



Decide with Confidence

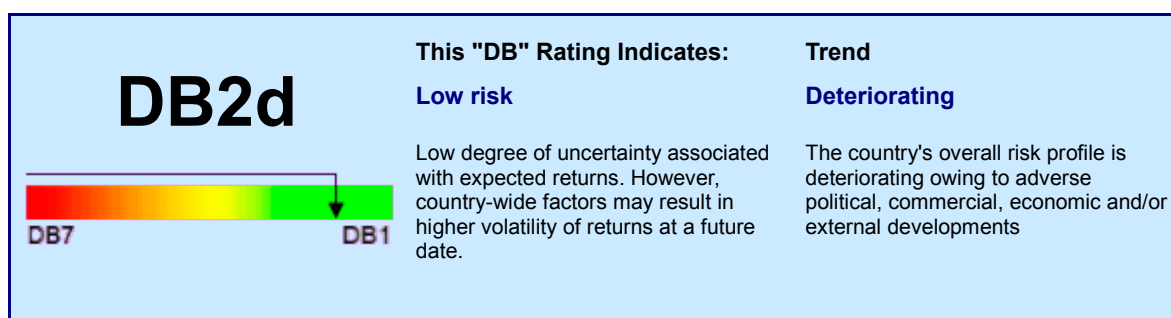
## D&B Country RiskLine Report

# TAIWAN

Region : Asia Pacific

Edition : September 2013

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

|                                    |                        |
|------------------------------------|------------------------|
| <b>Population:</b>                 | 23.3m                  |
| <b>Surface area (sq km):</b>       | 35,980                 |
| <b>Capital:</b>                    | Taipei                 |
| <b>Timezone:</b>                   | GMT +08:00             |
| <b>Official language:</b>          | Mandarin Chinese       |
| <b>Head of state:</b>              | President MA Ying-jeou |
| <b>GDP (USD):</b>                  | 474.0bn                |
| <b>GDP per capita (USD):</b>       | 20,328                 |
| <b>Life expectancy (years):</b>    | 79                     |
| <b>Literacy (% of adult pop.):</b> | 96.1                   |

### Country Overview:

Taiwan (Formosa) is a democratic republic lying just off the coast of mainland China, southwest of mainland Japan. 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 an economic power has defeated such efforts.

There is still popular support for a formal declaration of independence in Taiwan. However, China continues to insist that Taiwan is an integral part of its territory, and that independence would be an act of war. Political tensions have eased considerably since the current Kuomintang (KMT) government was voted into office in 2008.

Taiwan's export-led economy is becoming increasingly integrated with China's to maintain its competitiveness, and China is Taiwan's largest trade partner. The KMT has signed successive agreements with China to liberalise cross-straits travel, trade and investment.

## Trade & Commercial Environment

### Trade Terms

|                       |    |
|-----------------------|----|
| <b>Minimum Terms:</b> | OA |
|-----------------------|----|

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

|                           |    |
|---------------------------|----|
| <b>Recommended Terms:</b> | SD |
|---------------------------|----|

D&B'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.

|                     |            |
|---------------------|------------|
| <b>Usual Terms:</b> | 30-90 days |
|---------------------|------------|

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

### Transfer Situation

|                      |           |
|----------------------|-----------|
| <b>Local Delays:</b> | 0-1 month |
|----------------------|-----------|

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

|                        |           |
|------------------------|-----------|
| <b>FX/Bank Delays:</b> | 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.

### Trade & Commercial Environment

Taiwan's currency has depreciated by about 3% over the course of the current year, and industry leaders have called for more action to boost exports. However, following the Taiwan dollar's recent stabilisation against the yen, President Ma Ying-jeou ruled out any intervention in late July. Given ample liquidity in the banking system and low inflationary pressure, the central bank is likely to hold the policy rate at 1.875% at its September board meeting. Economic growth will remain sluggish in the second half of 2013 and there is an ongoing risk of payment delays. We continue to recommend SD for transactions with Taiwan, although more liberal terms prevail in some sectors. Local and FX/bank delays remain low, at less than one month.

