

U.S.-China Trade War and Decoupling from China in the Biden Era

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Abstract

After the fierce and contentious 2020 U.S. presidential election, Joe Biden won for the presidency. One pressing question is whether the Biden administration will reverse Trump's economic policies toward China. Given the challenge of power structure change from China, the new American government may be left without many alternatives but to continue Trump's policies in general. But the approach is likely to be a more multilateral approach, and be responsive to the interests of allies and domestic corporate interests. In protecting its economic security, Taiwan should diversify its global economic partnership and reduce its dependence on China. Further, Taiwan should upgrade its domestic infrastructure and design effective policy incentives for global investors to invest in Taiwan, making Taiwan a high-end technology hub. Lastly, Taiwan should seek the active participation in the Resilient Supply Chain Initiative, cooperating with U.S. and its allies in restructuring global supply chains.

Keywords: Trade War, Chip War, United States, Taiwan, China

I. Introduction

Before the 2020 U.S. presidential election, U.S. President Donald Trump released a statement that introduced a collection of speeches titled *Trump on China: Putting America First*. This publication lays out the shift of American foreign policy during the Trump term of office. The speeches contain high-level and groundbreaking remarks on China made by Vice President Mike Pence, Deputy National Security Advisor Matthew Pottinger, Secretary of State Mike Pompeo, and Trump. Their remarks point out that the Communist Party of China (CPC) poses a severe threat to American economic and political life. President Trump is confronting an increasingly assertive

China. During his term, Trump stood up against a rising China more than any of his predecessors. Strategically, he seeks to form and reinforce an Indo-Pacific alliance containing China. Diplomatically, the U.S. government introduced a series of Taiwan-friendly policies to strengthen its security and diplomatic commitments to Taiwan. Economically, he started a trade war and chip war against China and sanctioned Chinese citizens who violated human rights in Hong Kong. The Trump administration also encouraged allies to decouple from China and restructure the global supply chain. Internationally, Trump held Beijing accountable for many global problems, such as COVID-19 and global environmental pollution. Structurally, the U.S. and China are undergoing serious power competition.

In late October, 2020, just before the U.S. presidential election, the CPC was holding its fifth plenary session of the 19th Central Committee. It initiated the 14th five-year plan (2021-2035). As China is rivaling the U.S. over issues in trade, Hong Kong, Xinjiang and human rights, and economic shocks after the coronavirus pandemic, Xi acknowledged the ongoing power transition and the emerging uncertainty that complicates the global situation China has to tackle. Recognizing technological innovation as critical to support national development, Xi called for China to achieve self-sufficiency in manufacturing critical components in the next 15 years, to protect China from sanctions imposed by the White House. The People's Liberation Army (PLA) will complete another round of reform for dealing with multi-directional military challenges. In strengthening national security, Xi ordered the PLA to "comprehensively enhance military training and preparation for war" (全面加強練兵備戰). Possible flashpoints include the China-India Himalayas border region, the Taiwan Strait, the South China Sea, and the Indo-Pacific maritime region.



Figure 1. The Fifth Plenary Session of the 19th CPC Central Committee in Beijing

Source: “Communique of 5th plenary session of 19th CPC Central Committee released,” October 30, 2020, *The State Council The People’s Republic of China*, <http://english.www.gov.cn/news/topnews/202010/30/content_WS5f9b6f64c6d0f7257693ea0a.html>.

Joseph R. Biden won the U.S. presidency after a fierce and contentious election. Many are concerned that Biden will reverse Trump’s attitude and policy toward China. However, it is almost certain that the power-competing structure between the U.S. and China will not disappear anytime soon. Like Trump, Biden and his team have to deal with the structural contradictions, and he will face the repercussions left by Trump. During his election campaign, Biden recognized China as a rising and assertive competitor, positioning Beijing in a more moderate manner. Thus, the coming Biden administration may adjust and seek approaches different from the Trump administration. This article will focus on the economic dimension of the possible shift during the Biden era. The following sections will give an overview of the current economic war between the U.S. and China, discuss possible scenarios after the U.S. 2020 election, discuss Washington’s chip war against China and the aftermath, and conclude with a discussion regarding how can Taiwan react to enhance its economic security.

II. An Overview of U.S.-China Economic War

During the 2016 U.S. presidential election, the then-Republican candidate Donald Trump accused China of being a long-term currency manipulator and severely criticized China’s unfair trade practices, which led to its subsequent trade imbalances with Mainland China and the weak performance of the U.S. economy. As a result, Trump pledged to launch a retaliatory trade policy against China. As figure 2 shows, the U.S. trade deficit with China increased from US\$13 billion in 1991 to US\$347 billion in 2016 when Trump was running for President. Almost 50% of the U.S.’ worldwide trade deficit resulted from trade with China. In 2018, the trade imbalance with China reached a record at US\$419 billion. Trade disputes between the U.S. and China became a prominent national economic issue at the end of the 2010s. No matter who won the U.S. presidency in 2016, the White House would needed to have done something to correct this structural problem.

