

CTPECC ISSUE PAPER



Changing Dynamics in the Asia-Pacific: Competition and Cooperation in the Region

- **How the New Biden Administration will Affect Taiwan Economy?**
- **Biden's Alliance Security Dilemma**

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Issue Paper

This year, CTPECC is holding a number of forums and seminars based on the current issues in international political and economic situation as well as other notable topics. Based on the outputs of these events and the discussions inspired, this publication of issue paper mainly seeks to address the opportunities and challenges in response to the future regional development. The issue paper also provides readers with valuable information and perspectives that are widely noticed nowadays, and deliver the insightful views of experts and scholars.

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1. Introduction

Since last year, the COVID-19 has continued to severely cause impacts on the global economy and trade, whereas the global political economic landscape has experienced unprecedented changes. These changes were brought about by factors including escalating tensions between the US and China due to Xi's more aggressive foreign policies and the Trump administration's hawkish responses, as well as their fallout into global trade regime, shifts in supply chains, digital technology competition and military confrontation. The outbreak of COVID-19 simply further deteriorated the negative effects. In 2021, however, the Biden administration is anticipated to greatly adjust policies conducted by his predecessor. The political economy in the Asia-Pacific region cannot be immune from the influence rooted in the adjustments, which is of the central concern for policy makers, the academia and practitioners.

To better understand the objectives of foreign policies of the Biden Administration and the emerging political economic trends in the Asia-Pacific in response, the CTPECC's publication of issue paper will share the views on changing dynamics in the Asia-Pacific and identify challenges of competition as well as opportunities for cooperation in the future.

2-1. How the New Biden Administration will Affect Taiwan Economy?

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After a drama of validating the election result and in the midst of unsilenced turbulences lingering in the society, the new US president Joe Biden took the oath and became the 46th president of the US in January. In many ways the new administration is going to be different from the last one. And it is still unclear what the future will unfold for the world after his inauguration.

People in Taiwan watched closely the US election, before and afterwards, because the relationship between these two countries is of the most importance to the island's future. To be frank, survey of opinions before the election showed that the other candidate was given more blessing in Taiwan. Hence, the election result casts some doubt about how things will evolve. In this article several views are laid out about how the new US administration and its policies will affect Taiwan economy. There are both opportunities and threats. If proper measures are adopted and implemented by the government, actually there is great chance that Taiwan will benefit from the Biden administration.

First of all, it's clear that Taiwan and the US share the same value and have common interests in many areas. The relationship between these two countries is going to remain close and strong regardless of who took the oval office. Since both countries are stable democracies, we should not be worried about abrupt "shifts" of policy on both sides. Of course, adjustments, active or responsive, are expected. And, as a result, the course of future will likely take several turns with the new president.

It can be sure that the most significant turn, and the one that is going to have long-term effect, will be made by the US new climate actions. The new goals of zero emission from power generation by 2035 and becoming carbon neutral by 2050 are ambitious because the US has much to catch up compared to many other countries. In less than two months the new

administration have made several steps forward. In addition to returning to Paris climate agreement immediately after his inauguration, Biden also pledged to spend 2 trillion dollars to climate actions in 4 years. It is also planned that 400 billion dollars will be ready for the research of clean energy and various subsidies on both production and consumption in green economy will be provided as well.

The rising demands for green energy as a result of the zero emission goal could be a boost to certain industries in Taiwan. Many Taiwanese producers of solar and wind power equipment are quite competitive worldwide. They will be able to grow further as they could supply for many future clean power generating facilities in the US. The 2050 carbon neutrality goal, on the other hand, will impose some challenges to Taiwanese firms in the global supply chain as the US big brand companies pass on pressure to them. However, this is actually consistent with the long-term national energy plan of Taiwan to decrease the use of fossil fuel. And if low or even zero carbon production is the future, such challenges for Taiwanese manufacturers better come early than late. The expected growth in US electric vehicle market, in addition, promises more opportunities for Taiwanese firms producing battery modules, electric power systems, automotive electronics, etc. In fact, currently 75% of suppliers in Tesla's global supply chain are from Taiwan. On this foundation, electric car industries in both countries can thrive hand in hand.

