

Taiwan Conflict: Situational Updates

ZEROFOX INTELLIGENCE BRIEF

B-2022-08-05a

Classification: TLP:WHITE

Criticality: High

Intelligence Requirements: Geopolitical & Physical, Malware,
Deep Dark Web & Criminal Underground

CI

August 5, 2022

Scope Note

*ZeroFox Intelligence is derived from a variety of sources, including—but not limited to—curated open-source accesses, vetted social media, proprietary data sources, and direct access to threat actors and groups through covert communication channels. Information relied upon to complete any report cannot always be independently verified. As such, ZeroFox applies rigorous analytic standards and tradecraft in accordance with best practices and includes caveat language and source citations to clearly identify the veracity of our Intelligence reporting and substantiate our assessments and recommendations. All sources used in this particular Intelligence product were **identified prior to 12:00 PM (EST) on August 4, 2022**; per cyber hygiene best practices, caution is advised when clicking on any third-party links.*

Taiwan Conflict: Situational Updates

Executive Summary

On August 2, 2022, U.S. Speaker of the House, Nancy Pelosi, visited Taiwan in the most high-profile visit by a U.S. official in 25 years, leading to consequential retaliation by China. China initiated heightened military drills and economic retaliatory responses following the visit, sending 27 warplanes into Taiwan's air defense zone with 22 crossing the median line separating Taiwan from China—which neither side's aircraft normally crosses. In addition, some of China's planned military exercises for August 4-6 took place within Taiwan's 12 nautical-mile sea and air territory, disrupting key energy and tech supply chains.

While China's military actions certainly indicate an escalation in cross-strait tensions, it is likely that China will make more use of indirect economic, cyber, and political pressures to express its displeasure at the House Speaker's visit rather than immediately escalate to direct military conflict, which all sides have incentive to avoid. Therefore, expect more indirect pressure on Taiwan and the United States through continued sanctions, cyberattacks, and live-fire drills in the immediate future without sparking an active reunification military campaign.

Key Findings

- China views Taiwan as a region that will “inevitably” be reunified with the mainland, and President Xi Jinping aims to do it under his rule.
- China will continue its bellicose response over Taiwan, but the aim of reunification is likely a decade away.
- The current economy and political and security dynamics make a major military escalation unlikely.
- For China to countenance a military invasion of Taiwan, it would need further military advancements, economic and technology upgrades that will take years, and a robust enough economy to handle the subsequent issues that would arrive from such an aggressive move.

- A possible military escalation threatens the supply of semiconductor chips.

Geopolitical/Military/Physical Security Impacts

History

Taiwan's government—officially the Republic of China (ROC)—took power in Taiwan in 1949 after fleeing the mainland at the end of the active period of the second Chinese Civil War, which saw the Chinese Communist Party (CCP) win control of mainland China. In the decades following the split, the CCP and ROC have technically still been at war, but both sides have ceased “hot” warfare, with each ruling its respective territory as an autonomous government on either side of the Taiwan Strait and engaging in on-and-off diplomatic relations.

As part of the politics of maintaining the ROC's presence in Taiwan and preventing the CCP from taking over the island, Taiwan utilized U.S. antagonism to communism throughout the Cold War to craft both an official and unofficial alliance to the benefit of both the United States and Taiwan. Both unofficial and official agreements created during this period, like the Taiwan Relations Act (TRA), also link the United States and Taiwan in a tangible way (much to China's displeasure) and contain notable clauses, including one from the TRA that states the United States will provide Taiwan the means to “enable [it] to maintain a sufficient self-defense capabilit[y].”¹ While in the modern era, Taiwan does not utilize the same rhetoric as the ROC did throughout the Cold War, the relations forged from the 1950s through the 1980s have resulted in U.S.-Taiwan ties that are relatively close to this day and are still utilized by Taiwanese leaders and politicians as part of the calculus in maintaining the delicate relationship with China.

The alliance has also resulted in Taiwan becoming a symbol and factor in any power struggle between the United States and China. As Taiwan has governed itself separately for over half a century, it has developed its own national identity. This has heightened tensions across the strait, as Taiwan's government has reflected that shift in identity, while China views such the shift as “separatist” and unacceptable.

Military

While China's rhetoric with regard to Taiwan, particularly with intense military drills nearby, suggests a military campaign is still on the table, the geopolitical, social, and military costs of an active military reunification campaign strongly disincentivize such a move. Beyond the rhetoric, China's military and economic actions following Speaker Pelosi's August 2 visit, while notable, are primarily heightened versions of pressures China is already exerting on Taiwan and could arguably be deemed “saber-rattling.” Despite this, it is still clear that the August 4-6 drills following Speaker Pelosi's visit,

¹ [hXXps://www.congress\[.\]gov/bill/96th-congress/house-bill/2479](https://www.congress.gov/bills/96/house-bills/2479)

which effectively simulate a blockade around Taiwan, are a step above prior norms of hostilities—just not to the level that indicates an imminent military conflict.



