

Prepared by the New Zealand Commerce and Industry Office in Taipei in collaboration with the North Asia Division in Wellington

Summary

- Revised forecasts of GDP growth show Taiwan's economy grew by 3.33% for the third quarter, putting Taiwan on track for positive growth this year. Taiwan's technology exports are a clear driver for this growth and the manufacturing economy continues to expand as a result. Domestic demand remains subdued as accommodation, food services and transportation take the brunt of COVID-19's impact on the economy over the first two quarters of this year.
- Taiwan uses investment programmes to position itself as an attractive economy for the technology sector. Some large technology companies, such as Microsoft, have increased investment in Taiwan.

Report

Economic Growth

With no lockdown imposed and strong export demand for ICT parts and components, Taiwan's economy has fared much better than initially predicted for the first three quarters of 2020. The IMF revised its 2020 real GDP growth rate prediction of -4% in April to 0% in October. Taiwan's Directorate-General of Budget, Accounting and Statistics (DGBAS) estimates real GDP growth of 1.56% in 2020 and 3.92% in 2021.

2 Quarter 3 advanced estimates of GDP growth released on Friday 30th October showed Taiwan's economy grew by 3.33% on a year-on-year basis. Strong global demand for electronic products, as well as information, communication and audio-video products were a driver for this growth. GDP contracted by 0.58% in quarter 2 and grew by 2.2% in quarter 1.

3 Taiwan's two largest Economic Research Institutes, Taiwan Institute of Economic Research (TIER) and Chung-Hua Institute for Economic Research (CIER), as well as ANZ, have all revised their 2020 GDP growth estimates higher than earlier forecasts to **1.91%**, **1.76%**, and 1.99% respectively. None have ever forecasted negative growth in 2020.

Exports and Imports

4 CIER said strong demand for 5G deployment and electronic devices required for a low-contact economy, as well as Huawei's stockpiling of its electronic inventory before the 15 September ban by Washington, have been of great benefit to local technology firms. Taiwan's exports grew 8.32% in August and 9.36% in September compared with the corresponding months in 2019.

5 With the expansion of the semiconductor industry based in Taiwan, imports also increased by 23.9% in August 2020 compared to 2019. Imports decreased by 5.44% in September.

6 Cumulatively, Taiwan's exports and imports from 1 January to 30 September 2020 grew by 2.44% and contracted by -0.76% respectively. Its trade surplus for this period was US\$40.31 billion, an increase of 22.87% year-on-year.

Consumption and Production

7 Domestic demand has been subdued, however. Real private consumption contracted by 1.51% in q3. This was better than the 4.98% decline in q2 when spending on restaurants, transportation and recreational activities all decreased due to the pandemic. The absence of overseas tourists and movement restrictions domestically during the second quarter slowed some sectors.

8 According to the Taiwanese administration, triple stimulus vouchers that were launched in July are said to have significantly boosted private consumption. The programme, which allowed Taiwanese nationals and their foreign spouses to receive NT\$3,000 worth of vouchers for a payment of NT\$1,000, was at a cost of NT\$51.05 billion (UD\$1.77 billion) to the government and is expected to generate NT\$100 billion in business for local merchants, while increasing tax revenue for the government.

9 The accommodation and food services sector was down 15.2% in quarter 2, while the transportation and storage sector was down 23.73% for the same period. Manufacturing, wholesale and retail trade, and the financial and insurance sectors were all up 3.48%, 0.78% and 2.16% respectively. DGBAS's quarter 3 statistics for these sectors have not yet been released.

10 CIER's data for the Purchasing Managers' Index (PMI), a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy, showed the fourth consecutive month of growth for October and rose to 59.3. This was the largest expansion since January 2018 when it was 59.7. In the service sector, however, the non-manufacturing index (NMI) fell by 2.2 from a month earlier to 53.4 in October, but remained in expansion mode for the fifth straight month, CIER said. (For the PMI and NMI readings over 50 indicates expansion and under 50, contraction.)

Labour Force

11 From a high at the end of June of 31,816 workers furloughed, that number has now decreased to 13,184 by the end of October. The latest statistics put unemployment at 3.83% for the month of September.

Investment

12 Real gross capital formation increased by 2.04% year-on-year in q3 and 2.73% in q2 owing to the growth of investment in construction as well as transport equipment.

13 In response to US imposed tariffs on Chinese products, the Taiwanese administration launched a three year reshoring programme (2019-2021) to attract Taiwanese companies back to Taiwan. The initiative has seen Taiwanese companies operating in China to-date pledging approximately NTD 1 trillion (USD33 billion) of reinvestment back to Taiwan. Of that amount, NTD 200 billion was already invested in 2019 and NTD 325.3 billion is set to be invested in 2020.

14 According to Taiwan's Ministry of Economic Affairs Investment Commission's latest statistics, 78 cases of inward investment from Mainland China worth US\$121,895,000 from January to September 2020 were approved. This indicates a decrease of 27.10% in the number of cases, and an increase of 39.62% in the FDI amount compared to the same period in 2019.

Technology sector – investment incentives

15 Tech-related sectors account for 35-47% of all FDI flows from 2016-2019. Taiwan's recent initiatives to attract more investment and capital into the technology sector are expected to be a strong driver of economic growth.

16 In June of this year, Taiwan approved a [programme](#) to provide NT\$10 billion (US\$334.43 million) in subsidies over a period of seven years to attract foreign technology companies to do research and development in Taiwan. Not long after, an [Action Plan](#) for display technologies and applications was approved. The Plan, with a budget of NT\$17.7 billion (US\$597.5 million), aims to give Taiwan a leading edge in the global screen-based technology industry by growing its annual output value. Currently the annual output value of NT\$1.4 trillion (US\$47.3 billion) in 2019 is only second to that of the semiconductor industry.

Large technology companies investing in Taiwan

18 Earlier this year in May, [reports](#) suggested Apple planned to build a new plant in Northern Taiwan to produce Mini LED and Micro LED related displays. Later in September, Google [announced](#) it would build its third data centre in Taiwan, which would be its fourth in Asia. The other being located in Singapore.

19 On October 26, Microsoft [announced](#) four new digital investment projects in Taiwan, including building an in-house data centre, adding a cloud hardware team, launching an industrial ecosystem, and injecting international security resources. The projects are expected to generate NT\$300 billion (US\$10.48 billion) in economic output and create over 30,000 jobs by 2024.

20 Taiwan Semiconductor Manufacturing Company (TSMC), the world's biggest contract chipmaker, confirmed in July that it had suspended processing new orders from Huawei in mid-May of this year to abide by US export restrictions. At the same time as this decision, it publicly announced its intention to build a US\$12 billion 5 nanometre wafer fab in Arizona.

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