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Keelung City, Taiwan. Photo Credit: TopPhotoImages

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Implications of the Taiwan Strait on ASEAN Economies

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The People's Republic of China (PRC) had explicitly warned the Taiwanese voters against Lai Chin-te and depicted him as a risk to their interests with immediate intention of declaring independence. The candidate of Taiwan's Democratic Progressive Party, however, is elected to take office and will be inaugurated in May. The persistent difference in perspectives raises concerns about potential tensions in cross-strait relations and the status quo.

This paper aims to analyze the economic impact of the Taiwan Strait tensions on ASEAN economies under two scenarios of escalation vis-à-vis a maintenance of the status quo: China quarantining Taiwan or China invading Taiwan.

1. The status quo refers to the continuation of the current situation with no official declaration of independence nor factual control of Taiwan by the PRC with tensions remaining below the level of open conflict even despite systemic and constant provocation.
2. A law enforcement led quarantine of Taiwan refers to the control of the air and sea border of Taiwan by the Chinese government (with the help of non-military units such as the China Coast Guard) with the goal of isolating Taiwan to prevent it from sending exports or receiving imports. A quarantine could also serve as a precursor to more escalatory PRC military campaigns such as a PLA-led blockade or a full invasion of Taiwan. A blockade differs from a quarantine as it would involve both commercial and military intervention led by the People's Liberation Army.
3. An invasion of Taiwan refers to the amphibious or airborne assault or a combination of both by China on Taiwan.

Taiwan's strategic importance in the global supply chain suggests that regional conflicts could greatly affect the world economy. Despite the absence of formal diplomatic relations, Taiwan, and the Association of Southeast Asian Nations (ASEAN) have strengthened their economic ties, with the regional bloc emerging as Taiwan's second-largest trading partner. This cooperation has spurred economic growth in both Taiwan and the ASEAN, positioning the latter to potentially become the fourth-largest economy by 2030.

This study seeks to highlight the economic relationship between ASEAN and Taiwan by analyzing and comparing trade data. Additionally, this paper will look at directions in which ASEAN nations can take to navigate the tense cross-strait relations to mitigate economic repercussions. Maintaining the current status quo will lead to economic development in the region. Nevertheless, ASEAN should exercise caution and reinforce its supply chain resilience to address potential disruptions in the event of escalating tensions or conflict.

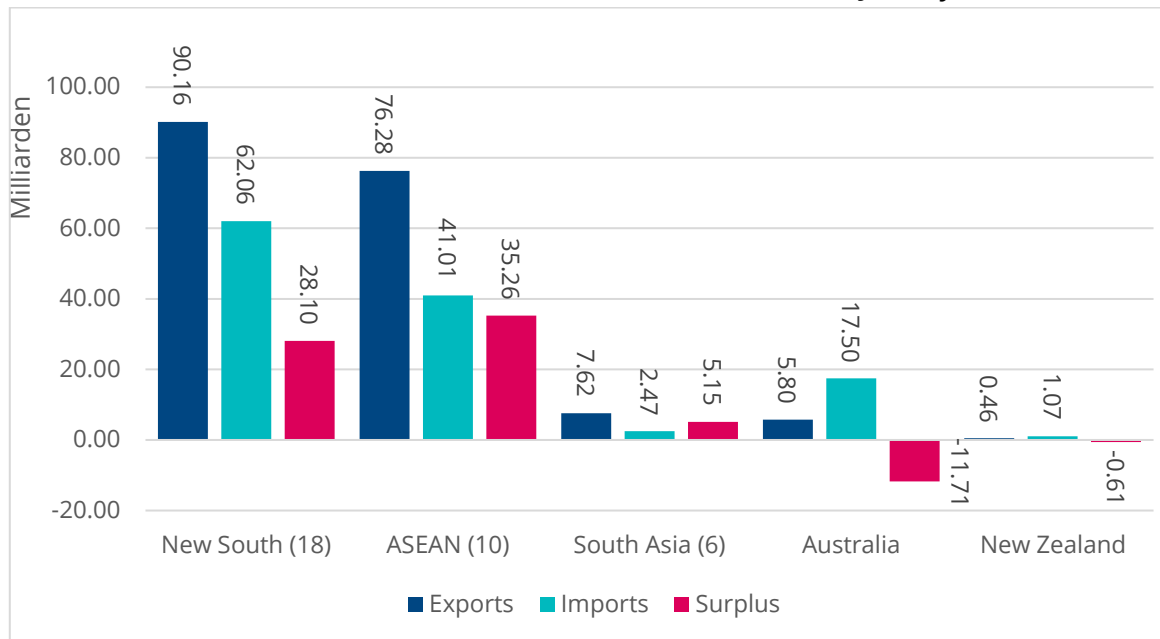
Taiwan's Strategy: Engaging with ASEAN and Disengaging with China

Introduced in 2016 by President Tsai Ing-Wen, the New Southbound Policy (NSP) aims to *"leverage Taiwan's cultural, educational, technological, agricultural, and economic assets to enhance Taiwan's regional integration and promote the broader development of the Indo-Pacific region"*¹. It is based on four principles: economic collaboration, people-to-people exchanges, resource sharing and regional integration. The policy aims to strengthen Taiwan's ties with Southeast-Asia, South-Asia, Australia, and New-Zealand. By 2023, trade between Taiwan and the New South (+18 countries) totaled US\$ 152,225.01 million, making a remarkable 58.84% growth rate since 2016 (US\$ 95, 832.77 million). Taiwan's exports to NSP countries amounted to US\$ 90,161.01 million while imports reached US\$ 62,063.99 million. On a global scale,

¹ CSIS. (2019, July). Taiwan's New Southbound Policy: Deepening Taiwan's Regional Integration. Center for Strategic and International Studies. <https://southbound.csis.org>

Taiwan’s trade surplus hit an all-time high of US\$ 80,969.85 million reflecting the Taiwanese government’s success in enhancing the local supply chain and boosting the economy overall.

Table 1. Taiwan’s Trade Statistics with the New Southbound Countries (January - December 2023)



Source: International Trade Administration, Ministry of Economic Affairs (MOEA) of Taiwan (ROC)

The New Southbound Policy also serves as Taiwan’s strategy to reduce economic dependence on China, given China’s potential to exploit the increasing ties between them – “We foresee the means of economic pressure from China will only increase and won’t decrease”². According to Taiwan’s Minister of Economic Affairs (MOEA), Wang Mei-Hua, Taiwan’s increasing investment in Southeast Asia and South-Asia aims to avoid “putting all your eggs in the same basket”³. In 2022, Taiwanese investments in Southeast-Asia and South-Asia (US\$ 5.2 billion) exceeded those in China (US\$ 5 billion) for the first time. Additionally, in 2023, Taiwan’s export to China (including Hong Kong) constituted 35.25% of its total trade, marking the lowest share in 21 years⁴.

