

## **Ending Taiwan's Economic Stagnation: The Implications of the Elections of Presidents Tsai and Trump**

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### **Abstract**

Taiwan's economy has slowed down significantly since the late 1990s. Not surprisingly, growing economic stagnation has become a salient political issue in the early 2000s. In addition, Taiwan's position in the Taipei-Beijing-Washington triangle has been destabilized by the 2016 presidential victories of Tsai Ing-wen and Donald Trump, who among other things advocated major shifts in economic strategies for their nations. This paper, then, examines the implications of these two new presidencies for Taiwan's economic evolution. The first section describes the increasing economic stress on Taiwan; and the second discusses the impact of President Tsai and President Trump on the country's economic future.

**Keywords:** *Taiwan, economic stagnation, New Southbound Policy, economic transformation, DPP administration, Tsai Ing-wen presidency*

## 1. Economic Stagnation in 21st-Century Taiwan

The evolution of Taiwan's economy appears rather paradoxical. From the 1950s through the 1980s, the country went through a series of economic transformations that have been called an "economic miracle". In particular, Taiwan advanced quite rapidly from domestic light industry in the 1950s, to an export boom based on these manufactured goods in the 1960s and early 1970s, to substantial industrial upgrading into the heavy and high-tech industries from the late 1970s through the early 1990s. Moreover, the fruits of economic development were widely shared as poverty and income inequality were reduced substantially, creating a record of "growth with equity" (Chan and Clark, 1992; Fei, Ranis and Kuo, 1979; Galenson (ed.), 1979; Gold, 1986; Wade, 1990). In the early 1990s, therefore, Taiwan could be considered an economic success story and model for developing nations.

Over the last quarter-century, in sharp contrast, the country's economic performance declined, especially after the Global Financial Crisis struck in 2008 (Clark and Tan, 2012; Copper, 2016; Lin, 2016). For example, during the 1990s Taiwan averaged 6.6% annual growth compared to 9.3% during the industrial upgrading of the 1970s and 1980s; and the first decade of the 21st century was marked by somewhat lower growth (4.8%) between the recessions at its beginning and end. Beyond these raw numbers, furthermore, the people of Taiwan were clearly far from satisfied with their country's economic performance as first the Chen Shui-bian (陳水扁) administration (2000-2008) and then the Ma Ying-jeou (馬英九) one (2008-2016) received widespread harsh criticism for their economic policies (Clark and Tan, 2012).

**Table 1** Economic Dynamism and Structure (all data are percentages)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Economic Growth</b>	6.5	0.7	-1.6	10.6	3.8	2.1	2.2	3.8	0.8	1.4	2.9	2.6*
<i>Contributions to Growth</i>												
Exports	6.9	0.4	-5.9	15.5	3.0	0.3	2.5	4.1	-0.2			
Manufacturing	2.6	0.2	-1.0	6.1	2.0	1.1	0.4	1.8	-0.2			
Domestic Demand	1.4	-2.2	-4.2	9.6	0.5	0.6	1.9	3.1	1.4			
<i>Percentage of GDP</i>												
Exports	60.9	61.9	52.5	62.3	64.5	62.7	60.9	60.4	54.6			
Services	64.5	66.4	66.3	64.4	65.3	65.6	65.1	64.0	62.8			
Manufacturing	29.6	28.3	27.2	29.3	28.7	28.4	28.4	29.1	30.3			
Savings	31.5	29.6	29.3	33.1	31.5	30.5	32.0	33.0	34.7			
Investment	23.5	23.9	19.3	24.2	23.0	21.8	21.5	21.2	20.1			

Note: \*Estimated, October 2017.

Sources: Clark and Tan (2012: 26 & 82); NDC (2016: 4, 6, 19, 20 & 216); NDC (2018: 4); Bloomberg (2018).

