



# German Business in Taiwan

GTO Business Confidence Survey  
Report

# 2017

德國商業信心

調查報告



Deutsches Wirtschaftsbüro  
German Trade Office  
Taipei  
德國經濟辦事處

## 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. German is the third largest European investor in Taiwan, with investment flows experiencing a boost since 2013 with exception of 2016. The trade volume between Germany and Taiwan amounted to USD 14.5bn in 2016. As one of Germany's mature trading partners in Asia, business relations with Taiwan continue to progress robustly. In 2016, exports to Taiwan amounted to USD 8.6bn, making Germany the fifth largest exporter of goods to Taiwan worldwide. Meanwhile, German Imports from Taiwan amounted to USD 5.9bn, making Germany the tenth-biggest buyer of Taiwanese goods worldwide. Furthermore, as of October 2017, German exports to Taiwan have increased by 5.1%, while Imports from Taiwan have increased by 10.9% in volume year-on-year. Germany is Taiwan's most important trade 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.

## German Investment in Taiwan

- Around 250 German companies operate in Taiwan
- Investment recovering in 2017 with USD 60.11m until July after USD 31.7m low in the whole year of 2016.
- Total invested capital stock of around US\$2.8 billion.
- An estimated 15,000 staff are employed by German companies.

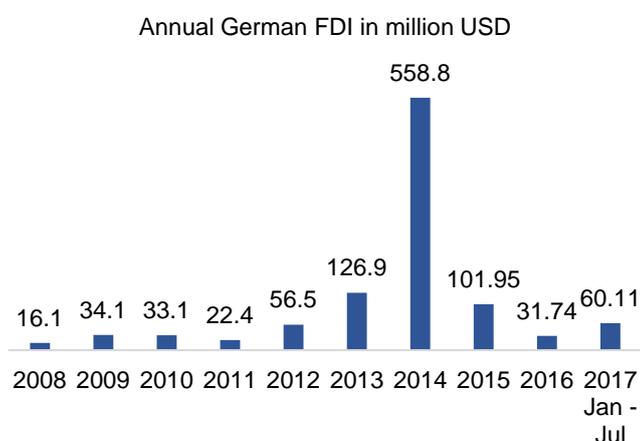
## Business Confidence Survey

- Evaluation of economic growth expectations for the economy revised upward in 2017 after less optimistic year 2016
- Prospects for growth in the companies' relevant industrial sector perceived even more optimistic.
- German companies remain committed to their investments in Taiwan.
- Perceived business friendliness high (59%)
- Finding qualified staff most pressing business challenge

## German Investment in Taiwan

As of 2017, the accumulated approved investment by German investors in Taiwan totaled about USD 2.75 billion, making Germany the third largest European investor. Between 2013 and 2015 annual investment flows to Taiwan from Germany have been above US\$ 100m. The significant increase in 2014 was an outlier thanks to increased investments by a plethora of German companies. With an amount of 101.95 mil USD, the approved investment in 2015 remained stable. Last year, German Direct Investment into Taiwan fell to a low of USD 31.74m, with only USD 6m invested in the first half of the year. The low investment in 2016, however, was a result of a wait-and-see attitude in expectation of Taiwan’s new government. In the first seven months of 2017, German investment to Taiwan recovered with USD 60.11m invested until July, and it is likely to exceed USD 100m for the whole year again.

For overall foreign direct investment to Taiwan, Consensus Forecast panelists expect fixed investment to expand 2.8% in 2017 and 2.4% for 2018, according to FocusEconomics.



In total, the GTO estimates that currently approximately 300 German companies are operating in Taiwan.

The majority of companies are small to medium sized enterprises (SME) with the vast majority employing less than 100 staff. All together the GTO estimates that German companies employ around 15.000 people in Taiwan. German investment is dominated by technology intensive machinery and industrial equipment industry catering to the country’s important export manufacturing sector. This is followed by a more diverse industrial presence, with strongholds in the chemical, electronics and automotive industries.

