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SPECIAL COMMENTARY:

THE US-TAIWAN BUSINESS COUNCIL & U.S.-TAIWAN BILATERAL RELATIONS IN 2021

US-Taiwan Business Council activities in 2020 were severely curtailed due to the global COVID-19 pandemic. However, despite our inability to host in-person events or to travel to Taiwan, USTBC continued to offer engagement with our members and other relationships through virtual platforms. We look forward to additional opportunities to bring interested parties together to discuss U.S.-Taiwan bilateral relations and important Taiwan policy and business issues in 2021.

U.S.-Taiwan Bilateral Relations

Mr. Biden's victory in the U.S. presidential election in November 2020 means a possible reset of U.S.-Taiwan relations, a reset that is likely to impact the direction of most major areas of bilateral cooperation. While American foreign policy and national security were rarely discussed in the lead-up to the 2020 election, Mr. Biden did underscore his intention to conduct the country's external affairs in a different manner than President Trump - both in tone as well as in substance.

Since 2017 we have seen a significant expansion of U.S. national interests relating to Taiwan, with broadly positive outcomes for American security in the region. That includes in areas of technology cooperation and in fortifying the security imbalance across the Taiwan Strait. These gains have been welcomed among important constituencies of support, including by the Taiwan people and by the U.S. Congress.

It is noteworthy that current bipartisan Congressional support for Taiwan is at a high peak not seen since the end of the 1990s. This can be attributed to a significant broadening of views regarding the importance of Taiwan's democracy and economy, as well as its geography and its key role in U.S. national security. This view of Taiwan has also been reinforced by the island's exemplary handling of the COVID-19 pandemic.

Congressional support is well showcased by the Taiwan Assurance Act - signed into law as part of the 2021 appropriations bill - which regularizes arms sales and arms transfers and supports Taiwan's participation in international bodies. The TAA also required the U.S. Department of State to review its guidelines on U.S.-Taiwan relations. On January 9, 2021 Secretary Pompeo announced that the guidelines had been updated to remove meeting restrictions. We have also seen supportive language for Taiwan in the National Defense Authorization Act for Fiscal Year 2021. Additionally, Congress has expressed its support for a Bilateral Trade Agreement with Taiwan, as a BTA has been introduced into Congressional resolutions and explicitly supported in letters to U.S. Trade Representative Robert Lighthizer. This foundation of ongoing Congressional support should ensure a modicum of ballast as we transition from one U.S. administration to another.

Mr. Biden has promised an improved relationship with China during his presidency. While it is important for the U.S. and China to manage their relationship and to mitigate against worst-case scenarios, this will likely come at some cost to other areas of American national interest - including when it comes to Taiwan - as the People's Republic of China (PRC) is likely to see it as a point of leverage.

Technology Policy

Mr. Biden inherits several important policy initiatives that his administration is likely to nurture given their significance to America's major technology companies. This dynamic is most importantly demonstrated in the emerging semiconductor partnership.

Taiwan Semiconductor Manufacturing Company's (TSMC) evolving commitment to investment in a 5nm fab in Phoenix,



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Arizona is one of the most important commercial developments in U.S.-Taiwan relations since the island's World Trade Organization (WTO) accession in 2001. The substantial investment in a cutting-edge technology fab, the clustering of supply chain companies around TSMC in Arizona, and the commencement of production in the U.S. will create important stability in a supply chain that is heavily vested in imports from Asia. The ongoing pandemic, and the military threats posed near daily by the People's Liberation Army (PLA) toward Taiwan, underscore the vulnerability of supply chains and the need to mitigate that with U.S. based production at the highest technology standards.

The anchor that TSMC's commitment in Arizona provides will likely be at the heart of the technology aspirations of the recently signed 5-year Economic Prosperity Partnership Dialogue (EPPD), launched by the U.S. Department of State and Taiwan on November 20, 2020. While still a framework, the EPPD represents a platform for the Biden Administration to expand cooperation with Taiwan in the critical area of semiconductors - from production to research and development. This is important as Taiwan's prospects are better served by being indispensable in 1-2 areas such as chips or healthcare, as opposed to a jack-of-all-trades in many sectors.

Arms Sales & Security

The George W. Bush and Barack Obama governments took an irregular approach to providing arms to Taiwan. This caused severe force-modernization challenges for the Taiwan military, along with complications and increased disorder in U.S.-China-Taiwan ties. Their reasoning for this irregularity related to a fear of potential disruption in U.S.-China relations caused by Taiwan arms sales. This is a false choice, and the issue has now been addressed - returning arms sales to regular, normalized order as with any other U.S. security partner.

It is unlikely that a Biden Administration would support another long delay in selling arms to Taiwan. However, we are likely to only see arms sales made in support of Taiwan's present military posture, rather than offering new capabilities that would expand it. China will also likely press hard on Secretary of State nominee Antony Blinken and his colleagues including former Secretary of State and climate policy "Czar" John Kerry to gauge if there is a potential for a return to the Bush-Obama era consensus on limiting arms sales to Taiwan.

Trade Policy

U.S.-Taiwan trade policy currently offers two contrasting visions - one built on the EPPD and the other built on the existing Trade & Investment Framework Agreement (TIFA).

