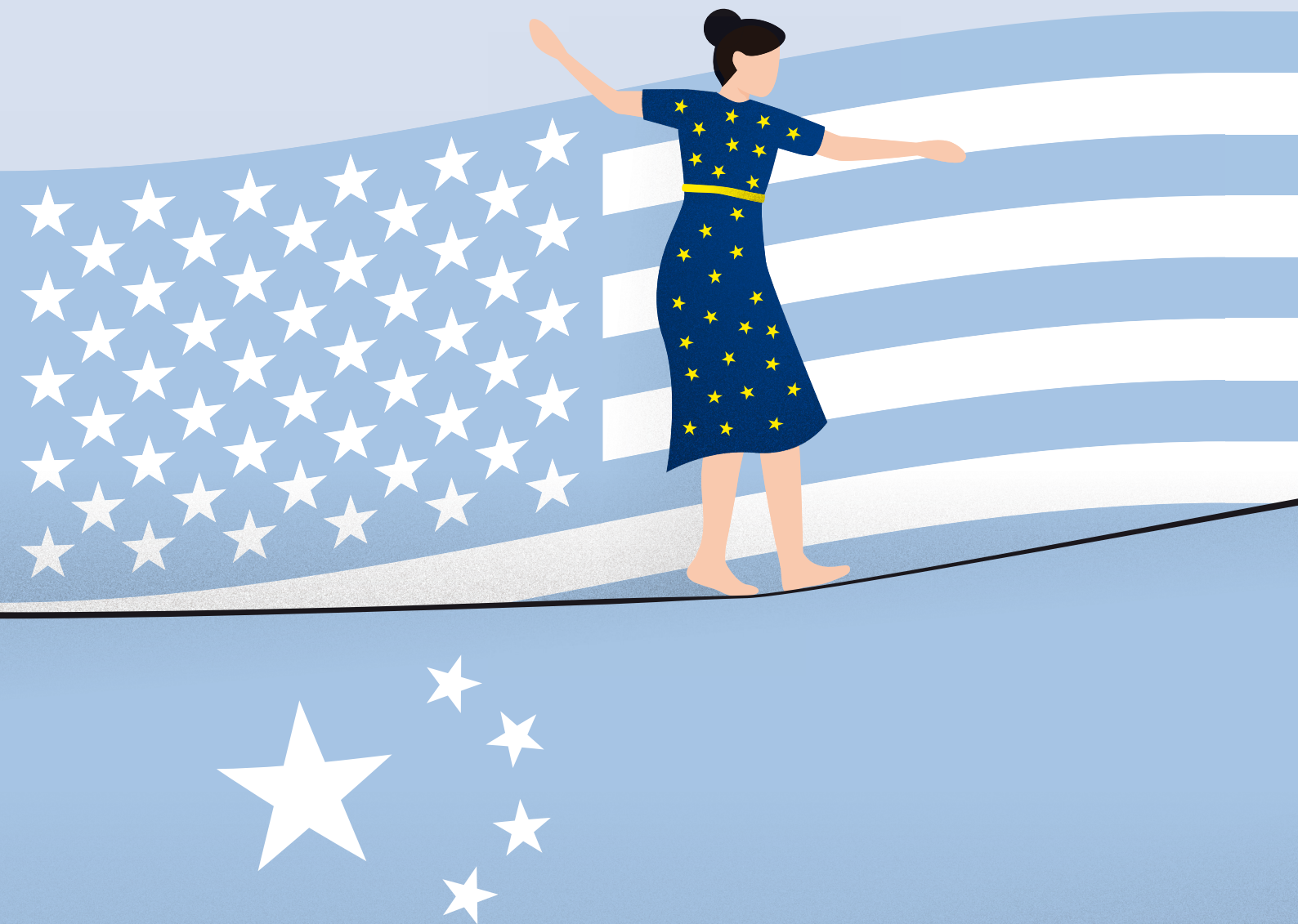


Escalation in the Taiwan Strait

What to Expect from Europe?



