



Key Innovative Industries in Taiwan

Service Industry



Information Security

Next-Generation Vehicle

Communications Industry

Internet of Things

Semiconductor Industry

Biopharmacy Industry

Smart Machinery

Circular Economy

Green Energy

Service Industry

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Policy Initiatives

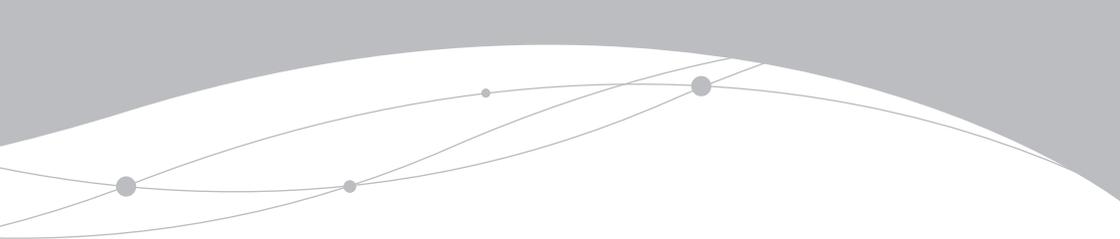
1 | Promotion Plan for Strengthening Investment in Strategic Service Industries

The government of Taiwan launched the "Promotion Plan for Strengthening Investment in Strategic Service Industries" to increase job opportunities in the service industry in Taiwan, and to assist companies in the service industry to achieve internationalization and technological development. The ultimate aim is to expand exports and increase output value.

The National Development Fund (NDF) of the Executive Yuan allocated a budget of NT\$10 billion for investment with its partner, a professional investment management company, to execute the Plan. The main investees include the information service industry, Chinese-language e-commerce, digital content, cloud computing, the convention and exhibition industry, smart retail, gourmet food internationalization, international logistics, healthcare, health promotion, design services, chain and franchise businesses, tourism and travel, energy service companies, and other "strategic service industries" identified by the program.



Figure 1 Contents of Taiwan's Promotion Plan for Strengthening Investment in Strategic Service Industries



In addition to providing investment matchmaking services, the "Promotion Plan for Strengthening Investment in Strategic Service Industries" also provides information on strategic cooperation, technologies, and business opportunities for companies. In addition, it provides customized and in-depth fundraising advisory services and refers companies to other advisory services or programs based on requirements to help companies increase investment performance and reduce investment barriers. The Plan has successfully provided assistance to dozens of companies including Kdan Mobile Software (which specializes in digital services), Realbone Technology (which specializes in biotechnology services), Kuobrothers (which specializes in e-commerce), and Coretech System (which specializes in IT services).

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2

Promotion Plan for Smart Commercial Services in the Asian Silicon Valley Project

The MOEA's Department of Commerce launched the "Promotion Plan for Smart Commercial Services in the Asian Silicon Valley Project" in 2017 to independently develop or work with technology companies on services and application solutions for "smart operations" and "digital experience." It supports companies' development of "innovative business models" and provides subsidies for companies to introduce digital tools that optimize the consumer experience, upgrade the service industry, and develop new types of services focused on "personalization, intelligence, and convenience."

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3

Digital Nation & Innovative Economic Development Program (DIGI+)

The government launched the "Digital Nation & Innovative Economic Development Program (2017-2025)" (DIGI+) with the aim of creating a high-quality innovative economic ecosystem for building a digital nation. The program seeks to build a solid foundation for the development of innovative industries such as: ICT; telecommunications and media value-added services; information services; general consumer services; digital content; cultural, creative, and digital media; e-commerce; smart retail; digital lifestyle applications; financial services; and supply chain management. The purpose is to promote industrial innovation, increase the growth of high value-added industries, and build a "smart nation" through smart technologies.

