

The State of the Cross-Strait Affairs

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1. Introduction

Taiwan and the People's Republic of China (PRC) have evolving economic relations, but Beijing's One-China policy, growing global economic and political weight and leverage on its Asian partners have recently raised questions whether the near future brings peaceful reunification or a military operation.

This paper aims to analyze the complexities of the most recent developments of the cross-strait relations, including the political positions and economic interests of the most relevant actors in Asia, Japan and South Korea, and Taiwan's largest global partner interested in containing the rise of China, the United States. Based on a secondary research methodology involving a range of international literature we seek to find similarities and differences in Taiwan's relations with Seoul and Tokyo, and analyze the level of their possible involvement if Beijing resorts to more assertive moves towards reunification. Recent changes in the PRC's and the United States' bilateral and international positions as well as the political stance of the current leadership in Taipei give the topic a specific relevance.

2. Factors Influencing Taiwan's Current International Position

2.1. Taiwan as a Global Value Chain Champion

Seventy percent of Taiwan's gross domestic product (GDP) relies on exports, which makes it the seventh most trade-dependent economy participating in global value chains (Ezell, 2021). Taiwan has successfully positioned itself over the decades via its conscious economic development policies as the supplier of semi-conductors and other high-tech sectors including chips that are vital to the most dynamically developing and most advanced industrial sectors and global value chains (GVCs). Taiwanese suppliers play key roles in a number of sophisticated advanced-technology sectors from information and communication technologies

(ICT), and electrical vehicles to pharmaceuticals and are important elements in the success of Chinese mainland companies in these and related sectors. However, Taiwanese companies not only play an important role in the economic dynamics of the PRC, but are also crucial for global value chains and for the economies of other key partners analyzed in this paper, the US, Japan or South Korea, which makes the position of Taiwan in both economic and political relations more complex and stable at the same time.

Taiwan has been among the most effective nations at integrating itself into GVCs, in terms of both backward and forward linkages. Backward linkages refer to the use of imported goods and services in the production of exports, while forward linkages mean the use of a country's exports in the production of other goods and services. By 2011, Taiwan had achieved the deepest backward GVC trade linkages among any ASEAN country, and achieved some of the strongest forward trade linkages, which have undoubtedly deepened in the decade since, basically as a result the country's increasing strength in semiconductor exports, which have become a critical input to a wide variety of downstream industries (Ezell, 2021).

Taiwan, on the other hand, also dynamically attracts foreign direct investments (FDI). Despite the fact that global FDI flows fell 49 percent worldwide in the first half of 2020 compared to 2019 as the Covid-19 pandemic dramatically hit the global economy, Taiwan actually remained a quite attractive location for investment, attracting 1,220 FDI projects worth a total value of 2.96 billion USD from January to April 2020, which represents an increase of 8.9 percent in the number of cases, and 48.7 percent in FDI value compared with the same period in 2019 (Santander Trade Markets, 2021).

2.2. Relations with the People's Republic of China

The two political entities have been separated for more than 70 years, since 1949. The Chinese civil war that started in 1927 ended with the Communists' victory and the Nationalists' retreat to Taiwan, founding the Republic of China. Ever since, the strait has been under regular pressures and tensions but no incidents could be labeled as outright war and for decades, cross-strait relations had been relatively stable. Beijing emphasizes its longstanding will of "peaceful reunification" in a hope to convince Taiwanese people of the mutual benefits of returning to the homeland and shows its positive interpretation via enhancing cultural and economic ties. Meanwhile, on the global scene, China seeks to further isolate

Taiwan and to use its economic leverage as a carrot and stick policy in the form of both incentives and threats to persuade the few remaining countries who diplomatically acknowledge the Republic of China to abandon Taiwan for Beijing and adhere to its One-China policy.

Beijing also successfully uses its growing weight in global economy and politics to weaken Taipei's position in international organizations and to ensure that not only countries but corporations, universities, media sources and even individuals acknowledge the PRC's official stance.

There are also growing uncertainties in Beijing with regard to the possible political intentions of the US to stop China from taking Taiwan—or the international support—to formulate an effective coalition against the PRC. Although a Chinese invasion of Taiwan may not be an immediate threat, analysts also point out that for the first time in more than seven decades, it is time to take seriously the possibility that China could soon use force to end its almost century-long civil war and separation. Support for a possible military operation in both the general public as well as the military and political leadership has been growing in the past years and there are signs that Beijing might consider every possible option (Mastro, 2021).

Meanwhile, Chinese leaders certainly keep an eye on the currently ongoing war between Russia and Ukraine, as well as the unity of the Transatlantic Alliance to support Ukraine by weapons, and for the first time, introduce painful sanctions against Russia, they might also consider if the international response to a quick invasion against Taiwan would receive a milder opposition. China began to sign strategic partnerships in the mid-1990s, as it required other countries and regional organizations, including the European Union, to sign long-term agreements to prioritize their relationships with mainland China and proactively manage any tensions. Since the 1996 cross-strait crisis, China has managed to gain more than a dozen countries' international support and officially switch their diplomatic recognition to Beijing, leaving Taiwan with only 15 remaining allies, all of them of relatively low economic and political influence.

2.3. Taiwan's Domestic Politics

There are two main political parties in Taiwan that support Taiwan's status quo, but at the same time have opposing approaches toward the PRC: the Kuomintang Party (KMT) and the Democratic Progressive Party (DPP). The KMT has a

pro-unification platform that promotes dialogue with Mainland China under the “1992 Consensus”, according to which the two sides of the Taiwan Straits agreed that there is only one China: both Mainland China and Taiwan belong to the same China. Although Beijing and Taipei defined the meaning of “China” differently: Beijing claims that “China” means the People’s Republic of China with Taiwan as a “Special Administrative Region”, Taipei, however, considers “China” as the Republic of China with de jure sovereignty over all of China. However, this was the first political compromise reached between Taiwan and mainland China in more than 40 years. The Kuomintang therefore adheres to the title of ROC for Taiwan, accepts the “One China” principle and prioritizes cross-strait relations over foreign relations, claiming that only better relations with the PRC can overcome an international isolation and improve international presence as well as economic positions. The DPP, on the contrary, has a pro-independence program that doubts the legacy of the “1992 Consensus”, does not accept the “One China” principle, prioritizes foreign relations over the cross-strait relations and emphasizes Taiwanese identity. In foreign politics and economic relations, the New Southward Policy announced by Tsai Ing-wen, who has been the president since 2016, also shows the direction of balancing against the cross-strait relations.

