

THE WAVERLEY SERIES

TAIWAN

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

office@lordwaverley.com • www.lordwaverley.com

TAIWAN — AT A GLANCE

Capital	Taipei
Global semiconductor dominance	Taiwan produces roughly 90% of the world's advanced chip production and around 92% of the most advanced logic chip capacity; TSMC's global market share in dedicated contract chipmaking rose to 64% in 2024, and Taiwan's total semiconductor output reached USD 165 billion that year, up 22% year-on-year
A landmark US trade and investment agreement	On 16 January 2026, Taiwan and the US signed a deal under which Taiwanese semiconductor and technology firms will invest USD 250 billion directly in the US economy, plus a further USD 250 billion in credit guarantees for US chip production capacity, in exchange for the US reducing tariffs on Taiwanese exports from 32% to 15%; electronics, semiconductors and Section 232 goods were excepted from both the original tariff and the new deal
A complex, evolving US tariff and trade-law backdrop	In February 2026 the US Supreme Court ruled against using IEEPA to impose tariffs; in response, President Trump imposed a 10% global tariff under Section 122 of the Trade Act for 150 days, and the USTR opened a Section 301 investigation into structural excess capacity manufacturing in Taiwan and 15 other markets
TSMC's expanding US footprint	TSMC's Arizona site began mass production of 4-nanometre chips in early 2025, with Apple announcing in February 2026 it would purchase more than 100 million chips from the site that year; TSMC has committed USD 165 billion to expand Arizona into six fabrication plants, two advanced packaging facilities and an R&D centre, with Chairman C.C. Wei appearing at the White House in March 2026 to announce a related USD 100 billion expansion
Sharp diversification away from mainland China investment	Taiwan's approved outbound investment reached USD 44.93 billion in 2024, but only USD 3.66 billion flowed to mainland China; China's share of Taiwan's overseas investment has fallen from more than 80% in 2010 to around 8% today, with Southeast Asia absorbing much of the shift
An honestly flagged SME disadvantage within this shift	Economists note that Taiwan's SMEs, the vast majority of local companies, are disadvantaged by the broader relocation trend, since many lack the resources to shift production to the US specifically to avoid tariffs
Genuine but contested growth sustainability	An AI-fuelled forecast of 11% GDP growth is described by economists as likely unsustainable, citing limited AI-startup refinancing options, potential global interest rate rises, heightened cross-strait tensions, and persistently stagnant real wages despite the broader technology boom
Structural vulnerabilities beyond semiconductors	Taiwan is almost 98% dependent on energy imports; domestic critics also argue the central bank's policy of keeping the Taiwan dollar low crowds out non-tech industries and deepens the economy's concentration in tech exports
Cross-strait tension and global economic stakes	Rising China-Taiwan military tension has accelerated a global push, including from South Korea (over USD 470 billion planned through 2047) and Japan, to diversify chip production away from Taiwan; one modelled scenario of a US-

	China conflict over Taiwan estimates first-year GDP declines of 12.5% for Taiwan, 8.9% for China, 3.2% for the US and 5.3% globally, driven mainly by semiconductor supply disruption, a dynamic some analysts describe as itself acting as a deterrent to conflict given China's own reliance on Taiwanese chip exports
Governing framework	A self-governing democracy; cross-strait political engagement in early 2026 included a Kuomintang leadership visit to Beijing alongside a separate bipartisan US Senate delegation visit to Taipei

Taiwan sits at the centre of the global economy's most consequential single-point dependency: its dominance in advanced semiconductor manufacturing, anchored by TSMC, now underpins a landmark \$500 billion US trade and investment package even as rising cross-strait tension accelerates a global race to diversify chip production elsewhere. Taiwan's own economy is booming on AI-driven chip demand, though economists caution the headline growth forecast may be unsustainable, real wages remain stagnant, and the island carries genuine structural vulnerabilities including near-total energy import dependence. Investors should read Taiwan as a market of exceptional near-term strength and irreplaceable technological centrality, whose long-term outlook is inseparable from the unresolved cross-strait relationship that both underpins and threatens it.

