

Persistent US-China trade tensions have unleashed an increasing demand for non-China supply chains for Taiwanese businesses. This means not only does the high-tech industry supply chain need to be realigned, but companies involved in next-generation semiconductor development and the 5G open network platform are expected to benefit from closer Taiwan-US ties, while those in the emerging digital industries or application services aim to export their turnkey solutions to the Indo-Pacific region to establish another new supply chain or ecosystem.

Geopolitical tensions and the COVID-19 pandemic have shaken up the existing supply chain structure and prompted some Taiwanese high-tech manufacturers to either move their production lines back home or shift their bases to Southeast Asia, Mexico or Eastern Europe. However, those firms still face serious challenges amid the changing dynamics of the global economy, given the nature of their business model, which focuses on low-margin, price-sensitive production.

On the other hand, much of Taiwan's industrial development has in the past few years turned toward system integration (SI) and some digital-oriented firms have developed successful operational models of delivering high value-added systemized products and services — including 5G smart applications, long-distance medical services, artificial intelligence-aided environmental monitoring, smart transportation and smart learning — to emerging markets, especially those in the Indo-Pacific region.

Data from the Industrial Development Bureau show that Taiwanese businesses have been successful in some areas using SI technologies, such as automatic customs clearance, highway electronic toll collection, self-driving buses, agricultural drones and smart parking.

Going beyond the practice of just selling industrial products to other nations, exports of those innovative services need cooperation with local cities and governments to introduce them to local societies to usher in new supply chains or ecosystems — and several SI companies from Taiwan, Thailand, Indonesia, Vietnam and India were invited to the bureau's World System Integrator Conference in Taipei last month to share their efforts in smart city development and the latest applications.

As long as the new supply chains can expand and thrive, Taiwan can retain its key status in the

## Shifting the industrial base

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global supply chain while upscaling its industrial development.

Moreover, with Australia, Japan, India and the US stepping up their supply chain cooperation in the Indo-Pacific region, there will be new opportunities for Taiwan to work with like-minded countries in the face of China's expansionist behavior and enhance its international visibility.

Indeed, under the National Development Council-led "smart city 2.0" scheme, the government aims to leverage the integration of software and hardware to accelerate exports of smart city services overseas. The council hopes that local firms can achieve more cross-border cooperation, while expecting the high value-added SI industry to become a sustainable model for Taiwan's economy in the long run.

The government is paying more attention to the SI development model to make adjustments to the core of Taiwan's economy, which focuses on the information and communication technology industry, and emphasizes the importance of hardware products.

However, what it needs to do first is coordinate the related ministries and agencies to foster an environment where firms can test their systemized products or services at home, to connect local firms to potential markets and to tackle possible trade barriers.

Second, it must establish industry incubators and accelerators to help introduce successful experiences to other sectors that can follow SI companies in developing overseas markets.

Hopefully, such efforts would encourage more firms to participate in the SI export business.

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