### Export Credit Agencies

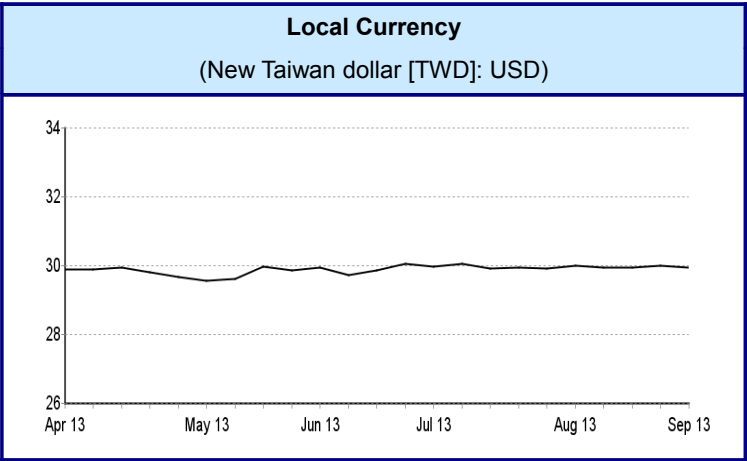
| US Eximbank     | Full cover available    |
|-----------------|-------------------------|
| Atradius        | Full cover available    |
| ECGD            | Full cover available    |
| Euler Hermes UK | Full ST cover available |

### Economic Indicators

|                          | 2010 | 2011 | 2012 | 2013f | 2014f |
|--------------------------|------|------|------|-------|-------|
| Real GDP growth, %       | 10.8 | 4.1  | 1.3  | 2.3   | 2.3   |
| Inflation, annual ave, % | 1.0  | 1.4  | 1.9  | 1.5   | 1.5   |
| Govt balance, % GDP      | -3.3 | -2.2 | -2.5 | -2.5  | -2.5  |
| Unemployment, %          | 5.2  | 4.4  | 4.2  | 4.3   | 4.3   |
| C/A balance, % GDP       | 9.3  | 8.9  | 10.5 | 9.3   | 8.9   |

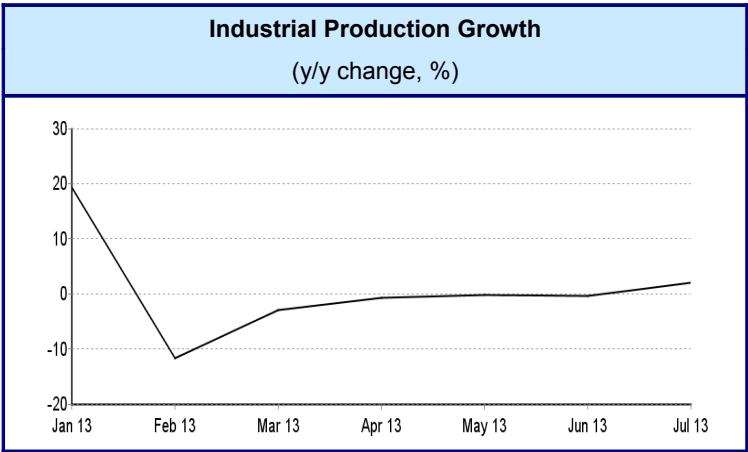
### Currency Information

| Exchange Rates      |         |
|---------------------|---------|
| (London, 02 Sep 13) |         |
| EUR                 | 39.4585 |
| GBP                 | 46.2902 |
| JPY*                | 30.4994 |
| USD                 | 29.9245 |
| *(x 100)            |         |



