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TAIWAN ECONOMY: 2019 Q1 UPDATE

8 July 2019

SUMMARY

Taiwan's GDP grew by 1.71% year-on-year in 2019 Q1, the lowest quarterly yoy growth since 2016 Q3. The Taiwanese authorities revised down the 2019 growth forecast to 2.19% (from the 2.27% predicted in February) due to uncertainties in the global economy.

The escalation of the US-China trade dispute saw further impacts on Taiwan. Following the US announcement on Huawei, Taiwanese tech company stock prices saw falls of up to 9.1% in one day, while the Taiwan dollar depreciated to the lowest level in over two years. While internationally several companies said they would halt supplies to Huawei, Taiwan Semiconductor Manufacturing Company announced it would continue to supply Huawei.

The new Cabinet led by Premier Su Tseng-chang (蘇貞昌) are optimistic that economic growth will pick up later in the year as a result of policies to expand internal demand and to assist Taiwanese businesses to return from overseas and invest in Taiwan in reaction to the US-China trade dispute. The latter has so far attracted NTD\$411.7bn (£10.5bn) of investment commitments.

The nomination process for Taiwan's 2020 presidential election got underway. Current President Tsai Ing-wen won the nomination from the Democratic Progressive Party; the opposition Kuomintang will decide on its candidate in July. Among the five potential Kuomintang candidates is Terry Guo (郭台銘), founder of Foxconn, a major supplier to Apple and China's largest private sector employer.

In the energy sector, Taiwan amended its Renewable Energy Development Act (再生能源發展條例) to increase the renewable energy target from 10GW to 27GW by 2025, making its policy goal legally binding. Taiwan amended its Electricity Act (電業法) to remove the legal requirement that nuclear power generation must cease by 2025. Construction began on Taiwan's first offshore wind farm, a sector forecast to create investment of NTD\$1 trillion (£25.32bn), and more than 20,000 job opportunities. In total, 18 UK companies have now set up operations in Taiwan, with



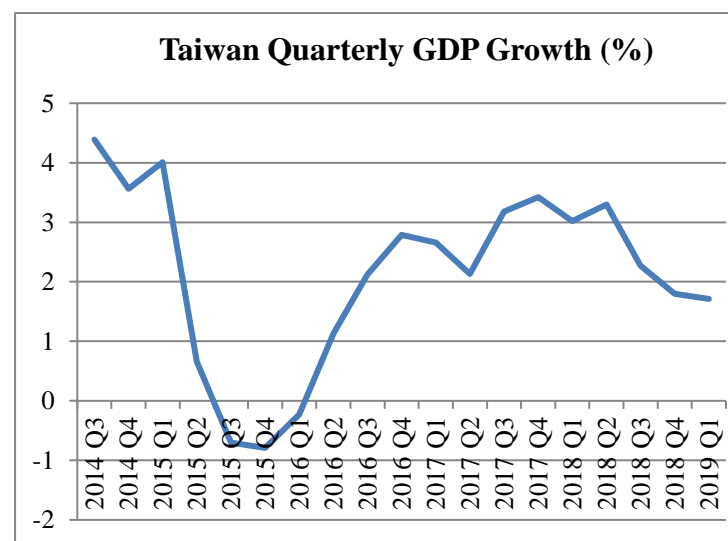
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more expected to follow to take advantage of the growing opportunities worth estimated £900m for UK companies.

Taiwan opened its member choice retirement investment pilot scheme for registration. The pilot may lead to opportunities for UK firms in Taiwan's Labour Pension Fund, which has estimated total assets of NTD\$3,234bn (£82bn).