2.4. Thriving Economic Relations Across the Strait

We could assume that the cross-strait economic cooperation and exchanges should thrive during the KMT leadership and stagnate during the DPP. As Taiwan went through three waves of power transitions, the cross-strait economic cooperation and exchanges have had a zigzag pattern: increasing during the KMT leadership and decreasing during the DPP leadership. However, the change of the ruling party in Taiwan does not significantly influence cross-strait economic cooperation. As a general trend, the cross-strait trade has been increasing since 1991, (since President Lee Teng-hui’s period), despite the power transitions.

The PRC is Taiwan’s largest export market, as well as the largest source of imports. According to the Bureau of Foreign Trade of the Taiwanese Ministry of Foreign Affairs, exports in 2019 to Mainland China amounted to 91.8 billion USD, which means a decrease of 4.85 percent from 2018, meanwhile imports from Mainland China arrived in a value of 57.4 billion USD, an increase of 6.68 percent from 2018 (Bureau of Foreign Trade, 2020a).

Taiwan's main exports to Mainland China are electrical machinery products, semiconductors, machinery products, optical apparatus, plastic products and organic chemical products. Main imports are also basically electrical machinery products, machinery products, optical apparatus, iron and steel, and plastic products.

To strengthen trade and economic ties, Taiwan signed the Economic Cooperation Framework Agreement (ECFA) with Mainland China in June 2010. The ECFA is a framework agreement with an early harvest program on goods and services that entered into force in September 2010. Currently, tariff reductions for the listed products and opening of the services market are being implemented according to the provisions of ECFA.

In terms of bilateral investment, it is again the PRC that is Taiwan's biggest outbound investment destination. Data from Taiwan's Investment Commission shows that cumulated investments from Taiwan to Mainland China totaled 186.51 billion USD (43,925 cases) by 2019 (Bureau of Foreign Trade, 2020a).

The top three investment targets were electronic parts and component manufacturing, electronic products, photographic and optical instruments manufacturing, and the financial and insurance industries. In addition, investments from Mainland China to Taiwan amounted to 2.28 billion USD (1,371 cases) from the period of June 30, 2009 till 2019 (Bureau of Foreign Trade, 2020a). The top three investment targets were the wholesale and retail trade, electronic parts and component manufacturing and the banking industry.

The Investment Protection Agreement was signed by both sides in August 2012 and took effect in February 2013 to protect the rights and interests of Taiwanese businesses investing in Mainland China.

Although the DPP's position in 2016 meant a clear departure in terms of commercial focus from the strait and aimed at concluding further FTAs with new partners, this aim has not yet been realized. Taiwan has less than a dozen of FTAs, including the ECFA and with the exception of New Zealand and Singapore, most of them are concluded with weightless economic partners who politically back the recognition of the ROC. Australia was the only country since the declaration of the new policies to enter into trade negotiations with Taiwan but ended the talks in 2018 as a result of pressures from the Chinese government.

Nevertheless, in the field of FDI, the New Southbound Policy shows its relevance. Recently, a Taiwanese divestment happened from the PRC, partly due to Taiwanese fears concerning the possible implications of a trade war between the USA and the People's Republic of China. However, this huge amount of capital was not invested in Taiwan to create new jobs and develop new, high value-added industries, rather, it flows to Southeast Asia, focusing on the low-cost labor-intensive manufacturing sectors (Neszmélyi, 2020). Investors, with the active assistance from the government, channel FDI towards these more lucrative sectors in the Southeast and South Asian regions. The New Southbound Policy serves two goals: it provides the government with a broader geographical scope and room to maneuver and diversify risks that might arise by a possible trade war between the US and China.

3. The Potential Reunification

Ever since the establishment of the Republic of China and especially since the 1970s, when international recognition has shifted to Beijing, and even more importantly, the US has given up the mutual defense cooperation with Taiwan in 1979 and resorted to the much less explicit military involvement via the Taiwan Relations Act, the PRC has preserved its intentions for the unification, preferably via peaceful means. The current situation is significantly different from the 1996 Taiwan crisis, when the US could successfully deter China by dispatching two aircraft carrier battle groups to sail near the strait. Since then, the military modernization and its economic power seem to entitle China to reconsider any possible solutions for reunification.

Xi Jinping has clearly indicated several times since he became the president of the PRC in 2012, that Beijing feels differently about the status quo and has publicly made the reunification an inevitable requirement for realizing the “Chinese Dream”, or the rejuvenation of the Chinese nation (Chengliang, 2013). The “Chinese Dream” is interpreted as the “Two Centenaries”: the material goal of China becoming a “moderately well-off society” by 2021, by the 100th anniversary of the Chinese Communist Party, and the modernization goal of China becoming a fully developed nation by about 2049, the 100th anniversary of the founding of the People's Republic of China. There is no explicit timeline for the reunification, but Xi's declarations and the recently evolving, strong global and regional position of the PRC both suggest that he wants reunification to be part of his personal legacy.

