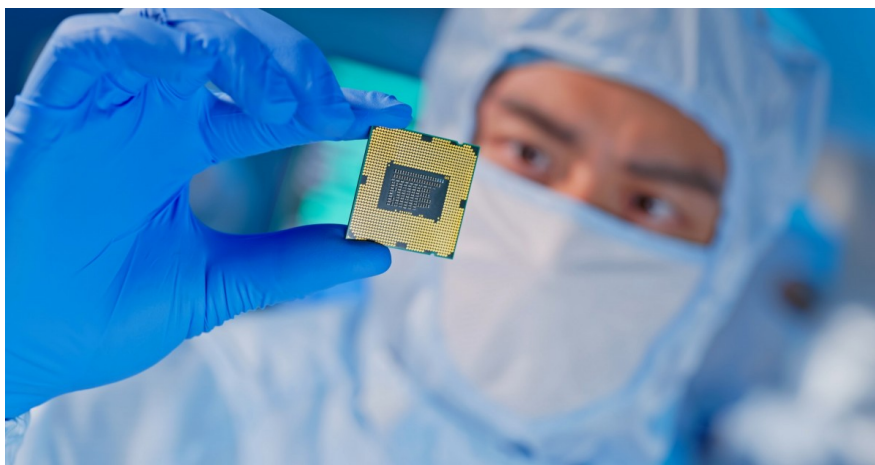


Taiwan and Mainland China trade suffers from slump in semiconductor demand

The international trade of semiconductors is vital for Taiwan and important for Mainland China. Data show that there was reduced demand for semiconductors in August which affected export growth in both economies. The future of trade in these two economies is not optimistic



Taiwan dominates the global semiconductor trade

Semiconductors are important for trade in Mainland China and Taiwan

Semiconductors contribute around 40% of Taiwan's exports, and electronic parts and goods contribute more than 30% of Mainland China's exports. More Taiwanese semiconductor companies have factories located in Mainland China to fulfil part of Taiwan's export orders.

In July we noted a weakness in demand for semiconductors and we have seen export orders in Taiwan slump into a year-on-year contraction. Data releases on international trade for August show a continuation of this trend.

The pain point for semiconductors came from a drop in demand for Taiwan's headline export – smart devices – which grew at a mere 2% year-on-year in August compared to 14.2%YoY in July. And within all export items, export of information, communication and audio-video products contracted 1.6%YoY. At the same time, Mainland China's exports fell sharply to 7.1%YoY

in August from 18.0%YoY in July. And integrated circuits, which are mostly semiconductors, fell 17.2%YoY in US dollar terms.

The worst is yet to come

Taiwan's imports show that parts of the electronic product fell 4.3%YoY in August, which is in big contrast to 23.7%YoY year-to-date growth between January and August. This highlights the increasing risks that come from the demand for semiconductors falling sharply. This will affect trade and manufacturing activities in Taiwan and Mainland China.

As high inflation continues to lower purchasing power in the export destination of the US and Europe, and with Mainland China suffering from weak consumer demand from the real estate crisis, we cannot rule out that the bad time for semiconductors and therefore trade for Taiwan and Mainland China is going to get worse for the remainder of 2022.

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