

# **Explore and analyse the Influencing Factors in Focuses shift of the Investment of Taiwan Businessmen in Mainland**

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**Abstract** Taiwan businessmen have invested in Chinese mainland for more than 30 years. In this paper, the course of Taiwan trader's Investment in Mainland are divided into three stages according to the time, region and industry. This paper also finds out that there are five factors which influence the shift of the investment focus of Taiwan's trader, they are hard environments as Geography and location, soft environment as Policies, development level of productivity, bunching effects from the linkage of the Industry Chain and the driving force from the industry chain.

**Key words** the Investment of Taiwan businessmen, Investment Focus, Influence Factors

## **1 Introduction**

In 1979, in order to find a way out for the development of the companies, Taiwan businessmen started to crash out all kinds of limitation to invest Chinese mainland. More than 30 years passed by, the direct investment of Taiwan businessmen has become an important part for mainland's absorbing foreign direct investment. In the mean time, Chinese mainland also becomes the biggest investment region.

Firstly, this study is to focus on Stage Change and area differentiation of the direct investment of Taiwan businessmen in Chinese mainland, and then to analysis the causes which influence the shift of the investment.

## **2 Stages of the Investment of Taiwan businessmen in Chinese Mainland**

There are significant changes for the investment of Taiwan businessmen in Chinese mainland not only in areas but in stages. Currently, there are two schools in the field of stage partition. Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) divided it into three stages (TEEMA , 2003). In the first stage, the traders tried to transferred some low value-added products to Fujian province. In the second stage, some higher value-added products were transferred to Pearl River Delta economic zone to produce and the last stage was from 2003, they transferred those negative growth products in production and sale such as Electromechanical Product and IT products to Shanghai, Shandong, Jiangsu and Zhejiang province. Li (2007) divided the investment stages into 4 parts, the secret investment stage between 1981 and 1987, transformed trial investment stage between 1988 and 1991, expanded stage between 1992 and 1996 and the last stage was focused on hi-tech products. He (2007) divided the stage with another viewpoint, he reported Taiwan traders were started from 1980s, this stage was represented by the labor-intensive industries, and then the second stage which represented by the capital-intensive industries, from the beginning of the 21 century, the investment has been expanded to the technology-intensive industries.

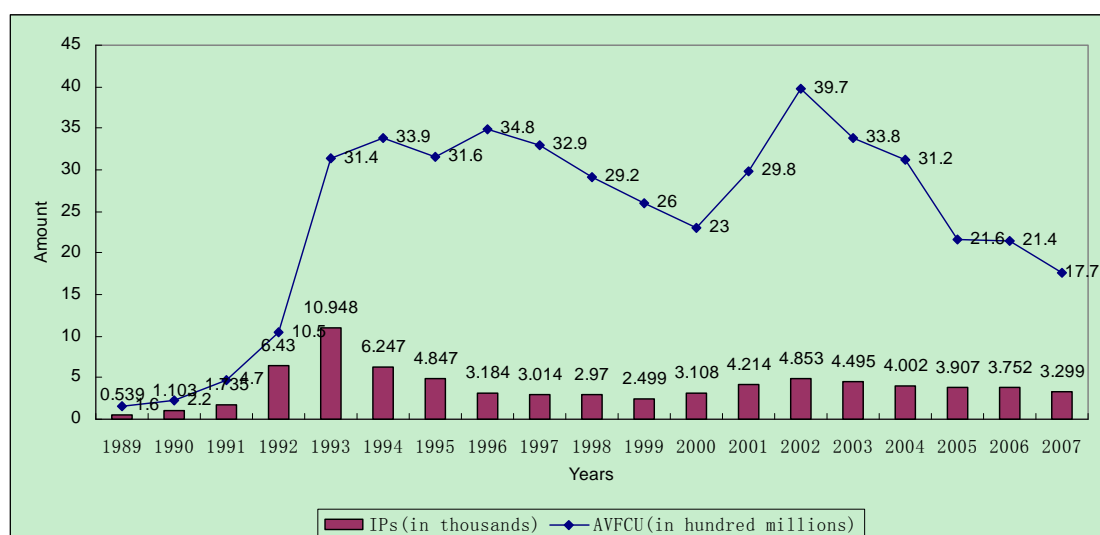
We can easily make out that although those research findings above has divided the stages from

different viewpoint, but there is no uniform and complete definition by far.

