

# Taiwan: The Rich World's Growth Star Continues to Shine

Prasenjit K. Basu

## EXECUTIVE SUMMARY

***Taiwan's real GDP grew 3.1% in 2020 (faster than the PRC's 2.3%), and accelerated to 8.2% YoY growth in 1Q 2021, led by a capex surge. The latter should accelerate further as the global semiconductor shortage and surging demand for computers, parts and peripherals induce an investment boom in Taiwan. We recommend staying solidly Overweight Taiwan.***

Taiwan's real GDP accelerated to 8.2% YoY growth in 1Q 2021, after growing 3.1% in 2020 -- faster than the People's Republic of China's 2.3% -- including an acceleration to 4.7% YoY growth in 2H 2020. Over the latest 4 quarters, Taiwan has comfortably had the fastest-growing economy among the world's developed economies, with its real GDP expanding 4.5%, the rare economy without a solitary quarter of YoY contraction in 2020. The acceleration in 1Q 2021 was led by a surge in net external demand, bolstered by 8.3% YoY growth in gross investment. The global semiconductor cycle will continue to bolster net-external-demand-led growth through the rest of 2021, with 2Q 2021 likely to see close to 10% YoY growth. For the full year, Taiwan's real GDP will likely grow 7%.

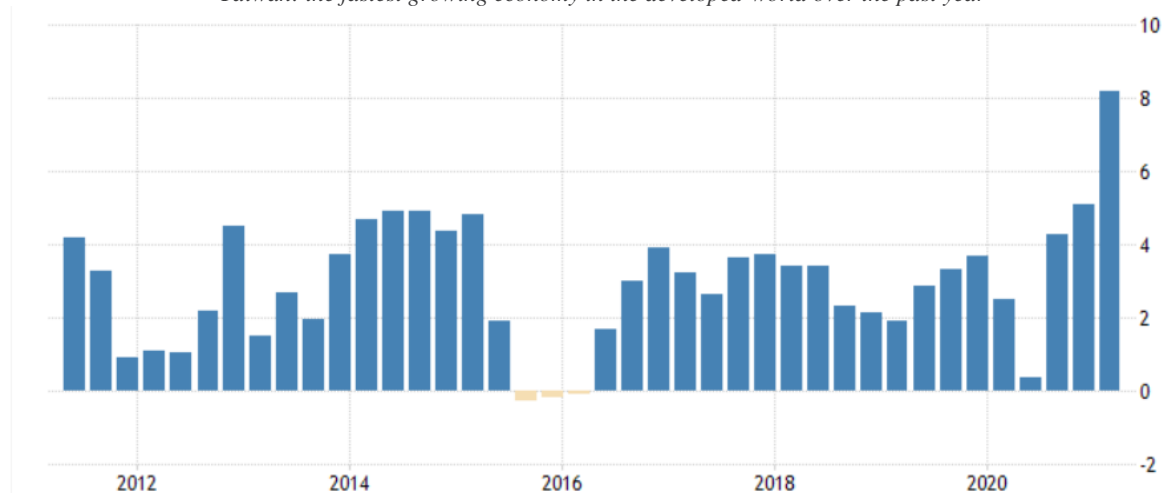
Exports expanded 27.3% YoY in March 2021 (and 24.5% YoY in 1Q 2021), led by soaring demand for semiconductors and computers (including parts like PCBs, for all of which Taiwan is a leading global manufacturer), and even stronger growth in smaller export categories like plastics and chemicals. Imports accelerated to 20.9% YoY growth in 1Q 2021, reflecting the strengthening of domestic demand, which broadened the economic recovery.

The global electronics cycle will likely spur continued strength in Taiwan's economy through the rest of this year. The semiconductor shortage has played to Taiwan's core strength, and demand for computers & parts (benefiting Acer Inc (2353 TT) and Asustek Computer (2357 TT)) should also remain strong. The major global winner remains Taiwan Semiconductor Sp Adr (TSM US), which has taken a huge lead at the top end of the semiconductor chain (with 84% global market share in 5nm ICs), and is ploughing much of its US\$20 billion profits last year (from US\$48 billion revenue) into re-investment to widen its lead over its competitors. While any such capex surge in cutting-edge technology is inherently risky/uncertain, Taiwan Semiconductor Sp Adr (TSM US)'s market positioning raises the probability of success, implying greater pricing power as its lead over rivals expands further. Taiwanese corporates have been careful to ensure that the high end of their manufacturing (cutting-edge technology, capital-goods output, research and design) stays in Taiwan (creating an annual bilateral trade surplus of over US\$100 billion with the PRC). Although the PRC is the largest destination for Taiwan's exports, the processing in the PRC can be gradually moved elsewhere (Vietnam, Malaysia, India) if it becomes politically/militarily threatened. The capex-led growth of Taiwanese corporates should hugely bolster Taiwan's economy this year, and we recommend staying solidly Overweight Taiwan.