Source: [hXXps://twitter\[.\]com/duandang/status/1554502805582295040](https://twitter.com/duandang/status/1554502805582295040)

China has long portrayed Taiwan as a region that should welcome reunification, with its internal rhetoric focusing on portraying Taiwan as a “lost child” in need of China’s paternalistic guidance. China has deemed anti-reunification/self-identifying sentiment as attempts by “separatist elements” to poison the relationship between China and Taiwan, as opposed to being a result of the two societies being separated for decades. Such portrayals of Taiwan make active military reunification more of a last resort, as it would run contrary to the messaging of the CCP and, in some ways, legitimize how extensively Taiwan’s identity has separated from China’s. The attempted “peaceful reunification” of Hong Kong following its handover in 1997—which shifted into a more aggressive crackdown following the 2014 Umbrella Movement protest rallies calling for a more democratic system—has failed to persuade the Hong Kong population to welcome CCP rule and does little to assuage Taiwanese fears of CCP crackdowns should reunification occur. The chances of peaceful reunification are slim but are less likely to be met with immediate violent aggression by the Taiwanese. An active military campaign, on the other hand, would certainly result in immediate violent dissent from Taiwan and an outcry from the global community.

Beyond the ways in which an active military campaign would appear to be walking back CCP’s assertions about Taiwan, the official and unofficial agreements between the United States and Taiwan create enough ambiguity to permit U.S. military involvement in a China-Taiwan conflict, particularly if relations between the United States and

China are tense enough for Congress to consider coming to Taiwan's aid. Furthermore, the United States has increased its arms sales to Taiwan in recent years, improving Taiwan's military capabilities. This indicates, at a minimum, U.S. interest in Taiwan's self-governance. Combined with tense U.S.-China relations under the Trump and Biden administrations, there is enough risk of direct U.S. involvement in a China-Taiwan conflict—and therefore war between two significant and entwined economic powers—to disincentivize such a conflict. Further, China's military has had little-to-no modern combat experience. Even with China's rapidly-modernizing military force, the lack of experience in comparison to the United States is significant enough to give pause to the idea of an easy victory.²

Issues with Military Operation Logistics

Even if China attempts a military assault on Taiwan, logistics and geography mean any military operation would likely be an amphibious assault and fairly difficult. Taiwan's topography lends itself to more defensible positioning for Taiwan's military, despite its aged weapons arsenal and recent updates to its military capabilities. Previous plans by other militaries for taking Taiwan have calculated a number of ground forces.^{3 4} This would be difficult for China to support in a theoretical amphibious invasion, which is already known to be extremely complex. As previously mentioned, China's military has had less modern combat experience, meaning that any assault on Taiwan would be a major test of unknown territory.^{5 6}

Global Response

Should China wish to risk U.S. military involvement and attempt a tactically-difficult military offensive, the intensity and breadth of the current global response to Russia's Ukraine invasion may be a bellwether for what China would experience if it carried out such an operation. Consequences for China might include significant economic sanctions that could cripple the economy and intense condemnation impacting its political status and reputation. Resistance from those within Taiwan to an offensive may result in a drawn-out conflict that makes China look poorly to both Taiwan and Chinese nationals—particularly as China has insisted that those opposing reunification in Taiwan are merely “separatist elements” and that reunification is the inevitable end result. Furthermore, following such an aggressive reunification, it will be significantly more difficult to quell any discontent or resistance within Taiwan to Chinese rule, especially considering that China has already had high levels of difficulty in its “peaceful” reunification in Hong Kong.

