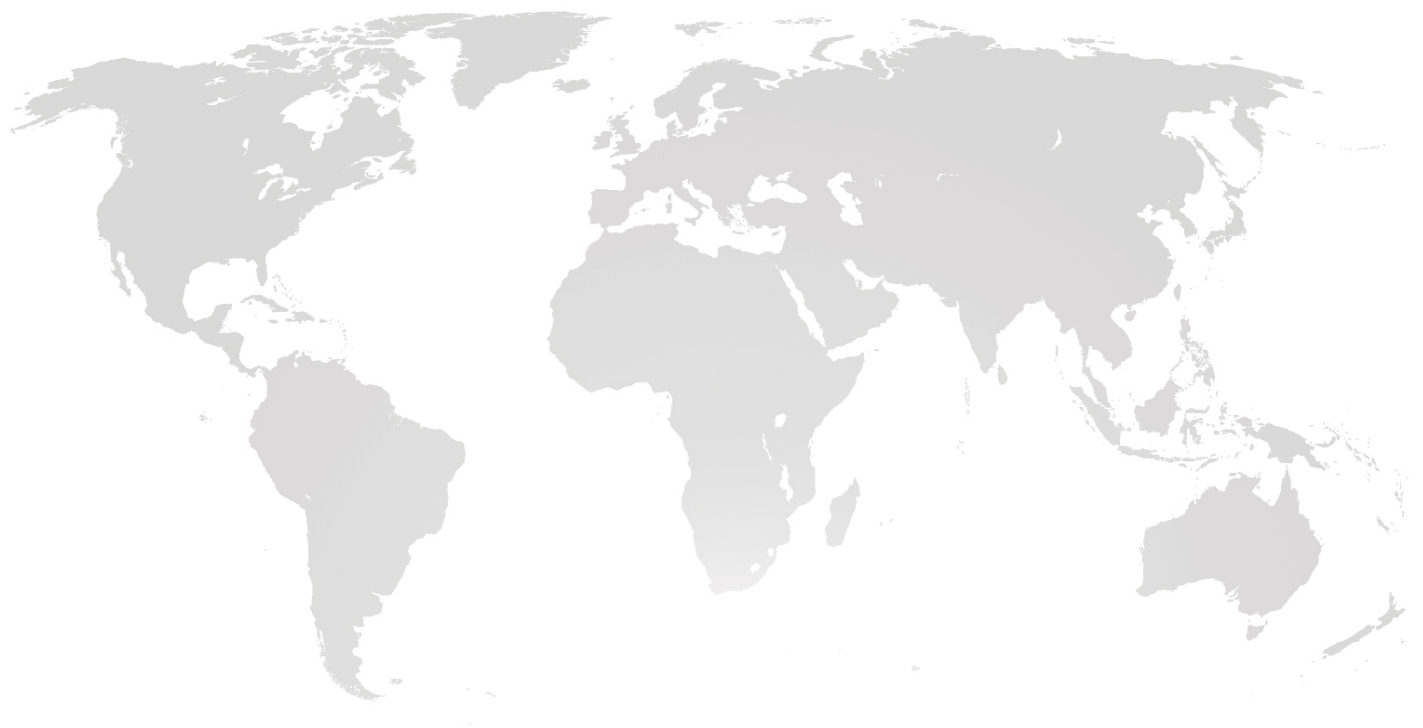


# Country Insight Snapshot

## Taiwan

July 2016





## OVERVIEW

OVERALL COUNTRY RISK RATING: DB2d

**Low risk:** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



**Rating Outlook:** Deteriorating

## CORE OUTLOOK

- + Sovereign credit ratings remain high; the economy features a dynamic IT sector and sound monetary management.
- + Taiwan's external finances are rock solid. FX reserves remain among the highest in the world.
- + Taiwan's financial system is less directly exposed to China's economy than banks in Hong Kong and China.
- Demand for smartphones and tablets in relatively saturated advanced markets will suffer from product lifecycle effects and declining sales in 2016-20.
- Chinese producers' ambitions to build a vertically-integrated supply chain will hit a range of Taiwan's manufacturers.
- Tensions in cross-Strait ties could lead the mainland to try and squeeze Taiwan's international economic space.

