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Doing Business in Taiwan

A Preliminary Business Guide

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Introducing Taiwan

Iha Formosa – Beautiful Island. This is what a group of Portuguese sailors, said to have been the first Westerners to lay eyes on the island, uttered upon seeing Taiwan for the first time. We imagine they must have been pretty enamored. While not every Westerner has the same love-at-first-sight reaction to Taiwan, our Portuguese seafaring friends were just the first of many. With the lush mountains of Wulai, pulsating cities like Taipei, the stunning basalt cliffs of Penghu, excellent hiking in Taroko Gorge, not to mention some of the world's best hot springs, Taiwan cuts a figure as one of the most diverse destinations in Asia

True, Taiwan has not yet made it to the top of everybody's 'to visit' list, but we think this is partially a result of people not quite knowing what Taiwan has to offer. But within the borders of this small, sweet-potato-shaped island barely the size of many American states, lies a world of contrasts and mixtures of cultural influences you are not likely to find anywhere else on the planet.

This brief guide will help you with your research and preparation for establishing business contacts in Taiwan. It is meant as an introduction and as you develop relationships, business contacts and business opportunities, it is advisable to seek a local counselor who can provide you with the answers to the more in-depth questions that will certainly arise.

Fast Forward to the 21st Century

As we enter the second decade of the 21st century, Taiwan is increasingly drawing travelers of all stripes: from spiritual seekers looking to experience the island's religious heritage, to gourmards in search of the perfect night-market meal, to computer geeks scanning the horizon for the latest high-tech gadgets. Taiwan offers visitors a hypermodern skin, an ancient Chinese skeleton and an aboriginal soul. And more than that, Taiwan has some of the world's warmest people, affable to a fault and so filled with *rénqíng wèi* (which, roughly translated, means 'personal affection') that few who come to Taiwan a stranger leave that way.

Much has changed in the centuries since the Portuguese first saw Taiwan. The Taiwan that is presented to the world today is one of the most technologically advanced societies in the world. From cell phone usage to Internet penetration, there are few countries on earth that match Taiwan for its love and affection for High Technology. This has helped produce and harvest a vast manufacturing base that boasts some of the largest and most successful technology manufacturers in the world. Many are household names, but many more are faceless contract manufacturers supplying the world leaders in many areas of High Technology. In many respects, Taiwan is transitioning from an anonymous manufacturer to a manufacturer of world-class brands.

This embracing of everything technological, as well as Taiwan's unique geographical position, provides a competitive advantage for Taiwan manufacturers in the battle to enter the Chinese market. By the end of the 21st century, China will be the largest economy in the world and Taiwanese companies as well as those with a local presence in Taiwan will be positioned to reap the benefit of this unprecedented growth and shift in economic power. According to the International Monetary Fund (2010), Taiwan now possesses the 25th largest economy in the world. The shift in focus and economic growth since the 1950's has been incredible. In a little over 50 years, Taiwan has grown from primarily an agrarian producer to a world-class manufacturer where agriculture now only accounts for 1-2 % of GDP.

Country Facts

Taiwan is located North of the Philippines and Southeast of China, offering proximity to the East China Sea, Philippine Sea and the Taiwan Strait. Taiwan has a population of 23 million. The larger part of the island's inhabitants are the descendants of immigrants from the various provinces of mainland China, but in particular from the southeastern coastal provinces of Fujian and Guangdong. Because the different ethnic groups have fairly well integrated, differences that originally existed between people from different provinces have gradually disappeared.

The official language of Taiwan is Mandarin Chinese (Guoyu), but because many Taiwanese are of southern Fujianese descent, Min-nan (the Southern Min dialect, or Holo) is also widely spoken. The smaller groups of Hakka people and aborigines have also preserved their own languages. Many elderly people can also speak some Japanese, as they were subjected to Japanese education before Taiwan was returned to Chinese rule in 1945 after the Japanese occupation, which lasted for half a century.

