Taiwan's Hidden Risk

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Ed D'Agostino: What if I told you that one of the biggest risks to the global financial system was not the US housing market, not an AI stock market bubble, not even China's massive US Treasury holdings, but instead the friendly island of Taiwan?

Our ally Taiwan owns nearly as many US Treasuries as China. But how they own them and what could force them to sell all at once poses a massive risk to the global financial system. That's the story uncovered by Lyric Hughes Hale and Eric Huang of EconVue.

Lyric is the editor in chief at EconVue, and Eric is a Taiwan-based geopolitical analyst and former deputy representative to the US for Taiwan's KMT Party. Today they join me to discuss why Taiwan's Treasury holdings could, in a matter of hours, trigger a global financial crisis and what can be done to avoid it. I'm Ed D'Agostino and this is Global Macro Update.

Eric Huang and Lyric Hale—Eric joining us from Taiwan and Lyric in Chicago. It's great to be with you both. You wrote a fascinating joint article about Taiwan's role in the US bond market, which sounds boring, but as I got into it, I was mesmerized. This is a risk, a huge risk to the US bond market that I had no idea existed, nor did I know Taiwan even played such a big role. So that's the topic of our discussion today.

But before we get there, given the events that happened in Venezuela over the past weekend, I'd love to just get your thoughts, Eric. What has changed? Has this event changed the narrative around Taiwan from China's perspective?

Eric Huang: Well, I think it's a little early to tell. As we're all very familiar with China, it's a tinderbox. You never know what they think or how they think or how they come to decision making, their process and this and that.

But what I will share is this: the current domestic discussion in Taiwan—on one end, the government, the current government, the DPP, the Democratic Progressive Party, they are arguing that the US has the might to take out any of its enemies around the world. And they're saying that the Chinese should be very wary once they see what's happening, the event that has taken place—that one, the US has the willingness to stop its enemy at no end, and two, it has the military might to do so.

On the contrary, the opposition party, the KMT, the pundits and experts are arguing that China might very well do the same to a pro-independence president in Taiwan. So basically two sides are just arguing across one another.

I think the answer, quite frequently, is probably somewhere in the middle. I think both sides are taking this a little too much into their own narrative. I think the core issue at hand here is whether or not Taiwan is in US interests. Is it an extremely important interest or is it a vital interest? I think this is why we're sitting here today and talking about Taiwan holding so much US bonds and what that might mean for US policymakers and average Americans.

Ed D'Agostino: If you look at foreign holdings of US government bonds, Japan is number one. They hold the most, generally considered a very strong ally. Next in line is China. You have lots of talking heads in the US talking about how this is something that they could weaponize against the US, and we'll get into why that's perhaps not the case. And Lyric, I think, made a very eloquent argument as to why that doesn't really make sense.

A close number three in terms of foreign holders of US Treasuries is Taiwan—almost exactly the same amount as China. I had no idea. And we'll get into why that's a risk because of the way that they hold them. But first let's talk about why they hold so many. So Lyric, I'm going to try hard to not lose everyone because we can get into the weeds here.

Lyric Hughes Hale: Right, exactly.

Ed D'Agostino: But why are there so many US Treasuries held in various entities in Taiwan?

Lyric Hughes Hale: Well, part of it is to hedge against securities. And recently, Eric shared with me an article, a letter from the Central Bank of Taiwan to the New York Times, and they brought up a new issue that we did not, I think, cover sufficiently in our article—saying that one of the reasons that the insurers hold so many US bonds is that their own central bank doesn't issue enough bonds themselves.

And they do that, they said in this letter, for fiscal reasons. In other words, they don't want to expand their balance sheet like we have done in the United States. We can do that because we are the reserve currency of the world. We have that exorbitant privilege to raise debt above all other countries. Perhaps Taiwan doesn't feel that they have that same ability to issue bonds within their own country.

So that's another reason that, for example, insurers in Taiwan who have very large asset holdings—their cashflow is today, but their liabilities go on for decades. That's the nature of insurance, right? So they are trying to hedge, they're trying to make sure that they have enough money to meet those obligations over time. One way that they have done that is by buying US Treasuries.

