Taiwan's currency destabilized by its trade deal with Trump, signalling escalating currency and trade wars

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The value of the Taiwan dollar (TWD) against the US dollar jumped by approximately 10 percent in a few days in May. This sparked public speculation and concern over any undisclosed concessions made by President Lai Ching-te's government to secure a trade deal with President Donald Trump. The Central Bank of the Republic of China (CBC, commonly known as Taiwan's central bank) intervened to curb the spike in the TWD.

As JPMorgan stated, "Such pronounced volatility is extremely rare for the TWD, given that the currency is highly managed" by the CBC.

A global trade war is a currency war

The events that preceded the rise in the TWD shed some light on what is going on and what is to come. In an interview with *Nikkei* this month, Lai asserted that Trump's "reciprocal tariffs" were intended to improve US "fiscal sustainability," lower "tax burdens on Americans," boost industrial capacity, and "promote world peace."

While the 32 percent tariffs imposed on Taiwanese exports posed "a major challenge" to the island, Lai vowed to "work with" the US through "negotiations," which would include additional procurement and investments in the US, as well as the elimination of tariff and non-tariff barriers to imports from the US.

The honeyed phrase "promoting world peace" refers to the US using every available means to bring China to its knees.

Minority leader of Taiwan's Parliament Ker Chien-ming, was the first to articulate this stance. The Democratic Progressive Party (51 seats) is the ruling party, while the "opposition" Kuomintang has 52 MPs.

Following Trump's declaration of the "liberation day," Ker stated in early April 2025 that the US administration's global trade war was "first and foremost a currency war against China" or "World War III." The currency war would be "the fiercest conflict ever fought in the absence of a shooting war." If the United States successfully "brings down China," this "will eradicate communism" and "bring about world peace." It would constitute "the greatest achievement in human history."

By this definition, the economic turbulence fuelled by the Trump administration's global social counterrevolution is unfortunate collateral damage. Further sharp increases in the TWD are to be expected, which could trigger a financial catastrophe with global ramifications.

Taiwan's US treasury and bond holdings

Taiwan's economy is export-oriented and has grown steadily over the past two decades. As of April 2025, the island had US$582.83 billion in foreign exchange reserves. US bonds and treasuries accounted for around 92 percent of forex reserves in March 2025, the Deputy Governor of the CBC said.

In comparison, as of May 2025, Britain has just overtaken China ($759.0 billion) as the second largest holder of US Treasuries ($779.3 billion).

According to numerous studies conducted by economist Brad Setser, a senior fellow at the Council on Foreign Relations and a former US Treasury official, Taiwan's holdings of forex reserves and overseas fixed income assets, which total US$1.7 trillion and account for more than 200 percent of the island's GDP, are even more unusual.

In his *Financial Times* article in mid-May, Setser wrote that with the backing of its regulators, Taiwan's life insurance industry had amassed "over US$1.1 trillion in total assets (and liabilities), and an insane two-thirds of those (US$750 billion) were invested in foreign bonds."

Moreover, one-third of life insurers' investments were (and are) not hedged against a loss of value.

Setser stressed in his 2019 and early 2025 studies, Taiwan's holdings of US dollar-denominated assets were the result of life insurers acting as "the primary intermediator for Taiwan's savings" and actively recycling trade surpluses into US bond markets.

Such a practice has persisted to this day. The CBC is awash with US dollars from trade surpluses. This encourages the life insurance industry to swap large cash stockpiles denominated in Taiwan dollars for US dollars with the CBC and then invest overseas. By doing so, the central bank not only effectively slows the pace of US dollar reserves growth but also avoids being viewed as a currency manipulator and being retaliated against by the US Treasury. Life insurers can, in turn, profit from channelling cash stockpiles into investments in higher-yielding and longer-maturity bonds denominated in US dollars.

It is not difficult to understand why the US imperialist bourgeoisie did not regard the CBC and life insurers' actions as currency manipulation. Similar to the US Federal Reserve's quantitative easing, which involved bond purchases, the flow of liquidity from Taiwan served the interests of US finance capital, which prospered from outright criminal speculation and swindling.

In an *FT* article, "How Taiwan became a quiet bond market superpower", Setser and Josh Younger, a former JPMorgan analyst, warned that Taiwan's life insurance sector's approach to investment had resulted in a huge mismatch between the industry's liabilities and assets. More than two-thirds of its assets were (and remain) denominated in US dollars, while more than eighty percent of its liabilities would be paid in local currency.

This currency mismatch, as Setser and Younger showed, amounted to around US$460 billion, accounting for more than 40 percent of life insurers' portfolios or more than 60 percent of the island's GDP.

In their words, the industry "has bet its solvency (with the support of its regulators) on the assumption" that the CBC would be capable of preventing the appreciation of the TWD.

This is not the case, though. Taiwan's successive governments subserviently carry out whatever US imperialism dictates.

Funds rate spikes and the appreciation of the TWD

Setser went on to stress the potential for the TWD to rise further and Taiwan's life insurers to go under, stating, "The financial maths in the face of this kind of mismatch is brutal—a 5 percent move in the Taiwan dollar costs the insurers $10 billion or so, a 10 percent move would constitute a $20 billion hit, and so on."

