

AUGUST 2026

Taiwan and the Pacific

*Perspectives from Australia, Taiwan, and the United States
on Cross-Strait Challenges and Regional Partnership*

EDITORS

Henrietta Levin

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A Report of the CSIS Freeman Chair in China Studies

CSIS

CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

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Introduction

Henrietta Levin and Emma Liu

The Indo-Pacific is facing an increasingly complex set of challenges. Intensified strategic tensions, geopolitical uncertainty, and the reconfiguration of economic order are reshaping the security and prosperity of countries across the region. At the center of these dynamics is Taiwan. The implications of peace and stability in the Taiwan Strait extend far beyond the immediate parties involved. The future of the Indo-Pacific and the resilience of its economic and security architecture will be shaped by how Taiwan collaborates with partners to deter the People's Republic of China (PRC) and address shared threats, while embracing emerging opportunities.

Against this backdrop, in 2026, CSIS launched a U.S.-Taiwan-Australia Track 2 Trilateral Dialogue. Bringing together leading scholars and practitioners from the three sides, the dialogue examined pressing challenges in the Taiwan Strait and the Indo-Pacific and explored new avenues for trilateral partnership across a range of areas, including security cooperation, economic resilience, regional economic integration, and engagement with Pacific Island countries. This report comprises eleven articles developed by participants over the course of those discussions. Rather than presenting a single consensus view, this collection showcases a variety of perspectives on how Washington, Taipei, and Canberra can enhance cooperation in the abovementioned domains.

Part I, **Managing Cross-Strait Challenges**, examines how the United States, Taiwan, and Australia can strengthen deterrence and resilience in the face of mounting PRC pressure. Viewing the Pacific

as “one ocean, one integrated theater,” I-Chung Lai asserts that Beijing’s aggressive expansion across the first island chain, second island chain, and Pacific Islands requires a more proactive and coordinated trilateral approach encompassing military, diplomatic, economic, and intelligence cooperation to deter coercion.

Zack Cooper and Kristy Hsu underscore the economic security aspect of the trilateral cooperation. Even if political constraints limit public support for Taiwan, Cooper contends that a quiet, low-profile economic cooperation framework centered on energy security, food security, critical minerals supply chains, munitions production, and economic contingency planning will bolster cross-strait deterrence. Hsu emphasizes the three sides’ complementary capacities in building resilient supply chains across sectors and industries as essential for a trilateral partnership to strengthen Taiwan’s economic resilience.

Lavina Lee and John Lee assess Australia’s evolving policy towards Taiwan. John Lee argues that Australia’s passive response to growing Chinese coercion reflects an inadequate understanding of Taiwan’s strategic and economic importance and Australia’s own policy options. He explains why it is important that Australia adopt a more proactive approach to strengthening Taiwan’s economic resilience and its regional role, preferably in cooperation with the United States and Japan. Lavina Lee contends that Canberra should move beyond rhetorical support for Taipei and take greater responsibility for regional deterrence, including measures that deter conventional conflict as well as gray zone coercion.

Together, these articles underscore a shared conviction that effective deterrence depends not only on military capabilities but also on Taiwan’s ability to withstand economic coercion and maintain societal resilience during a crisis. As Cooper observes, economic resilience “could prove to be the center of gravity in a Taiwan Strait conflict.”

Part II, **Taiwan’s Role in Regional Economic Integration**, widens the lens from the Taiwan Strait to the broader Indo-Pacific economic order, exploring how Taiwan can expand its economic engagement and play an active role in the region’s evolving economic architecture. Roy Chun Lee argues that Indo-Pacific economic integration is shifting toward an informal, security-driven framework in which Taiwan’s leadership in advanced manufacturing and critical technologies will provide the island with a strategic advantage. Riley Walters and Brent Moore offer further perspectives from Washington and Canberra, respectively. Walters argues that Taiwan should seek to partner with the United States on industrial and supply chain security while deprioritizing trade agreements, bringing Taiwan into closer alignment with the Trump administration’s “America First” foreign and trade policies. Moore then highlights emerging commercial opportunities between Australia and Taiwan in artificial intelligence, robotics, cloud computing, broader innovation ecosystems, and regional value chains.

Part III, **Taiwan’s Engagement with Pacific Island Countries**, turns to one of the most contested dimensions of Taiwan’s regional diplomacy. The three contributors agree that the Pacific Islands have become increasingly important to Taiwan’s international standing but offer differing recommendations for how Taipei can most effectively engage with the region. Andrew J. Harding

advocates an “offensive” approach. He asserts that the United States, Taiwan, and Australia should work together to proactively expand Taiwan’s diplomatic footprint by incentivizing additional Pacific Island countries to recognize Taipei through coordinated recognition packages covering trade, infrastructure, security, and development assistance.

Mihai Sora and Cheng-Cheng Li caution against framing Taiwan’s Pacific engagement primarily through the lens of diplomatic competition with Beijing. Rather than relying on lobbying from Washington or Canberra, Sora believes that the best way for Taipei to preserve its diplomatic space is through sustained support for regional priorities, ensuring Pacific Island communities will be genuine stakeholders in Taiwan’s continued presence. He stresses that Taiwan should invest “independently” in a manner that is complementary to the work of the United States and Australia, rather than “co-branding” with these partners. Li focuses on Taiwan’s relationship with the Pacific Islands Forum, arguing that Taiwan’s engagement with regional countries should move beyond diplomatic competition and prioritize the cocreation of cultural and technical spaces that strengthen reciprocity. The authors’ wide-ranging perspectives illustrate the diversity of views within the expert community, while enriching the broader debate over Taiwan’s long-term strategy in the Pacific.

Read together, these eleven articles offer a window into ongoing policy debates in Washington, Taipei, and Canberra. Several common themes emerge across the volume. First, the authors agree that the strategic significance of Taiwan has expanded far beyond the Taiwan Strait, with implications for regional security, economic resilience, and the vital national interests of countries across the Indo-Pacific. Second, they emphasize that practical cooperation—including through supply chain resilience, technological collaboration, commercial and development partnerships, and people-to-people engagement—will enable Taiwan to successfully enhance its regional integration and strengthen trilateral partnership among Washington, Taipei, and Canberra, even while formal diplomatic constraints and political uncertainty remain. Finally, the articles suggest that Taiwan’s greatest contribution to regional stability may not lie in its geopolitical position, but rather in its capacity to serve as a trusted economic, technological, and democratic partner.

As the strategic environment continues to evolve, the United States, Taiwan, and Australia will each continue to face new challenges and emerging opportunities. It is our hope that the insights and arguments presented here will contribute to a constructive trilateral policy agenda that supports peace and stability across the Taiwan Strait and a free, open, and prosperous Indo-Pacific.

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Part I

Managing Cross-Strait Challenges

How the United States and Australia Can Strengthen Taiwan's Economic Resilience

Zack Cooper

The greatest threat to the security of the Indo-Pacific region is a conflict over Taiwan. The United States and Australia must therefore work closely together to bolster deterrence in the Taiwan Strait. Although past U.S. administrations actively encouraged allies and partners to publicly express support for Taiwan, visible cooperation between the United States and Australia on this issue is likely to be difficult in the coming months or years. That does not mean, however, that there is nothing the allies can do to help Taiwan and maintain deterrence in the Taiwan Strait.

Australian policymakers will be understandably nervous about sending public signals of support for Taiwan. Japan's recent experience serves as a cautionary tale. After Japanese Prime Minister Takaichi Sanae stated publicly that a conflict in the Taiwan Strait would endanger Japan's vital security interests, she received more private criticism than public support from the U.S. government. President Donald Trump apparently responded by suggesting that Takaichi should stop making remarks of this sort and provided little assistance to Japan after it was targeted by the People's Republic of China (PRC) in the aftermath.¹ The message to other U.S. allies and partners was clear: There may now be a cost to publicly expressing support for Taipei—not only in terms of coercion from Beijing, but also pressure from Washington.

There are, however, conflicting signals from elsewhere in the administration. The recent G7 leaders' statement expressed support for cross-strait stability.² Other U.S. allies and partners that have advocated for efforts to bolster deterrence have not received the same level of negative attention from President Trump, perhaps because Chinese President Xi Jinping remains highly focused on Japan. Nonetheless, given prior Chinese warnings against Australian support for Taiwan, it would not be surprising if Australian leaders remain wary of making public statements.³ At least until President Trump changes his approach or a new administration comes to power in Washington, Canberra is likely to remain reticent.

Deterrence is often described as the product of capability and credibility. If Australian leaders are less likely to speak out publicly in support of Taiwan, Australia's deterrence efforts will lose credibility. Nonetheless, bolstering Australian capability could still prove valuable. Australia could do more to improve its capacity to respond to a cross-strait crisis and to bolster Taiwan's own capabilities, particularly in the economic domain. Five areas merit consideration: energy stockpiling, food stockpiling, critical mineral supply chains, munitions production, and potential sanctions on the PRC.

Taiwan would face numerous challenges if the PRC attempted to take military action against it. Taipei must prepare for a wide range of contingencies, from an outright invasion to a blockade or a coercive missile campaign. Each scenario would present a different set of operational challenges. All, however, would require Taiwan to bolster its economic resilience, which would be critical both to the length of time Taiwan could withstand PRC pressure and to the willingness of the Taiwanese people to maintain fortitude during a coercive campaign. In this sense, Taiwan's economic resilience could prove to be the center of gravity in a Taiwan Strait conflict.

Taiwan's economic resilience could prove to be the center of gravity in a Taiwan Strait conflict.

What forms of economic resilience could Australia and the United States help to strengthen? At the top of the list should be energy resilience. Taiwan's vulnerability in this area has been highlighted by recent conflict involving Iran and the closure of the Strait of Hormuz. Energy resilience is vital both to Taiwan's ability to fight and to its ability to sustain public support during a PRC pressure campaign. Currently, Taiwan maintains limited energy stockpiles and remains heavily dependent on imported fossil fuels. The United States and Australia could help Taiwan increase its reserves of petroleum, natural gas, and coal. They might also seek to expand Taiwan's access to renewable energy, which would reduce dependence on imported fuels while extending the amount of time Taiwan could endure a conflict or crisis. To maximize support, these efforts could be framed—alongside some of the initiatives discussed below—as part of Taiwan's preparations for humanitarian assistance and disaster relief.

