

## **An Analysis of Taiwan's Investment in Guangdong**

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*Taiwanese business investment in mainland China has been concentrated in Guangdong province, due mainly to its geographical proximity to Taiwan via the Hong Kong gateway. This investment has focused on small and medium-sized enterprises. In the manufacturing industries, for example, the average amount invested per case is less than US\$1 million. The percentage of Taiwan investment in manufacturing industries is 95 percent, concentrating in such industries as electronics, shoemaking, plastic production, etc. Most investment in Guangdong has clustered in the cities of the Zhujiang Delta—Guangzhou, Shenzhen, and Dongguan. However, because of recent rising costs for real estate and labor in these areas, many of Taiwan's investors have been gradually forced to move from Guangdong province.*

**Keywords:** cross-Strait economic relations; cross-Strait relations; Taiwan's investment in mainland China

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In the Republic of China (ROC) on Taiwan, small and medium-sized enterprises have played a very important role in creating its economic miracle. Since the 1980s, this development experience has been introduced to some Third World countries through investment and economic aid projects, with Taiwan becoming a model for these countries in their

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economic development. With the formation of small and medium-sized enterprises in this process, these countries have seen the benefits of more work opportunities, increased export volume, and growing economic development.

Economic exchanges have increased rapidly across the Taiwan Strait since November 1987, when the ROC government began to allow its people to visit their relatives on the Chinese mainland. Based on statistics prepared by the Investment Commission of the Ministry of Economic Affairs (MOEA), Taiwan indirectly invested in 11,823 items in mainland China from January 1991 to May 1997, with a volume of US\$7.3 billion (35.97 percent of all its investment abroad). The next largest investment target was the United States, at 15.6 percent.<sup>1</sup>

In the period 1991-95, the total investment of Taiwan businesses in Guangdong province was close to US\$1.7 billion, accounting for 29.9 percent of all Taiwan investment on the mainland. The next largest areas of interest were Jiangsu (US\$1.7 billion, or 29.7 percent) and Fujian (US\$778 million, or 13.8 percent). During the same period, the number of investment items by Taiwan businessmen was 3,640 in Guangdong (32 percent of the total), 2,514 in Jiangsu (22.3 percent), and 1,794 in Fujian (15.9 percent). From 1991 to September 1996, the average amount per investment case was US\$570,000. This is an indication that Taiwan-funded enterprises on the mainland were mainly small and medium-sized ones.

Guangdong province was the first area on the mainland to open up under economic reform policies, and has also been the area targeted by most of the investment from small and medium-sized Taiwan enterprises. Given these two factors, a study of Taiwan businessmen's investment in Guangdong, including the structure of their production and trade and geographical distribution of investment, will be valuable to both governments and businessmen interested in investing in the region.

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<sup>1</sup>*Liang'an jingji tongji yuebao* (Monthly Report on Cross-Strait Economic Statistics) (Taipei: Mainland Affairs Council, Executive Yuan), no. 58 (June 1997): 31.

## **Taiwan's Investment in Guangdong**

From the initiation of mainland China's reform and opening-up policies in 1979 up until 1989, foreign investment in mainland China came mainly from the Hong Kong-Macao area, the United States, and Japan. In 1990, Taiwan's contracted investment in mainland China first surpassed that by the United States and Japan, amounting to 8.1 percent of all foreign investment in mainland China, with Japan at 3.4 percent and the United States at 2.35 percent (see table 1).

During its Eighth Five-Year Plan (1991-95), mainland China solicited foreign capital mainly from Hong Kong, Macao, Taiwan, the United States, and Japan. Investment from Hong Kong and Macao constituted the major bulk, averaging 60.7 percent annually. This was due not only to a common cultural background and geographical proximity, but also because mainland China provided competitively better conditions for investment than other neighboring countries. If the investment from Hong Kong, Macao, and Taiwan is combined, about 70 percent of all foreign investment in mainland China came from Chinese communities.

Investments by the United States and Japan are usually in the form of transnational corporations or factories owned by consortiums.<sup>2</sup> Their investment items are characterized by higher technological requirements, larger capital, and longer investment periods. Investments by Hong Kong and Macao are mainly labor-intensive industries; a brief review explains why. During the 1960s and 1970s, Hong Kong and Macao witnessed a rapid growth in exports as a result of their cheap labor, large textile quotas, and the granting of favorable treatment by the industrialized countries. These favorable conditions began to disappear in the 1980s when labor costs began to rise and competition among developing countries became more intense. To win a competitive edge, businessmen in Hong Kong and Macao chose to shift their production work to Guangdong.

