U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

Strategically located between Northeast and Southeast Asia, Taiwan is an important hub for regional and global trade and investment, especially in the high-technology industry. Indicative of its developed and open investment environment, Taiwan ranks in the upper tenth percentile of major global indices measuring ease of doing business, economic freedom, and competitiveness. Taiwan's investment climate has improved in recent years with expanded cross-Strait trade with mainland China and expansion of trade links with other partners in the Asia Pacific region, as well as reforms to enhance protection of intellectual property rights and rationalize other investment-related regulations. As a relatively open and liberal economy, Taiwan has historically benefited from substantial foreign direct investment, with a total stock of US$126 billion in approved investments as of 2013. Last year saw lower than expected GDP growth of 2.11%, negatively affected by demand-side contractions in Taiwan's export sector, and an 11.3% decline in year-on-year foreign investment. The U.S.-Taiwan investment relationship remains mutually beneficial with ample room to grow. The United States is Taiwan's largest source of foreign investment, with the stock of committed U.S. foreign direct investment reaching $16.5 billion in 2012, and sales of services to Taiwan by U.S. majority-owned affiliates totaled over $7 billion in 2011.

Remaining structural challenges in Taiwan's investment environment include stalled progress on privatization of Taiwan's state-owned enterprises, which exert considerable influence in the utilities, aerospace, energy, postal, transportation, and financial and real estate sectors. Foreign ownership limits remain in place for wireless and fixed-line telecommunications, television broadcast, and transportation. Restrictions on investments from mainland China have been gradually relaxed as cross-Strait ties have improved. The Central Bank retains a currency convertibility policy that could require large transactions involving transfer of New Taiwan Dollars that could impact the foreign exchange market to be scheduled over several days.

Over the past year, Taiwan's financial regulatory authorities have taken steps to address concerns raised by investors regarding the transparency and predictability of Taiwan's foreign investment approval process. Proposed amendments to investment-related statutes, currently pending legislative review, would clarify review criteria for merger and acquisition transactions and subject fewer investment applications to mandatory regulatory review. In January 2014, the current administration announced Taiwan's intent to undertake significant liberalization to prepare Taiwan for potential entry into regional trade blocs, which included a review of longstanding gaps in intellectual property protection for pharmaceuticals. The results of this review process and Taiwan's ability to legislate recommended reforms are expected to be the primary determinants of the quality of Taiwan's investment environment in the coming year.

1. Openness To, and Restrictions Upon, Foreign Investment

Strategically located between North and Southeast Asia, Taiwan is a critical hub for regional and global trade and investment. Expanded cross-Strait trade with mainland China through the Economic Cooperation Framework Agreement (ECFA) signed in 2010 improved Taiwan's investment climate by reducing tariffs and other commercial barriers. In 2013, inward foreign direct investment (FDI) declined by 11.2% after posting a 12.2% growth in 2012. Taiwan’s many science and industrial parks, export processing zones, and free trade zones aim to expand trade and investment opportunities by granting tax incentives, tariff exemptions, low-interest loans, and other favorable terms. However, Taiwan’s overall economic performance over the past year remained subdued as a result of persistent weak growth in its major export markets. GDP growth in 2013 was 2.11%, up from 1.48% in 2012. In its Doing Business 2014 report, the World Bank ranked Taiwan 16th out of 189 economies for "Ease of Doing Business", unchanged from last year after rising from 25th in 2011.

Table 1

Measure	Year	Index/Ranking
World Bank Doing Business	2014	16th
TI Corruption Index	2012	37th
Heritage Economic Freedom	2014	17th
Legatum Prosperity Index	2013	22nd
WEF Global Competitiveness Report	2013	12th

Taiwan maintains a "negative" list of industries closed to foreign investment for reasons its authorities assert relate to security and environmental protection, including public utilities, power distribution, natural gas, postal service, telecommunications, mass media, and air and sea transportation. These sectors constitute less than 1% of manufacturing in Taiwan and less than 5% of the island’s service sector. Railway transport, freight transport by small trucks, pesticide manufacture, real estate development, brokerage, leasing, and trading are all open to foreign investment.

While most foreign ownership limits have been removed, the foreign ownership limit on wireless and fixed line telecommunications firms is 60%, including a foreign direct investment limit of 49%. State-owned Chunghwa Telecom Co., which controls 97% of the fixed line telecom market, maintains a 55% limit on indirect foreign investment and a 49% limit on direct foreign investment. There is a 20% limit on foreign direct investment in cable television broadcast services, but foreign ownership of up to 60% is allowed through indirect investment via a Taiwan entity. Foreign investors control one of Taiwan’s five largest cable TV networks. In addition, there is a foreign ownership limit of 49.99% for satellite television broadcasting services and piped distribution of natural gas, and a 49% limit for high-speed railways. The foreign ownership cap on ground-handling firms, air-catering companies, aviation transportation businesses (airlines), and general aviation business (commercial helicopters and business jet planes) is less than 50%, with a separate limit of 25% for any single foreign investor. For Taiwan-flagged merchant ships, foreign investment is limited to 50% for Taiwan shipping companies operating international routes.

Regulations governing foreign direct investment principally derive from the Statute for Investment by Foreign Nationals (SIFN) and the Statute for Investment by Overseas Chinese (SIOC). These two laws permit foreign investors to use either foreign currencies or New Taiwan Dollars (NTD). Since 2006, NTD loans obtained from local banks can serve as sources of foreign direct investment. Both the SIFN and the SIOC specify that foreign-invested enterprises must receive the same regulatory treatment accorded local firms. Foreign companies may invest in state-owned firms undergoing privatization and are eligible to participate in publicly-financed research and development programs. In late 2012, in pursuit of greater economic liberalization, the Executive Yuan passed the preliminary amendments to SIFN and SIOC, which are currently under the review by the Legislature. If passed, foreign investors would no longer need to secure pre-approval but could instead report the investment to the Investment Commission (IC) of the Ministry of Economic Affairs (MOEA) within a certain period of time after implementation, as long as the investment fell under a certain threshold. However, *ex ante* approval would still be required for investments in restricted industries and those exceeding the threshold.

Taiwan has been gradually relaxing restrictions on investments from the People's Republic of China (PRC, or "mainland China") as cross-Strait relations have improved. Since 2009, Taiwan has eased restrictions on investments from mainland China in three stages. Most of Taiwan's manufacturing industry and half of its services and public construction sectors are now open to mainland investment. However, due to restrictions limiting percentage of ownership, and restrictions on mainland investors' participation in Taiwan business operations, investment liberalization to date has not drawn significant interest from mainland investors. In June 2013, Taiwan signed the cross-Strait Agreement on Trade in Services with mainland China under the ECFA, but legislative review of the Agreement has stalled due to strong public opposition.
In 2009, Taiwan launched the first phase of opening up to mainland Chinese investment. Under its new "Regulations Governing Permission for People from the Mainland Area to Invest in Taiwan," Taiwan has opened 64 sectors in manufacturing, 117 in services, and 11 in public construction. In order to own shares in a Taiwan company or establish a presence in Taiwan, mainland entities and foreign companies in which mainland entities have over a 30% share must first obtain permission from the interagency Investment Commission (IC) convened by the Ministry of Economic Affairs (MOEA). The Taiwan authorities may also prohibit or restrict investment from mainland Chinese enterprises that: (1) have military shareholders or a military purpose; (2) would create a monopoly; (3)would threaten national security, or; (4) would negatively impact domestic economic development, according to the above-cited regulation.

