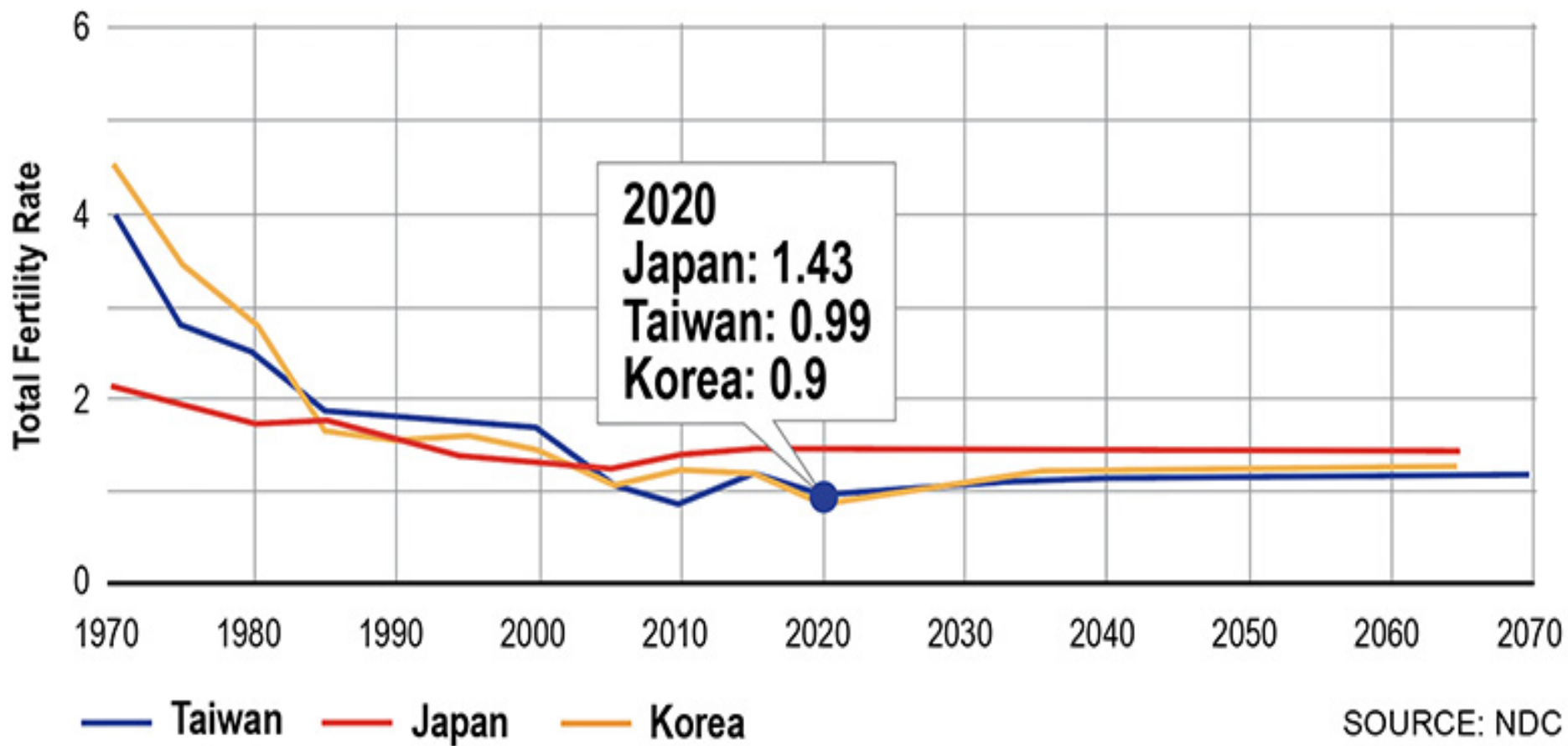


Taiwan's Coming Struggle to Survive

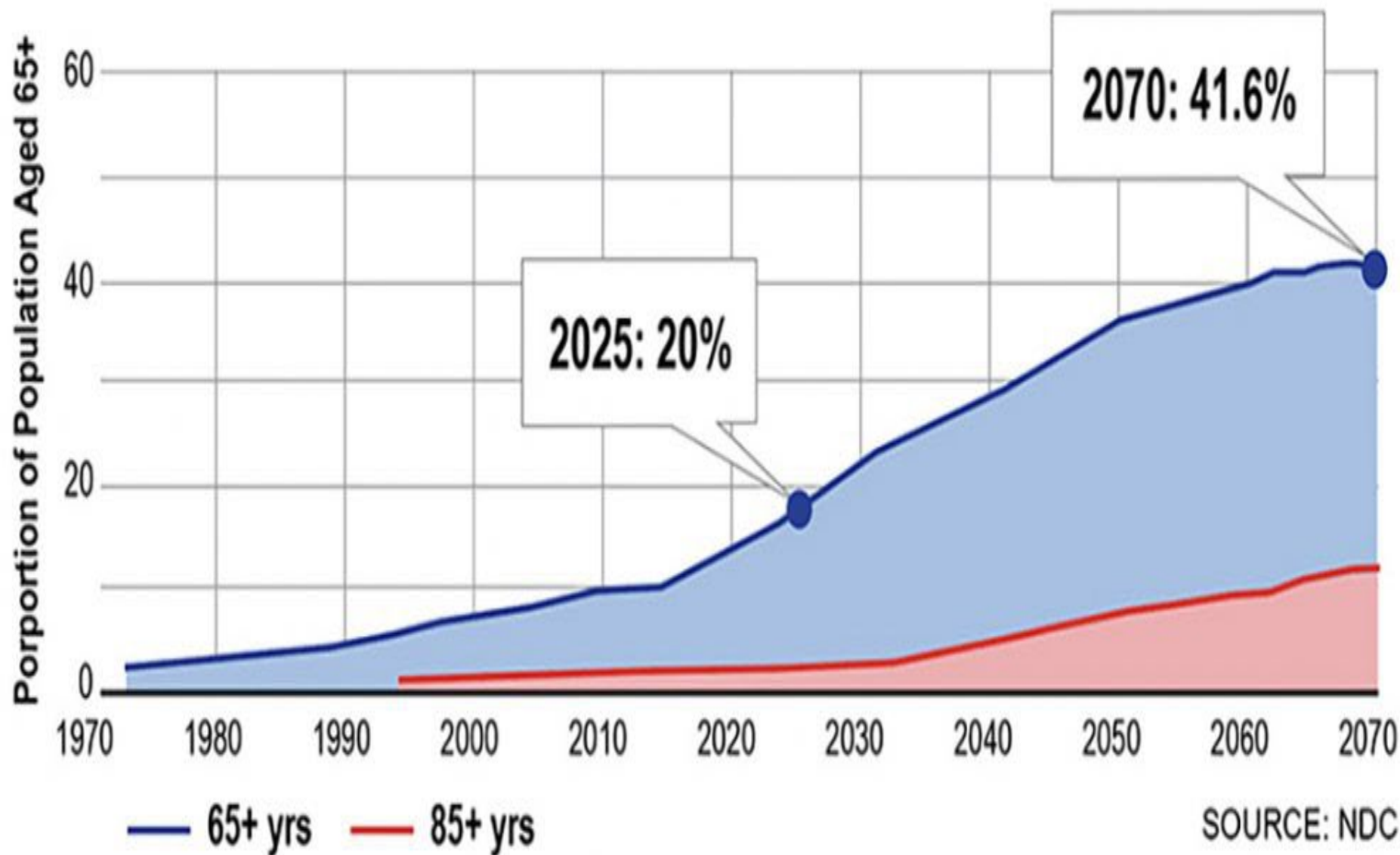
Existential Limitations

- Taiwan is a tiny and very densely populated island (2nd most after Bangladesh, 673 per km²)
- The population of 23-24 million is now shrinking
- Yet Taiwan has restrictive immigration policy
- Taiwan is endowed with limited national resources, particularly energy
- Its nearest neighbor (ca. 100 miles) is its major national security threat
- And it faces future economic challenges

Taiwan's Fertility Rate 1970-2070 (Projected)



Taiwan's Aged Population 1970-2070 (Projected)



