TAIWAN

PRESENTATION TO INDEPENDENT ECONOMICS

21ST JULY 2026

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An abbreviated time-line of Taiwanese history

20-30,000 BC human settlements on Taiwan

~ 2-3,000 BC Ancestors of Polynesians left for Pacific islands

1290s first Chinese visitors to Taiwan

1542 Portuguese sailors discover "Formosa"

1624 the VOC establishes a base at Tainan

1642 Spanish settlers expelled by the Dutch

1662 Koxinga (from China) expels the Dutch

1683 Taiwan comes under Qing rule

1895 Taiwan becomes a Japanese colony

1945 Taiwan returned to Republic of China

1949 Republic of China relocates to Taiwan – 'White Terror' begins

1971 UN recognizes PRC as government of 'one China'

1975 Chiang Kai-shek dies, later succeeded by his son Chiang Ching-kuo

1986 martial law abolished

1988 Lee Teng-hui becomes President

1991 first democratic parliamentary elections

2000 Chen Shui-bian from DPP elected President

2005 PRC passes 'anti-secession law'

2008 KMT's Ma Ying-Jeou elected President

2008 first direct China-Taiwan flights

2016 DPP's Tsai Ing-wen elected President, DPP wins Parliamentary majority

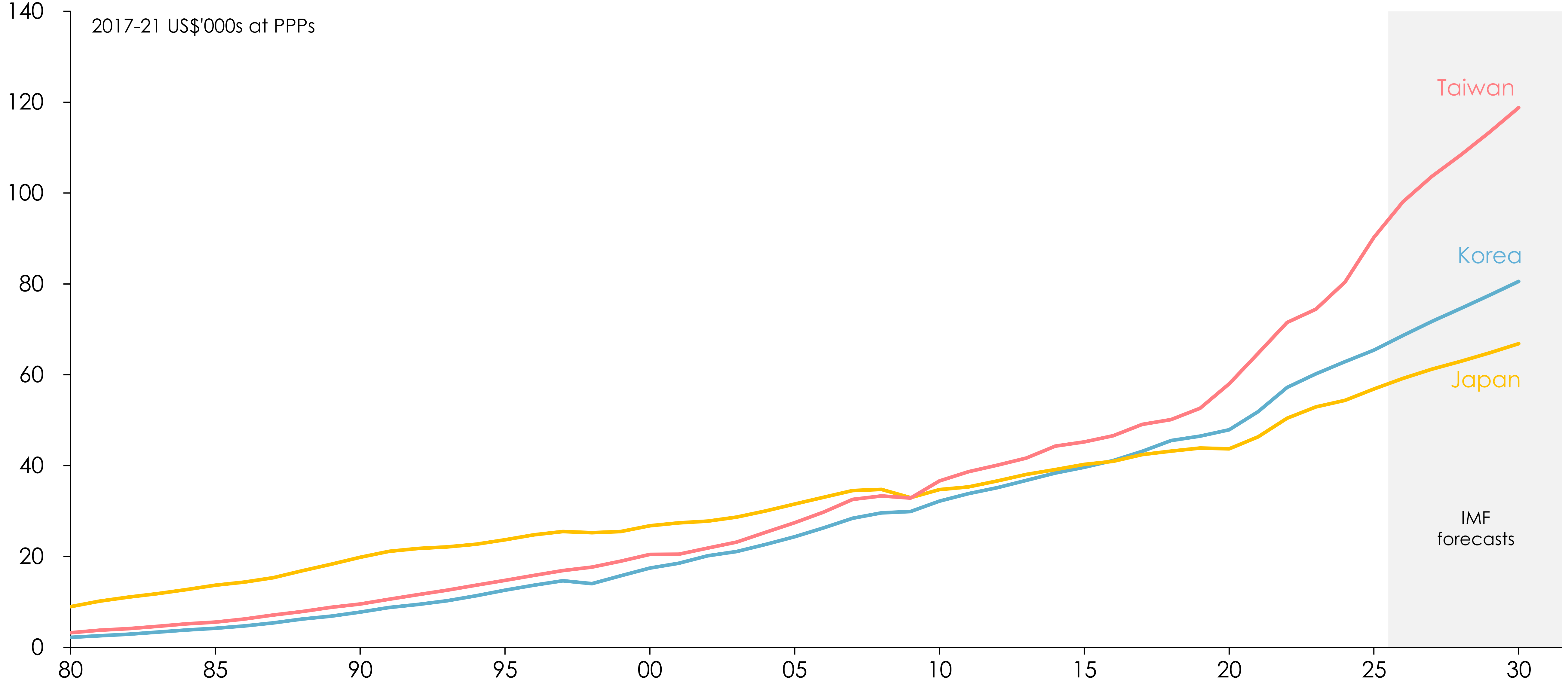
2021 first mention of Xi Jinping's purported '2027 deadline' for 're-unification' of China

2022 PRC launches 'live-fire' military exercises around Taiwan

2024 DPP's Lai Ching-te elected President

Note: VOC = Dutch East India Company; KMT = Kuomintang (Nationalist) Party (opponents of the Communist Party during the Chinese Civil War and under the Chiangs but since 2000 more open to accommodation with the PRC); DPP = Democratic Progressive Party (nominally pro-independence); PRC = People's Republic of China.

Taiwan has been richer – as measured by per capita GDP at purchasing power parities – than Japan since 2009



Source: International Monetary Fund, World Economic Outlook database, April 2026.

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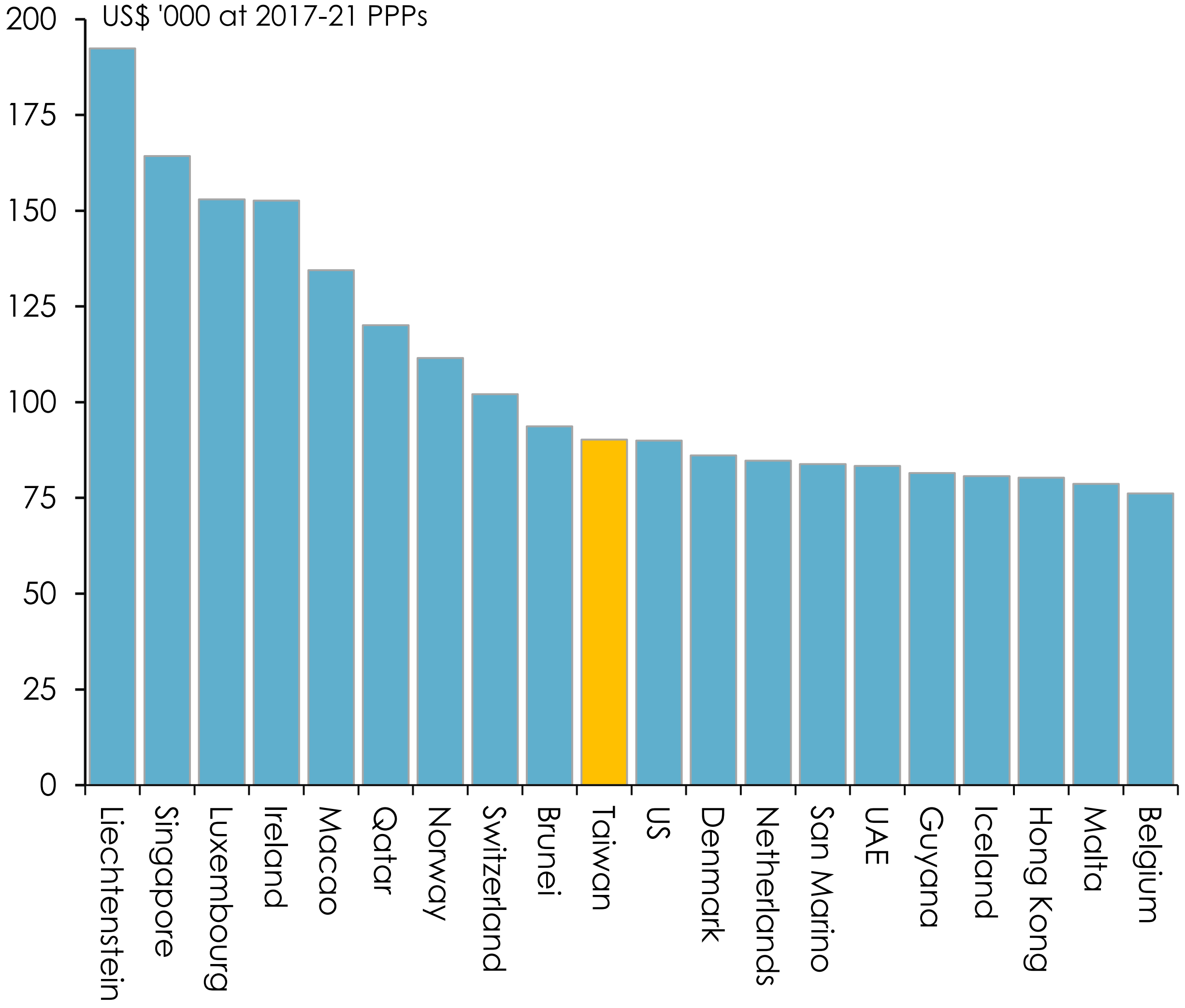
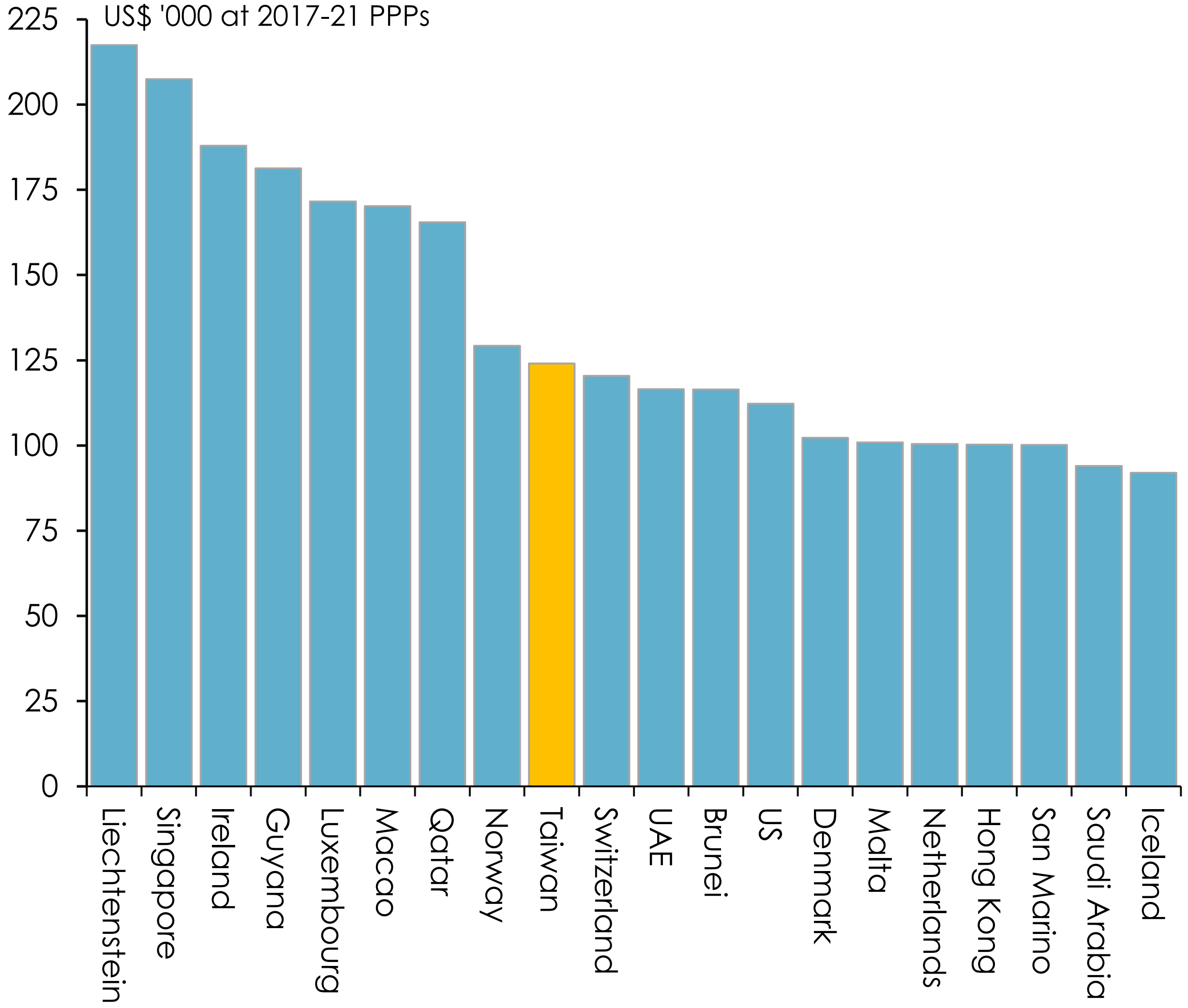
As measured by per capita GDP at PPPs, Taiwan is now the richest country that isn't a tax haven or a petro-state

Twenty richest countries ranked by per capita GDP at PPPs, 2025



Twenty richest countries ranked by per capita GDP at PPPs, 2031 (f)



Source: International Monetary Fund, World Economic Outlook database, April 2026.