Macro Economy

1. According to figures released by Taiwan's Directorate General of Budget, Accounting and Statistics (DGBAS) on 24 May 2019, Taiwan's GDP grew by 1.71% year-on-year in 2019 Q1, which was 0.01% lower than predicted in April. This was the lowest quarterly economic growth since 2016 Q3, resulting from the global economic slowdown worsening, and the impact of the traditionally slow season for tech and manufacturing at the beginning of the year. However, Taiwan's National Development Council said it expected growth to pick up in the coming months due to new fixed term capital formation in the technology sector; the implementation of this year's projects under the Forward-looking Infrastructure Development Program¹; and investment from returning Taiwanese companies.
2. The consumer price index increased 0.33% in 2019 Q1 mainly because of the price increase in clothing released in the new season, which was offset by a drop in price of vegetables and eggs. In June, the Central Bank maintained the base interest rate at 1.375%, which has not changed since 2016. The unemployment rate was 3.67% in May 2019, remaining at the same level as the last month. Total employment in May 2019 was 11.48 million, an increase of 4,000 (0.03%)



¹ With a budget of NTD223bn (£5.65bn), the 2019 projects include railway upgrades, water management projects, construction of green tech cities, building digital infrastructure, and improvements to urban and rural areas.



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compared to the previous month. Please refer to Annex A for more macroeconomic indicators.

3. The economic growth rate for 2018 was confirmed at 2.63%, in line with the earlier provisional figures from DGBAS.
4. The GDP growth forecast for 2019 was revised down to 2.19%, from the 2.27% predicted in February. Estimates for growth in 2019 of the major think tanks are as follows: CIER 2.15%; TIER 2.12%; Yuanta-Polaris 2.1%; IHS Markit 2%.



Sector Performance

5. Manufacturing and construction industry production decreased by 1.87% yoy in this quarter, following yoy 2.67% growth in the previous quarter. While computer electronics and optical products benefited from the expansion of server manufacturing in Taiwan, electronic parts continued to suffer from inventory adjustments and a decrease in cryptocurrency mining.
6. The service sector grew 2.02% yoy. Other sectors that enjoyed the most growth yoy included information and communications (3.1%), wholesale & retail (1.97%), and real estate (1.86%). On the other hand, the financial & insurance sector was faced with 0.75% decrease yoy due to the unpredictable global financial market and losses in currency conversions.²
7. Taiwan's top 5 goods exports in 2019 Q1 were electrical machinery, equipment and parts (42.2%); nuclear reactors and machinery (13.6%); plastics (6.4%); optical and medical devices (4.7%); and mineral fuels and products (4%).
8. Taiwan's goods exports in 2019 Q1 were down 4.03% yoy. In particular, Taiwan's exports to China and Hong Kong decreased 10.9% and 10.1% respectively. On the other hand, Taiwan's exports to the US grew by 19.8%, but

² According to Taiwan Business Weekly (商業週刊), Taiwan has the world's highest insurance penetration rate (ratio of insurance premium income to the GDP) at 17.9%. Furthermore, overseas investment in Taiwan's insurance companies accounted for 57% of the total, also the highest in the world (PineBridge Investment figures, quoted by Taiwan Business Weekly). This makes Taiwan's insurance sector vulnerable to fluctuations in global financial markets and foreign currencies.



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from a lower base. The UK's exports to Taiwan increased slightly by 3.22% yoy, while Taiwan's exports to the UK saw a small 3.12% decrease yoy.

Taiwan Political Economy

9. After the cabinet reshuffle on January 14, the new Premier Su Tseng-chang (蘇貞昌) stated that economic development was his top priority. Due to the slowdown of global economic activity and the unstable international situation, internal demand would become the key driver for Taiwan's economic growth in 2019. He said the new cabinet would pursue policies to expand internal demand, assist overseas businesses to return and invest in Taiwan, and market Taiwan globally.
10. The escalation of the US-China trade dispute saw further impacts on Taiwan. The US announcement on 15 May that it would place Huawei on its entity list, led to Taiwanese tech company stock prices falling up to 9.1% in one day, while the Taiwan dollar depreciated by around 2.5% (from USD\$1=NTD\$30.8 to around NTD\$31.6), the lowest in over 2 years (though Taiwan's Central Bank pointed out that other Asian currencies had depreciated by greater amounts). In response, Taiwan's Ministry of Economic Affairs stressed the opportunities for Taiwanese firms to benefit from increased orders from Huawei's competitors. And while internationally several companies said they would halt supplies to Huawei, TSMC (the largest foundry provider in the world) said it would not be affected by the ban. In addition, Taiwan's efforts to attract overseas Taiwanese businesses (mainly in China) to return to Taiwan have so far attracted NTD\$411.7bn (£10.5bn) of investment commitments.
11. The nomination process for Taiwan's Presidential Election on 11 January 2020 got underway. Current President Tsai Ing-wen won the nomination from the Democratic Progressive Party in June, while the Kuomintang (KMT) will decide on its candidate on July 28. Among the five KMT candidates competing for the nomination is Terry Guo (郭台銘), one of Taiwan's richest people and the founder of Foxconn, a major supplier to Apple and China's largest private sector employer. Guo announced on 21 June that he would step down as Foxconn chairman to focus on the race.
12. Taiwan amended its Renewable Energy Development Act (再生能源發展條例) in April to increase the renewable energy target from 10GW to 27GW by 2025, bringing the legislation in line with policy. The amendments include a provision that companies with intensive energy consumption will need to use a certain amount of renewable energy by installing renewable energy equipment and



