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SPECIAL REPORT · INDO-PACIFIC / TAIWAN RISK

Taiwan and maritime supply-chain risk in the Indo-Pacific

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Executive summary

Taiwan is the linchpin of the global semiconductor supply chain and a critical node in Indo-Pacific maritime logistics. A cross-Strait crisis — whether blockade, quarantine, missile campaign, or full invasion — would sever the world's most advanced chip production, disrupt the busiest container routes, and trigger economic shock waves far exceeding the 2021 Suez Canal blockage. Even short of kinetic conflict, grey-zone pressure (military exercises, customs inspections, cable cuts, cyber intrusions) imposes rising compliance, insurance and routing costs. Companies with Indo-Pacific exposure must plan for disruption scenarios ranging from days to years.

What matters now

- **Semiconductor concentration is extreme.** TSMC produces ~90% of advanced logic (<7 nm) and ~60% of global foundry revenue. A single fab cluster (Hsinchu, Tainan, Taichung) controls the digital economy's upstream. No viable short-term substitute exists; Samsung and Intel Foundry Services cover <15% of advanced-node capacity combined.
- **Maritime chokepoints overlap.** The Taiwan Strait, Luzon Strait, Miyako Strait, Bashi Channel, and Philippine Sea lanes carry 40%+ of global container traffic and 60%+ of LNG to Northeast Asia. A Taiwan contingency closes or constrains all simultaneously.
- **Grey-zone pressure is the baseline.** Since 2022, PLA has normalised: large-scale Joint Sword exercises (encirclement, blockade rehearsal), coast guard patrols (Kinmen, Matsu, Taiwan Strait median line), cognitive warfare (disinformation, cyber), and customs/administrative friction (sand dredging bans, fish import bans, machine tool export controls). This raises the cost of "peacetime" operating cost without triggering war.
- **Allied deterrence is credible but untested.** U.S. "integrated deterrence" (Japan, Australia, Philippines, AUKUS, Quad), Japan's counterstrike capability, and Philippines' EDCA sites (9 bases, 2023+) complicate PLA planning. But no allied commitment explicitly guarantees Taiwan's defence; strategic ambiguity persists.
- **Economic interdependence cuts both ways.** China is Taiwan's largest trading partner (~25% of trade); Taiwan is China's largest semiconductor supplier. Both sides have leverage; both face catastrophic decoupling costs. This creates a "mutual assured economic destruction" dynamic that may deter but also complicates crisis management.

Current operating picture

PLA capability trajectory (2022–2026)

Domain	2022 Baseline	2026 Status	Trend
Amphibious lift	2 LHD (Type 075), 8 LST (Type 072/073), civilian RO-RO (100+)	3 LHD, 12 LST, civilian RO-RO (200+), modular barge bridging	↑↑
Missile forces	DF-11/15/16 SRBM (1,200+), DF-21D ASBM, CJ-10 LACM	DF-17 HGV, DF-27 hypersonic, YJ-21/100 AShM, land-attack volume +40%	↑↑
Air power	J-16, J-10C, J-20 (150+), H-6K/J bomber	J-20 (300+), J-35 carrier variant, H-6N air-refuel, loyal wingman UAV	↑↑
Naval power	2 CV (Liaoning, Shandong), 075 LHD, 54+ DDG/FFG	3 CV (Fujian CATOBAR, 2024 launch), 054B FFG, 055 DDG (8+)	↑↑
ISR / C4I	Gaofen, Yaogan, Tianhui SAT; PLA Strategic Support Force	Integrated Space-Cyber-Info Force (2024 reorg), artificial-intelligence targeting, SATCOM resilience	↑↑

Grey-zone campaign (2022–2026)

- **Joint Sword / United Sharp Sword exercises:** 8 major cycles (Aug 2022, Apr 2023, May 2024, Oct 2024, May 2025, Oct 2025, Mar 2026, Jun 2026). Each simulates blockade: 100+ aircraft, 10+ surface combatants, missile firings into predefined zones around Taiwan.
- **Coast Guard (CCG) presence:** 24/7 patrols in "restricted zones" around Kinmen, Matsu, Wuqiu, Dongyin. 2024: CCG 21500/21501 (12,000 t cutters) enter Taiwan Strait median line weekly.
- **Cable cuts:** 2023: Matsu cables (2x, suspected Chinese trawlers). 2024: Keelung-Yonaguni cable. 2025: Taiwan-Philippines Bifrost cable. Repair takes weeks; redundancy limited.
- **Customs/administrative:** 2022: citrus, grouper, pineapple bans. 2023: machine tool export controls (Japan/Netherlands/US alignment). 2024: sand dredging ban (construction impact). 2025: PCB substrate inspection regime.
- **Cyber/cognitive:** APT41, APT10, APT27 targeting Taiwan government, semiconductor, port, railway, media. Disinformation: "US abandons Taiwan," "TSMC moving to Arizona," "war inevitable."

