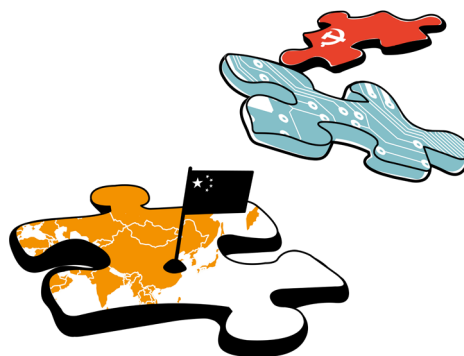


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MERICS China Essentials



CONTENTS

TOP STORY	2
China to hold regular combat exercises in the Taiwan Strait and “take all necessary measures against separatists”	2
MATRIX	3
TOPICS	4
China nudges up the economic pressure, but seems wary of hurting itself	4
In international relations, China will shift its red lines regarding Taiwan.....	5
Chinese cyberattacks on Taiwan - numerous, but deliberately unfocused.....	6
REVIEW	7
Disaggregating China Inc.: State strategies in the liberal economic order, by Yeling Tan (Cornell University Press, 2021).....	7
MERICS CHINA DIGEST	8



MERICS

Mercator Institute for China Studies

TOP STORY

China to hold regular combat exercises in the Taiwan Strait and “take all necessary measures against separatists”

China is framing the Taiwan visit of Nancy Pelosi, Speaker of the US House of Representatives, as part of a big shift in US policy towards open support for Taiwanese independence and away from its traditional “strategic ambiguity” of deterring China from invading Taiwan and Taipei from declaring nationhood. Deemed a security threat, this perceived repositioning is allowing Beijing to show greater resolve in and further justification for its “historic mission” of re-unifying with Taiwan. China has also suspended cooperation with the US in eight areas, including climate, military and transnational crime.

The People’s Liberation Army (PLA) Eastern Theater Command said on its Weibo account that regular exercises will be conducted in the Taiwan Strait to step up combat readiness, after completing the recent mission. This is further indication of Beijing’s ongoing intention to build up its military presence in the region. In a white paper released Wednesday, Beijing said it will not renounce the use of force and will take all necessary measures to guard against all “separatist activities”.

Since Pelosi landed in Taipei last week, the PLA has turned up the heat on Taiwan by launching dozens of flyovers with fighters and drones and sea crossings by warships. 20 Chinese and Taiwanese naval vessels were reportedly locked in a standoff in the Taiwan Strait. A Taiwanese activist, Yang Chih-yuan, was also arrested by state security officers in China, who alleged that he engaged in “separatist” activities by starting a pro-Taiwanese independence party.

Orchestrated to exhibit military capability and intimidate the Taiwanese, China’s display of force is routine at this time of year and took place in broad daylight. There was no element of surprise. Beijing had also given ample warning so that commercial ships and aircraft could plan diversions. Nevertheless, the drills, the economic coercion and other threats are part of a maximum-pressure campaign to force Taiwan into submission.

Taiwan is no stranger to such threats, sanctions and incursions from China. Defiant but careful not to further escalate tensions, Taipei has put its defense forces on high alert and deployed ships and planes to monitor – and in some cases even shadow – Chinese vessels simulating attacks close to Taiwanese territory. The military also carried out its own live artillery drills this week.

Taiwanese lawmakers from across the political spectrum have condemned Beijing’s actions, while calling for calm and dialogue. The chairman of the pro-China Kuomintang Party, Eric Chu, publicly supported Pelosi’s visit and decried China’s military aggression – even if some party colleagues expressed very different views on the matter. The escalation in tension is happening at a politically important period in Taiwan. Local elections take place in November and campaigning for the 2024 presidential race starts next year.

Inevitably, the Taiwanese are also anxious. Island-wide air-raid exercises have resumed after being suspended during the Covid-19 pandemic. Taipei has also created an app for residents to find the nearest air-raid shelter in the capital. Demand for first-aid and self-

defense courses has risen, and more resources have been committed to bolstering combat forces. The government is drafting a proposal to extend mandatory military service for men.

President Tsai Ing-wen also warned of psychological tactics through disinformation campaigns on social and traditional media. This came after false reports that Pelosi had been paid millions by Tsai's administration to visit Taiwan and rumors swirled online that China was evacuating its citizens from Taiwan.