Another area of focus for Taipei, Washington, and Canberra should be food security. Although stockpiling large quantities of food would be costly and difficult, limited reserves could help

reassure the Taiwanese public that the government is prepared to resist a Chinese coercive campaign. This could potentially buy days or weeks of political support, enabling the United States, Australia, Japan, and others to mobilize in Taiwan's defense. In this regard, Ukraine provides a powerful example. The fortitude of Ukraine's leaders, military, and public at the outset of Russia's invasion sent an important signal to foreign partners about Kyiv's ability to withstand the assault. Even limited food stores could help Taiwan send a similar signal.

Third, Taiwan might consider working more closely with the United States and Australia to reduce reliance on the PRC for certain critical supply chains. This could include critical minerals, pharmaceuticals, and chemicals, among other sectors. Taipei could help fund some of these efforts, for example by defraying the costs of expanding rare earth mining in Australia, the United States, and third-party locations. Complete supply chain independence is impossible, and Taiwan will remain vulnerable to various forms of PRC economic coercion. Still, reducing Beijing's compellent options would benefit all three parties. Such efforts could also demonstrate that Taiwan is pulling its weight as a U.S. partner, complementing increased defense spending.

A fourth, more sensitive area of cooperation would be expanding Taiwan's defense industrial production for certain critical munitions. Moving large quantities of weapons and ammunition into Taiwan in the opening days and weeks of a conflict would be difficult, if not impossible. Taipei therefore needs sufficient munitions and supplies in place beforehand. As the United States and Australia expand their own munitions stockpiles, they should consider coordinating with Taiwan, including by sharing lessons learned on accelerating production. One starting point could be Australia's efforts to expand production of guided weapons, many of which mirror systems vital to Taiwan's defense.⁴

Finally, the United States and Australia could more clearly signal that PRC military aggression against Taiwan would carry severe economic consequences for Beijing as well as Taipei. Although economic deterrence is unlikely to succeed on its own, President Xi Jinping and other PRC leaders are likely to factor expected economic costs into their calculations. The United States and Australia should therefore discuss in detail the economic steps they might take in response to PRC military aggression against Taiwan. These could include applying additional export controls, restricting energy sector cooperation, and freezing the assets or banning the travel of certain PRC leaders, all ideally coordinated with third parties from Japan to Europe and beyond.

None of these initiatives is a magic bullet, and all will be made more difficult by President Trump's recent approach to Taiwan. Still, Washington and Canberra should quietly explore these options if they wish to bolster cross-strait deterrence—both today and in the years ahead.

Zack Cooper is a senior fellow at the American Enterprise Institute.

Bridging the Island Chains

The Urgent Case for U.S.-Taiwan-Australia Strategic Convergence

I-Chung Lai

The security situation for the first island chain and the western Pacific has been undermined by the May 2026 announcement of a “constructive relationship of strategic stability” between the United States and the People’s Republic of China (PRC).¹ Nevertheless, trilateral cooperation between the United States, Australia, and Taiwan could help to mitigate this worrying trend. Together, they can improve the security environment in the South China Sea, which will be instrumental to maintaining the peace and stability of the Taiwan Strait. Closer coordination among the United States, Australia, and Taiwan on Pacific affairs is also critical to upholding regional deterrence and addressing the political, security, economic, and environmental challenges the Pacific Island states face. As the actions of the PRC become increasingly aggressive across the western Pacific, it is imperative for these three sides to coordinate their actions quickly.

The Myth of “Strategic Stability”

When Presidents Trump and Xi emerged from their mid-May summit proclaiming a new era of constructive strategic stability, the world hoped for a lessening of tensions. Instead, in key parts of

the western Pacific, Beijing delivered an escalation. Along the first island chain, the PRC's aggressive maneuvers have not slowed; they have accelerated.

In an unprecedented gray zone move, the Chinese Coast Guard recently asserted jurisdictional authority over the waters east of Taiwan, initiating patrols that led to dangerous standoffs with Taiwanese vessels.² Similar flashpoints have ignited around Scarborough Shoal, which lies within the Philippines' exclusive economic zone, in the South China Sea. Meanwhile, anti-Japan rhetoric during the June 9 Beijing-Pyongyang summit put Tokyo on high alert. For the PRC's maritime neighbors, U.S.-China "strategic stability" has felt less like peace and more like a green light for Chinese revisionism.

As 2026 unfolds, Beijing's campaign to isolate Taipei has hit a fever pitch. Beyond its frequent military sorties in the Taiwan Strait, the PRC is executing a calculated diplomatic embargo. For example, Beijing has forced African nations such as Madagascar, Mauritius, and the Seychelles to block Taiwanese commercial airliners from their airspace.³ Under PRC pressure, Cameroon and Kenya have insisted that Taiwanese officials and scholars identify as hailing from "Taiwan, China," effectively blocking Taiwan's participation in international conferences in these two countries.⁴ Concurrently, the PRC is urging the Marshall Islands, Palau, and Tuvalu to sever their diplomatic ties with Taiwan. This is not the behavior of a power that seeks stability.

One Ocean, One Integrated Theater

For too long, regional planners in the United States, Australia, Japan, Taiwan, and Southeast Asia have viewed the Yellow Sea, the East China Sea, the Taiwan Strait, and the South China Sea as distinct, compartmentalized challenges. Across East Asia, that illusion is giving way to a key realization: These waters comprise a single, interconnected theater. As then-Japanese Defense Minister Gen Nakatani noted with his One Cooperative Effort Among Nations: Perspective for the Indo-Pacific (OCEAN) concept at the 2025 Shangri-La Dialogue—a view echoed by Taiwan's Foreign Minister Lin Chia-Lung—a spark in one sea will instantly engulf the others.⁵

Consider a Taiwan contingency. It should not be assumed that the PRC intends to fight a localized war confined to the Taiwan Strait. Any conflict in the strait would immediately paralyze maritime commerce across the East and South China Seas, leading to horizontal escalation. Recent People's Liberation Army (PLA) movements suggest that Beijing could be planning simultaneous military actions across both areas if it moves against Taiwan. The PRC's relentless bullying of the Philippines in the South China Sea is deeply connected to its strategy toward Taiwan, as is its aggressive outreach in the Pacific Island region.

Beijing and the Pacific Islands: Delaying the Cavalry

Under Xi, PRC engagement in the Pacific has expanded beyond standard diplomacy and increasingly focused on security cooperation. Beijing clearly understands the strategic significance of this region.

Kiribati sits directly adjacent to Hawaii, straddling the vital sea lines connecting the U.S. mainland to the second island chain. The Solomon Islands and Nauru occupy a critical maritime chokepoint separating Australia from major U.S. military hubs. Beijing's controversial 2022 security pact with the Solomons should be seen in this light.⁶

By establishing a security footprint in these Pacific nations, the PRC aims to dilute U.S. and Australian influence, gather critical signals intelligence, and compromise allied maneuverability during a crisis involving Taiwan. The ultimate goal could be to exploit the "tyranny of distance." By disrupting and delaying the ability of U.S. and allied reinforcements to move freely in a crisis, Beijing hopes it can buy enough time to present the world with a rapid fait accompli across the Taiwan Strait.

Australia's Indispensable Shield

In this maritime chess game, Australia holds the southern anchor of the second island chain. The hard truth of Indo-Pacific strategy is that the first island chain will be difficult to hold if the second island chain is compromised. Australia is indispensable to maintaining area denial in the vast waters between these two chains. If Canberra can secure this intermediate space, Beijing's strategy will be significantly challenged; it will lack the operational freedom to dominate the first island chain or successfully execute a swift invasion of Taiwan.

Australia's role in the South China Sea is also vital, as an important partner for multilateral deterrence. The country's maritime presence is critical, and it can also play a significant role in improving maritime domain awareness and capacity building for Southeast Asian countries. To bring Taiwan to its knees, the PRC must project power to Taiwan's east and completely choke off the Bashi Channel, which separates the Philippines from Taiwan. However, if the United States, Australia, and other allies keep the South China Sea heavily contested, the PRC will be unable to control the South China Sea. This, in turn, will severely constrain the PRC's ability to blockade or encircle Taiwan.

A Blueprint for Trilateral Action

To uphold peace and stability in the western Pacific, the United States, Australia, and Taiwan must move past ad hoc dialogues and forge a proactive trilateral operational framework.

The United States, Australia, and Taiwan must move past ad hoc dialogues and forge a proactive trilateral operational framework.

First, the United States and Australia must both do more to deliver reassuring political signals regarding their commitment to deterrence in the western Pacific. This means boosting the tempo of freedom of navigation operations, expanding high-visibility multilateral exercises, and issuing joint ministerial statements that explicitly condemn Beijing's gray zone provocations.

Second, the United States, Australia, and Taiwan must coordinate a joint economic and social security strategy for the Pacific Islands Forum. Pacific nations are facing existential crises from

climate change—such as rising sea levels and food insecurity—alongside a dangerous influx of transnational organized crime that local police forces are ill-equipped to handle. Taiwan’s upcoming deployment of a specialized cybersecurity agent to Palau this June is a step in the right direction, but a broader trilateral development scheme is required to counter the PRC’s predatory economic practices and political interference in the Pacific.⁷

For example, the three sides could develop a joint training program for law enforcement and disaster relief personnel and facilitate information sharing regarding transnational criminal networks in the region. They can also collaborate with the Pacific Island states to advance research on technology related to the ocean economy, such as smart fishing, seabed resources development, and harnessing energy from ocean currents. The Pacific Island states command abundant resources in the sea and should be able to take advantage of them without depending on the PRC.

Third, allied navies must increase the frequency of their operations in the western Pacific. Beijing is accelerating its island building and militarization in the South China Sea while harassing other countries’ vessels, including a recent confrontation with a Dutch destroyer.⁸ Since 2025, PLA carrier strike groups have become a regular fixture east of the first island chain. A sustained, visible presence of U.S. and Australian warships is vital to remind the PLA that these waters are not a Chinese lake, but instead a free and open global thoroughway. Allies also need to build a unified maritime domain awareness and intelligence-sharing network that links the United States, Australia, Japan, Taiwan, and the Philippines. This is the only way to effectively counter Beijing’s relentless air defense identification zone intrusions and gray zone harassment.