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Overview of Industrial Development

1 | Output Value |

According to statistics compiled by DGBAS (Table 1), the gross domestic product (GDP) created by the service industry in Taiwan in 2019 was approximately NT\$11.73 trillion, which accounted for 62.42% of GDP, contributing 1.7% to economic growth. The output value of the wholesale and retail industry was the highest with NT\$2.88 trillion, accounting for 15.37% of GDP. As for employment and population, the number of people employed in the service industry accounted for 57.40% of the overall employed population in 2019. The wholesale and retail industry had the highest number of employees with 1.705 million, accounting for 21.40% of the overall employed population. It is evident that in terms of both industry and the employed population, the service industry plays a significant role in the economic development of Taiwan.

Table 1 Service sector's share of GDP and contribution to economic growth in Taiwan

Unit: Million NTD; %, (percentage points)

Year	Main Service Industry Categories									Overall services sector industry			
	Wholesale and retail trade		Transportation and warehousing		Finance and insurance		Public administration and social security		GDP amount	Percentage of GDP	Substantive growth	Contribution to economic growth	
	GDP amount	Percentage of GDP	GDP amount	Percentage of GDP	GDP amount	Percentage of GDP	GDP amount	Percentage of GDP					
2010	2,368,397	16.89	433,454	3.09	867,976	6.19	1,022,934	7.29	9,115,939	65.00	6.35	4.24	
2011	2,443,843	17.14	405,824	2.85	909,011	6.37	1,040,552	7.30	9,362,353	65.64	3.16	2.06	
2012	2,450,734	16.85	423,104	2.91	931,028	6.40	1,060,887	7.29	9,548,170	65.64	1.28	0.84	
2013	2,560,534	16.78	429,057	2.81	970,475	6.36	1,044,892	6.85	9,851,750	64.54	2.21	1.47	
2014	2,606,050	15.95	468,163	2.86	1,054,084	6.45	1,046,496	6.40	10,226,496	62.57	3.15	2.02	
2015	2,664,745	15.65	516,593	3.03	1,099,345	6.46	1,039,481	6.11	10,546,107	61.95	1.23	0.76	
2016	2,678,007	15.25	511,241	2.91	1,124,827	6.41	1,050,448	5.98	10,755,653	61.27	1.33	0.82	
2017	2,781,031	15.40	546,338	3.03	1,178,408	6.53	1,052,851	5.83	11,076,085	61.35	2.90	1.77	
2018	2,867,410	15.52	547,564	2.96	1,229,002	6.65	1,075,029	5.82	11,428,173	61.86	2.90	1.78	
2019(r)	2,888,839	15.37	570,816	3.04	1,278,934	6.80	1,099,465	5.85	11,734,928	62.42	2.79	1.73	

2 | Main Service Industry Categories |

According to statistics on the number of service industry companies in Taiwan and their revenue compiled by the Ministry of Finance (Table 2), Taiwan had approximately 1,171,954 service companies in 2019, which was an increase of 25,003 companies from 2018. Their revenue was NT\$23.83 trillion in 2018 and NT\$24.38 trillion in 2019. Taiwan's main service industry categories were "wholesale and retail trade," "transportation and warehousing," "finance and insurance," "real estate," and "publishing, video or audio production, communication, and ICT service industries" in both 2018 and 2019, with the revenue exceeding NT\$1 trillion for each category.

Table 2 Number of service industry companies in Taiwan and their revenue

Unit: company; thousand NTD

Service Industry Category	2018		2019	
	Number of Companies	Total Revenue	Number of Companies	Total Revenue
Wholesale and retail trade	672,736	15,132,460,563	678,410	15,248,561,414
Transportation and warehousing	32,555	1,282,033,535	33,216	1,285,736,589
Accommodation and food	152,200	694,217,386	157,098	731,836,617
Publishing, video or audio production, communication, and ICT service industries	21,271	1,232,398,172	22,653	1,284,148,472
Finance and insurance	34,333	2,503,332,278	36,088	2,596,533,438
Real estate	36,726	1,253,256,993	39,028	1,448,664,031
Professional, scientific and technical services	48,331	779,310,047	50,758	788,896,039
Support Services	30,536	543,607,569	31,366	558,918,430
Education	3,581	20,333,059	4,187	22,170,505
Human health and social work services	1,060	31,518,601	1,216	34,324,859
Arts, entertainment and recreation services	30,569	105,235,133	32,994	115,500,588
Other services	83,041	246,590,055	84,940	261,786,567
Total	1,146,951	23,827,564,876	1,171,954	24,377,077,549

Source: Number of profit-seeking enterprises and their revenue from the database of the Ministry of Finance.