So Eric, am I characterizing that correctly? It's like a combination of hedging against currency issues and the search for yield—simply that's the reason that they're doing it?

Eric Huang: Yes.

Ed D'Agostino: And Eric, just to back up even one step further, who owns the Treasuries in Taiwan? In large part, insurance companies.

Eric Huang: Yes. A lot of these are insurance companies, life insurance companies among others.

So I'll add two more points to what Lyric already described, which I think is quite comprehensive and covers most of it. But if you put it into historical context, the trauma of 1997, where Taiwan's central bank was hunted by the Asian financial crisis, where they were in fear of lacking US dollars—where you had people like Soros just basically single-handedly making countries like Thailand or Korea's currency fall flat.

So we have described the phenomenon today as a culture of holding US dollars, where the government encouraged life insurers to take up excessive savings and invest in US bonds effectively. That's number one.

Another issue is that Taiwan is entering an aging society where Taiwan is heavily influenced by Chinese culture. Before you retire, you save a large amount of money so you can guarantee a life standard and you wouldn't have to worry your kids for your life after you retire. So because of that, because of the savings and this 1997 trauma, and then the Taiwan government encouraging buying US dollars, this also flows to another point where Taiwan historically has been very conservative in its fiscal and economic policy because they're in fear of national security.

When you mentioned Japan being the number one US bond holder, they're not in constant fear of another country attacking it or blockading it. But Taiwan is. So Taiwan is especially dangerous in that perspective. And so holding US dollars and having insurers holding US dollars gives us another layer of systematic risk.

Ed D'Agostino: Back to your question of who holds them—so private individuals hold US Treasuries in Taiwan, for example—but the danger of the insurance companies is that they hedge their holdings privately.

Lyric Hughes Hale: So the holdings of China, for example, and Japan, are held by a combination of sovereign funds, the government. They have more ability to not do something very quickly. Whereas if you're hedged and you're a private holder, that's the real danger. That's what we, I think, uncovered in this article—is that they will be forced into liquidation instantaneously, even if there's even the whisper of an impending invasion of Taiwan by China. That's the key vulnerability.

So it's not the same—Taiwan's holdings and the composition of those holdings are not the same as China's or Japan's. They're just as large as China's, but they're uniquely vulnerable.

Ed D'Agostino: What would trigger something like that? When you say that a Taiwanese life insurance company that holds a lot of US Treasuries is hedged—a lot of people, we're going to lose a lot of people right there. Maybe we could talk about the mechanics. Not to go into too much detail, but just sort of why they hedge and, more importantly, what does it mean? What would force them to sell? Because that really, I think, gets at the core of what's happening here.

Lyric Hughes Hale: I think, Eric, if you can describe that process—how they're thinking there in terms of what they would have to do if suddenly there was a change in rates and exchange rates. For example, if you're the treasurer of an insurance company in Taiwan, what do you do? What happens automatically?

Eric Huang: Right. So basically the mechanism of what we might call a margin call is when, by law, these insurers have to liquidate. If the people who are insured—the policyholders—want their money back.

So if, say, there is a political event, or if the Taiwanese dollar is either appreciating or depreciating too much, if they want their money back, the insurance company by law has to sell the US bonds and bring the money back home. This is when we believe it will cause some problems for US bond markets.

This event can also be triggered by any political crisis. We hear a lot of people talk about contingencies in Taiwan being a military one, being having missiles shooting at Taiwan. People talk about the silicon shield, where Taiwan Semiconductor can protect Taiwan. I think Lyric and I had this idea—we wrote this article because not enough is being discussed about this financial dimension and what will happen.

Basically we're saying even before a single missile or a single battleship either blockading the Taiwan Strait or shot at Taiwan, the market will already react. You will see, if somebody whispers about the Chinese wanting to invade, or they're thinking about planning about invading, or they have thoughts about something, or Xi Jinping said something—the first reaction within Taiwan will be, "I'm going to want my money back. I'm going to call my insurance company and say I want to take my money back."