Ina second round of cross-Strait investment liberalization, Taiwan announced in 2011 an additional 42 categories, including 25 sectors in manufacturing, 8 in services and 9 in public infrastructure, which would be open for investment from mainland China. The manufacturing categories include medical devices, machinery for making metal products, and petrochemicals. In March 2012, Taiwan announced a third tranche of relaxed restrictions on mainland investments. As a result, Taiwan has opened more than two-thirds of Taiwan's aggregate industrial categories to mainland China investors, with manufacturing topping the list, in which 97% of the sector is now open to mainland Chinese capital. In the public construction and service sectors, investment shares open to mainland investors expanded to 51 percent. Mainland Chinese investors, however, continue to be prohibited from serving as a Taiwan company's Chief Executive Officer, although a mainland Chinese board member may retain management control rights of a Taiwan company.

Press reports indicate that in a subsequent fourth round of liberalization of mainland Chinese investment in Taiwan, MOEA plans to remove prohibitions on mainland ownership of controlling stakes in 7 key industries, including light emitting diode (LED) displays, integrated circuit assemblies, semiconductor manufacturing equipment, semiconductor packaging and testing, metal cutting tool machines, and solar batteries. MOEA proposes to impose a shareholding ceiling of 50% for mainland Chinese investment in these industries, and retain a mechanism for screening investment applications on a case-by-case basis. As a result of the controversy over the cross-Strait Agreement on Trade in Services, this fourth stage of cross-Strait investment liberalization, which was originally expected to launch in late 2013, has been put on hold.

Taiwan expects that these investment liberalization measures with mainland China will enhance bilateral cooperation in forming cross-Strait industrial supply chains. As of 2013, Taiwan approved 483 investment applications from mainland China totaling US$864.5 million, with investment in port facilities and banking operations each accounting for 16% of total mainland investment. In the banking industry, there are now three mainland banks (out of four which have qualified) that have established branches in Taiwan.

MOEA's IC screens applications for investment, acquisitions, and mergers. Ninety-five percent of projects that are not on the negative list generally obtain approval within three working days, according to the IC website. Specifically, approval of projects with an investment value of less than NT$500 million (US$16.5 million) is generally granted within two working days at the IC division chief level. For investments between NT$500 million and NT$1 billion (US$33 million) that are not on the negative list, approval authority rests with the IC Executive Secretary and normally are also granted within three working days. Approval of investments above NT$1 billion or on the negative list requires three weeks, as these investments must be referred to the relevant supervisory ministries and require approval of the IC Chairman or IC Executive Secretary. Investments involving mergers and acquisitions require screening at the monthly meeting of an inter-ministerial commission. To address increased concern over the potential risk of more opening to mainland Chinese investment, starting in April 2014, the National Security Bureau will take part in every review meeting for foreign investment applications regardless of the nature or size of the investment.

2. Conversion and Transfer Policies

There are relatively few restrictions in Taiwan on converting or transferring direct investment funds. Foreign investors with approved investments can readily obtain foreign exchange from a large number of designated banks. The remittance of capital invested in Taiwan must be reported in advance to the IC, but IC approval is not required. Declared earnings, capital gains, dividends, royalties, management fees, and other returns on investments can be repatriated at any time. For large transactions requiring the exchange of NTD into foreign currency that could potentially disrupt Taiwan's foreign exchange market, the Central Bank may require the transaction to be scheduled over several days. There is no written guideline on the size of such transactions, but according to law firms servicing foreign investors, amounts in excess of US$100 million may be affected. Capital movements arising from trade in merchandise and services, as well as from debt servicing, are not restricted. No prior approval is required for movement of foreign currency funds not requiring exchange between NTD and foreign currency. No prior approval is required if the cumulative amount of inward or outward remittances does not exceed the annual limit of US$5 million for an individual or US$50 million for a corporate entity.

Total outbound investment may not exceed 40% of an investing company's net worth or paid-in capital (whichever is less), unless it is a professional investment company, the company charter waived the 40% limit, or such investment is approved by shareholders. If the amount of investment exceeds US$50 million, the company must file an application with MOEA's IC. Otherwise, a local company is not required to obtain prior approval for overseas investments, except with respect to investments in mainland China.

Taiwan has relaxed restrictions on direct investment in mainland China. Taiwan investors are permitted to invest in the majority of manufacturing and service categories in the mainland. The IC, however, continues to prohibit investments in mainland China's agricultural, high-technology, telecommunications and basic infrastructure sectors. Taiwan entities are not required to go through a third jurisdiction to make their investments on the mainland. In 2008, authorities raised the annual ceiling on an individual's investment in mainland China from US$2.5 million to US$5 million. The ceiling on small and medium enterprise investment in mainland China is either US$2.5 million or 60% of the investing firm's net worth, whichever is higher. For large enterprises, total investment in mainland China is capped at 60% of net worth. This cap, however, does not apply to foreign subsidiaries in Taiwan. For investments below US$1 million, approval is not required, but investors must report the investment to the IC within six months. For investments between US$1 million and US$50 million, approval can be granted in two weeks. Taiwan authorities require an investor to submit a quarterly financial report if the cumulative investment in a project exceeds US$50 million.

Taiwan authorities have encouraged investment in Southeast Asia and India. Investments are also encouraged in a number of countries with which Taiwan has diplomatic relations, mainly in Central America. Incentives include loans and/or overseas investment insurance from Taiwan's Export-Import Bank. Since ECFA's signing, the authorities have also significantly increased promotion activities designed to attract more foreign direct investment.

3. Expropriation and Compensation

The U.S. Government is not aware of any previous or recent cases of nationalization or expropriation of foreign-invested assets in Taiwan. There are no reports of "creeping expropriation" or official actions tantamount to expropriation. Under Taiwan law, no venture with 45% or more foreign investment can be nationalized, as long as the 45% capital contribution ratio remains unchanged for a period of 20 years after the establishment of the foreign business. Expropriation can be justified only for national defense needs, in which case "reasonable" compensation must be provided.

4. Dispute Settlement

Taiwan is not a member of the International Center for the Settlement of Investment Disputes (ICSID), established by the World Bank to provide arbitration and conciliation services for governments and foreign investors. Foreign investment disputes with the Taiwan authorities are not common. Normally, Taiwan resolves disputes according to domestic laws and regulations, and based on national treatment or investment guarantee agreements. Taiwan has implemented investment guaranty agreements with 31 nations, the latest of which are bilateral investment protection agreements signed with Japan in September 2011 and mainland China in August 2012. Taiwan is also in the process of negotiating an investment dispute settlement agreement with the mainland under ECFA.

Taiwan has comprehensive commercial laws, including the Company Law, Commercial Registration Law, Business Registration Law, and Commercial Accounting Law, as well as laws governing specific industries. Taiwan's Bankruptcy Law guarantees that all creditors have the right to share the assets of a bankrupt debtor on a proportional basis. Secured interests in property are recognized and enforced through a registration system.