Potential Investment and Collaboration Opportunities in Taiwan

1

Expand Market Opportunities in Taiwan as the Stepping Stone to other Asian Markets

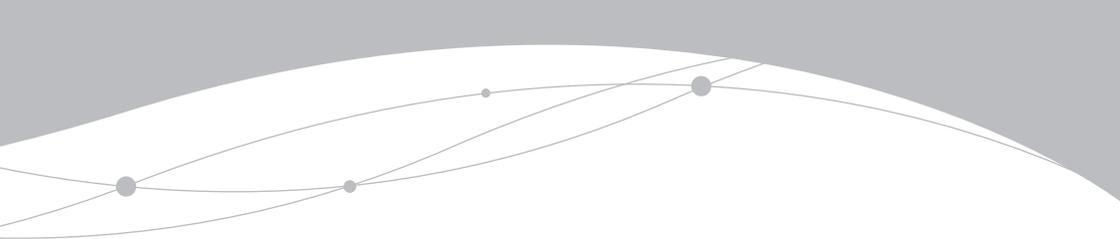
Taiwan benefited from an increase in the minimum wage, stable fundamentals on the Taiwan Stock Exchange, and investments of returning Taiwanese businesses in recent years which powered the domestic consumer market and overall consumption and attracted the attention of foreign service industries. Taiwan has many advantages that promise to spur further development of its service industry, such as highly convenient lifestyles, a readily available supply of high-quality services, and a diverse culinary culture that features a high degree of fusion with other Asian countries. These features make Taiwan an important investment destination for many international service industries. For instance, Japanese service companies recognize the business opportunities in Taiwan's internal consumer market and use Japan's brand resources and technologies to work with Taiwanese management professionals. They also integrate the retail and logistics systems to continue to expand the scale of investments by Japanese real estate and dining chains in Taiwan. Service companies in foreign countries can invest in Taiwan, adjust and innovate their business models, and use Taiwan as a stepping stone to other Asian markets.

2

Tap into Strong ICT Industry Capacity, a Highly Developed Internet, and Other Infrastructure Advantages to Develop Emerging Service Industries

Taiwan may be a small market, but it has already established industry clusters for semiconductors, ICT, and machinery production. It also enjoys many development advantages, including the government's policy support, comprehensive network infrastructure, and abundant R&D capacity. As emerging service companies mostly focus on ICT and Internet applications, multinational service providers can work with related companies here and use Taiwan as a testing ground for the development of e-commerce, new retail, FinTech, value-added data applications, electronic payment (including mobile payment) solutions, cultural and creative businesses, health care, digital entertainment, and other new forms of services to jointly pursue market opportunities in the global market for emerging services.





3

Leverage Taiwan's Advantages in Industrial Technologies to Jointly Pursue Market Opportunities in the Stay-at-Home Economy

With the COVID-19 epidemic spreading across the world, the stay-at-home economy has expanded rapidly as people maintain social distancing to prevent the spread of the disease. Due to the epidemic, remote work by video conference, online shopping, channel service logistics, telecare, and home entertainment such as video-audio content and video games have become important parts of most people's lives. Even if the epidemic gradually draws to a close in the future, people are expected to have grown accustomed to the current consumption and lifestyle and the stay-at-home economy will continue to expand. Prompted by the epidemic, e-commerce operators in Taiwan have focused on "zero contact" and maintained continuous growth. The delivery service platforms continue to expand the scope of services and partner industries, and the future of software service providers also appears bright as demand for information security continues to increase. The stay-at-home economy is expected to continue to grow and Taiwan's advantages in high market acceptability, high-quality Internet environment, smart logistics and warehousing, and active commitment to R&D will help foreign companies in market development and trials.

