

Emerging Insight

Key takeaways from Taiwan Macro Tour

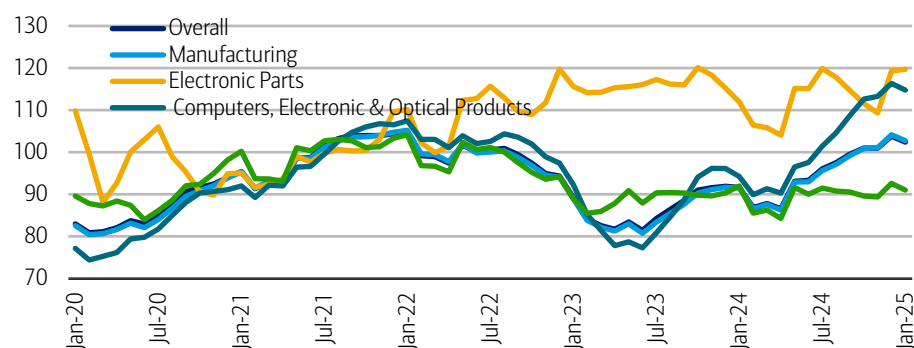
Key takeaways

- We hosted a Taiwan macro tour that featured experts on Taiwan's economy, equity market, and life insurance sector.
- Experts see Taiwan economy in two directions: AI-related firms to win further and others to lag. Expect 2025 growth to slow.
- They believe TSMC's US\$165bn investment in the US represents 5-7% total capacity and Taiwan will maintain its edge in chips.

By Chun Him Cheung

Exhibit 1: Industrial production (IP) in Taiwan (3mma, 2021=100)

Industrial production in AI-related industries is booming, while that of other sectors are struggling



Source: CEIC

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Taiwan in Focus

We hosted a macro tour in Taiwan during the past week. We invited onshore experts on Taiwan's economy, equity market and life insurance sector to meet with our global clients. On Taiwan's economy, our experts warned against generalizing the narrow gains from the AI-related export sector to Taiwan's overall economy. According to the experts, in 2025, the winners in the AI-boom will likely gain further while the rest of the economy remains stagnant, resulting in slowing growth in 2025. The equity market expert remains confident on Taiwan's tech edge in chip manufacturing and believes it hard to replicate the Hsinchu ecosystem outside Taiwan despite TSMC's large overseas investment. On the life insurance sector, the expert showed the structural mismatch between lifers' asset and liability duration, and the need to buy foreign assets to bridge the gap. The expert noted that larger Taiwanese lifers will likely adopt the new FX valuation reserve regime either upon lower USDTWD or the implementation of IFRS-17 in January 2026.

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TSMC – Taiwan Semiconductor Manufacturing Company

AI – artificial intelligence

IFRS – International Financial Reporting Standards

SME – small and medium-sized enterprise

CBC – Central Bank of China (Taiwan)

We recently hosted a macro tour to Taiwan. On 17 March 2025, we hosted a macro tour in Taiwan where we invited a mix of offshore and onshore clients to Taipei to attend seminars on the outlook of Taiwan economy, the impact of life insurers on the foreign exchange market and the perspective of foreign businesses investing into Taiwan.

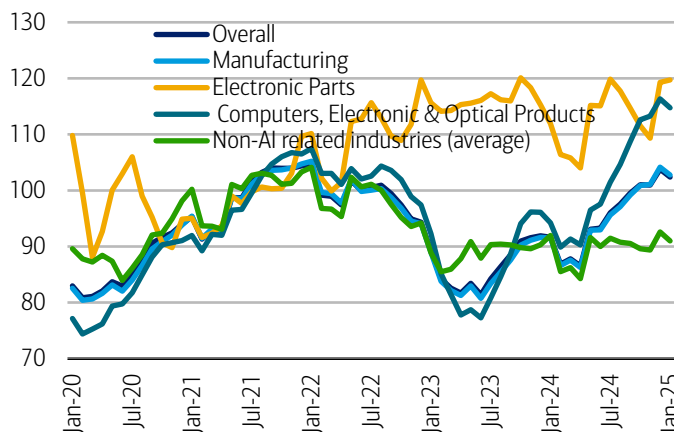
Onshore expert demonstrated Taiwan remains divided economy. Taiwan is often featured in the press for its cutting-edge technologies and the exports of highly advanced electronics, particularly semiconductors. However, the expert reminded us that majority of Taiwan's workforce works for small-medium sized enterprises, of which only a minority is benefiting from the ongoing AI-boom. In her words, AI growth remains an "exclusive game for the few".

Only small minority of Taiwanese manufacturers are benefiting from AI-boom.

