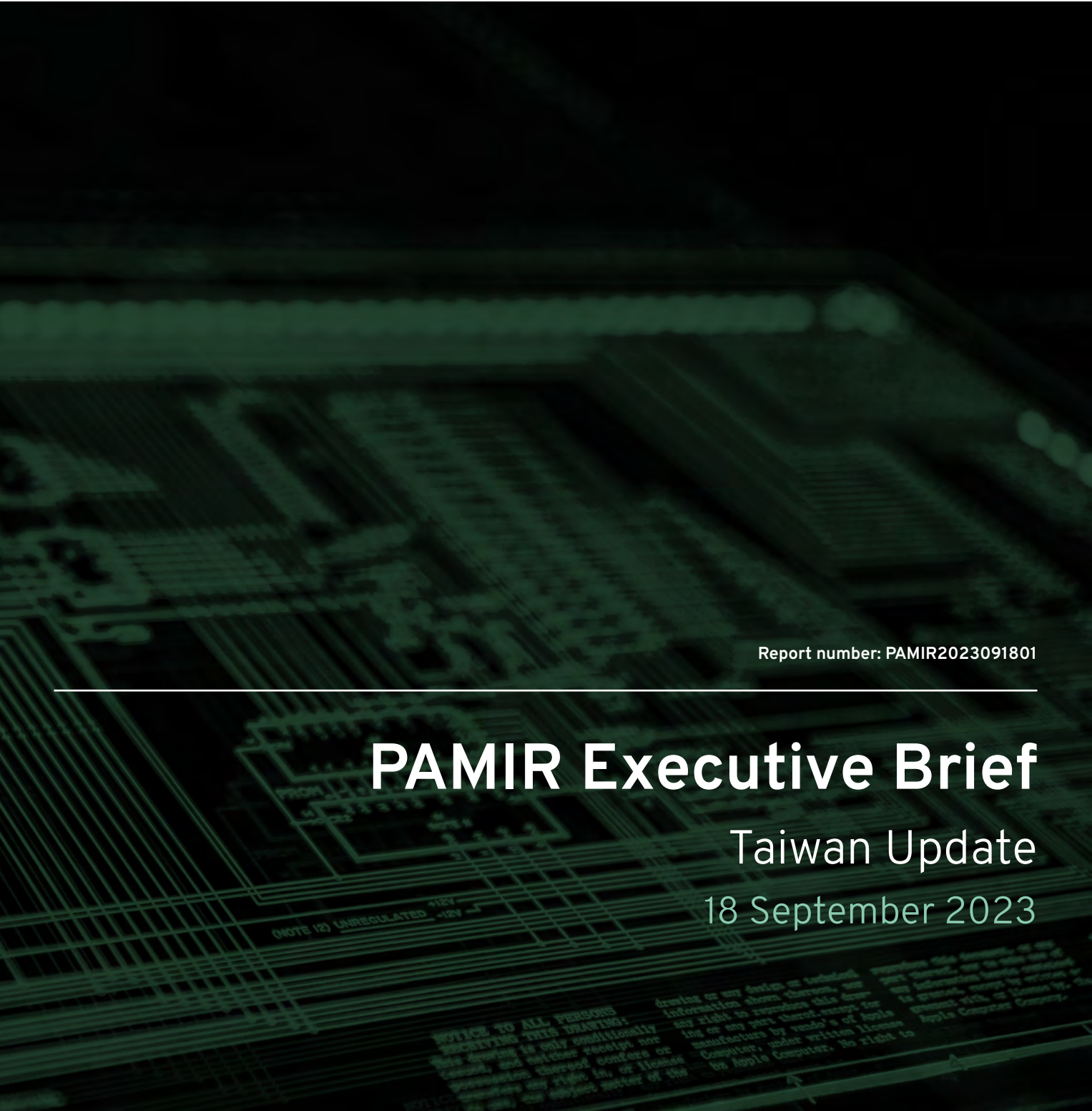




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PAMIR Executive Brief

Taiwan Update

18 September 2023

Address

8045 Leesburg Pike, Suite 220,
Vienna, Virginia
USA | 22182

Phone

Office: +1 703 783 5020
Mobile: +1 231 360 3408

Online

Email: info@pamirllc.com
Website: www.pamirllc.com



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Pamir Consulting LLC

8045 Leesburg Pike Suite 220,
Vienna, Virginia
USA | 22182

Office: +1 703 783 5020

Mobile: +1 231 360 3408

Email: info@pamirllc.com

Website: www.pamirllc.com

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“Microsoft identified Chinese hacker groups targeting Taiwan government agencies, educational institutions, telecom, IT, and high-tech sectors, as well as energy infrastructure hubs. China also is using AI on social media platforms to influence US and Taiwan voters.”

Executive Summary

- Taipei is looking to the US Congress to resolve claims that Taiwan semiconductor firms are unfairly paying more taxes than other major US trading partners.
- Microsoft identified Chinese hacker groups targeting Taiwan government agencies, educational institutions, telecom, IT, and high-tech sectors, as well as energy infrastructure hubs. China also is using AI on social media platforms to influence US and Taiwan voters.
- Vice chair of the House Armed Services Committee told Taiwan President Tsai Ing-wen that “Any hostile unprovoked attack on Taiwan will result in a resolute reaction from the US.”
- A large contingent of Taiwan military troops participated in a two-week US reserve readiness exercise in Michigan.



