

Update on Taiwanese presidential elections

Owens Huang



President-elect Ching-te (William) Lai (left) and Owens Huang (right)

On January 13, Taiwanese voters handed a resounding victory to the Democratic Progressive Party's (DPP) presidential candidate William Lai. The DPP is usually viewed as the party that promotes Taiwanese nationalism and identity. This is the first time in history that the DPP has won a third successive four-year term for the presidency.

As Taiwan's new president, William Lai said he would maintain the status quo with regards to relations across the Taiwan Strait, but that he was "determined to safeguard Taiwan from threats and intimidation from China". I have had the good fortune to meet William Lai in person, engaging in a two-hour round-table discussion on various issues of significance. It was my distinct impression that Mr. Lai possesses a steadfast and unequivocal commitment to Taiwan's national identity. In fact, his level of support may even surpass that of outgoing President Ing-wen Tsai, based on my observations.

While the cross-strait relationship between Taiwan and China remains complex, the recent election outcome suggests a continued focus on solidifying Taiwan's ties with Japan and the United States. Mr. Lai is known as a friend of Japan, consistently fostering friendly relations between the two countries, highlighted by his visit to the family residence of the late Prime Minister Shinzo Abe following his assassination. Japan's swift and warm congratulations following William Lai's victory further underscored the strong bilateral bond, as did Foreign Minister Yoko Kamikawa's comments that "for Japan, Taiwan is an extremely crucial partner and an important friend, with which it shares fundamental values and enjoys close economic relations and people-to-people exchanges".



Facebook post from former Japanese Prime Minister Abe's brother Kishi Nobuo (seated, right) showing the meeting at the Abe residence with William Lai (seated, left of background)

Hsiao Bi-khim, Taiwan's newly elected vice president, brings a wealth of experience in fostering United States-Taiwan ties. Born in Japan to Taiwanese and American parents, she served as the Taiwanese Ambassador to the United States from 2020 to 2023, earning recognition for her remarkable results through diplomacy. Her presence at President Biden's inauguration marked the first time Taiwan's United States Ambassador had officially attended a United States presidential inauguration since 1979. The U.S.-Taiwan Initiative on 21st-Century Trade secured during her tenure cemented economic cooperation and catapulted Taiwan's exports to unprecedented heights,

surpassing Taiwan's exports to mainland China in December 2023 for the first time since 2003. Businesses and investors should take note, as this strengthened partnership presents exciting opportunities in critical sectors such as the technology supply chain.



X (Twitter) post from William Lai (right) announcing the Vice Presidency of Hsiao Bi-khim (left)

This DPP victory signals continued support from Taiwan's population for the policies of current president, Ing-wen Tsai, which include fostering deeper ties with the United States, Japan, and others across the Indo-Pacific, suggesting opportunities for enhanced trade and cooperation on critical issues and regional stability. This trajectory aligns with efforts to lessen economic dependence on China, potentially diversifying trade, bolstering domestic industries and strengthening resilience. The victory also sends the message that unification with China is not an option for the Taiwanese people. China's disapproval was swift, issuing an official statement dismissing the vote and stating that the DPP cannot represent Taiwan. China has also begun its first military exercises around Taiwan since the election and we expect these tensions to continue (repeating similar actions following the 2016 and 2020 elections). Contrary to China's intentions, we believe these actions will continue to galvanize American and international support for Taiwan's right to self-determination. Additionally, China's ongoing economic

challenges and military restructuring may limit the scope and intensity of potential military actions.

Stock market implications

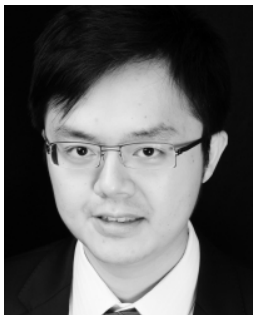
As the election outcomes aligned with pre-existing poll findings, the impact on the stock market has so far been limited. Any major fall in Taiwanese stock prices from this point could present an attractive buying opportunity for Dalton.

Past DPP victories have triggered retaliatory trade restrictions from China, potentially impacting Taiwanese companies with significant revenue or asset/factory exposure within the mainland. To actively manage this risk, we at Dalton implement strict portfolio controls, limiting both revenue and asset exposure to China across our portfolios. This effort is a particular focus within our Taiwanese stocks. Consequently, most of our Taiwanese portfolio companies have significant exposure to international markets, particularly the United States.

For China, this election result adds a further burden to the country's already long list of problems. Dalton has maintained a significant underweight position in China for more than five years, reflecting our negative long-term outlook on investments in entrepreneur and family-owned businesses in the country. Instead, our focus remains firmly centered on the United States sphere of influence in Asia – Japan, Korea, India (with increasing emphasis), and Taiwan. We believe these markets offer superior risk-adjusted return potential over the long-term, proving a stable base for growth within our investment strategies.

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Dalton Investments

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