

SUNGKYUN CHINA INSIGHT

Taiwan's Dilemma of Geopolitical Tensions and Geoeconomic Interdependence



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The Taiwan Strait has been a place where continental and maritime forces have achieved an exquisite balance on a geopolitical fault line. However, as the United States and China chose the path of competition and confrontation, the likelihood of a military conflict increased. When the US maintained its dominance over China and US-China relations were cooperative, geopolitical tensions in the Taiwan Strait were well managed. However, with the rise of China's national power and the deterioration of US-China relations, the risk of clashes in the geopolitical middle ground where the interests of the two powers overlap has increased.

In consultation with more than 500 security experts, the U.S. Council on Foreign Relations (CFR) releases its Prevention Priorities Survey every year. In the context of the accelerating strategic competition between the US and China, Taiwan was classified as the highest risk in the survey for the first time. In a report released in January of this year, it continues to maintain the highest risk category in the assessment that it could result in a serious crisis involving some of the region's countries as China intensifies its military pressure on Taiwan.

During 2021, Chinese military aircraft conducted armed demonstrations in the Taiwan Strait for a total of 239 days, with 961 aircraft deployed. The Chinese People's Liberation Army's involvement in the Taiwan Strait has increased dramatically in comparison with three to four years ago, when fewer than 100 aircraft were deployed annually. The US Indo-Pacific Command Admiral Philip S. Davidson, in March last year, estimated that China could invade Taiwan within the next six years, and Taiwan's defense minister warned China could launch a full-scale invasion by 2025. These examples and evaluations demonstrate the current level of tension between the two sides.

Taiwan's strategic significance to the U.S. and China

Taiwan's strategic importance has grown even more due to the structural trend of US-China strategic competition. In terms of geopolitics, if China takes control of the Taiwan Strait, it could curb the transport of oil tankers to Japan and South Korea, which could be used as leverage to demand the withdrawal of US troops from the two countries. Taiwan's semiconductor industry has become increasingly important amid competition in the supply chain, as semiconductors have become a key check on China's technological advancement. In terms of values and norms, the American public opinion attaches great importance to the development of democracy and human rights achieved in Taiwanese society.

On the other hand, President Xi Jinping, who frames “the great revival of the Chinese nation” as the justification for ruling by the CCP, defines the realization of reunification with Taiwan as the CCP's historical responsibility and the aspiration of the Chinese nation. Even if China has grown into an economic power and ascended to the position of a great power, it cannot be considered that “China's dream” has been realized if it cannot achieve unification with Taiwan.

In cross-strait relations, there are two triangular relations that have structural effects. The large triangle relations among the US, China and Taiwan and the small triangle relations among the Chinese Communist Party, the Democratic Progressive Party and the Kuomintang interact with each other. For example, when the small triangle is stabilized, the large triangle will also be stable, and problems in the small triangle will also influence the stability of the large triangle. The Ma Ying-jeou presidency is one case where interaction and cooperation between the CCP and Kuomintang led to the stabilization of the large triangle. The Chen Shui-bian presidency is a case of the latter, where the solid US-China relationship eliminated instability in the Taiwan Strait when a crisis occurred in the small triangle.

The current escalation in the Taiwan Strait security crisis is a situation in which it is difficult to maintain peace and stability as the power asymmetry between Taiwan and China grows and US-China relations deteriorate in the large triangle. In terms of small triangle relations, the CCP is refusing to engage in dialogue with the DPP, as the DPP's Tsai Ing-wen government pursues de-Sinicization and bandwagoning with the US. Due to American involvement, DPP rule in Taiwan, and de-Sinicization of Taiwanese society, China has grown increasingly impatient as it has been unable to find an exit for peaceful unification.

On Nov. 15 last year, President Biden met virtually with Chinese President Xi Jinping. The two leaders agreed that sensitive issues that could cause clashes between the two countries should be actively managed. The Taiwan issue was one of the main concerns. Xi said that he expected the US to respect the One China principle, and that if the Taiwan independence forces continue to cross the red line, China will have no choice but to take a decisive action. Biden also directly stated that he does not support Taiwan's independence. The contents of the talks suggest the future of cross-strait relations. In other words, it is difficult to maintain peace and stability in the Taiwan Strait as in the past, but by avoiding any "guard rails," the two countries should be able to avoid a military conflict.

Could China attack Taiwan?

China is raising excessive expectations for reunification to secure legitimacy for its regime. Taiwan uses anti-Chinese sentiments in its domestic politics. The United States also has an aspect of using Taiwanese cards to keep China in check. The risk of war lurks in these domestic political dynamics. Strictly speaking, China's use of force against Taiwan constitutes a high-risk option. This is because the uncertainty of success is very high. Whether and when China uses force is not a military issue but a political one, because there are considerable constraints on the use of force in Taiwan. Such constraints include 1) the uncertainty that it might lead to a direct military confrontation with the US; 2) possible enormous damage to the Chinese economy; and 3) the possibility of solidarity among the international community to punish and contain China for causing war.

