

# Geopolitics, Taiwan and regional implications

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January 2024



## Objective

- Capturing and assessing the degree of macro uncertainties, at country-level, which are related, or can be triggered by geopolitical developments, chronic or crisis-like.

## Key concepts

- Long-term articulation of *International Integration Processes* (IIP), with sequential phasing and their specific characteristics for geopolitical developments
- Critical *Locks & Knots* (L&K) at a given moment of IIP sequence

## Tools for risk assessment

- Global scenarios based on IIP and specific / tailor-made modeling (augmented gravity models, transmission models...)
- Stress-scenario construction on plausible geopolitical developments characterizing current IIP / L&K and their macro consequences, with link to implied strategies, associated with Early Warning Signals / Seismographs
- Ex Ante quantification for risk-rating construction, based individual risk indicators (country by country) representing the key elements of current IIP / L&K (Russian-doll thematic construction, statistical normalization, risk-factors dependent on location)

- **There is no doubt that the geopolitical environment is becoming highly complex with direct implications for corporate activity worldwide**  
with indeed 2024 seeing a record number of elections across the globe, at a time of growing domestic disillusion on political functioning and obvious geopolitical crises (Ukraine/Russia, Israel/Palestine).
- **Industrial, service and financial companies, wherever they operate, need to be informed, prepared and equipped**  
for managing the uncertainty as well as risk materialization related to the changing geopolitical landscape.
- **Since 1991, TAC ECONOMICS has supported its clients on strategy-design explicitly incorporating political and international-relation factors,**  
with a robust conceptual approach supported by the construction of quantitative tools and long-term scenarios.
- **We are currently working on different key issues directly related to geopolitics for clients, e.g.:**
  - ✓ Heightened tensions in the Taiwan Strait and implications in Asia
  - ✓ Construction of a quantitative geopolitical risk rating for 100+ countries
  - ✓ Construction of long-term fragmentation scenarios

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# Illustration: Geopolitics, Taiwan and regional implications



## 1. Readings of the global geopolitical changes and implication for questions on Taiwan

- *US-China tensions are here to stay for at least a decade and probably a couple of decades in a context of open strategic competition*
- *Among plausible scenarios, the central assumption is one of a long period of repeated intimidation and pressures though not derailing into military conflict where China and the US would directly confront each other.*

## 2. Geopolitics and interdependence: China, Taiwan and the other Asian countries

- *The Key channels of transmission from higher tensions in the Taiwan Strait include confidence, trade and supply chains, with global impact likely to be as significant as regional / local effects.*
- *Impact on trade, and particularly in electronics / IT is the most substantial transmission mechanism.*
- *Ex ante resilience and ability to cope, measured with our country-risk tools, remains critical for assessing actual economic and financial impact.*
- *Most Asian countries would be affected, but with substantial variation in-between a very strong economic impact for South Korea and Vietnam, less so but still large for Japan, Malaysia and the Philippines, and much less so for Indonesia and Thailand.*