US-Taiwan Trade

On 8 September in an interview with Bloomberg, Taiwan's de-facto ambassador to Washington HSIAO Bi-khim said Taiwan's semiconductor companies are holding back their investments in the US because of "unreasonable and unfair" double taxation. Hsiao alleged that Taiwanese firms are paying three times more than competitors from other major US trading partners. Hsiao said this issue is "an absolute priority" and that she is optimistic Congress will resolve it before the end of the year. Hsiao is considered as a likely running mate for ruling DPP presidential nominee William Lai in 2024.

- In 2020 Taiwan's largest semiconductor company, TSMC, agreed to build cutting-edge fabrication plants in Arizona, but its goal to have the first plant operational in 2024 has been postponed to 2025 due to cost increases and skilled labor shortages. The project's cost has jumped from the original budget of \$12 billion to \$40 billion. TSMC is expecting the US government to provide \$15 billion in subsidies under the US CHIPS and Science Act, which sets aside \$280 billion in funding for chip manufacturing and research in the US and offers a 25% tax reduction.

In August the US and Taiwan held a second round of negotiations for their Initiative on 21st Century Trade, focusing on agriculture, labor practices, and environmental protection. The US Senate Committee on Finance said it plans to work on a Taiwan tax bill in September.

“Congressman Rob Wittman (R-VA), vice chair of the House Armed Services Committee, led a Congressional delegation to Taiwan that met with President Tsai Ing-wen on 1 September. Wittman told Tsai, “Any hostile unprovoked attack on Taiwan will result in a resolute reaction from the US.” He also promised to resolve the backlog in Taiwan’s \$19 billion arms purchases from the US.

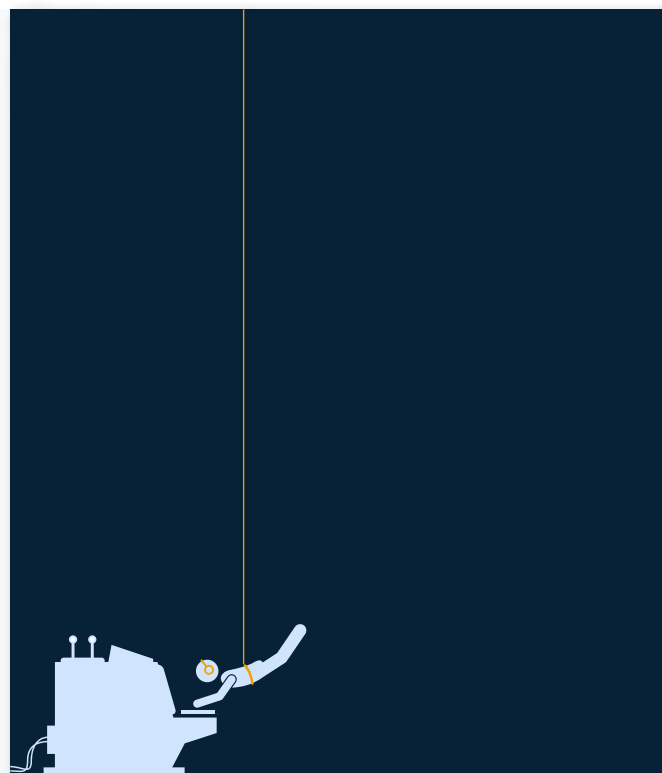
Cyberespionage

On 5 September Microsoft reported that China is using AI on social media platforms to influence US and Taiwan voters. Chinese operations on YouTube, Facebook, TikTok, and X are only expected to increase with the presidential elections in the US and Taiwan next year.

The Microsoft report identified Chinese hacker groups Flax Typhoon and Charcoal Typhoon as the most prominent hacker groups targeting Taiwan, hitting government agencies, educational institutions, telecom, IT, and high-tech sectors, as well as energy infrastructure hubs.

Flax Typhoon was found to be using a custom-made virtual private network to “directly establish a presence within the target network.” The report said, “We can expect wider cyberespionage against both opponents and supporters of China’s geopolitical objectives on every continent.”

- China’s embassy in Washington responded to the Microsoft report, saying it was “full of prejudice and malicious speculation.”



“We can expect wider cyberespionage against both opponents and supporters of China’s geopolitical objectives on every continent.”

Microsoft Report

According to Taiwan's Defense Ministry, on 13-14 September the Chinese military sent 68 aircraft and 10 ships near Taiwan; 40 of the aircraft crossed the median line in the Taiwan Strait. Observers believe the latest massive operation has several goals:

- Protest the latest US military aid to Taiwan.
- Send some forces to join the naval exercise led by the aircraft carrier Shandong in the Bashi Channel area, to the southeast of Taiwan.
- Continue to exert military pressure on the DPP candidate leading the polls.