And the money they have insured, the money they have, is in US bonds. They're required by law to liquidate. And the United States is a democratic country—by law, if Taiwanese insurers want to sell, they have every right to do so and you cannot stop them. And this is what we're describing, the phenomenon here.

So contrary to what many people believe, when this happens—when insurers have liabilities in Taiwanese dollars and they hold their assets in US dollars—then they're going to swap. When they want to hedge this currency risk, the Taiwanese investors will want Taiwanese dollars back domestically. Not that they want to hold onto Taiwanese dollars longer—they want the money back home first.

So what might happen is the Taiwanese dollar might appreciate sharply against the US dollar, and the US assets might drop in currency outright and in Taiwanese dollar terms. It would affect US Treasuries—the price immediately.

Ed D'Agostino: It sounds like it's the equivalent of what we would call a bank run. Not too dissimilar to what happened at Silicon Valley Bank. A bunch of depositors got panicked, concerned about the bank and pulled their money, and that forced liquidations and it blew up the bank. But in this case, if there's—

Lyric Hughes Hale: It's the much bigger bank.

Ed D'Agostino: Yeah, I mean, bigger than Silicon Valley Bank.

Lyric Hughes Hale: Yeah. It's 800 or so billion dollars worth of US Treasuries hitting the market in the span of hours. And not with malice aforethought—you know, everybody's worried about the Chinese dumping their Treasuries, but they don't have any incentive to do that. Because then the value of their holdings would plummet. So why would you do that?

All of a sudden, they don't need to do it because it's the government. They don't have the pressure of individual citizens demanding liquidation, as Eric just described. And that's what could happen in Taiwan.

Ed D'Agostino: If China dumps their Treasuries—that's the important part. One of the important parts of this article was you said if China decides to weaponize their Treasury holdings, like so many fear, they're really shooting themselves in the foot because it comes at a huge cost. They will collapse the value—

Lyric Hughes Hale: Enormous cost to them. Billions and billions of dollars in hard currency. So I think that it's unlikely to happen. On the other hand, you can see that China has been getting rid of its Treasuries over time. They have been offloading them, but they don't do it all of a sudden for the reasons that we just said. It's not logical to do that.

Ed D'Agostino: I have a picture in my mind of almost like a circular firing squad here.

Lyric Hughes Hale: Right, exactly. Everybody's got guns pointed at each other.

Ed D'Agostino: And Taiwan's in an interesting position. I mean, Eric, how do you think about that? I mean, you've got an adversary a very short span of water away that would like to see reunification. And everyone sort of assumes that chips are the driver for all this geopolitical interest and action around Taiwan. But is it? Is it chips, or—I mean, China would be shooting themselves in the foot if they invaded financially, in a way that I had never heard anyone talk about.

Lyric Hughes Hale: But I agree. People don't understand the mismatch between—as Eric just said, I think it's really important to underscore—the mismatch between the assets and the liabilities. The assets in terms of Taiwanese dollars and the liabilities are in US dollars. So when there's a liquidation event, there is obviously a crisis that could occur.

But the US Treasury has recently recognized this actually, and they have started—there are discussions that are taking place that Eric wrote about in the article as well. And senior, I think, senior Taiwanese officials are aware of this risk as well.

Ed D'Agostino: So what can be done about it? Right, that's the key question. What can you do to mitigate the risk, Eric? See, from me sitting in the US, this sounds like a risk. You, sitting in Taiwan—is it a chip? I mean, is it in some ways an asset?

Eric Huang: Many things cut both ways, right? To answer your earlier question, a different person sitting in the White House might think differently about how to handle the Taiwan issue or US-China relations from a great power competition perspective.

I am apolitical in US politics. I'm a trained diplomat. I don't take sides in US politics. But I think President Trump has done somewhat of a very good job handling this situation, a very delicate situation. I think he has somewhat de-risked the military high tension between the US and China, which is obviously good news for Taiwan. I think also he has highlighted some of the economic activities that the US is trying to do to strengthen its own economy and manufacturing capabilities.

