

【特集】 台湾海峡兩岸の經濟關係：变化と影響要因

# The Development and Changes of Cross-Strait Economic and Trade Relations

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# The Development and Changes of Cross-Strait Economic and Trade Relations

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## 1. Introduction

Due to political tensions, economic and trade interactions across the Taiwan Strait have long been subject to varying degrees of official interference. Fortunately, both sides have generally adopted non-confrontational economic and trade policies, preventing political intervention from completely obstructing these interactions. With each side possessing unique comparative advantages, they complement and benefit one another. Under the influence of market mechanisms, bilateral economic and trade exchanges had developed rapidly.

Cross-strait economic and trade interactions, which began in the late 1980s, emerged within a specific historical context driven by three primary factors. First, the end of the Cold War ushered in an era where peaceful development became the dominant trend. China's reform and opening-up policies facilitated the gradual dismantling of barriers between the two sides of the Taiwan Strait, enabling the realization of the complementarity in cross-strait economic and trade relations and promoting the exchange of various economic and trade factors and resources.

Second, these interactions coincided with

the rise of the information technology (IT) era. Since the advent of personal computers in the 1980s, followed by the emergence and popularization of devices such as Blackberry mobile phones, smartphones, and the Internet, revolutionary advancements in technology and the electronics industry have taken place. These developments have positioned electronic technology and industry as the primary pillars of cross-strait economic and trade cooperation.

Third, the trend of economic globalization played a crucial role. The political foundation for peaceful development, combined with the evolution of IT into the information and communication technology (ICT) industry, provided robust support for the free flow of resources and the global division of labor. This dynamic contributed to the establishment of a global economic and trade system led by the United States and Western countries. Within this framework, the "production outsourcing" model of multinational corporations created an "order mechanism," significantly boosting cross-strait investment and trade.

Driven by these three factors, cross-strait economic and trade relations have gradually developed into a cooperative relationship characterized by the complementarity and

synergy of resources: "Taiwanese capital, technology, and orders" combined with "China's labor, land, energy, and services." As a result, China has long been Taiwan's most significant economic and trade partner. Taiwan's exports to China constitute approximately 40% of its total exports, while imports from China account for 20%, with total cross-strait trade comprising about 30% of Taiwan's overall foreign trade. Not only is China Taiwan's largest trading partner, but it has also consistently been Taiwan's largest source of trade surplus.

Since the second decade of this century, significant changes in the geopolitical landscape have introduced substantial uncertainties regarding peace and development, thereby undermining economic globalization. Additionally, the emergence of the digital economy and the technological revolution driven by artificial intelligence (AI) have posed structural challenges to existing production and operational models. Furthermore, the rise of China's economy and industry is reshaping the key dynamics of cross-strait economic and trade development. Clearly, the three primary factors that previously drove cross-strait economic and trade relations are no longer present, resulting in a decline or slowdown in the growth of investment and trade between Taiwan and China. This paper seeks to examine the changes and evolution of cross-strait economic and trade relations in this new context.

In the remainder of this study, an overview of the current state of cross-strait economic and trade relations will be presented, followed by an analysis of the factors influencing these relations. The study will then explore the potential future development of cross-strait economic and trade interactions

and conclude with final remarks.

## 2. Current Cross-Strait Economic and Trade Ties

Cross-strait trade is primarily driven by Taiwanese investment in China, which remains Taiwan's main foreign investment destination. However, trade volume and proportion have been declining annually. In 2023, factors such as slowing global demand, weak exports, and intensified geopolitical tensions further impacted cross-strait economic and trade relations, leading to ongoing adjustments. By 2025, geopolitical factors, U.S.–China trade and technology conflicts, and Europe and the U.S. "de-risking" from China are expected to weaken China's economy and investment environment. Combined with persistent cross-strait tensions, these factors have led to structural shifts in economic and trade interactions.

The following section examines cross-strait economic and trade relations from three perspectives: trade, investment, and personnel exchanges.

### 2.1 Decline in Cross-Strait Trade

As shown in Figure 1, Taiwan's trade with China (including Hong Kong) peaked at 34.2% of total external trade in 2020 due to pandemic-related shifts, up from 31.2% in 2018. However, this share has steadily declined, reaching 28.6% (US\$223.96 billion) in 2023 and further dropping to 26.6% (US\$209.97 billion) from January to November 2024—the lowest since 2006 (27%).

