



US Neglecting Taiwan's Economic Security

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Abstract

Mainstream media are fixated on the possibility of a shooting war between China and Taiwan, but they are missing a broader point on US-Taipei ties. By focusing on military conflict as the core issue of its bilateral relations and neglecting Taiwan's economy, this militaristic approach may have the unintended consequence of driving Taipei to forge closer economic ties with China. Squeezed between Trump's tariffs on China that are hurting Taiwan's electronics sector as well as tariffs on Taiwan's own steel and aluminum exports, and in the face of continuing economic stagnation, the island is ushering in a new wave of leaders seeking China-friendly ties to protect Taiwan's economic security.

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Analysis

Over the past year there has been a barrage of Western media reports focusing on prospects of a Chinese military invasion of Taiwan, with provocative headlines such as “A Chinese invasion¹ of Taiwan would be a bloody, logistical nightmare,” “Forget the US-China trade war: Is a conflict² over Taiwan the real threat?,” “Why a US-China war³ over Taiwan won’t be anything like the Syria strikes,” and “We can tell you how China would invade⁴ and crush Taiwan,” among others.

This fixation on war and military conflict – whether with China, Iran, Russia, Syria, North Korea or Venezuela⁵ – is understandable given the increasing militarization⁶ of US foreign policy over the past two decades. As David Oakley of the National Defense University observed, “US policymakers have turned to the military as the preferred foreign-policy tool, becoming enamored with the notion that they can shape the world through force.”

James Stavridis, a retired admiral and military chief of the North Atlantic Treaty Organization, concurs and argues that Washington has indeed avoided the “ounce of prevention” diplomatic approach and instead opted for a “pound of flesh” military approach toward the world, Oakley wrote.⁷

However, a militarized foreign policy is not only destabilizing for the international order, it also risks pushing allies away who are worried about their economic security. This is evidenced by the European Union forging its own policy toward Iran and setting up trade mechanism to bypass US sanctions,⁸ in an attempt to keep Iran in the nuclear deal and prevent another regime-change war that would worsen the EU refugee crisis.

Similarly, this US militaristic approach may have the unintended consequence of driving Taiwan to forge closer economic ties with China.

Tariffs hit both China and Taiwan

Not only is Taiwan’s economy caught in a fallout in the electronics sector due to Trump’s tariffs on technology exports from China, Taipei is also subjected to tariffs on steel and aluminum imports to the US – for fear these products may contain China-made steel.

In response, Taipei took severe measures to restrict export of its products with any content of China-made steel to the US, and launched a self-investigation into dumping and government subsidies focused on China-

¹ Ben Westcott, “A Chinese invasion of Taiwan would be a bloody, logistical nightmare”, *CNN* June 24, 2019, <https://edition.cnn.com/2019/06/23/asia/taiwan-china-invasion-intl-hnk/index.html>

² Ted Galen Carpenter, “Forget the U.S.-China Trade War: Is a Conflict Over Taiwan the Real Threat?” *The National Interest*, June 8, 2019, <https://nationalinterest.org/feature/forget-us-china-trade-war-conflict-over-taiwan-real-threat-61627>

³ James Holmes, “Why a U.S.-China War Over Taiwan Won’t Be Anything Like the Syria Strikes”, *War is Boring*, May 1, 2018, <https://warisboring.com/why-a-u-s-china-war-over-taiwan-wont-be-anything-like-the-syria-strikes/>

⁴ Ian Easton, “We Can Tell You How China Would Invade and Crush Taiwan”, *The National Interest*, June 3, 2019, <https://nationalinterest.org/blog/buzz/we-can-tell-you-how-china-would-invade-and-crush-taiwan-60762>

⁵ Daniel L. Davis, “Would America Go to War in Venezuela? Let’s Study that Time America Invaded Cuba”, *The National Interest*, May 4, 2019, <https://nationalinterest.org/blog/skeptics/should-america-go-war-venezuela-lets-study-time-america-invaded-cuba-55852>

⁶ David Oakley, “The Problems of a Militarized Foreign Policy for America’s Premier Intelligence Agency”, *War on the Rocks*, May 2, 2019, <https://warontherocks.com/2019/05/the-problems-of-a-militarized-foreign-policy-for-americas-premier-intelligence-agency/>

⁷ <https://warontherocks.com/2019/05/the-problems-of-a-militarized-foreign-policy-for-americas-premier-intelligence-agency/>

⁸ “Europe sets up Iran trade mechanism to bypass U.S. sanctions”, *France 24*, January 2, 2019, <https://www.france24.com/en/20190201-europe-eu-sets-iran-trade-mechanism-bypass-usa-sanctions-instex>



made steel exported to Taiwan from 2015-2017. Nonetheless, these efforts appeared to have been in vain, and Taiwan was not included on the tariff exemption list.