I think here in Taiwan, it's not just about semiconductors. I think it's also about how Taiwan can be a closer ally—even though we don't call Taiwan an ally from diplomatic terms—but how we see Taiwan as a good friend, a US friend who can invest in the US and how we can put our trust in the US. I think that shows us Taiwan is not only a democratic friend, but it's somebody who trusts the US and invests in the US. That obviously strengthens US-Taiwan cooperation and relationship.

So is that a deterrence? I think in many layers, in many indirect ways, the answer is yes. But obviously Taiwanese people don't think of buying US bonds as a deterrence. Deterrence has to go through military and economic and diplomatic channels, right? So there are three pillars here. I think Taiwan is doing everything to show our determination to defend ourselves and not to start a war with Beijing.

Lyric Hughes Hale: I think, Ed, your point that perhaps having the chips manufactured in Taiwan, that China would be careful about disrupting that flow—but also that this is another deterrent. That's a very interesting way of looking at it.

Perhaps there's a—and I imagine that at the People's Bank of China, they realize this as well. I can't imagine that they don't know what would happen in Taiwan if an invasion were about to occur.

You know, when this happened with—when Putin invaded Ukraine, the risk to the global financial system was minimal because we already were not doing a lot of business with Russia. But in this case, we're doing vital business with Taiwan. And if they invade and the Taiwanese dollar spikes higher because people panic and say, "Give me my money back"—which is a rational response—China inadvertently takes a huge financial hit.

Ed D'Agostino: Right. It's very interesting.

Lyric Hughes Hale: Yeah. It is, as you say, a circular firing squad. We all hope none of this ever happens.

Ed D'Agostino: Absolutely. So you touched on, Lyric, what can be done to solve this issue or mitigate this issue to some extent, and that there are people on all sides talking about steps that can be taken. What are some of the things that are being done to potentially make this less of a risk?

Lyric Hughes Hale: What really needs to happen is that you have to have an emergency swap in place that should be negotiated and put in place. And also I think what we recommend in the article is that the G7 should get together and create a committee, some sort of group, that should something like this occur, they look at all these scenarios and they have a plan to act together.

During the global financial crisis, what really prevented the worst from happening was the coordination amongst the G7 central banks. But I'm not sure right now if they're aware of the risk. I think they are in Beijing. I think they are in Taipei. I'm not sure—probably in Tokyo—but I'm not sure that they're aware in the rest of the world that there's a discussion going on. I haven't seen much evidence of it.

Most of the discussion, as in the Economist article, revolves around this idea: is the Taiwanese dollar overvalued, undervalued? It's around currency. It's not taking a deeper look at Taiwan's incredible Treasury holdings.

I think, as I mentioned too, we still have a picture of Taiwan as this very small player. We're beginning to understand the importance of Taiwan because of semiconductors, but our picture of their financial heft is really back in the days of Jimmy Carter, when the agreement about Taiwan was made between the US and China. Taiwan only had 10 or 20 billion dollars in foreign reserves. That was it. Now look at it. The situation has radically changed, but recognition of Taiwan's important place in the global financial system has not yet been recognized.

Ed D'Agostino: Eric, anything to add on that?

Eric Huang: I think likely this trend will continue—that either citizens or insurance companies will continue to buy US bonds. That's not going to stop.

What is interesting—and Lyric and I are actually thinking about writing a sequel, part two of this—is because starting this month, this year, January 1st, 2026, by law Taiwanese insurers must reveal and mark to market their bond portfolio. This is a mechanism to ensure transparency and will make them reveal exactly how much of the duration risk they're carrying.

So this, on top of the November 14th joint statement between Taiwan's Central Bank and the Federal Reserve where they have to report quarterly on the intervention and any risk they might be facing—we call this the new era of transparency.

So once this structural transformation is in place in Taiwan's financial system, even though the theoretical risk might still be visible, I think investors will somehow have even boosted confidence. So for this trend to continue, this is definitely something for US policymakers to think about.

Lyric Hughes Hale: Silicon Valley Bank really got caught in the crosshairs of marking to market their bond portfolio. That is what doomed them. So if they had been allowed to just continue those holdings, it was the mark-to-market event that caused the failure of that bank. So I would be kind of worried about the transparency, even though I think long term it's a good thing. There could be some surprises as those reports come in.

