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# Will the US Protect Taiwan in Case of Chinese Military Aggression?

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**Abstract:** Taiwan has been threatened by China for decades without a clear guarantee of protection from the United States. China's anaconda strategy has contributed to a peak performance in Taiwan's semiconductor technology which not only protects Taiwan by increasing the probability for protection by the United States. The shift of high-performance semiconductor production from Taiwan to the United States is unfeasible, because the necessary climate of threat cannot be reproduced there. Even more, diversifying Taiwan's semiconductor production geographically would be undesirable, because geopolitical instability would rise.

**Keywords:** Taiwan; China; USA; semi-conductors; competition; Hayek

**JEL Classification:** B25; O31

But where there is danger, A rescuing element grows as well. (Friedrich Hölderlin)

## 1 Will China Invade Taiwan?

According to the Annual Report of the U.S. Department of Defense (2024) the People's Republic of China has amplified diplomatic, political, and military pressure against Taiwan by maintaining a naval presence around Taiwan, increasing crossings into Taiwan's self-declared centerline and air defense identification zone, and conducting highly publicized major military exercises near Taiwan.

The island in the South China Sea is regarded by the People's Republic of China as a "renegade province" whose reunification is being sought – by force if necessary (Lin et al. 2025). After overinvestment in the industrial sector has emerged (Schnabl 2018) and a huge bubble in the real estate sector has burst (Dieter 2023), fading

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growth may tempt China's President Xi to strengthen his political power with land gains, even if this is costly and risky.

An "anaconda strategy" may slowly choke off the small island state. The heavily armed two million men of the Chinese People's Liberation Army are only 130 km away from the island at its narrowest point, with the number of China's war ships growing fast. Chinas Navy has already now more ships than the US-Navy. War has already broken out in cyberspace in form of targeted disinformation campaigns. Diplomatic pressure on its allies is intended to isolate Taiwan (Stanzel 2025). The fact that Russia can simply take land from Ukraine may encourage China further.

Thome (2024) has explained that the geostrategic and geoeconomic position of Taiwan is pivotal. Barkin (2024) has argued that there is an increasing need for Germany and the European Union to deter Chinese aggression versus Taiwan. Yet, Mykhailiuk (2025) has acknowledged the crucial role of highly advanced chip production for the national security of Taiwan and has called for global production diversification in next-generation chip technologies.

In contrast we stress the role of technological innovation as a crucial element of the Taiwanese defense strategy, making an argument against geographical production diversification to sustain geopolitical stability.

## 2 The Protection by the United States Has Become Uncertain

Taiwan is still allied with the United States, which is the world's largest military power. Yet, in the Taiwan Relation Act of 1979, the United States did not explicitly commit to defending Taiwan militarily in the event of an attack, as is the case with NATO, but "*to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people on Taiwan*" (U.S. Congress 1979, Sec 2 (6)). China, therefore, had up to now take into account that an attack on Taiwan could trigger a military conflict with the powerful United States.

In Donald Trump's erratic world of deals, however, the promises of the United States have lost value (Satake 2024). Canada and Mexico have learnt in the case of NAFTA that previous trade agreements were ignored. The Europeans had to acknowledge that they could not rely unconditionally any more on the security arrangements within NATO. Particularly, Ukraine faced rising concerns that it will lose the military support of the US, with the US possibly even cooperating with Russia. Trump's statement 'Taiwan doesn't give us anything' has alarmed Taipei (Park and Fu 2025).

However, Taiwan has secured itself by gaining the leading edge in semiconductor production. Semiconductors are the strategic raw material of the present and the future. As Miller (2022) puts it, computer chips are now more important for war than tanks. Whoever leads in semiconductor technology not only controls cars, ships, planes and communications, but also weapons. The strategic role of high-performance computer chips has become even more important in the age of artificial intelligence.

The Taiwan Semiconductor Manufacturing Company (TSMC) is the global leader in high-performance 5- and 3-nm chips, which – thanks to higher performance, lower energy consumption and smaller sizes – play a key role in artificial intelligence applications. 60 percent of all semiconductors are produced in Taiwan. More than 90 percent of advanced logic chips are produced in Taiwan (Lee et al. 2021). The customers include the leading IT-companies Apple, AMD, Nividia and Qualcomm.

## 3 Military Threat as a Discovery Procedure

How did this technological leadership come about? When the USA moved closer to Mao's China in 1972 and Taiwan had to leave the United Nations, the independence of Taiwan was severely under threat. Taiwan under Chang Kai-shek was not only threatened by isolation but also could no longer blindly rely on the support of the United States. It therefore sought closer economic ties with the United States to sustain its security. A chance emerged in 1985.

By then, the development engineer Morris Chang had failed with his pioneering idea of independent semiconductor production at Texas Instruments Incorporated in Dallas, Texas. The Taiwanese Vice President Lee Teng-hui generously offered him about half of the necessary funding to set up his own plant in Taiwan. Philips of the Netherlands contributed another 27 % of the funds, supplied critical semiconductor manufacturing technology, and provided intellectual property. The new company became TSMC. US-Americans on the board of directors secured the interests of the USA.

