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Impact of Russia Ukraine War on Taiwanese Economy

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Abstract

The economy of Taiwan is characterized by a strong industrial base and high-tech manufacturing capabilities. It heavily relies on international trade, with the United States, China, Japan, and the European Union being major trading partners. While the trade volumes with Russia and Ukraine in 2021 were relatively smaller, there were ongoing economic interactions and potential for further growth. Geopolitical considerations, particularly related to China's influence, can impact Taiwan's trade relationships with various countries. The Russia-Ukraine war has had a major impact on the Taiwanese economy. The war has disrupted trade, tourism, energy prices, and supply chains, all of which have had a negative impact on the country's economic growth. The future outlook for the Taiwanese economy is uncertain, but the government is taking steps to mitigate the impact of the war.

Keywords: Russia- Ukraine war; Taiwanese economy; Trade; Monetary; Fiscal policy

1. Introduction

1.1. Economy and trade of Taiwan

The economy of Taiwan, officially known as the Republic of China, is one of the most developed and prosperous economies in Asia. It is known for its high-tech manufacturing, export-oriented industrialization, and strong global trade connections [1] [2]. In 2021, Taiwan's economy faced various challenges and opportunities, including the impact of the COVID-19 pandemic and geopolitical factors affecting its trade relationships with countries like Russia and Ukraine.

Taiwan's economy is characterized by a highly developed industrial sector, particularly in the areas of electronics, semiconductors, machinery, and chemicals [3]. The country is home to some of the world's leading technology companies, including Taiwan Semiconductor Manufacturing Company (TSMC), which is the largest contract chipmaker globally. This strong industrial base has contributed significantly to Taiwan's economic growth and its position as a global manufacturing hub [4] [5].

In terms of trade, Taiwan has a highly open economy and is heavily dependent on international trade. It has established robust trade relationships with countries around the world [6][7]. In 2021, Taiwan's total trade volume reached approximately \$665.4 billion, with both exports and imports playing a crucial role in its economy.

Taiwan's major trading partners in 2021 included the United States, China, Japan, and the European Union. The United States is Taiwan's largest export market, accounting for around 18% of its total exports [8]. Taiwan exports a wide range of products, including electronics, machinery, plastics, and chemicals [9][10]. The United States is also an important source of technology and investment for Taiwan.

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China is another significant trading partner for Taiwan, although the relationship between the two countries is complex due to political tensions. Taiwan exports a considerable amount of goods to China, particularly in the electronics and machinery sectors [11][12]. However, Taiwan also faces competition from Chinese manufacturers, which has led to concerns about industrial espionage and intellectual property theft.

In 2021, Taiwan's trade with Russia and Ukraine was relatively small compared to its major trading partners. However, there were notable developments in the economic relations between Taiwan and these two countries.

Taiwan's exports to Russia primarily consisted of electronic components, machinery, and chemical products. In return, Taiwan imported products such as mineral fuels, ores, and metals from Russia. The trade volume between Taiwan and Russia reached approximately \$1.74 billion in 2021, indicating a modest yet growing economic relationship [13][14].

Taiwan's exports to Ukraine were also relatively small, standing at around \$305 million in 2021. Taiwan exported products such as machinery, electronic components, and textiles to Ukraine. The main imports from Ukraine included agricultural products, mineral fuels, and ores.

It is worth noting that geopolitical factors can influence Taiwan's trade relationships with certain countries. Both Russia and Ukraine have complex relationships with Taiwan due to political sensitivities and considerations related to China [13][15]. Taiwan's international status, with most countries recognizing the People's Republic of China over the Republic of China (Taiwan), can impact its diplomatic and economic ties with various nations [16].

In conclusion, Taiwan's economy is characterized by a strong industrial base and high-tech manufacturing capabilities. It heavily relies on international trade, with the United States, China, Japan, and the European Union being major trading partners. While the trade volumes with Russia and Ukraine in 2021 were relatively smaller, there were ongoing economic interactions and potential for further growth. Geopolitical considerations, particularly related to China's influence, can impact Taiwan's trade relationships with various countries [17].

2. Impact of the Russia-Ukraine War

The Russia-Ukraine war has had a significant impact on the Taiwanese economy. The war has disrupted trade, tourism, energy prices, and supply chains, all of which have had a negative impact on the country's economic growth [18][19].

