

**POLITICAL ECONOMY OF TAIWAN-US
RELATIONS: RETROSPECT
AND PROSPECT**

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Executive Summary

1. Taiwan-US relations have undergone fundamental changes since the US policy shift from supporting the Republic of China in Taiwan to the People's Republic of China in 1979. Despite the absence of diplomatic relations, US-Taiwan business ties have flourished.
2. Although China is Taiwan's largest export market, most of the exports are for final consumption demand in the United States, a typical "Taiwan receives orders and China produces" production relation that explains Taiwan's exports of intermediate goods to China for final assembly.
3. In 2019, the United States (37%) and Europe (34%) were Taiwan's largest sources of orders for information and communications technology (ICT) goods, 81% of which were produced in China.
4. In 2020 (Jan-Sep), nearly 60% of Taiwan Semiconductor Manufacturing Company's revenue came from the United States, way ahead of China's 22%.
5. The United States is Taiwan's main source of technology, accounting for 42% of Taiwanese firms' technological purchase in 2018. More than 50% of Taiwan's ICT technology is from the United States.
6. Taiwanese firms largely echoed Trump's push to invest in the US manufacturing industry. Their investment in the United States rose by 650% to US\$4.2 billion in 2020, making the United States the second largest investment destination, after China.
7. Taiwan's investment in the United States is likely to increase as the Biden administration is all for the relocation of supply chain back to the United States. However, this would reduce Taiwan's exports of manufacturing components to the United States as such goods could be produced at home.

8. Although the Biden administration has invited the Taiwanese representative to attend the Presidential inauguration, a breakthrough in bilateral diplomatic relations is unlikely as the new administration has also announced its abidance with the Taiwan Relation Act and US-China joint communiques.
9. US-China tensions are set to subside as the new administration has indicated its willingness to cooperate with China. Biden's engagement with China also implies that bilateral engagement with Taiwan may be less important.
10. Taiwan's semiconductor industry will continue to take centre-stage in US-China competition in the high technology industry. The outlook for Taiwan-US relations, economically and politically, will be heavily determined by how the China-US power rivalry will evolve in the future.