

Taiwan Economic Update Q4 2020

Summary

- Taiwan's economy grew 3.11% yoy in 2020, driven by strong demand for its tech exports during the pandemic, and a domestic economy that avoided lockdowns.
- Growth in Q4 2020 was 5.09% yoy, beating market expectation.
- Forecast growth for 2021 is 4.64%.
- Taiwan's outward FDI soared in 2020. FDI from the UK increased two-fold in the financial sector.
- Taiwan's exports to China increased 14% in 2020, direct investment also grew over 40% - posing questions on Taiwan's trade diversification strategy.
- Drought in Taiwan poses a new risk to global semiconductor supply
- China's ban on Taiwanese pineapples highlights Taiwan's continued dependence on cross-Strait trade.
- Taiwan introduced new mortgage regulations to tackle rising property prices.
- Taiwan's population growth turned negative in December 2020 (-0.09% yoy), the first time that the number of deaths exceeded births.

Macro-economy 2020	Taiwan	Trade & Investment 2020	Total	Growth
Real Annual GDP growth	3.11%	Goods exports (billion US\$)	312.28	4.2%
Nominal GDP (billion US\$)	668	Goods imports (billion US\$)	459.25	0.2%
GDP per capita (US\$)	28,356	Goods exports to UK (billion US\$)	4.55	-10%
Annual inflation rate	-0.23%	Goods imports from UK (billion US\$)	1.95	- 8%
Unemployment rate	3.85%	FDI into Taiwan (billion US\$)	9.13	-18%
Population growth	-0.09%	UK's FDI to Taiwan (billion US\$)	0.626	121%

Source: ONS, Taiwan National Statistics, Bureau of Foreign Trade

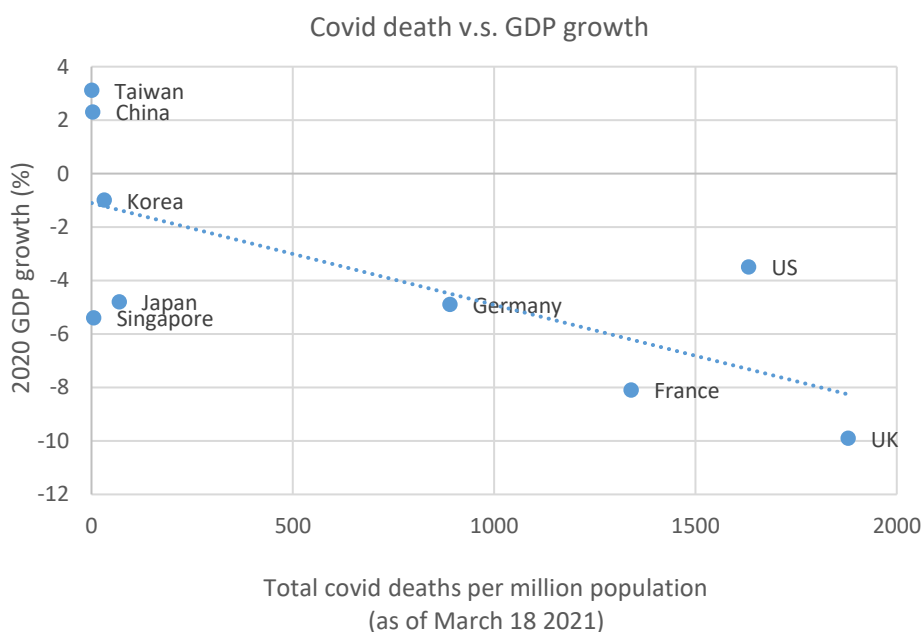
Taiwan economy grew 3.11% in 2020

Taiwan's economic growth in 2020 bucked international trends during the pandemic, growing 3.11%. The economy performed particular well in second half of the year, with Q4 growth of 5.09% yoy and 4.26% growth in Q3, after only 0.35% growth in Q2. The economy is forecast to continue its strong performance in 2021, with 4.64% growth forecast by the Directorate-General of Budget, Accounting and Statistics, the official statistics bureau.

