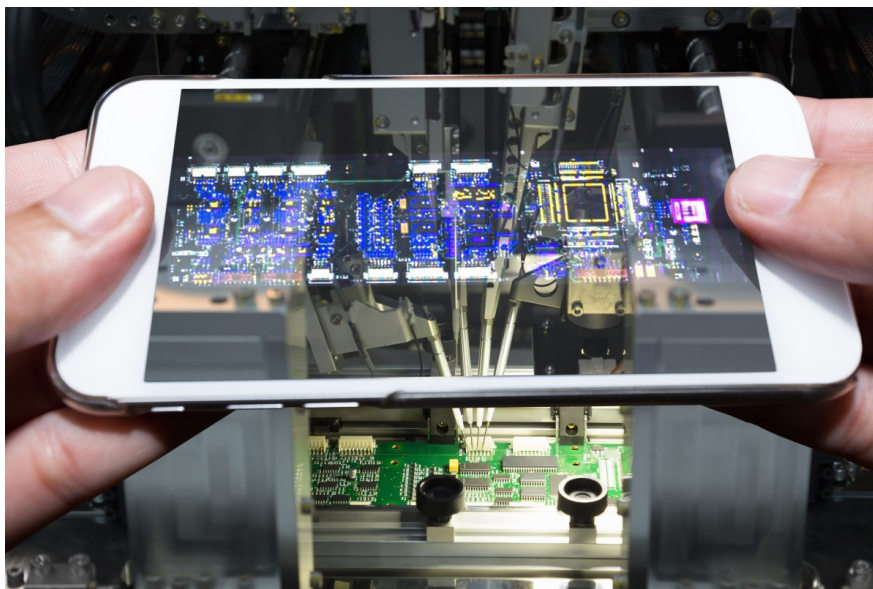


Taiwan: Exports grew on smartphone deliveries

Taiwan's exports grew while imports shrank. Export demand was mainly driven by smartphone deliveries. Mainland China is still Taiwan's biggest export destination even though the "Return to Taiwan" scheme has attracted sizeable investment



Source: Shutterstock

Export growth due to big seasonal factor

Taiwan reported export growth of 2.6% YoY last month. The economy has benefited from seasonal smartphone deliveries, with the breakdown showing that electric parts and telecommunication products were 49.3% of total exports.

This growth trend may not last long, however, because new smartphone models lack the must-have features and functionality that encourage consumers to upgrade, suggesting that demand could be weak.

Imports recorded a decline of 2.7% YoY, implying there was less demand for imported parts for manufacturing.

Mainland China is still very important to Taiwan on trade

The Taiwan government has urged Taiwanese factory owners in Mainland China to shift their production lines to Taiwan. This scheme is called "Return to Taiwan". Some 129 Taiwan manufacturers have invested near NTW 600 billion (equivalent to USD19 billion, and 3.3% of Taiwan GDP) in this scheme.

But perhaps because it is still in the early stages, the scheme has not replaced Taiwan's operations on the Mainland. Taiwan's exports to the Mainland contributed 40.9% of total exports in August, slightly less than 41.2% in 2018, and the Mainland remains Taiwan's top export destination. The scheme could boost Taiwan's imports from the Mainland, however. The contribution of the Mainland to Taiwan's total imports is 20.1% currently, more than the 19.3% in 2018.

Either way, Mainland China and Taiwan's trade activities continue to be strongly connected, and this will continue even with the "Return to Taiwan" scheme.

Smartphone sales will affect next month's export growth

We don't expect another month of export growth for Taiwan due to weak smartphone demand. We think Taiwan's GDP will fall to 2.1% in 2019 from 2.6% in 2018 even with the help of the "Return to Taiwan" scheme, while the Taiwan dollar could weaken to 31.50 per dollar in 2019 from 30.55 in 2018 (spot 31.247).