

## Taiwan's Current Economic Bottlenecks and Its Responding Strategies

*Wang Jiann-Chyuan, Po-Chun Lin*

*(Chung-Hua Institution for Economic Research, Taipei, Taiwan)*

**Abstract:** Over the past few years, Taiwan has stepped into mediocre economic growth era. What are the major obstacles behind her low to medium economic growth, and what are the solution and strategies to regain her growth momentum deserves attention.

Under such circumstance, the purpose of this paper are three folds. First, we analyze bottlenecks for Taiwan's stagnant economic growth. Second, we use Switzerland experience as a lesson for Taiwan. Third, we provide policy recommendations for Taiwan to revitalize its economy.

**Key words:** Taiwan; economic bottlenecks; policy

**JEL code:** H300

### 1. Introduction

Taiwan's economic growth rate in 2017 was as high as 3%. In 2018, Taiwan also managed to achieve a 2.62% growth rate. By 2019, the number of uncertainties increased. The main uncertainties came from a black swan (US-China trade war) and two gray rhinos (US interest rates rising/shrinking of the Federal Reserve's balance sheet as well as the US interest rate hiking cycle — these triggered exchange rate and interest rate fluctuations in emerging countries and resulted in the outflow of capital and decline in oil and raw material pricing). The estimated growth rate is now only about 2.18% (see Table 1).

In addition to declining economic growth, Taiwan also has problems with polarising industrial growth: boosts in exportation but moderate growth in domestic demand, large-scale enterprises outperforming SMEs, sluggish structural adjustment, and wage stagnation (Figure 1). Moreover, the lack of foreign investment (FDI) affects economic vitality.

Besides economic issues, politically the two sides across the Taiwan Strait are in political confrontation, thus Taiwan cannot utilise Mainland China as a hinterland to develop economies of scale. The fact that tourists from Mainland China do not visit Taiwan also affects Taiwan's tourism and related industries. In the meantime, enterprises in Mainland China exert a "magnet effect" by actively recruiting Taiwanese talent and attracting capital investment and industries. Society has also been affected through salary stagnation, this has resulted in labor/entrepreneur confrontations and the generational opposition phenomenon.

Taiwan's real wage growth has shown a long-term downward tendency. From the 2001 bubble economy to 2007, it fell by an average of 0.02% per year. After the 2008 financial crisis to 2016, the average annual increase

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Wang Jiann-Chyuan, Ph.D., Chung-Hua Institution for Economic Research; research areas/interests: industrial policy, industrial economics; international economics. E-mail: [jcw@cier.edu.tw](mailto:jcw@cier.edu.tw).

was only 0.38%. The real salary growth situation is severe (see Figure 1).

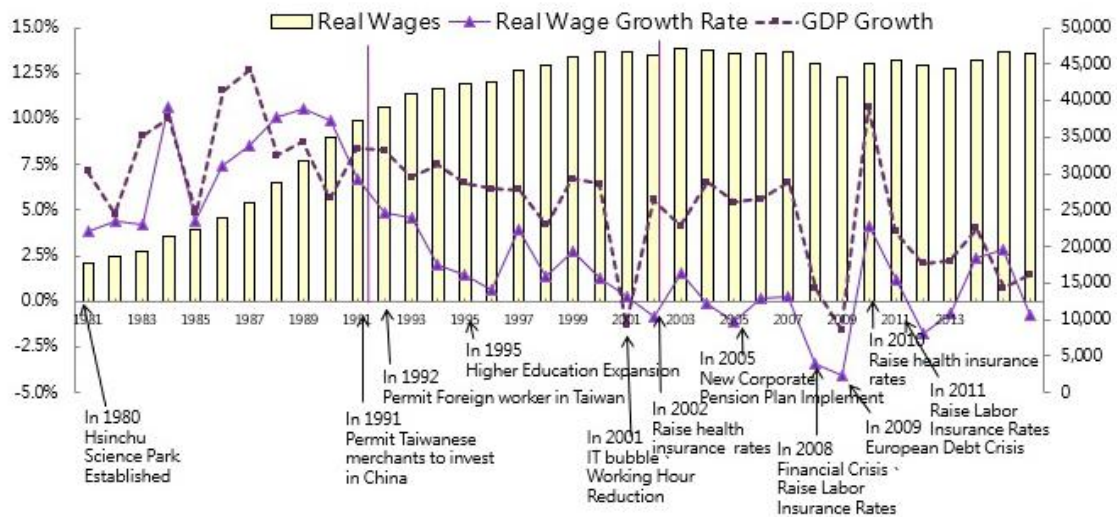
In Figure 2, it is shown that real wage growth stagnates, not only in the industrial sector, but also in service sector.

