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Executive Summary Report



Overview:

The island of Taiwan had a tumultuous history during the 20th century and, unfortunately, this instability is now extending into the 21st Century due to the emanating threat from the People's Republic of China (PRC).

Taiwan's plight began after Japan's annexation ended in 1945 following its loss during World War II. Taiwan then transferred to the Republic of China (ROC), one of the parties in the greater Chinese Civil War waged from 1927-1949. In the final stages of the Chinese Civil War, as the communist PRC prevailed, the defeated ROC forces and their families along with Nationalist allies, fled from mainland China to the island of Taiwan and other nearby small islands for the security provided by the 90-mile Strait of Taiwan that separates Taiwan from the mainland. Soon, as a Cold War developed between communist nations (led by the USSR) and free market nations (led by the U.S.) to prevent the spread of communism writ large, the United States deployed naval forces to the region several times to deter the PRC from attempting to capture Taiwan. The U.S. also sometimes used nuclear coercion to dissuade the Chinese.

The small population of the ROC in Taiwan, along with its limited influence in the region and world, paled in comparison to the PRC-controlled mainland. But, because of the Cold War most Western nations and the United Nations viewed the ROC as the legitimate government of China at the expense of the large and growing PRC. However, by the 1970s the PRC was finally seen as the dominant power within China, and the ROC was removed from the list of members in the United Nations – most of the West, to include the United States, then formally recognized the PRC as “China.”

Regardless of losing its status as the authority of China, Taiwan grew economically. Also of significance, by the 1980s social reforms steadily transitioned Taiwan from a dictatorship into a democracy.

Today, Taiwan enjoys not only a strong democracy, but it is also an economic dynamo, not just regionally, but internationally. Yet, Taiwan's future security is not as stable as its economy.

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, whereas Taiwan desires status quo, as does its most powerful friend - the United States.

U.S. Perspective:

The U.S. policy toward Taiwan's independence is deliberately vague but largely consistent since the U.S. recognized the PRC in 1979. The U.S. policy highlights that the PRC is the “only China,” meaning that Taiwan is part of China. However, the U.S. does not recognize Chinese authority 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.” This arrangement is often referred to as the “One China” policy but with two political systems (one communist system in the mainland, and a democracy in Taiwan).



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The details of the Taiwan Relations Act of 1979 are important. First, it states that the U.S. will make available defense-related material and services to Taiwan for it to have a military capability to defend itself. The U.S. does this through Foreign Military Sales (FMS), where some items are appropriated by Congress for Taiwan, and other items Taiwan must purchase via FMS. For decades, the U.S. has bolstered Taiwan's defenses. Second, the U.S. will maintain an effective military capability that could defend Taiwan, if it were to be attacked. The U.S. has always maintained such capabilities. But the Taiwan Relations Act does not require that the U.S. defend Taiwan – the inference is that the U.S. may decide to defend Taiwan against aggression – or may not. This is because Taiwan is not an ally (with a mutual defense treaty), rather Taiwan is a partner or friend.

The U.S. will continue to bolster Taiwan's military capabilities to enable a credible force, which 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.

As with Ukraine, the U.S. is committed to maintaining the international rules-based order. The U.S. will adhere to its long-standing commitment to the people of Taiwan, which remains important for maintaining U.S. credibility throughout East Asia.

But the U.S. is concerned about its weakness in industrial resilience in certain areas, and international access to advanced manufacturing is of strategic importance. As such, industrial and economic de-risking from China will continue as markets and companies reconsider their exposure in China. Also, risk reduction efforts are important for Taiwan's advanced chip production. The Director of U.S. National Intelligence, Avril Haines, states 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 \$600 billion to over \$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. The CHIPS Act addresses this to a degree, acknowledging that this will take time and much effort to de-risk this vital area.

Expect the U.S. to continue to look at additional initiatives to offset broad economic vulnerabilities.

PRC Perspective:

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.

Avril Haines and the Director of the U.S. Defense Intelligence Agency, Scott Berrier, both 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 he has told his military to be ready, believing there are a number of dates for a possible military action China will take against Taiwan, including 2027, 2035, and 2049.

China refuses to have a diplomatic relationship with any nation that officially recognizes Taiwan's government – therefore, only 11 nations officially recognize Taiwan – this list obviously does not include the United States with its "One China" policy.

Further, China strongly signals its displeasure when senior officials visit Taiwan (especially coming from the U.S.), as well as when pro-separation political officials are elected into office in Taiwan. China's aggressiveness appears to be increasing in this regard. Case in point was when the U.S. Speaker of the House, Nancy Pelosi, visited Taiwan in August of 2022. Shortly afterward, the Chinese military conducted maneuvers and exercises with several naval ships and many aircraft operating in the Taiwan Strait, simultaneously stating the Strait belongs to China and firing ballistic missiles over Taiwan's airspace.

