

Taiwan's Strategy for Promoting Democratic Values to Partner Countries: TSMC as a Silicon Shield

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ABSTRACT

Amidst the intensification of systematic diplomatic isolation and the erosion of its formal de jure status, Taiwan faces significant challenges in maintaining its international relevance. This study aims to analyse Taiwan's pragmatic strategies for the 2024–2025 period, focusing on the transition from reliance on formal recognition towards the strengthening of functional (de facto) recognition. By applying the concept of niche diplomacy as an analytical tool, this study maps the transformation of state behaviour into routine and diffuse institutional dimensions. Employing a descriptive qualitative approach through document analysis, this study integrates data from official government documents, TSMC strategic reports, and international media releases. The findings indicate that the erosion of formal status has by no means weakened Taiwan's international influence. On the contrary, dominance in advanced chip manufacturing through the 'Silicon Shield' mechanism has created deep structural dependencies within the global economy, whilst its democratic identity has successfully forged strong normative alliances with Western nations. Ultimately, functional capacity has proven to be a highly effective diplomatic substitute. This study demonstrates that an actor's relevance and resilience in the contemporary era are determined more by its crucial role in global supply chains and the world's normative order than by mere formal institutional recognition.

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1. Introduction

Normatively, the modern international system places formal recognition of sovereignty as the main prerequisite for a country's participation in diplomatic relations and global institutions. Ideal diplomatic capacity within this framework is highly dependent on such formal legality. This condition reflects the dominant assumption in conventional diplomacy, which prioritises the legal status of a state over the substantive functions or actual contributions of that entity within the global order.

However, empirical reality shows dynamics that are inversely proportional to these ideal conditions. Following the leadership transition in 2024 under Lai Ching-te, Taiwan continues to face systematic diplomatic isolation pressure through the strengthening of Beijing's "One China" policy, which manifests itself in a pattern of gradual pressure or "drip, drip pressure". (Shattuck, 2020). This formal de jure regression has not only reduced Taiwan's number of diplomatic allies to a stagnant level, such as the severing of relations with Nauru in early 2024 due to economic incentives from China, but also systematically hinders Taiwan's participation in major forums such as the World Health Assembly (WHA) and ICAO (Woo, 2024).

Furthermore, amid this formal decline in state recognition, the international community is faced with clear evidence of the high global demand for advanced semiconductor chips from Taiwan. The semiconductor sector has emerged as a highly strategic instrument because it directly links the economic interests of partner countries with their national security considerations. Global market data shows that facilities in Taiwan control more than 60 per cent of the global foundry market and dominate almost all production of the most advanced chips under 3 nanometres (Varas et al., 2021). This structural dependence indicates that no other manufacturer is capable of matching Taiwan's production capacity and technological innovation, thereby triggering an urgent need from the international community (Reinsch & Whitney, 2025).

In addition to relying on its economic and technological strength through Silicon Shield, Taiwan also proactively projects its moral legitimacy through the narrative of the "Frontline of Democracy". While semiconductor superiority secures the material interests of developed countries, shared democratic values such as open digital governance and constitutional protection build strong normative alliances with European countries and the G7 group (Liu et al., 2025). This dual combination of material capacity and moral legitimacy is crucial; it effectively transforms Taiwan's position from merely an object of territorial dispute to an important subject in global normative alliances. This, in turn, further thickens the layer of Taiwan's functional recognition in the eyes of the world without the need to demand formal diplomatic recognition.

