Atradius
Managing risk, enabling trade

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Taiwan: Export-focused businesses express caution

Atradius Payment Practices Barometer

Vincent Ku
CEO for Atradius in Hong Kong, South Korea and Taiwan commented on the report

> *The majority of businesses we spoke to during the Payment Practices Barometer Survey expressed caution about the coming months and few were prepared to predict business growth with any confidence.*
>
> *The ongoing impact of the pandemic is certainly a downside risk, particularly the problems associated with interrupted supply chains for its heavily export-focused economy.*

Taiwan is one of the few economies in the world that did not enter recession last year, bolstered by strict quarantine measures that contained the pandemic and a strong export market, particularly within ICT/electronics (semi-conductors). Despite this, the majority of businesses we spoke to during the Payment Practices Barometer Survey expressed caution about the coming months and few were prepared to predict business growth with any confidence. The ongoing impact of the pandemic is certainly a downside risk, particularly the problems associated with interrupted supply chains for its heavily export-focused economy.

However, an excess of caution may be displaced, especially in markets such as semiconductors that are experiencing demand from increased global digitalisation. Many businesses also expressed concern over the potential for renewed trade tensions. Political moves are harder to predict, although the majority of commentators anticipate a period of greater stability with President Biden in the White House.

The use of credit insurance is above average for the region. 65% of businesses surveyed in Taiwan employ credit insurance, compared to 59% for Asia. This is expected to help Taiwan's businesses through the times ahead, especially in the period when Taiwan's major trading partners worldwide will start to scale down the tax relief and other pandemic support measures, when we are likely to see an increase in insolvencies.

In addition to minimising the risks associated with late and non-payment of invoices, businesses can benefit from the knowledge of credit risk underwriters to identify strong prospects and potential growth markets.

The negative impact on global trade caused by the pandemic has undoubtedly had an effect on Taiwan's export-orientated economy. The next six to 12 months will be vital as world trade possibly begins to open up further in the wake of widespread vaccination programmes.

Key takeaways

Long payment terms add additional risk

Businesses in Taiwan offer customers the longest payment terms in Asia, almost 20 days more than the regional average. This can be a risky policy as the longer an invoice remains outstanding, the more likely it will become a bad debt and need to be written off. However, payment terms that are too short may also lead to a customer's inability to pay, especially during times of supply chain and business interruptions as we have observed during the pandemic. Businesses offering trade credit should stay in regular direct contact with customers and adjust payment terms as needed.

Trade credit enjoys widespread use

Trade credit is widely used among businesses in Taiwan, and can be an effective tool to drive new sales, secure established relationships and to create increased competition within a market. However credit sales also carry risks. In addition to the risk of non-payment, businesses also need to maintain enough cash flow to continue operations while awaiting payment. Failure to do so can lead to increased stress and difficulty in paying creditors.

Business confidence knocked by recent Covid-19 cases

For the most part, Taiwan has been successful at containing the pandemic and preventing the scale of infection (and resulting lockdowns) seen in many European countries. However, a recent surge in cases has knocked confidence with fewer businesses expecting growth than their peers across Asia. Trade credit may help drive sales and boost confidence, however businesses would be well-advised to protect their accounts receivable through risk mitigation measures such as factoring or credit insurance.

Export reliance causes concern

Taiwan's economic model is largely reliant on exports. During periods of healthy trade flows, this has been an economic strength. However, the pandemic has resulted in a difficult export environment where global supply chain issues have included closed borders, reduced manpower at ports and pressures on container shipping impacting costs and availability. It is perhaps for these reasons why so many of the businesses we polled expressed a negative view of potential growth over the coming months, despite reporting some of the strongest payment practices in the region.

Survey results for Taiwan

Majority of B2B sales made on credit

55% of the total value of B2B sales across the industries surveyed (ICT/electronics, textiles/clothing and chemicals) was made on credit during the last 12 months.

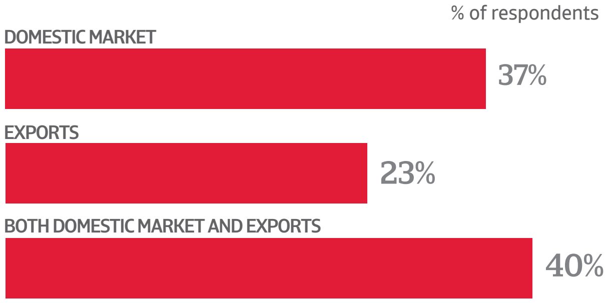
This compares to 54% in Asia overall and 59% in Singapore and 57% in Hong Kong. 41% of the businesses polled in Taiwan (equal to the regional average) told us that between 60% and 100% of their B2B sales are made on credit. Taiwan's chemicals/pharma industry has the greatest percentage of credit sales with an average of 58% (higher than the 54% average for the industry in Asia). This also compares to 55% in Taiwan's ICT/electronics industry (in line with the average for the region) and 50% in the textiles/clothing industry (regional average: 57%). 51% of all domestic B2B sales are made on credit (regional average: 56%) and 49% of export sales (regional average: 44%).

