

BUSINESS CONFIDENCE SURVEY REPORT 2018



AHK

Deutsches Wirtschaftsbüro
German Trade Office
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德國經濟辦事處

德國商業信心
調查報告

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IN TAIWAN

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Executive Summary

- German companies remain committed to their investments in Taiwan with an optimistic outlook on the overall business development, but a slight decrease in the predictions urges caution
- The majority of German companies expect their turnover to increase in 2019
- Overall, German companies expect no major business challenges in Taiwan but cross-strait relations and political stability in Taiwan are expected to have the most pressing impact
- German companies see the introduction of vocational training in Taiwan as useful for overcoming recruitment challenges
- "Intelligent Machinery" and "Green Energy" of the "Five plus two" innovative industries plan are considered to be relevant for current or future business activities

Key Developments

Economic relations between Germany and Taiwan have evolved over the past decades amid a dynamic Asian market environment. German companies are well established in Taiwan, predominantly engaged as a partner for the Taiwanese manufacturing sector. The trade volume between Germany and Taiwan amounted to US\$ 17.0 billion in 2018. As one of Germany's mature trading partners in Asia, business relations with Taiwan continue to progress robustly. In 2018, exports to Taiwan amounted to US\$ 10.0 billion, making Germany the fifth largest exporter of goods

to Taiwan worldwide. Meanwhile, German imports from Taiwan amounted to US\$ 7.1 billion, making Germany the largest importer of Taiwanese goods in the European Union. Furthermore, German exports to Taiwan have increased by 8.3% in 2018, while imports from Taiwan have increased by 9.5% in volume year-on-year. Germany is Taiwan's most important trading partner in Europe. This report will depict recent developments in bilateral economic ties as well as an evaluation of the businesses sentiment of German companies operating in Taiwan.

Economic Overview

Economic Environment

The Taiwanese economy grew by 2.66% in 2018 and a growth rate of 2.41% is projected for 2019. This marks a slightly slower but still significant growth compared to 2017 with a growth rate of 3.08%.

Taiwanese overall exports have picked up in 2018, being 5.9% higher than in 2017. However, the export growth in 2018 cannot compete the significant growth of 13.2% in the previous year. In 2018, overall imports have increased by 10.6%, only slightly different in comparison to 2017 (12.6%). This marks a continued growth for the past two years since overall exports and imports had been falling for three consecutive years before.

According to the Ministry of Finance, the overall trade volume with Germany has reached over US\$ 17.0 billion in 2018, which marks a significant expansion of 8.75%. Taiwanese imports account for 59% (US\$ 9.96 billion) of the overall bilateral trade volume, while exports comprise 41% (US\$ 7.1 billion).

Meanwhile, domestic consumption is expected to increase by 2.2% for 2018, a marginal decrease of 0.3%.

Additionally, the consumer price index (CPI) slightly increased from 0.57% (Jan.-Nov. 2017) to 1.48% in 2018. For 2019, the CPI is expected to decrease to 0.96%.

In 2017, the Taiwanese service industry sector accounted for 62.9% of the GDP, while the industry sector is responsible for 35.4% and the agriculture industry for 1.8% of Taiwan's GDP.