4

Global Logistics or Distribution Center for Multinational Corporations

Global logistics management has become an important mode of operations for international businesses. Taiwan's position as an Asia Pacific hub, the government's active promotion of free trade port policies in recent years, and the escalation of trade disputes between the United States and China have attracted numerous Taiwanese businesses to return to Taiwan for investment and increased the willingness of foreign companies to set up global logistics or distribution centers in Taiwan. Foreign companies that only operate procurement, import, storage, or transportation services in free trade port areas are exempted from the profit-seeking enterprise income tax for both domestic sales or exports. They can also make use of the taxation agreements signed by Taiwan with other countries for outsourced processing, testing, and other business models without any need to worry about double taxation issues.

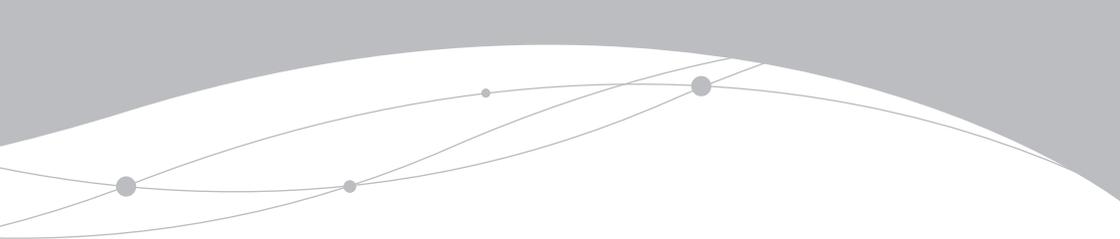
Investment Incentive Measures

1 | Tax incentives |

Taiwan's profit-seeking enterprise income tax rate is 20%. To encourage foreign companies to invest in Taiwan, support industrial innovation, and promote industry-academia collaboration, foreign companies are eligible for the following preferential taxes (Table 3):

Table 3 Preferential taxes

Item	Incentives
R&D and introduction of technology or mechanical equipment	<ul style="list-style-type: none">• Up to 15% of the company's R&D expenditures may be deducted from its profit-seeking enterprise income tax for current year.• Royalty payments to foreign companies for imported new production technologies or products that use patents, copyrights, or other special rights owned by foreign companies is, with the approval of the Industrial Development Bureau, MOEA, exempt from the corporate income tax.
Technology investment / Stock-based employee compensation	<ul style="list-style-type: none">• The worth of shares acquired through technology investment/stock-based employee compensation can be excluded from the taxable income for that year (up to NT\$5 million). In addition, those that meet related criteria are eligible for reduced taxes based on "acquisition price" or "transfer price," whichever is lower.



Item	Incentives
Investment in smart machinery / 5G	<ul style="list-style-type: none"> ● Smart machinery: Automatically scheduled, flexible, or mixed-model production lines that utilize big data, AI, and IoT. ● 5G: Related investment projects include 5G communication systems, and new hardware, software, technology, or technical services. ● For investments of no less than NT\$1 million and no more than NT\$1 billion, either "5% of investment spending deducted from profit-seeking enterprise income tax (current FY)" or "3% of investment spending deducted from profit-seeking enterprise income tax, if total spending spread over three years" may be selected, but the total amount deducted may not exceed 30% of corporate income tax that year. ● The applicable periods are January 1, 2019 through December 31, 2021 (smart machinery) and January 1, 2019 through December 31, 2022 (5G).
Foreign Special Professionals	<ul style="list-style-type: none"> ● Foreign special professionals who meet criteria are eligible for a 50% deduction of total income tax for amounts exceeding NT\$3 million.
Setting up operations in industry parks	<ul style="list-style-type: none"> ● Companies that set up operations in export processing zones, science industrial parks, or free trade ports are eligible for exemptions on import duties, commodity tax, and business tax for the import of machinery and equipment, ingredients, fuel, materials, and semi-finished products for their own use.
Others	<ul style="list-style-type: none"> ● Companies that use undistributed earnings to engage in substantive investments may exclude the amount when calculating their profit-seeking enterprise income tax.

