



TAIWAN

International Logistics and E-commerce

Key Innovative Industries in Taiwan

Information Security

Next-Generation Vehicle

Communications Industry

Circular Economy

Green Energy

Biopharmacy Industry

Smart Machinery

Semiconductor Industry

Internet of Things

International Logistics and E-commerce



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Policy Initiatives

1 | Free Trade Zones |

Taiwan actively promotes free trade and internationalization, and supports companies in developing global operation and management models. It has set up "free trade zones" at six seaports and one airport (Figure 1). Companies setting up operations in the free trade zones may engage in a diverse range of businesses such as trade, warehousing, logistics, container (cargo) terminal operations, transshipment, transit, freight forwarding, customs clearance services, assembly, sorting, packaging, repair, fabrication, processing, manufacturing, inspection, testing, display, and technical services.

Free trade zones are subject to minimal regulation and granted a high degree of autonomy to allow for convenient movement of goods and people. Specific measures include no inspections or clearance required for foreign goods entering a free trade zone, or goods shipped from a free trade zone to foreign countries or transferred to other free trade zones. A monthly reporting system is adopted for the flow of goods between the domestic taxed areas and bonded areas. Also, convenient entry measures are provided for foreign business travelers.

In terms of tax incentives, the customs duties, commodity taxes, business taxes, trade promotion service fees, and port dues are exempted for goods, machinery, and equipment imported into a free trade zone from foreign countries. A zero tax rate for business tax applies to goods, machinery, equipment, or labor that are sold in domestic taxed areas or bonded areas zone, or are used for operations in free trade zones. In addition, profit-seeking enterprises which engage only in preparatory or auxiliary business activities within the territory of Taiwan and have applied for and obtained qualifications are exempted from paying the profit-seeking enterprise income tax for both domestic sales and exports of their products.



Figure 1 Locations of Taiwan's Free Trade Zones

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Establish a **high-quality investment environment** × **Facilitate investments for industries**
 → Accelerate overall development of the service sector

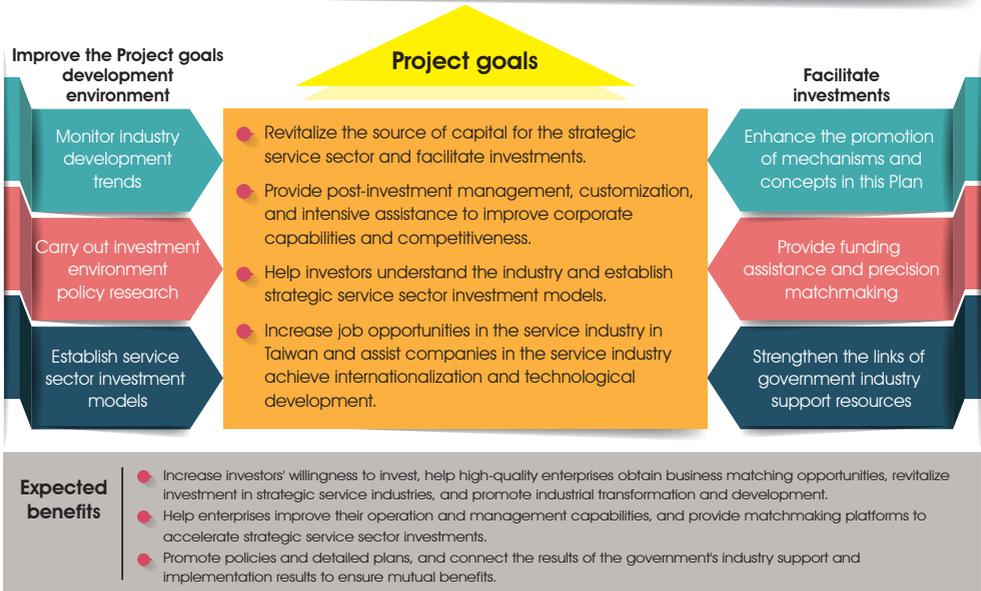


Figure 2 Contents of Taiwan's Promotion Plan for Strengthening Investment in Strategic Service Industries

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Overview of Industrial Development

1 | Output Value |

As most logistics companies operate both domestic and international logistics, the overall revenue of the logistics industry is used to illustrate the changes in output value. According to the statistics compiled by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan (Table 1), the revenue of Taiwan's logistics industry has increased each year from NT\$951.5 billion in 2015 to NT\$1.02 trillion in 2019. The number of companies also increased by 562 to 14,655 in 2019 compared to 2015.