Taiwan’s Trade and Investment in ASEAN

At US\$ 3.6 trillion in 2022, the Association of Southeast Asian Nations (ASEAN) is currently the world’s fifth largest economic bloc and third largest economy in Asia⁵. With a population of 690.6 million, ASEAN

² Chau, T., Cheng, T.-F., & Li, L. (2023, November 29). Taiwan to continue shifting investment away from China, minister says. Nikkei Asia. <https://asia.nikkei.com/Editor-s-Picks/Interview/Taiwan-to-continue-shifting-investment-away-from-China-minister-says>

³ Ibid.

⁴ Ryugen, H. (2024, January 9). Taiwan’s export reliance on Chinese market falls to 21-year low. Nikkei Asia. <https://asia.nikkei.com/Economy/Trade/Taiwan-s-export-reliance-on-Chinese-market-falls-to-21-year-low>

⁵ ASEAN Statistical Highlights 2023

is the world's third largest consumer market. And, marked with a young population, supportive policies, increased banking penetration and rapid digital adoption and connectivity⁶, ASEAN makes for an attractive destination for foreign investment.

In 2021, Wang Mei-Hua, Taiwan's Minister of Economic Affairs, emphasized the importance of directing attention towards ASEAN for "*future investments, talent cultivation and cooperation*". She noted that the reconfiguration of global supply chains due to US-China trade tensions have spurred Taiwanese companies to invest in ASEAN⁷.

Increasing Taiwanese Investment in the Semiconductor and EV Industries

In 2023, Taiwan's foreign direct investment (FDI) in ASEAN reached US \$5,226.82 million surpassing that in China (US \$3,036.81 million), just behind the United-States (US \$9,690.03 million) whose share was boosted by Taiwan Semiconductor Manufacturing Co.'s (TSMC) Investment in its factory in Arizona⁸.

The rise in Taiwan's FDI share in ASEAN can also be attributed, in part, to its increasing investment, particularly in the electronics and optical products sector. In particular, the semiconductor and EV industries are the direct beneficiaries of massive Taiwanese investment flows into ASEAN⁹. Key ASEAN countries for Taiwanese investors include Singapore, Vietnam, Thailand, Malaysia, Indonesia, and the Philippines.

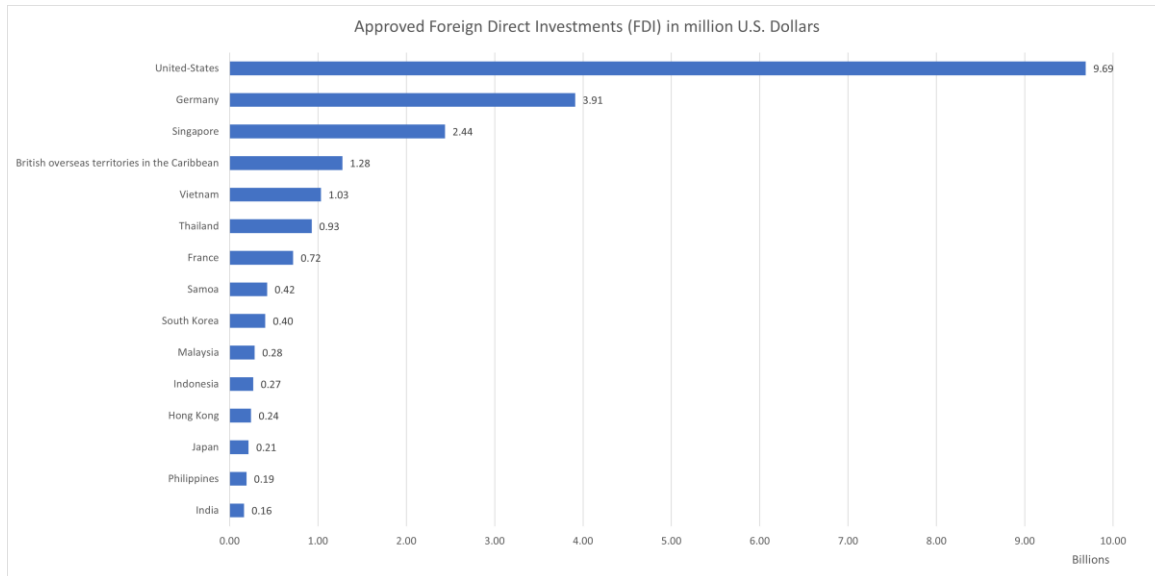
⁶ J.P. Morgan. (2023, January). ASEAN is big ... and getting bigger in portfolios?. J.P. Morgan Asset Management. <https://am.jpmorgan.com/hk/en/asset-management/per/insights/investment-ideas/asean-equity-potential/>

⁷ Oung, A. (2021, September 8). ASEAN the clear choice for Taiwan, minister says. Taipei Times. <https://www.taipetimes.com/News/biz/archives/2021/09/09/2003764031>

⁸ Reuters. (2023, February 15). TSMC approves capital injection of \$3.5 bln for Arizona factory. <https://www.reuters.com/technology/tsmc-boost-capital-arizona-factory-by-35-bln-2023-02-14/>

⁹ Malaysian Investment Development Authority. (2023, August 3). ASEAN becoming a compelling investment destination. MIDA. <https://www.mida.gov.my/mida-news/asean-becoming-a-compelling-investment-destination/>

Table 2. Value of approved outward foreign direct investments (FDI) from Taiwan in 2023, by leading destination country or region



Source: Adapted from C. Textor. Statista

Notable investments in 2023 include Hon Hai Precision Industry Company, also known as Foxconn, establishing a subsidiary in Singapore with an investment of US\$484 million¹⁰ and investing US\$250m in two manufacturing plants in Vietnam¹¹. Indonesia is the world's largest producer of nickel, a crucial raw material used in manufacturing EV batteries. In 2022, Foxconn formed a joint venture with Indika Energy to manufacture batteries and EVs¹². These investments underscore the region's significance and illustrate the growing investment and collaboration opportunities in the region. In terms of promoting people-to-people exchange, the Ministry of Economic Affairs (MOEA) of Taiwan aims to recruit semiconductor professionals from the Philippines, Malaysia, Indonesia, and Vietnam¹³.

Increasing Trade under Taiwan's New Southbound Policy

Taiwan's trade with ASEAN experienced significant growth, from US\$ 78,433.58 million in 2016 to US\$ 117,291.02 million in 2023, marking a 49.55% increase. Exports from Taiwan to ASEAN reached US\$ 76,276.53 million, while imports into Taiwan amounted to US\$ 41,014.48 million in 2023.