Although only peaceful unification is emphasized, no options are excluded. Over time, fewer Taiwanese people see themselves as Chinese and have strong feelings opposing their return to mainland China. Tsai Ing-wen's first and second election success (in 2016 and 2020, respectively) have deteriorated the cross-strait relations and have convinced Beijing that peaceful reunification might be only a dream. In June 2020, when China exerted its power over Hong Kong via a new national security law, the options to convince Taiwanese people about the attractiveness of the "one country, two systems" formula shrunk further and rather reinforced their rejection of a similar solution. The assumption that peaceful reunification is only a theoretical solution, is further enhanced by the regular and deliberate violations of Taiwan's air space. In 2020 alone, there were 380 incursions into Taiwan's air defense system, and in April the same year, China sent its largest-ever fleet, 25 fighters and bombers, into Taiwan's air defense identification zone (Mastro, 2021). The more frequent its activities there become, the harder it will be for the United States to determine when a Chinese attack is imminent, making it easier for the People's Liberation Army (PLA) to present the world with a *fait accompli*.

China has accelerated the modernization of its military capabilities further, undertaking the most ambitious restructuring of the PLA since its founding. The reforms have enabled Chinese forces to conduct joint operations in which the air force, the navy, the army, and the strategic rocket force fight seamlessly together, whether during an amphibious landing, a blockade, or a missile attack. With the visibly growing military capabilities, voices are also growing louder in the Chinese military leadership that the longer China waits, the harder it will be to take control of the renegade island. A further warning sign shows the growing public support for a military operation. According to a survey by the state-run Global Times, 70 percent of mainlanders strongly support using force to unify Taiwan with the mainland, and 37 percent think it would be best if the war occurred in three to five years (Sheng et. al., 2021). Still, unless the United States or Taiwan moves first to alter the status quo, which seems highly unlikely, Xi will probably consider initiating armed unification only if he is confident that the PLA can successfully gain control of the island with acceptable physical and also economic losses as a result of the possible sanctions.

The full-scale involvement of the US cannot be taken for granted and depends on the proper timing and preparation of a possible attack. The "strategic ambiguity" of the US as well as the questions concerning the possible partners in Asia raise relevant questions and might fuel hopes in Beijing that they can successfully conduct a fast military operation even before the US or its allies respond.

However, even if China was to get involved in a protracted war with the United States, Chinese leaders may believe they have the social and economic advantages that would enable them to outlast the Americans. First of all, public enthusiasm and support stands on their side. They can see the Chinese people as more willing to make sacrifices for the cause of the reunification than the Americans and their possible allies against it. Second, China's large domestic market makes it less reliant on international trade than many other countries. Especially since the announcement of the Belt and Road Initiative, in the last decade, China could be seen successfully stretching its own economic influence zone, meanwhile also decoupling from the United States. The trade war initiated by Donald Trump has also pointed out that such measures are already late to contain China economically. Technologically, even in terms of artificial intelligence development, the PRC is also self-sufficient. Beijing's conscious development strategies have all contributed to its current position and to the most significant shifts in terms of power that happened mainly in the last decade.

Most recent embargoes against Russia, however, might question the validity of the arguments listed above. Eight of China's top ten trading partners are democracies, and nearly 60 percent of China's exports go to the United States and its allies. If these countries responded to a Chinese attack on Taiwan by concerted and severe trade and financial sanctions, the economic costs could threaten the development perspectives of the PRC. On the other hand, Russian energy exports along with the Shanghai Cooperation's larger regional framework, or even the Regional Comprehensive Economic Partnership (RCEP), both of which are under the influence of China, might compensate for potential economic losses. The RCEP that entered into force on January 1, 2022 comprises a market of 2.2 billion people, almost 30 percent of the world's population, with a combined GDP of 26.2 trillion USD or about 30 percent of the global GDP, and accounts for nearly 28 percent of global trade (based on 2019 figures), making it the world's largest free trade agreement. Although some members of the RCEP would definitely introduce sanctions (Japan, for instance), it still marks the success of China playing a crucial role in the integration of the wider region.

4. Japan-Taiwan Relations: the Deepest Ties

4.1. The Warmest Political Relations

Japan and Taiwan share a deep and multifaceted relationship, although official diplomatic relations ended in 1972. Since then, Tokyo declares its official support for the One-China policy, stating that Japan respects Taiwan as the inalienable part of the territory of the People's Republic of China. Nevertheless, Japan maintains a pragmatic approach towards Taipei and their shared history, strategic goals, common values, and thriving economic relations create mutually respectful and informally deep ties between them.

As for their shared history, imperial Japan seized Taiwan from the Qing dynasty after the Sino-Japanese war at the end of the 19th century and ruled the island for 50 years, until the end of World War II. The issue of Taiwanese comfort women and half a century of colonial rule left a negative mark on mutual relations, however, unlike South Korea, Taipei rarely asked for apologies from Japan. This is mainly due to two factors. First, colonial rule also brought modernization for the island. Formosa, as the first Japanese colony experienced significant improvements in terms of infrastructure, health care, compulsory primary education, vocational trainings, public works and the Japanese made efforts to turn it into a showpiece model colony. Even though Taiwanese people did not like being second class citizens, they appreciate the developments of the Japanese era. Students are taught about half a century of Japanese colonial rule in a neutral manner, unlike their Korean or Chinese counterparts. As some Japanese analysts also point out, the autocratic and corrupt rule of the Kuomintang after World War II also contributed to the more positive picture concerning Imperial Japan (Tachikawa, 2020). Furthermore, members of the post-WWII, and even of the currently ruling elite, have family ties stretching back to the beneficiaries of the era of Japanized Taiwan. The current president, Tsai Ing-wen, has been accused of her too pro-Japanese stance as her father also worked as a car technician for the Imperial Japanese and also of her preference to use Japanese and English in her Twitter messages instead of Chinese. However, as Twitter is banned in most of the Chinese-speaking world except for Taiwan, there would be no rationale for her using Chinese. Nevertheless, her pro-Japanese position is prominent even among recent Taiwanese leaders, as she regularly delivers warm speeches enforcing Taiwanese-Japanese ties and emphasizes common positions and interests. Second, Taiwan is more dependent on its relatively narrow international support than South Korea and their shared interests with Japan make the darker times of

their common history fade into the past. Bilateral relations are mutually beneficial but even more crucial for Taiwan as they raise Taiwan's international profile, integrate Taiwan into the international community, and demonstrate the support for their shared security concerns, of both traditional and non-traditional nature.

