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“Chips and Science Act”: What Risks Does the Federal Law Pose to Taiwan?

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Introduction

On January 13th, 2024, a member of the Democratic Progressive Party (Minjindang) became president of Taiwan. William Lai - former vice-president - succeeded Tsai Ing-Wen. This accession should not call into question the position of a party that is now a cautious follower of the status quo. Many commentators suggest that Beijing's claims to the island and a psychological, coercive or military takeover would certainly lead to a US intervention in a logic of destabilizing escalation. While Donald Trump has just been elected for a second term, few people measure the importance that the “CHIPS and SCIENCE ACT,” signed by President Biden on August 9, 2022, is likely to play in the Sino-American Taiwanese context.

Taiwan and the United States: Between Myth and Reality

To what extent will the United States be able to rebuke China on the principle, sacred to the Middle Kingdom, of the “Unique China?” For Beijing, Taiwan is an inalienable part of Chinese territory, and the government of the People's Republic of China is the sole legal representative of the whole of China. A principle recognized this in 1971 by the United Nations General Assembly (Resolution 2578)¹ and many countries including the

¹ "The General Assembly, recalling the principles of the Charter of the United Nations (...) Decides to restore all rights to the People's Republic of China and to recognize the representatives of its government as the only legitimate

Highlights

Taiwan plays a crucial role in global politics, particularly in the ongoing power struggle between China and the United States, with its semiconductor dominance acting as a shield against Chinese aggression.

The U.S. aims to reduce dependence on Taiwan's semiconductor industry by establishing domestic production facilities, which could alter Taiwan's strategic significance.

While military confrontation remains a possibility, Beijing is primarily relying on economic, diplomatic, and legal tactics to assert its influence over Taiwan.

NATO has outlined potential intervention scenarios in a Taiwan contingency, while the European Union remains divided on Taiwan's sovereignty.

While Biden strongly backed the CHIPS Act, Trump's preference for tariffs over subsidies introduces uncertainty about continued U.S. support for Taiwan and semiconductor manufacturing investments.

USA. In 1979, a joint communiqué between the two countries confirmed this point² and specified:

“Both countries intend to reduce the danger of an international armed conflict. None will seek hegemony in the Asia-Pacific or any other region of the world, and each will oppose any country or group of countries that seeks it” (Office of the Historian, 1979).

It is a question of not remaining at the door of Asia, preserving the “US Global Leadership”, and creating a network of alliances around India and the “safe” countries of the region (South Korea, Japan)

The Taiwanese will have to decipher American “strategic ambiguities”. A declaration of independence would push Beijing to react vigorously. And in this case, would the Americans intervene? President Biden says so³. Experts believe so⁴. After the brief military confrontations of 1954 and 1958 with Taiwan, Beijing opted for more flexibility so as not to jeopardize a reunification that most of the Taiwanese population rejected. While the possibility of a rapid absorption war⁵ cannot be completely ruled out, Beijing is now oscillating between military manoeuvres, demonstrations of openness and cooperation⁶, and more subtle options. The European Union, the leading investor in Taiwan, is particularly permeable to these ideas, especially since there is no diplomatic consensus within the countries of the Union on the sovereignty of Taiwan (Duchâtel, 2024).

representatives of China in the United Nations, and to expel forthwith the representatives of Chiang Kai-shek from the place they occupy in the United Nations and in all organizations connected with it.”

2 The United States of America recognizes the government of the People's Republic of China as the sole legal government in China. Under this framework, U.S. citizens will be able to maintain cultural, trade, and unofficial relations with the people of Taiwan.

3 Five times since August 2021

4 100% of the sixty-four experts surveyed by CSIS's ChinaPower study group believe that “the United States will deploy forces to defend Taiwan”. The full study is available at <file:///C:/Users/utilisateur/Downloads/Surveying%20the%20Experts.Chinas%20Approach%20to%20Taiwan.pdf>

5 The Russian-Ukrainian war is a life-size case study for the Chinese. They can appreciate Western reactions, the functioning of American, European, and Asian governments, as well as that of NATO and the QUAD; the veto and embargo mechanisms, the aid systems put in place, the impacts on trade and economies in general, support for Ukraine and their arms supply capacities. No doubt that these data are deeply analysed.

