

PART V

TAIWAN AND HONG KONG

CHAPTER 11: TAIWAN

Executive Summary

We have entered a crucial phase in Beijing's longstanding efforts to impose sovereignty over Taiwan. China is rapidly advancing toward its goal of being prepared to take Taiwan by force—while Taiwan and the United States strive to maintain the capacity to deter a Chinese invasion. China's persistent military activities near Taiwan, combined with new capabilities such as large amphibious assault ships and mobile piers, have enhanced China's capacity to blockade or launch an invasion of Taiwan with little advance warning. Beijing has also continued to escalate its multifaceted pressure campaign targeting Taiwan through military threats, economic coercion, and malign influence activities. Over the past year, Beijing has focused much of its information warfare activities on exacerbating domestic political divisions in Taiwan and driving a wedge between Taiwan and the United States. Moreover, China has continued its efforts to isolate Taiwan in the international arena by pressuring other countries to adopt Beijing's preferred positions and language regarding Taiwan.

In response to China's escalating pressure campaign, Taiwan has made progress enhancing its military deterrence and social resilience through larger and more realistic military exercises, efforts to accelerate the acquisition of new asymmetric defense capabilities, and new measures to counter Chinese malign influence. Taiwan has also continued to leverage its crucial role in technology supply chains—particularly its dominant position in advanced semiconductor manufacturing—to hasten economic diversification away from China. The United States has continued to support Taiwan through weapons sales and security assistance while working with Taiwan to enhance economic ties and build secure supply chains.

Key Findings

- Beijing is attempting to exploit domestic divisions in Taiwan by continuing its two-pronged approach to cross-strait relations. On the one hand, Beijing has issued harsh threats against Taiwan's Democratic Progressive Party (DPP)-led government, which it accuses of promoting Taiwan indepen-

dence. On the other hand, Beijing has also stepped up efforts to court opposition leaders, business interests, and youth in Taiwan through promises of economic benefits and cross-strait exchange programs.

- In light of China's near-constant military training activities and maneuvers near Taiwan, as well as the People's Liberation Army's (PLA) improved military hardware and operational readiness, U.S. and Taiwan military officials have warned that the PLA could implement a blockade within "a matter of hours" and would potentially need only "minimal conversion time" prior to an attack on Taiwan.¹
- In addition to intensifying its military pressure on Taiwan, Beijing has also expanded a multifaceted campaign to weaken Taiwan's will to resist through economic coercion and inducements, espionage, information warfare, and undersea cable sabotage. Chinese propaganda has focused especially on attempting to sow doubt about the U.S. commitment to Taiwan by fomenting uncertainty surrounding U.S. policies on Ukraine, tariffs, and semiconductors.
- Taiwan has made progress improving military readiness, enhancing societal resilience, and diversifying its economy. Nevertheless, bureaucratic inertia in the military as well as political gridlock between the DPP-controlled executive branch and the Kuomintang (KMT)-controlled legislature have cast uncertainty around efforts to speed up the modernization of Taiwan's defenses.
- Despite rising tensions with China, Taiwan's economy continued to perform strongly, driven by insatiable global demand for semiconductors and electronics. Taiwan's continued leadership in technology manufacturing processes coupled with efforts to diversify its trade and investment partners have begun to shift dependence away from China, limiting the sting of Beijing's economic pressure campaign.
- Taiwan is now among the United States' top ten trading partners, with goods exported to the United States overtaking those to China for the first time in over two decades. Taiwan's chip manufacturers have pledged record levels of foreign direct investment (FDI) to build semiconductor manufacturing facilities in the United States. As China pursues a strategy of technological and manufacturing dominance, Taiwan's companies will be important partners to prevent over-reliance on Chinese supply chains.

Introduction

The daily drumbeat of news surrounding tensions in the Taiwan Strait can create the illusion that China is only slowly ratcheting up the pressure on Taiwan. Yet a broader perspective illustrates the remarkable rapidity with which Beijing has escalated its multidimensional pressure campaign against Taiwan:

- Over the past five years, PLA incursions into Taiwan’s air defense identification zone (ADIZ) have increased dramatically—from only 20 in 2019 to 3,075 in 2024.²
- Over the past four years, PLA aircraft crossing the de facto median line in the Taiwan Strait have increased 6,591 percent—from only 22 instances in 2020 to 1,472 in 2024.³
- Over the past four years, the number of people charged with espionage against Taiwan on behalf of China has increased 967 percent, from six cases in 2020 to 64 in 2024.⁴
- Over the past two years, the number of countries that have signed on to statements endorsing Beijing’s “One China principle” has increased by 133 percent—from 51 countries in February 2023 to 119 countries as of January 2025.⁵

These stark statistics show that China’s pressure campaign against Taiwan has transitioned to a new phase, and the window of opportunity to ensure the continued effectiveness of deterrence from Taiwan and the United States is shrinking.*⁶

Beijing Continues to Escalate Its Pressure Campaign against Taiwan

On April 2, 2025, Chinese officials hosted the vice chair of Taiwan’s main opposition party for a meeting in China and promised to “strengthen cross-Strait exchange and cooperation” to “bring benefits” to the people of Taiwan.⁷ The meeting overlapped with the second day of the PLA’s Strait Thunder-2025A military exercises, large-scale drills encircling Taiwan that Beijing framed as a “stern warning” to Taiwan “separatist” forces.⁸ The split screen of Chinese officials making friendly overtures to opposition leaders while simultaneously carrying out aggressive military drills encapsulates the two-track strategy of inducements and threats that has been a hallmark of Beijing’s Taiwan policy in recent years.

Taiwan’s Domestic Political Divisions Have Deepened, but Large Majorities Continue to Oppose Unification with China

The two main political parties in Taiwan—the DPP and KMT—have very different visions for how to manage cross-Strait relations. The DPP has been more forceful than the KMT in criticizing China’s pressure campaigns against Taiwan.⁹ The DPP’s overarching strategy for countering Chinese pressure has focused on increasing defense spending and improving asymmetric defense capabilities to deter a Chinese invasion, enacting stringent new measures to counter Chinese malign influence activities, and leveraging Taiwan’s key role in technology supply chains to reduce its economic dependence on China.¹⁰ In contrast, the KMT has advocated for maintaining productive cross-Strait dialogue to reduce tensions and lower the possibility of a miscalculation.¹¹ The KMT has defined its approach

*This chapter’s findings are based on meetings with the Taiwan Economic and Cultural Representative Office; the KMT Representative to the United States; the American Institute in Taiwan; and the Research Institute for Democracy, Society, and Emerging Technology as well as open source research.

to managing cross-Strait relations as a “2D Strategy” (defense and dialogue) of enhancing Taiwan’s defense capabilities while also maintaining communication channels with Beijing.¹²

Taiwan’s domestic politics in 2025 have been defined by division and gridlock between the two major parties. Since Taiwan’s January 2024 elections, the DPP has controlled the executive branch under President Lai Ching-te, while the KMT has held control over the legislature. In January 2025, the opposition-controlled legislature imposed significant cuts and froze a portion of the Lai Administration’s budget request, including cutting approximately \$280 million (1.3 percent) of the defense budget and freezing an additional \$3 billion (14 percent).¹³ DPP leaders have criticized the KMT for hampering efforts to improve Taiwan’s defense capabilities, while the KMT has criticized the Lai Administration for recklessly provoking Beijing and using Chinese infiltration as a pretext to violate the civil liberties of people who disagree with DPP policies. Civil society groups aligned with the DPP filed dozens of recall petitions targeting KMT legislators in an attempt to reestablish a DPP majority and smooth the way for implementing President Lai’s desired policies on defense and national security. However, recall elections held on July 26 and August 23, 2025, failed to unseat any opposition lawmakers, likely ensuring that Taiwan’s government will remain divided until the next presidential and legislative elections in 2028.¹⁴

Yet despite Taiwan’s political divisions and Beijing’s relentless propaganda and pressure campaigns, opinion polling suggests the majority of people in Taiwan continue to reject China’s positions and remain willing to fight to defend Taiwan against a potential Chinese invasion. According to polling from June 2025, only about 6.4 percent of Taiwan’s population supported eventual unification with China.¹⁵ An opinion survey conducted on behalf of Taiwan’s Mainland Affairs Council in April 2025 showed that 84.4 percent of respondents opposed “one country, two systems,” 82.5 percent opposed the statement “Taiwan is a part of China’s territory, and Taiwan has never been a country,” and 80.6 percent opposed China’s “One China principle.”¹⁶ The March 2025 results of a long-running survey found that 63 percent of respondents said they were willing to resist a Chinese invasion “at all costs.”¹⁷

Beijing’s Rhetoric Aims to Exacerbate Domestic Divisions in Taiwan and Justify a Potential Future Invasion

Beijing’s recent official statements have sought to exacerbate political divisions within Taiwan by reiterating violent threats against the DPP-led government (which Beijing accuses of promoting “Taiwan independence”) while also promising to confer benefits on opposition political leaders, the business community, and Taiwan’s youth. Recent speeches by top Chinese officials have repeated China’s calls for “resolutely striking” Taiwan independence forces and proclaimed that “Taiwan independence separatists who play with fire will only burn themselves.”¹⁸ On March 13, Chen Binhua, the spokesperson for Beijing’s Taiwan Affairs Office, declared that Taiwan separatists would have their “bodies smashed to pieces and their bones ground to powder.”¹⁹

Yet the most noticeable shift in Beijing's rhetoric on Taiwan over the past year has been a greater emphasis on courting elements of Taiwan's society by promising material benefits to people and groups in Taiwan perceived as friendly toward Beijing. At the February 2025 Taiwan Work Conference, Wang Huning, Beijing's top official in charge of Taiwan policy, introduced the new concept of "shaping the inevitable reunification of the motherland," referring to actions China can take to create the conditions for unification with Taiwan. In his speech, Wang called for "letting Taiwan compatriots share in the opportunities and fruits of Chinese-style modernization and development" by supporting Taiwan businesspeople in China and creating opportunities for youth from Taiwan to "pursue and fulfill their dreams" in China.²⁰ Likewise, the only significant new language on Taiwan in Chinese Premier Li Qiang's 2025 *Government Work Report* called for "improving systems and policies to promote cross-strait economic and cultural exchanges and cooperation."²¹

While Chinese statements aimed at international audiences have denied any imminent plans to invade Taiwan and reiterated Beijing's preference for "peaceful unification," Beijing's messaging directed at its own citizens has struck a more urgent tone and articulated potential justifications for invasion.²² In English-language publications, leading Chinese scholars with close ties to Beijing have claimed that China does not have a timetable for unification with Taiwan and remains optimistic about the prospects for peaceful unification.²³ For example, in a December 2024 article in *Foreign Affairs*, Yan Xuetong, one of China's most influential foreign policy thinkers, wrote that China and the United States were "unlikely to go to war" over Taiwan in the next four years and that "China is not about to draw up a timetable for reunification with Taiwan when it is concerned primarily with its own GDP [gross domestic product] growth."²⁴ However, China's Taiwan Affairs Office referred to Dr. Yan's article as only "the personal opinion of an academic" and later said that China would take "decisive measures" if Taiwan's "provocations" "crossed the red line."²⁵ In contrast, when writing for domestic audiences, Chinese academics have stated that "the unification of the motherland cannot keep being postponed" and have called for instilling Chinese society with the notion that "unification could happen at any time."²⁶ Recent commentaries published in Chinese state-run media have employed some of Beijing's most aggressive rhetoric to date, referring to Taiwan's President Lai as an "utterly evil creator of war."²⁷ For example, an April 2025 commentary in the *People's Daily* accused President Lai of promoting "Taiwan independence" and stated that "Taiwan independence means war," articulating a potential justification for invading Taiwan and blaming it on Lai.²⁸ In August 2025, a *People's Daily* editorial accused the DPP of a "dangerous inclination toward increasing Nazification"—echoing the rhetoric Russia's President Vladimir Putin used to justify his invasion of Ukraine.²⁹

Does Beijing Have a Timeline for Taking Taiwan?