Finally, allies and partners must collectively push back against Beijing’s diplomatic coercion in Southeast Asia, where multiple capitals are being pressured into endorsing the PRC’s One China principle and ignoring its provocative actions in the South China Sea, leaving both Taipei and Manila dangerously isolated in their own neighborhood.

Conclusion

The reality of 2026 is that bilateral diplomacy with Beijing cannot resolve the security problems in the Indo-Pacific. The four regional seas—the Yellow Sea, the East China Sea, the Taiwan Strait, and the South China Sea—are an indivisible strategic theater; a crisis in one is a crisis in all. The PRC’s creeping expansion into the Pacific Islands and its naval buildup in the western Pacific are designed to isolate Taiwan and fracture the U.S. alliance system.

The need for coordination among the United States, Australia, and Taiwan has never been more urgent. By pooling military presence, intelligence, and resources and enhancing scientific research and economic assistance today, this trilateral partnership can help deter aggression and foster a free, open, and resilient Indo-Pacific tomorrow.

I-Chung Lai is the president of the Prospect Foundation and a board member of Taiwan Foundation for Democracy.

Middle Power Deterrence

How Australia Can Contribute to Cross-Strait Peace and Stability

By Lavina Lee

Australia's 2026 National Defence Strategy (NDS) presents a pessimistic assessment of the strategic environment the country faces, as a fractured and contested international order undergoes a period of transition and “coercion and the use of force . . . becom[e] more prominent features of statecraft.”¹ Canberra assesses that Australia’s “exposure to force projection and military coercion will reach levels not seen since the Second World War.”² The growing power and military capabilities of the People’s Republic of China (PRC) are identified as *the* “primary driver of changes to Indo-Pacific security dynamics”—the country against which Australia’s “deterrence by denial” strategy and defense preparations are directed.³ Pointed references are made to Chinese advances in cutting-edge weapons and hardware, such as ballistic missiles, hypersonic missiles, drones, AI-enabled systems, robotics platforms, and electronic warfare systems, as well as the large-scale expansion of its nuclear arsenal.⁴ Canberra clearly fears that the U.S. and allied military advantage in the Indo-Pacific is rapidly eroding, and with it, the ability to credibly deter the PRC from using force to achieve what it calls “reunification” with Taiwan.⁵

Diplomatically, Australia continues to be one of the few countries in Asia willing to criticize PRC coercion of Taiwan. Defence Minister Richard Marles has been the clearest in calling out the intensifying military pressure and exercises around Taiwan by the People’s Liberation Army as practice for an attack or blockade, noting these actions “do not inspire confidence that China

prioritizes—or is planning for—a peaceful settlement to the status of this island.”⁶ The government has also indicated that Australia intends to contribute actively to conflict prevention and a favorable balance of power in the region—in Foreign Minister Penny Wong’s words, to do “more to reassure and also more to deter.”⁷

Canberra could do more still, alone and in concert with allies and partners, to deter the outright use of force by Beijing, and perhaps more urgently, its gray zone coercion of Taipei.

However, Canberra could do more still, alone and in concert with allies and partners, to deter the outright use of force by Beijing, and perhaps more urgently, its gray zone coercion of Taipei. There remains a considerable gap between Australia’s strategic assessments, messaging, and existing capability and its actual contribution to deterrence. Canberra is neither building its own defense capabilities nor supporting Taiwan’s economic and societal resilience at a speed or scale that would make a significant impact on PRC calculations.

Australian defense spending remains below what is required to prepare the nation for high-intensity conflict. In fiscal year 2025-26, defense spending stands at 2.13 percent of GDP and is projected to fall to 2.04 percent in fiscal year 2027-28, with only an additional A\$14 billion (approximately \$6.9 billion) in committed spending over the next four years to 2030 announced in the 2026 NDS.⁸ The government announced its intent to increase defense spending to 3 percent of GDP by 2035, but the greatest investment in new capability is planned at the back end of the decade from 2032 to 2035.⁹ As such, while the NDS accurately identifies critical gaps in capability that would be needed to contribute to collective deterrence—on missile defense, guided weapons, autonomous and uncrewed systems, space, cyber, and base infrastructure—most of the funding with which this gap would be closed will arrive *after* the period of time in which conflict over Taiwan is most likely (around the end of the decade).¹⁰

Australia appears to be approaching the Taiwan problem through the prism of managing U.S. expectations within the bilateral alliance, rather than preparing to meaningfully contribute to deterrence. Assuming U.S. intervention in a conflict or blockade scenario in the Taiwan Strait, Australia will certainly be drawn into the crisis, as its bases in Western Australia and the Northern Territory will be used by U.S. forces. Given its reluctance to build capability with urgency, Canberra likely views Australia’s primary role as just that—enabling others to defend Taiwan rather than significantly contributing to Taiwan’s defense in its own right. Australia retains strategic ambiguity on direct military involvement in a Taiwan contingency—and has resisted pressure from the Trump administration to pre-commit to the use of AUKUS submarines in a war against the PRC in the Indo-Pacific.¹¹ It is unclear whether Australia has engaged in detailed scenario planning with the United States or Japan in preparation for various Taiwan contingencies. In sum, Australia has not yet moved beyond strategic signaling to substantive deterrence.

There are also nonmilitary opportunities for Australia to enhance Taiwan's resilience to gray zone coercion, preferably in cooperation with the United States and other partners such as Japan. However, Australia has been reluctant to expand its economic and diplomatic relations with Taiwan for fear of putting its "stabilization" policy toward the PRC at risk. Diplomatic engagement between Canberra and Beijing has resumed, with Australian Prime Minister Anthony Albanese visiting the PRC in 2023 and 2025, leading trade delegations that sought greater access to the Chinese market.¹² In 2024, Beijing also removed the last of the trade barriers it imposed on Australian goods.¹³

However, this "stabilization" policy has not prevented the PRC from conducting coercive or unfriendly acts toward Australia, including unannounced live-fire exercises in the Tasman Sea in 2025 and, more recently, an intercontinental ballistic missile test in Pacific waters—launched only hours after the signing of a ground-breaking defense treaty between Australia and Fiji.¹⁴

In these circumstances, Canberra should not allow Beijing to pressure it to freeze or downgrade Australia's relations with Taiwan. Australia's One China policy has not changed since the 1970s and provides considerable leeway in how it chooses to engage with Taiwan. It acknowledges the PRC's position on Taiwan but does not endorse it.¹⁵ As a key player in semiconductor supply chains, Taiwan should be included in the critical minerals initiatives Australia is currently pursuing with the United States and other key allies and partners.¹⁶ Australia also has an outsized role in Taiwan's energy security—which is key to deterrence—as the supplier of around 50 percent of its coal and 40 percent of its liquefied natural gas.¹⁷ It could work with the United States and Japan to build Taiwan's energy resilience, including efforts to harden energy infrastructure from kinetic confrontation and cyberattacks, build energy stockpiles, and develop contingency plans for avoiding energy disruptions during a PRC quarantine or blockade. On trade, Australia should support Taiwan's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, as Japan has, or at the least pursue sectoral bilateral trade and investment agreements on clean energy such as green iron and offshore wind, which would again contribute to Taiwan's energy resilience.

While direct military trade with Taiwan may be a step too far, cooperation in dual-use technologies and military-to-military communications should not be. Canberra should expand the depth of its diplomatic communications with Taipei to improve its own assessments of the situation in Taiwan and the Taiwan Strait. This includes allowing Taipei to appoint a defense attaché to Canberra, which would allow more detailed discussion of military and gray zone strategy and responses to PRC threats and coercion.

Australia has correctly assessed that deterrence in the Indo-Pacific is eroding, yet its defense modernization still lacks the urgency that assessment demands. Australia's choices are not marginal—they can meaningfully bolster Taiwan's resilience and, in combination with others, shift Beijing's calculus on the use of force. The next step is closing the gap between assessment and action.

Lavina Lee is director of the Foreign Policy and Defence Program at the United States Studies Centre.

Building a Trilateral Partnership for Economic Security

By Kristy Tsun-Tzu Hsu

The economic stakes of maintaining peace and stability in the Taiwan Strait are immense for Taiwan and the world. Cross-strait trade and Taiwanese investment in mainland China have declined significantly over the past decade, as Taiwan's outward investment has gradually shifted toward Southeast Asia and, more recently, the United States.

The sustained decline in new Taiwanese investment in the mainland reflects a broader reconfiguration of regional supply chains and the adoption of a dual supply chain strategy by multinational companies and Taiwanese manufacturers: retaining localized “in China for China” operations to serve the domestic Chinese market, while moving or expanding export-oriented production to alternative locations.¹

In 2022, Southeast Asia overtook mainland China as the largest destination for Taiwan's outbound investment.² Then, in 2023, the United States overtook Southeast Asia.³ Taiwan Semiconductor Manufacturing Company Limited and its key suppliers' investments in Arizona, where they are building advanced semiconductor fabrication facilities, marked the beginning of an era of investment in the United States.⁴

Yet mainland China remains Taiwan's largest accumulated investment destination, accounting for around 40 percent of its outbound foreign direct investment stock, or approximately \$211

billion. Taiwan's exports to the mainland and Hong Kong in 2025 still amounted to approximately \$170.5 billion, accounting for 25 percent of Taiwan's total exports.⁵ Meanwhile, Taiwan's imports from mainland China have continued to grow, reaching \$93.1 billion, approximately 19 percent of Taiwan's total imports, making mainland China its largest source of imports.⁶ This leaves Taiwan's political stability and economic prosperity highly vulnerable to the aggression of the People's Republic of China (PRC).

The PRC's military and economic coercion, including the weaponization and politicization of trade and threats against Taiwanese investors in the mainland, represents a systemic challenge for Taiwan. Although such measures may appear to target only the political parties or groups with whom Beijing disagrees, the PRC has also employed coercive military, diplomatic, and trade measures during periods when cross-strait relations were relatively smooth, including under the Ma Ying-jeou administration.⁷ For example, Beijing maintained significant military pressure, unilaterally announced the M503 aviation route near the Taiwan Strait median line in 2015, continued to constrain Taiwan's international space, and imposed or extended anti-dumping duties on Taiwanese products. Moreover, under its One China principle, Beijing continues to block Taipei's participation in international organizations and constrain its ability to negotiate trade agreements with other partners.