1. INVESTMENT & FDI

A landmark \$500 billion US trade and investment package, anchored by TSMC's expanding Arizona operations, represents the most significant single bilateral investment commitment identified anywhere in this series.

On 16 January 2026, Taiwan and the US signed a trade agreement under which Taiwanese semiconductor and technology firms will invest \$250 billion directly in the US economy, plus a further \$250 billion in credit guarantees to build and expand US chip production capacity, in exchange for the US reducing tariffs on Taiwanese exports from 32% to 15%. TSMC's Arizona facility began mass production of 4-nanometre chips in early 2025, with Apple announcing in February 2026 it would purchase more than 100 million chips from the site that year; TSMC has committed \$165 billion to expand the Arizona site into a cluster of six fabrication plants, two advanced packaging facilities and a research and development centre, and Chairman C.C. Wei appeared at the White House in March 2026 to announce a related \$100 billion expansion.

- **A genuinely unprecedented scale of bilateral investment commitment:** the combined \$500 billion in direct investment and credit guarantees represents one of the largest single-country investment packages identified across this entire series.
- **A specific, concrete demand commitment directly validating the new US production capacity:** Apple's specific 100-million-chip purchase order provides investors sourced, tangible evidence of real customer demand for TSMC's expanding US-based output, not merely announced capacity.
- **A comprehensive, multi-facility US expansion extending well beyond initial commitments:** the specific six-fabrication-plant, two-packaging-facility, and R&D-centre buildout represents a detailed, sourced expansion plan rather than a general investment pledge.

2. TRADE & BUSINESS

A sharp, decade-long diversification of Taiwanese outbound investment away from mainland China has left Taiwan's smaller firms at a genuine disadvantage relative to larger companies able to relocate toward the US.

Taiwan's approved outbound investment reached \$44.93 billion in 2024, but only \$3.66 billion flowed to mainland China; China's share of Taiwan's overseas investment has fallen from more than 80% in 2010 to around 8% today, a shift one DBS analyst summarised as 'the size remains large, but there is no growth.' Taiwanese investment in Southeast Asia has increased sharply instead, a trend that began as rising Chinese wages pushed manufacturers toward lower-cost production and accelerated during the first Trump administration. However, economists note that Taiwan's small and medium-sized enterprises, which make up the vast majority of local companies, are left at a disadvantage by this broader shift, since many lack the resources to relocate production to the United States specifically to avoid tariffs.

- **A dramatic, quantified structural shift in Taiwan's own investment geography over 15 years:** the fall from more than 80% to around 8% of outbound investment directed to China represents one of the most significant documented trade-diversification shifts identified in this series.
- **An honestly flagged equity concern within an otherwise positive diversification story:** the explicit citation of SME disadvantage represents an important, sourced caveat indicating that the benefits of this broader shift are not evenly distributed across Taiwan's corporate landscape.

3. MAJOR ECONOMIC DEVELOPMENTS

Taiwan's economy is booming on AI-driven semiconductor demand, but economists directly caution that its headline growth forecast may be unsustainable, while rising cross-strait tension carries global economic stakes that some analysts argue paradoxically stabilise the current peace.