6 For example, between Taiwan and Fujian province on the other side of the strait.

The “Pivot to Asia” strategy

During the Biden presidency, the “Pivot to Asia” strategy, dear to President Obama, has been taken up and even amplified. Presented on January 3, 2012, it intended to reposition the USA in the face of a China guilty of having shown initiative while the Americans were bogged down, during the Bush (father and son) mandates, in the Middle East. For “The First

Pacific President,” the stakes are high. It is a question of not remaining at the door of Asia (Lieberthal, 2011), preserving the “US Global Leadership”, and creating a network of alliances around India and the “safe” countries of the region (South Korea, Japan). China is designated as a threat with “in

the long term the ability to affect the U.S. economy and (U.S.) security in various ways” (Fournié & Dou, 2017).

Admittedly, for some thirty years, the Middle Kingdom has taken advantage of the inertia of an America focused on other conflict zones to consolidate its presence in Asia: financial support for Asian countries in the aftermath of the financial crises of 1997 and 2008 and reconciliation with countries from which it was distant during the Cold War.

Taiwan and the South China Sea: A Chess Game

From now on, the game between China and the United States is organized around several fronts: strategic, diplomatic, legal, commercial and financial. We are in a game of Go, where Chinese subtlety is met with American power, which leverages financial and military strike force and pushes its local pawns. This dynamic forces the Asian giant to get out of its comfort zone and to get rid of a cautiously displayed bonhomie. China is developing an arsenal of communication through Think Tanks or university research groups (*Collaborative Innovation Center for South China Sea Studies - Nanking University, South China Sea Probing Initiative - Peking University, National Institute for South China Sea Studies - Haikou*) presenting the United States as the potential aggressor.

With the Strategic Concept unveiled in 2022, NATO is now taking over and designating China as a potential threat. A 2024 report entitled “NATO and a Taiwan contingency” considers the scenarios and framework of the Alliance’s intervention positioned between two major nuclear powers. They are even extraordinarily precise, indicating to China the limits not to be crossed:

“If hostilities are confined to the immediate vicinity of Taiwan or the First Island Chain, then a trigger for Article 5 is unlikely. If hostilities escalate and the fighting extends to the Third Island Chain, then a trigger for Article 5 is possible. If the hostilities escalate further and the fighting extends to the continental United States (or Canada), then a trigger for Article 5 is certain. Therefore, NATO cannot exclude the possibility of involvement in the defence of Taiwan, as a spokesperson for the Elysée Palace recently suggested in claiming that the scope of NATO was restricted to the North Atlantic” ([Lee, 2024](#)).

Therefore, several questions arise:

- Can the new Taiwanese government, in an inopportune balance of power, cross the line of what is acceptable to Beijing by asking for independence?
- Can China make a psychological error of judgement and “take matters too far” leading to a reaction from Taiwan or the United States? Especially if the US feels progressively excluded from the area, and sees its freedom of navigation or influence compromised, whether by initiatives such as the New Silk Road facilities or by ASEAN-China-type negotiations.
- In the negotiated text “Single Draft Negotiating Text” (SDNT) there are many stumbling blocks. In 2018, China tried to introduce two articles that would limit military exercises and the joint development of natural resources to ASEAN countries and China, to the exclusion of any other party, which the Americans (officially) in favour of the negotiations contested. During the resumption of negotiations in August 2021 on the ASEAN-China Code of Conduct in the South China Sea ([Storey, 2019](#)),⁷ Foreign Minister Wang Yi described the United States as “the biggest troublemaker” to reach an agreement on the disputed waters.
- Can a naval or air incident, due to misfortune or human error, in response or not to provocations, lead the area into a logic of war? The proximity of fishing, exploration, fisheries surveillance, coast guard and naval vessels increases the likelihood of encounters.

The Principle of “Freedom of Navigation”

In 2015, the Secretary of State for Defence, Ash Carter declared “Don’t make a mistake. The United States will fly, sail, and conduct its operations wherever international law allows, as we do around the world, and the South China

⁷ Declaration on the Conduct of Parties in the South China Sea (DOC).

Sea will be no exception”. The same year, a memo from the Department of Defense specified what the program FON (Freedom of Navigation), in place since 1979 and confirmed by the US Oceans Policy of 1983, covers ([Reuters, 2015](#)).

The dispatch in 2017, to counter Chinese claims on the Spratlys and Senkukus, of the destroyer USS Dewey within 12 nautical miles of Mischief Reef, is the first example. It was quickly followed by others. After the USS Chancellorsville (11/2022), it is the destroyer USS Milius (24/03/2023) that ventured near the Paracels before being chased away by the Chinese Navy, leading to an official protest.

From FONOP to IPDMA

The United States and its QUAD partners (Australia, India, Japan) no longer want to give China free rein in the Indo-Pacific. Also, a strategy called the *Indo-Pacific Partnership for Maritim Domain Awareness* (IPMDA), based on big data, was unveiled in May 2022 at the Tokyo summit. The IPDMA strategy is positioned head-on against the OBOR program. By going further than simple commercial partnerships and structural investments, it claims to federate around the notions of information sharing, common standards, and communities of interest, while denying groups of countries such as ASEAN the opportunity to choose a specific path.

