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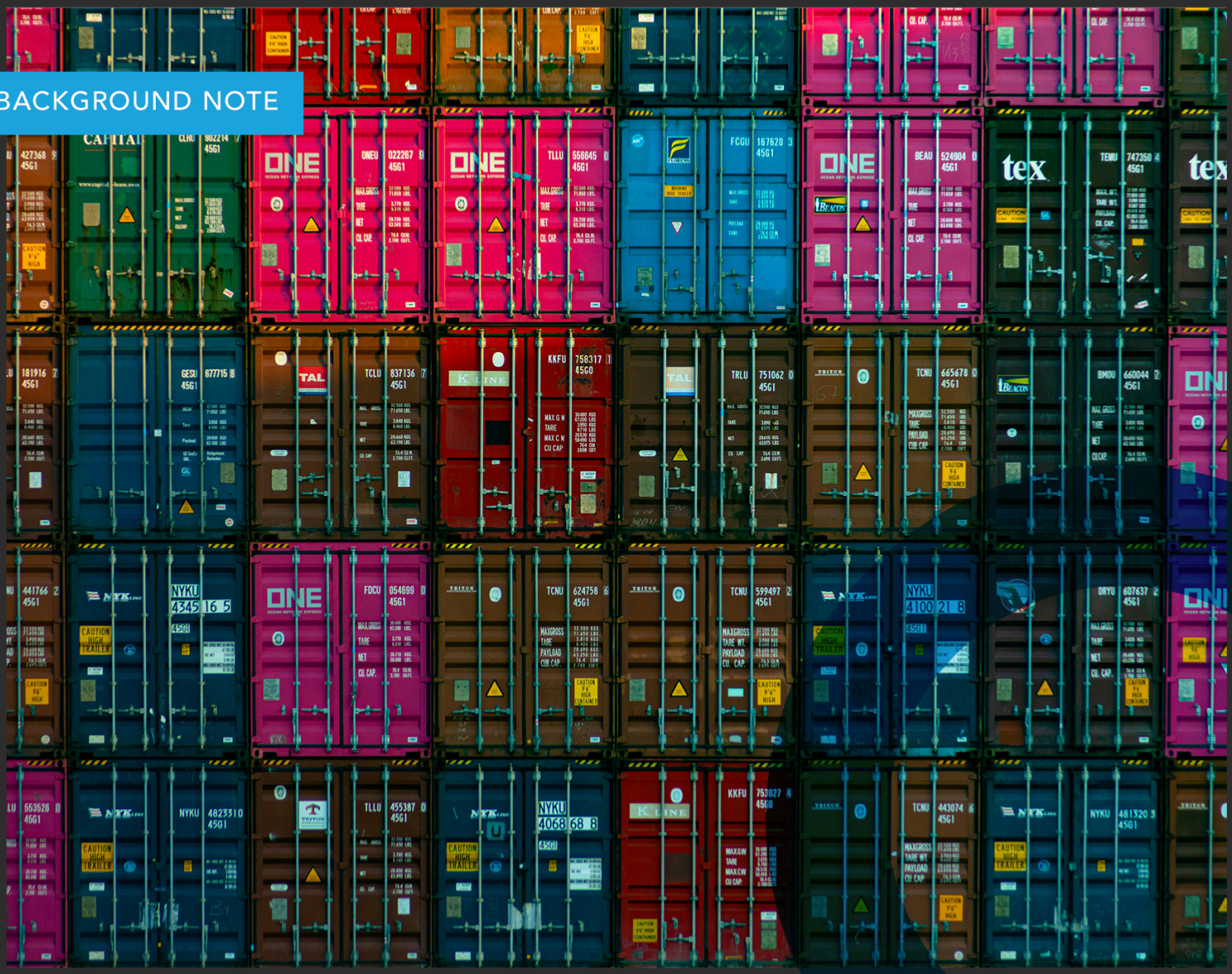

CANADA–TAIWAN TRACK 1.5 DIALOGUE:

The Economic Security Imperative for Canada and Taiwan

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BACKGROUND NOTE

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The Economic Security Imperative for Canada and Taiwan

A Background Note in support of APF Canada's Track 1.5 Canada–Taiwan Dialogue on Economic Security on March 18, 2026, co-hosted with the Canadian Trade Office in Taipei (CTOT), the Ministry of Foreign Affairs, Republic of China (MOFA), National Taiwan University (NTU), and the University of Ottawa. This Strategic Dialogue will feature a discussion on strengthening economic security co-operation between Canada and Taiwan.

