



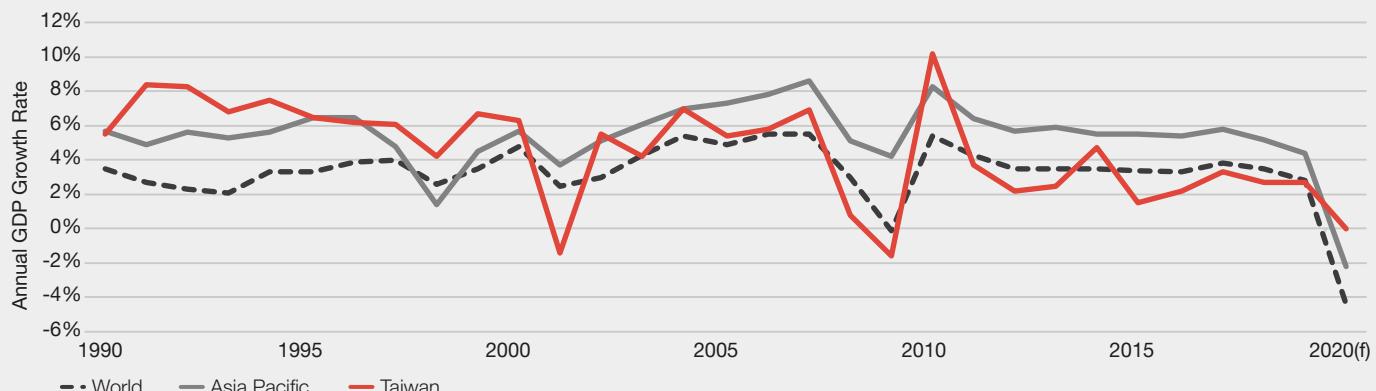
Time to Act

Taiwan

A market on the move

Evolving from an agriculture based economy in the 1950s, Taiwan today has emerged as an advanced production centre with a robust network of industrial clusters in technology and knowledge-intensive sectors. Strong improvements in labour productivity, rising foreign investments and growing trade have been key factors supporting historical economic growth. Besides this, Taiwan has also strengthened its human capital in these past decades, featuring among leading markets in Asia Pacific in terms of per capita income and human development performance at present. Innovation focus has emerged as a new growth driver in recent years – marked by a growing push towards digitalisation and higher value-adding segments such as biomedicine, green energy, smart machinery and nanotechnology. These factors are also proving crucial to the market's COVID-19 response, enabling Taiwan to avoid negative economic growth in 2020.¹

Economic growth trends for Taiwan, compared to regional and global averages



Source: International Monetary Fund (October 2020)

Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations; National Statistics (Republic of China, Taiwan)

The need for change

While Taiwan has made notable progress in the past few decades, it has been on a slower growth trajectory since 2011 – with sluggish global demand and rising trade uncertainties impacting recent prospects. With the onset of the global COVID-19 crisis, overcoming key growth challenges needs to be of utmost priority as Taiwan seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.²

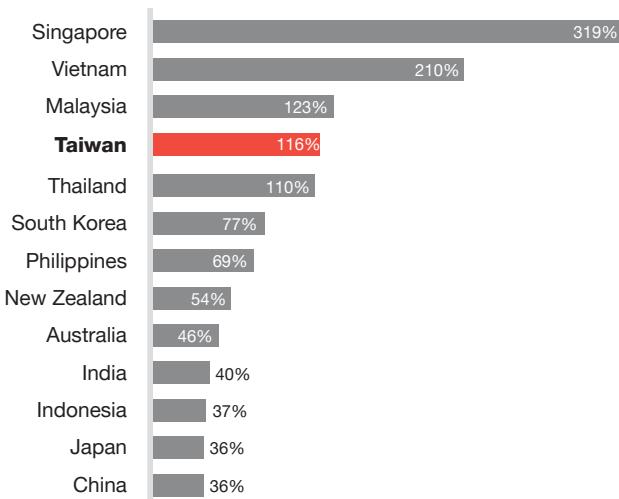
Trade tensions: Increasing uncertainties in global trade pose new growth risks for export-led economies such as Taiwan, having a trade to gross domestic product (GDP) ratio of more than 100 per cent in 2019. As per the World Trade Organization, global markets imposed 102 new trade-restrictive measures over October 2018 to October 2019 – slowing down growth in global exports. Since then, COVID-19 disruptions have also sharply impacted global goods trade and expectations of rising protectionism could further restrict trade growth in the immediate future.³