Businesses in the ICT/electronics industry are more likely to sell on credit to foreign than to domestic customers, while both the chemicals/pharma and textiles/clothing industry more often offer trade credit to their domestic than foreign customers.

Taiwan: how do you expect your business performance to change over the coming months?

IMPROVE	NO CHANGE	DETERIORATE
32%	64%	4%

Which key developments will drive your business improvement?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

65%

of the respondents to our survey in Taiwan told us they employ trade credit insurance to mitigate the impact of customer credit risk on the business (regional average: 59%)

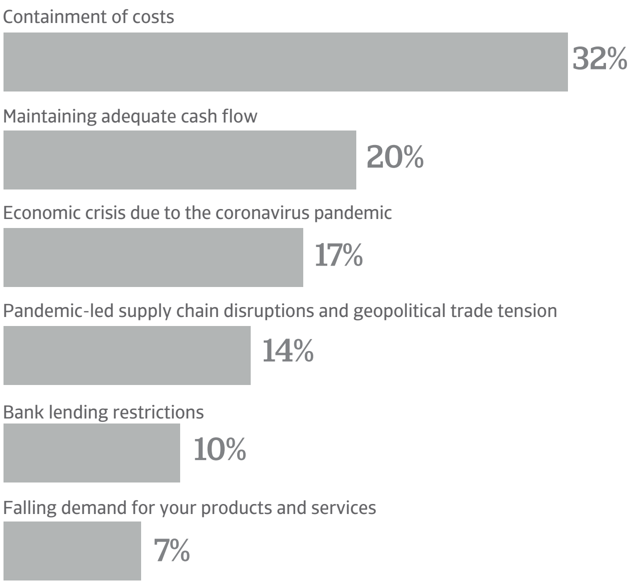
Appetite for credit sales hold steady

Despite a widespread use of credit insurance (65% of businesses use credit insurance) there appears to have been little appetite during the past 12 months to increase the amount of credit sales. Fewer businesses polled in Taiwan (31%) than in Asia (44%) reported an increase in trading on credit. Indeed, a majority of 63% (regional average: 45%) reported trading on credit at the same pace as last year.

Half of the businesses we spoke to (slightly fewer than the 54% regional average) told us they used trade credit to encourage repeat business with established customers. Trying to win new customers through the use of trade credit was the primary aim of 24% of respondents in Taiwan, almost the same percentage as in the region (26%).

Taiwan: top 5 greatest challenges to business profitability in 2021

% of respondents



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Other reasons given for accepting trade credit included the bid to stay competitive and to provide customers with short-term finance, both of which were reported more often in Taiwan than in Asia. The risks associated with trade credit include a potential increase in the cost of managing account receivables as well as the risk of bad debts.

Our survey results show that businesses in Taiwan were relatively good at containing credit management costs with only 39% reporting an increase over the past 12 months, compared to 49% in Asia. A similar percentage report an increase in financing or interest costs paid during the time-lag between the credit sale and the invoice payment. However, significantly fewer businesses in Taiwan (26%) than in Asia (42%) reported an increase in the amount they spent on trade debt collection and bad debts.

Taiwan offers the longest payment terms in Asia

Businesses in Taiwan extend by far the longest payment terms in Asia, offering their customers 73 days on average to settle invoices compared to the regional average of 54 days. However, this figure does not include a year-on-year increase for the majority of businesses, as only 19% lengthened their terms compared to last year and 73% kept terms the same.

This contrasts to the regional average where 35% of businesses gave their customers longer time to settle of invoices and 55% did not alter the payment terms. The reasons businesses gave for the setting of payment terms included: using the company standard payment terms (as reported by 43% in Taiwan and 53% in Asia); reflecting the payment terms of their suppliers (41% in Taiwan and 42% in Asia); and the availability and cost of capital needed to finance credit sales (40% in Taiwan and 43% in Asia). Additionally, more businesses in Taiwan (42%) than in Asia (39%) set payment terms according to the credit capacity of their customers.

In addition, when assessing the creditworthiness of their customers, 72% of survey respondents told us that their primary source of credit information included their customers' financial statements (this is the same percentage as reported in Asia).

