

**TAIWAN'S ECONOMY:
SHARP SLOWDOWN IN 2012**

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EAI Background Brief No. 785

Date of Publication: 17 January 2013

Executive Summary

1. Taiwan's economic growth rate is set to slow from 4% in 2011 to 1.1% in 2012 owing largely to deteriorating external demand from the US, Europe and China. Gross Domestic Product (GDP) per capita is estimated to increase slightly to US\$20,364 in 2012, from US\$20,006 in 2011.
2. Domestic consumption accounted for 73% of Taiwan's 1.1% economic growth in 2012. Meanwhile, investment and net exports contributed 20% and 7% of Taiwan's economic growth respectively.
3. Weak exports and stagnant wages are reasons behind the sluggishness of private consumption. The propensity to consume was further restrained by the increase of fuel and electricity prices in April 2012, the government's announcement of capital tax from 2013 and the rising concerns about the bankruptcy of the national pension scheme.
4. As the local manufacturing industry is closely tied to the export sectors, the soft demand has resulted in the reduction of capital investment and imports of key components for domestic industrial production.
5. China, including Hong Kong, remained as Taiwan's largest export destination (39% of Taiwan's total exports) in 2012 while Japan prevailed as Taiwan's largest import origin (18% of Taiwan's total imports).
6. Electronic products accounted for the largest share of Taiwan's exports (28%), followed by basic metals (10%), and machinery and electronic machinery (10%). Mineral products (27% of total imports), electronic products (15%) and chemical products (11%) are Taiwan's main imports.
7. Compared to outward investment (US\$19.5 billion), inward investment (US\$4.8 billion) to Taiwan was much less in 2012 (Jan-Nov). Financial and insurance sectors accounted for the largest share of Taiwan's inward

investment (28%), followed by wholesale and retail trade (21%), electronic parts and components manufacturing (14%).

8. China accounted for 60% of Taiwan's total outward investments, the largest share in 2012 (Jan-Nov). Electronic parts and computers manufacturing remain the largest share of Taiwan's investments in China (31%).
9. Taiwan's export-oriented economy is likely to struggle in 2013 owing to the uncertain economic situation in the West. China's industrial upgrading and Taiwan's minimal involvement in the rapidly growing regional economic integration will also affect the island's export-led economic future.
10. Ma Ying-Jeou's active pursuit of Free Trade Agreements may not divert Taiwan's economic dependence from China in the near term. Instead, it is more likely that the global economic gloom will lead the Ma administration to further liberalise trade, investment and tourism with China as a way to give ordinary people the feeling of an economic recovery.