



## **WHY TAIWAN MATTERS**

**VERMONT HOUSE COMMITTEE ON COMMERCE AND ECONOMIC DEVELOPMENT**

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## TAIWAN SNAPSHOT

- **Formal Name:** Republic of China (ROC)
- **National Day:** October 10th
- **Area:** 36,197 square kilometers (About 13,970 square miles)  
(About 1.44 times as big as Vermont)
  - Length: 394 kilometers (about 244 miles)
  - Width: 144 kilometers (about 89 miles)
- **Population:** 23.26 million
  - Male: 11.49 million
  - Female: 11.76 million
- **GDP:** US\$775 billion
- **Per Capita GDP:** US\$32,788
- **Economic Growth Rate (2022):** 2.12%
- **Taiwan's economy:** Relies heavily on international trade. About 70% of Taiwan's economic output is attributed to exports, while exports generated about 10.9% of U.S. total economic output.

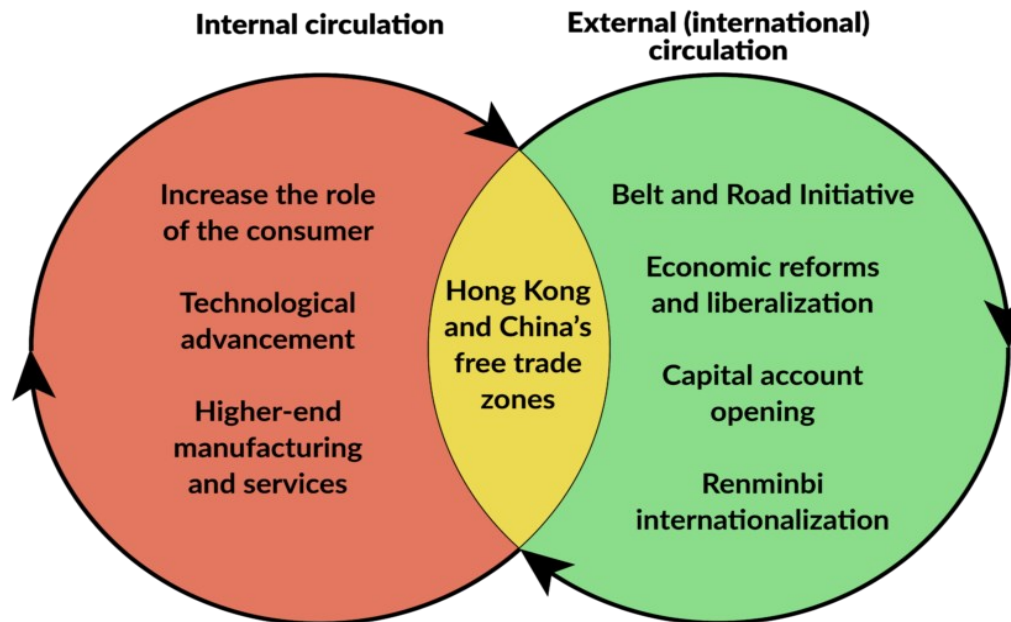


## NEW TREND IN GLOBAL SUPPLY CHAIN

- **From offshoring to reshoring (or onshoring) and friend-shoring (or nearshoring)**
  - **Offshoring:** Relocation of business processing such as manufacturing and support processing, etc. to other countries.
  - **Reshoring (onshoring):** Returning of the production and manufacturing of goods to the company's original country.
  - **Friend-shoring (nearshoring):** Relocating supply chains to friendly countries and allies where the risk of disruption from political chaos is low.
- **U.S. and market-oriented countries' response to supply chain disruption:** Encourage reshoring and friend-shoring.
- **China's strategy to reduce dependence: *Dual-circulation***
  - **Internal circulation:** Develop domestic market, enhance indigenous manufacturing capability to meet domestic needs and minimize dependence on global suppliers and market.

## NEW TREND IN GLOBAL SUPPLY CHAIN

-- **External circulation:** When Chinese companies can manufacture top-quality products that are suitable for the global market, Chinese corporations will supply the world and set international standards. The West will become dependent on China.



# CAUSES FOR CHANGE

- **COVID-19:** A survey done by AmCham China to more than 120 U.S. companies in China in May 2022 indicated the following:
  1. 100% reported an impact from China's COVID-19 policy.
  2. 52% have already either delayed or decreased investments in China.
  3. 59% reported slowed or reduced production capabilities due to a lack of employees, inability to get supplies, or government-ordered lockdowns.
  4. 58% decreased 2022 revenue projections.
  5. 49% said that foreign talent was either significantly less likely or refusing to relocate to China.
  
