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# Executive Summary Report

With the ongoing Iranian conflict and the U.S. Joint Force spread thin in areas outside of the Middle East and Mediterranean, concerns are increasing about China becoming more emboldened in the Indo-Pacific while the U.S. is distracted. Furthermore, Taiwan was a core topic in the recent summit between Presidents Trump and Xi. As such, this report focuses on Taiwan – a potential flashpoint that has major economic implications.

## Overview:

The island of Taiwan had a tumultuous history during the 20<sup>th</sup> century, and, unfortunately, this instability is now extending into the 21<sup>st</sup> century due to the emanating threat from the People's Republic of China (PRC).

Taiwan's plight began after Japan's annexation ended in 1945, following its loss during World War II. Taiwan then transferred to the Republic of China (ROC), one of the parties in the greater Chinese Civil War waged from 1927 to 1949. In the final stages of the Chinese Civil War, as the communist PRC prevailed, the defeated ROC forces and their families, along with Nationalist allies, fled from mainland China to the island of Taiwan and other nearby small islands for the security provided by the 90-mile Strait of Taiwan that separates Taiwan from the mainland.

Soon, as a Cold War developed between communist nations (led by the USSR) and free market nations (led by the U.S.) to prevent the spread of communism writ large, the United States deployed naval forces to the region several times to deter the PRC from attempting to capture Taiwan. Sometimes the U.S. also used nuclear coercion to dissuade the Chinese.

The small population of the ROC in Taiwan, along with its limited influence in the region and world, paled in comparison to the PRC-controlled mainland. But, because of the Cold War, most Western nations and the United Nations viewed the ROC as the legitimate government of China at the expense of the large and growing PRC. However, by the 1970s, the PRC was finally seen as the dominant power within China, and the ROC was removed from the list of members in the United Nations. Most of the West, including the United States, then formally recognized the PRC as "China."

Regardless of losing its status as the authority of China, Taiwan grew economically. Also of significance, by the 1980s, social reforms had steadily transitioned Taiwan from a dictatorship into a democracy.

Today, Taiwan enjoys not only a strong democracy, but it is also an economic dynamo, not just regionally, but internationally. Yet Taiwan's future security is not as stable as its economy.

China and Taiwan remain at strategic odds regarding the future of Taiwan's current separation from



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mainland China. China is engaged in a long-term strategy to fully reunify Taiwan, whereas Taiwan desires the status quo, as does its most powerful friend - the United States.

## **U.S. Perspective:**

The U.S. policy toward Taiwan's independence is deliberately vague since the U.S. recognized the PRC in 1979. But at the same time, the U.S. policy with Taiwan has been very consistent (acknowledging that there are some nuances with President Trump's second administration that will be discussed later), highlighting that there is only one China, meaning that Taiwan is part of China. But the U.S. and Taiwan do not recognize Chinese authority over Taiwan. As an example, during the Biden Administration, the policy was as such: "We oppose any unilateral changes to the status quo from either side, and do not support Taiwan independence. We remain committed to our One China Policy...and we will uphold our commitments under the Taiwan Relations Act to support Taiwan's self-defense and to maintain our capacity to resist any resort to force or coercion against Taiwan." In sum, this arrangement is often referred to as the "One China Policy" but with two political systems (one communist system in the mainland, and a democracy in Taiwan).

The details of the Taiwan Relations Act of 1979 are important. First, it states that the U.S. will make available defense-related material and services to Taiwan for it to have a military capability to defend itself. The U.S. does this through Foreign Military Sales (FMS), where some items are appropriated by Congress for Taiwan, and other items Taiwan must purchase via FMS. For decades, the U.S. has bolstered Taiwan's defenses. Second, the U.S. will maintain an effective military capability that could defend Taiwan if it were to be attacked. The U.S. has always maintained such capabilities. But the Taiwan Relations Act does not require that the U.S. defend Taiwan – the inference is that the U.S. may decide to defend Taiwan against aggression or may not. This is because Taiwan is not an ally (with a mutual defense treaty); it is a partner or friend.

