

POLICY BRIEF

Scenarios of crisis in the Taiwan Strait

Paper prepared for the conference 'The EU, Japan and a Fraying International Order', European University Institute, March 22/23, 2021

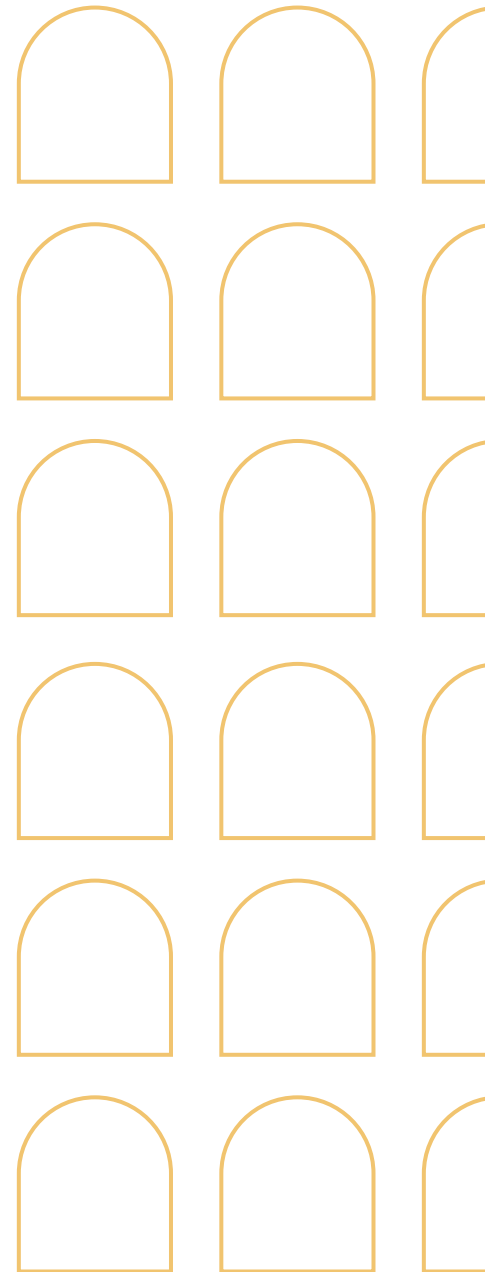
Introduction

Since Taiwan's re-election of President Tsai Ing-wen with a legislative majority, China has been slowly increasing military pressure against the Republic of China (ROC). The People's Liberation Army is being modernised to win a Taiwan war. The coercive use of military power signals China's resolve to thwart Taiwan's formal independence and to undermine the determination of the Taiwanese government, military leadership and general population to resist to China's unification project. In addition to military signalling - the policy toolbox of Beijing includes the economic coercion card of a full-scale military confrontation in the Taiwan Strait - China is considering 'cognitive operations' that either impose costs and/or suggest that an increase of costs is an option on the table. At the minimum, the People's Republic of China (PRC) aims to create perceptions and to affect a cost-benefits calculus regarding future options and choices. At the maximum, such as the seizure of one of Taiwan's outlying islands, China could orchestrate a unilateral change of the status quo.

How far can China advance in escalating military coercion? Prediction of Beijing's actions depends on an assessment of possible costs and benefits. Some of China's options are known, though strategic surprises are always a possibility. The current environment in the Taiwan Strait, as seen from Beijing, is characterised by deep concerns regarding Taiwan's political trajectory and the future course of US-Taiwan relations, but also by a lack of options to 'seduce' Taiwan, given the unequivocal rejection of 'one country, two systems'. In addition there has been a recent rise

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EU-Asia project

Issue 2021/27
July 2021

of alternatives in the Chinese market for Taiwanese entrepreneurs in the global context of restructuring industrial supply chains. This combination of factors, to which should be added China's record of calculated risk under President Xi Jinping in matters of foreign and security policy, suggests that the risk of Chinese coercive actions in the coming years will be higher than at any point since the 2003-2005 tensions around the re-election of President Chen Shui-bian in Taiwan.