**Table 1 Taiwan's Economic Growth Rate and Forecast**

Unit: %

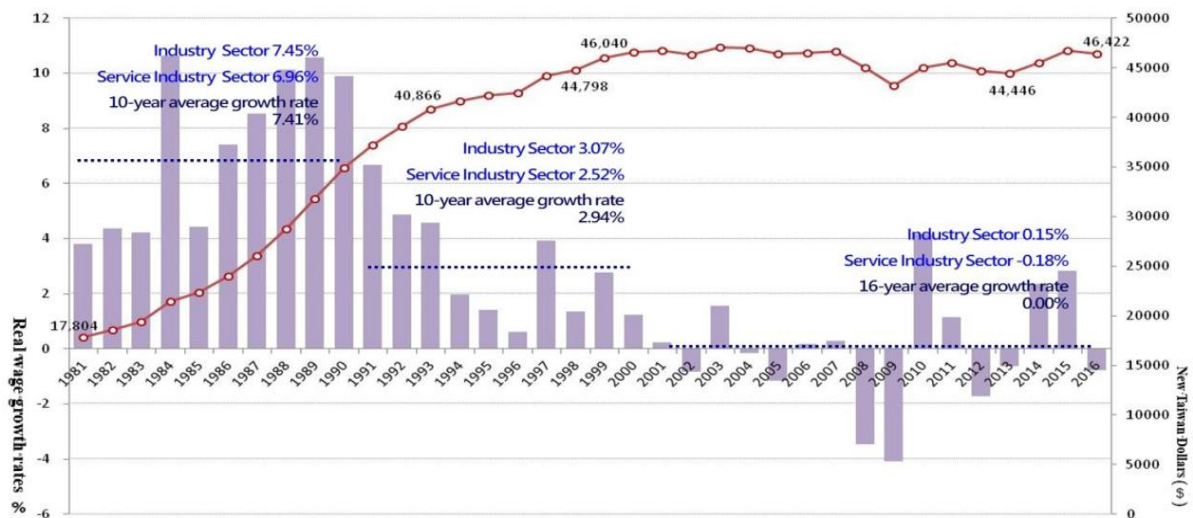
	2017	2018	2019
GDP	2.86	2.47	2.18
Private consumption expenditure	2.34	1.95	1.78
Fixed investment	0.01	3.24	.41
Output	7.43	4.11	3.06
(-)Input	5.20	4.23	2.57

Source: Center for Economic Forecasting, CIER.



**Figure 1 Real Wages and GDP Growth Trend**

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.



**Figure 2 Tendency in the Real Wages of Employees in the Industrial and Service Industries Over the Years**

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

## 2. Taiwan's Current Policy Measures

### 2.1 Policy Implication

In order to boost industrial competitiveness and accelerate industrial upgrades and transformation, the government promotes the so-called 5+2 Industrial Innovation Project and invests its resources in the defense industry, biotechnology, smart machinery, green energy technology, new agriculture, circular economy and other sectors (see Figure 3). At the same time, in order to diversify the heavy risk of relying on China's exports and investment, the government launched a new cross-strait policy to encourage enterprises to invest and export to Southeast Asian countries. The two-way exchange of talents, capital, culture and investment is aimed at consolidating economical, trade, cultural, social and political relations between Taiwan and the ASEAN countries. The operation of the New Southbound Policy is presented in a schematic diagram format in Figure 4. In addition, in order to boost domestic demand, the government has been promoting a four-year, \$420 billion Forward-looking Infrastructure Development Program. This is expected to increase GDP by 0.1% per year and create an employment population of 30,000 to 40,000 (see Figure 5).

