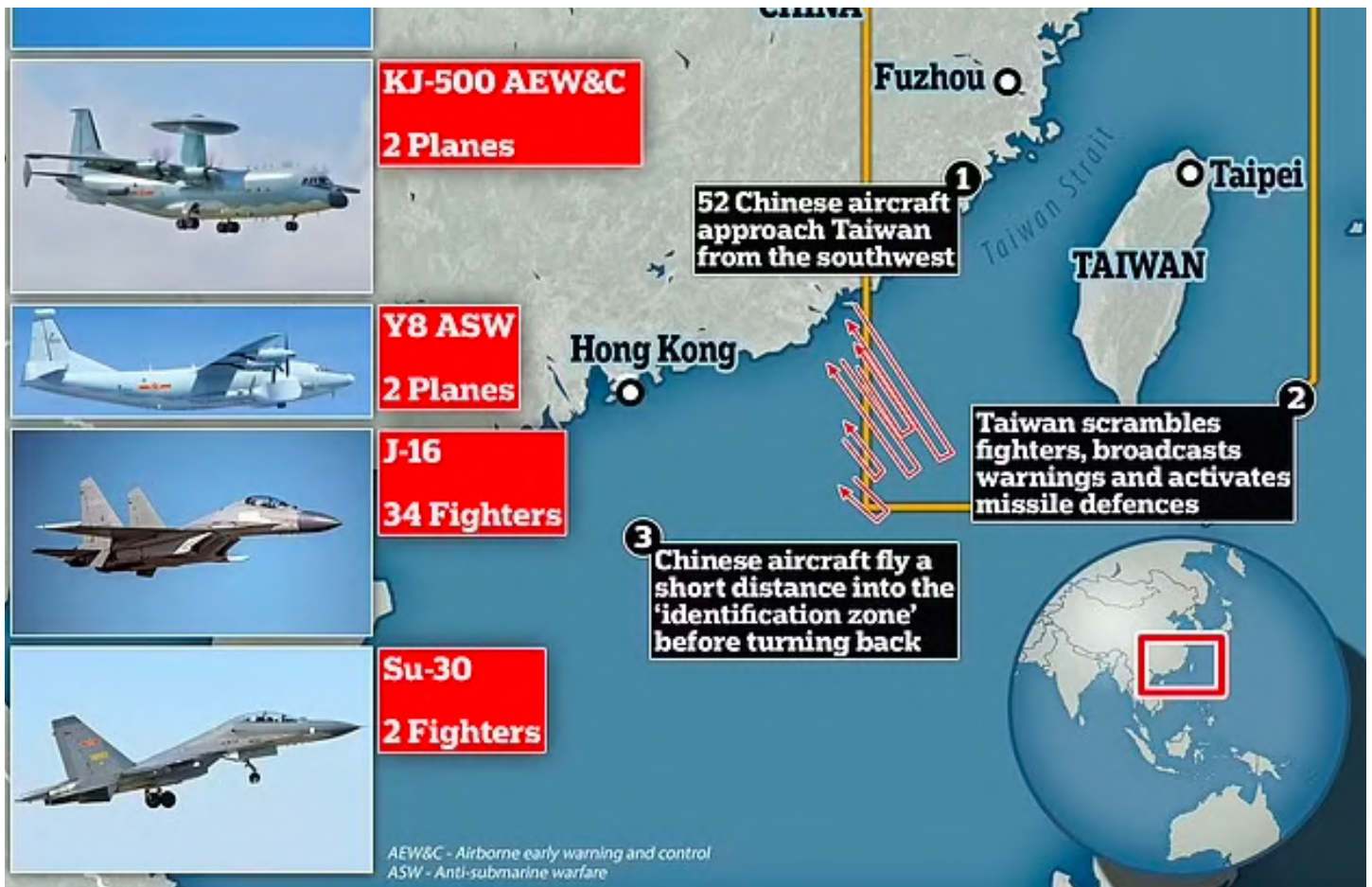
Taiwan meets all the criteria for statehood and that it has a right to self-determination.



China's Attack on Taiwan

Over the history of this conflict, China has employed a variety of coercive tactics short of armed conflict in an attempt to pressure Taiwan into unification. These tactics include:

- **Military exercises:** China has conducted regular military exercises near Taiwan, including flying bombers and fighter jets into its airspace.
- **Cyberattacks:** China has launched cyberattacks against Taiwanese government agencies and businesses.
- **Economic pressure:** China has restricted tourism to Taiwan and pressured global corporations to



list Taiwan as a Chinese province.

- Political isolation: China has intimidated countries that have ties with Taiwan, such as Lithuania. (Reuters, 2021)

These tactics have been effective in increasing pressure on Taiwan, but they have not yet forced Taiwan to unify with China. The future of Taiwan is uncertain. It is possible that

the current state will likely depend on a number of affairs that could continue indefinitely, or that China could eventually use force to achieve unification. The outcome factors include the political situation in Taiwan, the economic relationship between Taiwan and China, and the international response to any Chinese aggression.

03

Taiwan's Military & Diplomacy Dynamics

Taiwan's military is relatively small and has a limited range of capabilities. However, it is well-equipped and well-trained, and its soldiers are highly motivated to defend their country. Taiwan also receives significant military support from the United States, which has pledged to come to its defence if it is attacked by China.

The United States has a number of **military assets** stationed in the region, including aircraft carriers, submarines, and fighter jets. These assets would be used to deter China from attacking Taiwan and to provide support to the Taiwanese military in the event of a conflict.

In addition to the United States, Japan has also **pledged** to come to Taiwan's defence. Japan has begun to fortify its southern islands with anti-aircraft and anti-ship missiles, and it has plans to station hundreds of troops on the island of Ishigaki. These deployments are intended to send a

signal to China that Japan will not stand idly by if Taiwan is attacked.

The combined military power of the United States and Japan would be a significant deterrent to any Chinese aggression against Taiwan. However, it is important to note that China has a much larger military than either country, and it is possible that a conflict could escalate into a wider war.

Ultimately, the security of Taiwan depends on a number of factors, including the willingness of the United States and Japan to defend it, the strength of Taiwan's own military, and the intentions of China. However, the military support that Taiwan receives from its allies gives it a significant advantage in the event of a conflict.

Taiwan's relationships with its neighbouring countries have a significant impact on its economy, security and diplomacy. Taiwan's

relationships with its neighbours, including China, Japan, and the Philippines, and discussing the challenges and opportunities that arise from these relationships will provide us with further insights.

China

We must first, intricately examine its relationship with China, which is Taiwan's largest neighbour and presents both an economic opportunity and a security challenge. China claims Taiwan as a part of its territory and has repeatedly stated that it will use force if necessary to bring Taiwan under its control. Taiwan is seeking to assert its independence as a self-governing democracy while also maintaining economic ties with China. China has also been rapidly expanding its military capabilities, and the two sides engage in frequent military exercises and drills. This has led to a situation where Taiwan is heavily dependent on the United States for its defence, which makes it vulnerable to pressure from China and limits its ability to pursue an independent foreign policy.

Another challenge in Taiwan's relationship with China is the economic interdependence between the two countries. China is Taiwan's largest **trading partner**, and

many Taiwanese businesses have invested heavily in China. However, this

- economic interdependence also makes Taiwan vulnerable to pressure from China, which has used economic coercion to try to influence Taiwan's politics and foreign policy.



Japan

Japan is located to the north of Taiwan and is an important economic partner for the island nation. Japan has **historically** played a significant role in Taiwan's economic development, with many Japanese companies investing in Taiwan and partnering with Taiwanese businesses. Taiwan and Japan also share close cultural ties due to their shared history and geography.

One of the main challenges in Taiwan's relationship with Japan is territorial disputes over the Diaoyu/Senkaku Islands, a group of

uninhabited islands located in the East China Sea. Both Taiwan and Japan claim sovereignty over these islands, which has led to tensions between the two countries. The dispute has also been complicated by the involvement of China, which also claims sovereignty over the islands.

Despite these challenges, Taiwan and Japan continue to maintain close economic and **diplomatic ties**. In recent years, there has been a push to deepen these ties further, with both countries signing agreements to increase economic cooperation and tourism.

Philippines

The Philippines is located to the south of Taiwan and has historically had friendly relations with the island nation. Many Filipino **migrant workers** live and work in Taiwan, and the two countries have close economic and cultural ties. However, there have also been some tensions between the two countries over territorial disputes in the South China Sea.