Another worth-noting point is how the US climate policy will cause adjustments to trade policy. The new administration wants to make sure that the competitiveness of US industry is not undermined in pursuing those long-run climate goals. On its own the US should enhance the green productivity of its labor force. For its trade partners the US could ask that the same "moral" standards be applied. Therefore, a new definition of fair trade will be emphasized: trade is fair when the trading partners take coordinated, or at least similar, climate actions. Otherwise, the US industries will be put in disadvantages with possibly higher cost relative to their foreign competitors. Since the US is the second largest market for products exported from Taiwan, the Taiwanese government should pay close attention to, and be prepared for, any change of trade policy of US. Among others, the government could consider speeding up the establishment of carbon price-setting mechanism or even the market for emission right.

In economic terms, the mitigation of climate change is a “global public goods” and by nature it will be most successful when every country joins and coordinates their actions. The key is that there should not be any free-rider who takes advantage of the aggregate efforts made by other countries. This concept actually goes beyond just asking for fair trade. The hard part is, there is no such thing as a “world government” so any coordination proposal is born with implementation problem. So if the US wants to contribute to, or even lead, the battle with climate change, multi-lateral approach and international coordination are necessary. This is exactly what has been observed so far for the new administration: the US is going to play a more active role in international organizations, to strengthen alliances and to deepen partnership with other countries.

Necessary as it is in some areas, international cooperation surely takes much more time than unilateral action. Multi-lateral negotiation also balances conflicting interests or lead to compromise in stance. So US policies are expected to be more stable, transparent, and predictable from the new administration, which allows more time to adapt for all sectors involved, domestic or international. Interestingly, this may not be a good news for Taiwanese manufacturers because they are relatively highly adaptive to fast changes, so the above may actually make their competitors stronger.

There have been some comments optimistic about Taiwan’s participation in international organizations, such as WHO, because the US is willing to take more responsibilities in these institutions. More importantly, Taiwan is a highly trade-dependent country so integration into free trade areas and international framework is also a very important national objective. In recent years China has gained more influence in international institutions and utilized it to minimize Taiwan’s global political and diplomatic presence. Now the US is back so certainly any stronger support from US and its allies is welcomed, but the prospect remains unclear. It depends crucially on the new US government’s China policy and its strategic interactions with the Chinese Communist Party.

The US recently described the relationship with China as the “biggest geopolitical test of the century”. China has already been more than just a major player, it has the potential, as well as the intent, to rewrite the rule of

the game everywhere in the world. If Trump had been re-elected, he would probably have called it the “biggest threat”, rather than just “test”. But at least the new administration wisely continued the hard line of the Trump administration in order to not waste strategic room it has created since the beginning of the trade war in 2018. However, the result could be different because a different approach is adopted by the new administration.

The Biden administration, as indicated earlier, will rely more on multi-lateral approach. It will forge a strong alliance to guard the established rule and order of the world. This alliance should be composed of members of similar core values. It has become very clear that Taiwan, and its people, surely has similar core values. Its technology power, indispensable role in global supply chain, and critical geopolitical position are more reasons for it to be a part of the alliance. So I think there is a stronger incentive for the US to help Taiwan meaningfully participate in international organizations.

As the Biden administration is reportedly reevaluating TPP (Trans-Pacific Partnership) and TTIP (Trans-Atlantic Trade and Investment Partnership), it will also probably be more hopeful for Taiwan to join existing regional free trade areas or to sign new FTAs.

But there are, of course, some worries. President Biden, compared to his predecessor, points out that working with China on some issues is not precluded if it serves national interest. An obvious example is the climate change. The new administration hopes to separate issues, that is, to compete in some areas and cooperate in others with China, instead of engaging in an all-front fight. However, Chinese government is very good at calculating the tradeoffs of those give-and-takes over various issues. Strategically, the slightest sign to cooperate could soften the threat to fight declared previously. In the worst case, the US might lose the control of agenda, which is not a good news to many countries, including Taiwan.

Despite these changes brought by the new administration, many policies remain. For Taiwan economy, some of them are very important.

On Feb. 24, the new administration ordered to review in 100 days four strategic resources: semiconductor IC, electric vehicle battery, rare earth and drug. The former two concern Taiwan the most. The global market

value of semiconductor is over 400 billion dollars, only second to that of oil. Taiwanese manufacturers, in particular TSMC, are very competitive. This industry represents a tight economic link between Taiwan and US. Last year, the US confirmed a long-time conjecture that the weaponry industry in US uses IC made in Taiwan, including those to produce the most advanced F-35 fighter jets. However, if compared to the quantity it uses, the 12% of world supply of semiconductor produced by the US is dangerously low. For national security, the domestic supply has to grow. There are basically two ways: encouraging US producers or attracting FDI (foreign direct investment). Biden thus said he would spend 37 billion dollars to help expanding domestic capacity, and TSMC was invited to invest a new factory in Arizona. With strong technological background, it will not be difficult for the US to “return” to this industry and compete again in this area. Hence, to some extent, this could be a negative factor for Taiwan economy.