## KEY DEVELOPMENT

China's freezing of diplomatic channels at a time of economic recession puts the new pro-independence ruling party under pressure to consider its stance.

### CREDIT ENVIRONMENT OUTLOOK



Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK



Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK



Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

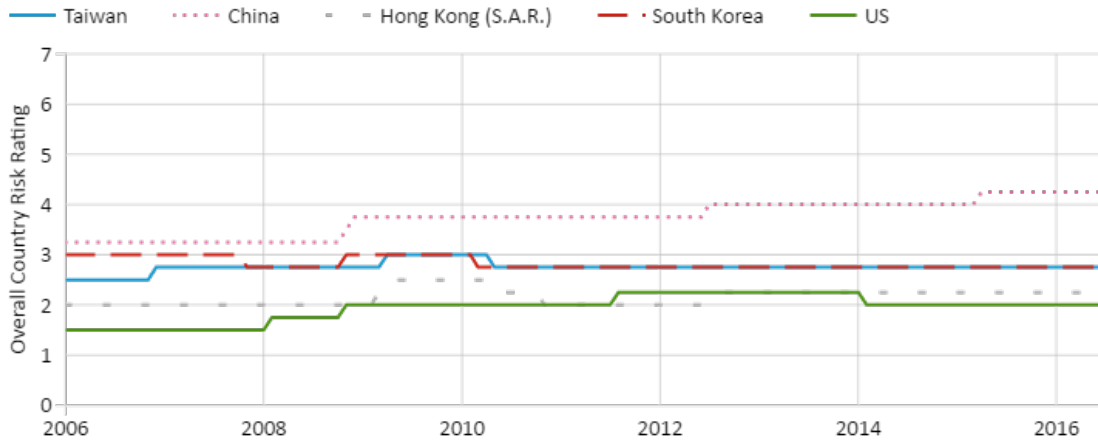


Key Development has had a negative impact on the outlook.