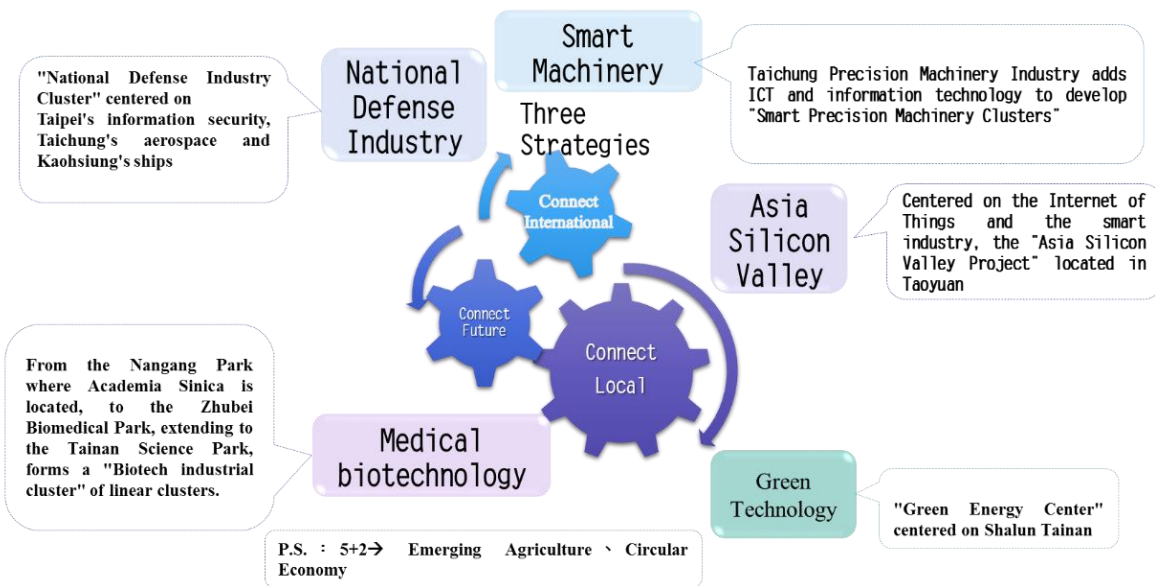


Figure 3 5+2 Industrial Innovation Project and Its Implication

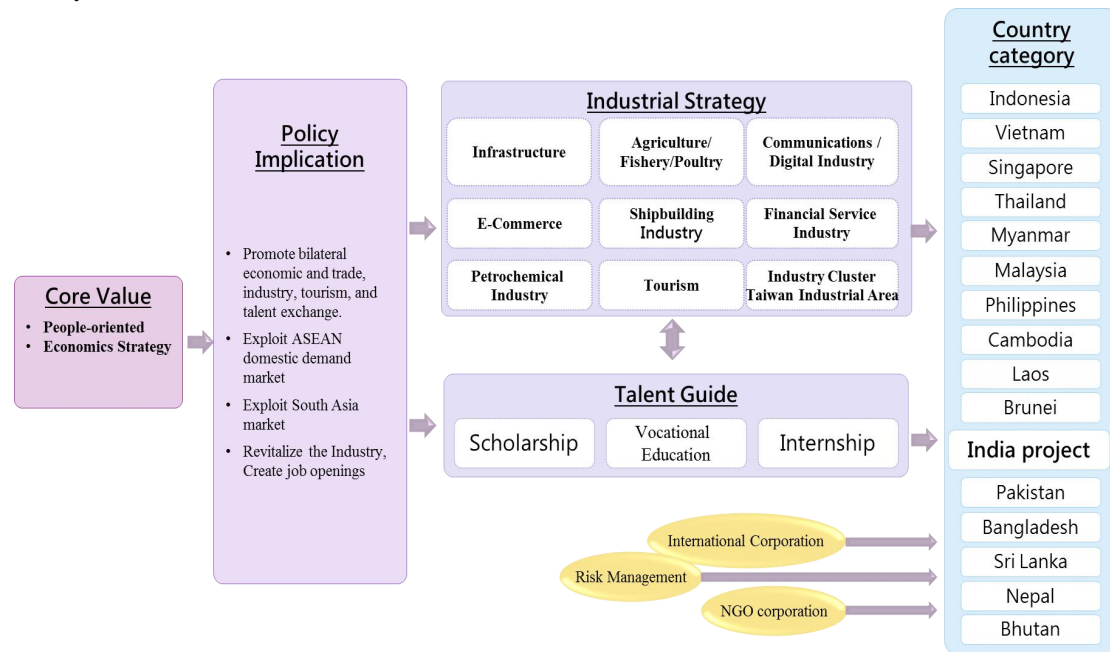
Table 1 The Implication of the New Southbound Policy and Its Difference with the Old Southbound Policy

Old Southbound	New Southbound
Investment/OEM factory	Bilateral (trade, investment, talent exchange, tourism, culture)
SME	Enterprise
Civil	Government intervention
Economics	Risk spreading in China, benefit regional economic integration
Manufacturing	Manufacturing service (2025 middle class accounts for 60% in Asia)
Investment cost down	People-oriented, value up
	Simplified Visa, appeal tourists from ASEAN to visit Taiwan Establish think tank, in-depth research for scholarship (Taiwan and SEA researchers)

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E-commerce/Finance holding company will be set up the branches in ASEAN, offices to support Taiwanese merchants from ASEAN list in Taiwan

Source: Ministry of Economic Affairs.



