Taiwan New Economy Newsletter

Special Report

■ Minister Liu calls on foreigners to boost investment in Taiwan

The twin engines of investment and exports continue to power Taiwan's economic development. During an inter-ministerial coordination meeting to address issues raised in the European Chamber of Commerce Taipei (ECCT) Position Papers on March 29, Dr. Christina Liu, minister of the Council for Economic Planning and Development (CEPD), pointed out that with the implementation of the Act for Industrial Innovation, the lowering of the business income tax rate to 17%, the signing of the cross-strait Economic Cooperation Framework Agreement (ECFA), and other policy moves, Taiwan's investment climate is better and friendlier than ever. The minister called on members of the ECCT to take advantage of the resulting opportunities and boost their investment in Taiwan.

Dr. Liu indicated that investment in Taiwan is heating up, with gross domestic investment topping NT$3 trillion for the first time last year. Keeping this trend going, this year presents the best opportunity for Taiwan to return to the international stage. Besides continuing to enhance Taiwan's business environment, the government will take advantage of the benefits offered by ECFA to attract more multinational enterprises to invest in Taiwan, and will follow up by mounting more investment missions to the U.S., Japan, and other places. At the coordination meeting, Dr. Liu issued a special invitation to European companies to join in this effort and help ignite a blaze of interest for investing in Taiwan.

The main objective of the meeting was to understand the ECCT's suggestions for improving Taiwan's investment environment, and the CEPD asked the different ministries and commissions to help foreign companies resolve problems of investment and operation in Taiwan. In its Position Papers, the ECCT gave a high assessment to the efforts and sincerity of the government in liberalizing Taiwan's economic, trade, and investment environment in recent years. The ECCT feels that the implementation of ECFA and the deregulation of the financial market are making Taiwan more suitable than ever for investment and residence, and that this is also benefiting businesses that are already operating on the island. The European companies suggested that, under its liberalization strategy, Taiwan consider adopting more international standards, opening up imports of more mainland Chinese goods, and promoting two-way trade between Taiwan and Europe so as to boost the willingness of multinational enterprises to operate on the island.

The CEPD indicated that the aim of the meeting was to create a platform for face-to-face communication between the different ministries and commissions and the ECCT, and to move toward further deregulation of the investment environment. According to statistics compiled by the CEPD prior to the meeting, the ECCT's Position Papers contained 251 suggestions, and according to reports from the different agencies, 82 of them (32%) had been resolved and breakthroughs for 43 (18%) more were expected soon. The various ministries and commissions were asked to consider the possibility of accepting the remaining suggestions.

The ECCT's suggestions have brought about numerous liberalization measures during this year. The major achievements include financial-market opening measures such as the simplification of some documentary requirements for capital investment decisions, the raising of the individual QDII investment ceiling to US$100 million and expansion of investment objectives, and the opening of investment by insurance companies in designated mainland Chinese securities.

To speed up the marketing of new drugs, the verification and registration procedure has been streamlined and manufacture and sale certification has been eased. Accompanying measures for entry and exit of mainland Chinese professionals and business people coming to Taiwan, and administrative procedures for mainland Chinese tourists coming to Taiwan have also been relaxed. To comply with global trends in environmental protection, the government is carrying out the legislation of a "Greenhouse Gas Emissions Reduction Act" and will also simplify procedures for the establishment and operation of renewable energy systems. In line with the booming development of the green building industry, special municipality, city, and county governments are being offered incentives to promote green building. In addition, the government will work to streamline the environment for doing business by expanding and strengthening the single window function for construction permit application and establishing a rapid-service center.

The CEPD emphasizes that for a long time now, the positive suggestions of foreign companies in Taiwan have helped facilitate the continuous improvement of the island's investment environment and boosted its linkage with the international community. The responses of government agencies to the suggestions contained in the ECCT's Position Papers have been published on the CEPD website, and the government will follow up by coordinating the resolutions reached during the recent meeting pragmatically and flexibly.

