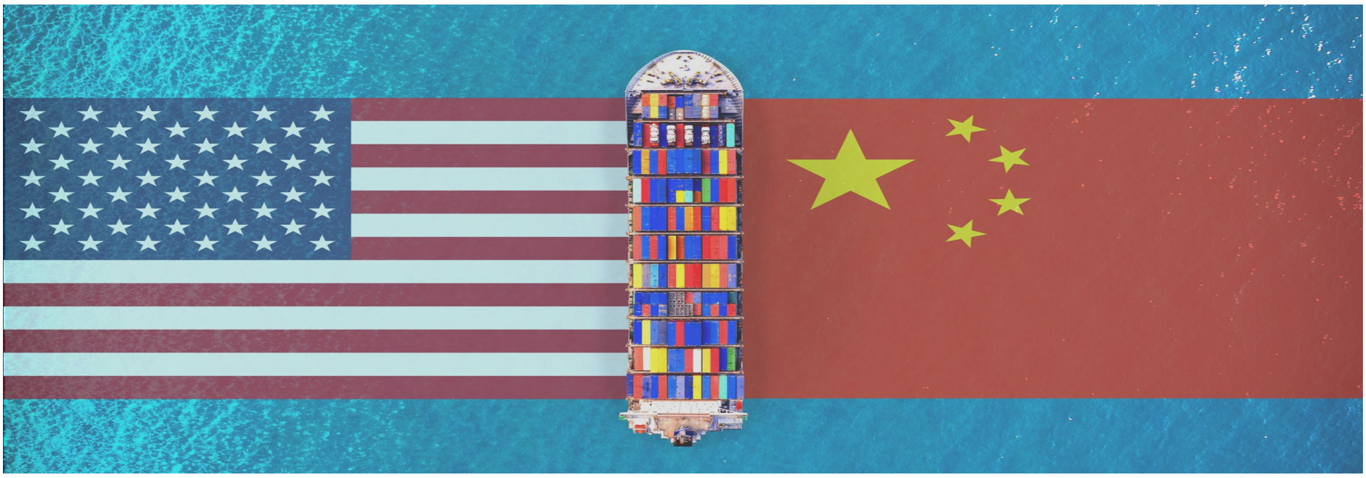

Response and Restructuring of Taiwanese Businesses in China Amid Escalating U.S.-China Trade Tensions

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Back in 2018, when the U.S. first launched its trade policy against China, the focus was on labor-intensive industries: electronics, textiles, footwear, and furniture. Hit with a 25% tariff, Chinese manufacturers and American importers responded by absorbing the added costs, splitting them roughly 15%:10% to maintain trade volumes and price stability. Given that average profit margins in these sectors ranged from 10% to 20%, most companies could still operate profitably. However, with the U.S. now imposing much broader "reciprocal tariffs", even the initial 34% duty has proven difficult to absorb for Chinese manufacturers. As of April 2, cumulative tariffs from the first round of the trade war have already reached 45%, putting enormous pressure on China's export sector.

Heading into the second quarter of 2025, global demand had already cooled, with downward revisions to corporate order books. A decrease in global demand and downward corporate order revisions collided with new tariff shocks. Within a week of the announcement, global firms suspended shipments. The U.S. later reduced the rate back to 10%, offering a 90-day reprieve. However, by then, supply chains were already in flux.

Two diverging strategies have emerged: downstream manufacturers and end-product suppliers have rushed to stockpile inventory, hoping to lock in lower tariff costs before rates spike again. Upstream players and those with longer production lead times have instead seen order cancellations as customers move to cut risk. The resulting shockwaves are being felt across entire supply chains.

If tariffs continue rising beyond what the economy can bear, a complete Chinese withdrawal from the U.S. market is on the table. This would translate to an exit that could erase an estimated 3% of China's GDP and bring growth to a near standstill.[1] Given the deep involvement of firms with Taiwanese investment in China's export economy, the outcome of this trade conflict holds enormous implications for Taiwanese industries.

Strategic Restructuring of Taiwanese Businesses Amid Geopolitical Disruption

Since the trade war began in 2018, China has steadily rolled out countermeasures in response to escalating tariffs and export controls from the U.S. With Trump now back in the White House, companies operating in China, regardless of whether they are Chinese, foreign, or Taiwanese-owned, had long been bracing for renewed turbulence. Still, the scope and depth of the disruption have exceeded expectations. Whatever direction U.S.-China negotiations may take, all businesses with a presence in China are now confronting a shared set of structural challenges.

This article examines how Taiwanese businesses are adapting to the prolonged volatility and strategic recalibrations brought on by intensifying geopolitical tensions.