- **Unpredictable China's business environment:**
  1. **Higher labor cost**
  2. **More politicized:**
    - A. Chinese Communist Party (CCP) insists on ideological purity and party cells are mandatory in foreign companies, especially the financial sector.
    - B. EU Chamber of Commerce in China reported in June 2022 that 50% of Western firms said business in China had become more politicized in 2021, and 23% were considering moving operations out of China.
  3. **Rising nationalism:** Consumer boycotts of foreign companies, especially companies from North America and Europe, have become an increasingly common phenomenon in China. Ninety cases were reported between 2008 and 2021, among which the majority occurred since 2016. These boycotts were mostly triggered by company statements or actions perceived as challenging China's governance in Hong Kong or sovereignty over Taiwan, or as criticizing China's human rights record in Xinjiang. Chinese government and the CCP have been instrumental in most cases by encouraging "patriotic" behavior.

# CAUSES FOR CHANGE

- **Geopolitical tensions:** According to a survey by WTW, the 3<sup>rd</sup> largest insurance broker in the world, company concerned about political risk in the Asia-Pacific region have risen from 62% in 2020 to 80% in 2021 and 95% in 2022. In 2022, China became the top country where companies want to reduce or avoid investment.

## 1. U.S.-China relations

- Deteriorating U.S.-China political relations : The Biden administration labels China as America's most consequential geopolitical challenge and the most serious competitor.
- Tougher U.S. trade and economic policy towards China, including higher tariffs, export controls, CHIPs Act, etc.

## 2. Taiwan-China relations

- China's economic and military coercion toward Taiwan has strained cross-Strait relations.
- A war in the Taiwan Strait will have a much worse impact on the global economy: The Rhodium Group estimates that in a blockade scenario, even before factoring in international responses or second-order effects, over US\$2 trillion of economic activity will be disrupted.



## CAUSES FOR CHANGE

### ○ **China's provocative actions in the region**

1. **Taiwan Strait:** Conducting military exercises in August 2022 after then U.S. House Speaker Nancy Pelosi's (D-CA) visit to Taiwan, and again from April 8-10 this year to protest the meeting between President Tsai Ing-wen of Taiwan and U.S. House Speaker Kevin McCarthy (R-CA).
2. **Closer relationship with Russia:** Joined bomber patrol, refused to condemn Russia for invading Ukraine, and continues to aid Russia's war in Ukraine by shipping navigation equipment, jamming technology, and jet-fighter parts from China's state-owned defense companies

## CAUSES FOR CHANGE

3. **East China Sea:** Using gray-zone tactics such as marine militia and paramilitary Coast Guard to provoke Japan.
4. **Yellow Sea:** Conducted missile test in Yellow Sea in August 2022 to challenge Japan.
5. **South China Sea**
  - Create artificial islands in violation of the United Nations Convention on the Law of the Sea (UNCLOS).
  - Militarize at least 3 artificial islands in the region, which Xi Jin-ping had promised not to do during his visit to the U.S. in 2015.
  - Challenge legitimate rights of other countries to freedom of navigation.

# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- Source: China Business Climate Survey Report 2023 by AmCham China (conducted between mid-October to mid-November, 2022)
- 319 U.S. companies in China responded to the survey.
- Key findings:
  - Top five business challenges in China in 2023
    1. Rising tensions in U.S.-China relations
    2. COVID-19 prevention measures
    3. Inconsistent regulatory interpretation and unclear laws and enforcement
    4. Rising labor costs
    5. Regulatory compliance

Figure 20. Top five business challenges in China

图 20. 企业在中国市场面临的五大商业挑战

	2019	2020	2021	2022	2023
1	Inconsistent regulatory interpretation and unclear laws & enforcement 法律法规和执行不一致 / 不明确 55%	Rising labor costs 劳动力成本增加 45%	Rising tensions in US-China relations 中美关系日益紧张 78%	Rising tensions in US-China relations 中美关系日益紧张 56%	Rising tensions in US-China relations 中美关系日益紧张 66%
2	Rising labor costs 劳动力成本增加 48%	Inconsistent regulatory interpretation and unclear laws & enforcement 法律法规和执行不一致 / 不明确 41%	Rising labor costs 劳动力成本增加 40%	Inconsistent regulatory interpretation and unclear laws & enforcement 法律法规和执行不一致 / 不明确 31%	COVID-19 prevention measures 新冠疫情防控措施 55%
3	Rising tensions in US-China relations 中美关系日益紧张 45%	Rising tensions in US-China relations 中美关系日益紧张 41%	Inconsistent regulatory interpretation and unclear laws & enforcement 法律法规和执行不一致 / 不明确 37%	Rising labor costs 劳动力成本增加 29%	Inconsistent regulatory interpretation and unclear laws & enforcement 法律法规和执行不一致 / 不明确 32%
4	Increasing competition from privately owned Chinese companies 来自中国民营企业的日益激烈的竞争 58%	Regulatory compliance risks 监管合规风险 23%	Increasing competition from privately owned Chinese companies 来自中国民营企业的日益激烈的竞争 33%	Regulatory compliance risks 监管合规风险 28%	Rising labor costs 劳动力成本增加 25%
5	Shortages of qualified management 缺少合格的管理人员 28%	Shortages of qualified management 缺少合格的管理人员 23%	Concerns about data security 对数据安全的担忧 26%	Concerns about data security 对数据安全的担忧 23%	Regulatory compliance risks 监管合规风险 25%

