

Taiwan Restricts High-Tech Investment into China

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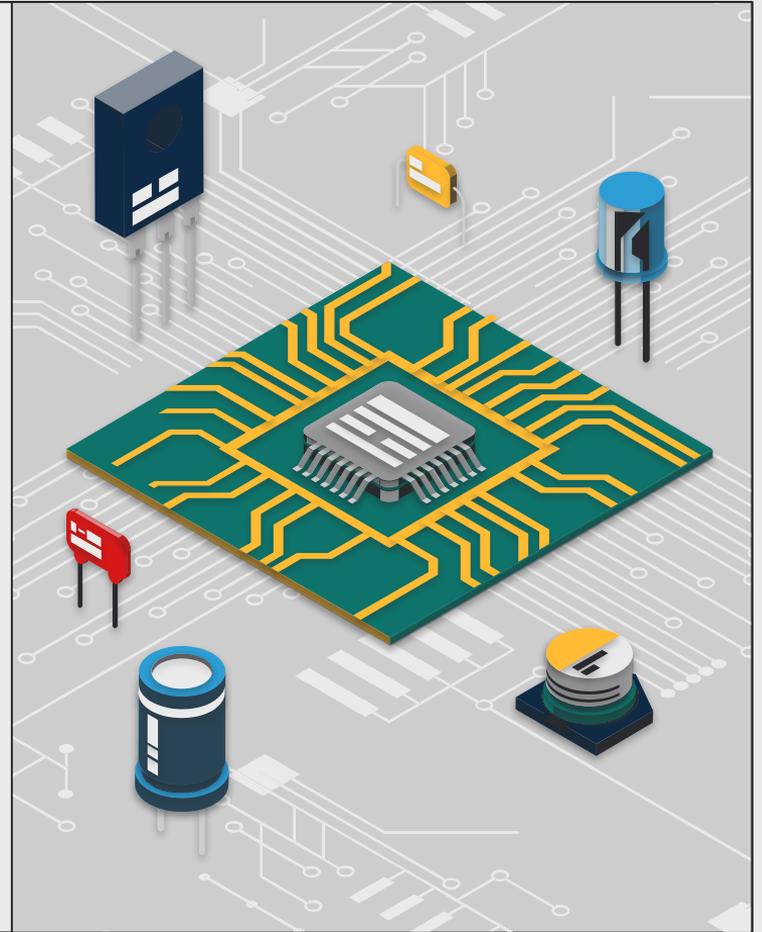


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Background Info on China and Taiwan

Political turmoil between China and Taiwan has existed for almost half a century, affecting their trade and business relations

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The economies and employees/ employers of Taiwan (mainly) and China

02

The Problem

Taiwan restricts high-tech investment into China (specifically semiconductors)

04

Possible Solutions/ Roadblocks

Claim economic independence, relocate to the U.S, attempt for mutual benefit with China (potential political uproar)

1. Background Information



- ❖ 1949: Mao ZeDong's communist party took power in Beijing after defeating the Kuomintang (KMT) nationalists in a civil war
 - KMT move to Taiwan and create their own government in Taipei as well as cutting off contacts with mainland China
 - May 20 1949: Martial Law was implemented and effective in Taiwan
- ❖ 1987: Martial Law was lifted
 - Movement between Taiwan and China started again
 - Lead to increase business and trade relations
- ❖ 1992: Taiwan lifts emergency rule which ends the state of war with China
 - Trade boom
- ❖ 2001: Countries began to formally implement the "Three Direct Links Policy"
- ❖ 2010: Economic Framework Agreement was signed
- ❖ 2014: First government-to-government talk was held since the separation

How is Taiwan Regulating Trade Boom?

- ❖ All investments are screened by law (any country)
 - If you want to invest you must file with the government
 - 50 million USD and under have to file with gov
 - 50 million USD and above subject to specific case review



- ❖ Investments specifically into China
 - 2 clear categories
 - Prohibited
 - General
 - 2 constraints on the general category
 - High tech production firm's prohibited from moving to China
 - Products allowed → cap on size of investment
 - S & M enterprise → investment cannot exceed 2 mil USD or exceed 60% of net asset value
 - Individual enterprise cap → 5 mil USD
 - Larger enterprises → cannot exceed 60% of net assets

Why Was Trade Booming Between the Countries?