## 2.1 By Time

Taiwan businessmen invested Chinese mainland from the end of 70s of 20th century, at the initial period of investment, small scale and decentralization are the main characteristics, the amount of Investment Projects(IPs) were only 539 and Actual Volume of Foreign Capital Utilization(AVFCU) is 0.16 billion dollars in 1989. The rapid economic development leads to an upsurge in Taiwan trader's investment in 1990s, the IPs were 10948 and AVFCU is 3.14 billion dollars in 1993. As the influence of Asian Financial Crisis in 1997, 1996's 3.48 billion dollars became the highest point in 20th century. Both mainland and Taiwan's entry of the WTO reward Taiwan businessmen's interests of investing mainland, as a result, which makes 2002 as the highest point in the history by 3.97 billion dollars AVFCU. At the end of 2008, the amount of IPs is 77506 and the AVFCU is 47.58 billion dollars.

Figure 1 shows that IPs and AVFCU represent an increasing trend before 1993. From 1993 to 1999 the trend is almost negative. Between 2000 and 2003, the AVFCU all had a substantial increase. The investment of Taiwan businessmen in Chinese mainland came into a new adjustment period after 2003.



**Fig 1 : Amount of Investment Projects and Actual Volume of Foreign Capital Utilization from Taiwan. (1989-2007)**

Source: According to the data published by Ministry of Commerce of the People's Republic of China Department of Taiwan, Hong Kong and Macao Affairs.

## 2.2 By Regional Distribution

With the boost of economic development and reform and opening-up in China, the regional distribution of the investment of Taiwan businessmen came into being. Before the middle of 1990s, the capital from Taiwan was mostly distributed in Fujian and Guangdong province, from 1982 to 1989. The sum of Chinese mainland absorbed Taiwan's items are 10672 in totals and the capital is 1.057 billion dollars, among which Fujian occupied 38.5% in the first place and Guangdong occupied 28% in the second place.

From 1990 to 2003, Taiwan businessmen invested the Littoral Area of the East much more than the Middle Part, just as the investment of Middle Part was more than the West's. The following two cores of the Littoral Area of East, one was in Fujian and Guangdong, and the other was in Jiangsu,

Shanghai and Zhejiang. These two cores occupied almost 70% of the investment, furthermore, Jiangsu occupied 22.2%, Guangdong occupied 21.5%, Fujian occupied 12.9%, Shanghai occupied 7.2%, Zhejiang occupied 6.4%, and these provinces are located in the central-southern part of China, which are also neighborhood each other, and have special relationships with Taiwan province.

According to the research report of Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) which can be seen from Table 1, from 2003 to 2007, the best investment area is East-China, the next are North-China and Southwest. During that period Mainland has absorbed 19455 projects and 12.57 billion dollars from Taiwan.

**Transformation of Investment Environment in Mainland, By TEEMA. 2003-2007.**

Area	2007		2006		2005		2004		2003		2003-2007	
	S	R	S	R	S	R	S	R	S	R	TS	R
East-China	3.69	1	3.65	1	3.82	1	3.45	1	3.34	1	5	1
North-China	3.68	2	3.63	2	3.62	3	3.33	2	3.31	2	11	2
Southwest-China	3.40	3	2.83	6	3.36	5	3.27	4	3.24	3	21	4
South-China	3.29	4	3.08	4	3.22	7	3.08	7	3.11	6	28	6
Central-China	3.25	5	3.32	3	3.76	2	3.10	6	3.20	4	20	3
Northeast-China	3.20	6	2.92	5	3.23	6	3.28	3	3.19	5	25	5
Northwest-China	2.76	7	2.57	7	3.44	4	3.11	5	3.06	7	30	7

S-score, R-ranking, TS-total score

### 2.3 By Industry

Before 1990s, as the result of Taiwan's internal Business environment getting worse and worse, Taiwan Enterprises started to invest the Labor-intensive industry to Fujian and Guangdong to reduce the production cost, such as Light and textile Industry. Lots of traditional industry such as shoe, textile & clothing, household appliances, toy, furniture makings transformed their export processing site to Mainland using the model of "Ordered in Taiwan, Made in Mainland, Transited in Hong Kong, and Sold at Abroad".

After Deng Xiaoping's speech in Guangdong and the 14th NPCC, Taiwan businessmen expanded their investment in Chinese mainland through various ways. During this period, it took new changes in both depth and width. Production manufactures in the upper reach of Supply Chain began to enter mainland to develop their marketing space, meanwhile, the industry firms started to enlarge from Labor-intensive industry to capital-intensive industry which represented by petrochemical industry and the investment beachhead also extended to Jiangsu, Suzhou and Shanghai.