In discussions regarding whether Beijing has a timeline for taking Taiwan, analysts have most frequently pointed to three dates for a potential Chinese invasion: 2027, 2035, and 2049.³⁰ These dates are based on public reports about U.S. intelligence assessments as well as Beijing's own statements regarding Taiwan and the PLA's military modernization ambitions.³¹ Nevertheless, Beijing has never publicly acknowledged a specific deadline for taking Taiwan, and General Secretary of the Chinese Communist Party (CCP) Xi Jinping reportedly denied having plans to invade Taiwan in 2027 or 2035 during his November 2023 meeting with then-U.S. President Joe Biden.³² Xi has said on two occasions, however, that the Taiwan issue "should not be passed down generation after generation," which has been interpreted by some to indicate Xi's intent to "solve" the issue during his lifetime.³³

2027: Beijing's date for being prepared to invade Taiwan

According to public reports about U.S. intelligence assessments, Xi instructed the PLA to be capable of conducting a successful invasion of Taiwan by 2027—a deadline intended to accelerate the development of the PLA's capabilities, but not necessarily a target invasion date.³⁴ The year 2027 is significant in that it will mark the 100th anniversary of the founding of China's PLA, and Xi has announced the goal of accelerating the "mechanization, informatization, and intelligentization" of China's military by that date.³⁵

2035: Beijing's date for complete military modernization and constructing a high-speed railway to Taiwan

Analysts have also pointed to 2035 as a potential deadline for China to take Taiwan.³⁶ Beijing has stated its aim to "basically complete the modernization of national defense and the military by 2035."³⁷ Moreover, China has also announced plans to complete a high-speed railway connecting Taiwan to China by that date. In 2023, China opened a high-speed rail line along the Taiwan Strait in Fujian Province and announced that it had built an "integrated multidimensional transportation network" that would make it "technically possible" to create a high-speed transport passage linking the province with Taiwan.³⁸ However, as officials in Taiwan have dismissed the high-speed rail project, it is likely Beijing could only achieve this goal if it had already gained control over Taiwan.³⁹

2049: Beijing's date for realizing "the great rejuvenation of the Chinese nation"

Beijing has clearly indicated its goal to "unify" with Taiwan prior to the 100th anniversary of the founding of the People's Republic of China (PRC) in 2049. Xi has long called for completing the "rejuvenation of the Chinese nation" by 2049, and in his report to the CCP's 20th National Party Congress in 2022, Xi stated that "solving the Taiwan question" is an "inevitable requirement for realizing the great rejuvenation of the Chinese nation."⁴⁰ Xi has also set the goal of making the PLA a "world-class" military by mid-century.⁴¹

Beijing Has Escalated Military Pressure on Taiwan and Enhanced Its Capabilities for an Invasion

In addition to its harsh rhetoric and economic pressure campaign against Taiwan's government, Beijing has continued to escalate military pressure on Taiwan both through near-daily military operations near Taiwan and large-scale exercises designed to rehearse invasion and blockade scenarios. On April 9, 2025, Commander of the U.S. Indo-Pacific Command (USINDOPACOM) Admiral Samuel Paparo testified to the House Armed Services Committee that "the PLA escalated military pressure against Taiwan by 300 percent in 2024, through activities such as Air Defense Identification Zone (ADIZ) entries and centerline crossings."⁴² As of October 10, 2025, there have been 3,056 PLA incursions into Taiwan's ADIZ this year, up 33 percent from 2,301 incursions during the same period in 2024.⁴³ In addition to the near-daily menace of PLA aircraft crossing into Taiwan's ADIZ, the PLA has also continued to stage large-scale military drills encircling Taiwan, framing them as punishment for the supposed provocations of Taiwan's government. In his April 2025 testimony, Admiral Paparo stated that these "aggressive maneuvers around Taiwan are not just exercises—they are dress rehearsals for forced unification."⁴⁴ On April 1–2, 2025, the PLA conducted the Strait Thunder-2025A military exercises encircling Taiwan, which were similar in scope to the Joint Sword drills conducted in 2023 and 2024. Over the course of the two-day exercise, the PLA deployed 135 aircraft, 38 naval vessels, and 12 other official vessels in the areas surrounding Taiwan.⁴⁵ Like previous large-scale military exercises around Taiwan, the Strait Thunder-2025A drills involved the PLA's Shandong aircraft carrier group as well as participation by coast guard vessels.⁴⁶ PLA military experts stated that the April 2025 drills focused on occupying key maritime chokepoints to simultaneously cut off Taiwan's energy imports, the support lines of foreign militaries, and Taiwan's exit routes to the outside world.⁴⁷

Besides highly publicized named military exercises, Beijing has also conducted increasingly large-scale unannounced exercises designed to normalize PLA activity near Taiwan, making it more difficult to detect if China is preparing for an actual blockade or invasion and potentially dramatically reducing the time Taiwan and the United States would have to respond. In December 2024, the PLA deployed nearly 90 ships in waters stretching from the East China Sea to the South China Sea in its largest military drills near Taiwan in almost 30 years.⁴⁸ Unlike other exercises focused on encircling Taiwan, the December 2024 exercises focused on anti-access/area denial across the entire first island chain.⁴⁹ Beijing did not announce the exercises in advance, and China's Ministry of Foreign Affairs declined to answer questions pertaining to the drills.⁵⁰ On February 26, 2025, the PLA launched additional drills off the coast of Taiwan without prior warning, which China's Ministry of National Defense later called "routine exercises."⁵¹ China also conducted unannounced military exercises near Taiwan on March 17, 2025, which China's Foreign Ministry later framed as punishment for the U.S. decision to remove language that the United States "does not support Taiwan independence" from its factsheet on U.S.-Taiwan relations.⁵²

Beijing Has Enhanced Its Military Capabilities for a Potential Invasion of Taiwan

In addition to China's near-constant military activities near Taiwan, the PLA has also made progress toward improving its military hardware and operational readiness for a potential amphibious invasion of Taiwan.

- In January 2025, reports emerged that China had developed new self-propelled landing barges that could enable the PLA to overcome many of the logistical challenges to an amphibious invasion of Taiwan by allowing it to transport large volumes of heavy combat equipment quickly over difficult terrain along Taiwan's western coastline.⁵³ In March 2025, China conducted practice maneuvers in which three of the new barges linked together via extendable bridges, creating a 2,700-foot mobile pier that could reportedly be used to unload hundreds of armored vehicles in a day.⁵⁴ Military analysts have concluded that the barges "significantly improve the PLA's ability to conduct over-the-shore logistics in a Taiwan invasion scenario."⁵⁵
- On December 27, 2024, the PLA unveiled its new Type 076 warship, which analysts have described as "the world's largest amphibious assault ship" and "the world's first drone aircraft carrier."⁵⁶ The Type 076 warship can launch manned fighter jets and drones in addition to helicopters, which Chinese military analysts have claimed could facilitate a faster amphibious invasion of Taiwan.⁵⁷
- At a September 3, 2025, military parade in Beijing commemorating China's WWII victory, the PLA unveiled new weapons that could be used to support an invasion of Taiwan, including hypersonic anti-ship missiles that could target U.S. warships, new combat drones to help navigate mountainous terrain, and lighter tanks designed to better survive drone strikes.⁵⁸
- China unveiled its J-35A fifth-generation stealth fighter jet in November 2024, which analysts have argued would likely fly over Taiwan's eastern coast to assist with an amphibious invasion or help enforce a no-fly zone if Beijing attempted to impose a blockade or quarantine of Taiwan.⁵⁹
- In January 2025, Fujian Province announced reforms aimed at professionalizing its militia forces, which would likely play a key role in a military conflict with Taiwan.⁶⁰ While in the past, the militia unit has been poorly trained and compensated, the new reforms enhanced the financial and reputational rewards for those serving in the militia—and particularly its most elite members.⁶¹

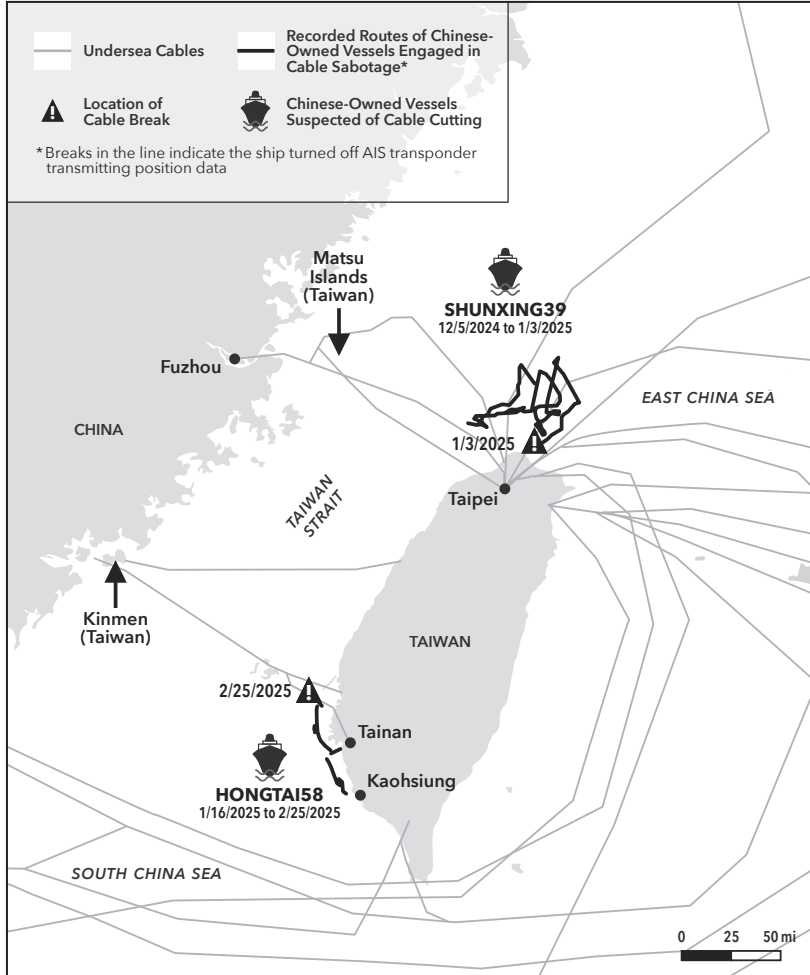
China-Linked Vessels Suspected of Sabotaging Taiwan's Undersea Cables as a Form of Gray Zone Pressure

Military analysts have long warned that China could attempt to sever Taiwan's undersea cables to cut off its communications during an invasion.⁶² Taiwan is highly vulnerable to undersea cable sabotage, as it relies on 24 undersea cables to handle more than 99 percent of its internet traffic and external communications.⁶³ In 2021, researchers gained access to a Chinese database of strategic "points of interest" in Taiwan, which included numerous undersea cable landing stations.⁶⁴ Moreover, for at least the past 15 years, Chinese scientists at research institutions with ties to the PLA have actively researched new techniques for cutting undersea cables, acquiring numerous patents for technologies designed to cut deep-sea cables cheaply and efficiently.⁶⁵ In February 2025, Chinese scientists affiliated with the China Ship Scientific Research Center—which is under U.S. sanctions for supporting the PLA—published a new design for an "electric cutting device for deep-sea cables" reportedly capable of severing armored cables at depths of more than 13,000 feet.⁶⁶ If China successfully severed all of the undersea cables serving Taiwan, it would have devastating consequences, paralyzing government and military communications and costing Taiwan's economy an estimated \$55.6 million per day.⁶⁷

China has already deployed undersea cable sabotage as a gray zone tactic to intimidate Taiwan. Taiwan has suffered cable disruptions with particularly high frequency in recent years—at least 27 incidents between 2019 and 2023—some of which the Taiwan government has attributed to sabotage by China-linked vessels.⁶⁸ In many cases, Taiwan's cables have been damaged by a "shadow fleet" of dilapidated Chinese-owned vessels that conduct little legitimate business and typically operate under flags of convenience.⁶⁹ There have already been multiple such incidents in 2025. On January 3, a Chinese-owned, Cameroon-flagged vessel damaged an undersea cable near Taiwan's port of Keelung while engaging in highly irregular movement patterns.⁷⁰ The ship appears to have been operating under a fake name linked to a separate automatic identification system (AIS) transponder at the time it damaged the cable.⁷¹ In a suspiciously similar case the following month, a Chinese-owned, Togo-flagged ship damaged an undersea cable connecting Taiwan and its outlying island of Penghu after loitering near Taiwan for several days while ignoring radio messages from the Taiwan Coast Guard asking it to leave. The vessel was carrying the AIS transponder for a ship on Taiwan's shadow fleet blacklist, but the ship identified itself to Taiwan's Coast Guard under a different name and was using an International Maritime Organization (IMO) identifier number linked to yet another vessel.⁷²

China-Linked Vessels Suspected of Sabotaging Taiwan's Undersea Cables as a Form of Gray Zone Pressure— *Continued*

Figure 1: Incidents of Chinese Vessels Sabotaging Undersea Cables near Taiwan in 2025



Source: Various.⁷³

Beijing Seeks to Weaken the Taiwan People's Will to Resist through a Multifaceted Campaign to Infiltrate, Destabilize, and Isolate Taiwan

In addition to escalating its military pressure against Taiwan, Beijing has also continued to increase efforts to intimidate Taiwan and exacerbate its internal divisions through gray zone pressure

that has included a wide range of malign influence activities and coercive tactics.

