Market views: What do fresh Taiwan-China tensions mean for Asian investors?

Heather Ng
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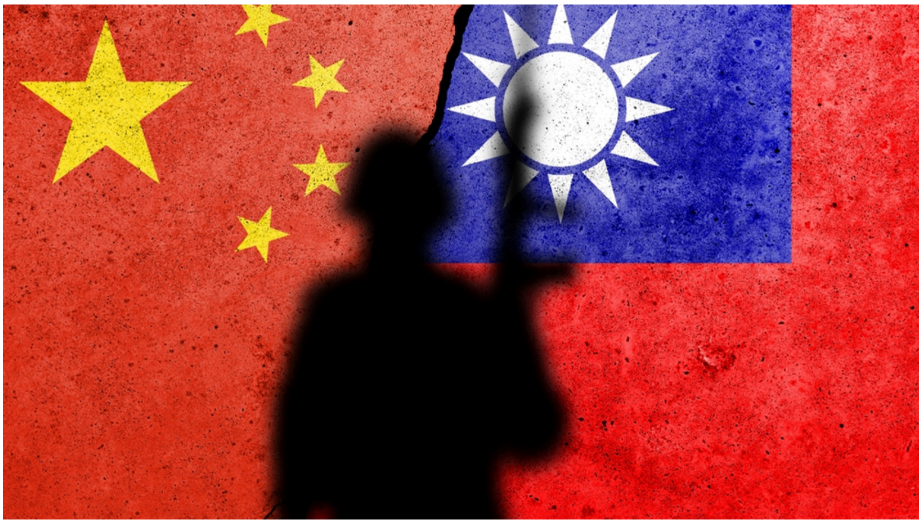
Global institutions are trimming their Greater China exposure, managing low-probability conflict risks on the back of souring relations between Beijing and Taipei.



Taiwan has kicked off its biggest-ever military drills as renewed tensions with China prompt some global investors to reassess their risk exposure in the region.

While the likelihood of direct conflict may be low, Taipei has expressed increasing concern about incursions by Chinese military planes and ships near the island – sparking questions about the vulnerability of its critical semiconductor sector.

AsianInvestor asked industry experts for their views on what the renewed tensions mean for investors and markets.

Steve Alain Lawrence, CIO
Balfour Capital Group

Taiwan's expanded Han Kuang military exercises and China's increased signalling across the strait are not being viewed as isolated developments, but rather as part of a broader structural recalibration of geopolitical risk.

The global semiconductor supply chain — anchored by Taiwan's TSMC and US firms like Nvidia — has become a focal point of this reassessment.

Steve Alain Lawrence

Despite ongoing US export restrictions, China's technology sector remains significantly dependent on advanced chips from TSMC and ASML, even as it channels substantial funding into domestic alternatives such as SMIC and Huawei's HiSilicon — many of which are subject to sanctions under the CHIPS Act and related measures.

In response, sovereign wealth funds including Singapore's GIC, Abu Dhabi's Mubadala and Norway's NBIM appear to be shifting from passive exposure to China and Taiwan towards more actively risk-managed mandates. On the fixed income side, there has been a noticeable rotation out of longer-duration Chinese sovereign and quasi-sovereign bonds — including those issued by Bank of China and China Development Bank — in favour of shorter-dated US Treasuries, SGD-denominated notes and ASEAN corporate credit.

Xin-Yao Ng, investment director of Asian equities
Aberdeen Investments


Xin-Yao Ng

The tensions between Beijing and Taipei are here to stay as there's no easy way for a quick resolution. But at the same time, I see the tail risk of a war as very low probability despite the rhetoric, because (a) Beijing has been clear that they prefer a peaceful reunification and (b) they know that a war will hurt their economy very badly and the state of their economy is too fragile to take that pain.

That said, we are treading on thin lines and sparks can get out of hand if not handled carefully. I find that the risks might be more in the hands of Taipei and Washington if they impulsively decide to test Beijing's stated bottom lines, such as if Taiwan's president decides to declare independence or if the US send troops onto the island.

I've seen that tail risk affects investment allocation of some Western investors, especially the institutions who take long-term strategic views, who have chosen to stay away from China or Asia due to it. For me, managing Asia equities, that has not been affected by portfolio decisions too much because of (a) my base case for continued peace and (b) there's almost no place to hide in Asia equities if China and Taiwan get into a war.

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