Table 1 presents data on the dynamism and structure of Taiwan's economy from 2007, the last year before the Global Financial Crisis hit, to 2018 for growth rate and 2015 for the other seven economic indicators. The country's real growth rate is in the first row. Following a robust 6.5% in 2007, the Global Financial Crisis hit the island hard for the next two years which averaged a slight decrease of -0.5% per year in 2008-2009. The economy then jumped 10.6% in 2010, but the dream of a dynamic recovery was quickly quashed. Growth averaged a respectable 3.0% for 2011-2014 but then dropped precipitously to a minuscule 0.8% in 2015 and 0.5% in 2016, before recovering a little to a projected 2.2% in 2017 and 2.3% in 2018. The next three rows contain the independent contribution to growth of exports, manufacturing, and domestic demand. Note that this is how much they contributed to the overall growth rate, not their own growth. For example, in 2007, overall growth was 6.5%; and exports accounted for 6.9%. In other words, without exports, the country would have been in a recession. These data

indicate the highly export-dependent nature of Taiwan's economy as exports' contribution tracks the ups and downs of overall growth almost perfectly. In addition, Taiwan's recovery in 2017 has been linked to its increased export of components for high-tech products (Bloomberg, 2017). Manufacturing's contribution was generally about half the amount attributed to exports. In contrast, domestic demand exhibits a different pattern of changing contributions over time. From 2007 through 2012, it only made a significant contribution to Taiwan's growth in the spurt of 2010 (9.6% out of 10.6%). For 2013 to 2015, however, its contribution tracked the overall growth rate closely. If this turns into a long-term trend, it would provide a welcome supplement to the country's export-dependent economy. These low growth rates are also reflected in the deceleration of GDP per capita, as shown in Table 2. Taiwan reached middle-income status by 1995 when its GDP per capita reached US\$13,129. However, its increases became much lower after that to US\$17,814 in 2005 and US\$22,294 in 2015.

**Table 2** GDP per capita (in current U.S. dollars)

<b>1965</b>	<b>229</b>
<b>1975</b>	<b>985</b>
<b>1985</b>	<b>3,315</b>
<b>1995</b>	<b>13,129</b>
<b>2000</b>	<b>14,941</b>
<b>2005</b>	<b>16,532</b>
<b>2010</b>	<b>19,278</b>
<b>2015</b>	<b>22,294</b>

Sources: NDC (2016: 19).

The last five rows in Table 1 describe the structure of Taiwan's economy as measured by various economic indicators in terms of their

share of GDP. Exports generally accounted for a little over 60% of GDP but fell quite significantly in the bad years of 2009 (52.5%) and 2015 (54.6%), again demonstrating the key role of exports in the nation's economic performance. Throughout this period, Taiwan's structure of production was quite stable with services providing a little less than two thirds of GDP and manufacturing a little under 30%. Finally, the data on savings and investment clearly show that Taiwan was a substantial exporter of capital during this period. For example, in 2007 the savings rate was 31.5% while the investment rate was 23.5%, creating a gap of 8.5 percentage points. This gap remained quite stable through 2011. In 2012, however it began to rise steadily to a gap of 14.6 percentage points between the 34.7% savings rate and the 20.1% investment rate. Overall, these data indicate that Taiwanese save at a fairly high rate even in economic downturns but that good investment opportunities remain limited.

The economic stagnation reflected in the preceding data should not be taken to mean that all of Taiwan's economic miracle has faded. As shown in Table 3, for instance, the country's businesses are the leading producers in the world for an impressive array of goods, many of them in the high-tech sphere. When offshore production is included in the analysis, Taiwan is the world leader in 19 goods. For example, Taiwan corporations account for 80% to 90% of the world production of motherboards, Cable CPE, notebook PCs, and golf heads and for 60% to 75% for PND, Foundry, DSL CPN, WLAN, and glass fiber. For six of these items, Taiwan leads the world with just its domestic production. These data, therefore, imply two broader conclusions. First, Taiwan is a world leader in important high-tech industries, especially in the computer and electronics field. Second, its corporate leaders are embedded in complex global commodity chains in which the production process involves several stages in different countries (Gereffi, 1998).

**Table 3** Products in which Taiwan is World Leader, 2015 (global market share, percentage)

Item	(Including Offshore Production)	(Domestic Production Only)
Motherboards*	90	
Cable CPE**	85	
Notebook PCs**	84	
Golf heads**	81	
PND*	73	55
Foundry*	71	67
DSL CPE**	66	
WLAN*	62	
Glass fiber*	61	27
IC packaging & testing*	54	48
Functional fabric*	51	32
High level bicycles**	50	47
Desktop PCs**	48	
Servers**	37	
Copper foil*	31	
PCBs*	29	
ABS**	28	
Instant noodles**	26	
Tea drinks**	18	

Notes: \*Value; \*\*Volume.

Source: NDC (2016: 12 & 13).

