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Anchoring Taiwan's Future during Trump 2.0: Building Resilience from Within

By
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Summary

As Donald Trump starts his second term as President of the United States, the accompanying uncertainty over his foreign policy has turned the global spotlight on Taiwan, branded as one of the world's most dangerous flashpoints and a global economic powerhouse in semiconductor manufacturing. As Washington continues to view its Asia-Pacific partners through the lens of its strategic competition with China and as Beijing continues advancing its own economic and geopolitical agenda, Taiwan is entering an era of global fragmentation and geopolitical tension that will last longer than the next four years of Trump's presidency.

Against the background of US-China economic, geopolitical, and technological competition, Taiwan is facing highly contested economic and societal challenges. Taiwanese society is thus debating how to enhance the security, sustainability, and livelihoods of its people and how to allocate public finances to achieve those goals. How Taiwanese policymakers approach these challenges will affect not only Taiwan's ability to respond to unpredictable foreign policy for the next four years but also its ability to remain resilient in the coming decades.

Recommendations:

- Rather than merely responding to individual policies during Trump's second administration, Taiwan's policymakers must recognise the need to make difficult policy trade-offs for its society's long-term resilience.
- Taiwan's policymakers must identify new strategies for growth that can withstand external policy pressure and enable inclusive prosperity, both within and outside the information and communications technology (ICT) sector.
- Taiwan's policymakers should explore practical approaches to diversify energy sources, ensuring both energy sustainability and security.
- Taiwan's government and the public must engage in meaningful discussions on contentious policy issues to enable effective policymaking for the long term.

Policy Continuity and Uncertainty for Taiwan

While the next four years will be marked by uncertainty in how Washington and Beijing will formulate policy toward Taiwan, several aspects of the US and China's strategic and geoeconomic trajectories will continue. US policy toward Taiwan has always been closely tied to its China policy, and continuity in economic policy is likely. Just as President Biden maintained Trump-era tariffs on China, Biden's stricter export controls targeting China to revive American high-end manufacturing will remain the foundation of US-China competition in emerging technologies. Taiwan's chipmakers, which created the global semiconductor ecosystem, continue to be caught in the middle. During his 2024 campaign, Trump voiced contempt in claiming Taiwan had stolen the American chip sector, prompting worries in Taiwan that chipmakers may need to accelerate their investment in the US at the expense of Taiwan's economic dynamism and flexibility to do business with China.¹ Trump's second term is expected to continue fostering global fragmentation as the world prepares for new tariffs. He has already announced plans to impose tariffs on imports from Canada, Mexico, and China, which will require Taiwan to accelerate adjustments to its global supply chains. Furthermore, Taiwan's central bank warned in December that the coming tariffs could slow the growth of Taiwan's export-dependent economy.²

The US is also unlikely to dramatically change its security policy toward Taiwan in the next four years, remaining committed to Taiwan's security based on the Taiwan Relations Act, the Six Assurances, and other historical agreements.³ Some of Trump's key cabinet nominees, including Marco Rubio for Secretary of State, are vocal supporters of Taiwan. However, Trump and some of his supporters have asserted that Taiwan should allocate more of its national budget to defence to earn US military assistance. American arms sales to Taiwan during Trump's first term reached a historical high of USD 18 billion, largely comprising traditional weapons, whereas military assistance from the Biden administration was more tailored to supporting Taiwan's asymmetrical defence capabilities.⁴ The approach Trump will take remains to be seen, but his claim that Taiwan should spend 10 per cent of its GDP on defence risks oversimplifying Taiwan's defence needs and would be an impractical policy given Taiwan's fiscal reality.⁵

The greatest uncertainty for Taiwan during Trump's second term will be the degree of coordination and consistency in Washington's policy. During Trump's first term, White House policies towards Taiwan were uncoordinated across agencies and between Trump, who considered support for Taiwan in the context of perceived gains for the US, and his cabinet members, who were keen on strengthening US-Taiwan relations.⁶

