

Taiwan's looming crisis is a much bigger threat than markets realise



Well-respected political analysts have begun to argue that President Xi is seeking a place in history as the leader who brings Taiwan back to China.

by **Stirling Larkin**

Markets in broad terms are known to be preemptive and prescient, and that is why we see share markets, currencies and commodities rapidly shift in pricing ahead of time in the anticipation of the future.

But markets and the personification of them, global investment leaders themselves, sometimes spectacularly ignore, miss or blind themselves to current real events that are logically going to have financial market consequences in the very near term.

Such an obvious example today is Taiwan.

The [conclusion to the recent DPRK-US summit](#) has far less of a financial markets outcome for North and South Korea as it likely does for China and Taiwan, with Australia not too far behind.

With the Taiwan Stock Exchange Weighted Index (TSWE) continuing to rise modestly and a globally inexpensive 1-year price-to-earnings ratio of 14.92, one would be forgiven for missing the sea change surrounding Taiwan's newer real-world reality.

In a fast-forwarded recap of history, the fractured Korean Peninsula continues to exist solely as a geographic buffer for China to ensure foreign occupying soldiers do not encircle China's "Middle Kingdom".

Australian Diggers fought and died in the Korean and Vietnamese wars to ensure that China's Communist influence did not continue to expand throughout our shared Pacific basin.

The status quo, held impressively consistently since the middle of the 20th century, matters to real world geopolitics and regional financial markets.

Japan, for instance, still heavily relies on Australia as its largest commodities provider. It remains Australia's second-largest export client behind China and thus leans heavily on the continuance of this status quo.

The well-publicised and critiqued DPRK-US summit glossed over one unforced concession made by US President Donald Trump.

Backing down

This concession saw Trump propose reassigning the United States' 29,000 permanently-deployed South Korean-based soldiers to a reduced and ineffectual 18,000 peacekeeper force.

Worse, this proposal was not even one of his original and sporadic ideas. Kim Jong-un suggested it for the first time only two days previously in Singapore in an off-the-cuff comment, which posited that "permanent and durable peacekeeping" was an option.

What is relevant is that the Chinese Communist Party, for the first time since its inception in 1949, has seen the United States back down from its tough and unwavering position held consistently since the First Taiwan Strait Crisis of June 1950, when President Harry Truman sent the US Navy's Seventh Fleet to protect the now-recognised status quo.

Any withdrawal of US military personnel from the peninsula will signal the death knell of this status quo.

At the same time, Taiwan has faced increased coercion from China and President Xi Jinping, who established absolute political dominance in China at the recent 19th plenary, where [presidential term limits were removed from China's constitution](#): this elevated Xi to a status nearing Mao Zedong.

But to accomplish equal or even superior status with Mao, President Xi must invert the Taiwan Strait status quo. In October he was quoted as saying: "Achieving full reunification of the motherland is necessary for realising the great rejuvenation of the Chinese nation."

Well-respected political analysts have begun to argue that Xi is seeking a place in history as the leader who brings Taiwan back to China and could launch a military attack to do so as early as 2020. And yet financial markets and global investment leaders have remained almost blind – or worse, indifferent – to this serious and real possibility.

Trump's unforced concession of replacing permanent US soldiers in South Korea with a small token peacekeeping presence is, in no uncertain terms, providing Beijing with the imprimatur to change the Taiwanese status quo.

For the TSWE, Hong Kong, Nikkei and Australian stock market indexes, such a change would ratchet volatility to crisis levels not witnessed since the Black Monday crash of October 19, 1987.

Financial markets' wholesale indifference to this increasingly real potential future is a mistake, but it's one individual global investors need not also make.

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