The PRC's coercive measures against Taiwan have included the imposition of sanctions on key industries, notably fruits and fishery products, as well as sanctions against Taiwanese firms that Beijing deemed pro-independence or supportive of the Democratic Progressive Party government. In 2023, Beijing, for the first time, announced the suspension of tariff concessions for certain Taiwanese imports under the Early Harvest Scheme of the 2010 cross-strait Economic Cooperation Framework Agreement.⁸

In June 2024, President Lai Ching-te established a Presidential Whole-of-Society Defense Resilience Committee, advancing a whole-of-society defense model that directly addresses Beijing's economic coercion tactics. The model prioritizes discussions in five pillars: (1) civilian force training and utilization, (2) strategic material preparation and critical supply distribution, (3) energy and critical infrastructure operations and maintenance, (4) social welfare, medical care, and evacuation facility readiness, and (5) information, transportation, and financial network protection.⁹

Beijing's growing pressure on Taiwan has also heightened fears of military conflict. While analysts and policymakers have focused heavily on the military and geopolitical dimensions of this challenge, the economic consequences of any conflict—from a limited military engagement to a prolonged total war—would be catastrophic. The costs would be severe and far-reaching, including disrupted supply chains, investor flight, energy insecurity, and instability across regional and global markets, especially the global technology economy. Taiwan manufactures more than 60 percent of the world's semiconductors and more than 90 percent of its advanced microchips.¹⁰ A halt in production would severely disrupt global electronics, automotive, and defense manufacturing industries. Taiwan's economy is also deeply tied to global AI infrastructure, as the global hardware pipeline for AI servers and advanced GPUs depends heavily on Taiwanese fabrication facilities.

Trilateral Cooperation for Economic Security

By working trilaterally to enhance economic deterrence and resilience, Taiwan, the United States, and Australia can together lessen the odds of these devastating economic scenarios coming to pass. There are now significant opportunities for the three sides to strengthen policy alignment on economic security, moving beyond rhetoric to deliver concrete results. Key areas for joint initiatives include supply chain partnerships across the technology, agriculture, critical minerals, and energy sectors.

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Taipei, Washington, and Canberra can work together to counter economic coercion through a collective economic defense strategy. Both Australia, which has faced PRC tariffs on coal and wine, and Taiwan, which has faced recurring agricultural and tourism restrictions, have experienced Beijing's weaponized trade sanctions. The PRC has also developed a multidimensional sanctions and coercion tool kit targeting the United States, combining critical mineral export controls, corporate blacklists, restrictions on investment and trade involving designated U.S. firms, regulatory investigations, and measures that limit U.S. access to Chinese supply.¹¹ Coordination among Taiwan, the United States, Australia, and other like-minded partners could facilitate market diversification and reduce vulnerability to a single trading partner.

On technology, the three economies have strongly complementary capabilities: Taiwan has a leading position in semiconductors, electronics manufacturing, advanced components, servers, and industrial production; the United States owns advanced technology, research, capital, large-scale demands, and downstream markets; and Australia has critical minerals, energy, raw materials, and mineral processing potential. Together, they could establish an integrated supply chain model linking resources, manufacturing capabilities, and technology and markets. The three economies could jointly develop production lines of advanced semiconductors and AI ecosystems, in which each performs a distinct industrial function.

In recent years, rare earths and critical minerals have become vital strategic assets for manufacturing and military production. In 2025, Beijing's imposition of sweeping export controls on these minerals demonstrated the urgent need for diversification of relevant reserves and supply chains. Australia possesses substantial rare earth and other mineral resources, while the United States—once the dominant global producer of rare earth elements through the Mountain Pass mine—was overtaken by the PRC as Chinese production expanded rapidly from the late 1980s and early 1990s onward.¹² Existing cooperation mechanisms, such as the U.S.-Taiwan Economic Prosperity Partnership Dialogue, could be expanded into a trilateral platform to discuss policy alignment and

joint action programs. The goal should be to develop non-PRC supply chains for rare earths and other critical minerals.¹³

The partnership should establish a permanent coordination system rather than relying on occasional meetings, and it should prioritize mapping and early warning, including assessing single-source dependencies, major production bottlenecks, and critical shipping routes; conducting joint risk assessments, including disruptions in the Taiwan Strait, interruptions of critical mineral exports, or cyberattacks on logistics or energy infrastructure; and building a trusted supplier network, based on transparency of ownership and capacity to maintain production during emergencies.

On agriculture, the United States and Australia are major producers and net exporters, while Taiwan is a net food importer with important agricultural technologies. All three share food security concerns and should work together to secure food supply chains and trade routes. Trilateral cooperation on energy resilience is another promising area. Taiwan already has bilateral energy-related projects with the United States and Australia.

Current Taiwan-United States energy projects include Cheniere liquefied natural gas (LNG) long-term supply agreements signed by Taiwan's CPC Corporation with the U.S. producer Cheniere and the Alaska LNG project.¹⁴ Taiwan Power Company and the U.S. Electric Power Research Institute also signed a clean energy transition memorandum in 2024.¹⁵ Taiwan-Australia energy projects include CPC joining the Ichthys LNG project in northern Australia and the Prelude floating LNG project off the coast of Western Australia.¹⁶ Taiwan and Australia also conduct policy and commercial cooperation on renewable energy.¹⁷ These could be expanded into a trilateral framework with the potential to include additional partners over time.

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Most Australians Don't Think About Taiwan. Here's Why They Must

By John Lee

Many Australians do not think about the economic or strategic importance of Taiwan. Most Australians know about Taiwan's importance in semiconductor fabrication, but they do not think enough about the unique role Taiwan plays in the supply chains on which Australia's economy depends. Moreover, not many Australians realize that Taiwan is one of Australia's top 12 trading partners and a top eight export market. Most Australians do not understand the strategic and military consequences that Australia would face if Taiwan fell to the People's Republic of China (PRC).

In fact, when thinking about a Taiwan contingency, many Australians frame the issue merely as a matter of fulfilling U.S. alliance commitments or satisfying American expectations. Australians do not think about the importance of defending Taiwan on its own merits—a democracy of immense strategic and economic significance.

Australia's geography offers its citizens a false sense of comfort. Additionally, because Australia's trade and economy rely primarily on commodities and services, Australians tend not to consider what catastrophic supply chain disruptions would mean for their daily lives and the Australian economy as a whole. To the extent that some parts of the Australian business sector think about these disruptions, they may only worry whether ships from Australian ports will still be able to sail north to sell their minerals, energy, and agricultural commodities. Some Australians are even under the misapprehension that trade with the PRC would be unchanged by a conflict over Taiwan.

This relative lack of popular concern has left Australia's One China policy quite vulnerable to manipulation by the PRC, helped by successive Australian governments that have remained passive on this issue.

Australia's actual One China policy merely recognizes the PRC as the "One China," while acknowledging that the PRC claims sovereignty over Taiwan.¹ Yet, many Australians assume that means Australia must minimize diplomatic and institutional interactions with Taiwan except for trade and cultural issues, that it must seek Beijing's approval if Australia wants to increase such interactions, and that any security or diplomatic dealings with Taiwan violate the policy, representing an unfair provocation to the PRC. Of course, Beijing actively encourages this incorrect interpretation, and Australian governments unwilling to anger the PRC make it easier for Beijing to do so by failing to push back.

In fact, the Australian One China policy does not preclude Canberra building ties with Taiwan independently of the Australian relationship with the PRC. For example, signing a free trade agreement with Taiwan or deepening military-to-military relations is consistent with the Australian One China policy.

At the same time, it is worth noting that Taiwan will not downgrade its unofficial relations or trade with Australia, regardless of whether Australia practices the PRC's preferred version of a One China policy or not. Relations with Taiwan remain friendly regardless of whether Canberra supports Taipei's participation in international institutions or pursues bilateral and multilateral trade agreements with it. In other words, there is no immediate cost to gradually downgrading interactions with Taiwan.

By contrast, Australia's trade and diplomatic relations with the PRC will do well or poorly depending on whether Beijing is pleased or displeased with Canberra's approach to Taipei. Therefore, in considering the near-term costs and benefits, it is easier to gradually acquiesce to the PRC's wishes on Taiwan so long as blatant Chinese force is not used.

Notably, many Australians tend to define instability not as the PRC's relentless and escalating coercion of Taiwan but, more simply, as the absence of kinetic war. Many Australians have internalized and normalized the PRC's everyday aggression in the Taiwan Strait and its efforts to minimize Taiwan's freedom of action in the global commons.

Australia has inadvertently enlarged the gray zone in which the PRC can undermine the interests of Taiwan and Australia alike.

This leaves the PRC a lot of room to maneuver. To put it in policy terms, having internalized and normalized PRC coercion of Taiwan, Australia has inadvertently enlarged the gray zone in which the PRC can undermine the interests of Taiwan and Australia alike. For example, there is barely any conversation in Australian policy circles about which nonmilitary responses to PRC coercion of Taiwan might be possible. Such coercion is, instead, implicitly accepted.

By way of summary, Taiwan is being coerced and slowly excluded from regional and global commons and institutions. Worryingly, and in this context, the PRC has normalized its military and economic coercion in the minds of Australians. While Australians may be critical of such activities, they nevertheless see it as something routine that cannot be changed. Coupled with an impression that Taiwan is not really Australia's fight, this impression means there are not many voices advocating that Australia ought to be more proactive in supporting Taiwan's autonomy and its role in the region and the world. Indeed, Australia is only likely to react in a more proactive manner if pressure is put on Canberra collectively by Washington and Tokyo.

Yet Australia does have opportunities to be more forward leaning and constructive. For example, Australia can work with the United States, Japan, and Taiwan to increase Taiwan's resilience to a PRC blockade, thereby decreasing the possibility that Beijing will impose one. Practical measures in this context could include assisting Taiwan with the building of storage facilities, agreeing to special contracts through which Australia could increase Taiwanese stocks of energy products, and investing in Taiwan's electric grid to facilitate flexibility between liquefied natural gas and coal inputs. Australia can play an important role in all these contexts, and the United States can provide diplomatic cover for Canberra on the credible basis that these activities will help preserve peace and stability in the Taiwan Strait.