Neither the China hawks nor dealmakers in Trump's current advisory circle are focused on helping Taiwan become more secure or resilient. Trump's nominee for Undersecretary of Defense has argued that TSMC's fabs must be destroyed should China invade Taiwan.⁷ Such statements fuel Taiwanese scepticism and anxiety towards the US led by Trump, who could change his mind on many policies affecting Taiwan. In addition to the uncertainties of a new Trump administration, Taiwan continues to face the China dilemma: Taiwan's neighbour across the Strait is its most important economic partner but also its biggest security threat. Beijing's aggression against Taiwan on military, diplomatic, economic, and societal fronts has intensified in recent years and will likely continue. Beijing sent more than 3,000 aircraft into Taiwan's Air Defence Identification Zone (ADIZ) in 2024, a record high compared to 972 aircraft that crossed the ADIZ three years ago.⁸ Recent unmanned military exercises simulating a blockade of Taiwan and denial of foreign intervention have demonstrated the sophistication of China's military to breach the first island chain and integrate the air force, navy, and coast guard.⁹

In addition to the military threat to Taiwan, Beijing has been applying pressure on Taiwan's diplomatic relationships and participation in international affairs by political and legal means.¹⁰ China will also continue leveraging economic interdependence across the Strait to advance its political agenda. The cross-Strait Economic Cooperation Framework Agreement (ECFA) has given Taiwan crucial access to the Chinese market since 2010. However, over the last eight years, China has increasingly weaponised the ECFA to "punish" Taiwan's government led by the Democratic Progressive Party (DPP) and sway voters, most recently by suspending tariff exemptions on Taiwanese petrochemical, agricultural, and fishery products.¹¹ In addition, Beijing has intensified its disinformation campaigns towards Taiwanese society – especially its young people – to undermine public faith in democratic institutions and sow greater social division on policy issues.¹² While Taiwan is prepared for continuity in facing China, whether Beijing will act irrationally over the next four years remains uncertain, especially as it faces an internal economic slowdown and external policy shocks from the US.

Against this background, more Taiwanese are becoming sceptical of both China and the US's reliability for their future. Recent polls show that over 80 per cent of Taiwanese reject the One Country, Two Systems model advocated by Beijing as the plan for unification, and 57 per cent remain sceptical that the US under President Trump would come to Taiwan's aid in a Chinese attack.¹³ For stakeholders in Taiwan, enhancing long-term societal resilience while under constant geopolitical tension and increasing uncertainty remains the biggest challenge as they walk the tightrope between the US and China.

Key Policy Debates Affecting Taiwan's Long-Term Resilience

As the US and China both pressure Taiwan, simply maintaining the island's economic and security status quo will be insufficient for its society to thrive both during and after Trump's presidency. Taiwanese policymakers must make difficult policy discussions on several contentious challenges, including setting forward-looking economic policy, growing the supply of sustainable energy, and allocating public finances.¹⁴ Taiwanese society is divided on all these issues that will be critical for remaining prosperous and defending its long-term interests in a fragmenting world.

Overcoming Economic Overconcentration and Overdependence

Since 2016, Taipei has recognised overreliance on China as an economic and security risk and has made notable progress in reducing its deep interdependence on the Chinese economy. The share of Taiwan's total exports going to mainland China and Hong Kong dropped to 31.7 per cent in 2024, the lowest in over two decades, whereas the share of exports destined for the US has more than doubled over the last decade, reaching 23.4 per cent in 2024.¹⁵ Last year, Taiwanese investments in China reached a new low of only 7.5 per cent of total outbound investment, a considerable decrease from 83.8 per cent in 2010. By contrast, Taiwanese investments in the US jumped to a record high of USD 14 billion in 2024, accounting for nearly 30 per cent of Taiwan's total outbound investment.¹⁶

