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PAMIR Executive Brief

Taiwan Update

20 February 2023

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Executive Summary

- China welcomed a pro-unification delegation from Taiwan, declaring readiness to increase communication and reject Taiwan President Tsai Ing-wen's latest offer for communication with Beijing.
- China said that Taiwan authorities were paying lip service to resuming personnel exchanges across the Strait and rejected the notion that Taiwan could draw one million mainland visitors this year. China concurrently proposed resuming direct air service across the Strait.
- Seventy-one percent of American Chamber of Commerce in Taiwan members were confident about Taiwan's 2023 economic outlook; 79% are positive for Taiwan's economic outlook for the next three years; and 88% plan to maintain or expand their investments in Taiwan.
- Forty-four percent of Taiwan residents recently polled worry that the US is using Taiwan as a pawn vis-à-vis China. But 56% of those polled would welcome a visit from US House Speaker Kevin McCarthy to Taiwan.

Cross-Strait Relations

China is proactively helping pro-unification parties in Taiwan in the run-up to Taiwan's 2024 presidential election:

29 January

China announced resumption of imports for 63 Taiwan food and liquor products that had been among the more than 100 items it banned last August in retaliation for US Speaker Pelosi's visit to the island. China said its decision to resume imports was in response to appeals from Taiwan opposition party KMT and New Party, a pro-unification faction of the KMT, on behalf of the Taiwan business community.

1 February

China proposed to resume direct air service across the Taiwan Strait in accordance with the Cross-Strait Air Transport Agreement signed with the then ruling KMT government in 2008; the agreement was suspended in February 2020 due to Covid. China proposed 16 Chinese cities as the first direct flight destinations. On 8 February China again urged the Taiwan government to "follow the aspirations of the Taiwan people and business community" and accept the mainland proposal. Before Covid, nearly 10 million passengers traveled across the Strait in the first 11 months of 2019.

On 6 February eight Kinmen County Councilors formed a "Cross-Party Administration Counseling Alliance" and a "Nonpartisan Alliance" that proposed to turn the frontline islands controlled by Taiwan into a Demilitarized Zone.

They also proposed constructing a bridge linking Kinmen (also known by its former name, Quemoy) and the mainland city of Xiamen, as well as creation of a Kinmen-Xiamen Special Economic Zone.

At the height of the conflict between Taiwan and the mainland in the 1960s and 1970s, both sides had fired artillery against each other almost daily—Kinmen is an island less than 2 miles from the mainland coast.

At the time, Taiwan had 120,000 soldiers stationed on Kinmen, but it currently garrisons only around 2,000 soldiers there. The Kinmen politicians said residents on Taiwan's frontline islands have reached consensus that history should not be repeated, and they do not want war. The mainland's Taiwan Affairs Office quickly welcomed the proposal.



KMT Party delegation visits China

A delegation led by Andrew Hsia, Vice Chairman of Taiwan's opposition KMT Party, began a visit to China on 8 February. Chinese top leaders in charge of Taiwan affairs told Hsia that China was ready to increase communication and work with the KMT to “fight against Taiwan independence and promote peace and prosperity across the strait.” The KMT delegation, which will stay in the mainland until 17 February and visit multiple cities, has four goals:

- Meet with Beijing's new leadership on Taiwan affairs.
- Convey Taiwan's concerns about Taiwan Strait security and expectations for peace and stability.
- Seek solutions for Taiwan's farmers, fishermen, and businesses.
- Engage with Taiwan business communities on the mainland.

The Mainland Affairs Council of the Taiwan government commented on the visit saying that Beijing handled the meetings with Hsia in a way that was “harming our sovereign dignity.” It urged Beijing to “abandon coercive thinking towards Taiwan.”

Beijing continues to reject direct dialogue with Taiwan's ruling DPP

2 February

President TSAI Ing-wen told 300 Taiwan business leaders, “We have left the door open for communications [with Beijing].”

She reiterated that her administration was willing to engage Beijing if both sides were “rational, equal and respectful” of each other.

At the start of the KMT visit, the mainland's Taiwan Affairs Office (TAO) rejected Tsai's latest offer and said her words could not be trusted. TAO stated, “Dialogue between the two sides of the Taiwan Strait can resume if the DPP authority accepts the “1992 Consensus” that embodied the One China principle, and with real actions, stop its provocations of Taiwan Independence and stop confronting the mainland in conspiracy with external forces.”

A low-angle, upward-looking photograph of several modern skyscrapers, creating a sense of height and urban density. The image is overlaid with a semi-transparent green filter.

TAIWAN'S 2022 INVESTMENT IN THE MAINLAND WAS \$5.05 BILLION A FALL OF 13.9%

In January the Taiwan government announced a target to attract 6 million tourists in 2023, including 1 million from the mainland. On 8 February China's TAO said Taiwan authorities were paying lip service to resuming personnel exchanges across the Strait, and, consequently, it was impossible to think about one million Chinese tourists visiting Taiwan in 2023.