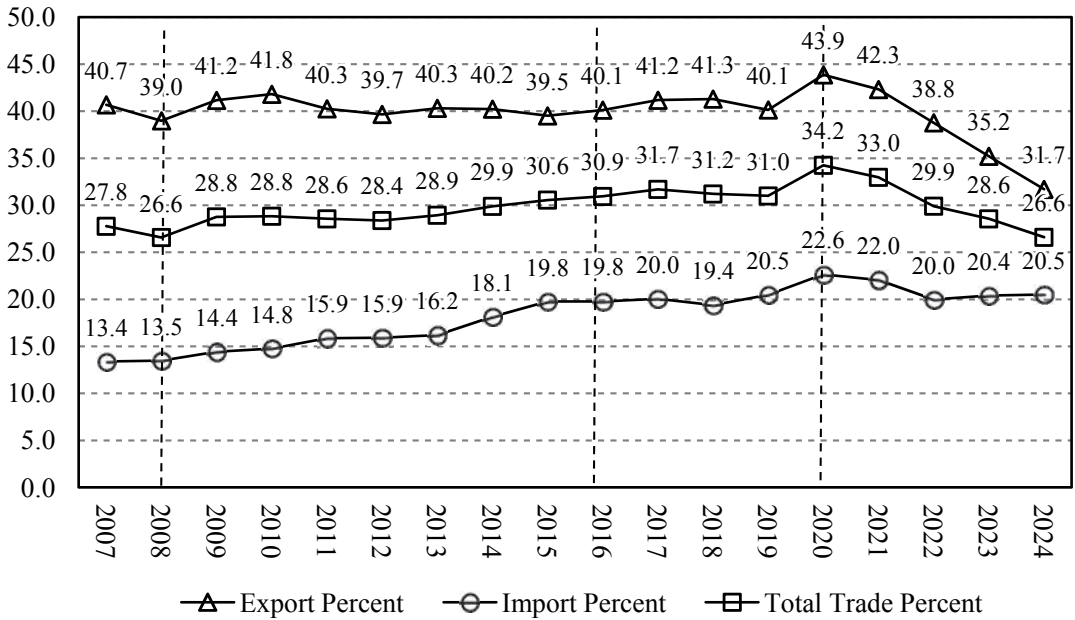
Exports to China (including Hong Kong) fell from a high of 42.3% in 2020 to 35.2% (US\$152.24 billion) in 2023 and further declined to 31.7% (US\$136.79 billion) in the first eleven months of 2024. Similarly, imports from China decreased from 22.6% in 2020 to

20.4% (US\$71.72 billion) in 2023 and slightly dropped to 20.5% (US\$73.18 billion) in 2024 (from January to November).

Additionally, as shown in Figure 2, Taiwan's trade surplus is primarily driven by trade with China (including Hong Kong). However, its share of Taiwan's total trade

balance has declined, dropping from 498.47% in 2008 to 99.87% in 2023 and further to 85.3% in 2024 (January–November). Taiwan's trade surplus with China stood at US\$80.55 billion in 2023, marking a four-year low. Despite this, Taiwan's total trade surplus reached a record-high US\$80.56 billion, a

Figure 1: Percentage of Cross-Strait Trade upon External Trade of Taiwan (%)



Source: Mainland Affairs Council, ROC, Taiwan.

Note: 2024 is only for the period from January to November.

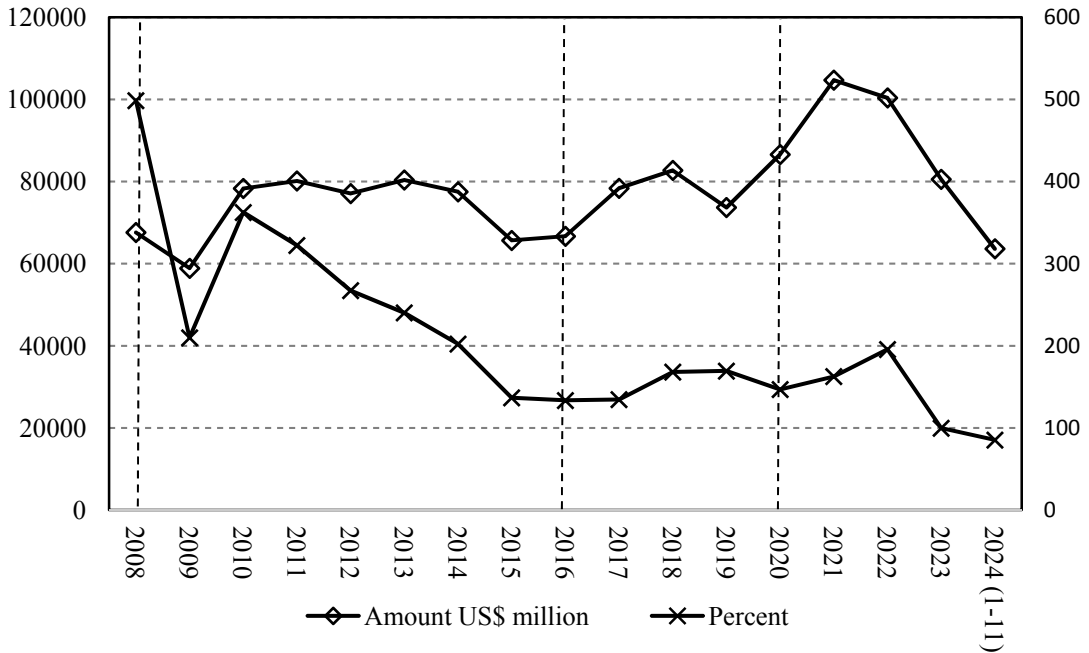
56.94% increase from US\$51.33 billion in 2022. However, without the trade surplus with China, Taiwan's overall trade balance would have been nearly in deficit by 2023.