The most popular foreign language in Taiwan is English, which is part of the regular school curriculum. However, to be on the safe side, when taking a taxi in Taiwan, it is advisable to prepare a note with your place of destination written in Chinese to show the taxi driver. Japanese is also a commonly used foreign language due in part to the historical relationship between Japan and Taiwan.

Taiwan is extremely suitable for traveling, as the annual average temperature is a comfortable 22 degrees Celsius with lowest temperatures ranging from 12 to 17 degrees Celsius (54-63 Fahrenheit). Therefore, with the exception of a few mountain areas where some traces of snow can be found during winter, no snow can be seen throughout Taiwan.

When summer is about to dismiss spring (March to May), continuously drizzling rain will sometimes fall on Taiwan. When visiting Taiwan during this period, remember to carry an umbrella at all times; because although it might seem romantic to have a stroll in the rain, it is no fun to travel when you're soaking wet. During the summer (June to August) typhoons sometimes reach the island.

Culture, Customs and Etiquette

If this is your first visit to Taiwan, you will most certainly be amazed at the diversity of things this beautiful island has to offer, as a rich historical background has provided Taiwan with a multifaceted culture. People from many different countries and cultures including Taiwan's indigenous people, the southern Fujianese from early China, Hakka immigrants, the Dutch, Spanish, and Japanese, and the recent immigrants from Mainland China, have all played a role in Taiwan's development.

While gradually developing a new culture indigenous to Taiwan, they also held on to their respective customs and traditions; as a result, you will be able to sample indigenous, Taiwanese, and Chinese cultures and even find traces left by the Dutch and the Japanese when traveling in Taiwan.

Taiwan's population is mostly Han Chinese who were born on the mainland or have ancestors that were born on the mainland. They are divided into three groups based on the dialect of Chinese they speak: Taiwanese, Hakka, and Mandarin. Taiwan also has a small population of aborigines who comprise about 2 percent of the total population.

Most people in Taiwan have traditional values based on Confucian ethics; however, pressures from industrialization are now challenging these values. Still, some traditional values remain strong, including piety toward parents, ancestor worship, a strong emphasis on education and work, and the importance of "face." Since industrialization, women enjoy greater freedom and a higher social status, individual creativity is regarded as equally important as social conformity and acquiring material goods and recognition is increasingly important.

There is a distinct hierarchy when dealing with Taiwanese executives. It is advisable to always send your most senior representatives to Taiwan when trying to establish a new business relationship. This is seen as customary as it is believed that with age comes wisdom and experience.

Meeting and Greeting

- ◆ Greetings are formal and the oldest person in a group is always greeted first.
- ◆ Handshakes are the most common form of greeting with foreigners.
- ◆ Many Taiwanese look towards the ground as a sign of respect when greeting someone.
- ◆ You need not follow their example as they understand that westerners tend to smile warmly when introduced.
- ◆ The Taiwanese traditionally have 3 names. The surname, or family name is first and is followed by one or two personal names.
- ◆ Taiwanese women do not change their names when they marry other Taiwanese, and the children's last name will generally follow that of the father.
- ◆ Often their personal names have some poetic or otherwise significant meaning, so asking about the meaning is a good way to break the ice.
- ◆ When you are first meeting a person, address the person by their academic, professional, or honorific title and their surname.
- ◆ If those you are meeting want to move to a first name basis, they will advise you which name to use.
- ◆ Some Taiwanese adopt more western names in business and may ask you to call them by that name.

Meeting People

- ◆ A handshake is the common greeting.
- ◆ Handshakes are not as firm as in many other countries.
- ◆ Men should wait for a woman to extend her hand.
- ◆ Greet or introduce the most important person first.
- ◆ If you are in a group, try to assemble in rank order, with the most senior person first.
- ◆ People are usually addressed by their title and surname.
- ◆ If the person does not have a corporate or government title, use the honorific Mister, Miss, or Madame followed by the surname.
- ◆ Wait until invited before using someone's first name.
- ◆ Business cards are exchanged after the initial introductions.
- ◆ Have one side of your business card translated into Chinese using the traditional script not the simplified script as used in China.