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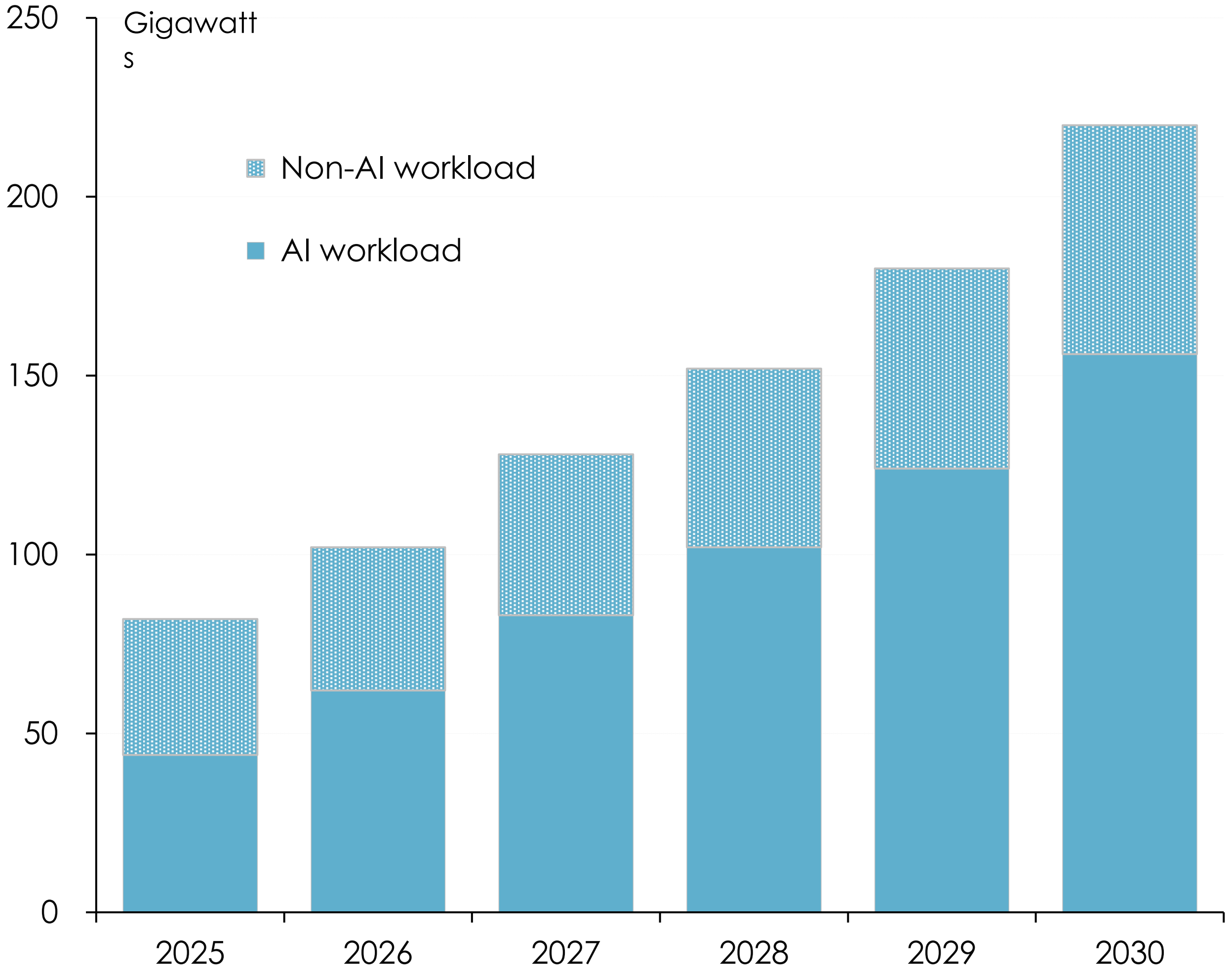
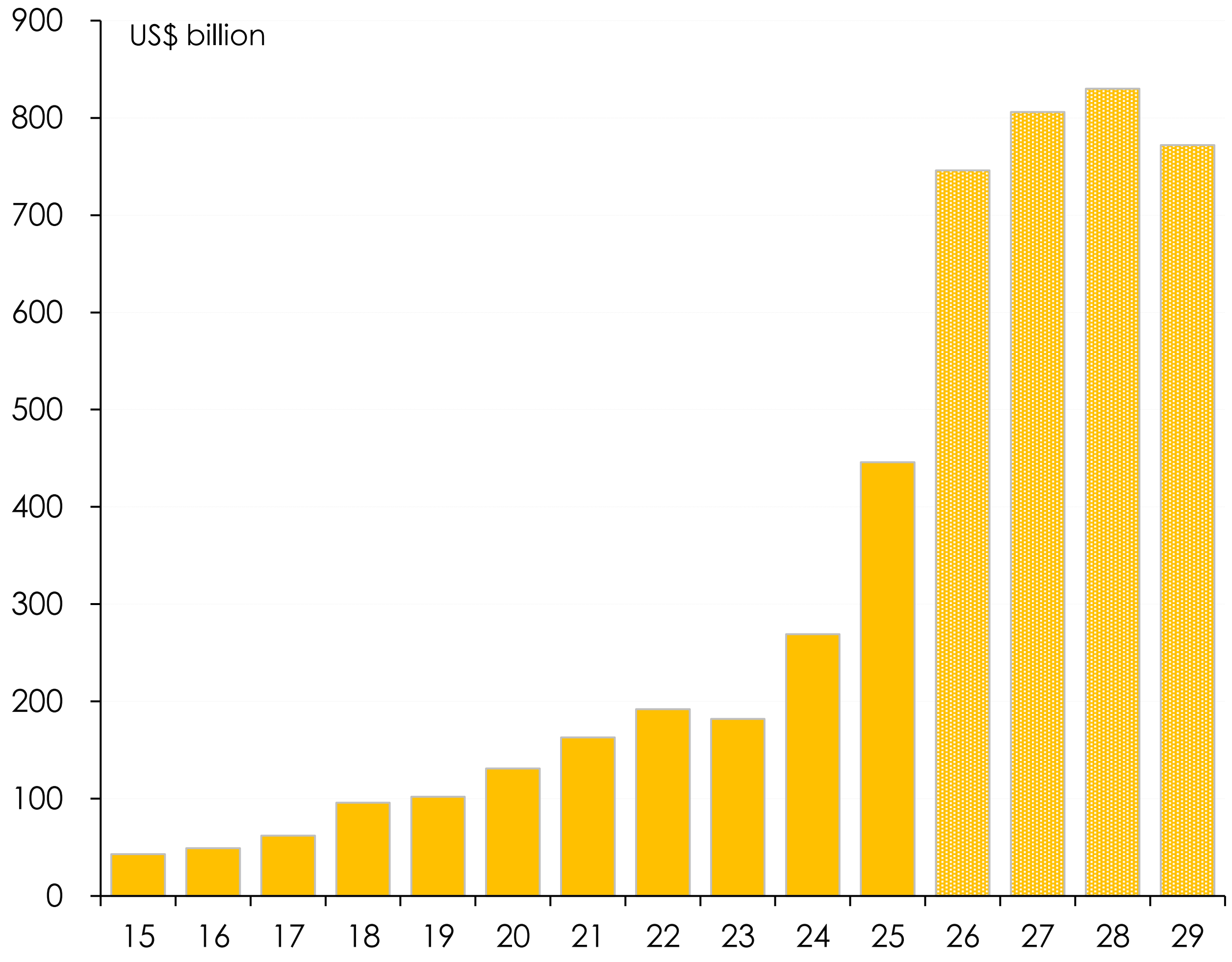
AI is driving a global boom in investment in data centres ….

Global data centre capacity demand



Capital expenditure of largest publicly owned data centre operators



Sources: Jesse Noffsinger, Mark Patel and Panaj Sachdeva, *The cost of compute: A $7 trillion dollar race to scale data centers*, McKinsey Quarterly, April 2025; Bloomberg NEF, *Data Center Market Indicators 1H 2026*, 18th March 2026.

