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Taiwan to expect more "homebound investment" from China in the future

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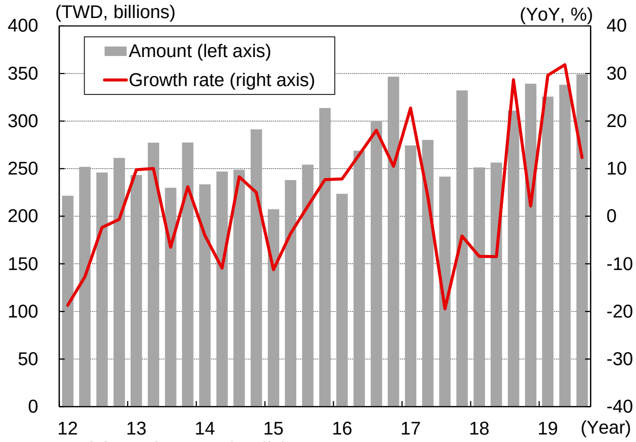
Since investment from Taiwan in China was lifted at the start of the 1990s, many Taiwanese corporations have moved to China due to the latter's low wages, looser environmental regulations and the fact that business in both countries is carried out in a common language. However, in recent years, wages have risen and environmental regulations have become tighter in China, and it has become a less desirable location for production owing to its trade friction with the US since the latter half of 2018. As a result, there is an apparent rise in "homebound investment" as a growing number of corporations are moving their production from China back to Taiwan. According to the Ministry of Economic Affairs R.O.C., the amount of homebound investment last year was approximately TWD700 billion (total of 164 corporations, authorised basis): equivalent to around 0.4% of nominal GDP. This is thought to be providing the economy with more than a little tailwind. In fact, as the semiconductor industry stops slowing, year-on-year growth of capital expenditure in the manufacturing sector has remained in double digits since the July-September quarter last year. This amounts to TWD349.1 billion in investment, the largest amount since 2007 when records began (Chart 1).

The Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan implemented in January 2019 is also thought to be boosting this return of corporations to Taiwan. Under this programme, corporations may be given preferential treatment, such as bank fee contributions, an increase in the amount of foreign workers permitted and assistance in land acquisition if they meet the following requirements: "have been affected by the US-China trade conflict", "have been investment in China for more than 2 years" and "returning companies' newly established or expanded production lines should incorporate smart technology" (Table 1). By placing US-China trade friction at the top of the list, it appears President Tsai Ing-wen's government intends to boost the economy by using the escalating conflict between the US and China to increase homebound investment.

Incumbent President Tsai Ing-wen achieved a resounding victory and won a record-high number of votes (8.17 million) at Taiwan's election on 11th January, which had been a focus of much attention due to the US-China conflict and the situation in Hong Kong. The Democratic Progressive Party maintained their majority at the legislative election held on the same day. In light of this, it is unlikely there will be a shift in policy for the time being, including the aforementioned Action Plan. Although it will be important to keep an eye on the rise in tension between Taiwan and China following the result of these elections, investment and a return of production to Taiwan are expected to underpin the economy going forwards.

Chart 1: Taiwan's Capital Expenditure (Manufacturing)



Source: Ministry of Economic Affairs R.O.C., MUFG Bank Economic Research Office

Table 1: Outline of the Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan

Implementation period	January 2019 to December 2021
Essential requirements	1. Have been affected by the US-China trade conflict 2. Have been investing in China for more than 2 years 3. Returning companies' newly established or expanded production lines should incorporate smart technology
Eligibility	Must meet at least one of the following requirements: 1. Fall into sectors in the "5+2 Industrial Innovation Program" (7 sectors including Asia Silicon Valley IoT, intelligent machinery and green energy) 2. Belong to industries involving high value-added products and/or key components 3. Play a critical role in the international supply chain 4. Promote global marketing in private-label brands 5. Relate the investment project to key national industrial policies
Period	Maximum of 5 years
Preferential treatment	Government bank fee contribution (SMEs: 1.5%, large enterprises: 0.1%~0.5%) Increase in the amount of foreign employees permitted Assistance in land acquisition, stable electricity and water supplies, customised tax incentive consulting services

Source: Ministry of Economic Affairs R.O.C., MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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