

The European Union, Taiwan and Global Supply Chain Security

Impact Assessment/Scoping Study for an EU-Taiwan Resilient Supply Chains Agreement

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What are *Resilient Supply Chain Agreements* for?!

Anticipate risks

- Identify potential risks, assess their likelihood and impact
- Identify manifestations and transmission channels of shocks
- Determine potential policy agency

Minimize exposure

- Establish redundant infrastructure and procurement channels
- Strengthen digital trade
- Keep regulation flexible and capable of quick shock responses

Minimize damage – Build trust among likeminded partners

- Preparedness at the firm-level
- Public-private partnerships
- Strategic governance of bottleneck resources, products, technologies

Minimize damage – Open markets

- Prepare common ground for fast decision making
- Facilitate fast, flexible trade (re-)direction, resource (re-)allocation

Why a *Resilient Supply Chain Agreement* with Taiwan?

EU realizes a need to review its strategic dependencies, establish resilient supply chains with trustworthy partners and redefine its global role and its relations with various countries and regions in the Indo-Pacific

EU policy has neglected Taiwan for long years

- as mainland China's dynamic growth story and the belief in "change by trade"
- outshone the steady development of Taiwan as a strong, like-minded partner

The Economic Imperative

- Taiwan is deeply embedded in the global division of labour and a highly valued partner in global supply and value chains
- Taiwan is a technology leader in future industries
- Taiwan has initiated a process of green transformation

The Normative Imperative

- Taiwan has proved a reliable like-minded partner in Asia sharing EU values
- Taiwan features a strong democracy, and highly competitive market economy
- Taiwan is facing an existential threat from mainland China's "One-China-Policy"

Why a Resilient Supply Chain Agreement with Taiwan?

EU realizes a need to review its strategic dependencies, establish resilient supply chains, and identify trustworthy partners and redefine its global role and its relations with various countries in the Asia-Pacific

EU policy has neglected Taiwan for

– as main

An RSCA would help the EU:

- ⇒ further improve the framework for investment and business activities in Taiwan,
- ⇒ utilize the full potential of bilateral economic ties,
- ⇒ strengthen the resilience of its supply chains, and
- ⇒ bolster-up a likeminded partner in the global system

Strategic Imperative

- Taiwan has proved a reliable like-minded partner in Asia sharing EU values
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Foundations to build on

Foundations

- ⇒ EU and Taiwan are both members of WTO having signed a broad range of agreements and stipulations under its roof, notably the *Agreement on Government Procurement*, the *Trade Facilitation Agreement* and the *Information Technology Agreement* thereby establishing a strong framework of rules to build an RSCA on
- ⇒ EU and Taiwan have mutually established representation offices
- ⇒ EU and Taiwan uphold intensive societal and economic exchanges

But

- EU and Taiwan relationship lacks a sophisticated dialogue structure
- All dimensions of interaction are overshadowed by EU stakeholders' vested interests in Mainland China and threats incorporated in Beijing's "One China Policy"
- Red tape and excessive bureaucratic meddling with business affairs in Taiwan (and EU)

Taiwan's *Silicon Shield* ...

“... is not just there “

but needs to be maintained, adjusted and re-invented on a permanent basis !

As such:

Taiwan has every incentive to provide (European) high-tech and future-oriented industries with

- ⇒ propitious investment environments (incl. innovation and R&D regimes, human capital endowment, free global markets connections),
- ⇒ high investment transparency (incl. strong (I)PR protection, little red tape), and
- ⇒ lucrative long-term business perspectives (incl. cost control)

Europe can capitalize on this constellation by offering high-level cooperation that promotes a win-win partnership

- ⇒ that stabilizes and strengthens the resilience of the EU's supply chains
- ⇒ and strengthens Taiwan's Silicon Shield

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As such:

Taiwan

Taiwan government initiatives (exemplary, selected):
"5+2 Industrial Innovation" and "6 Core Strategic Industries"
"Pioneers for Innovation Leadership On Technology Program (PILOT)"
"3 Major Programs for Investing in Taiwan"
"Leading Enterprise R&D Deep Cultivation (Big A+) Project"
"Global R&D Innovation Partner (A+) Program"

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⇒ and strengthens Taiwan's Silicon Shield

with

Starting Point: Shared visions for the future

Sectors understood to be of strategic importance

EU (Twin Transition and beyond)

APIs (Active Pharmaceutical Ingredients)

Batteries

Hydrogen

Raw Materials

Semiconductors

Cloud and edge technologies

Renewables

Energy storage

Taiwan Six Core Industries

Digital and information technology industry

Cybersecurity industry

Medical technology and precision health industry

National defense and strategic industries

Green and Renewable Energy Industry

Strategic Stockpile Industry (energy independence; basic foodstuffs; daily necessities; medical provisions; disaster response materials; raw materials and critical inputs)

Improved environment built on commonly beneficial fundamentals

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Energy storage

Match EU strengths with Taiwan strengths
Select for future-oriented technologies and industries
Focus on strategic technologies and industries at-risk

and strategic industries

Green and Renewable Energy Industry

Strategic Stockpile Industry (energy independence; basic foodstuffs; daily necessities; medical provisions; disaster response materials; raw materials and critical inputs)

Improved environment built on commonly beneficial fundamentals

Launching Pad (1): Semiconductors & Rare Earths

Why?

