The Opportunity Costs of Taiwan: Keeping the Status Quo Inexpensive

David Sneddon
College of Arts and Letters, Political Science and Geography, Old Dominion University
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Dr. Cathy Wu
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Admiral John Aquilino, of the U.S. Indo-Pacific command, is on record warning the House Armed Services Committee that the People's Liberation Army (PLA) of the People's Republic of China (PRC) is planning to be ready to invade Taiwan, also known as the Republic of China (ROC) by the year 2027 (Aquilino, 2024). There is an important semantic distinction to be made here. Does this mean that the PRC is planning an invasion of Taiwan or does the PRC want to project sufficient power where an invasion of Taiwan is a reasonable possibility? This paper will examine whether an invasion of Taiwan by the PRC is likely and under what conditions make an invasion likely, or not.

Blanchette and Hass (2023) maintain that a successful invasion would be "the definition of a pyrrhic victory." They cite the process of rebuilding Taiwan that must certainly follow, a new reality where the PRC becomes a pariah in the region sparking neighbors to take a more adversarial posture, and severe damage to the PRC's export-based economy as it would face "unprecedented diplomatic blowback and sanctions", not to mention the strong possibility of a military response from the United States. Yet, they also warn that while the threat of a PRC invasion remains a remote possibility, the risk is not zero. The likelihood boils down to whether these deterrents make the cost to the PRC greater than the cost of not forcefully integrating Taiwan into the PRC. In short, whether the opportunity costs of invading the PRC are sufficiently high.

Amonson and Egli (2023) disagree with Blanchette and Hass' position that the PRC will not risk the international condemnation that will come with an invasion. They cite the anemic international response to the PRC has received in their dealings with the Uyghurs. This argument rings a bit hollow. The persecution of the Uyghurs is happening within the PRC's borders, and is therefore, by definition, an internal conflict. While the PRC claims sovereignty over Taiwan, de facto, Taiwan is a sovereign nation in its own right. It is unlikely the international community will view an invasion by the PRC on Taiwan as an internal matter.

Industry insiders in in the production of semiconductors such as Miin Wu, CEO of Taiwan based semiconductor firm, Macronix, predicts forcible annexation would cause the global economy to be "set back 20 years." Malcolm Penn, CEO of the British consultant Future Horizons, predicts that war would "bring the world to its knees" (Engel et al., 2023). Taiwan produces 92% of the world's most advanced semiconductors (Varas et al., 2021). While Amonson and Egli's moral apathy argument may have limited merit, economic considerations with an extremely valuable resource such as semiconductors make it difficult to give this argument serious consideration.

To reiterate, nothing in the literature suggests that there is no chance that the PRC will attempt a forcible annexation. The PRC is already escalating tension in the region. This is taking the form of cyberattacks, launching missiles over the island, simulating blockades, and interference ROC military exercises (Blanchette & Hass, 2023). The question remains: Given that the PRC undoubtedly wants to fully integrate the ROC, and make the legal fiction of the One China principle an undisputed reality, and have not ruled out military action to achieve this end, why have they not already done so?

It would be helpful to look at what motivates the PRC and specifically what motivates Xi Jinping to evaluate whether tensions across the Taiwan strait will escalate in the near future and more to the point whether these tensions will escalate into open warfare. We need look no further

than Xi's own written work that has formed the basis of so called "Xi Jinping Thought" which has been elevated to the same level of importance in the CPC constitution as Mao Zedong and Deng Xiaopeng. Examining The Governance of China, Xi spends a great deal of effort discussing the "Chinese Dream." This is put in the context of rejuvenation of China in the aftermath of the Opium Wars and the fall of the Qing Dynasty. This rejuvenation, to Xi, is to be achieved by maintaining the leadership and hegemony of the CPC (Xi, 2015).

Tsang and Cheung (2022) maintain that Xi subscribes to the notion "that performance legitimacy is essential to maintain the CPC's monopoly of power". To quote Xi himself:

> I firmly believe that the goal of bringing about a moderately prosperous society in all respects can be achieved by 2021, when the CPC celebrates its centenary; the goal of building China into a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious can be achieved by 2049, when the PRC marks its centenary; and the dream of the rejuvenation of the Chinese nation will then be realized. (Xi, 2015, p. 67)

I will take it a step further than Tsang and Cheung. To Xi it isn't simply a matter of using economic performance to maintain CPC hegemony, rather the two go hand in hand. The rejuvenation of the Chinese nation and fulfillment of the Chinese dream requires that the CPC remain in power. For Xi, for the CPC to not remain in power and achieve economic parity with western nations with a western style democratic system in the same vein as Japan or South Korea would not be rejuvenation at all. Given that Xi sees the rejuvenation as the return to greatness seen before the Opium wars, and by extension the shift in the region to more western style culture and governance, he likely sees the fall of the CPC and the rise of a western style democracy in China as having lost the "long war" with the west. In essence, the CPC is the bulwark against the struggle for the soul of China against the west. For Xi the goal is the rejuvenation of China, to wit China's victory in what started during the Opium wars.