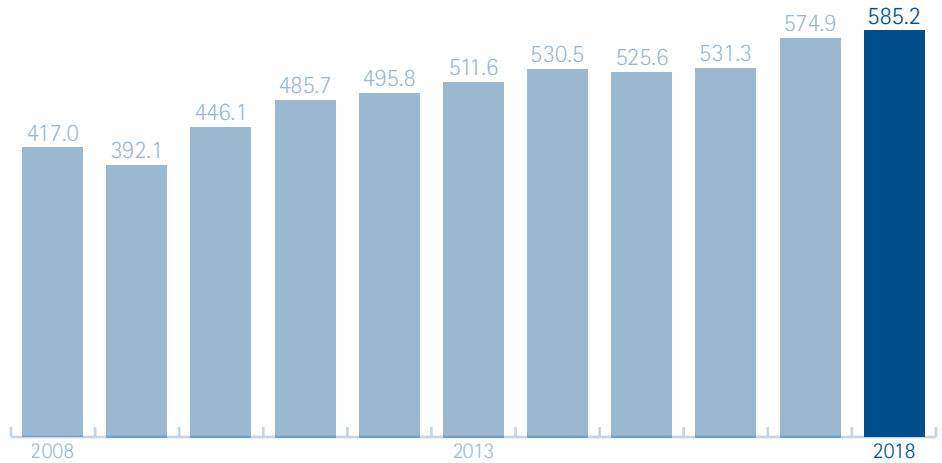


Figure 1: Taiwan's GDP at Current Prices (Billion US\$)

In 2017, the manufacturing sector was responsible for over 90% of Taiwan's industrial production, which underlines the overall economic importance of this sector. After manufacturing output had increased steadily over the last two years, the growth slightly slowed down in the first eleven months of 2018 with a rate of 4.42%. The growth mainly roots in a strong electronic parts and components sector, which comprises almost 50% of Taiwanese manufacturing and expanded by 6.39% in the same period of 2018.

Meanwhile, the key manufacturing sectors for German companies in Taiwan grew by 2.34% for the chemical manufacturing industry and by remarkable 8.76% for the manufacturing of machinery and equipment (both Jan.-Nov. 2018).

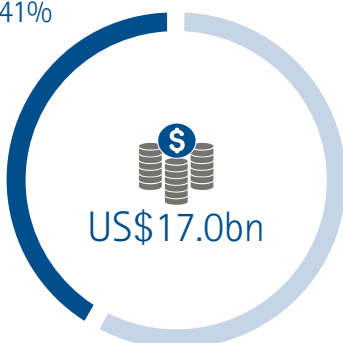
Overall, the mentioned chemical manufacturing industry accounts for 19.43% (2017) of Taiwan's total manufacturing industry. Similarly, the

metal and machinery industry comprises 21.15% (2017) of Taiwanese overall manufacturing and increased by 2.77% in the first eleven months of 2018. The information and electronic industry, accounting for the majority of 49.45% (2017) of Taiwan's manufacturing industry, increased by remarkable 6.73% for the same period in 2018. However, the other industries, which constitute of 9.97% (2017) of Taiwan's overall manufacturing industry, remained mainly steady with a growth of 0.56% (also Jan.-Nov. 2018).

All in all, the economic environment in Taiwan seems to continue the improvement of the last year with a stable growth of manufacturing, investment and trade (overall as well as with Germany). However, there is still need for caution, as the overall GDP growth is still stable but expected to decline slowly.

Trade Volume 2018

Export 41%



Import 59%

Figure 2: Trade Volume Between Germany and Taiwan in 2018

Balance of Trade

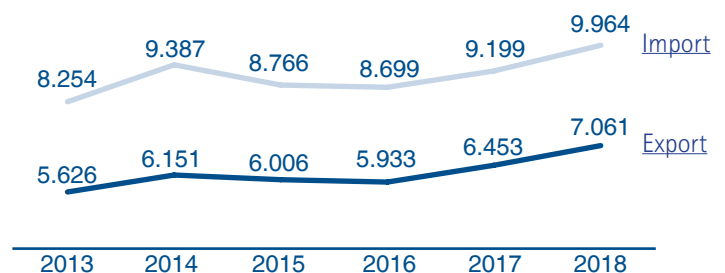


Figure 3: Taiwan's Trade Balance With Germany (Billion US\$)

German Investments in Taiwan

As of November 2018, the accumulated approved investments by German investors in Taiwan have totaled about US\$ 3.5 billion since the first investments were made in 1967, making Germany the third largest European investor. According to the Investment Commission of the Ministry of Economic Affairs, the biggest German investors of this period were Merck, Bosch, Bayer, Allianz and DHL. Since 2013, annual investment flows to Taiwan from Germany have been generally on a stable level of above US\$100 million.