According to Hayek (1969), competition drives companies to innovate because this can increase profits (competition as a discovery process). However, as soon as an innovation is successful, it is copied, which makes new innovations necessary to sustain a high profit margin. The upshot is that a high degree of competition drives technological progress. This was proven in the course of the competition between communist and capitalist countries during the cold war.

In the case of Taiwan, Hayek's concept can be expanded to the effect that it is not only global competition in chip production with South Korea, Japan, China and the United States that has driven Taiwan to this peak performance. Yet further, the fear

of China and the associated struggle for the urgently needed military protection of the United States may have created a very strong incentive to push forward the outstanding performance in the Taiwanese chip industry.[1]

The military threat from China can be seen as a decisive reason why Taiwan has achieved market leadership in semiconductors, because the production of high-performance semiconductors requires an extraordinary degree of commitment and discipline of management and workers. This has led to technological leadership especially in the field of logic chips in the 3-nm range, through a unique ecosystem of research, development, innovation, production, motivation and quality control.

This level of technology has even gone beyond the level in the United States, which is widely acknowledged to be leading in information technologies.[2] Taiwan has secured this advantage up to this day. This implies that the state can act as a catalyst for innovation – as for instance with the Apollo program in the United States, which was triggered by the Sputnik shock of the Soviets. However, according to Hayek (1969), this will not work in the long term without free private initiative and the cooperation of employees in companies.

## 4 Technological Innovation as an Insurance Mechanism

If a Chinese attack on Taiwan would destroy the semiconductor factories or even conquer producing-capacities, this would create a considerable constraint for the development of the artificial intelligence sector, where the United States clearly dominate. If China would get access to Taiwan's cutting-edge technology, this would boost China's longstanding national strategy to shape the international order by creating new strategic opportunities (see U.S. Department of Defense 2024).

As Taiwan would be able to withstand a total blockade by China just for a few days, only a blockade of Taiwan by China would threaten US-supply with high-performance computer chips. Growing naval maneuvers by China at the eastern backside of Taiwan indicate intentions to cut the small island of US-supply in a serious conflict.

The conflict between China and Taiwan is therefore not just a regional conflict, but a geopolitical and geoeconomic threat that transforms Taiwan's customers – whether they want it or not – into allies. As Taiwan's former President Tsai Ing-wen has put it, Taiwan has created a "protective shield made of silicon".

1 See Lewak (2024) on the process of technological innovation in Israel.

2 A similar argument is made for Israel. See for instance Rose (2025).

The US would like to free itself from its technological dependence on Taiwan by bringing the technology once developed in Silicon Valley from East Asia back to the United States. This would extend the technological leadership of the United States in artificial intelligence. Under President Joe Biden, the "CHIPS and Science Act" (CHIPS stands for "Creating Helpful Incentives to Produce Semiconductors") mobilized 280 billion dollars for domestic semiconductor production in 2022. Out of this amount, 53 billion dollars were accounted for by direct subsidies and 24 billion dollars by tax incentives for investments in semiconductor production.

In return for security policy commitments, Taiwan has even agreed to the construction of TSMC plants in Arizona (and Dresden, Germany), which diversifies the geographical cluster risk in the production of high-performance chips. TSMC's $165 billion investment in Arizona can be seen as a concession to US pressure or as a hedge by Taiwan by integrating its strategic value within the US defense-industrial base. By becoming a stakeholder rather than merely a supplier, Taiwan can raise the political and operational cost of any disruption to its autonomy (Associated Press 2025).

Yet, because the new production capacities abroad are small and the production of high-end products remains in Taiwan, the protective shield made of silicon remains. To sustain the leadership in AI technologies, the United States have to protect Taiwan. And as Park and Fu (2025) put it: "*The sine qua non of credibility is the alignment of national interests.*" Taiwan does not only help to limit China's power in the region but also supplies advanced semiconductors to the United States and other countries.

## 5 Geopolitical Implications

Creativity is an inexhaustible and free resource that cannot be mobilized on demand or even by government coercion. Therefore, strategic industrial policies are unlikely to generate outstanding innovation. Free market competition is the prerequisite for persistent innovation dynamics. Beyond the incentive to generate profits, the threat of invasion or war can create circumstances for outstanding innovation. In Taiwan, the fear of China is probably a key reason for the high performance of TMSC's workforce, which cannot be replicated in other countries.

Given the concentration of the crucial high-performance semiconductor production in Taiwan, the diversification of risk by building up additional production sites in the United States and Europe may seem justified. From a security perspective, it is right to mitigate the greatest dependencies and to reorganize (derisking) or diversify (friendshoring) global value chains. However, attempts to relocate the production of high-performance chips to other countries as part of large-scale

industrial policies will be doomed to fail in the case of Taiwan, because the political and economic climate there cannot be reproduced elsewhere.

Even more, the relocation of production is undesirable from a geopolitical perspective, as relocating the production of high-performance chips out of Taiwan would increase the likelihood of an invasion or a total blockade of Taiwan by China. The geopolitical situation would only be unnecessarily destabilized. Therefore, preserving the status quo in geographical high-performance semiconductor production can be seen an important contribution to global political stability.

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