Unlike semiconductor, electric car industry is only entering its growth period of product life cycle. The global sales of (pure) electric car is predicted to be 22 million in 2030, 10 times the current number, and a number of countries are going to ban the sale of gas car entirely in the future. The battery, engineering and power control are keys to the industry. China has the advantages of early entry and low transition cost (from fuel to electricity), but it is yet too early to tell who will be the winner. Simply starting to pay attention to this industry could help keeping the US in the race.

As for jobs, on Jan 25 President Biden signed an executive order titled “Ensuring the Future is Made in All of America by All of America’s Workers“. It is meant to strengthen the “Buy America Act” and “Made in America Laws”. Though these laws have been there for a while, they will be treated more seriously by the new administration. The US could be vulnerable when it outsources everything to the rest of the world. This was evident after the breakout of the pandemic early last year when there were not enough medical supplies. It is therefore possible that more and more Taiwanese firms will invest in US to help rebuild a safe level of production capacity of such goods.

There are a number of changes in policy that are expected from the new

administration which could affect Taiwan economy. They include the US climate actions on world supply chain, trade policy and Taiwanese industries; the multi-lateral approach on the stability of the policy; and the US-China relationships on Taiwan's prospect of more closely integrating with the international society. In addition, some important policies that are continued by the new administration are also discussed. In all, the new government of US will bring new opportunities for Taiwan economy, but also new tests to get ready for.

2-2. Biden's Alliance Security Dilemma

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Before the 2020 U.S. presidential election, former President Donald Trump released a statement that introduced a collection of speeches titled *Trump on China: Putting America First*. This publication contains speeches with high-level and groundbreaking remarks targeting China. Those remarks point out that the Communist Party of China (CPC) has posed a severe threat to American economic and political life. Confronting China's threat, Trump seeks to form and reinforce an Indo-Pacific alliance in containing China. Trump administration encouraged allies to decouple from China and restructure the global supply chain. Economically he started a trade war and chip war against China and sanctioned Chinese citizens who sabotaged human rights in Hong Kong. Internationally, Trump holds Beijing accountable for many global problems, such as COVID-19 and global environmental pollution. Structurally, the U.S. and China are undergoing serious power competition. And Taiwan has played an increasing role in Trump's era.

From China's side, in late October 2020, the Communist Party of China (CPC) was holding its fifth plenary session of the 19th Central Committee and initiates the 14th five-year plan (2021–2025). Xi Jinping mentioned that China is rivaling with the U.S. over issues in trade, Hong Kong, Xinjiang and human rights and economic shocks after the coronavirus pandemic broke up. Xi also recognized the ongoing power transition and the emerging uncertainty that complicates the global situation China has to tackle. Recognizing technological innovation as critical strategic support for national development, in the next 15 years, Xi called for China to achieve self-sufficiency in manufacturing critical components in protecting China from sanctions made by the White House. People's Liberation Army (PLA) will complete another round of reform for dealing with multi-directional military challenges. In strengthening national security, Xi ordered PLA to "comprehensively enhance military training and preparation for war" Possible flashpoints include the China-India Himalayas border

region, Taiwan Strait, South China Sea, and Indo-Pacific maritime region.

As U.S. and China enter into tough competition, people in Taiwan are anxious that the new Biden administration might change the whole thing. Is this kind of worry justified?

At least so far, the Biden administration appears to show a tough stance on China, just like Trump and, to me, even tougher than Trump's first two years in his presidency. On January 20, Biden finally made his first phone call to Chinese President Xi Jinping. According to a statement by the White House, the call centered around the interests of the U.S. and the international situation. Biden said that his top priority was to ensure the security, prosperity, health, and lifestyle of Americans and to maintain a free and open Indo-Pacific. Furthermore, Biden emphasized that he was very concerned about China's arbitrary and unfair economic policies, its suppression of Hong Kong people, its violation of human rights in Xinjiang, and its strict measures against the region and Taiwan. In a CNN program, Biden reiterated that he told Xi Jinping that China would pay the price for its human rights violations.