After an investment peak of US\$ 558.8 million in 2014, which was accounted for large investments in the electronic parts and components manufacturing sector, an all-time high for investments was reached in 2018. The approved investments of the January-November period of 2018 are four times higher compared to last year, amounting to a total of approximately US\$ 640.1 million. This new record high was reached by a significant increase of investments in the finance and insurance sector, which is the main driving force for German investments to Taiwan with an increase of US\$ 540.6 million, while the manufacturing as well as the wholesale and retail trade sectors place second and third respectively. Investments in the manufacturing sector primarily target the chemical material and electrical equipment manufacturing sectors, both sectors of utmost importance to Germany and Taiwan.

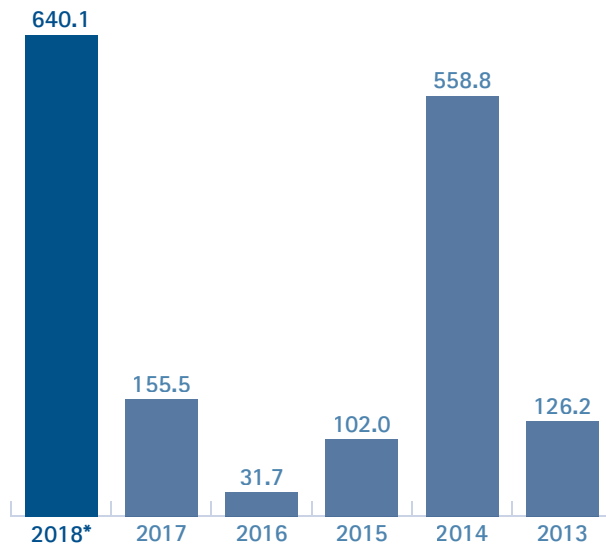


Figure 4: German Total Investments in Taiwan (US\$ Million)

*January - November

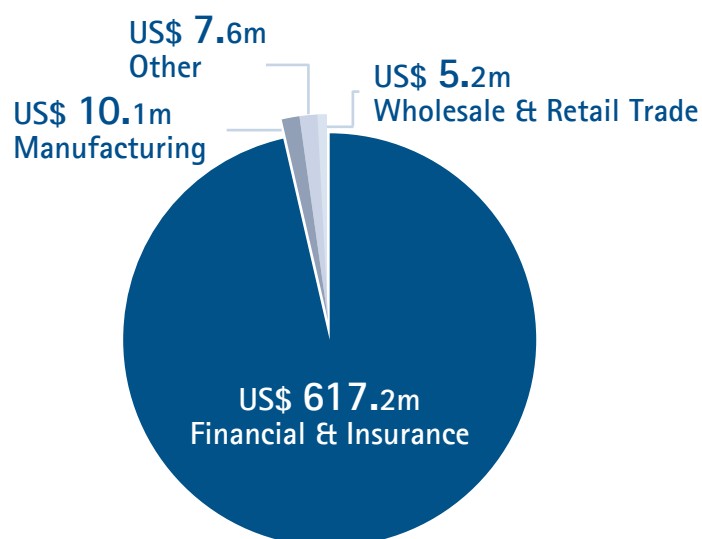


Figure 5: Investment Sectors in the January to November Period of 2018



Business Confidence Survey

The German Trade Office Taipei conducts the Business Confidence Survey every year to obtain a feedback of German companies operating in Taiwan. The main intention of this survey is to assess the state of the current business environment, to identify the biggest challenges for German companies as well as to evaluate their expected developments for 2019.

The Business Confidence Survey 2018 was conducted between October 28 and November 26 and consists of 29 questions concerning the participants business performance last year, their market outlook for 2019 as well as Taiwan's investment climate. Currently, there are approximately 250 German companies operating in Taiwan, of which the majority are small and medium sized enterprises (SME) employing a total of around 15.000 employees in Taiwan. Overall, close to one third of the German companies participated in this year's survey.

