



Key Innovative Industries in Taiwan

International Logistics and E-Commerce



Information
Security

New Generation
Automobiles

Communications
Industry

Circular Economy

Green Energy

Biopharmacy

Smart Machinery

Semiconductors

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 to develop global operation and management models. Free Trade Zones have been set up 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.

Goods, machinery, and equipment imported into a free trade zone are exempted from customs duties, commodity taxes, business taxes, trade promotion service fees, and port dues. Business tax for 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, are zero-rated. In addition, profit-seeking enterprises which engage only in preparatory or auxiliary business activities within the territory of Taiwan and have 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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2

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 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 fund is expected to go to the information service industry, Chinese-language e-commerce, digital content, cloud computing, the convention and exhibition industry, gourmet food internationalization, international logistics, healthcare, design services, chain and franchise businesses, tourism and travel, energy service companies, and other strategic service industries identified by the implementation unit of program.

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 more than 70 companies, including Kdan Mobile Software (digital contents), Realbone Technology (biotechnology services), Kuobrothers (e-commerce), and CoreTech System (IT services).

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

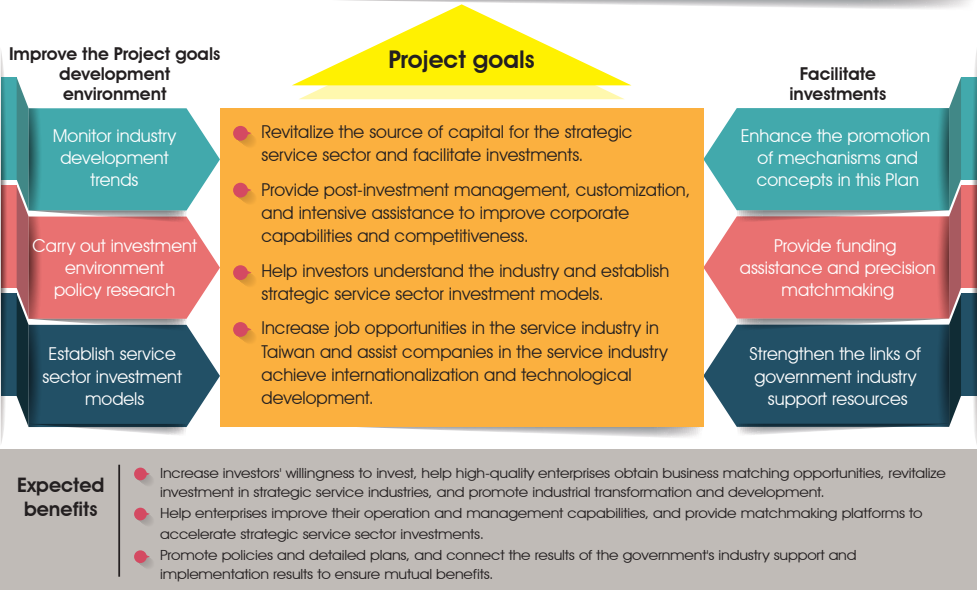


Figure 2 Contents of Taiwan's Promotion Plan for Strengthening Investment in Strategic Service Industries

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Overview of Industrial Development

1 | Output Value |

As most logistics companies operate both domestically and internationally, the overall revenue of the logistics industry is used to illustrate changes in output value. According to statistics compiled by the Ministry of Finance (Table 1), the revenue of Taiwan's logistics industry has increased each year from NT\$951.5 billion in 2016 to NT\$1.02 trillion in 2019. However, due to the pandemic in 2020, mainland China and Western countries implemented lockdowns and social distancing measures, which affected production and economic growth, and thus reduced the demand

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

		2016	2017	2018	2019	2020
Revenue	Total (NT\$100 million)	9,231	9,864	10,310	10,226	9,517
	Annual growth rate (%)	-2.98	6.86	4.52	-0.81	-6.93
Number of companies	Total (number of companies)	14,195	14,352	14,531	14,655	14,895
	Annual growth rate (%)	0.72	1.11	1.25	0.85	1.64

Source: 2021 Commercial Service Yearbook.