Economic security has emerged as a defining priority for governments around the world. The intensifying strategic competition between major powers, the weaponization of trade and technology, and the growing vulnerability of complex global supply chains have blurred the traditional boundaries between economic policy and national security. For open, trade-dependent economies such as Canada and Taiwan, these shifts present both significant risks and new opportunities for strategic co-operation.

Both economies rely heavily on global markets and highly specialized sectors that are exposed to external disruptions. Taiwan's economic success rests on its central role in global technology supply chains, particularly semiconductors, while Canada's economy depends significantly on natural resources, advanced research ecosystems, and access to international markets. At the same time, both face growing geopolitical pressures linked to their largest trading partners and to the broader fragmentation of the global economic order.

In this environment, strengthening economic security requires trusted partnerships that can enhance supply chain resilience, diversify trade and investment relationships, and support the development of critical technologies. Canada and Taiwan possess highly complementary capabilities in this regard. Canada brings abundant natural resources, leadership in artificial intelligence research, clean energy expertise, and strong regulatory institutions. Taiwan, meanwhile, sits at the heart of the global semiconductor ecosystem and has developed a world-leading advanced manufacturing and technology innovation base.

These complementary strengths create significant opportunities for collaboration across several sectors critical to economic security: semiconductor supply

chains, artificial intelligence and digital infrastructure, critical minerals and clean technologies, and emerging defence-related industries. Closer co-operation can help both sides reduce vulnerabilities, strengthen trusted technology ecosystems, and contribute to broader efforts among like-minded partners to build more resilient and secure economic networks.

Canada's policy framework already recognizes the importance of engagement with Taiwan. While Ottawa remains officially committed to its One China Policy, which recognizes the People's Republic of China (PRC) as the sole legitimate government of China and neither challenges nor endorses the PRC's position on Taiwan, Canada maintains unofficial but valuable economic, cultural, and people-to-people ties with Taiwan. This strategic relationship was reaffirmed by Canada's 2022 Indo-Pacific Strategy, which called for broad-based engagement with Taiwan.

Recent Bilateral Agreements

The Canadian and Taiwanese governments have reached several key agreements to promote and facilitate investment, technological co-operation, and other forms of multilateral engagement.

TRADE AND INVESTMENT

In 2024, Taiwan was Canada's 15th largest trading partner globally and sixth largest in Asia, with bilateral merchandise trade reaching C$6.0 billion. Canada imported C$4.0 billion in high-value goods—primarily semiconductors, computers, and telecommunications equipment—while exporting C$2.1 billion, largely consisting of natural resources like coal and iron ore.

The total stock of Taiwanese direct investment in Canada stands at C$7.3 billion, making it the seventh largest source of investment from the Indo-Pacific. This investment is concentrated in industrial and consumer goods and services, with considerable Taiwanese interest in Canadian electronics companies.

The total stock of Canadian direct investment in Taiwan in 2024 stood at C$105 million. Canadian companies are major investors in Taiwan's energy sector, especially its offshore wind power.

The two economies already have strong trade and investment foundations through bilateral agreements and frameworks, including the Foreign Investment Promotion and Protection Arrangement, and the Collaborative Framework on Supply Chains Resilience. However, to further advance bilateral trade, in 2025, Canada and Taiwan finalized the bilateral Trade Co-operation Framework Arrangement (TCFA), covering digital trade, energy transition and supply chain resilience, including semiconductors. The TCFA is currently under review.

TECHNOLOGY AND INNOVATION

Canada and Taiwan have also expanded collaboration in science and technology.

The Science, Technology, and Innovation Arrangement, signed in 2024, aims to establish business-led co-innovation partnerships in high-tech sectors under the Canadian International Innovation Program, as well as expanded research collaborations across the Canadian and Taiwanese ecosystems.

Currently, there are calls for application from the Canadian International Innovation Program and Canadian Technology Accelerators, and a joint Canada-Taiwan call for proposals on semiconductors and artificial intelligence (AI). The three-year Mitacs NARlabs Agreement also aims to cultivate talent by creating opportunities for international research collaborations for Canadian and Taiwanese students and postdoctoral fellows.

INFORMATION AND KNOWLEDGE SHARING

Canada and Taiwan also cooperate through broader multilateral mechanisms.