One of the key challenges in Taiwan's relationship with the Philippines is the territorial dispute over the Batanes Islands, a group of islands located in the northern part of the Philippines. Taiwan claims sovereignty over these islands, which

has led to tensions between the two countries. In addition, there have been some incidents in recent years where Filipino coast guard vessels have fired on Taiwanese fishing boats, leading to further tensions between the two countries.

Despite these challenges, Taiwan and the Philippines have continued to maintain **close economic and cultural ties**. In recent years, there has been a push to deepen these ties further, with both countries signing agreements to increase economic cooperation and tourism.



P5

The **P5 nations**, which consist of the United States, China, Russia, France, and the United Kingdom, have been an issue for many years with the Chinese. The P5 nations are the five permanent members of the United Nations Security Council, and their

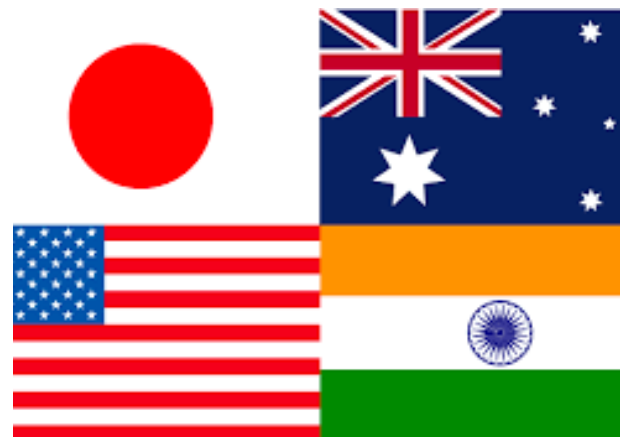
relationship with Taiwan has been a source of tension and conflict. One of the main problems in Taiwan's relationship with the P5 nations is its status as a self-governing democracy, which is not recognized by China, the most powerful member of the P5. As a result, most P5 nations, including the United States, have adopted a "One China" policy, recognizing the government in Beijing as the only legitimate government of China, which includes Taiwan.

This policy has severely limited Taiwan's ability to engage with the P5 nations, particularly China. For example, Taiwan is not a member of the United Nations, and its representatives are not allowed to attend UN meetings or conferences. Taiwan is also excluded from many international organizations and agreements, which limits its ability to participate in global decision-making and hinders its economic and social development.

Another problem in Taiwan's relationship with the P5 nations is the arms race between Taiwan and China. Taiwan sees China as a significant threat to its security and has invested heavily in its military capabilities to deter any potential aggression. However, the United States is the only P5 nation that provides military assistance to

Taiwan, and this assistance is limited due to its One China policy. This has led to a situation where Taiwan is heavily dependent on the United States for its defence, which makes it vulnerable to pressure from China and limits its ability to pursue an independent foreign policy.

The P5 nations could work together to reduce tensions and promote peace in the region. This could involve **diplomatic efforts** to reduce the arms race between Taiwan and China, as well as efforts to promote dialogue and cooperation between the two sides. This would require significant political will and cooperation from all parties involved, but it could ultimately lead to a more stable and peaceful relationship between Taiwan and the P5 nations.



QUAD

Taiwan's relationship with the Quadrilateral Security Dialogue (QUAD) is an important and complex

one. The QUAD is a **strategic forum** comprising the United States, Japan, India, and Australia that aims to promote regional security and stability in the Indo-Pacific region. As a key player in this region, Taiwan's involvement in the QUAD has been a topic of much discussion and debate.

Taiwan has a relatively small but highly trained and technologically advanced military. The QUAD members have significantly larger militaries, but Taiwan's participation in the QUAD would be a significant development that would further strengthen the forum's ability to promote regional security and deter Chinese aggression.

However, there are significant obstacles to Taiwan's participation in the QUAD. China vehemently opposes any attempt by Taiwan to gain international recognition or participate in international organisations.

This has led to a delicate balancing act for the QUAD members in terms of their relationship with Taiwan. While the QUAD members are committed to promoting regional security and countering China's aggression, they must also be mindful of China's sensitivities when it comes to Taiwan. One possible solution to this issue is for the QUAD members to engage in

low-level, informal talks with Taiwan, rather than formally recognizing Taiwan's participation in the QUAD. This could include sharing intelligence and conducting joint military exercises with Taiwan, without formally recognizing Taiwan as a member of the QUAD.

Another possible solution is for the QUAD members to work with other regional partners, such as South Korea, to promote regional security and stability. South Korea is another key player in the region and shares many of the same concerns as the QUAD members when it comes to China's growing military and economic influence.

Ultimately, Taiwan's participation in the QUAD would be a significant development that would further strengthen the forum's ability to promote regional security and deter Chinese aggression.

However, the QUAD members must carefully navigate the delicate balance between promoting regional security and avoiding a direct confrontation with China over Taiwan. (The Diplomat, 2022). As such, finding creative solutions to include Taiwan in the QUAD without provoking China will be key to the success of this important forum.



Nato

Taiwan and NATO **do not** have formal diplomatic relations, as Taiwan is not recognized as a sovereign state by most countries in the world, including many NATO member states. However, there is a growing recognition among NATO member states of the strategic importance of Taiwan in the Indo-Pacific region, and there have been calls to strengthen cooperation between Taiwan and NATO on issues of mutual concern.

One of the key areas of cooperation between Taiwan and NATO is in the field of cybersecurity. Taiwan is one of the world's most technologically advanced countries and is home to a number of major technology companies. As such, it is a frequent target of cyberattacks from state and non-state actors. NATO has recognized the importance of cybersecurity as a key component of its overall defence strategy and has

been working to strengthen its cybersecurity capabilities in recent years. There is potential for Taiwan and NATO to collaborate on joint cybersecurity initiatives, such as information sharing and joint training exercises.

In addition to cybersecurity, Taiwan and NATO also share an interest in promoting regional security and stability in the Indo-Pacific region. Taiwan is located at the crossroads of some of the world's busiest shipping lanes, and its security is closely tied to the security of the region as a whole. NATO member states have a strategic interest in promoting security and stability in the Indo-Pacific region, as it is home to some of the world's most important trade routes and is increasingly seen as a geopolitical hotspot. There is potential for Taiwan and NATO to work together on issues such as maritime security, counterterrorism and disaster

response. When it comes to comparing the militaries of Taiwan and NATO member states, there are significant differences in terms of size, budget and capabilities. The combined military budgets of NATO member states far exceed that of Taiwan and NATO member states have some of the most technologically advanced militaries in the world. However, Taiwan's military is also highly advanced and well-trained, with a particular focus on defence against potential Chinese aggression.

One of the key challenges to greater cooperation between Taiwan and NATO is China's opposition to any recognition of Taiwan as a sovereign state. This has created a difficult balancing act for NATO member states, who must balance their strategic interests in the Indo-Pacific region with the need to maintain good relations with China.

Another challenge is the lack of formal diplomatic relations between Taiwan and most NATO member states. This makes it difficult for Taiwan to participate in joint exercises or other cooperative initiatives and also limits the ability of NATO member states to provide military support to Taiwan in the event of a conflict with China. Despite these challenges, there are opportunities for greater cooperation

between Taiwan and NATO on issues of mutual concern. One possible solution is for NATO member states to deepen their unofficial ties with Taiwan, through increased economic and cultural exchanges, as well as joint research and development initiatives in areas such as cybersecurity and emerging technologies.

Another possible solution is for NATO member states to work together to promote Taiwan's participation in international organizations and fora. This could include support for Taiwan's bid for observer status in organizations such as the World Health Organization and the United Nations Framework Convention on Climate Change.

In conclusion, while there are significant diplomatic and military challenges to greater cooperation between Taiwan and NATO, there are also compelling reasons for the two sides to work together on issues of mutual concern. As the strategic importance of the Indo-Pacific region continues to grow, there is potential for Taiwan and NATO to collaborate on issues such as cybersecurity, maritime security, and disaster response. (US news, 2023). Finding ways to deepen cooperation between Taiwan and NATO will require creative solutions and a commitment

to build stronger ties between the two sides. When it comes to comparing the militaries of Taiwan and NATO member states, there are significant differences in terms of size, budget and capabilities. The combined military budgets of NATO member states far exceed that of Taiwan and NATO member states have some of the most technologically advanced militaries in the world. However, Taiwan's military is also highly advanced and well-trained, with a particular focus on defence against potential Chinese aggression.