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- storage facilities, purchasing renewable energy certificates (綠電憑證)³ or paying an allowance (代金) to the government. The definition of companies with intensive energy consumption is currently under discussion.
13. Taiwan amended its Electricity Act (電業法) in May to remove the legal requirement that nuclear power generation must cease by 2025, thus implementing the result of the 2018 referendum on the issue. However, President Tsai said the nuclear-free policy goal would remain. The construction of Taiwan's first offshore windfarm also began in the same month. The Taiwanese authorities forecast that the development of the offshore wind sector will bring production worth NTD\$121.8bn (£3.08bn) in the manufacturing sector, and NTD\$77.3bn (£1.96bn) in the services sector every year. In total, it is forecast to create an investment of NTD\$1 trillion (£25.32bn), and more than 20,000 job opportunities. In total, 18 UK companies have set up operations in Taiwan, with more expected to follow to take advantage of the growing opportunities. UK Department for International Trade estimates there are over £900 million of potential contracts for UK companies through the development of the sector.
 14. Taiwan opened its member choice retirement investment pilot scheme for registration in April, allowing participants to choose investment products for their retirement plan. Expected to run for 2 years, the scheme has already attracted around 60,000 participants. The pilot project may lead to opportunities for UK firms in Taiwan's Labour Fund which has estimated total assets of NTD\$3,234bn (£82bn).
 15. In May, Taiwan's Financial Supervisory Commission joined the Global Financial Innovation Network (GFIN), which was formally launched in January 2019 by an international group of financial regulators and related organisations, including the UK's Financial Conduct Authority. As a network of 35 organisations, GFIN facilitates the interaction among regulators and firms to support financial innovation in the interests of consumers.

Ms. Yi-Fang Lee
Senior Economic Officer
British Office Taipei
Tel: +886 2 8758 2051
Email: YiFang.Lee@fco.gov.uk

³ Taiwan Renewable Energy Certificate (T-REC) system allows enterprises and governments to obtain REC through free trade in green power market so that they can fulfil their commitment or demand on renewable energy. Until June, 57,939 certificates has been issued and there are in total 2,745 successful transactions, including by Google.



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ANNEX A

Economic Indicators

Data Source: IMF World Economic Outlook (April 2019)

Indicator	Taiwan	South Korea	China	UK
2019 GDP (Billions of US\$)	601.43	1,660	14,220	2,830
2018 GDP (Billions of US\$)	589.39	1,620	13,410	2,830
2019 GDP per capita (US\$)	25,450	31,940	10,150	42,310
2018 GDP per capita (US\$)	24,970	31,350	9,610	42,560
2019 GDP per capita based on PPP (international dollars)	55,240	42,980	19,520	46,780
2018 GDP per capita based on PPP (international dollars)	53,020	41,350	18,110	45,700
2019 GDP Growth (yoy)	2.5	2.6	6.3	1.2
Average Unemployment Rate	3.7%	4%	3.8%	4.2%
Average Inflation Rate (Annual percent change)	1.1%	1.4%	2.3%	1.8 %