Second, the United States, Australia, and Taiwan can do more together to preserve the deterrent effect of Taiwan's "silicon shield." For example, the three partners should develop a contingency plan to ensure that if the PRC were to blockade Taiwan, Taiwanese exports such as semiconductor chips would still be exported to other countries—but not to the PRC. The partners can also do more to ensure key semiconductor companies such as TSMC undertake robust enforcement of restrictions on contracted foundries, closing loopholes that have allowed high-end chips subject to U.S. export controls to still enter the PRC.

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Part II

Taiwan's Role in Regional Economic Integration

New Opportunities for Taiwan's Regional Economic Engagement

By Roy Chun Lee

Ten years after Trump 1.0, the global economic order has undergone one of the most dramatic transformations since the creation of the post-World War II liberal economic framework. While the economic efficiency and international integration that once underpinned the rapid expansion of global supply chains remain important and valid, strategic rivalry between the United States and China, as well as concerns over economic resilience and security, now dominate economic relations across the Indo-Pacific region.

This recalibration between efficiency and security has unleashed a series of forces that are reshaping the regional economic landscape. Formal frameworks such as the World Trade Organization, Asia-Pacific Economic Cooperation, Association of Southeast Asian Nations (ASEAN), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership continue to operate. However, as the global economy moves away from the legacy agenda of liberalization and market access, the relevance and influence of these institutions are diminishing.

For many countries in the region, economic policy is increasingly focused on managing the impacts of the economic and technological rivalry between the United States and China. Punitive and retaliatory tariffs, export controls, technology restrictions, investment screening measures, and

secondary economic coercion all have enduring consequences, regardless of whether the United States and China are in a period of confrontation or détente at any particular moment.

At the same time, new opportunities have emerged. The restructuring of global supply chains is making ASEAN the most promising candidate as the next world factory. Key trade and investment flows have been redirected from China to ASEAN. Furthermore, developments in the semiconductor and AI industries have fostered new forms of economic cooperation and partnership, with the U.S.-led “Pax Silica”—an alliance with trusted partners to build a complete AI ecosystem—representing one notable example.¹

Additional cooperation mechanisms must now be created to build trusted technology ecosystems, facilitate dialogue and predictable access to economic resources among like-minded partners, and help suppliers overcome trade and investment impediments. While there is no dedicated formal economic framework for tackling these challenges, a demand-driven informal economic framework is increasingly reshaping economic relations in the Indo-Pacific region.

Although Taiwan’s participation in formal regional frameworks remains constrained by politics, it plays a far more significant role in the emerging informal architecture.

Although Taiwan’s participation in formal regional frameworks remains constrained by politics, it plays a far more significant role in the emerging informal architecture due to its strengths as a manufacturing powerhouse, a global hub of AI and advanced semiconductors, and its status as a trusted economic partner of the United States and other like-minded economies.

Taiwan’s investment in ASEAN has grown dramatically. According to a recent Chung-Hua Institution for Economic Research report, Taiwanese firms invested \$85 billion in greenfield projects in mainland China in 2018, compared with just \$18 billion in ASEAN economies.² Six years later, this pattern was reversed. In 2024, Taiwan’s new investment in ASEAN surged by 470 percent to reach \$85 billion, while investment in mainland China declined to \$35 billion. Similar trends are evident in trade diversification. ASEAN economies now account for 21.4 percent of Taiwan’s exports, representing a 123 percent increase from 2018, while the combined share of mainland China and Hong Kong declined from 41.3 percent to 23.8 percent.³

The surge in trade and investment is only one indicator of the scale and speed of Taiwan’s influence within this emerging informal economic framework. TSMC’s investments in the United States and Japan, Foxconn’s efforts to develop Vietnam as a major global hub for electronics manufacturing, and ASE’s expanding investments in Malaysia all demonstrate how Taiwan is deepening supply chain connectivity with partners across the Indo-Pacific.⁴

These developments suggest several important policy implications for Taiwan. First, a strategic opportunity has emerged to reduce Taiwan’s long-standing economic dependence—particularly

investment dependence—on mainland China. Taiwan should seize and safeguard this opportunity. In this context, Taipei should consider refreshing and upgrading the New Southbound Policy, which will generate not only strategic value but also significant long-term commercial benefits through enhanced economic resilience and improved access to the growing ASEAN market.

Second, in part because of their concerns regarding Beijing’s political and economic influence, Indo-Pacific countries are increasingly willing to engage with Taipei in a manner that could reconfigure global supply chains. Taiwan should approach these opportunities with great pragmatism. “Supply chain diplomacy” or “chip diplomacy” should focus on mutual economic benefits rather than politics. By the same principle, economic security dialogues should address common economic challenges arising from geopolitical competition rather than tackling political issues directly, thereby building confidence and trust.

For the United States and Australia, several avenues exist to facilitate Taiwan’s informal integration within the region’s new economic paradigm. The crucial first step is to acknowledge that Taipei’s expanded engagement in the informal economic framework of the Indo-Pacific serves as an effective form of deterrence against Beijing’s coercive behavior—and should be prioritized accordingly. Encouraging a wider group of countries to strengthen their economic interdependence with Taiwan represents a powerful form of “peace through trade.”

Second, without compromising their own economic security and strategic autonomy objectives, the United States and Australia should publicly signal they view Taiwan as a trusted and indispensable partner in the emerging economic order. Such recognition would encourage other regional partners to engage with Taiwan. Bilateral dialogues on economic security, critical minerals, AI, and technology supply chain resilience would provide valuable platforms for both substantive cooperation and strategic signaling.

As for Taipei’s application to join the CPTPP, Beijing’s opposition based on the argument that it violates its One China principle remains a major obstacle. Taiwan’s CPTPP application will only move forward if current CPTPP members come to believe the value Taiwan will deliver to this free trade area is larger than the political and economic cost of defying Beijing. To prove this, Taiwan needs to take advantage of its new position in the new informal economic framework, showing its readiness to meet CPTPP obligations through proactive market opening and domestic reforms. The United States and Australia, meanwhile, can help by amplifying Taiwan’s contributions and deepening their own economic engagement with Taiwan.

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Taiwan, the United States, and an America First Foreign Policy

By Riley Walters

As Taiwan continues to look for new ways to expand its international presence, it should seek to partner with the United States on initiatives related to industrial and supply chain security, while deprioritizing those related to trade.

For many years, the United States and its international partners have prioritized Taiwan. They have consistently opposed any unilateral attempt to change the status quo across the Taiwan Strait, while underscoring the importance of peace and stability. This was highlighted in a recent G7 leaders' statement, building on similar G7 statements from prior years.¹

However, Taiwan's own foreign policy frameworks have not been explicitly integrated into U.S. foreign policy. By contrast, the Free and Open Indo-Pacific concept, originally created by leaders in Japan, has been adopted by the United States and others. Taiwan has not shaped U.S. policy in commensurate ways.² Nonetheless, the United States remains Taiwan's most important partner when it comes to defense and trade alike.

Now, the Trump administration is pursuing an America First Foreign Policy (AFFP), which essentially puts U.S. interests before the interests of its partners and allies. To the degree that Taiwan's desire to expand its international presence does not align with AFFP, Taiwan will face

serious challenges in advancing its economic and security interests. Therefore, Taipei should seek innovative ways to more effectively align with President Trump's foreign policy priorities.³

Since the beginning of the second Trump administration, the AFFP has fundamentally changed how the United States engages with the international community. For example, the United States has withdrawn from dozens of UN bodies and other international organizations.⁴ Yet Washington has continued to participate in dozens of international groupings that do advance the current administration's priorities. It continues to participate in minilateral meetings of the Quad with Australia, India, and Japan.⁵ It continues to add new partners to the Artemis Accords, a U.S.-led effort to ensure peaceful space exploration.⁶ And it provides capacity building to third countries on important issues such as cybersecurity and disaster relief through the Global Cooperation and Training Framework (GCTF)—a platform which was originally created to support Taiwan's international connections.⁷

What's more, the Trump administration has gone on to create new international initiatives, inviting collaboration while generally avoiding formal institutionalization. Announced at the end of 2025, Pax Silica is the State Department's flagship effort to develop and safeguard artificial intelligence and industrial supply chains.⁸ Earlier this year, the U.S. State Department launched the Forum on Resource Geostrategic Engagement (FORGE) to continue the work of the Minerals Security Partnership, building resilient supply chains for critical minerals required in advanced manufacturing.⁹

These efforts are intended to advance U.S. economic security, consistent with AFFP principles. The administration recognizes that international partnerships are still essential for advancing American interests. This provides important opportunities for Taiwan. By enhancing its participation—officially or unofficially—in the GCTF, Artemis Accords, Pax Silica, and other U.S.-led coalitions, Taipei can bolster its international presence while deepening ties with Washington.¹⁰

One challenge for Taiwan is that a good portion of its foreign policy efforts have focused on building greater trade and economic relations with global partners. Its New Southbound Policy (NSP), launched in 2016, put a heavy emphasis on “two-way” regional exchange, including trade, tourism (which can be considered a trade in services), investment, and talent.¹¹ Then, just five years ago, Taiwan applied to join the large Asia-Pacific trading bloc, the CPTPP.¹²

Meanwhile, the Trump administration has shown it will prioritize its protectionist trade policy, termed the America First Trade Policy (AFTP), above U.S. foreign policy priorities.¹³ It is also willing to use tariffs as leverage to achieve trade and investment deals, security measures, and political concessions, even when this undermines broader diplomatic relations. Like the AFFP, the AFTP places a heavy emphasis on U.S. interests while sidestepping international trade organizations in favor of bilateral trade negotiations. It has resulted in higher tariffs on imports into the United States and forced countries to negotiate preferential trade agreements with the United States. Earlier this year, the United States and Taiwan signed separate trade and investment agreements focused on industrial supply chains and nontariff barriers.¹⁴

For Taiwan to increase its international presence through the U.S.-Taiwan relationship, it will have to find those opportunities to partner more actively with initiatives including the Quad, GCTF, Pax Silica, and FORGE—efforts that align with Taiwan’s economic interests, reinforce the Trump administration’s goals related to supply chain resilience and informal coalition building, and do not focus on trade.