A notable minilateral agreement encompassing both Taiwan and Canada is the Global Co-operation and Training Framework (GCTF), which leverages Taiwan's strengths and expertise to jointly organize training programs on issues of mutual concern.

Since its inception in 2015, the GCTF has organized 94 international workshops on topics including public health, law enforcement co-operation, women's empowerment, energy efficiency, e-commerce, information security, humanitarian assistance and disaster relief, and media literacy. In August 2024, Canada joined Australia, Japan, and the U.S. in becoming a CGTF member.

Finally, the Memorandum of Understanding (MOU) on Dark Vessel Detection System, signed in August 2025, allows Canada to share satellite data with Taiwan to help the latter identify illegal fishing vessels in its waters.

1. Building a Safe, Open Digital Economy with Chips, Talent, and Trusted Partners

SEMICONDUCTOR SUPPLY CHAIN RESILIENCE

Semiconductors are a foundational hardware for all modern digital infrastructure, from smart phones to advanced AI. Consequently, semiconductor manufacturing and supply chain resilience remain central to maintaining national technological sovereignty and global economic competitiveness.

Taiwan plays a dominant and central role in the global semiconductor industry, producing over 60 per cent of the world's semiconductors and over 90 per cent of the most advanced ones.

The semiconductor industry is built on a complex global supply chain that is highly vulnerable to external disruptions. Taiwan faces two main types of supply chain challenges: first, semiconductor manufacturing is energy intensive, and the island relies on imported energy sources; and second, the manufacturing process requires critical raw materials and equipment parts that are sourced outside of Taiwan. Some of these critical raw materials, like specialty chemicals and gases, also have a limited shelf life and cannot easily be stored in large quantities.

Canada is a net importer of semiconductors, and its industries depend on advanced semiconductor components that Canada cannot manufacture locally. Any events that could compromise Taiwan's trade linkages or the suppliers of its semiconductor industry would have a major impact on its semiconductor production, impacting both the Canadian and broader global economies.

Major industrial countries have announced and are implementing semiconductor-related industrial policies aimed at fostering local expertise and manufacturing capacity to enhance their economic and national security. While Canada is the only G7 country currently without a national semiconductor strategy, it does have a vibrant ecosystem to produce exceptional researchers and technical talent for the sector. The Canadian government has also mobilized capital to invest in domestic research and development capabilities.

To strengthen and consolidate Taiwan's global leadership in semiconductor design and manufacturing, Taiwan passed the Taiwanese Chips Act in 2023 and launched the Taiwan Chip-based Industrial Innovation Program in 2024. Its flagship company, the Taiwan Semiconductor Manufacturing Company (known more commonly as TSMC), has started to diversify its manufacturing capabilities with new facilities in Japan, Germany, and the U.S. However, Taiwan's government remains committed to maintaining its dominance in semiconductor manufacturing capacity.

AI AND THE FUTURE OF DIGITAL ECONOMY

The growing demand for semiconductors is partly driven by the booming commercial AI sector. Canada is a global leader in AI research and development and has been investing in these capabilities through the Pan-Canadian Artificial Intelligence Strategy, the world's first national AI strategy. The strategy focuses on commercialization, standards building, and talent recruitment. The Canadian government is also drafting a new AI strategy, for which it recently concluded the public consultation process, and is increasingly shifting its focus to commercialization—considered a significant area for improvement in Canada's technology ecosystem.

Taiwan's AI Taiwan Action Plan 2.0 aims to commercialize AI to drive industrial transformation, develop AI projects to tackle major societal issues, such as labour shortages, and improve Taiwan's AI competitiveness via partnership building with other economies. Taiwan recently passed the Artificial Intelligence Fundamental Act, which establishes a framework for a human-centric AI governance model.

Taiwan and Canada have both prioritized developing sovereign cloud infrastructure to support a sovereign AI ecosystem. In late 2025, Taiwan opened its first national cloud computing centre in Tainan, equipped with a powerful supercomputer to advance its "sovereign AI" goals and is part of its Ten Major AI Infrastructure Projects initiative to strengthen its AI capabilities beyond being just a chip-manufacturer.

2. Critical Minerals and Clean Tech

CRITICAL MINERALS

Computer chips, permanent magnets, and other components used in electric vehicle (EV) motors, are made with critical minerals. China currently dominates the production of these minerals and has been increasingly willing to weaponize its control over the global supply of these minerals for geopolitical advantage.