In terms of trade, Taiwan's exports to Russia and Ukraine have fallen significantly since the start of the war. In the first quarter of 2022, Taiwan's exports to Russia fell by 70%, and its exports to Ukraine fell by 90%. This decline in trade has led to job losses and a decrease in tax revenue.

The war has also had a negative impact on Taiwan's tourism industry. In the first quarter of 2022, the number of Russian and Ukrainian tourists to Taiwan fell by 95%. This decline in tourism has led to job losses in the tourism sector.

The war has also caused global energy prices to rise. This has had a negative impact on Taiwan's economy, as it is a net importer of energy. The rising energy prices have put pressure on the country's trade balance and have made it more expensive for businesses to operate.

Finally, the war has also caused global supply chain disruptions. This has affected Taiwan's manufacturing industry, as it is a major producer of semiconductors. The war has disrupted the supply of key components, which has led to shortages of semiconductors. This has affected the production of a wide range of products, including smartphones, computers, and cars [20][21].

The future outlook for the Taiwanese economy is uncertain. The war in Ukraine is ongoing, and it is unclear how long it will last [22]. If the war continues for a long time, it could have a more severe impact on the Taiwanese economy. However, if the war ends soon, the economy could recover relatively quickly.

In the meantime, the Taiwanese government is taking steps to mitigate the impact of the war [23]. These steps include providing financial assistance to businesses that have been affected by the war, and working to diversify the country's energy sources. The government is also working to strengthen the country's supply chains so that they are less vulnerable to disruptions [24].

The Russia-Ukraine war is a major challenge for the Taiwanese economy. However, the government is taking steps to mitigate the impact of the war, and the economy is expected to recover eventually.

3. Monetary and Fiscal policies of the Taiwanese government after the Russia-Ukraine war

3.1. Monetary policy

The Central Bank of China (CBC) has raised interest rates three times since the start of the war in Ukraine, in an effort to cool inflation. The CBC's policy rate is now 1.5%, which is the highest level since 2019. The CBC has also tightened monetary policy by reducing the amount of liquidity in the banking system. This has been done by selling bonds and conducting open market operations [25][26].

The CBC's monetary policy measures have helped to slow the pace of inflation. However, they have also weighed on economic growth. The Taiwanese economy grew by 3.1% in 2021, but it is expected to grow by only 2.5% in 2022.

3.2. Fiscal policy

The Taiwanese government has also implemented a number of fiscal measures to support the economy [27]. These measures include tax cuts, subsidies, and spending on infrastructure. The government has also announced plans to increase public investment in the coming years [28].

The government's fiscal measures are aimed at stimulating economic growth and supporting businesses and households [29]. The tax cuts will help to boost disposable income, while the subsidies will help businesses to cover the rising costs of energy and raw materials [30]. The increased spending on infrastructure will create jobs and boost economic activity [31]. The Taiwanese government is monitoring the economic situation closely and is prepared to take additional measures if necessary. The government is also working with the private sector to mitigate the impact of the war on the economy [32].

4. Specific fiscal measures

The Taiwanese government has implemented a number of specific fiscal measures since the start of the war in Ukraine. These include:

Tax cuts on businesses and households. The corporate tax rate has been reduced from 20% to 17%, and the personal income tax rate has been reduced for low- and middle-income earners.

Subsidies to businesses to help them cover the rising costs of energy and raw materials. These subsidies have been particularly important for businesses in the manufacturing sector, which are heavily dependent on imported energy and raw materials.

Increased spending on infrastructure, such as roads, bridges, and airports. This spending is expected to create jobs and boost economic activity.

The government is continuing to monitor the economic situation and is prepared to take additional measures if necessary [33] [34].

5. Conclusion

The Russian-Ukraine war has had a significant impact on the Taiwanese economy. The war has disrupted trade, tourism, energy prices, and supply chains, all of which have had a negative impact on the country's economic growth [35]. The future outlook for the Taiwanese economy is uncertain, but the government is taking steps to mitigate the impact of the war.

The government has implemented a number of monetary and fiscal policies to support the economy, including raising interest rates, cutting taxes, and providing subsidies. These measures are aimed at stabilizing the economy and supporting businesses and households [36][37]. The full impact of the war on the Taiwanese economy is still unknown, but the government is committed to taking all necessary steps to protect the economy and the people of Taiwan.

Compliance with ethical standards

Disclosure of conflict of interest

Authors declare no conflict of interest in the publication of this article.

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