Japan and Taiwan regularly hold commemorations on the anniversary of the Great East Asian Earthquake of March 11, 2011, the biggest earthquake in Japanese history, when Japanese politicians also regularly express the gratitude of their people for the help Taiwan offered during those hard times. Their warm relations were also highlighted by illuminating simultaneously Tokyo Tower and Taipei 101 with LED messages displaying the warm friendship of the two countries.

In addition to the positive impressions the people of Taiwan and Japan have of each other, the ties between the two countries are also built on decades of practical cooperation, shared values, and mutual security interests. Though the unofficial nature of the relationship and the lack of official diplomatic relations create a challenge at the highest political levels, there is undoubtedly strong cooperation in multiple policy areas based on private-sector-led economic relations and people-to-people exchanges ranging from education, art and sports to health care. As for domestic politics, the emphasis on foreign relations with Japan has been even labeled as the "secret weapon" to politically mobilize the youth of the island. Clear Japanophile trends date back to the 1990s, when Lee Teng-hui, pro-Japan politician who was born in Taiwan but finished his education in Japan, became president in 1988 and completed Taiwan's democratic transition in 1996. Japanese popular culture, videogames, anime characters and even Japanese language have become popular in Taiwan, and the younger generation who was born in a democracy and has departed from traditional Chinese values and identity, feels much closer to Japan than to mainland China.

Cooperation has deepened even further in the last few years based on the commonly perceived threat of China's growing influence. The US also plays a key factor in the strong bilateral ties as both allies represent crucial East Asian partners for Washington in the containment of China. Japan, as the most stable and unquestionable ally of the US sharing the same concerns about the more obvious and potential threats about China's growing economic, diplomatic, political and military power, hosts the largest military base of the US on the island of Okinawa and is an enthusiastic partner of Washington in the Quadrilateral Security Dialogue (the Quad), holding annual joint military exercises as a deterrence in the Indian Ocean and the South and the East China Seas.

4.2. Comprehensive and Deep Economic Partnership

Japan has long been one of Taiwan's most important trade and investment partners. Japan is the third largest trading partner for Taiwan, while Taiwan is the fourth largest trading partner for Tokyo. Bilateral trade between Taiwan and Japan has been steadily developing and totaled 67.3 billion USD in 2019 (Bureau of Foreign Trade, 2020b). As for exports, Japan was Taiwan's fourth largest export destination in 2019, accounting for 7.071 percent of Taiwan's total exports, while Taiwan was Japan's fourth largest export destination, accounting for 6.0 percent of Japan's total exports. Taiwan's exports to Japan totaled 23.1 billion USD in 2019.

As for imports, Japan was Taiwan's second largest source of imports in 2019, accounting for 15.4 percent of Taiwan's total imports. Taiwan was Japan's sixth largest source of imports, accounting for 3.7 percent of Japan's total imports in 2019. In 2019, Taiwan's total imports from Japan amounted to 44 billion USD.

Japan is the fourth largest source of foreign investment in Taiwan, with a cumulative investment of about 22.5 billion USD. By the end of 2019, Japan's foreign direct investments (FDI) in Taiwan consisted of over 10,922 cases, the largest sector of Japan's FDI in Taiwan is in the service sector, including wholesale and retail trade, construction, real estate, and insurance. The second largest sector is in the manufacturing sector, including chemical manufacturing, electronic parts manufacturing, and metal product manufacturing. Comparatively, Taiwan has invested more than 9.22 billion USD in Japan. In recent years, Taiwanese companies have been actively cooperating with Japan in the manufacturing of semiconductors, electronics and electrical products.

The Taiwan-Japan Economic and Trade Conference has been held annually by the Japan-Taiwan Exchange Association and the Taiwan-Japan Relations Association 44 times consecutively. The two sides use this platform to resolve difficulties encountered in trade, for example, they lifted import controls on Japanese beef in 2017. In addition to difficulties encountered in trade, this platform has been used to discuss cooperation in industries, agriculture, medicine, intellectual property, and other fields. Furthermore, economic and trade cooperation between Taiwan and Japan has received specific impetus by bilateral agreements and memoranda regarding cooperation in such areas as investment (2011), industrial bridging (2012), e-commerce (2013), taxation (2015), customs cooperation and mutual assistance (2017), promotion for cooperation in import and export of organic food

(2019) as well as other important economic and trade agreements to deepen bilateral economic and trade cooperation (Bureau of Foreign Trade, 2020b).

5. Relations between South Korea and Taiwan

5.1. Diplomatic Relations

Diplomatic relations between the Republic of Korea (ROK) and Taipei ended in 1992 when South Korea, as the last country in Asia, switched to the recognition of the People's Republic of China (PRC), followed by mutual acknowledgement and the establishment of bilateral relations between them. Previously, Taiwan came just second after the United States to recognize the ROK as the sole legitimate government on the Korean peninsula when the first republic was established there in 1948. Shortly before Seoul's position changed, it was the ROK that facilitated the integration of Taiwan into the Asia-Pacific Economic Cooperation in 1991 by modifying the term "member states" to "member economies" and shortly after, the official termination of diplomatic relations, the New Relations Framework Agreement was signed in 1993. Taipei City is the first sister city of Seoul, and similarly to other important economic and political partners for Taipei, relations are stable and close, even though not at the highest possible diplomatic level.