Efforts to Intimidate and Infiltrate Taiwan's Government and Society

Taiwan government reports have indicated that Beijing has continued to increase malign influence activities aimed at infiltrating and destabilizing Taiwan's society. According to an April 2025 report by Taiwan's National Security Bureau, cases of Taiwan citizens conducting espionage for China have increased sharply over the past several years. In 2024, Taiwan charged 64 people with spying for China—a very significant increase from an average of about 11 cases per year in 2020–2022.⁷⁴ In total, prosecutors have charged 159 people with spying for China since 2020, about 60 percent of whom were active-duty or retired military personnel.⁷⁵ A separate January 2025 analysis by Taiwan's National Security Bureau found that China has focused in particular on targeting military personnel with large personal debts and used the promise of financial assistance to pressure them to turn over sensitive information and participate in united front work.⁷⁶

In addition to espionage, China has continued to expand its use of cyberattacks and information warfare targeted at Taiwan's government and society. Since the beginning of 2024, Taiwan government websites have suffered an average of approximately 2.2 million cyberattacks per day, the vast majority of them from China.⁷⁷ As of April 2025, Taiwan intelligence agents had already collected 510,000 examples of propaganda disseminated this year by Chinese agents via Facebook, TikTok, Dcard, and other social media platforms popular in Taiwan.⁷⁸ Taiwan's intelligence agents have concluded that China has been using internet trolls, bots, and generative artificial intelligence (AI) tools to shape online discourse on controversial topics like Taiwan Semiconductor Manufacturing Company's (TSMC) investments in the United States as part of a coordinated cognitive warfare campaign designed to stoke social divisions.⁷⁹ Chinese united front organizations have also offered financial rewards for social media influencers in Taiwan to integrate pro-CCP messaging into their content.⁸⁰

Beijing has also stepped up efforts to intimidate people it labels "Taiwan separatists." In at least one instance, Beijing has threatened the safety of a high-level Taiwan official traveling overseas. In June 2025, Czech military intelligence officials revealed that when Taiwan's then-Vice President-elect Bi-Khim Hsiao (whom Beijing has labeled a "separatist") visited the country the previous year, Chinese officials plotted to cause a car crash involving her vehicle.⁸¹ Beijing has also threatened to enforce its laws criminalizing support for Taiwan independence extraterritorially. In 2024, Beijing revised its Anti-Secession Law to make promoting Taiwan independence a crime punishable by up to death.⁸² As the law does not specify that it is only applicable to citizens of Taiwan, it could theoretically apply to anyone regardless of citizenship.⁸³ According to intelligence gathered by Taiwan, during China's February 2025 Taiwan Work Conference, a senior Chinese official provided instructions to state security units to "implement" these new guidelines overseas in coun-

tries friendly to China, raising fears that someone could be arrested on vague charges of promoting Taiwan independence while traveling in countries such as Cambodia and Laos that maintain close security ties with China.⁸⁴ In April 2025, Cambodia complied with a request by Beijing to deport 180 Taiwan citizens to China who had been detained in Cambodia for allegedly engaging in cyber crime. Under pressure from the Chinese government, Cambodia refused even to provide Taiwan with the names of its citizens who were sent to China.⁸⁵ While it is unclear how Beijing will enforce these measures, China has already set up the legal mechanisms to arrest someone in a third country on charges of promoting Taiwan independence, extradite them to China, and punish them with up to the death penalty.

At the same time, Beijing has sought to strengthen pro-China sentiment in Taiwan by continuing to invite opposition political leaders to visit China and organizing highly politicized cross-Strait exchange programs targeted at youth groups in Taiwan.

- In April 2025, KMT Vice Chair Andrew Hsia led a delegation to China to meet with the Director of China's Taiwan Affairs Office Song Tao and visit Henan Province to worship the legendary Yellow Emperor, a symbol of Chinese cultural identity.⁸⁶
- Former President Ma Ying-jeou visited China in June (his fourth trip to China over the past several years) to attend the Straits Forum, an annual meeting devoted to cross-Strait exchange, alongside top CCP leaders including Wang Huning.⁸⁷
- A former chairperson of the KMT, Hung Hsiu-chu, as well as KMT veterans of WWII, attended a September 3 military parade in Beijing commemorating China's WWII victory at the invitation of the Chinese government.⁸⁸ In the leadup to the parade, Chinese state media asserted that Taiwan's "return" to China was among the "fruits of victory in WWII" and an "important component of the postwar international order."⁸⁹
- In addition to courting opposition political leaders, China has continued to promote heavily subsidized trips aimed at inculcating youth in Taiwan with Beijing's preferred narratives. In December 2024, the Xinjiang Provincial Federation of Taiwan Compatriots, a Xinjiang-based united front organization, advertised a heavily subsidized nine-day tour to Xinjiang for Taiwan youth, which critics have called an attempt to distract Taiwan's young people from large-scale human rights abuses in the province.⁹⁰
- The Ma Ying-jeou Foundation has also supported several youth trips to China during the past year. In December 2024, the Foundation led a group of Taiwan youth on a tour of China that attempted to inculcate shared historical memory by visiting sites associated with Japanese atrocities against China during WWII.⁹¹ In February 2025, the foundation led another youth group on a trip to Beijing to visit cultural sites like the Forbidden City and locations such as a Xiaomi electric car factory intended to create an impression of China as a high-tech land of opportunity.⁹²

Beijing Has Convinced Numerous Countries to Adopt Its Preferred Language on Taiwan

Beijing has made extraordinary progress over the past two years in convincing countries to adopt positions and make statements containing its preferred language on Taiwan. As of February 2023, only 51 countries had adopted statements explicitly recognizing Beijing's position that the PRC is the legitimate government of all of China and that Taiwan is a part of China.⁹³ As of January 2025, 119 countries (62 percent of UN member states) had signed on to statements endorsing Beijing's "One China principle" and PRC sovereignty over Taiwan—an additional 68 countries in just the past two years alone.⁹⁴ According to an analysis by the *Economist*, 70 countries have adopted statements supporting "all" measures by China to achieve national unification. While it remains unknown how different countries understand the meaning of such statements, Beijing would likely claim that they constitute support for its right to take Taiwan by force.⁹⁵

Beijing Expanded Its Sophisticated and Well-Resourced Propaganda Campaign to Sow Uncertainty about the U.S. Commitment to Taiwan

In the context of its broader global campaign to isolate Taiwan, Beijing has attempted to drive a wedge between Taiwan and the United States by promoting propaganda encouraging people in Taiwan to be skeptical of U.S. support. Authoritative Chinese scholars with close ties to Beijing have claimed that the Trump Administration is less committed to Taiwan's defense and more likely to "make a deal" over Taiwan than previous U.S. administrations.⁹⁶ In June 2025, Xiamen University Professor Wei Leijie argued that the Trump Administration's "transactional approach" to great power relations presented Beijing with a "once-in-a-century opportunity" to strike a deal over Taiwan.⁹⁷ Chinese academics have also argued that perceptions of U.S. President Donald Trump as being less committed to Taiwan will help fuel skepticism toward the United States within Taiwan. A recent report by the Shanghai Institute for International Studies evaluating the influence of the 2024 U.S. presidential election on Taiwan argued that President Trump's past statements on Taiwan provide evidence for "America skepticism" in Taiwan and the notion that the United States might "abandon" Taiwan.⁹⁸

Beijing has also actively sought to foment "America skepticism" in Taiwan through state-produced propaganda regarding TSMC's investments in the United States, U.S. tariffs, and U.S. policy toward Ukraine. In February 2025, China's Taiwan Affairs Office claimed that Taiwan's DPP government was "selling out the interests and well-being of Taiwan's people and businesses" by "giving away Taiwan's semiconductor industry as a souvenir" to the United States.⁹⁹ After TSMC announced an additional \$100 billion investment in the United States, China's Taiwan Affairs Office claimed the United States was "squeezing Taiwan dry" and that people in Taiwan should fear "Taiwan Semiconductor Manufacturing Company" would become "America Semiconductor Manufacturing Company."¹⁰⁰

In outreach to Taiwan's business community, Beijing has attempted to exploit uncertainty about U.S. tariffs to present itself as a

more reliable economic partner. On April 18, 2025, Song Tao, head of China's Taiwan Affairs Office, participated in a meeting with Taiwan businesspeople in Nanjing in which he denounced the "tariff war launched by the United States," vowed that China would "increase its support" for Taiwan businesses, and called for both sides of the Taiwan Strait to "join hands in resisting external risks and challenges."¹⁰¹ As part of China's broader wedge strategy to sow discord between the United States and Taiwan, Chinese state media has also amplified criticisms of the DPP's response to U.S. tariffs by local media and academics in Taiwan.¹⁰²

Chinese state media has also referenced U.S. policy toward Ukraine in propaganda about Taiwan. A March 14, 2025, Xinhua article stated: "U.S.-Russia negotiations and Zelensky being humiliated in the White House have given people in Taiwan an acute and shocking lesson: once the United States and the West had finished using Ukraine as a 'vanguard of resistance against Russia and frontline of democracy,' they abandoned it."¹⁰³ Chinese officials and state media have begun regularly stating that Taiwan is likewise fated to become an "abandoned chess piece."¹⁰⁴

Since Beijing has increased its propaganda efforts aimed at destabilizing U.S.-Taiwan ties, public opinion polling in Taiwan has shown significant decreases in the percentage of respondents that viewed the United States as a trustworthy partner.¹⁰⁵ According to a poll conducted in February–April 2025, only 37 percent of respondents thought it was likely the United States would help "if China and Taiwan go to war" (down from 45 percent in 2024).¹⁰⁶ Moreover, only 33.5 percent of respondents stated that they had a "positive" perception of the United States—a decline of more than 20 percentage points from the year prior.¹⁰⁷ A separate poll conducted in April 2025 found that 82 percent of respondents believed the United States' "new tariff policies" were "unreasonable."¹⁰⁸

China Uses Carrots and Sticks to Pressure Taiwan Economically

Beijing's use of economic pressure against Taiwan intensified in the lead up to the 2024 presidential election and continued during the first year of the Lai Administration. Yet actual punitive measures have fallen far short of threatened action, signaling China's caution and concerns about hurting its own industries. As in other domains, China has sought to use economic levers to both entice and pressure Taiwan's leadership and populace to integrate with China.