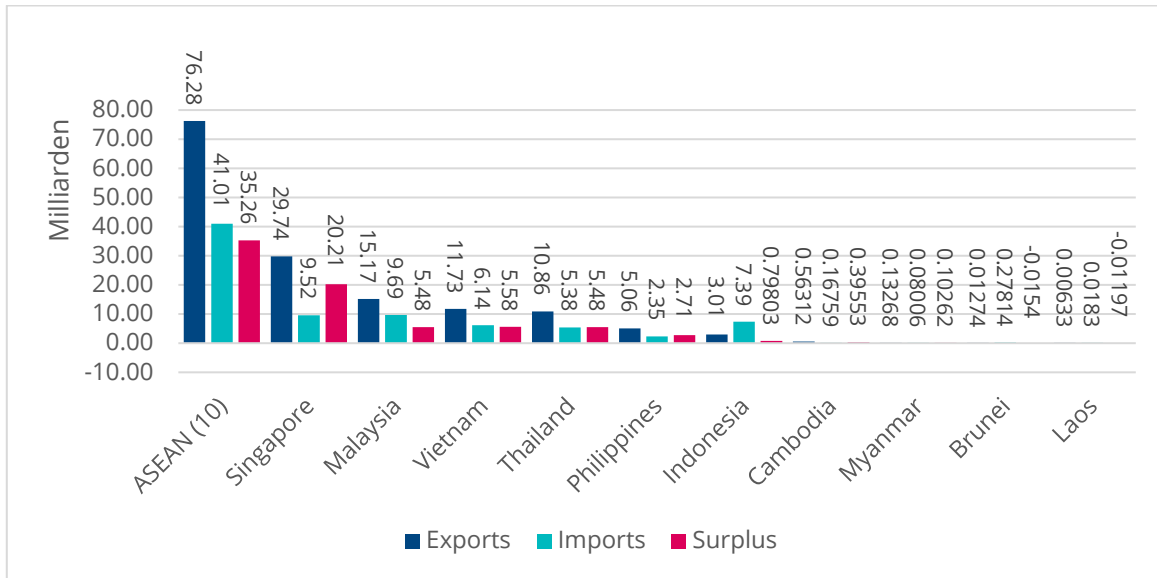
¹⁰ Focus Taiwan. (2023, July 18). Hon Hai subsidiary in Singapore aimed at EV: source. Focus Taiwan. <https://focustaiwan.tw/business/202307180006>

¹¹ Nitta, Y. (2023, July 3). Foxconn to invest \$250m in Vietnam to produce EV parts. Nikkei Asia. <https://asia.nikkei.com/Spotlight/Supply-Chain/Foxconn-to-invest-250m-in-Vietnam-to-produce-EV-parts>

¹² Maulia, E. (2022, September 23). Foxconn forms Indonesian JV for EV and battery manufacturing. Nikkei Asia. <https://asia.nikkei.com/Business/Technology/Foxconn-forms-Indonesian-JV-for-EV-and-battery-manufacturing>

¹³ Wang, F., & Liu, C. (2024, January 14). Taiwan to recruit semiconductor talent from Southeast Asian countries - focus taiwan. Focus Taiwan. <https://focustaiwan.tw/business/202401140018>

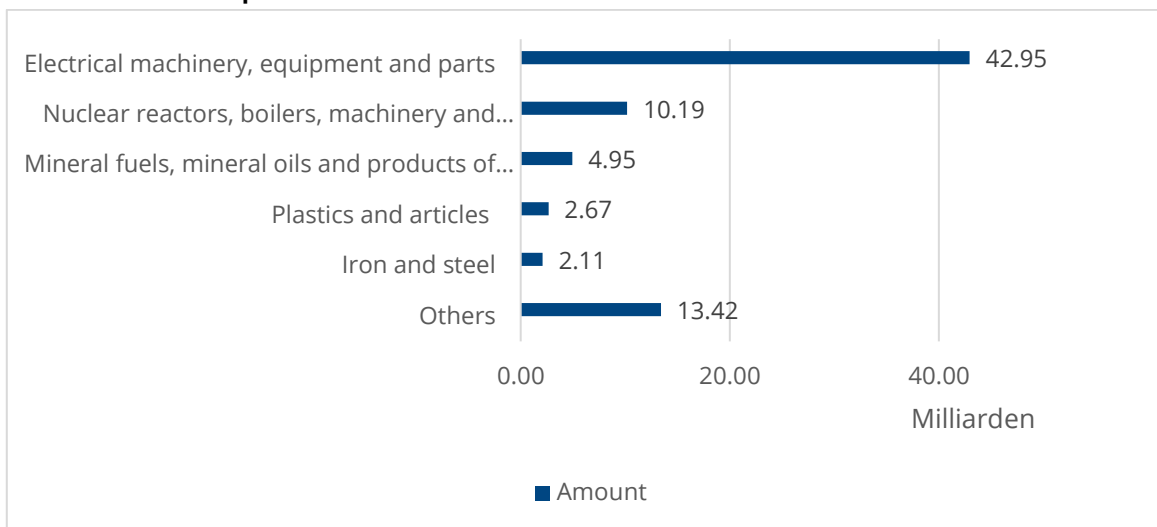
Table 3. Breakdown of Taiwan’s Trade with ASEAN in 2023



Source: International Trade Administration, Ministry of Economic Affairs (MOEA) of Taiwan (ROC)