Table 1 Number of Profit-seeking Enterprises in the Logistics Industry, and Their Revenue

		2015	2016	2017	2018	2019
Revenue	Total (NT\$100 million)	9,515	9,231	9,864	10,310	10,226
	Annual growth rate (%)	0.25	-2.98	6.86	4.52	-0.81
Number of companies	Total (number of companies)	14,093	14,195	14,352	14,531	14,655
	Annual growth rate (%)	0.88	0.72	1.11	1.25	0.85

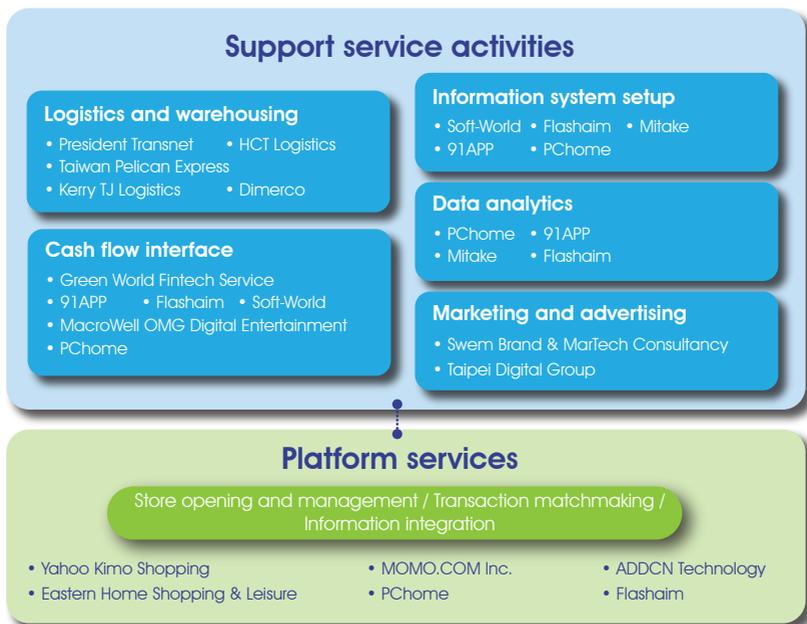
Source: 2020-2021 Commercial Service Yearbook.

In terms of e-commerce, the data published by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan in December 2020 showed that the revenue from online sales of the industrial and service sectors in Taiwan in 2019 totaled NT\$4.34 trillion. If we separate the revenue by business models, transactions between businesses (B2B) via the Internet in 2019 amounted to approximately NT\$3.61 trillion, with the manufacturing sector accounting for the largest share of sales — over 60% of the total. Online sales to individuals or households (B2C) amounted to NT\$721.9 billion. Wholesale and retail sales in the service sector had the largest share with NT\$391.7 billion, followed by transportation and storage with NT\$114.7 billion.



2 | Overview of the Industry Value Chain |

The logistics industry includes transportation, warehousing, cargo handling, packaging, distribution, processing, information, and other fields. Cross-border distribution form the core of the development of global trade and the development of international logistics includes ocean freight and air freight, cargo hubs, customs clearance services, and container transport. The e-commerce industry value chain can be roughly divided into three sectors including support service activities and platform services. The services included in individual sectors and the main domestic operators are shown in Figure 3.



Source: Compiled from summary of related data.

Figure 3 Overview of Taiwan's E-commerce Industry Value Chain

3 | Geographic Distribution of Industry |

Taiwan's logistics and e-commerce industries are located throughout the island (Figure 4). Taoyuan City has the advantage of an international airport and is a major hub for Taiwan's e-commerce and international logistics industries. More than 2,000 logistics, e-commerce, cross-border e-commerce, and smart system service providers are located in neighboring areas, and they generate an annual output value of approximately NT\$180 billion. As industries and related technologies have developed, operators have gradually adopted satellite warehouses and set up small warehouse and logistics sites near major metropolitan areas to provide better services.