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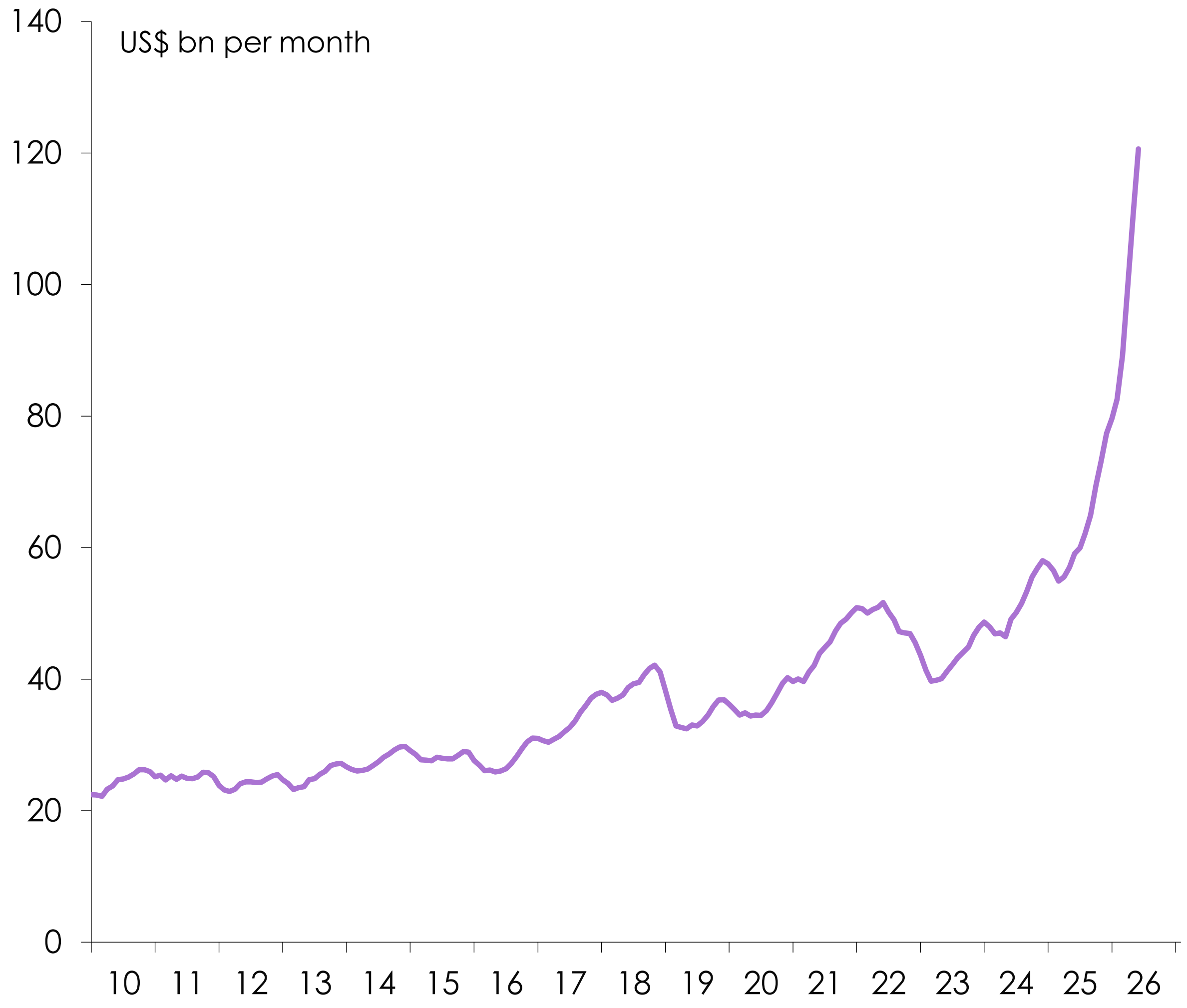
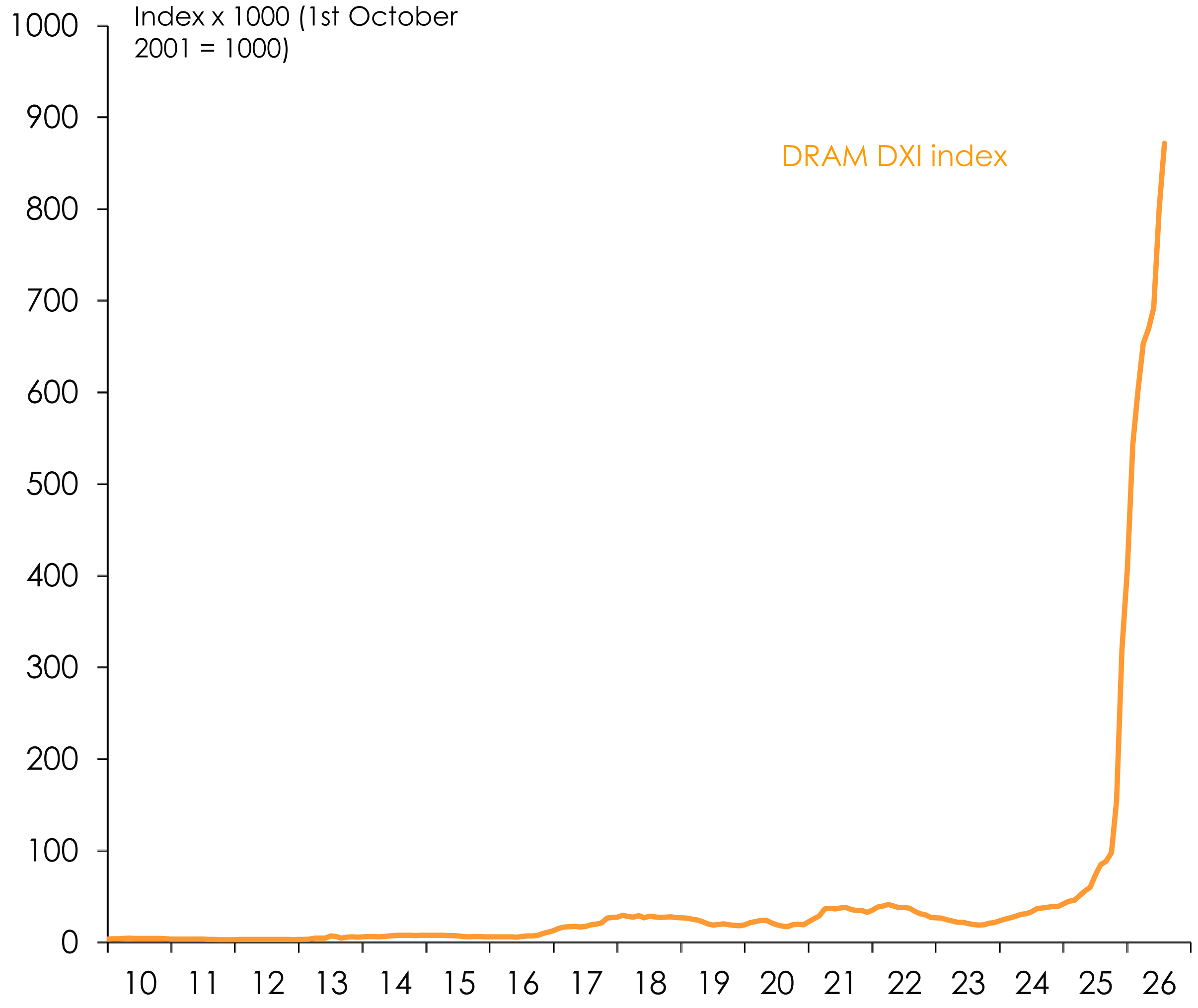
… which is in turn driving a surge in the demand for semi-conductors …

Global semi-conductor sales



Semi-conductor prices



Sources: World Semiconductor Trade Statistics; DRAMeXchange

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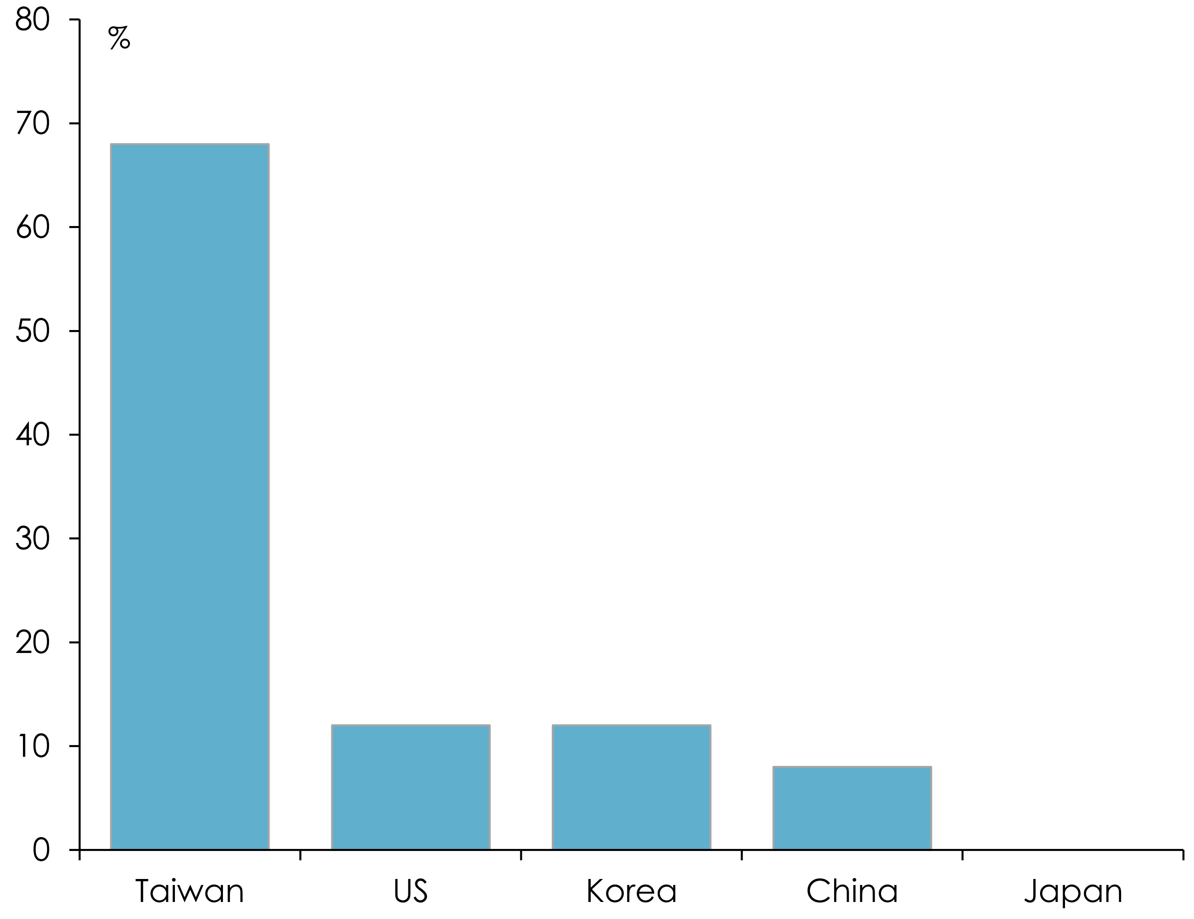
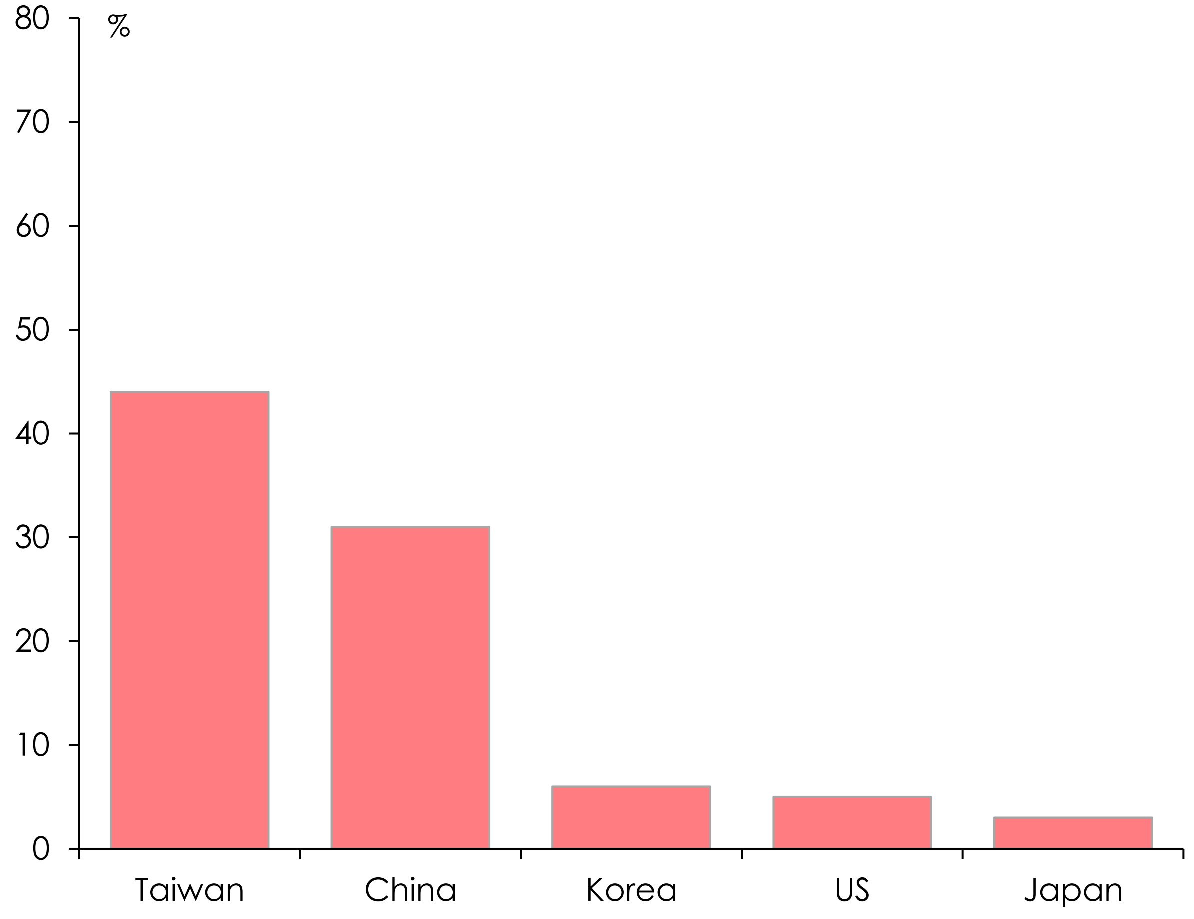
… and Taiwan is a dominant participant in the market for semiconductors

Global market share for 'advanced' processors



Global market share for 'mature' processors



Note: 'Advanced' processors refer to ≤16/14 nanometer (nm) nodes. Smaller transistors allow manufacturers to pack more of them onto a single chip, increasing processing power and efficiency. 'Mature' processors (28 nm or larger) are cheaper to produce and are used in products that don't require significant computing power. This includes home appliances and fitness trackers. *Sources:* Shiphub, World's Top Semiconductor Producers; World Population Review, Semiconductor Manufacturing by Country 2026.