Despite ongoing market diversification over the last decade and continued economic growth during the US-China trade war, Taiwan's economy has been unable to overcome overconcentration in electronics and ICT exports, which now account for over 65 per cent of Taiwan's total exports, in comparison to approximately 40 per cent 10 years ago.¹⁷ Taiwan now manufactures over 90 per cent of the world's most advanced semiconductors, and Taiwan's semiconductor industry drove unparalleled economic growth during the COVID-19 pandemic when many of the world's economies shrank. However, this overreliance is contributing to growing inequality in Taiwan and economic fragility as both Chinese and American policies are squeezing the industry. The semiconductor sector generates over 15 per cent of Taiwan's GDP but employs only 2.8 per cent of the workforce. With high-paying jobs concentrated in technology manufacturing, wages in the service sector, which employs 60 per cent of workers, are stagnating.¹⁸ Recognising high-tech manufacturing as a strategic industry, both the US and EU are attempting to onshore semiconductor manufacturing while China is investing its indigenous manufacturing capability and competitiveness in producing legacy chips.¹⁹ Taiwan occupies a unique and critical position in the global

semiconductor supply chain, wherein advanced design from the US and the vast Chinese market both matter. As of 2024, China and Hong Kong still accounted for over half of Taiwan's chip exports.²⁰ As tightening American export controls force China to double down on its domestic semiconductor industry by relying on Taiwanese suppliers, Taiwan's ability to continue doing business with both China and the US is under threat.²¹ This means that Taiwan's competitive advantage in the global semiconductor supply chain cannot drive its economic growth indefinitely.²²

Taiwan needs to identify additional growth engines but is constrained by its exclusion from trade and investment partnerships. The Information Technology Agreement under the World Trade Organization enabled Taiwan to become a global leader in ICT exports.²³ Taiwan's policymakers seek more global trade connectivity, but neither China nor the US are advantageous partners. Besides the Economic Cooperation Framework Agreement (ECFA) with China, Taipei is keen to join regional trade agreements, but prospects for Taiwan's membership in agreements such as the Regional Comprehensive Economic Partnership (RCEP) are affected by China's membership. China and Taiwan's applications to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are also on hold as the member states delay the politically sensitive discussion of their membership.²⁴

While the China issue prevents Taiwan from entering Asia-Pacific trade agreements, the first agreement under the US-Taiwan Initiative on 21st Century Trade entered into force in December 2024. Taipei is keen to continue advancing the initiative, but Trump's goal of reducing trade deficits with US trade partners could stall the Initiative's progress over the next four years. Meanwhile, major economic blocs such as the European Union are turning toward trade protectionism.²⁵ For export-dependent Taiwan, where exports accounted for 57 per cent of GDP in 2023, the free flow of goods, investments, and talent will drive economic diversification and growth. As globalisation gives way to regionalisation and the gravity of the Chinese market becomes harder to escape for Asia-Pacific economies, Taiwan has fewer alternative partners to China for trade and investment, potentially locking its economy into ICT manufacturing in the short run and undermining Taiwan's long-term economic resilience.

Greening Taiwan's Economy

Taiwan's economic growth, driven by ICT manufacturing and exports, is straining energy demand and reliability as well as complicating Taiwan's decarbonisation efforts. President Lai's administration is doubling down on supporting the semiconductor industry, with ambitions to develop AI-enabled technologies supported by large data

centres requiring large energy inputs. However, Taiwan faces monumental challenges in securing a sustainable energy supply. Taiwan relies on imports to meet 97 per cent of its growing energy demand. This makes the island highly vulnerable to supply chain disruptions in the Western Pacific, where a Chinese blockade would swiftly cut off Taiwan from its vital energy supply.²⁶

Decarbonisation goals will also be difficult to reach in Taiwan, where renewable sources accounted for only 11 per cent of total electricity produced in 2024.²⁷ Public opinion remains divided on whether Taiwan should use nuclear energy, which accounted for four per cent of electricity produced last year, to achieve the green transition. The DPP government under Tsai Ing-wen and, subsequently, Lai Ching-de have remained committed to achieving a “nuclear-free homeland” this year, but young voters increasingly recognise that reaching net-zero emissions by 2050 is impossible without nuclear power. A 2024 survey found that 63 per cent of respondents and 70 per cent of those aged under 30 supported nuclear energy. While the issue remains partisan, with 88 per cent of Kuomintang (KMT) voters supporting nuclear energy, even supporters of the traditionally anti-nuclear DPP are now split, with 44 per cent supporting and 45 per cent opposing the use of nuclear energy.²⁸

