Taiwan

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/ pessimism balance[1] of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent, whilst businesses in Taiwan are even more pessimistic about 2008 (-9 per cent) than they were about 2007 (-3 per cent).

Optimism amongst businesses in East Asia[2] is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their economy compared to a balance of +54 per cent in 2007. However, East Asia continues to present a very mixed picture with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

1 the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.
2 for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by our survey – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

The Taiwanese economy

The economy was originally expected to slow over the course of 2007. Instead, the opposite has been the case, with real GDP growth averaging 6.6 per cent year-on-year in the second half of 2007, the best two-quarter performance in three and a half years. The major factor remains the strength of the export sector, although the slow recovery in the household sector has helped. However, caution may be in order as investment actually contracted in the fourth quarter.

Until recently policymakers had the best of both worlds, with growth accelerating and consumer price inflation slowing. However, that has come to a rapid halt, at least in terms of the latter, with 12-month inflation spiking above five per cent in November 2007, and remaining close to four per cent. Another two interest rate hikes look likely in 2008 if inflation is to remain under control.

This will put upward pressure on the Taiwanese dollar at the same time that inflows of foreign capital are also boosting the currency's value. Taiwan bucked global trends in the first quarter of 2008, attracting over US$1 billion to its equity markets. The prospects of warmer relations between Taipei and Beijing have played a role, but the strength of Taiwan's exports has investors thinking about decoupling.

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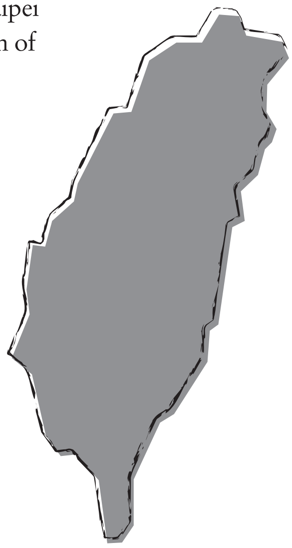


Business expectations/revenue

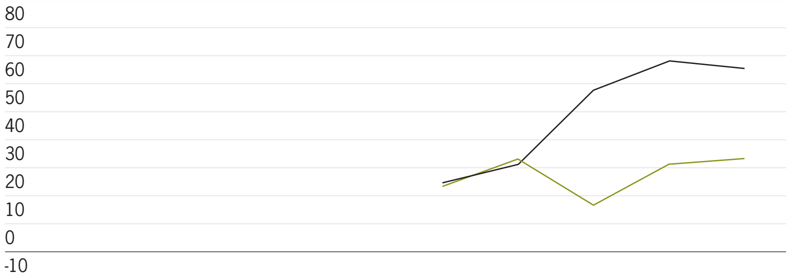
- PHBs in Taiwan are slightly more optimistic about their revenue prospects in 2008 (+33 per cent) than they were in 2007 (+31 per cent).
- Levels of optimism regarding revenue performance are well below both the East Asian (+65 per cent) and global (+63 per cent) averages.
- Levels of optimism regarding exports are +15 per cent. This is the same level as last year and is above the East Asian average (+6 per cent).

Employment

- Expected employment growth in Taiwan has risen from +17 per cent in 2007 to +24 per cent in 2008.
- Conversely, a balance of +20 per cent of PHBs in East Asia, as a whole, expect employment to grow, compared with +44 per cent in 2007.
- Actual reported employment growth in Taiwan (+24 per cent) was higher than expected in 2007.

Figure 1: Revenue expectations for Taiwan and the East Asian average 2004-2008

Percentage balance of businesses indicating optimism against those indicating pessimism