This year's surge in the Taiwan dollar had "likely already exhausted the roughly $9 billion of reserves kept as a buffer against FX fluctuations. Further foreign exchange moves would cut into the insurers $80 billion in reported capital," Setser wrote.

The life insurer's business model worked well when the federal funds rates were at historic lows, and investing in US corporate bonds, agency bonds, treasuries and mortgage-backed securities yielded higher returns. This strategy had became precarious after Federal Reserve Chair Jerome Powell inflicted economic pain to bring about unemployment and drive down wages.

The FED raised the federal funds rates at the fastest pace since the 1980s. Bond prices and interest rates are inversely related. As a result, bonds purchased before rate hikes by investors and speculators were trading 15 percent below par between the end of 2021 and the end of 2023.

Setser noted, Taiwan's "generous" regulators, however, allowed "most of those underwater bonds to be held in parts of the balance sheet that don't have to be marked to market."

This, in turn, conceals the extent of the losses.

It is worth recalling how US rate hikes sent shock waves across the financial system and rattled the global financial market. As the *FT* indicated, by the end of 2022, SVB "held $91.3 billion in a 'held-to-maturity' portfolio—bonds you plan to hold on to until they are repaid—and $26.1 billion in an 'available-for-sale' portfolio, which is marked to market."

As the WSWS wrote in March 2023:

> The market value of the bonds held by SVB fell as interest rates rose, such that it has been estimated its bonds lost $1 billion for every 25-basis point (0.25 percentage point) rise in the Federal funds rate, which has now been lifted by around 450 basis points.

Taiwanese life insurers have much greater bond holdings than SVB and have already been hit by a combination of falling bond prices and the rise of the TWD against the US dollar.

According to the *Economist*'s Big Mac Index published earlier this year, the TWD was undervalued by 58.8 percent against the dollar.

To compound the problem, the island continues to be the fifth-largest foreign creditor in the world. The data released by the CBC in June 2024 showed the island had a net international investment position of US$1.735 trillion by the end of 2023.

The CBC, financial regulators, and the Taiwanese bourgeois press have thus far deliberately downplayed the island's financial vulnerability and extreme dollar exposure as these dollar-denominated assets are a graphic expression of a growing financial and economic disease.

Financial engineering created by the CBC and regulators has only preparing the way for a much bigger financial disaster. A rush on Taiwan's life insurance sector will dwarf the collapse of SVB, the second-largest bank failure in US history.

It would be naïve to suppose that any looming financial calamity of this scale will stay in Taiwan.

Developing countries and investors are losing appetite for US treasuries and the dollar as safe haven assets because of the US-China rivalry, the weaponization of finance by Washington against Russia, the global economic warfare launched by the Trump regime and the skyrocketing level of US debts brought on by decades of tax cuts and increasing military expenditures.

Consequently, developing countries have begun to gradually repatriate a portion of their funds. According to Eurizon SLJ Capital analysts Stephen Jen and Joana Freire, *Bloomberg* reported, "these dollar hoardings by Asian exporters and institutional investors may be extremely large—possibly on the order of $2.5 trillion or so—and pose sharp downside risks to the dollar vis-à-vis these Asian currencies."

Diversification has also occurred in the most advanced countries. As the *FT* reported, head of FX strategy at Deutsche Bank George Saravelos, warned the erosion of the dollar's safe haven attributes put "a significant cost on unhedged dollar holdings." This would threaten "a self-fulfilling unwind of extreme US asset overweights" from countries in the developed world. A drop in the dollar, stock slide and a rise in term premium in US treasuries combined would be "the strongest market signal that a process of US disinvestment is accelerating."

The fight for "world peace"

Taiwan is experiencing a perfect storm. As Trump's economic offensive against the world's second largest economy escalates, the Taiwanese ruling elite's complicity in US manoeuvres against China (be these economic, financial or military) will also intensify.

The stance on "world peace" taken by Lai Ching-te's government is comparable to that of US-backed Arab despotic regimes.

Arab client states have enabled the Gaza genocide by serving as the border Gestapo and supposed peace brokers. They praise the would-be führer Trump, who has been carrying out US-Israeli ethnic cleansing operations on a scale unseen since the Holocaust, as "a man of peace" who "wants to bring peace," to quote Qatar's Emir Tamim bin Hamad al-Thani. "We can continue working together to achieve it," the Emir told Trump.

On May 20, 2025, Lai marked one year in office by delivering a speech easily matching the cynicism of the Gulf monarchs, claiming Taiwan, the United States, and "our democratic allies" had actively participated in exchange and cooperation to advance common interests and economic growth. While there were always disagreements among "friends," these were always resolved. Just as the proverbs 27:17 stated, "As iron sharpens iron, so one person sharpens another."

Amid the sharpening of divisions among capitalist powers and an accelerating collapse of US hegemony, he then pledged to transform Taiwan into "a global beacon, a pilot for world peace, and a force for global prosperity."

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