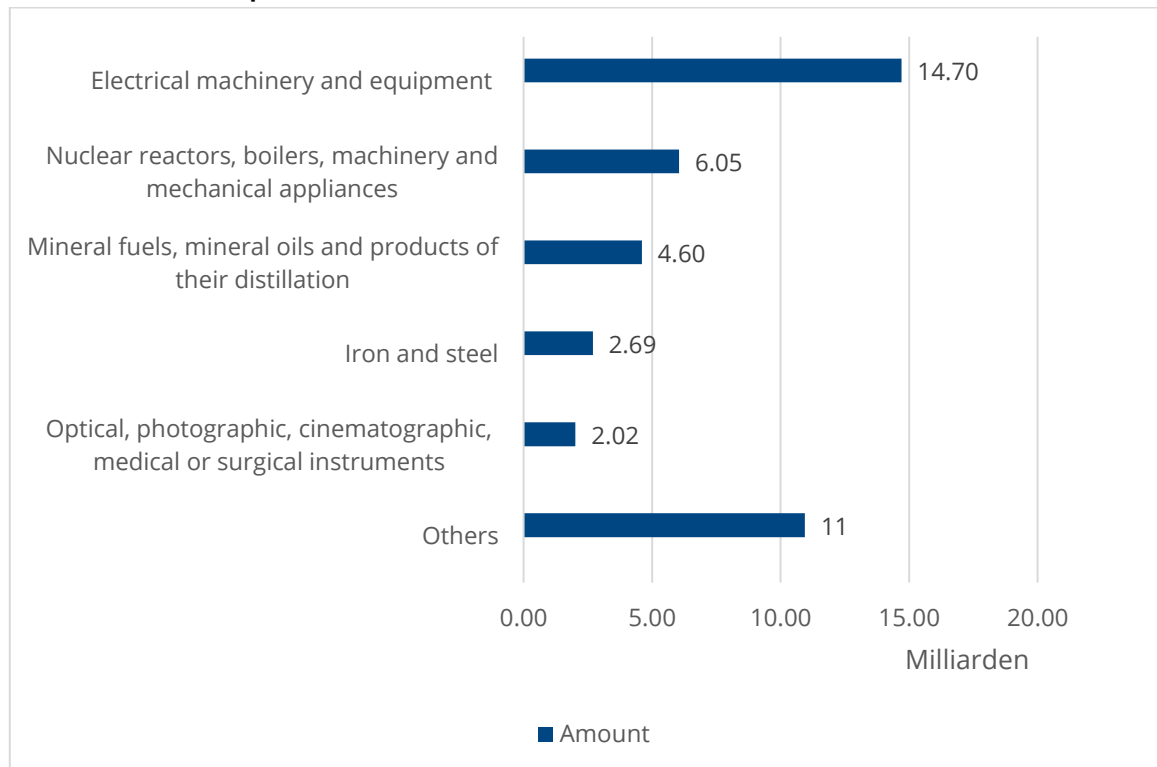
Taiwan’s primary exports product comprised electrical machinery and equipment, accounting for 56.3% of its total exports, followed by nuclear reactors, boilers, machinery, and mechanical appliances (13.3%), mineral fuels, mineral oils (6.4%), plastics (3.5%) and iron and steel (2.7%). Conversely, the leading imports products include electrical machinery and equipment (35.8%), nuclear reactors, boilers, machinery, and mechanical appliances (14.7%), mineral fuels, mineral (11.2%), iron and steel (6.5%) and optical, photographic, cinematographic, medical, or surgical instruments (4.9%). Chien-Hsun (2023) notes that there is an increasing trend towards intermediate goods in Taiwan’s export product to ASEAN which indicates a vertical division of labor between Taiwan and ASEAN¹⁴.

Table 4. Taiwan’s Exports to ASEAN in 2023



Source: International Trade Administration, Ministry of Economic Affairs (MOEA) of Taiwan (ROC)

¹⁴ Chen, C.-H. (2023). Is Taiwan’s New Southbound Policy Effective in the Global Supply Chain? Retrieved February 26, 2024, from <https://mpra.ub.uni-muenchen.de/id/eprint/116606>

Table 5. Taiwan's Imports from ASEAN 2023

Source: International Trade Administration, Ministry of Economic Affairs (MOEA) of Taiwan (ROC)

Malaysia and Singapore stand out as the only two ASEAN countries featured among Taiwan's top 10 trading partners in 2023. Notably, both countries play active roles in the downstream section of the semiconductor supply chain, which includes testing and packing for end-user products (known as OSAT or Outsourced Semiconductor Assembly and Test).

With over 50 Taiwanese multinational semiconductor companies in the country, Malaysia emerges as the sixth-largest global exporter of semiconductors, contributing to approximately 25% of its GDP. Holding 7% of the market share and 13% of the global market for packing, assembly, and testing for semiconductors, Malaysia leads ASEAN in the semiconductor industry¹⁵. Conversely, Singapore accounts for 11% of the semiconductor market and hosts approximately 5% of the global wafer fabrication capacity. It manufactures around one-fifth of the world's semiconductor equipment, contributing to approximately 7% of its GDP¹⁶. iFast Corporation notes that a combination of favorable policies, strategic location, robust infrastructure, and a skilled and competitive labor force positions these two countries as prime destinations for global investors seeking to establish themselves in the semiconductor industry¹⁷.

¹⁵ Aziz, M., & Medina, A. F. (2024, February 15). Malaysia's semiconductor sector beckons foreign investors. ASEAN Briefing. <https://www.aseanbriefing.com/news/malysias-semiconductor-sector-beckons-foreign-investors/>

¹⁶ Diverse capabilities, infrastructure help drive chips industry in Singapore. EDB Singapore. (2022, September 3). <https://www.edb.gov.sg/en/business-insights/insights/diverse-capabilities-infrastructure-help-drive-chips-industry-in-singapore.html>

¹⁷ iFAST Research Team. (2023, November 7). The 5 semiconductor players in Singapore and Malaysia. FSM One Singapore. <https://secure.fundsUPERMART.com/fsmone/article/rcms281844/the-5-semiconductor-players-in-singapore-and-malaysia>

Table 6. Top 10 Trading Countries with Taiwan



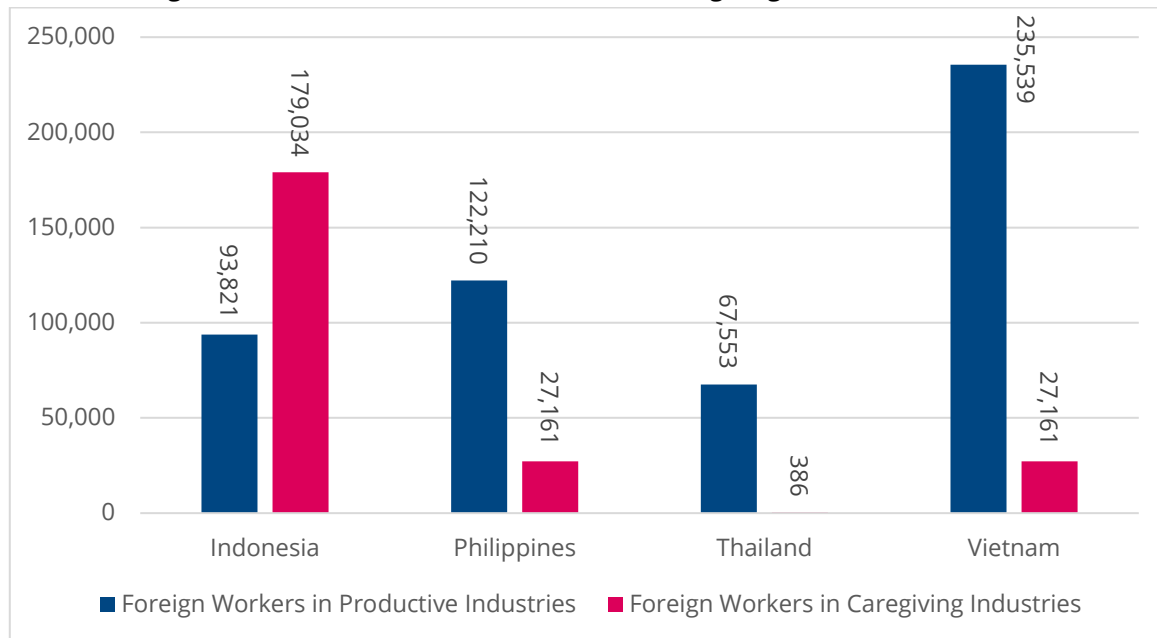
Source: International Trade Administration, Ministry of Economic Affairs (MOEA) of Taiwan (ROC)

Southeast-Asian Labor Migrants in Taiwan

In 2023, Taiwan hosted approximately 794,951 migrant workers, constituting over 93.35% of the foreign population in Taiwan. A majority of these laborers come from four Southeast-Asian countries: Indonesia, the Philippines, Thailand and Vietnam. According to the Ministry of Labor, almost a quarter of a million (234,305) were social workers (such as domestic workers, caregivers), representing 31.08% of all migrant workers in Taiwan. The remaining workforce (519,125) work in productive industries such as manufacturing and electronics, construction, fishing, and agriculture.

