

# Structural Shockwaves: How the Latest Section 232 Investigations May Sweep the Taiwanese ICT Industry Off Its Feet



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## Introduction

Citing national security concerns, the United States has begun a new wave of investigations under Section 232 of the Trade Expansion Act of 1962 with unprecedented breadth and depth. The scope of the investigation has expanded far beyond traditional strategic materials like steel and aluminum to encompass semiconductors, semiconductor manufacturing equipment, and their derivative products. This creates an existential challenge for Taiwan, an export-driven economy deeply rooted in the ICT sector. The national security probe launched by the U.S. Department of Commerce on April 1 explicitly targets dependencies on certain countries (i.e., Taiwan, South Korea, Japan, and China),

foreign government subsidies, and the risks to U.S. national security posed by a weaponized supply chain. What lies ahead now is not just another round of trade friction, but a new structural shift driven by techno-nationalism.

## Core Risk: The Structural Reach of the “Derivative Product” Designation

The most serious threat posed to Taiwan by the current Section 232 investigation lies in the expansive definition of “derivative products.” The impact goes far beyond semiconductor chips themselves to include virtually all downstream end products that contain them, resulting in a scope that effectively covers most Taiwan’s ICT exports.

The real danger, therefore, lies in the pervasive and far-reaching nature of the proposed tariffs. Even if chips made in Taiwan are first shipped to a third country such as Mexico or Vietnam before being assembled into smartphones, laptops, or servers, the end product that is exported to the United States may still be deemed a national security concern simply by virtue of containing Taiwanese components. As such, they would remain subject to potential tariff barriers.

This latest tariff strategy represents a direct challenge to Taiwan's long-standing role at the heart of the global supply chain and underscores that simple relocation of production lines may no longer suffice to mitigate trade risks.

## Competitive Landscape: The Risk of Asymmetric Tariffs

In a moderate scenario, the U.S. might impose non-discriminatory global tariffs. Even if the rates vary, such a shared tariff creates an equalized starting point that would discourage drastic corporate reactions, although end-product pricing would nonetheless be driven up as market demand gets suppressed. At the same time, this type of policy uncertainty could also delay investments and disrupt supply chain plans.

But in the worst-case scenario, Taiwan could face asymmetric tariffs.

According to the Federal Register, the U.S. Commerce Department must submit its findings by the end of 2025. The President then has 90 days to decide on actions. This interim will be a crucial window for negotiation and lobbying. Whatever tariff structure emerges will reshape the competitive landscape for years to come. The following hypothetical scenarios each present different challenges for Taiwanese companies:

### Scenario 1: Only Taiwan Faces Tariffs While Other Nations Are Exempt

Semiconductors involve massive investment and operate under high U.S. trade policy uncertainty. If tariffs end up only applying to Taiwan, companies may opt for a more globally distributed manufacturing strategy rather than placing all their bets on U.S.-based production. Moreover, since semiconductors are intermediate goods, this may incentivize routing Taiwanese chips through third countries to obscure origin.

For ICT products, tariff pressure would hasten the relocation of production from Taiwan to Mexico, Southeast Asia, or even China, if, hypothetically, China's tariff rate drops below Taiwan's after a U.S.-China agreement.

While key components can still be made in Taiwan and assembled abroad, firms must watch for U.S. content rules. If the U.S. imposes tariffs on both semiconductors and ICT products, the impact on AI servers may be limited since most units supplied to the U.S. are already assembled domestically. In contrast, AI chips, which must be exported from Taiwan to the U.S. for final assembly, would face greater tariff pressure.

### Scenario 2: Tiered Tariffs: Taiwan Faces Higher Rates than China, Japan, and South Korea

In this worst-case scenario, Taiwanese corporations face severe handicaps. While demand for mature-node chips used in industrial control, automotive electronics, and power management would remain steady as U.S. market reliance is deep, a disproportionate tariff exposure could undermine Taiwan's cost advantage long-term.

Consequent to this development, mature process orders in the wafer foundry space may gradually shift to lower-tariff jurisdictions. Even as Taiwan holds on to its significant technological lead in advanced nodes below 3nm, tariff headwinds would eventually raise equipment costs and further incentivize global customers to diversify their supply

chains. Meanwhile, U.S. export controls on key semiconductor manufacturing equipment would add another layer of operational strain for Taiwanese firms.

Over the long run, this kind of asymmetric tariff environment could catalyze a deeper restructuring of global supply chains, forcing a reevaluation of Taiwan's strategic position in the semiconductor ecosystem.

## **Strategic Priorities for Industry Leaders**

Facing these structural changes, corporate leadership must focus on certain strategic priorities:

### **Grasp the Scope of “Derivative Products” and Secure Component Traceability**

Understanding how U.S. authorities ultimately define and enforce the derivative product categorization is now crucial. To navigate around administrative red tape, corporations must build robust traceability systems to track the origin of every component in exported goods. For products assembled in third countries, firms will need to ensure compliance with local rules of origin and prepare for intensified U.S. scrutiny around what qualifies for substantial transformation per U.S. jurisdiction.

### **Accelerating Supply Chain Resilience Transformation**

Moves to diversify production sites to global locations alone are no longer sufficient, companies need to start embedding a “design for supply chain” philosophy into product development from the start, incorporating modularity, standardization, and vetting pre-qualified suppliers for critical parts. As geopolitical risks flare, the ability to flex production across geographies under varying trade and regulatory conditions would prove to be a key competitive differentiator. Risk

mitigation is no longer just reactive: it must be actively engineered into the system.

## **Reinforce Taiwan's High-End Value Proposition**

Some production offshoring is inevitable, but Taiwan must safeguard its crown jewels: core R&D, system design, advanced processes, and top talent. To support this, the government is shifting away from creating newly designated trade and industrial regions to instead prioritize upgrading existing bonded and free trade areas into global hubs for supply chain orchestration and high-value manufacturing.

At the corporate level, this means reimagining Taiwan headquarters as the nerve center of global operations, with responsibility for innovation, strategic direction, and value creation to preserve Taiwan's irreplaceable role in the global tech ecosystem.