Deregulation Progress

■ R&D tax credits made retroactive

To encourage companies to continue investing in innovation R&D and upgrading their technological capability, and thus spur overall industrial upgrading and economic growth, in November of 2010 the Executive Yuan implemented the new Regulations Governing the Application of Tax Offsets for Corporate Research and Development Expenditures and on February 11 this year the Ministry of Economic Affairs (MOEA) issued an interpretation allowing profit-seeking enterprises that settled their business income taxes last year, and that use special fiscal-year systems, to apply for investment tax offsets before April 11 this year.

The Regulations apply to companies that use scientific methods to carry out their own innovation activities in regard to product, technology, labor, or service processes. Any qualified company in any industry may apply to offset up to 15% of its R&D spending from its business income tax for the current year. The offset may not, however, exceed 30% of the tax due for that year.

The Ministry of Finance points out that companies wishing to use the R&D investment tax offset should provide supporting documents and apply to the competent agency for the target industry for determination of the R&D facts. The period of application begins three months prior to the month of tax filing and runs until one month after the filing month, the filing month is May, so the application period runs from February through June.

Since some companies use a non-calendar fiscal year, the interpretation issued by the MOEA takes into consideration the possibility that those filing their 2010 business income taxes before the announcement of the Regulations in November last year may suffer damage to their tax offset rights if the start of their fiscal year was February to August, and provides that, within two months of the day following the issuance of the interpretation, a company may apply to the competent agency for the target industry, together with supporting documentation, for a determination of R&D investment and application of the tax offset.

Taiwan opens 42 more categories to Chinese investment

On March 2 the Ministry of Economic Affairs (MOEA) announced that 42 new categories would be opened to investment from mainland China. Ten manufacturing industries (including the manufacturing of wind power equipment and the production of batteries) and three service industries (including tourist cableways, parking lots, and amusement and theme parks) will be opened completely.

MOEA Minister Yen-Shiang Shih emphasizes that Taiwan is being opened to mainland Chinese investment under the principles of "strict first, loosening later," "orderly progression," and "first results, then expansion." The minister notes that this latest liberalization of the scope of mainland Chinese investment in Taiwan was undertaken in consideration of cross-strait complementarity, the industrial division of labor, and the willingness of mainland Chinese to invest. The newly opened investment categories include 25 in manufacturing, eight in services, and nine in infrastructure, all of which will help boost Taiwan's economic development and jobs generation.

The manufacturing categories are divided into three classes by degree of sensitivity, and equity ratios are set for each of the three. The 10 categories with the lowest sensitivity, including coatings, dyes and pigments, cleaning products, and metal die manufacturing, are opened completely to mainland investment.

For the 10 categories with the second-lowest degree of sensitivity, including fertilizers, metallurgy machinery, and woodworking machinery manufacturing, mainland Chinese are allowed to invest in the equity of existing Taiwanese enterprises to a maximum equity holding of 20%, for joint investments in new enterprises, the mainland Chinese investors may hold up to 50% of equity but may not take a controlling interest.

The class with the highest sensitivity includes integrated circuits manufacturing and four other categories in which mainland Chinese investment is limited to 10% of existing enterprises, for new joint-venture enterprises in these categories mainland Chinese may invest up to 50% , but may not hold a controlling interest. The mainland Chinese investors are required to submit an industrial cooperation strategy for review by the MOEA.

In regard to service industry, eight categories are opened to mainland Chinese investment. Three service industries, including tourist cableways, parking lots, and amusement and theme parks (excluding forest recreation areas), will be opened completely.

Five harbor service categories are opened to mainland Chinese investment: port services, other support services to water transportation (such as harbor-area work boat, ferry, and tug boat operations, piloting, stevedoring, and beach rescue), other support services to transportation (such as container and cargo hub operations, transport-related goods inspection, and tonnage recording and other notarization services), general warehousing, and refrigerated warehousing, must comply with the rules on operating area and business scope contained in the Act for Promotion of Private Participating in Infrastructure Projects, in addition, the ceiling on mainland investment is set at 50% and mainland Chinese investors may not hold a controlling interest.

The MOEA points out that 192 categories were opened in the first wave of liberalization in June of 2009, and 12 more were opened in May of 2010. With the implementation of the Economic Cooperation Framework Agreement (ECFA), one additional service industry category (other sports services) was opened to mainland Chinese investment in January this year. With the present opening of 42 new categories, the total number of items now open to mainland Chinese investment has reached 247.