Shifting to the U.S. and Mexico: Balancing Compliance and Cost

In response to deepening U.S.-China tensions and broader structural shifts, Taiwanese firms are under pressure to accelerate strategic transformation and regional restructuring to stay competitive. For electronics and end-device manufacturers serving primarily the U.S. market, this means actively exploring new investments in the U.S. and Mexico. The move helps companies align with domestic U.S. manufacturing mandates and achieve compliance with tightening rules-of-origin standards. By relocating final-stage production closer to the end market, these companies aim to preserve market access and enhance tariff resilience. While this preserves market access and tariff resilience, hurdles persist. The U.S. presents high production costs, while Mexico faces a shortage of skilled labor comparable to China's manufacturing workforce. Whether a company opts to relocate often comes down to the product's gross margin or strategic significance. For high-margin products with national security relevance such as servers, the shift is far more likely to be justified.

Pivoting to the Chinese domestic market: Capturing China's Policy Dividends

For smaller manufacturers in low-tech, low-margin sectors, moving production overseas can be prohibitively expensive. Many have instead pivoted toward China's domestic market, aligning with government efforts to encourage regional rebalancing and industrial relocation to the country's interior. In recent years, Beijing has actively promoted this shift, offering a mix of tax incentives, financing tools, and labor subsidies to support businesses moving into central and western provinces, free trade zones, and Belt and Road-linked regions. For firms unable to sustain exports to the U.S., this inward turn has emerged as a pragmatic alternative. Still, the approach carries trade-offs: higher logistics costs and heightened competition from local players remain persistent challenges.

Diversifying Globally: Spreading Risk, Seeking New Demand

With global trade increasingly vulnerable to geopolitical shocks, diversification has become essential for Taiwanese businesses looking to build resilience. Beyond the U.S. and China, emerging markets in Southeast Asia, India, the Middle East, Latin America, and Africa have gained momentum as viable alternatives driven by rising consumer demand and the ability to absorb industrial spillovers.

1 While Beijing still claims a 5% growth rate, independent data triangulation suggests the real figure is closer to 3.5%.

African markets, in particular, have gained momentum for Chinese companies, which have transitioned from pure trade to localized operations. Firms like Huawei, Xiaomi, and especially Transsion have established footholds through local production, branding, and technology transfer. Taiwanese companies are now exploring similar models: cross-border joint ventures, international brand building, and regional channel expansion form the backbone of their efforts to establish more diversified, multi-point operations.

Industrial Upgrading: Capturing Value in a Shifting Landscape

Many companies are also pushing into higher-value, lower-substitutability segments, such as advanced components, smart manufacturing, digital services, and brand development. China's push for localized supply chains and import substitution has accelerated this shift, encouraging firms to localize operations and reduce exposure to external policy risk. These efforts are further supported by recent policy developments: externally, through the implementation of Regional Comprehensive Economic Partnership (RCEP) and stronger regional integration; and domestically, through Beijing's pivot toward consumption-led growth and its focus on building "New Quality Productive Forces". Still, meaningful transformation demands heavy investment in R&D, talent cultivation, and digital infrastructure. For most, the path to upgrading will involve navigating steep technical barriers and substantial capital commitments.

Rethinking Market Logic in a Fragmented World

As geopolitical tensions continue to mount, business decisions can no longer be guided solely by market logic. Policy risk and national security considerations now weigh heavily on corporate strategy. As a result, some firms—particularly those confronting leadership succession challenges—have opted to withdraw from the Chinese market or wind down operations altogether.

Conversely, other companies, following a thorough evaluation of market trends and policy dynamics, have chosen to reinforce their long-term commitment to China. At a time when many peers are scaling back, these firms are expanding their presence by increasing investment, establishing R&D centers, and strengthening local networks. This show of loyalty has, in many cases, been rewarded with preferential policy treatment. Furthermore, by deepening ties within China and enhancing connections with non-U. S. markets, these companies are crafting alternative strategies to mitigate geopolitical risk and adapt to a shifting supply chain landscape.

Despite recent gestures toward easing tensions, the erosion of the WTO framework has left global trade more susceptible to political interference. Even if tariffs fall in the future, trust in the United States has already taken a hit. Long-standing allies like Canada have openly questioned Washington's reliability, wary that future agreements may prove short-lived. This growing skepticism continues to undercut America's bargaining position, particularly in light of frequent policy reversals.

While faith in the WTO remains low, the global business community still sees multilateralism as the most viable path forward. Restoring WTO-led multilateralism- based tariff negotiations, grounded in legitimacy, predictability, and transparency remains critical to stabilizing global commerce.

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