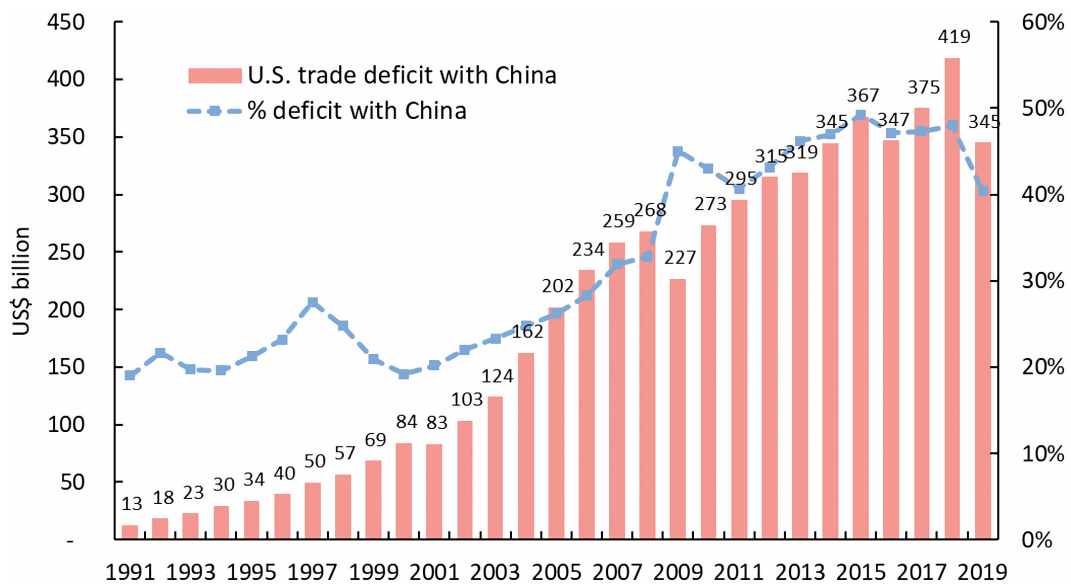


Figure 2. U.S.-China Trade Deficit since 1991

Source: United States Census Bureau, “Trade in Goods with China,” October 28, 2020, *United States Census Bureau*, <<https://www.census.gov/foreign-trade/balance/c5700.html>>.

After Trump won the presidency in 2016, he started to tackle the trade issue with China. His government began to implement retaliatory trade policies against China in early 2018. On August 4, 2018, Trump tweeted that “Now we have a Trade Deficit

of \$500 Billion a year, with Intellectual Property Theft of another \$300 Billion. We cannot let this continue!” In July 2018, the U.S. imposed the first tariffs on US\$34 billion of Chinese goods. It was followed by several waves of tariffs imposed on China. By the end of August 2020, the U.S. had implemented tariffs on US\$550 billion of Chinese products. As the U.S. punished China, the Trump administration anticipated China to back down and yield substantial trade interests to the U.S. However, China did not answer positively to the U.S. Instead, China also implemented tariffs against U.S. goods, which amounted to US\$185 billion of U.S. products. Although both countries continue their trade talks, the two sides are still in stalemate. To Trump, at a macro-level, a trade war could correct the trade imbalance with China. Compared with 2018, as shown in Figure 2, the U.S. improved its trade deficit with China by about US\$74 billion, or 17.7%, in 2019. The percentage of U.S. worldwide trade was also down about 8% in the same year. The figure reduced was far from perfect, but Trump’s trade policy toward China shows that his tough stance on China worked and controlled U.S.’ soaring trade deficit with China since the 1990s.

In addition to the trade dispute with China, Trump is particularly concerned about China’s unreasonable or discriminatory policies that put burdens and restrictions on U.S. commercial interests. In 2017, he issued a memorandum to the Office of the United States Trade Representative (USTR) stating that:

China has implemented laws, policies, and practices and has taken actions related to intellectual property, innovation, and technology that may encourage or require the transfer of American technology and intellectual property to enterprises in China or that may otherwise negatively affect American economic interests. These laws, policies, practices, and actions may inhibit United States exports, deprive United States citizens of fair remuneration for their innovations, divert American jobs to workers in China, contribute to our trade deficit with China, and otherwise undermine American manufacturing, services, and innovation.¹

He asked the USTR to investigate problems resulting from U.S.-China economic

1. White House, “Presidential Memorandum for the United States Trade Representative,” August 14, 2017, *White House*, <<https://www.whitehouse.gov/presidential-actions/presidential-memorandum-united-states-trade-representative/>>.

exchanges in technology transfer, intellectual property, and innovation under Section 301 of the Trade Act. After a seven-month investigation, the USTR report titled “Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974” found many unfair trade practices initiated by China and in particular emphasized the problem of technology transfer. The report found that China’s intellectual property theft has cost the U.S. economy US\$225-600 billion every year.

According to the report, U.S. disadvantages resulted from China’s foreign ownership restrictions, including opaque and discretionary administrative approval processes, joint venture requirements, foreign equity limitations, procurement, and regulation or intervention in U.S. companies’ operations in China. Ultimately, China pressured U.S. companies to transfer technologies and intellectual property to Chinese companies. China’s policies also allowed the acquisition of U.S. companies and assets to obtain cutting-edge technologies and intellectual property in essential industries. Lastly, China’s policies facilitated unauthorized access to intellectual property, trade secrets, and confidential business information, including technical data, negotiating positions, and sensitive and proprietary internal business communications.² The alleged theft would support China’s strategic goal at the expense of U.S. national interests.