## DETAIL

**Taiwan was the rare developed economy that did not experience a single quarter of contraction in 2020, growing 4.5% YoY in the latest 4 quarters.** Taiwan isn't a member of the OECD (the club of economically-developed nations), although comparable economies like South Korea and Mexico joined the OECD a quarter-century ago. (Today, Taiwan's per capita income is nearly 3-times Mexico's!). But Taiwan isn't a member of the IMF, World Bank and UN either, since the People's Republic of China took over the UN seat that Taiwan (officially the Republic of China) had held until 1971. Nonetheless, there is little doubt that Taiwan is a fully developed economy, that would have been a perfectly legitimate member of the OECD but for politics. Among developed economies (i.e., including all members of the OECD), Taiwan has been by far the fastest-growing economy over the past year -- the only one that was sufficiently unscathed by the Coronavirus to keep expanding YoY in each of the past four quarters. Real GDP grew 3.1% in 2020 (faster than mainland China's 2.3% growth), with growth accelerating to 4.7% YoY in 2H 2020 -- 4.3% YoY in 3Q and 5.1% YoY in 4Q 2020 (which was Taiwan's fastest quarterly growth rate since 1Q 2011).

*Taiwan: the fastest growing economy in the developed-world over the past year*

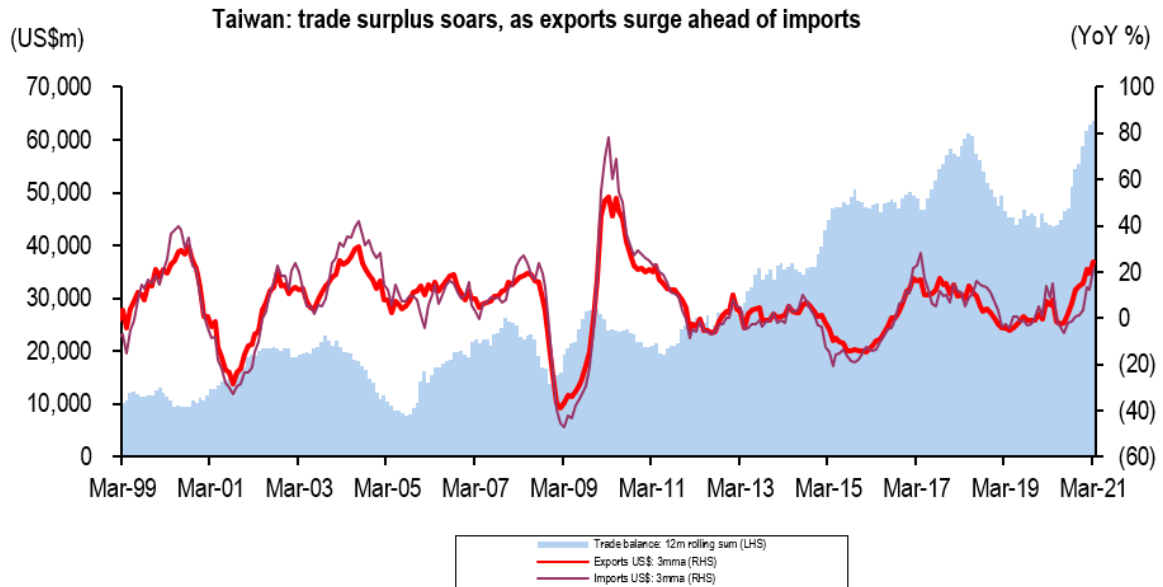


Source: REAL-Economics.com, based on data from Trading Economics

**Real GDP growth accelerated spectacularly to 8.2% YoY in 1Q 2021 (chart above), and will likely strengthen further in 2Q.** Growth received a big fillip from net external demand, with real exports of goods & services expanding 19.6% YoY in 1Q 2021 as demand for electronics and ICT products continued to soar, while imports expanded 14.6% YoY. Booming external demand, in turn, resulted in a powerful rebound in investment spending, with gross capital formation up 8.3% YoY in 1Q 2021. Given the low base from 2Q 2020 (when global movement restrictions caused real GDP growth to slow to just 0.4% YoY), real GDP will likely accelerate further in the next quarter.

**Exports led the way, expanding 27.1% YoY in March 2021 (measured in US\$ terms),** thus rising by 24.5% YoY in 1Q 2021. The electronics cycle, benefiting from the global move toward working from home (WFH), provided a powerful source of demand. Taiwan, as the global hub of semiconductor manufacturing (with Taiwan Semiconductor Sp Adr (TSM US) accounting for 84% of the world's supply of the most advanced, 5 nanometer ICs or integrated circuits), remains perfectly poised to ride the global WFH wave. Exports of machinery and electrical equipment (which comprise about half of Taiwan's exports) were up 28.4% YoY in March 2021, but plastics (accounting for nearly 6% of exports) expanded 39% YoY and chemicals 34% YoY. Imports

were up 20.9% YoY in 1Q 2021, having contracted YoY in May-September 2020, and expanded a modest 3.3% YoY in 4Q 2020. Over the past half-year, there has been a notable rebound in domestic demand, which is ensuring a broader-based economic recovery that will likely gather pace as the rest of the world reopens, generating additional global demand, and creating strong domestic feedback loops.



Source: REAL-Economics.com, based on data from Ministry of Finance, RoC