Taipei will need to invest more, putting real money behind U.S.-led projects—which will give Taiwan the international exposure it seeks, while earning goodwill with the U.S. government. This includes efforts outlined in the U.S.-Taiwan investment agreement. It also means Taiwan should consider where existing U.S. projects and Taiwan’s international priorities overlap—such as Taiwan’s effort to integrate the Taiwan-Philippines Economic Corridor with the Luzon Economic Corridor.¹⁵

This does not mean that Taiwan should abandon its efforts to join the CPTPP or build its regional relations through the NSP. However, the reality is that the trade elements of the NSP may not have developed into a soft power tool that Taipei originally hoped they would. But instead of trying to build broad partnerships with the 18 countries covered by the NSP, Taiwan should take a more targeted approach and focus on engaging with countries that are also closely working with the United States. Several potential partners are GCTF members, including Australia, Canada, and Japan, as well as Pax Silica partners such as the Philippines and Malaysia, which is already Taiwan’s fifth-largest trading partner.

The United States is perhaps the only country that can compel others to accept Taiwan’s participation in international efforts, and Taiwan cannot take the United States’ partnership for granted.

Many countries in Asia prefer to keep their engagement with Taipei quiet, hoping to thereby avoid Beijing’s wrath. The United States is perhaps the only country that can compel others to accept Taiwan’s participation in international efforts, and Taiwan cannot take the United States’ partnership for granted. It should, instead, lock in U.S. support by integrating its own international efforts more closely into existing U.S. initiatives.¹⁶

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Taiwan's Economic Rise

New Horizons for Australian Business

By Brent Moore

Taiwan's economy is booming. GDP growth reached 8.7 percent in 2025, with growth expected to top 9.64 percent in 2026—the highest rate since the 1970s.¹ Its stock market rose 50 percent, briefly surpassing India as the world's fifth-largest, while per capita income exceeded that of South Korea and Japan.² Taiwanese exports to the United States surged by 68 percent year-on-year in 2025, spurred by the massive boom in AI semiconductor manufacturing.³

Yet despite its central role in the global AI economy and its position as Australia's seventh-largest goods export market, Taiwan is unfamiliar to many Australians. While Australians hold strong opinions on the People's Republic of China across all domains—from the classroom to the boardroom—they know relatively little about Taiwan beyond headline political tensions, semiconductors, and bubble tea.

Even less understood is the sheer breadth of Taiwan's industrial economy. On a geographical footprint half the size of Tasmania and with the same population as Australia, Taiwan produces a staggering range of advanced goods and services from its industrial base, including petrochemicals, steel, batteries, electric vehicles, pharmaceuticals, and advanced semiconductors. Harvard Growth Labs' *Atlas of Economic Complexity* ranks Taiwan third, just behind Japan and Switzerland.⁴ This industrial depth sustains high standards of living and widens the scope of potential partnerships with Australian business.

The limited public awareness of what the Australia-Taiwan Business Council (ATBC) describes as a fellow “island of democracy, stability and prosperity” is compounded by the low number of Australians who have visited Taiwan.⁵ Despite its rich diversity of cultural and natural attractions, as well as direct flights from three Australian cities, Australian Bureau of Statistics figures show that fewer than 85,000 passenger trips were made to Taiwan in 2025, ranking Taiwan a lowly 25th among Australian outbound markets.⁶

This was the same year that Australians made close to a million trips to neighboring Japan, embedding the popularity of “Brand Japan” and demonstrating the role tourism plays in shaping favorable public sentiment.⁷ A 2024 Lowy Institute Poll showed that Australians consider Japan as their “best friend in Asia,” and Japan ranked third highest in the institute’s survey of public feelings toward other nations.⁸ Taiwan’s promoters should take notice.

Growing Business Ties

Fortunately, many Taiwanese have grown familiar with Australia through leisure travel, higher education, or participation in working holiday programs. Australian businesses in Taiwan are warmly received and benefit from quality infrastructure and governance. The 2026 International Institute for Management Development index ranked Taiwan as the world’s fourth-most competitive economy.⁹

Australia is the largest energy supplier to Taiwanese industry through the supply of liquefied natural gas and coal and is a cornerstone investor in Taiwan’s nascent offshore wind sector. Australian and Taiwanese firms are also working closely together in areas such as clinical trials, the circular economy, financial services, green energy, and biotechnology. In total, more than 2,000 Australian companies export goods and services to Taiwan each year.¹⁰

Taiwanese firms also play an outsized role in regional value chains. Since the launch of Taiwan’s New Southbound Policy in 2016, more than 6,200 Taiwanese firms have invested in Association of Southeast Asian Nations (ASEAN) markets, employing around 960,000 people there.¹¹ Taiwanese firms have already invested more than \$42 billion in Vietnam, including Foxconn and the Formosa Plastics Group’s steel mill in central Vietnam, which is supplied by the Iron Bridge magnetite project in Western Australia—a joint venture between Australia’s Fortescue (69 percent) and Taiwan’s Formosa Steel (31 percent).¹²

For Taiwan, this overseas network serves as economic ballast to stabilize trading relationships, especially in the absence of any formal regional trade pacts beyond the World Trade Organization, which Taiwan joined in 2002.¹³ Multiple interests converge around this network: ASEAN host governments have a stake in the success of Taiwanese manufacturing projects, the factories serve as important markets for exported Chinese components, and politically influential downstream customers (e.g., Apple, Nvidia, and Tesla) have fortunes riding on stable supply chains.

The vice president of the Industrial Technology Research Institute’s International Strategy Centre, Jeff Chao-Hsien Lin, articulates this shift as a strategic move from “Made in Taiwan” to “Made by Taiwan” or “Managed by Taiwan.”¹⁴

For Australia, this provides opportunities not only to supply the resources that power Taiwan-managed supply chains, but also to harness Taiwanese manufacturing expertise and investment for Australia's own efforts to lift manufacturing output.

For Australia, this provides opportunities not only to supply the resources that power Taiwan-managed supply chains, but also to harness Taiwanese manufacturing expertise and investment for Australia's own efforts to lift manufacturing output, leveraging initiatives such as the \$15 billion National Reconstruction Fund, an Australian government financing arm established in 2023 to rebuild and reshore Australia's technology-intensive manufacturing base after decades of decline.¹⁵

Emerging Opportunities

Australia is highly effective at applying scientific capability to difficult local problems in a manner that generates globally useful technologies. According to the Australian government, Australia ranks in the world's top 1 percent for research across 15 fields, including clinical medicine, physics, computer science, and space science.¹⁶ However, with some important exceptions, Australia's ecosystem for commercializing and manufacturing innovative products onshore is limited. In contrast to Taiwan's number three ranking, Australia ranks 74th in the Harvard Economic Complexity Index—the second-lowest ranking of any OECD nation.

Robotics and industrial automation offer one practical avenue for narrowing this gap. Australia's former industry minister, Ed Husic, said that "Australia's limited uptake of robotics and automation to date is holding back Australia's manufacturing industry."¹⁷ Taiwan can be a natural partner in developing novel robotic technologies suited to Australian needs: It offers fast, low-cost prototyping; developer supply chains for sensors, controllers and motors; and a deep pool of electrical engineering talent and a leading position in AI chip integration—capabilities currently lacking in the Australian ecosystem.

Another high-potential partnership lies in AI computing. Multiple pairs of high-speed fiber-optic cables connect Australia to Taiwan via the U.S. territory of Guam, opening the possibility of AI computing in Australian data centers to alleviate energy bottlenecks in Taiwan. Australia's vast green energy and critical mineral potential offer exciting opportunities to export renewable compute capacity and upstream minerals such as gallium and antimony required by semiconductor fabrication. At scale, this could support new investment in renewable generation, data centers and mineral processing.

Finally, for any Australian entrepreneur seeking to build the next generation of technology post "SaaSocalypse," Taiwan's startup ecosystem can be considered an unofficial hardware technology outpost of Silicon Valley—a place where many Taiwanese leaders and investors have made their fortunes.¹⁸ The lower cost of living, speed to market, proximity to Australia, and entrepreneur-friendly visa program make it an attractive option. In other sectors, emerging founders and

entrepreneurs on both sides are supported by the ATBC's Young Business Leaders Program—a structured two-year program of business exchanges and networking.¹⁹

Taiwan's economic rise is not simply a story about semiconductors, nor one confined to the island itself. For Australian business, Taiwan's economic success presents an opportunity to deepen commercial links with a globally connected partner, in the industries that will define the future.

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The views and opinions expressed in this article are those of the author and do not necessarily reflect those of the Australia-Taiwan Business Council.

Part III

Taiwan's Engagement with Pacific Island Countries

Delivering Real Value for Pacific Nations

A Strategy for Expanding Taiwan's Diplomatic Space

By Mihai Sora

The Pacific Islands are navigating what Pacific leaders themselves have called a “polycrisis”—characterized by geopolitical competition, a lost development decade following Covid-19, climate shocks, and surging transnational crime. To help the region overcome these complex challenges, deeper U.S.-Australia-Taiwan cooperation in the Pacific is urgently needed.

A Deteriorating Strategic Environment

The People's Republic of China (PRC) has a clear strategic intent in the Pacific Islands region: to project force and control the space at the expense of others. Beijing consistently denies this, describing its regional engagement as purely developmental.¹

However, Beijing's actions speak for themselves. Deliberate vessel collisions, aggressive aerial maneuvers against Australian aircraft, and the use of active sonar against Australian naval personnel, which has caused injury, are calibrated tests of resolve.² A Chinese naval task group circumnavigated Australia in 2024, conducting live-fire exercises in the Tasman Sea.³ In late 2024, the PRC conducted its first intercontinental ballistic missile test in the Pacific since 1980, and in July 2026, it launched a submarine-based ballistic missile into international Pacific waters, drawing condemnation from Australia, Japan, New Zealand, Taiwan, and several Pacific Island countries.⁴

Twenty-six Chinese Coast Guard vessels are registered with the Western and Central Pacific Fisheries Commission with stated intentions to conduct boarding operations—enforcement power projected into waters that Pacific states depend on for economic survival.⁵ PRC Police Liaison Teams have been dispatched to Fiji, Kiribati, the Solomon Islands, and Vanuatu.⁶ Beijing’s Special Envoy lodged a formal protest in 2024 over a Pacific Islands Forum (PIF) leaders’ communiqué that referenced Taiwan as a development partner.⁷ Cyberattacks attributed to Chinese state-sponsored actors have also targeted the PIF Secretariat, compromising Pacific leaders’ communications.⁸

Pacific unity is under severe strain. Beijing’s interference in PIF processes—from the 2024 communiqué fiasco to widely reported pressure on the Solomon Islands to exclude Taiwan from the 2025 Leaders Meeting—has eroded the norms of consensus and openness that underpin the forum’s cohesion.⁹ The PRC seeks to leave Taiwan without a presence at the region’s most important annual gathering. At the same time, larger partners including Australia and the United States are pressing Pacific states for greater strategic alignment as a condition of deeper engagement. Smaller states, caught between these competing pressures, are navigating an increasingly constrained diplomatic environment.