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Taiwan is home to the world's largest semiconductor manufacturer, and many other large semiconductor businesses

Annual revenue US$47.9 bn

Annual revenue US$10.5 bn

Annual revenue US$7.5 bn

Annual revenue US$3.0 bn

Annual revenue US$12.5 bn

Annual revenue US$8.5 bn

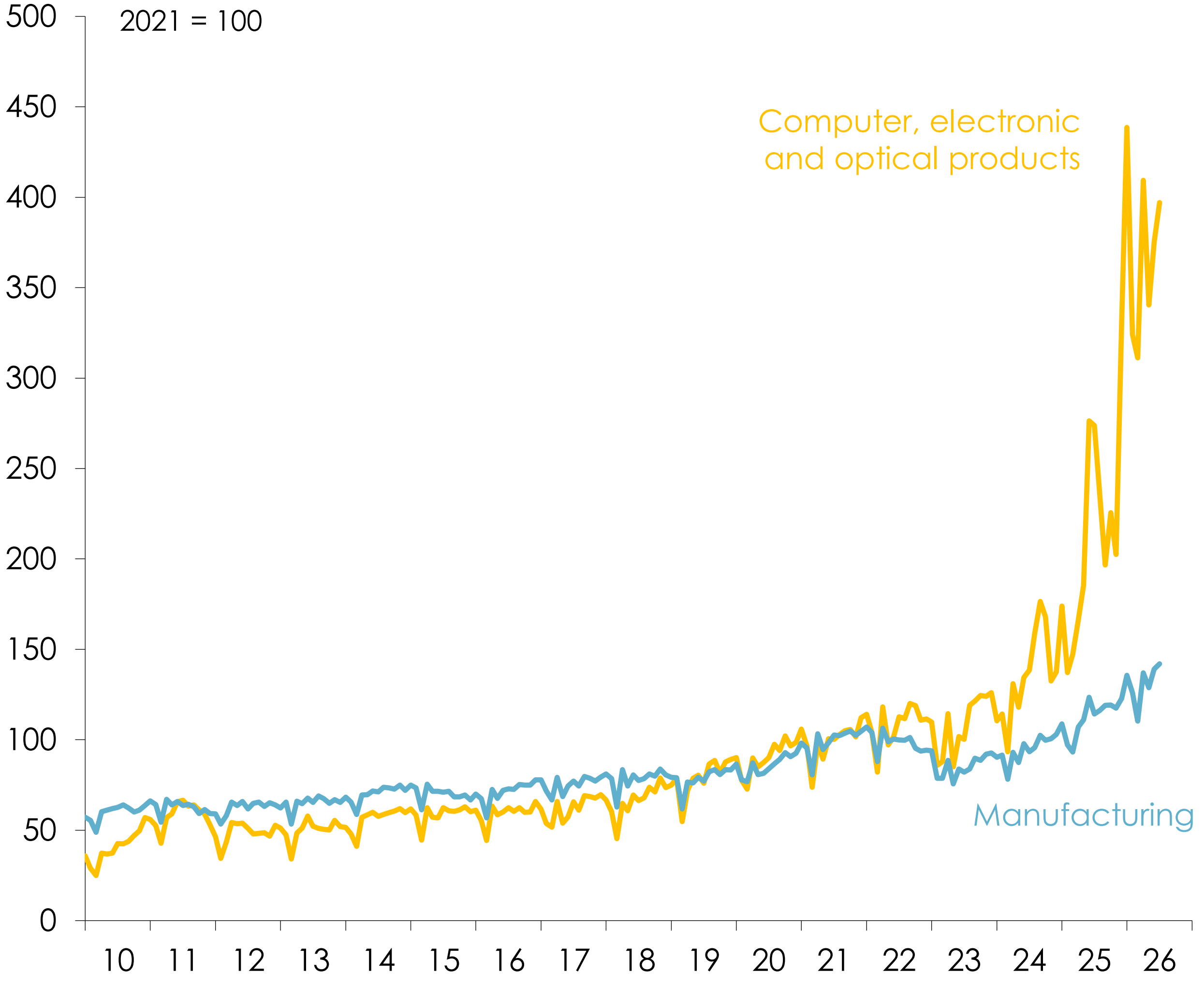
Annual revenue US$5.0 bn

Annual revenue US$2.8 bn

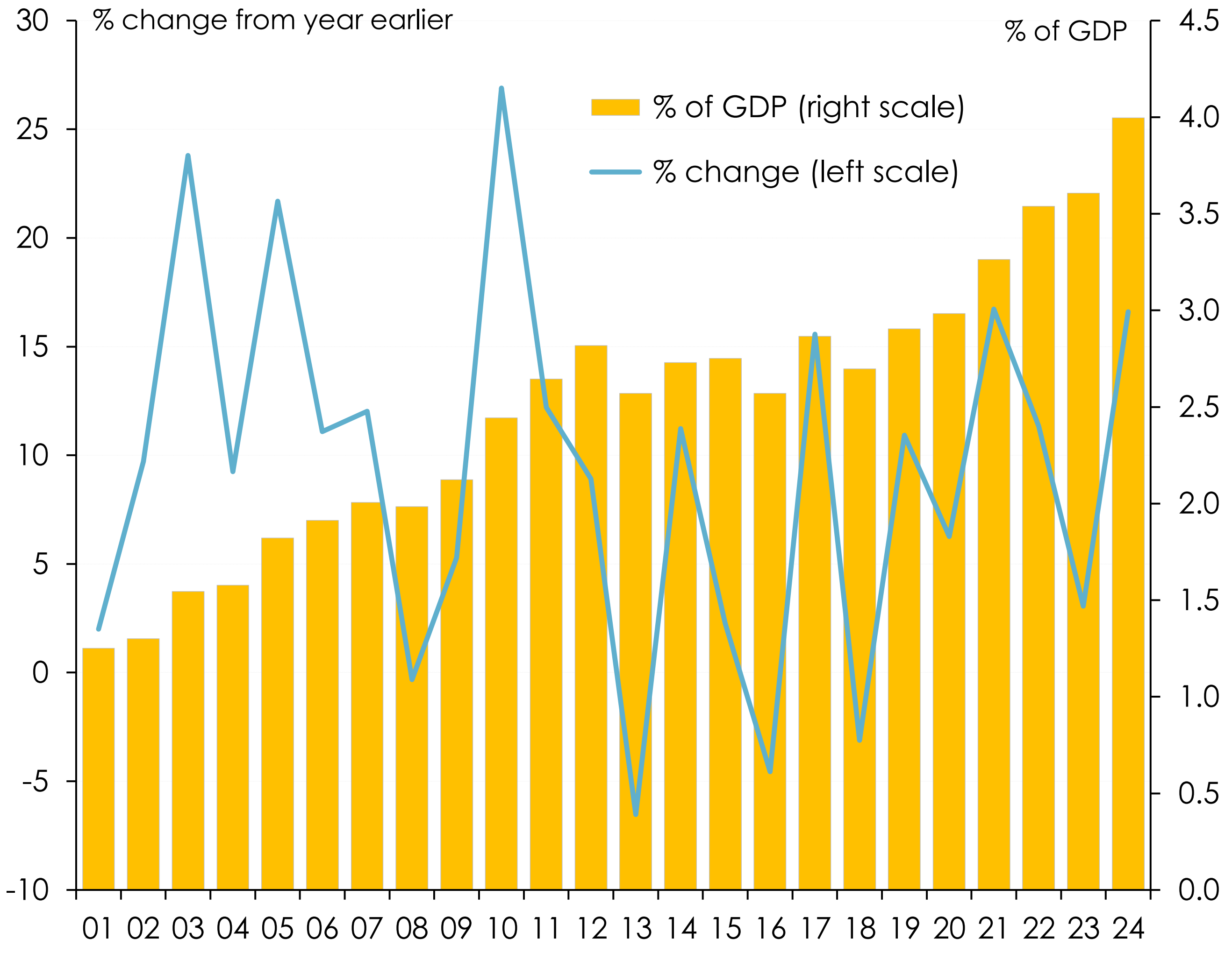
Source: Santosh Das, *Top 10 Largest Semiconductor Companies in Taiwan*, Electronics and You, 3rd October 2025.

Taiwanese production of AI- and IT-related products has risen explosively in the past two years

Production of computer, electronic and optical products



Gross value added in computer, electronic and optical product manufacturing



Sources: Taiwan Ministry of Economic Affairs; Taiwan Directorate General of Budget, Accounting & Statistics.

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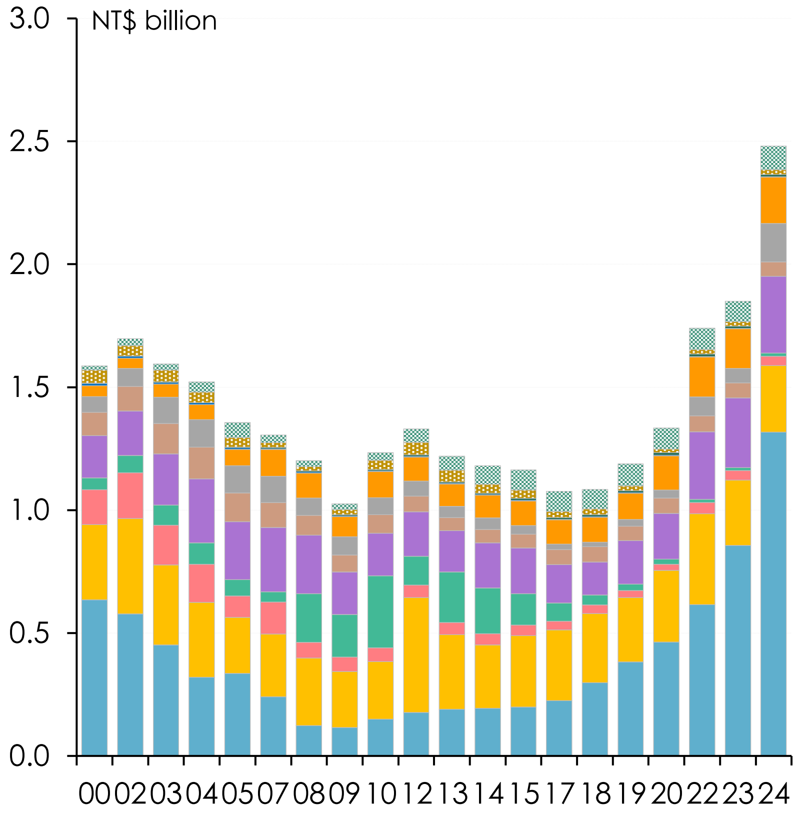
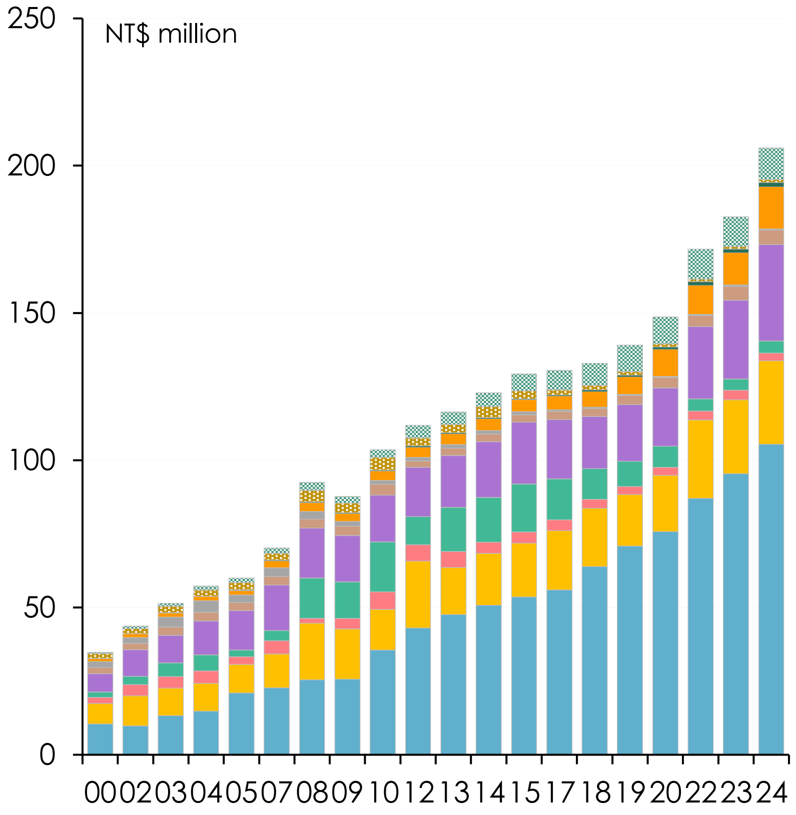
Recent growth in Taiwan's computer, electronic and optical products manufacturing has been predominantly driven by computer manufacturing