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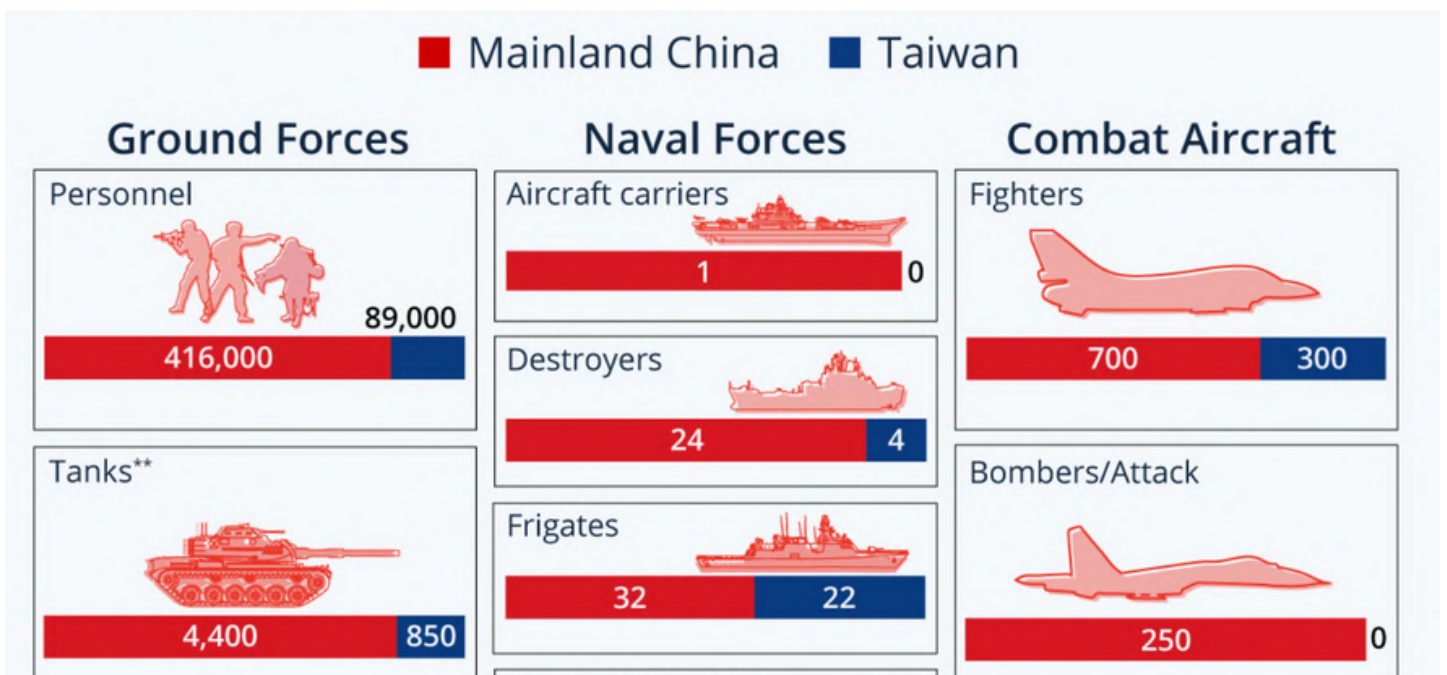
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04

Power Play: Military Might and Diplomatic Ties



China's rise as a regional and global power has been accompanied by an expansion of its military capabilities and its assertiveness in the **South China Sea**. China's military, known as the People's Liberation Army (PLA), is the largest standing army in the world, with over two million active personnel. In recent years, China has made significant advancements in its military modernization efforts, investing in new technologies, equipment and training to enhance its

combat capabilities.

In the context of the South China Sea, China has been asserting its dominance through various means, including the construction of artificial islands and the deployment of military assets. One of the most notable examples is China's construction and militarization of artificial islands in the disputed Spratly Islands. These artificial islands have been equipped with runways, radar systems, and missile

defence systems, effectively extending China's reach and control over the region.

China has also engaged in assertive maritime activities, such as the frequent presence of Chinese naval vessels and coast guard ships in the South China Sea. This has raised concerns among neighbouring countries and the international community about China's intentions and its commitment to maintaining peace and stability in the region. China's increasing military presence in the South China Sea has led to tensions and disputes with countries such as Vietnam, the Philippines, Malaysia, and Brunei, which also claim sovereignty over parts of the sea.

One of the key challenges in the South China Sea is the overlapping territorial and maritime claims by multiple countries. These disputes revolve around competing sovereignty claims over islands, reefs, and waters in the region. China, through its "**nine-dash line**" claim, asserts historic rights over most of the South China Sea, including areas that are also claimed by other countries based on international law, such as the United Nations Convention on the Law of the Sea (**UNCLOS**). These overlapping claims have created a complex and potentially volatile

situation in the region.

Another challenge is the potential for military escalation and miscalculation. The South China Sea is a highly contested area with a high concentration of military assets from various countries. The presence of military forces in close proximity increases the risk of accidental clashes, which could potentially spiral into larger conflicts. This is particularly concerning given the asymmetry in military capabilities between China and some of the smaller Southeast Asian countries involved in the disputes.

To address these challenges, there have been various efforts to promote peaceful resolutions and mitigate tensions in the South China Sea. One approach has been diplomatic negotiations and dialogue between the concerned parties. The Association of Southeast Asian Nations (**ASEAN**) has played a central role in facilitating discussions and promoting a code of conduct in the South China Sea to manage disputes and maintain stability. International law, particularly UNCLOS, has also been invoked as a basis for resolving disputes in the South China Sea. The Permanent Court of Arbitration (PCA) issued a landmark ruling in 2016 in a case filed by the Philippines against China, clarifying certain legal rights

and obligations of the parties involved. However, China rejected the ruling and maintained its position that disputes should be resolved through bilateral negotiations.

Enhancing regional cooperation and confidence-building measures can also contribute to reducing tensions in the South China Sea. This includes joint maritime patrols, information-sharing mechanisms and cooperation on issues such as maritime security, search and rescue operations and environmental protection.

In terms of the military balance, China's military capabilities in the region have given it an advantage over its neighbours. However, it is important to note that other countries, particularly the United States and its allies, maintain a significant military presence and capabilities in the region. The United States, for example, has conducted freedom of navigation operations (FONOPs) to challenge excessive maritime claims and assert the principle of freedom of navigation in international waters. (The Guardian, 2022).

In conclusion, China's military dominance and assertiveness in the South China Sea have raised concerns and tensions in the region. The overlapping territorial and maritime

claims, along with the potential for military escalation, pose challenges to peace and stability (Britannica, 2022). Diplomatic negotiations, adherence to international law, regional cooperation and confidence-building measures are essential for addressing these challenges and promoting a peaceful and rules-based order in the South China Sea.

We must also look closely at China's strategic partnerships around the world, which lend higher strength to the nation.

Russia

Russia is not a formal treaty ally of China, but the two countries have a close strategic partnership. They have deepened cooperation in recent years on a variety of issues, including trade, energy and security. China has also been reluctant to criticise Russia's annexation of **Crimea** in 2014 or its military intervention in Ukraine in 2022.

North Korea

North Korea is China's closest ally. The two countries share a long border and have a strong economic relationship. China is North Korea's main source of food and fuel imports. North Korea is also a nuclear-armed state, and China has played a

key role in negotiating its nuclear program.

Pakistan

Pakistan is another close ally of China. The two countries share a common enemy in India, and they have cooperated on a number of security issues, including the construction of the **China-Pakistan Economic Corridor**. Pakistan is also a nuclear-armed state, and China has provided it with military assistance.

These three countries are all important to China for different reasons. Russia is a major power with a strong military, and China sees it as a potential counterweight to the United States. North Korea is a strategic buffer state that helps to protect China's northeastern border. Pakistan is a key partner in China's

efforts to expand its influence in South Asia. The relationships between China and these three countries are not without their challenges. Russia and China have different interests in the Middle East and Central Asia, and they have sometimes clashed on these issues. North Korea's nuclear program is a major source of tension with the United States and its allies, and China has been **criticised** for its support of North Korea.

Pakistan is a volatile country with a history of political instability and China's economic and military assistance has not always been enough to prevent problems. Despite these challenges, China's relationships with these three countries are likely to remain important in the years to come. They provide China with strategic depth and support its efforts to become a global power.

05

Comparing the Armies to its neighbours:

Country	Active Military Personnel	Military Doctrine
China	2 million	Active defence
Japan	250,000	Defence and Disaster relief
Philippines	150,000	Counter-terrorism and internal security
Taiwan	130,000	Resolute defence

As you can see, China has the largest army by far, followed by Taiwan. Japan and the Philippines have much smaller militaries, but they are both highly trained and technologically advanced.

