

## **New Taiwanese Regime and Geopolitical Risks Regarding China-Taiwan Relations**

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The destabilization of the situation in the Middle East may be the most common global concern at present as a geopolitical risk that could significantly affect the international energy situation. Exports from the Middle East which accounts for 35% of the world's oil exports and 95% of Japan's crude oil imports are of overwhelming importance for the stability of the international energy situation. In the region, the Gaza crisis that broke out in October last year has become more serious, with conflicts and confrontations expanding. In April, a military confrontation between Iran and Israel suddenly escalated. So far, the geopolitical risk of destabilization in the Middle East has exerted no significant impact on oil supply from the Middle East, falling short of affecting crude oil prices seriously.

If there is some disruption to oil supply from the Middle East caused by geopolitical risks, however, the international energy situation may destabilize suddenly and inevitably.

The situation in Ukraine also remains a geopolitical risk that cannot be overlooked for the international energy market. The war between Ukraine and Russia began and shook the international energy situation in 2022 by turning Russia's energy exports into a significant destabilizing factor. While the war has seemed protracted and stalemated, the two countries have been stepping up attacks on each other's energy-related facilities. This means that military attacks have led to energy supply disruptions. Depending on future developments, the situation in the ongoing Ukraine crisis could shake the energy market again.

While there is no doubt that the Middle East and Ukraine situations will remain important, I am paying attention to another geopolitical risk. The risk represents the future of China-Taiwan cross-strait relations and the fate of the Taiwan Strait issue after the inauguration of Taiwan's new administration. Although it is not a geopolitical risk involving any major energy suppliers that represent the international energy market, such as the Middle East, and Russia, the East Asian geopolitical risk should not be underestimated as an issue related to important energy supply routes.

Following a presidential election in January, Lai Chingte of the Democratic Progressive Party was sworn in as the new president of Taiwan on May 20, launching a new administration. In his inaugural address, President Lai indicated his stance of giving priority to the maintenance of the status quo in relations with China and pursuing peace and prosperity together with China. At the same time, however, he expressed alarm over China's potential annexation of Taiwan and indicated a policy of enhancing defense capabilities and coordinating and cooperating with democratic countries around the world.

In response to the inauguration of the new administration in Taiwan and President Lai's address, China is becoming increasingly wary and opposed to the new president as a Taiwan independence supporter from the standpoint of adhering to the "One China" principle. Beijing has

clarified its attitude of considering Taiwan's independence as the most dangerous change to the status quo in the Taiwan Strait that would undermine peace. Even during presidential election campaigns in Taiwan, Beijing was wary of Lai, who is recognized as a Taiwan independence supporter. As the Lai administration has been inaugurated in actuality, Beijing is expected to exert pressure on Taiwan in various ways.

In fact, the Chinese People's Liberation Army conducted exercises in waters around Taiwan on May 23 and 24 in cooperation with the China Coast Guard. The Chinese military exercises encircling Taiwan followed similar drills conducted in the wake of then-U.S. House Speaker Nancy Pelosi's visit to Taiwan in August 2022. The latest exercises that lasted for two days were shorter than the 2022 drills that were conducted over seven days. Given the absence of advance notice and the China Coast Guard's participation for the latest exercises, however, the drills might have shaken up Taiwan immediately after the inauguration of the new administration. Both the United States and Japan have taken this situation seriously and have been closely watching relevant developments with great interest. Washington has called for Beijing's self-restraint.

Since the inauguration of the new administration in Taiwan, tensions in cross-strait relations have thus grown, attracting global interest. As noted above, Beijing may probably exert various pressures on the new administration in Taiwan. It cannot be ruled out that tensions will increase significantly depending on future developments. In such a case, various risk factors may emerge for safe passage through the Taiwan Strait and adjacent waters. This area occupies a pivotal position for international trade, distribution, and transportation in East Asia. Ensuring safe passage through the waters is of great significance for overall economic activities and energy security not only in Taiwan but also in Japan and South Korea.

Regarding energy, Japan's crude oil imports from the Middle East, which account for more than 90% of the nation's total crude oil imports, basically pass through the waters. This is the same case for South Korea. Needless to say, safe passage through the waters is of great significance for liquefied natural gas imports from the Middle East and Southeast Asia to Japan. If some event or situation interferes with safe passage, crude oil prices, LNG spot prices, and tanker transportation costs will be severely affected. Of course, the impacts will vary greatly depending on the geographical extent, length, and severity of the obstruction to safe passage in the relevant sea area. As well as energy supply, industries, companies, and business operations that depend on trade and supply chains involving China may be affected seriously.

Last week, I had an opportunity to exchange views with overseas experts on global energy security issues in Tokyo. Then, I talked with experts on security issues as well as energy problems. Through the talks, I realized that there was a great deal of interest in the future of cross-strait relations, the Taiwan Strait issue, and their impacts on energy issues. I also felt that experts on security issues recognized that even if the probability of risk events exerting great impacts is very low, any country should consider risk scenarios and how to respond to the risk events in preparation for their occurrence.

When we consider the impacts of geopolitical risk events on the international energy market, especially on energy prices, we should pay attention to not only the events but also the energy supply-demand environment and price trends when they occur. When energy prices are rising due to a tightening supply-demand balance, geopolitical risk events may accelerate energy price hikes. This was exactly what we saw when Russia invaded Ukraine. When energy prices are falling due to an easing supply-demand balance, however, the impacts of geopolitical risk events on prices may be mitigated. In this sense, it is necessary to ascertain the developments and impacts of East Asian and

other geopolitical risks as well as future supply-demand and price trends in the international energy market.

A factor that could have a significant impacts on the fate of the geopolitical risks I have described so far is the future U.S. international strategy. The cross-strait relations, the Middle East situation, and the Ukraine situation will be greatly affected by the future international strategy of the United States, which is a superpower. For the time being, the Biden administration's policies will be the focus of attention. After November's U.S. presidential election, however, the direction of U.S. international strategy may exert great impact on geopolitical situations that affect the world. From the perspective of the international energy situation, we should pay close attention to the situation in the United States.

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