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10TH ANNUAL TAIWAN BUSINESS CLIMATE STUDY

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Taiwan Business Climate Survey 2020

Background

For the last ten years, it has been our pleasure to run the Taiwan Business Climate Survey.

Each year the study has been conducted amongst, on average, more than 200 key business leaders holding titles such as **Chairman, President, CEO, Managing Director, and General Manager**.

The companies they lead are headquartered in **17 countries** throughout the world.

Collectively, these leaders employ almost **134,500** full-time equivalent employees (FTE) throughout Taiwan (up from 126,300 in 2018). The largest entity employs 32,000 FTE's. The average number of FTE's was 672 (up from 628.5 last year) and the most frequently occurring entity size had 20 FTE - the same as last year.

To measure trends across numerous subject areas, we have consistently asked identical questions and utilised identical answer formats.

One significant addition in this year's study was asking business leaders for their prediction of the outcome in the January 11th, 2020 presidential election and what impact, if any, that may have on their business forecasts.

The survey was conducted over a seven-week period from mid-October to early December 2019.

We would like to sincerely thank all those who took part for their time, insights, and comments.

We hope you find the following summary report of interest and help.

For additional information, please contact us at gordon@independentmarketing.com.au

Summary of results

The majority of business leaders correctly predicted the winner of the 2020 Presidential election – The Democratic Progressive Party (DPP) - and consequently, the re-election of President Tsai Ing-wen. Whilst not everyone responded to this question, of the 160 who did, more than two thirds (69%) predicted a DPP win. Only 8% predicted a Kuomintang (KMT) win and 23% responded that they didn't know/couldn't predict. Irrespective of which party they believed would win, almost half (48%) believed that the outcome would have no impact on their business with another 32% believing it would have a “somewhat” or “very” positive impact.

Generally, all the financial metrics studied reflect promising signs, with a return to pre-2018 levels.

After a significant decline experienced in 2018 (likely due to the changes in labour costs), profitability levels appear to have recovered during 2019.

2020 forecasts for both revenues and profitability are up, and more in line with pre-2018 levels.

Investment forecasts have shown a statistically significant increase over a year ago (2019 was the lowest in nine years) and a return to more ‘normal’ levels.

Employment forecasts, whilst still positive, are slowing.

Most companies are still optimistic about the 5-year business outlook.

The issues that companies see as potential risks are a slowdown in either the Taiwan and or global economy along with concerns about Taiwan's ongoing relationship with the People's Republic of China (PRC).

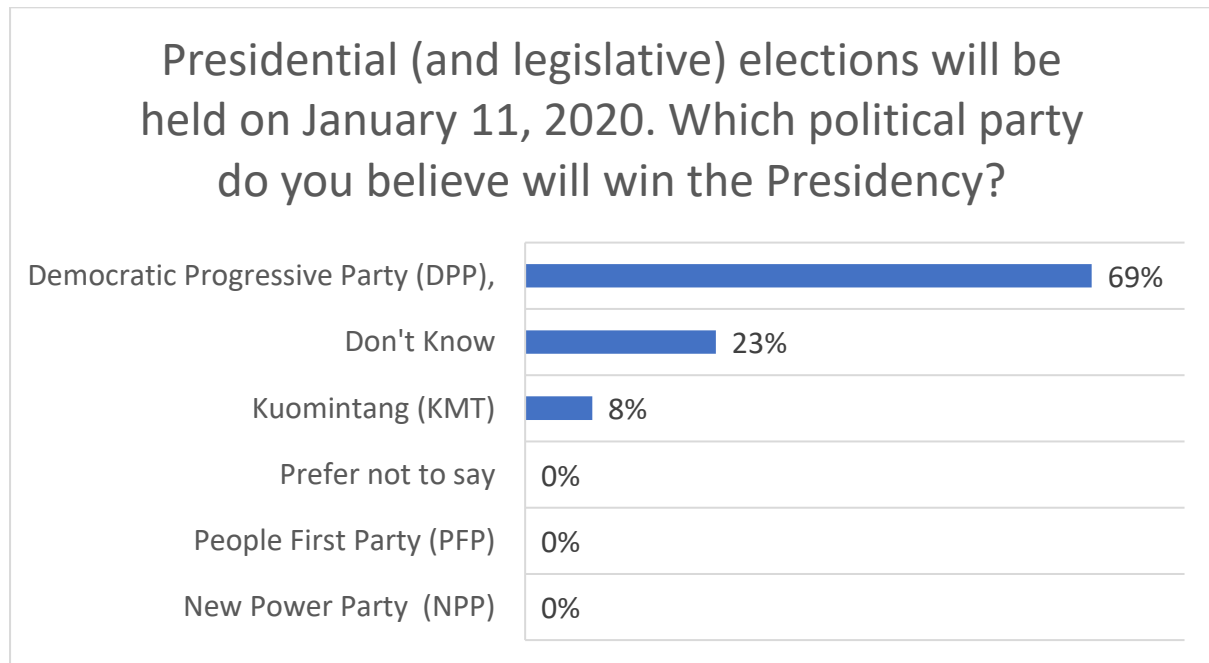
Regulatory, governmental and political matters are identified as having the greatest adverse influence on the Taiwan business environment.

With an otherwise stellar workforce, concerns expressed in previous studies regarding employees lacking in creativity, innovation and initiative, persist.

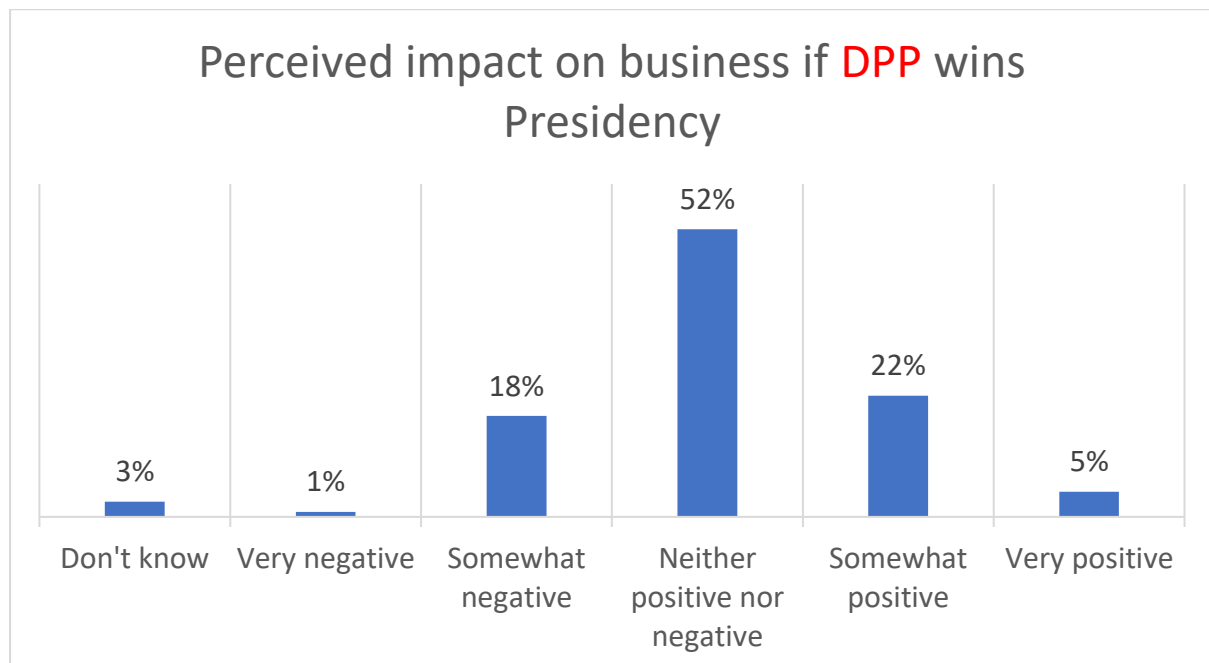
In addition, the survey also addresses general ‘quality of living’ issues. Again, whilst generally incredibly positive, we find the same concerns amongst business leaders remain. For example, pedestrian safety at designated crossings, continue to be of concern year after year.