South Korea's stance on Taiwan has been affected by mainly two conflicting parties. The US, which is its most important political and especially military ally, and by the PRC, which is undoubtedly the most important economic partner of the ROK. Therefore, for decades, the leadership on the peninsula has relatively cautiously expressed any politically questionable statements and maintained a strategic ambiguity over the highly sensitive issue. In May 2021, amidst growing tensions between the US and China, as well as between Beijing and Taipei, President Moon Jae-in, previously famous for his careful balancing policies, visited Washington D.C. where they issued a joint statement with President Biden. Analysts noted the departure from the famously vague policies in a number of terms and expressions used either for the first time or in a different context. For example, the statement uses the name "Taiwan Strait" for the first time in the history of recent South Korean declarations. The joint statement also pledged to extend the scope and deepen the nature of the US-ROK cooperation, which has been primarily centered on deterring North Korean hostilities, to "far beyond the Korean Peninsula". In particular, they mentioned increased economic cooperation in the areas of semi-conductors, supply chain resilience, cyber security, and

developing 5G and 6G technologies. The statement also included phrases such as the “Quad” referring to the Quadrilateral Security Dialogue, including the US, Australia, Japan and India, or “a free and open Indo-Pacific”, a term introduced originally by Japanese then-Prime Minister Abe Shinzo and endorsed by the Trump Administration, or the “freedom of navigation”, and other terms promoted by the US (and also by Japan) in the strategic rivalry and containment policies concerning China (Lee, 2022).

Despite the seemingly more articulate and more hardliner position of the South Korean government on Beijing, both President Moon and his Foreign Minister quickly tried to calm down the diplomatic waves after the declaration and appease China by downplaying its significance as well as by clarifying its wording. In this attempt, they could also differentiate Korea from the Japanese position issued in a US-Japan joint statement only a month earlier which explicitly mentioned China regarding the Taiwan issue and openly criticized Beijing for its violation of human rights in Hong Kong and Xinjiang. Moon also refused to explicitly answer a journalist at a press conference in December 2021, when he referred to the remark of the Australian Defense Minister stating that “it would be inconceivable for Australia not to join the US in some kind of operation to defend Taiwan”. Regarding the question if it would be also inconceivable for South Korea not to join in some kind of defense of Taiwan, were that to be needed?” Moon refused to answer and instead emphasized the importance of “a peaceful management of the Cross-Strait issues” and that the ROK is interested in a harmonized relationship between the two sides of the Strait as well as between the US and China (The Prime Minister of Australia, 2021).

Ironically enough, Taiwan first praised Seoul’s unprecedented move by the joint declaration in a Twitter message posted by the Ministry of Foreign Affairs, but became soon disappointed by Korea’s quick turn. As a result, instead of warming the ties, relationships became sourer afterwards.

On the recent presidential elections (March 9, 2022)—contrary to the mainstream analysts’ expectations—finally, Yoon Seok-youl, the candidate of the more conservative and pro-American party, the People Power Party won. As for the cross-strait affairs and China-Taiwan relations, there was no dramatic turn expected in case of either presidential candidates. The ruling Democratic Party’s candidate, Lee Jae-myung, was more likely to prefer cautious foreign policies in the version of “Moon Jae-in 2.0”. Yet Yoon Seok-youl is not expected to cross the lines in domestic politics that consider economic relations with China crucial, though

he might side with the US in more articulate declarations about human rights. The Taiwan Strait issue is raised only by a handful of security experts in the ROK and discussions are limited to the scope of the event of the United States Forces' Korea's possible deployment in the event of a contingency (Lee, 2022).

5.2. Taiwan-South Korea Economic Relations

In 2019, bilateral trade totaled 34.56 billion USD, with a slight decrease of 1.66 percent over the previous year. South Korea is Taiwan's fifth largest trading partner, accounting for 5.63 percent of Taiwan's total trade, while Taiwan is South Korea's sixth largest trading partner, accounting for 3 percent of South Korea's total trade (Bureau of Foreign Trade, 2020c).

In 2019, Taiwan's exports to South Korea amounted to 16.9 billion USD, which shows a dynamic increase of 7.68 percent over 2018. Thus, South Korea has become Taiwan's sixth largest export destination. The main export items include integrated circuits, petroleum and oil (except crude oil) extracted from bituminous minerals, transmission receivers used in radio broadcasts or television etc. Comparatively, South Korea's exports to Taiwan in 2019 amounted to 17.7 billion USD. As a result, South Korea has become Taiwan's fourth largest source of imports. The main import items include integrated circuits, petroleum and oil derived from bituminous minerals (excluding crude oil), cyclic hydrocarbons, machines and appliances specially designed for manufacturing semiconductor crystals or wafers, semiconductor devices, and machines or equipment used for integrated circuits and flat displays and screen.

Given the aforementioned main export and import items, there is large-scale inter-industry trade and intra-industry trade between Taiwan and South Korea, which has strengthened bilateral economic ties over the previous decades. According to statistics from the Investment Commission of the Ministry of Economic Affairs, Taiwan's investment in South Korea in 2019 consisted of only 8 cases, which totaled around 220 million USD. Taiwan's cumulative investment in South Korea since 1952 has consisted of 237 cases, amounting to 1.57 billion USD. The main sectors of investment include electronic component manufacturing, finance and insurance, pharmaceutical manufacturing, computer and electronic products, and optical products manufacturing. By comparison, South Korea's investment in Taiwan in 2019 comprised 151 cases, which totaled around 36.53 million USD. South Korea's cumulative investment in Taiwan since 1952

has consisted of 1,672 cases, amounting to 1.26 billion USD. The main sectors of investment include electronic component manufacturing, wholesale and retail, computer and electronic products, optics manufacturing, finance and insurance, information and communications, and construction. Additionally, the two sides have successively signed agreements and memoranda regarding cooperation in such areas as exchange of electronic certificates of origin (2008), patent prosecution highway (2015), exchange of industrial property information and PDX (2015), as well as mutual recognition of authorized economic operators (2016), which have deepened bilateral economic and trade ties (Bureau of Foreign Trade, 2020c).