Previous studies on Taiwan's strategic position within the contemporary geopolitical landscape have so far been dominated by three main perspectives: the technological defence function (silicon shield), global supply chain risk management, and the contestation of sovereignty under diplomatic pressure. On the one hand, Kochumon and C.A. (2025) identify that the semiconductor industry acts as the primary balancer maintaining Taiwan's political autonomy within the US-China triangular dynamics. In line with this, Weil et al. (2025) and Lin et al. (2026) emphasise that the 'Silicon Shield' narrative has transformed into a strategic instrument influencing global actors' security perceptions, where the need for advanced chip supplies often intersects with commitments to democratic values in determining international military support (Kochumon & C.A, 2025; Lin et al., 2026; Weil et al., 2025). Meanwhile, studies by Topal (2024) and Reinsch and Whitney (2025) place greater emphasis on the West's systemic vulnerability to TSMC's dominance, which has prompted the introduction of reactive policies such as the CHIPS Act as part of efforts to mitigate risks and strengthen technological sovereignty (Mehmet Topal, 2024; Peters, 2023; Reinsch & Whitney, 2025). Although the literature has extensively examined the technical aspects and economic securitisation, the majority of studies tend to portray Taiwan as an object in great power competition or merely as the epicentre of global supply chain disruptions. This contrasts with the analysis by Shattuck (2020), which focuses on the threat of diplomatic isolation through Beijing's 'poaching' strategy, or that of Hilpert et al. (2022) and Liu et al. (2025), which highlight shifts in European foreign policy and scenarios of tactical resilience against blockades (Hilpert et al., 2022; Liu et al., 2025; Shattuck, 2020).

To operationalise this transition from the formal to the functional realm, Taiwan's niche diplomacy approach is not reactive, but rather structured through two main dimensions of middle-power behaviour: routine and diffuse (Cooper, 1997). Taiwan routinely institutionalises its diplomacy through technical collaboration, technology openness policies, and stable semiconductor management. Meanwhile, Taiwan diffusely expands its influence through TSMC's global supply chain network and collaboration with various international actors (Liu et al., 2025). This approach consciously avoids heroic diplomacy, which is fraught with symbolic confrontation, and instead opts for sustainable stability in order to consolidate Taiwan's position as a reliable strategic player on the global stage.

Although previous literature has extensively discussed niche diplomacy, there is still a research gap in measuring the effectiveness of this instrument as a functional shield amid the escalation of systematic isolation in the era of Taiwan's new leadership. Therefore, this study aims to analyse the effectiveness of Taiwan's niche diplomacy, which specifically relies on technological superiority (semiconductors) and value legitimacy (democracy), as a functional defence instrument for the period 2024-2025. Specifically, this study assesses the extent to which these instruments can operate as a viable diplomatic substitute in maintaining Taiwan's international position amid geopolitical pressures.

Ultimately, this study seeks to demonstrate that in the context of contemporary international relations, functional capacity carries real strategic weight to compensate for the various obstacles arising from diplomatic isolation. The main benefit of this study is to offer an alternative paradigm, in which the relevance and resilience of an international actor is no longer seen solely in terms of formal institutional recognition, but is instead determined by its crucial and irreplaceable role in the global supply chain and the world's normative order. Ultimately, this study aims to investigate how Taiwan integrates its strengths in the semiconductor sector (the 'Silicon Shield') and democratic values as functional diplomatic instruments to offset the decline in its formal diplomatic recognition during the 2024–2025 period?