Prioritizing Complementarity over Co-Branding

The guiding principle for trilateral cooperation should be additionality rather than mere co-branding: each partner contributing in its own right, rather than bundling contributions under a joint strategic banner. In practice, this means Taiwan investing independently in regional priorities such as the Pacific Resilience Facility (PRF), fisheries management, and digital health—areas where it has established expertise—rather than cosigning programs with Australia or the United States. Taiwan’s diplomatic license to do more with Pacific countries that recognize Beijing is particularly contingent upon it being perceived as an independent development partner, not an extension of U.S. or Australian strategic jostling.

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In this challenging environment, the interests and capabilities of Taiwan, Australia, and the United States in the Pacific Islands are particularly complementary. Taiwan’s contribution is characterized by technical depth and longevity: permanent medical teams, agricultural missions, clean energy, information and communications technology, and fisheries management. Taiwan should be active not just in its three remaining Pacific diplomatic partners—the Marshall Islands, Palau, and Tuvalu—but also through development missions in states that recognize Beijing, including Fiji and Papua New Guinea. Its comparative advantage is quality of delivery and sustained people-to-people relationships, not volume of dollars. Australia, meanwhile, is the indispensable development and security partner with the largest development footprint, the most security cooperation frameworks,

and the diplomatic weight to convene. The United States brings financing vehicles, strategic signaling capacity, and the Compacts of Free Association security umbrella stabilizing the Marshall Islands, Palau, and the Federated States of Micronesia.

Taiwan As a Development and Climate Partner

Taiwan's access to Pacific regional organizations is now contested on an ongoing basis. It cannot secure its regional position through diplomatic lobbying by Australia or the United States alone. This would be taken as unhelpful external intervention in Pacific countries' national affairs. Rather, the most persuasive case for Taiwan's continued and expanded role must be made by Pacific communities who value Taiwan's presence in their economies and institutions.

This points to a strategic inflection point for Taipei. According to the Lowy Institute Pacific Aid Map, Taiwan's Official Development Finance (ODF) to the Pacific declined for three consecutive years following the loss of Kiribati and the Solomon Islands as diplomatic partners in 2019. This decline was not solely driven by the loss of those bilateral channels: Taiwan's ODF flows to its remaining Pacific partners also fell below historical averages in the same period, suggesting a broader strategic retrenchment. Taiwan's aid to the Pacific was \$21.8 million in 2022, increasing to \$24.6 million in 2023—a positive trajectory, but well below its historical average of around \$36 million per year. The gap with peers remains large: In 2023, the PRC disbursed \$231 million, the United States \$262 million, and Australia nearly \$1.6 billion, constituting 43 percent of all development finance to the region.¹⁰

Climate financing can be a particularly impactful vector for strategic access: The PRC's climate and disaster assistance in the Pacific has been explicitly designed to deepen integration into government operations and secure wider bilateral arrangements.¹¹ Taiwan's pledge of \$3 million over three years to the PRF, announced by Tuvalu on Taiwan's behalf at the 2025 Pacific Islands Forum Leaders' Meeting in Honiara, was welcomed in the region and matched Japan's contribution to the facility. But compared to Australia's \$64 million and the United States' \$25 million, it signaled a more modest level of engagement than Taiwan's Pacific interests would warrant.¹²

The 55th PIF Leaders Meeting in Palau, scheduled for August 30–September 4, 2026, will feature the PRF's first call for pilot project proposals. This is a timely opportunity for Taipei to substantially lift its contribution.¹³ A decisively higher pledge in September, alongside greater investment in PIF and regional agency initiatives, would do more for Taiwan's diplomatic standing than any bilateral lobbying by a third party.

Broadening Taiwan's Pacific Constituency

The breadth of Taiwan's development footprint in the Pacific—how widely it engages across sectors, institutions, and communities—matters as much as the total dollars it commits. In the Pacific, Beijing has cultivated or pressured individual politicians to secure favorable decisions while expanding its influence through police liaison teams, targeted infrastructure deals, and direct financial inducements to political elites.¹⁴ Nauru's recognition of the PRC in January 2024, for which it was

reportedly promised \$100 million annually, illustrates how decisively Beijing can shape the course of events in the Pacific when Taiwan's relationships are overly concentrated at the elite level.

A substantially broader program of Taiwanese engagement, extending beyond political elites to local institutions, civil society, and the business community, would mean that Taiwan's relationships in any given country are not contingent on a single leader's political calculation. By building relationships across multiple sectors, Taiwan can make a diplomatic switch considerably harder to execute and costlier to sustain domestically. This is precisely the model that Australia and the United States have been following in the Pacific, and it is squarely in Taiwan's interests to pursue a similar path.

Palau's hosting of the 55th PIF Leaders Meeting will restore Taiwan's access to the annual summit, after the Solomon Islands barred all nonmembers in 2025.¹⁵ But Taiwan should approach Palau carefully. The temptation to use the restored access as an opportunity to push for formal recognition upgrades or symbolic resolutions, relitigating the 2025 exclusion in public, would put Palau in an uncomfortable position as host and risk alienating the forum members whose diplomatic support Taiwan is trying to cultivate.

The more productive posture is to let new pledges in nonsensitive sectors do the diplomatic work. For example, a substantially higher PRF contribution announced in Palau would demonstrate Taiwan's value as a development partner far more effectively than any procedural maneuver. Similarly, pursuing high-visibility but low-substance diplomatic wins, such as insisting on prominent Taiwanese branding or media engagements, would only serve to increase pressure on Palau, the Marshall Islands, and Tuvalu, whose advocacy for Taiwan is most effective when it does not come at the cost to their own forum standing.

The most durable diplomatic gains for Taiwan would come not from heightening the visibility of its three Pacific allies as advocates, but from ensuring its own contributions are felt more broadly. If a wider range of PIF members have direct experience of Taiwan's development engagement, its three allies will become part of a broader constituency and Taiwan's diplomatic space will become a matter of regional value rather than brittle obligation.

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Beyond Geopolitics

Strengthening Taiwan's Engagement with the Pacific Island Forum

By Cheng-Cheng Li

Palau is set to host the 55th Pacific Islands Forum (PIF) Leaders Meeting from late August to early September 2026. The PIF is the primary forum for Pacific leaders to develop priorities and set regional policy on climate change, political partnership, governance, and other issues of regional importance. This year, the PIF will foreground Palau's Indigenous name, *Belau*, as an acronym for “Building Economies: Life, Action, Unity,” which centers the values of Pacific peoples, cultures, and the ocean.¹

As the host, Palau's close ties with Taiwan are now particularly significant. Palau remains a formal diplomatic partner of Taiwan. Taiwan's Vice President Bi-Khim Hsiao expanded bilateral cooperation under the Palau Prosperity Project as part of a visit to Palau earlier this year, and Palauan President Surangel Whipps Jr. has expressed support for Taiwan's active participation in the upcoming PIF summit.² In this context, this article reviews Taiwan's relationship with the PIF and its opportunities for participation in 2026. It argues that Taiwan's future role in the region should move beyond a diplomatic competition framework and instead embrace alternative approaches that foreground the co-creation of cultural and technical spaces, prioritizing reciprocity while taking care not to contribute to the politicization of Taiwan's presence in Palau and the Pacific.

Taiwan's Long-Standing Partnership with the Pacific Islands Forum

Taiwan first officially engaged the PIF during the 23rd South Pacific Forum, held in Honiara, Solomon Islands, in 1992, at a time when the Solomon Islands maintained diplomatic relations with Taiwan.³ During this period, PIF member states acknowledged “the importance of Taiwan/Republic of China as an economic presence in the region” and established a regular dialogue mechanism with Taiwan. Today, Taiwan remains a formal development partner of the PIF, providing the Taiwanese government with an opportunity to provide financial assistance and host a sideline meeting with its Pacific diplomatic allies during the PIF leaders’ meeting. Education has been a particularly important area of cooperation between Taiwan and the PIF, concretized through the Taiwan/Republic of China-Pacific Islands Forum Scholarship Program.⁴

However, Taiwan’s relationship with Pacific regional institutions has faced challenges due to geopolitical tensions. For instance, in 2018, the PIF host, Nauru, did not issue visas to officials from the People’s Republic of China (PRC), causing some regional leaders to threaten a boycott.⁵ In 2022, Tuvalu Foreign Minister Simon Kofe withdrew from a UN Ocean Conference opening after Beijing prevented Tuvalu from including Taiwanese delegates in its delegation.⁶ Since switching diplomatic recognition from Taiwan to the PRC in 2019, the Solomon Islands has significantly deepened its relationship with Beijing.⁷ This includes a controversial security agreement in 2022, and it has taken steps to reduce Taiwan’s role in the Pacific.⁸ When the Solomon Islands, as host, denied visas for Taiwan’s delegation to the 2025 PIF meeting, Taiwan’s Pacific allies voiced strong objections.⁹ In response, the Solomon Islands decided to exclude all dialogue and development partners, including the PRC, the United States, and Taiwan, from the Leaders Meeting. These episodes suggest that the PIF summit may continue to move in a more politicized direction, in which questions related to the PRC and Taiwan overshadow development-oriented cooperation and Pacific values.