Figure 4 Distribution of International Logistics and E-commerce Industries in Taiwan



Potential Investment and Collaboration Opportunities in Taiwan

1

Expand Market Opportunities in Taiwan as the Stepping Stone for Entering the Asian Market

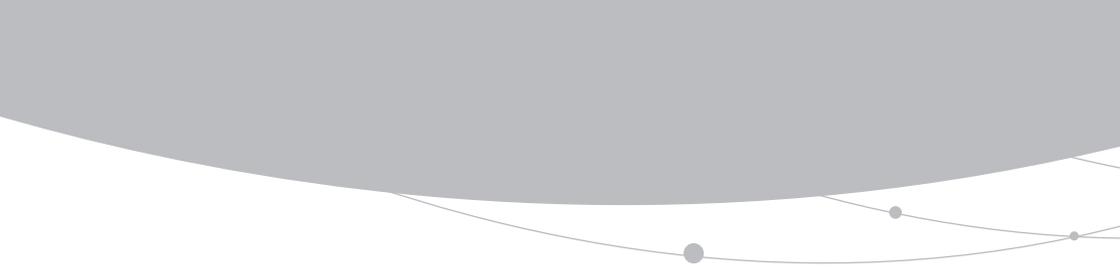
Taiwan's highly convenient lifestyle, a readily available supply of high-quality services, and a diverse culinary culture that features a high degree of fusion with other Asian countries make Taiwan an important investment destination for many international service industries. The COVID-19 epidemic has accelerated the rapid growth of global e-commerce and international logistics, and related industries in Taiwan have prospered. For instance, Japanese service companies recognize the business opportunities in Taiwan's domestic consumer market and use Japan's brand resources and technologies to work with Taiwanese management talents. They also use digital transformation and integrate the retail and logistics systems to continue to expand the scale of investments by Japanese logistics companies in Taiwan or promote cross-sector cooperation projects. International e-commerce and logistics companies are advised to invest in Taiwan, adjust and innovate their business models based on the unique characteristics of the industry and market, and use Taiwan as a stepping stone for entering 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 have a small market but it has already established industry clusters for semiconductors, ICT, and machinery production. It also enjoys 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 e-commerce and logistics service providers can work with related industries in Taiwan. In addition to making use of Taiwan's ICT technologies and smart group operations, they can also use Taiwan as testing grounds for the development of e-commerce, new retail, FinTech, value-added data applications, electronic payment (including mobile payment) solutions, and other new forms of services to jointly pursue business opportunities in the global logistics and cross-border e-commerce markets.



3

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

The stay-at-home economy has expanded rapidly with the spread of the COVID-19 epidemic across the world. Fueled by the spread of epidemic, e-commerce operators focused on "zero contact" and maintained continuous growth. The delivery service platforms continue to expand the scope of services and partner industries. 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 grow and expand. In addition, 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 of new business models in Taiwan.

4

Global Logistics or Distribution Center for Multinational Corporation

Global logistics management has become an important mode of operations for international businesses. Taiwan's position as an Asia-Pacific hub, long-term support of free trade zone policies, the escalation of trade disputes between the United States and China, and the COVID-19 epidemic have caused 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 zones 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 concerns about double taxation issues.

Investment Incentive Measures

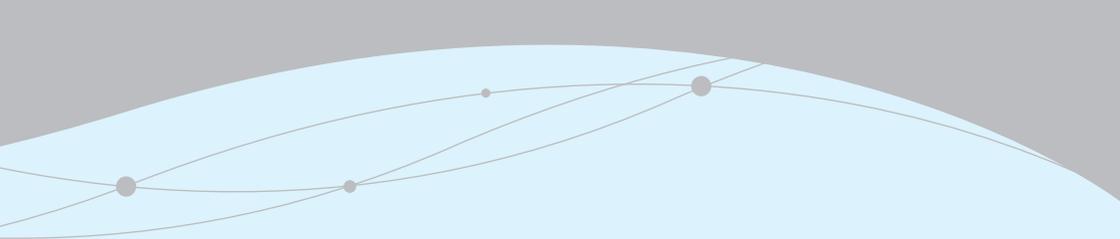
1 | Tax Incentives |

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 2):

Table 2 Preferential Taxes

Item	Preferential tax(es)
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; or up to 10% of such expenditures may be credited over three years against the profit-seeking enterprise income tax payable by the company.• 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.• Imported machinery which local manufacturers cannot produce are eligible for duty-free treatment.