These aspects not only involve economic interests but may also spill over to the national security interests of the U.S. As a result, the Trump administration opened another front in the trade war that restricts China’s investment in critical technological industry. In 1988, U.S. Congress enacted the Exon-Florio Amendment to review foreign investment in the U.S. As growing foreign enterprises seek to acquire U.S. companies, the law delegates the U.S. president the power to rule against investment projects that would harm national interests. The Committee on Foreign Investment in the United States (CFIUS) housed in the U.S. Department of the Treasury is authorized to review and to determine whether the transactions will affect U.S. national security. Based on CFIUS’ investigation, the U.S. president can decide whether to turn down

2. See note 1 and also Chi Hung Kwan, “The China-US Trade War: Deep-Rooted Causes, Shifting Focus and Uncertain Prospects,” *Asian Economic Policy Review*, Vol. 15, No. 1, 2020 January, pp. 55-72.

the proposed investment from abroad. The interests that the CFIUS concerns include not only national defense but also involves economic security, such as critical infrastructure, technology, or energy-related areas. The questionable transactions, particularly technology transfer between the U.S. and China raised by the USTR, fall within the scope of CFIUS' investigation.

Furthermore, Trump signed the *Foreign Investment Risk Review Modernization Act* (FIRRMA) and *Export Control Reform Act* (ECRA), which further expands the jurisdiction and funding of the CFIUS and the countermeasures against suspicious technology transfer. The CFIUS became an essential apparatus for scrutinizing more Chinese investments and had disapproved of many Chinese acquisition plans in the U.S. For example, in 2018, the Chinese Ant Financial Services Group's US\$1.2 billion plan to acquire MoneyGram International was denied. This proposal failed out of the concern that this hi-tech financial acquisition plan would encourage suspicious financial transactions and jeopardize Americans' financial information security.

Another prominent case is the U.S. ban on Huawei and ZTE. Huawei was accused of violating U.S. economic sanctions against Iran, which has been able to purchase Huawei technological products using U.S. technology. Huawei was thriving on U.S. software and hardware technologies and manufacturing facilities while being subsidized by China's national security apparatus. Huawei could be an accomplice in stealing information about U.S. national security and could possibly paralyze the U.S. information and communication system if a large-scale U.S.-China conflict arises.

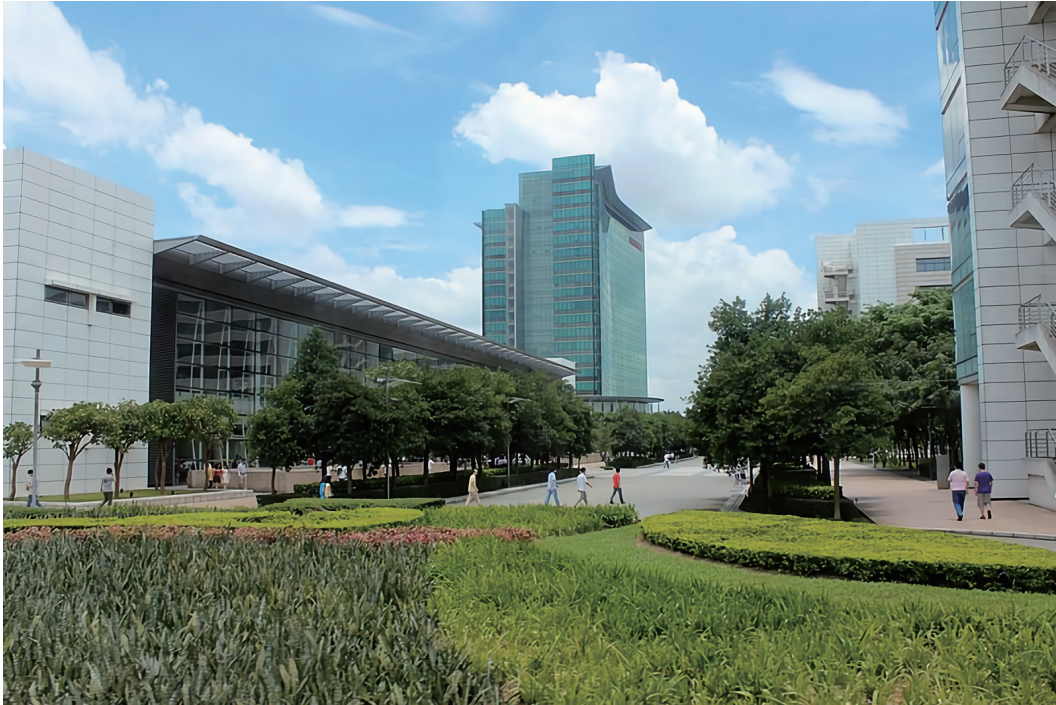


Figure 3. Huawei's Headquarters in Shenzhen, China

Source: Wikipedia, "Huawei Headquarters, Bantian, Shenzhen," November 9, 2020, *Wikipedia*, <https://commons.wikimedia.org/wiki/File:Huawei_Headquarter,_Bantian,_Shenzhen_-_panoramio.jpg>.