Even though Pelosi's visit was considered "not a good idea" by the US military, it has shed more light on China's strategy in the Taiwan Strait. Its latest military exercises appeared to simulate a ringfence of the island, which could cut off Taiwan's access to support during a conflict.

But China's actions are not going to be a one-off knee-jerk retaliation to the perceived Pelosi provocation. The PLA has long been training and preparing to defend what it sees as the country's rightful territory. With Xi Jinping vying for a third term as chief of the party state at the 20th Communist Party Congress this fall, a full-on war would be too big a risk for the CCP right now. Confronted by multiple challenges at home, Beijing also cannot afford to let cross-strait tension spiral out of control.

"Cross-strait tension is unlikely to ease off in the near future, not least because China's long-term trajectory in Taiwan is re-unification." says Analyst **Valarie Tan**. "While Beijing looks set to normalize such military exercises in the Taiwan Strait, they are not without risks and disruptions. A miscalculation also means that China will have to bear some, if not most of the consequences in the event of a major crisis in the Taiwan Strait."

Media coverage and sources:

- NYT: [As Pelosi arrives, quiet defiance in Taiwan](#)
- The Guardian: ['Hoopla and yellow journalism': Taiwanese Americans bemoan media fearmongering over Pelosi visit](#)
- CSIS: [Toward a fourth Taiwan Strait crisis?](#)

METRIX

12

China's military escalation in the Taiwan Strait has focused attention on boundaries in the area. The most well-known is Taiwan's Aerial Defense Identification Zone, which stretches far beyond the island. But at the moment, perhaps the most important markers are the median line that divides the 180-km broad Taiwan Strait and the 12-nautical-mile line off Taiwan's shores that delineates its territorial airspace. Chinese crossings of Taiwan's de facto maritime border are rare and international law means incursions into Taiwanese airspace could trigger direct military conflict. During China's recent military exercises,

several warships crossed the median line, but apparently no military aircraft penetrated Taiwan's airspace in any serious way. Following Pelosi's visit, the People's Liberation Army had published maps showing that some live-fire drills would stray into Taiwan's airspace, if only by a margin. (Sources: [CNN](#), [Reuters](#), [Focus Taiwan](#))

TOPICS

China nudges up the economic pressure, but seems wary of hurting itself

Flanking disruptions caused by China's military exercises in the region, Beijing imposed new restrictions on trade across the Taiwan Strait in response to the Taiwan visit of US House Speaker Nancy Pelosi. China's customs authorities are now blocking the import of shipments involving 2,000 of Taiwan's 3,200 categories of agricultural exports. This amounts to only a tiny fraction of 2021 bilateral trade of USD 328 billion, but appears to single out Taiwan's rural areas that have been strong supporters of President Tsai Ing-wen's Democratic Progressive Party.

At the same time, Beijing is blocking exports of sand to Taiwan, which will likely have a sharper short-term impact than the import bans. Taiwan sources around 90 percent of sand imports from China, so Beijing's decision will hit Taiwan's construction sector hard. On top of that, the military exercises by China's armed forces hit trade flows. Some cargo ships rerouted to go around Taiwan rather than through the straits, while some cargo ships entering and exiting Taiwanese ports faced disruption from China's live-fire drills near so-called Taiwanese vessel-traffic service zones.

These measures represent a small escalation on the economic front compared to those of the past, even though these were generally limited to one or two specific products or restrictions on Chinese group-tourism to Taiwan. But it is not a sea-change in bilateral economic ties. Beijing has not, and likely will not, touched advanced-technology areas in which China is heavily reliant on Taiwan. Imports of industrial equipment and machinery, especially semiconductors and integrated chips, are critical for China's development. So, any economic coercion in these areas would be an own-goal for Beijing.

The same would be true if the Chinese military's live-fire exercises became more common or some sort of blockade in the Taiwan Strait were imposed. China is reliant on Taiwanese technology. That means any disruption of Taiwan's overall trade would inevitably hurt China's economic development.

MERICs analysis: "Beijing hasn't seriously deviated from its well-worn economic coercion playbook in its retaliation to Speaker Pelosi's visit," says **Jacob Gunter**, Senior Analyst at MERICs. "For now, it's just turned up the same old dials as usual – limited to restrictions on non-strategic trade goods – and otherwise briefly delayed some cargo ships. If the day comes that Beijing is willing to take drastic economic action against Taiwan, would well be indicative of a PRC willing to 'pay the iron price' for the democratic island of 23 million citizens."

