With global demand weakening, growth slowed in 2022 with sharp deceleration in exports and investment. Consumption rebounded as COVID-19 restrictions gradually eased. Inflation rose to its highest since 2008 as food and petroleum prices increased. Growth is expected to moderate further in 2023 as global demand remains weak but to rebound in 2024 as global growth recovers. Inflation will slow as energy prices stabilize and economic activity moderates. Policy action is needed to stimulate entrepreneurial activity as a new driver of growth.

Economic Performance

Growth slowed to 2.5% in 2022 as weaker global demand weighed on exports and investment, though consumption rebounded. The external sector weakened substantially, and net exports cut 0.7 percentage points from growth (Figure 2.13.1). Export growth braked from 17.3% in 2021 to 2.4% as imports grew by 4.5% on elevated prices for imported oil and higher imports of machinery and electronics. As a result, the current account surplus narrowed from the equivalent of 14.8% of GDP in 2021 to 13.3%. Investment was strong in the first half of the year but tapered off in second half as firms postponed capacity expansion, tamping down investment growth from 17.3% in 2021 to 4.1% in 2022. Investment was nevertheless the second largest driver, contributing 1.1 percentage points to growth. Consumption bolstered growth, as COVID-19 restrictions were lifted and the government incentivized travel and spending through a stimulus package to boost the tourism industry. Private consumption rebounded by 3.6% and was the main driver of growth, contributing 1.6 percentage points, while government consumption grew by 3.4% and contributed 0.4 points. On the supply side, agriculture contracted by 1.9%, shaving growth by 0.03 points; industry, driven by manufacturing, added 0.8 points; and services contributed 1.4 points as relaxed COVID-19 restrictions reinvigorated the sector.

Inflation averaged 2.9% in 2022, its highest in over a decade as commodity prices surged. It accelerated and peaked at 3.6% in June 2022, before moderating somewhat in the second half of the year. Inflation came largely from higher food prices as the Russian invasion of Ukraine drove prices for agricultural and industrial raw materials higher, while government measures to stabilize prices, including price controls

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on energy products such as liquefied petroleum gas, mitigated the impact of higher global oil prices (Figure 2.13.2). Residential rent was also a major contributor to inflation as landlords passed on higher maintenance costs to tenants.

**Figure 2.13.2 Inflation, 2022**

Inflation was driven largely by food prices.

![Inflation, 2022](chart)

The central bank tightened monetary policy, but fiscal policy remained supportive of growth. The central bank hiked its policy rate four times in 2022 for a total increase of 62.5 basis points to 1.75%. Broad money growth slowed from 7.4% year on year in December 2021 to 6.7% a year later, and credit growth also slowed that month, from 8.4% to 6.4%. On the fiscal side, the government continued to provide COVID-19 policy support with relief and stimulus loans offered to smaller enterprises and upskilling programs and subsidies to workers affected by the pandemic. Government revenue equaled 11.9% of GDP in 2022, and expenditure 11.8%, broadly unchanged from the previous year. Unexpected revenue from strong growth translated into a fiscal surplus equal to 0.1% of GDP. Public debt remained manageable at 24.1% of GDP at the end of 2022.

**Economic Prospects**

Growth will slow further this year as the global economy weakens. Global growth prospects in 2023 are dimmed largely by recent rapid monetary tightening synchronized in the advanced economies and much of developing Asia. Expected weakness in global demand does not bode well for the export-driven economy of Taipei, China. Export orders to the People’s Republic of China (PRC) and Hong Kong, China, which receive roughly 40% of all exports, declined steadily last year as COVID-19 outbreaks and zero-COVID restrictions hampered economic activity in those economies (Figure 2.13.3). While this was partly offset by continued orders from the US, the export order total eventually declined from September to December. Export orders typically lead actual exports by 2–3 months, suggesting that export growth would remain weak at least through the first quarter of this year. Investment will slow in line with exports, though this decline should be softened by continued reshoring of overseas companies, investment in offshore wind energy, and airline fleet expansion to keep up with resurgent cross-border tourism. On balance, growth is forecast to slow to 2.0 in 2023, supported primarily by resilient private consumption as COVID-19 restrictions are relaxed further (Table 2.13.1). Exports and imports are expected to slow at roughly the same rate, with weak external demand dragging down exports and slower investment and stabilizing commodity prices dampening imports. The current account surplus is thus expected to remain stable at about 13% of GDP.
The economy will rebound in 2024 as external demand recovers. Consumer confidence fell to 59.1 in December of last year, its lowest since 2009, but climbed to 62.5 in February, signaling a more upbeat consumer outlook for the next 6 months. Moreover, domestic tourism is picking up and a steady increase in international tourist arrivals will support private spending. Investment will grow, albeit not as strongly as last year. With monetary tightening by central banks expected to slow this year, global growth is set to recover in 2024, fueling higher growth for exports, the resumption of investment, and higher growth in 2024 at 2.6%.

Price pressures will wane over the forecast period with stabilizing commodity prices and tighter monetary policy. Inflation is expected to stabilize at 2.0% in 2023 and 2024 (Figure 2.13.4). Rent, transport services, and dining out, which drove inflation higher in 2022, will likely continue to see higher prices at least into this year, even as global commodity prices stabilize. However, with the surge in prices largely concentrated in food and energy, steadying global commodity prices will be key to slowing inflation. The central bank has signaled that it is closely monitoring inflation and stands ready to raise rates if inflation persists.

