

Ma Tieying

Economist

**Please direct distribution queries to**Violet Lee +65 68785281 violetleeyh@dbs.com

- *The new round of 25% tariff on USD200bn Chinese exports does not affect our macroeconomic projections for Taiwan*
- *Tariffs on USD300bn Chinese exports, if materialise, could have serious impact*
- *Taiwan's near-term growth outlook is sluggish, regardless of trade war developments*
- *Investment diversification by Taiwanese manufacturers is likely to continue in the coming years, amidst persistent uncertainties in China-US relations*
- **Implication for forecast:** *We keep the 2019 and 2020 GDP growth forecasts at 1.9% and 1.8%, respectively, for the time being; but see risks on the downside*
- *If 25% tariffs on additional USD300bn of Chinese exports are fully implemented later this year, we reckon that it could shave Taiwan's GDP growth by close to 1ppt during the 2019-20 period.*
- **Implication for investment:** *Rate cuts will become likely in the event of a full-blown China-US trade war*

China-US trade tensions have returned. With the two sides failing to ink a trade deal after months-long negotiations, tariff hikes are back on table. The US has raised tariffs to 25% from 10% on USD200bn worth of Chinese exports, effective May 10. China has also taken retaliatory measures, announcing to raise tariffs on USD60bn worth of American exports, starting from the 1st of June.

Furthermore, the US President Donald Trump has threatened to impose tariffs on the remaining USD300bn Chinese goods entering the US. The US Trade Representative proposed the USD300bn [tariff list](#) on May 13, and said that it will hold a public hearing on June 17 to further decide. Whether these new tariffs will go into effect remains uncertain. Trade discussions between the two countries may still continue in the next one month, in the runup to the G20 Summit on June 28-29.

Tariffs on USD200bn of Chinese exports are not new

The US's tariffs on USD200bn Chinese exports are not new. Tariff rate on these products was initially raised to 10% in September 2018 and scheduled to be raised further to 25% in January 2019. We had cut Taiwan's 2018-2019 GDP growth forecasts by a total of 0.3ppt to reflect the resultant impact ([here](#)). The belated implementation of these tariffs does not affect our macroeconomic projections.

As elaborated previously, tariffs on USD200bn Chinese exports will mainly hurt China's manufacturing sector rather than Taiwan's. The Taiwanese firms producing in China and exporting intermediate goods to China are not concentrated in the sectors targeted by the USD200bn tariff list. The knock-on impact on Taiwan's supply chain should be limited.

The USD300bn tariff plan is a bigger threat

The US's tariff plan on the remaining USD300bn Chinese exports is a bigger threat. This new tariff list includes essentially all products not covered by the previous

rounds of tariffs against China. In particular, it includes a wide range of electronics products, from cellphones, laptops, tablet computers, to video monitors, TV reception apparatus, etc. Taiwanese firms are highly involved in the China-centered electronics supply chain. About 20% of China’s electronics imports are sourced from Taiwan today. For Taiwan, electronics exports to China account for nearly 20% of its GDP ([here](#)).

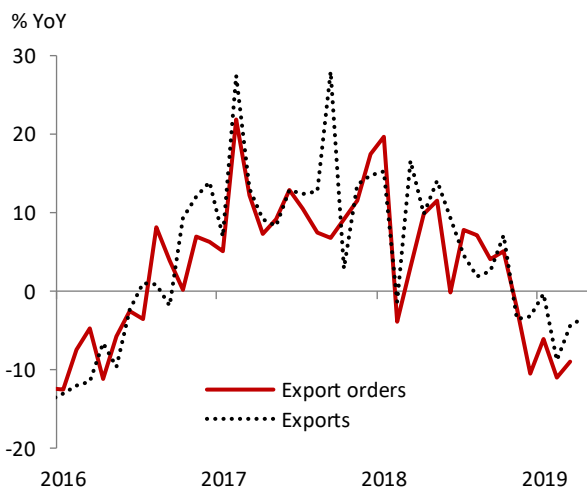
Trade disruption risk could be significant. If 25% tariffs on the USD300bn Chinese exports are fully implemented later this year, we reckon that it could shave Taiwan’s GDP growth by close to 1ppt during the 2019-20 period.

Near-term growth outlook is sluggish

In any case, Taiwan’s near-term growth outlook is sluggish. Manufacturing PMI has fallen back to 48.2 in April from 49.0 in March, albeit still above the February bottom of 46.3. Export growth remained in the negative territory in April, on both the YoY (-3.3%) and MoM basis (-8.4% sa). This coincided with the dip in China’s April PMIs, suggesting that the boosting impact from China’s policy stimulus has started to fade.