While Taiwan does not use many of the critical minerals directly, it is an important node in the global critical mineral value chain and imports many materials and parts that contain these minerals. It recently announced initiatives to support local critical mineral production and aims to meet 50 per cent of the domestic demand for critical minerals by 2029. Taiwan, however, is not part of any major international rare earths or critical minerals initiatives, besides the U.S-led Pax Silica.

Canada is already a major centre of the global mining industry and has abundant reserves of the critical minerals that are essential to key technologies. It leads the G7 effort to strengthen the critical minerals supply chain, and has launched its own Critical Minerals Strategy to position itself as a leading, sustainable, and secure global supplier of critical minerals.

ENERGY SECURITY

Digital infrastructure requires vast amounts of energy, and Taiwan has very limited domestic production, importing 95 per cent of its energy as of 2024. Taiwan's energy sector, already highly susceptible to external disruptions, will be further strained by the rising energy demand from its semiconductor industry and the future AI economy.

Canada is a leading energy exporter and has started to diversify its energy trade away from the U.S. through its first liquefied natural gas shipment to Asia in June 2025. It is also a global leader in renewable energy and shares significant expertise in clean technologies. As a pioneer in the hydrogen and fuel cell sector, Canada has launched a national hydrogen strategy. It is also actively developing new nuclear technology and has already approved the construction of the first operating commercial small modular reactors in any G7 country.

3. Defence Industrial Co-operation

Taiwan's prosperity and economic security rely on trade linkages with the global economy. However, rising geopolitical tensions between Taiwan and China could greatly undermine Taiwan's trade connectivity. China has been routinely conducting military drills around Taiwan, simulating the seizure and blockade of its key areas.

Canada has responded to the growing calls to invest in its military and reduce its reliance on the U.S., especially as the U.S.-Canada relationship deteriorates. The recently announced Defence Industrial Strategy (DIS) marks the official policy pivot to transform the Canadian Armed Forces into a modern self-sufficient military force.

UNMANNED WEAPON SYSTEMS

The Russia-Ukraine war has showcased the lethality and utility of drone systems, including their ability to degrade enemy hardware and provide integrated battlefield support. Their asymmetrical advantages are especially pertinent to the Taiwan context, given China's vast superiority in absolute military strength. As such, Taiwan is rapidly expanding its drone capabilities as a key part of

its defence strategy against China, which is the world's largest producer of drones and an active user of drone capabilities to disrupt Taiwanese society.

In response, Taiwan has launched several initiatives. This includes the Drone National Team in 2022 to enhance its indigenous design and production capabilities through civil-military partnerships. To enhance its commercial drone sector, Taiwan's Ministry of Economics also established a Taiwan Excellence Drone Industry Business Opportunities Alliance in 2024 to co-ordinate collaboration among its companies. The Ministry of Foreign Affairs set up a drone diplomacy task force in 2025 to expand the overseas market for its domestic drones. Currently, the government is in the process of passing a special defence budget to procure over 200,000 different uncrewed weapon systems.

The Canadian military also recognizes the importance of drones, and the government is seeking to expand its drone capabilities. The Canadian government will create a Drone Innovation Hub in 2026 at the National Research Council with an investment of C$105 million over three years. Canada also has an untapped homegrown drone industry with roughly 1,000 companies involved in production and sales.

DUAL-USE PLATFORMS

The ascension of drone capabilities to a top strategic priority reflects a broader trend of incorporating mature and commercially available systems in military domains. From DJI drones to MDA's space imaginary satellites, dual-use technologies are force multipliers and effectors for militaries around the world.

Taiwan is actively seeking to incorporate commercial products to strengthen its military. Its Ministry of National Defense has established a Defense Innovation Office that aims to identify and procure innovative products and solutions from Taiwan's commercial sector.

Canada already has initiatives to expand partnerships between its military and the commercial sector. The Innovation for Defence Excellence and Security program is designed to improve the Canadian Department of National Defence's access to the creative potential of Canadian innovators and build a collaborative ecosystem. Innovative Solutions Canada also provides funding opportunities to commercialize Canadian innovations in defence technology.

It is also worth noting that quantum technology has become a new frontier as this nascent technology becomes increasingly important for national security. Canada launched the Canadian Quantum Champions Program in 2025 to anchor top-tier quantum firms in Canada. Its defence establishment is also seeking to establish a Defence Innovation Secure Hub to streamline collaboration on research and deployment between industry and government entities.