Risks to the outlook arise mainly from external factors. Continued monetary tightening and slower global growth pose downside risks to the growth outlook. Conversely, if the tightening cycle of key advanced economies ends sooner than expected, 2023 growth may be higher than forecast. However, the key risk is the pace of reopening in the PRC. A speedy reopening and consequent pickup in economic activity would boost exports and reinvigorate growth in Taipei, China. A quick return of tourists from the PRC, who were about 20% of all overseas tourist arrivals in 2019, would boost growth. On the other hand, a slower or stalled reopening of the PRC could further weaken exports, dragging down 2023 growth and potentially delaying the expected rebound in 2024. Developments in the PRC can also have implications for inflation. Faster economic activity in the PRC may stoke global energy prices and push inflation in Taipei, China higher, prompting policy action that may stymie growth.

### Policy Challenge—Encouraging Entrepreneurial Activity as a Driver of Growth

High-tech export specialization is a solid foundation for entrepreneurial development. Taipei, China is a key export hub for semiconductors and other high-tech products. In 2020, it had a 63% share of the world market for semiconductors, with sales worth $85.1 billion. Its specialization in the export of tech products has established a strong information technology supply chain, which has become the basis for a large concentration of world-class tech firms. As COVID-19 sent the world into lockdown, remote work created a boom in demand for electronic devices and accessories. Now, with pandemic-driven exceptional demand for electronics waning and growth in external demand slowing at least in the near term, Taipei, China needs to find new drivers of growth. To this end, it should take advantage of the dynamism of its high-tech export sector to encourage entrepreneurial development.
Entrepreneurial activity is lower than in other leading startup hubs. According to the Global Entrepreneurship Monitor 2022/2023, total early-stage entrepreneurial activity (TEA), or the percentage of people aged 18–64 who are starting or running a new business, is relatively low in Taipei, China despite a conducive environment for startups. TEA fell from 8.4% in 2020 to 5% in 2022, indicating that only 1 in about 20 adults is starting or running a new business (Figure 2.13.5). This contrasts with other leading startup hubs such as the United Arab Emirates with a TEA of 25%, the United States at 18%, and the Republic of Korea at 12%.

Barriers to entry and an underdeveloped entrepreneurial culture constrain potential for entrepreneurial growth. Regulations and antitrust legislation are factors cited by the Global Entrepreneurship Monitor survey as hindering ease of entry. Respondents indicated that the pandemic decreased household incomes and made starting a business more difficult. Further, people show considerable reluctance to engage in entrepreneurial activity, keeping “entrepreneurial intentions” relatively low. Only 15% of adults in Taipei, China expect to start a business in the next 3 years, while 45% of adults in the United Arab Emirates and 23% in the Republic of Korea said they would do so. Taipei, China also ranks relatively poorly in terms of entrepreneurial behavior and attitudes as, among those surveyed, no more than 40% of respondents thought themselves capable of being an entrepreneur. As reported in Asian Development Outlook 2022, people throughout developing Asia generally have a poor opinion of entrepreneurs in terms of status and career choice, and legal frameworks in the region need to be adapted to the fast-moving environment of digital entrepreneurship.

Current government policies help to nurture entrepreneurial activity in the tech sector, but additional steps are needed. The government is creating an environment that nurtures innovation, including through several startup incubators, incentives for foreign participation, and programs that provide access to credit for startups and small and medium-sized enterprises. Apart from these initiatives, enhancing entrepreneurial education is key. Entrepreneurial education was scored as insufficient (Figure 2.13.6), a key factor that may be driving the decline in TEA and adults’ reluctance to start

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Figure 2.13.5 Total Early-Stage Entrepreneurial Activity

Entrepreneurial activity remains relatively low despite a conducive environment.

PRC = People’s Republic of China, TEA = total early-stage entrepreneurial activity.
a business. There needs to be more entrepreneur-focused courses to build confidence and launch a new wave of young entrepreneurs that can maximize the rich startup environment the government is cultivating. The government’s Small and Medium Enterprise Administration and its Ministry of Labor already have several programs for talent cultivation and skill training. Scaling up these efforts and enhancing partnership with universities that liaise with the various incubators and accelerators would help establish a clearer path for young entrepreneurs. Strengthening entrepreneurial education—not just at the graduate level, but also for younger students through exposure to business courses—can help instill confidence and an entrepreneurial spirit in the young.

There is a need to increase awareness and streamline access to the startup ecosystem. More than 60% of adults surveyed in Taipei, China said it is difficult to start a business. This is despite the economy ranking 15th in 190 economies in the World Bank’s Doing Business 2020, suggesting a disconnect between public perception and the actual process of setting up a business. Building the ecosystem has been a concerted effort across many ministries and institutions. A downside of this arrangement is that useful information for entrepreneurs can be overwhelming or scattered across different websites and resources. Streamlining access to these resources can simplify processes and encourage potential entrepreneurs. Overall, the combination of tech expertise and supportive government policies present a unique opportunity for the emergence of a class of entrepreneurs that can capitalize on knowledge and capabilities generated in the export of high-tech products and use it to diversify the economy’s sources of growth.

Figure 2.13.6 Entrepreneurial Framework Conditions
Taipei, China has relatively low scores for ease of entry and entrepreneurial education.

Note: A score <5 is “insufficient.”