

Taiwan's economy

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Ties with China

- The Chinese theory about economic integration with Taiwan is that it will bind the two together politically
- Taiwan will become ever more reliant on China for its prosperity, paving the way to eventual unification
- But now the premise of the theory is being tested by a sharp economic slowdown in Taiwan

A detente with China

- Over his nearly eight years in office, Ma Ying-jeou, Taiwan's president, has pushed for a detente with China
- Taiwanese exports to China have soared, as has Chinese investment in Taiwan
- A recent meeting between Mr Ma and Xi Jinping in Singapore was meant to show the promise of more co-operation

In a slump

- Awkwardly, though, Taiwan's economy is in a slump (growth rate about 1%)
- The global slowdown in trade is partly to blame
- Yet other export-driven economies in Asia such as South Korea and Singapore are not suffering as much

Victim of China's slowing growth

- One interpretation is that Taiwan is simply a victim of China's slowing growth
- But there is widespread concern that something deeper is at work: that Taiwan is losing ground to China and ill-equipped to fight back
- The threat from Chinese firms is called the "red supply chain"

Taiwan and China

- Until a few years ago, the economic relationship between China and Taiwan was symbiotic
- Taiwanese firms, among the world's biggest makers of electronic components, needed China's cheap labour; China craved Taiwan's technical know-how
- But this complementarity has given way to competition

The structural challenge

- Taiwan's greatest strength is in making parts for computers and mobile phones
- But the global markets for both are increasingly saturated

Geopolitical ostracism

- For an export-led economy like Taiwan to reinvent itself, it needs to stay immersed in global trade
- Absent China's express approval, other countries are reluctant to engage in free-trade talks with Taiwan
- Yet Japan, South Korea and China—Taiwan's main competitors—are signing lots of their own deals

More trade with China?

- Tsai Ing-wen, Mr Ma's likely successor , is determined to tilt Taiwan away from China
- She wants to foster closer links with South-East Asia and to bring Taiwan into the Trans-Pacific Partnership, an American-led free-trade deal that covers 40% of the global economy but excludes China
- It will be very hard for Taiwan to escape China's economic orbit