

Taiwan brief economy overview 2024



POLISH - TAIWANESE
CHAMBER OF INDUSTRY AND COMMERCE

Taiwanese economy



Taiwan, boasts one of the most dynamic economies in Asia. In 2024, Taiwan continues to maintain its position as a global leader in technology and manufacturing, particularly in the semiconductor industry. It might not be too large but concerning the potential of its economy, Taiwan is one of the most advanced countries in the world. It is famous from quality of the products, technologies that has been incorporated by most of industries and....bubble tea of course.

KEY ECONOMIC SECTORS

1. Semiconductor Industry:

- Taiwan is home to the world's largest contract chipmaker, Taiwan Semiconductor Manufacturing Company (TSMC), which plays a crucial role in the global supply chain for electronics.
- The semiconductor sector significantly contributes to Taiwan's GDP and exports, reinforcing its status as a tech powerhouse.

2. Manufacturing:

- Beyond semiconductors, Taiwan excels in the production of electronics, machinery, and chemicals.
- The manufacturing sector is highly diversified, catering to both high-tech and traditional industries.

3. Information and Communication Technology (ICT):

- Taiwan's ICT industry is robust, with major contributions from companies like Acer, Asus, and HTC.
- Innovation and R&D are heavily emphasized, supported by government policies and investments.

4. Agriculture and Fisheries:

- Although agriculture constitutes a smaller portion of the economy, Taiwan produces a variety of fruits, rice, and tea, alongside a thriving aquaculture sector.

- The government continues to modernize agriculture through smart farming and sustainable practices.

5. Services:

- The services sector, including finance, healthcare, and tourism, is vital to Taiwan's economy.
- Financial services are well-developed, with a strong banking sector and Taipei being a regional financial hub.