2020 was the first year in the past 30 years that Taiwan has outpaced China's yoy growth (2.3% in 2020). Though robust, Taiwan's 2020 growth figure was below the average annual growth of 3.6% yoy in the past 10 years, indicating that the global Covid-19 recession has nonetheless affected Taiwan's economic growth. That said, Taiwan was still a global outlier with the combination of positive GDP growth and only 10 Covid-19 deaths, (as of March 31).



Source: DGBAS



Source: World Bank & statista

Taiwan's exports proved resilient during Covid-19 and were the main driver for growth in 2020.

Over 2020, Taiwan's export grew 4% yoy, with a total trade surplus reaching 58.8 billion USD (42.3 billion GBP). Taiwan's top two export destinations were China (14.6% increase yoy) and the US (9.3% increase), despite the disruption of Covid-19 and US-China trade rivalry. Taiwan's export to China was driven by electronic components¹ and information & communication products, while its export to the US was due to toys, games and sports requisites, parts and accessories.

Strong demand for remote working and 5G communications fuelled export growth. In Q4 2020, electronic components accounted for the largest export value, surging 21.2% yoy, while exports on informational technology, audio and visual product increased 18.9% yoy.

But not all sectors experienced strong exports. The export value of plastics, organic chemicals and steel dropped more than 10% yoy in 2020. However, plastics and steel did recover to positive growth in Q4,

¹ This category includes semi-conductors and other printed circuit boards.

following a negative growth of 5% to 25% in the first three quarters, helped by government stimulus measures for the manufacturing sector – including subsidies for industrial rent, energy and wages.

Taiwan's outward FDI strong in 2020

Taiwan's outward FDI² increased 72.3% yoy while its inward FDI decreased -18.3% yoy in 2020.

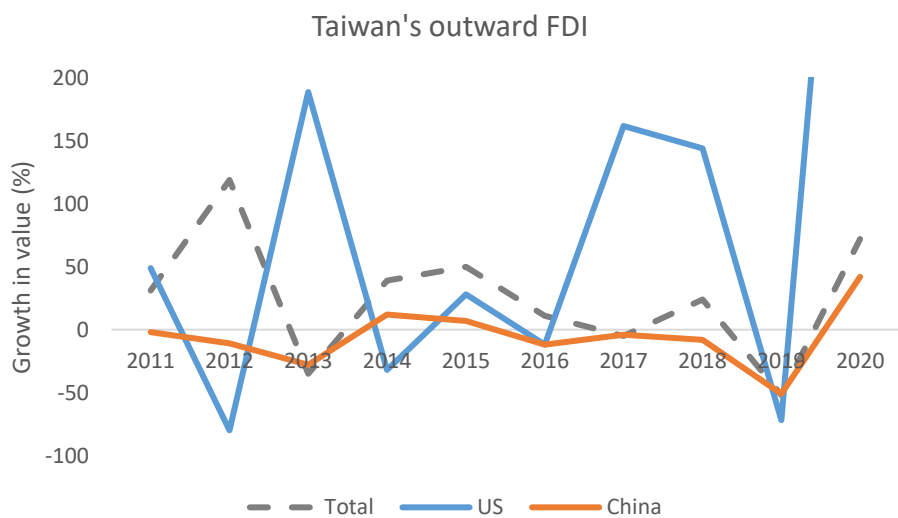
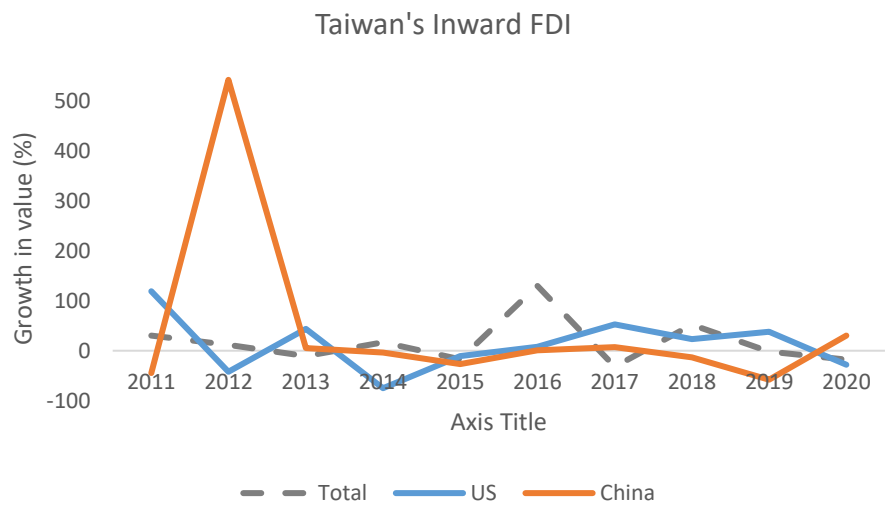
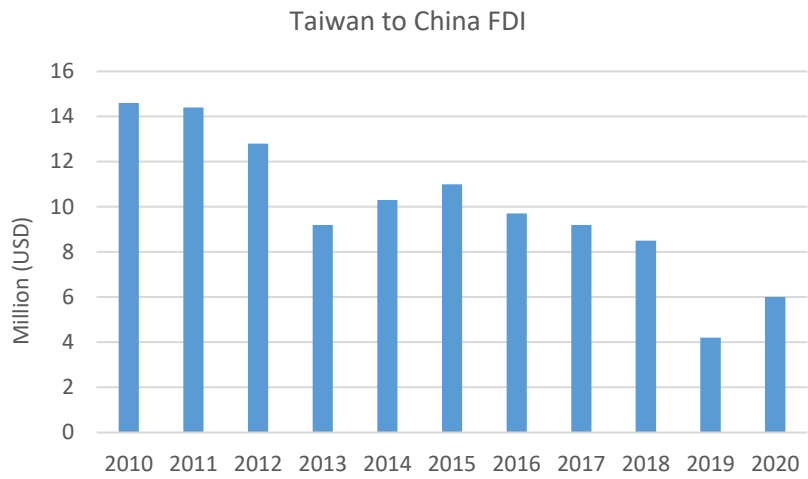
North America and Europe saw strong growth of outward FDI from Taiwan. In particular Taiwan's FDI to the US increased 647.6% yoy, with electronic parts and component manufacturing accounting for 83% of this. Taiwan's FDI surged 215.5% yoy in the Netherlands, the growth concentrated in finance, computers and electronic manufacturing. In Germany, Taiwan's FDI grew and 199% yoy, which was focused in scientific and technical services. Taiwan's FDI to UK dropped 90% yoy, the decrease of capital inflow possibly due to investment uncertainty from Covid restrictions and on-going EU-exit negotiations.