This paper reviews the factors in the US-China-Taiwan triangle that currently affect Beijing's cost-benefit evaluation, and considers two crisis scenarios in the Strait, before discussing Europe's limited options to help reduce the risks of crisis there. It concludes that only actions that impact the cost-benefit evaluation of coercion in Beijing will have concrete and measurable effects.

1. An overview of trends in the US-China-Taiwan triangle in 2021

Military crises in the Taiwan Strait occurred in 1950, 1958, and in 1995-1996. Today, several ingredients are reunited to create the conditions of a crisis. On the one hand, incentives for China to use coercion accumulate. On the other hand, peaceful alternatives to entice the Taiwanese government into entering unification talks are unrealistic in the short to medium term.

There are three main factors regarding how Beijing perceives the US-China balance that could inspire the adoption of coercive policies towards Taiwan.

- The changing military balance between the two sides of the Strait could prompt China to take unilateral action if an opportunity arises. China's official 2021 defence budget exceeds US\$ 200 billion for the first time. This does not include R&D spending, a crucial budget line, given China's ambitions to reach self-reliance for its arms industry and to become an innovative arms producer. At US\$ 15 billion, Taiwan's defence budget is on the rise, and there are important defensive strengths, but the annual volume of China's budget increase is equivalent to Taiwan's total annual budget.¹ Increasing asymmetry is a factor of instability.
- The US-China strategic confrontation can work as an incentive for China to take unilateral ac-

tion, on the basis of misperception or calculated risk, if there is the perception that the US is driving Taiwan towards independence. This is not the strategy of the United States: the declassified US Indo-Pacific strategy cable shows that even the Trump administration's Taiwan policy was a defence of the status quo.² The Biden administration has shown early signs of commitment to continue the deterrence posture of the outgoing administration, which worked to deepen defence ties with Taiwan more than the Obama or Bush administrations did. It is likely however that China will test the Biden administration's resolve to stand by Taiwan if weaknesses are detected, and will draw conclusions.

- The fact that Beijing's Hong Kong problem (the survival in Hong Kong of a separate political and social model from the rest of the PRC) is currently being resolved without significant international opposition, though the US did adopt targeted sanctions, could be read by the PRC leadership as a confirmation that bold action succeeds and that the international community pays lip service to the defence of democratic values. Hence, Beijing would be encouraged to take more risks in its Taiwan policy.

There are also three factors linked to domestic trends in Taiwan that could catalyse China to adopt more coercive policies towards Taiwan:

- The ideological and political confrontation between the two sides of the Strait is intense: a pro-national identity Democratic Progressive Party (DPP) leadership is pitted against a Communist Party in China that promotes Xi Jinping's 'new era' of global leadership and national rejuvenation. There is very little common political ground between the two sides; they pursue radically different visions of governance and society, and therefore, of the regional order that underpins those visions. As President Tsai stated at the Ketagalan Defense Forum in September 2020, Taiwan seeks a 'strategic order that deters unilateral aggressive actions' and 'a strategy that avoids war, yet clearly conveys our resolve to protect our democracies.'³
- National identity trends in Taiwan are determined by the constant progress of Taiwanese identity. According to the polls regularly conducted by National Chengchi University, the

1 "Taiwan to boost defense budget 10% in face of China pressure", *Nikkei Asia*, 13 August 2020, <https://asia.nikkei.com/Politics/Taiwan-to-boost-defense-budget-10-in-face-of-China-pressure>

2 White House, *United States Strategic Framework for the Indo-Pacific*, 12 January 2021, <https://trumpwhitehouse.archives.gov/briefings-statements/statement-national-security-advisor-robert-c-obrien-011221/>

3 "President Tsai attends the Ketagalan Forum 2020 Asia-Pacific Security Dialogue", 8 September 2020, <https://english.president.gov.tw/News/6036>

period 2018-2020 is characterised by a rapid increase (from 54.5% to 64.3%) in resident respondents' identification as Taiwanese, while, during the same period, identification as both Taiwanese and Chinese decreased from 38.2 to 29.9% (identification as Chinese was at 2.6% in 2020, and has remained below 10% since 2002).⁴ Even though there is the view in China that national identity can be rectified by re-education campaigns, this social reality in Taiwan provides a very weak basis for China to achieve 'peaceful reunification'.