**Figure 4 Schematic Diagram of the New Southbound Policy Operation**

Forward-Looking for 4 year 420 billion dollars Preparation Overview		Construction Project	First Period Special Budget	Original Outline	Numerical Increase and Decrease
Category	Benefit	Total	1,089	1,125	-36
Initial Designate	1.089 billion	Rail	170	170	0
Promote Civil Investment	About 1.7 trillion (Green Energy + Digital)	Aquatic Environment	257	257	0
GDP contribution	Average increase of 0.1%/year	Green Energy	81	70	+11
Debt limit	Special Budget+ 107th year General Budget about 2,00 billion dollars	Digital	162	187	-25
		Rural-Urban	354	441	-87
		Low Fertility Rate	20	0	+20
		Food Safety	3	0	+3
		Cultivation of talent promote employment	42	0	+42

**Figure 5 Forward-looking Infrastructure Development Program Helps Increase GDP and Employment Rate**

Source: Executive Yuan, Taiwan.

### 2.2 Comments

The 5+2 Industry Innovation Project lacks a new business model and still focuses on the OEM operation model, thus will be difficult to make major impacts on Taiwan's industrial structure. The New Southbound Policy has yet to invest more resources and the ASEAN countries still consider Mainland China their main partner; in addition, the lack of landing strategies of marketing channel firms and suppliers also makes the effect of the policy very limited. As for the Forward-looking Infrastructure Development Program, it is mainly based on public



infrastructure and construction of domestic demand. The input and output efficiency are not high, its aid to the overall economy is limited.

## 2.3 Responding Strategies

### 2.3.1 Out of the Box Thinking

If we think in the long term, Taiwan's economy has grown mediocrely. There are few FDIs, industrial upgrading is slow, youth wages are low, and there are labor/entrepreneur confrontation, social opposition, political conflict between the two sides of the Taiwan Strait. And then there is the trade tension between the US and China, as well as the obstacle that FTA can't make much improvement for Taiwan. However, if Taiwan can implement out of the box thinking. For instance, if Taiwan is able to put aside political disputes with Mainland China, and utilize the industrial thinking to lead to excess funding, and use the Youth Generation's Hope Project to comfort the young generation, and apply new technologies such as artificial intelligence (AI) and blockchain to food safety, operational engineering, digital economy, and other areas. there are still opportunities for Taiwan to break through and achieve the goal of becoming a society with full happiness, fair chance, striding into a peaceful, stable and secured society (see Figure 6).

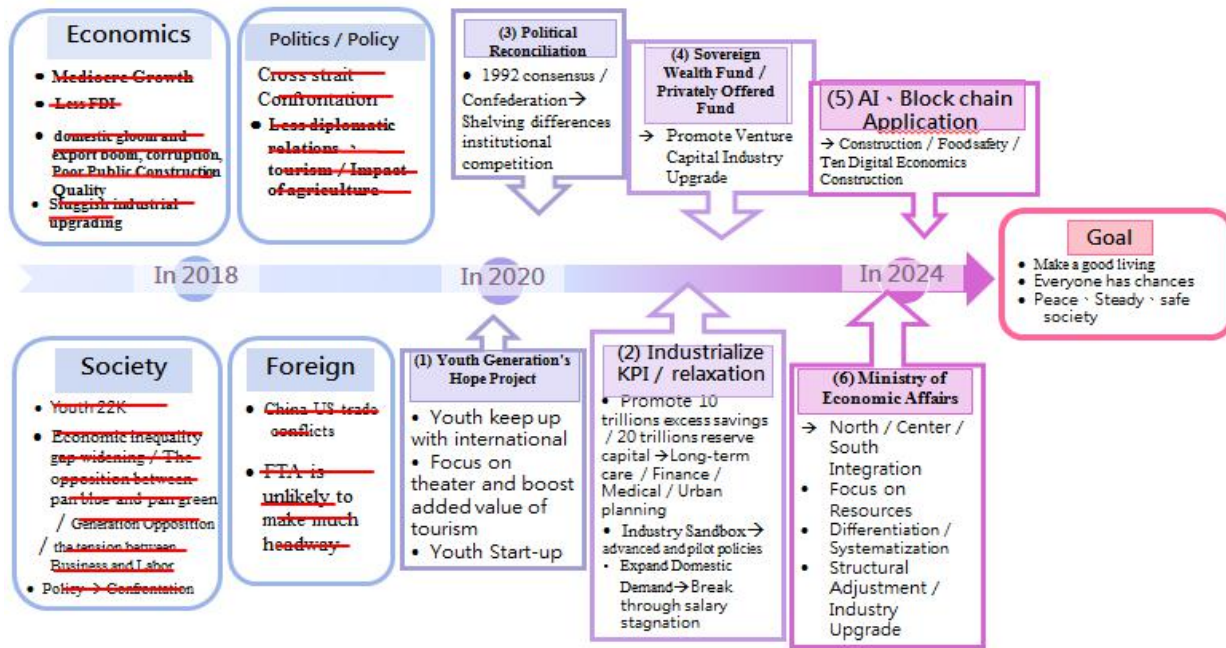


Figure 6 Responding Strategies

### 2.3.2 The Lesson from Swiss Experience

In the next step, we compare Switzerland and Taiwan through national images, self-recognition, strengths and advantages, and self-development to propose strategies that Taiwan can implement (see Figures 7-9)