Apparently, the power-competing structure between the U.S. and China will not disappear anytime soon. Biden and his team have to deal with such structural contradiction and the repercussion left by his predecessor. So far, Biden's gesture to China demonstrates that his policy towards China would be no less strict than Trump's.

However, there are some observable differences. Biden administration seeks to revitalize democracy around the world is a key while competing with China. He said, "I firmly believe that democracy holds the key to freedom, prosperity, peace, and dignity. We must now demonstrate — with a clarity that dispels any doubt — that democracy can still deliver for our people and for people around the world. We must prove that our model is not a relic of history; it is the single best way to realize the promise of our future." He also emphasizes the tackling of pressing issues, such as global climate issues, public health or human rights, through re-entering the international institutions like the Paris Climate Accord, World Health Organization and UN Human Right Council.

Apparently, Biden and his team emphasize a multilateral approach, which

will mobilize international support before U.S. actions. Biden administration will also aim to end the trade wars on many fronts and endeavor to negotiate with the U.S.'s like-minded allies in Europe and Asia and unite them in countering China and changing China's improper trade practices such as dumping, illegal subsidies to state-owned firms, and forced labor. Rather than fight alone, all these efforts should go through the international institutions, which APEC can play a role.

There is a good reason behind the Biden administration's eagerness to win back the hearts of the U.S.'s allies internationally. Shortly after the U.S. presidential election, China and 14 other Asia-Pacific countries have just signed the Regional Comprehensive Economic Partnership (RCEP). Once the agreement takes shape, it will create the world's largest free-trade zone that surpasses the European Union (E.U.). In 2018, before the RCEP was signed, 11 Asia-Pacific countries signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) without U.S. involvement after it had withdrawn from the Trans-Pacific Partnership Agreement (TPP). Outside the Asia-Pacific region, Europe and China have completed the negotiations on the EU-China Comprehensive Agreement on Investment, which started in 2014, right before the end of 2020.

Divergent Interests of Allies

However, the Biden administration may confront some challenges. I think the most significant challenge is that not all U.S. allies support Biden's strict policy toward China, especially those residing close to and those with a tight economic relationship with China. In APEC, Australia and Japan are two important like-minded partners to the U.S., and true, people in both countries hold unfavorable views of China that have hit a record high. 86 percent of Japanese people and 81 percent of Australian people view China unfavorably. However, such sentiments may not transform quickly into governments' policies in both countries.

For Japan, which is a military ally of the U.S., it has conflicts with China over the sovereignty of the Diaoyu Islands and the exploration of resources in the East China Sea. Nonetheless, the conflicts are on a controllable scale. Both China and Japan have refrained from all-out conflicts for the Diaoyu Islands. Economically, China is Japan's biggest export market as well as

its largest trading partner, with a trade dependence ratio of about 20 percent. When the Trump administration imposed sanctions on Huawei, Japan's Sony and Kioxia did not want to comply. Instead, both companies sought U.S. approval to export materials to Huawei. The Chinese telecom company sources a large amount of image sensors and flash memory chips from the two Japanese firms. If the two go along with the U.S. sanctions, their businesses will suffer tremendous losses. Japan concerns that if it goes along with Washington's anti-China strategy too much and boycotts China on the economic front, it may not be able to bear the resulting losses. Another key player in APEC, South Korea, is under a similar strategic situation as Japan.

For Australia, it does not have any territorial dispute with China. Besides, it is far away from China. Compared with Japan, Australia does not feel as threatened by China, which is why the Chinese authorities had been able to infiltrate in the political circles, the business sector and other sectors in Australia over the past few decades so quickly. Now that Australia has become aware of China's threat to its national security, its relations with China have been deteriorating. Recently, two China-based Australian journalists had to seek refuge in the Australian embassy in Beijing in order to leave China for their home country. Worried about China's threat, the Australian government has followed in the footsteps of the U.S. to close its door to Huawei's 5G. It has also started to strongly condemn China's human rights violations in Hong Kong and Xinjiang.