President Trump's National Security Strategy, which was released late last year, discusses Taiwan – but with some nuances. For example, the 2025 National Security Strategy (NSS) states that "... deterring a conflict over Taiwan, ideally by preserving military overmatch, is a priority. We will also maintain our longstanding declaratory policy on Taiwan, meaning that the United States does not support any unilateral changes to the status quo in the Taiwan Strait." This begs some questions. First, its definition of the U.S. declaratory policy toward Taiwan highlights the status quo, but it does not go on to mention the U.S. commitments to Taiwan under the Taiwan Relations Act that are typically echoed by many administrations. Is this intentional or not? Further, in the Secretary of War's subordinate strategy to the President's NSS, called the 2026 National Defense Strategy, though China is mentioned often, Taiwan is not. Further, both strategies highlight, boldly and often, that our allies and partners must do more for themselves via burden sharing. No doubt, this includes Taiwan – this administration places more pressure on Taiwan to defend itself than previous ones.

In support of burden sharing, the U.S. has bolstered Taiwan's military capabilities to enable a credible force, ideally to deter China. Yet time will tell if the Trump Administration includes the possibility of direct U.S. military intervention in certain circumstances as part of its messaging and deterrent posture to China.

But the U.S. is concerned about Taiwan's weakness in industrial resilience in certain areas, and international access to advanced manufacturing is of strategic importance. Industrial and economic

de-risking from China will continue as markets and companies reconsider their exposure in China. Also, risk reduction efforts are important for Taiwan's advanced chip production. A former Director of U.S. National Intelligence, Avril Haines, stated that it would be a serious blow if the production of Taiwan Semiconductor Manufacturing Co. (TSMC), the world's largest contract chipmaker, was cut off by China's military actions. "It would have an enormous global financial impact that I think runs somewhere between \$600 billion to over \$1 trillion on an annual basis for the first several years on the global financial economy," she said. The possible interruption of semiconductor supplies from Taiwan would be critical because 90% of high-end chips are produced in Taiwan, and almost every electronics product requires chips to power them.

As such, in 2022, the U.S. enacted the "CHIPS and Science Act" to increase advanced manufacturing to offset the strategic vulnerability of the U.S. getting the preponderance of its microprocessors and semiconductors from Taiwan.

President Trump is a critic of the U.S. CHIPS Act, highlighting that it is expensive and he is concerned about return on investment. He has called on Congress to repeal it, but to no avail. So, shortly after taking office in his second term, he restructured it by creating the U.S. Investment Accelerator that does many things, including taking responsibility for the U.S. CHIPS Program Office, with the purpose of "negotiating much better deals than those of the previous administration."

President Trump believes more in tariffs as a tool to improve the U.S. domestic industrial base and supply chain. Case in point, earlier this year, to "address the threat to national security by, among other things, incentivizing domestic production of semiconductors and reducing our nation's reliance on foreign sources and foreign supply chains," President Trump placed a 25% tariff on certain advanced computing chips produced in Taiwan.

## **PRC Perspective:**

China has a long-term plan to bring Taiwan under its authority. President Xi has twice stated that "reunification" cannot be passed from one generation to the next, and that the task of unification with Taiwan must be resolved.

The U.S. Defense Intelligence Agency assesses that Chinese President Xi is leaning toward unifying Taiwan in a "peaceful" manner but is also preparing possible military action to achieve the goal. President Xi's rhetoric is increasing, and he has told his military to be ready. There are several dates for a possible military action China will take against Taiwan, including 2027, 2035, and 2049. It bears noting that the earliest date, 2027, was likely an aspirational date cited by Xi to inspire its military to be ready for an invasion by then, not to actually invade the island.

China refuses to have a diplomatic relationship with any nation that officially recognizes Taiwan's government; therefore, only 11 nations officially recognize Taiwan – this list does not include the United States with its "One China" policy.

Further, China strongly signals its displeasure when senior officials visit Taiwan (especially coming from the U.S.), as well as when pro-separation political officials are elected to office in Taiwan.

China's aggressiveness appears to be increasing in this regard. Case in point was when the U.S. Speaker of the House, Nancy Pelosi, visited Taiwan in August of 2022. Shortly afterward, the Chinese military conducted maneuvers and exercises with several naval ships and many aircraft operating in the Taiwan Strait, simultaneously stating the Strait belongs to China and firing ballistic missiles over Taiwan's airspace.