Strong arguments have been advanced that economic development should be evaluated in terms of the consequences that it has for the general population of a nation (Clark and Roy, 1997; Sen, 1999). Table 4, then, presents a variety of indicators concerning human resource development. The first two rows consider unemployment and labor force participation. Both were surprisingly unaffected by the country's economic ups and downs. The unemployment rate stayed at the fairly

low level of about 4% except when it jumped to 5.9% in the recession of 2009 and lingered at 5.2% in the following year. The labor participation rate was almost constant at 58% for 2007-2015. Thus, even the Global Financial Crisis did not create much dislocation in Taiwan's labor markets; and the unemployment rate remained quite good by international comparisons. This optimistic picture changes dramatically, however, when we turn to the comparisons of changes in productivity and compensation in rows three and four. Normally, productivity and compensation should move in tandem. In Taiwan, this was certainly not the case for 2007 to 2010 when productivity change greatly outstripped compensation growth in three of those four years: 7.1% to 1.8% in 2007, 0.6% to -9.2% in 2009, and 17.2% to 8.4% in 2010, indicating that most of the gains from growth were accruing to owners, not workers. Over the next five years in contrast, productivity and compensation moved pretty much in tandem in the stagnating economy.

**Table 4** Human Resource Development (all data, except household inequality, are percentages)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Unemployment Rate	3.9	4.1	5.9	5.2	4.4	4.2	4.2	4.0	3.8
Labor Participation Rate	58.3	58.3	57.9	58.1	58.2	58.4	58.4	58.5	58.7
Growth in Productivity	7.1	-1.0	0.6	17.2	3.4	-0.8	0.1	3.8	-1.3
Growth in Compensation	1.8	-0.2	-9.2	8.4	2.6	1.1	0.2	3.1	3.5
Education Spending % GDP	5.5	5.8	6.3	5.7	5.9	6.1	5.8	5.2	
R&D % GDP	2.6	2.8	2.9	2.9	3.0	3.1	3.0	3.0	
Govt Spending*/GDP	17.1	17.8	20.6	18.2	18.3	18.2	17.5	16.4	15.9

Note: \* All levels of government.

Source: NDC (2016: 15, 23 & 181).

The last three lines in Table 4 examine several indicators of investment in Taiwan's future. During the period covered by the table,

R&D spending grew slowly but steadily from 2.6% to 3.0% of GDP. This growth of R&D spending is much more substantial, if not spectacular, when it is compared to its levels of 1% in 1985 and 1.7% in 1995 (NDC, 2016: 23). Clearly, the increasingly sophisticated nature of Taiwanese products has stimulated a growing commitment to research and development, despite its economic stagnation in the early 21st century. Economic change has, however, constrained the government's ability to develop policy responses to the increasingly bleak economic situation. Unlike R&D spending, education spending's share of GDP has been fairly stable (NDC, 2016: 15). It did rise significantly from 5.5% to 5.8% between 2007 and 2009, but then fell from 6.1% to 5.2% between 2012 and 2014. Given Taiwan's increasingly advanced economy, education should be given a higher, not lower, priority. Finally, government spending's share of GDP has been cut almost in half from 29% of GDP in 1992-1993 to 16% in 2015 (NDC, 2016: 181), which almost certainly imposes sharp limits to what it can do to stimulate growth.

One important problem for Taiwan, as noted above, is that its vaunted earlier record of "growth with equity" has been tarnished by growing inequality since the mid-1980s. Table 5 charts this by reporting the inequality ratio which compares the total income of the richest fifth of the population to that of the poorest fifth. In 1985, this ratio was 4.5 which was low even by the standards of developed nations. The late 1980s and 1990s, however, were marked by the massive movement of Taiwan's low-wage industries offshore as the country's rapid development priced it out of this niche in the global economy. With the loss of these jobs, inequality jumped considerably as the inequality ratio rose to 5.5 in 1995 and 6.1 in 2003. For the 2007-2014 period, the inequality ratio stayed fairly stable at 6.0-6.3. Thus, there does appear to be a "silver lining" to Taiwan's inequality problems in that neither the

Great Recession nor the economic stagnation in the second decade of the 21st century have appeared, somewhat surprisingly, to have exacerbated the issue.

**Table 5** Household Income Inequality Ratio\*

1985	4.5
2000	5.5
2003	6.1
2007	6.0
2008	6.0
2009	6.3
2010	6.2
2011	6.2
2012	6.1
2013	6.1
2014	6.1

Note: \*Ratio of the incomes of the richest fifth of households to those of the poorest fifth.