According to the expert's surveys, only around 10.0% of Taiwan's manufacturers have entered into relevant AI-related supply chains, but 28.7% have entered or are planning to enter in the near future. However, this leaves 71.3% of Taiwan's manufacturers outside the AI supply chain and they are facing intense competition and deflationary pressure from mainland Chinese competitors. As such, in 2025, she describes the overall Taiwan economy as "winners take more while losers struggle more", and the ongoing AI boom would not necessarily lift the entire supply chain.

Exhibit 2: Industrial production (IP) in Taiwan (3mma, 2021=100)

Industrial production in AI-related industries is booming, while that of other sectors are struggling

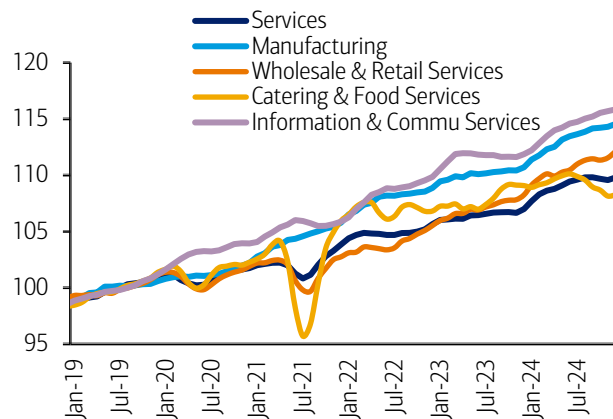


Source: CEIC, BofA Global Research estimates

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Exhibit 3: Taiwan wage indices (2019 average=100, 3mma)

The ongoing AI-boom has resulted in rising wages in the IT sector, while service sector wages have lagged behind



Source: CEIC

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Constraints in real variables (e.g., human capital, capex) restraining AI boom to result in wider spill-over effects. Moreover, the expert takes the view that the benefit of the AI boom cannot be generalized to the overall Taiwan economy. Many of the SMEs are trying to convert to production in AI-related products, but there are serious shortages in capex and human capital that do not allow for an easy transition.

Capacity constraints in AI exports will rein in Taiwan's 2025 GDP growth. Lastly, regarding Taiwan's 2025 GDP outlook, the expert noted that 2025 will likely be a year of modest increase of 3.2%, vs 4.3% in 2024. She explained that while the 2024 yoy growth figure looks strong, it was mostly riding off a strong base effect from 2023. Also, due to the narrow benefits the AI exports are having, her base case remains for the CBC to remain on hold throughout 2025, consistent with our forecast.

Another expert sees Taiwan's rising inflation as structural problem. On inflation, another expert noted that the pressure of inflation in Taiwan is structural, given the rise in wages in manufacturing sector tied to the AI boom (**Exhibit 3**). An expert mentioned that wherever TSMC invests to build a factory, generally real-estate prices in that area



would rise given the increase in wages and the entry of highly paid engineers (by Taiwanese standards) into the area. The most-important core inflation metric to watch would be whether the manufacturing wage pressure spills over into service sector wages, according to the expert. If it does, then the CBC could be under more pressure to hike sooner. In February 2025, a CBC Board member mentioned the next move is more likely a hike, not a cut because of rising cost pressure from the pass-through of higher electricity tariffs.

American businesses remain quite optimistic on their outlook and prospects for Taiwan market. Another expert spoke about foreign investors' perception of investing into Taiwan. Overall, the data from the AmCham Survey on the business environment in Taiwan show 80% and 77% of American businesses are "somewhat or very confident" on Taiwan's economic growth look for the next 12 months and 3 years, respectively. Similar percents were expressed regarding growing their revenue prospects in Taiwan. Over 90% of American businesses expect stable or expanding investments into Taiwan.

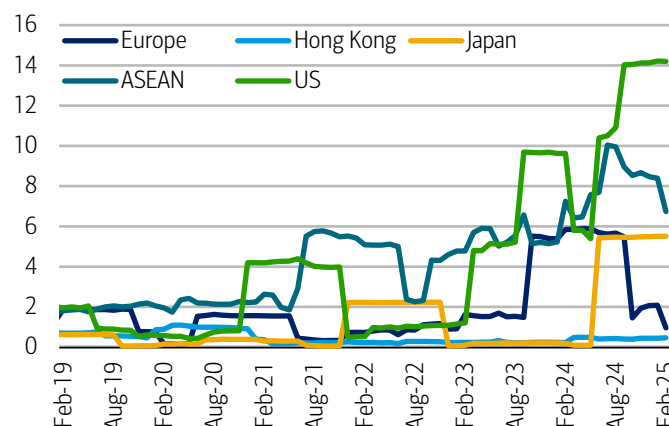
Top concern for American businesses in Taiwan is related to inefficient energy resources. A major constraint for foreign manufacturers investing further in Taiwan is the availability of electricity and the capacity of local electrical grids. 52% of American businesses opined that energy concerns should be the Taiwan government's top priority over the next 1-3 years. There are currently discussions to revamp six nuclear power plants that were shut down in the 2010s after the Fukushima nuclear accident, to help meet the rising demand for electricity in Taiwan.