Company Background

This year's Business Confidence Survey was predominantly filled out by CEOs and Managing Directors (47%) as well as Senior Managers (33%). The results of the survey indicate that around 58% of the German companies have been doing business in Taiwan for more than 15 years. The main industries German companies are engaged in are the machinery and industrial equipment industry (31%), followed by the logistics sector (14%) and the sales/marketing industry. Around 7% of the German companies are active in Taiwan's most important industry, i.e. the electronics industry, while companies in the automotive, chemical, legal and services sector each account for approximately 4%. Most German companies operating in Taiwan are small enterprises with a staff headcount between 11 and 50 employees (50%), 24% are micro-enterprises with up to 10 employees, while large enterprises with more than 500 employees accounted for about 4%.

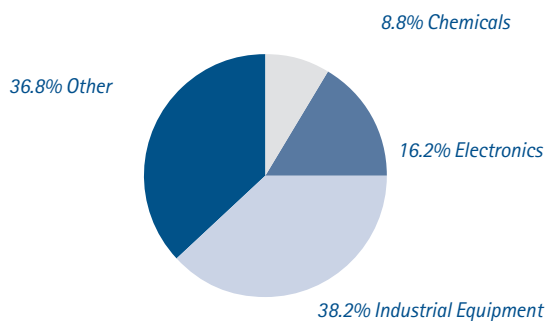


Figure 6: Industry Sectors of German Companies Operating in Taiwan

Business Satisfaction

Turnover

The diversity in the size of German companies is also represented in their turnover figures. German companies cover a wide range of turnover numbers.

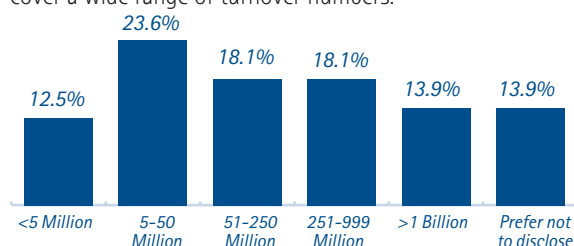


Figure 7: Turnover in 2018 (in US\$)

Business Targets

According to the survey results, around 49% of German companies operating in Taiwan have achieved or exceeded their business targets in 2018. This means a slight decrease by around 8.5% compared to last year's high of 57%. However, compared to 38% in 2016 and 43% in 2015, this year's value still proves to be solid.

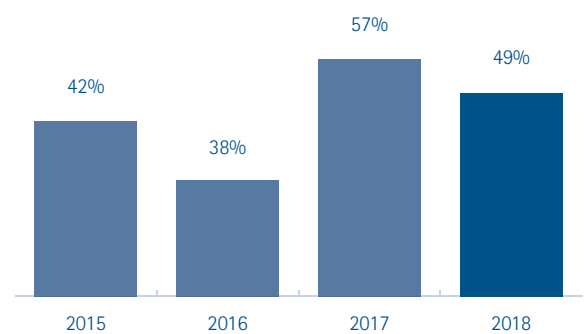


Figure 8: Achievement of Business Targets

Presence in the Taiwanese Market

The presence in Taiwan is still either important or even very important to the vast majority of German companies, especially in the aspects of following key accounts and customers (72.2%), sales potential (68.1%), ability to adapt products to the local market (66.7%), presence in the Asian market (62.5%) as well as the cooperation with local companies (59.7%). Less important are motives such as the proximity to suppliers (48.6%) lower costs (34.7%) as well as Research & Development (29.2%). Compared to previous Business Confidence Surveys, the main motivations for operating in the Taiwanese market exhibit a comparatively solid degree of continuity over time as they remained unchanged over the past few years.