## Economic Environment

The Taiwanese economy grew by 2.1% year-on-year in the second quarter of 2017 and a continued steady growth of 2.3% is projected for 2018. This economic expansion marks a significant improvement compared to 2015 and 2016 with lower growth rates of 0.7% and 1.5% respectively, which can also in part be attributed to increased uncertainty before the change of the Taiwanese government in May 2016. Since then, the Taiwanese economy has followed its upward trend, especially thanks to a strong IT, technology and electronic parts manufacturing sector and strong exports.

Following the overall economic recovery, Taiwanese exports have picked up in 2017, with exports between January and October 2017 being 12.9% higher than exports in the first ten months of 2016. Overall imports until October have similarly increased by 12.8%. This also marks a significant upturn as overall exports and imports had been falling for three consecutive years before.

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Business Confidence Survey 2017



Overall trade volume with Germany 2017 has reached USD 12.89 bn until September, which is an expansion of 6.5% compared to the same period in 2016.

Meanwhile, domestic consumption is expected to increase by 1.8% in 2017, which means continuation of a trend of slowing consumption expenditure growth.

The increase in consumption was 3.3% in 2014, 2.3% in 2015 and 2.0% in 2016.

After Manufacturing output had decreased by 1.5% in 2015 and recovered with an overall increase of 1.99% in 2016, the Manufacturing Production Index Growth Rate as of Sep. 2017 was 5.36% and continues to expand.

This roots mainly in a strong electronic parts manufacturing sector, which makes up 29.3% of Taiwanese manufacturing and expanded by 5.8% in 2016.

Meanwhile, growth in the other key sectors for German companies in Taiwan, like chemical manufacturing, machinery manufacturing and motor vehicle manufacturing, was generally low in 2016, due to sluggish export development and lower domestic consumption.

Manufacturing of chemical material and chemical products, that make up around 12% of Taiwan's total manufacturing grew by 1.7% and 1.0%.

Machinery equipment manufacturing, which makes up 5.1% of Taiwanese overall manufacturing, decreased by remarkable 7.5% in 2016 and was therefore 14.1% lower than in 2011.

Motor vehicles & parts manufacturing, which makes up around 2% of overall Taiwanese manufacturing, decreased by 4.5% in 2016.

All in all, the economic environment seems to improve significantly since mid-2016, as concerns about the new government are fading and manufacturing, trade and investment are picking up greatly. However, there is still need for caution, as the success has mainly been fueled by a handful of strong industries and consumption expenditure growth continues to decline slowly but steadily.

## Business Confidence Survey

### Background

Every year the German Trade Office Taipei conducts the Business Confidence Survey to assess how German companies view the business environment in Taiwan. The aim of the survey is to evaluate the business environment for German companies in Taiwan, its challenges and expected developments for 2018.

This year's survey was conducted in English between September 18<sup>th</sup> and November 21<sup>st</sup>, 2017. The survey consisted of 24 questions concerning Taiwan's economy, the participants business performance this year, the investment climate, and the market outlook for 2018. This year, it was answered by 100 companies, at a participation rate of 40%. Of participants the companies that took part in the survey, 59% have been doing business in Taiwan for more than 15 years.

The main industries in which the companies were engaged, were the machinery and Industrial equipment industry (38%), followed by the electronics sector with 16% and the Chemicals sector with 9%. Meanwhile, companies in the automotive sector accounted for 5%.

