

Taiwan elections: Political uncertainties remain

What happened

In Taiwan's latest presidential and legislative elections on 16 January 2016, the pro-independence Democratic Progressive Party (DPP) won a landslide victory. Beijing has warned against any move towards independence shortly after the election results.

Implications

Cross-straits relations

There will likely be uncertainty until after Dr. Tsai Ing-wen takes office on 20 May. Meanwhile, trial balloons may be floated with the DPP having been sworn in as the new Cabinet on 1 February.

Even though tensions have risen, a confrontation is not likely:

- 1) China can easily cut back on the economic cooperation which Taiwan has benefitted from. During President Ma Ying-jeou's 8-year tenure, he opened up Taiwan's stock market to mainland Chinese investors and eased restrictions on Taiwan's investments into China; and opened up Taiwan to mainland Chinese tourists which have become Taiwan's largest inbound tourist market (40% in 2015¹). China is also Taiwan's largest trading partner, contributing 23% of Taiwan's total external trade in 11M2015²;
- 2) DPP is likely to tread carefully especially in light of its weak economic growth currently and lack of economic stimulus from regional trade pacts due to it not being recognised as an independent state. In the lead-up to January's elections, Dr. Tsai has already taken a more moderate stance by reiterating her intent to maintain the status quo and pursue stable and peaceful development in

Taiwan's cross-straits with China, while not openly rejecting the 1992 Consensus which is an agreement between Kuomintang (KMT) and Chinese Communist Party on the concept of "one China".

Domestic issues

Dr. Tsai is more likely to focus on domestic issues which have caused much dissatisfaction among the electorate against the former ruling party Kuomintang. She has identified housing affordability, wage growth and economic diversification as her key policy focus. Their success depends on the details which will be clearer after she takes office and implementation will take time.

There could be more deliberation on the nuclear energy policy to balance economic growth and environment risk as Taiwan will face power shortages and higher electricity prices if DPP is unable to find a replacement energy source. Nuclear power accounts for 25% of Taiwan's base-load power³. Taiwan's fourth nuclear plant project, which was meant to replace the three existing ones that will be decommissioned from 2018 onwards, was halted in 2014 following the Fukushima accident in Japan. DPP has a non-nuclear stance and intends to phase out nuclear power by 2025.

Taipei's real estate market

Residential

The residential market will remain challenging in the short-term as Dr. Tsai is unlikely to make major changes to the recently introduced capital gains tax in the near-term given domestic housing issues and her priority to improve housing affordability. In the medium-term, some measures could be eased after a period of decline in the residential market. Long-term fundamentals are still healthy given strong first-time and upgrading demand.

¹ Taiwan's Tourism Bureau

² Taiwan's Ministry of Finance

³ World Nuclear Association, "Nuclear Power in Taiwan", January 2016.

Residential demand is largely domestic, hence no direct impact is expected if cross-straits relations deteriorate but there would be indirect impact through economic linkages and fall in consumer confidence. Further price declines could however unleash pent-up demand for low- to mid-end homes while some investment demand for high-end homes could shift overseas. If the new DPP government were to increase the inheritance tax from 10% to 20% to fund long-term senior care, this may exacerbate the trend of capital outflow by the wealthy.

Hotel

China may reduce the number of outbound visitors to Taiwan to show its displeasure which will affect the hospitality sector. The impact will be felt more on the lower-end hotels if group tours from China are cut as these tourists usually have lower accommodation budget. However, should free independent travellers (FIT) also be curbed, mid- and high-end hotels will be affected as well although to a lesser extent as Taiwan is focusing efforts on publicity and infrastructure improvement to attract tourists from other countries who have higher accommodation budgets⁴. While mainland Chinese made up the biggest group of inbound tourists (40%), this is significantly lower compared to that in Hong Kong (77%)⁵, and other source markets continued to show growth over the last six years.

Retail

There will be some impact on retail malls if mainland Chinese tourists were to fall in number since there is some correlation (40%) between Taiwan's mainland Chinese arrivals growth and department stores sales growth in recent years; but it should be limited by the fact that their spending is mainly on jewellery, local special products and tea⁶. On the other hand, if Dr. Tsai's

policies are implemented well, wages could grow faster than the historical CAGR of 1.0% and increase domestic consumption above the historical CAGR of 2.5%.

Office

Mainland Chinese companies do not have a huge presence in Taiwan but there will be some impact on office demand if China were to cut back on economic cooperation with Taiwan and lead to a further slowdown of Taiwan's economy.

Conclusion

The Taipei real estate market is expected to be subdued as more clarity on cross-straits relations is awaited. Some interesting investment opportunities could emerge during this period and Taipei still offers a stable investment environment, with Dr. Tsai expected to take a moderate stance to maintain the status quo in Taiwan's cross-straits with China and focus on domestic issues.

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⁴ Based on expenditure in Taiwan. Source: Taiwan's Tourism Bureau, "Survey Report on Visitors Expenditure and Trends in Taiwan", 2014.

⁵ Hong Kong Tourism Board, 2015.

⁶ Based on the expenditure of visitors with sightseeing purpose in Taiwan. Source: Taiwan's Tourism Bureau, 2014.

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