Media coverage and sources:

- FT: [China suspends 2,000 food products from Taiwan as Nancy Pelosi visits](#)

- SCMP: [China ramps up trade sanctions on Taiwan in wake of Nancy Pelosi's visit, bans sand exports, fruit and fish imports](#)
- Reuters: [China's military drills near Taiwan disrupt key shipping lanes](#)

In international relations, China will shift its red lines regarding Taiwan

Five ballistic missiles fired by the Chinese military in response to Nancy Pelosi's Taiwan visit landed in the waters of Japan's Exclusive Economic Zone in Okinawa prefecture, which extends for about 370 kilometers from the coastline, much beyond the 22 km of territorial waters. This prompted Prime Minister Fumio Kishida to describe China's military exercise a serious threat to Japan's national security. China's military expansion has long been a concern for Japan, and the missiles were a clear message from Beijing to Tokyo not to meddle in Taiwan affairs.

This form of aggression is a first in China-Japan relations and one more reason feeding concerns about China amongst regional actors. South Korea, which was the next stop on Pelosi's Asia trip after Taiwan, was careful to keep some distance to the US House Speaker, as President Yoon Suk-yeol opted for a phone call with Pelosi instead of a meeting her in person. Yoon's government appears intent on smoothing the waves, concerned about the effects Pelosi's visit and China's military exercises and potential blockade might have on trade with Taiwan and its semiconductor industry.

Fear of escalation in the Taiwan Strait has affected longstanding diplomatic practices. As Beijing changes the parameters of what it considers acceptable, Europe is feeling the impact of an emerging new status quo. Exchanges at parliamentary level have traditionally carried much of the relationship between European countries and Taiwan. In early July, Wu Hongbo, the special envoy on European affairs, took advantage of a leaving party for former EU ambassador to China to say that any action taken by European lawmakers would be considered as official EU policy by Beijing (although it is unlikely this includes member states, as Beijing insists Lithuania's engagement with Taiwan is not a whole of EU affair).

Members of the European Parliament (EP) and of parliamentary committees are planning to continue visiting Taiwan regardless of Beijing's response to Pelosi's Taiwan trip. The EP's Committee for International Trade (INTA) has in the pipeline to visit Taiwan later this autumn. According to Taipei Times, a delegation of German parliamentarians is planning a visit in early October.

Member states from Central and Eastern Europe are still the main proponents of Taiwan engagement. Lithuania's government still plans to open a trade representative office in Taiwan in September. But other member states keep shying away from closer relations. These differences will be felt in Brussels, where the pragmatic and cautious European Commission may try to dissuade parliamentary delegations from further escalation by staying clear of Taiwan.

MERICS analysis: "Beijing is clearly becoming less flexible about what it deems acceptable for bilateral relations with Taiwan," says MERICS Analyst **Francesca Ghiretti**. "Further targeted economic coercive responses from China are to be expected after future

visits. But if the EU manages to act as one, for the time being repercussions will be symbolic and unlikely to include elements of the economic relations that are important for China.”

Media coverage and sources:

- SCMP: [China holds EU to account for criticism by European MPs](#)
- Taipei Times: [German delegation to visit Taiwan](#)
- Zeit Online: [Bundestagsabgeordnete wollen nach Taiwan reisen](#)

Chinese cyberattacks on Taiwan - numerous, but deliberately unfocused

Taiwan had to fend off an unprecedented number of cyberattacks on government institutions after Nancy Pelosi’s intention to visit the island became known. But the un-coordinated nature of the online forays led the Taiwanese government and many analysts to conclude that most were the work of freewheeling nationalistic hackers in China.

The volume of the attacks surpassed 15,000 gigabits, 23 times the previous daily record, with the Ministry of Foreign Affairs suffering a distributed denial of service attack. The attacker flooded the servers with up to 17 million access attempts per minute, using mainly Chinese and Russian internet addresses. APT-27, a Chinese hacker group thought to have ties to the Ministry of State Security, used Youtube to take responsibility for some attacks.