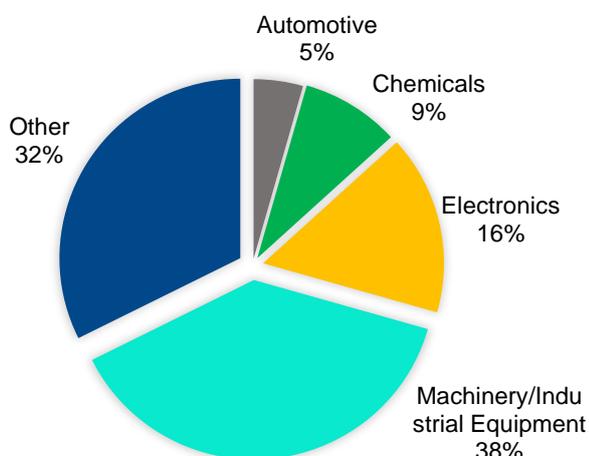


Figure 1: Please specify the main industry of your company

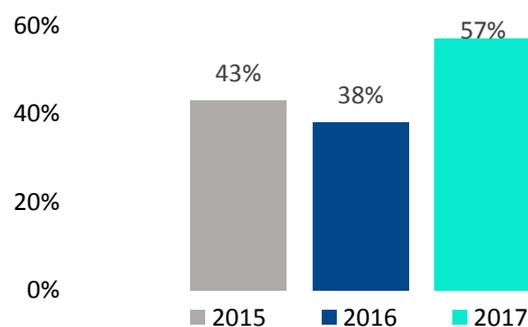
## Business Satisfaction

### Key Statistic

One of the key questions in this year's survey asked how willing the participants were to invest in Taiwan again if they were facing the decision of starting their business in Taiwan right now. Notably 72% of the participants voted that it was very likely or extremely likely that they would make the same decision again. 23% of the participants voted 'somewhat likely' whereas only 5% voted 'not very likely'. None of the participant voted 'not likely at all'. This highlights the fact that Taiwan is and continues to be a very attractive business destination for German companies.

### Business Targets

According to the survey results, 57% of German companies in Taiwan have achieved or exceeded their business targets in 2017, which is a remarkable 19-percentage-points-increase from last year. This embodies the overall improved situation for German companies this year, after firms felt the woos of the temporary economic downturn in 2016. For 2018, companies are forecasting a somewhat similarly successful year with no companies expecting to miss their targets entirely. In last year's survey, 11.3% of companies had expected to miss their goals in the next year.



# German Business in Taiwan

Business Confidence Survey 2017

Figure 2: to what extent were you able to achieve your business targets in 2017?

## Business Friendliness

There is a high level of satisfaction when it comes to evaluating the business friendliness in Taiwan. Nearly two thirds consider local authorities as either friendly or very friendly towards their business. While business friendliness in general has mainly remained at a similarly high level in the last few years, the number of companies voting 'friendly or 'very friendly' this year was at 59%.

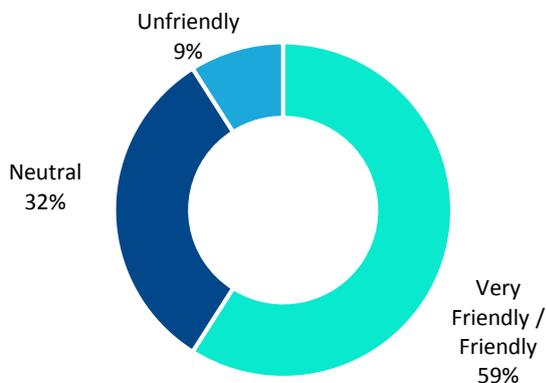


Figure 3: How friendly do you consider local authorities in Taiwan towards your business operation?

## Motivations for market presence

The most important motives for the presence of German companies in Taiwan were following key accounts (85%), having a presence in Asian markets (80%) and sales potential (79%). Other motives included the ability to adopt products to the local market (76%) and cooperation with local companies (74%) Far less important, however, were lower sourcing/procurement costs, lower production costs, proximity to suppliers and Research & Development. Though the rankings have changed slightly over time, the overall motives for the presence of German companies in Taiwan has remained unchanged over the past years

