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Taiwan Strait: storms on the horizon

The US-China trade détente and shifts in Taiwanese politics are keeping the threat of a geopolitical flare-up over Taiwan low in the near-term, despite big changes in US foreign policy. However, China's goal of reunification and the view that its window of opportunity might be closing will reignite risks over time.

Key Takeaways

- The shift to a more assertive US foreign policy has raised broader questions about risks to the geopolitical status quo in the Taiwan Strait.
- However, we judge the probability of the status quo persisting over the next 12 months as higher than we did in 2024 (40% to 65%).
- This is because of the détente in US-China trade relations, the US' re-affirmed commitment to "strategic ambiguity" vis-à-vis Taiwan, and the importance of Taiwan to US security.
- Shifts in Taiwan's domestic politics away from independence, and uncertainties surrounding the leadership of the People's Liberation Army (PLA), also raise the likelihood of the status quo persisting.
- Nevertheless, President Xi's long-standing goal of reunification, and concerns China's window of opportunity might be closing raise the risks of a geopolitical flare-up over time.
- The possibility of supply diversification leading to Taiwan's reduced significance as a supplier of high-end chips could, over time, lower the US' strategic interest. And continued 'grey zone' military activity by the PLA creates scope for renewed friction.
- Over the next five years, we see a 45% probability of the status quo persisting, and, in extremis, we allocate a 10% chance to military annexation.

US-China détente reduces Taiwan Strait risks

The Trump administration's embrace of the 'Donroe Doctrine' approach to foreign policy, which espouses a worldview based on spheres of influence, has increased concerns around the outlook in the Taiwan Strait.

US action in Venezuela and a focus on the ownership of Greenland have led to speculation that the US may pull back from its presence in Asia Pacific in favour of dominance in the western hemisphere.

Indeed, the latest US National Security Strategy review, released in December, emphasised a focus on Latin America, while criticising traditional US allies in APAC over their lack of military spending.

Some commentators have also speculated that China may take confidence from this shift in US policy and seek to project more power within Asia. And displays of military force by the US could encourage China to also engage in military action.

On the other hand, they might be seen as a deterrent to Beijing. Indeed, the willingness of the Trump administration to use force in Venezuela, but also launch strikes on countries such as, Iran, Nigeria and Somalia, indicates a more active security policy.

More fundamentally, these actions show a willingness to act across regions, pushing back against a narrow interpretation of "spheres of influence".

The review also heavily focused on emphasising economic competition with China and the importance of deterring conflict over Taiwan.

It flagged the future of Taiwan as having "major implications" for the US economy, due to it being a supplier of key semiconductor technology, importantly used in advanced weapons systems, as well as its proximity to key shipping lanes.

The US also restated its longstanding "strategic ambiguity" policy on Taiwan and desire to preserve the status quo in the strait.

Instead, tensions between the US and China have increasingly been centred on trade under the Trump administration, with a fragile truce reached in October.

Reflecting the pause in trade tensions and desire to maintain the status quo over the Taiwan Strait, we have raised the probability of the status quo persisting to 65% (from 40%) over the next 12 months (see Figure 3).

Three developments supporting the status quo

Another key factor behind our view that the status quo will persist is that Taiwan's domestic political situation became less aggravating for Beijing in 2025.

First, the split legislature since the 2024 elections has proved effective in curbing the ability of pro-independence president, (William) Lai Ching-te, to enact policy. The approval ratings of Lai, who is part of the Democratic Progressive Party (DPP), have dropped from 48% at the start of 2025 to 35% in October according to a survey done by the Taiwanese Public Opinion Foundation.

Despite US pressure to increase military spending, Lai has faced pushback from the opposition. Lai's proposed \$40 billion package to modernise military equipment over eight years has been blocked and risks being scaled back given the opposition's control of the legislature.

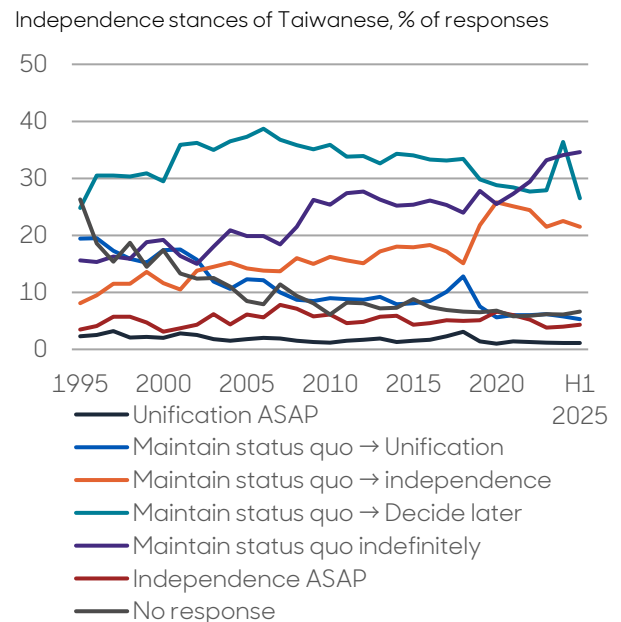
Second, the Kuomintang (KMT)'s shift towards a more pro-Beijing stance has been another favourable development for China. After being elected in October, the KMT's new leader Cheng Li-wun has restated the party's long-standing position of "one China" and has signalled a less cooperative stance towards the US.