In cooperation with

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Introduction

Over the last few years, tensions in the Taiwan Strait have led to great concerns over Chinese territorial claims in the region. The potential for an escalation is high – with significant implications for Europe. At the same time, the Biden administration is pursuing a tough stance on China and expects Europe to join a transatlantic approach.

Against this backdrop, the Körber Policy Game brought together a high-level group of senior experts, politicians, and officials from France, Germany, Italy and the UK to address a fictional scenario of a political-security crisis in the Taiwan Strait.

How will Europe position itself in an escalation between China and the US against the backdrop of trade tensions and a threat of Chinese intervention in Taiwan? Which interests are at stake for Europeans, and which policy options do they have at their disposal? Can Europe find a coherent strategy in a crisis, considering China's relevance for economic and trade relations?

The Körber Policy Game projects current foreign and security policy trends into a future scenario. The aim is to develop a deeper understanding of the interests and priorities of different actors as well as possible policy options. Previous Körber Policy Games have discussed Europe's post-COVID-19 future, a US withdrawal from NATO and Turkey's role in Syria.

The discussions took place online in May 2021 under Chatham House Rule in cooperation with the Chatham House Asia-Pacific Programme. This report summarises the results and presents policy recommendations. It reflects the analysis of the Körber Policy Game by Körber-Stiftung and Chatham House's Asia-Pacific Programme and not necessarily the view of the participants.

The report is co-authored by the Chatham House Asia-Pacific Programme and Körber-Stiftung's Policy Game team: Liana Fix, Theresa Kirch and Leslie Schübel.

Executive Summary

- **Economic Interests:** The Körber Policy Game demonstrated that during a crisis in the Taiwan Strait, Europeans would be very concerned about the fallout for the global economy and their national economies, especially in vulnerable sectors such as the semiconductor industry. The teams recommended strengthening European resilience, diversifying supply chains and conducting surveys on access to critical goods and technologies, such as rare earths. These issues would also represent an area for UK-EU cooperation. The teams also discussed whether US-Chinese competition over technological supremacy would be in Europe's interest.
- **Taiwan's Democracy:** Europeans were undecided whether protecting Taiwan's democracy would justify military action. However, they acknowledged that a unilateral change in the status quo would represent a watershed moment and a fundamental challenge to the rules-based order and the US-led alliance system. It would also bolster China's regional and global political and military power.
- **Military Intervention:** Faced with a military escalation, Europeans favoured internationally coordinated economic sanctions against China as their instrument of choice rather than military action. They were especially cautious about a role for NATO, as they argued that article 5 would not apply in this case. Germany and Italy would be most reluctant, followed by France and the UK. All teams would hope to avoid military action for as long as possible. A blockade of Taiwan lasting more than a few days was expected to result in military escalation.
- **Alignment with the US:** Europeans diverged on the extent to which they would align their policies and positions with those of the US. The UK highlighted its special relationship, but was concerned

Methodology

The Körber Policy Game consists of a short to medium-term scenario with two escalating game moves and is provided to the participants on the day of the event. It does not seek to predict the future and is not a forecasting tool. Instead, the scenario enables the participants to discuss the policy game's guiding questions, as well as concrete interests and policy options. To limit the complexity of the scenario, the current state of affairs is projected into the future for any aspects that are not explicitly mentioned. Most aspects of the scenario, therefore, constitute a linear continuation of the current situation. The participants in the Körber Policy Game belong to country teams (Germany, France, Italy and the UK), each consisting of senior experts, politi-

cians, and officials from the respective countries. The teams do not interact with each other during the sessions. They discuss their country's interests and develop tactical and strategic policy recommendations, which are then presented to all participants of the Körber Policy Game. Participants do not play roles (e.g. Foreign Minister or Chancellor). Instead, they represent a team of government advisors that develops recommendations in line with their understanding of their country's national interests. In selecting the participants for the country teams, effort is made to achieve a representative composition from the respective country. All discussions at the Körber Policy Game take place under Chatham House rule.

about being caught up in an escalation dynamic. France and Italy opted against unconditional alignment and favoured developing an EU position with the hope of exerting influence on the US. The German team advocated for as much damage control as possible, and as much transatlantic solidarity as necessary.