China's Long Campaign to Attract Investment and Talent from Taiwan Fizzles

Chinese authorities continue to roll out incentives to attract investment and workers from Taiwan in the face of a steady exodus of Taiwan's companies and citizens from China. In early 2025, the Provincial Government of Fujian, located directly across the Strait from Taiwan, announced the latest round of policies seeking to attract workers from Taiwan.¹⁰⁹ They included a special residence permit, annual cash subsidies of 50,000 renminbi (RMB) (\$6,900) for those with a bachelor's degree or above, housing subsidies up to 50 percent, and additional incentives for skilled workers in certain high-tech industries.¹¹⁰ Uptake from the people of Taiwan has been

limited, however, with those who do relocate reporting a difficult business environment amid China's ongoing economic slump and stiff competition from Chinese companies.¹¹¹ The latest figures from 2022 show 177,000 Taiwan passport holders resided in China, down from 404,000 in 2018.¹¹²

According to reporting in January 2025, Taiwan's authorities are increasingly concerned about a special residence permit that China has been promoting to Taiwan's public that grants access to financial services and social benefits in China.¹¹³ Taiwan authorities believe Beijing hopes to use the program to convince Taiwan citizens to apply for China's national citizen identification card and to swap their passports for those issued by Beijing. Taiwan authorities fear that, after those individuals return to Taiwan, China could justify a future intervention as necessary to "protect Chinese citizens" in Taiwan.¹¹⁴

Punitive Trade Measures Have Thus Far Been Targeted and Limited

Beijing has utilized both threatened and actual punitive economic measures to punish and coerce Taiwan by inflicting economic harm on exporters reliant on the Chinese market. Beijing's favored tool in recent years has been the imposition of tariffs. In December 2023, less than a month before Taiwan's presidential election, China raised tariff rates on 12 petrochemical products from Taiwan.¹¹⁵ In 2024, China raised tariffs on wider sets of products.* On May 31, 2024, China announced it would suspend preferential tariff rates on 134 products, raising the effective tariff rate on some textile, bicycle, and chemical items anywhere from 1 to 12 percent.¹¹⁶ China's Taiwan Affairs Office said the move came in response to President Lai's refusal to recognize the "1992 Consensus" in his inaugural address.¹¹⁷ Taiwan's Ministry of Economic Affairs downplayed the actual economic impact of these tariffs, stating the value of exports subject to them (\$9.8 billion) made up only 2 percent of Taiwan's total exports in 2023.¹¹⁸ Most recently, in September 2024, China announced it would raise tariffs on 34 agriculture and aquaculture products from Taiwan.¹¹⁹

China's unwillingness to target semiconductors or information communication technology (ICT) supply chains demonstrates its limitations in taking actions that would truly damage Taiwan's economy. China is reliant on ICT inputs from Taiwan for finished products and is home to downstream semiconductor processes like assembly, packaging, and testing.¹²⁰ Therefore, Beijing has likely

*Cross-Strait economic and trade ties peaked during the last KMT administration under Ma Ying-jeou (2008–2016), with the signing of a preferential trade agreement, the Economic Cooperation Framework Agreement (ECFA). A follow-on proposed investment deal—the Cross-Strait Services Trade Agreement (CSSTA)—sparked the Sunflower Movement mass protests in 2014 by those who feared that further cross-Strait economic integration would lead to unacceptable leverage. The backlash in Taiwan culminated with the election of Tsai Ing-Wen and the DPP's return to power a year later and a breakdown of formal communications with the CCP. The KMT still advocates for increased economic integration with China as a way to promote stability across the Strait. The KMT's 2024 presidential candidate Hou Yu-ih said on the campaign trail that he would revive the CSSTA, and former President Ma Ying-jeou has repeatedly called for further economic and people-to-people ties during visits to China. (For more on the ECFA and Sunflower Movement, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 2, "Taiwan," in *2023 Annual Report to Congress*, November 2023, 612–616.) Zichen Wang, "Ma Ying-jeou's Speech at 17th Straits Forum in the Mainland," *Pekingology*, June 15, 2025; Xiaoqing Bu, YuXuan Jia, and Zichen Wang, "Ma Ying-jeou's Latest Speech on Cross-Taiwan Strait Relations," *Pekingology*, August 23, 2024; David Sacks, "Taiwan's 2024 Presidential Election: Analyzing Hou Yu-ih's Foreign Policy Positions," *Council on Foreign Relations*, December 26, 2023.

assessed that tariffs on Taiwan's core industries will probably hurt China as much as—if not more than—Taiwan.

Limited Benefit for China in Capturing Taiwan's Semiconductor Facilities

Taiwan's indispensable semiconductor industry also factors into CCP decision-making around the use of military force, though the enormous economic cost of an invasion is unlikely to be the deciding factor. Estimates indicate that military action in the Taiwan Strait—whether in the form of a limited blockade or a full-scale invasion—would wipe out trillions of dollars from the global economy, on par with the 2008 financial crisis.¹²¹ Some argue that the PRC might accrue economic benefit through seizing semiconductor manufacturing facilities in Taiwan, accelerating China's high-tech development and gaining a key leverage point in the global economy.¹²² In all likelihood, however, China would not be able to continue production at TSMC facilities—even if they were captured intact—due to their reliance on production processes involving numerous highly specialized inputs made by sole suppliers in the United States, Japan, and other presumably uncooperative countries.¹²³ Furthermore, reporting from May 2024 indicated that TSMC and ASML—the Dutch maker of extreme ultraviolet lithography machines necessary to produce the most advanced semiconductors—maintain the capability to remotely disable manufacturing equipment used in Taiwan fabs in the event of an invasion.¹²⁴ Accordingly, CCP calculations as to whether to take military action against Taiwan must factor in economic costs and the extent to which China's domestic semiconductor industry can provide adequate substitutes for lost production from Taiwan, the United States, and allies.¹²⁵

Taiwan Has Made Efforts to Enhance Deterrence and Resilience despite Political Gridlock

While China has raced forward with its multifaceted pressure campaign against Taiwan, Taiwan has also continued to make progress toward increasing both military deterrence and social resilience. The Lai Administration has sought to enhance deterrence both by improving military preparedness and by accelerating efforts to build the capabilities necessary for an asymmetric defense posture—which involves acquiring large quantities of small, mobile, and inexpensive systems to counter an airborne or amphibious invasion.¹²⁶ The Lai Administration has also expanded efforts to build “whole-of-society-resilience,” which it conceptualizes as increasing society's ability to resist and withstand Chinese aggression by introducing new measures to counter Chinese infiltration and gray zone pressure and continuing to diversify Taiwan's economy away from dependence on China.¹²⁷

Taiwan Accelerates Efforts to Enhance Military Preparedness

The Lai Administration's approach to deterrence has focused on increasing defense spending and enhancing asymmetric capabilities

to ensure Taiwan could inflict significant damage on a Chinese invasion force.¹²⁸ In a speech on February 14, 2025, President Lai vowed to use special budgets to increase Taiwan's defense spending to 3 percent of GDP—approximately \$27 billion.¹²⁹ In an opinion essay published by Bloomberg, President Lai reminded readers that Taiwan had secured \$18 billion in arms deals with the United States during President Trump's first term and stated that Taiwan would continue to “pursue additional arms procurements that are vital to our self-defense.”¹³⁰ Taiwan's *Quadrennial Defense Review*, published in March 2025, specifically called for developing greater asymmetric capabilities by acquiring defense items such as portable anti-armor weapons and drones capable of conducting precision strikes.¹³¹ In July 2025, Taiwan's government announced plans to purchase nearly 50,000 locally produced drones over the next two years, which it specified must not include any components made in China.¹³²

However, disputes between the Lai Administration and the opposition-controlled legislature have created uncertainty around some of the government's plans for bolstering Taiwan's defenses. While the government requested a defense budget of 647 billion New Taiwan Dollars (NTD)* (\$19.7 billion) for 2025, Taiwan's opposition-controlled legislature cut approximately \$280 million (1.3 percent) from the defense budget request and froze about \$3 billion (14 percent).¹³³ The spending freezes included half of the proposed funding for an indigenous submarine program as well as 30 percent of funding for an industrial park aimed at creating a drone supply chain free of Chinese inputs.¹³⁴ KMT representatives have pointed out that even after the cuts, the 2025 defense budget is still the largest in Taiwan's history and a 5.2 percent increase over the previous year.¹³⁵ KMT officials have stated that they would unfreeze defense funds and offer “unwavering support” for a larger defense budget as soon as the government provided an “effective spending plan.”¹³⁶

Taiwan has also taken new steps to continue improving military preparedness. The 2025 *Quadrennial Defense Review* articulated numerous steps for enhancing military readiness, including bolstering reserve forces, optimizing logistical support, and improving morale.¹³⁷ In March 2025, President Lai announced increases in allowances for military personnel designed to bolster the desire of young people to serve in the military.¹³⁸ After extending mandatory military service from four months to one year in 2024, Taiwan's military announced that the number of conscripts performing the full year of service would increase by 41 percent in 2025—albeit from a relatively small base of 6,956 to 9,839.¹³⁹ Taiwan's most recent military exercises have focused on preparing to respond to a sudden Chinese invasion. In March 2025, Taiwan held its first-ever “immediate combat readiness drills” designed to simulate Taiwan's response if China were to pivot quickly from gray zone pressure to an actual invasion.¹⁴⁰ In April 2025, Taiwan conducted the first phase of its annual Han Kuang military exercises, which consisted of 14 days of

*Taiwan's currency is the New Taiwan Dollar (NTD). The exchange rate used throughout this chapter is \$1 = 30 NTD, unless stated otherwise.

computerized wargames, up from eight days in the previous year. As with the immediate combat response drills, this year's Han Kuang wargames simulated a scenario in which the PLA unexpectedly shifted from a military exercise into an actual attack on Taiwan.¹⁴¹ The second phase of the Han Kuang exercises, held from July 9 to 18, involved ten days of live-fire drills—double the five days conducted in previous years. Designed to test the armed forces' "joint operation planning and execution" and "emergency response capabilities," the unscripted exercises integrated newly acquired weapons systems from the United States, including M1 Abrams tanks, High Mobility Artillery Rocket System (HIMARS) rocket launchers, and Harpoon anti-ship missiles.¹⁴² Nevertheless, military analysts have argued that "deeply ingrained bureaucratic inertia" in Taiwan's military remains a significant impediment to improving readiness.¹⁴³

New Measures to Build Whole-of-Society Resilience

In addition to efforts to deter a Chinese invasion by improving military capabilities, Taiwan has taken steps to improve societal resilience to combat China's gray zone pressure and malign influence activities.

