**Action plan in response to the US-China trade conflict**

**and new global trade outlook**

National Security Meeting, May 10, 2019

With the US-China trade conflict having escalated since March 2018, the government has paid close attention to this new situation, and the impact it may have. The National Security Council and other government agencies are closely monitoring the developing situation, responding in a timely fashion, safeguarding Taiwan’s financial and economic stability, and assisting Taiwanese overseas businesses to return to Taiwan.

As the US-China trade conflict is the result of structural and long-term effects, it will ultimately bring about structural changes to global trade and international supply chains, regardless of whether the parties reach an agreement going forward. The conflict is triggering a transformation in the international trade order, and inducing important trading nations such as Japan and countries of the EU to respond and change their trading relations with China. The effects of the conflict are spreading day by day, and are having a far-reaching impact on the global economy.

Taiwan’s economy relies heavily on foreign trade, and in particular, is closely tied to the US and Chinese economies through high trade volumes. With these changes in the US-China and global economic situation, Taiwan’s domestic economy will inevitably be affected to a certain extent, and this impact could increase on a daily basis. Therefore, we must build on existing foundations by carrying out a comprehensive response and adjustment, harnessing these external challenges to drive Taiwan’s economic transformation and upgrading. To this end, this action plan has been devised as the basis for associated national security efforts and the work of relevant government agencies.

In the future, Taiwan’s economic development and foreign trade must be based on strengthening our own economy and self-sufficiency, and protecting the interests of our enterprises and people, putting Taiwan first, which is our highest priority. We will promote a thorough range of responses and adjustments via the following eight approaches:

1. **Strengthening our grasp of the international situation**

We will enhance our understanding, analysis and judgment of the US-China trade conflict and associated changes in the international political and economic outlook. We must also accurately assess the impact on the domestic economy, finance and industry, and take full control over these dynamic conditions.

1. **Enhancing financial and economic stability**

Responding to the dynamic changes in our domestic economy and external circumstances, Taiwan will take stock of all feasible policy tools and strive to stabilize the domestic financial and economic situation. When necessary, we will also adopt an expansionary fiscal policy in order to maintain momentum in our economic growth.

1. **Expediting assistance to Taiwanese businesses to return to Taiwan**

We will strengthen assistance to China-based businesses to return to Taiwan, moving their production bases back to Taiwan and turning “Made in China” into “Made in Taiwan,” thus avoiding possible trade sanctions or retaliation. Going forward, we will respond to the situation flexibly by setting goals on a phase-by-phase basis, assisting Taiwanese businesses to rebuild high value-added industrial supply chains in Taiwan. In cases where it is not suitable for industries to move back, we will assist Taiwanese companies in the transfer of production bases to partner countries under the New Southbound Policy or other regions.

1. **Accelerating industrial upgrading and transformation**

Responding to changes in global supply chains and trade patterns, Taiwan must fast-track its transformation out of an industrial development model that relies on OEM exports and uses China as a manufacturing base. We must also further promote the 5+2 Industrial Innovation Program, disseminating our experience of innovation and associated achievements more widely among small and medium enterprises. When assisting Taiwanese overseas businesses to return to Taiwan and rebuilding industrial chains, it is also necessary to coordinate with impending legislation regarding the repatriation, use and taxation of offshore funds, and to guide overseas Taiwanese businesses to repatriate funds and invest in forward-looking industries. Utilizing the strength of Taiwanese enterprises both at home and abroad will accelerate the transformation and upgrading of Taiwanese industry.

1. **Accelerating economic restructuring**

In order to properly respond to changes of economic dynamics between the US and China, in addition to counter the slowdown in domestic economic growth and salaries, and remedy unequal income distribution, which are all problems caused by excessive reliance on trade with China, Taiwan will bolster efforts to promote a new economic development model that is centered on innovation, employment, and equal distribution. Taiwan will also accelerate programs to expand domestic demand in areas such as forward-looking infrastructure, green energy, urban renewal, social housing, and the long-term care 2.0 initiative. Emphasis will thus be put on growth which is driven by increases in both exports and domestic demand. Taiwan’s economy will thereby be able to adapt to new trends in global trade, both in the short and long term.

1. **Increasing global cooperation**

In response to endeavors by other countries to expand engagement with South and Southeast Asia, as well as changes in the geographic distribution of Taiwanese companies’ production facilities, Taiwan will seek to further boost its positioning in and strategic collaboration with partner countries under the New Southbound Policy. Young people will be encouraged to be involved with implementing the New Southbound Policy, while at the same time, small and medium enterprises will be given assistance in cultivating markets in these partner countries. Taiwan will also continue to seek to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and pursue the signing of bilateral economic and trade agreements with key trading partners such as the US, Japan, and the EU. This will strengthen Taiwan’s connections to free-market economies in the region and across the globe, spread market risks, and reduce reliance on the Chinese market.

1. **Strengthening defense against China’s measures to attract Taiwanese talents**

The Chinese authorities are actively promoting the so-called “31 measures on cross-strait economic and cultural exchanges and cooperation.” Their goal is to attract Taiwanese businesspeople, students, and skilled professionals. The US-China trade dispute will likely strengthen China’s determination to attract Taiwanese technology and talents, as an attempt to overcome US containment. To prevent these Chinese efforts from weakening Taiwan’s economic transformation, the government will safeguard normal cross-strait economic and trade flows, and accelerate the establishment of comprehensive legal frameworks for intellectual property protection and technology transfers, so that core technologies are not siphoned off. At the same time, measures carried out by our government to retain, nurture and attract talents must be bolstered. Mechanisms will be put in place and resources expanded to fully support youth employment and entrepreneurship. By investing in the future of Taiwan’s economy, the impact of Chinese enticements can be constrained.

1. **Protecting trade order**

Major countries such as the US are attempting to put a stop to the practice whereby Chinese products are processed in third countries and later exported, changing the rules concerning country of origin. This requires close monitoring of trade flows as well as management mechanisms for exports and imports, so as to prevent domestic and foreign companies from violating existing trade rules and engaging in large-scale processing of Chinese semi-finished commodities in Taiwan for export purposes. The government thereby seeks to avoid becoming the target of possible retaliatory trade measures. Meanwhile, Taiwan must also take note of trade protections and restrictions imposed by other countries, monitor their impact, and take related necessary measures, so as to safeguard the global fair trade order.