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<sup>2</sup>Chen Li-ying, "A Comparison of Investments in Mainland China by Businesses from Hong Kong, South Korea, and Taiwan," *Jingji qianzhan* (Economic Prospective) (Taipei), no. 31 (July 10, 1993): 20.

ISSUES & STUDIES

**Table 1**  
**Foreign Capital Invested in Guangdong**

		Unit: US\$ million				
		Total	Hong Kong & Macao	Taiwan	Japan	United States
1987	CI	2,031.1	1,232.4 (60.7%)	—	249.6 (12.3%)	62.7 (3.1%)
	AI	1,225.7	893.1 (72.9%)	—	187.2 (15.3%)	38.0 (3.1%)
1988	CI	3,827.5	2,619.7 (68.4%)	87.5 (2.3%)	551.8 (14.4%)	134.9 (3.5%)
	AI	2,439.7	1,538.0 (63.0%)	3.2 (0.1%)	655.1 (26.9%)	23.2 (1.0%)
1989	CI	3,623.1	2,529.4 (69.8%)	110.0 (3.0%)	249.4 (6.9%)	354.7 (9.8%)
	AI	2,399.2	1,544.9 (64.4%)	22.7 (1.0%)	398.2 (16.6%)	110.4 (4.6%)
1990	CI	3,167.5	2,461.4 (77.7%)	257.5 (8.1%)	108.0 (3.4%)	74.6 (2.4%)
	AI	2,023.5	1,298.8 (64.2%)	70.3 (3.5%)	260.9 (12.9%)	171.2 (8.5%)
1991	CI	5,801.5	4,478.8 (77.2%)	263.1 (4.5%)	315.1 (5.4%)	74.4 (1.3%)
	AI	2,582.5	1,724.8 (66.8%)	115.2 (4.5%)	311.8 (12.1%)	119.7 (4.6%)
1992	CI	19,866.7	17,182.4 (86.5%)	658.4 (3.3%)	474.6 (2.4%)	246.1 (1.2%)
	AI	4,861.5	3,623.3 (74.5%)	129.8 (2.7%)	533.7 (11.0%)	78.0 (1.6%)
1993	CI	34,896.6	30,163.0 (86.4%)	1,141.4 (3.3%)	626.1 (1.8%)	781.1 (2.2%)
	AI	9,652.3	7,653.2 (79.3%)	267.0 (2.7%)	598.4 (6.2%)	358.7 (3.7%)
1994	CI	26,387.5	20,658.9 (78.3%)	852.1 (3.2%)	789.9 (3.0%)	705.1 (2.7%)
	AI	11,446.6	9,078.1 (79.3%)	438.2 (3.8%)	747.6 (6.5%)	185.9 (1.6%)
1995	CI	26,104.8	19,818.7 (75.9%)	813.2 (3.1%)	918.7 (3.5%)	934.8 (3.6%)
	AI	12,100.4	9,255.1 (76.5%)	359.5 (3.0%)	833.9 (6.9%)	476.9 (3.9%)

**Remarks:** CI refers to contracted investment, and AI to actual investment.

**Source:** *Guangdong tongji nianjian, 1987-1996* (Statistical yearbook of Guangdong, 1987-1996) (Beijing: Zhongguo tongji chubanshe, 1997).

Taiwan's investment in mainland China rose remarkably in 1991 and 1992. However, unlike businessmen in Hong Kong, Macao, the United States, and Japan, businessmen in Taiwan have to take political risks into consideration when investing in the mainland because cross-Strait relations have been unstable in recent years. As we know, Taiwan was under Beijing's military menace as recently as 1996, following President Lee Teng-hui's visit to his alma mater of Cornell University in June 1995.

Taiwan's investment in mainland China has come mainly from its small and medium-sized enterprises, which are engaged in labor-intensive industries, including light industries and export processing, which have been the focus of mainland China's economic development since the initiation of reform and opening-up policies.<sup>3</sup> Taiwan businesses moved these industries to mainland China in response to bottleneck problems arising from Taiwan's economic transition from the building of labor-intensive industries to capital-intensive ones, which includes rising costs for labor and real estate.