- ◆ Business cards are exchanged using both hands.
- ◆ Present your card so the typeface faces the recipient.
- ◆ Examine a business card carefully before putting it on the table next to you or in a business card case.
- ◆ Treat business cards with respect. The way you handle someone's card is indicative of the value you place on the relationship.
- ◆ Never write on someone's card in his or her presence.

Meetings in Taiwan

Initial meetings are usually held to aid the relationship building process with little or no emphasis placed on the actual business ideas on the table. It is important to take these preliminary meetings seriously and to try not to push things along quicker than the Taiwanese are comfortable with. Relationships are of primary importance in business dealings and it is very much in the best interests of profitable long-term business success to allocate sufficient resources to these early encounters. Build some 'relationship' meeting time into the business plan - if you do not it will be difficult to achieve your business goals.

Meetings tend to be formal with the two heads of delegation sitting opposite each other, flanked by colleagues. All comments should be made to the senior manager who will bring in experts when and where necessary. Do not be seduced into talking mainly to the best English speaker - he or she may only be present because they can speak English. It would be disrespectful to ignore the key player or senior member of the organization.

As in many other parts of Asia, communication patterns can be vague and coded, which can make true meaning difficult to understand. This approach to communication, coupled with limited abilities in foreign languages, can make meetings difficult and slow so you must be prepared and be patient in your dealings.

Guanxi – Building Relationships

"Guanxi" (pronounced (*guan-shee*)) is one of the most powerful forces in Taiwanese culture. Though the direct translation of "guanxi" is "relationships", the concept as it is used and applied in Taiwanese culture is much richer and encompassing. "Guanxi" does express the relationship of one person to another, or one party to another. However, more importantly the term also expresses an obligation of one party to another, built over time by the reciprocation of social exchanges and favours. If one has "guanxi" with another, one will be quick to do a favour, act on another's behalf and depending on the depth of the relationship, do anything necessary for the other party. By establishing this type of relationship with someone, the other party is implicitly agreeing also to be available to reciprocate when the need arises. In such a way "guanxi" can be considered as a type of currency that can be saved and spent between the two parties. Like money, it is a resource that can also be exhausted, so one must be sensitive not to overextend the "guanxi" that has been established.

The exchange of favours does not have to be in like kind. So if one person helps introduce you to someone, it is not beyond the scope of the relationship for that party to then ask you to help get a visa to your country, or get their son into a foreign school. Failure to repay favours in this type of relationship is equivalent to not paying a financial obligation. If one cannot accommodate a specific request, one must find another way to make amends, perhaps by sending along a small gift to let the party know you are sorry you could not help and that you still want to maintain the relationship.

The reciprocal nature of "guanxi" and its implied obligations is the main reason why Taiwanese are reticent to engage in deeper relationships with people they do not know. To begin such a relationship may put you in a compromising position from which it is difficult to withdraw. Additionally, to establish "guanxi" with someone who later proves unworthy will also tarnish that party's reputation, so the Taiwanese would rather not begin a relationship with someone they do not know. Finally, in establishing "guanxi", that person or party may want to know up front what they hope to gain from the relationship, to insure they are not contributing effort or services without gaining something in return.

Given this background, if you would like to begin a relationship with a Taiwanese individual, group, or company, it is most expedient to be introduced by a mutual party who can vouch for you. But note that the intermediary is also expending "guanxi" to make the introduction so you will need to repay the favour.

Gift giving is endemic throughout Taiwanese culture. The giving and receiving of gifts is part of the all important ritual of business relationship development - and in a country where relations are placed firmly before business, gifts are therefore an important business tool that should not be overlooked.

Avoid expensive gifts, especially in the early stages of a relationship. If an expensive gift is to be given, present it to the head of the delegation as a gift for the whole group. If individual gifts are to be given, ensure all present receive one with a slightly more impressive gift going to the senior person. Single malt whiskey or cognac is always appreciated. Gifts should be wrapped and are often refused two or three times before being accepted. They are rarely opened in front of the giver.