The Asia Pacific is preparing for the American retreat from climate leadership, with Trump already withdrawing the US from the Paris Agreement. Taiwan is unlikely to gain incentives or support from the US in transitioning to greener energy as climate change is deprioritised in US-Taiwan relations.²⁹ Moreover, Taiwan’s Minister of Economic Affairs recently stated that Taiwan could purchase more liquid natural gas from the US under Trump, potentially stalling progress toward increasing renewables.³⁰ Without an American commitment to combatting climate change, China will become the de facto global leader in developing and implementing green energy technologies and systems. Weary of depending on China to gain access to these technologies, Taiwan will need to forge partnerships with its neighbours to maintain momentum toward transitioning to green energy.³¹ While the United States might reclaim its climate leadership role in four years, Taiwan cannot afford to wait to make progress on building a greener economy and enhancing its energy security.

Balancing Trade-offs in National Spending

The 2024 presidential and legislative elections divided Taiwan’s government. The ruling Democratic Progressive Party (DPP) lost its majority in the national lawmaking body, the Legislative Yuan (LY). The Kuomintang (KMT) and Taiwan People’s Party (TPP) have formed an opposition coalition in the LY, clashing with the DPP-led executive

branch over critical issues such as government oversight and constitutional court procedures.³² National spending is among the most intensely disputed issues. The 2025 general budget proposed by the Lai administration was blocked by the LY six times before even reaching committee review.³³ In December 2024, the LY passed amendments to a government spending law that would reallocate USD 11.49 billion in national tax revenue to local governments, potentially cutting the national budget by 28 per cent and forcing the government to make harsher trade-offs among funding national defence, public health, and social welfare.³⁴

The government budget typically goes through committee review and negotiation in the LY before approval, but these processes broke down in January 2025. As Trump entered office in January, the KMT-TPP coalition rushed to approve their version of the budget, which included last-minute cuts totalling 6.6 per cent (USD 6.34 billion).³⁵ Items across multiple ministries are now frozen or defunded, slashing an NTD 100 billion (USD 3 million) electricity utility subsidy and freezing half of the NTD 2 billion (USD 61 billion) budget for the indigenous submarine program.³⁶ The lack of compromise between the DPP and the opposition and the now dysfunctional negotiation and review processes – mechanisms meant to facilitate policy deliberation – are deeply concerning as Taiwan faces more difficult trade-offs.

Taiwan previously had a divided government in 2000-2008 under DPP President Chen Shui-bian. Today's divided government and hung parliament are similarly struggling to formulate and implement policies efficiently. This is concerning, given the funding required to enhance resilience across economic, security, public health, and social welfare. For example, the Taiwanese public and policymakers are divided on whether Taiwan should increase its defence spending, which Trump has repeatedly called for as a condition for providing US military aid. In a recent survey, 49 per cent of voters supported increasing the national defence budget, whereas 43 per cent opposed it. Approximately 48 per cent supported increasing the tax rate to enable more spending on national defence, whereas 45 per cent opposed such a measure.³⁷ President Lai intended to set defence spending in 2025 to 2.45 per cent of GDP, nearly 20 per cent of the government's originally proposed budget.³⁸ Japan, by comparison, will spend a record high of 7 per cent of its government budget on national defence in the 2025 fiscal year.³⁹

Taiwan will become a super-aged society this year, and it recorded its lowest-ever birth rate (5.76 births per 1,000 people) in 2024.⁴⁰ In contrast to 2022, when four working-aged people financially supported each elderly person, the financial burden of supporting each elderly person will fall on only 1.1 working-aged people by 2070.⁴¹ This

spells trouble for not only Taiwan's economy but also its health system, at the centre of which is the National Health Insurance (NHI) Administration, covering 99 per cent of residents. Although the health system excels in acute care, more investment is needed to provide long-term and preventive care in an ageing society.⁴² Taiwan spends only 6.1 per cent of its GDP on health, far less than Japan (11 per cent) or Korea (8 per cent). While the government will increase the NHI budget by a record 5.5 per cent this year, the new budget does not address needed structural adjustments to care for a growing older population supported by a shrinking working population.⁴³