Likewise, Taiwan remains attractive for future considerations and business activities by German companies. According to the survey results, services (61.1%), sales, marketing and trade (50.0%) as well as sourcing and procurement (47.2%) remain the most attractive sectors, while research & development (30.6%) and production (22.2%) are lagging behind and still only playing a minor role.

Business Confidence Survey 2018

Investment Climate

Investment Plans

A significant number of German companies is still interested in further investments in their business operations in Taiwan. 39.4% of the survey's participants stated that they are planning investments within the next two years, which means a slight increase in the willingness to invest by around 1% compared to 2017. As for the percentage of companies considering new investments, a significant increase of approximately 10.2% can be determined. While in 2017 only 12.3% were considering investing in their business operations in Taiwan, 22.5% are currently considering so in 2018.

Motivations for Investments

Similar to the motivation of being present in Taiwan, 49.1% of the German companies state that following key customers is also the major reason for further investments. Finding better qualified staff (40.0%) and cost reduction (21.8%) are placed second and third respectively. Other minor motivations are investment incentives (12.7%), regional diversification (9.1%) as well as the replacement of equipment (9.1%).

Types of Investments

Like in 2017, sales and marketing are still considered to be the most important investment sectors. This year's survey records a slight increase by 2.3% for this field, raising the percentage number to 36.2%. Sales and marketing are followed by investments in services with 25.9%. Other important types of investment are production related engineering (8.6%), research and development (8.6%), production (6.9%) and trading (5.2%).

Overall, German companies are very satisfied with Taiwan as a business location and only a marginal amount of 4.3% is considering leaving Taiwan and shifting investments to another country, while the great majority of 95.7% plans to remain in Taiwan.

Business Challenges

General

About 46% of the German companies identify the cross-strait relations (+17% compared to 2017) as well as the political stability in general (+16% compared to 2017) as a business challenge for German companies in Taiwan. German companies consider political stability and reliability as basic requirements for business operations, whereas the absence of long-term commitment as well as throwing plans and schedules into disarray impede projects and the development of successful business.

Additionally, the reliability of governmental framework (40%), bureaucracy and administrative hurdles (38%), participation in public tenders (36%) as well as the absence of FTA and investment protection agreements (33%) are also seen as challenges.

USA and PRC

Regarding the ongoing trade dispute between the United States and the People's Republic of China, 46% of German companies in Taiwan see no effect on their business activities. Moreover, questioned about whether the mentioned trade dispute could lead to a relocation of parts of their company from the People's Republic of China to Taiwan, the majority of almost 70% does not expect such a shift.

Recruitment

Considering the level of experience, the more experience the position requires, the more difficult it is for German companies to find suitable staff. While about 68% struggle to fill senior positions requiring more than 8 years of experience, only 10% report difficulties with filling entry level positions for non-graduates. In comparison to last year, more companies assess the recruitment of graduate level (+11%) and junior level (+7%) staff less difficult which indicates an improvement of the job market in these two recruitment areas. However, the recruitment of midlevel staff becomes more difficult for more of the participating companies (+12% compared to 2017).

About 50% of the companies in Taiwan state job vacancies for 2018 – a marginal decrease of from the previous year. By far the most difficulties are identified when recruiting for management positions, with two thirds of companies stating that they are having problems finding appropriate personnel. In contrast, over 90% of the companies face no difficulties when recruiting assistants.

Additionally, more than 50% of the German companies in Taiwan see the introduction of vocational training as useful, while only about 7% assess vocational training as useless for recruiting qualified staff.