Source: NDC (2016: 23).

Inflation represents another key factor in a nation's economic performance. Here, Taiwan has had a stellar performance. Raging inflation in the late 1940s presented the government with an extreme challenge that had to be overcome before real growth could occur. The regime, hence, implemented a stringent stabilization program in the late 1940s and early 1950s. This package included currency reform and high interest rates, as well as the imposition of tight state regulation over the financial system which aimed at controlling the money supply and credit availability (Tan, 2001). Additionally, the government implemented a conservative fiscal policy of maintaining a balanced budget. This stabilization program proved to be highly successful as inflation has never been a major problem since the early 1950s (Kuo, 1983; Li, 1988;

Scitovsky, 1986; Tan, 2009). Table 6 demonstrates that Taiwan's inflation record was excellent during 2007-2015. Except for a 3.5% increase in consumer prices in 2008, inflation never exceeded 2%; and the bank lending rate declined from 4.5% for 2007-2008 to 2.8% for 2009-2015. Taiwan, therefore, scores quite highly on the "economic fundamentals" of small government (Table 3 above) and low inflation.

**Table 6** Annual Change in Inflation Indicators (all data are percentages)

	<b>Change in Consumer Prices</b>	<b>Bank Lending Rate (December)</b>
<b>2007</b>	<b>1.8</b>	<b>4.4</b>
<b>2008</b>	<b>3.5</b>	<b>4.5</b>
<b>2009</b>	<b>-0.9</b>	<b>2.5</b>
<b>2010</b>	<b>1.0</b>	<b>2.6</b>
<b>2011</b>	<b>1.4</b>	<b>2.8</b>
<b>2012</b>	<b>1.9</b>	<b>2.8</b>
<b>2013</b>	<b>0.8</b>	<b>2.8</b>
<b>2014</b>	<b>1.2</b>	<b>2.8</b>
<b>2015</b>	<b>-0.3</b>	<b>2.8</b>

Source: NDC (2016: 8 & 174).

One vital question about Taiwan's economic stagnation is how it has affected the nation's politics. Thus, we used data from a major study of public opinion at the time of the 2016 presidential election (TEDS, 2016) to explore this question. The data in Tables 7 and 8 certainly demonstrate that Taiwanese citizens viewed their economic situation as dismal at the time of the January 2016 elections. For example, respondents to the TEDS (2016) survey felt Taiwan's economy had become worse rather than better during 2015 by a margin of 55% to 4% (see Table 7). The views about how serious a problem inequality

represented were even more alarmist as 94% viewed inequality as either serious (34%) or very serious (60%), while only 4% did not think that it was a serious problem (see Table 8).

**Table 7** Beliefs about Taiwan Economy over 2015 (percentages)

<b>Much Better</b>	<b>0.4</b>
<b>Better</b>	<b>3.9</b>
<b>Stayed the Same</b>	<b>40.3</b>
<b>Worse</b>	<b>41.8</b>
<b>Much Worse</b>	<b>13.6</b>

Source: TEDS (2016).

**Table 8** Beliefs about Inequality as a Problem (percentages)

<b>Very Serious</b>	<b>59.6</b>
<b>Serious</b>	<b>33.9</b>
<b>No Opinion</b>	<b>2.8</b>
<b>Not Very Serious</b>	<b>3.5</b>
<b>Not Serious</b>	<b>0.1</b>

Source: TEDS (2016).

The next question, of course, is whether these extremely negative views on the economy benefitted Tsai Ing-wen (蔡英文) as the challenger to the incumbent Kuomintang (國民黨, KMT) administration. For most of the country's democratic history national identity has been the dominant issue in its politics (Clark and Tan, 2012; Fell, 2005, 2012; Hsieh, 2002, 2016), but growing economic problems and alienation from the political elites strongly suggested that these issues are becoming important in Taiwan too (Clark, Ho, and Tan, 2017; Copper, 2016; Wu, 2013). To test this hypothesis, we used indicators of national identity, economic concerns (with failing growth and inequality being treated separately) and cynicism about government officials, along

with eight demographic factors to explain who voted for Tsai in a logistic regression. Table 9 describes the variables in this analysis.