Item	Preferential tax(es)
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).
Employee stock compensation	<ul style="list-style-type: none"> • A company employee who has obtained stock compensation worth a combined total of less than NT\$5 million and continuously held the stock while remaining in the company's employ for at least two years may choose to be taxed on the market price of the stock at either the time the stock was obtained or the time the stock is sold, whichever is lower.
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" program to help the service industry innovate. It encourages commercial service firms to propose innovative R&D projects based on the theme of the year. The concept of a proposal must exceed current standards in the industry and have a certain level of market feasibility. The three categories of subsidies open for application include "preliminary innovation," "transformational innovation" and "service ecosystem":

1. "Preliminary innovation" refers to companies that invest in innovation and R&D to enhance competitiveness in operations. The maximum subsidy for a preliminary innovation project is NT\$1.5 million per project per year.
2. "Transformational innovation" projects encourage operators that have received subsidies to conduct innovation and R&D to strengthen their brand, diversify, and expand markets. The maximum subsidy for a transformational innovation project is NT\$3 million per project per year.
3. For "service ecosystems" projects, a maximum of NT\$10 million is provided for applications filed by two or more companies for joint creation of a business model to generate profits and achieve shared benefits.

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 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.

Leading Taiwanese Companies

1 | Logistics and Transportation |

1. WPG Holdings

WPG Holdings is the No.1 global semiconductor distributor and the largest electronics distributor in the Asia-Pacific region. It is a franchise partner that operates through four semiconductor components distributors (WPIg, SACg, AITg, and YOSUNg), more than 250 worldwide suppliers, and about 100 sales offices. WPG Holdings has identified business opportunities for digital transformation in the post-pandemic world in sectors such as ICT, expansion of 5G base stations, the Internet of Things (IoT), automotive electronics, and smart manufacturing, and announced that the group will continue to enhance digital platform, smart warehousing and storage, and smart business logistics services to make full use of related business opportunities in the global market.

2. Dimerco Express Group

Dimerco helps import/export companies with customs clearance services and warehouse management of import/export goods. It is the largest air freight forwarder in Taiwan. Due to the impact of the pandemic on global logistics and supply chains, Dimerco is leveraging its Business Intelligence Technology (BIT) and more than 160 service locations worldwide to provide real-time and diverse solutions to customers, and continues to win orders from around the world for the shipping of both industrial items and epidemic prevention supplies.



2 | E-commerce Services |

1. MOMO.COM Inc.

MOMO.COM Inc. was founded in 2004 and has actively invested in e-commerce, big data, and smart logistics. It is currently the leading online retailer in Taiwan, and operates Momo Shopping, Momo Mall, TV shopping, and catalog shopping services. It has expanded its businesses to China and the ASEAN market.

2. PChome

PChome was founded in 1996 and began B2C e-commerce operations in June 2000 with the creation of "PChome Online Shopping." To expand the scope of e-commerce services and help small and medium enterprises in Taiwan expand e-commerce services, it established the "PChome Mall" in October 2005 and entered into a joint venture with the American company eBay to create "Ruten Auction" in June 2006. PChome has expanded its e-commerce activities to the American and Thai markets and actively engages businesses in ICT, financial services, and real estate in cross-industry collaboration.

Examples of Successes Achieved by Foreign Companies

1 | Logistics and Transportation Services |

The German company DHL invested NT\$80 million in the establishment of a service center in Taoyuan in 2019 in view of Taiwan's potential as a regional warehouse and logistics hub. The service center will be used to strengthen the connection between its operations in Taiwan and the supply chains of the Group in more than 220 countries/regions. The American company UPS expanded its investments in Taiwan with a NT\$45 million logistics center which was inaugurated in February 2020. The logistics center will boost the Group's smart logistics network and strengthen the links and competitiveness of customers and the Company's supply chain.



2 | E-commerce Services |

Japan's largest e-commerce platform, Rakuten Group, established Taiwan Rakuten Ichiba, Inc. in Taiwan in 2008 to target the shopping website market in Taiwan. This represented Rakuten's first step in its expansion into overseas markets. Due to the impact of the pandemic, many brick-and-mortar stores have sought to shift their operations to e-commerce. Taiwan Rakuten formed the "E-commerce Advisory Team" to provide online instructions and other resources to help businesses make the digital transition.

In view of the potential for e-commerce development in Taiwan, SGH Global Japan of SGHoldings Group and the e-commerce operator PChome signed a Memorandum of Understanding in February 2021 to jointly launch one-stop cross-border e-commerce services. Japanese company ITOCHU Corporation announced in March of this year a significant increase of its equity stake in Taiwan Pelican Express from 7% to 19% to expand the scale of e-commerce operations in Taiwan. It also invested in the deferred payment service "Paidy" and established Tri-Link Asia Inc. If these businesses perform well in delivery, logistics, and sales of goods in the future, the company may increase its equity stake again.





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