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Fellow Risk Watchers,

My name is Mike Dunn. I'm the Managing Director of risk management consultancy Intelligent Outcomes Group. You can find my details on LinkedIn or by visiting our web site www.iog.com.au.

The Ukraine War is now 11 months in duration with no signs of a let up from either side. The Russians have taken a bath militarily while the Ukrainians have largely triumphed but at a horrendous costs in military personnel losses, civilian deaths, and destroyed infrastructure. The winter has seen military operations devolve down to WW1 style trench warfare. There are preparations on both sides for renewed manoeuvre operations in the spring. The NATO countries are providing as many as 300 highly capable main battle tanks (MBT) to Ukraine for a proposed offensive in the spring that envisages the recapture of the Crimea. The Russians are also preparing for renewed operations in the East of Ukraine. But there is no way the Russians will be able to ignore the threat of any Ukrainian push to liberate Crimea from its close embrace. Strategists speculate whether President Putin will deploy tactical nuclear weapons if the Crimea is threatened. While not the topic of this analysis, it's likely any Russian use of tactical nukes will depend on the ultimate threat posed by the 300 Abrams, Challenger, and Leopard 2 MBTs. If they assess they cannot be defeated by artillery, missiles and other tanks, Putin is very likely to contemplate tactical nukes. Where that might spiral to is anyone's guess, but it will almost certainly lead to a more widespread conflict involving many more countries.

Against this troubling background, what's the current geostrategic situation in the Taiwan Strait and in Taiwan itself? Firstly, everyone who watches Taiwan will assess that President Xi Jinping has been very disappointed at the failure of Russia to carry the day militarily in Ukraine. That failure has likely caused Xi to hesitate to approve the maritime invasion of Taiwan. Militarily, the invasion 160 km across the Taiwan Strait is very challenging. The Russians are failing even when they have contiguous land borders with Ukraine. Imagine fighting across waters

mined with high tech mines, while being targeted by torpedoes, missiles, bombs, and artillery. All this before they even lodge forces on Taiwanese territory which will be defended with well prepared defensive positions. And if all of that can be overcome, the lessons learnt of global sanctions on Russia will inform Xi of the threat to the PRC economy and the CCP's global standing.

The two positive factors that Xi will calculate assist his plans is the confused presidency of Mr Biden and the rapid depletion of US military capability stocks in Ukraine that US warfighters will need if they are to defend Taiwan or remove PLA elements after a successful lodgment. Given that President Xi has had an annus horribilis, he may be looking for a 'big something' that restores his reputation at home and his stocks within the CCP politburo. But any calculation in this regard will also have to factor a potential loss and his removal by the politburo for failure. If he authorizes military action he will have done so in part because the major prize from winning is the removal of the US from the western Indo-Pacific region, and the subsequent collapse of US alliances in that region.

In the end, I think Xi's thinking will be informed by those strategic thinkers and military planners around him. Given Xi is no different to the other dictator Putin, in that they both want positive reinforcement of their visions and bad news is held against the bearer, that advice will almost certainly be bad and not informed by reality. That indicates a very difficult and possibly even more dangerous world in 2023.

I hope this is food for thought.