**Table 9** Variables in Logistic Regression

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**Variables**

*Presidential Vote*

0 = Eric Chu Li-lun ( 朱立倫 ) or James Soong Chu-yu ( 宋楚瑜 );  
1 = Tsai Ing-wen ( 蔡英文 )

*Issues*

Taiwan's Ultimate Status

Independence: 0=No; 1=Yes

Unification: 0=No; 1=Yes

Government Helps Social Welfare: 0=No; 1=Yes

Inequality Very Bad: 0=No; 1=Yes

Taiwan Economy Worse: 0=No; 1=Yes

*Demographic Characteristics*

Income: 0=Under NT\$59,000 a month; 1=Over \$59,000

Occupation: 0=Not White Collar; 1=White Collar

Education: 0=Jr. High or Lower; 1=High School or Higher

Gender: 0=Male; 1=Female

Age: 0=Under 40; 1=Over 40

Area: 0=North & East; 1=South

Minnan Father: 0=No; 1=Yes

Mainlander Father: 0=No; 1=Yes

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The logistic regression results in Table 10 show that in combination the independent variables have a moderate impact on supporting Tsai Ing-wen with a Pseudo R<sup>2</sup> of .39. National identity clearly exerts the

strongest influence with support for Independence being more important than support for Unification. Even after these effects are controlled, the other three issue indicators have a statistically significant impact. A belief that the economy was getting worse made a person more likely to vote for Tsai (Sig = .0004), as did one that inequality was bad (Sig = .035). Somewhat surprisingly, perhaps, only three of the demographic factors (Mainlander Father, White-Collar Occupation, and Age) exhibit independent relationships with Tsai Vote. Clearly, hence, economic stagnation has become politically relevant in Taiwan.

**Table 10** Binomial Logistic Regression for the Impact of Issues and Demographics on Tsai Vote

*Dependent Variable:* Voted for Tsai

*Overall Equation*

-2 Log Likelihood	988
Chi Square	336
Sig.	.0004
Nagelkerke Pseudo R <sup>2</sup>	.39

*Separate Effects of*

<i>Independent Variables</i>	<i>b</i>	<i>St. Er.</i>	<i>Sig</i>	<i>Adjusted Odds Ratio</i>
Independence	1.79	.21	.0004	6.01
Unification	-.74	.22	.001	.48
Economy Bad	.83	.17	.0004	2.30
Inequality Bad	.35	.17	.035	1.42
Govt Helps Public Welf	-.70	.16	.0004	.50
South	.26	.17	.129	1.29
Min-nan Father	.28	.22	.189	1.33
Mainlander Father	-1.20	.32	.0004	.30
Income	.20	.17	.25	1.22
White Collar Occupation	.10	.18	.57	1.11
Education	-.73	.23	.001	.48
Age	-.59	.19	.001	.56
Female	-.24	.16	.133	.79

Historically, debate over economic policy in Taiwan was muted before the early 21st century, even after the country's democratization, presumably because of its success (Clark and Tan, 2012; Fell, 2005, 2012). The current debate over development policy emerged during the 2008 presidential campaign when the KMT's Ma Ying-jeou centered his campaign on a promise to reinvigorate the country's economy by deepening its economic links to and integration with People's Republic of China (PRC). This has been the standard KMT argument since then, which the Democratic Progressive Party (DPP) has strongly challenged as undermining Taiwan's sovereignty and creating conditions for the nation's economic decline. In terms of citizen support, the free trade program, the Economic Cooperation Framework Agreement (ECFA) of 2010, appears to have been fairly popular, while the Cross-Strait Service Trade Agreement of 2013 was not implemented because of popular opposition and massive student demonstrations (Lin, 2016).

Initially when Taiwan's basic industries began migrating offshore, President Lee Teng-hui (李登輝) tried to steer them toward Southeast Asia rather than China. However, cultural similarity and geographic proximity resulted in a growing economic integration between Taiwan and China, in which labor-intensive production was moved to China, while design and the manufacturing of advanced components stayed in Taiwan; and over time the nature of Taiwanese investments and exports became more advanced and diversified (Clark and Tan, 2012; Lin, 2016; Wu, 1995). Early in this process, most of Taiwan's exports to China were transshipped through Hong Kong, although this had become marginal by the middle of the first decade of the 21st century. Thus, we included two overlapping data series in Table 11 on the percentage of Taiwan's exports going to China: (1) the first column (1991 to 2010) includes transshipments through Hong Kong; and (2) the data in

column 2 (2001 to 2016) excludes them. In addition, we also report the combined exports to China and Hong Kong for 2007 to 2016.

