Taiwan: Booming AI demand drives record GDP growth | Credendo

Event

Strong global demand for AI-related products is pushing Taiwan's real GDP growth to record levels. After an impressive 8.6% GDP growth in 2025 amid the US trade war, it rose to a historic 14.5% year-on-year in the first quarter of 2026, overshadowing the energy shock from the Middle East conflict.

Impact

Taiwan is benefiting from strong exports and consolidating its central position as a dominant global supplier of chips, particularly advanced chips – where it holds a 90% market share – and AI-related items. Its exports are being particularly boosted by sustained US demand for semiconductors and ICT goods. This is the result of the AI leadership race with China, the US-China trade war and US export controls on China, which have quickly made the US more dependent on Taiwan while making China less reliant on the island for ICT components. Taiwan's current economic strength is likely to persist for some time and support exports and overall economic activity in the years to come. However, Taiwan is also exposed to a potential market correction and slowdown in global demand, which could harm future performance and investment given the country's increased reliance on high-tech and AI exports, currently estimated at 45% of total exports.

Looking ahead, two other downside risks will remain on Taiwan's economic horizon. First, the widening trade surplus with the US. Trump's insistence on import tariffs to correct trade imbalances could lead to further pressure on Taiwan. Nevertheless, this risk is mitigated by the fact that the US benefits greatly from Taiwan's chips and has secured substantial investment commitments in the US from TSMC, Taiwan's flagship chipmaker group. Second, despite global dependence on Taiwanese chips, China continues to increase political, economic and particularly military pressure on Taiwan with the aim of unifying it with the mainland. Besides, Trump's transactional approach, including to US security, stalled arms sales to Taiwan and lack of appetite for conflict with China are weakening US deterrence and could encourage future Chinese grey-zone operations against the island. In addition, China is gradually reducing its high chips imports from Taiwan.

The outlook is positive for the business environment risk (D/G) amid the easing Middle East crisis. The risk of conflict with China continues to weigh negatively on the outlook for the MLT political risk (2/7).

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