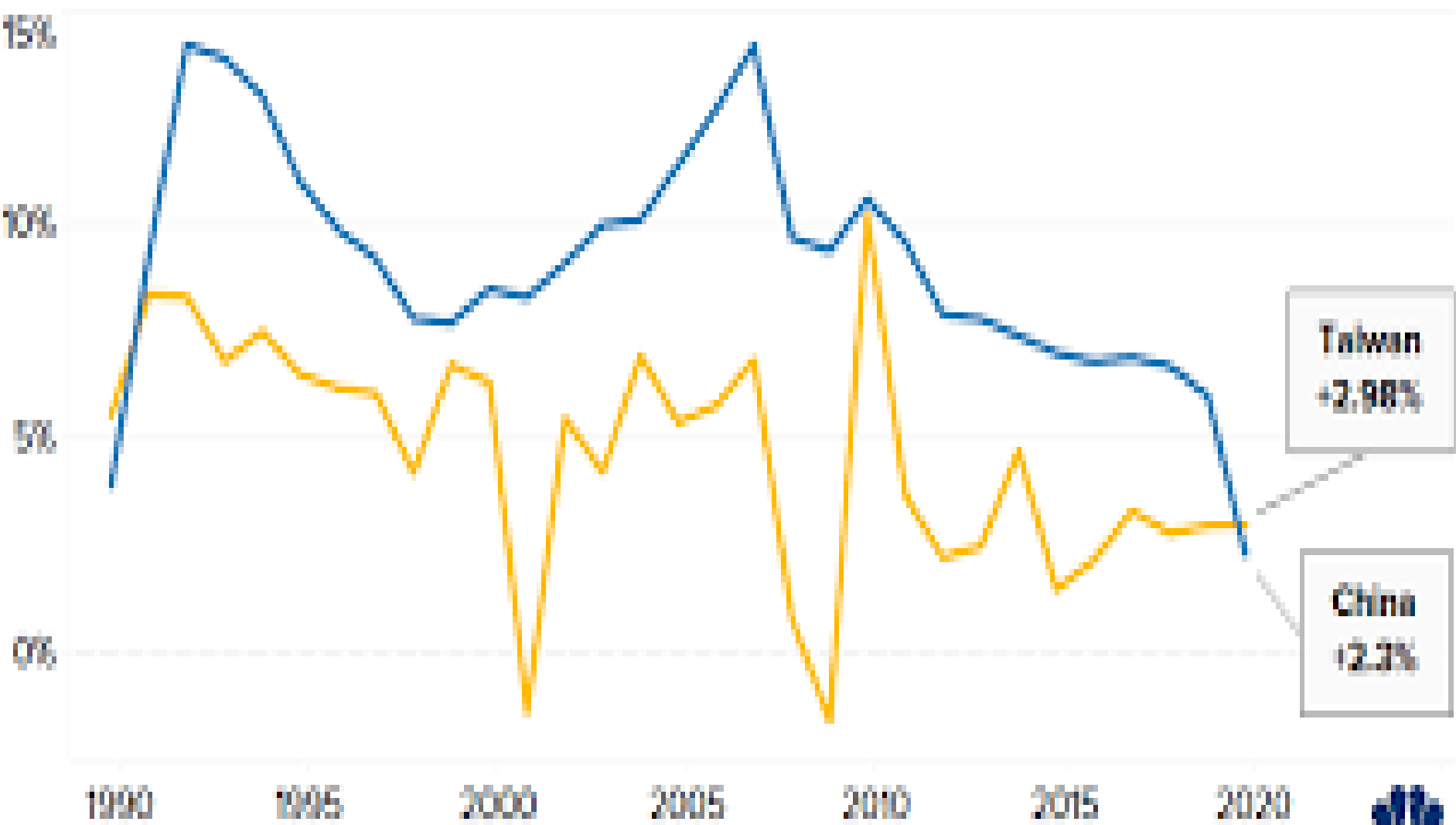
Taiwan's Economic Rise

- Growth rate: average 7.3% (1950s), 8.8% (1960s), 7% (1970s), 6.62% (1990s), 3.89% (2000-2010), and 3.62% (2010-2020). Economy accelerated further in 2021 with 6.45% growth exceeding Mainland
- In terms of economic structure, The economy shifted from an agriculture-based economy (32% of GDP in 1952) to an industry-oriented economy (47% of GDP in 1986) MVA among top 10 in the world
- Foreign trade has expanded 20-25% per annum, ranking Taiwan 15th largest trading nation in the world in 2020
- Per capita income: \$2000 in 1981, \$33,000 by 2021