Ed D'Agostino: This is one of those situations that comes up in finance and economics once in a while where individual actors, whether it be households or banks or corporations, they all act in rational ways. They do things that are perfectly rational and make good sense and are good decisions for them at an individual level. And then when you aggregate, you find that there's this colossal risk that nobody really saw. Until, like—

Lyric Hughes Hale: MBS.

Ed D'Agostino: Exactly, exactly. It's very similar to that. As those risks got concentrated in those new financial instruments, that's what created the problem. It's rational for someone to try to buy a home at the lowest cost they possibly can, and for the banks to do as much of that business and the mortgage brokers as possible. Those are all rational things. But the concentration—

Lyric Hughes Hale: It's the concentration. That's what we're trying to bring attention to here. It's the concentration of risk.

You know, at EconVue, we think it's our job to try to bring these under-reported stories and risks that people should be thinking about that they haven't yet considered. This could have been the classic definition of a black swan event if something had played out.

So your illumination on this, and Eric's suggestion of transparency of current value—while it poses risks, I think it makes the job of that G7 committee that you're suggesting be formed, it makes their job 50% easier because they'll at least know what the heck is going on if a crisis starts to hit.

Ed D'Agostino: Right. You know, another thing I thought of—just thinking from a perspective—by highlighting this risk, are we indeed creating more risk? In other words, people not knowing about it. You know, it's kind of like the Heisenberg uncertainty principle too. As you measure something, there's an impact that you have. And how do you not have that by showing what's going on?

Lyric Hughes Hale: I think in the end you have to come out, as Eric said, on the side of transparency. That's what makes our market so strong. That's what makes what's going on in China now so difficult. Their economy is suffering from the lack of transparency and the lack of information, the lack of data being shared, and I think it's a critical problem. So the truth always—it comes out anyway, sooner or later. So I think—I'd have to say we came out in favor of disclosing this information so that people could make other plans and that something like the G7—hopefully people can take more action.

But the US Treasury Department and Scott Bessent, I think, has a very good grasp of this, which is good. And obviously the Taiwanese officials do too.

Eric Huang: I'll add another layer to this. So in Taiwan, even though all these insurers and financial institutions are publicly traded companies, they're essentially owned by just a couple of families. Maybe a handful of companies own all of them and control all of them very firmly. I think that adds another layer of risk, whereas they don't have real strong shareholders. Families can make decisions that might only benefit their own interests.

This potentially can be something on top of a very rigid, old-school financial regulation—even though the Taiwan government is talking about loosening the regulation and making it more 21st century. We don't know when that might happen.

So basically you're looking at Taiwan where the semiconductor industry is running very well on a very fast engine, but the financial sector is very old school and very outdated.

Ed D'Agostino: Going back to the geopolitical risk, it does not take an invasion of Taiwan for this to happen. It just takes a credible threat of an invasion. It takes potentially just a strong rumor for this to begin. And I don't know how quickly it could be reversed. Have there been any false starts to this? Because you lay out in your EconVue article—you both lay out the timeline of what a crisis could look like.

Lyric Hughes Hale: We just came up with that. It's just a scenario planning exercise.

Ed D'Agostino: But yeah, it was quick. It's fast.

Lyric Hughes Hale: It's hours. It's minutes. It's not days.

Ed D'Agostino: I think it was two weeks ago, China was doing one of their practice exercises where they—if I read the article correctly—ring-fenced Taiwan with ships and aircraft. I mean, how does the market sniff out what is a real risk and what is just sort of political posturing and gamesmanship?

Lyric Hughes Hale: With the addition of the Japanese—the new position by the new Prime Minister of Japan, Takai—that's another element of this. But yeah, Eric, that's—you know, I wondered that too. How—when would someone in Taiwan—people are probably more skeptical in Taiwan about the reality of something happening. Are they becoming less skeptical? What would be a trigger for this to start happening, for people in Taiwan to say, "Yeah, this is really—the game is on"?