- Global race for access to advanced semi-conductors
- ASML & TSMC as key nodes of cooperation
- Chip 4 Alliance may ignore European interests

What to do?

- Taiwanese firms' diversification (investments in US, Japan – not yet in Europe)
- Cooperation in Field of Rare Earths

How?

- Seek access to Chips 4 Alliance and US/Taiwan networks in general
- Attract Taiwanese Semiconductor FDI to EU
- Seek cooperation in greening of supply chains re rare earths
- Explore third country cooperation projects

Launching Pad (2): Green Energy

Why?

- Joint interest to contain energy dependencies
- Joint interest for a green transformation

What to do?

- Cooperate / participate in Taiwan's investment program for grid infrastructure, renewable technologies, energy storage
- Exploration of offshore and onshore wind energy, solar, biogas, geothermal

How?

- Improve mutual market access
- Integrate stakeholders
- Incorporate greening of supply chains

Launching Pad (3): Global Health

Why?

- Covid 19 -Pandemic: Supply Chain bottlenecks and limits to Taiwan's involvement in global health governance
- Opportunities for mutual learning and joint research (data!)

What do to?

- EU Global Health Strategy: Taiwan can play a vital role in its implementation
- Taiwan's trustworthy data and experience in processing constitute a competitive advantage

How?

- Eliminate unnecessary restrictions on exports of essential medical goods and increase investments
- Seek a stronger representation of Taiwan in international health forums
- Support joint research on issues of public health

Urgency to act – “China Risk”

Mainland Chinese agency may increasingly limit the EU’s scope of action

- Anti-Secession Law 反分裂国家法 (10th NPC 2005)
 - ⇒ Military action
 - ⇒ Sea and air blockades
 - ⇒ “Secondary sanction”-initiatives
 - ⇒ Third country mediated sanctions (supply of critical resources, etc.)

Urgency to act – “Exclusion Risk”

The EU must be careful not to be sidelined

- The US is asserting its global dominance in the semiconductor sector
It is in the process of establishing industry structures centred on the USA while disregarding European interests
 - ⇒ Chip 4 Alliance (in preparation)
 - ⇒ US-Taiwan Initiative on 21st Century Trade
 - ⇒ Taiwan New Eastward Industry-Academia-Research Consortium Association
台灣新東向產學研聯盟協進會 (established December 2022)

Policy Recommendations

- ⇒ **Initiate negotiations without further delay**
- ⇒ Build broad support within the different services of the EU's institutions
- ⇒ Bring in industry as a committed stakeholder
- ⇒ Prioritize three areas: semiconductors/rare earths; green energy; global health
- ⇒ Create specific support programs for joint research, training and education
- ⇒ Embed negotiations in existing multi-lateral structures and initiatives and keep them open to third-party-participation (supply chains have many partners)
- ⇒ Coordinate with USA and strengthen cooperation with like-minded partners
- ⇒ Continue the "One-China-Policy"

Thank you!

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and Global Supply Chain Security**

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Background: EU-Taiwan economic interaction in perspective

With a GVC participation index of 60.8 (i.e. % share of GVC related value added in gross exports) **Taiwan is much deeper embedded in the global value chains** than Asia (44.4), Europe (48.8) and North America (37.8). (WTO: data for 2018)

This structural set-up results in a high degree of mutual dependencies. Even in those industries in which Taiwanese companies are leaders in terms of technology and process control or pursue superior business models, there exist significant dependencies on economic players outside the country's borders. **The Taiwanese economy is not self-sufficient in its central business activities.**

Nearly **10% of all Taiwanese imports originate in the EU** (excluding re-imports)

- About one third of all Taiwanese imports from the EU are related to the **semiconductor industry**
- **automotive** industry (10%)
- **pharmaceutical** and cosmetics (9%)
- **specialized instruments** for medical and industrial measurements (3%)

The **EU absorbs about 7% of all Taiwanese exports** (excluding re-exports)

- **Electrical machinery** and equipment commands more than one quarter of all Taiwanese exports to the EU, **semiconductors** alone about 10%
- **motorcycles and bicycles** (10%)
- **automatic data processing machinery** (10%)
- **steel products** (10%)