

## FUNDAMENTAL FLASH

### Newsflash | US-China Tensions Brew as House Speaker Nancy Pelosi Visits Taiwan

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*Prepared by Affin Hwang Asset Management*

A US congressional delegation led by House Speaker Nancy Pelosi arrived in Taiwan late on Tuesday, defying warnings from China who warned of “consequences” should the visit take place. The White House has sought to distance itself from the visit, saying that Congress works independently from the government’s executive branch.

In our latest Fundamental Flash, we unpack what this visit means to already frayed US-China relations and the impact to markets.

#### **Why is the visit so controversial?**

State official visitations between countries are commonly dealt with between 2 sovereign governments. From China’s perspective, a US official visiting Taiwan without the permission from Beijing is a violation of its sovereignty. China considers Taiwan as part of its territory and has not shied away from making comments about reclaiming the self-governing island.

On a personal front, Nancy Pelosi has also been a vocal and strong supporter of Taiwan's democratic change, which again undermines China's sovereignty over Taiwan.

#### **Flashpoints**

- House Speaker Nancy Pelosi arrived in Taiwan late on Tuesday, defying warnings from China.
- From China’s perspective, a US official visiting Taiwan without the permission from Beijing is a violation of its sovereignty.
- China has reacted so far by suspending Taiwanese imports and imposed tit-for-tat sanctions
- Expectations of a full-blown military invasion by China is unlikely at the moment, as leaders seek to avoid war.
- US-China strategic tensions isn’t going away soon as both compete for technological, political and economic clout in the global arena.

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## How is China reacting?

China has announced military exercises between 4-7 August in waters surrounding Taiwan. It has also bans on an array of Taiwanese goods from being imported into China. Given that China is Taiwan's single largest trade partner, China could follow up with further trade restrictions to exert pressure on Taiwan's economy.

## A Full-blown Conflict is Unlikely

At the moment, expectations of a full-blown military invasion by China is unlikely. Despite the verbal threats of military action from China, there is a lot to lose for every party involved, whether it's China, Taiwan or the US. The economic toll and civilian casualties are serious consequences that would make leaders tread carefully before committing to any military action.

The ball is currently now in China's court. We believe Beijing will remain pragmatic in avoiding a full-blown conflict especially when the cost far outweigh its benefits.

## US-China Strategic Tensions to Continue

While US-China tension has been brewing in the past 4 years, Pelosi's visit to Taiwan has escalated the tension between the two nations. We already seeing both parties preparing tit-for-tat economic sanctions.

We maintain our long-held view that the tension between the two nations will be a recurring issue for markets as both countries compete for technological, political and economic clout in the global arena.

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