² [hXXps://thediplomat\[.\]com/2021/04/chinas-military-has-a-hidden-weakness/](https://thediplomat.com/2021/04/chinas-military-has-a-hidden-weakness/)

³ [hXXps://grahamthomasauthor.wordpress\[.\]com/2020/06/20/operation-causeway/](https://grahamthomasauthor.wordpress.com/2020/06/20/operation-causeway/)

⁴

[hXXps://www.atlanticcouncil\[.\]org/content-series/reality-check/reality-check-10-china-will-not-inva-de-taiwan/](https://www.atlanticcouncil.org/content-series/reality-check/reality-check-10-china-will-not-inva-de-taiwan/)

⁵ [hXXps://www.neweurope\[.\]eu/article/why-china-cannot-invade-taiwan/](https://www.neweurope[.]eu/article/why-china-cannot-invade-taiwan/)

⁶

[hXXps://www.aljazeera\[.\]com/news/2021/12/13/a-full-chinese-invasion-of-taiwan-will-be-hard-says-ministry](https://www.aljazeera[.]com/news/2021/12/13/a-full-chinese-invasion-of-taiwan-will-be-hard-says-ministry)

Domestic Politics

At some point in the second half of 2022, Chinese President Xi Jinping is expected to be confirmed for a third term during the 20th National Congress; his primary concern is domestic politics due to China's current economy. Under a third term, President Xi can remain in power for life, allowing him to secure his legacy and pursue his long-term objectives. President Xi's ambitions for his third term likely include Taiwan reunification, necessitating China to develop enough economically and militarily that restraint on the international stage is no longer required. Therefore, President Xi is likely to focus on support for China's currently-struggling economy, which is showing rare signs of strain.⁷ Chinese economic growth is the lowest it has been in decades, and there has been rare domestic dissent over the collapse of the real estate sector and China's zero-COVID-19 policies' impact on the economy.⁸ The state of the economy likely explains China's response to Speaker Pelosi's visit, which—while certainly indicating an escalation in cross-strait and U.S.-China tensions—stops short of any military action that would directly spark a conflict. This indicates that China, while escalating hostilities across the strait, is unwilling to initiate explicit conflict that may have economic impacts and pose a threat to the continuity of President Xi's leadership.

However, Xi does need to balance looking weak on the international stage with his political ambitions and China's consistent insistence on Taiwan as its most important issue of national sovereignty. This could see a greater response to geopolitical disputes if indignities continue—or more likely, cyber threats utilized in place of overtly political, military, or economic moves from China.

Cyber Impacts

The risk of cyberattacks from China's government on Taiwan—or by hacktivists supporting China's position on Taiwan—is significantly higher following Speaker Pelosi's visit, with some cyberattacks reported the day of the visit. For example, three official Taiwanese government websites experienced distributed denial-of-service (DDoS) attacks on August 2, hours before Speaker Pelosi landed in Taiwan, that temporarily shut down websites for anywhere between 20 minutes to a few hours. Further, multiple 7-Eleven stores in Taiwan reported that their television monitors were hacked to display messages calling Nancy Pelosi a “warmonger” and for her to leave Taiwan immediately.⁹ China has historically been suspected of either initiating or permitting cyberattacks against Taiwanese websites, particularly of the governing Democratic Progressive Party, to indicate its displeasure with Taiwan or as a reminder

⁷ [hXXps://www.bbc\[.\]com/news/business-62343087](https://www.bbc.com/news/business-62343087)

⁸

[hXXps://www.bloomberg\[.\]com/news/features/2022-08-03/china-real-estate-market-crisis-protests-may-spur-multi-billion-dollar-rescue](https://www.bloomberg.com/news/features/2022-08-03/china-real-estate-market-crisis-protests-may-spur-multi-billion-dollar-rescue)

⁹

[hXXps://www.businessinsider\[.\]com/taiwan-nancy-pelosi-7-11-hack-get-out-messages-cyber-attack-2022-8](https://www.businessinsider.com/taiwan-nancy-pelosi-7-11-hack-get-out-messages-cyber-attack-2022-8)

of Chinese capabilities during crucial events such as elections and crises. It is much more likely that China-origin cyberattacks will increase against Taiwan in the aftermath of the Pelosi visit, as such attacks are much less likely to spark active conflict and instead create an atmosphere of hostility while displaying China's cyber capabilities.

Supply Chain and Economic Impacts

Trade between mainland China and Taiwan increased 26 percent in 2021 to USD 328.3 billion led by semiconductor chips, which rose 24.4 percent to USD 104.3 billion. In the immediate aftermath of Speaker Pelosi's visit, China announced blocks on imports of over 2,000 food items from Taiwan out of about 3,200, led by restrictions on citrus and fish. Banning frozen fish and citrus is a move to hurt suppliers, who tend to politically support Taiwanese President Tsai Ing-wen—a strong advocate for Taiwanese independence; China has other suppliers of those goods it can use for a short time.¹⁰ China also banned the import of sand used in construction. The trade restrictions are minimal. Taiwan's total agricultural exports amount to 0.6 percent of all its exports, and sand exports to China are less than USD one million annually.