Recent Efforts to Develop Resilience against China's Sabotage of Undersea Cables

In light of repeated incidents of undersea cable sabotage, Taiwan has taken numerous steps to enhance its digital resilience. For example, over the past two years, Taiwan's government and its largest telecommunications operator, Chunghwa Telecom, have invested in microwave bandwidth and satellite systems as backup sources of connectivity on Taiwan's outlying Matsu Islands, which have a history of cables being disrupted by Chinese vessels.¹⁴⁴ After a February 2023 outage, the islands were almost entirely without internet service for several weeks while waiting for the cables to be repaired.¹⁴⁵ When the two cables connecting Matsu were damaged again in January 2025, the newly installed microwave and satellite systems enabled most public services and businesses to continue functioning while the cables were repaired.¹⁴⁶

Taiwan has also adopted several new measures to deter cable sabotage and further increase digital resilience. In 2024, the Ministry of Digital Affairs designated ten undersea cables as "critical infrastructure" and implemented increased security measures.¹⁴⁷ In January 2025, Taiwan drew up a blacklist of 52 Chinese-owned "shadow fleet" ships that it will proactively monitor in an effort to prevent future incidents of cable sabotage.¹⁴⁸ On June 12, 2025, a Taiwan court sentenced the Chinese captain of the Togo-registered *Hong Tai 58* ship—the vessel that severed an undersea cable linking Taiwan and Penghu in February 2025—to three years in prison for deliberately sabotaging the cable.¹⁴⁹ Taiwan legislators have also proposed further measures, including greater investments in low Earth orbit satellites that can provide internet service, adding redundancy to undersea cable systems, and empowering the coast guard to use drones and planes to monitor ships detected on an abnormal path near undersea cables.¹⁵⁰

The Lai Administration's Proposed Measures to Counter Chinese Infiltration Have Encountered Criticisms for Government Overreach, but Most Have Public Support

The Lai Administration has proposed a raft of more stringent measures to counter Chinese infiltration and united front activities. On March 13, 2025, President Lai declared that China qualifies as an “external adversarial force” under Taiwan’s Anti-Infiltration Act and proposed 17 new strategies for responding to the threat China poses to Taiwan’s security.¹⁵¹ These strategies included:

- Restoring the military tribunal system for active-duty military personnel accused of treason.¹⁵²
- Requiring public disclosure and government approval of all trips to China by elected officials, imposing restrictions on Chinese individuals with ties to united front work coming to Taiwan, and ensuring that people-to-people exchanges are not subject to “Chinese political interference.”¹⁵³
- Requiring greater inspection of Taiwan citizens applying for identification documents in China.¹⁵⁴
- Enhancing scrutiny of individuals from China applying for residency in Taiwan.¹⁵⁵

Two days after President Lai introduced the 17 proposals for countering Chinese infiltration, KMT lawmakers accused the DPP of using “national security” as an excuse to impose “authoritarianism” and “quasi-martial law.”¹⁵⁶

Public opinion polls conducted by the National Chengchi University Election Study Center and the Taiwan Public Opinion Foundation show that while Taiwan’s society is divided on labeling China an “external adversarial force,” large majorities support measures to combat Chinese malign influence. According to polling conducted in April 2025, 49 percent of respondents agreed with President Lai’s characterization of China as an adversary, compared with 43 percent who disagreed.¹⁵⁷ The same poll found that 65.3 percent supported the proposal to bring back military tribunals.¹⁵⁸ Another April 2025 poll showed that 73.7 percent believed “Chinese Communist infiltration of Taiwan has worsened in recent years,” and 70.9 percent would favor requiring government approval for elected officials to travel to China.¹⁵⁹

Taiwan’s Economic Diversification Progresses with AI Boom

Despite China’s harsh rhetoric and escalating pressure campaign, Taiwan’s economy has outperformed those of most countries across various metrics over the past five years. The engine of its export-oriented economy is a highly developed technology manufacturing sector with unparalleled capacity in fabrication of advanced semiconductors. Thus, Taiwan has been a major beneficiary of the AI boom, as seen in the staggering revenue and valuation growth of national champion TSMC.* The accrued national wealth and influence from

*TSMC’s market capitalization closed above \$1 trillion for the first time in October 2024, and in doing so it joined the ranks of only nine other companies globally. As a percentage of Taiwan’s total stock exchange, TSMC has risen from 15 percent in 2015 to 38 percent in 2024, with the second highest, Hon Hai (aka Foxconn), accounting for 3 percent. For comparison, the combined market capitalization of the “magnificent seven” (Apple, Microsoft, Nvidia, Alphabet, Amazon,

being an ever more important technology hub serve as a counterweight to pressure from China.

Taiwan's Overall Economic Picture Remains Strong with Continued Growth

Taiwan's economy remains relatively healthy and, barring an exogenous shock, is poised to continue recent trends of growth, expanding investment, and low inflation and unemployment through 2025. Overall growth has closely tracked global demand for ICT and electronics over the past five years. In 2024, real GDP grew 4.6 percent year-over-year to NTD 25.6 trillion (\$795.6 billion) and according to official projections is set to grow 3.1 percent in 2025.¹⁶⁰ As of September 2025, unemployment has continued to tick downward to 3.5 percent, and inflation remained relatively low with the consumer price index (CPI) and producer price index (PPI) at 1.3 percent and -3.7 percent change year-over-year, respectively.¹⁶¹

Even though Taiwan maintains a vibrant and well-balanced domestic economy, trade with the rest of the world continues to be a significant driver of prosperity, especially the export of high-value manufactured goods. In 2024, the total value of exports equated to 63.3 percent of GDP, placing it well above the global average (29 percent) and far ahead of other East Asian economies with significant export sectors in their own right, such as South Korea (44 percent), Japan (21.9 percent), and China (20 percent).¹⁶² Even on a net export basis, Taiwan relies heavily on global trade, accounting for 13.1 percent of GDP.¹⁶³ Consumption accounted for 60.2 percent of GDP by expenditure in 2024, and investment accounted for the remaining 26.7 percent.*¹⁶⁴

Rapid Currency Moves Rattle the Financial Industry

Over a two-day period in May 2025, Taiwan's historically stable currency appreciated 8 percent against the dollar, presenting a potential drag on exports and raising concern about systemic risk from overexposure to dollar-denominated holdings.¹⁶⁵ Currency traders have bet that the appreciation of NTD relative to the dollar will continue because an overall global capital rotation away from U.S. assets observed in early 2025 boosted Asian currencies.¹⁶⁶ Also, traders suspect Taiwan's government may favor currency appreciation as a means to redress the trade imbalance with the United States.¹⁶⁷ However, there is a real downside risk from continued appreciation in the short term for Taiwan's economy. A stronger NTD would make Taiwan's exports more expensive, a dynamic that—if persistent—could impede economic performance in the latter half of 2025.¹⁶⁸ Taiwan's central bank maintains some of the largest foreign exchange reserves in the world (\$593 billion), over 80 percent of which is held in U.S. Treasury bonds.¹⁶⁹ Perhaps most concerning, life insurers on the island hold over \$700 billion in U.S. Treasuries,

Meta, and Tesla) made up 35 percent of the S&P 500 at the end of 2024. TSMC's total revenue in 2024 was \$88.3 billion, equivalent to 11.1 percent of Taiwan's GDP. Derek Saul, "Just the Beginning' for AI Demand Surge as Big Chip Stocks Gain \$250 Billion," *Forbes*, October 17, 2024; "Taiwan Stock Exchange 2025 Fact Book," *Taiwan Stock Exchange Corporation*, 2024; "S&P 500 Market Cap (I:SP500MC)," *YCharts*.

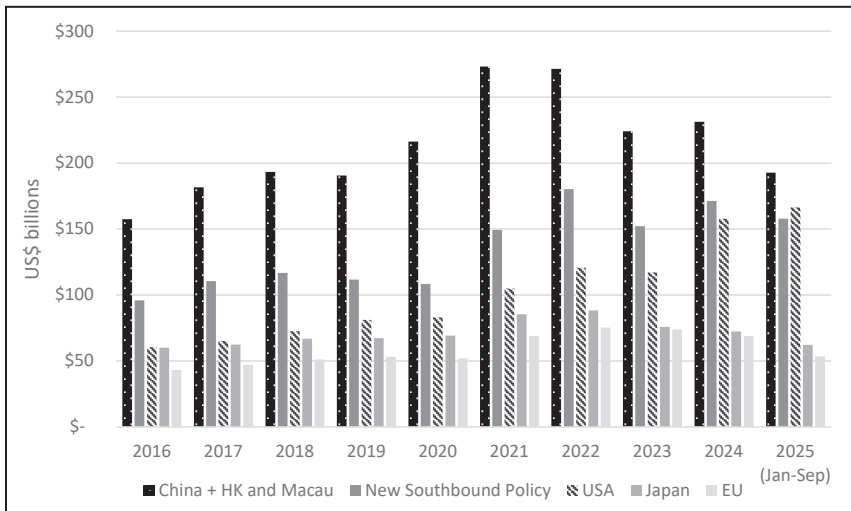
*Consumption includes that by both the private and public sectors. Private consumption's share of GDP was 46.9 percent, while public consumption accounted for 13.3 percent. Taiwan's Directorate General of Budget, Accounting and Statistics via Haver database.

leaving an industry valued at 1.5 times Taiwan's GDP open to large losses if there is a sustained drop in the dollar's value.¹⁷⁰

Taiwan Continues to Diversify Its Trade and Investment Partners

While China remains Taiwan's largest trade partner, cross-Strait trade and investment trends appear to have peaked as Taiwan diversifies to reduce dependence on China. China grew to become Taiwan's top trading and investment partner soon after cross-Strait commerce was reestablished in 2001, given proximity, complementary industries, and business and family relations that span the Strait.¹⁷¹ Trade with China (including Hong Kong) as a percentage of Taiwan's total hit a high-water mark in 2020 at 34.3 percent of total trade turnover, regressing to 26.6 percent in 2024.¹⁷² In absolute terms, total trade with China grew 3.1 percent year-over-year to \$231 billion in 2024 but is still 15.4 percent below the 2021 high of \$273 billion (see Figure 2).¹⁷³

Figure 2: Taiwan's Total Trade with Top Trading Partners, 2016–September 2025



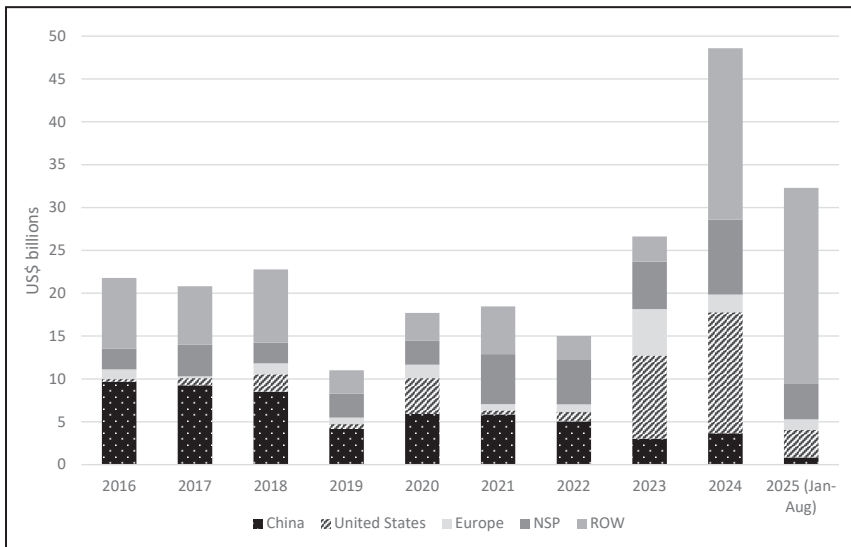
Source: Taiwan's Ministry of Economic Affairs, International Trade Administration, *Trade Statistics*.

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

Taiwan's trade with the United States has grown significantly over the past five years despite a slight reduction in 2023, driven by high demand for consumer electronics and advanced semiconductors. Total two-way trade rose from \$83.1 billion in 2020 to \$158.1 billion in 2024, an over 90 percent increase.¹⁷⁴ The United States overtook China in 2024 as the top market for Taiwan's exports—the first time this has occurred in over 20 years.¹⁷⁵ Last year, Taiwan's exports to the United States surged 46.2 percent year-over-year, growing from \$76.2 billion in 2023 to \$111.4 billion in 2024, in large part due to U.S. demand for advanced AI chips from TSMC.¹⁷⁶

On the investment side, as Taiwan's FDI has expanded globally, China's portion of new FDI has been reduced dramatically (see Figure 3). Taiwan's FDI expansion is largely attributable to TSMC, which has registered tremendous growth and is now by far one of the most important firms to both Taiwan's economy and global technology supply chains.¹⁷⁷ TSMC has announced planned investments to build production facilities in the United States, Japan, Germany, and across Southeast Asia. (For more on Taiwan's investments in the United States, see "United States Expands Defense and Economic Cooperation with Taiwan" later in this chapter.) Further, the Lai Administration has adopted and expanded upon the New Southbound Policy (NSP), a cornerstone program of his predecessor's foreign policy initiated in 2016.¹⁷⁸ The NSP seeks to build economic, cultural, and people-to-people ties with 18 countries in the Indo-Pacific region. Taiwan's companies are increasingly looking to increase investment in NSP countries like India and Vietnam as they dial back investment in China.¹⁷⁹

Figure 3: Taiwan's Approved Outbound Investment by Region, 2016–August 2025



Source: Taiwan's Ministry of Economic Affairs.