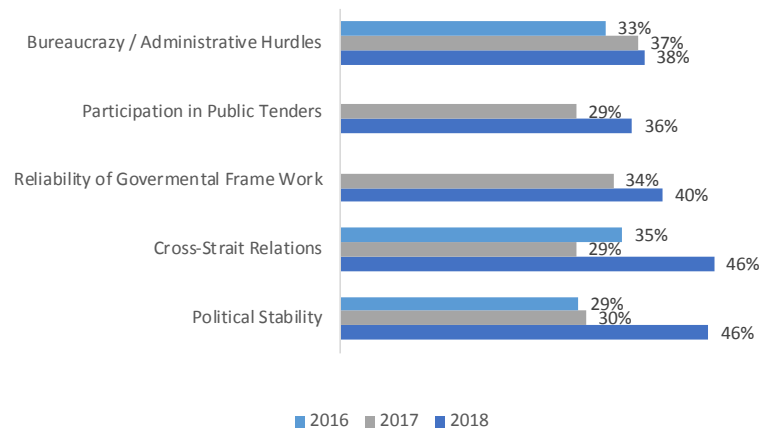


Figure 9: Business Challenges 2016 - 2018

Taiwan Related

Overall, the government initiative "New Southbound Policy" is seen to have no major effect on German companies' current and future business activities. About 74% of the German companies see no impact on their current business activities, while 61% do not expect any changes for the future. However, 21% have identified a positive impact on their business so far and 27% expect such for the future.

Outlook

Regarding business expectations of German companies operating in Taiwan, it is evident that even though the forecasts are slightly less optimistic compared to 2017, they are far from being pessimistic. German companies continue to show a positive attitude towards their business development in 2019. 75.7% of the companies still expect their business targets to be at least mostly achieved, while 44.3% assume that all of their targets will be achieved or even be exceeded in 2019.

The same trend can be recognized for specific business areas. Even though 12.7% of the companies expect their turnover to decrease in 2019, which constitutes an increase of 11.2% compared to 2017, 50.7% still expect their turnover to either increase or even increase significantly. In comparison to the 9.86% of companies which are slightly concerned about their profitability in 2019, 40.8% expect their profits to either rise or even rise significantly. As last year, German companies do not expect big changes in investments and employment in 2019. 57.8% predict their investments to remain similar or unchanged, while 62.0% do not expect big changes in employment.

In general, the "Five plus two" innovative industries plan of the Taiwanese government is only partly relevant for German business activities. However, 33% of the German companies see the sector intelligent machinery of the "Five plus two" innovative industries plan relevant for their current or future business activities, while 30% identify the green energy sector as relevant.

As for the expectation of Taiwan's overall economic development and the development of business activities within their own industry, German companies perceive the outlook for both less optimistic compared to 2017. While in 2017 47.1% expected the economy to improve, this value dropped to 30.6% in 2018. The expectations for Taiwan's economic situation are also likely to have influenced the perception of the expectations for their own industry which the German companies are operating in. While in 2017 only 4.4% expected the business activities within their own industry to worsen, 26.8% are slightly concerned about this in 2019. However, 33.8% of the German companies still expect their industry to improve or even improve significantly.

If German companies were facing the decision of whether to currently start their business in Taiwan again, a total of 95.8% expressed to be at least fairly likely, while 67.6% stated to either be very likely or even extremely likely to start it again.