Taiwan has convened a National Quantum Team and launched a Quantum Taiwan initiative in 2022 to create a comprehensive public-private partnership to invest in quantum technology. Quantum technology is also included in its Ten Major AI Infrastructure Projects announced in May 2025, as Taiwan aims to leverage its expertise in semiconductors to supercharge its quantum sector.

DEFENCE INDUSTRIAL BASE

The development of critical emerging military capabilities requires a defence industrial base and a resilient innovation ecosystem with trusted partners.

Canada's DIS is a clear response to this requirement. It identifies 10 key sovereign capabilities that the Canadian defence ecosystem needs to develop and deploy. It aims to create new government entities to co-ordinate research, investment, and procurement efforts. These entities include the Defence Investment Agency, the Bureau of Research, Engineering and Advanced Leadership in Innovation and Science, and a new Science and Research Defence Advisory Council. The DIS also establishes a framework for building homegrown key industries, partnering with trusted allies for exquisite capabilities, and buying from others with a guarantee of domestic investment and Canadian control.

Taiwan is also moving forward with its plan to achieve self-reliance in national defence. Its military is prioritizing domestic suppliers in the procurement process and implementing programs that support Taiwan's shipbuilding and aviation industries. Its first domestically built submarine has just concluded its first submerged sea trials.

To ensure the resilience of its defence industrial ecosystem, the Taiwanese government has employed a 'non-Red' supply chain standard to eliminate exposure to China in its military equipment and other critical infrastructure. Furthermore, its Five Trusted Industry Sectors Promotion Plan outlines goals to develop Taiwan into a defence industrial powerhouse, especially in drone manufacturing, in the Asia Pacific.

4. Working Together to Defend Against Economic Coercion

Taiwan's security is threatened by China's grey-zone tactics, namely, non-kinetic actions such as economic coercion, to undermine Taiwan's defence capacity and civilian leadership. Beijing has regularly used tourism restrictions, import bans, and regulatory fines to try to influence Taiwan's domestic political process. Canada has also been a target of China's economic coercion tactics, including, recently, a 75.8 per cent provisional quota on Canadian canola seed in August 2025.

Cyberattacks have also caused significant economic damage and societal disruption to both Taiwan and Canada. State-sponsored hackers, allegedly linked to China, have routinely targeted both economies to exploit sensitive information and infiltrate critical infrastructure.

KNOWLEDGE SHARING

Taiwan has significant experience in dealing with economic coercion and other grey-zone activities, and its knowledge is being shared with like-minded governments through the above-mentioned Global Co-operation and Training Framework. Taiwanese civil society is also working to strengthen societal resilience against hybrid threats and has created independent organizations, like The Taiwan FactCheck Center, to raise awareness and engage with a broader audience.

Canada is also facing intensifying grey-zone threats. It is part of the G7 Rapid Response Mechanism that strengthens G7 co-ordination to identify and respond to foreign state-sponsored disinformation. The University of Toronto's Citizen Lab is a global leader in investigating novel threats to democracy and global security in the digital ecosystem, and Canada also has a robust cyber security sector supported by the Canadian Centre for Cyber Security, which works closely with cross-sectoral and international partners to provide critical threat intelligence.

DIPLOMATIC AND TRADE ENGAGEMENT

Although diplomatically isolated, Taiwan is actively advocating for more meaningful participation in the UN system and other international organizations. It is also leveraging its own industrial and technological prowess to enhance its engagement with official allies through the Diplomatic Allies Prosperity Project. To diversify its trade partners and minimize overreliance on any single market, Taiwan is implementing the New Southbound Policy to strengthen Taiwan's relations with its southern neighbours through bilateral co-operation in trade, technology, agriculture, and education.