In May 2019, Trump issued an executive order identifying that foreign threats to communications networks, technology and services constitute a national emergency. Huawei was banned from purchasing parts and components made by U.S. companies. Trump's attempt to counter China's information technology companies was also manifest in placing Keith Krach as the Under Secretary of State for Economic Growth, Energy, and the Environment. This post had been vacant until June 2019 when Trump started to impose sanctions on Huawei. Krach was a Silicon Valley veteran. Right after assuming his post at the State Department, he visited different countries and Silicon Valley, and called on worldwide technological industries to cooperate with Trump's "Clean Network" policy against companies like Huawei, companies that are sabotaging the national security of many countries and infringing on human rights. Australia, Japan, and several European countries have so far accompanied American's refusal of Huawei's 5G telecommunications infrastructure.

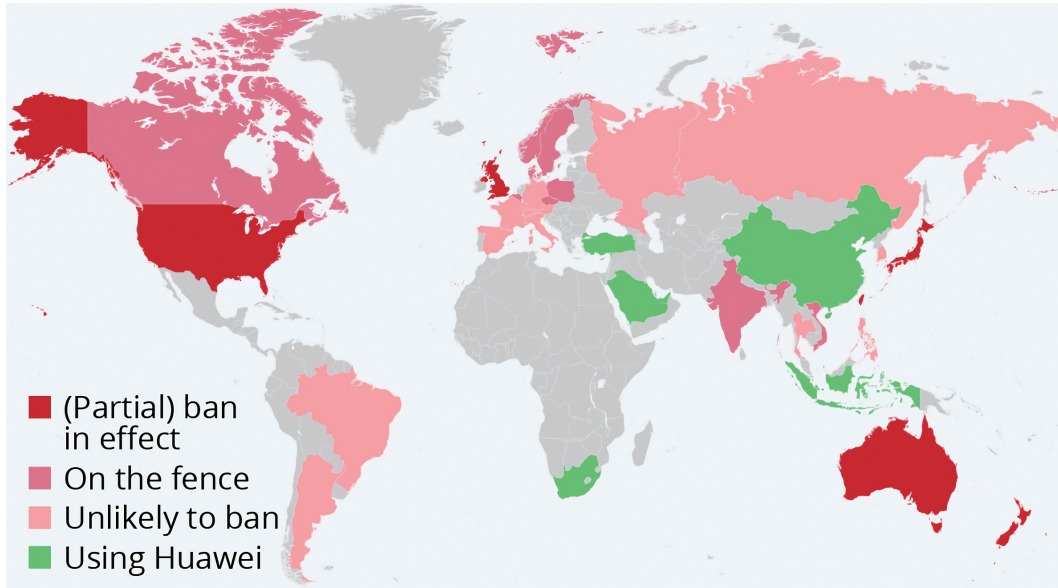


Figure 4. Global Ban on Huawei

Source: Katharina Buchholz, “Which Countries Have Banned Huawei?” January 30, 2020, *Statista*, <<https://www.statista.com/chart/17528/countries-which-have-banned-huawei-products/>>.

In sum, Trump’s actions to correct the U.S.-China economic imbalance at least comprises three dimensions and two goals. The three dimensions include, first, imposing high tariffs on Chinese trade products; second, tightening the review processes, particularly on suspicious investments from China; third, seeking international support in blocking China’s high-tech companies. One of the expected goals is to boost the American economy by improving U.S.-China trade imbalances and the international competitiveness of U.S. multilateral enterprises. The second goal is to fend off China’s political ambition made possible by its economic penetration into American society. These dimensions and goals will be integrated into the decoupling of the U.S. and Chinese economies and attempts to restructure global supply chains.

III. Economic War after the 2020 Election

Acting tough against China when he was running for the U.S. presidency in 2016, President Trump has fulfilled considerable campaign promises. As the contradictions in the U.S.-China relationship continue to grow, thanks partly to COVID-19 from China, one can expect Trump to continue his anti-China policies. The situation shaped by Trump will be inherited by the incoming U.S. President, Joe Biden. Since the U.S.-

China relationship has seen a fundamental change over the past few years, global competition between the two powers is likely to remain. Nevertheless, the situation and the approach adopted by Biden as President may be slightly different.

