

MARKET DISRUPTION BRIEF

China/Taiwan tension and plausible supply chain impact

(June 12)

Suppliers are assessing the implications of China seizing governmental control over Taiwan and how military and non-military activity would affect the supply chain.

Current conditions

China believes Taiwan, a self-ruled island, belongs to “One China” and persistently indicates its ambition to regain governmental control by force, economically or through political strategies.

By force: China taking Taiwan by force would be a direct military invasion or a naval blockade of Taiwan’s ports. Prevailing thought indicates that neither of these scenarios appears likely due to the significant long-term economic and geopolitical consequences:

- It appears a U.S. response would be similar to that of Ukraine, providing military equipment and adding sanctions that affect China’s economy and leaders. In late August, the U.S. approved a sale of \$500 million in military supplies to Taiwan. In April another \$8 billion US military aid package was approved for Taiwan.
- During U.S. Secretary of State Antony Blinken’s visit to **China in April**, “The Secretary underscored the importance of maintaining peace and stability across the Taiwan Strait and reiterated there has been no change to the U.S. one China policy, which is guided by the Taiwan Relations Act, the three Joint Communiques, and the Six Assurances.”
- China will boost its defense spending by 7.2% in 2024

Economically: China taking Taiwan via economic means would entail a drawn-out patient strategy impacting trade and semiconductor businesses. China remains Taiwan’s largest export and import trade partner, meaning China has significant impact and influence on Taiwan’s economy. About 40 to 50% of Taiwan’s exports go to China, while another 20% of exports are sent to the U.S., with much of that being in the technology sector. Taiwan also imports a significant percentage of its raw materials to create the island’s energy. If China targeted either of these areas, it could economically devastate Taiwan. The naval blockade of ports could also become more of an economic tactic by limiting Taiwan’s ability to trade.

Politically: This option seems the most likely scenario and would include attempts at influencing the Jan. 13, 2024, elections leading to a China-friendly party being elected. A China-friendly party in control may peacefully allow China to gain additional control of Taiwan. Reports indicate China has also been creating fear and using indoctrination schemes with the youth and young adult population, indicating a long-term strategy that would eventually lead to a majority of the population desiring to rejoin China. There are three parties participating in the January 2024 elections, with no clear leader as of mid-December.

Supply chain impact

Any incursion by China, whether militarily or not, would create substantial supply chain disruptions impacting more than just the semiconductors produced in Taiwan. Most analysts believe a military response by the U.S. would not occur, but a response would include sanctions similar to those imposed on Russia after its invasion of Ukraine. We are assessing the full impact beyond the semiconductor market discussed below:

- Any disruption in Taiwan would send shockwaves through the semiconductor market with roughly 50% of all medical devices incorporating a semiconductor chip, while the medical market represents only about 1% of the total semiconductor market. Semiconductors are used in MRI machines, ultrasound devices, defibrillators, pacemakers, BP monitors, chemistry/blood gas analyzers, and bedside and wireless patient monitors.



To learn more, please contact:
Vincent Aguilera, Lead Program Svc. Mgr.,
vincent.aguilera@vizientinc.com.

As the nation’s largest member-driven health care performance improvement company, Vizient provides solutions and services that empower health care providers to deliver high-value care by aligning cost, quality and market performance. With analytics, advisory services and a robust sourcing portfolio, we help members improve patient outcomes and lower costs.

- A Chinese takeover of Taiwan would supply the country with significant control over the semiconductor industry. By one measure, a single Taiwanese company – the Taiwan Semiconductor Manufacturing Co. (TSMC) – has more than half of the world's market. Long-term, U.S. legislators have committed to increase semiconductor chip manufacturing in the U.S. to lessen reliance on foreign countries for this vital product. However, it will take several years before construction and upgrades of current fabrication plants are completed.
 - U.S. legislation: The *CHIPS and Science Act, No chips for China Act*, signed into law in August 2022, provides more than \$280 billion in funding to raise production of semiconductors in the U.S. through the construction of manufacturing facilities and workforce training. The act also demanded all highly advanced semiconductor producers no longer sell advanced chips to China, and all U.S. citizens working in China assisting in its development of advanced chips had to leave the country immediately. These actions were taken to prevent China from developing advanced military weapons but may also provide an incentive for China to secure control of Taiwan to obtain access to its advanced chip technology. We are maintaining a brief on Semiconductor Chips [here](#).

Mitigation strategies

Healthcare organizations

- Proactively conduct *supply and supplier risk assessments* as suppliers manufacturing in China may struggle to obtain chips, and ask your supplier about its *device component sources*, and if the supplier has direct contact with the sources.
- Increase *supply redundancy*, prioritize critical products and develop inventory strategies, and ask your suppliers what tools they use to gain market-wide visibility to component risks and how they implement this information into their production.

Suppliers

- Vizient category teams will be engaging suppliers to assess risk mitigation as well as preparedness and plans for response and recovery. Vizient will continue to monitor the situation and provide updates as they become available.

Sources

Moody's analytics, BBC.com, Wikipedia, Congress.gov, Blinken declares US "does not support Taiwan independence" during China trip (yahoo.com), What Is the U.S. "One China" Policy, and Why Does it Matter? (csis.org)

Resources

[Supply assurance webpage](#); [Vizient Newsroom](#)



Want to receive weekly Supply Assurance updates?

Update your preferences through our [Subscription Manager](#) by selecting Supply Assurance Weekly Digest.

Questions? Contact disasterresponse@vizientinc.com, pharmacyquestions@vizientinc.com, novaplus@vizientinc.com.