The military doctrines of these countries also vary. China's doctrine emphasizes active defence, which means preparing for and responding to potential threats before they reach Chinese territory. Japan's doctrine in

focused on defence and disaster relief, while the Philippines' doctrine is focused on counterterrorism and internal security.

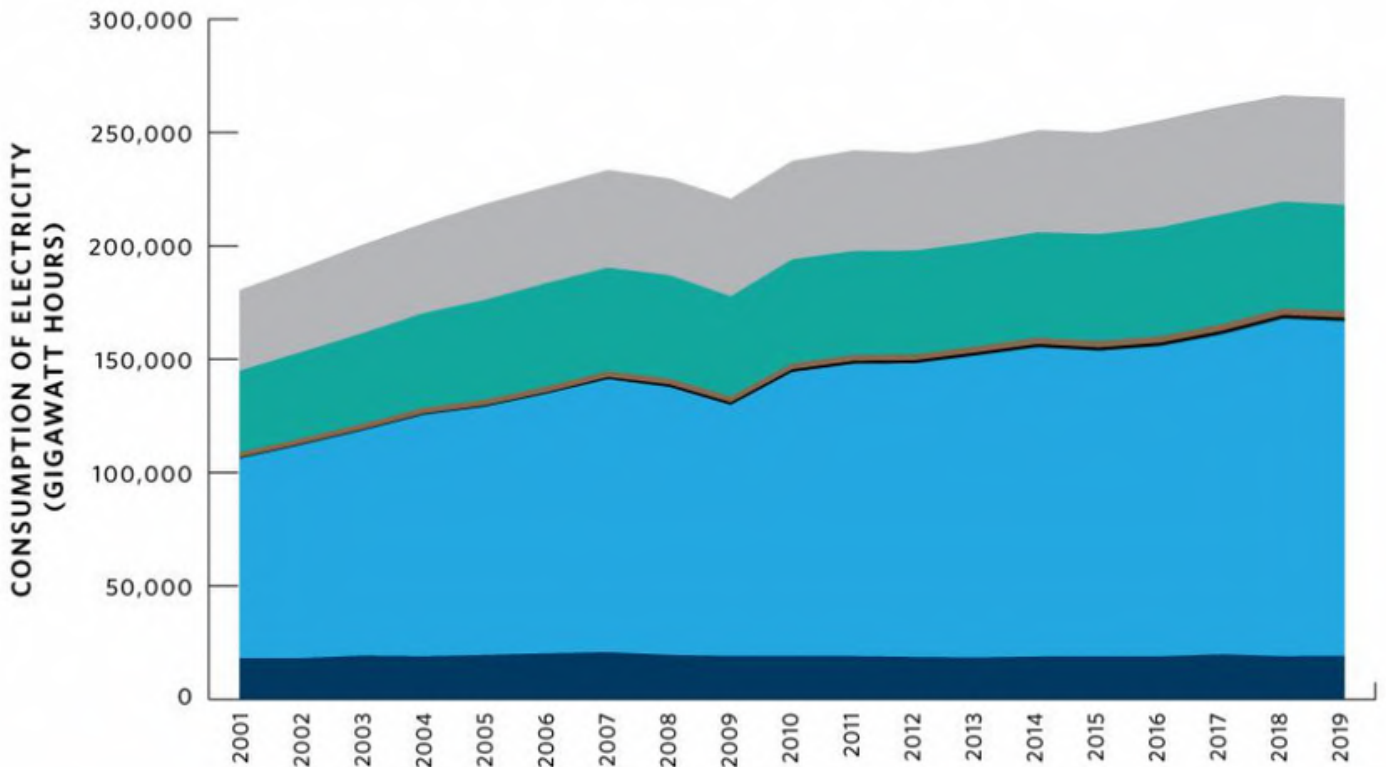
Taiwan's **military doctrine**, on the other hand, emphasises resolute defence. This means that Taiwan is prepared to defend itself against any potential attack from China, even if it means taking the offensive. The relationships between Taiwan and its neighbours are complex and

multifaceted. China is Taiwan's largest trading partner, but it also claims Taiwan as its own territory. Japan and the Philippines are both allies of the United States, which has a long-standing commitment to defending Taiwan.

As Taiwan continues to navigate these relationships, it will need to balance its own security interests with its desire for closer ties with its neighbours and the broader international community.

Taiwan's Energy Trilemma

Recent Sectoral Trends in Taiwan's Electricity Consumption



Energy security: Taiwan is almost totally dependent on **imports** for its energy requirements. This makes it vulnerable to disruptions in the global energy market, such as oil price shocks or supply chain disruptions. Taiwan's energy security is at risk due to its overreliance on imports. In 2021, Taiwan imported 97.7% of its energy needs, with the majority of imports coming from the Middle East. This makes Taiwan vulnerable to

disruptions in the global energy market, such as oil price shocks or supply chain disruptions.

Energy equity: The government has to strike a balance between low energy prices for households and keeping up with the transition policy into renewable energy it has formulated. This can be a challenge, as renewable energy sources are often more expensive than fossil fuels. The government of Taiwan has set a goal

of reducing household electricity prices by 20% by 2025. However, this goal could be difficult to achieve if the government continues to subsidise renewable energy sources.

Sustainability: Taiwan is committed to reducing its reliance on fossil fuels and increasing its use of renewable energy. However, it faces challenges in developing and deploying renewable energy technologies at scale. Sustainability: Taiwan is committed to reducing its reliance on fossil fuels and increasing its use of renewable energy sources. However, the country faces challenges in developing and deploying renewable energy technologies at scale. For example, Taiwan has limited land resources, which makes it difficult to build large-scale solar and wind farms.

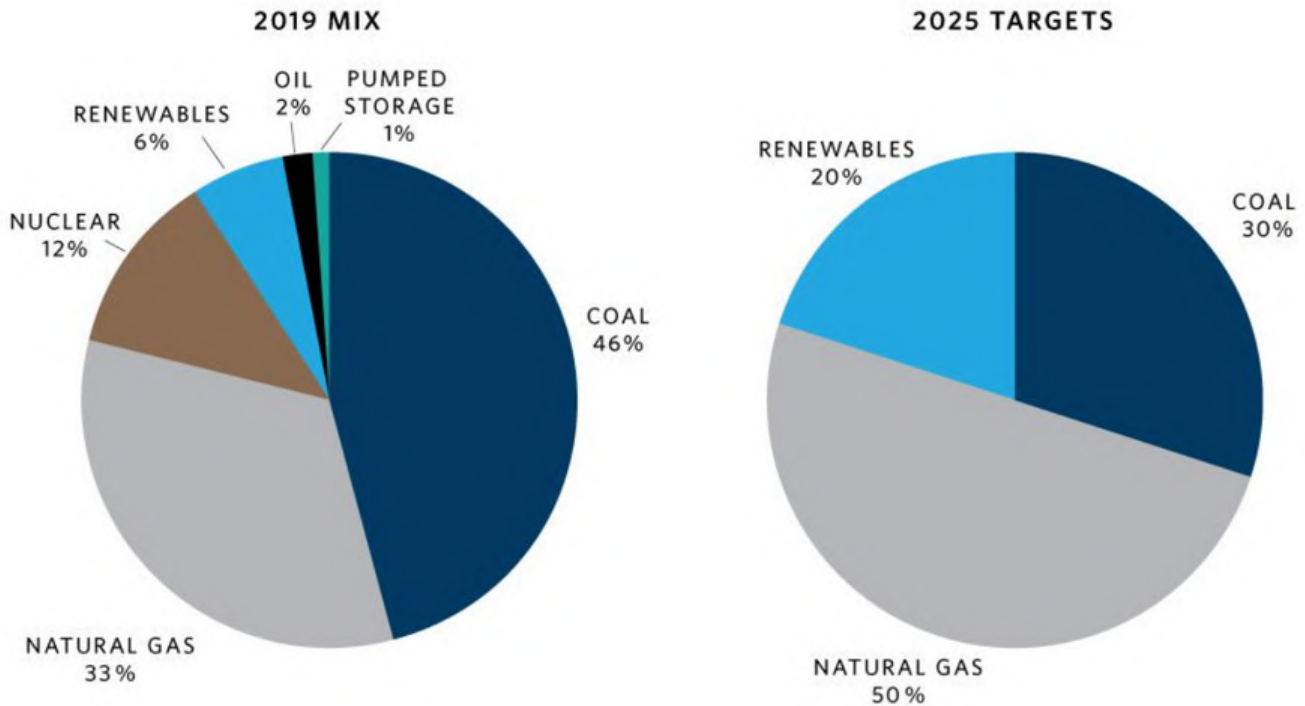
The energy trilemma is a complex challenge that no country has yet solved effectively. Taiwan is working to address these challenges through a combination of policies, including:

- Diversifying its energy mix by increasing the use of natural gas and renewable energy sources.
- Investing in energy efficiency measures to reduce demand.
- Developing new technologies to make renewable energy more affordable and reliable.
- Working with international partners to share resources and expertise.