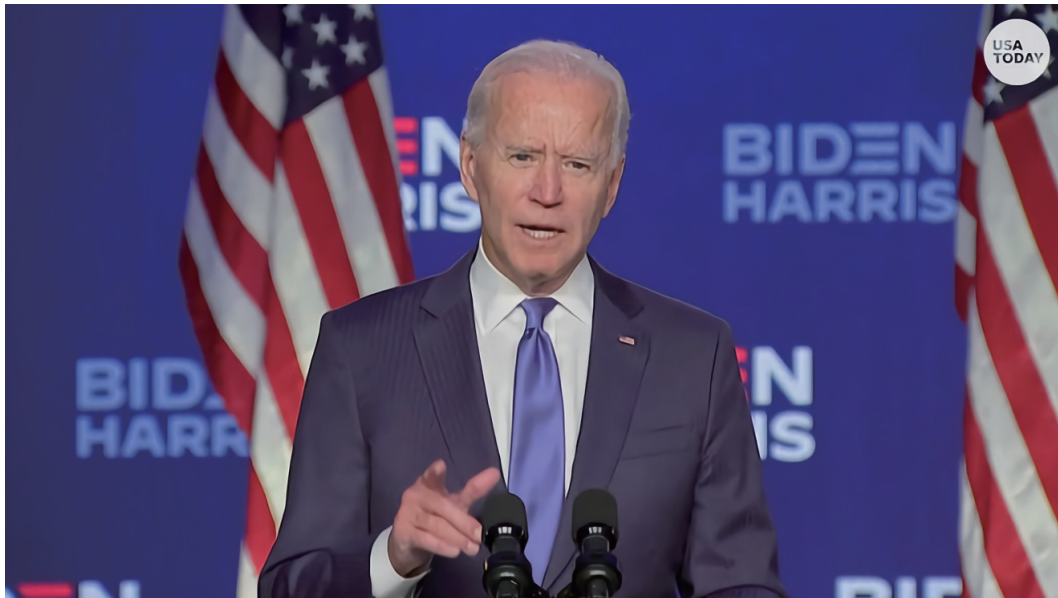


Figure 5. Joe Biden Spoke That He Is Going to Win the Election

Source: Savannah Behrmann, “Election results update: Biden says he has a ‘clear majority’ in speech asking for nation to be patient,” *USA TODAY*, November 7, 2020, <<https://www.usatoday.com/story/news/politics/elections/2020/11/06/election-results-updates-biden-trump-georgia-pennsylvania-nevada/6183784002/>>.

Will the new U.S. president Joe Biden overturn Trump’s economic policies against China? Regarding Trump’s policy in raising tariffs on Chinese products, Biden criticized it as “hollow” and considered such an act to accelerate the decline in U.S. manufacturing industries. Biden supported free trade as he supported the *North American Free Trade Agreement* (NAFTA) in 1994, and also China entering the World Trade Organization (WTO) in 2001. However, in identifying his stance on imposing tariffs, Biden stated in front of the United Steelworkers union that “I will use tariffs when they are needed, but the difference between me and Trump is that I will have a strategy—a plan—to use those tariffs to win, not just to fake toughness.”³

3. David Lawder & Trevor Hunnicutt, “Pulled in Many Directions, Biden May Keep Trump’s China Tariffs in Place,” *Reuters*, September 8, 2020, <<https://www.reuters.com/article/us-usa->

As figure 6 shows, the U.S. total import value of iron and steel from China amounted to 36% of the total value from around the world, the total quantity in weight accounted for 48%. This phenomenon indicates that China’s iron and steel exporting price was lower than the average world price. The under-pricing has long been seen by the U.S. government and the steel manufacturing sector as China’s unfair subsidy policy and thus required strict punishment. Both Figures 2 and 6 demonstrate that after Trump imposed high tariffs on Chinese products, the U.S. trade imbalance with China improved in 2019. The improvement was also evident in reducing U.S. reliance on China’s sensitive products like iron and steel. From the U.S. national interest standpoint, Biden may be left limited space to be too critical of Trump’s protectionist trade policy. Trump has somehow solved the trade issue that the Obama administration, in which Biden served as the Vice President, had failed. As a result, Biden may even continue Trump’s trade policy to China after assuming presidency.

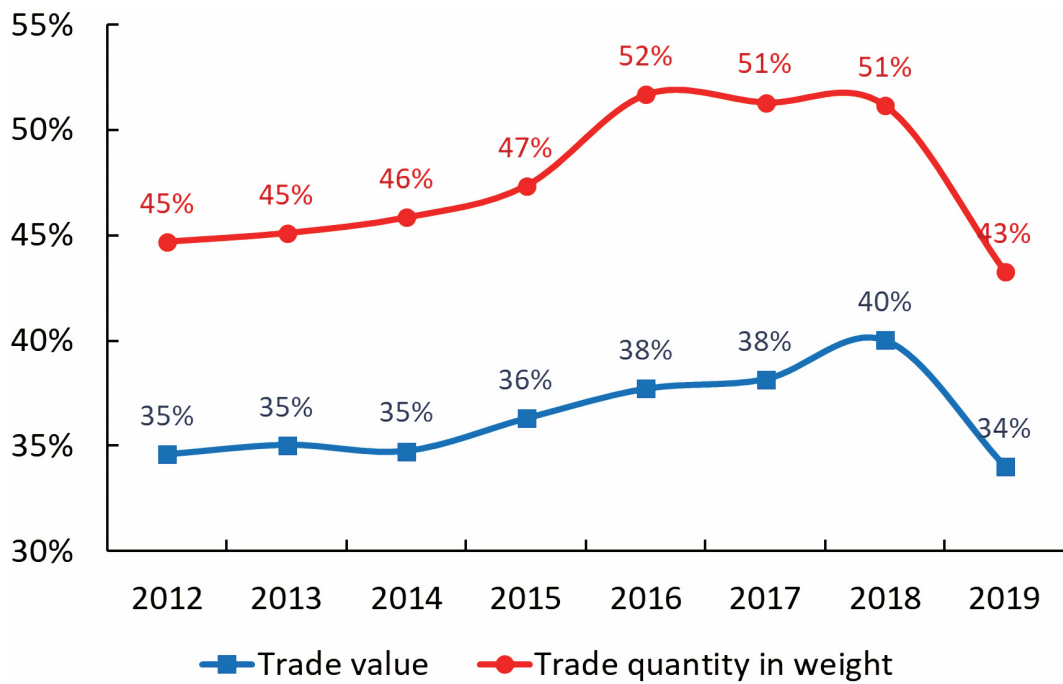


Figure 6. Percentage of U.S. Imports of Iron and Steel from China

Source: U.N. Comtrade Database, “U.N. Comtrade Database,” October 29, 2020, *U.N. Comtrade Database*, <<https://comtrade.un.org/data>>.