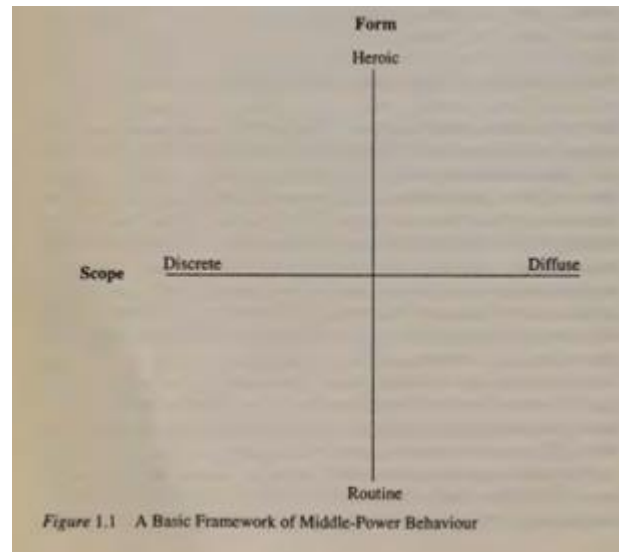
2. Method

This study uses a descriptive qualitative approach to analyse the effectiveness of Silicon Shield and Taiwan's democratic values as functional defence instruments during Lai Ching-te's administration from 2024 to 2025. This approach was chosen because it is designed to produce systematic, detailed, and fact-based descriptions without an emphasis on numerical measurements or quantitative hypothesis testing. This is in line with the nature of international relations research, which aims to understand foreign policy practices and diplomatic narratives in a real-world context (Hall & Liebenberg, 2024). Through a descriptive qualitative approach, researchers can integrate various document sources and text analyses to interpret the strategic meaning behind the use of technological superiority and value legitimacy as an effort to maintain international relevance in a structural context limited by formal state recognition.

Data collection techniques were carried out through documentary research, which compiled and analysed Taiwanese government documents, TSMC annual reports, and international news releases from 2024 to 2025. Government documents include official statements and foreign policy strategies from Taiwan's Ministry of Foreign Affairs, as well as speeches and diplomatic actions by President Lai Ching-te. Corporate data includes TSMC's strategic publications and annual reports that reflect the crucial role of the semiconductor industry in strengthening Taiwan's foreign relations. In addition, reports from reputable international media are used to verify how the Silicon Shield narrative and democratic values are translated into global practice. Document analysis is conducted thematically by identifying policy patterns, key narratives, and the relationship between the Silicon Shield and democratic values in creating functional dependence of global actors on Taiwan.

Theoretical Framework

Niche diplomacy is a key strategy in international relations studies that allows state actors to focus their diplomatic resources on specific issues or areas with high competitive advantages, thereby gaining global influence despite their limited material, political, or formal legitimacy capacities (Tunde, 2020). This concept emphasises the development of specific capabilities and strong cooperation networks in focus areas to achieve functional recognition and engagement outside traditional diplomatic structures. It is particularly effective for small or medium-sized countries that maximise their soft power through specialisation in areas such as technology or normative values.



Within the framework of the Basic Framework of Middle-Power Behaviour, Taiwan's niche diplomacy under Lai Ching-te (2024–2025) can be examined in terms of the operationalisation of two main dimensions: routine forms, namely repetitive institutional mechanisms, policy-based, and technocratic in the management of semiconductors and the articulation of democratic values, and diffuse in scope, spreading to TSMC's global supply chain network and collaboration with diverse international actors without demands for formal recognition (Cooper, 1997). This approach avoids heroic diplomacy (symbolic confrontation) in favour of sustainable stability, positioning Taiwan as a reliable strategic player.

The relevance of niche diplomacy to this study lies in analysing how Taiwan uses its semiconductor superiority and democratic narrative as issue specialisations to build functional cooperation amid formal status limitations. This framework maps Taiwan's strategy in routine-diffuse dimensions, enabling evaluation of the effectiveness of such specialisations in maintaining international relevance through functional capacity.

3. Result and Discussion

Escalation of Diplomatic Isolation and Taiwan's Functional Shift

Under Lai Ching-te's leadership in the 2024–2025 period, Taiwan's diplomatic isolation shows a pattern of systematic and sustained external pressure, mainly as a result of the policies and actions of the People's Republic of China towards Taipei and countries that still maintain formal diplomatic relations with Taiwan. International media reports and official government statements identify a pattern of gradual pressure ("drip, drip" pressure) that includes offering economic incentives, intensifying Beijing's diplomatic approach to target countries, and using limited coercive measures such as military manoeuvres and small-scale economic sanctions. This pattern appears to have intensified both before and after Taiwan's leadership transition in 2024, creating an externally pressurised environment without triggering open escalation (Y. Lee & Blanchard, 2024). In this context, a report by Taiwan's Ministry of Foreign Affairs noted an adjustment in diplomatic strategy, emphasising value-based diplomacy and technical cooperation in response to pressure to maintain Taiwan's formal recognition at a stagnant level (Taiwan Ministry of Foreign Affairs, 2024).