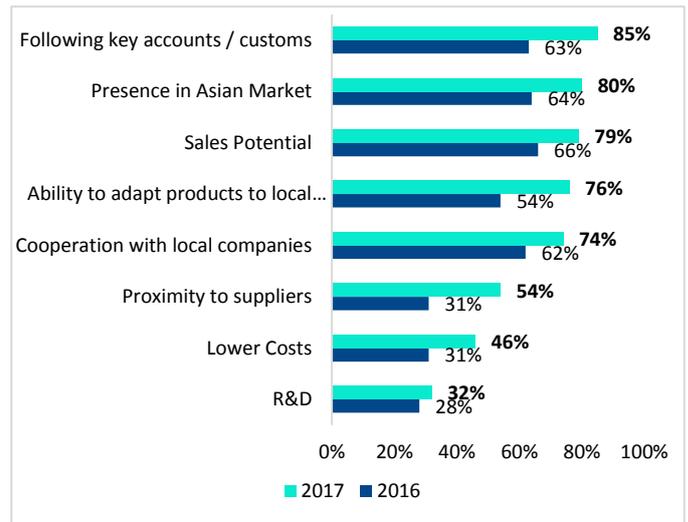


Figure 3: How important is your company's presence in Taiwan for the following aspects? Combined scores for 'important' and 'very important'

## Investment Climate

### Investment plans for the next two years

German companies are very interested in investments in new locations in Taiwan. This year, 38.46% of participants stated that their business operation in Taiwan was planning an investment of any kind at a new location in Taiwan within the next 2 years and 12.31% were considering it. In 2016, only 15.4% of companies had investment plans for the next two years.

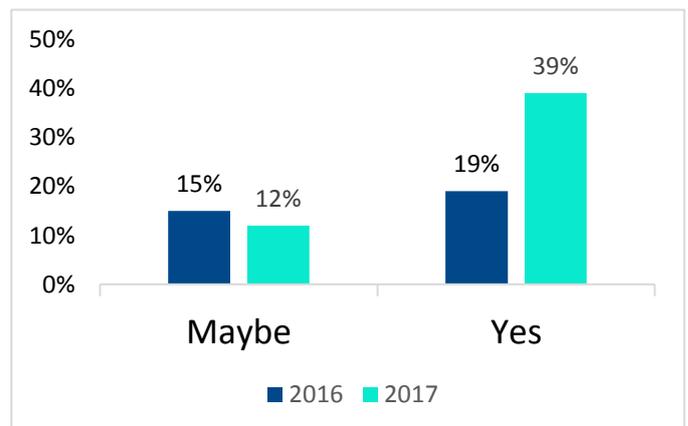


Figure 4: Q15: Is your Taiwan business operation planning any investments at new locations in Taiwan within the next 2 years?

### Motivations for new investment

The decision to invest in new locations is mainly driven by the need to follow key customers, key suppliers, and finding better qualified staff.

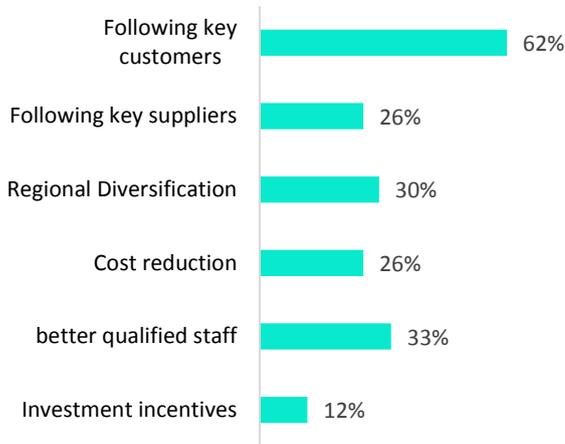


Figure 5: Q16: What are your major motivations for the new investment?

### Types of Investment planned

There are several types of investment that are considered by the participants in the next two years, with Sales & Marketing topping the list at 34%, closely followed by Services at 30%. Other types of investments include Sourcing/Procurement (8%), Production (8%), R&D (5%), Production related engineering (5%), Trading (3), and others (7%).

