

[BUSINESS REPORT]

The Economy in 2001

In 2001, Taiwan suffered its most severe economic downturn since the energy crisis of 1973-74. The island's export-powered economy was hit hard by the synchronized slump in the economies of its three major trading partners, the United States, Japan and Europe. Taiwan's already weak economic situation was aggravated further by the September 11 terrorist attacks in the U.S. Exports plunged to record lows, which in turn led to a drop in confidence on the home front as private investment and private consumption slumped amid accelerated capital outflows to Mainland China and record high unemployment. To deal with these challenges, the government moved to boost public investment with a NT\$810 billion spending program and also convened an economic development advisory committee that proposed several measures to stimulate the economy. Fortunately, the economy began to recover by the end of the year due to the government's resuscitation efforts including aggressive monetary easing, a more stable political environment following the ruling Democratic Progressive Party's strong showing in the legislative election, and optimism over Taiwan's entry into the World Trade Organization (WTO).

Taiwan's exports and imports fell by 17.1% and 23.4%, respectively, in 2001, both historic record declines. Consumer prices fell 0.01% in 2001, the first drop over the past 16 years due to reduced consumer purchasing power arising from the negative wealth effect of a weak stock market and record high unemployment. Industrial production fell 7.5% in 2001, while manufacturing output declined 8.2%. The DGBAS estimates that Taiwan's GDP shrank 1.9% in 2001, the first ever annual contraction.

Looking ahead to the year 2002, Taiwan's all-important export sector is expected to pick up on the back of a recovery in the global economy. Another contributing factor is Taiwan's entry into WTO on January 1, 2002, which will allow the island's exporters to benefit from lower tariffs and most-favored-nation status. As for domestic demand, both consumption and investment (including government expenditures) are expected to improve as a result of work on the high-speed railway, the opening up of the 3G telecom market, the establishment of private power plants, and the development of industrial parks. The unemployment situation should improve as a result of the pick in domestic demand. The DGBAS forecasts that Taiwan's economy will grow by 2.29% in 2002, reversing the contraction seen in the previous year. Uncertain factors that could potentially derail this recovery scenario include worsening cross-strait relations, local political troubles, as well as the adverse impact of reforms and restructuring.