Beijing's pressure on Taiwan's remaining diplomatic allies is also reflected in concrete diplomatic practices that indicate a shift in the political orientation of these countries. Several representatives of countries that had previously consistently supported Taipei have begun attending international forums initiated by Beijing or showing symbolic signs of adjusting their foreign policy. One of the most prominent examples is Nauru's decision in early 2024 to sever

diplomatic relations with Taiwan and re-establish official relations with China, which was reported to be the result of Beijing's intensive economic and political diplomacy (Woo, 2024). Furthermore, reports in 2025 indicate the presence of officials from several countries that still have diplomatic relations with Taiwan at the China–CELAC forum in Beijing, suggesting Beijing's systematic efforts to expand its influence over Taiwan's network of allies through alternative multilateral diplomacy (L. Lee & Baptista, 2025).

The decision by member states of the World Health Organisation (WHO) to once again not invite Taiwan to the World Health Assembly (WHA), despite open calls from a number of democratic countries for Taiwan to be granted observer status, reflects a collective mechanism that limits Taiwan's involvement in global health governance (*WHO States Decide Not to Invite Taiwan to Annual Assembly*, 2024). In the international civil aviation sector, debates over flight route changes and Taiwan's participation in the International Civil Aviation Organisation (ICAO) Assembly reveal recurring institutional obstacles, as reflected in legislative calls from strategic partners such as the United States for Taiwan to gain meaningful participation in the technical body (Shepardson, 2025). A similar pattern can be seen in other multilateral forums, including APEC meetings and various bodies under the United Nations, which continue to restrict Taiwan's participation in accordance with Beijing's enforcement of the "One China" principle.

Empirically, the dynamics of Taiwan's diplomatic isolation during this period are reflected in several key indicators, including the tendency for Taiwanese officials to attend forums organised by Beijing, collective decisions in international institutions to exclude Taiwan despite normative support from some democratic countries, and governance pressure on international technical organisations that narrows Taiwan's formal participation space (Taiwan Ministry of Foreign Affairs, 2024). There are several official explanations from the Taiwanese government which note that a combination of political pressure, economic incentives from Beijing, and procedural constraints in international institutions have resulted in conditions where formal diplomatic recognition remains limited (L. Lee & Baptista, 2025). In this situation, Taipei increasingly relied on functional cooperation and value-based diplomacy as adaptive mechanisms to maintain international engagement amid persistent structural obstacles.

This structural diplomatic isolation formed the strategic context for Taiwan's foreign policy adjustment during the same period. Limited room for manoeuvre in formal diplomacy has prompted the Taiwanese government to shift its diplomatic emphasis from recognition of sovereignty to strengthening its functional role in the international system. In this context, the semiconductor sector has emerged as a foreign policy instrument of high strategic value because it links economic interests with the security considerations of partner countries. Taiwan's technological capabilities in semiconductor manufacturing, centred on TSMC, have enabled Taipei to build international relations based on technical dependence and shared interests, allowing the semiconductor issue to function as an alternative diplomatic channel that complements value-based diplomacy in responding to the political pressure and restrictions on international participation faced by Taiwan.

Semiconductors as a "Silicon Shield"

The period from 2020 to 2025 will see significant changes in the global semiconductor industry configuration as Taiwan Semiconductor Manufacturing Company (TSMC) expands its manufacturing base to a number of countries of high strategic importance. This expansion is not a corporate decision divorced from the political context, but is integrated with the industrial and national security policies of the host countries. The United States, Japan, and Germany are the main investment destinations because all three countries view semiconductors as a structural component that affects economic competitiveness and long-term national security.