Taiwan's court system is generally viewed as independent and free from overt interference by the other official branches. Judges often bear a significant workload. As a result, special courts have been set up to resolve minor cases expeditiously. The judgments of foreign courts with jurisdictional authority are enforced in Taiwan by local courts on a reciprocal basis.
The latest version of Taiwan's Arbitration Law, implemented in 1998, sought to bring its arbitration regime into line with international practices. Many provisions in the Arbitration Law are influenced by the Model Law promulgated by the United Nations Commission on International Trade Law (“UNCITRAL Model Law”). The Chinese Arbitration Association, Taipei (the Association) is a non-profit organization established by the Ministry of Interior. The Association has 30 cooperative agreements with other arbitration institutions across the globe. The Association has managed disputes in sectors including construction, maritime, securities, international trade, intellectual property rights (IPR), insurance, cross-strait disputes, and information technology. By agreement, disputants in a case can determine the governing law of the dispute, rules of procedures, language used in proceedings, authority of the arbitrators, place and location of the arbitration, time of the hearing, and extension of the time limit to render the arbitral award, among other factors.

5. Performance Requirements and Incentives

Since its accession to the World Trade Organization (WTO) in 2002, Taiwan has discontinued performance requirements. Taiwan does not require foreign firms to transfer technology, locate in specified areas, or hire a minimum number of local employees as a prerequisite to investment. Manufacturing firms located in export-processing zones and science-based industrial parks are required to export all of their output in order to obtain tariff-free treatment of production inputs. However, these firms may sell their products in the domestic market upon payment of relevant import duties.

Under the WTO, Taiwan agreed it would phase out industrial offset requirements (IOR) for non-military public procurement and apply IOR only to military procurement, consistent with the practice of other GPA members, when it acceded to the Agreement on Government Procurement (GPA) in 2009. Taiwan began reducing the IOR coverage of non-military procurements in 2004, and fully eliminated IOR practices for non-military procurement in 2012. The threshold of US$5 million with a minimum offset of 40% for military procurements has been maintained since 2010. As the result of legislative pressure, the offset ratio in 2009 reached 70% in several cases of military procurement.

Taiwan began allowing industrial offset contracts (IOCs) in 1988. Since then, Taiwan has signed 127 IOCs with 56 suppliers from 12 countries. The commitment value of these contracts total US$111.8 billion credit points. Realized contracts are valued at US$6.6 billion credit points, while pre-approved contracts amount to US$9.2 billion credit points. Both direct and indirect offsets are acceptable. Credit points application distribution was as follows: Forty-four percent of the total realized credit point value was directed to technology transfers, 14.7% to foreign direct investment in Taiwan, 17.9% to procurement from Taiwan, 4.6% to trade promotion, 6.4% to personnel training, 2.4% to assessment certification, and 0.7% to R&D. Taiwan has published industrial offset rules in both Chinese and English, and has made them accessible to the public online.

The United States remains concerned that terms and conditions for model public procurement projects determined by the Taiwan authorities impose large indirect and unforeseeable liabilities on contractors and thereby prevent U.S. firms from bidding on projects.

6. Right to Private Ownership and Establishment

Private investors in Taiwan have the right to establish and own business enterprises, except in a limited number of industries involving national security and environmental protection. Private entities can freely acquire and dispose of interests in business enterprises. Private firms have the same access as state-owned companies to markets, credit, licenses, and supplies. Taiwan authorities have eliminated most state-owned monopolies, with the exception of some companies in the health insurance, financial, and power and water utility sectors.

7. Protection of Property Rights

Taiwan is not a member of the World Intellectual Property Organization (WIPO) but adheres to key international agreements such as the Berne Convention and the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). Reflecting Taiwan's IPR legal regime and enforcement advances, the Office of the U.S. Trade Representative (USTR) removed Taiwan from the Special 301 Watch List in 2009. The United States, however, remains concerned about a number of IPR issues in Taiwan, including online piracy of copyrighted materials, illegal textbook copy on university campuses, inadequate protection for the packaging, configuration, and outward appearance (trade dress), end-user piracy of software, signal theft of cable TV, corporate trade secret theft, and weak pharmaceutical patent protection. The importation and transshipment of counterfeit products from mainland China is also a problem. The United States is actively working with the Taiwan authorities to address these issues.

The Pharmaceutical Law, as amended in 2004 and 2007, increased penalties for the production, distribution and sale of counterfeit medicines. The law authorizes pharmaceutical data exclusivity for five years to prevent unfair commercial data use, the same exclusivity period as in the United States for chemical drugs. However, the law currently does not cover new indications or biological pharmaceuticals. Taiwan does not currently have a Patent Linkage system, resulting in several cases of generic drugs gaining approval and reimbursement despite the existence of a valid patent. In response, in April 2014 Taiwan established a task force to conduct studies on establishing a patent linkage system. Taiwan’s patent application review period is expected to shorten from an average of 41 months in 2013 to less than 22 months in 2016 months following the establishment of Patent Service Center in May of 2012 and implementation of Patent Prosecution Highway (PPH) agreements with the United States and Japan in 2011 and 2012, respectively.

In May 2011, the Legislative Yuan passed an amendment to the Trademark Law, which is modeled after the 2006 "Singapore Treaty on the Law of Trademark." The amendment maintains adherence of Taiwan's trademark law to international standards and expands IPR protections to trademarked goods by extending the scope of goods eligible for protection, broadening the conditions in which infringement shall be deemed to have occurred, and strengthening customs enforcement mechanisms for trademarked goods. The amendment is designed to increase the protection of well-known trademarks and impose stronger penalties on infringers who sell fake commodities through the Internet and electronic media.

The Ministry of Economic Affairs' Intellectual Property Office (TIPO) and other relevant agencies have adopted programs to protect intellectual property rights. Examples include:

- The Judicial Yuan inaugurated in 2008 an Intellectual Property Court authorized to handle all new civil and administrative intellectual property (IP) litigation, as well as appeals on criminal cases to streamline and improve the quality of judicial procedures in IP cases.

- Taiwan authorities have strengthened cooperation with foreign enforcement agencies, including signing an IP cooperation and protection agreement with mainland China in 2010 to combat Internet-related IPR violations.

- The Ministry of Education (MOE) continues to implement an IPR action plan to combat unauthorized textbook copying and illegal downloads on academic computer networks.

January 2014 amendments to the action plan are intended to reinforce internal university control mechanisms and improve awareness of IPR protection.

Regarding trade secret infringement, the Legislative Yuan in January 2013 passed an amendment to the Trade Secrets Law to levy more significant penalties for corporate IP theft, including a maximum five-year jail sentence and a NT$50 million (US$1.7 million) fine, with increased penalties -- including up to 10 years imprisonment -- for trade secrets taken to other countries, including mainland China. To improve law enforcement procedures for collecting evidence, the Legislative Yuan in January 2014 passed amendments to the Communications Security and Surveillance Act. The amendments allow investigators and prosecutors to conduct wiretapping in trade secret infringement case involving jurisdictions outside Taiwan, such as mainland China. Affected local and foreign firms continue to encourage development of further judicial measures, including through witness protection for trade secrets case and by shifting the part burden of proof to defendants.

In January 2014, the LY passed amendments to the Patent Act that allows patentees to request Taiwan Customs authorities to suspend clearance and detain goods suspected of infringing their patent rights. An affected rights holder must submit a written statement detailing the infringement allegation and a security deposit equivalent to the import value. If final judgment confirms that the detained goods have infringed the patentee's rights, the owner of the detained goods will be responsible for all relevant expenses incurred. Implementing regulations governing detention of suspected patent-infringing goods took effect with the amendments in March 2014.