Although Taiwan businessmen began investing in Guangdong as early as October 1981, large-scale Taiwan investment in that province only occurred after the ROC government removed its restrictions on foreign exchange and lifted the ban on visits to mainland family members in 1987.<sup>4</sup> Taiwan investment on the mainland has also increased because mainland China has offered favorable treatment for investment and because its investment environment has improved. Taiwan's investment in mainland China has been made by way of Hong Kong, with Guangdong being chosen as the major target of investment. The major areas in Guangdong that have attracted Taiwan businesses have included Shenzhen, Dongguan, and the Zhujiang Delta area. The overall contracted investment of Taiwan businesses in Guangdong has shown giant progress in recent years. In 1990, overall contracted investment was at US\$257 million, exceeding the

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<sup>3</sup>Li Fan, *Nanfeng beijian: Gang Tai dui dalu gaige kaifang de yingxiang* (The customs of the south have influenced the north: The impact of Hong Kong and Taiwan on the reform and opening-up in mainland China) (Hong Kong: Tiandi tushu gongsi, 1995), 114.

<sup>4</sup>*Liang'an jingji nianbao* (Cross-Strait economic yearbook) (Taipei: Chung-Hua Institution for Economic Research, 1993), 1:151.

volumes of Japan and the United States (US\$108 million and 74 million, respectively), and behind only the Hong Kong and Macao area. In comparison, in 1994, the contracted volume of Taiwan investment in mainland China reached US\$23.8 billion, accounting for 8.3 percent of all foreign investment there, once again behind only the Hong Kong and Macao area.<sup>5</sup>

### **An Analysis of the Investment Structure in Terms of Different Industries**

For the convenience of our analysis of Taiwan investment in Guangdong, industries in that province are classified as belonging to one of three categories. The "first industry" refers to agriculture, forestry, animal husbandry, and fishery; the "second industry" refers to industrial manufacturing, processing, and construction; and the "tertiary industry" is a general term referring to industries which do not produce any material goods, such as transport, post and telecommunications, commerce, restaurants, supply and marketing, real estate, public utilities, education, health, culture, sports, finance, insurance, and science and technology.

Since 1979, foreign investment in Guangdong has been used mainly for the promotion of the second industry, with an annual ratio of over 50 percent in the period from 1981 to 1984, and over 60 percent in the period from 1985 to 1989. In the 1990s, the ratio rose even to 74.8 percent, while the national record was only 57 percent. The ratio of foreign investment for the tertiary industry in Guangdong was lower than the national average; in the 1990s, its ratio was 23.9 percent, while the national record was 38.8 percent. In the two years of 1993 and 1994, the national record was as high as almost 50 percent. Government calls for the promotion of the tertiary industry were first made in 1984, and in August 1993, the Ministry of Foreign Trade and Economic Cooperation extended its welcome to foreign investment in the promotion of the tertiary industry on the mainland. Emphasis on the building of the tertiary industry was again made in the "Out-

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<sup>5</sup>1995: *Dalu jingji qingshi pinggu* (1995: An evaluation of mainland China's economic situation) (Taipei: Ministry of Economic Affairs, 1996), 61.

line for National Industrial Development Policy in the 1990s" which was promulgated in March 1994. Across the mainland as a whole, there has been a balanced development of the second and the tertiary industries. In Guangdong, however, more capital has been used for the development of the second industry (see table 2).

Based on the *Guangdongsheng taizi qiye minglu* (Directory of Taiwan-funded enterprises in Guangdong), most of Taiwan investment in

