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by Sheridan Prasso

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A heightened level of access to Taiwan from mainland China means new opportunities for foreign investors.

by Sheridan Prasso

In early November 2008, at the ornate Grand Hotel on a hillside overlooking downtown Taipei, negotiators from Taiwan and China struck a historic deal. Expanding on a previous pact, they agreed to triple the number of direct flights between Taiwan and the mainland, and to allow direct cargo and express mail to travel across the Taiwan Strait for the first time in more than half a century.

Since 1949, when General Chiang Kai-shek and his Kuomintang forces fled to Taiwan ahead of the advancing Communist army, mainland tourists and businesspeople had been forbidden to visit the island. Flights carrying the roughly 1 million Taiwanese who currently work and do business on mainland China — permitted since 1987 — had to travel circuitously through Hong Kong or Manila, adding at least six hours to the trip. Some 10 million pieces of express mail per year also had to stop in Hong Kong or Japan to be restamped before delivery to China's major cities, taking five to seven days to arrive instead of two. Cargo ships had to sail north to Okinawa or another Japanese island before turning west to China, adding 16 hours to the journey and as much as 30 percent to the cost. By some economists' reckoning, the toll — including the economic isolation that Taiwan suffered as the rest of Asia experienced phenomenal growth — cost the island as much as 1.5 percent in GDP growth every year.

That's now changing. Under the guidance of Taiwan's new president, Ma Ying-jeou, who took office in May 2008, the direct links are providing the one bright spot in an otherwise tough time for Taiwan's economy. These links, and the people and opportunities they will bring to Taiwan, are lowering the cost of doing business, increasing Taiwan's attractiveness as a base for business in China, and attracting investors to help develop Taiwan's tourism and infrastructure sectors to prepare for a potential boom.

More than 20,000 mainland Chinese tourists visited Taiwan in the three months after direct flights were first allowed, in early July. Thanks to the November agreement, which increases the number of flights per week from 36 to 108, tens of thousands more mainland tourists could begin arriving weekly as of mid-December. At an average spending rate of more than US$1,700 per person per trip, according to Taiwan's *United Daily News*, that will mean millions in tourism revenue for the country's ailing economy, which is suffering the effects of the global downturn. Merrill Lynch forecasts growth of 3.2 percent this year, down from more than 5 percent predicted prior to September, and expects a recession next year resulting

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in a 1 percent fall in GDP. It's hardly a rousing endorsement, but it's to be expected in light of global circumstances — and according to UBS, it may be 0.5 percent better than it otherwise would have been without the lifting of restrictions.

Because of the worldwide financial crisis and dampened investor sentiment, investors haven't rushed to take advantage of the opportunity just yet. "It's still early to see concrete results, but we are hearing anecdotally from some members that they represent interested parties looking for investment opportunities," says Andrea W. Wu, president of the American Chamber of Commerce in Taipei (AmCham). In addition, according to a study by the European Chamber of Commerce Taipei (ECCT) released in October, the new cross-strait ties could deliver considerable gains to European businesses and consumers. "The improvement in the relations between Taiwan and mainland China gives Europe a window of opportunity to improve its market access in Asia significantly," the ECCT report said, noting that enhanced trade with Taiwan — especially if the remaining non-tariff barriers are now removed — could boost European GDP by up to €20 billion ($25.6 billion) over 10 years.

In fact, the annual Taiwan Business Alliance conference held in October to promote investment drew 1,500 attendees from 33 countries, double the number of participants expected. Executives from 15 foreign companies, including 3M, Alibaba.com (a Chinese e-commerce company), Audi, Bayer, Corning, and Siemens signed letters of intent to further expand business and invest in Taiwan over the next several years. Of them, 10 will increase existing investments and five will make first-time investments, totaling $200 million.

Where Opportunity Lies

International companies that have the capacity to invest now can position themselves for growth in Taiwan when the economy rebounds. The opportunities span a number of industries. In tourism, for example, Starwood Hotels and Resorts Worldwide (which owns the Westin and W chains), InterContinental Hotels Group (which owns Holiday Inn), and Accor (which owns Novotel) have already built new hotels or are planning to do so. In addition, the government announced a four-year, $605 million construction plan for major tourist sites that includes the building and renovation of scenic spots, cable cars, and roads. The tourism industry is set to generate more than $52 billion in revenue over the next four years, according to the government Council for Economic Planning and Development.