# Conceptual framework for geopolitical changes and implications for Taiwan

## Reminder of geography: overlap of maritime sovereignty and aerial space

### Territorial / contested Chinese claims in South China Sea



China's Line of 9 Dots

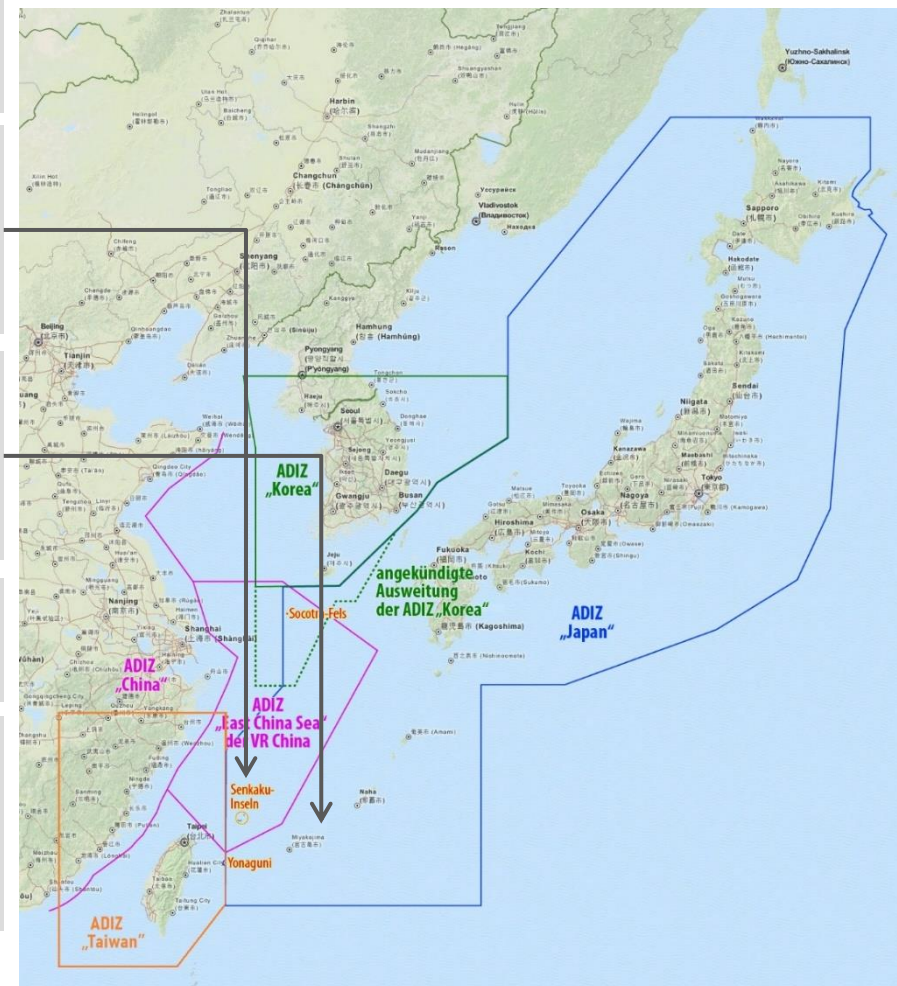
China – Japan Territorial dispute over Senkaku / Diaoyu Islands

String of islands / straits under Japan's control inhibiting China's access to deep waters