Presidential Election Forecast and Impact: *DPP and not a lot*

With the elections this year, we felt it important to ask our leaders if they felt their expected outcome would impact their business.



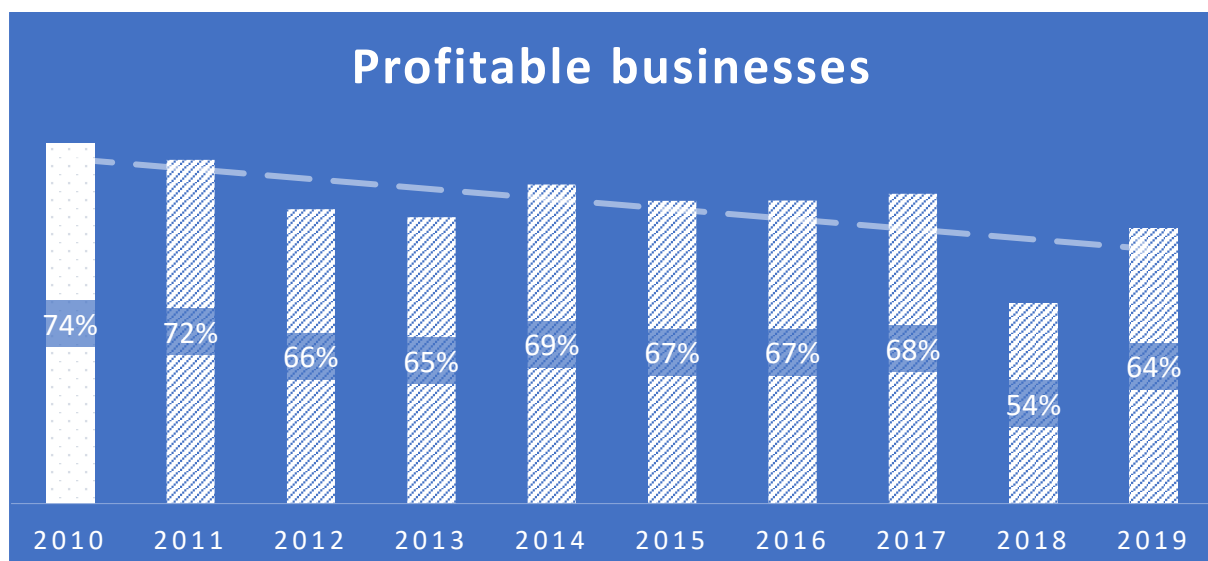
Those who correctly predicted a DPP win, generally see such this result as either having no real impact on their business or indeed, a positive one.



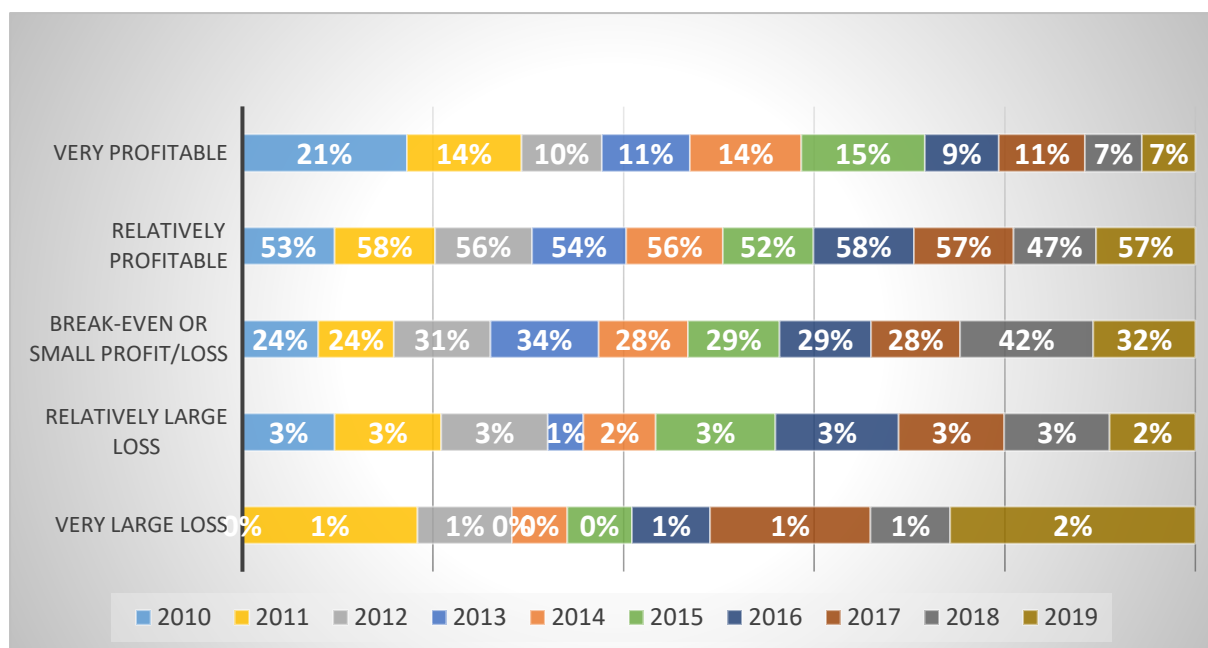
Summary of Key Financial Indicators with 10-year Trendlines

Profitability: *Recovers*

Following on from the financial hit to their profitability last year (from 68% down to 54%), we see a return to higher proportions of businesses claiming that their businesses are “relatively” or “very profitable”. Presumably, this is a readjustment as regulations were clarified around the impact of the implementation of the amended Taiwan Labor Standards Act (in December 2017, November 2018, and subsequent amendments during 2019).

