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Executive Summary Report



China and Taiwan remain at strategic odds regarding the future of Taiwan's current separation from mainland China. China is engaged in a long-term strategy to fully reunify Taiwan. Taiwan desires status quo, as does its most powerful friend, the United States. In brief, the U.S. acknowledges that Taiwan is part of China, but does not recognize Chinese sovereignty over Taiwan, nor does the U.S. recognize Taiwan's independence from China.

Ninety percent of high-end chips are produced in Taiwan. Cutting off global access to Taiwan's advanced chips would have an enormous global financial impact – between US\$600 billion to over US\$1 trillion on an annual basis for the near-term.

Taiwan Security Key Points

- China is actively engaged in a campaign to replace existing economic order with rules favorable to China, while disadvantaging other nations. Taiwan (and other areas such as the South China Sea) could be flashpoints for China to push their long-term agenda.
- More problematic for Taiwan, is that Chinese rhetoric, to include statements from President Xi, are increasingly vocal to integrate Taiwan into China, even forcibly. A Chinese attack or invasion of Taiwan would have significant impact on both the global and U.S. economies.
- Taiwan has become a global economic powerhouse, but its prosperity does not guarantee its security into the indefinite future.
- Taiwan's military is growing, but it is dwarfed by China's expansive military capabilities that are steadily getting more powerful. Taiwan must have partners to effectively defend against a Chinese attack or invasion.
- America's commitments to Taiwan, including pledges to its defense, are intentionally vague, to simultaneously deter China from invading Taiwan and to allow flexibility of what the U.S. might or might not do if China were to attack. That said, the U.S. has committed, and continues to commit, substantial resources to Taiwan to improve its defenses and national resilience.
- The U.S. intelligence community is split on whether President Xi would order a military takeover of Taiwan. There is also uncertainty on the timing of such an attack – as soon as 2025 or as late as 2049.



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Implications

Taiwan is an economic dynamo, not just regionally, but internationally as well, with global implications for the present and future. It has a \$790.7 billion GDP and is the eighth-largest U.S. trading partner. Bilateral trade between the U.S. and Taiwan has reached \$77.1 billion imports from Taiwan and \$36.9 billion exports to Taiwan. Yet, Taiwan's future security is not as stable as that of its economy.

China has a long-term plan to bring Taiwan under its authority. President Xi has twice stated that "reunification" cannot be passed from one generation to the next, and that the task of unification with Taiwan must be resolved.

Taiwan's population is about 24 million people. Its military and security forces are less than 200,000 with more than 10% conscripts for short-duration service, and 1.66 million "civilian warriors" in reserve. In comparison, China's population is nearly 1.5 billion people with over 2 million soldiers and another 510,000 in reserve. Taiwan spends about \$17 billion on defense (with recent increases after a period of decline), whereas China spends about \$225 billion on defense.

The U.S. policy towards Taiwan's independence is deliberately vague but consistent since we recognized the People's Republic of China (PRC) and de-recognized the Republic of China (ROC) in 1979. The U.S. stated that the PRC government is "the sole legal Government of China"—the PRC is the only China, with no consideration of the ROC as a separate sovereign entity. However, the U.S. does not recognize Chinese sovereignty over Taiwan. Current U.S. policy dictates: "We oppose any unilateral changes to the status quo from either side, and do not support Taiwan independence. We remain committed to our one China policy...and we will uphold our commitments under the Taiwan Relations Act to support Taiwan's self-defense and to maintain our capacity to resist any resort to force or coercion against Taiwan."

For decades, the U.S. has bolstered Taiwan's defenses. Case in point, the Department of Defense recently announced extraordinary measures to provide materiel to Taiwan at the same priority as for Ukraine. Another example of ongoing U.S. support to Taiwan is a large Joint Training Team in Taiwan delivering education, training, and practical advice to the Taiwan military and security forces.

The Director of U.S. National Intelligence (Avril Haines) and the Director of the U.S. Defense Intelligence Agency (Scott Berrier), both recently assessed that Chinese President Xi is leaning toward unifying Taiwan in a "peaceful" manner but is also preparing possible military action to achieve the goal. Berrier elaborated that President Xi's rhetoric has been "picking up" and has told his military to be ready, believing there are a number of dates for possible military action that China could take against Taiwan, including 2025, 2027, 2035, and 2049. Haines went on to say that it would be a serious blow if the production of Taiwan Semiconductor Manufacturing Co. (TSMC), the world's largest contract chipmaker, was cut off by China's military actions. "It would have an enormous global financial impact that I think runs somewhere between US\$600 billion to over US\$1 trillion on an annual basis for the first several years on the global financial economy," she said. The possible interruption of semiconductor supplies from Taiwan would be critical because 90 percent of high-end chips are produced in Taiwan and almost every electronics product requires chips to power them.

In 2022, the U.S. enacted the "CHIPS and Science Act" to increase advanced manufacturing to offset the strategic vulnerability of the U.S. getting the preponderance of its microprocessors and semiconductors from Taiwan. The U.S.' "on-shoring" within the domestic environment is combined with "friend-shoring" (partnering with allies and friends) to further reduce the vulnerability of U.S. supply chains and other manufacturing capabilities that are reliant on China and Taiwan. Key friend-shoring in the Indo-Pacific includes India, Singapore, and Malaysia, as well as Europe, is a stated strategic intent of the Administration. Alliances are also leveraged with AUKUS (Australia, U.K., and the U.S.) and the QUAD (Australia, India, Japan, and the U.S.).

Forecast

- China will continue to escalate tensions in the Taiwan Strait as it rehearses invasion plans and tests Taiwan's increasing defense capabilities.
- China will also stay on a path to enhance its asymmetric capabilities and advantages to control the sea lanes and airspace around Taiwan and, if they feel it necessary, to be ready to attempt an invasion of Taiwan.
- As with Ukraine, the U.S. is committed to maintaining the international rules-based order. Further, the U.S. will adhere to its long-standing commitment to the people of Taiwan as it remains important for maintaining U.S. credibility throughout East Asia.
- The U.S. will continue to bolster Taiwan's military capabilities to enable a credible force, that along with continued "support," and the possibility of direct U.S. military intervention in certain circumstances, offers the best chance to deter Chinese military aggression against Taiwan.
- U.S. industrial resilience and international access to advanced manufacturing is of strategic importance.
 - o Industrial and economic de-risking from China will continue as markets and companies reconsider their exposure in China..
 - o Also important, is risk reduction efforts with Taiwan's advanced chip production.
 - o The U.S. will look for additional initiatives to offset broad economic vulnerabilities.

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