- (1st in Asia, 5th globally in net financial assets per cap.)
- Trade dependency ratio (trade/GDP) was 105.6% by 2018
- Taiwan ranked 15th in the 2020 World Bank Doing Business survey
- Debt service ratio (debt/export value) lowest among the NIEs: 3.2% in 2018
- R&D expenditure (3.5% of GDP) 3rd highest in the world

Economic growth in China and Taiwan

Annual real GDP, percentage change from a year ago

China
Taiwan



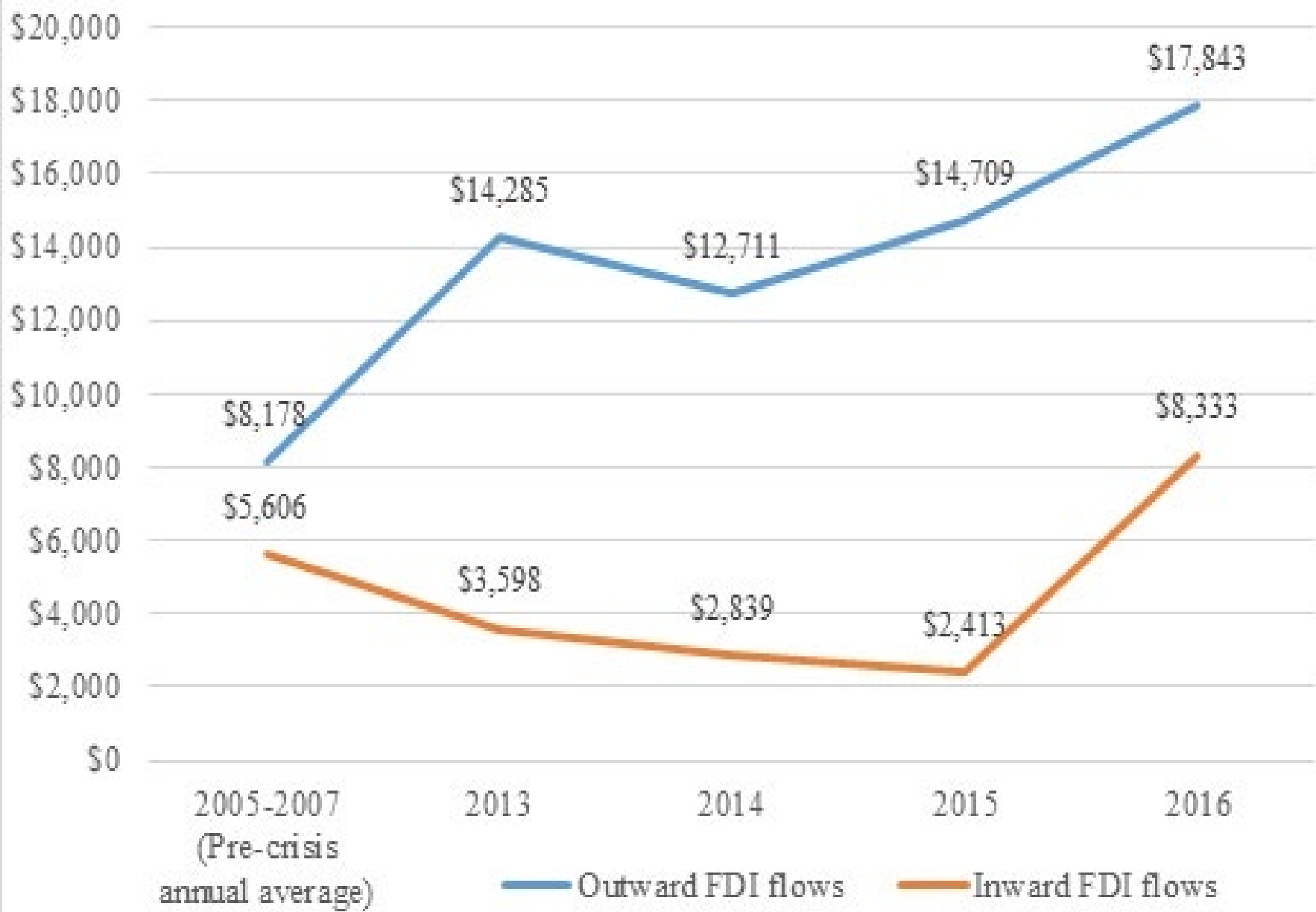
SOURCE: National Bureau of Statistics of China, Taiwan's Directorate-General of Budget, Accounting and Statistics



