ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW


Taiwan was facing a relatively low economic growth at 2.7% back in 2019 due to lower demand from trade partners and trade tensions between China and the United States. In the context of the COVID-19 pandemic, the country registered a 0% growth in 2020, one of the best results in the world (IMGF, 2021). According to analysis, the slowdown was due to the slowing world economy, but also trade tensions, massive relocations, lack of competitiveness in the service sector and a growing isolation from the global diplomatic scene. However, Taiwan enjoys a good financial position, is the 4th electronic producer in the world and support R&D. According to the latest IMF forecasts, growth is expected to return to 3.2% in 2021 before stabilising at 2.1% in 2022, subject to the post-pandemic global economy recovery.

According to the latest IMF estimates, public debt closed at 35.6% of GDP in 2020 and is expected to remain at this level in 2021 and 2022 with 36.6% and 34.6% respectively. The budget was in deficit at -1.8% in 2019 and increased due to the COVID-19 pandemic to -4.7% in 2020. It is expected to decrease in the following years to -3.2% in 2021 and 2% in 2022. Inflation remained low at -0.1% in 2020. It should increase to 1% in 2020 and 1.2% in 2022 (IMF, 2021). Taiwan industries are affected by the international trade tensions, which include electronics (40% of Taiwan's exports), machinery, and chemicals. Chinese restrictions on travel from mainland China to Taiwan have also affected this sector. Other economic challenges include massive relocations that weaken industrial employment, uncompetitive service sector, insufficient infrastructure, and diplomatic isolation. Nevertheless, growth will be aided by infrastructure spending in healthcare and energy. The Infrastructure Development Plan will also modernise the rail network and water distribution. While budget deficits are expected, taxes were increase on income and financial transactions. Most public debt is domestic and owed in New Taiwanese dollars.

In 2021, the country’s most immediate challenge is related to the economic, social and public health impacts of the COVID-19 pandemic, even though Taiwan had the pandemic well in hand from the start thanks to early and effective prevention. The unemployment rate remained steady at 3.9%, virtually unchanged compare to 2019 (3.8%) and it is expected to remain at this level (3.8%) in 2021 and 2022. Social challenges include an ageing population, low birth rates, and a tense political agenda focusing on reunification with mainland China.

<table>
<thead>
<tr>
<th>Main Indicators</th>
<th>2018</th>
<th>2019</th>
<th>2020 (e)</th>
<th>2021 (e)</th>
<th>2022 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billions USD)</td>
<td>608.13</td>
<td>610.69</td>
<td>635.55</td>
<td>682.70</td>
<td>719.61</td>
</tr>
<tr>
<td>GDP (Constant Prices, Annual % Change)</td>
<td>2.7</td>
<td>2.7</td>
<td>0.0</td>
<td>3.2</td>
<td>2.1</td>
</tr>
<tr>
<td>GDP per Capita (USD)</td>
<td>25</td>
<td>25e</td>
<td>26</td>
<td>28</td>
<td>30</td>
</tr>
<tr>
<td>General Government Balance (in % of GDP)</td>
<td>-1.9</td>
<td>-1.8</td>
<td>-4.7</td>
<td>-3.2</td>
<td>-2.0</td>
</tr>
<tr>
<td>General Government Gross Debt (in % of GDP)</td>
<td>34.0</td>
<td>32.8</td>
<td>35.6</td>
<td>35.6</td>
<td>34.6</td>
</tr>
</tbody>
</table>
### Main Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2019</th>
<th>2020 (e)</th>
<th>2021 (e)</th>
<th>2022 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Rate (%)</td>
<td>1.5</td>
<td>0.5</td>
<td>-0.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Unemployment Rate (% of the Labour Force)</td>
<td>3.7</td>
<td>3.8e</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Current Account (billions USD)</td>
<td>70.84</td>
<td>65.14</td>
<td>60.94</td>
<td>66.58</td>
<td>69.87</td>
</tr>
<tr>
<td>Current Account (% of GDP)</td>
<td>11.6</td>
<td>10.7</td>
<td>9.6</td>
<td>9.8</td>
<td>9.7</td>
</tr>
</tbody>
</table>

Source: IMF - World Economic Outlook Database, October 2020

**Note 1:** (e) Estimated Data

**Note 2:** The GDP growth projections for 2021 and 2022 (Constant Prices, Annual % Change) were updated by the IMF in January 2021

### Country Risk

See the country risk analysis provided by La Coface.

### Main Sectors of Industry

The agriculture sector contributes only very modestly to the GDP (around 2% in 2020 according to figures from the official statistical agency) and employs about 5% of the labour force in Taiwan. Taiwan's main crops are rice, sugar cane, fruits and vegetables. Taiwan's natural resources are limited. The Ministry of Labor allows dairy farms to hire migrant workers to compensate for labor shortages since 2019 (Focus Taiwan).