Resources for Rights Holders:

- Taiwan Intellectual Property Office, MOEA: **http://www.tipo.gov.tw**

Contact at AIT

- Kris Kvols
- Economic Officer
- +886-2162-2000
- **TaipeiICS@state.gov**

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at **http://www.wipo.int/directory/en/**.
Local lawyers list: http://photos.state.gov/libraries/ait-taiwan/171414/acs/listofattorneys11122013.pdf

8. Transparency of Regulatory System

Taiwan has a set of comprehensive laws and regulations regarding taxes, labor, health, and safety. In addition to tax incentives, Taiwan's science and industrial parks and export processing zones present streamlined bureaucratic procedures for the investment application process. Outside of these areas, the Department of Investment Services (DOIS) of the Ministry of Economic Affairs functions as the coordinator between investors and all agencies involved in the investment process. The MOEA's IC is charged with reviewing and approving inbound and outbound investments.

Taiwan has simplified work-permit procedures for foreign “white-collar” employees. The Council of Labor Affairs (CLA) issues work permits for all white-collar workers through a single window service portal. Employers can apply on-line for work permits for their foreign employees, which are typically issued within 7 to10 days and may be extended indefinitely as long as the employer considers the employment necessary.

Since January 2012, Taiwan employers are able to hire “blue collar” foreign workers online through a network system designed by the Council of Labor Affairs. This system is expected to save employers and foreign workers NT$63,000 (US$2,170) in administrative costs and will reduce the hiring process from an average of 3 months to 30 working days. NGOs, however, have argued that complicated procedures and restrictions on use of both the Service Center and the online service have prevented widespread implementation, and they advocate lifting restrictions on transfers between employers. The maximum duration of foreign workers' stay in Taiwan is 12 years.

Foreign white-collar workers are required to hold a bachelor's degree and two years of relevant work experience to enter Taiwan's job market. There are no job experience requirements, however, for foreign management professionals employed in research and development (R&D) centers, international firms operations headquarters, and firms in designated industries. White-collar workers with a master’s degree or above are not subject to any job experience requirement for employment in Taiwan. Those with lower education levels employed in non-professional or technical positions are required to have relevant job experience. Foreign white collar workers have the right to obtain permanent residence status after they have legally stayed in Taiwan for seven consecutive years, with a minimum time of residence of 180 days per year. The seven-year requirement is waived for high-tech professionals and those who have made "significant contributions" to Taiwan. Blue collar workers have no such rights to obtain permanent residence status automatically after seven years' legal residence.

There are simplified entry-visa issuance procedures for foreign white-collar workers who work for foreign companies. A foreign executive who enters Taiwan with a tourist visa is not required to leave the island in order to convert the tourist visa to an employment visa. Similarly, a foreign executive whose employment visa expires is not required to leave in order to renew the visa.

9. Efficient Capital Markets and Portfolio Investment

Taiwan's capital market is mature and active. As of December 2013, 838 companies were listed on the Taiwan Stock Exchange (TAIEX). In July 2012, despite strong resistance from the business lobby, Taiwan's Legislative Yuan passed amendments to introduce a capital gains tax on the sales of securities, effective January 1, 2013. The ratio of the market value of listed companies to GDP was 151.68% in 2012 (latest available data from TAIEX). The market value of listed companies in Taiwan was US$823 billion as of December 2013. The transaction volume of Taiwan's securities and stock exchange market dropped from the previous year's US$678.5 billion in 2012 to US$624.0 billion in 2013, and the turnover rate in transaction volume decreased to 82.64% of 2013 from last year's 97.33%. A wide variety of credit instruments, all allocated on market terms, are available to both domestic- and foreign-invested firms. Legal accounting systems are largely transparent and consistent with international standards. In response to foreign and domestic financial institutions' concerns in recent years about non-transparent transaction reviews by Taiwan's main financial regulatory body, the Financial Supervisory Commission (FSC) has sought to clarify review criteria and enhance transparency through proposed amendments to the *Business Mergers and Acquisitions Act*, currently pending legislative review. Foreign portfolio investors are not subject to foreign ownership limits except in a limited number of industries. As part of the Executive Yuan's Free Economic Pilot Zone (FEPZ) plan, which aims to promote economic liberalization through a graduated process in which regulations are loosened in certain geographical zones and in certain sectors, in late 2013, Taiwan's FSC switched to a negative list approach toward local banks' overseas banking units (OBU) businesses not involving the conversion of the NTD and allowed local securities houses to operate overseas securities units (OSU) businesses.

In recent years, Taiwan authorities have taken steps to encourage a more efficient flow of financial resources and credit. The limit on NTD deposits that a branch of a foreign bank may hold has been lifted. Non-residents are permitted to open NTD bank accounts, though they are subject to capital-flow controls which limit each remittance to US$100,000. There are no restrictions on residents opening bank accounts overseas. A freeze on new bank branches, designed to encourage consolidation in the banking industry, was removed in 2007, although both foreign and domestic banks still require case-by-case approval to open new branches. In 2013, the FSC lifted a previous requirement that foreign banks merge branch operations into newly opened subsidiaries, thereby allowing them keep both branch and subsidiary operations in Taiwan. Restrictions on capital flows relating to portfolio investment have also been removed. The banking, insurance and securities industries have been liberalized to a certain extent and are open to foreign investment. Since 2012, mainland Chinese banks have been allowed to acquire stakes of Taiwan banks, with a 10% ceiling on total mainland investment in a given Taiwan financial institution. Foreign institutional investors currently are allowed to enter Taiwan's market without restrictions. There is no minimum asset requirement. On-shore foreign investors are subject to annual capital flow limits of US$5 million for an individual foreign investor and US$50 million for an unregistered foreign company.

Taiwan has removed legal limits on foreign ownership in most companies listed on the TAIEX, with the exception of public utilities, power distribution, natural gas, postal service, telecommunications, mass media firms, and air and sea transportation industries. There have been no reports of private or official efforts to restrict the participation of foreign-invested firms in industry standards-setting consortia or organizations.

Since the mid-1980s, the financial sector as a whole has been steadily opening to private investment, although Taiwan continues to tightly regulate its banking system. The market share held by foreign banks was relatively small until 5 foreign banks and 3 foreign private equity funds completed their acquisitions of Taiwan banks in 2007 and 2008. Over the past decade, 9 state-owned banks have been privatized. The only Taiwan-based reinsurance company was privatized in 2002. Banks that have some form of state ownership or control, including the 3 remaining banks wholly owned by the state, dominate Taiwan's banking sector and hold a market share of nearly 53.2% as of January 2014.

10. Competition from State Owned Enterprises

Taiwan launched privatization programs in 1989 and succeeded in turning over most of its state-owned enterprises (SOEs) to private industries. As of December 2012, Taiwan authorities still controlled 19 SOEs, including official agencies such as the Central Bank, the Bureau of National Health Insurance, and the Export-Import Bank of the ROC, which have no private-sector competitors.

Progress toward privatizing some of the remaining SOEs has stalled since 2007, largely due to opposition from SOE employees. Currently, there is no timetable for privatizing existing SOEs. While limited in number, some of Taiwan's SOEs are large in scale and exert significant influence in their industries. Examples include monopolies such as Taiwan Power Company (Taipower) and Taiwan Water Co., as well as the island's only aerospace product manufacturer, Aerospace Industrial Development Co. (AIDC), and industry giants Chinese Petroleum Co. (CPC), Taiwan Tobacco & Liquor Co., Chunghwa Post Company, Taiwan Sugar Co., Taiwan Railways Administration, Taiwan Financial Holdings, and the Taiwan Land Bank. CPC controls over 70% of Taiwan’s gasoline retail market. With the exception of the state monopolies, SOEs compete directly with private companies.