Geopolitics and the 2026 PIF Summit

The geopolitical environment surrounding the 2026 PIF summit is complex. The PRC is expected to maintain an active regional presence, as illustrated by its \$1.1 million donation to the PIF Secretariat, and it will continue to pressure PIF members to limit Taiwan’s participation.¹⁰ Meanwhile, Palau has reiterated its diplomatic commitment to Taiwan. When discussing the relationship, President Whipples Jr. has said “until death do us part.”¹¹

At the same time, the United States’ role in the Pacific is now characterized by a divergence between expanding security outreach and declining development assistance. This produces mixed signals about the nature of its long-term commitment to the region. The elimination of the U.S. Agency for International Development (USAID), shifts in aid priorities, and reductions in scholarship and development programs have raised concerns among Pacific nations.¹² Yet the United States has expanded its defense engagement in the Pacific and especially with Palau, including through projects such as the Tactical Multi-Mission Over-the-Horizon Radar system on Angaur Island and Babeldaob, the Peleliu Marine Corps base and airfield expansion, and upgrades to Malakal

Port in Koror.¹³ Some Pacific stakeholders now view Beijing's engagement as comparatively more consistent. This does not necessarily indicate that the PRC approach is viewed more favorably, but there is a clear perception that Beijing is better positioned to deliver on large projects over time.

This risk of over-politicization obscures more compelling, reciprocal, and culturally grounded dimensions of Taiwan-Pacific relations.

In light of these dynamics, the central challenge for Palau in hosting the 2026 PIF Leaders Meeting lies not only in managing relations among PIF member states but also in navigating the influence of external partners. If Taiwan's PIF engagement is framed through the lens of diplomatic recognition, two problems emerge. First, it reinforces geopolitical competition at the expense of an affirmative regional agenda. Second, it places unwanted pressure on host countries, who must navigate competing expectations from multiple actors. This risk of over-politicization obscures more compelling, reciprocal, and culturally grounded dimensions of Taiwan-Pacific relations.

Moving beyond a diplomatic competition framework toward a cultural and technical framework offers benefits for both Taiwan and Pacific Island countries. For Taiwan, this approach can amplify Taiwan's asymmetric advantage vis-à-vis the PRC. Taiwan has devoted significant resources over many years to supporting Indigenous knowledge, sustainable development, and digital transformation in the Pacific.¹⁴ Taiwan has a strong, affirmative story to tell, and it will be viewed more favorably by Pacific nations if this story prevails over a more geopolitical message.

Policy Recommendations

Moving ahead, the Taiwan government should seek opportunities to facilitate collaboration among Indigenous communities in Taiwan and across the Pacific to support cultural revitalization and strengthen Indigenous regionalism. In 2025 and 2026, Palau and Micronesia launched historic Indigenous voyaging exchanges through *Alingano Maisu*, a double-hulled voyaging canoe that traveled to Taiwan and Japan, demonstrating how Indigenous knowledge exchange, ocean stewardship, and Indigenous mobility can strengthen regional connections.¹⁵ These themes align with the PIF's vision of the Blue Pacific and could serve as the foundation for an expanded cultural diplomacy initiative linking Taiwan and the PIF.

Taiwan could also deepen its cooperation with the Council of Regional Organisations of the Pacific (CROP), whose work centers on technical, agricultural, and tourism coordination.¹⁶ These areas are closely connected to Taiwan's strengths in development cooperation and applied technology. For example, in the Marshall Islands and Fiji, CROP is testing a solar-powered outboard engine for a locally built catamaran as part of a sustainable ocean transportation program.¹⁷ CROP reports are submitted to PIF members and can influence regional decisionmaking processes, and Taiwan can more systematically partner with CROP agencies to expand its role in regional governance. Such

technical collaboration reduces the likelihood that every engagement becomes politicized around cross-strait issues.

Conclusion

In the lead-up to the 2026 PIF, both Beijing and Taipei are expanding their regional engagement through aid and development programs.¹⁸ Yet many Pacific Island communities ultimately view “competition” as a foreign concept. Taiwan’s most compelling contribution to the Pacific lies not in competing for recognition, but in cultivating cultural, Indigenous, and technical spaces grounded in reciprocity and shared identity. Such an approach would not only reduce the risks of over-politicization but strengthen Taiwan’s role and image as a meaningful partner in Oceania’s evolving political landscape.

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From Defense to Offense

Building New Partnerships in the Pacific

By Andrew Harding

For decades, Taiwan has been a strong partner for Pacific Island countries. Yet the People's Republic of China (PRC) has been able to pick away at Taiwan's Pacific allies with a combination of threats and lucrative deals; only three Pacific Island countries now maintain diplomatic relations with Taiwan. This must not prevent Taiwan from fielding a strong region-wide agenda in the Pacific. Rather than focusing exclusively on the preservation of Taiwan's remaining diplomatic relationships, the United States, Australia, and Taiwan should work together to deliver an offensive approach that reinforces Taiwan's existing partnerships while incentivizing additional Pacific Island countries to recognize Taiwan, thereby elevating its position on the international stage.

Pacific Allies Under Pressure

The PRC's efforts to coerce Taiwan's diplomatic allies are part of a global effort to eliminate Taiwan's political presence on the international stage. The Chinese Communist Party views Taiwan as a breakaway province and is actively working to bring the self-governed island under its control.¹ In 2019, the Solomon Islands and Kiribati severed ties with Taiwan, switching recognition to the PRC after Beijing promised large-scale infrastructure financing and development assistance in exchange.² In 2024, Nauru also switched recognition to Beijing shortly after Taiwanese President Lai

Ching-te's inauguration.³ These developments cut Taiwan's Pacific allies in half, with only Palau, the Marshall Islands, and Tuvalu maintaining diplomatic relations with Taipei.

Today, Taiwan only has diplomatic relations with 12 countries around the world, including the three in the Pacific.⁴ If the PRC can force additional countries to sever diplomatic relations with Taiwan, it will isolate Taipei and put Beijing in a stronger position to claim that Taiwan's government is illegitimate. This would increase the risk that one day, the PRC may feel emboldened to take unilateral action against Taiwan that forces political unification under PRC rule.

Unfortunately, it is not clear that Taiwan will be able to retain its three remaining diplomatic relationships in the Pacific, as the PRC continues to pressure these countries to sever ties. Beijing's tactics against Taipei's diplomatic allies range from political influence to economic coercion. In Palau, for example, Beijing has boosted tourism during presidential elections in order to manipulate candidates' positions and voters' economic incentives. By encouraging or restricting Chinese tourist flights to Palau, which relies on tourism for about 40 percent of its GDP, the PRC has sought to influence Palau's policy decisions and its relationship with Taiwan.⁵ Palauan President Surangel Whipps Jr. has also stated that Chinese actors are conducting cyberattacks against Palauan infrastructure.⁶

The PRC has also interfered with the sovereignty of the Marshall Islands. During the Compact of Free Association renewal negotiations in 2023, Marshall Islands President Hilda Heine warned U.S. Senators that Chinese actors were working to "develop" an atoll municipality "if it were granted autonomy from [the] national government"—effectively encouraging the Marshall Islands to violate its Compact Agreement with the United States.⁷ Although this attempt was unsuccessful, the letter serves as a concerning example of Beijing looking to penetrate Taipei's Pacific allies and compromise U.S. national security interests. Taken together, Beijing's actions have shown that it places tremendous priority on efforts to drive wedges between Taiwan and its allies, ultimately pressuring them to sever diplomatic relations.

Opportunities to Deepen Taiwan's Regional Partnerships

Taiwan's close unofficial partners, including the United States and Australia, routinely advocate for Taiwan's inclusion in international fora, and for the sovereign right of all Pacific Island countries to determine their own diplomatic partnerships free of intimidation. These efforts have prioritized the preservation of Taiwan's remaining Pacific allies. A new emphasis on diplomatic offense, however, could more significantly improve Taiwan's position and roll back the PRC's recent gains in the region.

A new emphasis on diplomatic offense [could] significantly improve Taiwan's position and roll back the PRC's recent gains in the region.

In other words, the United States, Australia, and other partners of Taiwan should encourage Pacific Island countries to flip their diplomatic recognition back to Taiwan. Such offense would include

coordinated recognition packages that combine trade, infrastructure, and security incentives along with trilateral development compacts. A successful re-recognition package would likely need to include guaranteed liquidity and a strong project pipeline, a trade arrangement that compensates for loss of access to the Chinese market, and domestic political support from politicians.⁸ Additionally, Pacific Island countries that switch recognition should be offered new agreements on tariffs, migration, and fisheries. Taiwan would be able to offer greater market access for Pacific exports, potentially filling market gaps caused by PRC retaliation. Taiwan would also be able to provide additional security, policing, and maritime training.

To be clear, this proposal would face many challenges, and the total cost of reestablishing relations with Taipei could exceed hundreds of millions of dollars across multiple years, supporting development in areas such as infrastructure, fisheries, and digital connectivity while countering Beijing's likely retaliation. Nonetheless, an offensive approach remains worthwhile for advancing long-term regional prosperity and stability. It would benefit Taiwan by advancing its security and economic interests, and it would expand the island's international standing. By regaining Pacific allies, Taipei would enhance its credibility with countries and international organizations around the world, creating a permission structure for other nations to expand engagement with Taiwan as well.

The Pacific Islands would also benefit from greater integration with Taiwan, which has proven its value to its current allies through consistent, mutually beneficial economic engagement. For example, in 2019, Taiwan and the Marshall Islands signed an Economic Cooperation Agreement that eliminated thousands of tariffs and facilitated trade and investment delegations. As a result, since 2025, bilateral trade has skyrocketed by 75 percent to \$234 million.⁹ Taiwan also helped finance Tuvalu's first international submarine internet cable and supported Palau's renewable energy systems.¹⁰ Taiwan's track record of reliable economic support should be appealing to Pacific Island countries.

If additional countries recognize Taiwan, the United States and Australia would also benefit. PRC malign influence threatens the strength of the U.S. compact agreements and Australian security pacts across the region. Conversely, stronger ties with Taiwan would limit how deeply the PRC can penetrate regional governments and decisionmaking. Focusing on diplomatic offense would also force Beijing to spend additional resources in preserving its current Pacific relationships or working to regain diplomatic recognition. If the PRC needs to spread its attention more thinly across the region, the United States and Australia will be better able to compete effectively.

For Taiwan, diplomatic expansion in the Pacific should be seen as a strategic imperative, not merely a symbolic goal. Prioritizing these efforts would enhance Taiwan's national security and international standing. The United States, Australia, and all partners interested in a free and open Indo-Pacific have a role to play in creating the space necessary for Taiwan to flourish across the Pacific.

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About CSIS

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