TAIWAN'S ECONOMIC PROSPECT UNDER TSAI ING-WEN: CRITICAL CHALLENGES AHEAD

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Executive Summary

1. Taiwan's first female president, Tsai Ing-Wen, assumed office on 20 May 2016. She has pledged to pursue a new and sustainable economic development model for Taiwan through innovation, job creation and well distributed income in the next four years.

2. Industrial upgrading policy is considered essential for converting Taiwan's economy to an innovation-driven one and for creating more value-added jobs with higher wages. Five major industries have been selected for further upgrading and development, namely, green technology, the Internet of Things, biotechnology, precision machinery and defence industries.

3. Tsai has also vowed to revitalise the economy through diversifying economic relations. Taiwan will seek membership in the Regional Comprehensive Economic Partnership and Trans-Pacific Partnership. The new administration also plans to launch a "New Southward Policy" to enhance Taiwan's overall relations with countries in Southeast Asia and India.

4. The Tsai administration's long-term development vision may not resolve Taiwan's current economic recession. Taiwan's gross domestic product (GDP) growth plummeted to -0.84% in the first quarter of 2016. Its merchandise export of around 60% of GDP had fallen for 16 consecutive months ending May 2016.

5. The sluggish manufactured exports weigh on company profits, making wage increase less possible and depressing private consumption. If external demands continue to remain weak, the domestic investments in R&D would also be dampened.

6. Despite services' greater shares in Taiwan's GDP (63%) and employment (59%), they are not able to take up the slack when the manufacturers face weak external demand due to its low profit margin, low value-added and domination by small and medium-sized enterprises.

7. Taiwan is in need of extra government spending during a time when exports, domestic investment and private consumption are fragile. It is able to have a strong fiscal policy given its relatively low government’s debt to GDP ratio. Taiwan government debt is domestic debt which can be digested through its fiscal adjustment or monetary policies.

8. Attracted by short-term profit, more Taiwanese manufacturing firms are likely to opt to cooperate with Chinese counterparts. The Tsai administration will have to accommodate this market-driven cross-strait integration in manufacturing while trying to maintain Taiwan’s technology superiority.

9. As China remains Taiwan’s largest outward investment destination and trading partner, the follow-up bilateral trade in goods and services negotiations is important. How the Tsai administration deals with China relations is also vital for Taiwan to successfully expand its economic diplomacy in the future.