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PAMIR Executive Brief

Taiwan Update

20 January 2023

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Executive Summary

- The newly signed US Taiwan Enhancement Resilience Act (TERA) represents a significant increase in US military support to Taiwan that signals to Beijing a long-term commitment to holding Chinese military aggression in check. Provisions of the Act make Taiwan a de facto non-NATO ally member. China reacted by calling TERA “a serious political provocation” and increasing military harassment activity in Taiwan’s airspace and waters.
- To woo voters in Taiwan’s 2024 general election, the opposition party – Kuomintang (KMT) – has called Taipei’s stepped-up war preparations a failed policy and is promoting the need for a peace dialogue with China.
- Taiwan’s exports have continued to decline due to the global economic slowdown and Covid impact in China – this decline is expected to persist in 1Q 2023.
- Growing international reaction against China’s belligerent and coercive policies toward Taiwan have led China to restructure its Taiwan policy leading group. Germany has explicitly warned Beijing of the consequences of any military action.
- Taiwan authorities arrested seven military officers on charges of spying for China. Prosecutors believe the accused passed intelligence on Taiwan’s military deployment and aircraft technical information to the mainland.

The Taiwan Enhancement Resilience Act

US increases its military support to Taiwan

The Taiwan Enhancement Resilience Act (TERA), signed by President Biden on 23 December 2022 as part of the Fiscal 2023 National Defense Authorization Act (NDAA), represents a significant increase in US military support to Taiwan and quickly drew condemnation from China. TERA surpasses the \$1.1 billion in arms sales to Taiwan that the US approved in September and authorizes:

- \$2 billion of annual military grant assistance from 2023 to 2027.
- A 12-year military financing package of up to \$2 billion for Taiwan to purchase US-made weapons.
- Establishing a regional contingency stockpile of defense articles for Taiwan, which essentially makes Taiwan a de facto major non-NATO ally (MNNA). There are 18 countries with MNNA status.
- A mandate for the Biden administration to prioritize and expedite the processing of Taiwan arms sale requests.
- Enhanced interoperability and capability for joint operations with Taiwan's military; the bill also suggests inviting Taiwan to officially participate in an upcoming US-led Rim of the Pacific (RIMPAC) military exercise.

Taiwan's Foreign Ministry welcomed TERA, saying it "highly demonstrates the firm stance of the US to support the strengthening of all-round cooperation between Taiwan and the US."

Shortly after the bill's signing, on 28 December the US government approved a \$180 million sales package of Volcano mine-laying anti-tank systems to Taiwan. China's Foreign Ministry denounced the sale.

TERA AUTHORIZES:



**ANNUAL
MILITARY GRANT OF
\$2 BILLION
FROM 2023 TO 2027**

PLA AIR INTRUSIONS INTO TAIWAN'S AIR SPACE HAVE INCREASED STEADILY:



380
IN 2020

960
IN 2021

1,727
IN 2022

China's response to the signing of TERA

China has reacted angrily to TERA. China's national legislature, foreign and defense ministries, and Taiwan Affairs Office issued separate statements condemning the bill for "a serious political provocation against China" and vowing to "firmly safeguard [China's] sovereignty, security, and development interests." Chinese state media carried a barrage of attacks against the US move, stating TERA is more evidence that the US is turning Taiwan into "an outpost against China."

On 23 December, during a phone call with US Secretary of State Blinken, Chinese Foreign Minister WANG Yi accused the US of "salami-slicing tactics" on the Taiwan issue and warned that this could lead to a "head-on collision" between the two countries. China's military predictably put on a show of force:

- On 25 December operated 71 aircraft and 7 ships around Taiwan. Forty-seven of the aircraft crossed the Taiwan Strait's median line, which has acted as an unofficial boundary observed by both sides for decades. The PLA continued its military harassment around Taiwan on and after New Year's Day.
- According to Taiwan military data, PLA air intrusions into Taiwan's Air Defense Identification Zone have increased steadily over the past few years: 380 intrusions in 2020, 960 in 2021, and 1,727 in 2022.

On 8 and 9 January, in reaction to a series of high-level visits by Western parliamentarians to Taiwan, the PLA conducted a large-scale exercise around Taiwan that simulated amphibious and other operations.

The PLA said the exercise—in which 57 aircraft and 4 warships participated—was designed to "counter provocation and collusion with external forces by Taiwan independence forces." The exercises resembled China's actions last August after Speaker Pelosi's visit. Chinese experts predict similar PLA responses if Speaker McCarthy carries out his pledge to visit Taiwan.