SOEs typically have an independent board of directors, and senior management is not required to report directly to a line minister or consult with authorities before making business decisions, except in rare cases. The authorities, however, can appoint officials to serve in a certain number of board member positions.

The Taiwan authorities continue to hold minority shares and exert some control over some former SOEs that have been privatized, including through managing appointments to the board of directors. These enterprises include Chunghwa Telecom, China Steel, Taiwan Fertilizer Co., Taiyen (Taiwan Salt), China Shipbuilding Co., Yang Ming Marine Transportation Co., as well as some financial institutions.

The Bank of Taiwan, one of Taiwan Financial Holdings Group's wholly-owned companies, is the island's largest bank in terms of assets. As of 2013, the Bank of Taiwan and the Land Bank of Taiwan, also wholly owned by Taiwan Financial Holdings, accounted for 17.3% of Taiwan's domestic banks' total assets. Taiwan's ten banks with minority state shares, in addition to Bank of Taiwan and the Land Bank, jointly account for nearly 53.2% of the overall domestic banking assets. Most of these state-affiliated banks are large in scale compared to the purely private financial institutions, and some have been underperforming. In the fourth quarter of 2013, for example, the return on assets (ROA) for Bank of Taiwan was 0.21% lower than the domestic banks' average ROA of 0.67%, according to statistics from the Central Bank.

Taiwan has neither a sovereign wealth fund nor an asset management bureau, but has a Labor Pension Fund Supervisory Committee that oversees a contracted private manager of public pensions.

11. Corporate Social Responsibility

The Taiwan authorities actively promote corporate social responsibility (CSR). MOEA and FSC have issued guidelines on ethical standards and internal control mechanisms in order to help businesses embrace responsibility for the impact of their activities on the environment, consumers, employees, and communities. MOEA maintains an online newsletter to publicize best practices and raise awareness of the latest CSR-related developments in Taiwan and abroad. At the corporate level, foreign and local enterprises endeavor to follow accepted CSR principles such as those propagated in the Organization for Economic Cooperation and Development's (OECD) Guidelines for Multinational Enterprises. Taiwan businesses, especially high-tech electronics companies, increasingly publish CSR reports. *Global Views Magazine*, one of Taiwan's most influential magazines, annually gives a CSR award to highlight companies that follow internationally accepted CSR standards and adopt transparent, environmentally conscious, and socially responsible practices. The award in 2013 went to domestic (Taiwan) firms Delta Electronics Inc., Taiwan Semiconductor Manufacturing Company Inc.; Lite-On Technology Corporation; E. Sun Financial Holding Co. and Fubon Financial Holding Co; Foreign recipients in 2013 included Intel Inc.; Citibank, HSBC; Hitachi, and IBM.

12. Political Violence

Taiwan is a relatively young and vibrant multi-party democracy. President Ma Ying-jeou's second election victory in 2012 marked another peaceful, democratic transition in Taiwan. There have been no reports of politically motivated damage to foreign investment. In some instances, local and foreign companies have been the target of generally peaceful protests and demonstrations relating to labor disputes and environmental issues.

13. Corruption

Taiwan has implemented laws, regulations, and penalties to combat corruption. The Corruption Punishment Statute and the Criminal Code contain specific penalties for corrupt activities, including maximum jail sentences of life in prison and a maximum fine of up to NT$100 million (US$3.3 million). In April 2009, the Legislative Yuan amended the Act for the Punishment of Corruption to bring criminal charges against civil servants who fail to account for abnormal increases in their assets. In July 2011, the administration established the Agency Against Corruption to strengthen efforts to crack down on corruption.

In November 2011, the Legislative Yuan passed amendments to the Anti-Corruption Act that expanded the scope of activities it covered and increased penalties for public officials who fail to explain the origins of suspicious assets or property. Based on the revised act, public servants suspected of corruption are required to declare the origins of their assets if an increase in their assets is disproportionate to an increase in their income in the three years following the allegations. If defendants refuse to offer an explanation, or if the explanation proves to be false and the defendants are found guilty of corruption, they face a jail sentence of up to five years or a fine of no more than the value of the assets of undeclared origin, or both.
The U.S. Government is not aware of cases where bribes have been solicited for foreign investment approval.

Taiwan formally became a member of the WTO Agreement on Government Procurement (GPA) in 2009. The Public Construction Commission (PCC) publishes all state procurement projects that require open bidding, in accordance with WTO transparency requirements. The PCC indicated that in 2011, 2496 contracts were awarded for US$13.6 billion; 421 of these contracts valued at US$5.1 billion went to GPA members; U.S. firms were awarded 157 contracts worth US$326 million. Foreign tenders accounted for over 37% of all state procurement projects awarded in 2011, among which over 16% were awarded to the U.S. bidders in the past year. Government procurement projects open to WTO GPA members had been limited to Kaohsiung and Taipei City municipalities. Following rezoning in 2010 to create five special municipalities -- Taipei City, New Taipei City, Taichung City, Tainan City and Kaohsiung City -- and a revised GPA implemented in December 2011, Taiwan has expanded coverage to the new entities.
The Legislative Yuan in January 2011 passed the following additional amendments to the Government Procurement Act : (1) Procurements of technology, information, and professional services can be based on quality (i.e., the most advantageous bids), rather than price; (2) A GP data bank containing a list of individual prices of awarded construction tenders exceeding NT$10 million (US$331,400); and (3) Procurement agencies are required to use model contracts provided by PCC to reduce potential disputes.

The PCC organizes inspection teams to monitor all public procurement projects both at the central and local levels, and publishes the bidding and inspection results. A task force comprised of PCC staff and independent experts investigates complaints.

The authorities generally investigate allegations of corruption and take action to penalize corrupt officials. From January to October 2012, prosecutors indicted 826 persons on various corruption charges, including 55 senior officials (department director level and above) and 17 elected officials. There were several high-profile corruption cases involving senior officials over the last year. Former Executive Yuan Secretary-General Lin Yi-shih was indicted in October for receiving bribes amounting to NT$60 million (US$ 2.1 million), concealing illegal gains and holding unaccountable assets. In December 2012, prosecutors indicted former Director-General of the National Fire Agency Huang chi-min on corruption charges and recommended a life sentence. Huang was accused of taking NT$19.24 million (US$662,426) in bribes related to 9 of the agency's major procurement projects. In addition, former chief secretary of the Criminal Investigation Bureau Hsu Jui-shan was indicted in December on several charges including corruption and profiteering. Prosecutors recommended a sentence of 15 years.

Former President Lee Teng-hui was indicted in June 2011 on charges of money laundering and embezzling money from a secret diplomatic fund. Lee made his first court appearance for a pretrial procedure in August. Further pretrial procedures are required before the case goes to trial. In December 2010, former Taiwan president Chen Shui-bian began serving a 17-year jail term after being convicted on corruption and money laundering charges and losing an appeal to the Supreme Court. The Taiwan High Court ruled on November 1, 2012 that Chen should serve 18 years and six months in jail and pay the fine amounting to NT 156 million (US$5.38 million) for money laundering and corruption in three cases. The High Court also announced on November 5, 2012 that Chen's wife, Wu Shu-chen should serve a sentence of 19 years and two months and pay NT 158 million (US$5.45 million) fine for money laundering, corruption, influence peddling and perjury in six cases.