Taiwan's resilience measures

- **Civil defence:** 2023–2026: reserve reform (2.3M → 300k high-readiness), Wan'an exercises (air raid drills), shelter mapping (70,000+), 14-day stockpile guidance (water, food, meds, comms).
- **Energy security:** 2024: 3rd LNG terminal (Taoyuan), SPRs (crude 14 days, coal 60 days, LNG 11 days). Target: 14-day total energy autonomy.
- **Supply chain diversification:** "Taiwan Plus One" — TSMC Arizona (2 fabs, 4 nm/3 nm, 2025/2028), Japan (Kumamoto 22/12 nm, 2024/2027), Germany (Dresden 12/28 nm, 2027+). But >80% of leading-edge stays in Taiwan through 2030.
- **International partnerships:** U.S. TIFA, ITA (Initiative on 21st Century Trade), Japan TIP, EU investment agreement talks. AIT/TECRO channel upgraded.

Key risk mechanisms

1. Blockade / quarantine (most probable high-impact scenario)

PLA declares "customs inspection zone" or "maritime exclusion zone" around Taiwan. CCG/PLA Navy board and divert all inbound/outbound commercial traffic. Airspace closure via ADIZ extension + missile threat. No shots fired initially; legal figleaf of "domestic law enforcement."

Mechanism: 100% of Taiwan's seaborne trade (98% of goods by volume) stops. Air cargo (high-value semiconductors) halts. Global chip supply chain freezes at source. Insurance: war risk triggers, constructive total loss claims. Shipping: Cape of Good Hope diversion (14–21 days). Financial: TWD crash, TAIEX -30%+, global tech equities -20%+.

2. Missile campaign against infrastructure

PLA fires SRBM/ASBM/LACM at: TSMC fabs (Hsinchu, Tainan, Taichung), ports (Kaohsiung, Taichung, Taipei), airports (Taoyuan, Songshan), power plants (Hsinta, Taichung, Mailiao), C2 nodes, SATCOM ground stations. Goal: degrade defence and economy without invasion.

Mechanism: Precision strike (CEP <10 m for DF-15/16/17). TSMC fabs hardened but not bomb-proof. 7-day outage = 3-month global lead-time extension. Power grid collapse cascades to water, comms, transport. Casualties: civilian, foreign nationals. Insurance: war exclusion, parametric triggers rare.

3. Invasion (amphibious assault)

PLA launches cross-Strait assault: 1st echelon 30–50k (marines, armour via LHD/LST/RO-RO), 2nd echelon 100k+ (army groups via ports). Preceded by 7–14 days of missile/air bombardment, cyber, cognitive. Success probability: low (US/Japan intervention, weather window, logistics). But consequences: total economic severance, refugee millions, regional war.

Mechanism: Taiwan Strait width 130–180 km. Sea state >3 blocks RO-RO. PLA needs 30+ days calm weather (Apr–Oct). US/Japan ISR sees buildup 14+ days out. Decision window for allies: intervene or accept fait accompli.

4. Cable / cyber / space severance

Coordinated cuts of 7 international submarine cables (TPE, APCN2, AAG, EAC-C2C, NCP, SJC2, Bifrost) + cyber on TSMC/ASML/port/logistics + ASAT/laser dazzle on SATCOM. Creates "information blackout" — no market data, no shipping comms, no financial settlement.

Mechanism: Repair ships (CS Global Sentinel, CS Responder, etc.) need 2–6 weeks per cable. PLA can interdict repair ops. Cyber persistence: APT in TSMC MES/ERP, port TOS, customs SW. SATCOM denial: Starlink/OneWeb/Kuiper ground stations jammed or kinetically targeted.

5. Economic decoupling cascade

Even without kinetic action, sanctions/counter-sanctions spiral: US/Japan/EU export controls (EUV, photoresist, EDA, HBM) → China retaliates (rare earths, graphite, gallium, germanium, antimony, tungsten, critical minerals) → Taiwan caught in middle. Financial: SWIFT/CIPS disconnect, dollar clearing freeze, TWD non-deliverable forward blowout.

Early warning indicators

Indicator	Threshold for escalation	Source
PLA amphibious embarkation (RO-RO loading, LHD/LST sortie)	>50 RO-RO + 3 LHD simultaneously	Commercial SAT (SAR/EO), AIS, OSINT

Indicator	Threshold for escalation	Source
Missile brigade movement to Fujian/Zhejiang coast	DF-15/16/17 TELs in firing positions	US INDOPACOM, Taiwan MND, commercial SAT
CCG / PLA Navy blockade deployment	>20 surface combatants encircling Taiwan	AIS, IMSC, Taiwan MND, Japan MOD
Cable cut cluster (>2 in 48h)	Coordinated cuts	SubTel Forum, Taiwan NCC, repair ship AIS
Cyber intrusion on TSMC / ASML / port TOS	Confirmed APT in OT/ICS	Mandiant, CrowdStrike, Microsoft, Taiwan CERT
US carrier strike group surge to Philippine Sea	2+ CSG + ARG simultaneously	USNI News, CSIS AMTI, OSINT
Japan SDF alert level raise / SCPP activation	JTF-Naha/JTF-Fukuoka deployment	Japan MOD, NHK, Kyodo
Philippines EDCA site activation (US assets)	5+ sites with rotating US forces	US PACOM, Philippines DND, Rappler
Financial: TWD NDF >10% widening in 1 week	Market signal	Bloomberg, Reuters, Taipei Forex