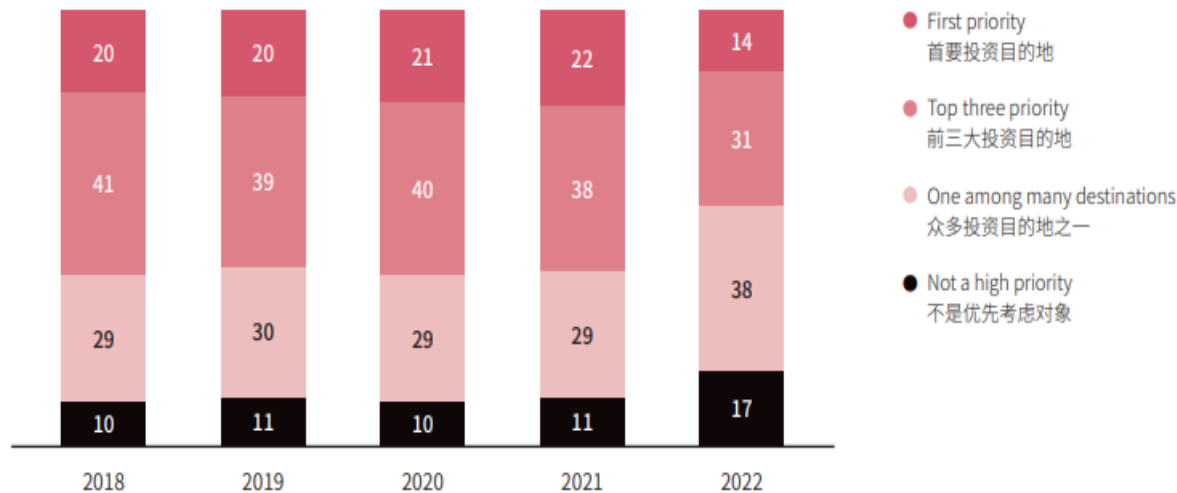
# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- For the first time in the 25-year history of the survey, less than half of responding companies rank China as a top three investment priority.

Figure 26. China's rank in near-term global investment plans

图 26. 中国在近期全球投资计划中的重要性

By percentage



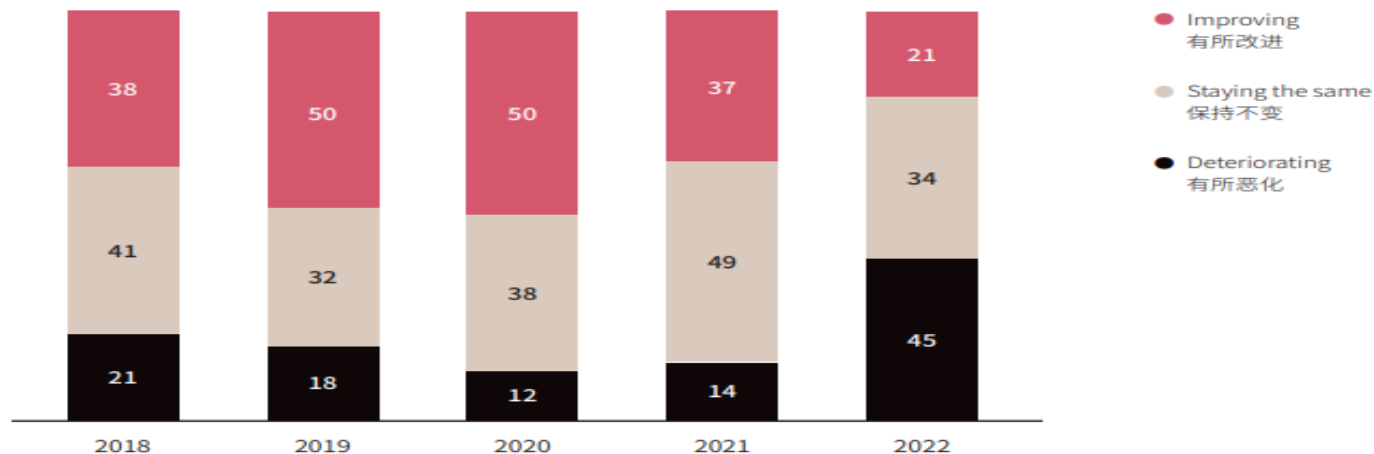
# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- 45% of respondents noted that China's investment environment is deteriorating, up 31 percentage points (pp) from 2021 and the highest percentage of members to respond this way in the last five years.