China will continue to escalate tensions in the Taiwan Strait as it rehearses invasion plans and tests Taiwan's increasing defense capabilities. China will stay on a path to enhance its asymmetric capabilities and advantages to control the sea lanes and airspace around Taiwan, and possibly be ready to attempt an invasion of Taiwan. For example, China's recent nuclear weapons breakout is almost certainly to prevent or mitigate nuclear coercion from the United States (that occurred a few times in the 1950s), to allow greater freedom of action against Taiwan if China's leaders deem it necessary.

## **Taiwan Perspective:**

For some decades after the ROC and Nationalists fled to Taiwan in 1949, after the PRC won the Chinese Civil War, most Taiwanese considered themselves Chinese. But, as generations were born in Taiwan, most of the younger generations believe themselves to be Taiwanese, with no desire to ever fully integrate with the PRC-held mainland, nor wanting to lose their political freedom and prosperous economy.

Mentioned in many places in this report, the global economic strength and position of Taiwan are significant, and regarding high-tech chips, it is critical.

In January 2024, Taiwan elected Lai Ching-te (also known as William Lai) to the presidential office. Lai is a politician who, in the past, had progressive views of eventual separation from China. China's response was somewhat muted, especially when compared to the Pelosi visit in 2022. China did issue a statement that the election "will not change the basic fact that Taiwan is part of China and there is only one China in the world."

Taiwan's population is about 24 million people. Its military and security forces are less than 200,000 with more than 10% conscripts for short-duration service, and 1.6 million "civilian warriors" in reserve. In comparison, China's population is nearly 1.5 billion, with over two million soldiers and another 510,000 in reserve. Taiwan spends about \$17 billion on defense (with recent increases after a period of decline), whereas China spends about \$225 billion on defense. Taiwan's defense forces are impressive for such a small island with its active and reserve military forces, about 1,000 armored tanks and 1,600 artillery pieces, 400 military aircraft, around 20 frigates, and 4 submarines. Taiwan's Army, Navy, Marines, and Air Force, as well as long-range fires, counter-fire, air, and missile defenses, are formidable, but they would be overwhelmed by China if it were to attack Taiwan. To survive a war against China, Taiwan would require massive external and direct assistance.

Taiwan has utilized "supplemental defense budgets" as a vehicle for defense acquisitions outside the normal budgeting process. In 2021, Taiwan adopted an \$8.6 billion supplemental defense budget that spanned 2021-2026, which focused heavily on indigenously produced anti-ship and anti-aircraft missile systems. In late 2025, Taiwan's government proposed an approximately \$40

billion supplemental program, “Program of Acquisition Special Regulations for Strengthening Defense Resilience and Asymmetric Combat Capability.” This supplemental – projected to extend over eight years – would raise Taiwan's defense spending to 3.3% of GDP. As the title implies, this supplemental budget would include significant investment in asymmetric combat capabilities such as unmanned combat vehicles and Artificial Intelligence-enabled intelligence and command & control capabilities.

Of note, in December 2025, President Trump authorized the largest military sales deal with Taiwan to date, with \$11 billion in weapons shipments.

## **Recent Summit Between Presidents Trump and Xi:**

Taiwan played a central role in this overdue meeting between the two presidents last week. President Xi was very vocal, saying, “Taiwan independence and cross-Strait peace are as irreconcilable as fire and water...safeguarding peace and stability across the Taiwan Strait is the biggest common denominator between China and the U.S.”

President Trump was allegedly asked by Xi if he would defend Taiwan against China. After the summit, President Trump answered reporters, saying that he told Xi, “I don’t talk about those things...there’s only one person that knows that—you know who it is? Me. I’m the only person.” Publicly, President Trump still has not directly reaffirmed the U.S. commitments to Taiwan via the Taiwan Relations Act of 1979 described earlier. But he has recommended that both China and Taiwan cool things down, and for things to remain as they are now.

President Trump delayed the latest defense package for Taiwan, amounting to about \$13 billion, in advance of this summit. Without question, Xi wants President Trump to stop or at least reduce U.S. defense support to Taiwan. The President stated he will decide soon how he will handle this deal.