Convenience

- ❖ Taiwanese understand the language (mandarin)
- ❖ Familiar with the Chinese culture
- ❖ Very close to each other
 - Easy access by boat

Political Incentives

- ❖ Taiwanese thought if they did more business with China not just their political relationship, but alliance could grow stronger
- ❖ “If you don’t move to China you are losing out to the Americans and Japanese”



Economic Incentives

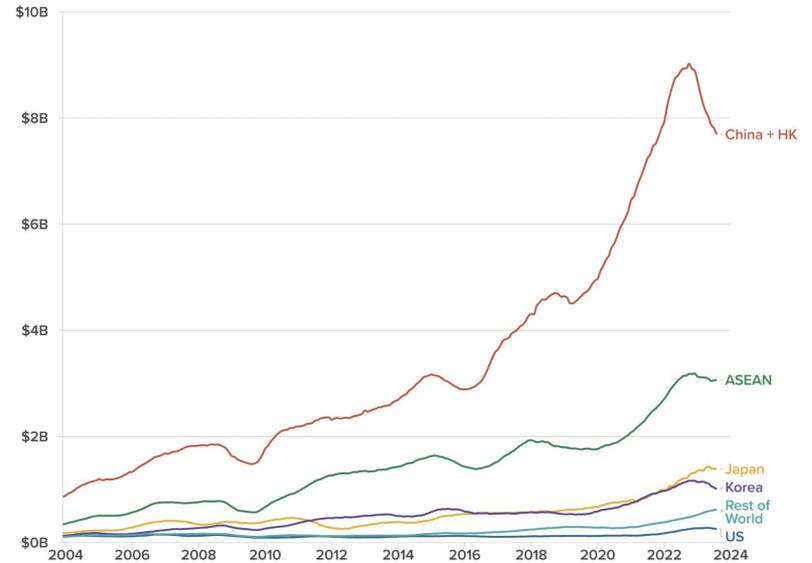
- ❖ China has a much larger market
- ❖ Can access far more consumers in China
- ❖ Cheaper labor
- ❖ More profit
- ❖ Closer to other countries
 - Easier to expand trade horizons



What Were they Trading and What was being Invested?

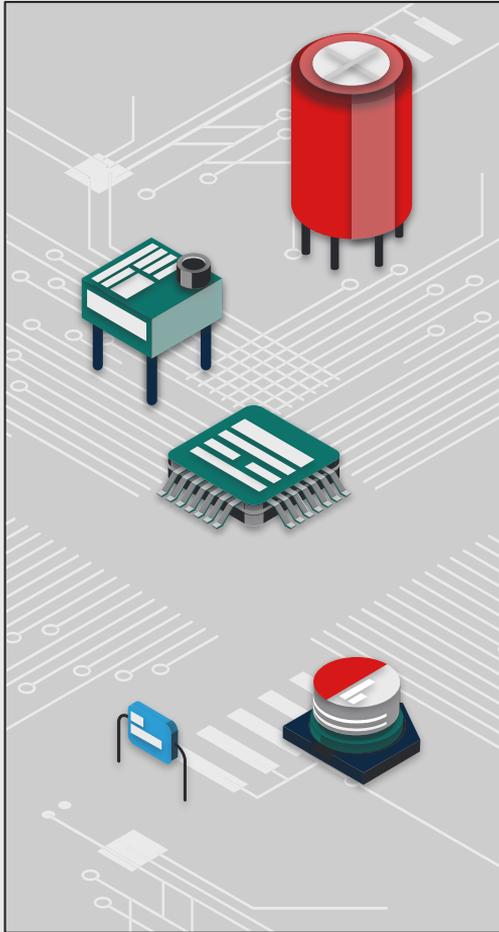
- ❖ Textiles (first industry to relocate)
- ❖ Part of the high-tech technology Industry
- ❖ Packaging and testing firms
- ❖ Semiconductors and Chips (main trading source, main industry invested in China)
 - Biggest issue

Taiwan Semiconductor Exports by Country
12-month rolling average



Source: Taiwan Customs Administration, author's calculations

<https://www.atlanticcouncil.org/in-depth-research-reports/report/relying-on-old-enemies-the-challenge-of-taiwans-economic-ties-to-china/>



2. The Problem

- ❖ The countries grew very close economically (Taiwan's doing mainly)
- ❖ Taiwan has world leading technology capabilities (Nvidia)
- ❖ Taiwanese companies were relocating into China
- ❖ Taiwan wanted to remain competitive in the global economy

3. Who is Impacted?

China's Economy

More foreign investment/
Trade from Taiwan →
improves Chinese
Economy (and vice versa)

Chinese Employees and Employers

More foreign
investment/trade →
increased opportunities for
employees/ employers (and
vice versa)



Taiwan's Economy

More foreign investment/
Trade into China → less
economic opportunities in
Taiwan (and vice versa)

Taiwanese Employees and Employers

More foreign investment/
trade → decreased
opportunities for
employees/ employers
(and vice versa)

4. Potential Solutions and Their Roadblocks

Solutions



Mutual benefit by foreign invest from Taiwan in exchange for rare metals in China



Taiwan reallocate their efforts in China to the United States in exchange for increased military support and potential partnership on nVidia



Taiwan withdraws all trade to China and resorts to economic independence

Roadblocks



With political turmoil still booming, Taiwanese would argue that strengthening ties and making agreements with China a bad decision



Taiwan has helpful economic relationships with both the U.S. and China. Severing ties with one could raise hostility in the other. Both the U.S. and Taiwan would lose China as a market for nVidia.



Big industries holding a lot of economic/ political power will be against this a country could face potential retaliation/ boycott. China's economy will also suffer and the government will be against that.

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