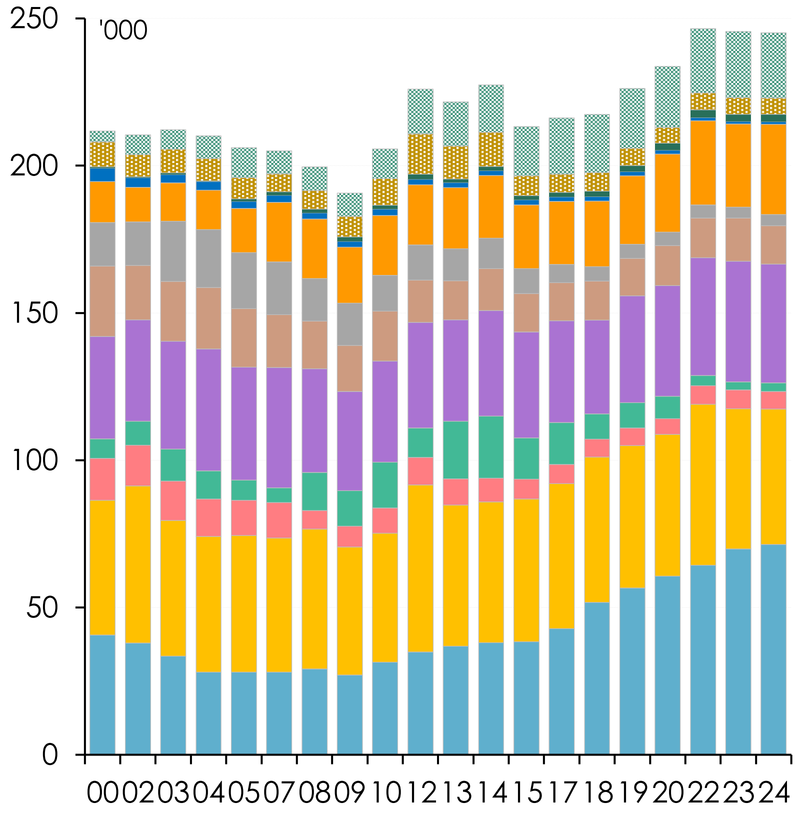
Computer, electronic and optical products manufacture - revenue



Computer, electronic and optical products manufacture – R&D



Computer, electronic and optical products manufacture – employment



Computers | Computer peripheral equipment | Monitors & terminals | Telephones & cell-phones | Other communications equipment | Audio & video equipment | Magnetic & optimal media | Measuring, navigating & control equipment | Watches & clocks | Cameras | Irradiation & electromedical equipment | Other optical instruments & equipment

Source: Taiwan Ministry of Economic Affairs Factory Operation Census.

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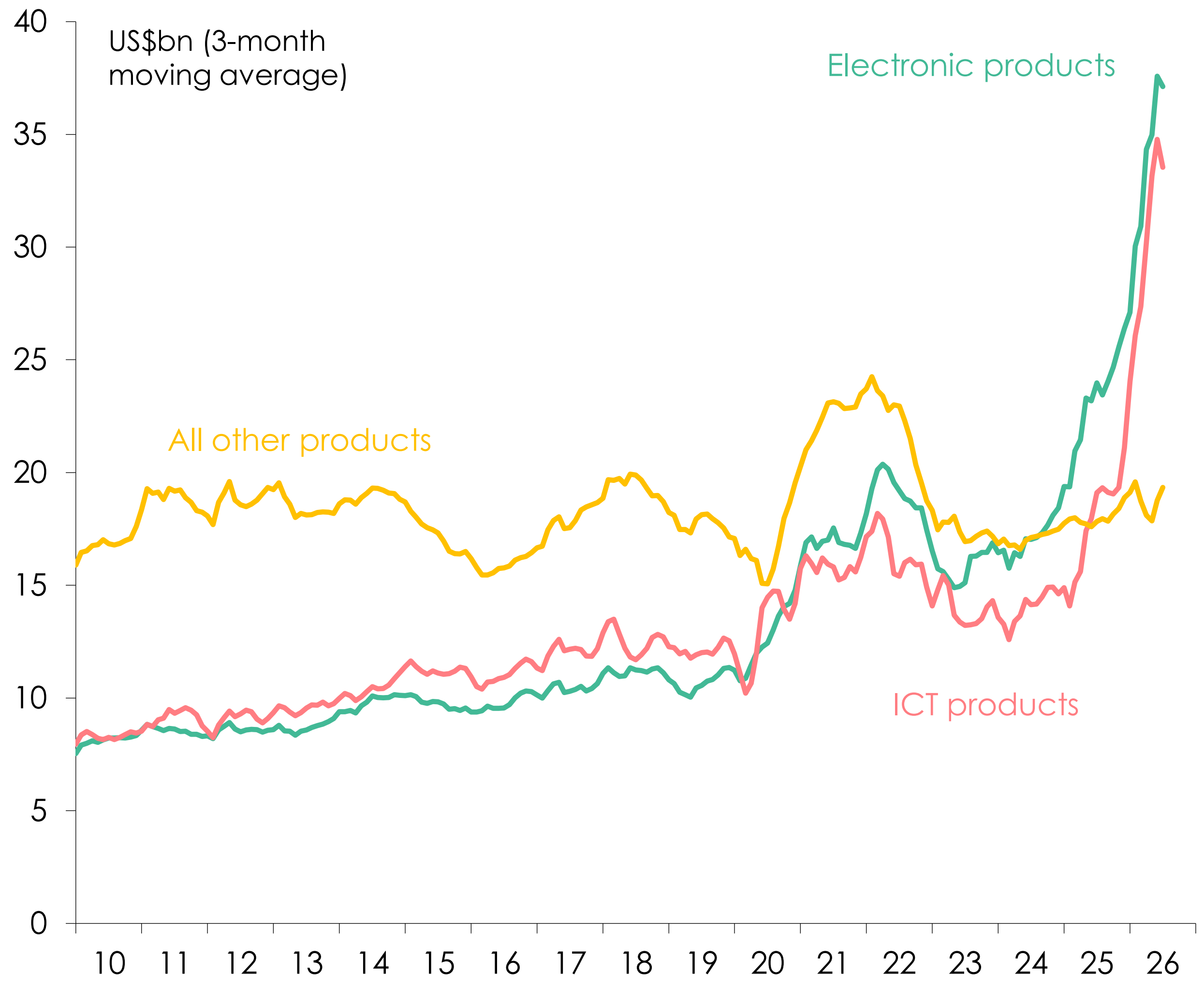
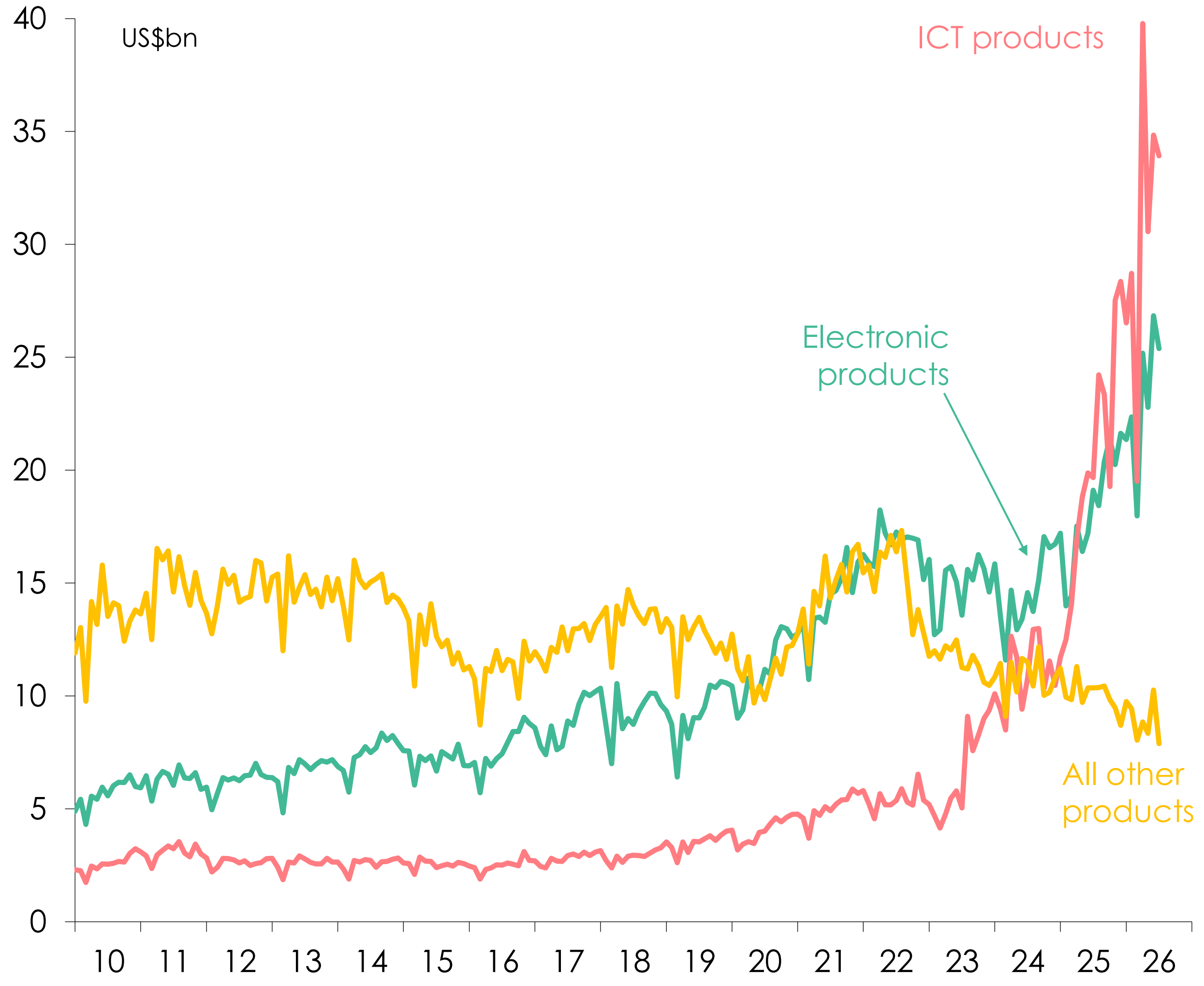
AI- and IT-related products have accounted for almost all of the rapid growth in Taiwan's exports over the past two years

Taiwan export orders



Taiwan merchandise exports



Sources: Taiwan Ministry of Economic Affairs; Taiwan Ministry of Finance.

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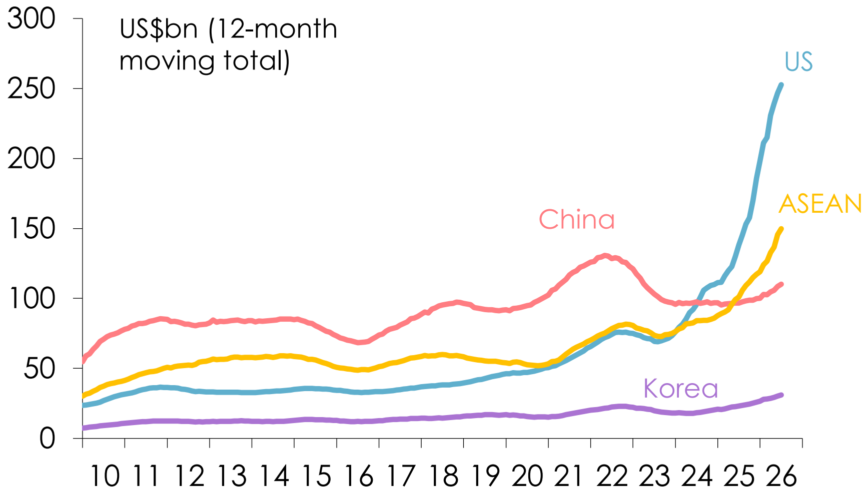
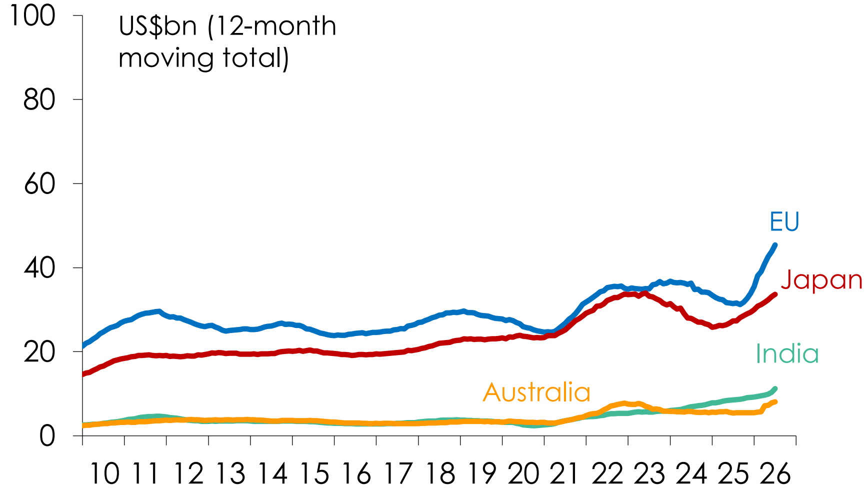
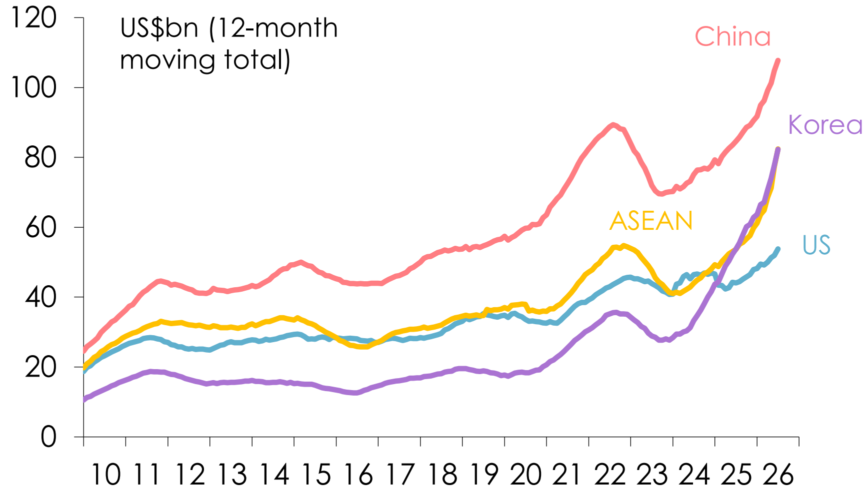
The AI boom is also apparent in the geographical pattern of Taiwan's trade (which also highlights some risks for Taiwan)