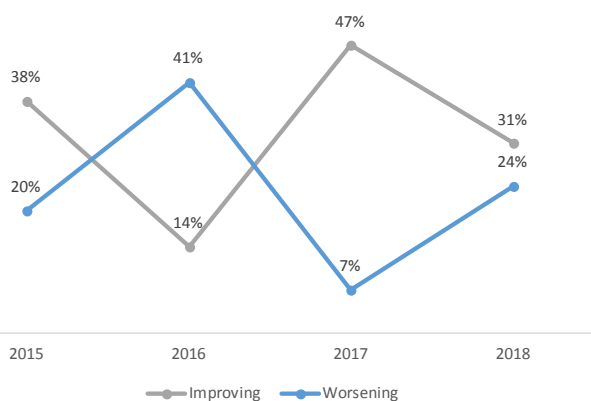


Figure 10: Evaluation of Taiwan's Overall Economic Development

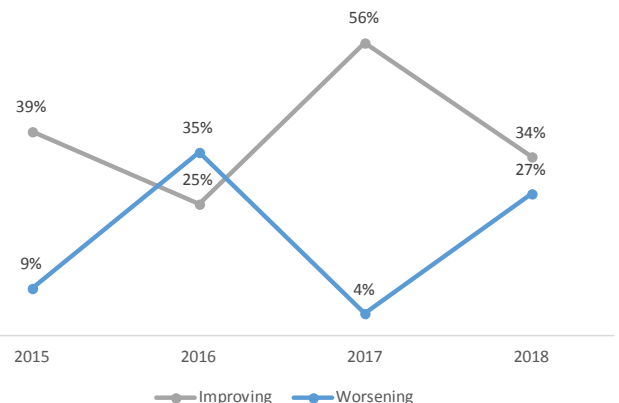


Figure 11: Evaluation of the Economic Development of Own Industry

Business Confidence Survey 2018

Recommendations

The survey results show that Taiwan has a generally healthy and attractive business environment, a stable investment climate as well as an overall positive outlook for 2019. Nevertheless, data also indicates several challenges and limitations that need to be addressed. Based on the results of the Business Confidence Survey 2018, several suggestions for the Taiwanese government can be given that could significantly help German companies operation in Taiwan.

1. Improving Political Stability

The survey results indicate that German companies are generally content with Taiwan's business environment and that there are almost no major challenges for a prosperous business development. However, two points of concern were stated, i.e. cross-strait relations and political stability. Political stability is of utmost importance and one of the basic requirements of economic growth and any flourishing economy. Therefore, it is necessary for the Taiwanese government to increase political stability not only by having clear decision-making processes, clear-cut policies as well as setting up a reliable governmental framework, but also by respecting commitments made in the past and by avoiding throwing plans and schedules into disarray. Long-term commitment by the government requires to have a continuity within the cabinet in order to ensure that business-oriented companies can have regular and accessible contact persons within the government.

2. Customize New Policies

The Taiwanese government has been pursuing the "New Southbound Policy" and the "Five plus two" innovative industries plan over the last few years. According to the Business Confidence Survey 2018 results, the "New Southbound Policy" has not had any effect on the business activities of German companies so far. Even though the general approach of the "New Southbound Policy" is to be regarded very positive, however, after finishing political discussions and having laid out the necessary political framework, the focus of this policy should now be shifted towards businesses opportunities and ideas and to get the companies more actively involved in the process of enhancing cooperation with Southeast Asian companies and thus generating revenues in Taiwan.

As for the "Five plus two" innovative industries plan, German companies see the most potential in the sectors of intelligent machinery and the green energy sector. The pursuit of an energy transition from fossil fuels to renewable energies are just as welcomed as the further development of intelligent machinery. Germany and Taiwan can complement each other with their expertise in both of these sectors and it is therefore highly recommended to continue to focus on these topics and not to remove them from the political agenda in the future.

3. Introduction of Vocational Training

The recruitment of qualified staff continues to be one of the challenges German companies are currently facing in Taiwan. To address this problem, the Taiwanese government could think about the structure of the current education system. After graduating from high school, young Taiwanese usually either go studying at universities or directly start working. This leads to either relatively qualified or rather unqualified staff. To offer a middle course could solve some of the recruitment challenges. Therefore, we recommend an active dialogue between the government and the industry, in order to implement a system of dual vocational education. More than 50% of the German companies in Taiwan see the introduction of such a vocational training as useful for targeting their recruitment problem.

German Trade Office Taipei

The German Trade Office Taipei was established in 1981. Since then we have acted as an intermediary between German and Taiwanese businesses and have promoted the exchange between both economies. We aim to provide our customers with services tailored to their needs so that they can benefit most from the many advantages both Germany and Taiwan have to offer. The German Trade Office Taipei is part of a network of more than 140 German economic representations worldwide, which has been active abroad for more than 150 years.

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