An analysis of trade products reveals a significant decline in key sectors such as electronic components (including semiconductors) and information, communications, and audio-visual products, which constitute the majority of cross-strait trade. This downturn is driven by factors including weakened global demand,

manufacturers' pressure to reduce inventory, and intensified U.S.-China high-tech competition, leading to sluggish cross-strait trade performance.<sup>1</sup>

<sup>1</sup> In 2023, China's imports of integrated circuits (HS8542) from Taiwan totaled approximately US\$134.86 billion, making up 67.6% of its total imports from Taiwan, compared to 66.8% in 2022. These imports accounted for 27.6% of China's general trade, remaining relatively stable compared to 28.5% in the same period of 2022.

Figure 2: Trade Surplus of Taiwan with China (including Hong Kong)



Source: Mainland Affairs Council, ROC, Taiwan.

Note: 2024 is only for the period from January to November.

## 2.2 Declining Taiwanese Investment in China

As shown in Table 1, Taiwanese investment in China has been steadily declining since 2020. Investment peaked at 83.8% (US\$14.62 billion) in 2010 but fell to 33.6% (US\$5.05 billion) in 2022, 11.4% (US\$3.04 billion) in 2023, and just 7.5% (US\$3.61 billion) from January to November 2024—a record low. Since 2022, Taiwanese investment in "New Southbound" countries has surpassed investment in China.<sup>2</sup>

Additionally, the share of Chinese

enterprise investment in Taiwan's total foreign investment was 6.6% in 2013, dropping to 0.9% in 2019 and further declining to 0.3% in 2023. However, this share rebounded to 3.9% in 2024 (January–November). The cumulative Chinese enterprise investment in Taiwan from July 2009 to November 2024 stands at approximately US\$2.89 billion, accounting for just 2.3% of Taiwan's total foreign investment.

In 2023, approved Taiwanese investment in China totaled US\$3.04 billion, a 39.8% year-on-year decline. Notably, about 80% of this investment was concentrated in Jiangsu, Shanghai, Guangdong, and Zhejiang provinces, indicating that despite the global economic slowdown, Taiwanese investment in China remains regionally focused.

Further analysis by the Taiwan Institute of Economic Research (2024) indicates that despite the decline in new Taiwanese

2 The New Southbound Policy (NSP) includes the ten ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), six South Asian countries (Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka), as well as Australia and New Zealand.

Table 1: Taiwan's Investment in China

Years	Total Amount of Outward Investment (US\$ 100 million)	Taiwan Investment in China		
		Approved Case	Approved Amount (US\$ 100 million)	Percent of Total (%)
1991-2010	1,598.4	38,685	973.2	60.9
2011	180.7	887	143.8	79.5
2012	208.9	636	127.9	61.2
2013	144.2	554	91.9	63.7
2014	175.7	497	102.8	58.5
2015	219.0	427	109.7	50.1
2016	217.9	323	96.7	44.4
2017	208.2	580	92.5	44.4
2018	227.9	726	85.0	37.3
2019	110.2	610	41.7	37.9
2020	177.1	475	59.1	33.3
2021	184.6	423	58.6	31.8
2022	150.1	372	50.5	33.6
2023	266.1	328	30.4	11.4
2024 (1-11)	478.6	302	36.1	7.5
Total	4,547.9	45,825	2,099.7	46.2

Source: Department of Investment Review, Ministry of Economic Affairs, R.O.C.

investments in China, investment in China's electronic components industry (including semiconductors) remains high. This suggests that China's supply chain and market advantages continue to exert strong pull, with its role shifting from primarily OEM production to an R&D hub and sales market. In recent years, some labor- and resource-intensive Taiwanese enterprises have relocated to Vietnam and other Southeast Asian regions, yet they still rely on China for key raw materials and components.

However, amid geopolitical instability and the escalating U.S.-China trade and technology conflicts, Taiwanese companies

are closely following the global supply chain restructuring. They are reducing investment in China while increasing investment in the U.S., Europe, Japan, and "New Southbound" countries to diversify production risks.

### 2.3 Resumption of Personnel Interaction

According to Table 2, travel from Taiwan to China increased steadily before 2019, rising from 1.656 million in 2009 to 4.044 million in 2019. The proportion of Taiwanese travelers to China, relative to Taiwan's total outbound departures, followed an inverted U-shaped trend—rising from 20.3% in 2009 to a peak of 30.7% in 2012 before declining to 23.6% in