| Local Currency<br>(New Taiwan dollar [TWD]: USD) |        |        |        |        |        |        |
|--------------------------------------------------|--------|--------|--------|--------|--------|--------|
|                                                  | Apr 13 | May 13 | Jun 13 | Jul 13 | Aug 13 | Sep 13 |
| Week 1                                           | 29.876 | 29.558 | 29.920 | 29.971 | 29.988 | 29.924 |
| Week 2                                           | 29.864 | 29.594 | 29.718 | 30.030 | 29.919 |        |
| Week 3                                           | 29.929 | 29.969 | 29.850 | 29.894 | 29.934 |        |
| Week 4                                           | 29.795 | 29.844 | 30.050 | 29.930 | 29.973 |        |
| Week 5                                           | 29.648 |        |        | 29.906 |        |        |

## Industrial Production Growth



| Data Table |        |        |        |        |        |        |
|------------|--------|--------|--------|--------|--------|--------|
| Jan 13     | Feb 13 | Mar 13 | Apr 13 | May 13 | Jun 13 | Jul 13 |
| 19.3       | -11.7  | -3.0   | -0.8   | -0.27  | -0.43  | 2.07   |

## Risk Factor

The short-term outlook for Taiwan's risk environment remains under downward pressure this month on the back of continuing worrying developments in the economic sphere. Latest official statistics show that exports rose by a subdued 1.6% year on year (y/y) in July, well down from an 8.6% y/y expansion in June and below the market forecast of a 5.1% y/y increase. Several factors are acting to slow export activity. Sales to China, Taiwan's most important export market, remain unpredictable: after increasing by 6.0% y/y in June, they contracted by 0.9% y/y in July. Similarly, exports to Europe were up by 6.0% y/y in July compared to 7.1% y/y in June, while sales to Japan rose by 1.2% y/y in July compared to a 9.0% y/y uplift in the June. In contrast, exports to the US were higher by 1.4% y/y in July following a 3.1% y/y contraction in June. With the US recovery appearing to be gaining at least a degree of traction, this source of export demand should provide some support to Taiwanese manufacturers over the forecast period. However, any resulting gains are likely to be at least partially outweighed by continuing difficult demand conditions in China, Japan and Europe. On top of all this, Taiwan is also faced with increasing competition and saturated markets, especially in the global electronics sector. Part-confirmation of this comes from Taiwanese smartphone and tablet manufacturer, HTC, which recently indicated that its Q3 revenues could be as much as 30% lower than in Q2.

Despite particular problems in the export sphere, recent data have also highlighted one or two possible growth spots in the domestic economy. Thus, industrial output moved up by 2.1% y/y in July following a 0.4% y/y decline in June; the July outcome was the first y/y increase in industrial production for five months. Within the industrial sector, growth was driven by better performances from the base metals and chemicals sectors.

Meanwhile, the likelihood of growth receiving any significant boost from the household sector remains in the balance. The consumer confidence index compiled by the National Central University (NCU) stood at 75.3 in August (from 76.1 in July). Closer analysis shows that the largest fall amongst the sub-indices measured by the NCU was in the stock market category, which fell by a hefty 6.3 points to 59.4 in August. A number of factors appear to have fed into this reading, including the uncertain export situation (which inevitably feeds through into prospects for the labour market), the likelihood of the US Federal Reserve withdrawing its stimulus programme, plus some disquiet regarding a recent service trade agreement between Taiwan and China. The deal, which was signed on 21 June, will open up over 60 of Taiwan's service sectors to companies operating on the Chinese mainland, while China will open 80 of its sectors to Taiwanese firms.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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#### Recommended Terms:

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

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#### F/X Bank Delays:

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.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

|     |                            |
|-----|----------------------------|
| CiA | Cash in Advance            |
| CLC | Confirmed Letter of Credit |
| CWP | Claims Waiting Period      |
| FX  | Foreign Exchange           |
| LC  | Letter of Credit           |
| LT  | Long term                  |
| MT  | Medium term                |
| OA  | Open Account               |
| SD  | Sight Draft                |
| ST  | Short term                 |

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