Third, domestic sentiment towards independence has cooled. In recent surveys by the Taiwan Election Study Center, responses calling for the status quo but with a

gradual shift towards independence have fallen, from a peak of 25.5% in 2021 to 21.5% in 2025 (see Figure 1).

With momentum around the pro-independence movement stalling, Beijing may feel less need or urgency to intervene politically or militarily.

Figure 1: Support for independence has cooled



Source: Election Study Center, National Chenghei University, Aberdeen, February 2026

PLA readiness delayed

Another factor is that leadership changes raise doubts about the readiness of China's People's Liberation Army (PLA) and President Xi's confidence in its capabilities.

Vice Chair of the Central Military Commission (CMC) Zhang Youxia was removed in late January, marking the latest example of an extensive purge of the CMC. Indeed, the commission's membership has fallen from seven to two – one of which is President Xi.

In December, there was also a change in commander at the Eastern Theatre Command, the arm of the PLA responsible for operations in the Taiwan Strait.

With the change in personnel, we can infer that the near-term focus remains on rooting out corruption, ensuring political alignment and modernising the PLA.

This raised the probability of the status quo persisting to 65% (from 40%) over the next 12 months (see Figure 3).



Points of tension remain

However, we think there remains a non-trivial chance (30%) that tensions flare up, moving Taiwan to the front and centre of market concerns over 2026.

Tensions over the trade relationship are likely to persist as various points of disagreement between the US and China remain unresolved. And Taiwan has become more economically important to the US since President Donald Trump's first term, with its exports to the US surging 126% in 2025 amid the AI capex boom (see Figure 2).

Figure 2: The significance of Taiwan's semiconductors to the US economy has grown

Taiwan: Exports to the US (Seasonally adjusted, \$bn)



Source: Haver, Aberdeen, February 2026

Trump has acknowledged the US military and economic dependence on Taiwanese semiconductors, imposing a 25% tariff on "certain advanced computing chips" on 14 January in an effort to onshore production to the US.

US demand for semiconductors and related chip products has risen sharply on the back of investments into AI-related infrastructure. As such, Washington will be alert to any actions by China that could threaten this supply.

Beijing also remains extremely sensitive to comments in support of Taiwanese independence and is wary of efforts to boost its militarisation.

For example, China-Japan relations deteriorated sharply in late 2025, following comments from new Japanese Prime Minister Sanae Takaichi over the potential for Japan to intervene militarily if mainland China were to use military force against Taiwan.

Similar comments from Trump or senior officials in other neighbouring countries could provoke China, pushing Taiwan risks back to the forefront for markets.

The Trump administration has also pushed Taiwan to increase its defence spending as a key demand in its relations with Taipei. In December, Taiwan agreed to an \$11 billion arms purchase from the US. In response, China held live-fire military exercises in the strait.

Further increases in defence spending could risk creating a "closing window of opportunity" in which Beijing believes the future cost of using force will rise significantly as the island's military capabilities harden.

Continued 'grey zone' activity by the Chinese military in the strait creates another source of conflict risk, with the potential for accidents and miscalculation. Ultimately, conflict can never be fully discounted, and we assign it a 5% probability over the next 12 months.

The status quo holding is still the most likely long-run outcome

Over the next five years, we still pencil in a 45% probability that the status quo will hold, reflecting significant counterweights from: i) China's economic development goals being put at risk; and ii) Beijing's assessment of the chances that the US does indeed engage militarily to stop unification.

The 15th five-year plan signalled that China's priorities remain focused on issues of self-sufficiency and technological superiority, as well as achieving high-income economic status.

Conflict over Taiwan – or even unification achieved without conflict – risks triggering severe economic sanctions on China, which could result in an outflow of foreign investment, tariffs, technology restrictions, and financial sanctions, all threatening longer-term economic goals.

Xi's legacy looms large

However, President Xi and the Chinese Communist Party (CCP) remain committed to the "reunification of China", and policy decisions will over time be geared towards achieving this aim.

This drive is one factor that reduces the probability we assign to the status quo and raises the prospect of tensions becoming front and centre over time to a 35% probability.



China could grow more assured of its ability to achieve its economic goals, while also pushing for reunification. Its 'DeepSeek moment' and ability to leverage control of rare earths in the trade war with the US may be indications of the growing parity, or even advantage, China has with the US on geopolitical and technological fronts.

If China makes further technological breakthroughs and can accelerate the internationalisation of the renminbi and its defence against financial market sanctions, then these barriers to military action may be removed.