Table 2: Outbound Departure of Nationals of the ROC Taiwan to China

Period	Outbound Departure of Nationals of the ROC.		Outbound Departure of Nationals of the ROC. to China		
	Person (numbers in 10 thousands)	Annual Growth Rate (%)	Person (numbers in 10 thousands)	Annual Growth Rate (%)	Percent of Total (%)
2009	814.3	-3.8	165.6	147.4	20.3
2010	941.5	15.6	242.4	46.4	25.7
2011	958.4	1.8	284.7	17.4	29.7
2012	1,024.0	6.8	313.9	10.3	30.7
2013	1,105.3	7.9	307.2	-2.1	27.8
2014	1,184.5	7.2	326.7	6.3	27.6
2015	1,318.3	11.3	340.4	4.2	25.8
2016	1,458.9	10.7	368.5	8.3	25.3
2017	1,565.5	7.3	392.8	6.6	25.1
2018	1,664.5	6.3	417.3	6.2	25.1
2019	1,710.1	2.7	404.4	-3.1	23.6
2020	233.6	-86.3	41.5	-89.7	17.8
2021	36.0	-84.6	12.9	-69.0	35.7
2022	148.3	311.9	16.6	29.0	11.2
2023	1,179.6	695.5	176.1	961.6	14.9
2024 (1-11)	1,552.3	44.6	254.3	60.0	16.4

Source: Ministry of Transportation and Communications, ROC.

2019.

However, the COVID-19 pandemic led to a sharp decline, with numbers plummeting from 415,000 in 2020 to 129,000 in 2021, before slightly rebounding to 166,000 in 2022, representing 17.8%, 35.7%, and 11.2% of Taiwan's total outbound departures, respectively. In 2023, the number of Taiwanese travelers to China increased to 1.761 million—still significantly below pre-pandemic levels. From January to November 2024, this figure further rebounded to 2.543 million, surpassing the total for 2023 but remaining well below the 2019 peak.

According to Table 3, travel from China

to Taiwan increased from 2.54 million in 2012 to a peak of 4.14 million in 2015. Around 80% of these travelers visited for tourism, 9–15% for other purposes (e.g., visiting relatives, education), and 5–7% for economic and trade activities. Since 2016, the number of Chinese visitors to Taiwan has steadily declined, from 3.47 million in 2016 to 2.68 million in 2019. While the proportion of tourists decreased, it remained above 70%. The COVID-19 pandemic caused a sharp drop, with arrivals plummeting to 107,531 in 2020 and 13,251 in 2021. As restrictions eased, numbers slightly rebounded to 24,158 in 2022 and 218,017 in 2023. Since 2016, the primary purpose of

Table 3: Number of China's Visitors to Taiwan

Period	Economic and Trade Activity		Tourism		Others		Total	
	Number	Annual Growth Rate %	Number	Annual Growth Rate %	Number	Annual Growth Rate %	Number	Annual Growth Rate %
1987-2013	870,883	-	7,701,705	-	3,337,228	-	11,909,816	-
2012	139,600	-4.1	2,001,941	55.6	395,393	34.0	2,536,934	46.9
2013	134,251	-3.8	2,263,476	13.1	450,877	14.0	2,848,604	12.3
2014	266,794	98.7	3,328,224	47.0	352,592	-21.8	3,947,610	38.6
2015	287,356	7.7	3,335,923	0.2	520,557	47.6	4,143,836	5.0
2016	221,190	-23.0	2,736,053	-18.0	515,430	-1.0	3,472,673	-16.2
2017	196,905	-11.0	1,980,501	-27.6	518,315	0.6	2,695,721	-22.4
2018	188,912	-4.1	1,910,934	-3.5	562,131	8.5	2,661,977	-1.3
2019	193,670	2.5	1,903,705	-0.4	585,718	4.2	2,683,093	0.8
2020	9,517	-95.1	29,128	-98.5	68,886	-88.2	107,531	-96.0
2021	961	-89.9	0	-100.0	12,290	-82.2	13,251	-87.7
2022	4,111	327.8	0	--	20,047	63.1	24,158	82.3
2023	34,960	750.4	28,030	--	155,027	673.3	218,017	802.5
2024 (1-11)	63,487	107.9	98,837	661.3	205,419	43.7	367,743	97.2
Total	2,338,746	-	23,053,040	-	6,853,640	-	32,245,426	-

Source: National Immigration Agency, Ministry of the Interior of Taiwan, ROC.



Chinese visits has shifted toward non-tourism activities, accounting for 64.1%, 92.7%, 83%, and 71.1% in 2020–2023, respectively. From January to November 2024, arrivals reached 367,743, with 55.86% for other activities, while tourism recovered to 26.88%, slightly below the 2020 level (27.09%).

Overall, cross-strait trade and investment declined in 2023 and 2024, while the recovery of personnel exchanges remained limited.<sup>3</sup>

### 3. Determinants of Cross-Strait Economic and Trade Relations

Taiwan's cross-strait economic and trade policies have evolved through various stages, including "No Haste, Be Patient," "Proactive Liberalization with Effective Management," WTO accession by both sides, "Proactive Management with Effective Liberalization," and the promotion of the Cross-Strait Economic Cooperation Framework Agreement (ECFA). Throughout these phases, Taiwanese businesses have deepened their engagement in the Chinese market, driving continuous growth in cross-strait trade.

However, geopolitical factors such as the U.S.-China rivalry and the impact of the COVID-19 pandemic have ushered cross-strait economic and trade relations into a new stage, marked by increasing fluctuations and uncertainty.