**Table 11** Taiwan's Exports to China

	Exports to China as % of All Exports (including HK transshipment)	Exports to China as % of All Exports (excluding HK transshipment)	Exports to China and Hong Kong as % of All Exports
1991	10		
1995	17		
1999	17	1	
2000	16	2	
2001	20	2	
2002	23	4	
2003	25	15	
2004	27	20	
2005	28	22	
2006	28	23	
2007	30	25	40
2008	29	26	39
2009	30	27	42
2010	31	28	42
2011		27	40
2012		27	40
2013		27	40
2014		27	40
2015		26	40
2016		26	39

Sources: Clark and Tan (2012: 97); MAC (2017); NDC (2016: 228).

The general stereotype is that the KMT has promoted and the DPP has resisted the huge increase in cross-Strait economic interactions. Yet, the data in Table 11 are inconsistent with this political explanation.

There were two growth spurts indicated by the data in column 1 of Table 11. The first occurred between 1991 and 1995, despite President Lee's less than enthusiastic attitude, when China's share of Taiwan's total exports rose sharply from 10% to 17%. The second occurred during the presidency of the pro-Independence DPP's Chen Shui-bian between 2000 and 2005 when it jumped from 16% to 28%, associated with President Chen's "Active Opening" Reforms in 2001. During the administration of Ma Ying-jeou, in contrast, columns 2 and 3 show that there was little change in the proportion of Taiwan's exports going to China (about 27%) and to China and Kong Kong combined (40%), despite such major cross-strait trade agreements as the Three Links and the Economic Cooperation Framework Agreement (ECFA). Thus, cross-strait trade appears to have been determined by economic, not political factors.

## **2. The Implication of the Tsai and Trump Presidencies for Taiwan's Stagnant Economy**

The victories of Tsai Ing-wen and Donald Trump shook up domestic politics in their nations and the triangular relations among Beijing, Taipei, and Washington. This section, hence, assesses what their new presidencies may portend for Taiwan's economic future. Table 12 summarizes the economy that Tsai inherited when she was inaugurated as President in May 2016. The overall picture was a stagnant economy that was perceived by huge majorities of Taiwanese as being even more dismal than the economic data implied; and whatever benefits that may have accrued from the country's growing economic integration with China in the early 21st century appear to have maxed out by the end of the Ma administration. On the other hand, Taiwan's businesses appear to be strongly embedded at the high end of global commodity chains; and

advanced manufacturing and services play a very significant part in the domestic economy.

**Table 12** Taiwan's Economic Situation at Start of Tsai Administration

<b>OVERALL ECONOMIC SITUATION</b>	Stagnating Economy Popular perceptions of poor economic performance
<b>CENTRAL CHARACTERISTICS</b>	Export-led Advanced manufacturing & services important Part of global commodity chains Little recent growth in economic ties to China
<b>NEGATIVE FEATURES</b>	Major gap between increases in productivity and wages Government with limited capabilities Declining priority of education
<b>POSITIVE FEATURES</b>	Low unemployment Low inflation Gradually increasing priority for R&D Low taxes
<b>POLICY CONTRADICTION</b>	Low taxes to promote business vs. the sharp limitations on government capabilities that they create
<b>POSSIBLE POLICY GOALS</b>	Develop new partners for trade & investment Upgrade qualifications of workforce Help those marginalized by economic change

It is possible to discern positive, as well as negative, features of Taiwan's current economy; and these are described in the third and fourth rows of the table. Clearly, the significant gap between productivity growth and wage growth, the limited capabilities of a financially strapped government, and the slowly eroding priority of education all point toward continuing problems for Taiwan. Yet, low unemployment, low inflation, a gradually increasing priority for research

and development, and low taxes to stimulate business activities and consumption indicate some hopeful trends as well. These positive features, however, raise a fundamental policy contradiction that Taiwan now faces. The low taxes that promote entrepreneurship and consumption deny the government the resources to do very much about the country's economic challenges. Finally, the new DPP administration could follow one or more of three possible policy goals to improve the economic situations of Taiwanese citizens. First, it could develop new partners for its trade and investment; second, it could upgrade the qualifications of its citizens; and, third, it could develop new programs to help those who have been marginalized by the forces of economic change.