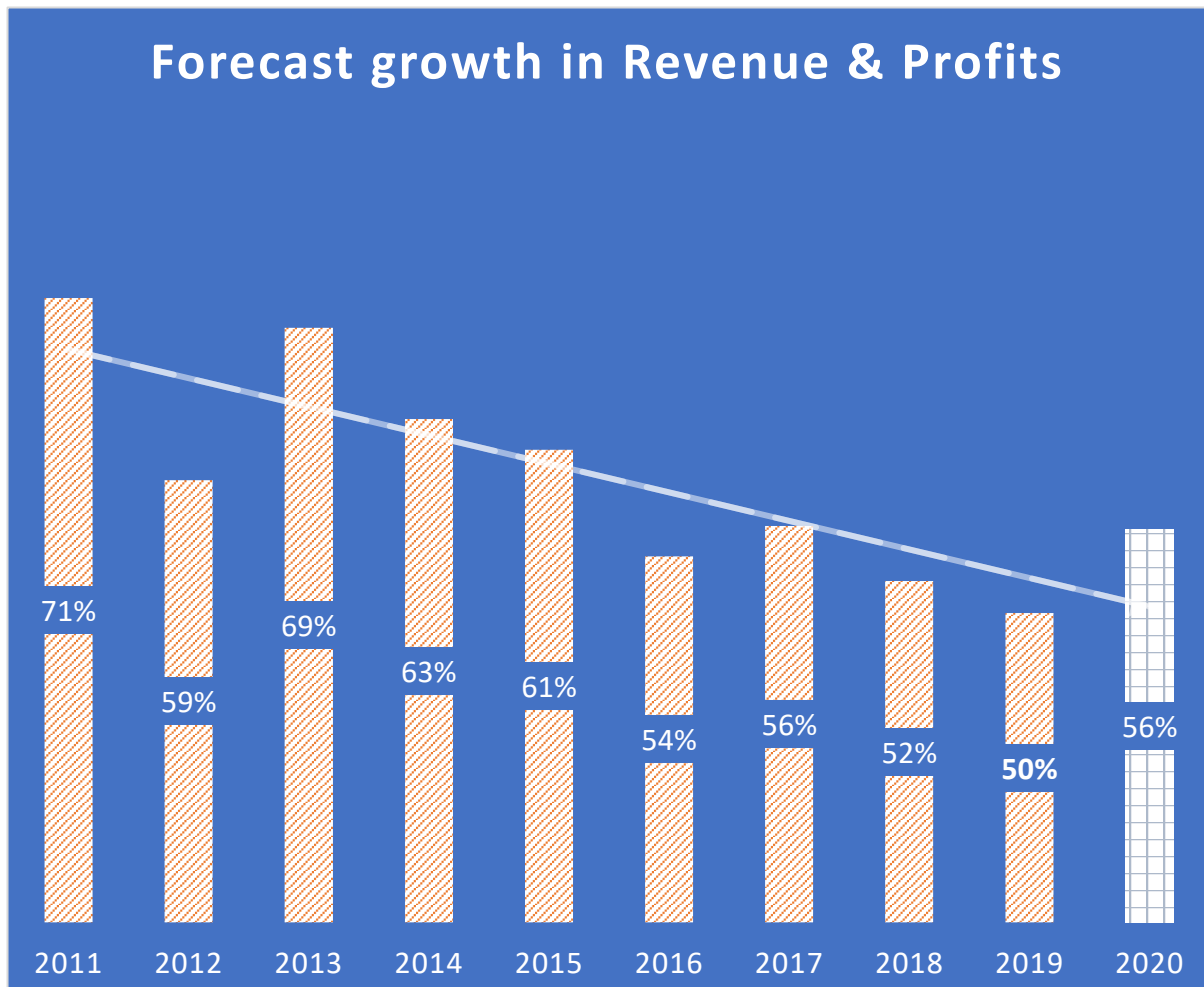


We see the improvement in the “break-even or small profit” and “relatively profitable” groups during 2019.



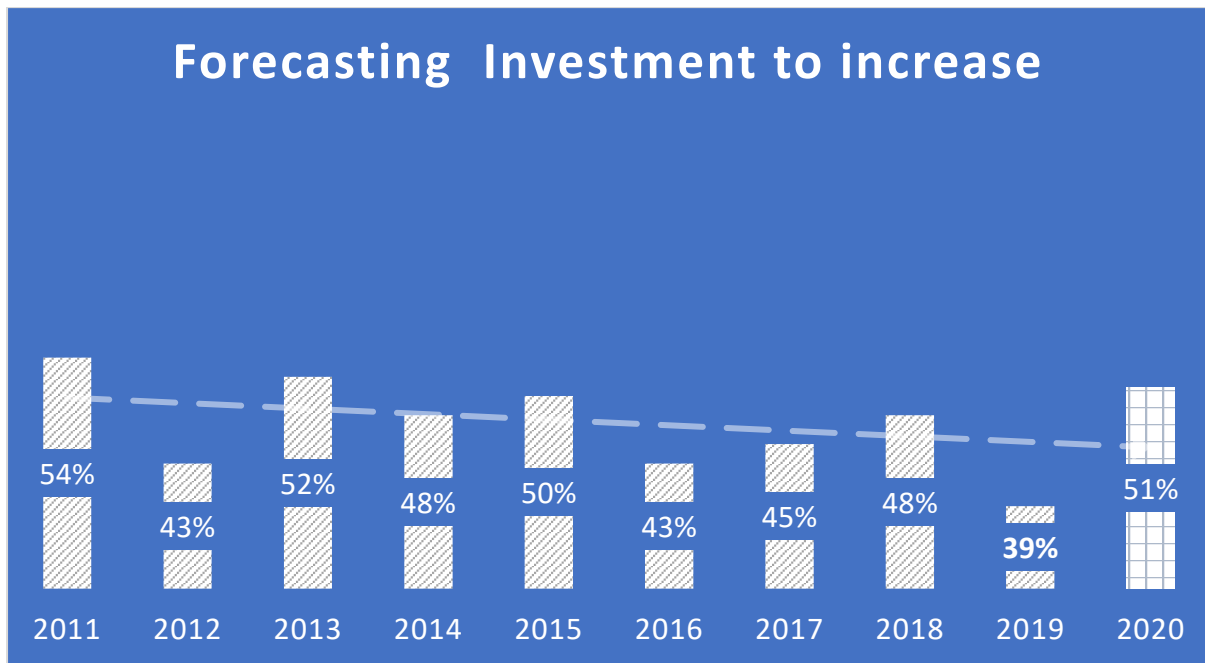
2020 Forecast for Revenues and Profits: *Return to growth*

We also see a return to businesses upwardly adjusting their forecasts for revenue and profitability growth in 2020.

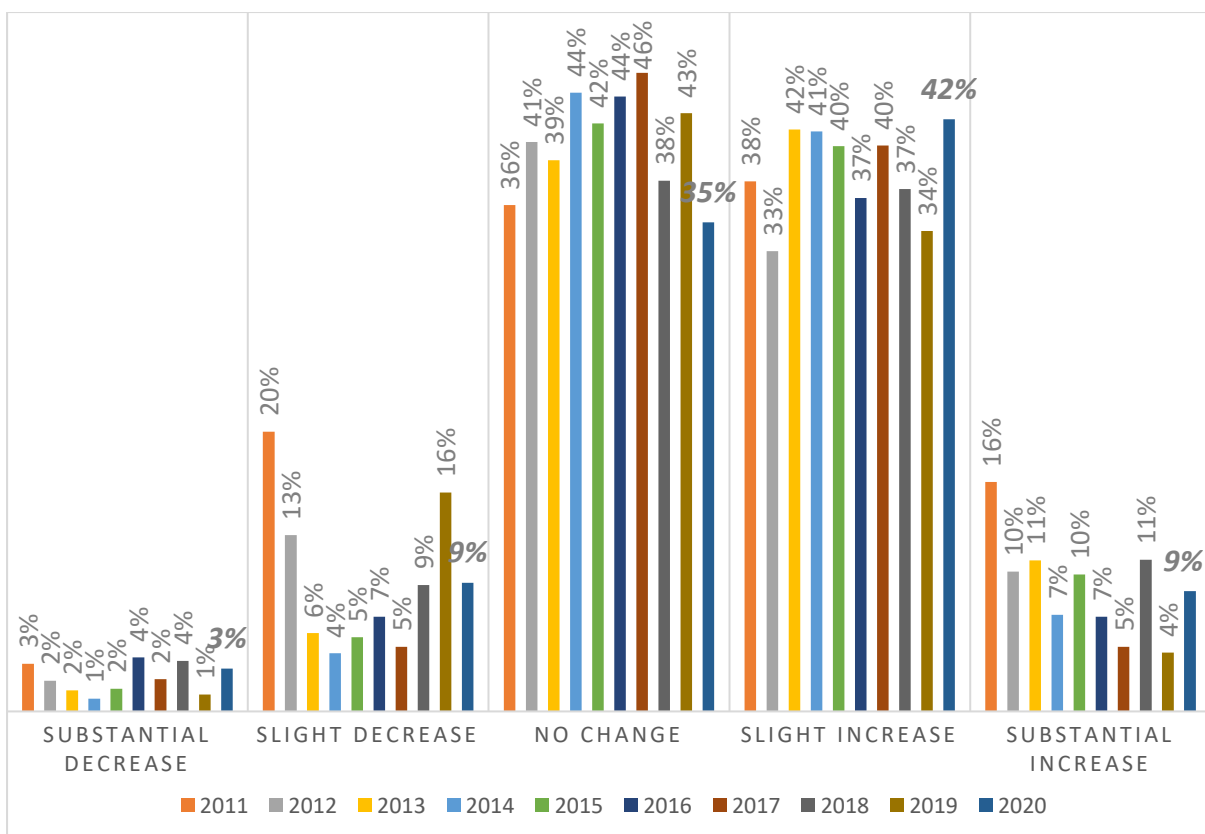


Investment Forecast for 2020: *Back to positive territory*

And forecasting an upswing in Investment, again, back to more 'normal' levels.