## KEY INDICATORS

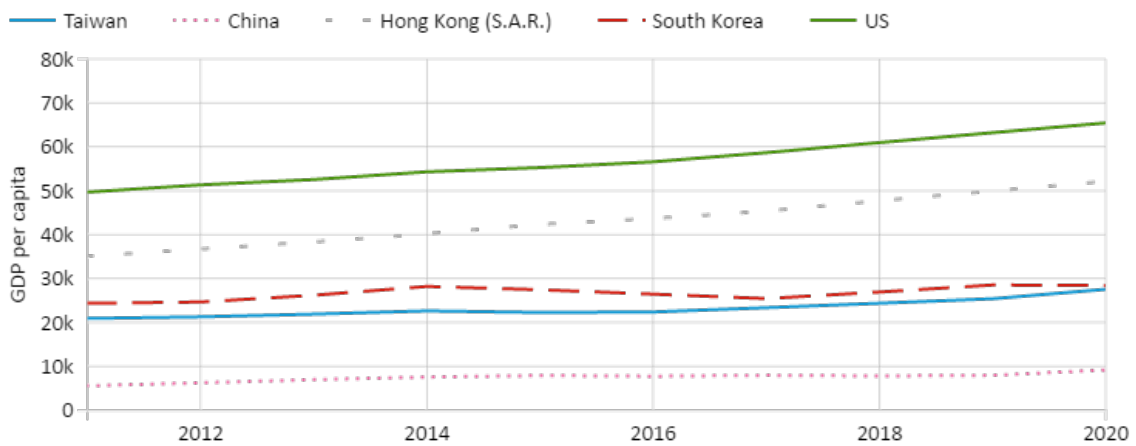
### Rating History and Comparison



Source : Dun & Bradstreet

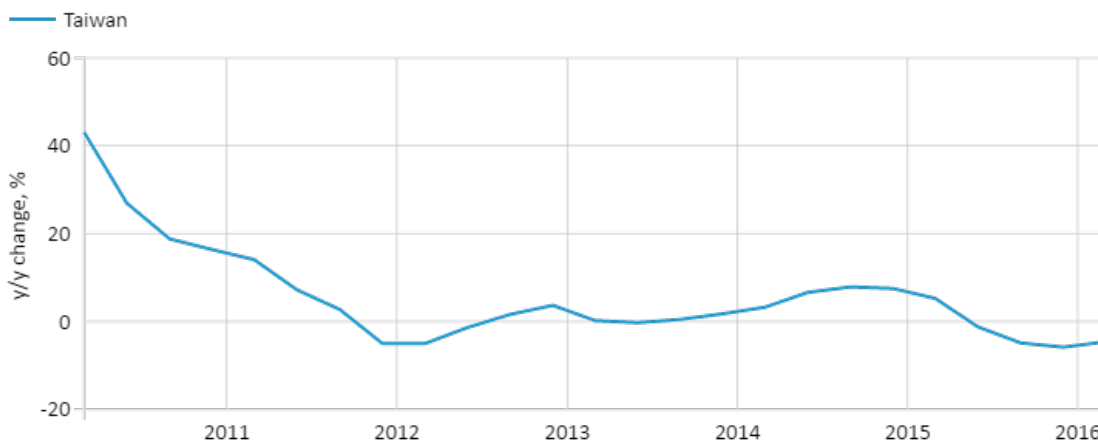
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	10.1	11.8	14.4	12.6	12.4	15.4	13.3	11.7
Govt balance, % GDP	2.6	2.4	2.4	-1.9	-2.0	-1.8	-1.7	-1.7
Inflation, annual avge %	0.8	1.2	-0.3	0.8	1.8	1.9	2.0	2.0
Real GDP Growth, %	2.2	3.9	0.6	0.5	1.6	3.5	2.0	2.8
Unemployment, %	4.2	4.0	3.8	4.5	4.6	4.5	4.4	4.3

Source : Various sources/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Taiwan's Bureau of Tourism reported that, for 2015, the island hosted more than 10m visitors, up slightly from the 2014 figure. Nevertheless, numbers have fallen sharply in 2016 amid restrictions imposed by Beijing since the DPP election victory: this will continue in the short term, with serious implications for airlines, hotels, restaurants and visitor attractions. Taiwan's central bank noted falling investment, a rise in unemployment from a rate of 3.67% in January-May 2015 to 3.88% in January-May 2016, and a decrease in prospects for global trade and economic outlook since the UK referendum vote. It also forecast a drop in CPI inflation in Q3-Q4 2016 to under 1.0%, as the effects of cold weather on vegetable and fruit production passed, and weak underlying core inflation. This prompted it to cut the policy rate by 12.5 basis points (0.125 percentage points) at its policy meeting in July, to support economic output.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: OA

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: SD

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-90 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

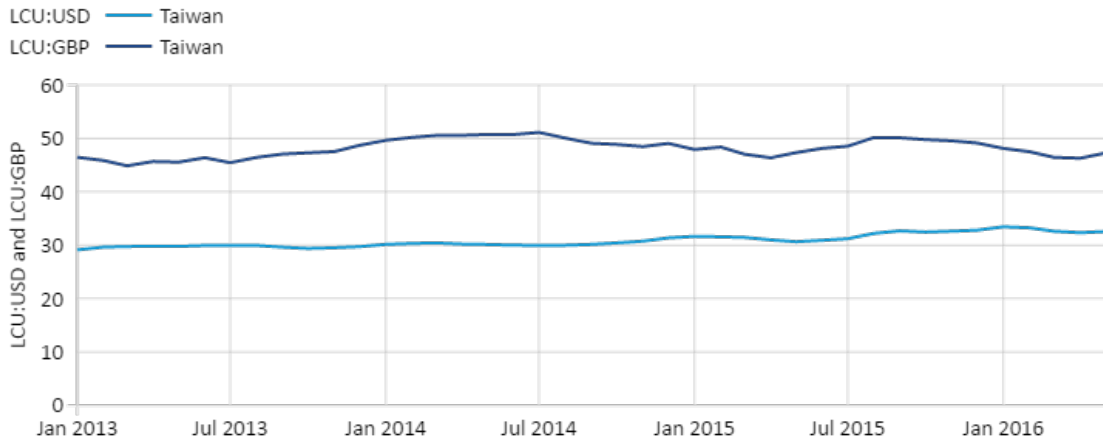
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