- The restructuring of global supply chains is an enormous strategic opportunity for Taiwan. One of its ramifications is that it weakens the Taiwanese political market, which advocates deeper cross-strait economic integration in order to improve cross-strait relations – this is the strategic platform that won Ma Ying-jeou two terms as Taiwanese President, from 2008 to 2016. The change in global supply chains has two consequences. In Taiwan, the Kuomintang can no longer win elections on a platform of deeper economic integration with China. In Beijing, the Communist leadership has less space and rationale for offering economic carrots. If deeper economic integration no longer has a market in Taiwan, China will not waste market openings and other preferential measure, it is predicted.

All these factors are double-edged swords. On the one hand, all trends that tend to reinforce Taiwan's capacity to resist unification can work as an incentive for China to put a stop to the trend that resistance, but they can also deter China from taking risky action. This becomes particularly ambivalent in the context of the COVID-19 crisis because Taiwan's profile has been reinforced in Western democracies – as a successful democratic crisis management example, but also as a partner in restructuring supply chains. This contrasts with the somewhat negative Chinese image in Western democracies. On the other hand, the deterrence posture of the new US administration is credible. The Biden team has gone to great lengths to dispel skepticism in Taiwan that, after a phase of rapid deepening of US-Taiwan defence and political ties under the presidency of Donald Trump, Democrats will revert to the approach of the Obama administration of avoiding to provoke China in the Taiwan Strait. China is therefore less likely to consider a test of the determination of the United States to defend Taiwan.

During the first part of 2021, there has been no imminent sign that China intended to escalate its coercive behaviour beyond the otherwise aggressive air force operations in Taiwan's Air Defense Identification Zone described below. The recently concluded National People's Congress annual session was the occasion to underline 'peaceful development' and people to people interactions across the Taiwan Strait.⁵ Overall, the softer side of China's Taiwan policy is emphasised. At the same time, China appears to be signalling its intention to use its domestic market to put pressure on Taiwan. Economic coercion can be a source of military tensions, as described below, but is also an alternative to the use of military power for coercive purposes.

2. Scenario 1: the gradual unilateral erosion of the status quo by China through military coercion

a) China's options for unilateral escalation

Many of the unilateral steps that China can take to increase pressure on Taiwan are predictable. The three courses of action described below can occur as separate steps or in combination with each other:

- An intensification of the current air campaign inside Taiwan's Air Defence Identification Zone (ADIZ), playing on the frequency of the flights and of the composition of the flotillas, which are mainly focused on anti-submarine warfare in Taiwan's Southwestern ADIZ, and in Taiwan's circumnavigation flights, focused on bombing formations. Chinese fighter jets can also cross the median line, which is more sensitive than ADIZ. A major escalation would result from an intrusion into Taiwan's airspace; this would risk a showdown with the Taiwanese Air Force. There is a degree of ambiguity on the Taiwanese side regarding how Taiwan would react to such an intrusion, but the conventional wisdom based on military history and international law suggests that Taiwan's Air Force would shoot down the intruder.
- The seizure of one of Taiwan's outlying islands. Kinmen and Matsu come to mind, but as Mao Zedong said, the two islands off the coast of Fujian province embody Taiwan's links to the Chinese mainland. Severing those links could precipitate Taiwan's independence. This is the reason why an offensive against the Pratas

4 Election Study Centre, National Chengchi University, "Taiwanese/Chinese Identity (1992-2020)", <https://esc.nccu.edu.tw/PageDoc/Detail?fid=7800&id=6961>

5 "Full Text: Report on the Work of the Government", Xinhua, 12 March 2021, http://www.xinhuanet.com/english/2021-03/12/c_139806315.htm

(Dongsha) is a more likely scenario. As they are lightly defended, China could mount an operation relying on the Coast Guards and the militia, rather than the Navy. The recent Chinese legislation allowing the Coast Guards to use fire in defence of Chinese sovereignty reinforces the status of second Chinese Navy, and the role they could play in operations conducted against Taiwan in the Pratas. Seizing the Pratas would advance China's goal of squeezing Taiwan's space in the southwestern corner of the island and reinforce China's air superiority in that area. It would also represent a major challenge to Taiwan, the United States and the status quo in the East Asian regional order.