China also conducted military exercises that blocked key shipping lanes from other major technology producers, including Japan and South Korea. This impacts energy deliveries to countries across the region, most of whom import all their energy supplies. Most of Taiwan's energy imports arrive on its western border, the side closer to mainland China, and half the world's container ships delivering tech products pass through the narrow Taiwan Strait, making it one of the busiest global shipping corridors.¹¹ Taiwan itself accounts for 5 percent of global coal imports, 5 percent of global liquified natural gas (LNG) imports, 2 percent of global crude oil imports, and 2 percent of global clean oil products. These delays will cause an impact on energy prices and operations in Taiwan.¹²

The current war games are due to run through August 7, which will make sea delivery to and from the region difficult. The war games are adding three days to some shipping lines, which is why companies insist on passing through the narrow Taiwan Strait. Future disruptions to global shipping in the region are almost inevitable in light of the Taiwan Strait's proximity to China's military exercises, which could become more common. China can drift into Taiwanese waters to conduct these drills with little probability of military retaliation but a high likelihood of a miscalculation leading to a dangerous accident. Ahead of Speaker Pelosi's visit, China conducted its drills closer to

¹⁰

[hXXps://www.naharnet\[.\]com/stories/en/291597-china-blocks-some-taiwan-imports-but-avoids-chip-disruption](https://www.naharnet.com/stories/en/291597-china-blocks-some-taiwan-imports-but-avoids-chip-disruption)

¹¹

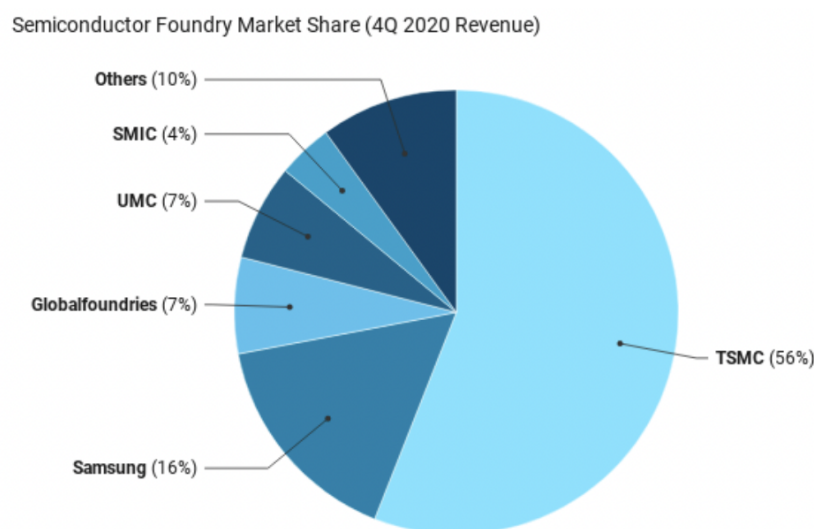
[hXXps://www.rf\[.\]lfr/en/business-and-tech/20220804-china-s-taiwan-war-games-threaten-more-global-supply-chain-disruption](https://www.rf[.]lfr/en/business-and-tech/20220804-china-s-taiwan-war-games-threaten-more-global-supply-chain-disruption)

¹² [hXXps://ajot\[.\]com/news/china-hits-taiwan-with-trade-curbs-amid-tensions-over-pelosi](https://ajot[.]com/news/china-hits-taiwan-with-trade-curbs-amid-tensions-over-pelosi)

the Taiwanese coast than it ever has before, and plans for live-fire drills around Taiwan appear to effectively surround the island. This does present the risk of an accidental collision with other ships, which could lead to supply chain disruptions or an escalation in geopolitical tensions. The delivery delays operate as an effective tariff on Asian imports, and long-term shipping delays will increase costs.

Semiconductors

China notably did not target semiconductor trade with Taiwan. Semiconductors are the brains behind most machinery and technology, and they are arguably the most important global commodity, ahead of oil. Geopolitical disputes over oil supplies are common, and there is no country that controls the oil trade in the way that Taiwan controls the semiconductor trade. Taiwan produces half the world's semiconductor chips, including the most advanced ones that go into smartphones and computers. Taiwan Semiconductor (TSMC) is a monopoly manufacturer for advanced semiconductor production, producing 92 percent of the global supply compared to rivals like Samsung and Intel, who produce just 8 percent combined.¹³ Other leading chips producers are South Korea, Japan, and China, which produce the less sophisticated chips that go into technology like cars and appliances.