Eric Huang: The past 20 years, every four years in Taiwan—we have a presidential election every four years—so every four-year cycle, you often hear politicians say, "This is the most important election of your lifetime."

Ed D'Agostino: I've never heard that before.

Eric Huang: Exactly. Now I think of it, maybe that's even an understatement—maybe 30 years. So I think Taiwanese people are just so used to hearing these types of things.

And even if you look at the military exercise, the PLA exercise that Ed just mentioned—what they call the "Justice Mission 2025"—if you look at it militarily, pound for pound, it is actually very dangerous. They're circling around Taiwan. And you could be just short of World War III if the US decides to intervene.

But I think what might actually trigger Taiwan to panic, as the question asks, is if one of these big families that owns these financial institutions—people get a swift wind of rich people getting their money out or they're making some type of move—and the market can just panic in seconds.

Or maybe one of these days, if somehow Taiwanese people believe the US has a new policy where they no longer want to defend Taiwan, maybe the whole sentiment will change overnight.

This is a very delicate issue. Even though Taiwanese people have thick skin today, doesn't mean that thick skin will always carry. So I think a number of issues—and this is something I hate to say—it's hard to predict. I will say anything might trigger the event. Anything big or small. It's just hard to say.

Lyric Hughes Hale: With the increased military operations—and I don't know if you've seen on social media, Chinese and Taiwanese social media—I saw the conversation between a Taiwanese pilot and a People's Liberation Army pilot, and they were taunting each other actually. And so I thought, boy, this is really dangerous behavior—if this is not an AI simulation, if this conversation is real.

But when you have that level of operations, an accident could—that would be my concern—is an accident happens and there's loss of life.

Ed D'Agostino: Yeah, on both sides, and the US gets involved and then we're off to the races.

Lyric Hughes Hale: Yeah. A plane or a helicopter collision that lands on the mainland or lands on the island. Think about it.

Ed D'Agostino: Yeah, like a U-2 kind of thing, if you go back that far. I think that's, to me, the clearest—that's where everything could come home to roost. And I don't know if the US and China have a hotline to deal with that, or they have effective communications with counterparts, especially given the fact of all of the changes in the Chinese military recently—all the leadership changes.

Is there a clear line of—I think there's a clear line of command in the US, obviously, and we're working very effectively, whether you agree with it or not, between the administration and the military. But in China, is the same thing true? I'm less convinced of that. Do we have on the US side any relationships with the folks in the Chinese military to be able to—

Lyric Hughes Hale: With their fingers on the button?

Ed D'Agostino: Trust. Yeah, exactly.

Lyric Hughes Hale: Yeah. So that concerns me.

Ed D'Agostino: You sort of casually mentioned AI. But I actually think—I'm just—in the past week, I've been shown—people have sent me—really smart, successful business people who've made a lot of money have sent me links to videos on YouTube that are deepfakes. And they're asking me, "What do you think? Is this real?"

The role of disinformation—I mean, it's getting to a critical point where it's almost impossible to tell. And I mean, one of them had me sitting in front of my laptop Googling at 10 o'clock at night because I wasn't a hundred percent sure.

So yet another thing that goes well beyond this discussion, but yet another challenge that geopolitics has to face. There could be a, you know, like War of the Worlds with Orson Welles—

Lyric Hughes Hale: Right, you know, where people really thought we were being invaded. Exactly. That did happen. And that was way before AI—that was on radio. But a famous example where a panic could be falsely incited.

Eric Huang: I just thought of a very good example to share with all of our audience—how Taiwan might feel about an invasion and what might trigger that panic.

Just about a month ago, there was a video online basically claiming that a PLA drone had flown over to Taiwan to capture pictures of Taipei 101, Taiwan's landmark building. So the argument is, could a PLA drone really fly all the way into Taiwan and capture the video?

If you think about the reactions Taiwanese people had—one, they thought it was AI; and two, I think most people reacted quite accurately that it might very well be a PLA drone, but there's no way it flew all the way into Taiwan's airspace.

So the most likely scenario is an operative who currently lives in Taiwan who hasn't been caught put up a drone and just basically recorded that and tried to disseminate fear into Taiwan. But I thought it was very interesting how Taiwanese people reacted so calmly—most people just straight up calling it AI fake.