There have been striking similarities between the economic development of Taiwan and South Korea, and in many aspects, even with Japan. The main common features include a relatively small geographic dimension with limited natural resources but a significant population, the heritage of a colonial past (with the exception of Japan) and WWII—meaning that the underdeveloped economies of South Korea and Taiwan were further devastated after the war—strong, dictatorial political leadership until the late 1980's then a democratization process (again not relevant for Japan), export-oriented economic development policy in the industrial sectors, the role of American economic assistance in the recovery and the establishment of the take-off period, following Japanese and American development patterns, conflicts and continuous tensions in the immediate geographic neighborhood, and high savings ratios, especially during the take-off period (1970s) (Neszmélyi, 2017). On the other hand, in spite of the similarities, there were also prominent differences in the development paths between Taiwan and South Korea. The most significant differences can be recognized in the role of the state: while in both cases the guiding and developmental role of the state has been strong, in case of Taiwan, it was less direct than in South Korea where the government even monopolized the credit allocations giving preference to the selected huge and export-oriented companies (Neszmélyi, 2017). Still, we can conclude that basically all the three economies based their developmental path on very similar models of the Asian developmental state.

6. China's Position in the Cross-Strait Relations

6.1. Differences in Chinese Policies towards Japan vs. South Korea

Although both countries expressed their support for US policies concerning Taiwan in the most recent 2021 joint declarations with Washington, the response

from Beijing differed significantly. In case of Japan, the Chinese Foreign Ministry was surprisingly harsh and critical even compared to previous reactions to Japan's moves. The statement issued called the US and Japan "villainous colluders ignoring the truth" (Sun, 2022). The condemnations went as far as to claim that Japan was "serving as a US strategic vassal, abandoning its promises, damaging Sino-Japanese relations, showing wolves into the house, and selling out the region's interest," and that Tokyo was "shameless and unpopular". Except for 2012, when Japan nationalized the Senkaku/Diaoyu Islands and bilateral relations became frozen, Beijing has not used such an outspoken and bitter wording in its communication against the Japanese government.

This harsh criticism puts China's reaction to the Korean reference on the same issue in an even softer light. The Chinese Foreign Ministry merely encouraged "related countries to be careful about their words and actions and to not play with fire" (Sun, 2022). Although Seoul has also made significant efforts to downgrade the importance of the joint statement's critical points, the significantly different reactions are due to the general differences between Japan and South Korea concerning both Taiwan and the United States. Japan hosts not only the most important US military base on the island of Okinawa, and has deeper and more explicit ties with Taiwan, but also openly participates in the US-led alliance formulated to contain China in the framework of the Quadrilateral Security Dialogue or Quad, where Australia, more wholeheartedly, and India, more reluctantly, also take part in joint military exercises. Japan also included Taiwan in the US-Japan defense guideline. Beijing therefore can realistically conclude that Japan's physical involvement in the strait in case of a military attack would be inevitable, meanwhile South Korea's involvement remains at the rhetorical level at its most.

6.2. China's Coercive Methods

China's response to Japan's potential commitment and role in a Taiwan contingency leaves no question about its potential response to South Korea in case the latter also embarks on a more unfavorable path for Beijing. Two potential policy instruments emerge as the most likely and most effective measures. The first are economic sanctions. Although non-Chinese observers argue about the efficiency of economic sanctions, as they failed to change South Korea's decision to deploy the THAAD system in 2016, China views it as mostly effective as it pushed South Korea to commit to the "Three No-s": 1) no additional deployment of the THAAD system, 2) no participation in a US-led regional missile defense system, and 3)

no morphing of a trilateral security alliance with the US and Japan into a military alliance. Moreover, the economic impact and damage by the sanctions was so severe that they efficiently serve as a prevention of similar future actions that could harm Chinese interests and offend China. Taiwan is evidently crucial for China, and Beijing's response to South Korea's involvement in a Taiwan contingency would definitely include strong economic sanctions.

The second coercion channel could be the North Korean front. While China may not be in a position to prompt North Korea to launch a new round of provocations just to punish or distract South Korea, closer Sino-DPRK ties, including political and economic support, could be efficient to prevent Seoul's involvement in a theoretical contingency or even to strengthen the US-South Korea alliance. Seoul's agenda on national unification and US efforts to revitalize the denuclearization process of the peninsula further complicate this hypothetical situation.

The role of South Korea in a Taiwan contingency is both important and impactful, especially for potential Chinese war plans. South Korea is in an extremely difficult position, as both the US-ROK alliance and South Korea's ties with China are vital for Seoul's national security and unification agenda. As US-China strategic competition deepens, and as the possibilities of a forceful unification cannot be excluded, Seoul cannot permanently avoid taking stance in such sensitive questions. Understanding and preparing for China's strategic reactions will be highly important for the plans of all parties.

7. The US as Taiwan's Crucial Partner

7.1. Vital Economic Relations between the United States and Taiwan

Taiwanese companies represent main suppliers to a number of key American original equipment manufacturing (OEM) firms, meaning that the success of these US companies, particularly in the information and communications technology (ICT) industry, depends on the stability and the innovation capacity of key Taiwanese suppliers. Especially in the semiconductor, related ICT, and electric vehicle sectors, Taiwanese exporters have become vital players in global supply chains for the manufacture of sophisticated high-technology products.

Bilateral trade relationship is highly complementary, interdependent, and increasing especially in advanced-technology industries. Taiwan has become America's

tenth largest goods trading partner and thirteenth largest goods export destination, with US goods and services trade with Taiwan totaling 103.9 billion USD in 2019 (Office of the United States Trade Representative, 2021). In fact, the United States now trades more with Taiwan than it does with France, India, or Italy (Sack – Hillman, 2021). In 2019, the United States exported 42.3 billion USD worth of goods and services to Taiwan, while its import totaled 61.6 billion USD, producing a trade deficit of 19.3 billion USD. On the other hand, the United States represents Taiwan’s second largest trading partner, accounting for 13.2 percent of Taiwan’s total trade and receiving about one-third of Taiwan’s exports of ICT goods (Office of the United States Trade Representative, 2021).

