

## Chairman's Note

Private and Confidential  
For SIIA Corporate Members and Advisors

August 2022

### **Taiwan adds on to the geopolitical fracas**

The visit to Taiwan by U.S. Speaker of the House, Nancy Pelosi, was bound to trigger a response from China and lead to a ripple of geopolitical consequences. As we continue to observe the 'retaliation' from Beijing in the form of harsh rhetoric and intimidating military drills, there is a clear difference in the clout that China has today, compared to the past. Some media outlets have asked me to share my views on the developing situation in Taiwan and I have honed some of those thoughts in this note to you as a member and friend.

1. China's ever-growing clout: The China of today is vastly different from the China of ten years past. The response from Beijing to launch live-fire drills that effectively blockade Taiwan was not only unprecedented but revealing. It has been many years since the Taiwan crisis of '96 and since then, the People's Liberation Army (PLA) has expanded its naval capabilities to create a much more formidable force. Although U.S. naval ships remain more advanced, the quantity of ships that China has is a legitimate threat, especially as the PLA is constantly developing its capabilities. In my interviews with the media, I said it is up to Beijing to be prudent in how it responds. While the drills have stopped, a white paper on Taiwan has been released by China that "will leave no room for separatist activities in any form". Furthermore, China retaliated with trade bans with the halting of natural sand exports to Taiwan and a ban of imports of certain types of fruit and fish. As I've highlighted in previous commentaries, this is not surprising with South Korea, and more recently Australia, experiencing sanctions.
2. The ever-confusing position of the U.S. on Taiwan: During her visit, Nancy Pelosi touted an "ironclad" commitment to protecting Taiwan's democracy. The White House has emphasised that the U.S. is sticking to its policy of "strategic ambiguity" when it comes to Taiwan. U.S. President Biden has made a series of gaffes, vowing military intervention to defend Taiwan, and then having to have those comments walked back by his government. It is unclear whether this is meant to be strategic confusion from the Biden administration, but it is certainly not reassuring for those in the region that are worried about escalating tensions. Those monies were targeted for spare and repair parts for tanks and combat vehicles. During his call with Xi, Biden talked about the need to develop "guardrails" to prevent conflict. Yet, with the bipartisan pro-Taiwan, anti-China sentiment in the U.S. and the approaching mid-term elections, it is likely that positions will harden.

In July of this year, another \$108 million arms sales deal had to go through congress approval. It was the fourth deal this year and the fifth under the Biden administration. Yet, the monies were directed towards spare and repair parts for tanks and combat vehicles. The scale of the

arms deal the U.S. has with Taiwan appears to be more of logistical support rather than significant equipment such as air to surface missiles that would beef up Taiwan's air force.

3. The ever-green responses from ASEAN and rest of the world: The timing of Pelosi's visit came amid the ASEAN ministerial meetings. These meetings are meant to be a platform for dialogue and strengthening of international relations. However, the cold shoulder was given from Chinese Foreign Minister Wang Yi who walked out of the start of a gala dinner and he refused to meet U.S. Secretary of State Anthony Blinken. The plea from the region is not new and is for the great powers to please get along. As expected, ASEAN Foreign Ministers issued a statement expressing concern and urging restraint. Singapore's FM, Mr. Vivian Balakrishnan, warned of the danger of "accidents and miscalculations" with ships and planes crowding the area. Cambodia's FM, Mr. Prak Sokhonn said it was good if dialogue was ongoing, as disputes were better handled with words. The hope is that constructive dialogue can even occur in order to prevent a full-blown war.
4. Supply chains, semiconductors, and the beginning of decoupling: A significant meeting as part of Pelosi's visit to Taiwan was with the chairman of chip giant T.S.M.C. As the SIIA indicated in its special report on 'Charting ASEAN's Digital Future', the threat of bifurcation is only growing stronger and more evident in the technology space. The U.S. is moving forward on its CHIPS Act (Creating Helpful Incentives to Produce Semiconductors) looking at some US\$52 billion in subsidies. And EU's version, the European Chips Act, targets an increase of semiconductor production capacity from 10 per cent to 20 per cent of the global market by 2030. Supply chains flow through the ASEAN region and are important to our economic growth and resilience. The impact of the Taiwan issue, and the effect on chips that power the digital economy will be top of mind.
5. The canary in the coal mine: In late 2021, President Tsai Ing Wen wrote a piece in Foreign Affairs magazine regarding the "Fight for Democracy". She argued that Taiwan has acted as a responsible stakeholder to ensure stability in the region and yet would do whatever it takes to defend itself should its democracy or way of life be threatened. A show of force by China should an invasion happen would be a frightening prospect with far reaching implications. The pressure on Taiwan is indicative of the strong arm that China wields, and it could swing economic weapons to non-great powers more easily. Granted that the flexing of military might by the PLA is a retort to Pelosi's visit, it also signals that third party dealings with Taiwan will increasingly be closely monitored.

It's worth posing a question on whether these tensions can be better managed if Beijing opened a backdoor channel for dialogue with Taiwan. Although this may sound implausible at present, it might be what Taiwan needs to do to counter the painful ramifications of Pelosi's visit. With U.S. dependability up for debate, President Tsai Ing-Wen might want to consider what's best for her legacy, with her term ending in early 2024.

I hope this is of interest to you and that you would keep this note confidential. I would be happy however to hear your views.

Yours sincerely,

Simon Tay  
Chairman