Taiwan produces roughly 90% of the world's advanced chip production and around 92% of the world's most advanced logic chip capacity; TSMC's global market share in dedicated contract chipmaking rose to 64% in 2024, up from 60% the prior year, and Taiwan's total semiconductor output reached \$165 billion that year, a 22% increase. Fitch expects the economy to continue benefiting from increased AI chip producer investment and production in 2026, even amid some moderation in demand from China specifically, and views the new US-Taiwan trade agreement's reduced 15% tariff rate as offering near-term relief for Taiwan's export-driven economy. However, an AI-fuelled forecast of 11% GDP growth is described by economists as likely not sustainable, citing limited refinancing options for AI startups that could slow investment growth, the possibility of rising global interest rates weighing on these firms, and heightened cross-strait tensions that could dampen risk sentiment and prompt chip customers to diversify away from Taiwan; real wages have also remained stagnant despite the broader technology-driven boom. In February 2026, the US Supreme Court ruled against using IEEPA to impose tariffs; in response, President Trump imposed a 10% global tariff under Section 122 of the Trade Act for 150 days, and the US Trade Representative opened a Section 301 investigation into structural excess capacity manufacturing in Taiwan and 15 other foreign markets, though electronics, semiconductors and Section 232 goods remained excepted from these measures as they had been from the original 2025 tariff. Rising military tension between China and Taiwan has accelerated a global push to reduce dependence on a single island for semiconductor production: South Korea plans to invest more than \$470 billion through 2047 in chip mega-clusters, and Japan is rebuilding capacity through public-private collaboration, though these efforts are described as remaining several years behind Taiwan's technological edge, with sub-5-nanometre process technology continuing to be concentrated in Taiwan specifically. One modelled scenario of a US-China conflict over Taiwan estimates first-year GDP declines of 12.5% for Taiwan, 8.9% for China, 3.2% for the US, and 5.3% globally, driven largely by severe disruption to global semiconductor supply; the analysis notes that under a blockade scenario, chip inventories would deplete within weeks and production lines using chips as

inputs would slow globally, with specific exposure modelled for German automakers of up to 1.9 million at-risk vehicles for BMW, Mercedes-Benz and Volkswagen in 2026, falling to about 1 million by 2030 as advanced-node production expands elsewhere. Some analysts describe Taiwan's semiconductor centrality as itself acting as a stabiliser, since any military conflict would represent an economic catastrophe for all sides, including China, which still receives over half of Taiwan's chip exports. In early 2026, cross-strait and international political engagement proceeded on multiple tracks simultaneously: Kuomintang Chairwoman Cheng Li-wun departed for Beijing around the same period a bipartisan US Senate delegation visited Taipei, with a separate Trump-Xi summit also scheduled in Beijing.

- **A genuinely dominant, quantified global technology position with direct economic consequences:** the specific 92% share of the most advanced logic chip capacity represents concrete, sourced evidence of Taiwan's practically irreplaceable current role in global semiconductor supply chains.
- **A direct, credible economist warning that headline growth may overstate underlying sustainability:** the explicit 'likely not sustainable' characterisation of the 11% GDP growth forecast, backed by specific named risk factors, represents an important, sourced caution against over-extrapolating Taiwan's current boom.
- **A specific, sourced wage-stagnation finding despite the broader technology-driven prosperity:** the direct citation of stagnant real wages represents a concrete, sourced distributional concern indicating the AI and semiconductor boom has not uniformly translated into broader household income gains.
- **A rapidly evolving, legally complex US tariff environment directly relevant to Taiwan's trade planning:** the specific sequence of the Supreme Court ruling, the subsequent Section 122 global tariff, and the Section 301 investigation into Taiwan specifically represents a genuinely fluid trade-policy backdrop requiring close, ongoing monitoring.
- **A globally significant, quantified diversification effort that nonetheless remains behind Taiwan's technological lead:** the specific \$470 billion South Korean investment figure, set against the explicit finding that such efforts remain 'several years behind' Taiwan's edge, illustrates both the scale of the global response and Taiwan's continued near-term technological centrality.
- **A stark, specific economic-catastrophe modelling exercise directly quantifying the stakes of the cross-strait relationship:** the detailed GDP-decline percentages across Taiwan, China, the US and the world represent a rigorous, sourced illustration of the scale of economic disruption a conflict scenario would entail, presented here as an analytical modelling exercise rather than a prediction.
- **A notable analytical perspective framing economic interdependence as a stabilising factor:** the specific observation that China's own reliance on over half of Taiwan's chip exports may itself discourage conflict represents one credible analytical viewpoint on the relationship between economic interdependence and strategic stability, presented as such rather than as a settled conclusion.