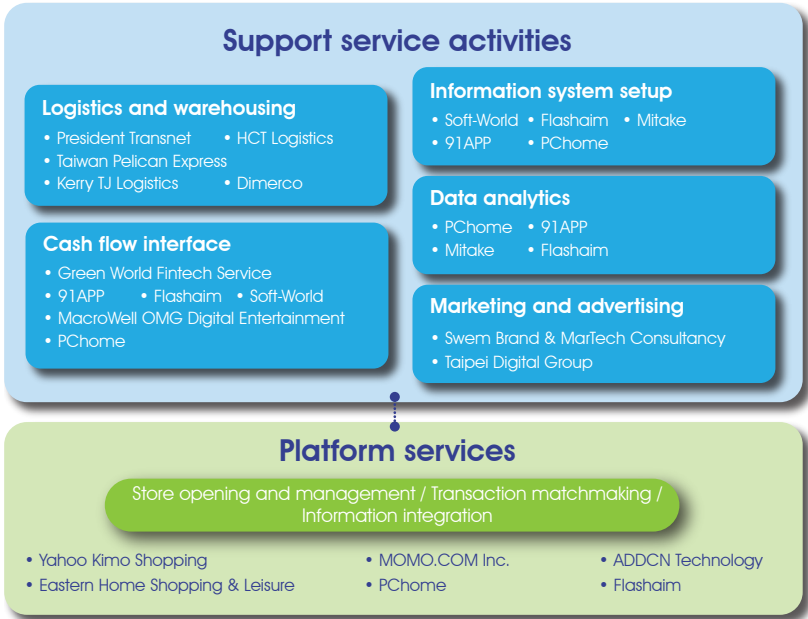
for international logistics services. As a result, domestic logistics operators were also affected, and the revenue dropped to NT\$951.7 billion. The number of companies increased by 700 to 14,895 in 2020, compared to 2016.

Data published by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan in December 2021 showed that as a result of the contactless economy created by the pandemic, revenue from online sales of the industrial and service sectors in Taiwan totaled NT\$4.59 trillion in 2020, a 5.9% increase from 2019. By business models, online transactions between businesses (B2B) in 2020 amounted to approximately NT\$3.81 trillion, with the manufacturing sector accounting for the largest share of sales — over 70% of the total. Online sales to individuals or households (B2C) amounted to NT\$783 billion. Wholesale and retail sales in the service sector had the largest share with NT\$455.4 billion, which was a 16.3% increase from 2019 and indicative of the significant growth in the online shopping market created by the epidemic.



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 benefits from an international airport and is a major industry hub for e-commerce and international logistics. 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.

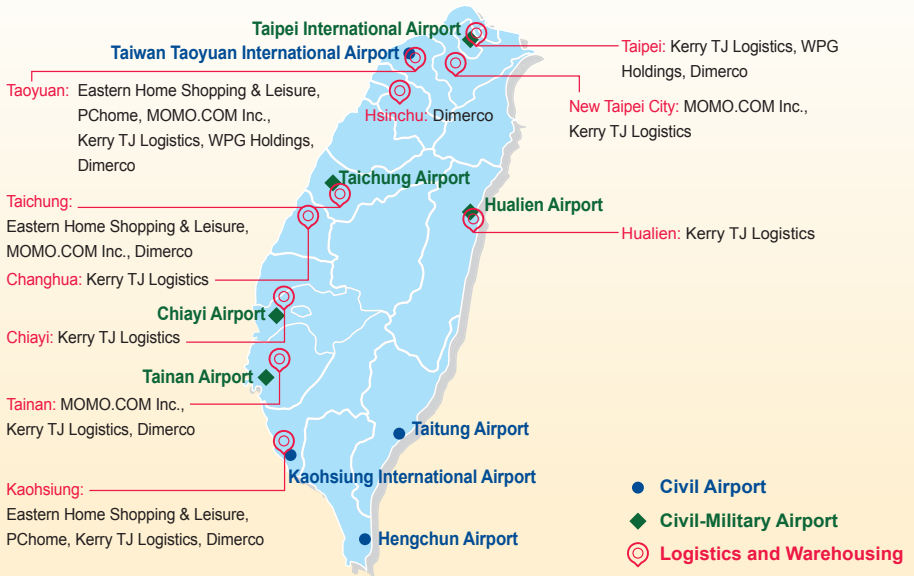


Figure 4 Distribution of International Logistics and E-commerce Industries in Taiwan

