



Amid Rising US-China Tensions, Taiwan Must Shift from Passive to Proactive Measures

Chris Hung

The U.S. is reportedly investigating whether TSMC is supplying AI or smartphone chips to Huawei, which is barred from using American technology. While TSMC has denied the claims and halted shipments to some suspected firms, the U.S. is expected to further intensify its measures against China. As the EU, Japan, and South Korea prioritize economic security, this op-ed calls on Taiwan's industry, government, and academia to proactively gather insights, anticipate risks, and develop strategic responses.

TSMC Under U.S. Scrutiny Over Huawei Allegations

Bloomberg reports that Taiwan's TSMC may have supplied chips to clients covertly working with Huawei, possibly violating U.S. regulations. TSMC maintains it follows all relevant laws and is not currently under investigation. Since Huawei's inclusion on the U.S. government's export control list, both U.S. companies and firms using U.S. technology have been prohibited from selling chips and derivative products to Huawei without explicit authorization. While the outcome of the TSMC

situation remains uncertain, the incident may be viewed as just the tip of the iceberg in the escalating U.S.-China tech rivalry.

China's Efforts to Bypass U.S. Export Controls

With current U.S. restrictions, Huawei reportedly has indirect practices to circumvent export controls and obtain the chips it needs to stay in business. Speculation suggests that Huawei may be using third-party intermediaries to indirectly acquire the chips. Alternatively, Huawei could turn to China's

domestic semiconductor manufacturers, such as the heavily government-funded SMIC, to produce the necessary chips. Reports indicate that the 7nm chips used in Huawei's smartphones are produced by SMIC.

Yet, TechInsights' teardown of Huawei products reveal that the company is still using AI chips manufactured with TSMC processes. This further supports claims that Huawei is employing "workaround strategies" to bypass U.S. restrictions, as China's domestic semiconductor supply chain remains insufficient to its companies' demands. It is evident that Huawei and other Chinese companies on the U.S. export control list will continue to pursue every possible avenue to secure the chips and technology needed to sustain their operations.

Lessons for Taiwan: Navigating the Complexities of the Semiconductor Ecosystem

The semiconductor industry operates through highly specialized services. Beyond the commonly known sectors of IC design, manufacturing, and packaging and testing, the ecosystem also includes IC distributors, equipment and materials suppliers, IP service providers, and EDA software companies. Such a complex industry ecosystem offers multiple entry points for Chinese companies to potentially bypass U.S. restrictions and indirectly access controlled technologies, products, or resources.

TSMC is renowned in the industry for its stringent management practices. However, the multi-layered nature of the supply chain makes it challenging to trace the final destinations of products, revealing both complexities and vulnerabilities within the semiconductor supply chain. This reality raises critical questions about the effectiveness of current trade regulations and highlights the need for heightened scrutiny in the industry.

TSMC faces these challenges alongside the broader semiconductor industry, especially in high-end AI products. Informal trade channels from Southeast Asia to China have long posed vulnerabilities in the industry.

Taiwanese Firms Brace for Regulatory Pressures and Stealth Tactic

For Taiwanese companies, operating amid U.S.-China tensions raises costs and compliance burdens for Taiwanese firms. As Chinese companies seek new workarounds, the U.S. may impose stricter global supplier regulations, impacting Taiwanese firms. To navigate this landscape, companies need robust supply chain controls and client screening.

As a result, Taiwanese companies now face the challenge of navigating in an increasingly complex regulatory landscape while remaining vigilant against persistent Chinese attempts to bypass U.S. export controls. To safeguard their operations, Taiwanese companies must carefully adhere to the regulatory frameworks established by the U.S. and other countries, while implementing robust supply chain management and client screening mechanisms to prevent intermediaries from inadvertently acting on behalf of Chinese companies.

Geopolitical Tensions Impacting the High-Tech Sector

The U.S.-China rivalry is set to intensify post-election, with both U.S. candidates firmly adversarial on China policies, differing only in approach.

Other major powers, including the EU, Japan, and South Korea, are also scrutinizing economic security and supply chain resilience. These nations may soon follow the U.S.'s lead by implementing export controls on China or introducing risk management requirements when dealing with the Chinese supply chain. As they likely adopt similar controls, the

global tech sector faces a complex, high-stakes landscape of geopolitical tension and technological competition.

Taiwan's Tech Industry: A Beacon in a Stormy Sea

To effectively respond to these challenges, industries must not remain passive or reactive, as this risks overburdening them with external pressures from competing powers. For Taiwan, the Government, academia, and industry should collaborate on policies securing the tech sector and strengthening economic alliances.

Public and private sector collaboration is essential for implementing proactive measures to address economic security incidents on a global scale. Such cooperation will not only keep Taiwan abreast of the latest industry developments but also enhance its contribution in international discussions on high-tech matters. By adopting a proactive approach, Taiwan can strengthen mutual economic security with allies, fostering a more stable and secure global economy.



Chris Hung

Senior Industry Consultant/
Vice President and Director
General , MIC, III

Chris Hung is an expert with 20 years of experience in information technology research, focusing on semiconductors, information systems, consumer electronics, macroeconomics, and technological geopolitics. He has led large-scale government projects in areas such as semiconductor System on Chip (SoC), smart electronics, and the digital economy, including policy development and online service platforms. Before joining the MIC, Chris served as a research manager at a leading securities firm, providing investment analysis for Taiwanese companies. He holds a Master's degree in Economics from New York University.