Logistics is another fertile area. DHL Taiwan is planning talks with China Airlines and EVA Airways about using their cargo space for the new cross-strait express delivery market. Stuart Whiting, general manager of DHL Express Taiwan, was quoted in an AmCham publication as saying that the company plans to invest $31.3 million by 2012 in employee-training and logistics facilities, as well as system upgrades.

Other expansions are taking place in the banking sector. A June 2008 agreement between Taiwan and China allowed Chinese mainland investment in Taiwan for the first time, starting in October, and also allowed mainland investors to invest in the Taipei stock exchange. Banking officials hope that the future will bring expanded financial links between Taiwan and the mainland. HSBC announced at the Taiwan Business Alliance conference that it will continue to expand in Taiwan despite the global financial crisis.

Standard Chartered Bank acquired Taiwan's Asia Trust and Investment Corporation in October, expanding its presence on the island from 88 to 95 branches. "Taiwan is a key market for Standard Chartered, and core to our Greater China strategy," said Jaspal Bindra, CEO of Standard Chartered Asia. "This acquisition allows us to strengthen our network in Taipei, home to the most affluent bank customers in Taiwan." Citibank and UBS also opened wealth management branches in an upscale Taipei suburb this year.

Infrastructure is also providing investment opportunities for foreign companies. A key part of the Ma administration's plan to keep Taiwan's economy growing is to boost public spending through the " i-Taiwan 12 Major Infrastructure Projects." (The "i," according to the government, represents the Chinese word for "love," *ai*, and stands for investment, infrastructure, intelligent, and international.) Investment totaling $120 billion, one-third of it contracted from the private sector, is planned over the next eight years. It includes an eco-port and free trade zone in the southern port of Kaohsiung, which has huge plans for expansion under the new direct-shipping agreement with China, as well as an island-wide, coordinated rapid-transit network. Additional plans include desalinization plants, a world-class Internet backbone to bolster the communications industry, and expansion of the island's freeway network.

Ma also announced a separate $4 billion in public construction investment as part of an economic-stimulus package, adding that he hoped "companies from countries throughout the world will invest in Taiwan's infrastructure development projects."

Telecom has potential for foreign investors, as well. At the Taiwan Business Alliance conference, Kurt Hellström, former CEO of the Ericsson Group, said that there are huge opportunities to enhance Taiwan's broadband capabilities. In addition, because the telecommunications industry is responsible for 14 percent of global greenhouse gas emissions and is working to improve energy efficiency, Hellström said, Taiwan should take the initiative to produce more efficient and less environmentally harmful products.

Not without Its Obstacles

Potential investors face a number of hurdles, however. According to a 2008 white paper published by AmCham, U.S. construction firms have found it difficult to compete for public projects. "Taiwan has yet to sign the Agreement on Government Procurement under the World Trade Organization, which would level the playing field, imposing rules that everyone must abide by in bidding for government contracts," the paper said. "Although Taiwan has a government-procurement market of close to $30 billion a year, the nature of the bidding process and other regulatory issues have discouraged many foreign companies from pursuing government contracts."

In terms of the ease of doing business, Taiwan ranks 61st out of 181 countries in an annual World Bank and International Finance Corporation report. For example, gaining a construction permit to build a warehouse in Taiwan involves 29 different procedures over 193 days. In South Korea, by contrast, it takes just 34 days. Whereas it takes 42 days and eight procedures to start a business in Taiwan, in New Zealand it takes just one procedure in one day; in Hong Kong, it requires five procedures over 11 days. In addition, industry experts say that Taiwan's financial regulations need to be amended and strengthened before the country can hope to become a financial center. Currently Taiwan restricts mergers and acquisitions, and until recently has had tight rules for allowing work permits for foreigners.

Still, Taiwan is the U.S.'s ninth-largest bilateral trade partner. It remains one of the most important global markets for U.S. exports, and with just 23 million people is the world's sixth-largest buyer of U.S. agricultural products. U.S. business has invested over $16 billion in Taiwan, making the United States the largest single foreign investor in the Taiwan economy. Trade between Europe and Taiwan is also substantial, amounting to $47 billion in 2007; companies from various European countries have more than $22 billion invested in Taiwan. This year, however, foreign investment has been dropping, in line with the global economic crisis. "Unfortunately, with the largely reduced export orders, shippers don't see a bright future for 2009, with or without the direct link," says AmCham's Wu. "For the same reason, I don't think we will see a major influx of new business due to the worldwide financial crisis. However, the further relaxations between China and Taiwan will help Taiwan position itself much better regionally." And the companies able to strategically invest now will be well-placed for Taiwan's — and Asia's — vibrant economic recovery. +

Resources

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