TAIWAN'S ECONOMY IN 2011: SLOWER GROWTH AND FURTHER DEPENDENCE ON CHINA

CHIANG Min-Hua

EAI Background Brief No. 690

Date of Publication: 13 January 2012

Executive Summary

1. The Taiwanese government forecasted economic growth to dip from 10.7% in 2010 to about 4.5% in 2011. Gross domestic product per capita in 2011 is expected to reach US$20,246, an increase of 9% from the previous year.

2. Of the 4.5% economic growth rate of 2011, 3.7% is expected to come from net exports, 2% from domestic consumption while investment (-1.2%) contributes negatively to economic growth.

3. The earthquake on March 11 in Japan, and the economic decline in Europe and the US have dampened Taiwan's external demand from the second quarter of 2011.

4. In 2011, Taiwan's exports to China (40%, including Hong Kong) formed the largest share of its total exports, followed by ASEAN-6's 16%, US' 12% and Japan's 6%.

5. Although Japan remains Taiwan's largest import source (19%), its share is decreasing. On the other hand, Taiwan's imports from China have clearly increased over the past decade, from 7% in 2001 to 16% in 2011.

6. Heavy industrial products, such as petrochemical and steel products have been Taiwan's main export commodities, accounting for 83% of Taiwan's total exports in 2011. Meanwhile, agricultural and industrial raw materials made up the main import items, accounting for 77% of Taiwan's total imports.

7. China has long been the top destination of Taiwan's outward investment, serving as low-cost production and main export platforms. As such, most investment is concentrated in the manufacturing sector, leading to rising exports of industrial goods from Taiwan to the mainland.

8. Between January and October 2011, 86% of Taiwan's outward investment was in China, mainly in industries such as electronic parts, computers, and optical products.

9. In terms of inward investment, Taiwan's lifting of the investment ban from China and the recently signed "Taiwan-Japan Investment Agreement" are expected to attract more inward investment from these two countries.

10. Taiwan's export prospects in 2012 will continue to be influenced by the European debt problems and slowdown of the American economy. The implementation of South Korea's Free Trade Agreement with the European Union and America may also put Taiwan's exports to these two regions at a competitive disadvantage.

11. Due to the uncertain external demand, the Taiwanese economy will have to rely on its domestic consumption. The Taiwan government expects economic growth to dip to 4.2% in 2012.

12. Despite the uncertain global economic condition, cross-strait economic relations are likely to progress. On one hand, Taiwan's manufacturing sectors will continue to invest heavily in the mainland in order to better compete in the world market. On the other hand, Chinese tourists and investment are expected to grow, further linking Taiwan's economy to China.