Figure 27. Quality of China's investment environment

图 27. 中国的投资环境质量

% By percentage



# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

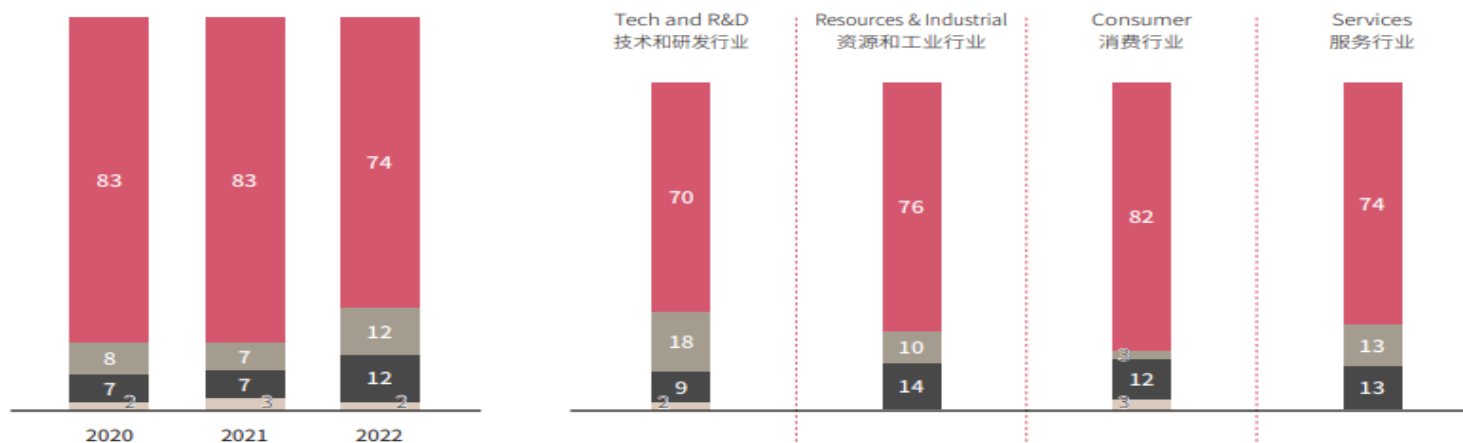
- A 10% increase in the number of companies considering or already starting to relocate their manufacturing and sourcing outside of China.

**Figure 35. Is your company considering, or has it already begun the process of relocating manufacturing or sourcing outside of China?**

图 35. 贵公司是否开始，或考虑开始将生产或采购转移至中国境外？

% By percentage

- No, we are not considering relocating manufacturing or sourcing outside of China  
不，我们没有打算将制造或采购转移出中国
- Yes, we are considering relocating but have not taken active steps to relocate manufacturing or sourcing outside of China yet  
是的，我们在考虑但还未采取任何措施将制造或采购转移出中国
- Yes, we have started the process of relocating manufacturing or sourcing outside of China  
是的，我们已开始将制造或采购转移出中国
- Other  
其他