I don't know honestly if that is good or bad. I think many things depend—it cuts both ways. But this is just an example of how Taiwanese react to these types of daily events.

So that is to say, a military hot war might not be happening right now, but gray zone warfare between Taiwan and China is actually happening every day.

Ed D'Agostino: Eric, I can't resist asking you, since you're sitting in Taiwan—what is the general thinking about TSMC building a facility in the United States? From Taiwan's perspective, I mean, I think that from the US perspective, it's a move to de-risk, right? We want to get TSMC's incredible deep knowledge in fabs and chip production. We want to get that onto our shores. We want to get their knowledge transferred here.

What does that mean for US support of Taiwan after that happens? Is there—does it deepen the support? Does it lessen the support? Or is it just how things are going to be and you can't stop it?

Eric Huang: Well, the argument always goes both ways, right? I would simply lay out both arguments and I will conclude with my own view.

One side of the argument is that if Taiwan's so-called technology has been hollowed out and moved to the US, Taiwan will no longer be of value. That's one argument.

Of course, the counter to that is that, one, most of the R&D that TSMC does remains in Taiwan. So we look at chips—every year they advance, right? So you cannot just simply have a fab move to Arizona—you have to, every year, have R&D done and upgrades. The R&D is still in Taiwan, and that's mostly talented people, brainpower.

And second, on top of that, when you talk about Taiwanese moving to the fabs in Arizona—I don't want to offend anybody, but I assume a lot of people who live in Arizona otherwise would never have heard of Taiwan and would never even meet a Taiwanese person if they never chose to travel to our island. So in a way, that's very good diplomacy. People read about Taiwan and TSMC, right?

So both arguments are legitimate and it depends how you look at it.

Personally, I think, at your question, you're a hundred percent correct—there wasn't really a choice for Taiwan. It was a national security consideration that we want to strengthen and cooperate with our security guarantor in the United States.

I personally believe, and I'm very confident, that TSMC going to Arizona or elsewhere around the world will help Taiwan build our relationships. And through that, make Taiwan a peaceful member of an international community. Therefore, it will help us defend ourselves, and in itself it could be a deterrence.

Lyric Hughes Hale: I think that's a very interesting point about creating these greenfield investments in the US.

You know, probably some of your viewers don't remember, but we once had a very difficult trade relationship with Japan. We had a trade war with Japan. And the way that was resolved was that Japanese automakers in particular started to produce in the United States. And I worked with some of them in the auto parts manufacturers.

But that was clearly a great idea. And then, you know, the local Honda factory in Georgia then sponsored the Little League team. It was seen as a giver of jobs and as a member of the community rather than as a threat to the US. So I think it's a similar model to that, Eric.

Eric Huang: I think, yeah, this kind of investment here—and certainly with this administration, there's a huge push to do this.

Lyric Hughes Hale: I guess the question is, if Taiwan does this, will the US actually create more security for Taiwan itself? That is the question—one that we can't answer today.

Ed D'Agostino: Because it's very late for Eric sitting in Taiwan, past his bedtime. I really, really appreciate both of you joining me.

The article that you wrote, which is posted on EconVue—which is econvue.com, right?

Lyric Hughes Hale: Thank you.

Ed D'Agostino: And also on Substack. I mean, it's a must-read. We only scratched the surface of this topic here. Can't recommend that article and the work that you do, Lyric and Eric, at EconVue—can't recommend it enough. Thank you both so much for taking the time. This was fun.

Lyric Hughes Hale: Thank you, Ed.

Eric Huang: As always, take care.

Lyric Hughes Hale: Happy New Year to everyone.

Eric Huang: Happy New Year.

Ed D'Agostino: Happy New Year. I've got some great guests lined up over the next several weeks, including Liz Ann Sonders, George Friedman, Lacy Hunt, Louis Gave, and Marco Papic. So be sure to subscribe so you don't miss any of these conversations. And be sure to check out Lyric and Eric's work at EconVue. Thanks for watching.