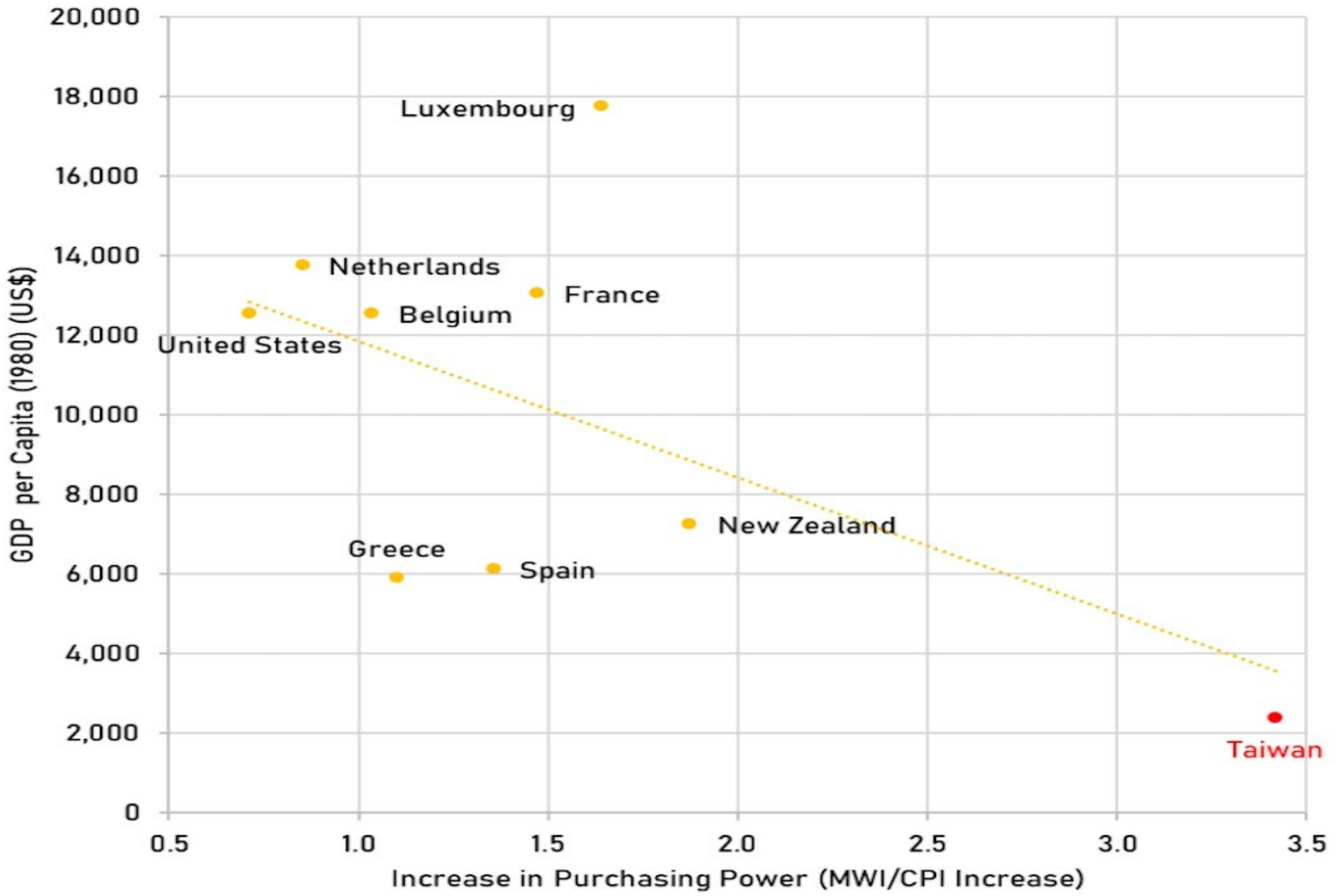
Challenges Ahead

- Taiwan's sluggish wage growth & GDP per cap lead to overall economic stagnation
- Taiwan's food self-sufficiency ratio in terms of calories was only 31.75 percent in 2020
- Heavy reliance on export-oriented growth makes Taiwan vulnerable to external demand shocks
- Overconcentration of industry in high-tech OEMs & ODMs and China geographically; too few BBs
- Taiwan is one of the least attractive FDI destinations in East Asia, the latest UNCTAD data show—dropping 18% in 2021

