

Under Geopolitical Pressures: The New Dynamics of Cross-Strait Economic and Trade Relations

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Due to linguistic and cultural affinities, mainland China has emerged as the premier choice for Taiwanese businesses in their overseas strategic positioning. Facilitated by the trade-stimulating effects of investments, cross-strait economic exchanges have progressively intensified, giving rise to a delineated division of labor model characterized by Taiwan managing order acquisition, China spearheading production, and subsequent exportation targeting the European and American markets. In 1990, China (including Hong Kong) constituted approximately 12.7% of Taiwan's global export share, a figure that surged to 41.8% by 2010. Despite experiencing a marginal decline by 2022, this proportion remains notably substantial at 38.8%.

However, the long-standing division of labor model across the Taiwan Strait has undergone changes due to factors such as the diminishing impact of investment-driven trade, the economic rise of mainland China, regional economic integration, and geopolitical considerations between the United States and China. Firstly, the operations of Taiwanese businesses in mainland China have gradually shifted towards localization, leading to a transformation of the supply chain for intermediate materials and components from being imported from Taiwan to being supplied locally. Secondly, with the enhancement of manufacturing capabilities in mainland China and the effects of reduced tariffs resulting from the China-ASEAN Free Trade Agreement and the China-Korea Free Trade Agreement, traditional Taiwanese industrial products face intense competition in the mainland Chinese market. Consequently, Taiwan's exports to mainland China have become more concentrated in areas of advantage, particularly in sectors such as semiconductors and ICT, which enjoy zero tariffs.

Furthermore, the trade tensions between the United States and China in 2018, coupled with a series of economic coercive measures imposed by mainland China against Taiwan since 2021, including the prohibition of imports such as

pineapples, sugar apples, wax apples, and grouper, as well as the initiation of trade barrier investigations into 2,455 Taiwanese products, have heightened risks in the mainland Chinese market. These developments have accelerated the erosion of the cross-strait division of labor model. Since 2018, traditional industries such as chemicals and rubber, machinery, and textiles have shown a trend of diversifying their exports from the mainland Chinese market to other markets.

On April 12, 2023, the Chinese Ministry of Commerce issued a public announcement initiating a trade barrier investigation into 2,455 Taiwanese products. Mainland China contends that Taiwan's unilateral restrictions on the importation of relevant products are inconsistent with the World Trade Organization's "non-discrimination principle," "general elimination of quantitative restrictions principle," and the provisions of Article 2 of the Economic Cooperation Framework Agreement (ECFA) concerning the "gradually reducing or eliminating tariff and non-tariff barriers to trade in a substantial majority of goods between the two parties." China further threatens to suspend or partially suspend tariff preferences granted to Taiwanese products under the ECFA.

Due to the close interdependence of cross-strait supply chains, a comprehensive termination of the Economic Cooperation Framework Agreement (ECFA) by mainland China would not only harm the Chinese economy but could also be unlikely. In recent years, China's economic performance has been subpar, leading international credit rating agency Fitch Ratings to revise its 2023 economic growth rate forecast for China from 5.6% to 4.8%. Therefore, the possibility of a complete cessation of the ECFA by mainland China is deemed low, and it is more plausible that targeted trade measures, such as anti-dumping actions, may be implemented on specific products.

However, given the lack of mutual political trust across the strait, it is anticipated that mainland China will continue to raise issues related to sanctions on Taiwanese products under different pretexts, posing long-term pressure on Taiwan. Additionally, while mainland China has postponed its trade barrier investigation on Taiwanese products to January 12, 2024, the possibility of an

earlier release of investigation results cannot be ruled out. Therefore, domestic industries should remain vigilant to the dynamic developments of China's relevant measures, proactively diversify export markets, and mitigate potential risks.

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