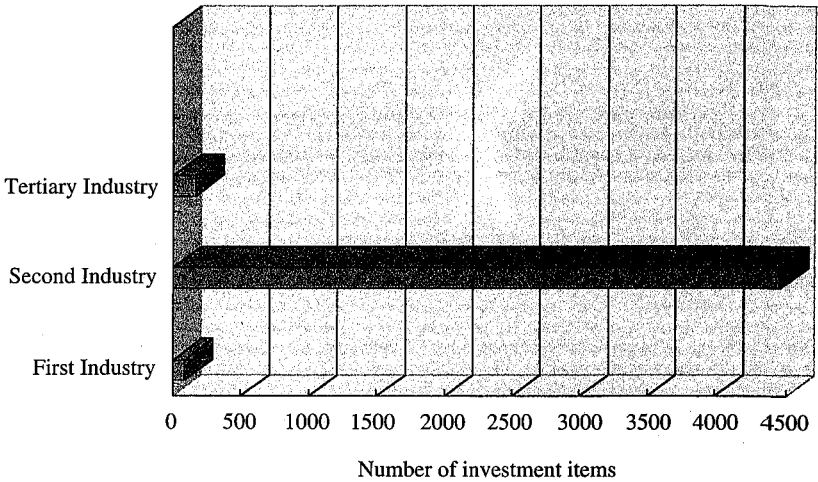
**Table 2**  
**Guangdong's Use of Foreign Capital in Various Industries**

Unit: US\$ million

Year	Actual Volume of Foreign Capital Used	First Industry (%)	Second Industry (%)	Tertiary Industry (%)
1985	941.0	26.3 (2.8%)	617.2 (65.6%)	297.4 (31.6%)
1986	1,459.0	66.1 (4.5%)	997.1 (68.3%)	395.8 (27.1%)
1987	1,216.7	45.4 (3.7%)	884.9 (72.7%)	286.4 (23.5%)
1988	2,439.7	83.2 (3.4%)	1,634.3 (67.0%)	722.1 (29.6%)
1989	2,399.2	60.6 (2.5%)	1,597.9 (66.6%)	740.6 (30.9%)
1990	2,023.5	37.9 (1.9%)	1,569.8 (77.6%)	415.8 (20.5%)
1991	2,582.5	22.9 (0.9%)	2,141.5 (82.9%)	418.1 (16.2%)
1992	4,861.5	94.6 (1.9%)	3,621.3 (74.5%)	1,145.6 (23.6%)
1993	9,652.3	67.5 (0.7%)	6,703.5 (69.4%)	2,881.3 (29.9%)
1994	11,446.6	98.9 (0.8%)	7,965.1 (69.6%)	3,382.6 (29.6%)
1995	12,100.4	106.5 (0.8%)	8,383.7 (69.2%)	3,610.1 (29.8%)

Source: *Guangdong nianjian* (Guangdong yearbook), 1987-1996 editions (Guangzhou: Guangdong nianjianshe, 1987-1996).

**Figure 1**  
**Taiwan's Investment Items in Guangdong in Terms of Different Industries**



Source: *Guangdongsheng taizi qiye minglu*.

Guangdong has been in the second industry.<sup>6</sup> Figure 1 provides a clear picture of Taiwan businesses' engagement in production work in Guangdong. Among the 4,697 investment items, only 81 are for the first industry and 161 for the tertiary industry, while the remainder (about 95 percent) are in the manufacturing industry. There is no sign of a change in the foreseeable future; in fact, almost all foreign investments in Guangdong have been focused on the second industry. Figure 1 indicates that over 60 percent of all foreign investments in Guangdong since 1985 have been engaged in the second industry. Counting foreign investment in mainland China as a whole, the tertiary industry is quite popular, capturing 29 percent of investment in 1993-94. As a comparison, the ratio of Taiwan investments in Guangdong in the field of service trades is very low, as there are only a

<sup>6</sup>For the distribution of Taiwan investment in Guangdong, see *Guangdongsheng taizi qiye minglu* (Directory of Taiwan-funded enterprises in Guangdong) (Guangzhou: October 1996).



few scattered cases of investment in department stores, foreign trade companies, and restaurants.