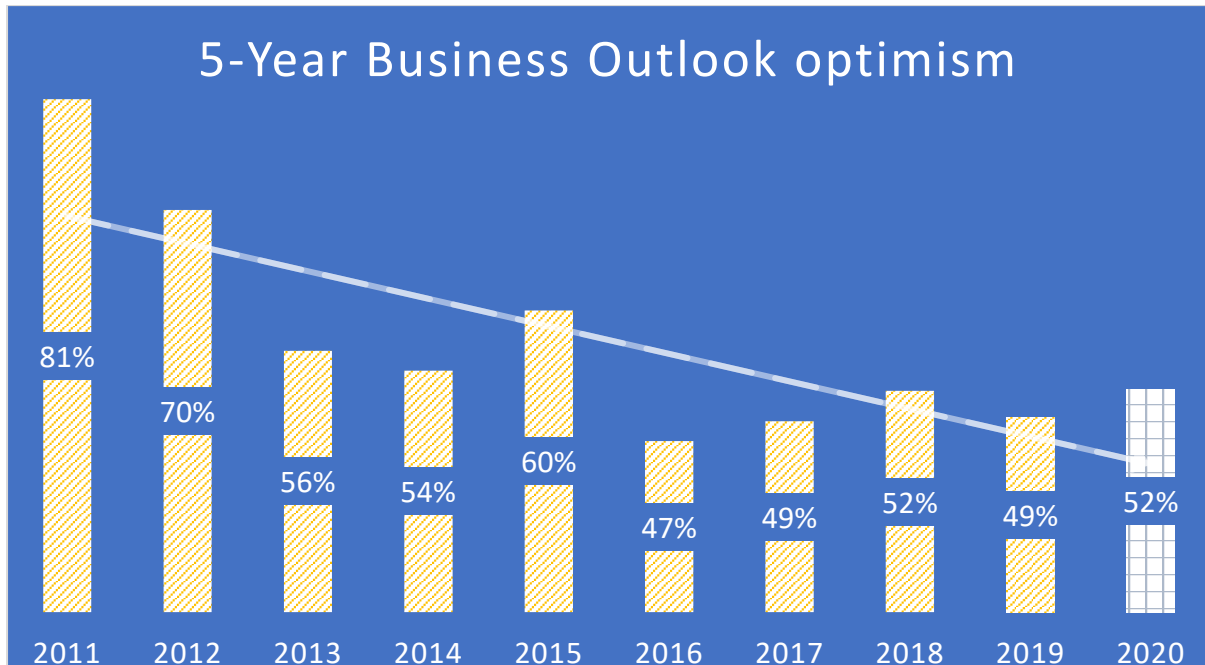


However, most companies are planning a **slight increase** in the level of investment in Taiwan, over the next 12 months.

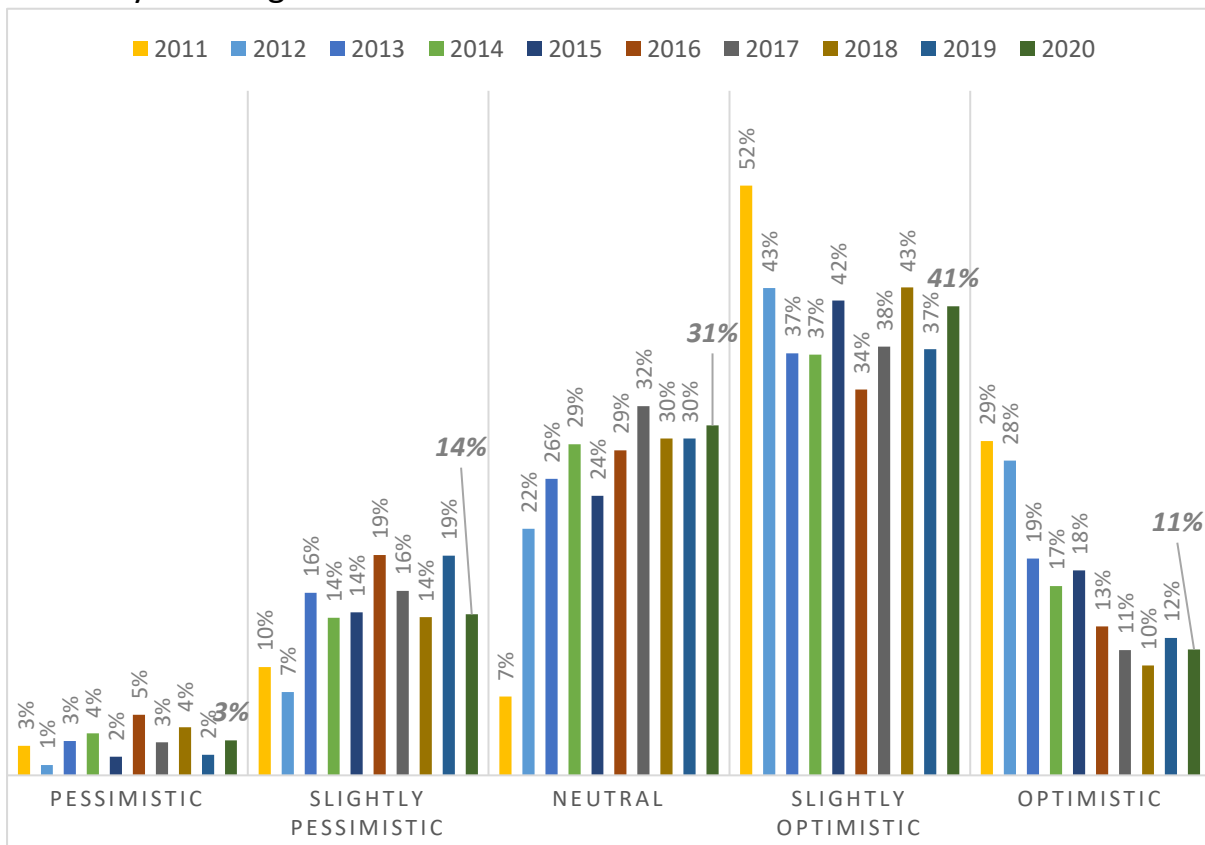


Forecast for the next 5 years: *Optimism returns*

Most businesses (52%) continue to be optimistic about their 5-year outlook.



In recent times, all classifications in the 5-year forecast have remained relatively unchanged.



Some quotations concerning their 5-year outlook

Several comments explaining **optimism** (49% of responses) in their 5-year forecast centred around the issues of USA-PRC trade wars and/or issues in Hong Kong. For example:

“Looking for increased manufacturing activity in Taiwan due to the Sino-American Trade war.”

“Proximity to SEA, US-China trade war and turmoil in Hong Kong benefit Taiwan.”

“Taiwan economy benefit by US-China Trade war.”

“More Taiwanese companies are returning to Taiwan.”

“We think Taiwan will begin to attract more FDI [Foreign Direct Investment] and start-ups and expand its own markets to rely less on China.”

At the opposite end of the spectrum from those who are **pessimistic** (35%) about their 5-year business outlook:

“Increased demand in the China market and uncertainty of the political relationship between China and Taiwan.”