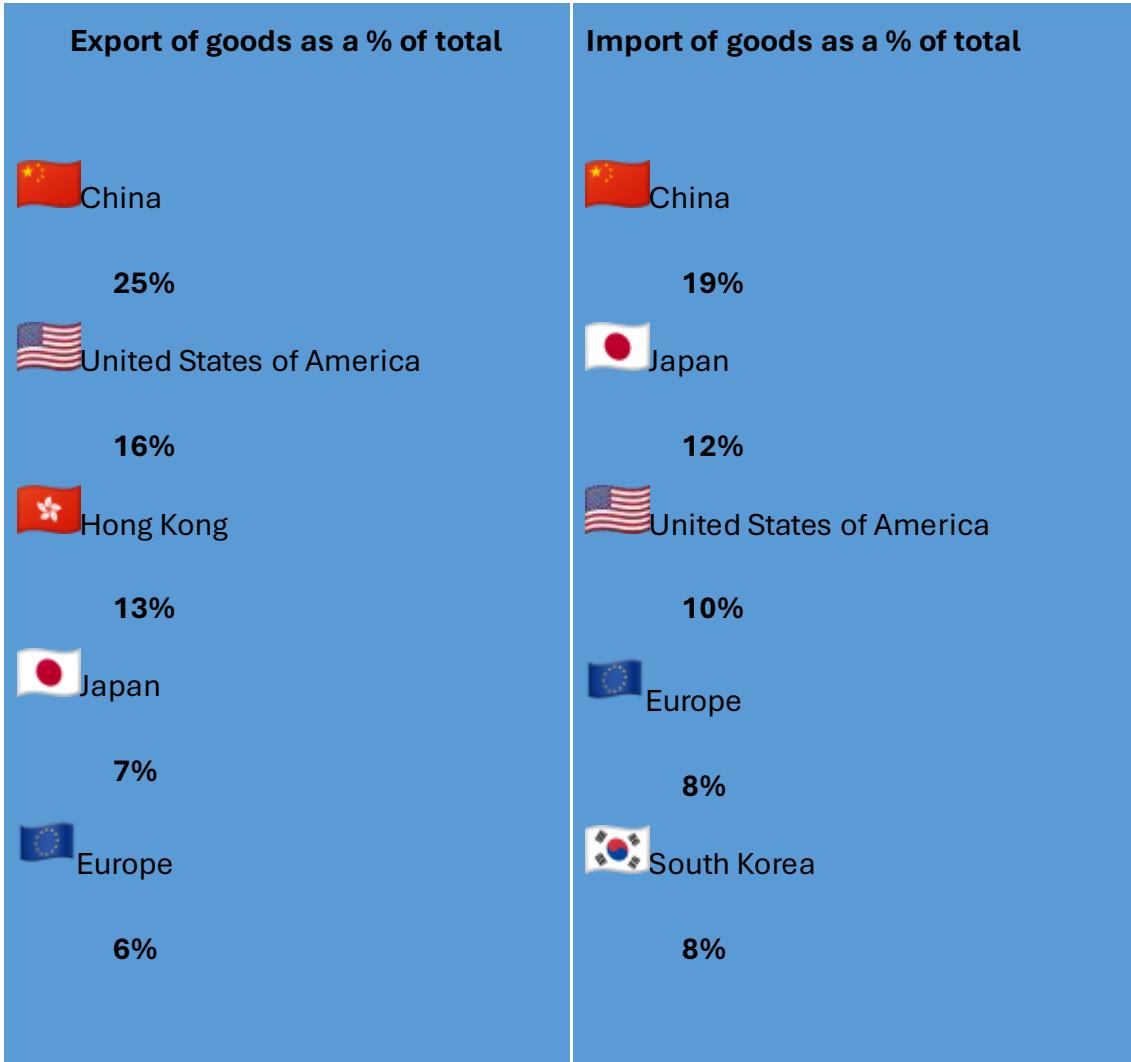
ECONOMIC PERFORMANCE

- **GDP Growth:** Taiwan's economy has shown resilience, with moderate GDP growth despite global uncertainties. The growth is primarily driven by exports and domestic consumption.
- **Trade:** Taiwan remains heavily export-oriented, with key trading partners including China, the United States, Japan, and the European Union. The export of electronics and machinery dominates its trade portfolio.
- **Inflation and Employment:** Inflation rates have been relatively stable, and the unemployment rate remains low, reflecting a healthy labor market.

At a glance, see the major macroeconomic aggregates essential to understanding the economic environment in a country as well as forecasted changes.

| | 2021 | 2022 | 2023 | 2024 |
|--|-------------|-------------|-------------|-------------|
| GDP growth (%) | 6.5 | 2.5 | 1 | 3 |
| Inflation (yearly average,%) | 1.8 | 3 | 2.2 | 1.7 |
| Budget balance (% GDP) | -0.2 | -1.4 | -0.3 | -0.5 |
| Current account balance (% GDP) | 14.7 | 13 | 11.5 | 12 |
| Public debt / GDP (% GDP) | 31.2 | 29.5 | 26.7 | 24 |

TRADE EXCHANGES



CHALLENGES AND OPPORTUNITIES

- Geopolitical Tensions:** Taiwan's economic landscape is influenced by its complex relationship with China and geopolitical tensions in the Asia-Pacific region. These dynamics pose both risks and opportunities for trade and investment.
- Supply Chain Resilience:** The global supply chain disruptions have prompted Taiwan to enhance its supply chain resilience, particularly in critical sectors like semiconductors.
- Sustainability:** Taiwan is increasingly focusing on green energy and sustainable development. Government initiatives are in place to promote renewable energy sources and reduce carbon emissions.

GOVERNMENT POLICIES AND INITIATIVES

- The Taiwanese government continues to support innovation through various policies aimed at enhancing R&D capabilities, fostering startups, and encouraging foreign investment.
- Efforts are being made to diversify the economy and reduce dependency on any single sector or market.

General strengths and weaknesses analysis presents below

| Strengths | Weaknesses |
|---|---|
| <ul style="list-style-type: none">• Robust external financial position• Vast potential for fiscal stimulus | <ul style="list-style-type: none">• Strained cross-straits relations |
| <ul style="list-style-type: none">• Support for R&D through public expenditure | <ul style="list-style-type: none">• Concentration in technology sector and Chinese demand |
| <ul style="list-style-type: none">• One of the largest electronics producers in the world | <ul style="list-style-type: none">• Infrastructure gap compared to other advanced Asian economies |
| <ul style="list-style-type: none">• Diversified FDI portfolio in Asia | <ul style="list-style-type: none">• Ageing population• High dependence on external shocks due to the openness of its economy |

GRADUAL RECOVERY OF THE ECONOMY



The export-oriented island nation suffered from a global demand in 2023, implying bad external performances. Its exports decreased by 9% in the first half of the year compared to the same period in 2022. Exports to China and the US, its key trade partners, shrank respectively by 25% and 16% year-on-year in the January-August period.

However, private consumption was strong and contributed the most to GDP growth. We expect the economy to recover gradually in 2024, driven by external rather than domestic demand, provided that the global economy improves and geopolitical tensions with China and in Ukraine do not escalate. An additional significant risk would be the spread of the conflict in the Middle East prompting a surge in oil prices and a slowdown in the global economy.