The Congressional Research Service (CRS) points out that “US data on trade with Taiwan may understate the importance of Taiwan to the US economy because of the role of global supply chains (Congressional Research Service, 2022). Eighty-six percent of Taiwan’s exports to the United States comprise intermediate goods, such as semifinished products, parts, and capital goods US companies use to make final products in the United States. Taiwanese inputs play a critical role in US-manufactured final products in a wide range of industries, and not only for ICT goods but also others including medical devices and pharmaceuticals, automobiles (especially electronic vehicles), heavy machinery, and transportation equipment. The United States has deeper inter-industry trade linkages with Taiwan than with almost any other East Asian trade partner, with the percentage of Taiwan’s exports feeding into the US global supply chain greater than those of Indonesia, the Philippines, and Thailand combined (Chen, 2017).

Taiwan had a slight trade surplus of 19.3 billion USD with the United States in 2019. This represents a slight fraction of the US global trade deficit and is in many ways far outweighed by the value Taiwanese exports produced in the American economy. The concentration of specific industries is clearly visible: in 2020 in six high-tech industries—automobiles, chemicals, computers and electronics, machinery, pharmaceuticals, and other transportation (including aerospace)—Taiwan ran a trade surplus of more than 17 billion USD, including 8.9 billion USD in computers and electronics and 8.4 billion USD in machinery. On the other hand, the United States ran a trade surplus in value-added terms in the automobiles, chemicals, pharmaceuticals, and other transportation sectors. However, the value produced by America’s Taiwanese suppliers—especially in ICT-based sectors such as semiconductors—far outweigh any minor sector-specific trade deficits. The global semiconductor production and supply would be far less stable in the absence of the Taiwanese supply and could cause a 1.28 million-vehicle

shortfall in US automotive production in 2021 at a cost of 110 billion USD (NBC, 2021). To summarize, US-Taiwan trade flows are overall mutually productive and beneficial to both nations.

Foreign direct investment (FDI) also represents an important aspect of the relationship, with the total stock of FDI from Taiwanese companies in the United States at 47 billion USD, according to the latest data available from the American Institute in Taiwan. Taiwanese companies currently operating in the United States support 19,100 US jobs, invest almost 159 million USD annually in research and development (R&D), and contribute 1.6 billion USD to US goods exports (American Institute in Taiwan, 2021). As mentioned before, Taiwan managed to remain an attractive destination for FDI even in the midst of the worst pandemic-related recessions, when global FDI flows fell 49 percent worldwide in the first half of 2020 compared to 2019 as the Covid pandemic hit the global economy, Taipei, as a rare counterexample, managed to increase the number of cases by 8.9 percent and the value of FDI by 48.7 percent compared to the same period in 2019 (Santander Trade Markets, 2021).

An example of the dynamics of the bilateral relations is represented by the Taiwan Semiconductor Manufacturing Company (TSMC), which previously announced it would invest 12 billion USD to build a new 5 nanometer (nm) chip factory near Phoenix, Arizona, which in May 2021 was announced to be more than doubled by constructing a 25 billion USD second factory capable of building 3 nm chips. TSMC also announced its intentions to build a total of seven facilities in Arizona (Statler, 2021). Furthermore, TSMC will also bring its own key suppliers, with as many as 12 TSMC suppliers that also open facilities in the United States. LCY Chemical, for example, one of the world's biggest producers of chemicals for semiconductor plants (producing isopropyl alcohol, which is essential for cleaning wafers and equipment in the chip manufacturing process) announced in February 2021, it would build a new chemical-purifying factory in Arizona which will represent its largest-ever overseas investment (Ting-Fang – Li, 2021). The Covid pandemic has pointed to the strategic importance of crucial industries, including exactly the ones where Taiwan is rated in the global top categories. The importance of Taiwanese FDI in the US as well as the relevance of the industrial sectors represented by this capital also explains why Taiwan sent the largest delegation to the June 2021 Select USA Summit, America's annual FDI attraction conference, with 220 delegates representing 153 companies from across Taiwan (American Institute in Taiwan, 2021).

7.2. The Prospective of a US-Taiwan Free Trade Agreement

After a five-year hiatus, on June 30, 2021 the United States and Taiwan held trade talks for the first time in 5 years, since 2016. In these negotiations, the two countries agreed to work together to strengthen supply chains and address a number of other concerns including workers' rights, climate change, and wildlife trafficking. Analysts from both sides have long called upon for more than the revival of the talks. As they point out, it is high time to move on from the TIFA (Trade and Investment Framework Agreement), originally signed in 1984, and create a bilateral free trade agreement. A US-Taiwan FTA would make the nation a more attractive location for sourcing advanced technology production as an alternative to China in global supply chains. Moreover, it would help Taiwan ensure stable trade access to the US market, help increase its growth rate, and promote political stability in the country.

Furthermore, a US-Taiwan FTA would generate positive economic impacts for the United States. Assuming zero tariffs on commodity trade, a 25 percent liberalization of service trade, and a 10 percent improvement in trade facilitation, a computable general equilibrium model simulation estimates that a US-Taiwan FTA would result in a welfare increase in the United States of 3.6 billion USD, an increase in real GDP of 3.5 billion USD, a decrease of the American trade deficit with Taiwan by 75 percent, and the generation of an additional 27,000 US jobs (Rigger – Hickey – Chow, 2017). Taiwan's average trade-weighted tariff is 2 percent, similar to the United States. According to these calculations, in dollar-value terms, the positive economic benefits of a US-Taiwan FTA would be more significant for the United States as a result of a trade deal than in case of most of the other 12 bilateral deals examined. In August 2020, Taiwan's President Tsai Ing-wen removed long-standing barriers to US beef and pork imports by executive order, and the following month, Taiwan's Council on Agriculture announced it would remove restrictions on ractopamine as a feed additive for pork which has long been a conflict issue with Taiwanese farmers and ranchers, both movements show Taiwan's commitment to address critical and long-standing issues in order to further pursue negotiations.