The IDPMA strategy is positioned head-on against the OBOR program

Risk Analysis for Taiwan

Despite local democratic opposition and international pressure, Beijing has led the takeover of Hong Kong. For Taiwan, the calculation is quite different and tilts the balance in favour of the status quo. The benefit-risk-cost appears to be very high for China, Taiwan and the global economy. A study conducted in December 2022 by the Rhodium Group suggests that a war would have repercussions around the world due to:

- the sixteenth largest place of Taiwan in world trade (922 billion in global trade)
- of the market share held by Taiwanese semiconductor companies.

We are talking about 92% of the world's production of the most efficient chips (below 10 nanometers); about 33% of those of lower quality. The direct revenues affected in the event of a blockade are estimated at USD 1.3 trillion. To this should be added the indirect spillovers as well as the sanctions imposed on China. At the very least, a few trillion dollars and the collapse of supply chains and global finance are in perspective ([Vest, Kratz, & Goujon, 2022](#)).

Therefore, with the economies of China and the United States largely intertwined, who would be the main loser? It's hard to say. A major conflict between China and the United States would be extremely costly and risky for both countries, especially for the latter far from its bases. Unless one thinks that China invades Taiwan and deprives America of its strategic semiconductor supplies before its own factories become operational, it is implausible that "a war for Taiwan" may start in the very short term.

The Chips Act: A Game Changer

On August 9, 2022, President Biden signed the CHIPS and SCIENCE Act authorizing the funding of semiconductor research and manufacturing in the United States up to \$280 billion. Intended to compete with China and organized around two laws: "The Endless Frontier Act" and "The Chips for America Act", this document aims to attract to the United States, in particular through the granting of subsidies to foreign companies and a generous tax exemption policy, an industry where American skills and production capacities are largely overpassed by those of the Taiwanese.

Taiwan Semiconductor Manufacturing Company's (TSMC) investments in the United States are working against the island. Benefiting from the Chips Act for America aid, initiated

Global Foundries and Micron Technology have launched competing programs. What will happen once these factories are operational? Shouldn't Taiwan's strategic importance be scaled down? And from then on, two scenarios, so far highly unlikely, could make their way:

- the abandonment of the island by its Western allies to a conquering China that should quickly triumph over a domestic resistance that is psychologically, economically and financially undermined.
- The use of the island, once the United States has secured its strategic independence in the manufacture of high-performance semiconductors, as a major conflict zone or proxy.

Donald Trump and Strategic Uncertainty

To date, while 90% of the investments have been allocated, only a minor part of the subsidies has been paid to the beneficiaries. While the future president has expressed doubt about the relevance of the CHIPS ACT, the Biden administration is working to make it irreversible. Thus, 6.6 billion USD was definitively allocated to TSMC on November 16, 2024.

For Donald Trump, the implementation of high customs tariffs should be preferred to the logic of subsidies. An approach that may raise criticism from states, even Republicans, that intend to benefit from federal generosity and thus hope to create many jobs.

Conclusion

Semiconductors play a driving role in a country's industrial, scientific and economic development. They are also a major component of its national security and any disruption in the supply chain represents a critical vulnerability. Taiwan's dominance in the manufacture of high-performance chips has protected the island from Chinese attempts at reunification. Neither the US nor Europe would be willing to be cut off from their strategic supplies.

The strategic nature of Taiwan will become less significant for Americans

by the Biden administration and financed up to USD 52 billion by public subsidies, the Taiwanese giant has launched, for a total of around USD 40 billion, the construction of two factories in Arizona. The first is expected to go into production in 2024, the second in 2026. A third is in the making.

From then on, the strategic nature of Taiwan will become less significant for Americans, especially since *Samsung*,

The CHIPS and SCIENCE ACT is likely to change the situation. The establishment of factories in the United States, particularly in Taiwan, if they create jobs locally and make the United States less vulnerable and less dependent, will ultimately weaken Taiwan's position.

Donald Trump's decisions on the CHIPS and SCIENCE ACT will have to be analysed with the greatest attention. They will certainly impact the future of the island.

One of the most important questions in its perspective is TIME. If the production of high-level technology chips is rapid in the United States, it will be a real question for Taiwan's independence. But if this production is slow or if Taiwan may develop during this time some "super chips" its technological advance will protect it.

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EDITORIAL INFORMATION

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