Potential Investment and Collaboration Opportunities in Taiwan

1

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

Extreme convenience, ready availability of high-quality services, and a diverse culinary scene featuring fusion cuisine makes Taiwan an important investment destination for many international service industries. The pandemic has accelerated the rapid growth of global e-commerce and international logistics, and related industries in Taiwan have prospered as a result. 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 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 would benefit greatly from investing in Taiwan, localizing their business models for the Taiwan market, and using 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 might be a small market, but it possesses established industry clusters for semiconductors, ICT, and machinery production. It also enjoys development advantages including support from government policy, comprehensive network infrastructure, and abundant R&D capacity. As emerging service companies mostly focus on ICT and online 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 onset of the pandemic. Fueled by the spread of COVID-19, e-commerce operators focused on zero-contact and maintaining continuous growth. Delivery service platforms continued to expand their scope of services and partner industries. Despite an increase in vaccination rates and the gradual relaxation of pandemic restrictions in different countries, the uncertainties of the pandemic remain high and people have grown accustomed to current consumption and lifestyle. Therefore, the stay-at-home economy is expected to continue growth and expansion. 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, the COVID-19 epidemic, and rapid geopolitical changes, have prompted numerous Taiwanese businesses to return 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.

Investment Incentive Measures

1 | Tax Incentives |

The income tax rate for profit-seeking enterprises in Taiwan is 20%. To encourage foreign investments in Taiwan, support industrial innovation, and promote industry-academia collaboration, Taiwan offers the following preferential taxes to foreign companies (Table 2):

Table 2 Preferential Taxes

Item	Preferential Measures
Research, Development, or Introduction of Technologies or Machinery 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 are, with the approval of the Industrial Development Bureau, MOEA, exempt from the corporate income tax.● Companies are exempt from import tariffs for importing any machinery equipment that local manufacturers cannot produce.
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.

Item	Preferential Measures
Investment in Smart Machinery / 5G / Information Security	<ul style="list-style-type: none"> ● Smart machinery: Use of big data, AI, and IoT in brand-new hardware, software, technology, or technical services for automatic schedules, flexible, or mixed-model production lines. ● 5G: Investments in new hardware, software, technology, or technical services that are related to 5G communication systems. ● Information security: Companies' investments and purchases of brand-new hardware, software, technology, or technical services for information and communication security products or services are included in the scope of investment offsetting. ● For investments between NT\$1 million and NT\$1 billion, companies can choose from 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 the total spending is spread over three years" may be selected, but the total amount deducted may not exceed 30% of corporate income tax that year. ● Applicable until December 31st, 2024.
Special Foreign Professionals	<ul style="list-style-type: none"> ● Special foreign professionals who meet certain criteria are eligible for a 50% deduction of total income tax for amounts exceeding NT\$3 million.
Industrial Park Locations	<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 invested amount when calculating their profit-seeking enterprise income tax.



2 | Subsidies |

1. Service Industry Innovation Research (SIIR)

The MOEA launched the Service Industry Innovation Research program to promote innovation within the service industry. Commercial service firms are encouraged to propose innovative R&D projects based on annual themes. The concept of a proposal must exceed current standards in the industry and have a certain level of market feasibility. The two categories of subsidies open for application include "individual innovation" and "collaborative innovation":

1. "Individual innovation" is 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\$1.5 million is provided for each case each year. "Transformational innovation" projects encourage operators that had received subsidies to conduct innovation and R&D to expand the results of their innovation, strengthen their brand, diversify, and expand markets and a maximum of NT\$3 million is provided for each case each year.
2. "Collaborative innovation" is divided into "service ecosystems" and "chain franchise systems." A maximum of NT\$10 million is provided for applications filed by three or more companies for joint creation of a business model to generate profits and achieve shared benefits, profitability, and evolution. Applications for "chain franchise systems" may be filed by the head office of chain franchises of individual brands. Each must incorporate innovative service models of at least 7 (inclusive) stores, and subsidies for each project each year is capped at NT\$5 million.

2. Smart Circulation Service Promotion Project

The subsidies are divided into "enhanced supply chain management" and "innovative channel marketing model". Services such as collaborative planning, forecasting, and replenishment, rapid replenishment and response, dynamic product allocation adjustments, contactless marketing services, omni-channel shopping services, new sales model services, and customized marketing services are included in the scope of subsidies. Companies that meet requirements of the Project are eligible for up to 50% of the total funding in the application up to NT\$5 million.