2 | Subsidies |

"Service Industry Innovation Research (SIIR)" subsidies for innovation and R&D in the service industry : The MOEA launched the "Service Industry Innovation Research" project to help the service industry implement innovation. The project is divided into two categories including "innovative operations" and "service ecosystems." Innovative operations are divided into "preliminary innovation" and "transformational innovation." "Preliminary innovation" refers to companies that invest in innovation and R&D to enhance competitiveness in operations for which a maximum of NT\$2 million is provided for each case each year. "Transformational innovation" projects encourage operators that had received subsidies to conduct innovation and R&D to strengthen their brand, diversify, and expand markets, with a maximum of NT\$2.5 million provided for each case each year. For "service ecosystems" projects, a maximum of NT\$10 million is provided for applications filed by two or more companies. The items include:

1. New service products:

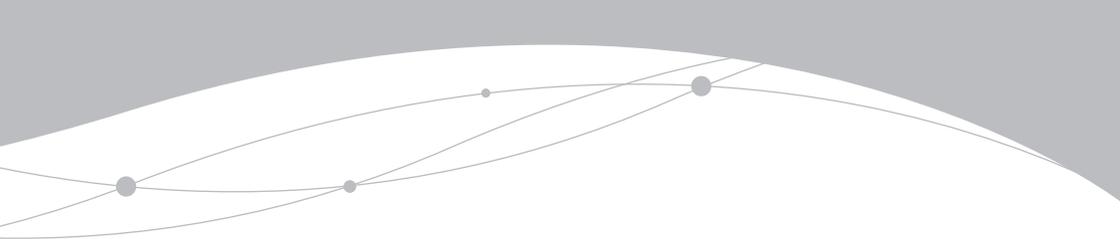
This refers to new service products or improvements for existing service content, elements, standards, specifications, and combinations. Examples include strengthening of service content on websites, or supply of education or license examination services to keep up with changing times and markets.

2. New operating models:

This refers to the establishment of new service operation methods, business systems, operating procedures, and management systems. Examples include convenience stores that launch fresh-baked bread and follow up with hot meals to satisfy consumers' new demands.

3. New commercial application technologies:

This refers to the application of new technologies to information, communication, systems, and equipment in the service industry. Examples include the use of back-end databases of online platforms that help users find mutual friends online and quickly develop a vast community network with which to engage in marketing activities to enhance user adhesiveness and develop a new operation model.



In addition, the service ecosystem includes different industries and its composition may include competitors, partners, complementary enterprises, and related product/technology/service providers. The service ecosystem should include the products or services of the main core members, and integrate other members to establish a business model on a certain digital or physical platform for building a business model to generate profits. The ecosystem will then use the profits to innovate, invest, or produce more services to form symbiotic, profitable, and evolving relations.

Successful Examples of Foreign Companies

1 | Logistics and Transportation Services |

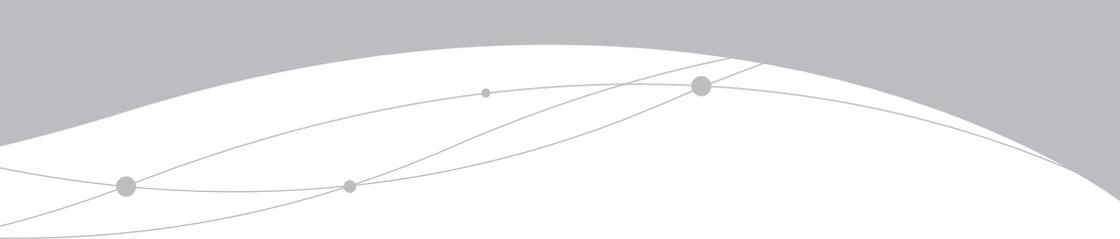
The American company UPS expanded its investments in Taiwan in view of Taiwan's potential as a regional warehouse and logistics hub. Its logistics center, built with an investment of NT\$45 million, will be used with the Group's smart logistics network to strengthen the links and competitiveness of the Company's supply chain. The German company DHL invested NT\$80 million in the establishment of a brand-new service center in Taoyuan to connect Taiwan to more than 220 countries and regions across the world. Yahoo's parent company Verizon Media recognized the potential of e-commerce in Taiwan and invested NT\$100 million for the establishment of a brand-new logistics center in northern Taiwan to use innovative technologies to provide buyers with a high-quality online shopping environment. It introduced AI high-density dynamic storage and picking decision-making technologies and uses automation in 80% of its procedures. It is currently the largest intelligent automated shuttle-powered warehousing logistics center in Taiwan.

