

## **Mainland China's Outward Investment into Taiwan after ECFA: Challenges and Opportunities**

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On 30 June 2009, the government of Taiwan made a firm commitment to open the island's borders to investments from mainland China. This commitment was set firmly in stone on 9 August 2012 by the signing of the Cross-Strait Bilateral Investment Promotion and Protection Agreement, which formed one of the many agreements to be concluded as part of the Economic Cooperation Framework Agreement (ECFA) signed by both sides in 2010.

Since this landmark advance in cross-Strait economic relations, mainland Chinese firms have begun to arrive in Taiwan. However, although mainland Chinese outward FDI has spread rapidly across the globe during the past decade, and Taiwan should be able to secure for itself a considerable share of these capital flows, five years after the policy change, mainland direct investment (MDI) in Taiwan has performed somewhat below expectations.

This paper argues that one factor behind these low numbers is the complicated political relationship between the two sides. Its purpose is to examine the emergence of mainland Chinese investments on Taiwan in greater detail. Taking a lens that focuses on the role of technology in cross-border investment activity, the paper analyses the magnitude, sectors, entry modes and nature of activities of mainland Chinese firms on the island, and considers the potential economic impact on Taiwan. It further argues that there is also an important political and security dimension, which is subsequently considered.

For the government in Beijing and mainland Chinese business interests, the opening of Taiwan's economy to mainland investment was a welcome and long-awaited development, as it lifted the cross-Strait economic exchanges onto a more equal footing and opened up new markets and business opportunities in Taiwan for mainland Chinese firms. In view of the Taiwanese, however, the implications are more complex, allowing for both enthusiasm and apprehension. A considerable rise of direct investments by mainland Chinese companies in Taiwan should be expected to have a profound impact. The inflow of capital, enhanced economic activity and potential for intensified cross-Strait business relations associated with the arrival of mainland Chinese firms on Taiwan benefit a struggling Taiwanese economy in many ways. But mainland Chinese companies investing in Taiwan, both state-owned and private, are not only interested in market access. They also seek to acquire Taiwanese companies and assets, obtain and exchange technology and other resources, take advantage of local Taiwanese staff in high-end research and design activities, develop local political ties for lobbying purposes and business advocacy, and much more. The impact of MDI on Taiwan is thus not only of an economic nature, but could potentially affect political, security and cultural dimensions as well.

**Panel 15 Economics and Political Economy**

It is the concerns about enhanced mainland influence and the unforeseeable risks for Taiwan that explain the continuation of strict limitations on MDI in many sectors, including severe ownership restrictions. Unfortunately, these limitations minimize the potential gains for Taiwan from such investments considerably. To have a real positive effect on the Taiwanese economy, many of them would need to be abandoned.

The government in Taipei thus finds itself facing a dilemma – it needs to identify a way to balance the opportunities offered by mainland investments with the potential challenges. Taipei needs a clearly defined strategy on how to handle increasing investments from the mainland. As entry restrictions will most likely be loosened over time, either gradually or rapidly, cross-Strait relations will see an increase of mainland Chinese investments in the not too distant future, and as they have done in most other parts of the world over the past decade, mainland Chinese enterprises will slowly but surely gain a stronger foothold on the island.

**ABOUT AUTHOR:**

Dr Jan Knoerich is Lecturer in the Economy of China at the King's College London China Institute. His current research examines the internationalisation of mainland Chinese enterprises and Chinese outward foreign direct investment, especially focusing on mainland Chinese enterprises in Europe. Dr Knoerich also studies the political economy of outward investment from mainland China and the implications of outward investment for economic development. Most recently, he has been working on analysing the emergence of mainland direct investment in Taiwan. In addition, Dr Knoerich has worked on issues in international investment law and policy. He has conducted extensive academic fieldwork in China, Indonesia and other countries. Dr Knoerich has published several peer-reviewed journal articles and book chapters and contributed to a variety of studies produced by the United Nations.

Prior to joining King's College London, Dr Knoerich was a lecturer at the University of Oxford's School of Interdisciplinary Area Studies, where he taught Chinese economy and research methods. While at Oxford, he organised a Workshop on "Cross-Strait Relations in an Era of Technological Change: Security, Economic and Cultural Dimensions", which was attended by experts on Taiwan from around the world. Dr Knoerich is one of the co-editors of a book that will include the conference papers, to be published by Palgrave in 2015.

Dr Knoerich also spent several years working on international investment and development issues for the United Nations Conference on Trade and Development (UNCTAD) in Geneva. He holds a PhD in Economics (with reference to China) from the School of Oriental and African Studies (SOAS), University of London.