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3 As of the end of November 2023, Taiwan's Mainland Affairs Council has implemented several policy adjustments, allowing mainland Chinese citizens to visit Taiwan for various purposes, including business exchanges, tourism via third countries, degree and research studies, the "Mini Three Links," funerals, family visits, and airline personnel stationed in Taiwan. Most other travel purposes still require special project approval.

### 3.1 Investment

Taiwanese business investment and trade in China are influenced by three key driving factors: the "de-risking" strategy, changes in China's investment and business environment, and policy uncertainties.

In response to China's economic coercion, the G7 summit in Hiroshima (May 2023) proposed a "de-risking" strategy instead of "decoupling."<sup>4</sup> This approach focuses on three key measures: reducing investment in China, blocking China's access to critical technologies, and decreasing reliance on China. Essentially, "de-risking" aims to enhance economic resilience by diversifying global manufacturing bases,<sup>5</sup> weakening China's role as the "world's factory" and reducing its significance in the global economic system.<sup>6</sup>

Beyond "de-risking," China's rising labor costs, stricter environmental regulations under "green development," and increased land and tax expenses have further impacted investment decisions. Additionally, heightened competition from local Chinese firms and a shift in China's approach from "attracting investment" to "selecting companies and capital" have made the business environment more challenging for Taiwanese investors. While China continues to emphasize

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4 The 49th G7 Summit was held in Hiroshima from May 19–21, 2023, under Japan's presidency, bringing together leaders from the U.S., Canada, Japan, France, Germany, Italy, the U.K., and the EU.

5 "De-risking" is not only a more refined "de-coupling" from China, but also "de-Sinicization" essentially.

6 If the G7 fully implements de-risking, industries across all levels—including mid-to-high-end, key sectors, and low-value-added OEMs—will shift from China to other developing countries.

“development,” it also prioritizes “security” and has tightened industry regulations, adding further obstacles.

Despite China’s efforts to attract Taiwanese investment through its domestic market potential,<sup>7</sup> well-established supply chains, infrastructure, talent pool, Belt and Road Initiative opportunities, and regional economic integration (RCEP), Taiwanese businesses—especially those engaged in processing trade—relocating production bases has become necessary due to pressure from European and U.S. clients. The “China+1” strategy, which involves establishing alternative production bases outside China, is a direct response to trade protectionism driven by “de-risking” in the West and the deteriorating investment climate and policy uncertainties in China.<sup>8</sup>

### 3.2 Trade

Amid strained political relations, China often retaliates against Taiwan’s trade restrictions by imposing economic measures, citing fairness while pursuing political motives. Recently, China has sought to alter

the “cross-strait asymmetric economic and trade relationship” by removing preferential treatment for Taiwan in response to Taiwan’s trade restrictions. China has also used abrupt import bans—particularly on agricultural and fishery products—as economic pressure,<sup>9</sup> a practice widely viewed as hostile by the international community. Repeated political interventions have further fueled resentment in Taiwan, worsening cross-strait relations.

Taiwan insists that China’s unilateral sanctions are inappropriate and that trade issues should be resolved through reciprocal negotiations. However, with no prior discussions, Taiwan has no plans to lift trade restrictions, leaving little room for compromise. In early 2024, China announced the termination of preferential tariffs under the ECFA “Early Harvest List,” suspending tariff concessions for 12 petrochemical products from January and additional ECFA-listed products in May.<sup>10</sup>

Taiwan maintains that the ECFA “Early Harvest List” represents only 6% of its exports, with limited overall economic impact, primarily affecting China-friendly Taiwanese businesses. However, further suspensions could reduce Taiwan’s trade benefits. In response, Taiwan is diversifying trade and supply chains, supporting businesses reliant on ECFA to accelerate transformation.

Beyond political tensions, cross-strait

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7 China’s “expansion of domestic demand” consists of two key strategies: Investment Expansion-Increasing government investment in traditional infrastructure (railways, highways, airports, water, energy, and public health) and advancing “new infrastructure” such as 5G, AI, big data, and the industrial Internet. Consumption Promotion-Expanding the middle-income group to boost consumer confidence and spending.

8 The global industrial chain restructuring under “de-risking” may pose short-term challenges for multinational corporations but also create new opportunities. However, for SMEs lacking resources, unless their technology or products are indispensable, the emergence of parallel supply chains presents even greater challenges.

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9 In recent years, China has abruptly halted imports of agricultural and fishery products from specific Taiwanese regions under various pretexts, severely impacting Taiwan’s farmers, fishermen, and traders.

10 It covers petrochemicals, textiles, machinery, steel and metals, transportation and other products.

trade is also impacted by global demand fluctuations and the end of the “electronic product destocking cycle.” From January to September 2024, Taiwan’s exports to China (including Hong Kong) totaled \$109.1 billion, down nearly \$3 billion (-2.7%) from the same period in 2023. Total trade volume fell by \$3.6 billion (-2.2%) to \$167.74 billion. In contrast, Taiwan’s exports to the US surged to \$84.23 billion, a 59.7% increase (\$31.49 billion) from 2023.