Faced with a large financial burden of tariffs, on Saturday, Taiwan's top trade negotiator John Deng said⁹ that failure to secure exemption status from the US administration would hurt Taiwanese steel and aluminum exporters.

Additionally, tariffs in the electronics sector – which account for 40% of Taiwan's total exports – are already hurting¹⁰ China-based Taiwanese firms. With exports accounting for three-quarters of its entire gross domestic product, growth in Taiwan has slowed¹¹ to its worst level in almost three years at 1.72% in the first quarter, down from 3.15% in the first three months of 2018.

Despite President Tsai Ing-wen's administration implementing a New Southbound Policy (NPS) in 2017 to divert the island's exports away from China into South and Southeast Asia, there have not been concrete results. Even with the prospect of Taiwanese firms relocating from China back to the island, ING economist Iris Pang¹² assessed the "scale will not be large enough to move the GDP needle a lot."

In the face of a lagging economy, squeezed between US President Donald Trump's tariffs on China and on Taiwan and US focus on military force rather than economic diplomacy in its foreign relations, some observers¹³ question whether Washington will lose Taipei to Beijing economically.

Losing Taiwan

Some signposts are beginning to emerge, with the ruling Democratic Progressive Party suffering major losses in the November mid-term election in Taiwan. Moreover, for the first time in 20 years, the DPP's traditional pro-independence stronghold in Kaohsiung¹⁴ brought in a mayor from the opposition Kuomintang (KMT) party.

Mayor Han Kuo-yu ran on a platform of spearheading a mainland-friendly policy aimed at revitalizing the city's economy, to be followed by 14 other KMT-controlled cities and counties that view China's vast market as an engine for growth. They hope to restore Kaohsiung to its prior glory days when it was one of the world's top 10 shipping ports.

Kaohsiung has taken a hit economically in the past decades as it remained a heavy-industry-centered city, coupled with the dwindling of Chinese tourists and investments since the pro-independence DPP came to power in 2017. However, efforts are under way to move some Taiwanese companies from China to Kaohsiung¹⁵ to revitalize the city.

⁹ "Taiwan still seeking steel tariff exemption form U.S.: top negotiator", *Focus Taiwan*, June 23, 2019, <http://focustaiwan.tw/news/aeco/201806230005.aspx>

¹⁰ "Fresh U.S. tariffs will hurt China-based Taiwanese firms: think tank", *Taiwan News*, May 14, 2019, <https://www.taiwannews.com.tw/en/news/3701586>

¹¹ Edward White, "Taiwan economy stumbles as global tech downturn worsens", *Financial Times*, April 30, 2019, <https://www.ft.com/content/569a343c-6b20-11e9-80c7-60ee53e6681d>

¹² <https://www.ft.com/content/569a343c-6b20-11e9-80c7-60ee53e6681d>

¹³ <https://thediplomat.com/2019/06/why-the-us-may-lose-taiwan-to-beijing-economically/>

¹⁴ Lawrence Chung, "After Taiwan polls, Kaohsiung's new mayor will lead charge on mainland-friendly policy", *South China Morning Post*, November 28, 2018, <https://www.scmp.com/news/china/politics/article/2175465/after-taiwan-polls-kaohsiungs-new-mayor-will-lead-charge>

¹⁵ Matthew Strong, "Foxconn to move production lines from China to Kaohsiung in Taiwan", *Taiwan News*, May 8, 2019, <https://www.taiwannews.com.tw/en/news/3697305>



This is coupled with other efforts to rebrand the city as a tourist hub, with romantic boat cruises on the Love River, a metro station with a seven-minute fluorescent-light show, and a US\$348 million world-class performing arts center called Weiwuying¹⁶ that sits on the site of a former military base established by imperial Japan during its colonial rule of Taiwan.

Nonetheless, these efforts to reinvigorate Taiwan's economy will be in vain if the US and China ratchet up cross-Strait tensions, and in turn reduce much-needed investor confidence on the island. As Charles I-hsin Chen, executive director of the Institute for Taiwan-America Studies, argued this month¹⁷ in *The Diplomat*, US policy toward Taiwan needs to go beyond geopolitics and also address geoeconomics.

Failing that, economic imperatives would likely usher in a KMT president in 2020, who understands why Bill Clinton's platform of "It's the economy, stupid" won him the US presidential election in 1992.

Remarks: Opinions expressed in this contribution are those of the author. This article was first published in *Asia Times* on June 27, 2019.

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¹⁶ Chris Horton, "In Taiwan, an Invitation to a 'Living Room' for Culture", *New York Times*, January 29, 2019, <https://www.nytimes.com/2019/01/29/business/in-taiwan-an-invitation-to-a-living-room-for-culture.html>

¹⁷ Charles I-hsin Chen, "Why the U.S. May Lose Taiwan to Beijing Economically", *The Diplomat*, June 14, 2019, <https://thediplomat.com/2019/06/why-the-us-may-lose-taiwan-to-beijing-economically/>