

**PROSPECTS FOR TAIWAN'S
OUTWARD INVESTMENT
IN CHINA**

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Executive Summary

1. In the past, most Taiwanese companies investing overseas were small and medium-sized enterprises (SMEs). Unlike Western multinational companies, these SMEs did not possess strong firm-specific capabilities, such as technological or marketing capabilities.
2. The similarities in language and culture have given Taiwanese companies an edge in employing ethnic ties through personal connections or “*guanxi*” to overcome competitive and resource disadvantages. Such relational linkages facilitate Taiwanese investment in China.
3. During the 1991-April 2016 period, Taiwanese investment was primarily focused on the eastern China region, with Jiangsu (31.5%), Guangdong (18.9%), Shanghai (15.3%), Fujian (7.4%) and Zhejiang (6.23%) being the top five recipients of Taiwanese investment.
4. Since Taiwan has orchestrated a very efficient production network to serve its customers, cross-strait investment and trading activities have driven the formation of close collaborative relationships between Taiwanese and Chinese industries.
5. China is now developing its domestic market to promote economic growth. This is bound to affect cross-strait industrial division of labour, which is not only accelerating the localisation of Taiwan businessmen in the Mainland, but also further weakening the connections between Taiwanese businessmen and their parent companies in Taiwan.
6. As the overall business environment has changed, so have the business models adopted by Taiwanese companies for their investment in China.
7. From 1991 to April 2016, electronic parts and components manufacturing topped (18.6%) the list in terms of the total amount invested in China, followed by computers, electronic and optical products manufacturing (13.3%), finance and

insurance (7.4%), electronic equipment manufacturing (6.7%), wholesale and retail trade (6.3%) and non-metallic mineral products manufacturing (4.5%).

8. With multinational businesses constantly setting up R&D organisations in China, the level of China's industrial technology is expected to rise and the international competitiveness of China's products to be enhanced. Chinese products are likely to replace Taiwanese products in the international market, especially in the market for middle- and high-end technology products.
9. The new industrial linkages between Taiwan and China are now characterised by competition and cooperation. For example, the cooperation between Taiwanese chip designer MediaTek and Chinese handset maker Xiaomi is Taiwanese technology made for China's mass market.
10. In the financial sector, Taiwanese banks would do well to find their own niche markets and formulate appropriate strategies, instead of following the practices of large international banks.