- A cyberattack against Taiwan's critical infrastructure. Taiwan's government agencies and technology companies face cyberattacks as a routine threat. Most aim at acquiring sensitive information and intellectual property. In August 2020, the Taiwanese government announced that 10 government agencies had been attacked, resulting in some 6,000 email accounts of government officials being hacked. An attack from the cyberspace into the physical space is of a different nature. During the inauguration of President Tsai for her second term, an attack against the main Taiwanese oil company, CPC corporation, took place.. Following Russia's playbook in Ukraine may be an attractive way for China to send a strong signal, or to impose costs on the Taiwanese government.

b) An assessment of the credibility of the scenario

Military coercion is risky, as it could cause unintended collisions between air forces of the two sides, or provoke a costly retaliation by the Taiwanese side. The analysis below stresses intentionality on the Chinese side, and the possible gains sought from such escalatory actions.

Such steps would aim at breaking the Taiwanese population's will to resist. This is a long-term goal by China, and therefore coercive actions can be planned as intermediary steps leading to further steps, in future phases, preparing unification by force or under coercion. Full tactical domination of the southwestern corner of Taiwan makes sense as the Taiwanese navy develops an indigenous submarine programme – China has an incentive to strengthen its Anti-Submarine Warfare (ASW) capabilities, and an intensification of its current air campaign and control over the Pratas would serve that objective.

Each of the three actions would put enormous pressure upon the Taiwanese government and military. If an intrusion into Taiwan's airspace seems to lead inevitably to a major confrontation and thus a risk of being trapped into a war, there are questions regarding how Taiwan would react to an intensification of the current air campaign, the take-over of Pratas Islands or a major cyberattack conducted behind a veil of plausible deniability. Giving up the Pratas could make sense for a DPP government and strengthen the pro-independence drive. An independent Taiwan does not need to replicate the South China Sea claims of the Republic of China. Retaliation in the cyber space behind plausible deniability appears likely in case of Chinese hostile action there.

Any military action in the Taiwan Strait is inherently risky. Indeed, each of these three options could lead to a major escalation. Assessing whether China's intention is to organise a prelude to large-scale military operations would be the main determinant of Taiwan's response. Taiwan is likely to exhaust all options to avoid a major conflict, as long as the determination to preserve ROC air space and defend the lives of inhabitants is not questioned in Beijing. Such operations should be considered in a larger time frame of one to two decades, which would gauge the determination of Taiwan to resist, the credibility of the US deterrence and the reaction of Japan and the international community. Arguably, if the Chinese conclude that there is an overwhelming attempt at conflict avoidance, including the acceptance of costs/losses (airspace, an infrastructure facility, the Pratas), they will be emboldened to prepare a next escalatory move.

3. escalates economic coercion measures

a) The scenario

In February 2020, China stopped imports of Taiwanese pineapples, officially for safety reasons. The signal was clear, despite the typical practice of plausible deniability. When China uses economic statecraft, the decision is political. There is no official explanation and it is impossible to locate the decision-maker inside the Chinese system. In the case of pineapples, China was most certainly sending a warning to the Taiwanese government that it could leverage market access to impose costs, in the same way as it can leverage market access to specific categories that would benefit the Taiwanese population.