Entering the 21st century, beyond the needs of division of labor distribution, IT manufacturers from Taiwan began to increase the proportion of product payback. New type of industry which made the Electronic information industry as the dominant industry grows up rapidly. Taiwan businessmen set up a long-term development interiorly and exploit the market as the new long-term goal one after another. The trends of industrial interconnection appears gradually along with the development of Taiwan's corporations; and urged the industry chain much more abundant, formed high additional value and technology-intensive industry forms. The range of investment enlarged rapidly, cover with the whole East-china and spread to north and southwest China.

The analysis above shows that the center of gravity of the investment of Taiwan businessmen in Chinese Mainland has transferred for three times, and this three stages are mainly embodied in distract

of regional distribution and industrial. Concretely speaking, three stages are the following, the first stage is from 1978-1993, the regional center was in Fujian and Guangdong ,its characteristic was point, the main form was labor-intensive industrial; the second stage was from 1993 to 2002, the coastal provinces such as Fujian, Guangdong, Jiangsu Shanghai and Zhejiang are the regional center, its characteristic was line, the main form was capital-intensive industrial; the third stage was from 2003, the whole East-China was the regional center, its characteristic was surface, the main form was technical-intensive industrial.

According to the investigation report which Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) publicized in 2008, in the future, the top 9 cities which Taiwan traders' want to invest in are Shanghai, Kunshan, Beijing, Hangzhou, Suzhou, Tianjin, Chengtu, Qingdao and Xiamen. The most popular cities for high-tech industry traders are Suzhou, Kunshan, Ningbo, Shanghai, Xiamen, Beijing, Wuxi, Nanking and Shenzhen. And in the coming years, the investment center will concentrate in East-China. But the Gradual West Wind trend is not negligible in these years. In the future, After years or tens of years' accumulated, in order to find more market and business opportunity, traders will start to transfer their sight from the developed coastal areas to the inland. More and more Taiwan enterprises will invest or find partners in secondary or the third class cities after a firm foothold in the central cities.

### **3 Factors that Influence the Transfer of Investment Barycenter of Taiwan Businessmen**

Research on factors that influence the transfer of investment barycenter of Taiwan businessmen have preliminary done by some domestic scholars. Li (2003) did the research on the influence of Taiwan businessmen's invest in Fujian province separately from the aspects of investment threshold, administrative efficiency, policy advantage and marketing hinterland. Fang (2001) analyzed the factors that influence Taiwan businessmen's investment from the viewpoint of IT industry. lin (2001) studied the forth stage of Taiwan businessmen's investment. Wang & Huang(2006) analyzed the motivation of the transformed of Taiwan businessmen and also given some advices for the Fujain Government. Jiang (2007) considered that the most important motivation for Taiwan businessmen's investment in Shenzhen is the driven of interest, investment environment,and industry background of Shenzhen,and the relationship between Taiwan and Mainland. Zhang (2003-2007) thought that the main factors were economic development level, investment scale at present, market capacity, basic facilities and regional economical activity.

In this paper, we think the main factors which influence the shift of Taiwan businessmen's investment in Mainland are hard environments such as Geographic location, soft environment such as Policies, development level of productivity, bunching effects from the linkage of the Industry Chain and the driving force from the industry chain.

#### **3.1 Geographic Location**

The advantage of unique geography location is particularly outstanding at the Initial stages. In this stage, Taiwan businessmen prefer to invest in coastal area or its adjacent area or area which have special social cultural connection with Taiwan . Those place such as Fujian and Guangdong are neighborhood of Taiwan, they have non-substitutive locational advantage,so Taiwan businessmen concentrated their investment on Fujian and Guangdong in the first stage. The length of coastline of Fujian amout to more than 3300 KM, along the east coastal corridor contains cities such as Xiamen, Fuzhou, Quanzhou, Zhangzhou etc. and Taiwan is opposite them. Predominant geographic location

advantage multiply by language and custom advantages made Fujian the top choice for Taiwan businessmen to invest in Mainland.

Factor of market capacity replaced the geographic advantage gradually in the middle and later stages of Taiwan businessmen's investment in Mainland. Along with the increase of Taiwan capital's amount, Fujian and Guangdong can't satisfied the increasing market need, they do not have enough raw and processed materials and component nearby. Most of these materials are imported from abroad or other provinces, which make the cost soared up. Based on the capacity of hinterland, market radiating capacity and industry structure, Taiwan businessmen gradually break through the confine of geographic location and choose those places which have comprehensive superiority as far as possible.