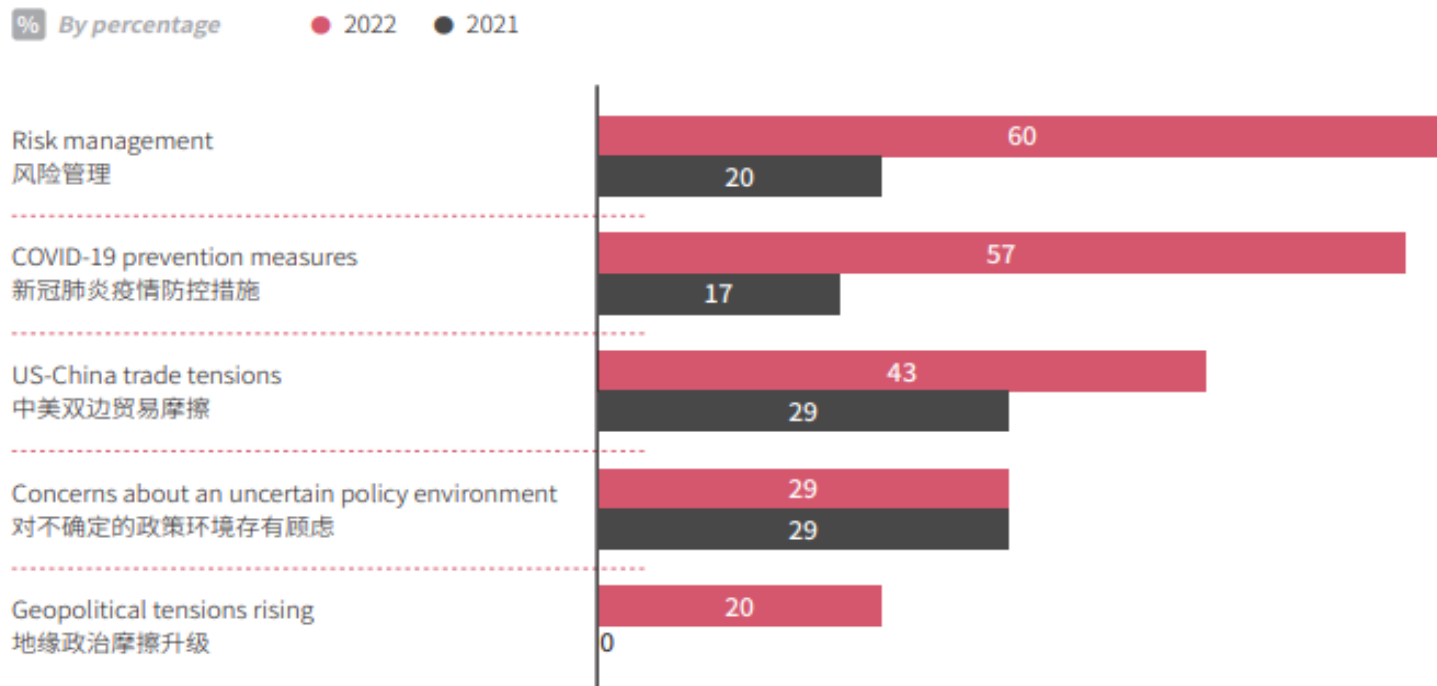


# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- Risk management, COVID-19 prevention measures, and U.S.-China trade relations are the top three reasons for considering or moving.

**Figure 36. Most important reasons for considering or moving capacity outside of China**

图 36. 考虑或已经将产能转移到中国以外的原因





# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- For the 24% of respondents who are considering moving, the top two destinations are Developing Asia and the U.S. The proportion of companies considers relocating to the U.S. has risen from 24% in 2021 to 30% in 2022.

Figure 37. Target destinations for relocated capacity

图 37. 目标迁移地

	1	2	3	4	5	6	7
2022	Developing Asia 亚洲发展中地区 29%	US 美国 30%	Mexico/Canada 墨西哥 / 加拿大 12%	Developed Asia 亚洲发达地区 15%	Hong Kong SAR 香港特别行政区 4%	Other 其他地区 4%	EU 欧盟国家 5%
2021	Developing Asia 亚洲发展中地区 28%	US 美国 24%	Mexico/Canada 墨西哥 / 加拿大 17%	Developed Asia 亚洲发达地区 17%	Hong Kong SAR 香港特别行政区 7%	Other 其他地区 4%	EU 欧盟国家 2%

# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- China's political environment becomes more unfriendly.

**72% of members report receiving some pressure in 2022 to make (or not make) statements about politically sensitive issues**

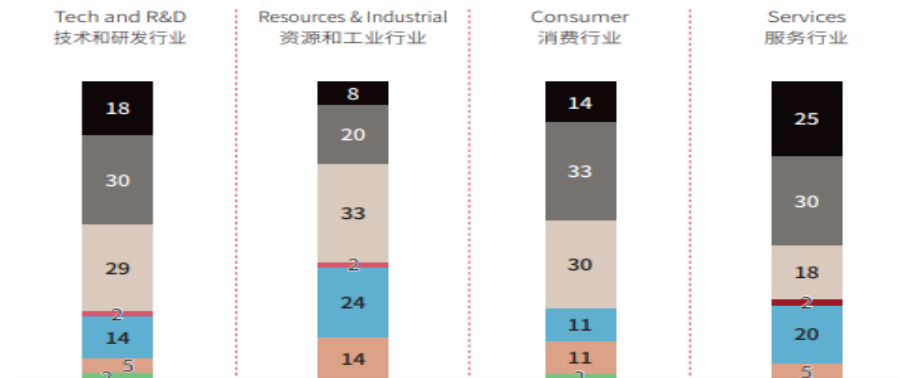
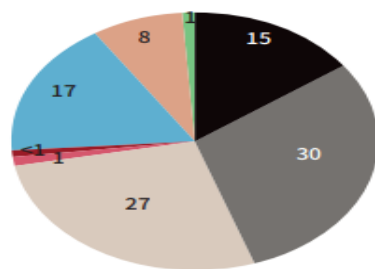
72% 的会员表示，他们在 2022 年受到就政治敏感问题发表（或不发表）声明的压力

