



THE ICAT LOGISTICS

Bottom Line Newsletter

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U.S.-TAIWAN TRADE AND TECHNOLOGY

SUMMARY

This August, the U.S. Senate passed the United States-Taiwan Initiative on 21st-Century Trade First Agreement Implementation Act, initially announced in June 2022. The Act aims to develop concrete ways to deepen the economic and trade relationship between the U.S. and Taiwan. This agreement could be critical in supporting the U.S. supply of semiconductors and curbing China's military technology ambitions.

BACKGROUND

Economically, Taiwan is dependent on Beijing. However, Taiwan relies on Washington for its security and international political support.

The island is in a precarious position—Beijing claims the self-governing island as part of its territory and threatens to annex it. The two countries split during the civil war that brought the Communists to power in China in 1949, with the losing Nationalists setting up their government in Taiwan.

Even though Taiwan has its own government, democratic elections, and army, most governments worldwide do not recognize it as a country. Taiwan has no interest in being ruled by communist China.

Under President Tsai Ing-wen and the DPP party, the democratic island has chosen to align more closely with the U.S., its most significant unofficial ally and supplier of arms. China has accused Taiwan of using economic and trade issues to seek independence.

CURRENT STATUS

Last year, Taiwan was the U.S.' ninth-largest trading partner, while the U.S. was Taiwan's second largest and one of its most important sources of foreign direct investment and technological input. AIT Director Sandra Oudkirk said that bilateral investment between Taiwan and the U.S. in the semiconductor, electric vehicle, and 5G industries would help increase employment and economic growth and boost cultural exchanges and business opportunities. Many U.S. states have established offices in Taiwan over the past three years amid a closer relationship between Taiwan and the U.S.





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Taiwan dominates the foundry market, or the outsourcing of semiconductor manufacturing. Its contract manufacturers together accounted for more than 60% of total global foundry revenue last year, according to data from Taipei-based research firm TrendForce.

Semiconductors have become a flashpoint issue between the United States and China, which are locked in a fierce battle over access to chipmaking technology and supplies. The Biden administration said it plans to stop shipments of advanced A.I. chips and chipmaking tools to China to curb the country's military development and slow its artificial intelligence progress. The Biden administration is worried that China's access to advanced chips could help the Chinese military with developments in guided missiles and surveillance systems.

In a recent briefing, Commerce Secretary Gina Raimondo said that the rules were aimed at hobbling advances in China's military, even as she acknowledged they would have broader commercial impact. U.S. companies like Nvidia that want to sell advanced chips and chipmaking tools to China must tell the U.S. government or get a special license.

In contrast to this stance, the United States has extended a waiver to Taiwanese semiconductor giant TSMC to supply U.S. chipmaking equipment to its factories in China.

IMPACT

The U.S.'s desire to control this critical supply chain is understandable. Given its current structure, the risks for disruption in the semiconductor supply chain are significant. The source of the disruption could be a natural disaster like an earthquake or typhoon, a global shock to trade like the COVID-19 pandemic, a disturbance caused by political considerations such as an armed conflict, or other factors. Potential risks to the semiconductor supply chain are especially acute in Taiwan, given its complex political situation and the challenges posed to it by China.

China's Foreign Ministry spokesperson, Mao Ning, criticized the prospect of tighter U.S. chip restrictions on Monday and said China would safeguard its interests. "The U.S. needs to stop politicizing and weaponizing trade and tech issues."

RESOURCES:

- [Taiwan, US Officials Talk Investment](#) (Taipei Times)
- [Biden Administration Limits China's Access to AI Chips](#) (Forbes)
- [2 Charts Show How Much the World Depends on Taiwan for Semiconductors](#) (CNBC)
- [US Extends China Chip Waiver for Taiwan's TSMC: Minister](#) (BARRON'S)
- [Commerce Department Moves to Cut Key Supply Lines to China's AI Industry](#) (MSN)
- [U.S. Imposes Foreign Direct Product Rule on China for AI and Supercomputing](#) (The Washington Post)