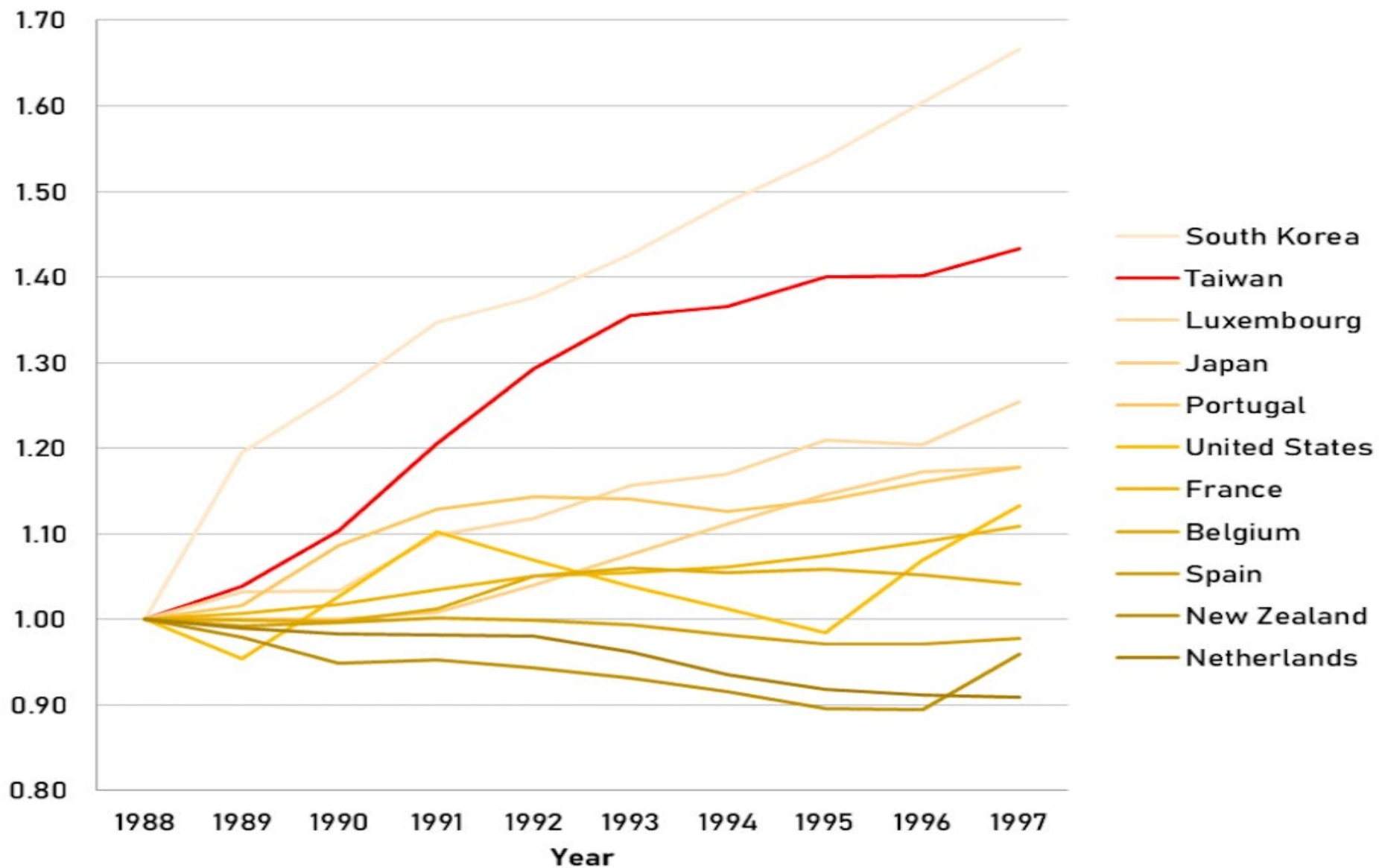
USD million



GDP per Capita vs Increase in Purchasing Power (MWI/CPI Increase) (1980-2021)



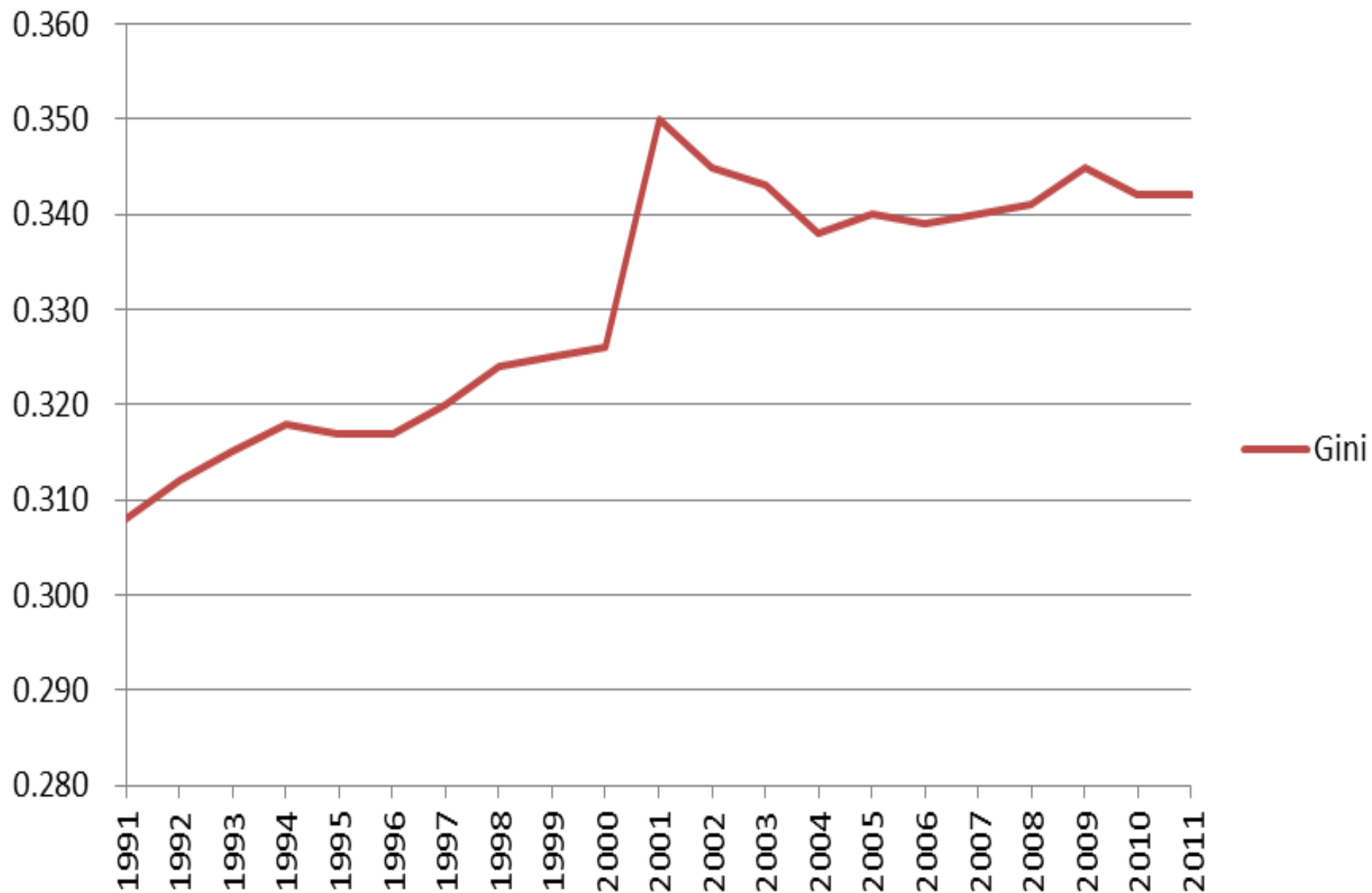
Increase in Purchasing Power – Minimum Wage Increase Above Consumer Price Increase (MWI/CPI Increase) (1988-1997) (starting from 1)