Implications for organisations

Semiconductor and high-tech companies

- **Supply chain mapping:** Tier-1 (TSMC, UMC, VIS, PSMC), Tier-2 (ASE, SPIL, KYEC, ChipMOS, PTI), Tier-3 (photomask, substrate, chemical, gas, wafer). Single-source audit for each critical material.
- **Inventory strategy:** 90–180 day buffer for advanced-node wafers. Consignment stock at assembly/test (Malaysia, Vietnam, Philippines, US, Japan). Contractual priority allocation clauses.
- **Geographic diversification:** Accelerate TSMC Arizona/Japan/Germany qualification. Qualify Samsung Foundry (4 nm/3 nm GAA) and Intel 18A/14A as alternate sources. Design for portability (PDK migration).
- **IP protection:** Segment design IP; no single site holds full mask set. Encrypt GDSII; air-gap sign-off.

Shipping and logistics companies

- **Route planning:** Pre-compute Cape of Good Hope, Lombok-Makassar, Sunda Strait alternatives. Bunker contracts for diversion. Charter-party war risk clauses (BIMCO 2021 + Taiwan-specific).
- **Port exposure:** Kaohsiung, Taichung, Taipei, Keelung, Hualien — identify alternate transshipment (Hong Kong, Yantian, Singapore, Busan, Kaohsiung-anchorage). Blank sailing triggers.
- **Insurance:** Hull & Machinery war risk, P&I war risk, cargo war risk. Parametric "Taiwan Strait closure" endorsement. Loss of hire / delay cover.

Energy and industrial companies

- **LNG / oil supply:** 60%+ of Japan/Korea/Taiwan LNG transits Taiwan Strait. Contracts: FOB diversion clauses, DES force majeure. Alternate: US Gulf Coast, Australia, Qatar, Mozambique, Papua LNG.
- **Critical minerals:** Rare earths (China 60%+ mining, 90%+ processing), graphite, cobalt, lithium. Stockpile 90 days. Recycle/recover loops. Junior miner offtake (Australia, Canada, Africa, Brazil).
- **Manufacturing footprint:** China-plus-one (Vietnam, India, Malaysia, Thailand, Mexico, Poland). But Taiwan-plus-one is harder — assess each facility's Taiwan-input dependency.

Financial services and insurers

- **Exposure modelling:** Credit risk to Taiwan obligors (corporate, sovereign, bank). Market risk: TWD, TAIEX, semiconductor equities, shipping rates. Liquidity risk: USD/TWD NDF, CNH, JPY.
- **Insurance portfolio:** War risk aggregation (Hull, Cargo, P&I, Aviation, Political Risk, Cyber). Accumulation management: single-event limit for Taiwan scenario. Reinsurance: cat bonds, ILS, parametric.

Travellers, expatriates, NGOs

- **Evacuation planning:** Commercial air (Day 1–3), charter (Day 3–7), military airbridge (Day 7+). Assembly points: Taipei (Songshan/Taoyuan), Kaohsiung, Taichung, Hualien. Sea evacuation: Keelung/Kaohsiung → Ishigaki/Okinawa/Philippines.
- **Communications:** Satellite (Starlink RV, Iridium, Inmarsat BGAN). eSIM multi-IMSI. Offline maps, contact lists, medical records.
- **Medical:** Trauma kits, burn dressings, potassium iodide, 30-day personal meds. Blood type, allergies, next-of-kin on person.

Recommended actions

Within 72 hours

- **Taiwan exposure register:** List all suppliers, facilities, personnel, contracts, shipments, financial exposures with Taiwan nexus. Assign risk owner.
- **Insurance trigger review:** Confirm war risk, political risk, cyber, parametric covers. Identify gaps (e.g., "blockade without kinetic attack" coverage).
- **Travel restriction:** Defer non-essential Taiwan/China/Hong Kong travel. Mandatory registration for essential.

Within seven days

- **Supply chain stress test:** 30/60/90 day Taiwan outage scenario. Identify single-source choke points. Qualify alternates.
- **Contractual force majeure audit:** All Taiwan-linked supply, distribution, JV, licence agreements. Standardise "cross-Strait crisis" definition.
- **Communications resilience:** Procure satellite terminals for Taiwan-based staff. Test quarterly.

Within thirty days

- **Tabletop exercise:** "Day 1: Blockade declared. Day 7: Missile strikes on ports. Day 30: Invasion / stalemate." Participants: procurement, legal, finance, security, HR, comms, board.
- **Inventory buffering:** Fund 90-day advanced-node wafer buffer. Negotiate consignment at OSAT (ASE Malaysia, Amkor Philippines, SPIL Vietnam).
- **Financial hedging:** TWD NDF, semiconductor equity puts, freight derivatives (FFA Cape route). Board authorisation for emergency credit facility.

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Method note

This report is based on open-source material reviewed up to 25 June 2026 and analytical assessment by SF Custos Global. It does not replace legal, insurance, sanctions, medical or country-specific professional advice.