It is too early to say whether Taiwan will be able to overcome the energy trilemma. However, the government is committed to finding solutions and is taking steps in the right direction.

07

Crude oil and coal



In addition, Taiwan's exclusion from the International Energy Agency (IEA) has made it difficult for the country to access important data on oil prices and supplies. The exclusion of Taiwan from the IEA has been a major roadblock in the sustainable development of Taiwan.

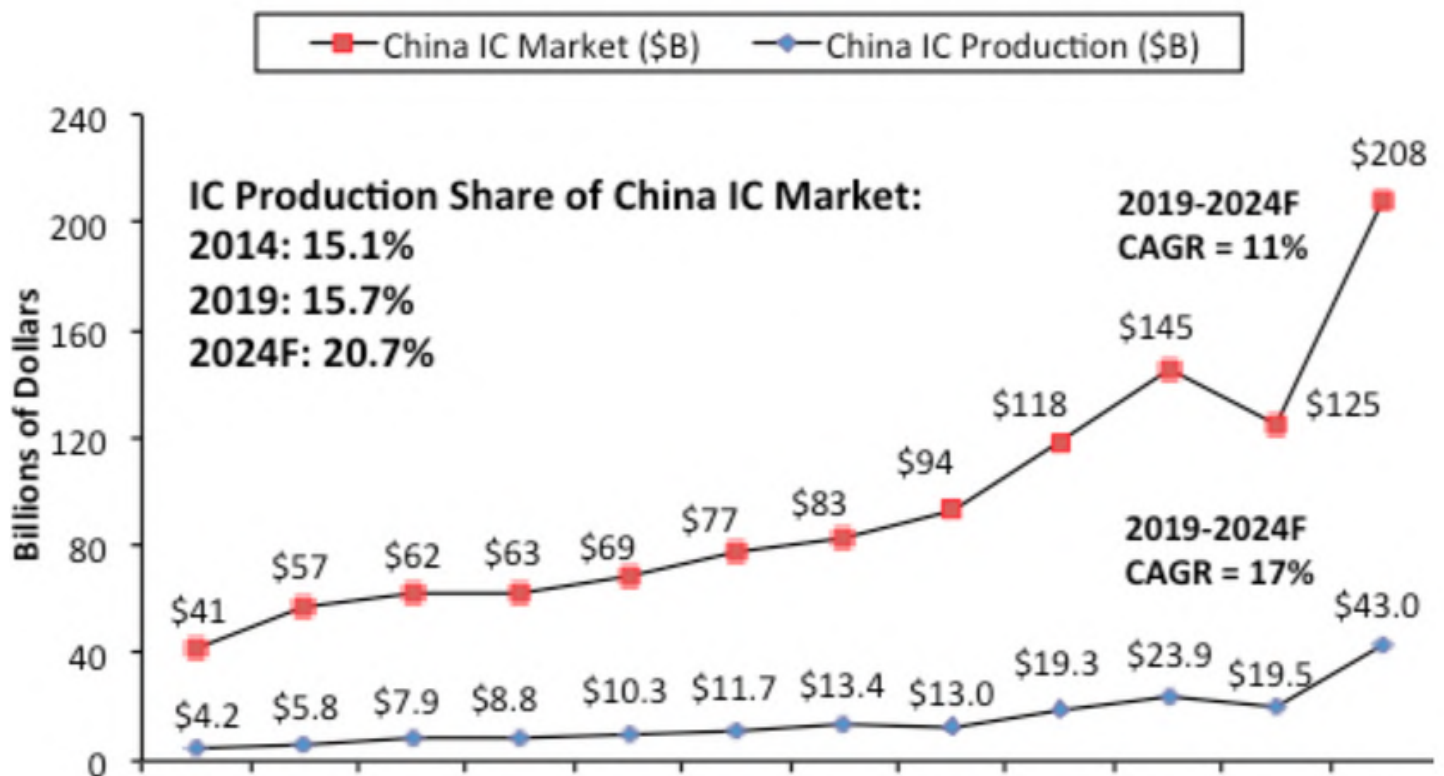
As a result of these factors, Taiwan's oil security is at risk. The country is heavily reliant on imported oil, and its access to this oil is vulnerable to disruptions caused by political tensions or natural disasters.

In addition, Taiwan's exclusion from

the IEA means that it does not have access to the same level of information and cooperation as other countries have when it comes to oil markets. This can make it more difficult for Taiwan to make informed decisions about its oil policy and to respond to disruptions in the oil market. The various facets of the energy trilemma have grave implications for the future of the sovereignty of Taiwan, as its sustainable development is pivotal for establishing its position in the rapidly changing world order.

08

Closing in on China



China has been investing heavily in its semiconductor industry in recent years. This is a strategic move by China, as semiconductors are essential for many high-tech industries, including computers, smartphones, and military equipment.

China's investment in semiconductors has been focused on two areas:

- **Design:** China is investing in the development of its own

semiconductor design capabilities. This includes the development of new chip architectures and the training of engineers in chip design.

- **Manufacturing:** China is also investing in the construction of new semiconductor manufacturing facilities. This includes the construction of new fabs (fabrication plants) that can produce the most advanced chips.

China's investment in semiconductors has been paying off. In recent years, China's share of the global semiconductor market has been growing. In 2021, China's share of the global semiconductor market was 16%. This is up from 12% in 2018.

China's growing dominance of the semiconductor market is a concern for the United States and other countries. The United States is concerned that China's growing semiconductor industry could give China an advantage in the development of military technology.

The United States has taken steps to counter China's growing dominance of the semiconductor market. In 2020, the United States passed the Secure Chips Act, which provides funding for the development of domestic semiconductor manufacturing capabilities. The United States has also imposed export controls on certain semiconductor technologies to China.

The competition between the United States and China in the semiconductor market is likely to continue in the years to come. The outcome of this competition will have a significant impact on the global technology landscape.

The implications of the oil and semiconductor conflicts between Taiwan and China are significant.

- **Oil:** Taiwan is heavily reliant on imported oil, and its access to this oil is vulnerable to disruptions caused by political tensions or natural disasters.
- **Semiconductors:** Taiwan is the most advanced producer of microchips, and China is a major competitor. The US has banned the export of chips to China, which has made it more difficult for China to produce its own chips.

These conflicts could have a significant impact on the global economy. If Taiwan loses access to oil, it could lead to higher energy prices and shortages. If China is unable to produce its own chips, it could lead to shortages of electronics and other products.

The conflicts could also lead to military tensions between Taiwan and China. If China were to attempt to take control of Taiwan by force, it would likely face a significant military challenge from the United States and its allies.

The best way to resolve these conflicts is through dialogue and cooperation. Taiwan and China need to find a way

to peacefully coexist and cooperate on issues of mutual interest.

The United States and other countries can also play a role in helping to resolve these conflicts.

Here are some specific implications of the oil and semiconductor conflicts between Taiwan and China:

- **Oil:** The oil conflict could lead to higher energy prices and shortages in Taiwan. This could have a negative impact on the Taiwanese economy and could lead to social unrest.
- **Semiconductors:** Semiconductor conflict could lead to shortages of electronics and other products in Taiwan. This could have a negative impact on the Taiwanese

economy and could make it difficult for Taiwan to compete in the global economy.

- **Military tensions:** The oil and semiconductor conflicts could lead to increased military tensions between Taiwan and China. This could increase the risk of a conflict between the two countries, which could have a negative impact on the stability of the region.

It is important to note that these are just some of the possible implications of the oil and semiconductor conflicts between Taiwan and China. The actual impact of these conflicts will depend on a number of factors, including the willingness of the two countries to cooperate and the actions of other countries in the region.

09

China's attempts to unify Taiwan



Over the years, China has been progressively conducting concerted strategic moves with the goal of unifying Taiwan:

- **Military:** China has been increasing its military presence around Taiwan, including conducting **regular military exercises** and sending military aircraft into Taiwan's airspace.