- In response to the PLA provocations, on 11 January Taiwan launched its own military exercise designed to improve capabilities for countering a possible Chinese invasion.

Taiwan's internal challenges

Import bans and 'preparedness for war'

On 27 December Taiwan President TSai Ing-wen announced a decision to extend compulsory military service for Taiwanese males from four months to one year, effective 1 January 2024. Tsai said the decision was part of Taiwan's "preparedness for war." She emphasized that, only by being prepared for war can Taiwan deter war with China. The Chinese government said Taiwan's decision is turning Taiwan youth into "cannon fodder." Chinese military experts believe Taiwan's decision, which was announced only after Taiwan's local elections in November, was a political move made under US pressure and would have no military significance. Taiwan's military has 210,000 soldiers, 180,000 of whom are career volunteers and 30,000 are conscripts.

In his New Year's message, Taiwan's former president and opposition party leader MA Ying-jeou attacked Tsai's mainland policy and her decision to extend conscription. Ma said "war preparation" will not deter war and only "peace dialogue" can avoid war. He called on the Taiwanese to vote for his Kuomintang party (KMT) in the 2024 general election and promised that the KMT in power means no war. When Ma met Chinese President Xi Jinping in 2015 in Singapore, both agreed to promote peace across the Taiwan Strait. In the 2016 elections, Tsai's pro-independence DPP defeated Ma's KMT as Taiwan voters demonstrated mistrust of KMT intentions toward China. Mainland officials believe the KMT is more open than the DPP to discuss reunification.

In late December China announced import bans for certain Taiwan seafood and liquor based on "inadequate customs registration." The Taiwan government denounced these bans as another step in China's progressive "economic coercion."

China has placed restrictions on imports of more than 2,000 Taiwan products, leading Taiwan to file complaints in the WTO.

On 8 January Taiwan's Ministry of Finance (MOF) reported that the island's December total exports declined for the fourth month during the year, dropping 12.1% by value year-on-year to \$35.75 billion, the lowest in 20 months. This followed a 13.1% drop in November.

- Taiwan's December 2022 exports to China, the island's largest trading partner, were \$14.28 billion, down 16.4% from 2021. This follows a 20.9% drop in November.
- Exports to the US were down 2.6%, after an 11.3% contraction in November 2022.
- MOF attributed export decline to the global economic slowdown and Covid impact in China and predicts a continued decline in exports in the first quarter of 2023.

Xi Heads Taiwan Work

China's new Taiwan leadership group begins work

SONG Tao, the new director of the mainland's Taiwan Affairs Office (TAO), delivered a New Year's message to the Taiwan people, calling on Taiwan to engage in "peaceful discussions about our family disputes."

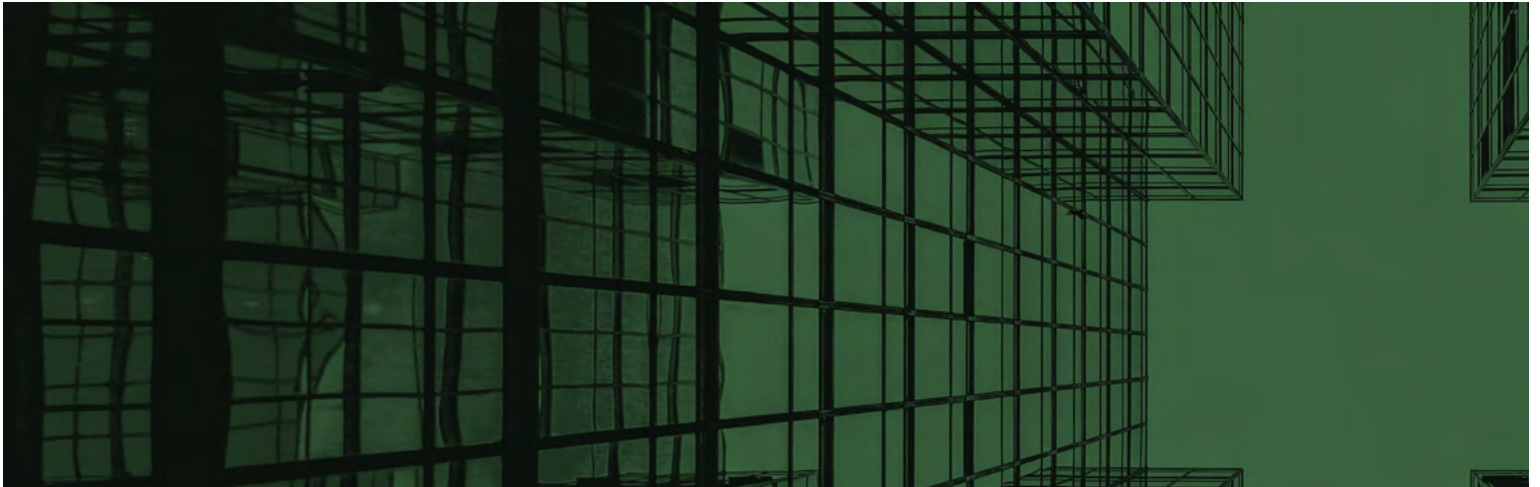
At 67, Song already has reached mandatory retirement age but was appointed to run Taiwan affairs because of his credentials:

- The Taiwan issue has become increasingly international. Song formerly was director of the Chinese Communist Party's International Liaison Department (ILD) and formerly served as a vice foreign minister.
- As head of the ILD since 2015, Song worked with political parties in Taiwan, including the ruling DPP.
- Song served under Xi Jinping's during Xi's time in Fujian Province and is therefore considered to be "trustworthy."

After the 20th Party Congress in October 2022, China established a new top leadership organization for its relations with Taiwan, the Central Leading Group on Taiwan Work. The new Group reportedly is headed by President Xi himself with two deputies: WANG Huning, member of the Politburo Standing Committee, and WANG Yi, former foreign minister. The Group includes representatives from the PLA and other relevant government ministries.

As head of the Taiwan Affairs Office, SONG is facing international challenges as Germany explicitly has equated the Taiwan situation to Ukraine:

- On 11 January the leader of Chancellor Scholz's Social Democrats Party (SPD) told the national paper, Die Zeit, that Germany would be forced to cut ties with China as it has with Russia should China attack Taiwan. He added that Germany is working on a new strategy aimed at reducing dependence on China. "We must realize that tomorrow, the day after tomorrow or in 10 years' time, the time may come when China crosses borders... If China attacks Taiwan, our relationship with China will fundamentally change, as is the case now with Russia." In November 2022 Scholz had told outgoing Vice Premier LI Keqiang that "any change in Taiwan's status quo must be peaceful or by mutual agreement."



Spies, FONOPs and CHIPS

- On 4 January Taiwan authorities arrested one retired air force officer and six active officers for spying for China. Taiwan prosecutors believe the accused passed intelligence on Taiwan's military deployment and aircraft technical information to the mainland. In July 2021 Taiwan media reported that Taiwan national security authority believed more than 5,000 mainland spies were operating in Taiwan.
- On 6 January the US guided missile destroyer USS Chung-Hoon passed through the Taiwan Strait in a "routine operation... through waters where high-sea freedoms of navigation and overflight apply in accordance with international law." China denounced the US Freedom of Navigation operations (FONOPs) as "provocation." The PLA said it had monitored the US ship during the entire transit.
- On 9 January Taiwan's legislature passed the Taiwan's CHIPS Act that allows semiconductor manufacturers to claim tax credits for 25% of annual R&D expenses and 5% of expenses used to acquire advanced chip equipment. A detailed regulation will be issued within the next six months. Chinese media said Taiwan's CHIPS Act is designed to maintain Taiwan's competitive edge in the semiconductor industry after the US, South Korea, Japan, and EU introduced their own CHIPS Acts.

Strategic outcomes

Stronger US- Taiwan cooperation

The US Taiwan Enhancement Resilience Act (TERA) substantially strengthens US-Taiwan military cooperation – a key indication that the US recognizes vulnerabilities in Taiwan’s military capabilities. For Taipei, TERA signals US commitment to bolstering Taiwan’s defense forces with the understanding that the Taiwan government and populace must demonstrate domestic preparation for self-defense. For Beijing, TERA is yet another move from Washington in escalating US-China tensions over Taiwan’s national sovereignty.

LEVEL OF CONCERN



Xi oversight of Taiwan relations

Pamir assesses that resolving the Taiwan question is an increasingly paramount issue for China as clearly indicated by President Xi’s direct oversight of the newly established Central Leading Group on Taiwan Work and the appointment of Xi loyalist SONG Tao as director of the Taiwan Affairs Office.

LEVEL OF CONCERN



The possibility of visit from Speaker McCarthy

Pamir anticipates more assertive rhetoric and military maneuvers from China if US House Speaker Kevin McCarthy visits Taiwan, and if the US and EU consistently amplify shared opposition towards any form of Chinese aggression against Taiwan. Pamir is closely monitoring strategic shifts and rising risks in cross-strait relations that could adversely impact US business interests operating in greater China.

LEVEL OF CONCERN



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