China remains the top destination for Taiwanese outward FDI, the total investment increased 41.5% yoy to US\$5.9 billion in 2020 – the FDI in medical goods manufacturing jumped 1662% yoy, fabricated metal products manufacturing increased 169% yoy, electronic parts and components manufacturing increased 155% yoy. The growth was due to pandemic demands on medical goods and technology products. Other factors such as China's preferential policies (惠台措施) for Taiwanese companies as well as US-China trade dispute were the key reasons that led to the expansion of Taiwanese investment in Chinese market³. However, while the overall increase is large in % terms, it was off a smaller base after a drop-off in 2019 and the overall trend over the last decade is downwards (see chart below).

The UK was the top European investor in Taiwan in 2020. While Taiwan's 2020 inward FDI decreased in total value, UK's FDI to Taiwan however increased 120% yoy. The top three sectors that accounted for the highest FDI value from UK to Taiwan were the financial and insurance sector, with a 128% yoy growth; the second being scientific and technical services, grew over 20-folds in yoy investment value; followed by electricity and gas supply, with over 80 times jump in yoy value.

² According to Taiwan Investment Commission's methodology, Taiwan's outward FDI does not track divestments and loans after the capital leaves Taiwan.

³ US-China trade rivalry brought multi-dimensional consequences. Apart from reshoring to elsewhere or backshoring to Taiwan, companies also increased investment in China to focus on supplying China's domestic demands while export faced more restriction.