Going forward, cross-strait trade faces multiple uncertainties, including a potential US recession that could dampen consumption. Meanwhile, China may end more tariff preferences on Taiwanese goods, further complicating trade relations.

#### 4. Future Development of Cross-Strait Economic and Trade Relations

The trajectory of cross-strait economic ties largely depends on U.S. policy toward China. Lin (2019) noted that shifts in U.S. strategy toward China inevitably impact Taiwan, as Taiwan’s economic position is intertwined with U.S.-China relations. This has been evident from the Trump administration in 2016 to Biden’s tenure during 2020 to 2024, with U.S. efforts to contain China playing a key role in cooling cross-strait trade.

##### 4.1 Trump’s First Term (2017-2021)

During Trump’s presidency, the U.S. pivoted from cooperation with China to full-scale strategic competition, implementing trade and technology wars. In response, Taiwan pursued economic decoupling from China, expanding the “New Southbound Policy” and reshoring Taiwanese businesses. Taiwan also strengthened economic ties with the U.S., supporting Taiwan Semiconductor

Manufacturing Company Limited (TSMC) and other tech firms in setting up operations there. Despite these efforts, Figures 1 to 2 and Tables 1 to 3 show that cross-strait trade remained relatively stable until the COVID-19 pandemic.

##### 4.2 Biden’s Presidency (2021-2025)

When Biden took office in 2021, there were hopes for a shift in U.S. policy toward China. However, containing China’s rise remained a bipartisan priority, as China is seen as the U.S.’s primary strategic competitor.<sup>11</sup> Under Biden, efforts to counter China intensified. While he did not officially declare a trade war, he maintained Trump-era tariffs, promoted domestic manufacturing, and coordinated with allies to restrict China’s technological advancements.<sup>12</sup> These measures significantly impacted cross-strait trade, accelerating its decline. Conversely, since mid-2023, “The US-Taiwan Initiative on the 21st-Century Trade First Agreement Implementation Act” has been implemented,<sup>13</sup> providing Taiwan with economic security against China’s trade coercion. As Taiwan’s trade ties with China cool, its economic relationship with the U.S. continues to strengthen.

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11 For example, in establishing international trade rules or leading high-tech innovation.

12 These measures have led to China’s economic decline, driven by restrictions on advanced technology, supply chain shifts, and foreign capital outflows.

13 This initiative will enhance Taiwanese companies’ export capabilities, boost trade with the U.S. and other countries, and improve Taiwan’s chances of joining global trade agreements like the CPTPP, USMCA, and IPEF.

### 4.3 Trump 2.0 Era (2025~)

Trump's first presidency was largely mercantilist, marked by tariffs on China and demands for increased U.S. agricultural purchases. He prioritized short-term economic gains and viewed free trade as benefiting foreign nations at the expense of the U.S., contributing to its trade deficit. In 2025, Trump takes office again. He may escalate U.S.-China economic tensions, pushing for further decoupling. His administration could intensify restrictions on Chinese technology, expand from a "small yard, high fence (小院高牆)" to a "large yard, wide fence (大院寬牆)" containment strategy, impose additional tariffs, and even revoke China's "permanent normal trade relations (PNTR)" status. These actions would likely strain U.S.-China economic ties and further cool cross-strait trade relations.

## 5. Four-Diagram Model Analysis

This study constructs a four-diagram model to illustrate how the U.S. strategy to contain China contributes to the cooling of cross-strait economic and trade relations. The model incorporates four variables with four key assumptions.

### 5.1 Assumptions:

**Assumption 1:** Political Relations (*PRTC*) and Economic & Trade Relations (*ETRTC*) – A positive correlation, meaning improved political relations lead to stronger economic and trade ties between Taiwan and China.

**Assumption 2:** *ETRTC* and China's Technology Level (*CTL*) – A positive correlation, indicating that stronger cross-strait economic and trade relations contribute to advancements in China's technology.

**Assumption 3:** *CTL* and U.S. Crackdown on China's Technology (*USCT*) – A positive correlation, suggesting that higher technological development in China results in stricter U.S. containment measures.

**Assumption 4:** *USCT* and *PRTC* – A negative correlation, implying that increased U.S. pressure on China's technology sector leads to deteriorating cross-strait political relations.<sup>14</sup>

### 5.2 Analysis

Figure 3 illustrates four diagrams representing the assumed relationships among *PRTC* (Political Relations Between Taiwan and China), *ETRTC* (Economic and Trade Relations Between Taiwan and China), *CTL* (China's Technology Level), and *USCT* (U.S. Crackdown on China's Technology). Initially, these variables are in equilibrium at ( $P^*$ ,  $E^*$ ,  $C^*$ ,  $U^*$ ), marked in red.

When the U.S. intensifies its crackdown on China's technology, keeping other things constant, the *CTL-USCT* relationship shifts, flattening the curve and moving it rightward. This leads to an increase in *USCT* from  $U^*$  to  $U_1$ . Since a stronger U.S. crackdown negatively impacts *PRTC*, cross-strait political relations deteriorate, further reducing *ETRTC* to point A, as shown in Figure 3. Consequently, *ETRTC* declines from  $E^*$  to  $E_A$  in Figure 4.