In the United States, TSMC is building a manufacturing facility in Arizona with a commitment to invest tens of billions of US dollars. The facility is designed to produce 4-

nanometre node chips and enable gradual technological improvements (Hunnicut et al., 2025). The United States government provides support through subsidies and fiscal incentives under the CHIPS and Science Act, which explicitly links domestic semiconductor production capacity to national security interests and supply chain resilience. This policy indicates that chip production is no longer understood solely as an industrial activity, but as part of the country's strategic infrastructure (Him & Tang, 2026).

In Japan, TSMC's expansion is being realised through the establishment of Japan Advanced Semiconductor Manufacturing (JASM) in Kumamoto with government subsidy support. The initial facility will focus on mature and mid-range nodes to meet the needs of the domestic automotive and electronics industries, while future plans include increasing technological complexity (*TSMC CEO Flags 3-Nanometre Chip Production in Japan, Investment Reported at \$17 Billion*, 2026). The Japanese government has openly placed this project within the framework of its national economic security strategy, primarily to reduce the risk of supply disruptions due to sole dependence on production sites in Taiwan.

In Europe, TSMC's involvement is manifested through its participation in the European Semiconductor Manufacturing Company (ESMC) project in Dresden, Germany, alongside European industry partners. The project has received financial support from the German government and the European Union and is placed within the framework of the EU Chips Act (Vifflin, 2025). The implementation of niche diplomacy through the semiconductor sector, as described above, shows that the 'Silicon Shield' strategy has successfully transformed TSMC from a mere business entity into a vital national security instrument for the stability of the Taiwan Strait. Taiwan's success in integrating its manufacturing facilities into the strategic infrastructure of advanced countries such as the United States, Japan, and Germany through policies such as the CHIPS Act and EU Chips Act proves the strong functional recognition of Taiwan's role in the global digital economy (Blanchard & Hung, 2025). This situation ensures that despite geographical diversification, the most advanced innovation and manufacturing centres remain concentrated in Taiwan. The policy views semiconductors as cross-sector infrastructure that supports the automotive, advanced manufacturing and energy industries, while reflecting Europe's efforts to strengthen strategic technological resilience without completely eliminating its dependence on Taiwan.

Despite geographical diversification through these investments, research findings indicate that the most advanced technological capabilities, particularly 2-nanometre chip production, remain concentrated in Taiwan. Industry reports and official statements from TSMC indicate that mass production of 2-nanometre chips is scheduled to begin in Taiwan in the second half of this decade. Overseas facilities have yet to demonstrate equivalent process capabilities and production volumes in the short term, meaning that the most advanced innovation and manufacturing centres remain in Taiwan (*TSMC Officially Begins 2nm Chip Volume Production in Q4 2025*, 2025).

Global market data reinforces these findings, showing that TSMC controls more than 60 per cent of the global foundry market and dominates nearly all production of the most advanced nodes below 3 nanometres. This position makes TSMC a critical supplier to major technology companies in the United States and its allies, particularly in the development of artificial intelligence, high-performance computing, and advanced defence systems. This dependence is structural because, to date, no other manufacturer has been able to match TSMC's combination of production scale and technological capabilities (Him & Tang, 2026).

Global dependence on 2-nanometre chips has direct implications for the security calculations of major countries, particularly with regard to stability in the Taiwan Strait. Research findings show that although the United States, Japan and Germany are pushing for supply chain diversification to reduce long-term risks, they still have a strategic interest in maintaining the operational stability of TSMC in Taiwan. Serious disruptions to production in

Taiwan could have far-reaching consequences for the technological innovation and defence capabilities of these countries.

The policy responses of partner countries reveal a growing process of technology securitisation. The United States is tightening export regulations and technology transfer restrictions on the grounds of national security, while Japan and Germany are linking financial support for the semiconductor industry to the protection of critical industries and regional stability. This policy pattern confirms a paradigm shift in which technology particularly 2-nanometre node semiconductors is no longer treated as a purely economic issue, but rather as an instrument of national security that affects geopolitical balance and international stability (*TSMC Officially Begins 2nm Chip Volume Production in Q4 2025*, 2025).