The secondary sector accounts for over 36% of GDP and employs about 35% of the labour force. Although traditional industries such as iron and steel, chemicals and machinery account for almost half of industrial production, new industries are the more dynamic. Taiwan is one of the world's largest suppliers of semiconductors, computers and mobile phones. It is also the largest supplier of computer screens.

Services account for 62.7% of GDP and employs 59.7% of the labour force. Taiwan, which faces the continued relocation of large labour-intensive industries to countries where it is less costly, will need innovative changes to move to an economy based on more advanced technologies and services to support them. According to Taiwan's tourism bureau, the number of foreign visitors to Taiwan in 2019 hit a record 11.84 million, a 7% increase from the previous year; tourist diversification in 10 key markets (Japan, South Korea, Singapore, Malaysia, Philippines, Vietnam, Thailand, India, Indonesia and Australia) has become the goal of the Tourism Bureau.

The COVID-19 pandemic has had a powerful impact on the global economy in 2020. The International Monetary Fund is currently forecasting a 4.9% contraction in global economic activity for the year 2020, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast, and a level worse than the global financial crisis (IMF, 2020). The impact of the pandemic appears to have affected both sides of most sectors and markets in Taiwan - demand disruptions having run up against supply problems - making the short-term outlook uncertain for agriculture, industry and service sectors.

### Breakdown of Economic Activity By Sector

|---------------------------------------------|

### Monetary Indicators

<table>
<thead>
<tr>
<th>Monetary Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Taiwan Dollar (TWD) - Average Annual Exchange Rate For 1 USD</td>
<td>33.09</td>
<td>33.59</td>
<td>30.42</td>
<td>30.15</td>
<td>30.15</td>
</tr>
</tbody>
</table>

FOREIGN TRADE

Foreign trade has been the engine of Taiwan’s rapid growth during the past 40 years. Taiwan is very open to international trade, which represented over 62.7% of GDP in Taiwan from 2015 to 2018 (WTO, 2020). Main exports include electrical equipment, machinery, computers, plastics, medical apparatus, mineral fuels and vehicles; while imports include electrical equipment, mineral fuels, machinery and computers. The International Monetary Fund (IMF) is forecasting a rebound of 2.8% in the volume of exports of goods and services of the country in 2021, after a fall of 4.9% in 2020 due to the COVID pandemic, and an increase of 2.7% of its imports, after a fall of 3.2% in 2020.

Taiwan’s main export partners in 2019 were China (24.3% of all export in 2019), the United States (13.2%), the E.U. and Japan. Imports were predominantly acquired from China (20.1% of all imports in 2019), Japan, the U.S. (12.2%), the E.U., and the Republic of Korea. Since Taiwan’s economy is highly export-oriented, it depends on a regime open to international trade and remains vulnerable to fluctuations in the global economy. Political tensions between separatist and reunificationists in Taiwan made reaching policy consensus difficult. President Trump’s commercial battle against China increases risk in Asian economies, although said dispute it at a standstill as of February 2019 (NPR). Lack of international recognition from other countries also complicates Taiwan’s international position.

Taiwan exported USD 330.6 billion of goods and USD 51.4 billion of services in 2019, and imported USD 287.1 billion of goods and USD 56.3 billion of services (WTO, 2020). Electronics industry is the largest industrial export sector and it receives the most US investment. Taiwan’s membership in the WTO as an independent economy has also supported its commerce since 2002. The island has also a free trade agreement with New Zealand.

<table>
<thead>
<tr>
<th>Foreign Trade Values</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports of Goods</strong> (million USD)</td>
<td>237,549</td>
<td>230,568</td>
<td>259,266</td>
<td>286,333</td>
<td>287,164</td>
</tr>
<tr>
<td><strong>Exports of Goods</strong> (million USD)</td>
<td>285,421</td>
<td>280,321</td>
<td>317,249</td>
<td>335,909</td>
<td>330,622</td>
</tr>
<tr>
<td><strong>Imports of Services</strong> (million USD)</td>
<td>46,756</td>
<td>52,407</td>
<td>52,771</td>
<td>56,182</td>
<td>56,379</td>
</tr>
<tr>
<td><strong>Exports of Services</strong> (million USD)</td>
<td>56,473</td>
<td>41,443</td>
<td>44,721</td>
<td>49,832</td>
<td>51,451</td>
</tr>
</tbody>
</table>

Source: World Trade Organisation (WTO) ; Latest available data

<table>
<thead>
<tr>
<th>Foreign Trade Forecasts</th>
<th>2020</th>
<th>2021 (e)</th>
<th>2022 (e)</th>
<th>2023 (e)</th>
<th>2024 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume of exports of goods and services (Annual % change)</strong></td>
<td>-4.9</td>
<td>2.8</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Volume of imports of goods and services (Annual % change)</strong></td>
<td>-3.2</td>
<td>2.7</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