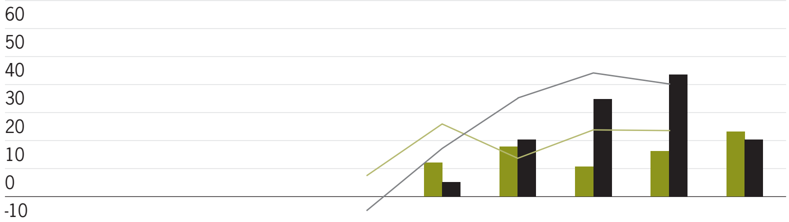


	2004	2005	2006	2007	2008
Taiwan	23	33	17	31	33
East Asia	24	31	58	68	65

Source: Grant Thornton IBR 2008

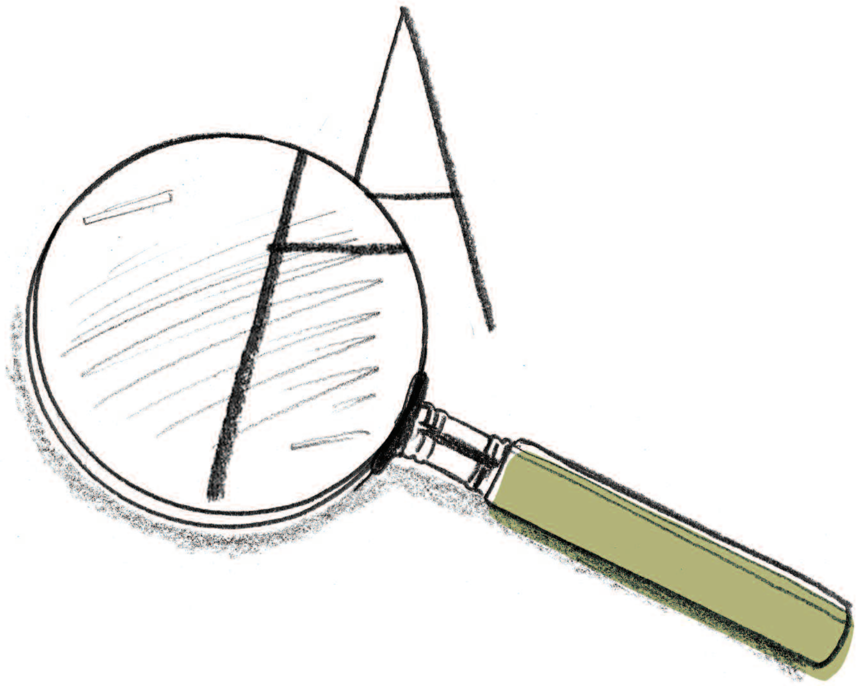
Figure 2: Employment history of Taiwan and the East Asian average 2002-2008

Percentage balance of businesses indicating optimism against those indicating pessimism



	2003*	2004	2005	2006	2007	2008**
Expected Taiwan	–	13	19	12	17	24
Expected East Asia	–	5	20	35	44	20
Actual Taiwan	8	27	14	24	24	–
Actual East Asia	-6	17	35	44	40	–

*no data available
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



Constraints

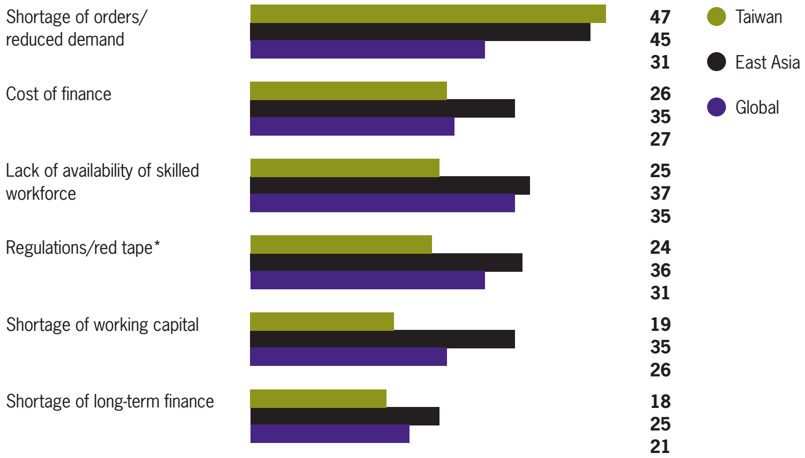
- Shortage of orders/reduced demand is the constraint restricting expansion cited most by businesses in Taiwan (47 per cent).
- The availability of a skilled workforce is cited by one quarter of PHBs in Taiwan, compared to around one third of businesses globally.
- Fewer PHBs in Taiwan cite the cost of finance, shortage of working capital and shortage of long-term finance than is true of either businesses globally or in East Asia as a whole.

Emerging markets

- The most important factor for PHBs in Taiwan when determining whether to invest internationally is political and economic stability (87 per cent).
- The number of Taiwanese businesses which export (44 per cent) is up six per cent from 2007, and is above the East Asia average (39 per cent).
- 52 per cent of PHBs in Taiwan import, which is above the global average (39 per cent).
- 50 per cent of PHBs in Taiwan see their main source of competition coming nationally.