Silicon Shield is positioned as a niche diplomatic instrument that serves as a functional diplomatic substitute for Taiwan. TSMC's dominance of over 60 per cent of the global foundry market and virtually all chip production below 3 nanometres has created a structural dependency that compels developed nations to regard the stability of the Taiwan Strait as a matter of their own national security (Varas et al., 2021). TSMC's expansion into the United States via the CHIPS Act (Arizona), Japan (Kumamoto), and Germany via the EU Chips Act (Dresden) during the 2024–2025 period actually strengthens this security shield by integrating Taiwan into the national security infrastructure of its strategic partners, even though cutting-edge innovations such as 2nm chips remain centred in Taiwan (*TSMC Officially Begins 2nm Chip Volume Production in Q4 2025*, 2025). This dependence is operational rather than symbolic, thereby compelling the G7 nations to ensure the stability of the Taiwan Strait in their own interests (Farrell & Newman, 2019; Reinsch & Whitney, 2025). These findings confirm that the Silicon Shield serves as empirical evidence of Taiwan's success in transforming formal (de jure) vulnerabilities into functional (de facto) strengths through niche diplomacy (Kochumon & C.A, 2025; Miller, 2022).

The Value of Democracy as Moral Legitimacy

The implementation of Taiwan's niche diplomacy during Lai Ching-te's administration (2024–present) shows a shift in foreign policy orientation from an emphasis on formal sovereignty recognition to strengthening functional influence based on the normative narrative of the "Frontline of Democracy." An analysis of presidential speeches reveals consistency in positioning Taiwan as an actor that links its political legitimacy to liberal democratic values, particularly in the context of increasing geopolitical pressure in the Indo-Pacific region. The 2026 New Year's speech is an important reference because it contains an affirmation that the protection of constitutional democracy is understood as a political mandate derived from the will of the people. The use of the symbol "Island of Resilience Light of Hope" shapes Taiwan's political identity construction, emphasising institutional resilience and democratic legitimacy, and shifting the discussion of Taiwan from a framework of territorial conflict to a normative discourse relevant to the international democratic community (*Full Text of President Lai's 2026 New Year Day's Address*, 2026).

This narrative is then linked to the intensification of values-based diplomacy involving European countries and the G7 group. Empirical data shows an increase in interactions between Taiwanese officials and European institutions, particularly the European Parliament, which has resulted in a number of resolutions and joint statements on the stability of the Taiwan Strait (Nathan et al., 2021). These statements consistently frame the Taiwan Strait as an issue related to international economic and political stability, without implying formal diplomatic recognition of Taiwan. From a soft power perspective, Taiwan's domestic values such as the rule of law, protection of human rights, and democratic procedures serve as diplomatic resources that enhance Taiwan's political appeal in the eyes of its democratic partners. This pattern demonstrates the formation of normative alignment-based support that expands Taiwan's international interaction space beyond traditional diplomatic mechanisms (Nye, 2021).

Another dimension of Taiwan's niche diplomacy is evident in its use of digital soft power through technology openness policies and disinformation management. Research findings show that Taiwan has developed a multi-actor approach involving state institutions, civil society, and the information technology sector to respond to disinformation operations linked to China's United Front strategy. The relatively high level of public participation in digital transparency initiatives reflects Taiwan's institutional capacity to manage information threats without resorting to repressive restrictions. These practices are also utilised in cooperation with partner countries, particularly in the exchange of experiences related to information governance and digital security. The difference in approach between Taiwan's digital openness and China's more controlled model of political communication reinforces the perception of Taiwan as an actor that promotes democratic principles in the digital space (Cooper, 1997).

Within the framework of niche diplomacy, Taiwan's strategy for the period 2024–2025 shows a concentration of diplomatic resources on niches of values and policy practices that are highly relevant in the international environment. Rather than pursuing a broad spectrum of diplomacy, Taiwan is focusing its policies on issues that are in line with its institutional capacity and political identity, particularly constitutional democracy and digital governance (Gardner et al., 2024). This approach is in line with the concept of niche diplomacy, which emphasises that countries with structural limitations can maintain international engagement through specialisation in issues that are recognised and needed by other actors in the international system. In this context, the "Frontline of Democracy" narrative serves as a conceptual framework that unifies normative and policy dimensions, while clarifying Taiwan's position in a value-based cooperation network without relying on formal diplomatic recognition (Miskimmon et al., 2018).