Migrant workers not only fill critical labor gaps in Taiwan but also benefit their home economies through remittances. These remittances serve as a vital source of income for their families and contribute to improving their living standards, healthcare, funding education, etc. Moreover, many migrant workers acquire new skills and knowledge during their employment, which can contribute to the development of various sectors in their home economies upon their return.

Taiwan's increasing engagement in the region posits numerous benefits for both Taiwan and its ASEAN counterparts. Taiwanese investments play a role in ASEAN's economic growth by injecting capital, technology, and expertise into the region leading to the creation of new industries and job opportunities. Furthermore, Taiwan's foreign direct investment (FDI) serves as an important channel for knowledge transfer which enhances the industrial capabilities and competitiveness of ASEAN nations. Strengthened economic ties increase trade opportunities, while the development of infrastructure, such as manufacturing facilities and transportation networks, improves productivity and connectivity.

Table 7. Foreign Workers in Productive Industries and Caregiving Industries

Source: Workforce Development Agency, Ministry of Labor (MOL) of Taiwan (ROC)

From Taiwan's perspective, investing in ASEAN provides a means of diversifying markets, reducing dependence on any single market (mainland China), and mitigating economic risks. Moreover, Taiwan faces challenges such as electricity¹⁸ and water¹⁹ scarcity, which are crucial for semiconductor chip production. Thus, tapping into ASEAN's abundant natural resources and its workforce ensures stability, resilience, and efficiency in the semiconductor supply chain. Moreover, such investments facilitate cultural exchange, people-to-people ties, and contribute to the integration of regional economies into global value chains. Taiwanese investment in ASEAN not only strengthens the economic landscape but also promotes mutual regional stability through interdependence and shared interests.

From an economic security perspective, the outsourcing of manufacturing facilities to ASEAN offers a potential solution to address concerns raised by the United-States and Japan's over-dependence on semiconductors produced in Taiwan. Guarantee of a diversified and stable supply chain is imperative for securing their interest in maintaining Taiwan's autonomy and support in the event of a Chinese invasion²⁰.

The conventional strategy, known as the "Silicon Shield", entails Taiwan maintaining a significant level of domestic chip production to increase the material stakes of key allies. Theoretically this would incentivize

¹⁸ Li, L., & Cheng, T.-F. (2022, August 30). Taiwan's frequent blackouts expose vulnerability of tech economy. *Nikkei Asia*. <https://asia.nikkei.com/Business/Technology/Taiwan-s-frequent-blackouts-expose-vulnerability-of-tech-economy#>

¹⁹ Zhong, R., & Chien, A. C. (2021, April 8). Drought in Taiwan pits chip makers against farmers. *The New York Times*. <https://www.nytimes.com/2021/04/08/technology/taiwan-drought-tsmcsemiconductors.html?searchResultPosition=1>

²⁰ Hsueh, C. (2023, December 23). How Taiwan-ASEAN semiconductor cooperation can bolster Taipei's National Security. *The Diplomat*. <https://thediplomat.com/2023/12/how-taiwan-asean-semiconductor-cooperation-can-bolster-taipeis-national-security/>

countries to prioritize Taiwan due to their economic stakes in semiconductors. However, critics argue that this approach “won’t protect Taiwan”²¹. If China remains undeterred, conflict could result in severe economic disruptions which could potentially lead Taiwanese allies such as the United-States and Japan to prioritize domestic issues over defending Taiwan²².

Taiwan Strait Tension on ASEAN Economies

The year 2024 will be a critical year for Taiwan and cross-strait relations as China intensifies its political and military pressure on Taiwan. William Lai, the Taiwanese president elect, was labeled as a “*dangerous separatist*”²³ by China thus setting the stage for heightened tensions between China and Taiwan. A survey conducted by the Center for Strategic and International Studies (CSIS) indicates that U.S experts foresee a potential escalation in the Taiwan Strait in response to Taiwan’s election. Most U.S. and Taiwan experts agree that, in this scenario, Beijing is more likely to implement a law enforcement-led quarantine or blockade rather than a direct invasion within the next five years²⁴.

The following section will explore the potential impact of three scenarios in Taiwan-China relations and their implications on ASEAN economies vis-à-vis a maintenance of the status quo. The growing economic link and people-to-people ties between Taiwan and the region ensures that escalation in the Taiwan Strait could potentially have significant consequences.

Maintenance of the Status-Quo

Before analyzing scenarios of escalation, this section examines the potential developments for a maintenance of the status quo. A survey conducted by the National Chengchi University’s Election Study Center revealed that over 80% of Taiwanese citizens want to maintain the status quo with China. In contrast, only 3.8% of respondents want immediate independence²⁵. Maintaining the status quo would ease concerns within ASEAN and involve continued diplomatic and economic relations with both China and Taiwan.

Increasing Foreign Direct Investments and Trade

ASEAN countries would likely continue to attract foreign direct investment from Taiwan and China, while maintaining robust economic ties. Taiwan’s ongoing commitment to its New Southbound Policy (NSP), aimed at diversifying and reducing ties with China, ensures its continued engagement with ASEAN.

²¹ Miller, C. (2022, October 19). Global Fight for Chips: “The ‘Silicon Shield’ Won’t Protect Taiwan from a Chinese Invasion.” American Enterprise Institute. <https://www.aei.org/articles/global-fight-for-chips-the-silicon-shield-wont-protect-taiwan-from-a-chinese-invasion/>

²² Ibid. Hsueh

²³ Wingfield-Hayes, R. (2024, January 13). William Lai: Taiwan just chose a President China loathes. what now?. BBC News. <https://www.bbc.com/news/world-asia-67920530>

²⁴ Lin, B., Hart, B., Chen, M.-C., Shen, M.-S., Lu, S., Tinsley, T., & Liao, Y.-J. G. (2024a). Surveying the Experts: U.S. and Taiwan Views on China’s Approach to Taiwan. Center for Strategic & International Studies. Retrieved 2024, from <https://www.csis.org/analysis/surveying-experts-us-and-taiwan-views-chinas-approach-taiwan>

²⁵ Election Study Center, National Chengchi University. (2024). Taiwan Independence vs. Unification with the Mainland (1994/12–2023/12). Retrieved March 26, 2024, from <https://esc.nccu.edu.tw/PageDoc/Detail?fid=7801&id=6963>.