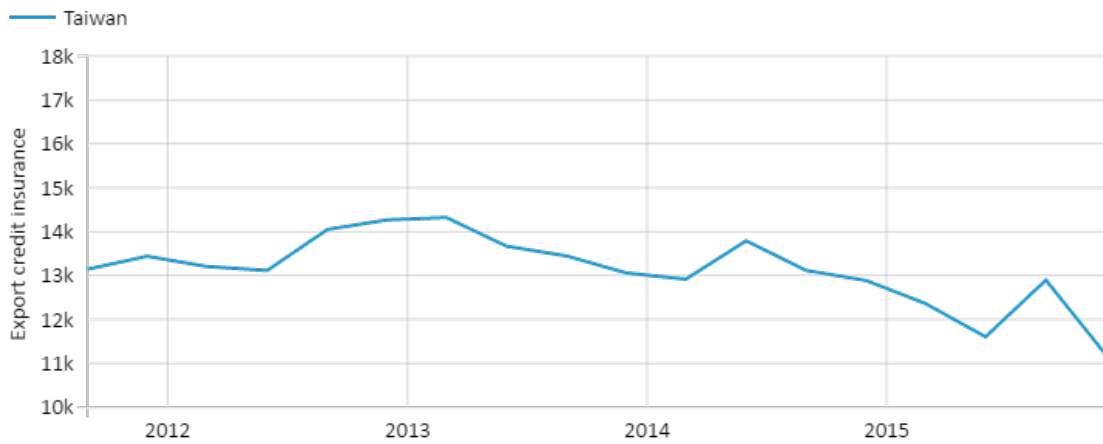
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = New Taiwan dollar*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, short-term, USDm*



## RISKS AND OPPORTUNITIES

### Political/Insecurity Risk

#### *China's diplomatic freeze hits economy*

China suspended diplomatic contact with Taiwan in late June 2016, only a month after President Tsai Ing-wen took office, which will hit tourism, trade and investment. The move reflects Tsai's failure to endorse the 1992 Consensus: that the mainland and Taiwan are part of one China with each side having its own interpretation. Cross-Strait relations have thus cooled significantly and are likely to remain frosty while President Tsai does not unequivocally endorse the One China policy (1992 Consensus), with tangible economic consequences.

The DPP's policy stance appeared fluid as of July, with a motion to endorse the status quo rather than outright independence, as under the DPP's current Article 1, being put forward for further review by the party's national congress. However, the launch of a Hsiung Feng III supersonic antiship missile by a Taiwanese naval vessel earlier in July, with fatal consequences for one person aboard a Taiwanese fishing vessel, came at an awkward moment for cross-Strait relations. It was widely reported as an accidental launch in Taiwan, but an editorial on China state television's website described it as 'abnormal' and the consequence of a policy of deliberate targeting of mainland vessels. The Taiwanese Defence Ministry subsequently found evidence of 'discipline violations' and improper use of a 'war mode' on the instrumentation panel of the patrol craft, which launched the missile in the direction of the Chinese mainland.

### Market Potential

#### *Tech manufacturers face adjustment*

The technology-manufacturing sector is facing adjustment due mostly to shifting trends in global demand for devices and the consequences for Apple's supply chain. Taiwan Semiconductor Manufacturing (TSMC), the world's largest contract chipmaker, posted an all-time high for its share price in July, when it forecast record revenues for Q3 and reported capacity expansion plans in mainland China. However, all but five of 19 Taiwanese technology-manufacturing companies in the 331-member Nikkei Asia 300 index launched in late 2015, reported falling y/y revenues in Q1-Q2 2016. These included all nine Apple suppliers, as orders from Apple reflected anticipated y/y falls in iPhone sales globally in Q3.

The slowdown in China and strengthening supply chains there are also hitting Taiwan's main industrial sectors and may raise credit risks in the medium term. For its part, despite prominent players such as TSMC, Mediatek and Apple lens supplier Largan, Taiwan's electronics industry will remain dominated by small- and medium-sized enterprises (SMEs), limiting large-scale R&D spending. Future growth depends on innovation and local firms positioning themselves at the forefront of new technologies, such as the Internet of Things, which is already transforming contract manufacturing on the mainland in Shenzhen in the Pearl River Delta. However, the hardware-oriented paradigm of Taiwanese innovation is expected to face decreasing returns, with only limited gains due from new investment areas such as virtual reality devices.