“Declining population, rising costs, more regulation.”

“Market and consumption are shrinking, unlikely to resume massive tourists visit from China in the light of [predicted DPP win] election results.”

“The PRC has become very active in throwing its weight about in recent years - while there are some ways this could benefit Taiwan, there is the not-insignificant chance that the PRC could do something catastrophic in light of the power vacuum in the United States.”

“Taiwan economy is highly correlated to the global economy, given the unclear or pessimistic outlook of the global economy, there is no reason to be optimistic about the local market.”

Those who took a **neutral** (16%) outlook:

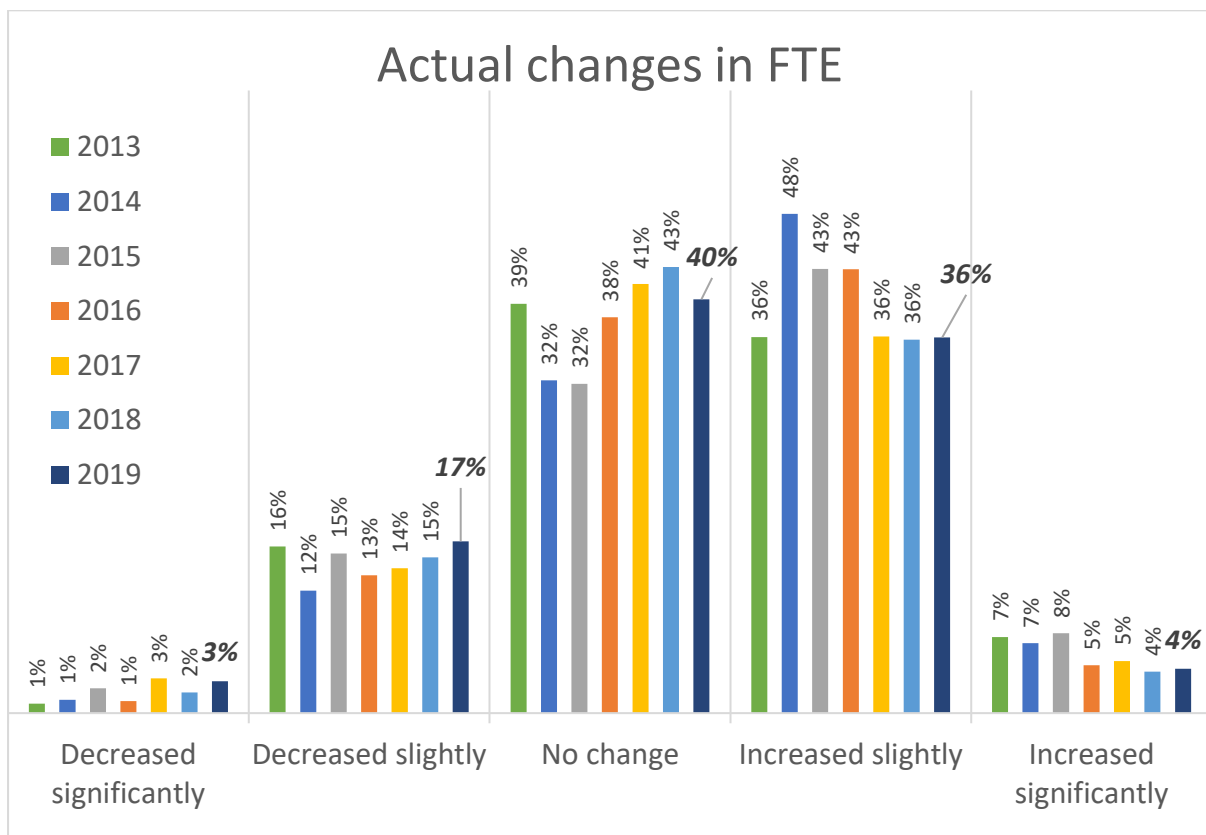
“Increase in global competition for Taiwan traditional companies offset by potential new markets and returning Taiwanese manufacturers.”

“Taiwan is stable but no development with the current economic and political environment.”

Employment and Human Resources Trends

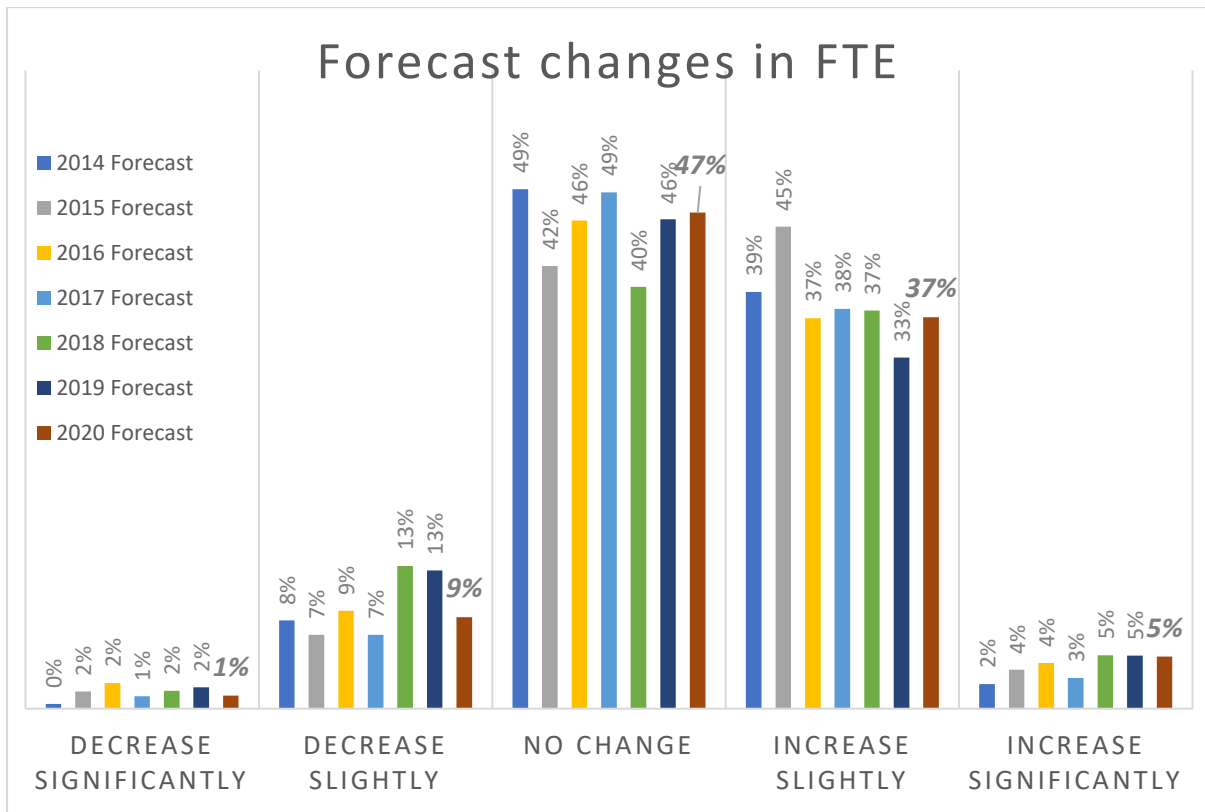
DEFINITION: For simplicity, Full-Time Equivalent employees (FTE) are determined by counting part-time employees as half an employee and adding them to the number of full-time employees

The rate of growth in headcount has essentially remained unchanged from last year's historically low level.



Forecast changes in employment: *Growing, but slowing*

FTE hiring in most companies is not expected to grow in 2020; with the majority forecasting no or negative changes in hiring levels. However, a sizeable proportion (42%) of entities are still planning to increase their FTE, so the overall impact on employment should continue to be positive.



