

Taiwan combats slump

Monday 16 February 2009, by [AP](#) (Date first published: 16 February 2009).

The Taiwan government has pledged to spend at least US\$9.5 billion (S\$143.8 billion) in 2009 on various job-creation programmes, including expanded infrastructure projects.

TAIPEI (Taiwan) - THE Taiwan government has been working overtime to combat the deepening economic downturn, speeding up proposed infrastructure projects, creating new jobs, and providing citizens with US\$100 spending vouchers.

While experts say the measures won't compensate for the falloff in export demand, Taiwanese leaders hope they can help the island weather a painful period that is widely expected to lead to an economic contraction. If so, it would be the first drop in gross domestic product in Taiwan since the dot.com bubble burst in 2001.

Economic indicators indeed look alarming - two straight months of a more than 40 per cent year-on-year decline in exports, and a five-year unemployment high of 5 per cent.

Reflecting the difficulties, the island's signature high-tech hub - the Hsinchu Science-based Industrial Park - is reporting that 78 per cent of its 130,000-strong work force are taking 1-2 days per week of unpaid leave since December to compensate for sharply reduced export orders.

Taiwanese officials say the declines in growth may be exacerbated by companies rushing to cut down inventories and could moderate in the coming months.

But that hasn't prevented several economic research groups from predicting a 2-6 per cent contraction for Taiwan's economy in 2009.

Investment firm CLSA Asia-Pacific has gone further, forecasting a stunning contraction of 11 per cent for the year.

For months the government has stuck to a forecast of 2 per cent growth, but now says it is coming out with a revised figure on Wednesday.

A poor economic performance would likely sap support for the eight-month old administration of President Ma Ying-jeou, which rode to power on promises of restoring the high growth rates that prevailed during most of the 1990s and slowed during the eight-year rule of predecessor Chen Shui-bian.

'People would question the government's capability and efficiency,' said Norman Yin, a professor of finances at National Chengchih University.

The Ma government is clearly trying to avoid that. It has pledged to spend at least US\$9.5 billion (S\$143.8 billion) in 2009 into various job-creation programmes, including expanded infrastructure projects. It also dispensed US\$2.5 billion in spending vouchers to the island's 23 million people to stimulate faltering consumption.

Taiwan-based economist Tony Phoo of Standard Chartered Bank says the moves will help, although any rebound would likely be mild because they can't offset the plunge in exports.

'The government has moved quickly to build a firewall to contain the unemployment situation ... and cushion some of the repercussions from the manufacturing sector's slowdown,' he said.

Economists say Taiwan is helped by the relative health of its banking sector, which unlike many of its foreign counterparts had only minor exposure to high-leverage deals.

However, they say, this advantage is at least partially offset by the significant hit its high-tech manufacturing sector has taken in recent months.

China's slowdown is also affecting Taiwan, which supplies components for Chinese assemblers of electronics goods.

But Taiwan could benefit from the mainland's huge stimulus package and its expected moves to loosen up monetary policy and labor protection laws, economists say.

'We are looking for a recovery in mainland China in quarter three (this year), and that will benefit most Asian economies,' said Standard Chartered's Phoo, adding that Taiwan's close business relationship with the mainland put it first in line.

Taiwan could also benefit from Mr Ma's policy of improving commercial relations with Beijing, including the recent ending of the long-standing ban on direct transportation links, said economist Liang Chi-yuan of Taipei's Academia Sinica research institution.

Mr Liang said another Ma decision - to lower the inheritance tax from 50 per cent to 10 per cent - could also boost the island's economic prospects.

P.S.

From The Straits Times.

http://www.straitstimes.com/Breaking%2BNews/Asia/Story/STIStory_339093.html