## Business Challenges

### Major Challenges

Finding qualified staff remains the top business challenge for the fourth year in a row, being a challenge for 57% of the companies. The lack of visibility of an industrial strategy and increasing labor costs were also seen as challenges

Emphasis must be put on the fact that most of the 27 possible business challenges assessed only pose minor

challenges to businesses, indication of an overall positive business environment. The only challenge which has consistently been an issue for more than half of the responding German companies, has been the struggle of finding qualified employees.

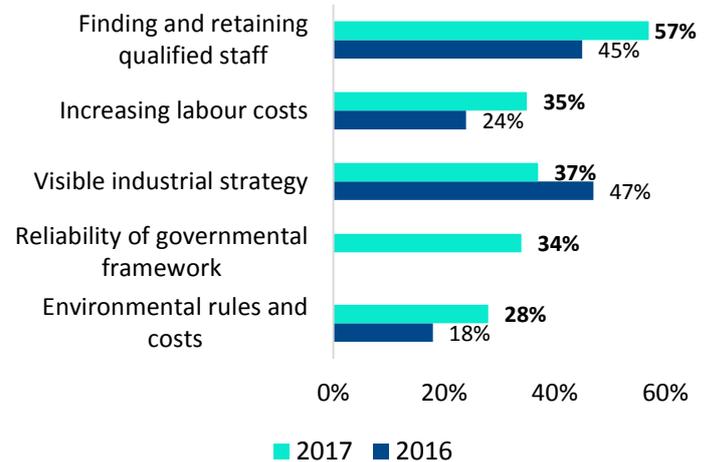


Figure 6: Please evaluate your current business challenges.

### Recruitment

German companies in Taiwan have by far the most difficulties in filling management positions, with two thirds of companies stating that they are having problems finding appropriate personnel.

Considering the level of experience, the more experience the position requires, the more difficult it is for German companies to find suitable staff. While 68.8% struggle to fill senior positions requiring more than 8 years of experience, only 26.5% report difficulties with filling entry level positions with university graduates.

## Outlook

Regarding the overall economic situation in Taiwan and the economic situation in their respective industries, German companies in Taiwan had a very good perception of the situation this year - and outlook for the future - compared to last year. 47.1% felt that the overall economic situation and outlook in Taiwan was improving, while only 7.4% perceived it as worsening. This is the highest value within the last six years, which can also be attributed to the mitigation after the gloomy situation in 2016, when only 14.4% of companies saw the overall economy improving and a record of 41.2% saw it worsening.

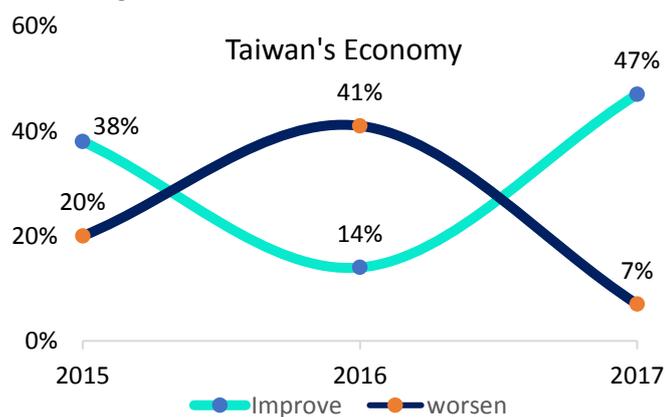


Figure 7: How would you evaluate the economy in Taiwan in 2018?

Once again, this proves 2016 to be an outlier year, due to the concerned attitude before and around the government change in May 2016. Concerns have however, not prevailed and German companies' outlook is highly positive in this year's survey. In their respective industries, German companies' outlook was even more positive, with 55.9% of companies perceiving the situation in the industry as improving and only 4.4% expecting it to worsen