Food self-sufficiency rate by year



Taiwan's Gini's Concentration Coefficient



Elephant in the Room

- China's ambiguous economic impact:
- On the one hand, opening to China a major growth stimulus, possible security deterrent
- On the other, economic interdependency (\$300 billion invested) exposes Taiwan to China's economic statecraft
- And, given its consistent huge trade surplus (& smaller size) Taiwan is more dependent than China
- Asymmetric economic power enables China to block Taiwan from either bilateral FTAs or regional multilateral trade agreements

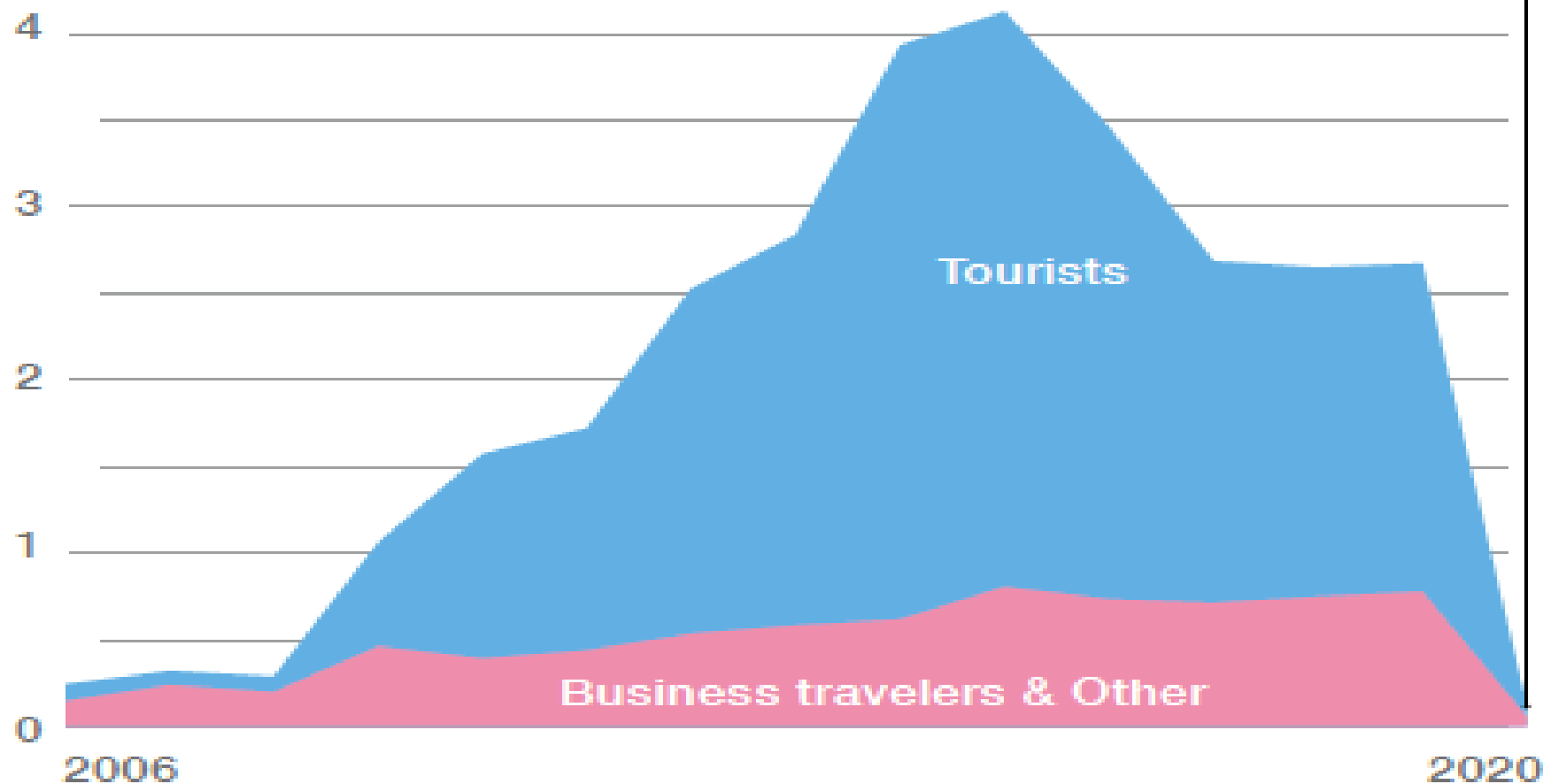
Growing Cross-Strait Economic Interdependence

	Taiwan's exports to the PRC (% of total)	Taiwan's imports from the PRC (% of total)
1985	3.21%	2.34%
2021	42%	21.68%

Visitors from China to Taiwan

Unit: Millions

111,050 visits



Source: National Immigration Agency, Ministry of the Interior

Politics of Economic Dependency

- ▣ 3 big waves of Taiwan investment in China: 1) late 1980s, after the appreciation of Taiwan's currency and removal of constraints on capital outflow; 2) 1992-1994, after Deng's "southern voyage" & coinciding with Singapore talks; 3) early 2000s, amid world hi-tech recession
- ▣ Taiwan government efforts at restraint—"Go south (1994), "Go slow" [*jieji yongren*] (1996), "positive management & effective liberalization" (2006), "reshoring," & "New Southbound Policy"—all fail so far
- ▣ Political implications mixed:

Positive	Negative
<ol style="list-style-type: none"> 1) Huge bilateral trade surplus in Taiwan's favor (US\$23.5 billion in 2002, vs. \$18.05B total surplus) 2) Lets Taiwan externalize its own trade surplus with US to PRC 3) Cheap labor pool, same language & culture cuts manufacturing costs 	<ol style="list-style-type: none"> 1) "Hostage effect": export dependency is greater than import dependency, thus Taiwan more economically vulnerable 2) 3) "5th column effect": most Taishang vote pan-blue, pan-green supporters intimidated 3) 4) "Hollowing out effect": Until late 1990s, outside investment stimulates domestic industrial upgrade, after 1995 more dubious

“Reunification”