Figure 3: Largest constraints on growth for Taiwanese businesses compared to the East Asian and the global average

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

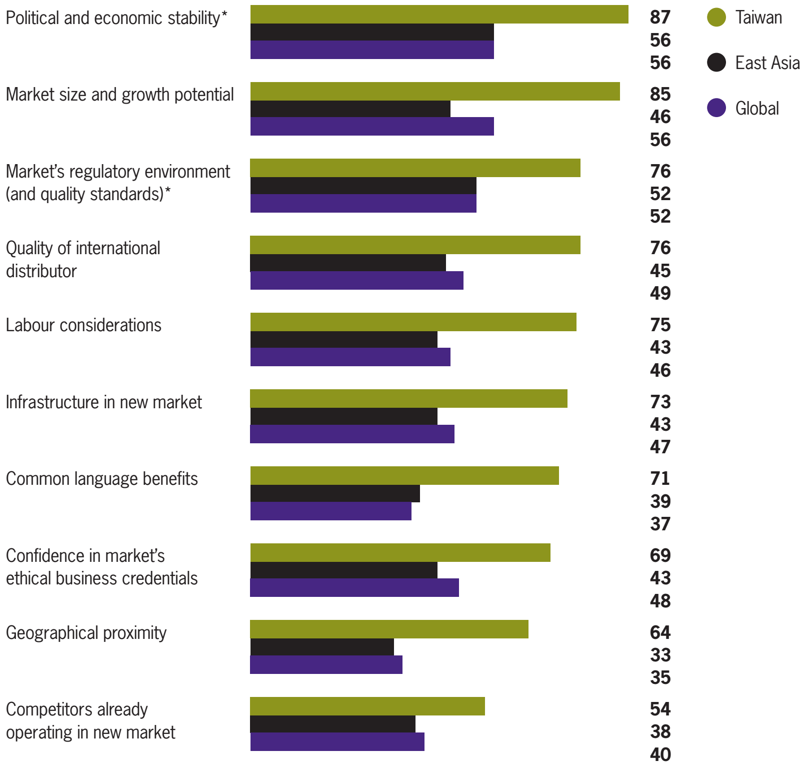


*excluding mainland China

Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



*excluding mainland China

Source: Grant Thornton IBR 2008

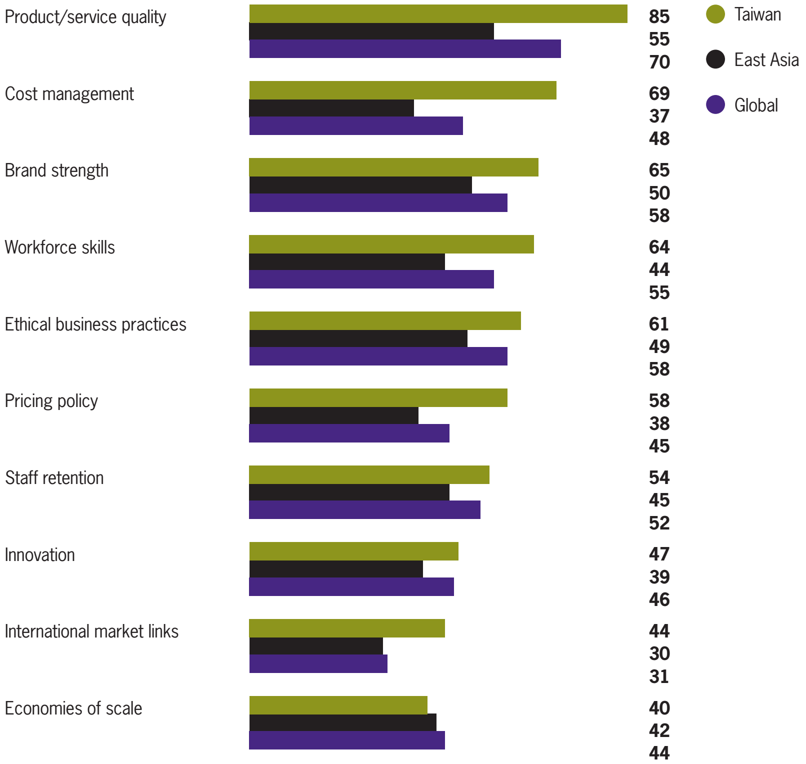
Competitiveness

- Similarly to businesses globally, PHBs in Taiwan see their greatest source of competitive advantage as product/service quality (85 per cent).
- 69 per cent of PHBs in Taiwan see cost management as a source of competitive advantage, compared to 37 per cent of all PHBs in East Asia.
- 65 per cent of PHBs in Taiwan cite brand strength as a source of competitive advantage, compared to 50 per cent of all PHBs in East Asia.