The Taiwanese government detected the attacks and restored its websites in only 20 minutes, underlining its cyber sophistication. Taiwan is currently setting up a Ministry of Digital Affairs to focus on digital resilience and its designated head, Audrey Tang, has a tech background.

Taiwan also has a huge community of open-source hackers willing to engage in social issues. After an account on Taiwan’s social network PTT was identified as spreading disinformation, users went to work on unmasking the account – and found out it was a real account that had been hacked and hijacked. There is also a fact-checking center, further decreasing China’s opportunities to circulate disinformation.

Taiwan has cyber allies around the world, both in government and in civil society. As cyber attacks are not classed as an act of war by international law, Western security services can get involved with little risk of geopolitical fallout. Also, the Western hacker group Anonymous recently hacked a Chinese government website. This is a sign that the civil society hacking community in the West is very much on Taiwan’s side.

MERICS analysis: “Cyberattacks on Taiwanese targets around the time of Nancy Pelosi’s Taipei visit have been extensive, but did not use sophisticated or destructive means, likely making them the result of nationalistic hackers spurred on by Chinese national media,” says **Antonia Hmaid**, MERICS Analyst. “Beijing is keeping its more destructive cyber capabilities well hidden in order to ensure the success of future larger-scale attacks. Given Taiwan’s sophisticated hacking scene and the involvement of international actors, any targeted and more sophisticated attack would reveal much to Taiwan and the West.”

Media coverage and sources:

- AppleDaily (CN): [PTT 爆「花 9400 萬邀裴洛西訪台」真-相曝光 被四叉貓揪出! 當事人傻眼報案 | 蘋果新聞網 | 蘋果日報](#) (Description of fake news, and how Taiwanese netizens unmasked the account)
- Express: [Taiwan urges firms to improve cybersecurity as attacks skyrocket amid China war fears](#)
- Republic World: [Chinese hackers attack National Taiwan University's website: warn of more cyber-strikes](#)

REVIEW

Disaggregating China Inc.: State strategies in the liberal economic order, by Yeling Tan (Cornell University Press, 2021)

In a dense-but-digestible 200 pages, Tan Yeling sheds a new light on China's economic oscillations after the country joined the World Trade Organization (WTO) in 2001, completing its accession to the liberal international economic order. She dissects the internal dynamics of the Chinese system to uncover what she says was at first a serious effort to live up to the spirit of the WTO and then a slow-but-steady reversal by Chinese authorities back towards more statist and interventionistic positions.

The book analyses the effects of Chinese public policy on industry, different levels of government and public entities from 2001 to 2014. Based on language analysis, Tan categorizes policies variously as market-substituting (directive), market-shaping (developmental) or market-enhancing (regulatory). She identifies a sudden shift in 2006 – the beginning of a sustained push by public authorities throughout the country away from their initial regulatory approaches towards markedly directive policies.

Tan reckons this happened because those in charge locally and regionally came to see sanctions in response to more interventionist policies as ever less likely – the central leadership at the time had only limited power to discipline them. Along the way, Tan presents many interesting findings – hard evidence, for example, that the regions of China most exposed to WTO-induced tariff liberalization and those least diversified were more prone to switch from market-enhancing to market-substituting policies.

Tan's first-rate analysis of the complex phenomena that drove China to set aside the international rulebook should interest many. This pivot has brought the post-World War II economic order to the brink of collapse. The world's two largest economies have bickered over trade and technology for five years, with the WTO's dispute-settlement system in a coma for almost as long. But with Tan's study stopping in 2014, it is important not to automatically apply its explanations to Xi Jinping's state-led economy.

Reviewed by **François Chimits**

MERICS CHINA DIGEST

[Chinese court rejects TV intern's #MeToo case appeal \(Reuters\)](#)

A Beijing court dismissed an appeal by former CCTV intern Zhou Xiaoxuan, who had accused one of the state broadcaster's most prominent hosts of sexual harassment. The court's decision is a blow to China's #MeToo movement. (22/08/10)

[China watchdog investigates three more execs linked to chip-focused Big Fund \(Reuters\)](#)

Three former and current executives linked to a firm that manages the country's largest state-backed chip-investment fund are currently being investigated by China's corruption watchdog CDDI. A number of probes involving the chip industry have been announced in the past weeks. (22/08/10)

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