China will continue to escalate tensions in the Taiwan Strait as it rehearses invasion plans and tests Taiwan's increasing defense capabilities. China will 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, be ready to attempt an invasion of Taiwan. For example, China's recent nuclear weapons breakout is almost certainly to prevent or mitigate nuclear coercion from the United States (that occurred a few times in the 1950s), to allow greater freedom of action against Taiwan if China's leaders deem it necessary.

Taiwan Perspective:

For some decades after the ROC and Nationalists fled to Taiwan in 1949, after the PRC won the Chinese Civil War, most Taiwanese considered themselves Chinese. But, as generations were born in Taiwan, most of the younger generations believe themselves to be Taiwanese, with no desire to ever fully integrate with the PRC-held mainland, nor wanting to lose their political freedom and prosperous economy.

Mentioned in many places in this report, the global economic strength and position of Taiwan is significant, and in the area of high-tech chips, is critical.

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 1.6 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. Taiwan's defense forces are impressive for such a small island with its active and reserve military forces, about 1,000 armored tanks and 1,600 artillery pieces, 400 military aircraft, around 20 frigates, and 4 submarines. Taiwan's Army, Navy, Marines, and Air Force, as well as long-range fires, counter-fire, air, and missile defenses are formidable, but they would be overwhelmed by China if it were to attack Taiwan – to survive a war against China, Taiwan would require massive external and direct assistance.

In January 2024, Taiwan elected Lai Ching-te (also known as William Lai) into presidential office. Lai is a politician who in the past had progressive views of eventual separation from China. China's response was somewhat muted especially when compared to the Pelosi visit in 2022. China did issue a statement that the election "will not change the basic fact that Taiwan is part of China and there is only one China in the world."

Security Key Points:

- China is actively engaged in a campaign to erode the existing economic order, replacing long standing norms with rules favorable to China. An example is China's claim to the entirety of the South China Sea – Taiwan (and other areas such as the South China Sea) could be flashpoints for China to push its long-term agenda.
- More problematic for Taiwan is that Chinese rhetoric, to include statements from President Xi, has an increasingly urgent nature with regard to integration of Taiwan into China, even forcibly.
- 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, which are steadily getting more powerful. Taiwan must have partners to effectively defend against a Chinese attack or invasion. The U.S is Taiwan's key partner. Yet, this does not guarantee Taiwan's survival just like it does not guarantee protection of Ukraine, Georgia, or Moldova. "Partners" do not enjoy the same status of a robust mutual defense treaty like that of "allies."
- Taiwan does not need to defeat China – it needs to prevent (or hopefully deter) an attack. Immediate improvements in its military posture are needed to do this. Specifically, Taiwan must improve its area denial capabilities, which are needed to make it more difficult for Chinese airplanes and ships to invade Taiwan, as well as soften China up with long-range fires in advance of an invasion. The capabilities that must be improved include coastal defense cruise missiles, AI and space enabled multi-tiered air and missile defense, long-range fires and counter-fire capability, and autonomous offensive naval strike capabilities.

- The United States' 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. But, there are mixed messages coming from key leaders. A few times President Biden has stated "we will defend Taiwan." Conversely, President-elect Trump has said "why should we defend Taiwan?"
- 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 2027 or as late as 2049.

Economic Key Points:

- Taiwan has a \$791.6 billion GDP and is the eighth-largest U.S. trading partner. Bilateral trade between the U.S. and Taiwan has reached \$91.7 billion imports from Taiwan and \$44.2 billion exports to Taiwan.
- A Chinese attack or invasion of Taiwan would have a major impact on both the global and U.S. economies.
- 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 \$600 billion to over \$1 trillion on an annual basis for the near-term.
- A strategic deterrence failure involving the U.S. and/or its allies can have tremendous impacts on global and domestic economies. For example, a conflict with either China or Russia – or both, either sequentially or simultaneously.
 - Companies that conduct substantial business with potential adversaries that turn into enemies after a strategic deterrence failure, will see most if not all of those transactions cease, as enemies in a hot war stop all economic connections with each other.
 - Conversely, companies that the U.S. and/or its allies rely on for war footing would see massive increases in demand for critical materials, resulting in major growth for those companies.
- 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 United States' "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, Malaysia, as well as Europe, and is a stated strategic intent of the Administration. Alliances are also leveraged with AUKUS (Australia, UK, and the U.S.) and the QUAD (Australia, India, Japan, and the U.S.) as well.
- Taiwan is of strategic importance to free-market nations led by the U.S. from both economic and national defense perspectives. The risk concentration of next generation micro-chip manufacturing in Taiwan is difficult to de-risk in the near term and impacts all global economies. The risk is magnified by the proximity of South Korea, which is the second largest producer of global micro-chips. China's influence, with the aggression of its North Korean relationship places even greater risk to the global technology supply chain. While much of the next generation micro-chip intellectual property is developed in the United States, the manufacturing concentration and China's potential control over it would be a significant risk to free market nations.

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