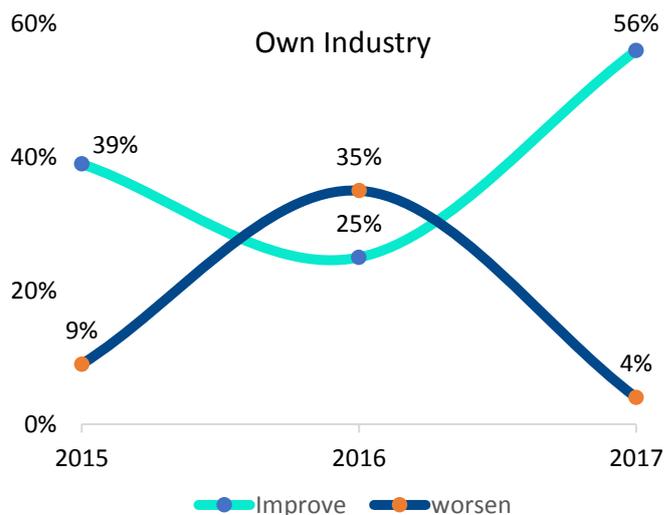


Figure 8: How would you evaluate the general outlook for your industry in Taiwan in 2018?

## Recommendations

The survey results show that Taiwan has a generally healthy and attractive business environment, a stable investment climate, and a positive outlook for 2018. Nevertheless, data also indicates that there are several challenges and limitations that need to be addressed. Based on the results, we have compiled several suggestions for the Taiwanese government that we think would significantly help the German companies in Taiwan.

### 1. Improve education of staff / ease regulations on hiring foreign professionals

The biggest challenge for German companies in Taiwan is the recruitment of qualified staff. With an increase of 12% comparing to last years results, 57% of German companies in Taiwan named the search for qualified staff as a substantial challenge. To address this problem, we suggest that the Taiwanese government focuses on the structure of the current education system and university curriculum. We recommend an active dialogue between

educational institutions and the industry, to ensure that universities are educating their students based on the industries needs. Furthermore, we also suggest the implementation of a dual vocational education based on the German example. From 2003 to 2010, the German Trade Office has already organized a project on dual vocational training in cooperation with the MoE and the Council of Labor Affairs (the current Ministry of Labor). More than 3200 apprentices have been trained in various professions such as mechatronics, freight forwarding or bakery. The apprentices also received an official certificate by the Taiwanese authorities. A relaunch of this project could be one step to address the problem of qualified employees. Another recommendation would be the ease of restrictions for long-term and short-term work permits for foreign nationals. This has recently partly been improved by the new Act for the Recruitment and Employment of Foreign Professionals. Nevertheless, restrictions such as the minimum wage for foreign professionals and the restrictions on access to the national pension system are still in place and should be addressed accordingly.

### **2. Increase visibility of the Industrial strategy**

With several new industrial and economic plans, including the Nuclear Phase Out and the 5+2 Industrial Innovation plan, the industrial strategy of Taiwan has become clearer. Currently only 37% of German companies see this as a major challenge compared to 47% in 2016. Nevertheless, it is crucial that companies are informed about the decision making process and are involved beforehand. This way they have the possibility to plan their investments and tailor its business strategies accordingly.

The companies recommend that the Administrative Procedure Act is revised in such a way that companies are more involved, to increase transparency in decision making and acceptance of those regulations.

### **3. Increase the reliability of governmental framework**

The survey results show that German companies in Taiwan appreciate the business environment very much. Nevertheless, there is still demand alignment with international standards and reduction of bureaucracy, as well as better communication with international business partners. If the English language becomes more established as a commercial language in Taiwan, contacts can be easier maintained, and misunderstandings can be reduced. Increased focus on this in the future with state-supported language classes or workshops for international business practice can improve the business environment even more. Furthermore, the government should communicate planned changes in the legal framework more clearly and also include foreign enterprises in the decision finding process. We therefore recommend the establishment of regularly working groups between both sides, to increase mutual understanding.

## The 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 130 German economic representations worldwide, which has been active abroad for more than 150 years

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Our service unit DEinternational Taiwan Ltd. specializes in supporting you to develop and expand your business activities in Taiwan or Germany. Ranging from market entry and expansion support, trade fairs, legal and investment as well as recruiting and training services, the broad variety of support we offer will certainly meet your requirements.

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