Perceptions about Taiwanese Human Capital

Taiwanese employees are highly regarded for the work ethic, being team players and loyalty.

The following table expresses the weighted index scores given on each criterion. The higher the number the more strongly positive the sentiment.

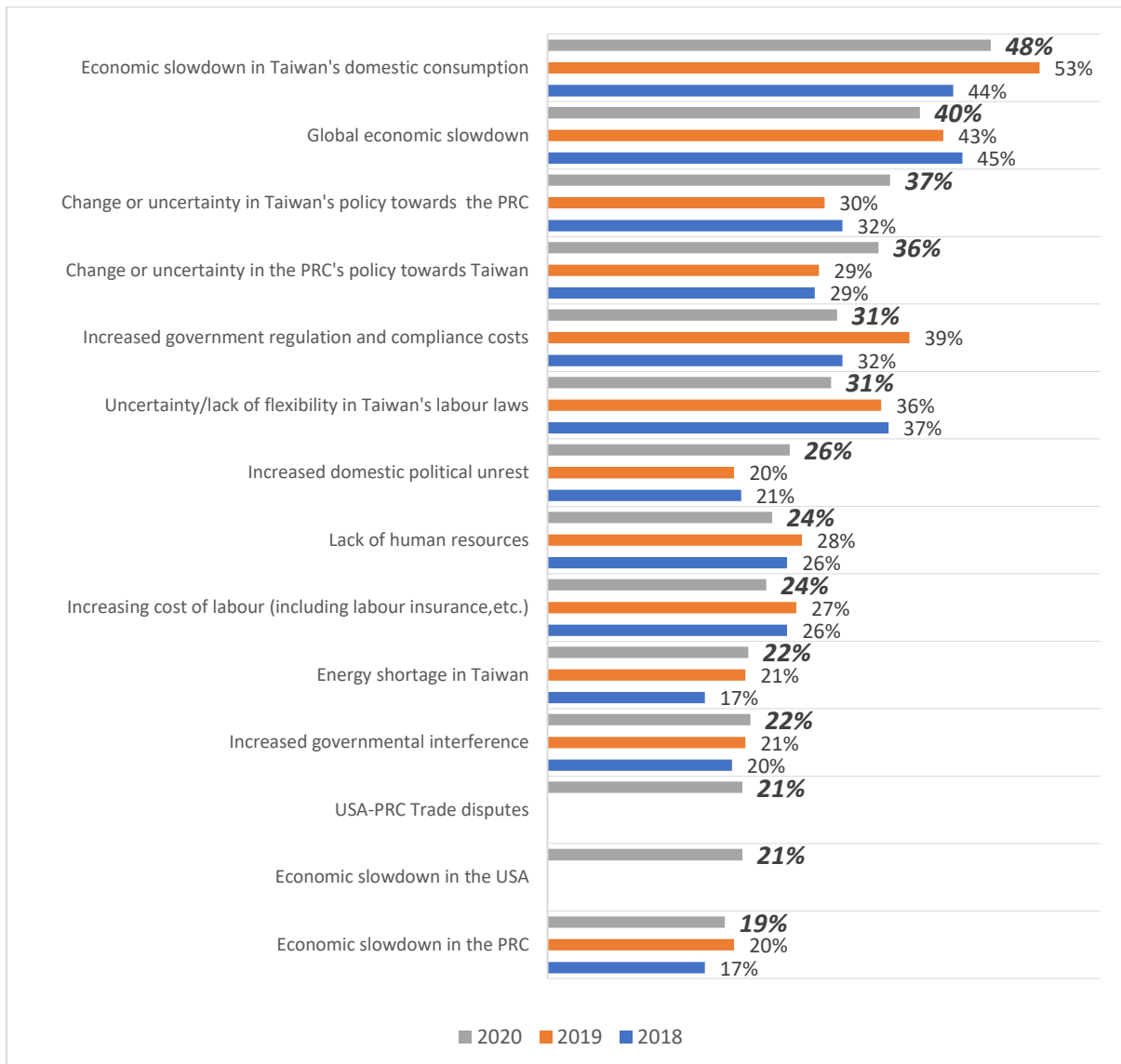
Attribute	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Average
Hard-working	111%	111%	111%	112%	107%	112%	104%	120%	119%	129%	114%
Good team players	84%	84%	78%	Attribute first introduced in 2018							82%
Very loyal	70%	61%	64%	70%	60%	70%	52%	55%	52%	61%	62%
Extremely well-educated	56%	55%	67%	85%	58%	85%	57%	76%	79%	80%	70%
Highly productive	56%	34%	55%	67%	65%	67%	47%	43%	54%	49%	54%
Easy to develop/train	55%	50%	62%	75%	68%	75%	50%	40%	46%	49%	57%
Easy to retain	32%	29%	39%	26%	26%	26%	22%	2%	-16%	-14%	17%
Show a high degree of Emotional Intelligence (EQ)	13%	30%	28%	46%	21%	46%	26%	24%	26%	18%	28%
Well-rounded	13%	-6%	8%	34%	18%	34%	1%	19%	11%	12%	14%

Where Taiwanese are perceived of needing improvement is in the demonstration of creativity, innovation and initiative-taking.

Attribute	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Average
Show a great deal of creativity	-42%	-45%	-39%	-23%	-10%	-23%	-17%	-21%	-17%	-10%	-25%
Innovative	-34%	-47%	-28%	-9%	-22%	-9%	Attribute first introduced in 2015				-25%
Show a great deal of initiative	-25%	-55%	-20%	-8%	-8%	-8%	-17%	-3%	7%	3%	-13%
Of 'world class' standard	-22%	-34%	-26%	-15%	-24%	-15%	-26%	-20%	-14%	-22%	-22%
Good English language skills (if required for role and/or promotion)	-21%	-33%	-14%	2%	-15%	2%	-26%	Attribute first introduced in 2014			-15%
Easy to recruit	-16%	-18%	-5%	4%	-27%	4%	-6%	-16%	-11%	-11%	-10%