How does Taiwan fit into all of this? For the PRC and to a lesser but still profound extent the ROC, there is only "One China". The ROC represents the west and draws parallels with South Korea and Japan. To Xi, the PRC is the true "soul" of China. The PRC and the CPC represent what it is to be China. I'd go so far as to suggest that Xi sees the annexation, or from his perspective, the reintegration of Taiwan into the fold would be the liberation of Taiwan from western influence. Xi appears to be motivated on a basic level to reintegrate Taiwan in the same manner that the United States would be motivated to reintegrate California if it declared it was the true government of the United States in exile, allied itself with China, and most of the world held the position that the United States should maintain that status quo.

One can scarcely imagine a scenario where the United States wouldn't unilaterally and militarily reintegrate California. However, the outbreak of a civil war where the most able militaries of the world could reasonably be expected to intervene would have disastrous effects on the American economy. It would not be out of the question that the American system of government would not survive such a war. So too is it with today's PRC. Annexation of Taiwan would have disastrous implications for not only the Chinese economy but the world economy. It is unlikely that the China would have many, if any, strong allies in such a conflict. The survival of the CPC in such a scenario may not even be likely, much less assured.

The goal based on Xi Jinping thought, is rejuvenation of China, which by definition means the continued survival of the CPC. It is unlikely that an outright invasion of Taiwan is a

course of action that the PRC can reasonably undertake. There is too much to lose, with not enough to gain. It would appear that Xi anticipates reintegration in the long-run. In his 2024 New Year's address, Xi maintains that reunification is inevitable (Reuters, 2024).

This is a question of opportunity costs. The costs to the PRC are too great, for now. Even if the PRC were to build a military to rival the United States and could take and hold Taiwan it could not fulfill its goal of economic prosperity, and the CPC could not safely maintain its power. However, if the calculus changes and the PRC has less to lose by taking the island then they are likely to do so. This balance can shift by manipulating either side of the equation. On one hand, making the cost of taking the island lower in the form of reduced interest of western powers in the island economically or militarily could prompt a more provocative PRC. On the other hand, making the cost of not taking the island higher, in the form of a more provocative stance by the west in the region or from Taiwan itself, or an outright departure by the ROC from the One China principle may force the PRC's hand (Blanchette & Hass, 2023).

There is one other fly in the ointment in the form of the Russia-Ukraine war. Blanchette and Hass (2023) warn against drawing parallels between the two in their policy recommendation. They warn against the tendency for American politicians to present the conflict as Authoritarianism vs. Liberalism as this hinders the United States' ability to negotiate and offer assurances to the PRC and maintain the status quo, which again they argue is the best possible scenario. If the United States is not in a moral position to negotiate in good faith with the PRC, then it cannot affect the side of the equation aimed at keeping the cost of not annexing Taiwan low.

There are however other parallels to be drawn with the Russia-Ukraine war that do not contrast Authoritarianism and Liberalism. For now, the costs to the PRC for invading Taiwan are simply a matter of theory. There is a great deal of risk to the PRC with a forcible annexation, however this risk assessment is based on what the PRC thinks is likely to happen should they take such a course. We can observe the response from the international community where one fully sovereign nation invades another fully sovereign nation. Ukraine and Russia are both fully recognized sovereign countries, and they are both fully recognized by the United Nations. Even so, the UN Security Council was unable to come forward with a resolution to the crisis because Russia possesses unilateral veto power on that body. NATO did not invoke Article 5 because Ukraine is not a member of NATO albeit most NATO countries continue to provide military aid. Nevertheless, the support is in the form of matériel, not direct confrontation with Russia. Continued support for Ukraine is far from assured from both the US and the EU due to political disagreements within these countries.

The ROC does not enjoy official recognition by the UN. What's more, they aren't even recognized as a sovereign nation by any western power. There are only thirteen nations that recognize the ROC: Belize, Eswatini, Guatemala, Haiti, Marshall Islands, Palau, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Tuvalu, and Vatican City. (World Population Review 2024) The PRC holds unilateral veto power on the UN Security Council just as Russia does. There is growing empirical evidence based on the response to Russia's invasion of Ukraine precisely how the international community would react to an invasion of Taiwan. It is here where the Amonson and Egli (2023) argument grows teeth.

The side of the equation where the cost of invasion remains high is purely speculative. If the PRC perceives that the cost is high, then it is reasonable to assume that tensions will remain, but the status quo will remain intact. However, with the example that the Russia-Ukraine war provides, more of these risks become known or at least less speculative. Known risks can be

mitigated, and fulfillment of the Chinese dream remains a long run goal of the PRC. It can be interpreted that PRC military buildup and being capable of invading Taiwan by 2027 is not necessarily synonymous with a projected invasion by 2027, rather a preparation for an opportunity that will inevitably present itself from the perspective of Xi.

Costs are relative and currently the costs of a PRC-ROC war are potentially catastrophic for not only the two countries but the world at large. However, if those costs simply impose a short-term crisis on the PRC and the world and the PRC can mitigate its risks as it pertains to escalation of tensions, or even to open warfare, the breakdown of the status quo becomes more likely. The Blanchette and Hass (2023) policy recommendations of maintaining a balance between strong support of Taiwan in defense coupled with de-escalation measures and discouragement of Taiwanese independence seem to be the most reasonable courses of action.

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