- China may well engage in more of the same

practice. The PRC is Taiwan's top export destination (and top trade partner), with US\$ 102,449 billion in 2020 – Taiwan enjoyed a US\$ 39 billion surplus that year.⁶ Taiwan's exports to China have increased by 51% in 2020, despite the pandemic, mostly driven by ICT products. Looking ahead, Chinese use of economic statecraft should be expected to be focused on specific sectors. China can, for example, expand the pineapple sanctions model to a list of agricultural items that constitute Taiwanese exports to China. The PRC is the largest market for Taiwan's agricultural exports. In 2020, China imported US\$ 1,113 billion of Taiwanese agricultural products, one fifth of total Taiwanese exports.⁷ While this is a small percentage of Taiwan's overall exports, it creates a sectoral constituency in Taiwan seeking market access in China. Among industries, the steel industry is a possible target – it absorbed 11% of Taiwan's US\$ 11 billion of steel exports in 2018.⁸ Taiwanese analysts are discussing the risk that the country's fishing industry could be targeted. This would be the prelude to a forceful measure but, short of blockade, the use of China's Coast Guards to harass Taiwanese fishing boats in areas where the EEZs of the two sides overlap would lead to tense encounters between law-enforcement agencies of the two sides. In leveraging its market, China needs to be cautious. Some decisions could be highly counterproductive. For example, China's industry depends on Taiwanese-made semiconductors. Nationalising a TSMC fab in China would lead to huge disruptions in China's supply chain of semiconductor technology.

- China could initiate a coordinated campaign targeting Taiwanese investment in China, with three components. First, the unilateral withdrawal of some of the preferential measures aimed at specific groups in Taiwan: facilities to participate in government procurement, market access to China's cultural industry... Second, targeted arrests of Taiwanese nationals in China on a variety of pretexts. And third, constant inspections of Taiwanese factories and businesses with the imposition of high fines and penalties. Such a

campaign would be based on intelligence allowing for targeted action against Taiwanese residents in China with a political preference for the DPP. This would be accompanied by a complete break of communication with the Strait Exchange Foundation, the organisation that looks after the interests of Taiwanese nationals in China. The aim of such an action would be to convince the Taiwanese electorate that they need to vote for the opposition to protect their economic interests in China.

b) An assessment of the credibility of the scenario

The use of economic statecraft is a signature of China's foreign policy. China leverages its internal market to impose costs on other states, and to seek a change of behaviour on a specific policy issue, or more largely, on a state's strategic positioning. Norway has been the target of economic statecraft as retaliation against writer and political activist Liu Xiaobo's 2010 Nobel Peace Prize. Australia is currently the target of high tariffs in what appears to be an attempt to impose costs on Australia's overall China policy – 14 demands were issued by China, even though they were not formally linked to the tariffs.⁹

All the sectors listed above – agricultural products, fisheries and the steel industry – could be targeted not to suffocate Taiwan's economy but to change the political calculation in Taiwan, and to create a market for a political platform proposing an improvement of cross-strait relations, one that would defend the interests of specific sectors of the Taiwanese economy. Of all scenarios, pressure on the fishing industry that combines elements of Coast Guard harassment raises the worse risk of escalation, because it could result in an unintended collision with the Taiwanese law-enforcement agency.

The use of economic coercion is quite probable in cross-strait relations. Economic coercion is part of a toolbox of forceful measures and it is hard to imagine an orchestrated campaign of pressure that does not include this. The case of pineapples shows that the Taiwanese domestic market can be mobilised to absorb surplus. Other countries, especially Japan, can increase their imports to make up for Taiwan's

6 Source : database of the Bureau of Foreign Trade, Ministry of Economic Affairs, Taiwan, <https://cuswebo.trade.gov.tw/FSC010F/FSC010F/>

7 , Lianhebao, 26 February 2021, <https://udn.com/news/story/120657/5280065>

8 International Trade Administration, Global Steel Trade Monitor, Steel Export Report: Taiwan, May 2019, <https://legacy.trade.gov/steel/countries/pdfs/exports-Taiwan.pdf>

9 Lucas Niewenhuis, "The 14 sins of Australia: Beijing expands list of grievances and digs in for extended diplomatic dispute", *SupChina*, 18 November 2020, <https://supchina.com/2020/11/18/the-14-sins-of-australia-beijing-expands-list-of-grievances-and-digs-in-for-extended-diplomatic-dispute/>

losses on the Chinese markets – as Japan did in the case of pineapples.¹⁰ But a combination of measures and a sustained campaign would dominate the public debate in Taiwan, and create polarisation if the government failed to create national cohesion. For China, such actions carry a risk of increasing the involvement of countries defending Taiwan but as with all possible coercive actions, they are a test of the determination of the Taiwanese society.

