

# DPP wins Taiwan elections: key take-aways for investors



**Anna ROSENBERG**  
Head of Geopolitics –  
Amundi Investment  
Institute



**Nick McCONWAY**  
Head of Asia ex-Japan  
Equity

- **What's next?** Beijing has expressed its disappointment at the re-election of the ruling Democratic Progressive Party (DPP) as it makes China and Taiwan's peaceful re-unification increasingly elusive. The China-hawkish DPP has now won three elections in a row and its incoming president, William Lai, is considered by Beijing as aiming to further distance Taiwan from China, possibly aiming for independence. However, the DPP largely intends to maintain the current state of cross-strait relations.
- **Foreign relations:** The DPP aims to continue to diversify away from China to achieve stronger defence and international partnerships to act as a deterrent against potential Chinese actions.
- **Market reaction:** The DPP victory has largely been expected, but market response will depend on how China reacts to the DPP victory in coming weeks and months, with potential scenarios ranging from continued status quo to 'middle road' escalations. The latter could impact the New Taiwan dollar (TWD) value, real estate and stock market, and create regional economic disturbances.

## What are the main geopolitical implications of this election outcome?

The DPP aims to maintain the status quo in cross-strait relations but firmly opposes the 1992 Consensus and the 'One China' policy, including Beijing's proposed 'one country, two systems' model for reunification.

Nevertheless, the DPP is unlikely to seek an independence referendum due to limited public support and the political difficulty in making it happen. The party also failed to secure a governing majority, meaning efforts to distance itself further from China will be limited by the opposition.

The DPP will seek to deepen Taiwan's ties to the US and will continue to comply with U.S. tech restrictions. In line with the New South Bound Policy, the DPP is focused on reducing reliance on China by enhancing cooperation with 18 countries in South Asia.

William Lai's broader strategy includes bolstering defence capabilities and forging deeper international partnerships to show that the risks and costs of Chinese actions across the Taiwan Strait will be too high.

## How do you expect China to react and how do you see China-Taiwan scenarios evolving?

We expect tensions with China to rise compared to 2023. We see a bigger likelihood this year for 'middle road' escalation – a step up from the current pressures occurring under the 'status quo' - as well as a somewhat bigger risk of military confrontation.

This 'middle of the road' escalation could entail scenarios like a temporary blockade of Taiwan, which would alarm markets, or a non-military takeover, which in many ways seems more likely than an invasion due to various domestic factors such as the unpreparedness of the Taiwanese populace and military, internal distrust amongst the government and military institutions, and uncertainty over U.S. support.

1 Marketing material for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry.

***“if China were to impose a customs quarantine – essentially banning major imports and exports – concerns about supplies and social unrest could arise, impacting the stock market”.***

### **What are the main domestic policies that will be in focus under the new government?**

Regarding domestic policy, apart from China relations, energy security will be the focal point. Because it failed to achieve governing majority, there will likely be resistance to the DPP's 2025 nuclear-free objective.

Lai wants to strengthen the economy and tech sectors, implement industrial reform and industrial upgrades, provide better healthcare for the elderly, support for education and childcare, and reform the housing sector.

### **What are your macroeconomic views for Taiwan?**

Economic growth is set to decelerate in Q4 2023 and Q1 2024 before picking up in H2 2024. Despite a technical recession in early 2023 and a prolonged export slump, a revival in export orders is underway.

Economic disengagement from mainland China and an absence of sufficient compensatory support point towards lower long-term growth potential.

### **What will be in your view the market impact of this election outcome?**

On the market impact of the elections, there will likely be growing risk perceptions, in particular the closer we get to Lai's inauguration on May 20. However, much will depend on China's reaction to the DPP victory. If the status quo continues, little will change. If we enter a 'middle road' escalation, the market reaction would depend on the type of escalation.

For example, if China were to impose a customs quarantine – essentially banning major imports and exports and allowing only essential foods and fuels into the country – concerns about supplies and social unrest could arise. Such a scenario would likely lead to a depreciation of the TWD and impact both the real estate and stock markets.

A more extreme scenario, such as a full blockade prohibiting all imports, disruption of communication cables, and a sea/air blockade, would trigger a regional 'risk-off' event, severely impacting Asian stock and real estate markets and leading to foreign exchange (FX) shortages.

## AMUNDI INVESTMENT INSTITUTE

In an increasingly complex and changing world, investors have expressed a critical need to understand better their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. Situated at the heart of the global investment process, the Amundi Investment Institute's objective is to provide thought leadership, strengthen the advice, training and daily dialogue on these subjects across all assets for all its clients – distributors, institutions and corporates. The Amundi Investment Institute brings together Amundi's research, market strategy, investment insights and asset allocation advisory activities. Its aim is to project the views and investment recommendations of Amundi.

Discover Amundi Investment Institute



### Important information

This document is solely for informational purposes. This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction. Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. Furthermore, nothing in this document is intended to provide tax, legal, or investment advice. Unless otherwise stated, all information contained in this document is from Amundi Asset Management S.A.S. and is as of 15 January 2024. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management S.A.S. and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks. Furthermore, in no event shall Amundi have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages due to its use.

Date of first use: 15 January 2024.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 91-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – [www.amundi.com](http://www.amundi.com).

---

### Chief editors

#### Monica DEFEND

*Head of Amundi Investment Institute*

#### Vincent MORTIER

*Group Chief Investment Officer*

#### Matteo GERMANO

*Deputy Group Chief Investment Officer*

---