Taiwan reports largely positive payment practices

The vast majority of survey respondents reported positive payment practices. 74% told us they recorded no change in payment timings over the past 12 months (significantly more than the 51% reporting the same in Asia).

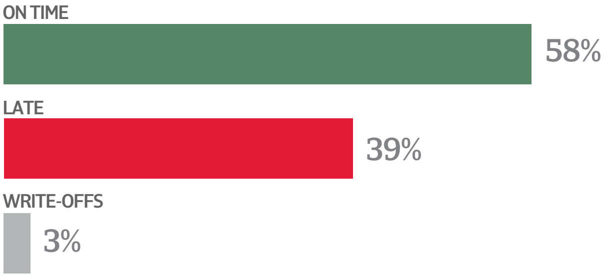
Correspondingly just 23% of businesses (regional average: 40%) reported an increase in late payments. Overdue receivables represented an average of 39% of the total value of all B2B credit sales (lower the 50% average for Asia). An average 3% of long-term invoices (over 90 days) were written off as uncollectable (regional average: 5%). The contrast between the payment practices reported by businesses in Taiwan versus Asia overall may be explained by different approaches to trade debt management across the industries surveyed. Further detail about individual industry results can be found below.

To mitigate the risk of non-payment associated with credit sales, most of the businesses (70%, compared to 68% in Asia) told us they relied on self-insurance. 65% employed credit insurance (higher than the 59% for Asia). Factoring was used by 66% of businesses compared to 62% in Asia. The widespread use of credit insurance and factoring is likely to be a key reason why 73% of businesses told us they kept DSO stable over the past 12 months, a significantly higher number than in Asia where only 52% reported the same. Indeed only 22% reported increases in DSO, compared to 36% in Asia.

Businesses in Taiwan pessimistic about opportunities for growth

Despite the fairly upbeat picture suggested by low percentages of late payments and the generous use of longer payment terms, Taiwan's businesses were more downbeat when questioned about forecasts for next year. 32% told us that they consider containment of costs to be the greatest challenge to their business profitability over the next 12 months. This compares to 20% of businesses in Asia sharing the same concern, where the majority of businesses tend to be more concerned about maintaining adequate cash flow. Potential bank lending restrictions as well as the possibility of renewed geopolitical trade tensions are also reasons for concern for more businesses in Taiwan than in Asia. Looking ahead, Taiwan's businesses appear to be more pessimistic than their peers in Asia in regards to an improvement in their business performance over the next 12 months. Significantly fewer business polled in Taiwan (32%) than in Asia (52%) believe their business performance (sales and profits) will improve over the coming year. Fewer businesses polled in Taiwan (37%) than in Asia (48%) are of the opinion that an improvement in business performance will be mainly due to the consolidation of the domestic economic rebound. 23% in Taiwan (higher than the 15% average for Asia) anticipate any improvement in their business performance will come exclusively from exports. 40% in Taiwan (36% in Asia) believe that the combination of healthier export flows and domestic economic rebound will favour an improvement in their business performance. More businesses in Taiwan (38%) than in Asia (23%) are of the opinion that B2B credit will neither play a greater nor smaller role in Taiwan's businesses trade relationships. However, the same percentages of respondents (35% Taiwan, 36% Asia) believe that credit sales will increase over the next 12 months to customers additional time to pay invoices. Interestingly, fewer businesses in Taiwan (21%) than in Asia (32%) believe that credit sales will increase over the next 12 months to stimulate demand. However, to mitigate the impact of customer credit risk associated with trading on credit, most of the business polled in Taiwan (36%) told us they would make use of factoring to improve cash flow for their working capital needs. 70% believe this will contribute to keeping DSO levels stable (regional average: 48%).

Taiwan: on average, within what time frame do your B2B customers pay their invoices?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

45 days
is the average time it takes B2B customers of suppliers surveyed in Taiwan to settle overdue invoices.

Overview of payment practices in Taiwan By industry

ICT/ELECTRONICS

Overview

Taiwan's ICT/electronics industry appears to have been hit harder by late payments than the domestic chemicals/pharma and textiles/clothing industries. However, the percentage of late payments reported by ICT/electronics was lower than the industry average for Asia, which may be partly due to a reportedly wider use of factoring than in the region. Apart from factoring, the industry shows a similar approach to trade debt management as regional peers, involving either the retention of customer credit risk in-house, or the use of credit insurance.

Cost containment and safeguarding of liquidity levels are areas the industry plans to focus on going forward. Its outlook for the coming months anticipates business growth driven by a resilient global demand for its technology products.