- Throughout the Chiang era, reunification advocated on both sides of the Strait
- In the early 1990s, even Lee Teng-hui established a “National Unification Council” to oversee implementation of “National Unification Guidelines”—MAC, “3 links,” etc
- Lack of consensus on structure of “unified” federation complicated negotiation in HK & Singapore, which nonetheless ultimately agreed on “1992 Consensus”
- Lacking bipartisan consensus in Taipei and given a one-sided interpretation in Beijing, “1992” discredited
- Ethnic and national identities have shifted definitively

Beijing Invokes Threats

- Still proffering peaceful reunification but refusing negotiation without concession, furious at Taiwan's growing US ties, Beijing escalates
- Dollar diplomacy poaches 8 of Taiwan's allies, leaving only 14-- passive Taiwan response
- Fines, pressure on disloyal Taishang; trade restrictions on fruit, cyber hacks, electoral interference
- PLAN conducts 20 naval exercises while Chinese warplanes enter Taiwan's ADIZ 240 days in 2021
- Pelosi visit brings pressure to climax with unprecedented demonstration of air and naval power

What to do about Taiwan?

Xi Jinping

- 20th CCP Congress confirms Xi's supreme leadership: Taiwan will be his decision
- Son of Xi Zhongxun, who established Xiamen SEZ, Xi spent 17 years in Fujian courting Taiwanese business people to invest
- His references to Taiwan in Report to 20th were severe: "We will never commit to renouncing the use of force...all civilian goods and infrastructure can be turned into pawns at the will of the leadership." (April 16)
- This rhetoric echoes warnings in 2017 and 2019, and no explicit deadline has been set (beyond 2049)
- Milley: Xi wants "to have the capability to take control of Taiwan by force by 2027," Blinken confirms Xi's plan is on a "much faster timeline."
- Some see reshuffled CMC at 20th Congress as Xi's "war cabinet" (Chen Wenqing & Zhang Youxia)



PRC Strategy: Box, with Initiatives at Critical Junctures

- Opening the possibility of peaceful reunification, 1979-1988
- The Thaw at the End of the Cold War, 1989-1995
- The Taiwan Strait Crisis and Political Freeze amid Economic Integration, 1995-2005
- Anti-Secession Law, 2005
- The Thaw's Revival and Deepening, 2005-2016
- Taiwan Nationalist backlash under Tsai, 2016-2018
- 11/18: DPP loses midterm elections, Tsai resigns

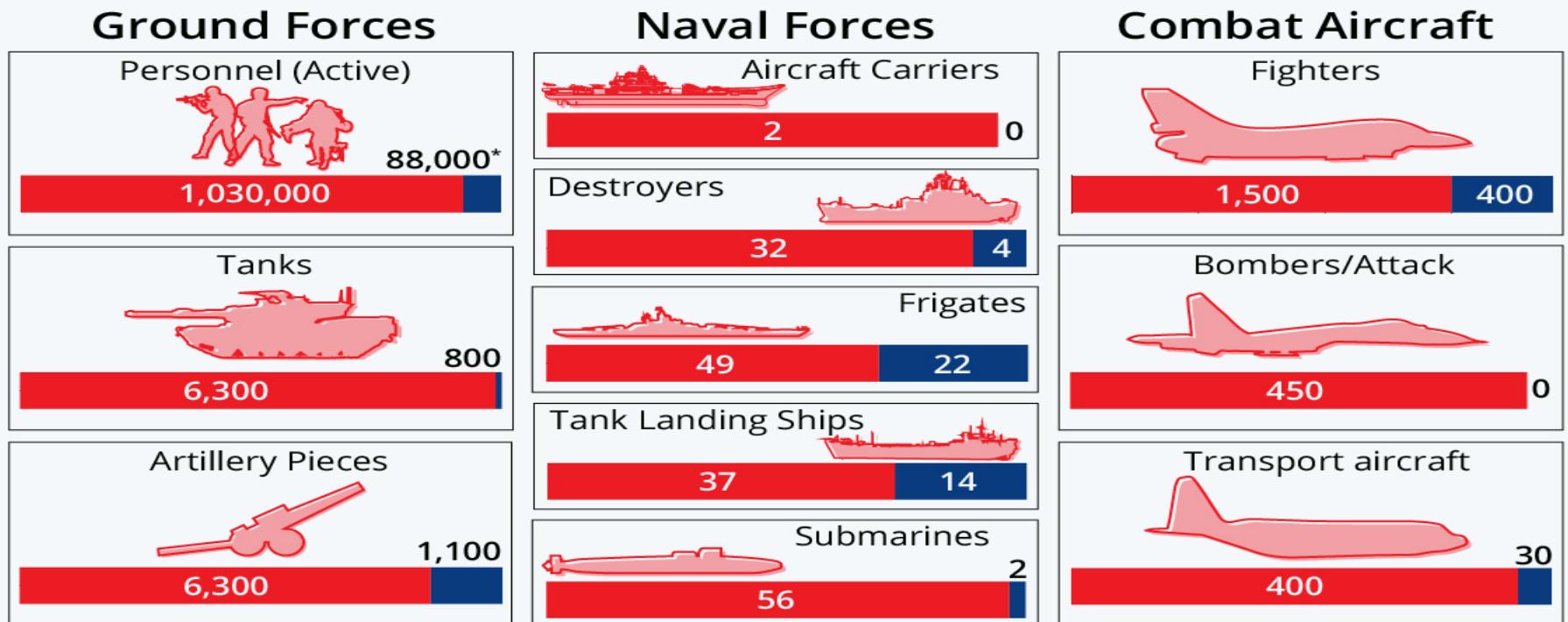
Military Balance

- Cross-Strait balance has become severely asymmetric, Taiwan has lost technological edge in air and sea
- “Ambiguous” US pledge of support (TRA) has become increasingly explicit w Biden
- Yet credibility of US deterrent increasingly ambiguous as China ramps up A2/AD
- Taiwan wonders: Will it be Ukrainian-type support?
- USN wonders: Can we still prevail?