ICT products, particularly semiconductors, account for the bulk of Taiwan's exports thanks to its important position in the global electronics value chain. After benefiting from a strong demand during the pandemic, demand fell drastically in 2023 due to subdued global economic recovery, characterised by a shift from manufacturing to services, high interest rates, increased global inflation and geopolitical tensions.



Positive signs have emerged that point to a gradual recovery for the ICT sector in 2024. In March-July 2023, although electronic components exports were still lower than a year earlier, inventories started to decrease allowing a pickup in shipments. In addition, exports in information, and communication products surged by 49% in July-August 2023 compared to 2022. Looking forward, generative AI, cloud computing and the launch of new smartphones and PCs that induce consumer upgrades could be drivers of the recovery of the Taiwanese ICT industry. Private consumption expenditures (50% of H1 2023 GDP) were the main growth driver in the first half of 2023, with a 9.1 % increase compared to the year-earlier level. High savings build-ups during the pandemic and consumption vouchers issued by the government drove the increase. Thanks to significant job creation in the services sector, the unemployment rate reached its lowest in August since January 2001 (3.4% s.a.). Job market resiliency along with the minimum wage hike scheduled for January 2024 (+4.05 % monthly and +3.9 % hourly) will continue to support households spending. However, the island is heavily dependent on external energy prices since it relies on imports for more than 95% of its energy needs. Hence, a surge in global commodity prices could drive prices up, affecting private consumption. Moreover, the housing market worsened in 2023 as building permits and housing transactions plunged in the first half of 2023. A potential price correction through a fall in house prices could trigger a negative wealth effect, adding a further negative impact on household spending.

Small increase in budget deficit which is nonetheless tiny

The annual revenue for the 2024 general budget of the central government is estimated at NT\$2.709 billion and annual expenditure is set at NT\$2.881 billion, representing a respective 5% and 7.2% increase compared with 2023. The outstanding public debt load is expected to increase but is still below the legal limit for the central government (40.6% of GDP), stipulated in the Taiwanese Public Debt Act. The budget is mainly allocated to social welfare (27.5% of total budget), National defence (15%) and education, science and culture (19.5%).



To tackle the ageing population issue, the government wants to implement policies (involving approximately 26% of social welfare expenses) aimed at encouraging births and developing long-term care services. National defence expenses are set to increase (+7.7 % compared to 2023) for the seventh consecutive year, amid rising tensions with mainland China. On 26 September 2023, Taiwan unveiled its first domestically built submarine “Narwhal” (NT\$49.4 billion). The Tsai Ing-wen’s anti-nuclear party that has ruled Taiwan since 2016 is pursuing a nuclear-free energy agenda by 2025. Taiwan intends to generate 20% of its energy from renewable electricity, 30% from coal-fired power and 50% from gas-fired power. To implement this energy transition, in 2024, NT\$27.3 billion has been allocated for the development of wind and solar power, and NT\$34.7 billion are intended to strengthen power and energy storage systems.

Another NT\$6.7 billion has been allocated to encourage the use of electric vehicles. Compared to 2023, energy transition expenditures are expected to expand by 37%, the largest increase among all spending categories.

Exports were weak in 2023, but a deeper decrease in imports –exports rely heavily on imported components such as machinery and electrical equipment represent 45% of total imports –

allowed the country to keep a trade surplus. We expect a gradual recovery for technology-related products in 2024 to support the current account balance.



Taiwan remained the fifth-largest net creditor in the world at the end of 2022, with total external assets growing by 7.9% to US\$ 2.71 trillion, generating solid income. It has one of the highest foreign exchange reserves in the world (US\$ 564.01 billion with 422 tons of gold in September 2023), enabling it to cover more than 19 months of imports. Moreover, its low level of external debt (approx. 26 % of GDP) does not jeopardise the stability of the island's external position.