➤ **European Unity:** EU member states underlined the importance of a common European stance. The German team suggested establishing a European Solidarity Fund to cushion the potential impact of Chinese sanctions against EU economies. France would aim to present the EU as a credible global player and was concerned about Chinese efforts to exploit divisions among member states. Italy's participation in the Belt and Road Initiative played no major role in EU considerations.

➤ **Russia's Role:** Europeans were undecided which role Russia would play in a military escalation in the Taiwan Strait and whether it could be convinced to act as a mediator or would immediately side with China. A Russian-Chinese alliance would be a worst-case scenario and hinder de-escalation efforts, such as at the UN Security Council.

➤ **Regional Partners:** All European teams emphasised the importance of partners in the Indo-Pacific and would engage in efforts to build alliances. This was particularly the case for example with France as a military supplier to the region. The UK suggested "to make the Indo-Pacific real" and would coordinate a passage through the South China Sea with Japan and the US.

➤ **Public Opinion:** For Europeans, public opinion played an important role in their considerations to engage in military action. The distance to Taiwan and the ambiguity over Taiwan's status would make direct involvement particularly difficult for some European countries such as Germany.

➤ **Global Effects:** The Italian team was concerned about the effects of a crisis over Taiwan on the Middle East, and whether countries in the region would align with Chinese positions. Furthermore, the German team was apprehensive about the emergence of a world order with a Chinese and a US-led bloc and the detrimental effects that this would have on the management of global and regional challenges.

Policy Recommendations

1. Prepare for the consequences. Europeans should prepare for the political and economic implications of a crisis over Taiwan and a significant deterioration of relations with China. This includes conducting surveys on economic dependencies, potential leverage and pressure points, as well as the economic fallout of sanctions and countersanctions on Europe. Special attention should be paid to critical goods and technologies, such as rare earths. (Economic) solidarity remains crucial to prevent attempts to divide Europeans, and to strengthen Europe's resilience.

2. Clarify and prioritise strategic interests. European countries should clarify their economic, democratic and geopolitical interests when it comes to Taiwan. Furthermore, they should prioritise the political, economic and military instruments that they would focus on in a crisis over Taiwan and the circumstances under which they would implement them. Judging by the current situation, Europeans' strategic interests are mostly in expanding economic ties, guaranteeing supplies for the semiconductor industry, and supporting democracy in Taiwan. This analysis should serve as the basis for longer-term policy formation.

3. Pursue expectations-management. Europeans should pursue expectations-management towards the United States on the extent to which they would support their transatlantic partner in a crisis over Taiwan, especially concerning military engagement, whether bilateral or through NATO. This is particularly important given that Europeans remain very interested in engaging with Beijing on the economic and global governance aspects of international affairs. A successful response should be based on transatlantic unity, which could be built up in advance through joint scenario and contingency planning.