Government, Legal and Business

Taiwan has two levels of Government, the Central and the local/municipal branches of Government. The Central Government is composed of 5 distinct branches – Executive, Legislative, Judicial, Control and Executive Yuan.

The system of law is based on the civil code, similar to Japan and Germany. The primary source of law comes from statutes rather than judicial decisions. Coming from a foreign country and trying to understand the Government structure can be a daunting task. Fortunately for foreigners in Taiwan, in most cases, legal documents DO NOT need to be in Chinese. English legal documents are accepted in general and are as binding and effective as if they were written in Chinese.

Taiwan has a system of Alternative Dispute Resolution in order to offer alternative methods of legal mediation. Any legal disputes, including civil and criminal cases, may be referred to reconciliation. Reconciliation is a form of dispute resolution whereby the parties to a dispute voluntarily agree to try to settle the matter privately with the assistance of a neutral third party. It is not a compulsory procedure. Arbitration is also a practice that is commonly used in Taiwan in order to settle disputes.

Taiwan's economy has evolved over the last 50 years from an agrarian economy to a world-class manufacturer and exporter of electronics, chemicals, pharmaceuticals and metals. This shift to a diverse and fast growing economy was due in part to Taiwan's highly educated (knowledge oriented industries) and motivated workforce as well as proximity to major markets such as China and Hong Kong. Taiwan is very open to foreign investment and the government also provides many incentives to foreign companies looking to set up shop in Taiwan. This allows foreign companies to set up branch operations in Taiwan that can also be used as launching pads for China, Hong Kong and Southeast Asian markets.

When setting up foreign operations in Taiwan, many options exist for potential investors. All companies in Taiwan must be incorporated and certified by the Ministry of Economic Affairs. There are different types of corporate structures available in Taiwan. It is always wise to seek advice from a lawyer or consultant knowledgeable and experienced in setting up business operations in Taiwan.

Business Environment

Taiwan's economic landscape is dominated by small to medium-sized, family controlled businesses, which are usually dominated by one, older male member of the family. Thus companies can be seen as being run as benevolent dictatorships where the central family member, who both expects and receives loyalty and obedience from the rest of the employees, makes all key decisions. As is typical in Confucian cultures, the quid pro quo for this respect and loyalty is that the senior manager has an almost paternal interest in the well-being of his staff - and this interest is expected to extend beyond the work place.

Structures tend to be less rigidly hierarchical than can be found in other Asian countries such as Japan and South Korea, with emphasis placed more on pragmatism and getting the job done than on protocol and procedure. This more flexible approach is obviously helped by the absence of large numbers of major conglomerates. In such smaller operations, the key decision-maker is able to have direct contact with all functions and at all levels, ensuring quick decision-making and supervised actions.

Another by-product of the generally small nature of many Taiwanese companies is that barriers to entry to the market are lower than in other countries, where a few key players tightly control many areas. Thus, many younger employees (non-family members) are happy to leave the firm to start their own business or to help foreign investors carve out a market presence. This provides the foreign investor with a strategic advantage when setting up operations in Taiwan versus other Asian countries where serious barriers to entry exist (both competitive and legislative).

One of the key elements of team working in Taiwan is the need to ensure that all members can maintain 'face' and that nothing is done to impact negatively on an individual's sense of 'face' within the group. Thus, when working with a Taiwanese team, try to avoid incidents that may show one or more members of the team in a bad light in front of the others. If anything negative needs to be expressed, do it privately or even through a third party. (to avoid embarrassment on all sides.) This is in stark contrast to Western styles of management and teamwork. Although collaborative in nature, Westerners will give feedback – negative or positive in front of a group setting. As mentioned, greater sensitivity must be exercised when encountering difficulties with teamwork in Taiwan.