2 | Wholesale and Retail Services |

The French hypermarket chain Carrefour in recent years has increased capital and continued to expand the new store type "Carrefour Market" across Taiwan. After the 13th store of the French sporting goods vendor Decathlon opened in Hsinchu, Decathlon announced that it will invest NT\$80 million for the construction of its first flagship store in Southern Taiwan in Kaohsiung, which is expected to begin operations at the end of 2020. American company Costco will continue to expand outlets in Taiwan, and a 14th branch store will be opened in Taichung. Swedish company IKEA launched the Group's largest investment project in Taiwan in the Taoyuan "Qingpu Store" which occupies an area of 1.38 hectares and was built at a cost of NT\$6 billion. It is expected to open on July 23, 2020. In addition, Japanese real estate developer Mitsui Group has constructed or will soon develop outlets in five areas including Linkou in New Taipei City, Taichung Port Special Zone, Nangang in Taipei, Tainan High Speed Rail Special Zone, and the East District in Taichung. It will also continue to expand commercial outlets, hotels, residential buildings, and commercial and residential complex development projects in Taiwan.

3 | Dining |

Several chain groups from Japan, Korea, and Singapore have made their way to Taiwan in recent years. The Japanese fast food chain "Matsuya," which specializes in gyudon ("beef & rice" bowls), opened its first store in Taiwan in 2018 and a second store in July 2019. It plans to expand the number of its stores in Taiwan to 9 in the next three years. The largest conveyor belt sushi chain SUSHIRO has continued to expand its investments in Taiwan since the establishment of its first store in Taiwan in 2018. It has opened 18 stores across Taiwan. "HOSHINO COFFEE" is exceedingly popular in Japan, where it has opened more than 230 stores. It opened its first store in Taipei in 2019. Chains such as "Song Fa Bak Kut Teh" and "Beauty in the Pot," both highly recommended by Bibendum "MICHELIN Guide Singapore", and the "bb.q CHICKEN flagship restaurant" from Korea have opened stores in Taiwan. These developments show how Asian countries view the potential for the development of the dining market in Taiwan.



4 | E-Commerce |

The Korean company Line announced its collaboration with 11 startup companies in Taiwan and ventured into e-commerce, car leasing, and a ride service platform. It hopes to invest in startup industries in Taiwan, take what it learns in the process, and use the resources of the LINE Group to jointly promote startup enterprises in Taiwan on the global market. Its primary targets are digital lifestyle services in Southeast Asian markets such as Thailand. Rakuten, the largest e-commerce platform in Japan, also continued to increase its investments in Taiwan. It has integrated e-commerce operations, general entertainment, and FinTech applications, and has accumulated more than 6.5 million members and 560 thousand credit card users in Taiwan. The Rakuten Internet-only bank will begin operations in Taiwan as early as the second half of 2020.

American company Amazon Global Selling, having recognized Taiwan's advantages in low costs, good products, and convenient logistics services, continues to implement its three major strategies of helping brands transform, assisting the transformation of foreign trade, and building service networks. It helps Taiwanese sellers reach Amazon users and millions of corporate and institutional buyers across the world to embrace the business opportunities in global cross-border e-commerce.



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