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The chips chokehold that could end the investment boom

di John Thornhill

Iran's effective blockade of the Strait of Hormuz has highlighted the alarming impact of tightening a trading chokehold. Yet there is an even bigger potential pain point in the global economy:

Taiwan's control of more than 90 per cent of the world's leading-edge silicon chips, which run almost every western smartphone, data centre, AI model and smart weapons system.

The rise of Taiwan's chip industry is one of the most remarkable industrial stories of our century.

But the island of 23mn people lies on a geostrategic — as well as a seismological — faultline, roughly 100 miles off the coast of China.

Beijing has long trumpeted its “national rejuvenation” mission to incorporate the island. It has also significantly boosted its military capabilities to help achieve that end. Any serious disruption to the global supply of the world's most valuable semiconductors would surely bring the current AI investment boom in the US screeching to a halt. It would also rattle global stock markets that are heavily leveraged on Big Tech's colossal AI bet.

The over-reliance of the US on Taiwan's manufacturing output has been belatedly recognised by Washington, but overcoming that challenge is an altogether different proposition.

In January, the US Treasury secretary Scott Bessent warned that any disruption to Taiwanese chip production would pose the “single biggest threat to the world economy.”

“If that island were blockaded, that capacity were destroyed, it would be an economic apocalypse,” he said in Davos.

Last year, Sanae Takaichi, Japan's prime minister, said that any Chinese attack on Taiwan could constitute a “survival-threatening situation” for her country, too. The significance of that phrasing is that it would permit the activation of Japan's self-defence forces under the terms of its 2015 security law. That points to the risks of a far wider conflict, especially if the US responded to any Chinese moves against Taiwan.

Recent administrations have been actively trying to reduce their dependence on Taiwanese chips. In 2022 President Joe Biden passed the Chips Act, which authorised \$52bn in subsidies to stimulate US semiconductor manufacturing. President Donald Trump seems to prefer the stick to the carrot. He has slapped tariffs on imports attempting to force foreign chipmakers into switching manufacturing to the US.

Investment in the American chip sector has surged as a result. According to a 2024 report from the US Semiconductor Industry Association, US domestic chip manufacturing was on course to triple

by 2032. More than 100 projects have now been announced in 28 states, totalling more than \$500bn of investment.

Even so, the US tech industry will remain critically dependent on Taiwan for the immediate future. Apple, Nvidia, AMD, Qualcomm and Broadcom have no viable alternative manufacturer of advanced chips at the scale they need. And even US-made chips have to be sent to Taiwan for the final delicate process of “packaging”.

The Taiwanese believe their dominant position in the world’s chip market gives them a “silicon shield” protecting them from attack. The Chinese would not want to jeopardise their own economic future by yanking such a critical block out of the global Jenga tower.

But just how far and how fast Beijing is prepared to go to take over Taiwan is impossible for any outsider to know. President Xi Jinping may reckon that time is on his side and keep plugging the argument that unification is inevitable one day. For what it’s worth, the latest unclassified assessment of the US intel- ligence community is that “Chinese leaders do not currently plan to execute an invasion of Taiwan in 2027, nor do they have a fixed timeline for achieving unification.”

However, betting on the Polymarket prediction market puts the chance of China invading Taiwan by the end of 2027 at 20 per cent. That possibility is certainly not priced into the US stock market. This betting is likely to oscillate in the coming weeks ahead of Trump’s rescheduled visit to China on May 14, when the subject of Taiwan is certain to be discussed. For the moment, though, Trump is still desperately trying to extract his head from a Middle Eastern chokehold.

The irony is that US attempts to restrict exports of high-end chips to Beijing have not only stimulated the development of China’s “red” chip sup- ply chain. They may also — perversely — have cut the costs of messing with the US-focused “blue” one.