

Taiwan's Electric Vehicle Market: Current Status and Localization Challenges

Jheng, Jing-Yuan | Associate Analyst, The Regional Development Study Center, CIER

As the government accelerates its efforts to promote measures related to new energy vehicles and international brands actively enter Taiwan's electric vehicle (EV) market, the domestic EV market has grown significantly in recent years, with consumer acceptance of EVs increasing noticeably. From the perspective of new car sales, the proportion of gasoline and diesel vehicle registrations among passenger cars in Taiwan dropped from 92% in 2019 to 70% in 2023. In contrast, the proportion of EVs increased from 1% in 2019 to 7% in 2023, indicating a growing consumer preference for non-gasoline vehicles.

In terms of brands, Taiwan's electric passenger car market is dominated by imports, primarily luxury EVs from brands like Tesla, Volvo, BMW, and Mercedes-Benz. The steady increase in demand for luxury passenger cars among high-income groups has led some consumers to switch to luxury EV brands, highlighting the rising acceptance of EVs within this demographic.

However, for EVs to achieve widespread adoption, more affordable options are needed to expand the consumer base. In 2023, brands like Luxgen (MG), Kia, and Hyundai entered the market, providing more diverse choices and intensifying competition in Taiwan's EV market. Among them, Luxgen introduced the MG brand under a completely-knocked-down (CKD) assembly model with low localization rates, leveraging cost advantages that gained favor among Taiwanese consumers. However, this raised concerns within the local supply chain, sparking worries in the auto parts industry.

Although Taiwan bans the import of complete vehicles and chassis from China, other components can still be imported. To address concerns about the CKD model's impact on Taiwan's supply chain, the government mandated in August 2024 that Chinese-manufactured vehicles sold in Taiwan must meet localization requirements of 15% in the first year, 25% in the second year, and 35% in the third year. Existing and upcoming models will also be subject to stricter localization cooperation value ratios. If these requirements are not met, the Ministry of Economic Affairs will prohibit the

import of key components such as motors, steering systems, axles, and frames from China.

In summary, while Luxgen's CKD model has effectively reduced vehicle production costs in the short term, it poses challenges to the long-term development of Taiwan's auto parts industry, which mainly comprises small and medium-sized enterprises. A decline in orders from automakers threatens the survival of local supply chains. The government's localization requirements could stimulate domestic parts sales, enhancing Taiwan's supply chain's role in the EV industry while reducing dependence on Chinese components.

However, the policy's requirement for existing models to also localize has drawn criticism from some businesses, which argue for a grace period. Given Taiwan's limited automotive market size, manufacturers require high sales volumes to offset the upfront costs of R&D and production. Reduced domestic vehicle sales could make cost recovery more challenging. As domestic production costs rise, the manufacturing costs of locally produced vehicles will inevitably increase, potentially driving up prices. This price hike may hinder the adoption of affordable EVs in Taiwan, warranting close attention in the future.

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