This is seen as a way of demonstrating China's power and deterring Taiwan from declaring independence.

Economic: China has been using its economic power to pressure Taiwan into unification. For example, China has **imposed tariffs** on Taiwanese goods and restricted investment from Taiwan. This is seen as a way of

hurting Taiwan's economy and making it more difficult for Taiwan to function as an independent country.

- **Political:** China has been trying to **undermine Taiwan's democracy** and promote pro-unification parties. For example, China has been funding and supporting pro-unification groups in Taiwan. This is seen as a way of influencing Taiwan's political process and making it more likely that Taiwan will unify with China.

These are just some of the ways in which China is trying to unify Taiwan. It is important to note that China's ultimate goal is to achieve peaceful reunification. However, if Taiwan continues to resist unification, China may be forced to take more drastic measures.

Here is a brief history of the conflict between China and Taiwan:

- **The Chinese Civil War:** The conflict between China and Taiwan can be traced back to the Chinese Civil War, which lasted from **1927 to 1949**. The war was fought between the **Kuomintang (KMT)**, which was led by Chiang Kai-shek, and the **Communist Party of China (CPC)**, which was led by Mao Zedong. The KMT was defeated in the war and fled to Taiwan, while the CPC took

control of mainland China.

- **The 1992 Consensus:** In 1992, representatives from China and Taiwan met in Hong Kong and agreed that there is only one China. However, they disagreed on what that meant. China interpreted the agreement to mean that Taiwan is a part of China, while Taiwan interpreted it to mean that there is a single Chinese populace with two political entities.
- **Recent tensions:** Tensions between China and Taiwan have increased in recent years. This is due in part to **China's growing military power** and its increasingly assertive stance on Taiwan. In 2019, China conducted a record number of military exercises near Taiwan. In 2020, China passed a law that allows it to use force to **"reunify" Taiwan**.

The future of Taiwan is uncertain (The Diplomat, 2023). It is possible that China will eventually be able to unify Taiwan by force. However, it is also possible that Taiwan will be able to maintain its independence. The outcome of the conflict will depend on a number of factors, including the balance of power between China and Taiwan, the international response to a Chinese invasion, and the will of the Taiwanese people.

10

Probable Solutions



China's **military spending** has been **growing rapidly** in recent years, and it is now the second-largest military spender in the world, after the United States. This spending is being used to **modernise** China's armed forces and to develop new weapons systems. China is also expanding its military presence in the South China Sea, which has raised concerns among its neighbours.

If China were to attempt to take control of Taiwan by force, it would likely face a significant military challenge from the United States and its allies. The United States has a strong military presence in the region, and it has pledged to defend Taiwan if it is attacked. Japan, Australia, and other countries in the region would also likely come to Taiwan's aid.

In order to successfully invade Taiwan, China would need to deploy a large number of troops and ships. It would also need to overcome the island's strong defences, which include air and missile forces. A war over Taiwan would likely be long and costly, and it is unclear who would ultimately prevail.

One **possible solution** for China is to seek a **peaceful resolution** to the Taiwan issue. This could involve direct negotiations with Taiwan, or it could involve third-party mediation. China could also try to improve its relations with the United States and its allies, in order to reduce the risk of a military conflict over Taiwan.

Another possible solution is for China to continue to **build up its military strength**. This would make it more difficult for the United States and its allies to intervene in a conflict over Taiwan. However, this approach could also lead to an arms race in the region, which would increase the risk of conflict.

Ultimately, the **best solution** for the Taiwan issue is a **peaceful one**. However, it is unclear whether China is willing to pursue this option. If China continues to pursue its military build-up and its aggressive rhetoric towards Taiwan, it is **likely** that the risk of **conflict will continue to grow**.

Road to Peace: A Theoretical Exploration

Introduction:

The semiconductor industry plays a crucial role in the global economy, powering various electronic devices and technologies. Taiwan has emerged as a dominant player in semiconductor manufacturing, with leading companies such as TSMC (**Taiwan Semiconductor Manufacturing Company**) and UMC (**United Microelectronics Corporation**) driving innovation and production. However, China has been striving to develop its semiconductor industry with the same level of expertise as Taiwan, creating implications for both nations. This model explores Taiwan's dominance in semiconductor production, China's aspirations to match Taiwan's expertise, and the potential impact on Taiwanese engineers.

a. **Technological Expertise:** Taiwan is renowned for its technological expertise in semiconductor manufacturing, backed by robust

research and development capabilities and advanced manufacturing processes. This expertise has led to breakthroughs in chip miniaturization and efficiency. According to the World Semiconductor Trade Statistics (WSTS), Taiwan accounted for around 20% of the global semiconductor market in 2020.

TSMC, headquartered in Taiwan, holds a global market share of approximately 55% in the foundry business.

b. **Leading Semiconductor Companies:** Taiwanese semiconductor companies, particularly TSMC and UMC, have established themselves as global leaders, providing cutting-edge chip manufacturing services to renowned tech giants.

- TSMC's revenue in 2020 reached approximately \$47.93 billion, solidifying its position as the world's

largest dedicated semiconductor foundry.

c. Global Market Share: Taiwan's dominance is reflected in its significant market share in semiconductor production, contributing to its economic growth and global influence in the tech industry.

According to the Taiwan Ministry of Economic Affairs, Taiwan held a **market share of 61%** in the global pure wafer foundry business in 2020.

China's Aspirations in Semiconductor Production:

a. Technological Ambitions: Recognizing the strategic importance of semiconductor manufacturing, China aims to develop a **self-reliant semiconductor industry** to reduce its dependence on foreign technology.

China's "**Made in China 2025**" initiative aims to achieve significant advancements in the semiconductor sector, targeting domestic production of 70% of semiconductors used in the country by 2025.

b. Investment in Research and Development: China has been investing heavily in research and development, establishing semiconductor research institutes and attracting talent from around the world.

- The Chinese government allocated \$29 billion in funding for the development of the integrated circuit industry in 2020.

c. Domestic Manufacturing Capability: China has been promoting the establishment of semiconductor fabrication facilities within its borders, aiming to enhance its semiconductor manufacturing capabilities.

- China has initiated several large-scale semiconductor manufacturing projects, including the **Yangtze Memory Technologies Company (YMTC)**, with an investment of \$24 billion.

Challenges Faced by China:

a. Technological Gap: China faces a significant technological gap in semiconductor manufacturing compared to Taiwan. It requires substantial investments, technology transfers, and talent acquisition to bridge this gap.

According to a report by Boston Consulting Group, China's semiconductor industry was estimated to be five to ten years behind global leaders in terms of technology as of 2020.

b. Intellectual Property Concerns: Developing indigenous semiconductor capabilities quickly often involves **intellectual property challenges**, as China has faced allegations of technology theft and IP

infringement in the past.

- The U.S. Trade Representative's 2020 Report on Notorious Markets identified **China** as a significant **source of intellectual property infringement and counterfeiting**.

c. Talent Retention: China must attract skilled engineers and researchers to bolster its semiconductor industry. However, the competition for talent, combined with concerns about intellectual property protection, may create challenges in retaining Taiwanese engineers.

- According to the Taiwan Semiconductor Industry Association, Chinese companies aggressively recruit Taiwanese engineers by offering higher salaries and benefits
Potential Impact on Taiwanese Engineers:-

a. Talent Attraction: China may seek to **attract Taiwanese semiconductor engineers** by offering competitive salaries, benefits, and opportunities to work on ambitious projects.

Chinese companies, including those backed by the government, have been actively recruiting Taiwanese semiconductor engineers. Some estimates suggest that over 1,000 Taiwanese engineers have moved to China for better opportunities.

b. Brain Drain Concerns: Taiwanese engineers working in China may face pressures to transfer technology or

knowledge from their previous employers in Taiwan, potentially leading to intellectual property concerns and talent outflow from Taiwan.

- The Taiwanese government has expressed concerns about technology transfer and implemented regulations to restrict the movement of key semiconductor talent to China.

c. Retaining Talent: Taiwan must implement strategies to retain its skilled engineers by offering competitive compensation, research opportunities, and creating an attractive environment for innovation and professional growth.

The Taiwanese government has launched programs to support the semiconductor industry, including providing research grants, facilitating industry-academia collaboration, and encouraging innovation.

Possible Solutions:

Strengthen Intellectual Property Protection: Taiwan and China should collaborate to enforce stricter intellectual property laws, ensuring that the innovations and trade secrets of Taiwanese semiconductor companies are protected.

Establish bilateral agreements and mechanisms to strengthen IP

protection and enforcement.