Attempting to bribe or accepting a bribe from Taiwan officials constitutes a criminal offense, punishable under the Corruption Punishment Statute and the Criminal Code. The Corruption Punishment Statute also treats payment of a bribe to a foreign official as a crime and makes such a bribe subject to criminal prosecution. The maximum penalty for a public official receiving a bribe is life imprisonment or a maximum fine of NT$100 million (US$3.3 million). For those attempting to bribe officials, the maximum penalty is 7 years in prison and a fine of NT$3 million (US$99,400). In addition, the offender will be barred from holding public office. The assets obtained from acts of corruption are seized and turned over to either the injured parties or the Treasury.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, should seek the advice of legal counsel.
The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: **http://www.justice.gov/criminal/fraud/docs/dojdocb.html**

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Taiwan is not a party to these instruments, but prohibits the bribery and solicitation of its public officials. OECD Anti-bribery Convention: Taiwan is not a party to the OECD Convention. (see **http://www.oecd.org/dataoecd/59/13/40272933.pdf**).

UN Convention: Taiwan is not a party to the UN Convention. (see: **http://www.unodc.org/unodc/en/treaties/CAC/signatories.html**).

OAS Convention: Taiwan is not a party to the OAS Convention. (see **http://www.oas.org/juridico/english/Sigs/b-58.html**).

Council of Europe Criminal Law and Civil Law Conventions: Taiwan is not a party to the Council of Europe Conventions. (see **http://www.coe.int/greco**)

Free Trade Agreements: U.S. free trade agreements (FTAs) contain legal and regulatory transparency obligations and may contain anti-corruption provisions that call on governments to affirm their commitment to eliminating bribery and corruption. Taiwan does not have a FTA with the United States. (For U.S. FTAs see the U.S. Trade Representative Website: **http://www.ustr.gov/trade-agreements/free-trade-agreements**).

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating Taiwan's legal system and obtaining a list of local legal counsel. Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at **http://www.trade.gov/cs**.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including at the American Institute in Taiwan (AIT) and through the Department of Commerce Trade Compliance Center “Report a Trade Barrier” Website at **http://tcc.export.gov/Report_a_Barrier/index.asp**.

Guidance on the U.S. FCPA: The Department of Justice’s (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department’s present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ’s Fraud Section Website at **http://www.justice.go/criminal/fraud/fcpa**. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at **http://www.ogc.doc.gov/trans_anti_bribery.htm**l. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: **http://www.justice.gov/criminal/fraud/fcpa**

Information about the OECD Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available at: **http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html**.

See also new Anti-bribery Recommendation and Good Practice Guidance Annex for companies: **http://www.oecd.org/dataoecd/11/40/44176910.pdf**.

General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: **http://www.ogc.doc.gov/trans_anti_bribery.html**.

Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: **http://www.transparency.org/policy_research/surveys_indices/cpi/2009**. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See **http://www.transparency.org/publications/gcr**.

The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See **http://info.worldbank.org/governance/wgi/sc_country.asp**. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: **http://go.worldbank.org/RQQXYJ6210**.

The World Economic Forum publishes the *Global Enabling Trade Report,* which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption

and the regulatory environment. See **http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm**l.
Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at **http://www.state.gov/g/drl/rls/hrrpt**.
Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: **http://www.report.globalintegrity.org**.

14. Bilateral Investment Agreements

Taiwan has concluded various forms of investment agreements with the following 31 countries: Argentina, Belize, Burkina Faso, mainland China, Costa Rica, Dominica, El Salvador, Gambia, Guatemala, Honduras, India, Indonesia, Japan, Liberia, Malaysia, Macedonia, Malawi, the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, Saudi Arabia, Senegal, Singapore, St. Vincent, Swaziland, Thailand, the United States, and Vietnam.

The terms of the 1948 Friendship, Commerce, and Navigation Treaty between the Republic of China (Taiwan) and the United States are still in force. Under its terms, U.S. investors are generally accorded national treatment and are provided with a number of protections, including protection against expropriation. Taiwan and the United States also have an agreement pertaining to investment guarantees that serve as the basis for the U.S. Overseas Private Investment Corporation (OPIC) program in Taiwan. The agreement, signed in 1952, is called the "Agreement Dealing with Guaranty of American Investment of Private Capital in Taiwan." Representatives of the United States and Taiwan signed a Trade and Investment Framework Agreement (TIFA) in 1994 to serve as the basis for consultations on trade and investment issues. After TIFA discussions were suspended in 2007 in response to Taiwan policies affecting U.S. beef imports, the resumption of TIFA talks in 2013 produced numerous results, including new joint statements on investment principles and information and communication technology (ICT) services, and the launch of new TIFA working groups on investment and technical barriers to trade. The April 2014 TIFA Council meeting welcomed steps by Taiwan authorities to improve trade secrets protection, address pharmaceutical issues, clarify investment criteria, lift data localization requirements in the financial sector, and to revise standards affecting U.S. market access, while also highlighting the need for more meaningful progress on long-standing agricultural trade issues and intellectual property protection.

15. OPIC and Other Investment Insurance Programs

OPIC programs are available to U.S. investors, though U.S. investors have never filed an OPIC insurance claim for an investment in Taiwan. Taiwan is not a member of the Multilateral Investment Guaranty Agency.

16. Labor

Benefiting from the recovery following the global financial crisis in 2008 and 2009, Taiwan's unemployment rate continued to decline to 4.18% in 2013, down slightly from 4.24% in the previous year. In the industrial sector, the number of blue-collar foreign workers increased to 278,919 as of 2013. There are no special hiring practices in Taiwan. Employees are typically paid at least a one-month bonus at the end of the lunar calendar year (January or February). Benefits often include meals, transportation, and dormitory housing or related allowances. A standard labor insurance program is mandatory. The program provides paid maternity leave, a lump-sum or annuity retirement plan, and other benefits. A new retirement system implemented in 2005 replaced a voluntary retirement scheme that still covers approximately 30% of the total labor force and, under the standard labor law, permits retirement at age 55 with 15 years of service. Employees hired after July 2005 must join the new system, which sets mandatory retirement at age 65. The new system also requires the employer to contribute six percent of an employee's monthly wage to accounts at designated banking institutions. The accounts follow the employees as they move from one employer to another. A universal national health insurance system, to which employers must contribute, covers all Taiwan residents.

Taiwan provides unemployment relief based on the Employment Insurance Law enacted in 2002. Alternatives for unemployment pay include a vocational training allowance for jobless persons and employment subsidies to encourage the hiring of jobless persons. The Labor Standards Law (LSL) sets a standard eight-hour workday and a biweekly maximum of 84 hours. The public sector and most private firms have a five-day workweek. The LSL restricts child labor and requires employers to provide overtime pay, severance pay, and retirement benefits. The LSL covers both manufacturing and service sectors. Violators are liable to criminal penalties (jail terms) and administrative punishments (fines).

Beginning January 1, 2013, Taiwan's minimum monthly salary increased NT$267 (or 1.4%) to NT$19,047 (US$657 at exchange rate of NT$29.1 per U.S. dollar), and the minimum hourly wage rose NT$6 to NT$109 (US$3.76). Monthly manufacturing sector wages in the first nine months of 2012 averaged NT$45,089 (US$1,554) including overtime, allowances, and bonuses -- a 0.5% increase compared to the same period in 2011.