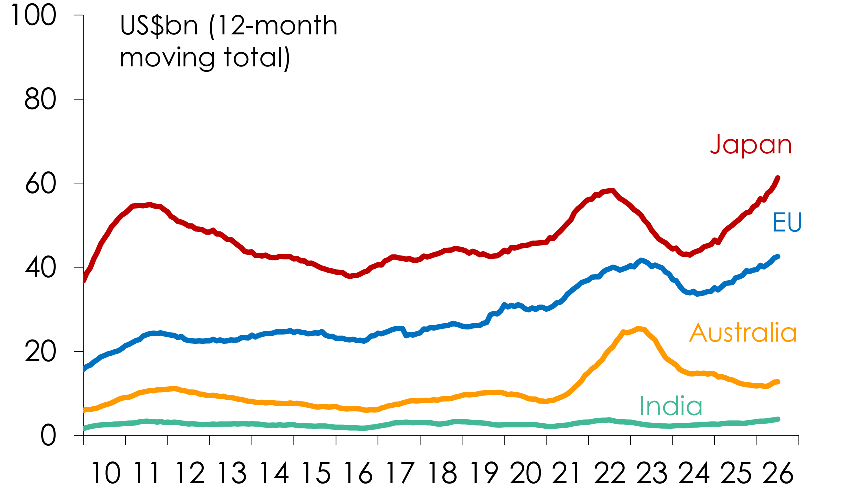
Taiwan's exports by destination



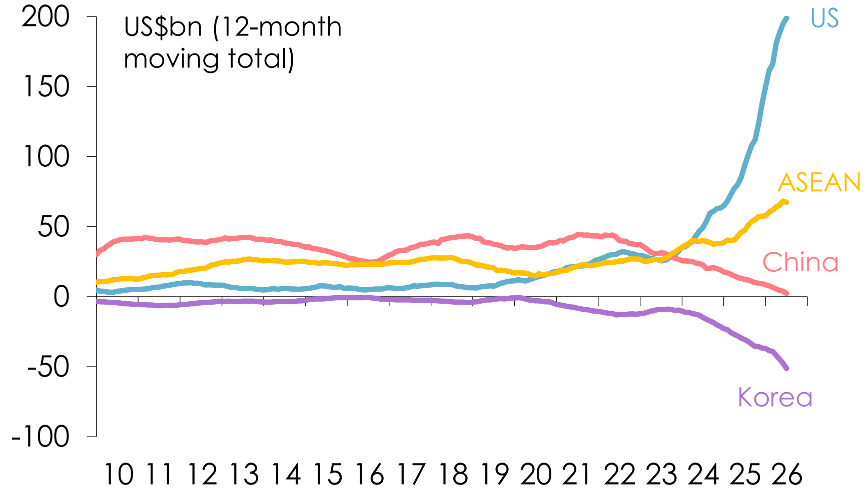


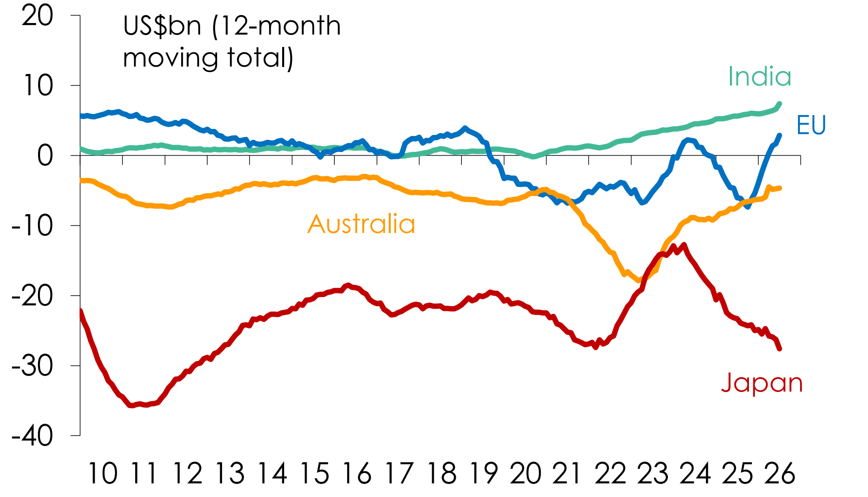
Taiwan's imports by source





Taiwan's bilateral trade balances





Source: Taiwan Ministry of Finance.

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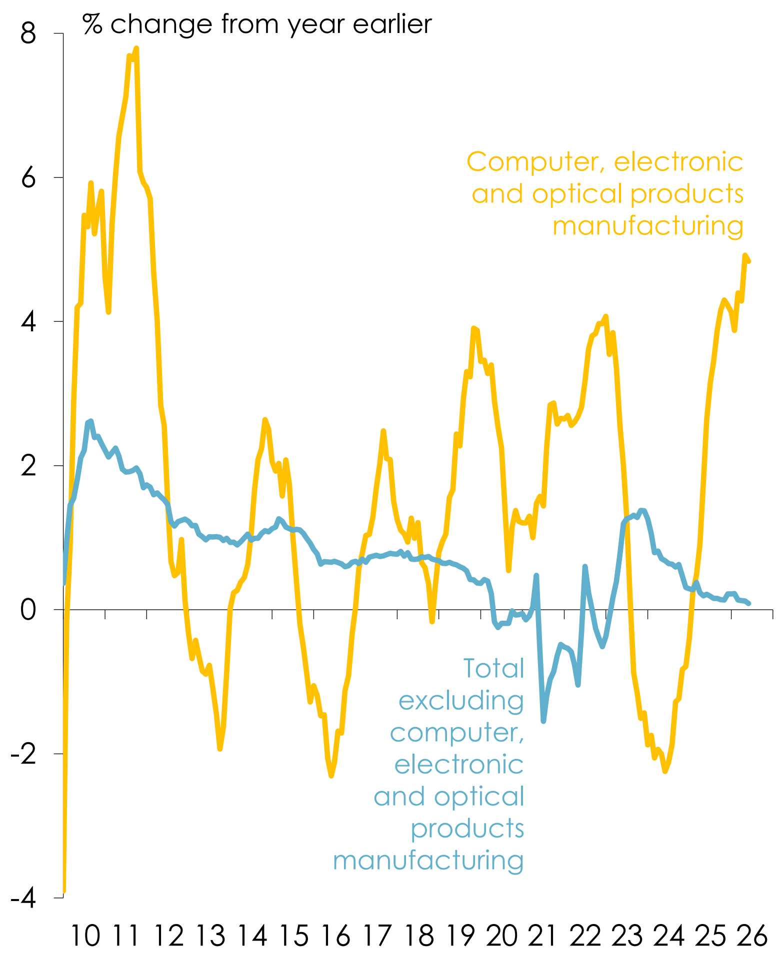
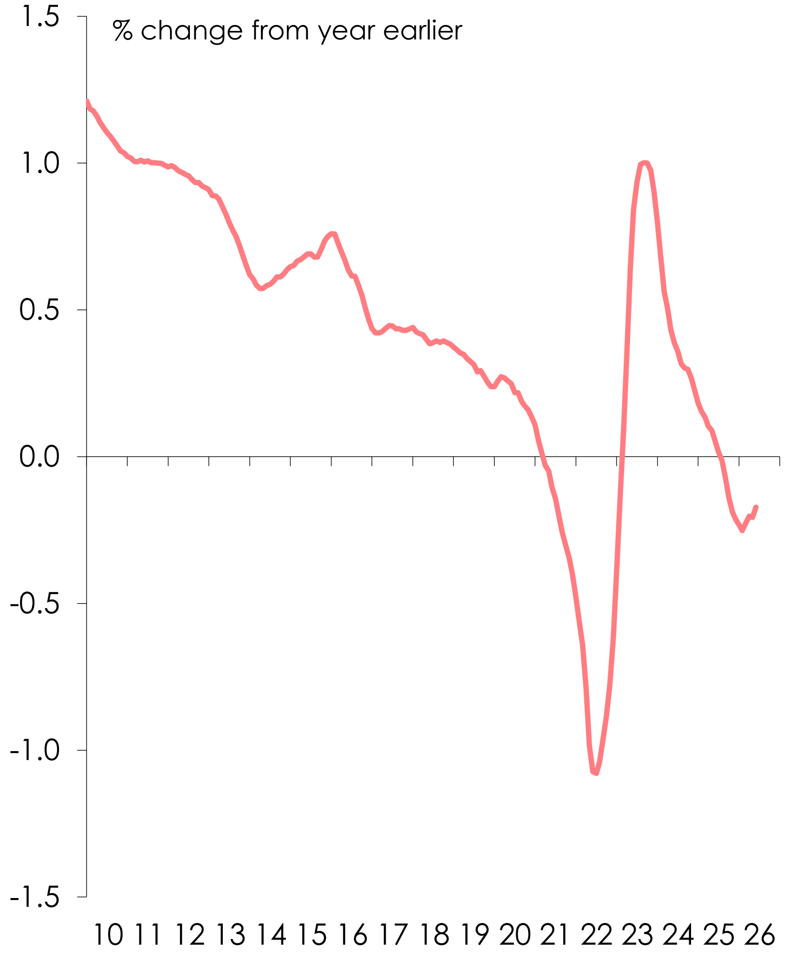
IT-related employment has grown rapidly – albeit from a very small base

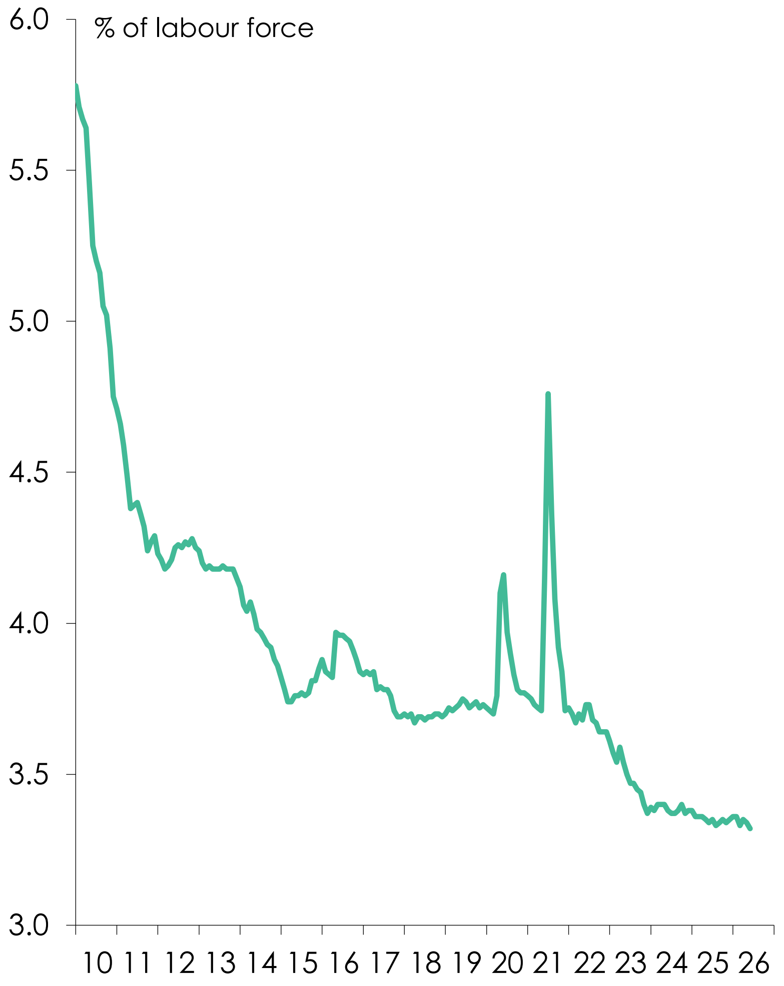
Employment in computer, electronic and optical products