### **An Analysis of the Investment Structure in Terms of Different Trades**

Based on the statistics prepared by the MOEA's Investment Commission, Taiwan investment in mainland China up to April 1991 concentrated on the following trades: shoemaking (306 enterprises), electric equipment (242), vehicles (202), plastics (129), tailoring (129), metal products (85), textiles (74), and lamps (67). The amount of capital for the investment of electric equipment was US\$102.8 million, and that for vehicles was US\$78.9 million, while shoemaking was US\$58.8 million. In the early years, Taiwan investment in the mainland was made mainly by small and medium-sized enterprises. The average amount per investment was less than US\$300,000 and was made mostly in labor-intensive industries processing cheap consumer goods.<sup>7</sup> According to one research finding, about 43 percent of Taiwan enterprises investing in the mainland have capital under US\$500,000, 27.4 percent between US\$510,000 and US\$1 million, 17.8 percent between US\$1 million and US\$2 million, and 8.3 percent between US\$2 million and US\$5 million. Only very few have a capital over US\$5 million.<sup>8</sup>

In the first several years following the opening of indirect economic contacts across the Taiwan Strait, Taiwan enterprises investing in mainland China were usually owned by sole investors. Although this method of investment carried more individual risk, investors were able to determine their management policy on their own and exercised complete control over their profits.<sup>9</sup> This situation changed later; in 1994-95, only 25 percent of

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<sup>7</sup>*Liang'an jingji nianbao* 1:152-53.

<sup>8</sup>Kao Charng, *Zhizaoye diernian* (The second year of the manufacturing industry) (A research project assigned by the Investment Commission of the MOEA, April 1995), 126.

<sup>9</sup>Ho Yongqing, "A Study of the Motives and Deeds of Taiwan Business Investment in Mainland China," in *Kuayue dalu touzi zhang'ai yantaohui* (Symposium on overcoming obstacles in investing in mainland China, March 20-April 10, 1993), 10.

Taiwan investors on the mainland were doing business on their own, while the remaining 75 percent had opened joint enterprises.<sup>10</sup>

Based on the statistics published by the MOEA's Investment Commission, of all Taiwan investors on the mainland in the period 1991-93, those engaged in plastic manufacturing constituted 31.2 percent, 22.8 percent, and 15.7 percent, respectively. From 1994 onward, Taiwan investors began to shift their interest to the production of electronic devices, electric appliances, food, and soft drinks. In that year, the percentage of Taiwan investors engaging in the manufacture of electronics and electric equipment was the highest among all trades of production, at 16.3 percent (US\$157 million), with the production of soft drinks the second highest, at 15.2 percent. At the same time, the basic metal, chemical, and nonmetal mineral production industries constituted a combined 8 to 10 percent. In 1995, the ratio of the electronics and electric equipment was still the highest, at 19.7 percent, while those of food and soft drink, and basic metal industries were both at 10.7 percent.<sup>11</sup> Thus, it can be said that Taiwan investors on the mainland engaged mainly in manufacturing industries in 1995, with electronic devices, electric appliances, food, and soft drinks as the major investment items. What is noteworthy is that the volume of investment in textiles, tailoring, and plastics has declined, while that in metal industry, chemical products, and nonmetal mineral production has increased.

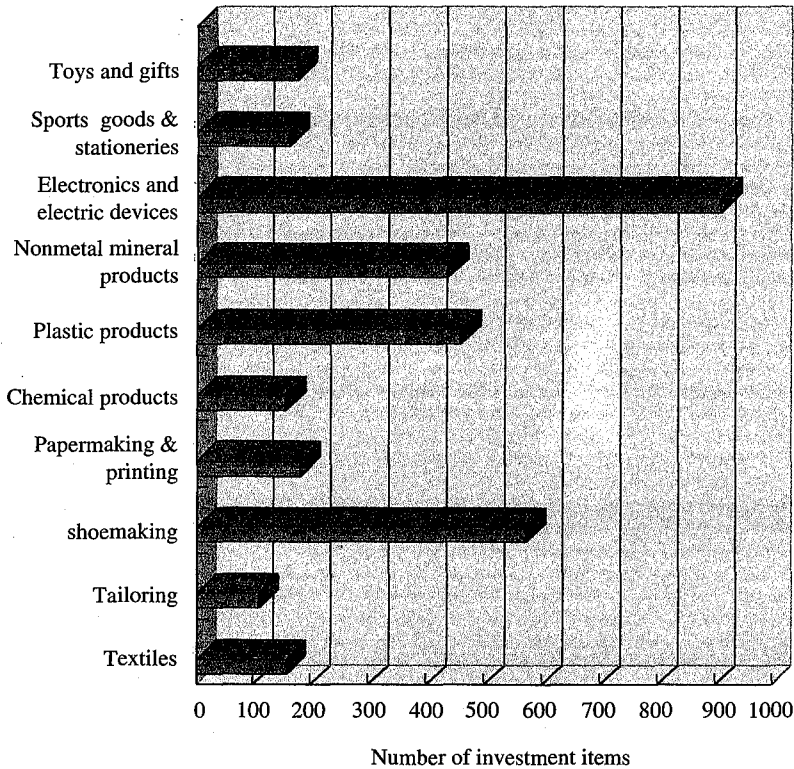
From figure 2, we can see that Taiwan investors in Guangdong are mainly producing electronics and electric devices. Presently, there are 912 such items, constituting 25 percent of all the investment items in the second industry in that province. This percentage is somewhat similar to that of Taiwan investment across the whole mainland. Taiwan has a total of 459 investment items in the plastic industry in Guangdong, which constitutes 11 percent of that province's investment items in the second industry. From figure 2, we can also see that there is also a high percentage in nonmetal mineral production and shoemaking industries. The other 100 items include the manufacturing of textiles, tailoring, chemical products, paper-