Additionally, limitations of Infrastructure, land and electricity have arisen in the developed areas. For instance, the area of Xiamen is just 1656 square kilometers, after more than ten years' investment in Xiamen, there are no more lands left for the new investors.

### **3.2 Policy**

Areas as Guangdong, Shanghai, Fujian, Jiangsu, Zhejiang are advancing front Reform and Opening places, special economic zone, coastal open city, Economic and Technical Development Zone and open economic zone are almost in those provinces or cities, they all have special encouragement policies for Taiwan businessmen and less restrictions for the invest industry. Those would enhance the investment opportunity and save the transaction cost.

Administrative efficiency such as administrative examination and approval system and work efficiency of the local government. For example, high quality and efficiency of the government is an important factor for Kunshan City's success by proposed "be honest to the investor", "standardizing and sincere service".etc.

Supporting policies as necessary service, financing channel and tax policy can greatly improved the comprehensive competitiveness for absorb the investment.

Train of thought for attracting investment is another factor. In the economic and trade conference which took by Jiangxi and Taiwan in 2006 had signed more than 0.9 billion US dollars, and half of them are involved in industry subjects.

Economic development strategy is also important. The city orientation for Xiamen is "bay city for living" and squint towards develop the tertiary industry, those corporations which concentrated in manufacturing industry have to move out to meet the needs of the city's orientation.

### **3.3 Development Level of Productivity**

Development level of productivity is the main mark of production technology level and also the direct motivity for the evolution of production distribution. The traditional elements for productivity are production tool, production technology, labor method and quality of employees. In the interior of productivity system, the interaction among elements would inevitable reflection on regional economic layout. Areas as Shanghai, Guangdong, Beijing, Jiangsu, Zhejiang, Shandong and Liaoning have a high speed on economic growth. Doubtlessly, Taiwan businessmen like to invest in those areas. According to the grads process theory, every country or area is located in certain economic development grads process, capital and technical often transferred from high gradient to low gradient, So that, the developed areas have more opportunities to accept new industry and technology and have more attraction to attracting investment. But along with the developed areas can't afford various production factors for enormous investment, new investment will flowing to the low gradient areas. This can be seeing from the changing of Taiwan traders' investment from first to the second stage.

### **3.4. Bunching Effects from the Linkage of the Industry Chain**

Clustering of industry and the integrality & innovation of matching industry has been another main ingredient for Taiwan traders' investment in Mainland. The industry model invested by Taiwan traders showed that bunching effect of industry, complete industry value chain and rapid supply chain are concerned more by Taiwan businessmen. According to the research report of Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) in 2006, in the future, Taiwan traders' investment in Mainland will not only pay attention to the huge city but industry zone with perfect function.

### **3.5 Driving Force from the Industry Chain**

In the value chain of Taiwan and Mainland, Mainland is in lower link for a long period, but the cost of labor in the big central cities is higher than the area around. So the center of investment of Taiwan businessmen would transfer to area which have lower labor cost. The investment transferred from Taiwan to Fujian is a good example.

Since 1990s, the investment transformed gradually from labor-intensive industry to science & technology-intensive, service-oriented, domestic sales type. The industry transferred to two terminal of the value chain, that's to say, they transferred the links of production, processing and assembling, and also did the research and development and marketing in Chinese mainland at the same time. They pay more and more attention to the infrastructure, market hinterland, scientific and technological fundamentals, human resources and matching of industry instead of tax preference and the cheap labor force.

## **4 Conclusions**

The investment of Taiwan businessmen in Chinese Mainland has experienced the labor-intensive industrial period, Fujian and Guangdong was the regional center from 1978 to 1993. And from 1993 to 2002, which marked by coastal provinces such as Fujian, Guangdong, Jiangsu Shanghai and Zhejiang are the regional center, the main form was capital-intensive industrial. After 2003, whole East-China became the regional center, and technical-intensive industrial was the main form. In this long history, hard environments such as Geography and location, soft environment such as Policies, development level of productivity, bunching effects from the linkage of the Industry Chain and the driving force from the industry chain played a great role.

With the rapid rise of West-strait economic zone, the full realization of direct links of mail, air, and trade across the Taiwan Straits, concept formation of straits economic zone and global economic crisis, introduction the investment from Taiwan meet an opportunity and unprecedented challenge. We should seriously and objectively analysis the facing situation, seize the opportunity of industrial adjustment and resources integration, improve service quality, keep the stability of laws and policies, and strengthen the construction of infrastructure such as water conservancy, traffic, electric power, and communication and provide more perfecting conditions to Taiwan businessmen's projects.

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