Civilian working age population



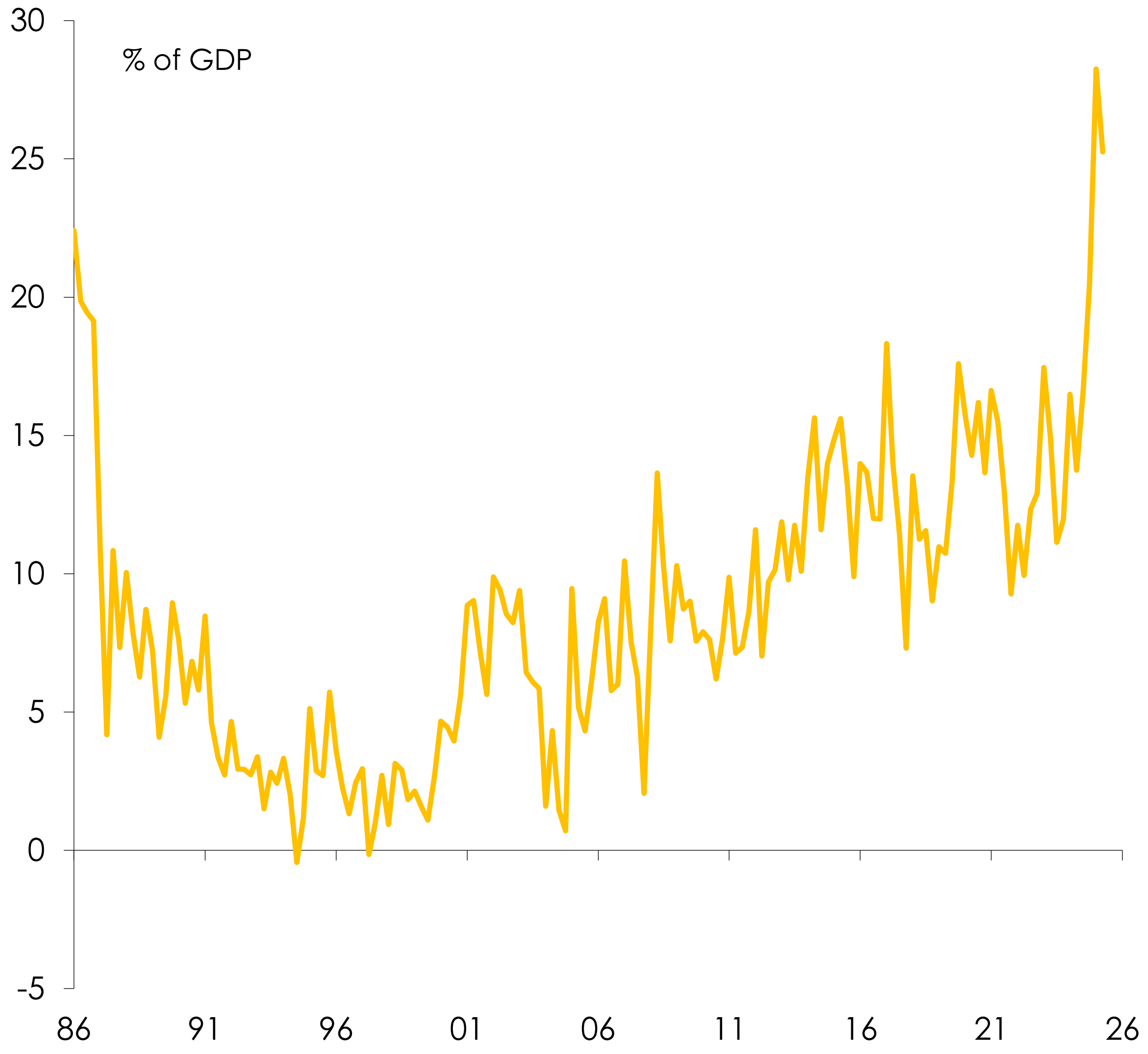
Unemployment rate



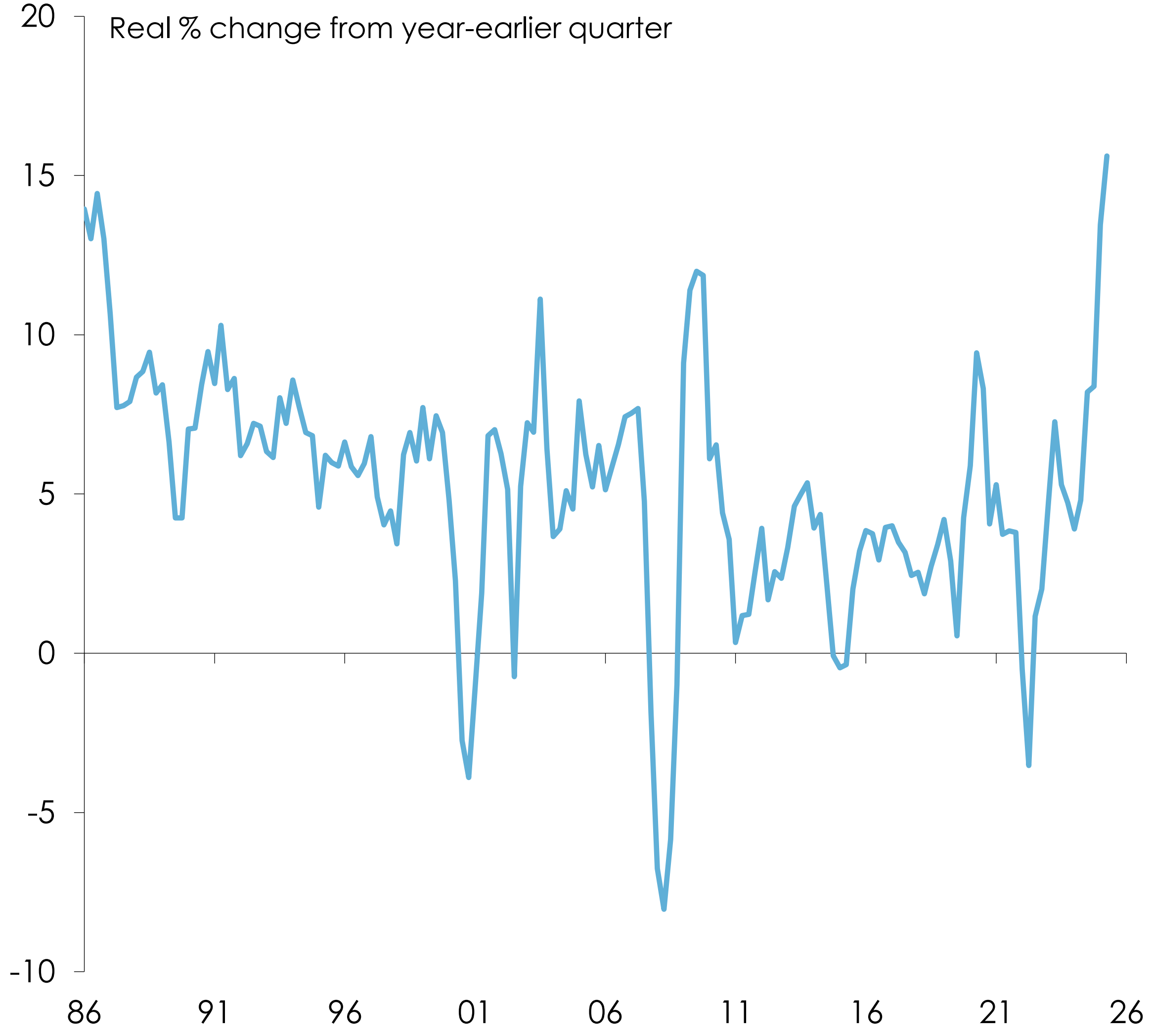
Note: Employment in computer, electronic and optical product manufacturing accounted for 2.2% of total employment in May 2026.
Source: Taiwan Directorate General of Budget, Accounting & Statistics.

Taiwan is now recording current account surpluses equivalent to 25% of GDP and real GDP growth of over 15%

Taiwan current account balance



Taiwan real GDP growth



Sources: Taiwan Ministry of Finance; Taiwan Directorate General of Budget, Accounting & Statistics.

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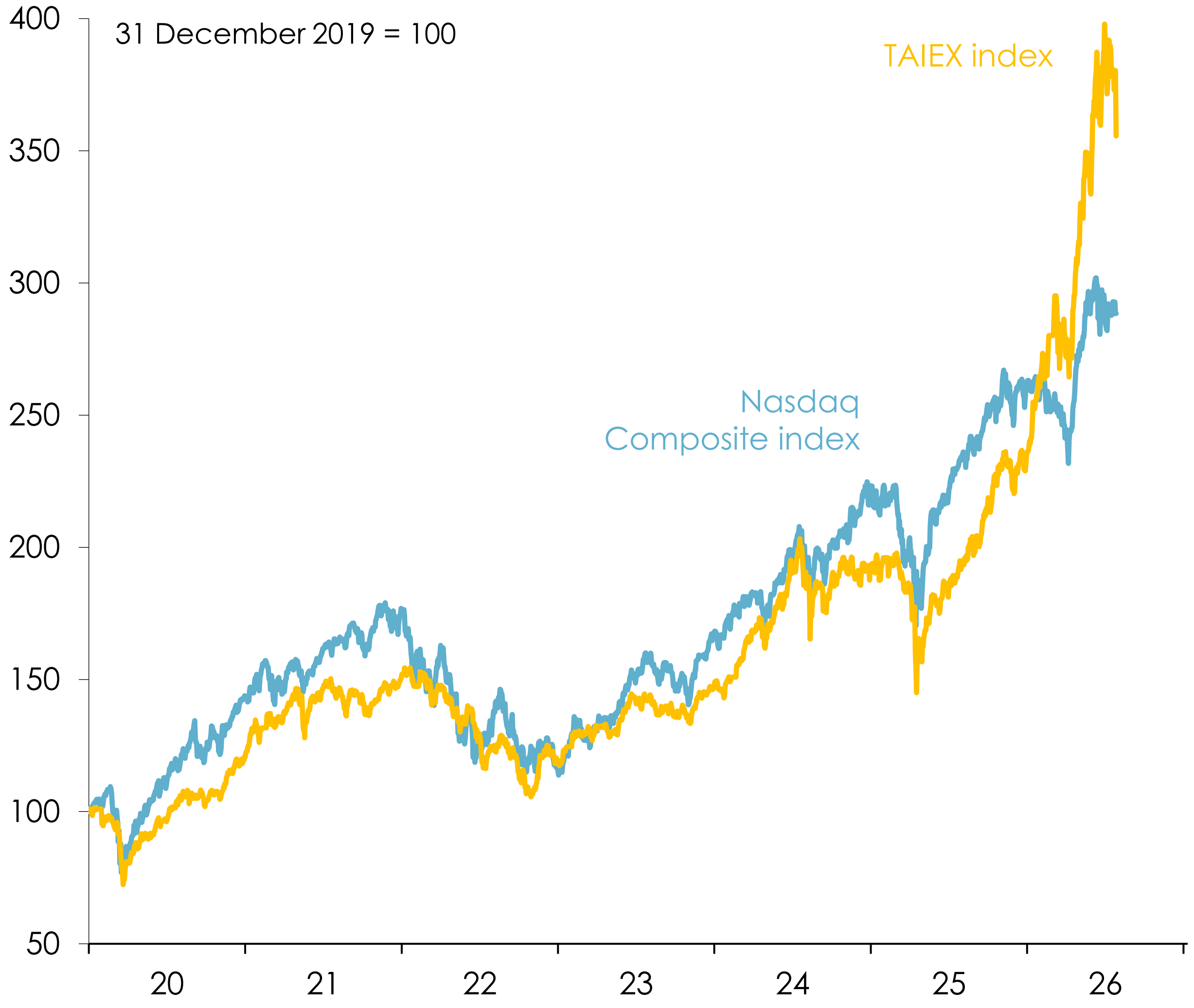
Taiwan's stock market has outperformed the Nasdaq – although last year's surge in the Taiwanese currency didn't last

Taiwan stock market vs Nasdaq



New Taiwan dollar vs US dollar

Source: LSEG Datastream.