The application of niche diplomacy also demonstrates efforts to convert symbolic recognition into functional recognition that can be operationalised in international relations. Taiwan's involvement in policy dialogue, exchange of expertise in handling disinformation, and digital collaboration with democratic countries reflects a form of engagement that is repetitive and institutionalised. This pattern shows that the effectiveness of niche diplomacy does not depend on expanding the number of formal diplomatic partners, but rather on a country's ability to maintain access, presence, and influence in relevant international policy processes. Thus, the case of Taiwan provides empirical contributions to the understanding of niche diplomacy as an adaptive strategy for small countries facing political pressure and limitations on sovereignty recognition.

Table 1 Effectiveness Analysis: Formal VS Functional

Niche Instrument	Formal Status Regression (De Jure)	Functional Influence Progression (De Facto)
Semiconductor Sector	Taiwan faces obstacles in signing formal free trade agreements (FTAs) due to pressure from the PRC's "One China" policy (Shepardson, 2025).	The creation of the "Silicon Shield" through TSMC's investments in the US, Japan, and Germany, forcing the G7 to guarantee the stability of the Taiwan Strait as their national security (Ito, 2026).

Democracy Value Sector	Taiwan has lost its seat in international organisations (WHO/UN) and continues to experience a reduction in official diplomatic allies (Woo, 2024)	Recognition of Taiwan as the "Frontline of Democracy" where European and US parliamentary delegations are increasing official visits as a form of solidarity with values (<i>Full Text of President Lai's 2026 New Year Day's Address</i> , 2026)
Cyber Security Sector	The absence of formal defence pacts with most countries in the world, except for limited relations with the United States (Farrell & Newman, 2019)	The formation of an informal defence alliance in handling hybrid threats from the PRC through digital openness and institutionalised information and communications technology (ICT) collaboration.
State Representation Sector	Representative offices are prohibited from using the name "Taiwan" or any state attributes in many world capitals.	The representative office in Europe (Czech Republic/Lithuania) functions as a "Functional Embassy" that handles strategic issues related to chips and cyber security (Grieger, 2024)

The above data analysis shows that the decline in Taiwan's formal recognition is not an indicator of weakening international influence. On the contrary, there has been a conversion of power, whereby failures in traditional diplomatic channels have been aggressively compensated for through the control of strategic assets (semiconductors) and moral legitimacy (democracy). This proves that Lai Ching-te's leadership strategy has succeeded in creating global dependence that renders formal status irrelevant as long as Taiwan's functional status remains the 'heart' of the Western world's economy and values.

Furthermore, the effectiveness of Taiwan's niche diplomacy lies in the government's success in strategically compensating for the loss of legal-formal recognition by strengthening its functional position in the global supply chain. Although Taiwan has lost several official allies, TSMC's investment data for the 2024–2025 period explains that developed countries' dependence on 2nm nodes has created a "Silicon Shield" that automatically internationalises the issue of Taiwan Strait security. This proves that semiconductors are no longer merely an economic commodity, but have shifted to become an instrument of national security that forces major countries to ensure regional stability for the sake of their own digital economy.

In terms of democratic values, President Lai Ching-te's consistent narrative of the "Frontline of Democracy" has succeeded in building strong moral legitimacy on the international stage. In his explanation, there are several joint statements between Taiwan and the G7 countries indicating that support for Taiwan is now based more on its identity as a liberal democracy than on its formal sovereignty status. This strategy has effectively transformed Taiwan's position from an object of territorial dispute to an important subject in global normative alliances, where the strengthening of representative offices in Europe (such as in the Czech Republic and

Lithuania) serves as "functional embassies" that handle strategic issues ranging from chips to cyber security (Grieger, 2024).