Regarding scrutinizing Chinese investment, both Republicans and Democrats have similar stances, especially in Congress. For example, a high bipartisan consensus was reached in the House by both parties in July 2020 to prohibit federal employees from downloading TikTok due to national security concerns. Joe Biden's presidential campaign also asked staff to remove the app from their devices for the same security concerns. TikTok's parent company, ByteDance, is currently reviewed by the CFIUS over national security concerns for its acquisition of Musical.ly in 2017.⁴ In July 2020, Biden stated that:

Beijing's new national security law—enacted in secret and sweeping in scope—is already dealing a death blow to the freedoms and autonomy that set Hong Kong apart from the rest of China..... (I would) prohibit U.S. companies from abetting repression and supporting the Chinese Communist Party's surveillance state..... (I would) impose swift economic sanctions (if Beijing) tries to silence U.S. citizens, companies, and institutions for exercising their First Amendment rights.⁵

His stance on China's investments that have national security concerns appears no different from Trump's. Both sides have pledged to act tough on China. As Trump has proved his resolution by initiating a series of punishments toward Chinese companies, Biden showed an even stricter stance in convincing voters that he will take action to protect U.S. national interests from China's infiltration.

Kurt Campbell, who was the top Asia official in the Obama government and now a senior advisor to the Biden campaign, stated that “there is a broad recognition in the Democratic Party that Trump was largely accurate in diagnosing China's predatory practices.”⁶ A Biden government is likely to continue or even expand Trump's policy,

4. Lauren Hirsch, “Mnuchin Confirms Tiktok is Under CFIUS Review Following National Security Concerns,” *CNBC*, July 29, 2020, <<https://www.cnbc.com/2019/11/04/tiktok-inquiry-is-the-latest-example-of-us-focus-on-china-access-to-data.html>>.

5. Trevor Hunnicutt, “Biden says new China national security law a ‘death blow’, weighs sanctions,” *Reuters*, July 2, 2020, <<https://www.reuters.com/article/us-hongkong-protests-usa-election-idUSKBN2426ZR>>.

6. Ishaan Tharoor, “What the U.S. election means for China,” *Washington Post*, October 7, 2020, <<https://www.washingtonpost.com/world/2020/10/07/what-us-election-means-china/>>.

competing with China in high-tech sectors such as artificial intelligence, quantum computing and the next-generation 5G wireless standard. Seeing China as a disruptive competitor, these practices do not primarily target fixing trade imbalances, boosting U.S. tech companies, or reducing U.S. economic dependence on China. A more pressing goal concerns curbing China's economic power that has now become a threat to the U.S.

Although Biden will face the same structural challenges as confronted President Trump, his team emphasizes a more multilateral approach, which means that the mobilization of international support is needed before the U.S. acts. However, in reality, not all U.S. allies support the decoupling from China, especially those close to China and those with a tight economic relationship with China. If a stern gesture is absent from Joe Biden, international support may not readily appear. In addition, compared with Trump, a Biden government may become more responsive to the calls from Wall Street and Silicon Valley to resume more open economic policies toward China. These corporations have huge sunk interests in the Chinese market. In this election, these two sectors donate the largest amount of campaign contributions to the Biden's camp. In the short-term, Biden will have to deal with such pressure and form a China policy satisfactory to the corporate interests out of a confrontational structure between both powers. Such a task will be difficult for Biden.

IV. U.S.-China Chip War and Its Effects

Semiconductor makers are deeply involved in the U.S.-China trade war. Cutting-edge chips, or integrated circuits, are critical components to generate sophisticated military power and communication infrastructure in the military standoff. Countries that secure the source of the most advanced chips enjoy an advantage in the event of a war. Thus, in a world of information and technology, national capabilities depend on the availability of high-end chips and the technology to produce them.

The Trump administration reflects this attitude. The U.S.' chip business with China is more than just an economic issue; it concerns national security as mentioned in the previous section. Chinese high-tech companies, such as Huawei, or the semiconductor manufacturers that fuel Huawei, have frequent dealings with U.S. businesses. They are currently eroding U.S. national security by narrowing the U.S.-

China power gap and penetrating the U.S.' domestic infrastructure. These Chinese companies thrive on U.S. software and hardware technologies and manufacturing facilities while receiving subsidies from and maintaining a close relationship to China's national security apparatus. They have become Beijing's accomplices in stealing information about U.S. national security and may paralyze the U.S. information and communication system if a large-scale U.S.-China conflict arises. As a consequence, the U.S. has to diminish the high-tech companies that pose a threat to U.S. national security before they dominate the market. Further, Washington has to solve the predicament in which the U.S. is over-dependent on China, diversify its supply chains, and attach more weight to countries in the free world with international supply chains.