Corporate social responsibility (CSR)

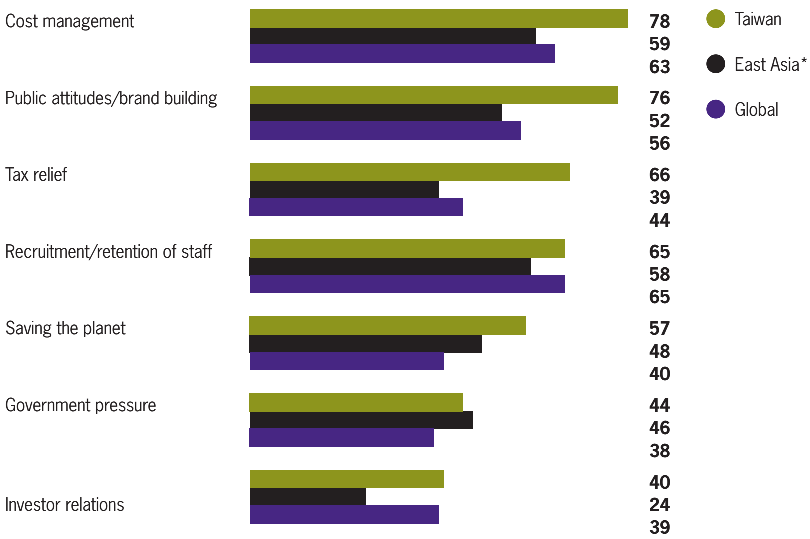
- Cost management is viewed as the biggest driver towards more ethical practices by PHBs in Taiwan (78 per cent).
- 89 per cent of PHBs in Taiwan actively promoted workforce health and well being in the past year, compared to 65 per cent of all businesses in East Asia.
- Just 30 per cent of Taiwanese businesses have incorporated their policies in to a written CSR document. This is around half the average for East Asia (61 per cent).

Figure 5: Main sources of competitive advantage for Taiwanese businesses compared to the East Asian and the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Taiwanese businesses compared to the East Asian and the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important

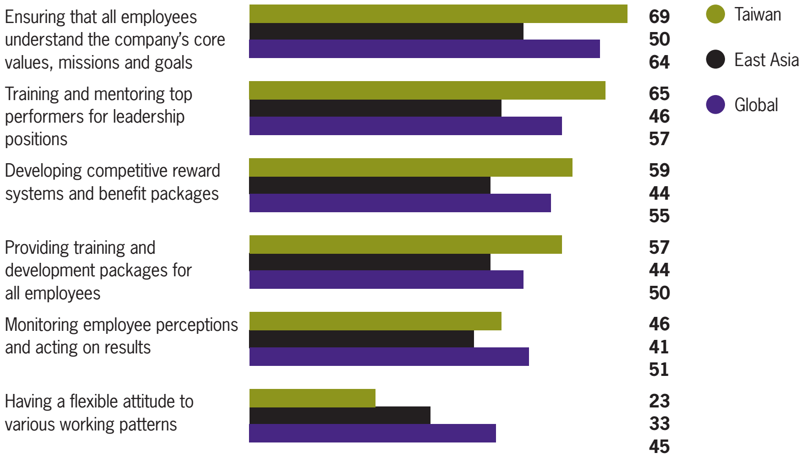


*excluding mainland China
Source: Grant Thornton IBR 2008

Recruitment and retention

- Similarly to businesses globally, and in East Asia as a whole, the balance of PHBs in Taiwan more focused on retention than one year ago is +56 per cent.
- 69 per cent of Taiwanese businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention.
- Cited by 73 per cent of PHBs in Taiwan, an increase in operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 53 per cent of PHBs in Taiwan businesses significantly more to pay their staff than it was 12 months ago. This is below both the East Asian (68 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for Taiwanese businesses compared to the East Asian and the global average
Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Taiwanese economy

Growth is set to slow to below four per cent by 2009. The recovery in household spending is forecast to be sustained but modest, with higher inflation necessitating further monetary tightening in 2008. Consumer sentiment may also be tempered by developments in the all-important export sector, which will contribute increasingly less to headline growth.

Of particular concern will be the sharp slowdown in the United States – a key market for Taiwan's semiconductor industry – which is to be followed in 2009 by a slowdown in mainland China. Importantly for technology exporters, investment in computer equipment in the United States is expected to grow moderately in the short to medium-term.

However, there are considerable downside risks to this outlook. While the United States is forecast to avoid recession, the credit crunch could have a bigger than expected impact on business investment there, hitting Taiwan's technology exports. Taiwan has also benefited from mainland China's rapid expansion. With signs that the mainland Chinese economy may be overheating, measures by authorities there to cool over-investment could have major implications for Taiwanese firms.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Mainland China
Denmark
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
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