Evolving demographics: Taiwan also faces the issue of an ageing demographic, with old-age dependency ratio projected to reach 37 per cent by 2030 – double the world average of 18 per cent by then. Taiwan's figure is projected to continue rising to touch 65 per cent by 2050. This could present a major challenge to economic growth in the form of labour shortages and declining growth in labour productivity, while also increasing the fiscal burden on the government due to rising pensions and social welfare costs.⁴

Environmental sustainability: Warming temperatures, rising sea levels and fast changing weather patterns make climate change a key emerging challenge for Taiwan. With changing environmental conditions, Taiwan faces an increasing risk of more frequent natural hazards which can lead to loss of life and property, along with growing food security and economic concerns. Carbon emissions in particular remain a key concern area, led by the market's high dependence on fossil fuels for power generation.⁵

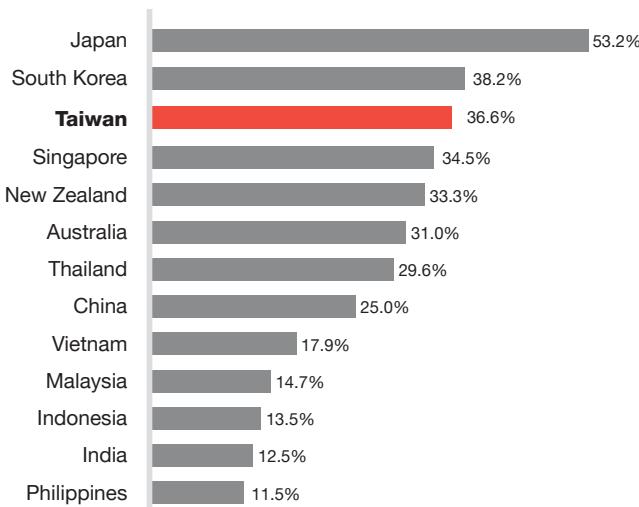


Trade to GDP ratio, 2019



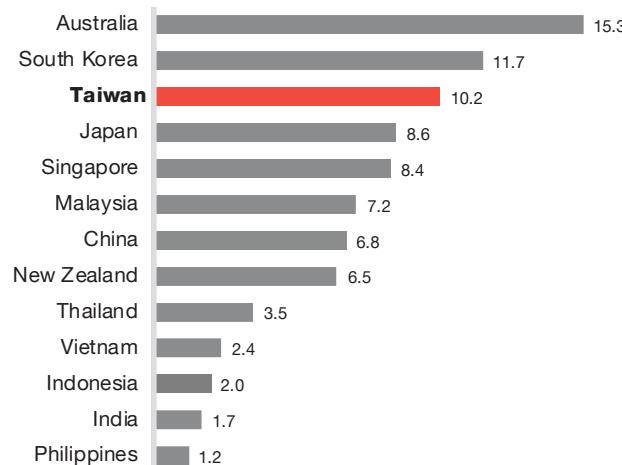
Source: World Bank; United Nations

Old-age dependency ratio, 2030



Source: International Labour Organization

CO₂ emissions per capita, tonnes, 2018

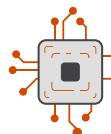


Source: International Energy Agency

Building a new future

Tackling these growth challenges has become necessary to repair, redesign and rebuild Taiwan's economy for a post-COVID-19 future – while enabling a socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.