Source: [hXXps://tellimer\[.\]com/article/taiwan-tsmc-spikes-after-intel-failure-now-51](https://tellimer.com/article/taiwan-tsmc-spikes-after-intel-failure-now-51)

TMSC's location is several miles from China, the world's second-largest economy with clear intentions of reunification (perhaps military), and its primary geopolitical ally, the United States, is located thousands of miles away, making it vulnerable. Taiwan is also prone to droughts and earthquakes. A 1999 earthquake in Taiwan shut down the U.S.

13

[hXXps://www.ineteconomics\[.\]org/perspectives/podcasts/a-society-designed-to-incentivize-criminal-behavior-at-the-highest-level](https://www.ineteconomics.org/perspectives/podcasts/a-society-designed-to-incentivize-criminal-behavior-at-the-highest-level)

Dell and Hewlett-Packard factories, which stopped selling computers.¹⁴ The industry has become more consolidated since. COVID-19 caused shipping and production disruptions in Taiwan, which led to major price spikes in used cars and technology. Were China to launch a military strike on Taiwan, it would badly expose global dependencies on TSMC chip production. Mark Liu, the Chairman of Foundry at TSMC, said even a limited military operation against Taiwan would shut down production—causing factories to close and immediate spikes in countless products ranging from consumer electronics to machinery.¹⁵

China is equally vulnerable to the lack of semiconductor supply chains. Advanced semiconductor chips are mainland China's biggest import at more than USD 400 billion a year—more than oil. China did not impose trade restrictions on semiconductors in the aftermath of Speaker Pelosi's visit because it has few alternative suppliers, as do most parts of the world. Alongside the difficult military environment, protecting itself from a chips shortage likely factors into China's reluctance to launch a military escalation in Taiwan at this time. China is unlikely to impact chip production until its own technology has advanced enough to no longer need supplies from abroad.

The United States and Europe were initially the dominant semiconductor chip producers in the 1990s but now play a minor role in production after outsourcing production to Asia. Since COVID-19, the United States and Europe began belatedly investing significantly into domestic semiconductor chip manufacturing. As part of the terms of U.S. investment, the United States is limiting the ability of companies they invest in to trade advanced technology with China. For example, the 2022 U.S. Chips Act, which is a USD 52 billion investment in domestic chip production, prohibits South Korea's Samsung and SK Hynix from shipping new technology tools to factories they operate in China, preventing them from upgrading plants.¹⁶ Both companies have invested heavily in China to produce chips that go into Apple, Amazon, Google, and Facebook products. These companies will now be investing in places like Austin, Texas. This serves two purposes: it delays China's ability to advance its own technology, which is partly keeping them from greater retaliation against Taiwan, and it allows the United States and Europe to reduce their own dependencies on Taiwanese production.

¹⁴ [hXXps://mattstoller.substack\[.\]com/p/counterfeit-capitalism-why-a-monopolized](https://mattstoller.substack.com/p/counterfeit-capitalism-why-a-monopolized)

¹⁵

[hXXps://gadgets360\[.\]com/laptops/news/tsmc-china-invasion-warning-chip-manufacturing-nancy-pelosi-visit-taiwan-3213796](https://gadgets360.com/laptops/news/tsmc-china-invasion-warning-chip-manufacturing-nancy-pelosi-visit-taiwan-3213796)

¹⁶

[hXXps://www.reuters\[.\]com/technology/us-eyes-new-china-chip-curbs-turmoil-looms-global-market-2022-08-03/](https://www.reuters.com/technology/us-eyes-new-china-chip-curbs-turmoil-looms-global-market-2022-08-03/)

Appendix: Traffic Light Protocol for Information Dissemination

Red

WHEN SHOULD IT BE USED?

Sources may use TLP:

RED when information cannot be effectively acted upon by additional parties and could lead to impacts on a party's privacy, reputation, or operations if misused.

HOW MAY IT BE SHARED?

Recipients may NOT share TLP:

RED with any parties outside of the specific exchange, meeting, or conversation in which it is originally disclosed.

Amber

Sources may use TLP:

AMBER when information requires support to be effectively acted upon but carries risks to privacy, reputation, or operations if shared outside of the organizations involved.

Recipients may ONLY share TLP:

AMBER information with members of their own organization and only as widely as necessary to act on that information.

Green

WHEN SHOULD IT BE USED?

Sources may use TLP:

GREEN when information is useful for the awareness of all participating organizations, as well as with peers within the broader community or sector.

HOW MAY IT BE SHARED?

Recipients may share TLP:

GREEN information with peers & partner organizations within their sector or community but not via publicly accessible channels.

White

Sources may use TLP:

WHITE when information carries minimal or no risk of misuse in accordance with applicable rules and procedures for public release.

Recipients may share TLP:

WHITE information without restriction, subject to copy-right controls.