【News Glossary】

"Not holding a controlling interest," in this case, refers to the requirement that mainland Chinese investors must, during the review of their investment cases, promise that their shareholders will not serve as, nor designate, managers of the invested enterprise, nor may the number of their directors exceed the number of directors' positions filled by other shareholders, in addition, they may not solicit proxies prior to shareholders' meetings.

■ Taiwan eases rules for Chinese patent application

The Taiwan Intellectual Property Office (TIPO), a unit of the Ministry of Economic Affairs (MOEA), has announced the relaxation of restrictions on the registration of patents and trademarks by mainland Chinese. Chinese applicants who have domiciles or business premises in Taiwan may now apply directly to TIPO without having to appoint an agent to do it.

In line with the signing by the two sides of the Cross-Strait Agreement on Intellectual Property Rights Protection and Cooperation, the MOEA announced a revision, on March 3, of the Directions for the People of the Mainland Area Applying Patents and Registering Trademarks. TIPO points out that under the original rules, persons or institutions from mainland China who applied to register patents or trademarks in Taiwan had to submit ID documentation or institutional registration documentation, following the revision, applicants are required to provide such documentation only in cases of necessity. This brings the rules for mainland Chinese in line with those for Taiwanese citizens and foreigners.

Mainland persons and institutions who apply for patents or trademarks in Taiwan may first provide documents in simplified characters and then, following examination by TIPO, submit the documents in traditional characters.

The biggest change brought by the revision is that applicants from mainland China who apply for patents or for trademark registration no longer need to appoint a patent or trademark agent who is already registered with Taiwan's trademark and patent authority to handle the matter. Under the new rules, mainland Chinese applicants may apply directly so long as they have domiciles or places of business in Taiwan.

According to TIPO statistics, in 2010 a total of 755 applications for Taiwan patents were submitted by persons from the mainland area. These accounted for only 0.938% of all applications. Of the mainland Chinese applications, 424 were for invention patents, 297 were for utility model patents, and 34 were for design patents.

■ Government eases rules on panel plant investment in China

The Executive Yuan has approved a revision of the "Prohibited Manufacturing Product Items for Investment or Technical Cooperation in Mainland China" that eases restrictions on Taiwanese investment in TFT-LCD panel technology in mainland China. The revision also opens up mergers, acquisitions, and equity investment in mainland Chinese TFT-LCD panel factories to Taiwanese companies.

Vice Minister of the Ministry of Economic Affairs (MOEA) Jung-Chiou Hwang reports that technological restrictions on investment in factories in mainland China were reviewed with the aim of assuring Taiwan's sustained industrial and economic development while taking into consideration the global positioning of Taiwanese enterprises and increasing their operational flexibility. Under the original rules, the technology involved in investment in 6th generation or more advanced TFT-LCD panel plants in mainland China had to be a generation behind the technology used in Taiwan (that is, N-1), with the revision, such technology may be the same generation or less than the highest generation of technology used by existing plants in Taiwan of the parent company. Furthermore, there is no generational limit on Taiwanese investment in acquiring or purchasing equity in TFT-LCD panel plants in the mainland China, however, the details of such investment must be reviewed by the MOEA Key Technologies Task Force.

The MOEA points out that this revision covers only the level of technology involved in investment in panel plants in mainland China, and that the number of new plants with 6th generation or more advanced technology in which investment is allowed remains limited to three. The review rules and mechanisms also remain unchanged.

The MOEA emphasizes that to prevent all of Taiwan's panel production plants from migrating to China, 6^{th} generation and more advanced panel manufacturers in Taiwan must reach the stage of mass production domestically and have capability for generational upgrading before being allowed to operate in mainland China.

News Express

■ Global investment promotion achieves great success

The InvesTaiwan Service Center announced recently that since it began operating in August of 2010 until the end of March 2011 it had provided consultation and assessment for 98 cases, of which 53 were transferred for project services and attracted investment in an amount estimated at NT$74.5 billion. For the 53 transferred cases, the Investment Commission has already approved foreign direct investment of some NT$870 million.