### 2.3.3 Institutional and Innovative Thinking

In addition to technological innovation, Taiwan needs institutional and innovative thinking. In terms of institutional innovation, the government should speed up the loosening of the service industry and give the relevant ministry more active industrialized tasks, and lead excess funds into the fields of urban renewal, long-term care, medical tourism, new financial products, etc., and give civil servants greater flexibility and incentives (see Figure 10). In terms of policy innovation, sovereign wealth funds must quickly make structural

changes. In addition, in the key performance index (KPI), there should also be a joint KPI, KPIs for central and local government's cooperation, and so on.

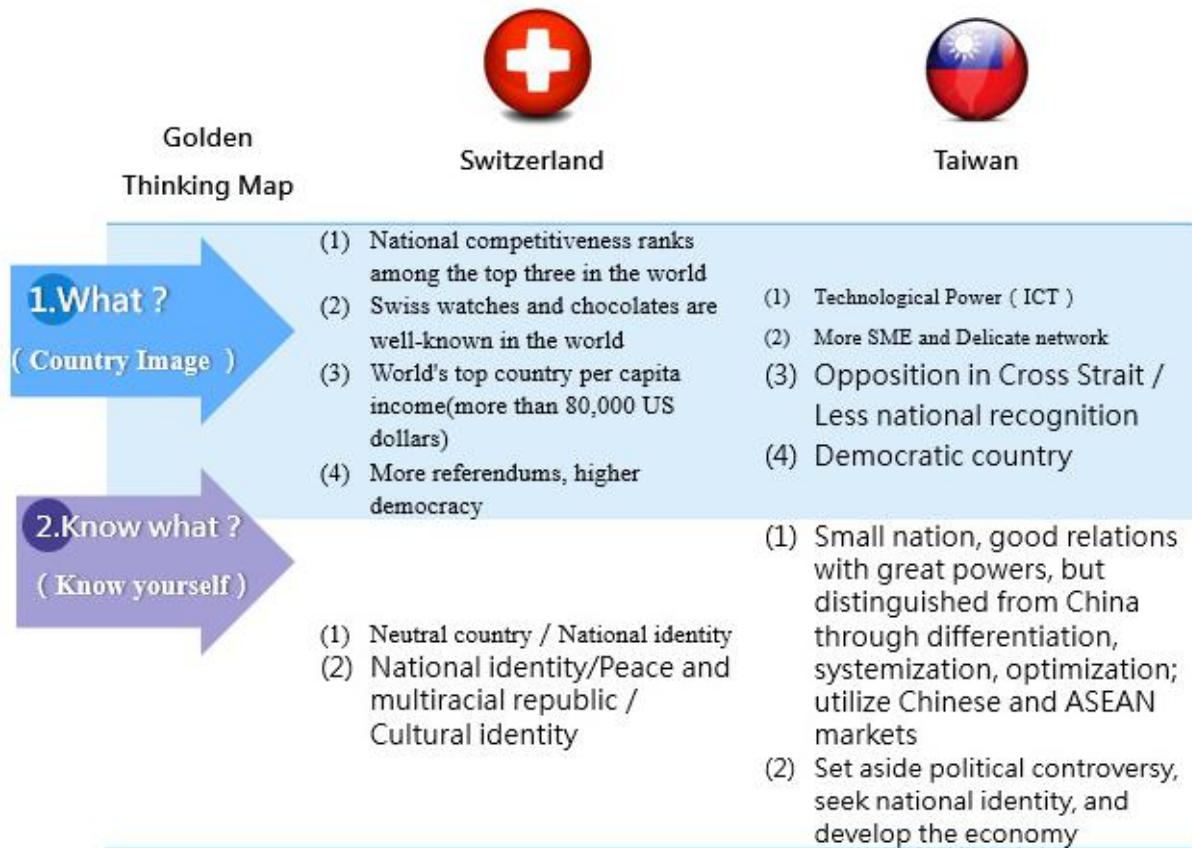


Figure 7 The Comparison of Swiss and Taiwan's National Impressions

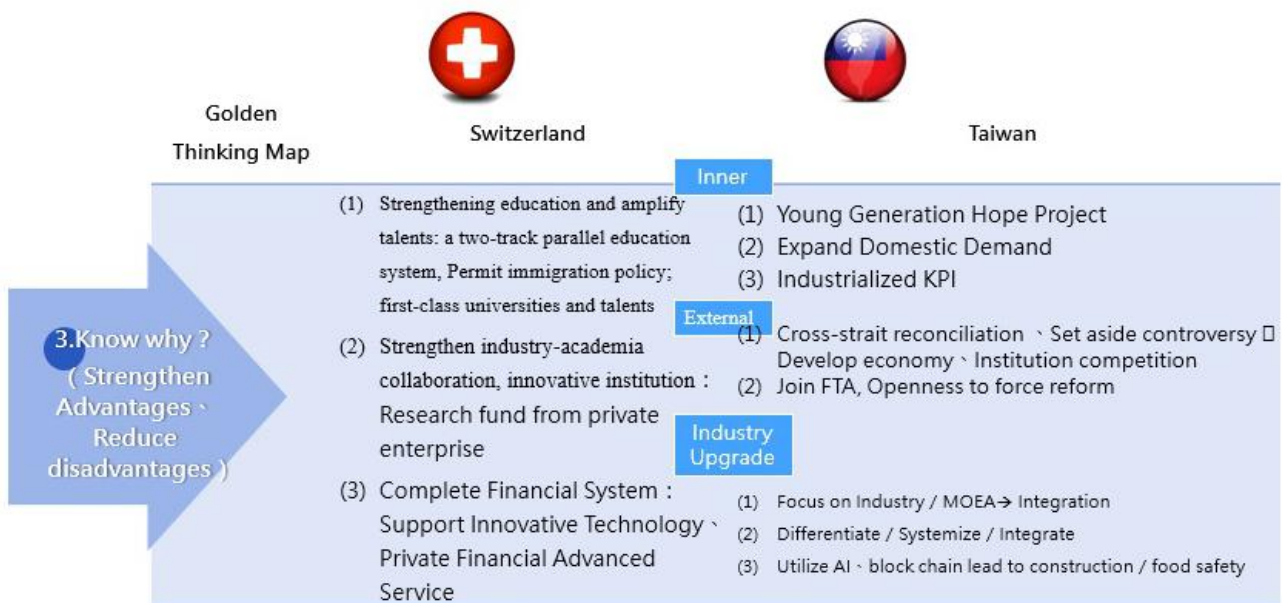


Figure 8 How Can Taiwan Strengthen Its Advantages and Reduce Its Disadvantages?

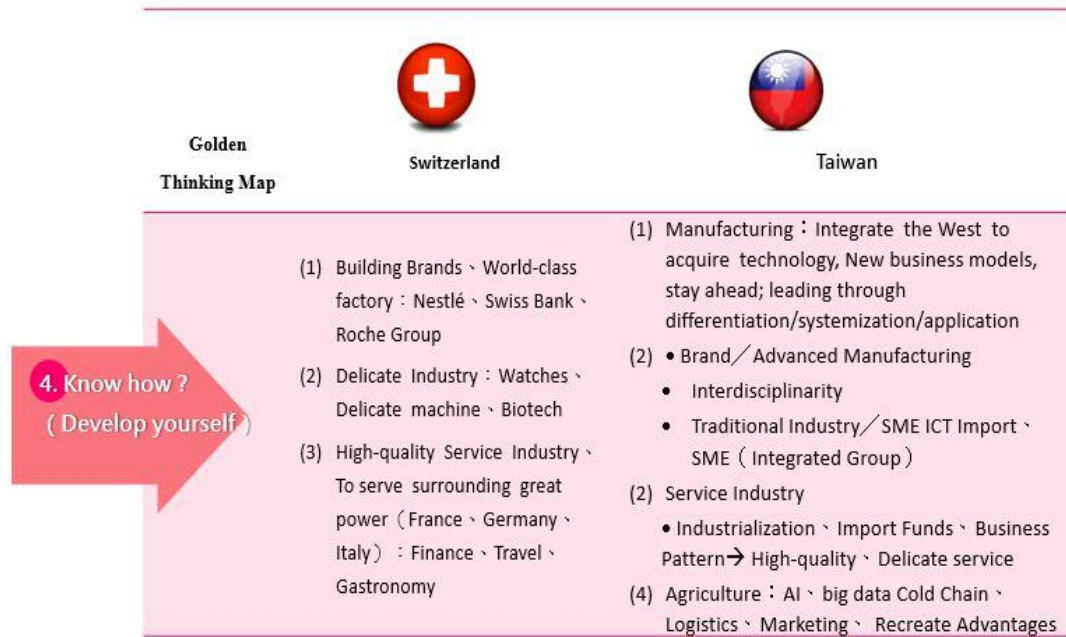


Figure 9 How Does Taiwan Develop Herself?