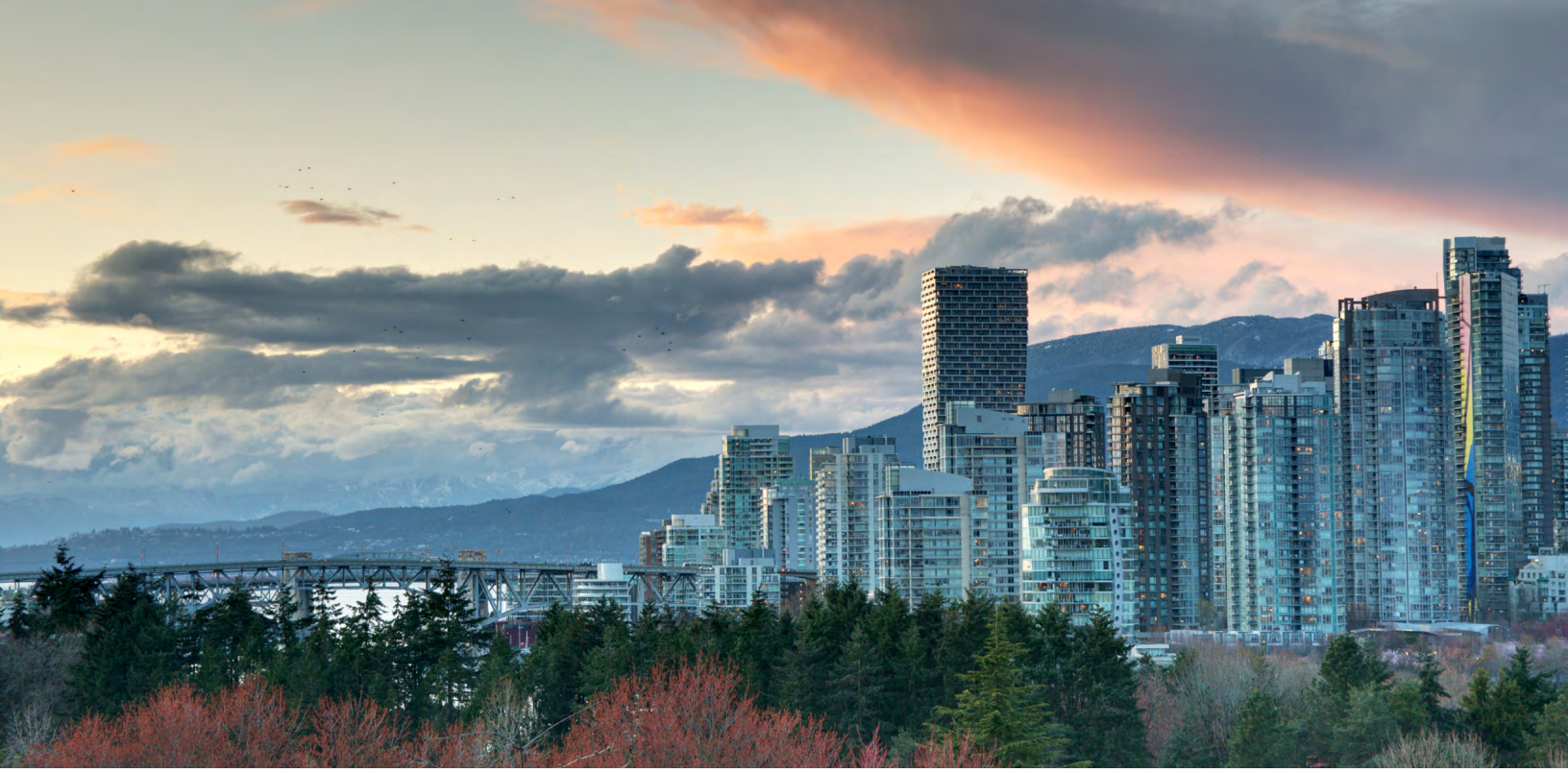
For its part, Canada is looking to deepen both its transatlantic ties and Indo-Pacific presence. It already has a comprehensive free trade agreement and a Strategic Partnership Agreement with EU and is a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which Taiwan has applied to join. Canada's connections with both Asia and Europe make it a natural linkage between these two blocs with vast trade and diplomatic potential. In addition, Taiwan is expanding its partnerships with European countries through Taiwan-led multilateral platforms like the RISK Management Initiative on International Undersea Cables.

Roadmap for the Future

The issues outlined in this paper highlight several areas where Canada and Taiwan share interests related to economic security. These include resilient technology supply chains, critical minerals and energy systems, digital governance, emerging technologies, and responses to economic coercion.

Existing bilateral frameworks and multilateral initiatives provide opportunities for dialogue and collaboration in these areas. At the same time, broader geopolitical developments and domestic policy priorities will continue to shape how Canada and Taiwan engage with one another.

The discussions during this Track 1.5 dialogue provide an opportunity to explore these issues in greater depth and to consider how existing partnerships, policy frameworks, and industry initiatives might contribute to stronger economic resilience and co-operation in the future.



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