- In 2019, before Taiwan banned all entries from the mainland, Hong Kong, and Macau due to Covid, Taiwan had a record of 11.86 million overseas tourists, of which those from the mainland made up the largest group (2.71 million).

On 11 February the Taiwan government denied entry to a 38-member memorial delegation from China following the death of an influential Buddhist monk who had advocated for One China. China's TAO denounced the decision, which Taiwan's Mainland Affairs Council (MAC) said was prompted by the mainland not following the mechanism for official visits and attempting to exploit the funeral for political purposes. The KMT said the government's decision showed that the DPP has no sincerity in resuming communications with the mainland.

On 30 January the Taiwan government reported that Taiwan's 2022 investment in the mainland was \$5.05 billion, a drop of 13.9% year-on-year and the lowest in the last three years. In the last four years, Taiwan's annual investment in the mainland never exceeded \$6 billion, which was less than half of its annual investments between 2008 and 2018.

- Taiwan's investment in the mainland still far outstrips its investments elsewhere. Its 2022 investment in the US was \$1 billion and in Singapore \$3.3 billion. Meanwhile, the mainland's 2022 investment in Taiwan was \$39 million, the lowest since 2009 when Taiwan opened to mainland investment. One reason for the decline was Taiwan's restriction on mainland investment for national security reasons.

THE STATE DEPARTMENT HAS NOTIFIED CONGRESS OF OVER \$37 BILLION IN ARMS SALES TO TAIWAN



Security Issues

On 6 February Taiwan media reported that Taiwan national security authorities recently uncovered a Chinese cyber operation to flood derogatory comments on the Facebook accounts of President Tsai Ing-wen and former Premier SU Tseng-chang. The report said 825 Facebook accounts run by Chinese cyber forces posted large numbers of anti-government comments on the Tsai and Su Facebook pages. The Taiwan government said this was part of China's cognitive warfare to brainwash Taiwanese and sow discord between Taiwan and the US.

On 8 February Taiwan's Defense Ministry announced signing an \$85.32 million contract for the US to provide technical support for Taiwan's F-16V fighters; Taiwan had acquired 63 F-16Vs from the Trump administration. The US also is helping Taiwan upgrade more than 140 F-16AB fighters to F-16V before the end of the year.

During a Senate hearing on 9 February, US Deputy Secretary of State Wendy Sherman said that in 2022 the State Department had notified Congress of 13 arms sales to Taiwan, the largest number in the past 20 years.

Since 2010, the State Department has notified Congress of more than \$37 billion in arms sales to Taiwan, \$21 billion of which were in the past three years. She promised, "We will keep assisting Taiwan in maintaining a sufficient self-defense capability."

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“Taiwan approved \$13.3 billion FDI in 2022, highest for the last 15 years and third highest on record. 77.94% of the FDI increase was related to green and offshore wind energy projects.”

Business Climate

On 7 February the American Chamber of Commerce (AmCham) in Taiwan released its Taiwan 2023 Business Climate Survey conducted between 25 November and 16 December. Responding members were overwhelmingly positive about business prospects.

- 71% were confident about Taiwan’s 2023 economic outlook; 79% are positive for Taiwan’s economic outlook for the next three years; and 88% plan to maintain or expand their investments in Taiwan.
- 67% of the respondents reported no “significant disruption” from increased tensions across the Strait in the second half of 2022.
- 47% said they have either revised or plan to revise their business continuity plans “to address the new geopolitical climate.”

On 10 February a major Taiwan television network reported that of the 1,493 people it polled about US Speaker McCarthy’s possible visit to Taiwan, 56% welcome a visit, 23% oppose it, and 20% had no opinion. Younger respondents and those who are pro-DPP viewed a visit more positively. At the same time, some respondents expressed concern about what China calls foreign backing of Taiwan independence sentiments:

- 44% are worried that Taiwan may be used by the US as a pawn in its contention with China; 42% are not worried; and 14% had no opinion.

“CEWC also decided to continue “prudent monetary policy” and “proactive fiscal policy.” This means the government will maintain “reasonable and sufficient liquidity” to keep growth of the money supply on par with the nominal economic growth rate and keep interest rates low and the RMB exchange rate stable.”

Strategic outcomes

Increasing pressure on ruling DPP

Pamir expects China to increase economic and military pressure on Taiwan to set the stage for a return of the pro-China KMT party in 2024. Taiwan businesses lament lost opportunities and will be responsive to China's dangling of incentives over the next year. President Tsai and the DPP will need to weigh the political cost of rejecting Beijing's proposals, which could increase the KMT's leverage, while simultaneously bolstering the DPP's influence and support base in advance of the 2024 election.

LEVEL OF CONCERN



The 'foreign influence' card

Pamir assesses that China will amplify doubts from the Taiwan populace regarding US intentions and commitment to Taiwan's security and will unrelentingly play the "foreign influence" card. If KMT prospects for 2024 grow more promising, Chinese military activity around Taiwan might abate and prompt Taiwan taxpayers to question the need for expensive and potentially provocative weapon upgrades.

LEVEL OF CONCERN



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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