## 1. Institutional Innovation

- (1) The Executive Yuan should give the service industry and related authority a more active industrialization task. (see Figure 11)



## (2) Civil Servant Incentive Mechanism

### A. Policy Innovation

- There are currently industrial transformation funds / state investment companies not actively investing / passive applied
- More active private equity funds/sovereign funds to shape positive and rapid structural transformation

### B. Key Performance Index (KPI)

- Inter-ministry's KPI
- Central/Local government KPI
- Service Industry Supervisory ministry's KPI
- Civil Servant Incentive mechanism

Figure 10 Conception of Institutional and Policy Innovation

### 2.3.4 Building Taiwan's Advantage and Uniqueness (M. Porter)

If small countries next to a great power such as China produce the same products, they will be caught in scale and cost competition. Hence, products and industries from small countries should make differentiation in order to

create advantages. For instance, Finland is adjacent to Russia, it uses woods, mobile phones to distinguish itself from energy-intensive products in Russia (see Figure 11).

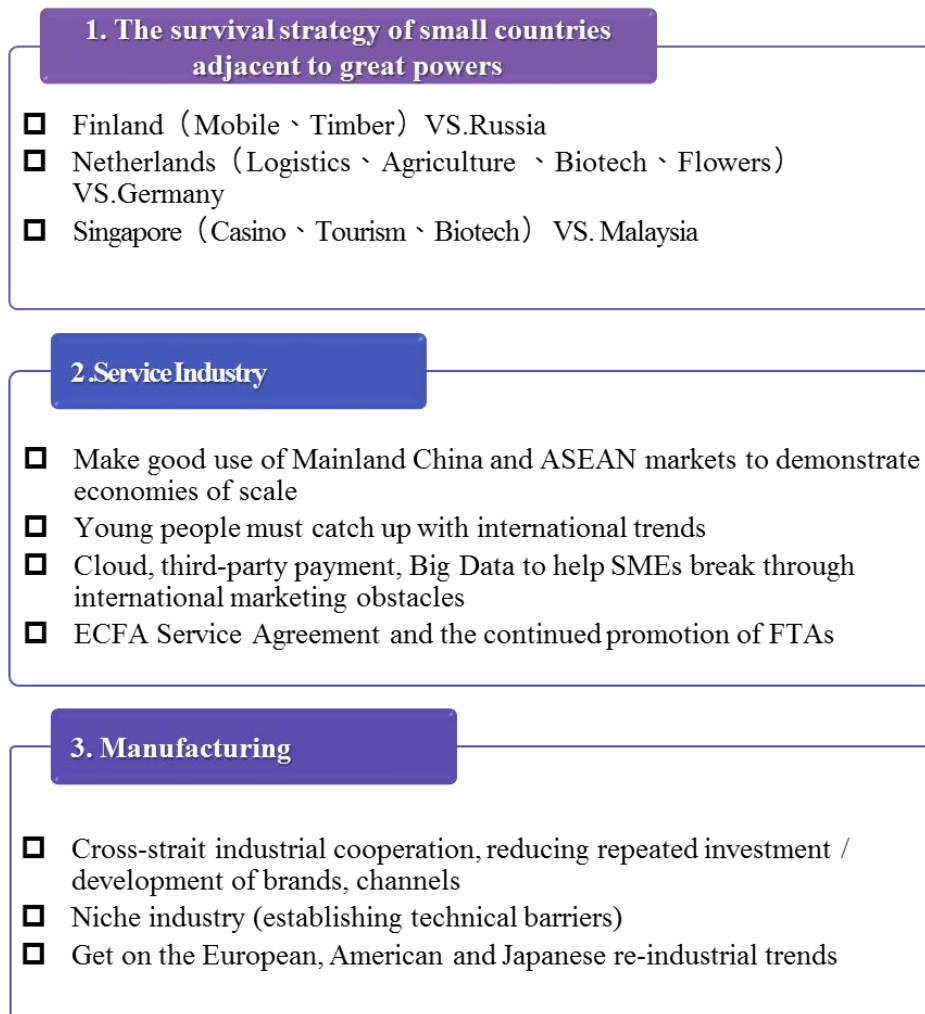


Figure 11 The Survival Strategies of Small Countries Adjacent to Great Power

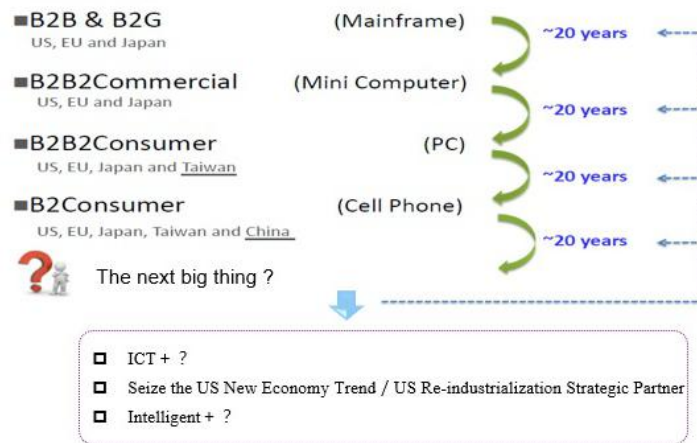
#### 2.3.5 Technology Development Strategy