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<sup>10</sup>Kao, *Zhizaoye diernian*, 119.

<sup>11</sup>1995: *Dalu jingji qingshi pinggu*, 81.

**Figure 2**  
**Taiwan's Investment Items in Guangdong in Terms of Different Trades**



Source: *Guangdongsheng taizi qiye minglu*.

making, printing, sports articles, and stationeries.

It should be mentioned that the production trades that Taiwan investors in Guangdong have chosen are largely the same as those chosen by Taiwan investors in other parts of mainland China. For example, the proportion of Taiwan investment in the textile industry in mainland China dropped from 7.8 percent in 1991 to 5.6 percent in 1995, and the proportion of Taiwan investment in the same industry in Guangdong is largely equivalent, at 3.5 percent. With respect to the tailoring industry, the proportion of Taiwan investment on the mainland dropped from 7.6 percent in 1991 to 1.8 percent in 1995, and the proportion of this part of Taiwan investment in

Guangdong is now at 2.4 percent. The proportion of Taiwan investment in mainland China's papermaking and printing industries was 1.9 percent in 1995, and the proportion in Guangdong in the same year was 4.2 percent.

### Geographical Distribution of Taiwan Investment in Guangdong

Industrial development in Guangdong has been characterized by an export-oriented light industry. If judged by total output volume, the different manufacturing industries in that province can be ranked as follows: electronics and communications equipment (US\$96.3 billion), electric devices (US\$55.9 billion), textiles (US\$33 billion), nonmetal mineral products (US\$30 billion), dress and other fabric products (US\$29.5 billion), chemical raw materials and products (US\$29.2 billion), metal products (US\$26.1 billion), transportation equipment (US\$23.9 billion), plastic raw materials and products (US\$23.9 billion), and food processing (US\$21 billion). In terms of the number of enterprises, there are 4,007 in dress and fabric products, 3,362 in nonmetal mineral products, 2,855 in metal products, 2,309 in plastic products, 2,127 in power production and supply, 1,884 in electric devices, 1,867 in electronics and communications equipment, 1,694 in chemical raw materials and products, and 1,533 in fur and leather products, while 1,887 are in other products.<sup>12</sup>

Generally speaking, Guangdong's manufacturing industry has been clustered in the Zhujiang Delta and coastal areas. As far as the geographical distribution of Guangdong's industrial output in 1995 is concerned, the manufacturing of electronics and communications equipment was mainly in Shenzhen, with a total output value of 47.5 billion *yuan* (or 49.3 percent). The electric devices were made mainly in Foshan (with a value of 18.4 billion *yuan* or 32.85 percent) and Guangzhou (8.4 billion *yuan* or 15.01 percent). The textile industry was mainly in Jiangmen (7.2 billion *yuan* or 21.93 percent) and Foshan (6.3 billion *yuan* or 19.07 percent). Tailoring

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<sup>12</sup>*Guangdongsheng tongji nianjian 1996* (Statistical yearbook of Guangdong, 1996) (Beijing: Zhongguo tongji chubanshe, 1996), 183, 186.