Thus, the Trump administration is pushing cutting-edge chip makers to comply with his Huawei ban to stop technology companies that use American patents and technology from supplying suspicious Chinese companies like Huawei. Taiwan Semiconductor Manufacturing Company (TSMC) is the leader in the industry that uses American technology. Its business relies heavily on American tech industries. Consequently, TSMC has limited choice but to fully comply with the Huawei ban. The most advanced chips manufactured by TSMC drives the U.S.'s development of artificial intelligence, 5G network and F-35 jet fighters, all of which are important power dimensions in the future. For the U.S, to widen the U.S.-China power gap it must ensure that Huawei cannot obtain TSMC chips. One of the reasons for the U.S. Under Secretary of State Keith Krach's visiting Taiwan in September 2020 was further to consolidate TSMC's cooperation with Washington's China policy and facilitate TSMC's upcoming investment in Arizona. If a cross-Strait crisis erupts, TSMC's production in Arizona will continue to supply critical components to the U.S. for its own high-end electronic products.



Figure 7. The U.S. Under Secretary of State, Keith Krach, Taiwan President Tsai Ing-wen and Former Chairman and CEO of TSMC Morris Chang

Source: Office of the President (R.O.C., Taiwan), “President Tsai holds a banquet for US Under Secretary Keith Krach and accompanying delegation,” November 1, 2020, *Office of the President*, <<https://english.president.gov.tw/News/6042>>.

Economically, Chinese companies are huge exporting outlets and critical trading partners to many U.S. allies like Japan, whose 20% of trade volume depends on China. Huawei purchases many image sensors and flash memory chips from the Japanese companies Sony and Kioxia. If these two go along with the U.S. sanctions, their businesses will suffer tremendous losses. Taiwan’s high-tech industries are also caught in this battle. Taiwan remains highly dependent on trade with and investment in China, and hence is unable to shrug off the latter overnight.

China is Taiwan’s biggest exporting market. Electronic components account for the largest share of Taiwan’s total exports. Figure 8 demonstrates that the share of Taiwan’s electronics exports to China out of its worldwide exports climbed from 41% in 2003 to 53% in 2019. Of all the electronic components to China in 2019, almost

60% are integrated circuits (ICs). About 68% Taiwan-manufactured ICs end up in the Chinese market. Leading companies like TSMC and MediaTek not only contribute a significant share of domestic economic development but are also leading companies in global supply chains, and supply high-tech companies such as Huawei and Xiaomi. Under intense pressure from the U.S. to comply with sanctions, Taiwan must try to lower its reliance on Chinese markets and seek to diversify the destination of its semi-conductors.

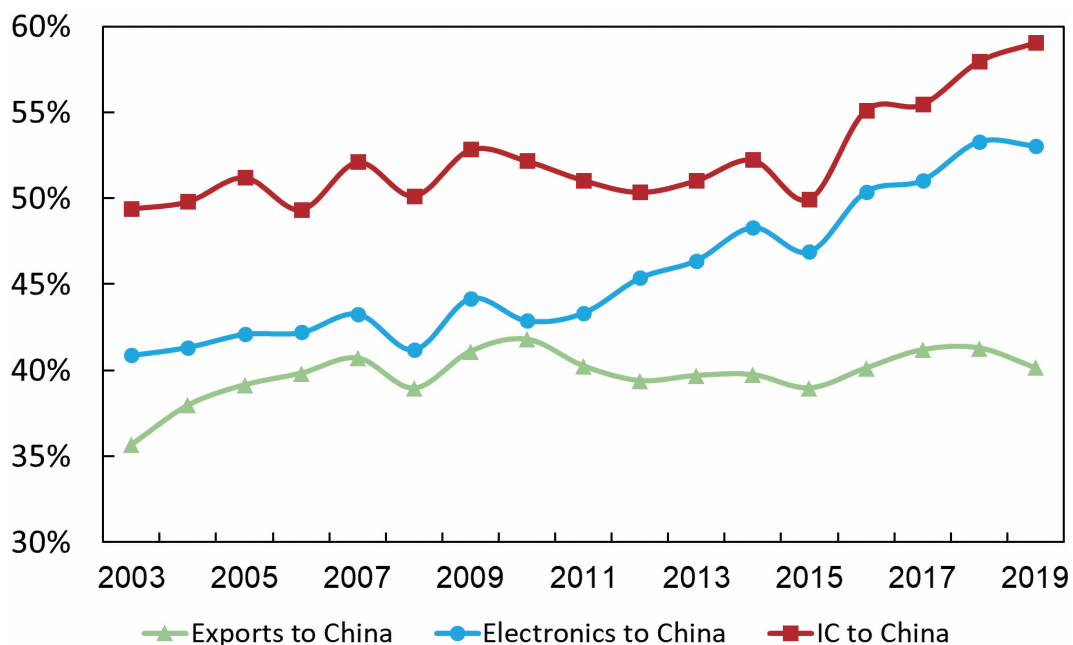


Figure 8. Percentage of Taiwan's Electronic Components Exports

Source: CPT Single Window, "Customs Port Trade Single Window," October 2, 2020, CPT, <<https://portal.sw.nat.gov.tw/APGA/GA35E>>.

After Biden won the U.S. presidency, he may try to lower the U.S.' current stance on the chip war toward China. Although Biden shares the national security concerns of Trump, he has accused Trump's trade deal of causing damage to U.S. manufacturing. Biden has also promised to adopt a more global approach to deter the influence of Chinese companies, which means that the interests of allies will be likely to be considered in any trade deal with China. Chip makers based in the U.S. and allying countries could expect a weaker ban on Chinese companies like Huawei, thus lowering economic costs. The Biden camp received a massive amount of campaign contributions from Silicon Valley. He is likely to answer their calls for softer regulations.