An FTA with the US would mean a definite breakthrough for Taiwan that has FTAs with 11 countries, most of which recognize Taiwan instead of the PRC (like Belize, Honduras, and Guatemala). It also has an ECFA with Beijing and with only two developed countries, New Zealand and Singapore. Nevertheless, the feasibility of the agreement is affected by Beijing's disapproval.

7.3. The US in the midst of Growing Tensions

The framework for the de facto diplomatic relations and close military alliance is the Taiwan Relations Act that replaced the Sino-American Mutual Defense Treaty in 1979, the same year when the US shifted to the official recognition of the People's Republic of China. The Taiwan Relations Act does not guarantee that the US will intervene militarily if the PRC invades Taiwan, nor does it relinquish it, as its primary purpose is to ensure that the US's Taiwan policy will not be changed unilaterally by the president and guarantee that any decision to defend Taiwan will be made with the consent of Congress. The Act declares that "the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain sufficient self-defense capabilities" (Taiwan Relations Act, 1979). The Act also enables de facto diplomatic relations, but instead of recognizing Taiwan as the "Republic of China", uses the terminology of "governing authorities on Taiwan". This decades long "strategic ambiguity", has two goals: first to dissuade Taiwan from a unilateral declaration of independence, second, to dissuade the PRC from unilaterally unifying Taiwan with the PRC.

Nevertheless, Taiwan has grown an important foothold for the US in the post-WWII world order and also after the end of the Cold War. The linchpin of the US post-WWII military hegemony has been based on military alliance systems, and hegemony over the Pacific and Indo-Pacific territories has played an important element of the containment doctrine. The "island chain doctrine", a famous Cold War strategy that fitted into the containment policy against the USSR and China, formulated three chains, the first beginning at the Kuril Islands and ending in Borneo, and most importantly, including Taiwan. The second island chain already lies behind the Philippines, from Japan to the Mariana Islands that are US territory. The third chain refers to the Aleutian Islands (close to Alaska) and stretches towards Oceania, with key parts like Guam. The island chain strategy has also been referred to as the "unsinkable aircraft carrier" of the US as it is built on landmasses. To strengthen the US positions, five out of the seven collective security treaties that the United States signed during the heights of the Cold War, which are still in effect today, are related to this region, out of which two bilateral defense treaties concern Korea (1953) and Japan (1960), respectively.

In December 2016, the Chinese navy deliberately crossed the first island chain for the first time and since then has carried out several military exercises beyond this line, thus setting these drills as the new norm. The most remarkable is how

the Chinese media commented on the event, calling the first island chain and the whole island chain concept as a mere psychological barrier that no longer exists (Huang, 2017). Militarily speaking, the Obama administration responded to the growing and more assertive Chinese presence over the years on the South China Sea basically by stepping back, shifting its major military deployments to the second island chain and urging allies to form a closer cooperation in the wider area by creating an “arrow” from Japan to Australia and more recently, by adding India, the Quad. The US position in the Indo-Pacific region and more specifically, concerning its commitment to maintain the first island chain has been weakened over the past period not only by the rising Chinese power, but also by its own policy decisions that have resulted in a strategic overreach and cracks on previously functioning alliances and coercive deals. China could capitalize on the overreach of and the global discontent with US power while its own rising power has been increasingly acknowledged globally. Nevertheless, the US has never given up its positions officially and US administrations have persistently supplied Taiwan with arms of defensive character and, depending on the nature of the Washington-Beijing relations, have regularly reminded the Chinese leaders with more hawkish actions or more rhetorical threats that any option to determine the future of Taiwan by other than peaceful means, including boycotts or embargoes, is considered a threat to the peace and security of the Western Pacific area and of grave concern for the United States.

Recently growing tensions are also reflected by the three military sales with Taiwan the US State Department has approved only during the Biden administration so far, the latest deal valued at up to 95 million USD (which is in the range of the typical values of such deals recently) to support the Patriot Air Defense System and other defense items, including military training (Reuters, 2022). During the Trump administration, even significantly larger deals were approved, the last one in October 2020 at the value of 1.8 billion USD, raising severe tensions with Beijing (BBC, 2020).

8. Conclusions

For decades, cross-strait relations have been relatively stable and characterized by steadily growing and thriving economic relations. More recently, the People’s Republic of China seems more motivated to question the status quo and put a greater emphasis on its reunification agenda, either peacefully, or even non-peacefully. The moment seems right for such a confrontational step: the modernization

of the PLA, regular incursions into Taiwan's air space by the PRC, the Chinese position in world economy and global politics, Xi Jinping's personal ambitions along with the "Centennial Goals" and the "Chinese Dream" as well as China's successful Belt and Road Initiative, and the formation of the RCEP all show that China is able to question the sovereignty of Taiwan in the near future.

The United States, on the other hand, has very recently managed to move strategically important Taiwanese investments in the field of semiconductors and chips to US territories. Strategic ambiguity about a US involvement in countering a possible Chinese invasion prevails since the Taiwan Relations Act has been further questioned by the US giving up its strategically important first island chain including Taiwan and the South China Sea of its "island chain doctrine", which provides the linchpin of its post-WWII Asian security architecture. However, Washington's hegemonic position in the Indo-Pacific region has not yet been openly challenged.

Both South Korea and Japan have close and deep economic relations with Taiwan, though falling short of the PRC which is the largest partner of Taipei in terms of both trade and investments. The difference in Beijing's approach towards the 2021 bilateral joint declarations with the US, which include explicit reference to the Straits, differed significantly in terms of South Korea and Japan. This is a further clear sign that Beijing knows exactly which party would be ready to actively interfere and who would stay only at the rhetorical level. The recently ongoing sanctions policy against Russia can also be an important benchmark for China to measure the likely consequences of a possible move towards reunification.

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