APPENDIX

Taiwan Economic Data

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|--------|--------|--------|--------|--------|
| <u>Population(million)</u> | 23.6 | 23.6 | 23.6 | 23.4 | 23.3 |
| <u>GDP(USD bn)</u> | 609 | 612 | 676 | 775 | 761 |
| <u>GDP per capita(USD)</u> | 25,835 | 25,919 | 28,707 | 33,176 | 32,602 |
| <u>GDP(TWD bn)</u> | 18,375 | 18,909 | 19,915 | 21,663 | 22,680 |
| <u>Economic Growth(Nominal GDP, ann. var. %)</u> | 2.2 | 2.9 | 5.3 | 8.8 | 4.7 |
| <u>Economic Growth(GDP, ann. var. %)</u> | 2.8 | 3.1 | 3.4 | 6.6 | 2.6 |
| <u>Domestic Demand(ann. var. %)</u> | 3.6 | 3.3 | 0.9 | 5.2 | 4.3 |
| <u>Private Consumption(ann. var. %)</u> | 2.1 | 2.3 | -2.6 | -0.2 | 3.7 |
| <u>Government Consumption(ann. var. %)</u> | 4.0 | 0.5 | 2.8 | 3.8 | 4.8 |
| <u>Fixed Investment(ann. var. %)</u> | 3.2 | 11.1 | 6.1 | 14.3 | 7.8 |
| <u>Exports(G&S, ann. var. %)</u> | 0.2 | 0.7 | 1.2 | 15.2 | 1.8 |
| <u>Imports(G&S, ann. var. %)</u> | 0.8 | 0.5 | -3.5 | 15.5 | 4.3 |
| <u>Industrial Production(ann. var. %)</u> | 3.4 | 1.0 | 8.8 | 14.7 | -1.7 |
| <u>Retail Sales(ann. var. %)</u> | 2.2 | 3.1 | 0.2 | 3.3 | 7.4 |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|-------|-------|-------|-------|-------|
| <u>Unemployment(% of active population, eop)</u> | 3.7 | 3.7 | 3.7 | 3.6 | 3.5 |
| <u>Unemployment(% of active population, aop)</u> | 3.7 | 3.7 | 3.8 | 4.0 | 3.7 |
| <u>Fiscal Balance(% of GDP)</u> | 0.0 | 0.1 | -1.0 | -0.2 | 0.2 |
| <u>Public Debt(% of GDP)</u> | 33.9 | 32.7 | 32.1 | 30.2 | 27.5 |
| <u>Money(ann. var. of M2 %)</u> | 2.7 | 4.5 | 9.4 | 7.3 | 6.7 |
| <u>Inflation(CPI, ann. var. %, eop)</u> | -0.1 | 1.2 | 0.0 | 2.6 | 2.7 |
| <u>Inflation(CPI, ann. var. %, aop)</u> | 1.4 | 0.6 | -0.2 | 2.0 | 2.9 |
| <u>Inflation(Core, ann. var. %, aop)</u> | 1.2 | 0.5 | 0.4 | 1.3 | 2.6 |
| <u>Discount Rate(%), eop)</u> | 1.38 | 1.38 | 1.13 | 1.13 | 1.75 |
| <u>31-90 Day CP Rate(%), eop)</u> | 0.67 | 0.67 | 0.48 | 0.48 | 1.36 |
| <u>10-Year Bond Yield(%), eop)</u> | 0.86 | 0.67 | 0.32 | 0.74 | 1.28 |
| <u>Stock Market(ann. var. of TAIEX %)</u> | -8.6 | 23.3 | 22.8 | 23.7 | -22.4 |
| <u>Exchange Rate(TWD per USD, eop)</u> | 30.74 | 29.98 | 28.10 | 27.67 | 30.74 |
| <u>Exchange Rate(TWD per USD, aop)</u> | 30.15 | 30.91 | 29.44 | 27.93 | 29.81 |
| <u>Current Account Balance(USD bn)</u> | 70.7 | 65.7 | 97.6 | 118.3 | 101.0 |
| <u>Current Account Balance(% of GDP)</u> | 11.6 | 10.7 | 14.4 | 15.3 | 13.3 |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------|------|------|------|------|
| <u>Merchandise Trade Balance(USD bn)</u> | 49.2 | 43.5 | 59.0 | 64.4 | 51.3 |
| <u>Merchandise Exports(USD bn)</u> | 334 | 329 | 345 | 446 | 479 |
| <u>Merchandise Imports(USD bn)</u> | 285 | 286 | 286 | 382 | 428 |
| <u>Merchandise Exports(ann. var. %)</u> | 5.9 | -1.5 | 4.9 | 29.3 | 7.4 |
| <u>Merchandise Imports(ann. var. %)</u> | 10.7 | 0.3 | 0.2 | 33.5 | 12.1 |
| <u>Foreign Direct Investment(USD bn)</u> | 7.1 | 8.2 | 6.1 | 5.4 | 10.2 |
| <u>International Reserves(USD bn)</u> | 462 | 478 | 530 | 548 | 555 |
| <u>International Reserves(months of imports)</u> | 19.5 | 20.1 | 22.2 | 17.2 | 15.6 |
| <u>External Debt(USD bn)</u> | 191 | 185 | 190 | 214 | 202 |
| <u>External Debt(% of GDP)</u> | 31.4 | 30.2 | 28.1 | 27.5 | 26.6 |