China is Australia's biggest import and export trading partner, with a dependence ratio of 30 percent, and the ratio sees double-digit growth every year. High dependence on China led to Beijing's recent blocking of Australian wine from entering the Chinese market. This is a trade weapon that seeks to warn Australia's increasing unfriendly actions targeting China. Given its weaker sense of threat from China and its high level of dependence on China, Australia may have only modest security interest in Biden's global strategy and face the high cost of going against China.

Overcoming Alliance Security Dilemma

In order to win back the hearts of the U.S. allies, the Biden administration has three challenges. First, as far as the U.S.'s national interest is concerned,

Trump's launch of trade wars toward numerous countries can be justified. According to "Macroeconomic and Foreign Exchange Policies of Major Trading Partners" reports regularly released by the U.S.'s Treasury Department, China is merely one of the countries that contribute to the U.S.'s problems concerning global trade and exchange rates.

Controlling for size of economic scale, Singapore, Taiwan, Switzerland, Germany, Thailand, Vietnam, South Korea, Japan and Italy pose even more significant problems to the U.S. than China. Furthermore, the U.S. removed China from its list of "exchange rate manipulators", but it listed Switzerland and Vietnam as "exchange rate manipulators". These countries, together with China, are on the U.S.'s watchlist. Therefore, if Biden targets only China but is soft on its allies, he will have difficulty explaining to the U.S. society. On the other hand, if Biden continues Trump's policy that also targets essential U.S. allies, it will be even harder to win back allies' supports.

Secondly, even without the participation of the U.S., Asian-Pacific countries were able to achieve progress in regional integration and economic relations with China, as seen in RCEP and CPTPP. It is true that these regional arrangements are still uncertainties but that has made Asia-Pacific countries realize that it is possible to achieve something without the help from Washington. In such strategic settings, China will make efforts to fill the void left out by the Trump administration and woo U.S. allies in order to counter the U.S. The allies that Biden tries to win back are using this in particular to play the China card. Its message is this: if the U.S. wants its allies to cooperate, it must put aside its arrogance and seek to mend fences.

Third, even though the U.S. and its allies are on the same page politically and have condemned China's attacks on human rights in Xinjiang, Tibet and Hong Kong, economically speaking, the U.S. has a competitive relationship with its allies. All the countries are scrambling for the potential economic costs after the U.S. began to counter China. Therefore, in their policies towards China, it is possible to separate economics from politics. Such a mindset is similar to that of the U.S. in the past. At a time when the U.S. is gradually handling China's political and economic issues together, it is a challenge for the U.S. to persuade its allies to work in tandem with it.

Such concern is even higher when allies confront an alliance security dilemma. Allies worry that if they do not echo Biden's China policy, they may be abandoned by Washington sometime in the future. Nevertheless, once they jump on Washington's anti-China bandwagon, they will be entrapped in the U.S.-China spiral that harms their interests with China. The perceived level of alliance security dilemma in U.S. allies is relatively higher after Trump's intractable and unpredictable four years. Therefore, the Biden administration must reassure allies away from such a dilemma.

To accomplish that, the Biden administration should signal the resolution and initiate concrete policies in countering China. Furthermore, Washington can magnify America's important allies' security interests and help ease their economic costs and pressure. Doing so will convince allies that the U.S. is very serious this time. There will be little risk of jumping on the U.S. bandwagon. In this sense, APEC can serve as a helpful platform in consolidating U.S.-led alliances. Concrete agreements may not be necessary but Washington should enhance its engagement and focus more on shaping consensus among allies in APEC.

3. Conclusion

Taiwan is a very important partner to the United States on the issue of economic and trade integration in the future. Of course, such prospects depend on the new US government's China policy and its interaction with China. China is not only a global participant, in fact, China has been showing its unparalleled ambition in many industries all over the world. The challenge that the Biden administration may face is that not all U.S. allies support Biden's strict policies on China, especially those economies that have close economic relations with China. Therefore, the Biden administration believes that if the U.S. cannot obtain allies' trust, U.S. may not be able to face the challenges of China. If the United States can unite its allies with the same visions in the world to face China, it will be much more advantageous than the United States alone in dealing with China. By doing so, the Biden administration should strengthen the unity of the West and Indo-Pacific democracy and other economies with similar values in the future to jointly maintain a liberal international order and spread risks through multilateralism. And, APEC is currently the most suitable platform for the United States to consolidate its leading role to face the challenges of China. There may not be any specific agreement reached, but the U.S. can accelerate its cooperation with APEC allies by strengthening its participation in APEC.

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