Further, many worldwide chip makers have applied to the U.S. government for the approval to export materials to Huawei. Many big chip suppliers, such as AMD, Intel, SONY, Howe Technology, Samsung, and even TSMC, are granted permission to supply specific chips to Huawei. Biden may relax the export restrictions further and approve chips for mature technology, including products above the 28nm, such as standard laptops.⁷ Chips above 28nm are still within the scope of China's manufacturing capacity. Instead of entirely cutting off U.S. businesses' interests from China, a Biden administration will become more tolerant of low-end electronics products. These products are less likely to jeopardize U.S. national and global interests. However, for high-end technology, the ban is likely to continue. Biden winning the presidency will not change the fact of a power transition occurring between the U.S. and a rising China. To secure U.S. national interests, both Trump and Biden will have their eyes on China's high-tech industries. Both will make sure to block China from obtaining critical components that allow the narrowing of the power gap between the two.

For Taiwan, although Biden may not be as keen to warm up the U.S.-Taiwan relationship as the Trump team, he still needs cooperation from the Taiwan side to maintain U.S. advantage over China in the high-tech industry. Taipei will continue to receive pressure from Washington. In the view of the U.S., Taiwan is likely to answer the requests from America because the island needs Washington's promise of protection the most. So far, it remains unclear whether the government and enterprises of Taiwan are willing to side with the U.S. and boycott China's high-tech industries. Taiwan's government will continue to be on the receiving end of pressure exerted by the U.S. and has to come up with effective economic and industry policies to lead Taiwanese enterprises to match up with the U.S.' strategy of constructing clean global supply chains. Taiwan's high-tech industries are bound to be pressed by both the U.S. and Taiwan government to reconsider their business relations with red supply chains.

V. Conclusion: Taiwan's Economic Security

Faced with a new Biden administration, Taiwan should prepare for a possible change of U.S. external economic policies. Although the extent of the trade war may

7. Efe Udin, "Top 5 Chip Makers that can Supply Huawei Presently," *GizChina*, November 3, 2020, <<https://www.gizchina.com/2020/11/03/top-5-chip-makers-that-can-supply-huawei-presently/>>.

have eased, global supply chain restructuring in many industries, especially in the high-tech sector, is still ongoing. The Biden administration is likely to continue. Decoupling from China not only attracts U.S. investors to return to domestic markets, it will also reduce the unemployment rate and boost the domestic economy. It will further shield the U.S. against China's penetration of all fronts. Under this trend, Taiwan can do at least three things to enhance its economic security.

First, Taiwan has to re-adjust itself to diversify its global economic partnership to significantly reduce its dependence on China. One possible alternative is to gradually decouple from China and divert global business opportunities to places like countries covered by the New Southbound Policy (NSP). Taiwanese companies in China, such as Wistron and Catcher, were sold to the Chinese companies due to the trade war that requires U.S. companies like Apple to reduce its imports from China. Taiwan's multilateral technology corporations have started to relocate their factories to NSP countries like India. The U.S. is another important alternative market. The trade war has shifted some American investments in China back home and thus create many manufacturing opportunities in America. Taiwan needs to pay close attention to this wave of global supply chain restructuring. The adjustment is not only for economic purposes but also to address sudden policy changes made by China that could stifle Taiwan's economic momentum.

Second, Taiwan's ability to manufacture critical components is indispensable to the development of not only countries around the world but also human civilization. If China persecutes Taiwan, it will be less globally tolerable because the supply of critical components to power popular technological products, such as the iPhone or Tesla, will also stop. Playing such a vital role in the global supply chain, Taiwan could become America's essential partner in countering China's assertiveness. Taiwan's government should seize this great opportunity to attract Taiwanese investors abroad and foreign companies to invest in Taiwan through improving domestic infrastructure and designing effective policy incentives, making Taiwan a high-end technology hub. Taiwan's outstanding performance in the fight against COVID-19 proves that it is a very resilient investment location. It is one of the few countries that was able to withstand the epidemic and maintain unimpeded economic development. A series of flagship investment projects recently undertaken by Amazon, Google, Facebook, and Microsoft prove that Taiwan is on the right path.

Third, Taiwan should actively seek participation in the Resilient Supply Chain Initiative (RSCI) proposed jointly by Australia, India, and Japan. These countries are critical American partners in its Indo-Pacific region. Expecting that Biden will play down a military stance in his Indo-Pacific strategy, his government may emphasize the economic dimension. If Biden continues to decouple the United States from China, he will need the cooperation of Indo-Pacific partners to cut off possible substitutes for China. Caused by not only the U.S.-China trade war, regional supply chains in many countries encountered severe disruptions due to the COVID-19 pandemic. Several Indo-Pacific countries suffered from the pandemic and need to enhance the resiliency of supply chains in the region. In this respect, the Taiwan government can provide the needed resources and experiences learned during the COVID-19 era. The NSP may be an instrument that can link the government and industries in Taiwan closer to foreign investors to face this challenging time together. Taiwan can, therefore, reap economic and diplomatic benefits.