Note: NSP stands for New Southbound Policy; ROW stands for rest of world.

Though shifts in Taiwan's trade and investment patterns have become more discernable in the data, Taiwan remains heavily intertwined economically with China. Taiwan-headquartered firms like Foxconn, Acer, and others have sizable fixed capital stock in China after years of investment. This, combined with the vast network of suppliers and business relationships built upon shared language and cultural ties, means China will continue to have a magnetic pull for Taiwan's companies beyond even the forces inhibiting the drawdown of other multinational companies with substantial operations in China.¹⁸⁰

United States Expands Defense and Economic Cooperation with Taiwan

The United States Continues to Support Taiwan's Self-Defense Capabilities while Working to Build International Support for Taiwan

The United States maintained its support for the development of Taiwan's defense capabilities in 2025 despite brief interruptions to funding streams. In February, the Trump Administration temporarily suspended all foreign assistance for review but ultimately exempted \$870 million in security assistance for Taiwan.¹⁸¹ The United States has continued to carry out defense sales and deliveries to Taiwan, including the finalization of the sale of three National Advanced Surface-to-Air Missile Systems (NASAMS) in February 2025.¹⁸² U.S. officials have indicated that the Trump Administration will continue increasing weapons sales to Taiwan and that U.S. arms sales to Taiwan will likely exceed the \$18.3 billion approved during the first Trump Administration.¹⁸³ Taiwan's military reportedly planned to increase procurement of U.S.-made Switchblade 300 and Altius-600M drone systems while also developing four types of its own indigenous drones, aligning with the United States' strategy to prepare unmanned aerial and amphibious vehicles as a defense mechanism in the Taiwan Strait.¹⁸⁴

The large backlog of arms Taiwan has purchased from the United States continues to be a significant issue, however. As of September 2025, Taiwan has paid \$21.54 billion for U.S. weapons systems that have not yet been delivered, some ordered as far back as 2021.¹⁸⁵ While traditional systems such as F-16s and M1 Abrams tanks account for more than half of the value of the backlog, asymmetric capabilities—including Harpoon coastal defense systems and HIMARS rocket launchers—account for nearly 39 percent.¹⁸⁶ This backlog in weapons delivery is due to a number of factors. Limited production capacity and increased global demand for F-16s, Stinger missiles, and other exports partially account for the backlog.¹⁸⁷ The addition of new proposed defense procurements from Taiwan's Ministry of Defense as part of bilateral trade negotiations, along with the Trump Administration's goal of increasing sales, will likely further add to the overall backlog unless efforts are made to speed production timelines or prioritize Taiwan's needs over those of other regions.¹⁸⁸ In July 2025, the Senate Appropriations Committee approved a defense spending bill that would allow the Trump Administration to provide \$1 billion in military aid to Taiwan by using Presidential Drawdown Authority to transfer arms from existing stockpiles, bypassing the slower Foreign Military Sales (FMS) program.¹⁸⁹

The United States has also continued to collaborate with Taiwan to bolster its defense readiness and integrate whole-of-society resilience into its defense architecture.¹⁹⁰

- In July 2024 and February 2025, the United States sponsored exchanges between Taiwan and numerous countries to discuss best practices for bolstering whole-of-society resilience, including lessons learned from the Ukraine War.¹⁹¹

- In accordance with the Taiwan Enhanced Resilience Act, which directed the U.S. Department of Defense to create training programs to improve Taiwan's defenses, there were over 500 U.S. military personnel in Taiwan conducting training as of May 2025.¹⁹²
- The United States has also collaborated with Taiwan to develop tabletop exercises and live drills to identify gaps in its defense readiness, including playing an advisory role in the development of Taiwan's July 2025 Han Kuang 41 military exercise.¹⁹³

The United States Continues to Enhance Its Capacity to Deter a Potential Chinese Military Action against Taiwan

The United States has also taken steps to enhance its own capacity to deter China from using force or coercion to unilaterally change the status quo in the Taiwan Strait as required by the Taiwan Relations Act.¹⁹⁴ An internal guidance memo signed by U.S. Secretary of Defense Pete Hegseth in March 2025 called for the U.S. military to make deterring a potential Chinese invasion of Taiwan a top priority.¹⁹⁵ The United States has continued to modernize its own capabilities in the Indo-Pacific, conduct freedom of navigation operations (FONOPs), and expand military exercises with Indo-Pacific allies and partners.

- The U.S. Department of Defense continues to advance its Replicator Initiative, launched in 2023, which aims to work closely with the commercial autonomy sector to rapidly procure “large masses of uncrewed systems” to deter a Chinese invasion of Taiwan by—in the words of the Commander of the U.S. Indo-Pacific Command, Admiral Paparo—demonstrating the capability to “turn the Taiwan Strait into an unmanned hellscape.”¹⁹⁶ In September 2024, the Department of Defense launched a second phase of the Replicator Initiative aimed at fast-tracking the development of counter-drone capabilities.¹⁹⁷
- The U.S. Pacific Fleet routinely conducts maritime air patrols and naval FONOPs in contested airspace and waters between China and Taiwan, asserting the right to access those regions under international law.¹⁹⁸ In the summer of 2025, the U.S. Navy deployed multiple aircraft carriers in the Indo-Pacific region as a response to China's deployment of the *Liaoning* and *Shandong* aircraft carriers into the Pacific's First Island Chain, which comprises Taiwan, Japan, and the Philippines.¹⁹⁹
- The United States maintains regional military installations to enable rapid response capabilities and pre-position weapons and other supplies that could be deployed rapidly in a Taiwan contingency.²⁰⁰
- The United States has also expanded joint exercises with regional allies and partners focused on responding to a military contingency in the Taiwan Strait. From July 10 to August 8, 2025, the U.S. Pacific Air Forces, along with multinational and joint partners, conducted Resolute Force Pacific (REFORPAC

2025), the Air Force's largest military exercise to date aimed at responding to a military contingency in the Pacific.²⁰¹ From July 13 to August 4, 2025, the United States and Australia held the largest-ever version of their biennial Talisman Sabre military exercises, which involved more than 40,000 personnel from 19 nations and included large-scale amphibious operations with forces from the United States, Australia, France, Japan, and Korea.²⁰²

U.S. Department of State Changed Official Language Relating to Taiwan

In February 2025, the U.S. Department of State changed its U.S.-Taiwan Relations Factsheet to remove the statement that the United States “does not support Taiwan independence,” but it retained language that the United States “oppose[s] unilateral changes to the status quo from either side.”²⁰³ In an official statement, Taiwan’s Foreign Minister Lin Chia-lung “welcomed the support and positive stance” represented by the change in language.²⁰⁴ China’s Ministry of Foreign Affairs, on the other hand, urged the United States to “correct its mistakes” and abide by the “One China principle.”²⁰⁵ This attempt to change language on the U.S.-Taiwan factsheet was not unprecedented. In May 2022, the State Department similarly removed the phrase “does not support Taiwan independence.”²⁰⁶ However, just a few weeks later, the Department reinstated the language after diplomatic complaints and pressure from China.²⁰⁷ As of June 2025, the State Department has removed the entire Taiwan factsheet from its website—along with virtually all other factsheets—for content review. However, the language on the “U.S.-Taiwan Relations” fact page on the American Institute in Taiwan’s website continues to omit the statement on Taiwan independence, reflecting this change.²⁰⁸

The United States has also coordinated increased support for Taiwan through official G7 statements. In March 2025, the G7 Foreign Ministers released a statement that “emphasized the importance of maintaining peace and stability across the Taiwan Strait,” “encouraged the peaceful resolution of cross-strait issues,” and explicitly stated “opposition to any unilateral attempts to change the status quo by force or coercion.”²⁰⁹ This statement drew media attention for its omission of language reaffirming “One China” policies, such as the November 2024 statement that promised “no change in the basic position of the G7 members on Taiwan, including stated One-China policies.”²¹⁰

U.S. Lawmakers and Officials Show Continuity in Support for Taiwan

Despite Beijing’s escalating pressure campaign, U.S. lawmakers and officials continued to meet with Taiwan’s government to discuss measures to strengthen economic and security ties. In April 2025, Senators Pete Ricketts, Ted Budd, and Chris Coons met with President Lai to underscore “the United States’ commitment to its partnership with Taiwan” and reaffirm “our shared commitment to strengthening a Free and Open Indo-Pacific.”²¹¹ The following month, a House delegation and Senator Tammy Duckworth sepa-

rately visited Taiwan and met with President Lai to discuss critical areas of bilateral cooperation.²¹² In July 2025, a bipartisan U.S. congressional delegation led by Chairman of the House Committee on Financial Services French Hill met with Taiwan's Ambassador to Paraguay José Han to discuss shared economic interests.²¹³ Members of Congress have also introduced various pieces of legislation to support Taiwan, including bills to assist Taiwan's Latin American and Caribbean diplomatic partners and require the Department of Defense "to establish a formal partnership with Taiwan to enhance joint defense industrial capabilities and counter the rapidly growing threat of Chinese military tech."²¹⁴ At the end of August, U.S. Acting Assistant Secretary of Defense for the Indo-Pacific Jed Royal and Taiwan's Senior Advisor to the President at the National Security Council Hsu Szu-chien met in Alaska to discuss security concerns—a meeting that had originally been scheduled to be held at the ministerial level in Washington in June.²¹⁵ These high-level meetings and policy proposals signaled enduring bipartisan support for a strong U.S.-Taiwan relationship.²¹⁶

The New Pope Balances Relations with Taiwan and China

The absence of Taiwan's President Lai Ching-te from Pope Leo XIV's inauguration in May 2025 called renewed attention to the delicate balancing act the Vatican maintains to preserve official diplomatic relations with Taiwan and continued access to the 12 million Catholics living in China.²¹⁷ Over the past several decades, Beijing has intensified its pressure on the Vatican to weaken or fully cut diplomatic ties with Taiwan.²¹⁸ Although Taiwan's government lobbied for President Lai to attend Pope Leo XIV's inauguration in May 2025, the Vatican instead invited Taiwan's former Vice President Chen Chien-jen, who had attended Pope Francis's funeral earlier in the year.²¹⁹ Beijing has also long pressured the Vatican to avoid criticizing China's violations of religious freedom and to allow the CCP to control its domestic Catholic population's leadership and religious practices.²²⁰ In 2018, the Vatican and China reached an agreement, most recently renewed in October 2024, in which the Vatican granted Beijing a role in the appointment of bishops in China and agreed to accept bishops previously appointed by Beijing without the pope's consent.²²¹ Pope Leo XIV used his first public address as Pope to call for the unity of the Chinese Catholic Church and made his first appointment of a Chinese bishop in consultation with Chinese authorities.²²² Based on these early actions, it is likely that Beijing will continue to pressure the Vatican to cut ties with Taiwan as part of its larger strategy for isolating Taiwan on the world stage. (For more on the Papacy, Taiwan, and China, see Chapter 2, "U.S.-China Security and Foreign Affairs (Year in Review).")

Taiwan's Indispensable Position in Semiconductor Supply Chains

Taiwan continues to be the single most important producer of semiconductors and is instrumental in ensuring continued access to non-Chinese supply chains for both leading-edge and foundational semiconductors.