**Table 3**  
**Industrial Output Value of Guangdong's Cities in 1995**

		Unit: billion yuan			
1.	Guangzhou	105.40	12.	Maoming	12.31
2.	Shenzhen	90.01	13.	Yunfu	10.02
3.	Foshan	79.89	14.	Shaoguan	9.38
4.	Jiangmen	53.18	15.	Meizhou	6.73
5.	Huizhou	31.40	16.	Jieyang	5.90
6.	Zhuhai	30.36	17.	Yangjiang	5.52
7.	Zhongshan	27.88	18.	Qingyuan	4.89
8.	Zhaoqing	20.80	19.	Chaozhou	4.60
9.	Shantou	20.76	20.	Shanwei	1.97
10.	Dongguan	19.23	21.	Heyuan	1.96
11.	Zhanjiang	16.00			

Source: *Guangdong tongji nianjian* (1996), 182.

and other fabric products were in Guangzhou (5.4 billion yuan or 18.25 percent) and Shenzhen (3.3 billion yuan or 11.16 percent). The nonmetal mineral products were in Foshan (8.2 billion yuan or 27.27 percent) and Jiangmen (3.7 billion yuan or 12.34 percent).<sup>13</sup>

Based on table 3, the major cities in Guangdong can be listed in the following order in accordance with their gross industrial output value: Guangzhou, Shenzhen, Foshan, Jiangmen, Huizhou, Zhuhai, Zhongshan, Zhaoqing, Shantou, Dongguan, Zhanjiang, Maoming, Yunfu, Shaoguan, Meizhou, Jieyang, Yangjiang, Qingyuan, Chaozhou, Shanwei, and Heyuan. If calculated by the number of their enterprises, Taiwan investors are mainly in Shenzhen (1,520), Dongguan (1,190), Guangzhou (404), Huizhou (400), Zhongshan (290), and Foshan (266) (see table 4).<sup>14</sup> Such an investment distribution indicates that the Taiwan investors have gathered mainly in places which have a higher industrial output value. The only notable phenomenon is that while Dongguan is the second choice for Taiwan investors in Guangdong, it ranks tenth in that province in terms of its in-

<sup>13</sup>Ibid., 186-88.

<sup>14</sup>*Guangdongsheng taizi qiye minglu*.

**Table 4**  
**Number of Taiwan-Funded Enterprises in Various Areas in Guangdong**

Guangzhou	404	Zhanjiang	40
Shenzhen	1,520	Chaozhou	71
Dongguan	1,190	Jiangmen	86
Huizhou	400	Shanwei	38
Zhongshan	290	Yunfu	8
Zhuhai	90	Maoming	18
Shantou	178	Yangjiang	26
Foshan	266	Shaoguan	46
Qingyuan	32	Meizhou	10
Heyuan	8	Jieyang	10
Zhaoqing	28		
Total:	4,759		

**Source:** *Guangdongsheng taizi qiye minglu* (Directory of Taiwan-funded enterprises in Guangdong) (Guangzhou: October 1996).

dustrial output value. This investment in the Zhujiang Delta area is probably due to transportation considerations. As we can see, in cities distant from the Zhujiang Delta area—such as Shantou, Jieyang, Zhanjiang, Maoming, Yunfu, Zhaoqing, Chaozhou, Meizhou, Heyuan, Yangjiang, and Shanwei—there are only limited numbers of Taiwan investors. Taiwan and other foreign investors are apparently not interested in such mountainous cities as Shaoguan, Qingyuan, Heyuan, Meizhou, Shanwei, Zhaoqing, and Maoming; in each of these cities, the number of Taiwan enterprises is under fifty (see table 4).<sup>15</sup>

In Guangdong, Taiwan investors of similar trade usually gather together in a same area in order to capture the benefits of division of labor. For example, after some large-scale Taiwan enterprises established their factories in Guangdong, enterprises producing necessary accessories soon followed and invested in the same area. Products of these accessory factories are not for sale in mainland China or elsewhere but only supply those

<sup>15</sup>*Guangdong duiwai jingmao* (Guangdong's Foreign Economic Relations and Trade) (Guangzhou), January 1994, 23.

large-scale enterprises. Presently, Taiwan investors have built seven industrial and scientific and technological zones in Huizhou. Similar clustering phenomena have also been found in Guangzhou and Dongguan. Reasons for such a development include: (1) reducing production costs by getting spare parts and raw materials from local areas; (2) gaining a competitive edge over other foreign investors; and (3) enjoying more favorable treatment in investment by undertaking larger-scale production projects with other companies. It is noted that shoemaking cities, textile cities, lamp cities, and electronics cities have already been created in the Zhujiang Delta area by Taiwan investors, who have also built a bicycle zone in the Longhua area of Shenzhen, and a shoemaking zone in Dongguan.