**Figure 44. Did you receive pressures to make (or not make) statements about politically sensitive issues?**

图 44. 贵公司在过去一年是否就政治敏感话题而不得不发表（或不发表）声明受到相关外部压力？

% By percentage

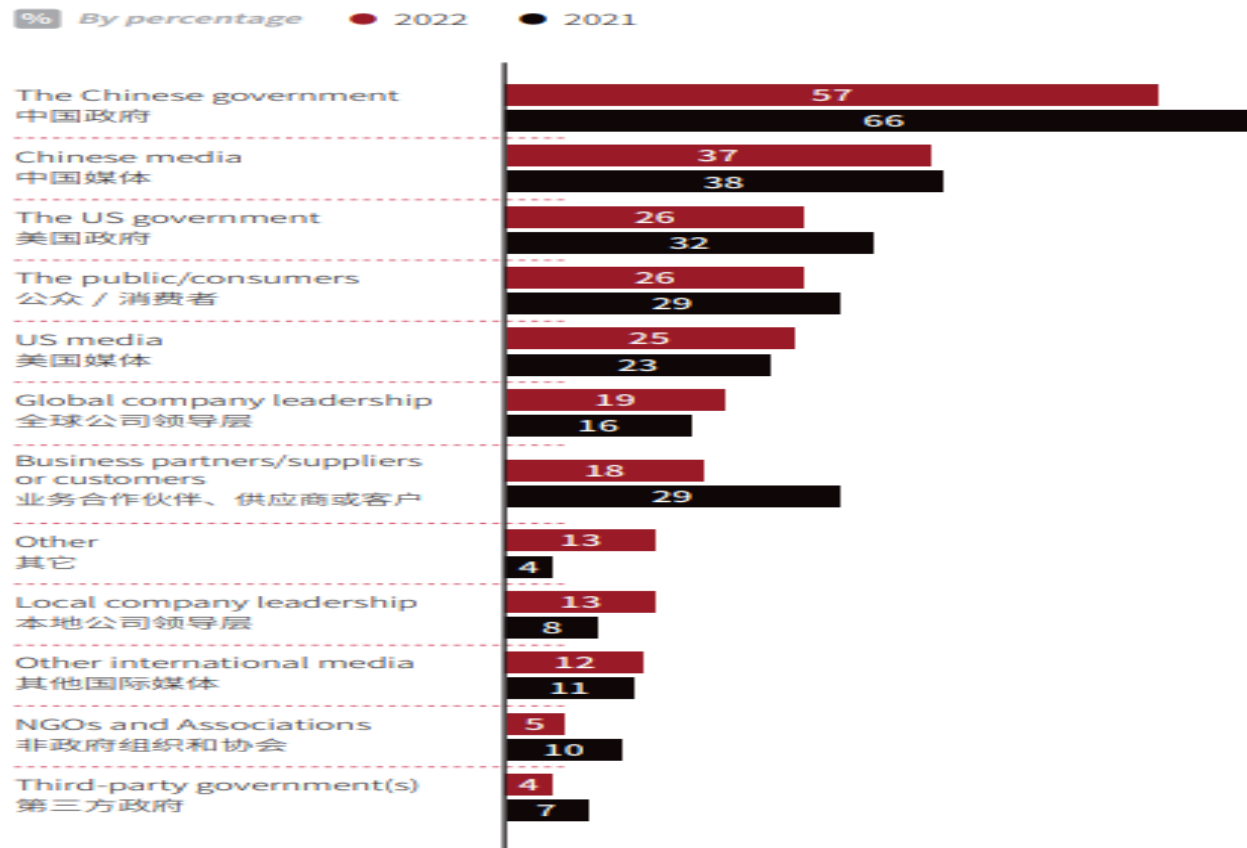
- We have experienced a significant increase in pressure  
我司面临的压力显著增加
- We have experienced a slight increase in pressure  
我司面临的压力略微增加
- We have experienced pressure no greater than in previous years  
我司面临的压力与前几年持平
- We have experienced a slight decrease in pressure  
我司面临的压力略微降低
- We have experienced a significant decrease in pressure  
我司面临的压力显著降低
- We have not experienced any pressure  
我司未面临任何压力
- Unsure  
不确定
- Other  
其他



# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- Respondents noted the top three sources of pressure relating to political issues are the Chinese government (57%), the Chinese media (37%), and the US government (26%).