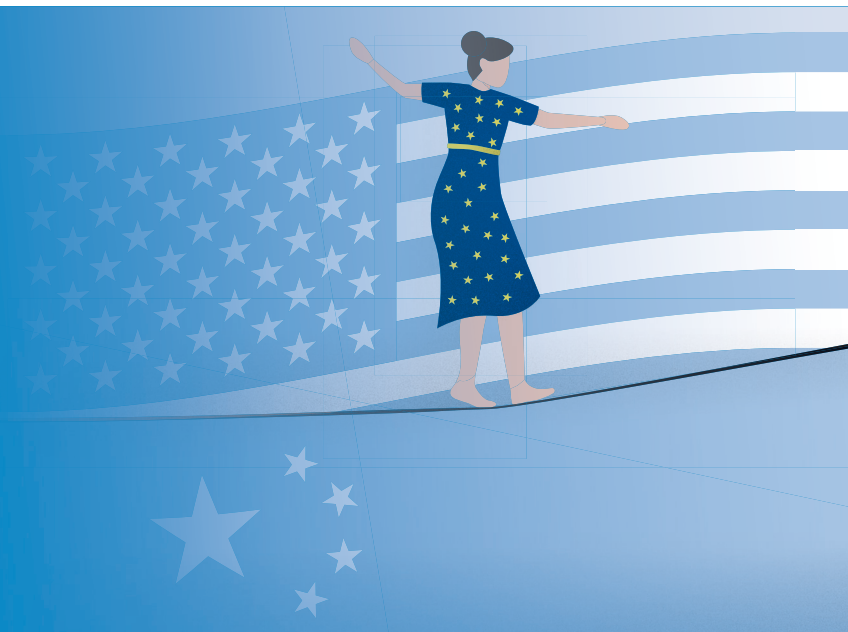
4. Strengthen relations with Indo-Pacific partners. Close coordination with Indo-Pacific partners would be crucial during escalation in the Taiwan Strait. Across the region, countries would have to strike a cautious balance between maintaining beneficial security ties with the US and close trading partnerships with China. Europeans should further engage with Indo-Pacific partners both economically and politically and invest more in existing security partnerships to enable continuous monitoring of the Strait situation and joint responses to crises.

5. Engage the public. A sustained debate is needed to increase awareness among the public in European countries as to why a crisis over Taiwan would matter, despite the ambiguity over Taiwan's status, its distance, and uncertainty about the consequences for Europe if conflict were to escalate between the US and China. Public engagement would not necessarily mean that it would be easier for policy-makers to make a case for military engagement, especially given recent experiences in Afghanistan. However, it would help to counter disinformation campaigns during a crisis and to explain or justify the economic fallout of sanctions, if necessary.

6. Consider Russia's response. Russia's position in a crisis over Taiwan represents an important marker of the strength (or weakness) of the Russian-Chinese relationship both in rhetoric and in substance. Europeans should develop a joint understanding of Russia's interests in a potential conflict and its policy options. In particular, Europeans should draw up a realistic assessment of whether Russia would be more likely to side with China, remain ambivalent, or act as a mediator, and which incentives could influence Russia's calculus.

The Scenario

Escalation in the Taiwan Strait



APRIL 2022

Throughout 2021, US and European relations with China further deteriorated over human rights, trade and technological leadership. The ratification of the EU-China investment agreement (CAI) was suspended indefinitely. In 2022, the US significantly expands its transfer restrictions and export controls on advanced technologies, including high-end chips and semiconductor manufacturing equipment, and calls on the EU and the UK to follow suit. The Taiwanese Semiconductor Manufacturing

Company (TSMC) – the largest chipmaker in the world – halts Chinese orders out of fear of US sanctions. In response, Beijing nationalises TSMC’s two facilities in mainland China and threatens to blacklist US and European firms that conduct business in or with Taiwan. European countries could face an export ban on syringes and glass vials for COVID-19 vaccine booster shots. China also announces it may consider restrictions on rare earth exports to the US and Europe.

OCTOBER 2024

In autumn 2024, China announces an unusually high increase in its defence budget. At the same time, the US Congress amends the 2021 Strategic Competition Act to enable the US military to move more swiftly into the Taiwan Strait. On 1 October, China celebrates the 75th anniversary of the founding of the People’s Republic with a large military parade. A Chinese aircraft carrier undertakes exercises off the east coast of Taiwan, while the US Theodore Roosevelt carrier strike group enters the South China Sea. Shortly afterwards, a Chinese fighter jet enters Taiwan’s airspace over the main island in an unprecedented incursion. Intercepted by a Taiwanese aircraft, it crashes into the sea in an unclear incident. Beijing announces in response a blockade of the Taiwan

Strait and occupies Kinmen Island, 187 kilometres west of the island of Taiwan. Washington delivers a stark warning that the People’s Liberation Army should withdraw immediately from Kinmen Island and the Taiwan Strait. Any further escalation will result in full-scale US military action. The US calls on the EU and the UK to keep a NATO-led multinational naval force on standby and to impose political and economic costs on Beijing. China harshly warns Europeans not to get involved and threatens a severe disruption of economic relations if its warnings go unheeded. After clashes with Taiwan’s air and naval forces, Beijing effectively takes control of Taiwan’s air and sea borders.

