

Policy Note



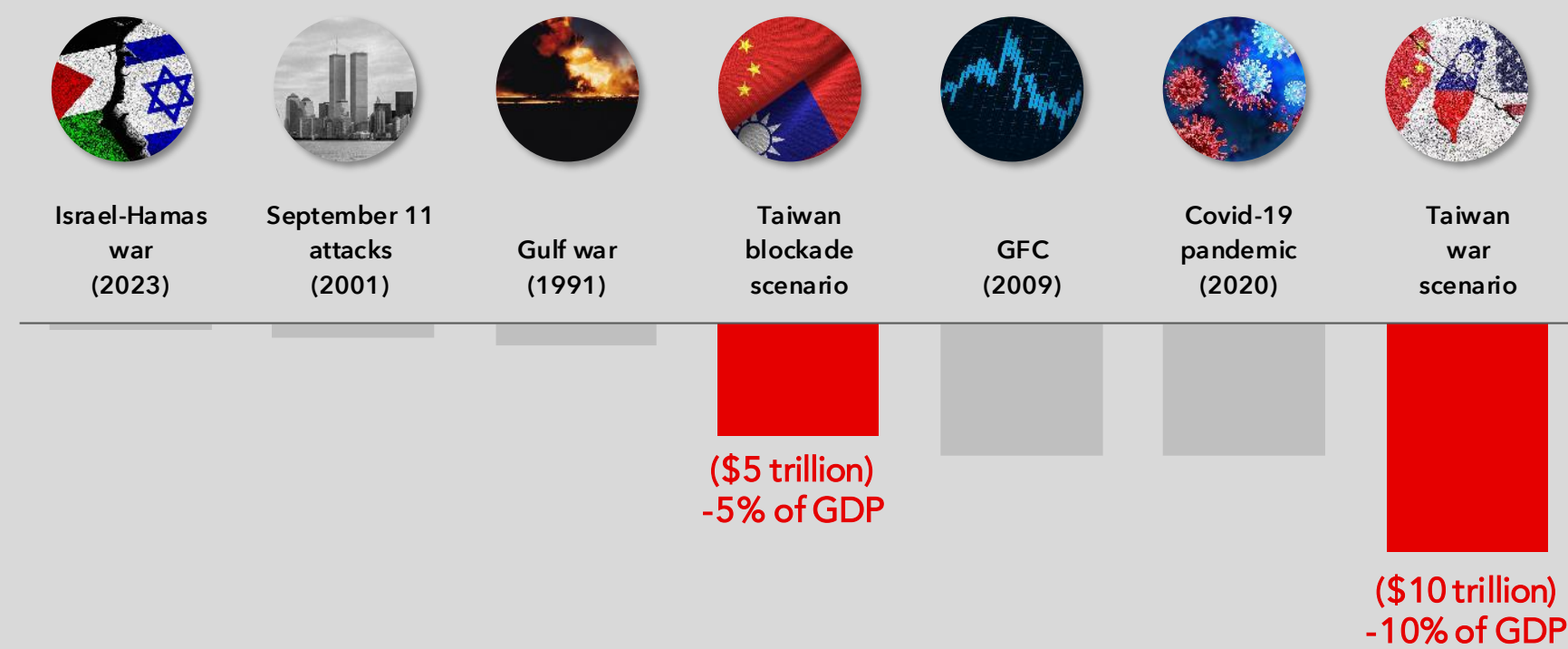
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The Economic Cost of a Taiwan War

Bloomberg's Economics team has modeled the potential cost of a military conflict in Taiwan across two scenarios. In both cases - a Taiwan blockade and a Taiwan war - they have projected a cost to the global economy of \$5 and \$10 trillion, respectively. The corresponding 5% and 10% contractions in global GDP would precipitate a global recession, and dwarf the cost of other recent conflicts including Ukraine, Gaza, the Gulf War and 9/11. The economic impact assessment takes into account the disruption to semiconductor supply chains, shipping, trade sanctions and tariffs, cyber-security and financial markets.

Global GDP deviation from pre-crisis trend



US-China Military Assets

China today boasts the world's largest Army and the largest Navy (as measured by # of ships). While the US remains the world's most dominant military power, President Xi Jinping has accelerated the modernization and expansion of China's military with the explicit aim of becoming the dominant regional power in the South China Sea and winning a war in the Taiwan Strait, if needed.