China aims to become the world's strongest country by 2049, the 100th anniversary of the founding of the People's Republic of China. The Chinese military has set several goals to become a military powerhouse. Its future goals are to acquire the military capability to enter the Western Pacific, to capture Taiwan, and to confront the US military. However, these goals could be delayed if force is used against Taiwan prematurely. This is because it is likely to face several unintended effects, including huge costs. Therefore, there are three prerequisites for China's use of force against Taiwan: first, China possesses excessive confidence in its military power; second, the dominance of the CCP in China becomes unstable; or third, China incorrectly presumes that Taiwan will easily surrender and that the US will not provide military support. Of course, this situation will not come easily. However, due to the constant threat and development of cognitive warfare, the security burden that Taiwan must bear in the future is not light.

In conclusion, the current security crisis in the Taiwan Strait is escalating, but war is not yet inevitable. From China's perspective, the legal basis for a war would be if Taiwan's ruling forces push for Taiwan's legal independence through referendum. However, there remains room for the US to intervene in Taiwan's pursuit of legal independence, and the "status quo" is also entering mainstream public opinion in Taiwanese society. The People's Liberation Army has no choice but to prepare for war amid the prospect of US intervention.

Goeconomic Interdependence and Taiwan's Dilemma

Taiwan produces 92 percent of the world's advanced semiconductor wafers. In some sense, Taiwan's semiconductor industry guarantees that there will be no war in Taiwan, because a war would cause great harm to the interests of countries around the world, including China itself. Furthermore, as Russia's invasion of Ukraine demonstrates, war itself is highly uncertain and could be subject to criticism and sanctions from the global community. China is now aware that the cost and uncertainty of war are greater than previously imagined. Taiwan has a closer relationship with China than any other economic entity. This is because trade with China is the most important driver of Taiwan's economic growth. Currently, the cooperative relationship between Taiwan and the US is becoming closer, but it is far from surpassing the economic relationship across the strait. The trade relationship between Taiwan and China is the cornerstone of the supply chain between Taiwan and the US.

In 1990 the Taiwanese government began to allow company investments in China, and traditional industries moved across the strait on a large scale. In the early 2000s, Taiwan's information and communication industries, such as computers and laptops, also moved to China, which became the basis for connecting the supply chain between Taiwan and the US. At that time, Taiwanese information and communications companies worked closely with American technology companies. US companies dominated technology and brand marketing, while Taiwanese companies dominated product design and manufacturing-integration elasticity. Most of the manufacturing was done in factories in China. The US, Taiwan and China worked together to carry out a high-efficiency vertical division of labor to quickly convert new technologies into inexpensive products to penetrate the global market. The surplus generated there was reinvested into research and development, accelerating technological progress and creating a virtuous cycle of technological innovation. Most Taiwanese companies commissioned their production from China, including computers, laptops and smartphones.

In 2019, 23 Taiwanese companies were included in China's top 100 export companies, and these companies accounted for 43 percent of exports. Most of these were products in the information and communications sector. Because Taiwanese companies invested in production in China, a supply chain emerged between the two sides. In 2007, China (including Hong Kong) accounted for 40.7 percent of Taiwan's exports and 13.6 percent of imports. In 2020, China accounted for 43.9 percent of exports and 22.6 percent of imports. The two-way supply chain structure across the strait has also long supported a close division of labor beyond Taiwan and the US . Therefore, the reorganization of the US supply chain should only be implemented in areas key to economic security.

Falsehood and truth coexist in the logic of changing the supply chain, which has supported global interdependence for more than 30 years, at one time according to geopolitical considerations. With the return to an era of geopolitics, the situation could become more complicated if every country's position is simultaneously considered. In accordance with customer-oriented principles centered on business, it is necessary to identify which parts of geopolitics are beneficial and which are not. The localization of the semiconductor supply chain, as in policies that promote reshoring or national self-sufficiency, will weaken rather than improve the resilience of the supply chain.

With semiconductors becoming game changers for US-China competition, Taiwan and South Korea are in a position where they should protect their own economic security. In particular, it is necessary for South Korea and Taiwan to maintain their respective technological advantages so that they do not become replaceable for countries such as China and the US. South Korea should be more cautious of scenarios in which the Chinese market does not depend on South Korea, rather than fearing being too dependent on the Chinese market. In the face of US demands to reorganize the supply chain with China, high-tech South Korean products could serve to keep China in check. At this time, South Korea should be able to actively persuade the US that South Korean losses are disadvantageous to the US, rather than incurring losses by failing to speak out. The logic of the state and the logic of business conflict with one another in the US, as well.

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