##### 1) cross industry's integration



## ■ Technology Industry

### □ Post PC Era, What's next for Taiwan ? ( Blue Ocean Strategy )



2) Assist in upgrading traditional industries

(a) Assist in upgrading traditional industries — From software to hardware (organize Local system integration team)

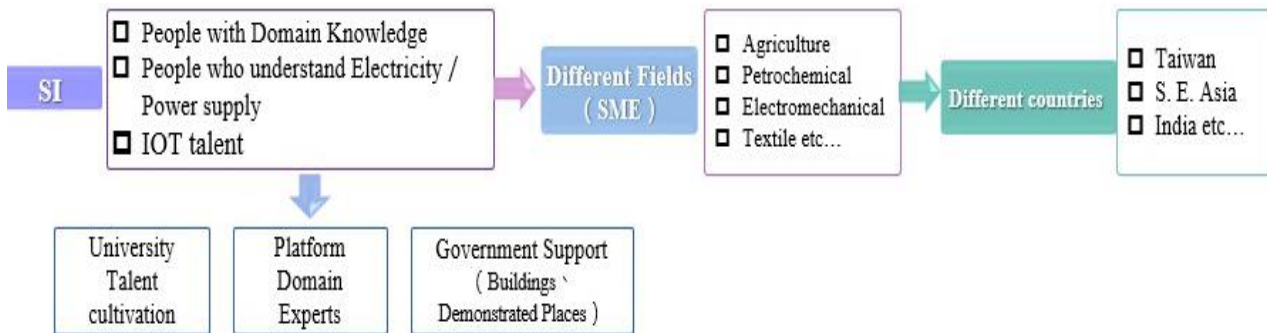


Figure 12 Application of SI Platform

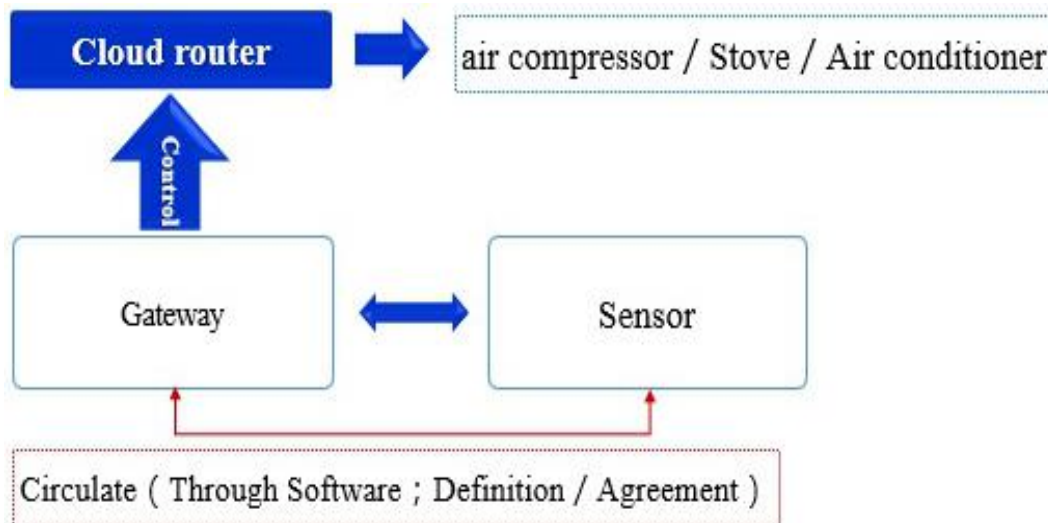


Figure 13 Automation and Application of IOT

(b) Service Industry



Figure 14 Other Countries' Lesson

Source: See reference to Taiwan Institution of Economic Research (2017) "O2O Business Model and Cross-border E-Commerce Development Opportunity – Singapore, Malaysia, Thailand and India" PPT.2017.7.



**Figure 15 The Idea of Logistics Center in ASEAN Countries**

Source: Su, Long-de (2017), The Global Logistics Council of Taiwan.

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