The Military Imbalance In The Taiwan Strait

Military forces of mainland China and Taiwan in comparison (2020)

■ Mainland China ■ Taiwan



* Counts only active-duty troops
 Source: U.S. Department Of Defense



U.S. and Chinese forward-deployed air and naval forces in Asia

U.S. military			Chinese military	
Current	→ 2025		Current	→ 2025
250	250	Fighter jets	1,250	1,950
		Bombers	175	225
10	10	Patrol aircraft	15	30
1	1	Aircraft carriers	2	3
4	4	Amphibious assault ships	8	12
12	12	Warships	60	108
10	10	Submarines	56	64

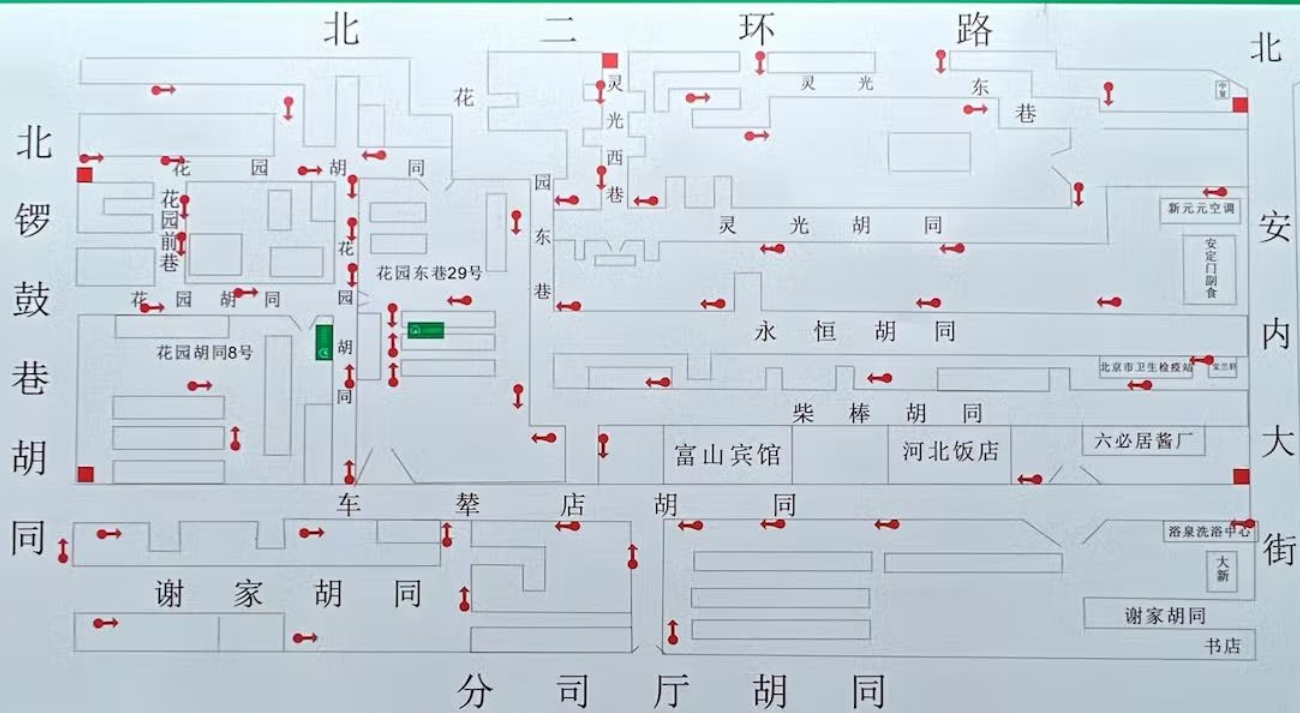








Source: U.S. military and Department of Defense
 Notes: Current figures are estimates and 2025 figures are projections.

掩蔽场所
SHELTER



安定门街道花园社区疏散掩蔽示意图



-  掩蔽场所出入口
-  小区出入口
-  疏散掩蔽示意图
-  疏散方向
-  疏散引导标识牌
-  人员疏散掩蔽场所



东城区人民防空办公室
安定门街道 制

Ukraine Precedent

- In July 2021, Putin published an historical analysis depicting Ukraine as precisely analogous to Taiwan
- During early Feb Olympic visit to Beijing, “no limits” Sino-Russian partnership proclaimed
- Two weeks later, Russia invades Ukraine from 3 sides
- Despite Putin’s unexpected setback and diplomatic pressure, Xi never repudiates or offers to mediate: Sino-Russian trade sets new records (\$146.9B 2021)
- Ukraine disastrous for both combatants, but far more for Ukraine—Europeans also suffer collateral damage
- Invasion disaster shows rationality is not invariably good predictor of a leader’s decisions

2 Alternatives to Invasion

- Charm offensive: most successful in early 1990s, most recent campaign in 2018 less
- 3 prerequisites: must be sustained under Flak, must offer better opportunities, must be consistent with overall political cultural ambience
- “All means short of war”: Xi appeals to Taiwan leaders for talks without conditions, ultimatum to Taishang to petition government to agree, “quarantine” of selected imports, disinformation, cyberattacks, live-fire exercises
- “Boy who cried wolf” problem: What if Taiwan still won’t agree? In this case Xi must either retreat or invade

Consequences of Reunification

- Xi sincerely wants to realize “rejuvenation” of the “China Dream” for which recovery of Taiwan is deemed *sine qua non*
- Xi will not move unless he’s sure he can win, he will not commit Putin’s blunders
- If he defeats American interference and wins, despite catastrophic economic damage East Asia will be China’s and US strategic credibility destroyed

Conclusions

- Taiwan's resistance to China's bullying has won favorable world public opinion & some new opportunities
- Yet it faces serious challenges ahead for which it is ill prepared
- The course of heroic resistance and PRC hostility could provoke an unjust war in which Taiwan would suffer most

Thanks for listening!