Most of the companies seeking help from the InvestTaiwan Service Center were Japanese, some of which already have plans to expand their investment in Taiwan while others that have never invested in the island are now eager to try. The amount of Japanese investment that will be realized through project-service cases is projected at more than NT$40 billion. European investment is expected to reach NT$13.1 billion and American investment NT$9.4 billion, with more coming from Southeast Asia.

The problems for which the InvesTaiwan Service Center is helping to provide solutions are mostly related to tax regulations, with others concerning the acquisition of land, factory buildings, and office space. The Service Center has set up a land acquisition task force to shorten the investment preparatory period by providing investors with information on land in science parks and industrial estates as well as privately owned land.

The target for overseas investment promotion this year, according to the Service Center, is US$9 billion (approximately NT$270 billion). Well-known companies all over the world, including server manufacturer Super Micro Computer of the United States, have established industrial zones in Taiwan for the development of integrated technologies and systems, with an initial investment of approximately NT$5 billion. France's Decathlon, the world's second-largest retailer of sports gear, plans to set up 15 markets in northern, central, and southern Taiwan within five years. This plan calls for an investment of more than NT$12 billion and will generate an estimated 4,000 jobs.

■ Taiwan Services website goes online

In a move calculated to reinforce the development of Taiwan's service industries, the Council for Economic Planning and Development (CEPD) has brought together the related resources of ministries and commissions for the establishment of Taiwan Services Trade Information Platform (www.taiwanservices.com.tw) which will be promoted on Facebook, Twitter, and Google with the aim of helping Taiwanese service companies enter the international market.

Pen-Tsao Chang, chairman of the Taiwan Coalition of Service Industries, points out that services made up 70% of Taiwan's gross domestic product (GDP) in 2009, and accounted for 58% of the country's employment. Services grew to provide almost 59% of jobs in Taiwan in 2010, pointing up the increasing importance of these industries. CEPD Deputy Minister San Gee notes that while Taiwan has performed exceptionally well in commodity exports, the country has always been a step short in the development of overseas markets for service industries. The global economy is currently undergoing a gradual transition toward services, but Taiwan's exports of services in 2009 amounted to just more than NT$30 billion, only 0.9% of total exports. This shows that Taiwan has a huge space for the growth of its trade in services, and the government should help companies in the field to develop the international market.

In its first year, the Taiwan Services Trade Information Platform is targeting medical travel, tourism, cultural and creative industries, cuisine, logistics, distribution (chain alliances), and WiMAX (wireless broadband), and will help companies in those fields to penetrate overseas markets. The number of target industries will be expanded in the future.

The CEPD reports that the Taiwan Services Trade Information Platform is available in traditional Chinese characters, simplified Chinese characters, and English, and is currently maintained by the Taiwan External Trade Development Council (TAITRA). TAITRA has 58 overseas offices, situated all over the world, that can provide the latest information at all times, including global market information, market opportunities in different countries, information on exhibitions and other activities at home and abroad, news on global trends in the development of trade in services, and researches and analyses. TAITRA can also provide information on government deregulation and programs such as consultancy, funding, and grants, to help service providers in Taiwan and overseas take advantage of the opportunities that are presented.

In addition to information on trade in services, the new website also includes a mechanism for exchange on business opportunities and help with matchmaking between companies. In the future the website will expand the scope of its services by providing links to Taiwan's ministries, commissions, and other related organizations.

■ Budget deficit shrinks NT$27.6 billion in 2011

In an exclusive interview with Dow Jones Newswires on March 5, Finance Minister Lee Sush-Der reported that the red ink in Taiwan's budget would shrink form NT$167 billion in 2010 to NT$139.3 billion this year. The minister also said that the deficit would be further reduced in the future by attracting more private investment into infrastructure projects, and predicted that the government would reach the target of reducing debt this year without sacrificing economic growth.