U.S.-Taiwan Cooperation in Leading-Edge Semiconductor Production Accelerates

Taiwan has maintained the largest share of fabrication capacity of leading-edge semiconductors used in state-of-the-art technology such as iPhones and processors to train AI models. As of 2022, the only manufacturing facilities capable of producing sub-10 nanometer (nm) chips were in Taiwan and South Korea, with 69 percent and 31 percent of fabrication capacity, respectively.²²³ Much of the push to diversify and onshore manufacturing in the United States has focused on leading-edge logic chips, with industry estimates showing that 70 percent of all capital expenditure by the semiconductor industry globally from 2024 to 2032 will go toward building advanced node facilities.²²⁴ This is despite the fact that, as of 2023, only 4 percent of global production was for cutting-edge chips below 5 nm, while 69 percent was for foundational chips* 28 nm and above.²²⁵ According to projections by Boston Consulting Group, by 2032, Taiwan and South Korea's shared production capacity for leading-edge semiconductors will drop to 56 percent, while 28 percent will be fabricated in the United States and 2 percent in China.²²⁶

Investment by Taiwan's leading semiconductor firms is central to U.S. efforts to reshore leading-edge chip production. In early 2025, TSMC announced an additional \$100 billion investment in semiconductor manufacturing facilities in Arizona on top of \$65 billion in existing commitments made since May 2020.²²⁷ Already the largest foreign greenfield investment in U.S. history, the initial planned investment would construct three new fabrication facilities outside Phoenix that would produce advanced chips below 4 nm node. With the additional investment, TSMC plans to build three more fabs, two advanced packaging facilities, and a major research and development (R&D) center to vertically integrate production at the industrial cluster.²²⁸ Production of 4 nm logic chips at the first facility began in late 2024.²²⁹ Once production starts in the second facility in 2028 and the third before 2030, TSMC expects to manufacture 30 percent of its most advanced chips in the United States.²³⁰ In a reversal of previous policy, in January 2025, Taiwan's Ministry of Economic Affairs lifted restrictions on investing in state-of-the-art chip production in the United States, clearing the path for production of cutting-edge 2 nm and A16† technology at the Phoenix fabs.²³¹

*Often referred to as "legacy" or "mature node" chips, these are older generations of semiconductors with higher node size (currently considered above 28 nm). However, the term "legacy" is misleading, given that older generation chips are continuously applied in novel ways and are key inputs in a vast number of products.

†A16 is TSMC's next iteration below 2 nm node, which uses new power delivery methods to increase speed and efficiency. Production is expected to begin in late 2026 with the first customers likely to be AI chip companies rather than smartphone makers. "A16 Technology," *Taiwan Semiconductor Manufacturing Company*; Stephen Nellis, "TSMC Says 'A16' Chipmaking Tech to Arrive in 2026, Setting Up Showdown with Intel," *Reuters*, April 24, 2024.

Previously, Taiwan's government had restricted overseas factories to production of semiconductors two generations behind the state of the art in Taiwan.²³²

Early indicators from operations at the first fab have been positive despite a number of ongoing concerns about achieving cost-effective production. In October 2024, the president of TSMC's U.S. division announced that early production yields were 4 percent higher than in comparable fabs in Taiwan.²³³ This indicator of "success rate" is determinant in chip companies' calculations about their ability to recoup upfront fixed capital investment.²³⁴ However, the cost of production may be elevated by supply chain gaps and labor costs that are higher than those in Taiwan. In January, TSMC CEO and Chairman C.C. Wei said construction at the Arizona sites faced delays from state and local regulation, a shortage of construction labor, and difficulty finding a skilled workforce.²³⁵ Key factors in the long-term viability of semiconductor production in the United States will be establishing an ecosystem of suppliers and ancillary companies as well as training and developing a skilled workforce of engineers and technicians to staff these complex manufacturing facilities.

Taiwan's Role in Preventing Chinese Dominance of Foundational Chips

While much of the policy discussion has focused on cutting-edge chips in recent years, much of the demand is still for less sophisticated foundational chips that enable functions in a wide variety of products. For example, foundational chips account for 95 percent of semiconductors used by the U.S. auto industry. While advanced chips are imperative to maintaining an edge in state-of-the-art defense applications like high-performance computing, foundational chips make up 99.5 percent of semiconductors the U.S. Department of Defense uses in mission-critical systems.²³⁶

China's rapid buildup of its foundational chip production capacity is already threatening revenue streams of Taiwan's semiconductor firms. Taiwan maintained 40 percent of the global production capacity for mature node logic chips in 2022 as well as 20 percent of dynamic random-access memory (DRAM) chips.²³⁷ However, Chinese competitors have begun to undercut foreign foundries on price in these lower-margin product segments due to massive and sustained government subsidies. (For more on how China seeks to establish control over foundational semiconductors, see Chapter 9, "Supply Chain Leverage.") While the Boston Consulting Group projects China's global market share of foundational chip production capacity above the 28 nm node size will reach 37 percent by 2032, other estimates project it will capture nearly 50 percent by 2030, potentially surpassing Taiwan's production as early as 2027.²³⁸ According to the Research Institute for Democracy, Society, and Emerging Technology (DSET), a think tank in Taiwan, aggressive price suppression made possible by large government subsidies has already enabled China to capture 80 percent of the market share of foundational semiconductors used in solar panels, 56 percent in mobile phones, 73 percent in electric vehicles, and 66 percent in display panels.²³⁹ In response,

many of Taiwan's firms have elected to pivot away from foundational chips or focus on niche specializations, reducing viable avenues for non-Chinese supply chains.²⁴⁰

Taiwan Further Aligns Export Controls with the United States

Given the threat from China, Taiwan has taken steps to tighten export controls to prevent transfer of dual-use technology items. Though not a member of multilateral export control regimes, Taiwan's Ministry of Economic Affairs maintains an export control list of Strategic High-Tech Commodities (SHTC) in line with guidelines of the Australia Group, Missile Technology Control Regime, Nuclear Suppliers Group, and Wassenaar Arrangement.²⁴¹ On June 15, 2025, Taiwan added Huawei and Semiconductor Manufacturing International Corporation (SMIC) to the SHTC Entity List, requiring companies to obtain an export permit to sell to these companies.²⁴² In September 2025, Taiwan subjected semiconductor shipments to South Africa to pre-approval requirements in response to South Africa's capitulation to Chinese pressure to move Taiwan's representative office from the capital city of Pretoria to Johannesburg—the first time Taiwan has used export controls on semiconductors to push back against Chinese coercion.²⁴³

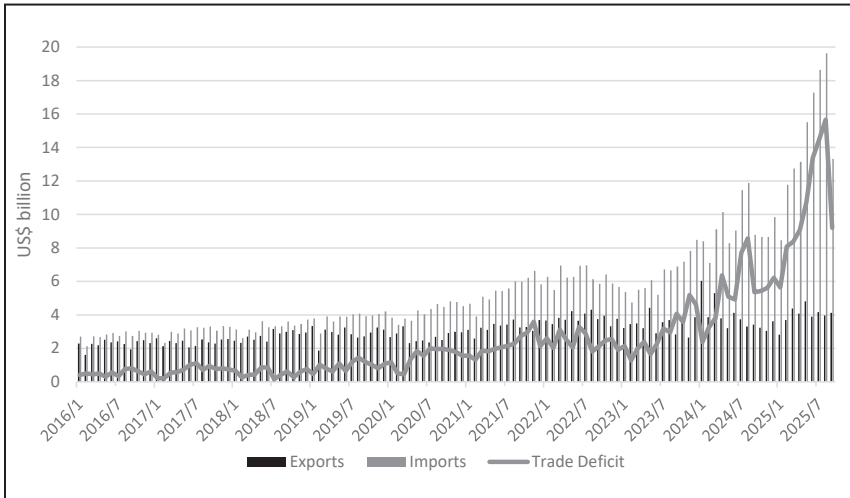
Trade and Investment with the United States Hit Record Levels

Taiwan's commercial ties with the United States expanded substantially in 2024 on the back of technology-driven trade and investment and the strong performance of both economies. Taiwan's exports to the United States have continued to surge in 2025 as companies front-loaded orders to avoid potential tariffs in the second half of the year. In March, TSMC announced \$100 billion in additional investment in Arizona, the largest-ever single outlay by a foreign company in the United States.²⁴⁴

U.S.-Taiwan Trade and Investment Continues to Climb

Taiwan climbed three spots to become the tenth-largest overall trading partner of the United States in 2024 and the seventh-largest goods trade partner behind South Korea and ahead of Vietnam.²⁴⁵ The United States imported \$116.3 billion worth of goods from Taiwan in 2024 and exported \$42.3 billion, leaving a goods trade deficit of \$73.9 billion.²⁴⁶ By value, the top imports from Taiwan in 2024 were machinery and mechanical appliances (80 percent of which were computers) and electrical equipment (mainly integrated circuits), while top U.S. exports to Taiwan were mineral products (natural gas), machinery and mechanical appliances (jet engines and semiconductor manufacturing equipment), and agricultural products.²⁴⁷ The goods trade deficit has grown more than threefold since before the pandemic in 2019, when the merchandise trade deficit was \$22.5 billion.²⁴⁸ U.S. services exports to Taiwan in 2024 totaled \$13.4 billion, while services imports were nearly equivalent at \$13.2 billion.²⁴⁹

Figure 4: U.S. Bilateral Goods Trade with Taiwan (Monthly), 2016–September 2025



Source: Taiwan Ministry of Finance, Customs Administration.

According to the U.S. Department of Commerce’s Bureau of Economic Analysis, U.S. FDI stock in Taiwan was estimated to be \$21.0 billion in 2024, while Taiwan’s FDI stock in the United States was \$14.8 billion.^{*250} Taiwan’s Ministry of Economic Affairs reported record-breaking approved outbound investment to the United States of \$9.7 billion in 2023, followed by \$14.1 billion in 2024.²⁵¹

Taiwan’s Rebalanced Energy Mix Favors Natural Gas; Vulnerability to Import Disruption Continues

Taiwan is almost entirely reliant on imported energy, a point of concern both because of recent instances of strained power grids that support manufacturing and because of concerns over a potential future blockade or invasion scenario. Taiwan has set the goal of generating 50 percent of its energy from natural gas by 2030 and is in the process of building liquified natural gas (LNG) terminals, storage facilities, and pipelines necessary to increase from 42 percent in 2024.²⁵² Taiwan expects to meet the other half of its energy needs in 2030 from coal (20 percent) and renewables (30 percent).²⁵³ In May 2025, Taiwan shut down its last nuclear power plant.²⁵⁴ Nuclear energy has been a point of contention on the island for years, with concerns over potential earthquake-related accidents (especially after the 2010 Fukushima disaster in Japan) outweighing nuclear’s value as a domestic power supply that can mitigate risk of disruptions to imports.²⁵⁵ A referendum held in August 2025 that posed the question of whether the last shuttered plant should be restarted failed to meet the threshold of eligible voters required for passage.²⁵⁶

^{*}The Bureau of Economic Analysis figure for Taiwan’s direct investment stock in the United States does not include investment routed through Hong Kong or offshore tax havens. Karen M. Sutter, “U.S.-Taiwan Trade and Economic Relations,” *Congressional Research Service* (Report No. IF10256), August 18, 2025.