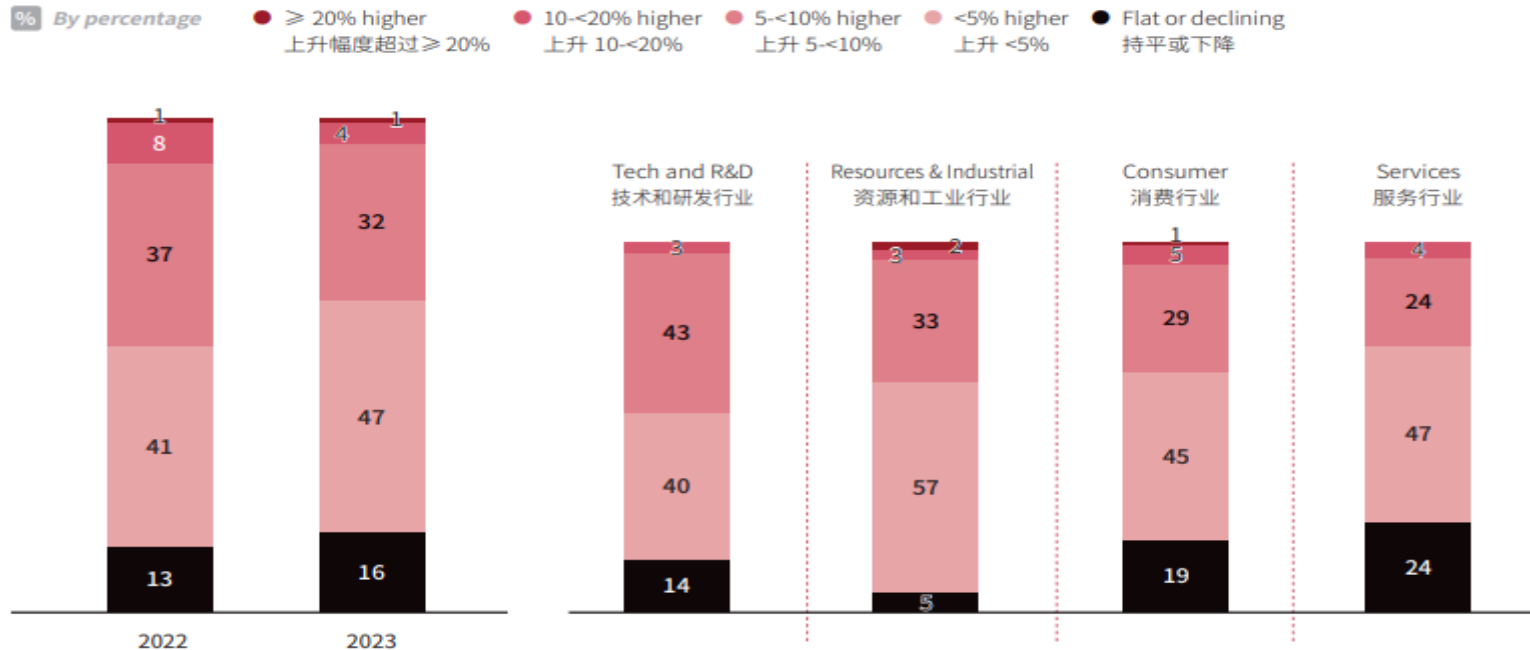
**Figure 45. Sources of increased pressure**  
**图 45. 压力增加的来源**



# CHANGING PERCEPTIONS OF CHINA'S BUSINESS ENVIRONMENT

- Fears that labor costs and wages remain a perennial HR challenge in China, with 84% of respondents believe labor costs will increase in 2023.
- Between 2010-2021, the labor cost index in China increased by 37.9%.

**Figure 50. Expected change in the company's average labor costs per employee in 2023 vs. 2022**  
 图 50. 2023 年与 2022 年相比，贵公司预计的人均劳动力成本变化



## COMPANIES HEDGE BY LEAVING CHINA

- **U.S.**
  - **Apple:** iPhone and iPad are now produced in India and Vietnam respectively.
  - **Google:** Newest Pixel phone is produced in Vietnam.
  - **Microsoft:** Xbox game consoles begin to ship from Vietnam.
  - **Amazon:** Makes Fire TV devices in India.
  - **Hasbro:** Moved its Chinese production to India and Vietnam.
  - **Adidas:** Shifted production to Vietnam.
- **Taiwan:** Investment in China has reduced tremendously, from 83.8% of Taiwan's total outbound investment in 2010 to 32.4% in 2022. Furthermore, Taiwan's investment in Asia and India has increased from 9.5% in 2018 to today's 25%.

# WHY TAIWAN MATTERS

## ○ Strategically

-- Taiwan is at the center of the first island chain, which can deter China's aggression and advancement to the second island chain.