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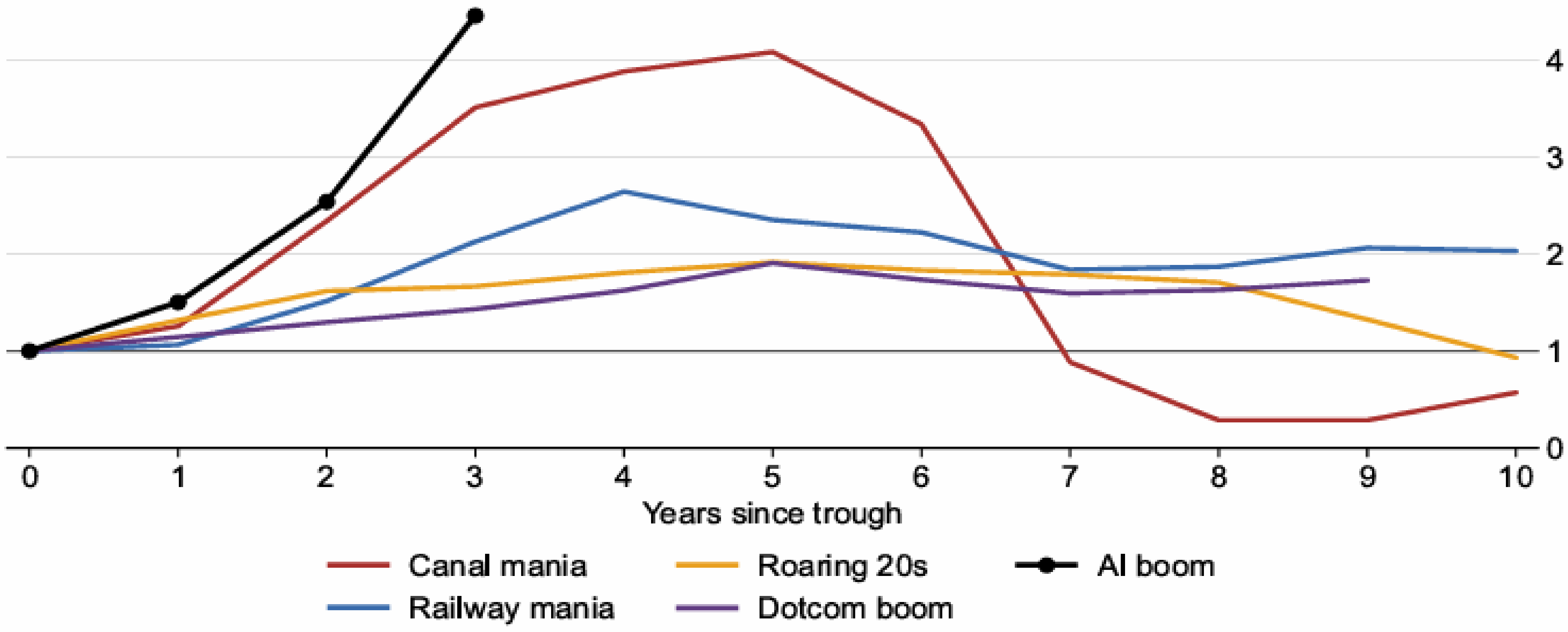
Has the semiconductor investment bubble burst?

Philadelphia Stock Exchange semiconductor index (SOX)

Note: The PHLX Semiconductor Sector Index (or SOX) tracks the share prices of the 30 largest US-listed semiconductor companies. It includes non-US companies whose securities are traded on US exchanges (such as TSMC, ASML, and NXP) as well as US companies (such as Nvidia, Texas Instruments, AMD and Qualcomm).
Sources: Nasdaq, PHLX Semiconductor SOX; LSEG Datastream.

The AI investment boom may be the largest of its type in history

The AI investment boom and comparable historical examples



Note: Chart depicts investment during five innovation-led booms as multiples of each episode's pre-boom trough: canals (US, from 1835), railways (Great Britain, from 1843), the 1920s (US, from 1921), dotcom (US, from 1995) and AI hyperscaler capex (from 2023, with 2026 from announced guidance).
Source: Phurichai Rungcharoenkitkul, *The AI Investment Race*, BIS Working Paper No. 1367, Bank for International Settlements, 14th July 2026.

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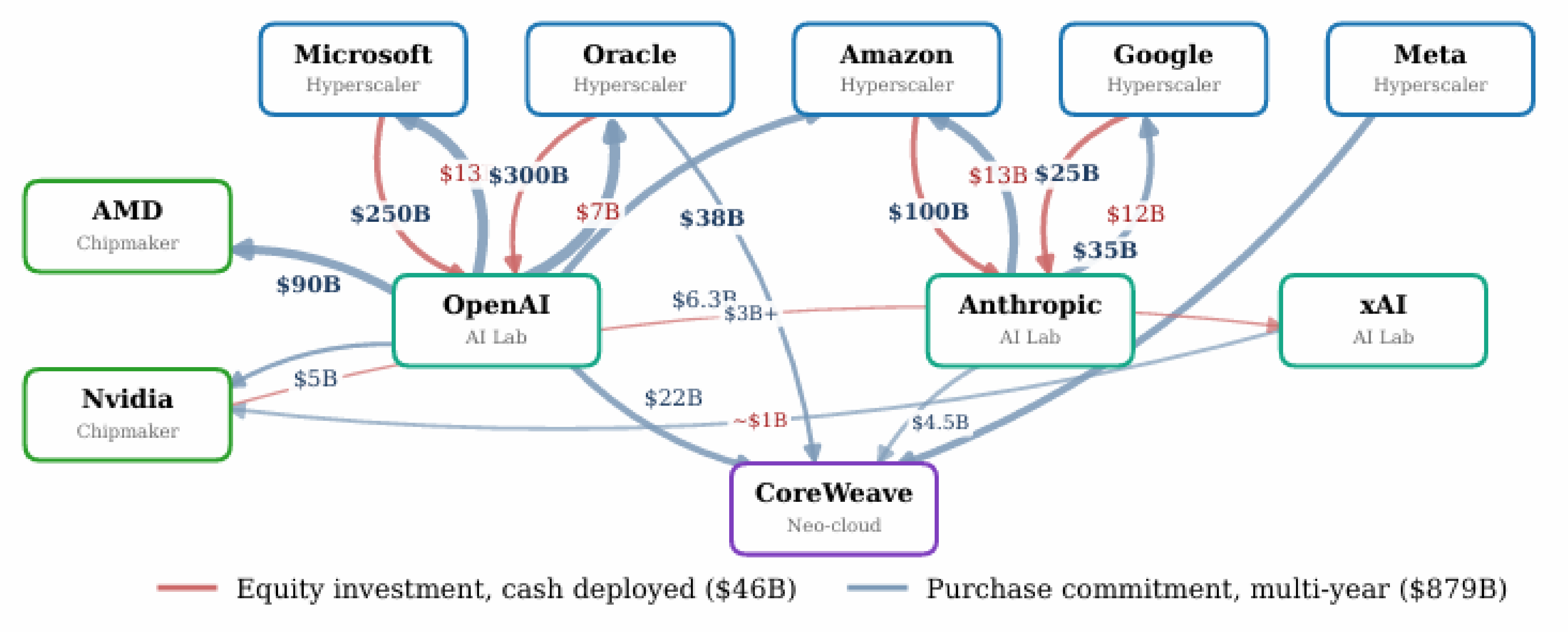
A significant proportion of current and prospective AI investment is dependent on 'circular financing'



Source: Phurichai Rungcharoenkitkul, [The AI Investment Race](), BIS Working Paper No. 1367, Bank for International Settlements, 14th July 2026.

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The ‘existential risk’ for Taiwan is invasion – or economic strangulation – by China

The ‘Davidson window’ - 2027

In testimony to the US Armed Services Committee in March 2021, Admiral Phillip Davidson, then Commander of the US Indo-Pacific Fleet, warned that China was developing the capacity to take control of Taiwan by military means by 2027

In February 2023, then CIA Director William Burns stated that Xi Jinping had instructed the PLA “to be ready to invade Taiwan by 2027” (although he added “that doesn’t mean that he’s decided to invade in 2027 or any other year as well”

Or 2028?

Former Australian Prime Minister Kevin Rudd, now CEO of the Asia Society, this month suggested that Xi Jinping may view the confluence of presidential elections in Taiwan (in January 2028) and the US (in November) as “a unique opportunity” to take Taiwan by force

Economic strangulation rather than military invasion?

Odd Arne Westad, in *The Coming Storm*, writes “an embargo strategy would have limited advantages for the PRC. It would probably be met with military action by Taiwan, and therefore lead to a more direct war anyway”

China has substantially increased the scale of its 'military exercises' around Taiwan over the past four years

Major PLA military exercises around Taiwan since 2022

Exercise	Purpose	Aircraft and ships		Unique highlight
Encirclement drills (4–7 August 2022)	Response to Pelosi visit	68 aircraft	13 naval vessels	First full encirclement; 11 ballistic missiles launched, some over Taiwan into Japan's exclusive economic zone
Joint Sword 2023 (8–10 April 2023)	Response to Tsai–McCarthy meeting	91 aircraft	12 naval vessels	Precision strikes and aerial blockade; *Shandong* carrier involved; destroyers come within 24 nautical miles of Taiwan
Joint Sword 2024A (23–24 May 2024)	Warning after inauguration of President Lai Ching-te	111 aircraft	46 naval vessels	CCG involved for the first time; activity targeting Taiwan's outlying islands
Joint Sword 2024B (14 October 2024)	Response to National Day speech	153 aircraft	26 naval vessels	Focus on blockade and control of key ports; increased CCG involvement; *Liaoning* carrier deployed
Unnamed drills (9–11 December 2024)	Reaction to Lai's Pacific trip	~90 naval vessels		Simulated blocking foreign intervention; largest PLA maritime operation since 1996.
Strait Thunder 2025A (1–2 April 2025)	Response to Lai's 17 March speech	135 aircraft	50 naval vessels	Layered encirclement tactic; CCG conducted boarding and blockade; carrier within 24 nautical miles

Source: Australian Strategic Policy Institute, Live tracker of China's military exercises around Taiwan, 2025.

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Taiwan's complicated politics

Lai Ching-te

Cheng Li-wun

- The nominally pro-independence Democratic Progressive Party's Lai Ching-te (who had been Vice-President under Tsai Ing-wen) won the January 2024 presidential election with 40% of the vote
  - Koumintang (KMT) candidate Hou Yu-ih won 33.5% of the vote and the Taiwan People's Party (TPP)'s Ko Wen-je won 26.5%
- However, at the same election, the DPP lost its majority in the Taiwanese Parliament (the Legislative Yuan), winning only 51 seats (out of 113), down from 61 previously
  - the KMT won 52 seats (up 14), TPP 8 (up 3) with two KMT-aligned independents
- The KMT is now led by Cheng Li-wun, previously a DPP member of the Legislative Yuan (1996-2000) but returned to the parliament as a KMT member from 2008-2012, and again from 2020-2024, before being elected Chair of the KMT in November 2025
  - Cheng visited China at Xi Jinping's invitation in April this year, holding a meeting with Xi in Beijing
  - during this visit and subsequently, Cheng promoted an "alternative framework" emphasizing the "shared destiny" of peoples on both sides of the Taiwan Strait and seeking to prioritize "peace, progress and prosperity" in cross-strait relations
  - Cheng has also compared Taiwan's position with Ukraine's, describing Vladimir Putin as "democratically elected" and blaming NATO for Russia's invasion of Ukraine
- In March this year, TPP leader Ko Wen-je was sentenced to 17 years' imprisonment for corruption and misuse of political donations
- The outcome of the Presidential election to be held in January 2028 may determine whether cross-strait tensions escalate or ease

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There is actually more to Taiwan than chips

Dragon & Lotus Pond, Kaohsiung

Sun Moon Lake

Shennong Street, Old Tainan

Yeh Lui Geological Park

Jiufeng Village

Rainbow Church, Kaohsiung

Confucius Hall of Learning, Tainan

Great Harbour Bridge, Kaohsiung

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