ICT/electronics has greatest percentage of late payments among local sectors

Compared to the chemicals/pharma and textiles/clothing industries, the ICT/electronics industry in Taiwan was the hardest hit by late payments over the past 12 months. However, when compared to industry peers across Asia it appears to have been less impacted by payment defaults than the regional average (42% of all B2B invoices, compared to 47% in Asia). Moreover the industry wrote off 3% of the total value of receivables as uncollectable (compared to a 4% average for the industry in Asia).

This of course highlights that the ICT/electronics businesses experienced lower pressure on cash flow than their industry peers in Asia. This may be a reflection of greater use of factoring (71% in Taiwan, compared to 61% in Asia). Outside this, trade debt management appears to be more uniform between ICT/electronics businesses in Taiwan and Asia. Retention and management of customer credit risk internally through self-insurance is undertaken by nearly 70% of the sector in Taiwan and Asia alike.

Of course, the downsides of this approach include the potential to block-up liquidity in bad debt reserves, thus increasing administrative costs. This may be why the industry in both Taiwan and Asia also makes great use of credit insurance (as reported by 65% of businesses in Taiwan and 63% in Asia).

The industry average DSO is 107 days in Taiwan, and 110 days in Asia. This suggests a similar level of success in collecting over due invoices, especially long-term overdue invoices, more than 90 days overdue.

Industry export-driven mindset to support business growth over the coming months

Looking ahead, more businesses in Taiwan expressed concern over containment of credit management costs (32%) than their industry peers in Asia (24%).
More ICT/electronics businesses in Taiwan than Asia are also worried about safeguarding cash flow levels over the next months. When asked about the outlook for their business performance (sales and profits) over the coming months, more businesses in Taiwan (63%) than in Asia (53%) anticipate no change, while improvement is expected by more businesses in Asia (42%) than in Taiwan (33%).

36% of businesses polled in Taiwan believe that an improvement in business performance will be driven by a rebound in the domestic economy (regional average: 46%). Fewer businesses in Taiwan's export reliant economy believe that improvement will come from increased exports (25%), but this is still a greater percentage than their industry peers in Asia (15%).

Better business performance as a result of a combination of increased exports and improved conditions of their domestic economies is expected by almost the same percentage of respondents in Taiwan and Asia alike. Against this backdrop, a greater proportion of the industry in Taiwan (36%) than in Asia (26%) believe that trading on credit will not increase over the coming months. Where trade credit is used, however, businesses in both Taiwan and Asia largely agree that this will be widely used as a short-term financing tool for customers.

CHEMICALS/PHARMA

Overview

There are far fewer late payments in Taiwan's chemicals/pharma industry than Asia's industry average. This is likely to be due to the strong safeguards on liquidity levels and credit management cost containment practised by many of the businesses we polled.

Industry respondents indicate this approach will be maintained over the coming months and appear to be in favour of an increased use of trade credit, as an aid to the sale of goods and services. The majority of businesses we spoke to suggested that an improvement in business performance would be driven by the growth of the domestic economy.

Stronger focus on cash flow management in Taiwan's industry than in Asia

Overdue invoices comprise an average of 27% of the total value of all B2B credit sales in Taiwan's chemicals/pharma industry. This is significantly lower than the 54% average for the same industry in Asia. The same pattern can be seen with uncollectable invoices, with just 1% of the total value of receivables classed as write-offs in Taiwan, contrasting with 7% in Asia. Such differences are likely to be due to varying approaches to trade debt management. 60% of the survey's respondents told us they use factoring (regional average: 48%).

Interestingly, in-house retention and management of customer credit risk through self-insurance is also commonly used in the industry, (reported by 75% in Taiwan and 70% in Asia). Actively avoiding credit risk concentrations was reported by 75% (regional average: 50%), as well as adjusting payment terms to reflect the credit risk profile of the customer (70% of respondents in Taiwan, 58% in Asia). Businesses also reported slowing down invoice payments to their suppliers to safeguard liquidity levels. The stronger focus on cash flow management practised by Taiwan's chemicals/pharma industry will have been a primary contributor to keeping the average DSO stable at a 124-day average over the past 12 months, even though this is longer than the 95-day industry average for DSO for Asia.

Containment of credit management costs worries industry

42% of Taiwan's businesses in the chemicals/pharma industry expressed concern over containment of credit management costs than their industry peers in Asia (21%).

Protecting cash flow to avoid liquidity shortages was cited as a key focus area by businesses in Taiwan and Asia alike. When asked about the outlook for their business performance (sales and profits) over the coming months, 70% of businesses in Taiwan anticipate no change, twice as many as those reporting the same in Asia. However, of those expecting to see business growth, 60% told us they believe this will be driven by the domestic economy (regional average: 43%.)