Taiwan's young voters are demanding green energy, higher wages, robust social programmes, and a financially sustainable health system in addition to national security. To meet these demands, policymakers must strike a strategic balance between addressing immediate needs and the interconnected challenges of Taiwan's long-term societal resilience. Without national security, Taiwan cannot invest in sustainable, diversified economic growth, and a dynamic economy depends on the ability of its younger people to be healthy, innovative, and prosperous. In Taiwan's politically contested democracy, responding to policy shocks during Trump's second administration should be paired with meaningful public discussions on Taiwan's ongoing systemic challenges. Prioritising policy issues, making trade-offs, and reaching a compromise will be crucial for Taiwan to avoid polarisation and move forward with effective policymaking.

Building Resilience Amidst Uncertainty

Trump's second administration will continue to shift US foreign policy and global geopolitics toward American protectionism and strategic uncertainty. US-China relations will remain coloured by strategic competition for control of the world's most advanced technologies, with significant implications for Taiwan. The challenges facing Taiwan in this shifting landscape transcend the typical security concerns of the island's international status; the resilience of Taiwanese society itself is being tested as Beijing and Washington apply strategic and economic pressure on the island. Consequently, the Taiwanese increasingly view neither China nor the US as reliable. To weather policy shocks from an unpredictable US while withstanding intensifying aggression from the other side of the Strait, Taiwan must address its structural and interconnected policy challenges at home. First, Taiwanese policymakers must focus on making strategic, long-term trade-offs rather than merely reacting to individual policies, such as tariffs. Issues of nuclear power, healthcare, and defence spending are competing priorities for a government with limited resources. Balancing the short-term impacts with the long-

term implications of making these trade-offs will be essential for sustainable policy planning.

Second, Taiwan's economic resilience is the foundation for the continued resilience of its society, and policymakers must identify new strategies for growth that can withstand external policy pressure and enable inclusive growth. Besides preserving its competitiveness in semiconductor and ICT manufacturing, Taiwan needs to nurture and attract a diverse talent pool, transform its traditional industries, support the service sector, and reach wider international markets.

Third, Taiwan's policymakers should explore practical approaches to diversify energy sources. The public debate over nuclear power should lead to policy solutions instead of deadlock. Increased investment in renewable energy, supported by international partnerships, is crucial. The Taiwanese public demands an energy strategy that meets the island's economic needs while ensuring sustainability and safety.

Fourth, the government and the public must take the difficult step of starting meaningful discussions on contentious issues to enable effective policymaking. The different branches of government and the political parties must commit to orderly deliberation and compromise when necessary. Only then can Taiwan implement policies that address immediate external pressures while promoting long-term resilience.

Taiwanese innovation has powered technological advancement for the world; now, it needs to infuse innovation into policymaking, education, and engagement. Policymakers should consider the challenges Taiwan faces across sectors and disciplines to identify new ways to enhance the long-term resilience of its society, not only to deter external aggression but also to respond effectively to future crises.

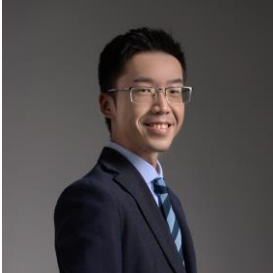
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About the Authors

The Center for Asia-Pacific Resilience and Innovation ([CAPRI](#)) is a nongovernmental, nonpartisan organization and Taiwan's first international public policy think tank. Founded in 2022, CAPRI's mission is to enhance global resilience and promote innovative policy by drawing on the experience of the Asia-Pacific region through comparative public policy research. CAPRI's values of independence, integrity, and inclusivity guide its work on meeting challenges to resilience at the intersection of health, innovation, environmental sustainability, and the economy in the Asia Pacific.



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