The international credit rating agency Fitch lowered Taiwan's local-currency sovereign credit rating by one notch in January, citing a "structural deterioration" in the country's public finances. Mr. Lee pointed out that structural deterioration is only a "short-term problem," this year's budgeted government income is NT$1,630.5 billion, he noted, and budgeted spending is NT$1,769.8 billion, leaving a budget deficit of NT$139.3 billion--a reduction of NT$27.7 billion from 2010. The reduction is due mainly to increased tax income resulting from economic recovery and market revitalization.

The Ministry of Finance (MOF) points out that Taiwan's economic growth rate in 2010 set a 23-year high of 10.82%. This year's growth rate will be lower, the Directorate General of Budget, Accounting and Statistics has adjusted the 2011 forecast upward to 5.03%, however, which will boost per capita GNP above US$20,000. The IMF predicts that the island's economic growth rate will rise steadily over the next five years, bringing increased tax revenues.

Statistics compiled by the MOF show that tax income for the first two months of this year reached NT$171.9 billion, an increase of NT$4.3 billion over the same period of 2010 and rising again to about the pre-financial tsunami level of 2008. This performance reflects a virtuous cycle of fiscal income and economic development, and increased tax revenues will help reduce budget deficit.

■ Taiwan's electric vehicle standards on track with the world

Electric vehicles (EVs) are a new industry that has caught the attention of the world. To take part in this emerging industry, the Ministry of Economic Affairs' Bureau of Standards, Metrology and Inspection (BSMI) facilitated the signing, on March 15, of a memorandum of understanding for cooperation between the Automotive Research and Testing Center, Taiwan Electric Research & Testing Center, and Underwriters Laboratories (UL). Under the MOU, 17 internationalized standards covering 6 fields, including whole-car electrical safety, batteries, and motors, are expected to be established within two years. This will upgrade the technological capabilities of Taiwan's EV industry and boost its annual production value toward the target of NT$10.5 billion in 2015.

The BSMI notes that ISO, IEC, SAE, and mainland China's GB/T have announced EV standards covering four major categories: whole cars (performance, safety, electromagnetic compatibility), motors and controllers, batteries, and charging systems (EV chargers and charging stations).

To set up a comprehensive EV environment and verification services platform, the BSMI plans to complete the revision of standards for EV and related key parts and components (including electric motors, battery packs, controllers, and charging facilities) in 2012, and complete the establishment of testing and verification capability for key components and the installation of the needed environment in 2014.

The global certification agency UL has already issued numerous EV standards in different countries, and is participating in EV verification projects in the U.S., Japan, and other advanced countries. This new alliance with Taiwan will help the country develop global EV verification technology.

The Legislative Yuan passed Article 12-3 of the Commodity Tax Act in January, providing for a commodity-tax exemption for EVs that are completely powered by electricity and that are purchased and registered during the next three years. The Industrial Development Bureau of the Ministry of Economic Affairs points out that over the next three years the government will also provide subsidies in the amount of NT$2.2 billion to encourage local governments, EV charging station operators, and car dealers to establish an operating model for the development of EVs.

■ Lithium battery industry to draw investment of NT$50 billion in 2012

The Taiwan government plans to promote the development of the auto-use lithium-battery industry as part of the trend toward energy conservation and environmental protection. The Ministry of Economic Affairs (MOEA) reports that NT$50 billion will be invested in 2012 in joint efforts by industry, government, and academe to develop power lithium batteries that feature high energy density, high power, high safety, and long cycle life. The government also hopes to bring about the horizontal integration of the lithium battery cell industry's R&D capability so as to heighten the level of technology and reinforce Taiwan's competitive advantage.

The MOEA says that total investment in power lithium batteries in 2011 will top NT$10 billion and is expected to reach NT$50 billion in 2012 and NT$120 billion in 2015. The industry's production value amounted to NT$90 billion in 2010 and is expected to reach NT$480 billion in 2015.

The Industrial Technology Research Institute (ITRI) has completed the development of STOBA (self-terminated oligomers with hyper-branched architecture) materials technology to strengthen battery safety, and has transferred the technology to four domestic manufacturers. Since STOBA technology is drawing intense attention from international carmakers such as BMW, Nissan, and Toyota, this will attract foreign companies to invest in Taiwan and establish supply-chain relationships with domestic electric vehicle manufacturers.