Tsai Ing-wen had every incentive to find alternative economic partners to China, whose economic influence was seen as malign by her Democratic Progressive Party. Once she assumed the presidency in March 2016, her administration moved quickly in this area. In mid-September, the government announced its New Southbound Policy or NSP (Chiou, 2016; Ho, Clark, and Tan, 2016; *Taipei Times*, 2016). It was focused on the 18 countries south of Taiwan (10 from ASEAN, 6 from South Asia, and 2 from Oceania). This initiative makes sense geographically and economically. The region is generally one of the more dynamic ones in the global economy; and the NSP countries were the second largest recipient of Taiwan's exports in 2015 at 15.6%, compared to 25.7% going to the PRC (Ho, Clark, and Tan, 2016).

While a central goal of the NSP is to build a new regional economic alliance with these countries, it visualizes the development of a regional community encompassing a growing array of business, people-to-people, and direct or indirect governmental contacts. The program is designed to "forge a new and mutually beneficial model of cooperation and ultimately create a sense of economic community" (MOFA, 2017).

**Table 13** Percentage of Taiwan's Exports Going to Major NSP Trading Partners and to China and Hong Kong

COUNTRY	2010	2015	CHANGE 2010-15	2017	CHANGE 2015-17
<i>NSP</i>					
Singapore	4.4	6.1	2.7	5.6	-0.5
Malaysia	2.0	2.5	0.5	3.3	0.8
Philippines	2.2	2.6	0.4	3.0	0.4
Thailand	1.9	2.0	0.1	2.0	0.0
Australia	1.2	1.2	0.0	1.0	-0.2
Indonesia	1.9	1.1	-0.8	1.0	-0.1
<b>TOTAL</b>	<b>13.6</b>	<b>15.5</b>	<b>2.9</b>	<b>15.9</b>	<b>0.4</b>
<i>PRC &amp; HK</i>					
China	28.0	26.7	-1.3	28.0	1.3
Hong Kong	13.8	13.7	-0.1	13.0	-0.7
<b>TOTAL</b>	<b>41.8</b>	<b>40.4</b>	<b>-1.4</b>	<b>41.0</b>	<b>0.6</b>

Source: NDC (2018: 226-227).

According to the official statement of the Executive Yuan (行政院, executive branch of Taiwan's government), the NSP is comprised of four central tasks or areas of policy initiatives (MOFA, 2017):

1. Promote economic collaboration
2. Conduct talent exchange
3. Share resources
4. Forge regional links

Promoting economic collaboration, which is of particular interest here, involves three major activities. First, the NSP will help Taiwanese firms integrate with local supply chains with special emphasis on Taiwan's advanced technological capabilities. Second, sophisticated analyses of NSP domestic demand should help Taiwanese exporters enter and expand in local markets, as well as promoting bilateral trade. Finally, Taiwan should help the economic development of their partners by participating in large-scale infrastructure projects in such areas as energy, petrochemicals, and the environment.

It is obviously far too soon to evaluate the success or even the potential of the NSP. Still, there are some hopeful signs even in the economic area. For example, in January 2017, the number of tourists from NSP countries had jumped 43% and the value of exports had increased 20% compared to the previous January (*Taipei Times*, 2017; *Focus Taiwan*, 2017). Still, the data in Table 13 on the share of Taiwan's exports going to the six NSP nations considered to be among Taiwan's major trade partners and to China and Hong Kong would definitely be considered disappointing from the DPP's perspective. First, only 6 of the 18 NSP nations received 1% or more of Taiwan's exports in 2017, indicating that most were still marginal in their economic interactions. Second, Singapore is clearly the leading importer of Taiwanese goods among these countries. The major impetus for this, however, was the free-trade pact that was negotiated by the Ma administration in 2013 (*Taipei Times*, 2013). Moreover, Singapore's share of Taiwan's exports fell significantly from 6.1% to 5.6% between 2015 and 2017. Malaysia