## WHY TAIWAN MATTERS

- **Taiwan Strait is an important shipping route**
  1. Mercatus Center of George Mason University estimated that 21% of the global trade shipped through the Taiwan Strait *en route*. If the Taiwan Strait is blocked and going around Taiwan is not possible, shipping costs would increase by \$515.8 million per month .
  2. In 2022, the Taiwan Strait handled the movement of more than 88% of the largest ships by tonnage and more than 48% of the world's container fleet.
  3. Ships carrying goods from Asian manufacturing hubs to markets in Europe, the U.S., and everywhere in between mainly travel through the Taiwan Strait.
- Taiwan's fall would embolden China and impair U.S. credibility and influence in the region.

## WHY TAIWAN MATTERS

### ○ **Economically**

- Taiwan is the world's 16th largest trading economy in 2021, with US\$827.9 billion in total merchandise trade.
- Taiwan's total market share for foundry occupied 63% of the global market and produced 92 % of high-end chips as well as 73% of the advanced processing chips below 7 nanometers. By comparison, China produces a little over 5% while the U.S. produces approximately 12% and South Korea produces about 8%.
- Taiwan accounts for 80% of the global market's share of laptops and motherboards.
- Taiwan manufactures 60% of the world's network devices.
- Taiwan is the world's 5<sup>th</sup>-largest exporter of machine tools with a high cost performance ratio.
- Taiwan produces 70% of functional textiles and apparel.



## TAIWAN-U.S. ECONOMIC RELATIONS

- In 2022, Taiwan-U.S. bilateral trade reached US\$135.6 billion, a 19% increase over 2021. In addition, Taiwan was the 6<sup>th</sup>-largest consumer of U.S. agricultural goods, totaling US\$4.4 billion, a \$500 million increase over 2021.
- In 2022, Taiwan was the U.S.' 13<sup>th</sup>-largest export market (US\$43.7 billion, up 18.7% from 2021), and 8<sup>th</sup>-largest source of imports (US\$91.8 billion).
- Taiwan's investment in the U.S. reached nearly \$1.9 billion in 2022, up 128% from 2021.

## TAIWAN-VERMONT TRADE RELATIONS

- Taiwan was the 2<sup>nd</sup> largest export market of Vermont in 2022, with the total of US\$469.3 million, increased by nearly 42.2% from 2021.
- Main export items: IC products (US\$438.53), Vinyl chloride, data processor, testing equipment, and plastic building materials.
- Taiwan was Vermont's 4<sup>th</sup> largest source of import, with the total of US\$100.19 million, up 1.3% from 2021. Main items include machine parts, chips, IC products, plastic products, auto parts, and data storage devices.
- Taiwan Importers and Exporters Chamber of Commerce signed a declaration of cooperation with Vermont Chamber of Commerce in 2008.

# THE IMPORTANCE OF CLOSER TAIWAN-U.S. ECONOMIC AND TRADE RELATIONS

**Taiwan's hope to sign a bilateral trade agreement (BTA) with the U.S. in the near future has both strategic and economic importance.**

## ○ **Strategic importance**

- Weaken China's leverage over Taiwan by reducing Taiwan's dependence on China (Taiwan's exports to China and Hong Kong account for 42% of its total exports, among which more than 15% are semiconductor products).
- Provide political cover for other countries to sign a free trade agreement with Taiwan, as well as facilitate Taiwan's admission to regional economic agreements and frameworks such as CPTPP and IPEF.
- Help maintain the status quo in the Taiwan Strait.
- Consolidate U.S. leadership in the Indo-Pacific region.

## ○ **Economic importance**

- Open Taiwan's market to more U.S. goods: In 2022, imports from China and Hong Kong to Taiwan accounted for 20%, while imports from the U.S. was 10.7%.

# THE IMPORTANCE OF CLOSER TAIWAN-U.S. ECONOMIC RELATIONS

## -- **Increase Taiwan companies willingness to invest more in the U.S. and create more jobs:**

Taiwan companies role has evolved from OEM (Original Equipment Manufacturer) and ODM (Original Design Manufacturer) to EMS (Electronic Manufacturing Service). Therefore, our companies always follow major buyers' lead and adjust strategies accordingly.

**For example, Taiwan Semiconductor Manufacturing Company (TSMC)** has decided to invest US\$40 billion in Arizona. Another Taiwan-based global semiconductor silicon wafer company, **GlobalWafers**, also announced it will invest more than US\$30 billion to build a factory in Sherman, Texas.

## KEY TAKEAWAYS

- Taiwan is a responsible stakeholder and trustworthy ally of the U.S. Both countries share the same values such as freedom, democracy, rule of law, and respect for human rights.
- Taiwan is an important trading partner and reliable export market for the U.S. in almost every major sector.
- A secure and independent Taiwan is in the strategic and economic interest of the U.S.
- A closer Taiwan-U.S. trade relationship, including a bilateral trade agreement (BTA), is mutually beneficial and will encourage other countries to consider signing similar agreements with Taiwan. It will also facilitate Taiwan's participation in regional economic agreements and frameworks.

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