Consequently, ASEAN member states can expect a rise in both FDI and trade as increased Taiwanese presence in Southeast-Asian markets creates a high level of interconnectivity between both parties.

The region stands to benefit from investments across various sectors including manufacturing, EV-related activities, the digital economy, infrastructure, and real estate. Trade relations would remain intact, with ASEAN countries continuing to engage in exporting and importing goods and services from both Taiwan and China.

Particularly, Taiwanese investments in the semiconductor and EV industry will bolster the strategic importance of ASEAN within the global supply chain. In the event of a Chinese invasion of Taiwan, where G7 countries will most likely sanction China, ASEAN emerges as an attractive and vital alternative to Taiwan as a semiconductor production hub.

Increasing Labor Migration

Labor migration patterns will not change significantly, with workers from ASEAN countries continuing to seek job opportunities in both China and Taiwan. Thus, if the status quo persists, we can anticipate a rise in the number of migrant workers from ASEAN countries to Taiwan.

ASEAN migrant workers will play a significant role in contributing to the labor market in various sectors including manufacturing and construction in China. In Taiwan, migrant workers are mainly employed in productive industries like agriculture, fishing, and semiconductor factories. Additionally, many are engaged in the caregiving industry and domestic work.

Aside from contributing positively to the economy of the hosts countries and filling shortages in critical sectors, migrant workers serve as an important source of income and economic growth for their home countries, effectively contributing to poverty reduction²⁶.

First Scenario for Escalation – Law Enforcement Led Quarantine of Taiwan

According to a report by the Center for Strategic and International Studies (CSIS), a law enforcement led quarantine involves non-military actors, such as the China Coast Guard or maritime militia, assuming control over the air and sea borders of Taiwan²⁷.

Experts note that China's goal for the quarantine is not to cut off food and supplies to Taiwan but to assert de facto sovereignty by controlling the air and maritime space surrounding the island. This would mean that the Chinese government would implement a clearance operation to screen cargo deliveries, ships, aircrafts, and people before granting them entry into Taiwan^{28,29}.

²⁶ Cepla, Z. (2023, July 19). Labor mobility helps foreign workers and their families escape poverty. Labor Mobility Partnerships (LaMP). <https://lampforum.org/2020/10/26/labor-mobility-helps-foreign-workers-and-their-families-escape-poverty/>

²⁷ Ibid. CSIS

²⁸ Martin, B., Gunness, K., DeLuca, P., & Shostak, M. (2022, May 23). Implications of a Coercive Quarantine of Taiwan by the People's Republic of China. RAND. https://www.rand.org/pubs/research_reports/RRA1279-1.html

²⁹ Blackwill, R. D., & Zelikow, P. (2021). Three Scenarios for a Military Conflict over Taiwan. In *The United States, China, and Taiwan: A Strategy to Prevent War* (pp. 30–40). Council on Foreign Relations. Retrieved March 26, 2024, from <https://www.cfr.org/report/united-states-china-and-taiwan-strategy-prevent-war>

According to a survey within the CSIS report, a majority of both US and Taiwanese experts agree that a quarantine of outlying Taiwanese islands was the *“likeliest action if Beijing seeks to punish or coerce Taiwan”*³⁰. Quarantine presents a flexible option for China as it does not want to escalate into kinetic conflict. However, experts caution that quarantine could potentially precede more escalatory PRC military campaigns such as a PLA-led blockade or a full-scale invasion of Taiwan. The potential scope of a blockade varies significantly, ranging from targeted interdictions of commercial vessels to highly kinetic operations, which includes the destruction of port and airport facilities in Taiwan³¹.

Reduced Foreign Direct Investment and Trade

In this scenario, the Chinese government goal is to isolate Taiwan, preventing it from sending exports or receiving imports. Even if ASEAN were to stay neutral, there would be significant impact on foreign direct investment (FDI) from Taiwan to ASEAN as China may restrict outward and inward investment to Taiwan. Moreover, ASEAN countries would likely experience disruption in trade with Taiwan, as quarantine measures enforced by China could result in shipment delays, shortages of certain goods and an overall reduction in trade volume.

Countries with substantial trade links to Taiwan, particularly in sectors such as electronics, such as Singapore, Malaysia, and Vietnam, are expected to experience some level of disruptions. A study by the Rhodium Group indicates that approximately US \$565 billion in Taiwanese value-added trade would be at high risk of disruption from a blockade³².

Given that Taiwan produces over 92% of the world’s most advanced chips, China could potentially limit or completely stop the export of semiconductors from Taiwan as a deterrent. On a global scale, Rhodium Group’s study has found that in a blockade scenario, the disruption of supply chains particularly in semiconductors would adversely impact major chip-consuming sectors such as electronics, automotive, and computing. This, in turn, affects industries that depend on goods and equipment that contain Taiwanese chips (e-commerce, telecommunications, medical, etc.)³³. This chain of event would have significant repercussions for the world economy and inadvertently affect ASEAN economies.

Heightened Precautions and Voluntary Repatriation

In response to escalating tensions, ASEAN countries are likely to issue early advisories cautioning their citizens against all non-essential travel to Taiwan. Additionally, governments would issue notices to their citizens and migrant workers in Taiwan, urging them to remain vigilant, monitor local developments, and maintain regular communication with family, friends, and their respective representative offices.

Depending on the severity of the situation or if tensions escalate further, ASEAN countries may want to repatriate their citizens. There will be domestic pressure and requests from migrant workers in Taiwan seeking repatriation. Consequently, ASEAN governments and their respective representative offices are expected to coordinate chartered flights to facilitate the repatriation of those wishing to return home.

However, repatriation efforts would be contingent upon China, as it is the country imposing the quarantine or blockade, thus adding another layer of complexity to the situation.

³⁰ Ibid. CSIS

³¹ Ibid. CSIS

³² Kratz, A., & Vest, C. (2023). Sanctioning China in a Taiwan Crisis: Scenarios and Risks. Rhodium Group. Retrieved March 26, 2024, from <https://rhg.com/research/sanctioning-china-in-a-taiwan-crisis-scenarios-and-risks/>

³³ Ibid. Kratz & Vest, 2023

Second Scenario for Escalation – Full Scale Invasion of Taiwan

A full-scale invasion of Taiwan by China could be executed in the following ways: a traditional siege and amphibious assault or an airborne/heliborne assault or a combination of both³⁴. However, the Centre for Strategic and International Studies (CSIS) report suggests that a full assault would be too complicated, thus lowering the likelihood of China launching an invasion³⁵. If an invasion were to happen, the implications would reverberate on a global scale. The entire Indo-Pacific region would face instability and there would be large economic and security repercussions for ASEAN countries.