The remainder expects better business performance to come from a combination of increased exports and improved export flows. No change in the role of B2B trade credit is anticipated by far more businesses in the industry in Taiwan (45%) than in Asia (21%). Businesses in the industry in both Taiwan and Asia anticipating a greater role for trade credit agree that this will be driven by the need to boost demand.

TEXTILES/CLOTHING

Overview

Businesses in Taiwan's textiles/clothing industry appear able to weather late payments better than their industry peers in Asia. However, following recent concerns over an unexpected resurgence of Covid-19 cases, local businesses expressed pessimism concerning an improvement in their business performance over the coming months.

However, what worries them more than their peers in Asia are potential bank lending restrictions that could hamper their financial flexibility and their ability to access cash to weather fluctuations in their business activity.

Credit insurance and self-insurance widely used

With overdue invoices amounting to just 23% of total B2B credit sales, businesses in Taiwan's textiles/clothing industry appear to be significantly less impacted by late payments than their industry peers in Asia, which reported 50%. The same pattern can be seen with a 4% average of write-off rate for the industry in Taiwan, versus 7% Asia. This is likely to be due to differences in trade debt management. The majority of businesses opted for self-insurance, with 84% of businesses in Taiwan taking this approach, far more than in Asia (78%). Although this includes the need to absorb losses and late payments themselves, many of the businesses self-insuring reduced reliance on single customers to avoid credit risk concentrations (reported by 63% of respondents in Taiwan and 52% in Asia).

Interestingly, of the local businesses opting for self-insurance, more in Taiwan (63%) than in Asia (54%) told us they delayed payments to suppliers to improve cash flow and reduce the need for external financing of working capital. When delaying payments generated insufficient cash flow, many told us they accessed alternative sources of funds, including bank loans, to fulfil their cash requirements. However, 68% of industry respondents told us also they strengthened credit risk management over the past 12 months, through the use of credit insurance (regional average: 55%). This approach helped the industry keep DSO stable over the past 12 months.

Although businesses that self-insured told us they often offered discounts for early payment to speed up cash inflows and contain DSO. The average DSO for the industry is 105 days, much longer than the average 81 days for the industry in Asia. Reportedly this is largely due to sales fluctuations, rather than to cash flow issues.

Businesses express concern over potential bank lending restrictions

More Taiwan's businesses in the industry (30%) than in Asia (10%) told us they are concerned about a likely introduction of bank lending restrictions that could hamper their financial flexibility and their ability to access cash to weather fluctuations in their business activity over the coming months. 21% are concerned about containing credit management costs in the coming months, (regional average: 16%).

It is worth mentioning that four times as many respondents in Taiwan than in Asia overall are worried about future increases in geopolitical trade tensions negatively impacting their export flows. Amid concerns over a recent unexpected resurgence of Covid-19 cases, local businesses in the industry are way more pessimistic than their Asian industry peers about the likelihood of an improvement in their business performance over the coming months. In the instances where businesses did predict growth, 60% said they believed the improvement would come from both a rebound of the domestic economy and increased export trade flows, a much higher proportion than for the region where just 32% said the same thing. However, for the time being most respondents in Taiwan (63%, far higher than the 37% average for Asia) do not expect to see changes in their business performance over the coming months.

Consistent with this, 47% believe that trading on credit will not become more widespread over the coming months (more than the 23% that expressed the same in Asia). Should increased credit trade occur over the coming months, businesses in the industry in Taiwan agree with those in Asia that this will be primarily aimed at supporting customers by allowing them more time to pay.

Survey design for Asia

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. In this report focusing on Asia, which is part of the 2021 edition of the Atradius Payment Practices Barometer, companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed.

Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results. Using a questionnaire, CSA Research conducted 1,200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from six economies (China, Hong Kong, Indonesia, Singapore, Taiwan and UAE) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of the market data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=1,200 people were interviewed in total (approximately n=200 people per market). In each market, a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

Sample overview – Total interviews = 1,200

Economy	Interviews	%
China	200	16.7
Hong Kong	200	16.7
Indonesia	200	16.7
Singapore	200	16.7
Taiwan	200	16.7
UAE	200	16.7
Business sector (total Asia)	Interviews	%
Manufacturing	521	43.4
Wholesale trade/Retail trade/Distribution	464	38.7
Services	215	17.9
Business size (total Asia)		
Small enterprises	99	8.2
Medium-sized enterprises	896	74.7
Large enterprises	205	17.1

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia.
This is part of the June 2021 Payment Practices Barometer of Atradius, available at
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