On March 20, 2025, Taiwan's government-owned oil company, CPC Corporation, signed a letter of intent to invest in a proposed Alaska LNG pipeline that would supply six million tons of LNG annually.²⁵⁷ Taiwan imported 20 million tons of LNG in 2023 with leading suppliers Australia (40.2 percent), Qatar (27.9 percent), and the United States (9.8 percent).²⁵⁸ The increased reliance on natural gas does not address the island's vulnerability to a blockade scenario, given that it only has storage capacity to hold 20 days' worth of stockpiles.²⁵⁹ As Taiwan moves to phase out coal-fired power plants, it is reportedly increasing coal stockpiles and is exploring the viability of keeping decommissioned plants ready to be turned back on in a crisis.²⁶⁰ Coal stockpiles in early 2025 were estimated to last 42 days at regular consumption, which could be extended dependent on rationing.²⁶¹

Trade Negotiations Are Underway to Reduce the Trade Imbalance

As part of the April 2, 2025, "Liberation Day" rates, the Trump Administration announced a 32 percent reciprocal tariff rate on Taiwan, which was subsequently lowered to 20 percent in August.²⁶² Semiconductors and other electronic goods that comprise 64 percent of Taiwan's total exports to the United States were temporarily exempted from all tariffs.²⁶³ However, these products may be subject to tariffs that result from the ongoing Section 232 trade investigation.²⁶⁴ Taiwan's average most-favored-nation-applied tariff rate was 6.5 percent in 2023, and U.S. concerns persist around market access barriers in agriculture, digital services, biotechnology, medical devices, and energy.²⁶⁵

Taiwan has been proactive in trade negotiations with the United States since the April 2 reciprocal tariff announcement. President Lai was quick to proclaim his Administration's intention to reduce the trade imbalance with the United States through increasing purchases of U.S. energy, agriculture products, and defense articles; reducing non-tariff trade barriers; and seeking further opportunities for investment by Taiwan companies in the United States.²⁶⁶ Like other economies with high proposed reciprocal tariff rates, exports from Taiwan to the United States hit a record level in May (\$15.5 billion), up a staggering 90 percent year-over-year as companies frontloaded orders to avoid potential future tariff hikes (see Figure 4).²⁶⁷

In recent years, the United States and Taiwan have pursued closer trade and investment ties through a number of initiatives to reduce tariff and non-tariff barriers and that could lay the groundwork for a free trade agreement (FTA). In 2022, the United States and Taiwan began negotiations on the U.S.-Taiwan Initiative on 21st Century Trade, a bilateral agreement meant to mirror the Indo-Pacific Economic Framework for Prosperity (IPEF) negotiations, which did not include Taiwan. In December 2024, the first agreement under the Initiative went into effect, covering issues pertaining to anti-corruption, regulatory practices, and small and medium-sized enterprises.²⁶⁸ In June 2025, U.S. Trade Representative Jamieson Greer assessed that Taiwan had implemented the agreed-upon provisions and was thus far in full compliance with the agreement.²⁶⁹ The

United States and Taiwan have also engaged in negotiations for a second agreement focused on agriculture, environment, labor, and dispute settlement issues; it is not clear whether these negotiations will continue or be subsumed into the “reciprocal trade” negotiations.²⁷⁰

Congress passed legislation approving the first agreement under the U.S.-Taiwan Initiative on 21st Century Trade in August 2023.²⁷¹ The law also requires various transparency measures for negotiations over a further agreement with Taiwan and requires congressional approval (via enacted legislation) before any further agreement may go into effect.²⁷² It is unclear if this law applies to the “reciprocal trade” negotiations.

Legislation Pending to Resolve Double Taxation Issue

The lack of formal diplomatic relations precludes the United States from entering into an income tax treaty with Taiwan similar to those it maintains with many countries.²⁷³ As a result, business activity between the United States and Taiwan is subject to a more complicated tax situation, sometimes including double taxation. Companies in both jurisdictions advocate for a tax agreement similar to other U.S. tax treaties to alleviate this added burden, stating that such an agreement would spur further two-way investment.^{* 274}

In January 2025, the U.S. House of Representatives passed H.R. 33 by a 423-1 vote, which takes a two-pronged approach to settling the issue by including two previously proposed pieces of legislation. First, the U.S.-Taiwan Expedited Double-Tax Relief Act would amend the Internal Revenue Code of 1986 to include new rules on taxation of certain Taiwan residents with income in the United States.²⁷⁵ Amendments to the U.S. tax code would reflect treaty-like benefits the United States extends to other jurisdictions, with provisions such as reductions in withholding taxes, application of permanent establishment rules, and rules for determining eligibility for Taiwan businesses and persons.²⁷⁶ Enactment is contingent upon reciprocity from Taiwan for U.S. businesses and persons. Also included was the U.S.-Taiwan Tax Agreement Authorization Act, which would empower the president to negotiate a tax agreement with Taiwan pending Senate approval.²⁷⁷ Such a tax agreement would need to be in line with standard bilateral tax agreements and follow provisions in the U.S. Model Tax Treaty.²⁷⁸ The accompanying Senate bill (S. 199) has been introduced by leadership of the Senate Foreign Relations Committee and the Senate Finance Committee.²⁷⁹

*As flows of FDI from Taiwan to the United States have increased over the past year, so too have those from Taiwan to Caribbean tax havens. According to official data from Taiwan's government, FDI to the British Virgin Islands shot up 2,283 percent from \$344 million in 2023 to \$8.2 billion in 2024. So far in 2025, another \$10.3 billion has been recorded. Taiwan's Ministry of Economic Affairs, 雙邊投資統計 [Bilateral Investment Statistics].

Implications for the United States

Taiwan remains the most significant potential flashpoint for military conflict between the United States and China. Beijing is continuing to rapidly modernize its military capabilities with the goal of being able to take Taiwan by force if necessary. The PLA's around-the-clock military activities near Taiwan—along with its introduction of new platforms designed to support an amphibious attack—have enhanced China's ability to launch a blockade or invasion of Taiwan with almost no advance warning. Moreover, the widening divergence between China's international and domestic propaganda is concerning. While Beijing's English-language rhetoric aimed at global audiences continues to downplay the possibility of an invasion, Chinese-language propaganda circulated domestically has suggested that Taiwan's "provocations" could justify military action in the near future. While there is no indication that China is planning an imminent attack, the United States and its allies and partners can no longer assume that a Taiwan contingency is a distant possibility for which they would have ample time to prepare. **The United States must enhance its own military capabilities in the Indo-Pacific to ensure continued compliance with the Taiwan Relations Act, which requires the United States to "maintain the capacity" to "resist any resort to force or other forms of coercion" that would jeopardize the security of Taiwan.**

In addition to enhancing its military capabilities, Beijing is operating a well-resourced and sophisticated pressure campaign aimed at exacerbating Taiwan's domestic divisions and sowing doubt in Taiwan about the United States' commitment to its defense and prosperity. The ultimate goal of Beijing's pressure campaign is to convince Taiwan to surrender without a fight—both by eroding the Taiwan people's will to resist and by convincing them that the United States is unlikely to come to their defense in the event of a war. **In order to reinforce deterrence and neutralize the effectiveness of China's propaganda and gray zone pressure tactics, the United States and Taiwan will need to continue deepening cooperation on issues like military procurement, building secure defense industrial supply chains, bolstering digital infrastructure, and enhancing civilian resilience.**

Securing Taiwan's undersea cables against Chinese sabotage should be an especially high priority for collaboration between Taiwan, the United States, and other like-minded partners in the Indo-Pacific. If China successfully severed the undersea cables serving Taiwan, it could have devastating consequences, paralyzing government and military communications and costing Taiwan's economy an estimated \$55.6 million per day.²⁸⁰ **In order to guard against Chinese vessels sabotaging undersea cables near Taiwan as a gray zone pressure tactic and potential tool of war, the United States and like-minded countries should work with Taiwan to improve the resiliency of its undersea cables, build the capacity to quickly repair damaged cables, and increase access to backup sources of connectivity such as low Earth orbit satellites.**

Taiwan continues to play a central role in advanced semiconductor manufacturing and global technology supply chains, making it a key partner in ensuring China does not gain a dominant technological advantage in AI and advanced computing. **Taiwan's companies are also instrumental in foundational semiconductor production and will remain important to U.S. efforts to ensure China does not come to dominate production of lower-end chips that have wide-ranging applications.**

China is racing forward with its efforts to develop the capacity to take Taiwan by force or through coercion. A war over Taiwan would be cataclysmic for the global community. Taiwan's role in the advanced technology ecosystem and the abrupt severing of broader trade and supply chains in a conflict would cause severe economic harm—wiping out as much as 10 percent of global GDP—with ramifications on par with the 2008 Global Financial Crisis. A conflict would also trigger an acute risk of nuclear escalation and raise the threat of Chinese geographic expansion in the Indo-Pacific. **The United States, Taiwan, and the global community must make it a priority to ensure continuing effective deterrence against Chinese aggression.**

Recommendations

The Commission recommends:

- Congress direct the U.S. Department of Defense, in coordination with the U.S. Indo-Pacific Command (USINDOPACOM), to produce a report in both classified and unclassified form assessing its compliance with the legal requirement established by Congress in the Taiwan Relations Act “to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan.” The report should include:
 - An assessment of U.S. capacity to respond to a Taiwan contingency;
 - An assessment of U.S. capacity to respond to other forms of coercion being used by China to threaten the security of Taiwan (e.g., China's gray zone tactics in and around Taiwan); and
 - An assessment of U.S. capacity to comply with the Taiwan Relations Act in scenarios where the United States is also engaged in responding to aggression by Russia, Iran, or North Korea in other regions.

In each case, the report should identify any gaps that currently exist or will exist based on likely trajectories of resources and capabilities.

- Congress direct the U.S. Department of State to work with Taiwan to open a Foreign Military Sales (FMS) case for non-weapons support services to advance regional U.S. posture initiatives that would enhance the U.S. deterrence capacity around Taiwan.

- The case should specifically bolster existing U.S. initiatives, such as the U.S.-Philippines Enhanced Defense Cooperation Arrangements (EDCA) on the Luzon and Palawan Islands as well as efforts in the southwestern Japanese island chain and on the Pacific Islands that recognize Taiwan.
- Under this program, Taiwan would fund projects in third countries, ultimately benefiting its own security.
- Congress pass legislation affirming strong, bipartisan support for the Vatican-Taiwan diplomatic relationship. The legislation should:
 - Recognize that the Vatican is one of Taiwan's most significant diplomatic partners, providing essential international legitimacy and support to the people of Taiwan;
 - Express opposition to Chinese government pressure on the Holy See to sever ties with Taipei;
 - Endorse the establishment of a trilateral mechanism with Taiwan and the Vatican to advance religious freedom and human rights globally; and
 - Encourage Members of Congress to underscore U.S. support for the Vatican-Taiwan diplomatic relationship in all engagements with Vatican officials.

Appendix I: U.S. Military Sales to Taiwan, October 2024–October 2025

Date of State Department Approval *	Content of Purchase	Value
October 25, 2024 ²⁸¹	National Advanced Surface-to-Air Missile System and related equipment	\$1.16 billion
October 25, 2024 ²⁸²	AN/TPS-77 and AN/TPS-78 Radar Turnkey Systems and related equipment	\$828 million
November 29, 2024 ²⁸³	Spare Parts and Support for F-16 Aircraft and Active Electronically Scanned Array Radars and related equipment	\$320 million
November 29, 2024 ²⁸⁴	Improved Mobile Subscriber Equipment Follow-On Support and related equipment	\$65 million
December 20, 2024 ²⁸⁵	Command, Control, Communications, and Computers Modernization and related equipment	\$265 million
December 20, 2024 ²⁸⁶	MK 75 76 mm Gun Mounts and related equipment	\$30 million

*According to the U.S. Defense Security Cooperation Agency, the FMS program is a form of security assistance authorized by the Arms Export Control Act (AECA), as amended by 22 U.S.C. 2751, et. seq., and a fundamental tool of U.S. foreign policy. Under Section 3 of the AECA, the United States may sell defense articles and services to foreign governments and international organizations when the president formally finds that to do so will strengthen the security of the United States and promote world peace. Under the FMS program, the U.S. government and a foreign government enter into a government-to-government agreement called a Letter of Offer and Acceptance. The Secretary of State determines which governments will have programs. The Secretary of Defense executes the program. Defense Security Cooperation Agency, *Foreign Military Sales (FMS)*.

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