This is a shortened version of the original scenario.

Interests and Policy Options

Discussing the scenario of an escalation in the Taiwan Strait the four European country teams defined their national interests and formulated policy options. The following sections outline the crisis response that each team would recommend to their respective governments in this scenario.

FRANCE:

Putting the EU on the Map

Reacting to a deterioration in trade relations between the US and China over semiconductors, the French team defined its primary objectives as avoiding escalation, minimising the fallout for the French economy, and securing a role for the EU as a global actor. Paris would push for more EU industrial resilience and diversification of procurement chains in critical goods, although in some areas – such as rare earths – this would prove difficult. The EU should coordinate its position on China and pursue joint signalling to react to economic threats, including the evocation of potential countermeasures. At the same time, the EU should proactively engage in US decision-making processes to ensure it is represented in the policy response, instead of the US determining the direction of policy unilaterally. France would want to put the EU on the map as a global instead of a reactive actor.

Faced with the scenario of military escalation in the Taiwan Strait, the French team would expect their country to respond with resolve to a Chinese blockade of the Taiwan Strait, including by initiating internationally coordinated sanctions. Although Paris would hope to avoid escalation for as long as possible, it should be prepared for military action in case a blockade of Taiwan lasted more than a few days. From a French perspective, Chinese intervention would have wider repercussions and represent a grave violation of the status quo as well as question the US-led security order and alliance system. An escalation in the Taiwan Strait could be a watershed moment if economic interests were to be prioritised over principles. France, therefore, should cooperate with the US and the UK to define red lines. However, the French team was cautious regarding NATO’s role in the conflict, as from their perspective, this scenario would not be covered by Article 5. According to the French team, Paris would also engage in efforts to build alliances in the Indo-Pacific, especially as France supplies

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“The ‘tyranny of distance’ would make it very difficult for Berlin to publicly make a case for direct involvement. Instead, Germany should focus on economic instruments and burden sharing.”

military equipment to the region. Additionally, France should use its position as a permanent member of the UN Security Council to advocate for a fact-finding mission on the crash incident.

The French team highlighted the importance of a united EU position and recommended close coordination. It was also concerned about Chinese disinformation campaigns within the EU as well as threats towards individual member states, which could shape public perception and be used to divide Europe. In addition, the team discussed the extent to which talking to Russia could be a useful means of deescalating the crisis, even if it was unclear which side Moscow would support. Most importantly, France would prioritise the protection of French citizens living in Taiwan.

GERMANY: Maximum De-Escalation

In case of deteriorating trade relations between the US and China, the German team defined its main priorities as preserving access to the Chinese market and avoiding escalation. Berlin would work towards diversification of economic relations with partners in East Asia to strengthen European resilience. Germany should also be prepared to impose counter-measures to increase China’s costs if the country were to follow up on its economic threats. The team suggested a European production initiative for critical goods, such as syringes and glass vials, as well as a European Solidarity Fund to cushion the potential impact of Chinese sanctions against EU economies.

The German team was also concerned that decoupling might lead to the emergence of a new bloc-building between the US and China. A potential Russian-Chinese alliance and losing China as a partner in the management of global and regional challenges would be a worst-case scenario for the EU. The German team thus advocated multilateral conflict management, such as through the G20, G7, and ASEAN, and expected the US to reach out to Germany for close consultation, but was undecided about the extent to which Germany should align its policy with US priorities.