Investing in Taiwan

As the economy has shifted from labor-intensive industries to knowledge-based and capital-intensive industries, there are a variety of new investment opportunities available in Taiwan. Some of the world's leading high-tech players are located in Taiwan. The prime industries for potential investment include: semi-conductors, opt-electronics, precision machinery and instrumentation, metals, computers and communication equipment, electrical products, aviation and automotive, biomedical and pharmaceutical products. There are many programs and incentives available to manufacturers in strategic industries that are being actively promoted by the Taiwanese Government. It is advisable to contact a local business consultant in order to obtain an up to date listing of the industries currently receiving additional funding.

Besides setting up a branch office for a foreign subsidiary in Taiwan, individuals can invest in Taiwan through the use of ETF's as well as invest directly in the Taiwanese Stock Exchange – TWSE. There are certain restrictions to foreigners investing in Taiwan and it is recommended that you seek advise before proceeding with any investment. As mentioned, Taiwan is quickly evolving from a contract manufacturer to world-class brand leadership in many High-Tech areas. This growth provides many opportunities for suppliers and service providers seeking to take advantage of this shift in the Taiwanese economy. Knowledge based industries such as consulting will flourish as Taiwanese companies seek advice on how to expand operations globally and retain their competitive advantage.

Private equity firms are looking beyond the traditional markets of Mainland China, South Korea and Japan for deals. Their attention is turning to Taiwan.

What it lacks in the growth of its gross domestic product and sheer market size, Taiwan makes up for in the availability of attractive, "doable" deals. Buyouts in Taiwan are easier than in many places, due to less restrictive policies on foreign ownership. Many Taiwanese technology companies also have a strong cash-flow profile and seasoned management, making them attractive buyout targets.

Valuations are also low, compared to its regional peers. Many expect that the recent bid by the global investment firm Carlyle Group for ASE, the world's largest chip packager and tester (subsequently rejected), the acquisition of EMC, the largest cable MSO (multiple system operator) in Taiwan by Carlyle Group, and the acquisition of cable operator China Network Systems by MBK Partners, are only the first of many deals to come. Historically, most analysts have discounted the possibility of buyouts of founder-controlled companies in the technology and financial sectors. Founders are said to have strong egos, no real need to sell and cash out, and a preference to retain control and, in some cases, "pass the torch" to the next generation.

So, what has changed? The key could be in deal structure. Founders of target companies are now participating in the buyouts. By providing capital, private equity firms align their interests with those of the founders, to take full control of the company. They can then extract value together, and create a win-win situation.

What are the benefits of such deals? There are at least three. First, the new private company may not be subject to the progressive cap on foreign investment into the mainland. Second, private companies, now free from the scrutiny of public shareholders, can leverage up for a higher equity return. Many Taiwanese technology companies have the cash profile to do this. A third reason is relative valuation. Many private equity firms have in mind a relisting in Hong Kong or on Nasdaq after the privatization-a quick value arbitrage.

That is not to say such private equity deals are easy to pull off: the buyout consortium still needs the standard two-thirds approval from the board and the target's shareholders, and approval from the investment commission of the Ministry of Economic Affairs.

Private equity firms also need to pay extra attention to due diligence, which will not be straightforward given the complex legal structure in place to get around the mainland investment cap. The Economic Cooperation Framework Agreement, a preferential trade agreement between China and Taiwan, which came into effect on September 12, 2010, will help ease some of these concerns.

With the tendency for most economies to open their markets to foreign goods and services through Free Trade Agreements, the future for investment into Taiwan will certainly shine bright as restrictions on foreign ownership evolves. For an up to date, detailed listing of new investment projects available to foreign investors, please visit the Council for Economic Planning and Development's website at the following link:

<http://www.cepd.gov.tw/encontent/m1.aspx?sNo=0014244&sP=1>.

As mentioned, there are still restrictions in place today to help protect Taiwan's interests, but the Government understands that to attract foreign investment, these restrictions must be eased or eliminated over time.