Encourage cooperation between Taiwanese and Chinese companies in joint ventures with clear IP protection frameworks.

Enhance Collaboration: Both countries can foster cooperation through joint research and development initiatives, knowledge sharing, and talent exchanges, creating a win-win situation for both Taiwan and China.

Establish platforms for collaboration between Taiwanese and Chinese semiconductor companies, universities, and research institutions. Facilitate technology sharing under well-defined agreements and safeguards.

Promote Domestic Innovation: Taiwan should continue to invest in research and development, nurturing local talent and encouraging technological innovation to maintain its edge in semiconductor production.

Increase funding for semiconductor research and development programs. Support partnerships between Taiwanese semiconductor companies and research institutions to foster innovation.

Create Incentives for Talent Retention: Taiwan can develop policies and programs that incentivize Taiwanese engineers to stay in the c

ountry, offering competitive salaries, research grants, and opportunities to work on cutting-edge projects.

Provide financial incentives, such as tax benefits or research grants, to Taiwanese semiconductor companies that invest in talent development and retention.

Strengthen ties between academia and industry to create a supportive ecosystem for talent growth and career advancement.

Targeted Stakeholders:

Taiwanese Government: Implement policies and initiatives to support the semiconductor industry, retain talent, and protect intellectual property.

Taiwanese Semiconductor Companies: Foster innovation, invest in research and development, and establish collaborations with Chinese counterparts.

Chinese Government: Encourage intellectual property protection, create an attractive environment for Taiwanese engineers, and promote collaboration with Taiwanese semiconductor companies.

Chinese Semiconductor Companies: Enhance technology acquisition through legal means, develop talent recruitment strategies, and establish partnerships with Taiwanese companies.

Taiwanese Engineers: Consider career opportunities in both Taiwan and China, weighing factors such as professional growth, compensation, and intellectual property concerns.

Impact and Observations:

Impact on Taiwan: Maintaining its dominance in semiconductor production is vital for Taiwan's economic growth and global influence. **Retaining talent and protecting intellectual property are critical for long-term success.**

Impact on China: Closing the **technological gap** with Taiwan in semiconductor manufacturing is a strategic priority for China's economic and technological ambitions. Collaboration with Taiwan can accelerate China's semiconductor industry growth.

Talent Flow and Intellectual Property: The movement of Taiwanese engineers to China raises concerns about technology transfer and intellectual property protection. Clear regulations and safeguards are necessary to address these concerns.

Collaboration Opportunities: Collaboration between Taiwanese and Chinese semiconductor companies can drive innovation, knowledge sharing, and mutually beneficial outcomes in the semiconductor industry.

Geopolitical Dynamics: Taiwan's dominance in semiconductors gives it a unique advantage in the global tech landscape and impacts the dynamics between Taiwan, China, and other global stakeholders.

Conclusion:

Taiwan's dominance in semiconductor production and China's aspirations to match its expertise present both opportunities and challenges. Strengthening intellectual property protection, enhancing collaboration, promoting domestic innovation, and creating incentives for talent retention are crucial for both Taiwan and China. Balancing the needs of talent, innovation, and IP protection will be essential for sustainable growth and competitiveness in the semiconductor industry for both nations.

Forecast:

As the competition between Taiwan and China in the semiconductor industry intensifies, several potential outcomes may emerge:

Technological Advancements: Both Taiwan and China will continue to invest heavily in research and development, driving technological advancements in the semiconductor sector. **Taiwan is likely to maintain its technological edge**, but China will gradually close the gap, potentially reaching a comparable level in the next decade.

Talent Retention Efforts: Taiwan will implement strategies to retain its skilled engineers by offering competitive compensation, research opportunities, and an attractive environment for innovation and professional growth. These efforts, coupled with the government's support and industry initiatives, will help retain a significant portion of Taiwanese engineers within the country.

Brain Drain Mitigation: While some Taiwanese engineers may be attracted to China's competitive salaries and ambitious projects, concerns about intellectual property protection and technology transfer will discourage a large-scale brain drain. The Taiwanese government's regulations restricting the movement

of key semiconductor talent to China will help mitigate this risk.

Collaborative Partnerships: Taiwan and China will establish more collaborative partnerships in the semiconductor industry, leveraging their respective strengths. Joint research and development initiatives, knowledge sharing, and talent exchanges will foster cooperation, benefiting both countries and contributing to advancements in the global semiconductor landscape.

Geopolitical Implications: The competition and cooperation dynamics between Taiwan and China in the semiconductor industry will have geopolitical implications. It may influence the relationship.

Symbiotic Relationship: Despite the competition, Taiwan and China may develop a symbiotic relationship in the semiconductor industry. While China strives to close the technological gap, it may rely on Taiwan's expertise and collaboration to accelerate its semiconductor industry growth. This symbiosis could lead to mutually beneficial outcomes for both countries.

Overall, the competition and collaboration between Taiwan and China in the semiconductor industry will have far-reaching implications, influencing technological advancements, talent retention efforts, geopolitical dynamics, and

economic landscapes. Balancing these factors will be crucial for sustainable growth and competitiveness in the semiconductor industry for both nations.

Assumptions

- Only two powers, China and Taiwan are considered. Development of the chip industry in other countries like South Korea and India is not taken into consideration.
- There are no political and global supply chain deficiencies in the Indo-Pacific region.
- Taiwan would be able to retain its talent.
- Western support for Taiwan will continue.
- There will be no slowdown in the Chinese economy.
- Market for Chinese chips is not affected by anti-china sentiments. (especially due to COVID)

Conclusion

In a rapidly changing world order, with increased multipolarity, the China-Taiwan conflict reverberates beyond its immediate borders, with significant global implications.

Regional stability in the Asia-Pacific region depends on how tensions are managed. An escalation could **trigger a broader crisis, affecting trade, unions and the economy.**

Taiwan's role as a technology hub has integrated the country into the global economic network. Supply chain disruptions caused by conflict will affect all industries and economies worldwide.

U.S. commitment to Taiwan's defence highlights broader **strategic alliances.** US involvement could strain relations with China, which could escalate tensions.

This conflict reflects a larger struggle between world powers, most notably the United States and China. The outcome could affect the balance of power and dynamics of this geopolitical rivalry.

Dispute settlement can set a precedent for international law and standards in the resolution of

territorial disputes, thereby shaping global practices in dispute resolution. Taiwan's status as a democratic nation is attracting worldwide attention, making the conflict relevant to the global promotion of democracy and human rights. Managing relations with China and Taiwan poses diplomatic challenges for many countries, affecting their foreign policy and allegiance.

The effectiveness of international organisations, such as the United Nations, in dealing with complex sovereignty issues can be tested by the complexity of the conflict.

Conflict management shapes perceptions of China's global behaviour and influences how the world perceives China's intentions and behaviour on the international stage.

Ultimately, the China-Taiwan conflict transcends geographical boundaries and leaves its mark on security, economy, diplomacy, and the trajectory of global international relations. This determination will resonate for many years.



Focus

Latin America's role in China-Taiwan diplomatic competition

By Fernando Prats, Senior Analyst, London Politica

Since the **People's Republic of China** took over **Taiwan's** seat at the United Nations in 1971, both Beijing and Taipei have been vying for diplomatic recognition and international legitimacy. During the last quarter of the 20th century, Latin America became a crucial battleground for this diplomatic competition, as Taipei sought to maintain its standing as a legitimate actor in the international system (Li, 2005, 78). However, over the last two decades, this situation has undergone a dramatic shift, posing a serious threat to Taipei's international status.

Since the 1990s, Taiwan's diplomatic standing in Latin America has been on the decline due to China's rise as a global economic power. While most South American countries, with the exception of Paraguay, shifted their

diplomatic recognition to Beijing during the 20th century, the situation in Central America has been markedly different. This region has been a cornerstone of Taipei's global strategy, as it has concentrated much of its diplomatic recognition in this area.

Unfortunately for Taiwan, the situation has changed, and an increasing number of Central American states have switched their recognition to **Beijing**. In 2007, Costa Rica abandoned Taiwan and established official relations with China. A decade later, in 2017, a “rapid succession of diplomatic switches began” (Solís, 2021), including Panama (2017), El Salvador (2018), the Dominican Republic in the Caribbean (2018), Nicaragua (2021), and, most recently, Honduras (2023)

Currently, only **two** Central American states, **Guatemala** and **Belize**, continue to recognize Taipei. Taiwan's most significant partner in the region is Paraguay, given its larger population, geographic size, and natural resource endowment. However, most of its remaining allies are small island states, including Haiti, Tuvalu, and Saint Lucia, bringing the total number of diplomatic allies to thirteen (Taiwan's Ministry of Foreign Affairs, 2023)

This trend of countries switching their recognition to Beijing is yet another indication of China's strong and expanding influence in Latin America. In the past two decades, China has emerged as a key economic partner for the region, significantly increasing its presence as a trading partner, as well as a provider of investment, loans, and other financial instruments.