## COUNTRY PROFILE AND STATISTICS

### Overview

Taiwan (Formosa) is a democratic republic lying just off the coast of mainland China, southwest of mainland Japan. After their defeat by the Communists, the Chinese nationalist forces of Chiang Kai-Shek retreated to the island in 1949, and fought a diplomatic battle to retain UN recognition as the true seat of Chinese government; however, the emergence of China as a global economic power has defeated such efforts. There is still popular support for a formal declaration of independence in Taiwan, but China continues to insist that Taiwan is an integral part of its territory, and that independence would be an act of war. Political tensions eased after the Kuomintang (KMT) government was voted into office in 2008. With the pro-independence Democratic Progressive Party (DPP) in power, relations could become more strained.

Taiwan's export-led economy has become increasingly integrated with China's to maintain its competitiveness, although it has suffered from the mainland's economic slowdown. The KMT has signed successive agreements with China (the island's largest trade partner), including the landmark Economic Co-operation Framework Agreement (2010) to liberalise cross-strait travel, trade and investment. However, a follow-up agreement on trade in services such as banking, healthcare, tourism, film, telecommunications, and publishing proved highly controversial and provoked mass protests in 2014. It remains unratified by Taiwan's legislature.

### Key Facts

Key Fact	Detail
Head of state	President TSAI Ing-wen
Capital	Taipei
Timezone	GMT +08-00
Official language	Mandarin Chinese
Population (millions)	23.5
GDP (USD billions)	523
GDP per capita (USD)	22,261
Life expectancy (years)	80
Literacy (% of adult pop.)	98.3
Surface area (sq km)	35,980

Source : Haver Analytics/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	3.9	2.1	2.2	3.9	0.6
Nominal GDP in USDbn	486	496	512	530	523
Nominal GDP in local currency (bn)	14,312	14,687	15,231	16,097	16,688
GDP per Capita in USD	20,911	21,269	21,888	22,624	22,261
Population (year-end, m)	23.2	23.3	23.4	23.4	23.5
Exchange rate (yr avge, USD-LCU)	29.47	29.62	29.77	30.36	31.91
Current Account in USDbn	36.9	43.5	51.5	62.5	75.5
Current Account (% of GDP)	7.6	8.8	10.1	11.8	14.4
FX reserves (year-end, USDbn)	385.5	403.2	416.8	419.0	426.0
Import Cover (months)	12.1	12.7	13.2	13.6	16.3
Inflation (annual avge, %)	1.4	1.9	0.8	1.2	-0.3
Govt Balance (% GDP)	2.2	2.6	2.6	2.4	2.4

Source : Various sources/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	0.5	1.6	3.5	2.0	2.8
Nominal GDP in USDbn	528	554	582	609	664
Nominal GDP in local currency (bn)	16,958	17,622	18,573	19,316	20,243
GDP per Capita in USD	22,375	23,354	24,361	25,389	27,540
Population (year-end, m)	23.6	23.7	23.9	24.0	24.1
Exchange rate (yr avge, USD-LCU)	32.1	31.8	31.9	31.7	30.5
Current Account in USDbn	66.4	68.7	89.8	81.0	77.5
Current Account (% of GDP)	12.6	12.4	15.4	13.3	11.7
FX reserves (year-end, USDbn)	420.0	399.0	405.0	411.1	417.2
Import Cover (months)	17.2	16.1	15.4	14.9	13.7
Inflation (annual avge, %)	0.8	1.8	1.9	2.0	2.0
Govt Balance (% GDP)	-1.9	-2.0	-1.8	-1.7	-1.7

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Taiwan	China	Hong Kong (S.A.R.)	S. Korea	US
Income per Capita (USD)	22,261	7,897	42,326	27,441	55,262
Country Population (m)	23.5	1,376	7.3	50.3	321.8
Internet users (% of population)	84	49.3	74.6	84.3	87.4
Real GDP Growth (% p.a., 2016 - 2025)	1.5 - 3.5	3.5 - 6.5	1.8 - 3.2	1.5 - 3	1.8 - 2.5

Source : Haver Analytics/Dun & Bradstreet





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#### Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: [countryinsight@dnb.com](mailto:countryinsight@dnb.com)

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