10 Questions

1. How can we set up a business presence in Taiwan?

First, you must decide on what type of corporate structure best serves your company's needs. Then contact an advisor within Taiwan to help you through the paperwork required by the Ministry of Economic Affairs.

2. How do we do business and ensure we are following all local business laws and customs?

There is no easy answer to this question. You must have legal counsel in case there are any disputes. In terms of local customs, these will need to be researched as well as discussed with your local Taiwanese colleagues.

3. I have ordered some goods from Taiwan and they were never received. What can I do?

If you are using a freight forwarder, you can contact them and ask if they can intervene. If not, you will have to contact a local business or legal consultant to help you retrieve your order. Remember, you do not have to go to court as you can utilize Alternative Dispute Resolution as a means to resolve the matter.

4. Are there any restrictions on currency exchange in Taiwan?

No. There are no foreign exchange controls in Taiwan although there are certain rules that must be followed according to the "Statute Governing Foreign Exchange".

5. Do I need a visa to travel to Taiwan?

In most cases no. Depending on the length of time you plan to stay, and the primary reason for your visit, most visitors to Taiwan will not need to obtain a visa before departing. Taiwan does require that citizens of certain countries obtain a visa before traveling to Taiwan. We suggest that you contact the local office of the Taiwanese consulate or mission in your country for more details.

6. Are my company's Trademarks protected in Taiwan?

No. Unlike the US, Taiwan has no common-law system of Trademark protection that grants exclusive rights based on prior use of the mark. In Taiwan, one gains the exclusive right to the use of a Trademark only through formal registration. Therefore, in order to prevent others from using a mark that is the same as or confusingly similar to your mark, it is essential to register all of your Trademarks as early as possible. Even "famous marks" which are well known outside of Taiwan do not receive protection and relief as granted to the registered trademarks until it has completed official registration in Taiwan.

7. Why is Taiwan also called the Republic of China?

The official name of Taiwan is the Republic of China that was established in 1911 as the Qing dynasty collapsed in China. When the Communists took power in Mainland China in 1949 the Republic of China relocated to Taiwan.

8. What currency is used in Taiwan and where can you get it?

Taiwan's official currency is New Taiwan Dollar (NTD = NT\$). You may change foreign currency into New Taiwan Dollars at the airport plus at the biggest banks and hotels. The most frequently used credit cards are widely used in Taiwan. You may also change traveler's checks into local currency at the biggest banks and hotels.

9. Are there any special customs in Taiwan that a traveler needs to know?

There are many – we will focus on colors and numbers. In terms of colors, red is a color of joy and white is a color of sorrow and death. Red, blue and white are the colors of the national flag of Taiwan that compose a distinguished whole. Taiwanese generally believe that the number 4 resembles the word "death" and believe that it may bring bad luck; the number 8, in its turn, is believed to bring happiness and success.

10. Should you bargain when traveling in Taiwan?

Definitely! You *MUST* bargain for hotel rooms, car rental and house rental. Bargaining in Taiwan is also very common at night markets (except for food), with street vendors, and for long taxi rides. Do not bargain in supermarkets, department stores, or restaurants.

Getting There and Away

Taiwan Taoyuan International Airport (TPE) near the capital Taipei is the busiest in Taiwan and therefore receives most international flights. In fact, it is in the top 15 of busiest airports in the world when it comes down to handling international passengers. Until 2006 it was called Chiang Kai-shek International Airport.

There are different ways to get to or from the airport:

Rail: Until the Taoyuan International Airport Access MRT System opens in 2013; the only option is to get a shuttle bus to the Taiwan High Speed Rail Taoyuan Station (THSR), about 8 kilometres away.

Bus: Frequent buses link the airport to Taipei, Taoyuan City, Jhongli, Taichung, Banqiao, Changhua, and THSR's Taoyuan Station. [37] Bus terminals are present at both terminals.

Taxi: Available at both terminals.

Currently, there are two terminals, with a third under construction (opening planned for 2013-2014).

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