As noted above, the newly launched EPPD represents a forward-leaning platform for the U.S. and Taiwan to build economic dialogue in semiconductors, healthcare, renewable energy, and other sectors. The EPPD was born out of the USTR refusal to move on a trade liberalization agenda with Taiwan. As inter-agency tension within the U.S. government grew over USTR's refusal to match other areas of forward movement in bilateral relations, the U.S. Department of State announced that they would launch the EPPD. USTR was unhappy with this development, and made clear that trade liberalization efforts remain their purview.

President Tsai's decision to liberalize long standing barriers to U.S. pork and beef, starting on January 1, 2021, opened the possibility of trade discussions with USTR - frozen since 2016. While President Tsai has called for the launch of Bilateral Trade Agreement negotiations, those calls have fallen on deaf ears at USTR. We now appear to instead be moving slowly towards the resumption of talks under the modest and underwhelming TIFA platform.

Mr. Biden has been clear that his government will not seek to launch new trade liberalization efforts early in his tenure.



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However, there is plenty of room to conduct the legacy TIFA - we expect that to take place in 2021. Nevertheless, over the next 4-year span, any trade agreements with Taiwan are likely to be parochial in nature rather than overarching.

Communication

Successive U.S. administrations have worked to promote high-level visitors to Taiwan to improve communication with the island in areas of critical interest. As Mr. Trump's term in office drew to a close, we saw a flurry of senior officers visiting Taiwan - including Alex Azar, U.S. Secretary of Health & Human Services, who became the most senior U.S. government official to visit Taiwan since the switch in recognition in 1979. Additionally, non-public visits have expanded significantly. That includes the fall 2020 visit to Taiwan of Rear Admiral Michael Studeman, the J2 for intelligence at the Indo-Pacific command.

It is likely that Mr. Biden's government will continue to find ways to send senior U.S. government officials to visit Taiwan, but they will have to find willing interlocutors within his administration to undertake the travel - an important consideration. In areas such as technology cooperation, Assistant Secretary level visits are likely to continue.

There was a small breakthrough in communications in 2020, when the U.S. began hosting Taiwan government officials at the offices of the Department of State. It is unclear whether Mr. Blinken's State Department will honor that development, or if they will return to hosting Taiwan government meetings exclusively at the D.C. office of the American Institute in Taiwan.

China Policy & Taiwan Policy, How Will They Co-Exist?

Mr. Trump's policies towards Taiwan were arguably the most positive and forward leaning set of policies we have seen since 1979's switch in recognition. They have immeasurably improved Taiwan's national security, while identifying areas of cooperation between the U.S. and the island - such as semiconductors - that can further fortify bilateral relations and serve the interests of both countries.

There are two areas that may disrupt further progress in bilateral relations as we transition into a new government.

Firstly, when a change in power takes place, there is a tendency by both major political parties to reflexively oppose much of what their predecessor stood for and promoted. The hope is that Mr. Biden and his team will instead see the advances in Taiwan policy as an opportunity to build on what has already been accomplished. A regression would disrupt ties with Taiwan, while telegraphing to China that its interest can again play an outsized role when the U.S. considers its national interest.

Secondly, single issue foreign policy is also a potential concern related to Taiwan. From 2005-2009, Mr. Bush made the false choice that he could not solicit PRC assistance for a nuclear agreement with North Korea while also supporting U.S. interests with Taiwan. From 2012-2017, Mr. Obama made the false choice that he could not solicit PRC involvement with the Paris Accord while also supporting U.S. interests with Taiwan. In each case, the pursuit of Chinese support for a singular, narrow foreign policy goal resulted in China leveraging that goal in support of gains to its own core interests - including in the South China Sea, on intellectual property rights and trade secrets, and on Taiwan.

Mr. Biden has been clear that climate change will be his top priority, and tapping Mr. Kerry underscores this point. China has taken note, given Mr. Xi's comments in New York in September 2020, through to recent PRC media commentary apparently chumming the waters on this issue. If China is to cooperate on Mr. Biden's policy priorities, a less supportive Taiwan policy is likely to be at the top of the list of PRC demands.



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USTBC Priorities in 2021

The US-Taiwan Business Council looks forward to working with the incoming Biden Administration to continue strengthening the relationship between the United States and Taiwan, particularly on economic, business, and trade issues. We hope that Mr. Biden will build on the advances made during the last four years, and that his administration will continue to assert the substantial American interests in Taiwan in 2021 and into the future.

We also hope that Mr. Biden and his Indo-Pacific policy team recognize that concessions made to China on Taiwan - in the vain hope that the PRC will materially support core Biden Administration priorities or that it will moderate China's behavior - are unlikely to have the desired effect. Conversely, strong support for Taiwan also strengthens the U.S. position with regards to China, while reinforcing Taiwan's global and cross-Strait relationships.

Council priorities for the new year will include:

- Continuing our strong support for a comprehensive Bilateral Trade Agreement (BTA) between the United States and Taiwan
- Serving our member companies through information sharing and in-depth discussions on sector-specific business and trade issues
- Supporting and promoting the Economic Prosperity Partnership Dialogue, with semiconductor and healthcare initiatives at the core of this important new platform
- Advocacy in support of continued high-level exchanges between the U.S. and Taiwan, including mutual Cabinet visits
- Continued support for regular and timely arms sales, with security cooperation processes for Taiwan handled as with any other U.S. security assistance partner

The US-Taiwan Business Council remains committed to promoting the bilateral U.S.-Taiwan relationship. We thank our member companies, colleagues, and friends for their support in 2020, and wish you good health and success in 2021.