4. Conclusion: how can Europe contribute to the reduction of the risk of unilateral action?

Europe has little involvement in the security of the Taiwan Strait. Politically, according to the External Action Service “The EU has a strong stake in peace, security and stability in Asia. The EU supports the status quo and peaceful resolution of differences across the Taiwan Strait, rejecting the use or threat of force. It continues to encourage dialogue and constructive engagement”.¹¹ Political statements in support of peaceful solutions matter, but their impact is quite limited. In fact, it can be argued that such statements are understood in Beijing as a demonstration of unwillingness to accept any cost, and therefore can be easily dismissed as language directed mostly at Europe’s domestic audience. The lack of impact of Europe’s statements regarding the violation of China’s treaty commitments on Hong Kong is an example of the inefficacy of declaratory diplomacy. This realistic view should not obscure the fact that suddenly terminating principled statements because they do not produce any measurable effects, would have the effect of emboldening China on the path of coercion.

Therefore, the statements should continue. But if Europe is to play a role in the Taiwan Strait, the policy debate should also focus on actions that can affect China’s cost-benefit analysis. The only possibility for achieving such an outcome would be the strengthening of Europe’s ties with Taiwan. There is currently a modest opportunity to do just this, given the deterioration of Europe-China relations caused by President Xi Jinping’s policy choices and governance style since the 19th Congress of the Chinese Communist Party.

First, there is an urgent need to increase awareness and preparedness in European policy circles regarding the risk of military crisis in the Taiwan Strait. European officials need to start thinking about what

their reactions will be when coercive actions below the threshold of all-out conflict are undertaken by China.

Second, Europe and Taiwan both focus on restructuring industrial supply chains in reaction to the devastating COVID-19 pandemic. Taiwan launched its programme before the outbreak, prompted by US tariffs – and even earlier, as successive Taiwanese governments, from the 1990s, have always (unsuccessfully until Trump and COVID-19) sought ways to reduce Taiwan’s dependence on China as an industrial powerhouse. Taiwan’s current effort is centred on how to best adjust to changes in US policy in order to seize opportunities for Taiwanese companies and enhance Taiwan’s overall strategic position. So far, the links between Taiwan and Europe are almost non-existent. This space should be explored, especially as it is a positive item in Europe-Taiwan relations, with ramifications for our digital transformation, healthcare systems and green economies.

Third, naval presence in the Taiwan Strait has a role to play. China only recently started to criticise transits in the Taiwan Strait. The transit of a French naval ship in the Taiwan Strait in April 2019 provides a good example of the reasons why passages have political value in this context. The French navy sails in East Asia to demonstrate its commitment to Freedom of Navigation under the United States Convention on the Law of the Sea in the South China Sea. Now that China seems on the verge of creating a new freedom of navigation issue in the Taiwan Strait, there is a case for the Europeans to continue sailing in the Strait.

10 Ko Shu-ling, “Chinese ban on Taiwanese pineapples boosts sales in Japan”, Japan Today, 19 March 2021, <https://japantoday.com/category/business/focus-chinese-ban-on-taiwanese-pineapples-boosts-sales-in-japan>

11 External Action Service, “Taiwan and the EU”, 17 May 2016, https://eeas.europa.eu/delegations/taiwan/2000/taiwan-and-eu_en

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Co-funded by the
Erasmus+ Programme
of the European Union

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doi:10.2870/733819
ISBN:978-92-9084-993-3
ISSN:2467-4540
QM-AX-21-027-EN-N