

Adjusting to the U.S. Economic Policy in the Era of Trump 2.0: the Case of Taiwan—Myth, Reality, and Challenges

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From President-Elect Donald Trump's perceptions and statements along the campaign trails, some observations are in order, although there may well be some readjustments to the campaign rhetorics when the Trump administration is well grounded. Here, let me summarize in the following 3 key points:

1. Re-positioning the High-Tech Supply Chains: With Trump's accusation on Taiwan's "stealing America's chip industry," and his attack on the U.S. Chips Act, this may imply an imposition of 10%~20% tariff on chips and a stop on subsidies for the TSMC's manufacturing base in Arizona. Responding to the U.S. advocacy on globalization, Taiwan in the past 5 decades has been contributing to serve the U.S. tech giants, including Apple and Nvidia, and the global supply chains in the chips industry. Elon Musk has demanded that Taiwan's satellite-components suppliers transfer manufacturing facilities off the island, given the geo-political risk assessment. This may hallow out Taiwan's future AI industries. TSMC was also asked to decouple from its supply of 7-nano and even more advanced chips to China, and is planning on new strategy for global positioning. Taiwan may have to reshuffle its supply chains by out-locating manufacturing bases in the U.S. and elsewhere (already in Japan and Germany) with investment portfolios from "China +1" to "Taiwan +1". Some Taiwanese companies have invested in Viet Nam substantively so as to link onto the EU markets, and Foxconn along with Inventech in Mexico onto the U.S. market, and some others in India for the semiconductor industry. There has been, in Taiwan, an accumulated trade surplus of US\$15 billion since the U.S. purchase orders have shifted out of China. For the upcoming Trump approach to

trade, Taiwan plans to install trade balance by increasing purchase of the U.S. agro-products, energy products, and weapons.

2. Challenging Maneuvering for Increasing Defense Budget:

During his campaign, Trump repeatedly cast doubt on the future extent of support to Taiwan. In interviews, Trump has stuck up with the long-standing “strategic ambiguity” when pressed about whether the U.S. would defend Taiwan if under attack. He maintained that “Taiwan should pay us for defense...We are no difference than an insurance company, ...Taiwan didn’t give us anything.” Taiwan’s military spending stands at 2.6% of its GDP today and may well be hiked up by Trump’s requirement of up to 10%. Actually, Taiwan’s arms purchase from the U.S. has experienced from “no supply” to “no delivery” of desired items such as missiles, F-16V fighters, etc. In reality, Taiwan has always been an asset, not a liability, not only in the Pacific Ocean’s First Island Chain, but also in revitalizing the U.S. manufacturing bases, and upgrading the global supply chain resilience by establishing industrial zones in Europe and Southeast Asia.

3. Challenges Abound with the Cross-Strait Trade Relationship:

In May this year, China reinstated tariff on 134 imported items from Taiwan, as the Ministry of Finance said that Taiwan did not reciprocate China’s favorite treatments. The Economic Cooperation Framework Agreement (ECFA), signed in the year 2000 between the Mainland China and Taiwan, will most likely face the pressure from China for further retreat. With the upcoming Trump. 2.0. at play, Taiwan’s functional utilities of sort in the Sino-U.S. trade and technology warfares may increase or diminish over time in accordance with their uncertain shifting relationship.

In conclusion, Taiwan’s adjustments to the Trump’s economic policy will be exerting and challenging.