As the system undergoes dynamic adjustments (Figure 4), it eventually stabilizes at a new equilibrium ( $P'$ ,  $E'$ ,  $C'$ ,  $U'$ ) in Figure 5. The analysis suggests that when the U.S. escalates restrictions on China's

<sup>14</sup> This assumption is reasonable, as the U.S. relies on Taiwan to curb China's technological advancement. Taiwan's alignment with the U.S. inevitably impacts cross-strait political relations.

Figure 3: Four-quadrant Diagram: Initial Steady State

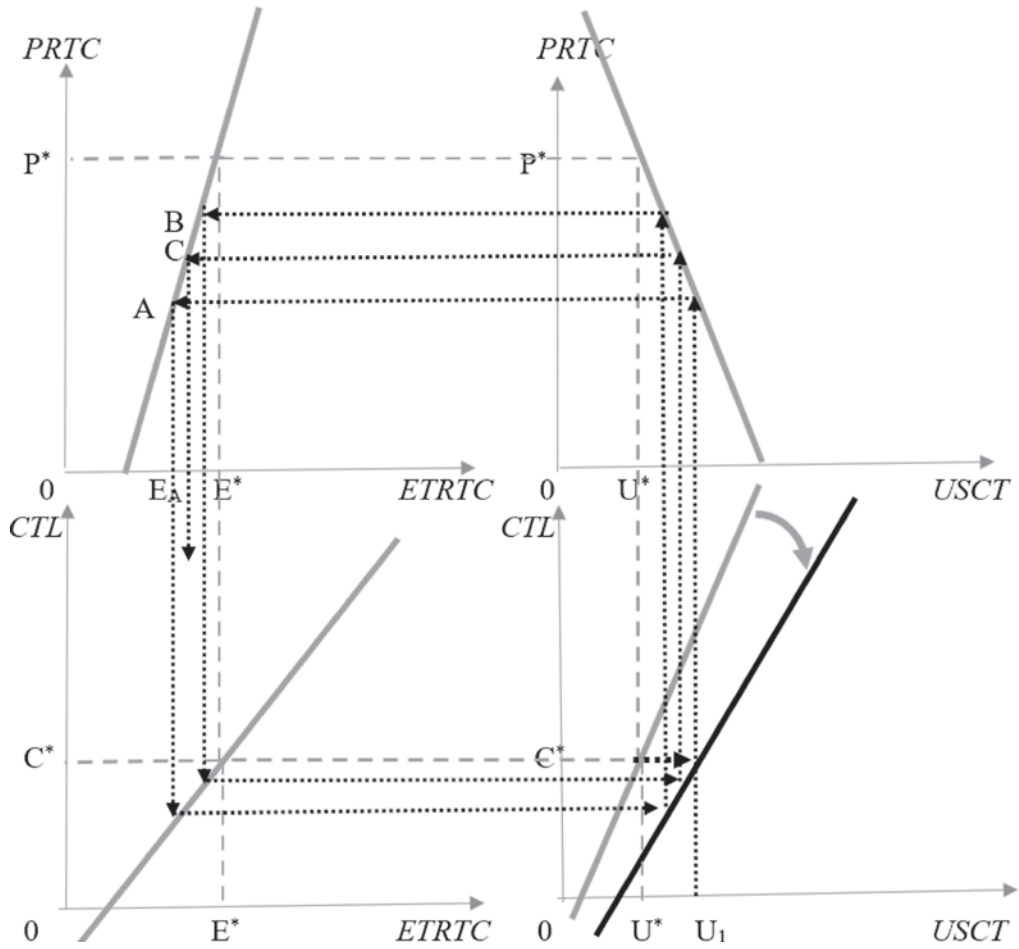
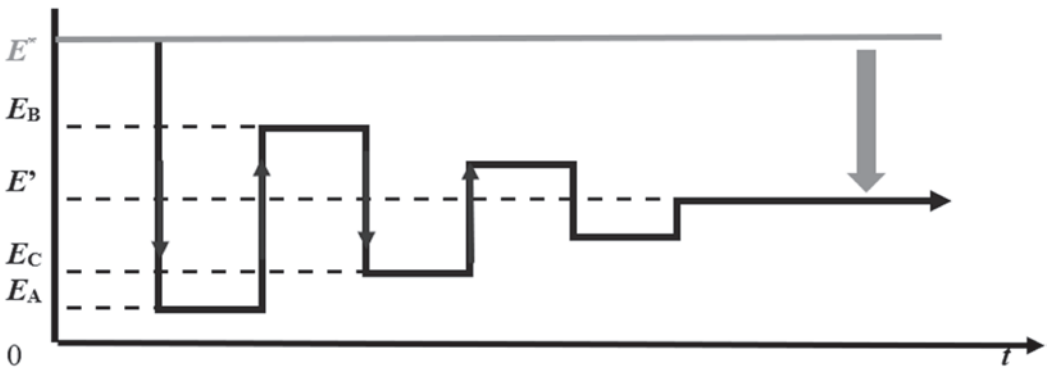