Stoppage of Trade and Foreign Investment

Foreign direct investment (FDI) from Taiwan would stop and ASEAN countries with large trade links to Taiwan and in sectors like electronics such as Singapore, Malaysia and Vietnam will see major economic disruptions. Moreover, regional instability stemming from the invasion would lead to a major decline in FDI inflows from other countries. Investors would be deterred from committing capital to the region due to the heightened geopolitical risks associated with the situation.

A military conflict would inflict severe disruptions on supply chains and trade flows in the region, impacting ASEAN economies as both output and trade volume decline. Furthermore, such a conflict would cause a semiconductor shortage, disrupting critical industries such as electronics and manufacturing. This shortage would have major macroeconomic implications as chip shortage will drive up the price of commodities not only within ASEAN but globally as well. ASEAN will also bear the brunt of the conflict's impact on the world economy.

ASEAN countries, particularly those with a stake in the South-China Sea issue may feel the need to increase defense spendings in response to the conflict. The diversion of financial resources from economic sectors to defense sectors could hamper economic output. Heightened tensions might push the United-States to re-engage in the region by negotiating new defense ties with claimant countries which could be seen as provocative actions by China, further heightening tensions.

However, a 2023 Democracy Perception Index survey has found that most Southeast-Asians would not want their government to cut economic ties with China if the latter invaded Taiwan. Those against, also include claimant countries such as Malaysia and Vietnam. The Philippines was equally divided on the question³⁶. Other observers also argue that ASEAN's main concern would be peace and stability, and as a result *"will not seek direct U.S. engagement due to the fear of becoming a proxy in a great power competition"*³⁷. Nevertheless, a spillover from the Chinese invasion of Taiwan in the region would force countries to act, potentially putting more stress on an ever fragile "ASEAN Centrality".

Emergency Repatriation of ASEAN Nationals Living in Taiwan

A sudden invasion by China would leave migrant workers stranded. While ASEAN can refer it's the *"Guidelines for the Provision of Emergency Assistance by ASEAN Missions in Third Countries"*, significant logistical and diplomatic obstacles remain. An article published in The Diplomat by Yaacob and Faizal outlines three critical challenges ASEAN nations face when considering a contingency involving Taiwan: determining the trigger point for repatriation, establishing safe evacuation routes, and coordinating

³⁴ Ibid. Blackwill & Zelikow, 2021

³⁵ Ibid. CSIS

³⁶ Latana. (2023). Democracy Perception Index 2023. Alliance of Democracies. <https://www.allianceofdemocracies.org/initiatives/the-copenhagen-democracy-summit/dpi-2023/>

³⁷ Kabinawa, R., & Chairil, T. (2022, August 26). ASEAN is bound to disappoint China on Taiwan. Nikkei Asia. <https://asia.nikkei.com/Opinion/ASEAN-is-bound-to-disappoint-China-on-Taiwan>

efforts among ASEAN member states³⁸. Moreover, the coordination of repatriation efforts is further complicated by the absence of diplomatic ties between ASEAN countries and Taiwan.

In such a scenario, there might be a possibility of multinational evacuation efforts. Dr. Jean-Loup Samaan, a Senior Research Fellow at the National University of Singapore's Middle East Institute, talking about the repatriation of ASEAN nationals in light of the Israel-Gaza conflict, highlighted in an interview the likelihood of the United States or European nations facilitating mass evacuations, drawing parallels to the extensive evacuation efforts during the 2006 Lebanon War³⁹.

A sudden invasion by China into Taiwan would be akin to that of the 2006 Lebanon war, where Israel imposed a major air and naval blockade which compromised evacuation routes. Consequently, countries negotiated with Israel to carry out mass evacuations under strict restrictions. Thus, we can anticipate that a similar case would play out in the event of a war between China and Taiwan.

Recommendations

This section aims to provide possible recommendations for ASEAN countries to alleviate the stress from geopolitical uncertainties, particularly in a Taiwan contingency.

Leveraging Stability for Development and Supply Chain Resilience

ASEAN benefits greatly from the current status-quo as relative peace in the region attracts trade and investment not only from China and Taiwan but from other countries around the world, fueling the development of the region. Sustaining regional peace and stability are prerequisites to development. Thus, ASEAN should work to help maintain this stability as their increasing ties to both China and Taiwan could potentially lead ASEAN to play a role in cross-strait dialogue. The grouping has expressed interest in being a mediator in the ASEAN Foreign Ministers Statement on the Cross Strait Development in 2022: *"ASEAN stands ready to play a constructive role in facilitating peaceful dialogue between all parties including through utilizing ASEAN-led mechanisms to de-escalate tension, to safeguard peace, security and development in our region."*⁴⁰.

ASEAN should also aim to improve its supply chain resilience to minimize the impact of supply chain disruptions. Governments should work on concluding free trade agreements, reducing trade barriers, harmonizing customs procedures and regulations to facilitate cross-border trade and diversify sources of investment. It should also invest in infrastructure (transportation, communication, and logistics network) to facilitate the flow of goods, further enhancing the efficiency of supply chains. Investing in capacity building and digitalization throughout the supply chain will make ASEAN an attractive place for investors. ASEAN should also aim to collaborate with countries such as the United-States and Japan to transfer technology and best practices, to engage in knowledge sharing and capacity building to strengthen the supply chain.

³⁸ Yaacob, A. R., & Faizal, M. (2023, July 8). ASEAN needs a repatriation plan for a Taiwan contingency. The Diplomat. <https://thediplomat.com/2023/07/asean-needs-a-repatriation-plan-for-a-taiwan-contingency/>

³⁹ Haizan, R. Y. A., & Armandhanu, D. (2023, October 10). "bombed left and right": Some southeast Asian nationals seek to escape Israel-Hamas war but Journey Home challenging. CNA. <https://www.channelnewsasia.com/asia/gaza-israel-hamas-militant-southeast-asian-nationals-war-3834596>

⁴⁰ ASEAN Foreign Ministers' Statement on The Cross Strait Development. ASEAN. (2022, August 4). <https://asean.org/asean-foreign-ministers-statement-on-the-cross-strait-development/>

Moreover, many countries and businesses are seeking to adopt a “China Plus One” approach which is a strategy to avoid investing only in China. This is an opportunity for ASEAN to capitalize on, particularly on alleviating the stress from a global chip shortage in the event of a war between China and Taiwan^{41,42}. ASEAN should cooperate with the US, EU, and Japan to strengthen semiconductor supply chain resilience and promote sustainable growth. Due to ASEAN’s perceived neutrality and history with semiconductor production, its semiconductor industry saw a boost from increasing FDIs, resulting in rising exports and integration into global value chains. Currently, the region accounts for 22.5% of global chip exports, the second largest globally⁴³. Countries such as Vietnam, Malaysia and Thailand are the top choices from many investors due to the lower labor costs, access to new markets, etc. Smaller countries such as Cambodia has seen a 698% growth in semiconductor devices exports to the United-States⁴⁴ and exported over \$950 million in semiconductor devices in 2022 making it the 17th largest exporter in the world⁴⁵.