From the above explanation, the author argues that although Taiwan faces limitations in terms of legal and formal recognition in the international system, its functional position demonstrates a high level of connectivity and importance for influential countries. This condition highlights the difference between *de jure* recognition, which relates to legal status and formal membership, and *de facto* recognition, which arises from practical dependence on certain capacities. In the context of Taiwan, limitations in the formal realm do not negate its international relevance, as Taiwan's functions, particularly in the strategic technology sector, are integral to global economic and security interests. Thus, formal isolation is not synonymous with substantive marginalisation in the practice of international relations.

Taiwan's indispensability is most evident in its role in the global semiconductor industry, particularly in the manufacture of the most advanced technology chips. The concentration of production capacity has created structural dependence for developed countries whose industries rely on artificial intelligence, high-performance computing, and modern defence systems. This dependence is not symbolic but operational, as disruptions to the semiconductor supply chain would directly impact the technological capabilities and national security of partner countries. In this context, Taiwan functions as a critical node in the global economic network, making its continued stability a shared interest of major actors, regardless of Taiwan's legal position in the formal diplomatic order.

This situation has given rise to a paradoxical dynamic in the policies of Taiwan's partner countries. On the one hand, there are efforts to reduce risk through production diversification, onshoring, and friend-shoring. On the other hand, these policies are accompanied by measures that implicitly aim to maintain Taiwan's operational stability, as its technological capacity cannot be fully replaced in the short term. This pattern shows that technological dependence has transformed into a security consideration, where access to Taiwan's production capabilities is treated as a strategic asset (Farrell & Newman, 2019).

From the perspective of niche diplomacy, the case of Taiwan shows how countries with limited formal recognition can utilise functional advantages to maintain international influence. Technological specialisation has enabled Taiwan to convert structural vulnerabilities into diplomatic resources that influence the behaviour of other countries. Taiwan's indispensability does not lie in its legal status, but in its irreplaceable function in the contemporary international system. This finding reinforces the argument that in the context of technology-based geopolitical competition, a country's relevance and bargaining power are not solely determined by formal recognition of sovereignty, but by its ability to provide strategic capabilities needed by other actors in the global system (Miller, 2022).

4. Conclusion

The implementation of Taiwan's niche diplomacy during Lai Ching-te's administration from 2024 to 2025 has proven successful in shifting Taiwan's position in the international system from merely a "territorial issue" to a "global asset" with high strategic value. Although Taiwan experienced a regression in formal diplomatic recognition—such as the loss of its official ally Nauru due to Beijing's "drip, drip pressure" tactics—the country actually experienced a strengthening of its functional role through its dominance in specific sectors that are not easily replaced. This paradigm shift confirms that *de facto* recognition built through tangible contributions to economic stability, technological security, and the global normative order can be an effective diplomatic resource to compensate for the limitations of *de jure* recognition.

The effectiveness of this strategy stems from the synergy between economic-security instruments and moral legitimacy. The "Silicon Shield" strategy, reinforced by TSMC's global investments in the United States, Japan, and Germany, has created a structural dependency that

compels developed countries to guarantee the stability of the Taiwan Strait for their own national security. In parallel, the "Frontline of Democracy" narrative and identity as the "Island of Resilience" have successfully built strong moral legitimacy on the international stage, transforming Taiwan's position from an object of dispute to an important subject in global normative alliances with G7 countries and the European Union.

The main implication of these findings is that in contemporary international relations, functional capacity carries strategic weight that is equal to or even surpasses formal diplomatic status. The relevance of an actor is now more determined by its crucial role in the global supply chain and its ability to provide strategic functions that are internalised by the interests of other countries. Therefore, this study recommends the importance of consistency in technological innovation, particularly in the most advanced chip manufacturing such as 2nm nodes, as a key prerequisite for maintaining competitive advantage and ensuring that Taiwan remains a functionally indispensable actor amid evolving geopolitical dynamics.

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