In case of military escalation in the Taiwan Strait, the German team suggested pursuing a maximum level of de-escalation and damage control. Berlin should clearly position itself as pro-democracy, and as a transatlantic partner. The basis of German action should be a coordinated EU approach with France, but diverging EU positions should be expected. The German team considered finding allies for de-escalation in the Indo-Pacific as Berlin’s best option, for instance, coordinating with Japan. Additionally, the UN Security Council and the General Assembly should be involved. The German team did not consider the protection of Taiwan to fall under NATO’s responsibility. In addition to the ambiguity of the status of Taiwan,

the “tyranny of distance” would make it very difficult for Berlin to publicly make a case for direct involvement. Although a military confrontation between the US and China would represent a fundamental security threat for Germany and the world, it was viewed as highly unlikely that the public would support military engagement. Instead, Germany should focus more on economic instruments and burden sharing. Overall, Berlin would pursue as much damage control as possible, and demonstrate as much transatlantic solidarity as necessary.

UNITED KINGDOM: A Litmus Test for the Special Relationship

In an escalation between the US and China over semiconductors, London would be confronted with competing interests: upholding stability across the Taiwan Strait versus securing the economic interests of the UK. The British team recommended clarifying the fallout of China’s threats for the UK’s economy and, if necessary, imposing targeted sanctions in return. London should also redirect supply chains, ideally together with the EU, to maintain access to critical technologies and goods.

Furthermore, the British team suggested engaging early on in contingency planning through surveys on the UK’s reliance on China, especially regarding rare earths. In addition, London should coordinate a passage through the South China Sea together with the US and Japan. Considering the UK’s special relationship with the US, the British team recommended cooperating closely, but avoiding the unconditional adoption of US policies, as US economic interests might not be identical with the UK’s. London should use its influence to restrain US policy, even though the team did not consider the UK a potential mediator given its already strained relations with China.

Against the backdrop of a threat of Chinese intervention in Taiwan, the British team suggested acting as a “pacifier” rather than a pro-active player and recommended a strategy of deescalation, in particular to prevent a collapse of the global and Chinese economy. Although stressing the importance of defending Taiwan’s democracy, Western values and the rules-based international order, the British team expected the UK to react with targeted economic sanctions rather than military action.

At the same time, the British team perceived it as a challenge to accommodate the UK-US special relationship without getting caught in an escalation dynamic. Public opinion in the UK would also play a major role in the British decision-making process. The British team recommended “to make the Indo-Pacific real” and supported a joint messaging with partners in the region and beyond, such as NATO, the G7, the EU and the Quad.

“London would be confronted with competing interests: upholding stability across the Taiwan Strait versus securing the economic interests of the UK.”

“From Rome’s perspective, the EU should not just follow US policy, but develop its own position towards a crisis over Taiwan.”

ITALY: More Than Trade Interests

In a scenario of escalating trade tensions between the US and China over semiconductors, the Italian team outlined two main priorities: first, to find a common and credible EU stance on the matter, and second, to avoid a deterioration of the international trade regime. While emphasising the importance of close cooperation on the EU level, the Italian team also pointed out the difficulties of this approach, especially considering a tight time frame and potentially different positions among EU member states. The team recommended that the EU should not just follow US policy, but develop its own position towards a crisis over Taiwan. Although questioning the relevance of Taiwan for Italy if alternative production capacities for semiconductor chips were to be established, the Italian team regarded protecting Taiwan’s democracy as crucial for the international rules-based order and underlined that no de-escalation measures should be taken at the expense of Taiwanese interests.

In response to a military escalation, the Italian team recommended imposing economic sanctions on the national and EU-level, despite Italy’s participation in the Belt and Road Initiative and the wish to maintain good trade relations with China. Italy would prefer NATO to function exclusively as a forum for political consultation. Potential military cooperation would only be possible in the form of a “Coalition of the Willing” under US command. The Italian team also recommended jointly recalling EU ambassadors from Beijing, but keeping channels open for communication. To support de-escalation, Rome should find partners in Southeast Asia. The Italian team was particularly concerned about which position actors in the Middle East, such as Turkey and Iran, would adopt in the face of military escalation with China. Furthermore, Russia or the Vatican could be involved as mediators, although it was unclear whether Russia would not rather side with China.

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