ASEAN Needs a Common Repatriation Plan

During periods of stability, ASEAN should formulate a common repatriation plan, specifically tailored to the scenarios involving the Taiwan Strait. They can draw inspiration from the “*Guidelines of the Provision of Emergency Assistance by ASEAN Mission in Third Countries to Nationals of ASEAN Member Countries in Crisis Situations*”, the ASEAN Coordinating Centre for Humanitarian Assistance and the “*ASEAN Militaries Ready Group on Humanitarian Assistance and Disaster Relief*” (AMRG on HADR). While the last two are mechanisms for collaboration during emergencies and natural disasters, it could serve as a framework to facilitate coordination among ASEAN member states during conflicts for the repatriation of ASEAN nationals overseas. ASEAN countries should also prioritize establishing clear communication channels to keep migrant workers and nationals informed about the situations and the evacuation procedure, including contact points and shelter locations.

Furthermore, ASEAN, either collectively or individually, could explore the possibility of establishing a bilateral agreement or arrangements with Taiwan regarding the protection and repatriation of ASEAN nationals, despite the absence of diplomatic relations. However, such initiation might be risky as it could irk China.

In the event of heightened tensions and escalation, in addition to issuing travel advisories and alerts to inform citizens about potential risks and safety measures, ASEAN countries should schedule chartered flights for citizens that want to leave. A trigger point for evacuation should be set (for example when China mobilizes its forces near Taiwan or during Chinese attempts to impose a quarantine/blockade of Taiwanese islands) to ensure that a timely mass repatriation is made before more escalations.

⁴¹ Hsueh, C. (2023a, December 1). ASEAN holds the key to reducing US dependence on Taiwan’s Chip Industry. – The Diplomat. <https://thediplomat.com/2023/12/asean-holds-the-key-to-reducing-us-dependence-on-taiwans-chip-industry/>

⁴² Englund, K. (2022, February 9). When Semiconductor chip supply is down, ASEAN could be the answer to the crunch. EY. https://www.ey.com/en_us/technology-sector/when-semiconductor-chip-supply-is-down-asean-could-be-the-answer-to-the-crunch

⁴³ Ibid. Hsueh, Englund

⁴⁴ Four Asian nations, including Cambodia lead US chip diversification move. Khmer Times . (2023, April 6). <https://www.khmertimeskh.com/501269708/four-asian-nations-including-cambodia-lead-us-chip-diversification-move/>

⁴⁵ Semiconductor devices in Cambodia. The Observatory of Economic Complexity. (2022). <https://oec.world/en/profile/bilateral-product/semiconductor-devices/reporter/khm>

In the event of a conflict, the immediate priority for ASEAN countries would be to ensure the safety and security of their migrant workers and nationals in Taiwan. ASEAN governments should collaborate closely with their representative offices in Taiwan to monitor the situation and provide necessary assistance. Negotiations with China for establishing a humanitarian corridor should start as early as possible to minimize casualties.

Each ASEAN country has their own repatriation protocols and mechanisms for handling crises and facilitating the repatriation of their nationals from abroad. For instance, the Philippines has its *“Joint Manual of Operations in Providing Assistance to Migrant Workers and Overseas Filipinos,”* while Thailand operates its *“Rapid Response Center”*. In past crises like the civil unrest in Libya, Vietnam facilitated repatriations through the *“Overseas Employment Support Fund”* managed by the Ministry of Labor, Invalids, and Social Affairs. However, as noted in the article by Yaacob and Faizal, logistical challenges may arise due to Taiwan’s island geography which makes it harder to conduct evacuations as some ASEAN member-states military forces lack amphibious capabilities. In such cases, ASEAN should seek assistance from international organizations such as the agencies and bodies within the United Nations (UN), the International Organization for Migration (IOM), the World Health Organization (WHO), among others.

Conclusion

In recent years Taiwan’s increasing engagement with ASEAN can be attributed to its efforts to reduce economic dependence on China. It invests and trades with ASEAN countries particularly in sectors like electronics and semiconductors. ASEAN’s increasing ties with Taiwan has both advantages, and disadvantages. The analysis presented in this paper underscores the potential implications of three scenarios in the Taiwan Strait on ASEAN economies and offers recommendations to mitigate risk and enhance resilience.

The maintenance of the status quo provides a conducive environment for ASEAN to continue benefiting from economic ties with both Taiwan and China. Strengthening regional stability is key and ASEAN can potentially play a role in fostering cross-strait dialogue. Moreover, investment in supply chain resilience should be prioritized to minimize the impact of supply chain and trade disruptions. The prevalence of the *“China Plus One”* approach provides an opportunity for ASEAN countries to become key players in the global supply chain. During said period of stability, ASEAN should also work on formulating a common repatriation plan for migrant workers for a timely evacuation during escalation of tensions or during conflict.

In the event of a law enforcement-led quarantine of Taiwan, ASEAN would face some level of disruptions in trade and investment flows from and into Taiwan. Quarantine measures by China could lead to shipment delays and shortages of certain goods. Countries with higher trade ties with Taiwan, particularly in the electronics sector, such as Singapore, Malaysia, and Vietnam will be the most impacted by this. Moreover, ASEAN countries are likely to issue early advisories cautioning their citizens against all non-essential travel to Taiwan and possibly negotiate with China to allow chartered flights to repatriate their citizens if tensions were to increase.

Lastly, a full-scale invasion of Taiwan by China would pose severe economic and security challenges for ASEAN countries. There would be severe disruptions on supply chains and trade flows and regional instability would deter investors from committing capital to the region. Furthermore, a Sino-Taiwanese conflict would cause a semiconductor shortage which would have major macroeconomic implications, driving up the price of commodities globally. At this stage, emphasis would be placed on repatriating ASEAN nationals in Taiwan. ASEAN would have to negotiate with China to establish a humanitarian

corridor for evacuation. However, due to capacity and logistical challenges, ASEAN should enlist the help of international organizations.

From a security standpoint, ASEAN countries with a stake in the South-China Sea would be on higher guard and possibly increase their defense spendings. They might also shift closer to the United-States. However, an increased presence of the United-States in the region could further escalate tensions. Nevertheless, according to some observers, ASEAN countries may choose to distance themselves from Taiwan to avoid damaging their relationship with China as trade in ASEAN remains very China centered. Despite ASEAN's stance of neutrality, its balancing act between Washington and Beijing will be put to the test as claimant countries in the South China Sea may prioritize their national security and side with the United-States. This would push an already stressed "ASEAN Centrality" to a possible breaking point.

In essence, the recommendations outlined aim to strengthen ASEAN's resilience in the face of geopolitical uncertainties in the region. By adopting a multifaceted approach, ASEAN can mitigate risks and capitalize on opportunities for sustainable economic growth amidst ever evolving cross-strait dynamics.

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