Pillar
1



Advancing the digital economy

- Building digital value chains for resilience
- From digital risk to digital trust – collectively enabling the pathway

Pillar
2



Enabling regional enterprise growth

- Propelling companies for growth within Asia Pacific
- Boosting regional trade in services as a new growth lever

Pillar
3



Rebalancing supply chains and fostering innovation

- Developing balanced and resilient regional supply chains
- Fostering a collaborative innovation ecosystem

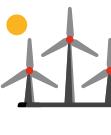
Pillar
4



Expanding and future-proofing the labour force

- Upskilling today to be relevant tomorrow
- Preparing the employees of tomorrow

Pillar
5



Building climate change resilience towards a net-zero future

- Building solutions for a net-zero circular economy
- Adopting technology to address food and agriculture concerns

1**Pillar 1 - Advancing the digital economy**

Digitalisation has been a growing need for ageing markets such as Taiwan to help boost productivity. Key sectors such as manufacturing need to lead the trend, by adopting new production technologies to enhance Taiwan's global competitiveness. This has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority for organisations. Taiwanese businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. The government is also required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen the society's trust in digital systems, to establish a truly advanced and efficient digital economy.⁶

2**Pillar 2 - Enabling regional enterprise growth**

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target rising regional demand. Taiwan's businesses will need to localise and be more agile in regional markets, exploring alliances and acquisitions to lower entry barriers and growth risks. Government support will also be crucial to help businesses internationalise. Digitalised services offer potential to grow cross-border trade, but will need government agencies to assist businesses in identifying the right target markets and in building their brand presence overseas. Traditional manufacturers can also explore shifting to a product-as-a-service model for growth.⁷

3**Pillar 3 - Rebalancing supply chains and fostering innovation**

Leading Taiwanese manufacturers need to rebalance their fragmented global operations with more integrated regional networks to improve resilience. They also need to take a lead in fostering agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Taiwan's and the broader region's fast changing requirements. Local suppliers need to become future-ready as well, building stronger propositions (e.g. engineering excellence or technology leadership) and participating in innovation initiatives to become preferred partners for global brands building regional supply chains in Asia Pacific.⁸

4**Pillar 4 - Expanding and future-proofing the labour force**

Aligned with Taiwan's changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the education journey. Businesses need to build a more focused and agile talent development plan, in line with their industry's growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps.⁹

5**Pillar 5 - Building climate change resilience towards a net-zero future**

Facing a growing sustainability risk in the form of extreme weather events and frequent natural calamities, Taiwan needs to prioritise action on minimising the economic and social costs of climate change. Plans to build a circular economy need to be better designed for more visible impact – creating incentives to form a tri-entity partnership between governments, businesses and communities for large scale adoption. Taiwanese businesses also need to prioritise the sustainability agenda to remain relevant to a more environmentally conscious consumer, adopting new growth strategies and operations models to move towards a net-zero climate impact.¹⁰

**The way forward**

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. More advanced markets such as Taiwan also have a major role to play in making the entire region resilient and future-ready – leading efforts to enhance research and development, revamp upskilling initiatives and foster institutional development for the rest of the region. Ranked by the World Economic Forum amongst top 5 global markets for 'innovation capability' – Taiwan can also lead the way in sharing policy and technical expertise, to help boost productivity and inclusivity in other regional markets through innovation-driven solutions.¹¹

Much needs to be done. It's now the '**Time to Act**' and move together towards a stronger shared future.

Endnotes

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- 4 International Labour Organization, ILO Modelled Estimates, 2020; United Nations - Department of Economic and Social Affairs, World Population Prospects, 2019
- 5 Carnegie Endowment for International Peace, 'Overcoming Taiwan's Energy Trilemma', April 2020; The News Lens, 'Beyond 2020: Taiwan Needs to Take Climate Chaos Seriously', December 2019; Taiwan News, 'Taiwan's sea levels rising faster than global average', May 2019
- 6 PwC discussions with subject-matter specialists
- 7 Ibid
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- 10 Ibid
- 11 World Economic Forum, Global Competitiveness Report, October 2019; PwC discussions with subject-matter specialists

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