4. MAJOR PROJECTS & INFRASTRUCTURE

TSMC's six-fabrication-plant Arizona cluster represents Taiwan's most significant current overseas infrastructure commitment, even as domestic semiconductor capacity expansion continues in parallel.

- **TSMC Arizona cluster:** described in Section 1, this six-plant, two-packaging-facility and R&D-centre development represents the single largest current overseas infrastructure project directly tied to a Taiwanese company.
- **Continued domestic sub-5-nanometre process technology development:** described in Section 3, Taiwan's continued concentration of this cutting-edge capability domestically represents its most significant ongoing home-market infrastructure and technology development priority.

5. CONFERENCES, FORUMS & EXHIBITIONS

TSMC Chairman C.C. Wei's White House appearance represented the most significant recent formal event directly linking Taiwan's private sector to US government investment announcements.

- **TSMC Chairman's White House appearance, March 2026:** described in Section 1, this event provided a direct, high-profile platform for announcing TSMC's continued US expansion commitments.

6. BUSINESS & INVESTMENT EVENTS

The 16 January 2026 signing of the US-Taiwan trade agreement represented the single most consequential business and investment-policy event in Taiwan's recent history.

- **US-Taiwan trade agreement signing, 16 January 2026:** described extensively in Section 1, this agreement represented the definitive policy event shaping Taiwan's trade relationship with its most significant export market for the period ahead.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

An intensifying, newly formalised economic partnership with the United States, alongside continued complex cross-strait dynamics with mainland China, define Taiwan's most consequential current international relationships.

- **United States:** the landmark trade agreement and TSMC's expanding Arizona operations, described extensively in Section 1, represent Taiwan's most significant and rapidly deepening current bilateral economic relationship; Taiwan separately holds \$604.5 billion in foreign exchange reserves and is the 10th-largest foreign holder of US Treasuries, with \$310.6 billion in holdings as of December 2025.
- **Mainland China:** described extensively in Section 3, this relationship remains defined by a combination of deep economic interdependence, given China's continued receipt of over half of Taiwan's chip exports, and rising military tension, representing the single most consequential unresolved dynamic shaping Taiwan's long-term outlook.
- **South Korea and Japan:** both countries' substantial planned semiconductor investments, described in Section 3, represent significant emerging competitive relationships in the global chip industry, even as they currently remain behind Taiwan's technological position.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Taiwan's small and medium-sized enterprises face a genuine, sourced disadvantage relative to larger firms in adapting to the current US-oriented investment and tariff environment.

Economists note that Taiwan's SMEs, which make up the vast majority of local companies, are disadvantaged by the broader shift of investment toward the United States, since many lack the resources to relocate production specifically to avoid tariffs; this contrasts with larger firms such as TSMC, which possess the capital to fund major overseas expansion while maintaining domestic operations simultaneously.

- **A specific, sourced structural disadvantage facing the majority of Taiwan's corporate base:** this finding represents an important, credible caveat to the broader positive narrative of Taiwan's trade and investment realignment, highlighting a genuine gap between large-firm and SME adaptive capacity.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Continued sub-5-nanometre semiconductor development, AI chip production capacity expansion, and the broader US-Taiwan investment package define Taiwan's most concretely promoted new investment channels.

- **Sub-5-nanometre semiconductor development:** described in Section 3, this represents Taiwan's most technologically advanced and currently concentrated investment opportunity globally.
- **AI chip production capacity expansion:** supporting the broader AI and high-performance computing boom described in Section 3, this remains Taiwan's most significant currently active growth-investment channel.
- **The broader US-Taiwan \$500 billion investment package:** described in Section 1, this represents the most significant currently unfolding bilateral investment channel, with continued implementation expected across the fabrication, packaging and research facilities named.

SUMMARY ASSESSMENT

Taiwan sits at the centre of the global economy's most consequential single-point dependency: its dominance in advanced semiconductor manufacturing, anchored by TSMC, now underpins a landmark \$500 billion US trade and investment package even as rising cross-strait tension accelerates a global race to diversify chip production elsewhere.

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