Labor unions have become more active and independent since Taiwan’s martial law was lifted in 1987. Mergers and acquisitions (M&A), factory closures, and the new retirement system contributed to an increased trend in labor disputes over the past decade. Taiwan is not a member of the International Labor Organization (ILO) but adheres to the ILO conventions in the protection of workers’ rights.

17. Foreign-Trade Zones/Free Ports

The first free trade/free port zone began operation in 2004 at Keelung, Taiwan’s northern port. Another four were established in 2005 at Taoyuan International Airport and the international harbors in Kaohsiung, Taichung, and Taipei. In May 2010, the Executive Yuan approved the establishment of a free-trade zone at the Suao port in northeast Taiwan, making a total of six free trade zones in Taiwan. The Taiwan authorities have relaxed restrictions on the movement of merchandise, capital, and personnel into and out of these zones. Foreign investors located in these areas are accorded national treatment.

As part of a broader restructuring and to increase the competitiveness of Taiwan's ports, the Ministry of Transportation and Communications (MOTC) established the Taiwan International Ports Corp. (TIPC) on March 1, 2012, to manage commercial activities of Taiwan's ports and free trade zones. The TIPC will facilitate cooperation with foreign shipping operations and related businesses.

On December 14, 2012, the Legislative Yuan approved the amendment of the Act for the Establishment and Management of Free Trade Zones, which would exempt London Metal Exchange (LME)-certified non-ferrous metals at Taiwan's free trade zones from income tax through 2042. On June 18, 2013, the LME board approved Kaohsiung Port as a LME delivery port of primary aluminum, aluminum alloy, copper, lead, nickel, tin, and zinc.

The Council for Economic Planning and Development (CEPD) – since January 22, 2014 called the National Development Council (NDC) – launched the first stage of Taiwan’s free economic pilot zones (FEPZ) project in August 2013, to be implemented in Taipei Port, Keelung Port, Suao Port, Taichung Port, Anping Port, Kaohsiung Port, Taoyuan Airport, and Pintung Agriculture Bioltechnology Park. According to NDC, the goal of building up these zones is to position Taiwan as an “Asia-Pacific Free Trade Center”, with each zone including one or more of the following regional centers: (1) a medical center for severe diseases and medical tourism; (2) an innovation and integration center for industries; (3) a logistics center; (4) a personnel training center; and (5) an agricultural transportation and sales center. Greater Kaohsiung was targeted as the first FEPZ, after which any city or county administration could apply to establish additional zones. The FEPZ are expected to ease restrictions on labor recruitment, cash flow, land acquisition and market access for operations set up within the zones. On December 26, 2013, the Executive Yuan (EY), Taiwan’s cabinet, forwarded legislation implementing an expanded phase two of the FEPZs to the Legislative Yuan for ratification. As of late April 2014, the proposal was still under legislative review.

18. Foreign Direct Investment Statistics and Foreign Portfolio Investment Statistics

Statistics on foreign direct investment (FDI) in Taiwan are available from two official sources: the IC and the Central Bank (CBT). The IC publishes monthly and yearly foreign investment approval statistics by industry and by country. While these statistics do not correspond exactly to actual commitments of investment funds, AIT believes these data serve as a good proxy. CBT publishes foreign direct investment arrivals on a quarterly and yearly basis. CBT data contained in balance-of-payments (BOP) statistics are not classified by industry or country.

At of the end of 2013, Taiwan's total stock of foreign direct investment stood at US$126.38 billion (valued at historical cost). This represents about 25.8% of Taiwan's 2013 GDP. Total FDI inflows in 2013, based on approvals, stood at US$4.9 billion, or about 1% of 2013 GDP. As of December 2013, Taiwan's foreign exchange reserves amounted to US$416.8 billion, the fourth-largest in the world.

Taiwan's strong reliance on exports has exposed the economy to fluctuations in global demand. Taiwan authorities' official GDP growth forecasts for 2013 were successively revised downward due to the unexpected contractions in its export sector. The GDP growth rate in 2013 was 2.11%,

much lower than the official statistical agency's early estimate of 3.59%. Inbound foreign direct investment approved in 2013 declined by 11.3% year-on-year.
In recent years, foreign direct investment has shifted from capital-intensive high-tech industries to investments in the financial service sector. Approved direct investment in electronics industries (including electronic parts and components, computers, communications, semiconductor, TFT-LCD and other optical electronic products), which peaked at 48.2% as a percentage of FDI in 2006, declined steadily to 19.5% by 2013, and nearly 83% of approved inbound direct investment in Taiwan's electronics industries in 2013 came from the European Union, the United States, Singapore, and the British Territories in North America (BTA). Nearly 79% of approved inbound direct investment in the financial and insurance sectors came from Australia, Samoa, the United States, Hong Kong, Germany, and the BTA.

According to official Taiwan statistics, approvals for U.S. investment from 1952 to 2013 totaled US$23.4 billion (US$16.5 billion as of 2012, according to official U.S. figures), or 18.5% of total foreign investment. These aggregate figures of investment stock are valued at historical cost. In 2013, 39.4%of U.S. total investments in Taiwan went to the service sector. Taiwan data on U.S. FDI has diverged from U.S. figures since 2010, as Taiwan statistics reflect approved investment amounts rather than actual commitment or divestment of funds. Approvals for Japanese investment from 1952 to 2013 amounted to US$17.7 billion, or 14.0% of total foreign investment.

As the tables below indicate, significant FDI now flows from the tax havens of the BTA, which harbor a growing number of multinational corporations, including those with Taiwan shareholders. For 2013, 54.1% of the investment from the BTA was directed towards financial services, real estate and wholesale and retail trade industries.

As a relatively open and liberal economy, Taiwan not only benefits from substantial foreign investment but also has significant investments overseas. According to balance-of-payments statistics compiled by the Central Bank, outbound direct investment has exceeded inbound direct investment every year since 1988. According to IC statistics, by 2013, cumulative approvals for outbound investments totaled US$213.2 billion. The main recipient has been mainland China, which has received nearly 62.7% of Taiwan's outbound investment. Approved investments to mainland China have declined since 2012 after hitting a peak in 2011. As of 2013, Taiwan firms hold investments estimated in excess of US$133.7 billion on the mainland, though some other estimates suggest the figures could be from US$150 billion to US$300 billion.

Taiwan business firms have been relocating their production bases to mainland China since the late 1980s. The WTO accessions of mainland China and Taiwan in 2002 prompted Taiwan firms to accelerate this relocation to sharpen their competitive edge in exports. Taiwan factories based in mainland China avail of low labor and land costs to process Taiwan-made production inputs into finished goods for exports to such industrial markets as the United States, Japan and Europe, and also for final sale in mainland China. Recently however, rising labor and land costs on the mainland have prompted some Taiwan firms to move production to economies in South and Southeast Asia, including Vietnam. Many Taiwan firms have also shifted to producing higher value-added goods and higher-tech products in mainland China.

