

Taiwan: Tsai re-election adds to Mainland China's tech war woes

Tsai Ing-wen won a landslide victory in Taiwan's presidential election. The re-election will be a barrier to Mainland China's technological advancement, and it may not offer any immediate relief to Taiwan's economy



Taiwan's President Tsai Ing-wen, centre, celebrates with her supporters

Tsai re-elected thanks to protests in Hong Kong

The re-election of Tsai Ing-wen was widely expected. She and her party, the Democratic Progressive Party, oppose closer ties to Mainland China, a stance which proved increasingly popular following the Hong Kong protests, which triggered worries about Taiwan's own potential loss of autonomy in the future.

What's next after the election - for Mainland China?

There are two obvious impacts from this election, one on Mainland China and one on Taiwan.

The most significant consequence is that Tsai will continue to make it difficult for Chinese technology companies to do business with Taiwan tech firms on the most advanced semiconductor products. This will force China to approach other countries which have that

advanced technology, including Japan.

Another consequence is that Mainland China will likely exercise more soft power in Taiwan, perhaps by forging stronger business ties with Taiwanese companies that have no connections to Tsai's party.

What's next after the election - for Taiwan?

As Tsai was re-elected based on political sentiment, she may not consider the economy - which has done poorly under her presidency- a top priority. In fact, her main policy on Taiwan is "return investment to Taiwan", in other words, to encourage Taiwanese manufacturers who have production lines in Mainland China to move their factories back to Taiwan. Her policy has only seen investments on paper with no reports about the actual use of funds.

Headline PMI rose in December to 50.8 from 49.8 in November, mostly because the inventories PMI climbed to 52.2 from 47. This signals that the investment policy, which began in 2018, has not been successful in inducing production. It has, however, encouraged land purchases. Investors are hoping that land will be needed for factory plants. We have doubted the success of this investment policy for several months and are still sceptical of its effectiveness in supporting the Taiwan economy.

Separately, Mainland China will continue to limit the number of tourists going to Taiwan in a bid to put pressure on the economy which, in turn, could dampen Tsai's approval rating.

No change in forecasts from this election result

As this election result was expected, we maintain our forecast on Taiwan.

GDP growth for Taiwan is expected to soften to 1.6% in 2020 from 2.5% in 2019. The main reason for this is the ineffectiveness of the government's policy to support the economy, as well as the higher inflation rate.

We also expect no change in monetary policy rate in 2020, which is currently at 1.375%.

Regarding the currency, we forecast that the USD/TWD could go from 30.2 at the end of 2019 to 30.00 by the end of 2020, as a continuation of the trade war could mean more capital inflows into the Taiwan asset market, which is not directly affected by the conflict.