US-Taiwan Military Relations

Congressman Rob Wittman (R-VA), vice chair of the House Armed Services Committee, led a Congressional delegation to Taiwan that met with President Tsai Ing-wen on 1 September. Wittman told Tsai, "Any hostile unprovoked attack on Taiwan will result in a resolute reaction from the US." He also promised to resolve the backlog in Taiwan's \$19 billion arms purchases from the US.

On 2 September Japanese media reported that on 5-19 August a large contingent of Taiwan troops joined the Northern Strike exercise in Michigan, which is one of the largest US reserve readiness exercises.

The report said a joint battalion of the Taiwan Army's 333rd Mechanized Infantry Brigade possibly participated in the exercise. Taiwan Army Headquarters said "it has no comment" on Japanese reporting.

- China's foreign and defense ministries protested the US-Taiwan military-to-military interactions and said that US support for Taiwan will not shake China's determination to unify Taiwan.

On 9 September a US destroyer and Canadian frigate sailed through the Taiwan Strait, making it the second joint transit since June. The US Navy's 7th Fleet said the transit "demonstrates the commitment of the US and our allies and partners to a free and open Indo-Pacific" and was conducted "in accordance with international law [and] through a corridor in the Strait that is beyond the territorial sea of any coastal state."

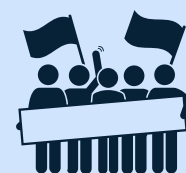
- The Chinese military's Eastern Theater Command accused the US of "hyping" the transit and said its forces monitored and shadowed the US and Canadian ships. Before the US-Canadian joint transit, the US and Canadian ships conducted a joint exercise with a Japanese ship in the East China Sea.

Taiwan Elections

Terry Gou, billionaire and founder of Foxconn, the world's largest contract manufacturer of iPhones and other electronics, announced that he will run as an independent candidate in Taiwan's presidential election next January. Earlier this year Gou failed in a bid to become the opposition Kuomintang (KMT) party's nominee. Gou is running on a "peace for Taiwan" platform and says he would "never let Taiwan become the next Ukraine." He selected actress Tammy Darshana Lai as his running mate. With Taiwan's 2024 general election heating up, Taiwan opposition parties are increasing their engagement with Beijing to reinforce the message that reelecting the ruling DPP will mean war for Taiwan while they can bring dialogue and peace.

DPP politicians described the opposition visits as falling into the trap of China's United Front operations:

- In late August, Taipei Mayor and KMT rising star Wayne Chiang visited Shanghai to resume the annual Twin City Forum that had been suspended for three years due to Covid. During Chiang's visit, the two cities signed three economic and sport agreements. Chiang told the press that "The cross-strait situation at this time is not calm and this is not what Taiwan people who desire to have peace, stability and prosperity want. This is why we urgently need a dialogue mechanism to settle disputes."
- On 25 August KMT candidate Hou Yu-ih said in a TV interview that, if elected, he will not rule out the possibility of a meeting Chinese President Xi Jinping to bring peace and stability across the Taiwan Strait.
- On 7-9 September, James Soong, Chairman of the People First Party, visited the mainland and reiterated his party's position of opposing Taiwan independence and supporting peaceful unification.



Gou joins poll leader DPP candidate and incumbent Vice President William Lai, Taiwan People's Party (TPP) candidate KO Wen-je, and KMT candidate HOU Yu-ih. According to most Taiwan political analysts, a four-way race will be more difficult for the opposition to win. The KMT expressed "deep regret" over Gou's announcement and said it hopes Gou will return to the KMT to support Hou, a former police chief-turned-mayor of New Taipei City.

Strategic Outcomes

Pamir Position

Pamir assesses that China's use of AI for its influence campaigns highlights a potential trigger for a cross-Strait incident. The degree of central control over AI formulation and technical details is unknown. Chinese hacking groups probably are working under broad guidelines and could unintentionally precipitate a crisis.

LEVEL OF CONCERN



Business Impact

Pamir reminds US companies to raise workforce awareness of recent Chinese cyber-intrusions and review cybersecurity good practices to prevent email or web browsing intrusion attempts.

Business Opportunity

Pamir recommends redoubling efforts to enhance IT infrastructure safeguards against cyberespionage.

Strategic outcomes

Level of Concern indicators - what they mean

- 1 - indicates no change to the status quo
- 2 - indicates escalating tensions
- 3 - indicates aggressive escalation
- 4 - indicates high probability of impending crisis event
- 5 - indicates a full-scale crisis or conflict situation.

How we calculate them

- Frequency of references to subject in Chinese-language official government statements, credible press reporting, and social media
- Frequency of references to subject in English-language official government statements, credible press reporting, and social media from the US, EU, UK, Australia, Japan, etc.
- Consistency of historical, current, and emerging trendlines related to the subject
- Aberrations in official Chinese-language policy formulations
- Strategic shifts in official Chinese government and military signaling through diplomatic, information, military, and economic actions and behavior

Analytic Methodology: internal monitoring with quantitative and qualitative analysis of Chinese media and propaganda; comparative trend analysis, intelligence tradecraft; other proprietary methods.

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8045 Leesburg Pike,
Suite 220,
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