and the Philippines have had steady increases over both periods from about 2% to 3%. There are two somewhat contradictory interpretations of this. On the one hand, there seems to be a basis for long-term growth; on the other, the Tsai period does not really stand out from the Ma era. Otherwise, there was little change in the export shares of Thailand and Australia, while Indonesia actually suffered a significant decline between 2010 and 2015. Overall, therefore, this table strongly implies that a major change in the economic relations between Taiwan and the NSP nations has yet to occur. The Tsai government has also failed to reduce its economic ties with China as would have been expected. Between 2015 and 2017, China's share of Taiwan's exports actually went up from 26.7% to 28.0%, although this was somewhat counterbalanced by a 0.6 decline in Hong Kong's share. The Tsai administration, in contrast, has shown little interest in the other two possible goals for improving Taiwan's economic situation: upgrading the nation's human resources and improving the conditions of those who have been marginalized by economic change in Taiwan. Most fundamentally, the new government has indicated no intention of challenging the low-tax policy which constrains the government's ability to pursue either of these strategies, in essence continuing the unpopular policies of the Ma administration. For example, the administration's controversial efforts at pension reform presuppose a "zero sum" situation in government finances. In addition, Tsai and the DPP were widely viewed as favoring business over labor in the debate on the "five-day work week" (Hickey and Niou, 2017).

Donald Trump's victory in the 2016 presidential elections led to massive changes in America's domestic and foreign policy. Trump's economic nationalism has been the major factor impacting Taiwan's economic prospects. Trump's withdrawal of the United States from the Trans-Pacific Partnership or TPP (Granville, 2017) has the potential to

give Taiwan's attempts to broaden its trading partners a sharp setback. With the other TPP partners forging on to establish the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) despite the US's withdrawal, Taiwan would gain preferred access to many important Pacific markets if it can become a member (Yeh and Chen, 2017) but without the US's support the likelihood of Taiwan being able to join the CPTPP is low (CNBC, 2017). President Trump has also threatened the liberal global trading order by openly criticizing the World Trade Organization (WTO) and starting a trade war with China. This could be disastrous for Taiwan because of its linkages with global supply chains going through the PRC. It is still unclear, however, whether the Trump administration is trying to increase American access to the Chinese market, which the PRC would probably negotiate, or setting the stage to impose "significant unilateral protectionist measures", which Beijing would almost certainly find unacceptable (Bader, Dollar and Haas, 2017; CNN, 2017; *The Washington Post*, 2017). As it stands, in 2018 the U.S. has imposed tariffs on Chinese exports to the U.S. and China has retaliated with its own tariffs on U.S. exports to China. The impasse between the U.S. and China on trade has led the International Monetary Fund (IMF) to forecast that global trade and growth is likely to decline in 2019 (*The Washington Post*, 2018).

As the United States turns aggressive in its bilateral trade relations, Taiwan could also be at risk, as indicated by the data in Table 14. Trade with America is still important for Taiwan. It sends 12% of its total exports to America; and trade with the U.S. constitutes 11% of its total positive trade balance. Furthermore, 48% of its exports to the U.S. in 2015 were machinery and electrical equipment which demonstrates that America is an important market for Taiwan's advanced manufacturing sector. The danger for Taiwan that might make it a target for retaliation by the Trump administration is that it runs a substantial positive trade

balance with the U.S. that is equivalent to 15% of its exports and Taiwan has been identified as a foreign exchange currency rate manipulator.

**Table 14** Taiwan's Exports to U.S., 2015 (All data are percentages)

<b>Exports to U.S. / Total Exports</b>	<b>12</b>
<b>Trade Balance with U.S / Total Trade Balance</b>	<b>11</b>
<b>Machinery &amp; Electrical Machinery / Total Exports to U.S</b>	<b>48</b>
<b>Trade Balance with U.S / Exports to U.S.</b>	<b>15</b>

Source: NDC (2016: 222 & 241).

### **3. Concluding Remarks**

In this article, we have highlighted the challenges and headwinds that Taiwan's economy faces from a changed domestic and international environment. Taiwan's economy has clearly been stagnating in the early 21st century with widespread citizen perceptions of too low growth and bad inequality. Two broad strategies for improving this situation would be to develop new partners for trade and investment and to increase state support for human resource development and for reducing the problems associated with inequality. President Tsai's New Southbound Policy has the potential to expand Taiwan's economic partners significantly but has yet to have a major impact. However, President Trump's withdrawal of the U.S. from the Trans-Pacific Partnership may well have derailed a more potent possibility for Taiwan to expand its trade and investment ties. In the area of domestic politics, the Tsai administration has

continued the conservative policies of its KMT predecessor by, in particular, making no effort to change Taiwan's low tax, small government status. In a heightened level of global political and economic volatility, the ability of Taiwan to snap out of its economic conundrum and end its economic stagnation will require its careful management of these many headwinds.

## Notes

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