



The Crisis in the Taiwan Strait: Another Slap in the Face for Globalization

By Alicia Garcia Herrero

Nancy Pelosi's visit to Taiwan triggered a new Taiwan Strait crisis. Political and economic consequences will be severe and will deal yet another blow to globalization – which has already hugely suffered in recent years through the US-China trade war, the global pandemic, and, more recently, Russia's war against Ukraine.

It is hard to think of a more disruptive visit than the one made by Nancy Pelosi, Speaker of the US House, to Taiwan on August 3. In just over 24 hours, Nancy managed to raise the ire of the Chinese government that, immediately after Pelosi left Taiwan, blocked about 3,000 products imported from Taiwan and announced military exercises for several days in six areas near the coast of Taiwan.

As if this were not enough, China has announced that it will not continue to cooperate – or even dialogue – with the US in areas that are enormously important globally, such as climate change.

Without detracting from these announcements, which are undoubtedly worrying, it seems necessary to think about what consequences this new crisis in the Strait of Taiwan – 16 years since the last one – may have for the world and especially for Europe, which has been already badly battered by Russia's invasion of Ukraine.

Political consequences: Tensions over Taiwan are here to stay

China has taken another step in its pressure on Taiwan, which is to publish a “white paper” on the reunification of Taiwan. This political document may be even more dangerous than the eleven missiles China has dropped in waters near Taiwan and even in Japanese waters, intentionally or unintentionally.

That white paper – which does not give the status quo as an option but presents a model similar to Hong Kong’s of “a country with two systems” – looks set to become a political instrument with which China can seek support, especially among its allies in the Global South, to force such a proposal while Taiwan will not be able to do anything about it.

Obviously, the big question is what the reaction would be from the US and the rest of its allies, especially those that share waters with Taiwan, such as Japan and South Korea, but also old Europe. It seems unlikely that the US would accept China’s proposal for Taiwan in its white paper and that the best way to show it is for Western parliamentarians and politicians to continue to visit the island.

It seems clear that China is looking for alliances – surely, in some cases, fruitful – to reach the reunification of Taiwan. The disagreement of the West will accelerate the process toward a cold war, certainly different from the previous one but still a cold war. So everything seems to point to tensions over Taiwan being here to stay and will most likely even intensify.

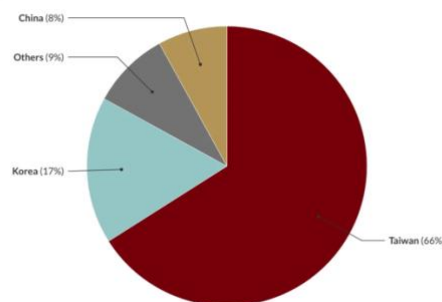
Economic consequences: Decoupling or even strangulation of supply chains

In this context, the economic consequences of a world that is speeding up and cruising towards a cold war can only be the acceleration of the process of commercial and technological decoupling and, more recently, financial decoupling. This cannot be otherwise, as it is a reflection of growing strategic competition between the US and China.

There are two main reasons why current conditions are different from the last Taiwan Strait Crisis in 1996. In fact, although for the Taiwanese, this crisis is much more moderate than that of 1996 in terms of perceived risk, there are two compelling reasons to expect enormous negative consequences for the Taiwanese economy but also that of China and the world.

The first reason is that the Chinese economy has more than doubled in size in the past 16 years and has practically caught up with the US. The second is that Taiwan has become the nerve center of supply chains as it is the largest manufacturer and exporter of microchips in the world, especially for advanced chips.

Share in global revenues from semiconductor foundries
By country, 2022



Source: trendforce.com

BertelsmannStiftung

After the trade war initiated by President Trump and much more so with the pandemic, the world economy has already experienced firsthand that value chains may suffer major bottlenecks from shocks similar to those that Taiwan is experiencing at the moment due to the military exercises that China is carrying out in front of its main ports. These have been resumed in recent days, as another delegation of US senators visited Taiwan.

Given that such exercises tend to make it difficult for commercial vessels to access Taiwan's ports, the key to measuring the economic consequences lies in the duration of these exercises and the extent to which they may result in a "de facto" blockade of Taiwan's ports or even if the situation deteriorates further the airspace.

Shanghai's lockdown offers an example: with more inhabitants than Taiwan as a whole, Shanghai has remained confined for about 100 days recently with dire consequences for the transport of goods from its port, one of the most important in the world.

In other words, the world has already experienced shocks to supply chains of enormous depth since the pandemic began, and the price continues to be paid today with runaway inflation practically globally. The case of Taiwan is especially important because it accumulates much more than half of the world's semiconductor production and practically all of the most advanced ones.

Considering how relevant semiconductors – or microchips – are to the production of a myriad of goods, and especially those that will allow us to move towards the use of green energies and greater digitization, it seems clear that global supply chains would suffer greatly if semiconductors – or their components – could not leave Taiwan in the event that this de facto blockade ends up taking place and literally strangulates supply chains.

The "old" openness of the world economy is gone

This scenario of strangulation of supply chains is especially worrying if we consider that, for smaller and more advanced semiconductors, there is no substitute outside Taiwan. Furthermore, as when it rains, it pours – delays in supply chains and rising transport costs are behind the strong inflationary pressures of the North American and European economies, which has led the Federal Reserve and, more recently, the European Central Bank to have to raise rates much faster than expected.

Therefore, the crisis in the Taiwan Strait only adds fuel to the fire that central banks are trying to keep at bay. Added to this bad news is the pressure to reorganize the supply chains in the face of this new imminent risk.

This new slap in the face to globalization is undoubtedly a key consequence of this crisis, pushed by the winds of cold war. Slap after slap, from the trade war to the pandemic and Russia's invasion of Ukraine and now the Taiwan Strait crisis, it seems hard to think that globalization will survive such a blow.

Obviously, it also makes no sense to think of a complete decoupling where there are no more exchanges between the economic bloc led by the US and the one led by China, but there is a risk – especially at the pinnacle of the value chain – that global supply chains become increasingly restricted and, therefore, difficult to manage.

In that regard, Taiwan may be the straw that breaks the camel’s back of a world that is simply no longer open and that runs many risks associated with old interdependencies, such as the clear case of the West’s commercial dependence on China but also on Taiwan, as a producer of the new oil: semiconductors.

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