Another factor is that US support for Taiwan could wane if its significance as a manufacturer of high-end chips diminishes. This would especially be the case if the US is successful in onshoring production capabilities.

Taipei will be cognisant of the need to maintain its role as a critical supplier to the US military and other allies, to ensure that their security interests are aligned. We expect Taipei to resist pressures to set up production facilities for its more high-end chips, to avoid weakening its leverage.

A "grand bargain" between the US and China, which opens the door for China to seek reunification without conflict, remains a very low probability in our view (10%). Not least because such an agreement ignores the stance of Taiwan.

Nevertheless, the election year of 2028 remains a key flashpoint; were the re-election of Lai or another DPP candidate to be combined with a marked build-up in Taiwan's military capabilities, this could intensify Beijing's sense of a closing window of opportunity, and conflict risk could grow.

This could be amplified by uncertainty about future leadership in the US during an election year, with both Republican and Democrat primaries offering a wide range of possibilities for US foreign policy going forward. If future US administrations favour isolationism or a stronger adherence to "spheres of influence", then China may feel emboldened to exert its influence in Asia.

We allocate a 10% probability to China launching a military blockade or invasion by 2030. This would most likely be triggered by a change in US stance on strategic ambiguity, a Taiwanese push for independence, or the increasing militarisation of the island, which spurs Beijing into action. Missteps on both the US and Chinese sides – potentially amplified by third countries – also remains a route to accidental conflict.



Figure 3: Taiwan scenarios

Scenario	Probability (12 months)	Probability (5 years)	Description	Waymarks	Constraints	Economic impact
Reunification without conflict	0%	10%	China avoids military conflict, instead seeking reunification through coercion and increased political alignment with Taipei. The US position on Taiwan weakens, opening the door for a "grand bargain".	US interest in Taiwan weakens as focus turns to regional "spheres of influence"; seeding influence in APAC. Taiwan's importance for US national security falls as semiconductor production expands elsewhere. Taiwan's leadership becomes more pro-Beijing.	Desire for reunification remains low amongst Taiwanese voters. The most advanced semiconductor production likely to remain in Taiwan.	A decline in risk premia on Chinese assets if there is broad acceptance of reunification. However, supply chain diversification may ramped up to reduce over-reliance on Chinese supply.
Status quo persists	65%	45%	Current situation largely continues, with US maintaining "strategic ambiguity". US-China tensions are focused on economic and technological competition, and Taiwan avoids crossing Beijing's 'redlines'.	China continues with 'grey zone' actions e.g. sorties through Taiwanese airspace, but does not materially intensify. US retains strategic ambiguity and commitment to APAC allies as a key deterrent.	Missteps and overreactions by the US and China could threaten current balance. Shifting geopolitical climate and changes in US foreign policy. Increased militarisation of Taiwan or a political crisis could be viewed as a "closing window" of opportunity by Beijing.	Minimal. Some Taiwan risks continue to be priced in and Taiwan as an epicentre of geopolitical risk rises and falls with broader US-China tensions and technological rivalry.
Taiwan tensions become front & centre, but conflict is avoided	30%	35%	Taiwan becomes a focal point as US-China relations deteriorate. Missteps via increased 'grey zone' activity and 'talking tough' heighten tensions. Perceptions of conflict risk rise significantly, but conflict is avoided.	Technological rivalry between the US and China intensifies. China's 'grey zone' actions ramp-up in an attempt to pressure Taiwan into reunification. US support for Taiwan expands. Taiwanese politics and rhetoric drifts further away from mainland China.	'Strategic ambiguity' - including recent US displays of military force - remains a powerful counterweight. Beijing's focus economic, technological and social goals reduces its urgency over Taiwan. PLA readiness uncertain. Little conclusive evidence that Taiwan's independence push will gather steam.	Moderate negative. Rising risk premia on Chinese and Taiwanese assets. Flight to safety could occur and accelerate relocation of supply chains (especially those technologies with national security implications, such as semiconductors). Rise in defence stocks as Asian defence spending surges.
China uses military means to take Taiwan	5%	10%	A sustained blockade that seeks to force Taiwan to capitulate or direct invasion, which may or may not prove successful. Uncertainty about US or other allies military intervention makes outcome uncertain, but major risk of a hot conflict followed by Cold War.	Explicit comments from the CCP about achieving reunification. Significant build-up of PLA presence in the Taiwan Strait. The US strays from 'strategic ambiguity'. Taiwan militarisation and push for independence creates a "closing window" of opportunity.	Chinese reunification aims would entail a huge risk to their development goals (even if conflict avoided), threatening the CCP's legitimacy and Xi's legacy. Cutting off China would impose large economic costs on the West, but invasion is a severe challenge to Western-China relations.	Very large costs. Very damaging to China's long-run growth prospects. Western firms and investors are forced into writing off assets. Inflation risk rises as Chinese supply chains are cut-off. Firms and governments struggle to replace TSMC's high-end semiconductors in the near-term. Risk premia surge.

Source: Aberdeen, February 2026

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AA-130226-204298-66