Following decisions by some Taiwan investors to relocate production lines outside of mainland China, Taiwan's annual registered direct investment across the Taiwan Strait declined from its recent peak of US $13.1 billion in 2011 to US$8.69 million in 2013. However, the overseas production ratio for orders received by Taiwan exporters remained at a relatively high level of 51.5% in 2013, up from 11.5% in early 2000. The ratio reached a record high of 87.3% for information technology (IT) firms in 2013. Mainland China, including Hong Kong, has replaced the United States as Taiwan's largest export market since 2001, and its share of Taiwan's exports in 2013 was down from its recent peak of 41.8% in 2010 to 39.7%, compared to 10.2% for the United States and 9.3% for the European Union in 2013.

Table 2: Inward Foreign Investment Approvals by Year and by Area (1952-2013)
(Unit: US$ million)

Year	U.S.A.	Japan	BTA*	Europe	Hong Kong	Others	Total
1952-89	3,067	2,983	341	1,312	1,198	2,049	10,950
1990	581	839	66	283	236	297	2,302
1991	612	535	60	165	129	277	1,778
1992	220	421	37	165	213	405	1,461
1993	235	278	38	214	169	279	1,213
1994	327	396	76	245	251	336	1,631
1995	1,304	573	151	338	147	412	2,925
1996	489	546	417	198	267	544	2,461
1997	491	854	659	407	237	1,618	4,267
1998	952	540	711	371	275	890	3,739
1999	1,145	514	1,216	462	161	734	4,231
2000	1,329	733	2,300	1,213	271	1,762	7,608
2001	940	685	1,397	1,184	145	778	5,129
2002	600	609	803	612	66	582	3,272
2003	687	726	920	644	45	555	3,576
2004	361	827	897	965	192	710	3,952
2005	804	724	1,094	685	104	817	4,228
2006	883	1,591	1,786	7,510	119	2,080	13,969
2007	3,148	1,000	2,396	7,096	209	1,512	15,361
2008	2,857	440	1,220	2,139	377	1,199	8,232
2009	264	239	1,103	2,085	277	830	4,798
2010	319	400	1,059	1,231	168	635	3,812

Year	U.S.A.	Japan	BTA*	Europe	Hong Kong	Others	Total
2011	738	445	1,129	716	399	1,528	4,955
2012	405	414	1,385	1,722	364	1,269	5,559
2013	583	409	1,442	687	372	1,440	4,933
1952-2013	23,351	17,720	22,702	32,653	6,392	23,560	126,378

Source: Investment Commission, Ministry of Economic Affairs.
* British Territories in North America

Table 3: Inward Foreign Investment Approvals by Industries (1952-2013)

Industry	Million US$	%
Financial and Insurance	35,189	27.8%
Electronic Parts and Components	18,026	14.3%
Wholesale and Retail Trade	12,630	10.0%
Computers, Electronic & Optical Products	6,498	5.1%
Electricity Equipment	6,040	4.8%
Information and Communications	6,158	4.9%

Table 4: Outbound Investment Approvals by Year and by Area (1952-2013)
(Unit: US$ million)

Year	China	BTA	U.S.A.	ASEAN*	Others	Total
1952-89	N/A	76	865	429	155	1,525
1990	N/A	170	429	567	386	1,552
1991	174	268	298	720	370	1,830
1992	247	239	193	309	146	1,134
1993	3,168	194	529	434	504	4,829
1994	962	569	144	398	506	2,579
1995	1,093	370	248	326	413	2,450
1996	1,229	809	271	587	498	3,394
1997	4,334	1,051	547	641	655	7,228
1998	2,035	1,838	599	478	381	5,331
1999	1,253	1,359	445	522	943	4,522

Year	China	BTA	U.S.A.	ASEAN*	Others	Total
2000	2,607	2,248	862	389	1,578	7,684
2001	2,784	1,693	1,093	523	1,083	7,176
2002	6,723	1,575	578	211	1,006	10,093
2003	7,699	1,997	467	298	1,207	11,668
2004	6,940	1,155	557	966	704	10,323
2005	6,002	1,262	315	264	606	8,449
2006	7,375	1,822	485	1,065	943	11,690
2007	9,676	1,578	1,346	2,094	1,451	16,145
2008	19,843	1,686	400	1,380	1,001	14,309
2009	6,059	544	1,114	401	947	9,064
2010	12,230	568	491	1,082	682	15,053
2011	13,100	800	730	1,119	1,048	16,797
2012	10,924	175.8	144.1	5,720	2,059	19,023
2013	8,685	233.1	416.0	2,164	2,419	13,917
1952-13	133,680	24,281	13,564	23,089	21,691	216,305

Source: Investment Commission, Ministry of Economic Affairs.
Note: "ASEAN" here includes six of the ASEAN countries: Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Table 5: Outbound Investment Approvals by Industries (1952-2013)

Industry	**Million US$**	**%**
Financial and Insurance	37,012	44.8%
Electronic Parts and Components	9,253	11.2%
Wholesale and Retail Trade	6,031	7.3%
Computers, Electronic & Optical Products	3,236	3.9%
Information and Communications	2,431	2.9%
Textiles	2,419	2.9%

Source: Investment Commission (outbound investment excluding to mainland China)

Table 6: Major U.S. Investors in Taiwan

U.S. Investor/Local Investment	**Major Products**

Amkor Technology Ltd./Amkor Technology Taiwan	Integrated circuit packaging and testing
Hewlett-Packard Taiwan Ltd.	Servers and personal computers
Corning Inc./Corning Glass Taiwan Co., Ltd.	Substrate glass for TFT/LCD
GTE-Verizon/Taiwan Fixed Network Telecom Taiwan Cellular Corp.	Fixed-line and mobile phone service
Carlyle Group/Eastern Technology Ta Chong Commercial Bank	Banking
Ensite Limited (Ford Motor)/Ford Lio Ho Motor Co.	Autos
Texas Instruments Inc./Texas Instruments Taiwan Ltd.	Semiconductors
E.I. Dupont De Nemours/Dupont Taiwan Ltd.	Industrial, electronic, agricultural goods
IBM Corp./IBM Taiwan Ltd.	Computers: sales & service
UPS International/UPS, Taiwan Branch	Worldwide express service
Intel Inc./Intex. Co.	ADSL chipset
Applied Materials Ltd./Applied Materials Taiwan Ltd.	Semiconductor manufacturing equipment
GE Consumer Finance/Cosmos Bank	Banking
Jabil Circuit Inc./Taiwan Green Point Enterprise Co.	Telecom components
Citibank/Citibank (Taiwan) Bank of Overseas Chinese	Banking
Oaktree Capital Management Co./Fu Sheng Industrial Co.	Golf club head and compressor
Fairchild Semiconductor Co./System General Corp.	Power management products
Qualcomm International Inc./Qualcomm (Taiwan branch) and Qualcomm Panel Display Manufacturing Co.	Sales service/purchase/ and display panel production
Google Inc.	Data center

Micron Technology Inc./Inotera Memories	DRAM
3M Optronics Corporation	Touchscreens, optical components

Web Resources:

- Commerce Department of the Ministry of Economic Affairs (MOEA): **http://www.moea.gov.tw**
- Bureau of Foreign Trade, MOEA: **http://www.trade.gov.tw**
- Department of Investment Services, MOEA: **http://www.dois.moea.gov.tw**
- Investment Commission, MOEA: **http://www.moeaic.gov.tw**
- Taiwan Intellectual Property Office, MOEA: **http://www.tipo.gov.tw**
- Council of Labor Affairs, Executive Yuan: **http://www.cla.gov.tw**

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