Will Taiwan lose its 'silicon shield'? An important question that was raised during our sessions was whether the additional US\$165bn investment by TSMC into the US would come at the expense of investments in Taiwan. Moreover, would the marginal investments by TSMC result in Taiwan to lose its technological advantage in the production of advanced electronics and weaken Taiwan's 'silicon shield'?

Marginal investment in US represents small share of TSMC's total manufacturing capacity. The expert's response was that the additional US\$165bn capacity investment in the US only represents 5-7% of TSMC's total manufacturing capacity, and TSMC will remain highly dependent on the supply chain in the Hsinchu area. Our expert also noted that the Taiwanese government is the single-largest shareholder of TSMC and will ensure that Taiwan remains vital to future AI-related supply chains.

Exhibit 4: Taiwan's outbound direct investment (US\$ Bn, 12m sum)

Over the past 12 months, Taiwan's outbound investment into the US has reached US\$12bn



Source: CEIC

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Arizona trying to replicate Hsinchu ecosystem. Interestingly, the expert mentioned that Arizona Gov. Katie Hobbs is currently visiting Taiwan to lobby for more Taiwanese investment into Arizona and for TSMC's suppliers to follow TSMC and invest in Arizona. Because of TSMC's rising investment in both Taiwan and globally, many large Taiwanese suppliers have also announced double-digit increase in capex. This capex pressure will likely flow on to Taiwan's GDP and will serve as an upside risk to growth in 2025.

CathayLife uses proxy hedging to stabilize hedging cost – not to earn FX gains.

The expert on the Taiwan life insurance sector provided an overview on the outlook for the insurance sector and the net impact IFRS-17 will have on the life insurance companies' financial statements. On foreign currency hedging, the expert mentioned CathayLife has the highest proxy hedging ratio in the industry, and this is the source of its advantage, as proxy hedging could help stabilize its hedging cost than having its net income swing along with the fluctuation in USDTWD.

Equities' share rising in Taiwan lifers' balance sheet. The expert also mentioned that because of the larger gap between the average cost of liabilities and the low and declining yields, all Taiwanese life insurance companies now have up to 5-15% of their total assets in equities to increase returns (the sector average is close to 13%), despite the high capital surcharge for the life insurance companies to hold equity.

Expert expects more Taiwanese life insurance companies to move to new FX valuation reserve regime, either when USDTWD is lower or when IFRS-17 is adopted. In addition, the life insurance expert mentioned that now is not advantageous for CathayLife to adopt the new FX valuation regime, and there would be more incentive to change to the new regime when spot USDTWD is lower. However, the expert also noted that when IFRS-17 is implemented in 2026, he expects most of the large insurers to make the change regardless of the level of USDTWD. For more details on the topic of regulatory changes on FX valuation reserves for Taiwanese life insurers, see our report [Asia FI & FX Strategy Watch: Taipei Trip Notes – February 2025](#) 24 February 2025.

Exhibit 5: Private securities as share of total life insurance assets (%)

Private securities are now close to 13% of total Taiwanese life insurance assets

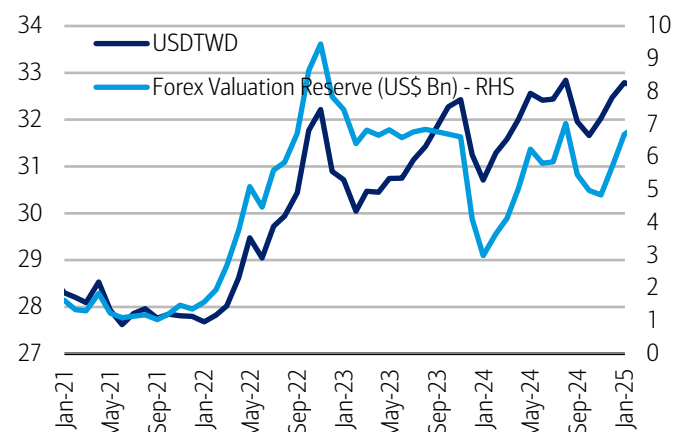


Source: CEIC

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Exhibit 6: FX valuation reserves and USDTWD

FX valuation reserves for Taiwanese life insurance companies are rising as USDTWD remains high and a rising number of insurers are switching to the new regime



Source: CEIC

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News and Views

Mexico: We expect headline inflation at 3.71% yoy in 1H March

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On a bi-weekly basis, we expect inflation in 1H February at 0.17%, while we expect core at 0.29%. In annual terms, we expect 1H February's print at 3.71% yoy, down from 3.81% in 2H February, and for core we expect a slight drop to 3.62% yoy, from 3.66% yoy a fortnight before.

- **To follow:** We continue to expect Banxico to cut 50bp at its March meeting despite both headline and core being above 3.5%.

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