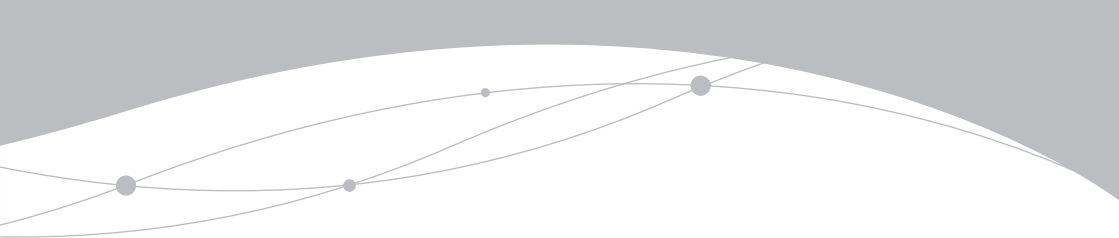
Leading Taiwanese Companies

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 80 sales offices. WPG Holdings has identified business opportunities for digital transformation in the post-pandemic era in sectors such as ICT, expansion of 5G base stations, the Internet of Things (IoT), automotive electronics, and smart manufacturing. In response to the global supply chain resilience development trends, WPG Holdings has proposed the Logistics-a-Service (LaaS) model to 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 field orders from around the world for the shipping of both industrial items and pandemic 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. By setting up "distributed satellite warehouses" close to consumers, it learns about the preferences of consumers in different regions and the elasticity toward changes in product portfolios. Momo is currently the leading e-commerce group in Taiwan and operates Momo Shopping, Momo Mall, TV shopping, and catalog shopping services. It has expanded its businesses to mainland 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 do the same, PChome Mall was established 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 US and Thai markets and actively engages in cross-industry collaboration with ICT, financial services, and real estate.

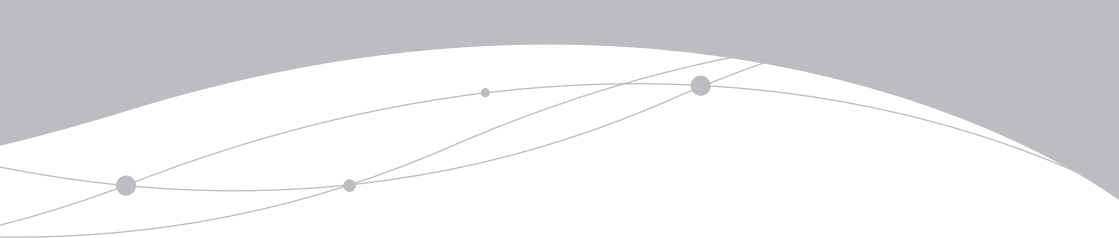


Examples of Successes Achieved by Foreign Companies

1 | Logistics and Transportation Services |

In an act of faith in Taiwan's potential as a regional warehouse and logistics hub, German company DHL invested NT\$80 million in the establishment of a service center in Taoyuan in 2019. 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. 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.

In addition, Japanese company Nippon Express (Taiwan) has identified logistics and e-commerce business opportunities in Taiwan and



constructed a logistics base in Taoyuan in May 2021. It also obtained business licenses for cosmetics, drugs, and medical equipment. It will leverage the operations of Nippon Express Group to expand its business operations in Taiwan. Japan's FamilyMart Group has responded to e-commerce requirements and new consumption models in Taiwan by announcing a NT\$16.8 billion investment in March 2022. The investment will set up a comprehensive logistics park in Taichung, as well as all-temperature logistics centers, fresh food plants, and bread factories in Hualien and Hsinchu.

2 | E-commerce Services |

Japan's largest e-commerce platform, Rakuten Group, established Taiwan Rakuten Ichiba, Inc. in 2008 to target the Taiwan's online shopping market. 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 transformation. Main customers currently include food, home product, and beauty and healthcare companies.

The rapid development of e-commerce in Taiwan also encouraged SGH Global Japan of SGHoldings Group and the e-commerce operator PChome to sign a Memorandum of Understanding in February 2021 to jointly launch one-stop cross-border e-commerce services. In March of the same year, ITOCHU Corporation announced a significant increase of its equity stake in Taiwan Pelican Express from 7% to 19%. 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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