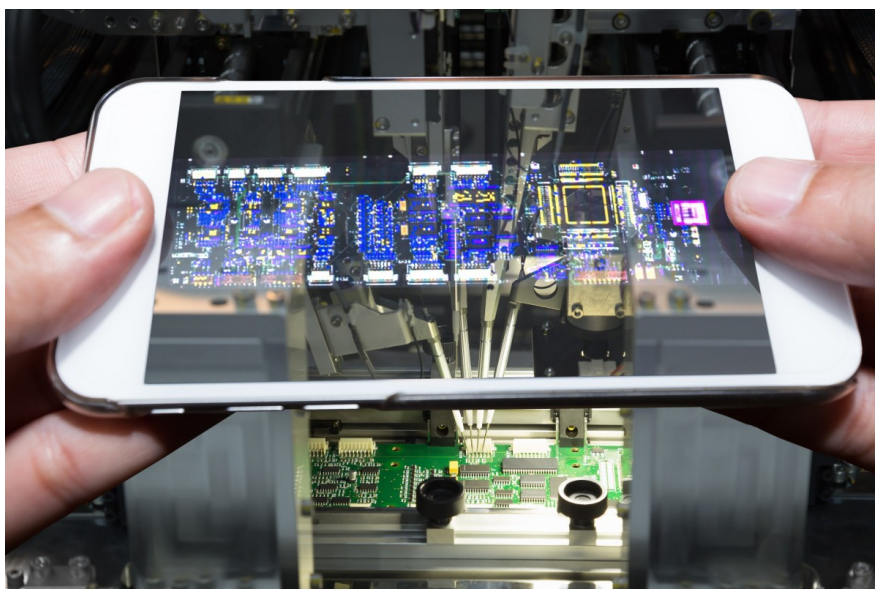


Taiwan's industrial production caught in between US- China tensions

With rising US-China trade tensions, the tech supply chain is now at risk. What will be the impact of all of this on Taiwan, which is a small economy specialising in manufacturing semiconductors?



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Industrial production rose slower

Taiwan experienced a +3.5% year on year rise in industrial production in April from +10.41%YoY in March, which is mostly the result of a higher base effect. Integrated circuits increased by a considerable [32.27%YoY](#) due to 5G production, internet of things and cloud computing.

But the rising tensions between mainland China and the US could also affect Taiwan's industrial production for the remainder of 2020. Export orders reduced by 4.3%MoM in April but rose by a mere 2.3%YoY, which suggests that industrial production for the months ahead could be weak.

Below are two angles on how rising tension between mainland China and the US could affect Taiwan's manufacturing.

⬆️ Taiwan could gain if the US imposes restrictions on companies supplying tech to China

If the US imposes restrictions on companies supplying technology to China, the market expects an overall negative sentiment and would be concerned about how Chinese technology companies would survive.

But [the media in Taiwan reacted differently today](#). There are Taiwanese technology companies, most of them in the semiconductor space unaffected by the US restrictions as their technologies and supplies don't come from the US.

And, sitting between the US and China, Taiwan's tech companies always have the option of supplying semiconductors to non-Chinese companies that could make up for the potential loss.

From this angle, Taiwan's semiconductor companies could gain from the China-US trade tensions.

⬇️ But Taiwan will suffer more if China triggers the unreliable entity list

But if China decides to retaliate, it is increasingly likely to start using the unreliable entity list mechanism - and prohibit Chinese companies from using US technology. This is likely to result in a sharp fall in demand for US technology products.

Those products have a global supply chain behind them, and Taiwan's tech companies are very important in that supply chain. For example, one Taiwan semiconductor company is preparing to build an advanced factory in the US.

The market will then expect the US to retaliate too creating a ripple effect, and this would inevitably cause massive disruption.

Taiwan will definitely suffer from that disruption, and this negative impact on Taiwan is much bigger than the positive impact we mentioned above.

Bumpy road ahead for Taiwan's manufacturing sector

Taiwan is a small open economy which specialises in semiconductors and relies heavily on both mainland China and the US.

Therefore, we believe Taiwan's manufacturing sector will face many challenges this year, and maybe even longer depending on the China-US trade tensions.

USD/TWD rose to 30.057 from 29.993 on 22 May due to the rising tensions. Our forecasts for USD/TWD is 29.7 by the end of 2020.

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