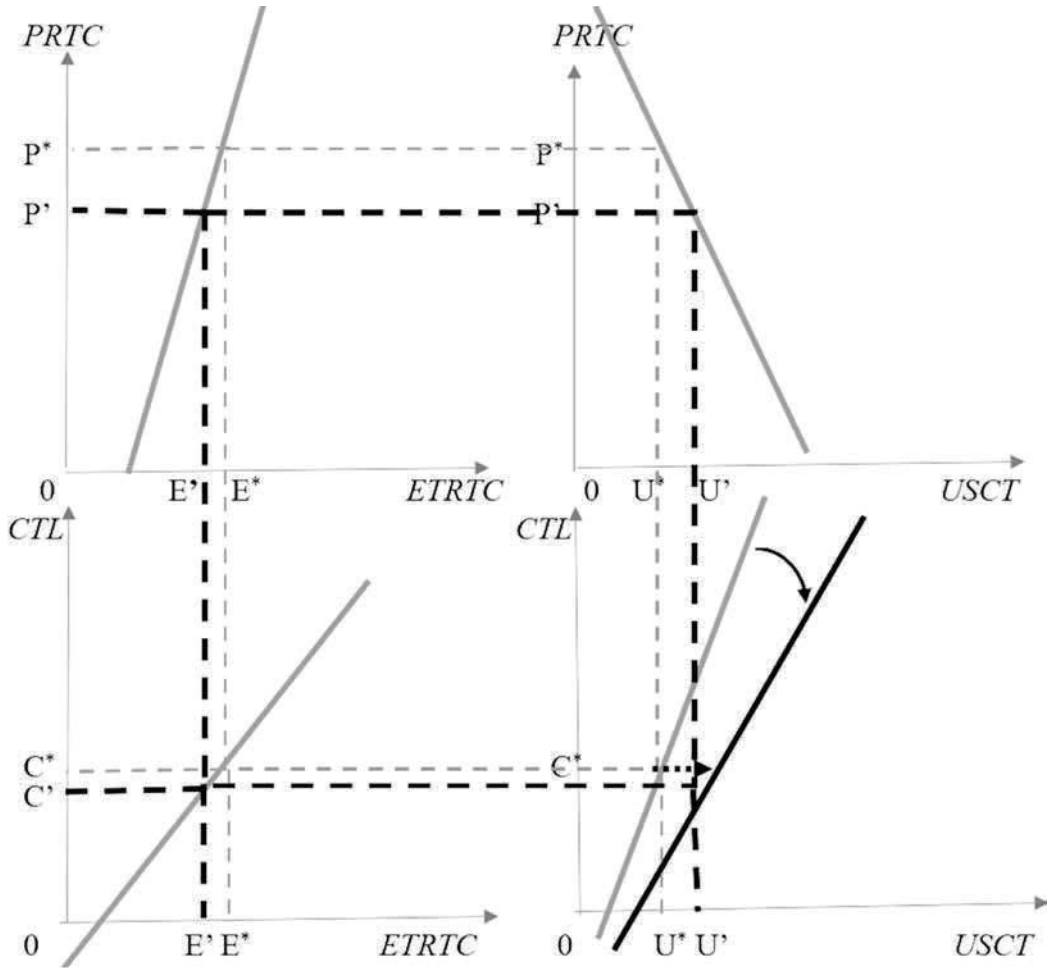
Figure 4: Dynamic Adjustments of  $ETRTC$  From  $E^*$  to  $E'$



technology sector, cross-strait economic and trade relations initially experience a sharp decline ( $E^*$  to  $E_A$ ). Over time, fluctuations in the four variables lead to a

new, lower equilibrium. As a result, both political and economic ties between Taiwan and China worsen, and China's technological advancement slows.

Figure 5: Four-quadrant Diagram: New Steady State



### 6. Concluding Remarks

Taiwanese businesses once played a key role in China's economic rise by replicating Taiwan's 1980s processing and export trade model. However, as China's economy advanced and shifted toward import substitution and local production, Taiwanese firms lost their competitive edge, making operations in China

increasingly challenging. Geopolitical shifts, economic globalization setbacks, and the rise of the digital economy and AI industry have further reshaped cross-strait economic dynamics.

This study finds that cross-strait trade has declined, personnel exchanges have resumed, and Taiwanese investment in China continues to shrink. Key factors contributing

to this decline include slowing global demand, prolonged export stagnation, escalating geopolitical tensions, U.S.-China trade and technology conflicts, Western “de-risking” strategies, China’s economic downturn, worsening investment conditions, and Beijing’s termination of the ECFA “Early Harvest List.”

The study highlights that U.S. policy toward China is the most critical factor influencing cross-strait economic and trade relations. Using a four-diagram model, the analysis suggests that if the U.S. intensifies its crackdown on China’s technology sector, cross-strait trade will initially decline sharply, fluctuate, and eventually stabilize at a lower level. Consequently, political tensions will escalate, and China’s technological progress will slow.

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