Source: Taiwan Investment Commission

Policy measures introduced to contain rising property prices

The Central Bank introduced new mortgage rules to cap property speculation in December 2020 to contain surging property prices. The Seasonal House Price Index⁴ stands at 106.89, a rise of 3.2%⁵ yoy in Q3 2020. Transactions in property were up 21.6%⁶ in 2020. Furthermore, the percentage on Taiwan's bank loans on real estate reached 35.9%, close to historical high of 37.9%. To divert the capital away from real estate and to target real estate speculators, the new mortgage regulation rules set a ceiling on the percentage of mortgage borrowing. For a second home bought by enterprises and other legal entities, the ceiling on mortgages is set at 50%. For third individual home buyers, the mortgage cap is set at 60%. Previously there were no caps on mortgage except high-priced luxury properties. By way of comparison, the ratio of house price to income⁷ for Taipei is 14, Hong Kong 20, and London 17.

Drought in Taiwan emerged as new risk to global semiconductor supply

A prolonged drought in central and southern Taiwan is posing a new risk to global semiconductor supplies. The water shortage is the result of a year without typhoons combined with low water prices, which encourage wasteful use. The worsening situation has led to water rationing in cities in central Taiwan, hubs for tech manufacturing. The drought has brought concerns that it could exacerbate the global automotive chip shortage – Taiwan's firms are key players in chip supply chains, in particular TSMC the world's largest contract chip maker. The tech companies however remain bullish that they have adequate preparations in place and that supply should not be disrupted.

Pineapple ban highlights Taiwan's continued dependence on cross-Strait trade

Beijing announced a ban on importing Taiwan's pineapples from March 1 2021, citing concerns on plant pests. Over the last three years, over 90 percent of Taiwan's pineapple exports have gone to China. The ban has been seen by local analysts as a political move to reduce Taiwan's trade surplus with China. The ban has also highlighted Taiwan's challenges in achieving trade diversification. Despite the current administration's policy goals to reduce its economic dependence on trade links with China, the trade surplus with China reached record high in 2020 of USD 86 million. Following the ban, Taiwan has increased focused on finding new markets for its pineapples, with some success: Japan, Singapore and Hong Kong increased pineapple imports from Taiwan – a total of 5600 tons from March 1 to April 5, Taiwan's total pineapple exports in 2020 to China was around 45,000 tons.

Aging society

Taiwan's population increase rate⁸ turned negative in 2020 (-0.34‰), meaning Taiwan's deaths exceeded births for the first time. This was the starkest recorded drop in the increase rate in history (UK's increase rate was 1.94‰ while Japan's was -4.51‰, and Korea's also turned negative in 2020 to -0.6‰). Population growth has been slow for the past 10 years, moving between 0.06‰ to 0.91‰ - meaning the numbers of total amount of births are close to the total deaths (the index is 0 when births

⁴ Seasonal House Price Index explains the variation on house prices at different time points. The index represents the trend in seasonal house price changes, by comparing the data between sold prices and estimated prices on similar houses.