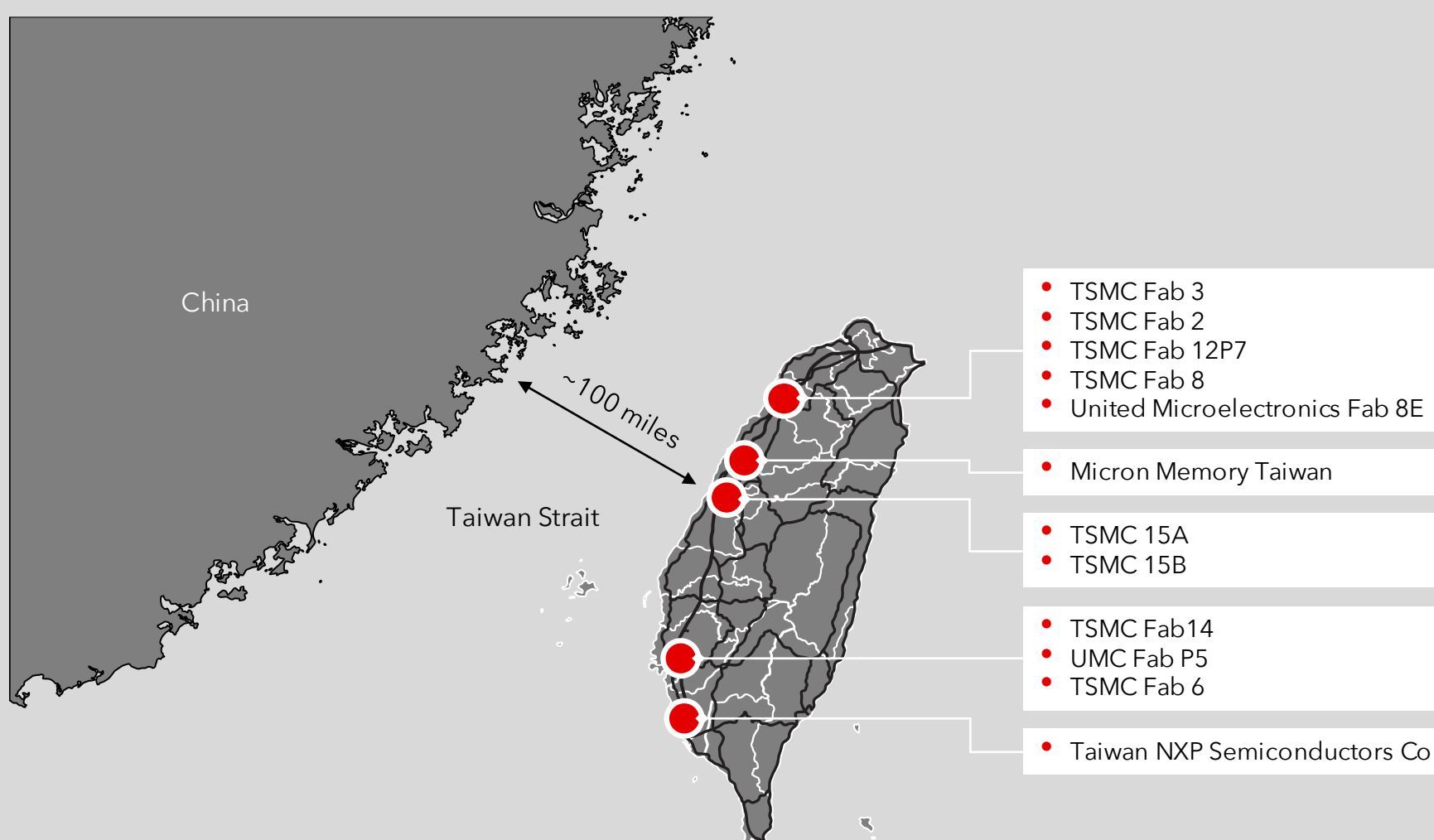
US-China Military Assets

	US	China
Annual military spend (gross dollars, bn)	\$877 bn	\$292 bn
Annual military spend (% of GDP)	3.5%	1.60%
Nuclear arsenal (# of warheads)	5,244	410
Active military personnel	1,395,350	2,035,000
Active aircraft carriers	11	3
Destroyers	92	50
Frigates	0	43
Submarines	68	78
Fighters/attack planes	2,757	1,570
Main battle tanks	5,500	4,950

Taiwan's "Silicon Shield"

Taiwan is responsible for over 20% of global semiconductor manufacturing, over 60% of advanced semiconductor production (<10 nanometer) and over 90% of the world's most sophisticated chips (< 3 nanometer). While Taiwan's high tech exports are critical for China, it is a mistake to assume that Beijing's strategic rationale for unification is driven by access to technology. History, culture and geopolitics are more formidable drivers. Nonetheless, with Taiwan's fabs located on the western coast of Taiwan less than 100 miles from the mainland, global chip supply is highly exposed to China-Taiwan tensions. Historically, Beijing has never sanctioned Taiwan's semiconductors or high tech exports.

Taiwan's major semiconductor fabs



Source: (1) Bloomberg, IMF. Israel-Hamas war, Taiwan blockade, and Taiwan war are Bloomberg Economics estimates. (2) SIPRI 2022. Global Firepower. Federation of American Scientists (FAS). WiseVoter. (3) McKinsey "Semiconductor fabs: Construction challenges in the United States".