## **Security Key Points:**

- China is actively engaged in a campaign to erode the existing economic order, replacing long-standing norms with rules favorable to China. An example is China’s claim to the entirety of the South China Sea – Taiwan (and other areas such as the South China Sea) could be flashpoints for China to push its long-term agenda.
- More problematic for Taiwan is that Chinese rhetoric, to include statements from President Xi, has an increasingly urgent nature regarding the integration of Taiwan into China, even forcibly.
- Taiwan has become a global economic powerhouse, but its prosperity does not guarantee its security into the indefinite future.
- Taiwan’s military is growing, but it is dwarfed by China’s expansive military capabilities, which are steadily getting more powerful. Taiwan must have partners to effectively defend against a Chinese attack or invasion. The U.S is Taiwan’s key partner. Yet this does not guarantee Taiwan’s survival, just like it does not guarantee the protection of Ukraine, Georgia, or Moldova. “Partners” do not enjoy the same status as a robust mutual defense treaty like that of “allies.”
- Taiwan does not need to defeat China – it needs to prevent (or hopefully deter) an attack. Immediate improvements in its military posture are needed to do this. Specifically, Taiwan must improve its area denial capabilities, which are needed to make it more difficult for

Chinese airplanes and ships to invade Taiwan, as well as soften China up with long-range fires in advance of an invasion. The capabilities that must be improved include coastal defense cruise missiles, AI, and space-enabled multi-tiered air and missile defense, long-range fires and counter-fire capability, and autonomous offensive naval strike capabilities.

- The United States' commitments to Taiwan, including pledges to its defense, are intentionally vague to simultaneously deter China from invading Taiwan and to allow flexibility of what the U.S. might or might not do if China were to attack. That said, the U.S. has committed, and continues to commit, substantial resources to Taiwan to improve its defenses and national resilience. But there are mixed messages coming from key leaders. A few times, President Biden stated, "We will defend Taiwan." Conversely, President Trump has said, "Why should we defend Taiwan?"
- The U.S. intelligence community is split on whether President Xi would order a military takeover of Taiwan. There is also uncertainty on the timing of such an attack, as soon as 2027 or as late as 2049.

## Economic Key Points:

- Taiwan has a GDP of over \$900 billion and is in the top 10 U.S. trading partners. Bilateral trade between the U.S. and Taiwan has reached over \$150 billion in total goods.
- A Chinese attack or invasion of Taiwan would have a major impact on both the global and U.S. economies, especially in advanced technology.
- Ninety percent of high-end chips are produced in Taiwan. Cutting off global access to Taiwan's advanced chips would have an enormous global financial impact, potentially exceeding \$1 trillion on an annual basis for the near-term.
- A strategic deterrence failure with China (and for that matter, Russia) involving the U.S. and/or its allies can have tremendous impacts on global and domestic economies. Even worse would be a conflict with either China or Russia – that could evolve into a war with both, either sequentially or simultaneously.
  - Companies that conduct substantial business with potential adversaries that turn into enemies after a strategic deterrence failure will see most, if not all, those transactions cease, as enemies in a hot war stop all economic connections with each other.
  - Conversely, companies that the U.S. and/or its allies rely on for war footing would see massive increases in demand for critical materials, resulting in major growth for those companies.
- The United States is making plans to "on-shore" microchip manufacturing within the domestic industrial base, combined with "friend-shoring" (partnering with allies and friends) to further reduce the vulnerability of free-market nation supply chains. These plans, in partnership with global advanced microchip manufacturers, are designed to reduce global reliance on the South China Sea region for critical technology elements over time.
- In early 2026, the U.S. and Taiwan agreed to a trade deal with a 15% tariff cap on imports into the United States. Advanced microchips have been exempted from tariffs in general, with specific provisions for Taiwanese companies investing in U.S. microchip manufacturing facilities.
- Taiwan remains of strategic importance to free-market nations led by the U.S. from both economic and national defense perspectives. The risk concentration of next-generation microchip manufacturing in Taiwan is difficult to de-risk in the near term, along with the associated disruption impacts to all global economies. This risk is magnified by the proximity of

South Korea, which is the second-largest producer of global microchips. China's influence, combined with the aggression of its North Korean relationship, poses an even greater risk to the global technology supply chain. While much of the next-generation microchip intellectual property is developed in the United States, the manufacturing concentration and China's potential control over it would be a significant risk to free-market nations.

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