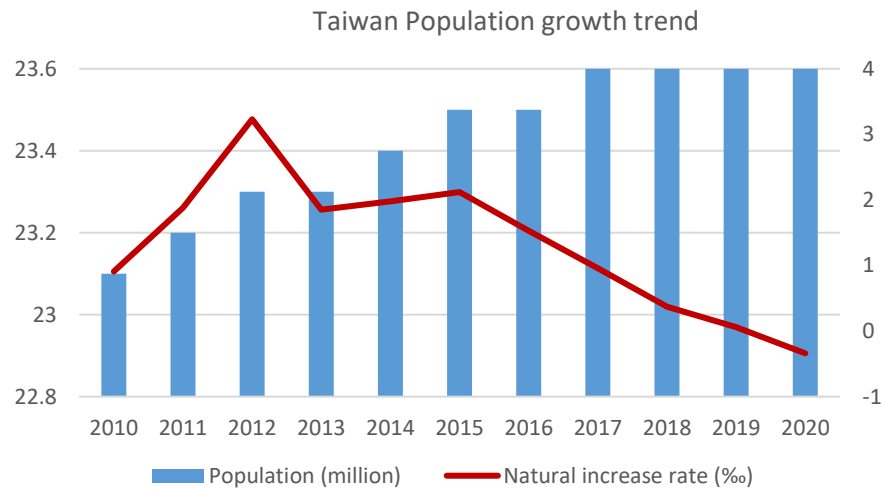
⁵

[https://pip.moi.gov.tw/Upload/CustomFile/Doc/\(\(%E5%B9%B3%E5%8F%B0\)109Q3%E4%BD%8F%E5%AE%85%E5%83%B9%E6%A0%BC%E6%8C%87%E6%95%B8%E7%99%BC%E5%B8%83%E5%85%A7%E5%AE%B9.pdf](https://pip.moi.gov.tw/Upload/CustomFile/Doc/((%E5%B9%B3%E5%8F%B0)109Q3%E4%BD%8F%E5%AE%85%E5%83%B9%E6%A0%BC%E6%8C%87%E6%95%B8%E7%99%BC%E5%B8%83%E5%85%A7%E5%AE%B9.pdf)

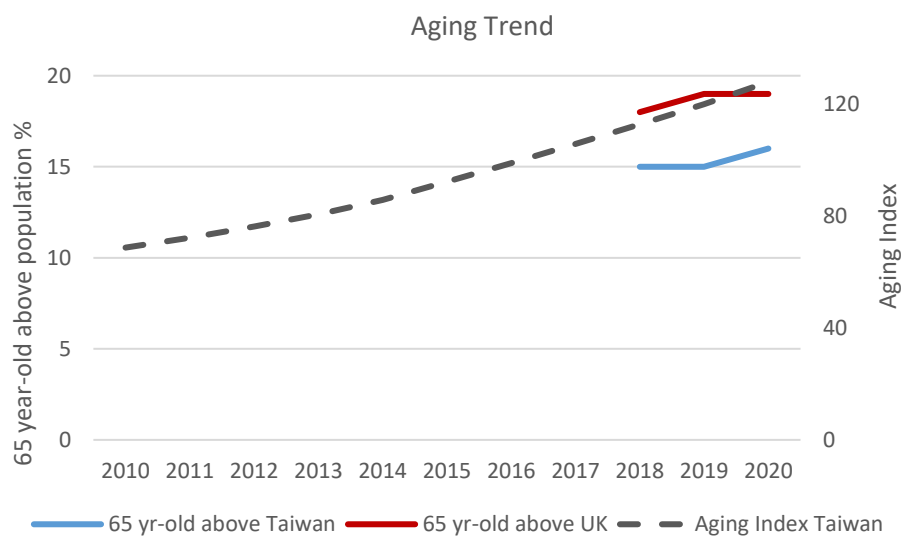
⁶ <https://www.macromicro.me/collections/15/tw-housing-relative/20076/tw-consumer-house-loans-and-loans-for-construction>
⁷ Price to income ratio is calculated by dividing average property prices by average annual earnings. i.e. A ratio of 2 means the average house price was 2 times more than the national average annual income.

⁸ The natural increase rate is the ratio determined by number of birth and deaths in the population ((births – deaths)/ population ‰). A negative ratio means number of deaths exceeds number of births.

and deaths are equal). Taiwan has aimed to address this problem through announcing a number of new childcare subsidies and maternal policy reforms, but the population is still aging fast.



Source: DGBAS



Source: DGBAS & ONS

Comments

Is Taiwan's economic growth inclusive? Not all sectors are benefiting from US-China rivalry and the demands of pandemic products

The exceptional performance of Taiwan's economic growth represents a victory of the island's high-tech sector, but experts have warned for some time that the Taiwan's growth risks becoming increasingly unbalanced. Furthermore, the large presence of SMEs in Taiwan means that they might need greater support if hit by global supply chain shifts resulting from external competition and economic recession.

During the pandemic, sectors such as tourism and traditional manufacturing machinery sectors that relied on air travel and shipping have faced significant challenges. Taiwan's machinery sector lost 8.4% export value in 2020. As the machinery sector is the second largest after semiconductor sector by production value, this decrease has triggered alarm bells for policymakers. Industry experts have called for greater innovation and agility in the traditional manufacturing sectors to prepare for harsher competition and uncertainties ahead. We plan to work up an in-depth report on challenges posed by Taiwan's economic concentration in the technology sector.

Hsin Hsin Chang

Senior Economic Officer

British Office Taipei

HsinHsin.Chang@fcdo.gov.uk