Claims by China, Taiwan and Vietnam

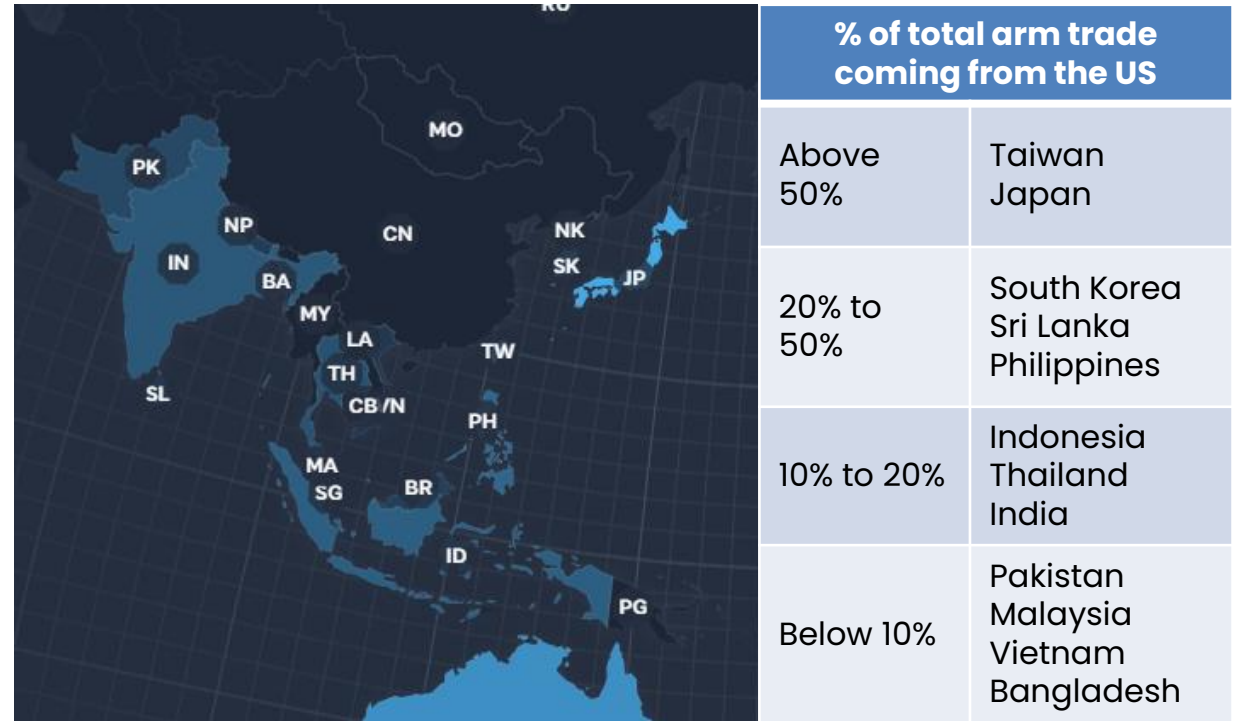
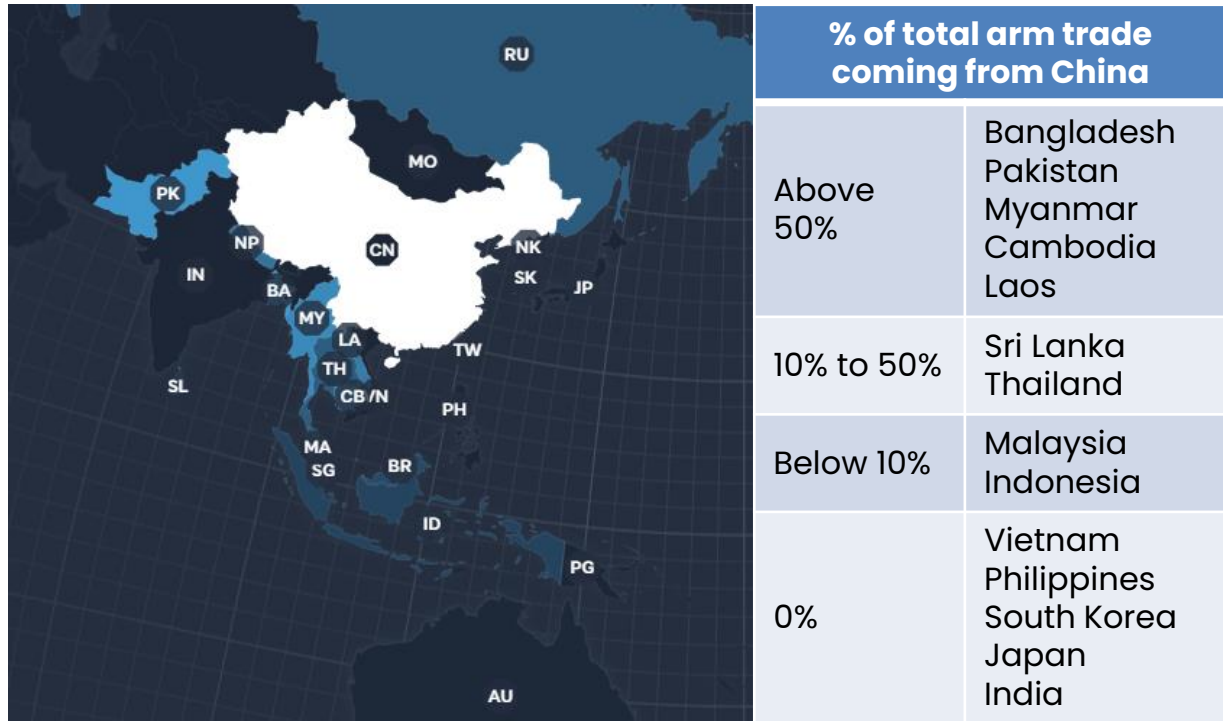
Claims by China, Taiwan, Malaysia, Philippines and Vietnam

### Overlap of national / controlled airspaces



# Conceptual framework for geopolitical changes and implications for Taiwan

## Influence of China and US: a glance at dependence for military equipment



Source: Lowry Institute

**Matrix of trade in Asia (total exports + imports), 2022**

% of aggregate total trade

	China	Taiwan	Japan	S.Korea	Vietnam	India	Indonesia	Philippines	Thailand	Malaysia
China		6%	6%	6%	4%	3%	2%	2%	2%	3%
Taiwan	34%		9%	5%	2%	1%	1%	1%	1%	3%
Japan	22%	6%		5%	3%	1%	3%	1%	4%	3%
S. Korea	24%	4%	6%		6%	2%	2%	1%	1%	2%
Vietnam	26%	4%	7%	12%		2%	2%	1%	3%	2%
India	14%	1%	2%	2%	1%		3%	0%	1%	2%
Indonesia	24%	2%	8%	5%	3%	7%		2%	4%	5%
Philippines	24%	4%	11%	7%	3%	1%	7%		5%	4%
Thailand	20%	3%	10%	3%	4%	3%	3%	2%		5%
Malaysia	21%	6%	6%	4%	3%	3%	5%	1%	4%	



**Focus on products at 6-digit level of classification (4547 products)**

	Japan	South Korea	Vietnam
Number of products for which China and / or Taiwan supply more than 20% of total import of the product (% of total number of 6-digit products)	58	58	70
% of total imports accounted for by the 15 largest imports (6-digit level) for which China and / or Taiwan have more than 20% market share	3.9	4.7	9.0

Source: TAC ECONOMICS, UNCTAD

# Any questions?

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