China's growing influence in Latin America

To comprehend why countries have been consistently shifting from Taipei to Beijing, it is essential to understand the growing Chinese presence in Latin America's economy. Although most **Latin American** countries are **democratic regimes**, and therefore, would share values with Taiwan

looking at this issue from an ideological perspective would provide limited insight. In international politics, ideology is seldom the decisive factor in foreign policy decisions.

Conversely, the Sino-Taiwanese diplomatic competition in Latin America revolves around “dollar diplomacy”, which can be defined as an “economic-based foreign policy” (Olsen, 2009). This entails both actors vying for recognition by employing economic tools such as financial aid, which are highly desirable for these vulnerable economies. As such, the competition between Taipei and Beijing is driven primarily by **economic interests rather than ideological ones** (Olsen, 2009).

In this context, China's remarkable economic growth has been a major advantage, and the primary factor behind most countries' decisions to recognize Beijing. As we have noted, China's significance as an economic partner is crucial for comprehending why Taipei has struggled to retain its diplomatic allies.

The strengthening of economic ties between China and Latin America has been significant since China's entry into the **World Trade Organization** in 2001. China has become South America's **top trading partner** in the 21st century, and the second most important partner for Central America, behind the US. This strong economic relationship is due to the complementarity of their economies. In China's rapidly expanding economy, natural resources are both vital and scarce, and Latin American countries possess vast amounts of them. As a result, Latin American exports to China are mainly composed of agricultural commodities, energy, and minerals. Soybeans, meat, oil, and copper are among the top exports from Latin America to China. In return, the region mostly imports manufactured products, which in countries like Brazil, have contributed to their deindustrialization (Roy, 2022).

China's increasing economic ties with Latin America have not only strengthened as a trading partner but also as a significant source of investment. Foreign direct investment (FDI) from **China to Latin America and the Caribbean (LAC)** has remained above **\$4.5 billion**.

annually on average since 2016. This steady flow of investment has made China one of the top investors in the region, and is notable when compared to the contraction of Chinese investment in North America and the European Union during the same period. **Brazil**, in particular, has become the top recipient of Chinese investment in the world in 2021, indicating the growing significance of China's economic presence in the region. (Larraín and Zhang, 2023).

On the other hand, however, Chinese loans have “diminished sharply” in the last couple of years (The Dialogue, 2023), in contrast to the FDI figures. A possible explanation for this is that a handful of the early loans have become non-performing (Larraín and Zhang, 2023).

Nonetheless, it is worth noting that there is an **existing correlation** between **Chinese loans** and **Central American countries'** decision to shift their diplomatic recognition to Beijing. For instance, after officially recognizing China in 2007, Costa Rica became one of the top borrowers in the Americas in 2008. Similarly, the

Dominican Republic became the second-largest borrower in the region, behind only Brazil, in 2019, one year after its diplomatic shift to China. (The Dialogue, 2023).

On the contrary, Taiwan's economic power is significantly dwarfed by China's, given the latter's status as the world's second-largest economy. As a result, Taipei faces an uphill battle to compete for diplomatic recognition against Beijing, particularly in larger countries. Consequently, Taiwan has focused on cultivating relations with smaller nations in Central America and the Caribbean. This strategy is evident in most countries that continue to recognize Taiwan.

This strategy is beneficial for both sides - **Latin American** countries and **Taipei** - for two reasons. Firstly, it enables these small nations to be at the top of the agenda of an advanced economy, while they would be almost irrelevant to China. Secondly, their small populations and market size works for Taiwanese benefit too, as their modest size results in smaller amounts of trade and aid to satisfy their needs. An illustrating example of this was Taiwan's \$350,000 donation to St. Vincent after a natural disaster in 2021, an amount that would be insignificant for many bigger economies in the region

(Berg and Moula, 2021).

The most recent and notable form of dollar diplomacy in the region has been witnessed during the COVID-19 pandemic, commonly referred to as '**vaccine diplomacy**.' It is worth noting that Guatemala, Paraguay, Nicaragua, and Honduras, which recognized Taiwan at the time, were among the few countries in Latin America that **did not receive Chinese vaccines** (Harrison, 2021). The situation drew attention from regional media, as it highlighted how geopolitical affairs play a critical role in shaping the regional scenario, especially during such critical times.

Recent developments and future scenarios

In March 2023, Honduras made the decision to switch its diplomatic recognition from Taipei to Beijing, becoming the latest country to shift its allegiance in the ongoing diplomatic shuffle. This move, like many others before it, can be attributed in large part to "dollar diplomacy".

According to **Honduran Foreign Minister Enrique Reina**, the country was "up to its neck in debt", and had pressing financial needs that Taiwan was unable to meet. Therefore, China emerged as the most viable option to

provide aid in this challenging situation. One of the strategic areas where a boost in **Chinese-Honduran** cooperation is expected is infrastructure, especially in the energy sector. It is expected that China invests in the construction of a new hydroelectric dam, Patuca II (Prats, 2023).

Furthermore, Honduras is expected to enter the **Belt and Road Initiative (BRI)**, with the end of gaining access to material benefits - infrastructure, financing- that the country urgently needs. What is more, Honduras will seek to increase its commodities exports - seafood, coffee and bananas - to the massive Chinese market. Of course, recognizing China does not guarantee itself long term benefits, and therefore it remains to be seen whether this relationship will substantially benefit Honduras (Prats, 2023).

However, Honduras might not be Taiwan's only diplomatic loss in the near future. Paraguay, Taiwan 's most important diplomatic ally, underwent elections earlier this year. During the campaign, the opposition 's leading contender, Efraín Alegre, expressed the need to re-evaluate Paraguay' s relationship with Taiwan (Heduvan, Harán, 2023).

Alegre stated that relations with Taiwan are “insufficient”, and had promised to “reach a solution to this issue” had he been elected president. According to the candidate, the relations with Taiwan hinder meat exports to China, while not receiving enough assistance or cooperation from Taipei (Taglioni, 20/04/2023). This phenomenon has been referred to as the '**Taiwan cost**' and refers to the opportunity cost incurred by Paraguay as a result of maintaining its diplomatic alliance with Taipei, instead of recognizing Beijing (Urdinez, 2017).

Fortunately for Taipei 's strategy, Alegre lost the election to the Partido Colorado candidate Santiago Peña. Following Paraguayan and Partido Colorado's “historical guidelines”, Peña has stated that “he would not change the diplomatic recognition of Taiwan” and has endorsed Taipei as a “strategic partner” to Asunción (Heduvan, 2023).

With regard to Central America, the forthcoming developments in Guatemala bear significant importance, especially given the election of the new President, Bernardo Arévalo, who is scheduled to take office in **January 2024**. Throughout his campaign, Arévalo expressed his stance of maintaining relations with Taipei intact.

Nonetheless, he has also stated that Guatemala needs to work on its trade relations with China and expand them, as a plan to pursue a “foreign policy based on [Guatemala’s] own interests” (Cai, 2023). However, Arevalo has also expressed that seeking to improve trade ties with China and continuing diplomatic relations with Taiwan is “completely compatible” (Focus Taiwan, 8/21/2023). Of course, this remains to be seen and the situation in Guatemala is to be closely followed since its growing importance in Taiwanese strategic goals.

Conclusion

Latin America has long been a crucial battleground in the diplomatic competition between China and Taiwan. Historically, Taiwan has had a strong presence in the region, and especially in Central America, but over the last few decades, the situation has started to shift. In fact, in the last five years, there has been a significant increase in the number of countries that have shifted their diplomatic recognition from Taipei to Beijing.

The primary driver of this trend is **economic-based foreign policy**, or dollar diplomacy, as it is often called. With China's dramatic economic growth in the last decades, partly due

to its interdependent relationship with the US and Western countries, it has become increasingly difficult for Taiwan to compete economically. As a result, its remaining allies are small nations that Taipei can provide **aid and investment** to, given their modest size.

However, recent developments suggest that even these countries may be considering a shift towards Beijing in the next couple of years, as China continues to surge as an economic, political, and military superpower; and as these nations face bigger economic, financial and social challenges.



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