POLITICAL OUTLINE

Current Political Leaders
President: Tsai Ing-Wen (since 20 May 2016 - reelected 11 Jan 2020) - PDP
Prime Minister: SU Tseng-chang (since 14 January 2019) - PDP

Next Election Dates
Presidential: January 2024
Main Political Parties
Most parties maintain alliances with the two largest ruling parties: the KMT and DPP. The most prominent political parties include:
- **Kuomintang (KMT)**: centre-right, favours Chinese nationalism
- **Democratic Progressive Party (DPP)**: centre, backs an independent Taiwan, has gained a significant number of parliamentary seats since 2012
- **New Power Party**: Centre-Left
- **People First Party (PFP)**: liberal
- **Taiwan Solidarity Union (TSU)**: centre-left
- **Non-partisan Solidarity Union (CHANG Po-ya)**: conservative liberalism, anti-communist
- **The Republican Party**: centre, centre-right
- **Green Party Taiwan**: Centre-Left
- **Minkuotang**: Centre-right
- **Labor Party**: Far-Left
- **New Party**: Right-Wing
- **For Public Good Party**: Left-wing
- **Social Democratic Party**: Centre-Left
- **Taiwan First Nations Party**: Centre-Left
- **Trees Party**: Centre-Left, Environmentalist

Executive Power
First country in Asia to have elected its president by universal direct suffrage. The President and Vice President are elected on the same ticket by popular vote for four-year terms (eligible for a second term). The Premier is appointed by the President; the Vice premiers are appointed by the President on the recommendation of the Premier.

Legislative Power
Unicameral Legislative Yuan: 113 seats, 73 district members elected by popular vote, 34 at-large members elected on basis of proportion of island wide votes received by participating political parties, 6 elected by popular vote among aboriginal populations; to serve four-year terms. Parties must receive 5% of vote to qualify for at-large seats.

COVID-19 COUNTRY RESPONSE

COVID-19 epidemic evolution
To find out about the latest status of the COVID-19 pandemic evolution and the most up-to-date statistics on the COVID-19 disease in Taiwan please visit the Taiwan Center for Disease Control website.
For the international outlook you can consult the latest situation reports published by the World Health Organisation as well as the global daily statistics on the coronavirus pandemic evolution including data on confirmed cases and deaths by country.

Sanitary measures
To find out about the latest public health situation in Taiwan and the current sanitary measures in vigour, please visit the Taiwan Center for Disease Control website. Further info can be accessed on the dedicated page on the website of the American Institute in Taiwan.

Travel restrictions
For information on the travel restrictions undertaken the Taiwanese government, please consult the Bureau of Consular Affairs' website section “Entry restrictions for foreigners to Taiwan in response to COVID-19 outbreak”. The American Institute in Taiwan (equivalent to US embassy) Covid-19 Information webpage has extensive information about travel restrictions in Taiwan.
For the international outlook you can consult the latest travel updates available on the IATA website.

Import & export restrictions
For the up-to-date information on all the measures applicable to movement of goods during the period of sanitary emergency due to the COVID-19 outbreak (including eventual restrictions on imports and exports, if applicable), please consult the website of the Taiwanese Customs Administration and that of the Bureau of Foreign Trade.
For a general overview of trade restrictions due to COVID-19 pandemic, please consult the section dedicated to Taiwan on the International Trade Centre’s COVID-19 Temporary Trade Measures webpage.

Economic recovery plan
For the information on the economic recovery scheme put in place by the Taiwanese government to address the impact of the COVID-19 pandemic on the national economy, please visit the official page on the Special Act on COVID-19 Prevention, Relief and Restoration and the KPMG Taiwan page on Government and institution measures in response to COVID-19.
For a general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic) taken by the Taiwanese government to limit the socio-economic impact of the COVID-19 pandemic, please consult the section dedicated to Taiwan in the IMF’s Policy Tracker platform.

Support plan for businesses
For the information on the local business support scheme established by the Taiwanese government to help small and medium-sized companies to deal with the economic impacts of the COVID-19 epidemic on their activity refer to the official page on the Special Act on COVID-19 Prevention, Relief and Restoration and KPMG’s Taiwan page on Government and institution measures in response to COVID-19.
For a general overview of international SME support policy responses to the COVID-19 outbreak refer to the OECD’s SME Covid-19 Policy Responses document. You can also consult the World Bank’s Map of SME-Support Measures in Response to
COVID-19.

Support plan for exporters
For the up-to-date information on possible support plans for exporters in Taiwan, if applicable, please consult the website of the Department of Trade and Industry's Bureau of Foreign Trade.