In recent years, some Taiwan investors in Guangdong involved in labor-intensive industries have begun to move from coastal cities to inner regions, especially mountainous areas. Mountainous cities as Shaoguan, Heyuan, and Meizhou, for example, have now attracted the attention of Taiwan investors because of their rich resources and cheaper labor and land costs. Actually, many other foreign investors in the same industries in Guangdong have also shifted their production equipment northward.

Since 1994, the number of enterprises engaging in *sanlai yibu* industries (meaning those industries oriented to the processing of supplied materials, processing according to supplied designs, assembling of supplied component parts, and compensation trade) has declined in mainland China. The situation is similar in Guangdong; in the first half of 1995, only 160 Taiwan enterprises engaged in *sanlai yibu* industries, a 35 percent reduction compared with the corresponding period in the previous year. In recent years, dozens of Taiwan enterprises in Shenzhen have moved their production to inner areas.<sup>16</sup> In Shantou, many Taiwan investors have also moved to the countryside. This development has had the effect of scattering Taiwan investment.

The Guangdong government has taken measures to readjust and improve the local industrial structure. As far as Taiwan investors are concerned, those in the more economically developed Zhujiang Delta area

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<sup>16</sup>*Gang'ao jingji* (Economy in Hong Kong and Macao) (Guangzhou), 1995, no. 7:50-51.

have been encouraged to engage in such basic industries as energy production and transportation construction; raw materials production; the third industry, including finance, insurance, trade, and consultant service; agricultural production, which can yield high output value and can create more foreign exchanges; and the high-tech industry. At the same time, Taiwan capital has been absorbed to develop the labor-intensive second industry in the mountainous areas.<sup>17</sup>

### Conclusion

While Taiwan investors in Guangdong have been mainly in the Zhujiang Delta area, such as Guangzhou, Shenzhen, Foshan, Dongguan, Huizhou, Zhongshan, and Shantou, there has been a tendency in recent years to move to the mountainous areas in that province. In terms of industrial structure, Taiwan investors have engaged mainly in the manufacturing industry. In Guangzhou, Foshan, and Zhongshan, the shoemaking industry dominates, while in Shenzhen, Dongguan, and Huizhou, investors have mainly focused on the electronics industry. The concentration of investment in one area and in a single trade has enabled Taiwan investors to build some shoemaking, textile, lamp, and electronics cities, and form some special production zones.

With their rapid economic development, cities in the Zhujiang Delta area—including Guangzhou, Shenzhen, Zhuhai, Dongguan, Huizhou, and Zhongshan—have in recent years begun to readjust their industrial structure by offering more favorable treatment to investments in large-scale and high-tech industries, with the goal of having them replace the *sanlai yibu* industries. Measures have even been taken to exclude the existence of small-scale and labor-intensive industries. Other factors such as the rise in prices for the procurement of factory sites, frequent apportionments of expenses and work by local governments, and increasing obstacles to the building of

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<sup>17</sup>Chen En, "Guangdong's Policy of Taking in Taiwan Investment in the 1990s," *Guangdong jingji* (Guangdong's Economy) (Guangzhou), February 1994, no. 1:19-20.



factories have forced many Taiwan investors to move to inner areas. Taiwan's small and medium-sized enterprises who still wish to invest in the mainland may choose east, west, and north Guangdong as a base for development.

Mainland China's attraction as an investment locale for large-scale Taiwan enterprises will doubtlessly have a great impact on Taiwan's economic development. Once a large-scale Taiwan enterprise establishes a factory on the mainland, its production partners in the middle and lower reaches also must move to mainland China for survival. Such a phenomenon will speed up mainland China's economic development but will result in an emptiness in Taiwan's industrial development. To cope with this situation, the ROC government should take additional efforts to improve Taiwan's investment environment, upgrade Taiwan's industrial production, and build it up as an Asia-Pacific Transshipment Center at an earlier date so as to provide a better investment environment in Taiwan.