The major risks confronting business

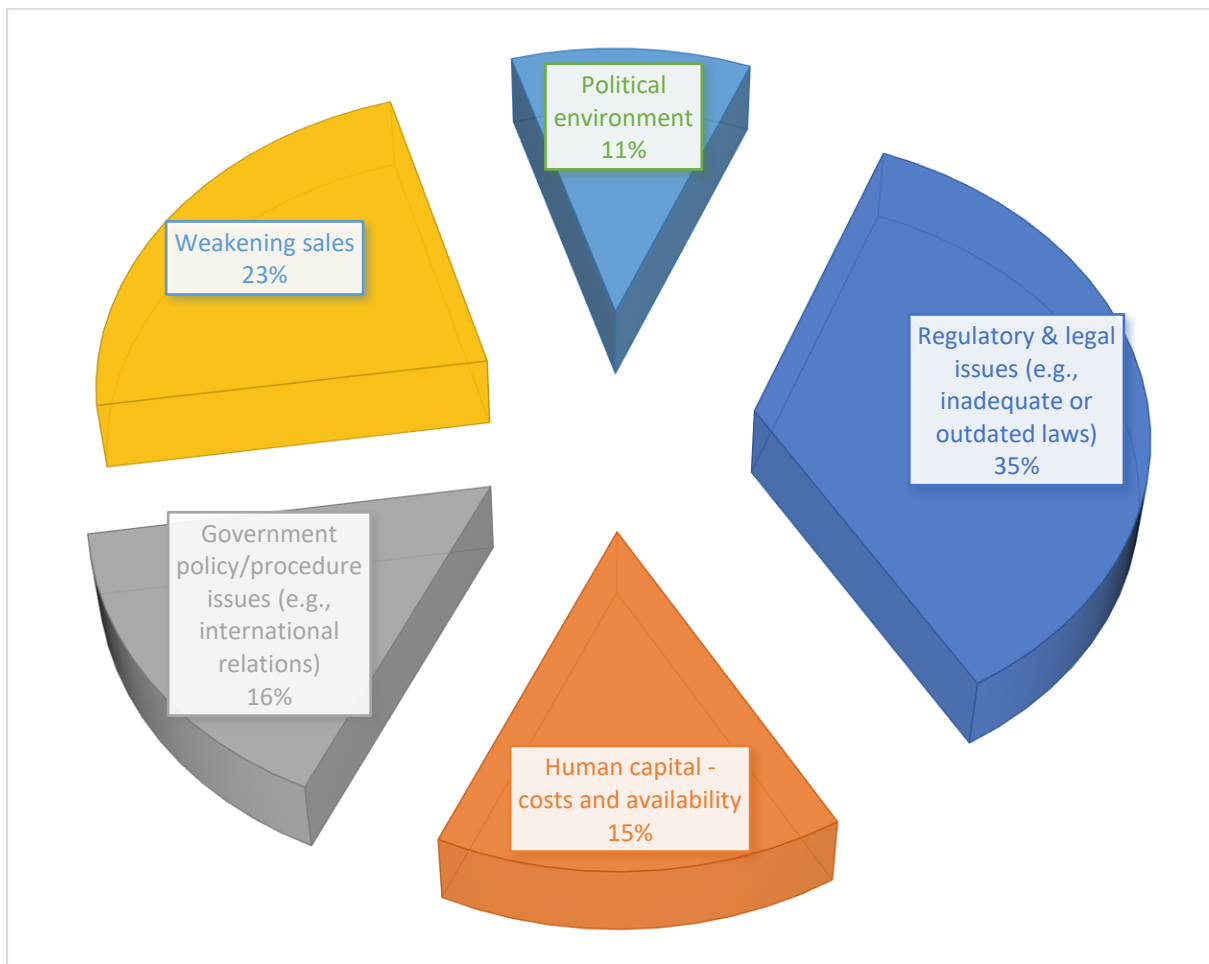
Concerns about a downturn in domestic and global economic activity and the threat of a change or the uncertainty surrounding the relationship between Taiwan and the PRC are the major risks concerning the business leaders in this study.



Impacts & Issues

Issues are ranked based upon the highest percentage of businesses citing an issue as impacting their operation in Taiwan

When asked which categories of issues have the greatest impact on their businesses, survey respondents identified regulatory, governmental and political matters as having the greatest influence.



Specifically, bureaucracy, differing rules, inadequate or out-dated laws are consistently cited as top issues which impact businesses in Taiwan.

	Ranking in year									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Governmental bureaucracy	1	2	1	1	4	3	1	3	4	2
Differences between local and internationally accepted standards	2	3	7	10	8	7	7	New in 2014		
Inadequate/Out-dated laws	3	5	6	7	1	4	5	4	6	5
Inconsistent application of the Rule of Law	4	7	11	6	6	5	4	New in 2014		
Insufficient notice before changes to regulations or laws are introduced	5	12	12	10	5	8	6	6	New in 2013	
Domestic protectionism	6	4	10	16	16	15	11	12	12	12
Changes in local demand	7	19	18	11	3	2	3	1	1	1
Ability to recruit appropriate new personnel	8	1	8	9	7	6	9	5	3	4
Lack of flexibility in labour laws	9	6	3	New in 2018						
PRC-Taiwan government relations	10	10	5	2	12	11	16	13	7	8
Lack of transparency	11	11	13	13	10	9	8	9	10	10
Changes in overseas demand	12	21	22	24	21	22	20	16	21	18
Government procurement procedures	13	24	25	20	25	28	26	27	26	25
Increasing cost of labour (including labour insurance, national health insurance, pension/retirement benefits)	14	8	9	New in 2018						
Political turmoil	15	9	16	5	11	10	13	New in 2014		

Taiwan Government(s)

Please note: When the term “Taiwan government” is used it is generally thought to relate to the central government, but in some circumstances, it may also encompass local governments.

For the past ten years, we have asked “What are the three top things that the Taiwan government could do to help your entity in the next 12 months?” Given that most of the significant issues impacting businesses are in the Government’s arena, it is unsurprisingly that the following ranked order results.

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Simplify government bureaucracy	1	2	2	5	1	2	2	1	1	1
Increase flexibility of labour laws	2	1	1							
Resolve inadequate/out-dated laws	3	4	14	6	3	3	7			
Accelerate plans to make English the 2nd official language of Taiwan	4									
Remove differences between local & internationally accepted standards	5	5	3	4	7	4	5			
Negotiate and sign more bilateral trade deals with other countries	6	20	10	17	14	18				
Devise plans to stimulate local demand	7	7	6	8	5	6	3			
Improve research and development incentives	8	6	11	11	10	15	20	8	5	9
Consistent application of the Rule of Law	9	25	9	1	8	7	4			
Reduce domestic protectionism	10	10	18	18	12	9	13			

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Educate civil servants on international regulatory best practices	11	16	12							
Reduce political turmoil in Taiwan	12	3	4	2	2	1	1			
Devise plans to slow the human talent 'Brain Drain'	13	13	17							
Clarify labour laws	14	34	5	9						
Increase direct foreign investment incentives	15	14	26	13	11	14	10	2	2	3
Maintain reasonable and stable energy costs	16	24	33	28	34	22	19			
Liberalise the labour market	17	19	21	20	15	12	22	5	6	11
Reduce tariffs	18	9	31	37	27	24	25	12	15	14
Remove or loosen prohibitions or restrictions on foreign investment into Taiwan	19	17	16	22						
Reduce corporate taxation further	20	18	38	32	18	20	17	4	4	4

Other National Governments

We also asked what other governments (from 16 countries other than Taiwan) could do to assist their business in Taiwan, the results were:

Help establish cooperative inter-government exchanges with Taiwan regulatory agencies	1
Continue to liaise with Taiwan on regulatory coherence	2
Negotiate and sign a trade and/or investment agreement with Taiwan	3
Support/Assist Taiwan's entry into the Regional Comprehensive Economic Partnership (RCEP)	4
Support/assist Taiwan's entry into the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP)	5
Send more senior government officials to visit Taiwan	6

Quality of Living

Business leaders consider Taiwan to be a safe, easy place to live, with nice people and a good healthcare system.

The top benefits of living in Taiwan are:

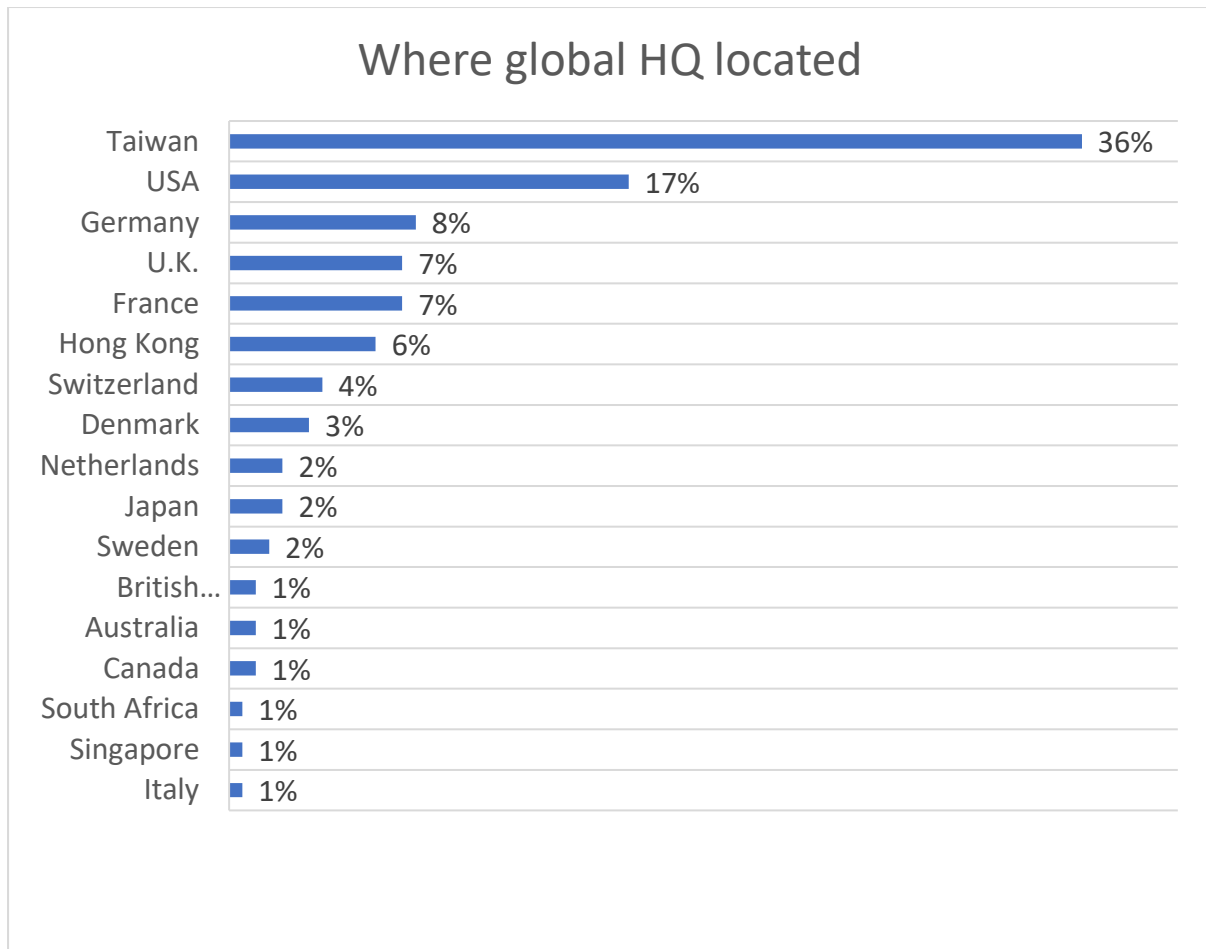
Benefits	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
My family feels safe in Taiwan	1	1	1	1	3	2	2	2	2	1
Taiwanese people are extremely nice	2	2	2	3	2	1	1	1	1	2
Taiwan provides quality Health/Medical/Dental services	3	3	3	4	4	4	4	4	3	4
Taiwan is an easy country to live in	4	6	5	2	1	3	3	3	4	3
Mobile telephone coverage is excellent	5	4	6	6	6	8	8	9	9	8
Alternative transportation options are usable and provide options for driving my car (i.e., buses, bike lanes, taxis, trains, sidewalks).	6	5	4	7	5	5	5	7	6	5
Internet connectivity is excellent	7	7	9	8	10	11	17	14	8	9
Taiwan provides adequate shopping opportunities	8	8	7	5	7	7	6	6	7	7

Pedestrian crossing safety and banking services remain the least favourable things about living in Taiwan.

Concerns	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Where there are no traffic lights, pedestrian (Zebra) crossings are a safe place to cross the road	1	1	1	1	New in 2017 – Most negative response in 10 years.					
Online banking processing in foreign currencies are easy	2	3	3	New in 2018						
Banking and other financial services are excellent	3	4	2	4	2	3	3	4	6	4
Taiwan's air quality is good	4	2	4	3	New in 2017					
Taiwan provides an 'English-friendly' environment for me and my family	5	5	5	2	1	2	1	1	1	New in 2012
eCommerce services are easy to access and use	6	7	10	New in 2018						
The sewer system in Taiwan works reliably	7	9	14	15	11	10	7	5	8	7
Taiwan provides quality drinking water.	8	6	7	5	5	4	2	3	3	3

A little bit more information...

The respondents to this survey represent a truly diverse group of businesses with their headquarters spread among North American, European and Asia Pacific locations.

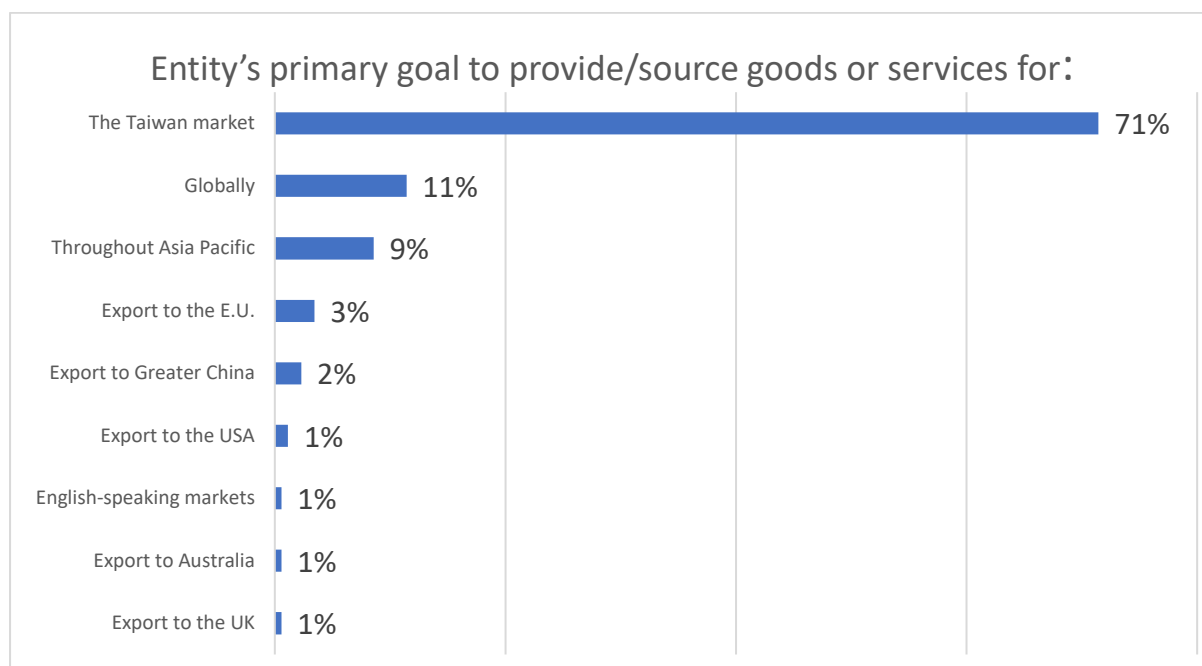


The business leaders surveyed are clearly focused on Taiwan; the primary goal of most entities is to supply the Taiwan market with goods or services. As in prior studies, this makes their comments and observations especially pertinent to:

- 1) the Taiwan government at the central and local level;
- 2) the governments of Taiwan's major trading partners, including those in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Taiwan is hoping to join;

- 3) companies that currently, or plan to, supply goods and services to companies that already supply the Taiwan market with goods and services;
- 4) trade associations both inside and outside Taiwan; and 5) scholars.

The remaining companies are primarily interested in exporting globally (11%), throughout Asia Pacific (9%), or to other specific markets.



In conclusion...

After a tough period recently, we are seeing a welcome return to previous levels of profitability; positive revenue and profitability forecasts; investment and hiring; and sustained optimism. In general, the outlook for 2020 appears bright for most businesses in Taiwan.

For more details please contact Independent Marketing & Research via gordon@independentmarketing.com.au