The re-escalation of trade tensions will likely further weigh on the near-term growth outlook through dampening business sentiment and augmenting financial market volatility. In particular, the regional stock markets had rallied earlier this year and Asian currencies had stabilised, presuming a China-US trade deal in 2Q. The risk of a pullback can’t be underestimated.

Taiwan: Export orders & exports

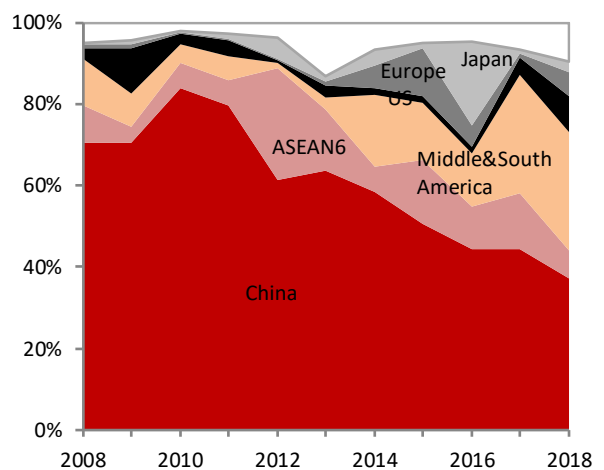


Investment diversification will continue

From a longer-term perspective, the recent setback in China-US trade negotiations serves as a reminder that the uncertainties in China-US relations could become a new normal. Even putting aside trade disputes, the two countries’ competition in the high-tech space will likely remain intense in the coming years, surrounding the sensitive issues like cybersecurity, IP protection and forced technology transfer ([here](#)).

A rising number of the China-based Taiwanese manufacturers may find it necessary to diversify risk. Taiwanese companies have diversified investment from China towards Middle & South America and the US in the past couple of years (chart below). Some have also opted to return to Taiwan. Reportedly, about 40 Taiwanese companies with offshore operations committed to invest TWD205.7bn (USD6.7bn) in Taiwan during the first four months of this year. Investment relocation and supply chain reshuffling will involve costs in the short term. But companies may still want to pursue a diversification strategy, in order to manage the trade war uncertainties and sustain competitiveness in the long run.

Taiwan's outward FDI, by market



Forecast implications

We keep the 2019 and 2020 GDP growth forecasts at 1.9% and 1.8%, respectively, for the time being. Risks are clearly skewed to the downside, given the tariff threats on another USD300bn Chinese exports. Taiwan’s central bank is expected to stand pat on monetary policy through 2019-2020 under our base case forecast. But rate cuts will become likely, should a full-blown trade war occur and recession risks increase.

Related reports:

[Understanding China: China-US: From trade war to tech war](#)

[Taiwan: Growth outlook lowered on higher trade tensions](#)

[Will the Sino-US negotiations hurt South Korea and Taiwan?](#)

[Taiwan largely spared from US tariffs on China](#)

[Taiwan: Vulnerable to US-China trade jabs](#)

[Taiwan: no recession, but tepid growth ahead](#)

[South Korea and Taiwan: Tentative signs of a bottom](#)

[South Korea and Taiwan: Lower inflation, stable rates](#)

[Tech clouds Taiwan's growth outlook more than South Korea](#)

[Taiwan faces more risks from weak PMIs than South Korea](#)

Group Research

Economics & Strategy Team

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@db.com**Nathan Chow**

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@db.com**Radhika Rao**

Economist - Eurozone & India

+65 6878-5282 radhikarao@db.com**Masyita Crystallin, Ph.D.**

Economist – Indonesia & Philippines

+ 62 21 2988-4003 masyita@db.com**Irvin Seah**

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@db.com**Joanne Goh**

Regional equity strategist

+65 6878-5233 joannegohsc@db.com**Duncan Tan**

Strategist - ASEAN

+65 6878-2140 duncantan@db.com**Eugene Leow**

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@db.com**Samuel Tse**

Economist - China & Hong Kong

+852 3668-5695 samueltse@db.com**Chris Leung**

Economist - China & Hong Kong

+852 3668-5694 chrisleung@db.com**Philip Wee**

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@db.com**Ma Tieying, CFA**

Economist - Japan, South Korea & Taiwan

+65 6878-2408 matieying@db.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

Disclaimer:

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000.
Company Registration No. 09.03.1.64.96422.