

The Upgrade and Transformation of Taiwanese-funded Enterprises in Guangdong under the New Normal

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Abstract—Under the new economic normal, Guangdong Taiwan-funded enterprises are facing new challenges and opportunities in their upgrading and transformation. Taiwanese-funded enterprises should fully understand the impact of the new economic normal on their own development, actively adapt to the new normal, respond to new challenges, seize new opportunities, accelerate the transformation of development methods, adjust operation and development strategies, and accelerate the path of upgrading and transformation.

1 Introduction

At present, China's economic development is entering a new normal, and profound changes are taking place in the economic growth rate, economic structure, dynamic mechanism, and control methods. For a long time, China's economic development has followed a path that relies on investment, low-cost human resources, and imported technology to achieve product structure upgrades and scale expansion. The extensive growth model developed in parallel in all regions of the country has led to long-term problems such as overcapacity, homogeneous and disorderly competition, low concentration, and insufficient technological innovation capabilities. At the same time, the pressure on environmental protection, energy conservation and emission reduction is increasing. After more than 30 years of rapid growth, the industrial structure and factor input structure that support China's economic growth have changed. Economic growth has entered the "shift period" of slowing growth, and medium-speed growth has become the "new normal." In this context, the mainland's economic development and business environment are changing, and relevant policies and laws are also undergoing adjustments, which have an important impact on the business development of Taiwan-funded enterprises in the mainland. In Guangdong Province, where Taiwanese investment is intensive, especially in the Pearl River Delta region, some Taiwan-funded enterprises have been closing down, withdrawing capital or moving abroad in recent years. Taiwanese-funded enterprises should fully understand the impact of the new economic normal on their own development, actively adapt to the new normal, respond to new challenges, seize new opportunities, accelerate the transformation of development methods, adjust operation

and development strategies, and accelerate the path of upgrading and transformation.

2 Status quo of upgrading and transformation of Taiwan funded enterprises in Guangdong Province

As a traditional gathering place for Taiwanese investment, Guangdong Province has maintained a relatively stable trend in the introduction of Taiwanese investment despite the slowdown in the growth rate of foreign investment since 2014. As of June 2015, there were 26,300 Taiwan-funded enterprises in the province, with a total contractual use of Taiwanese capital of US\$68.8 billion, and a cumulative use of Taiwanese capital of US\$59.2 billion. Among them, the original Taiwanese-funded enterprises increased their capital and production by 171, the newly-added contract used Taiwanese capital of US\$564 million, and the newly-added Taiwanese capital was actually in place by US\$712 million.

The investment field of Taiwanese companies is dominated by manufacturing, involving information electronics, electromechanical, food, plastic products, textiles, chemicals, building materials and other industries; investment areas are mainly concentrated in the Pearl River Delta region, including Dongguan, Shenzhen, Guangzhou, Huizhou, Zhongshan, Foshan, Jiangmen, Zhuhai and Shantou in eastern Guangdong. More than 40 of Taiwan's top 100 large companies have settled in Guangdong, such as Hon Hai, Volkswagen, Mitac, Inventec, Zhifu and Delta Electronics, and other large Taiwanese IT and electronics manufacturers have successively entered Guangdong to invest and set up factories. However, in general, Taiwan-funded enterprises in Guangdong are still dominated by small and medium-sized enterprises. According to the survey,

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more than half of Taiwanese enterprises in the Pearl River Delta region are small and medium-sized enterprises with less than 500 employees.

Taiwanese-funded enterprises' business philosophy and more advanced management methods in line with international standards, combined with the preferential policies provided by the local government to Taiwan-funded enterprises, have generally resulted in a relatively high rate of capital acquisition, operating rate, and contract performance of Taiwanese investment in Guangdong. Some enterprises in Guangdong and Taiwan have obtained good economic returns and have a positive effect on local economic and social development. On the one hand, Taiwanese-funded enterprises with OEM export as the main production form have made continuous contributions to the steady growth of Guangdong's GDP and its long-term position as the country's first export province; on the other hand, traditional labor-intensive manufacturing Taiwanese-funded enterprises with industry as the main investment area have greatly promoted local employment. According to incomplete statistics, Taiwan-funded enterprises in Guangdong have absorbed about 5 million laborers. At present, Taiwan-funded enterprises have led to the formation of the electronic information industry in Dongguan, the petrochemical industry in Zhuhai, the wafer industry in Shenzhen, and the three high agricultural industry clusters in Huizhou, Zhanjiang, Foshan and other places, effectively promoting the local industrial chain layout and industrial structure optimization.

In 2006, the mainland began to implement the "Eleventh Five-Year Plan for National Economic and Social Development" and officially adopted "transition" as the guiding ideology for economic development and foreign economic and trade policies. In the past, the

export-oriented growth model that relied too heavily on the international market for economic development began to take place. change. In this context, the development of Guangdong Taiwan-funded enterprises is facing challenges, and they have either actively or passively entered the stage of upgrading and transformation. Their main characteristics are as follows:

(1) Investment growth tends to be stable

Since the first wave of Taiwan's investment in the mainland started in the late 1980s, Guangdong Province, the earliest reform pilot area in the mainland, has attracted a large number of Taiwanese businessmen to land on the beach due to its geographical advantages adjacent to Hong Kong and Macau and its flexible and open policy environment. Enter the layout. As a result, Guangdong Province continued to be the most concentrated area of Taiwanese investment in mainland China throughout the 1990s. Statistics from Taiwan's "Investment Review Committee of the Ministry of Economic Affairs" show that as of 2000, a total of 8,214 Taiwan-funded projects in Guangdong had been approved, with a total investment of US\$6.141 billion. After 2001, the hot spots for Taiwanese investment gradually shifted to Jiangsu, Shanghai, Zhejiang and other places in East China. Guangdong Province began to attract Taiwanese investment to stabilize, and Taiwanese investment in the first province also gave way to Jiangsu Province. At present, from the perspective of the distribution of Taiwanese capital in the mainland, it is mainly concentrated in the southeast coastal areas from the Pearl River Delta to the Yangtze River Delta. Guangdong, Jiangsu and Shanghai are still the most important places for Taiwanese investment in the mainland. The three provinces and cities together account for the total Nearly 70% of the investment accounted for almost half of the mainland and Taiwanese capital.

Table 1 Statistics of approved investment in three provinces and cities in mainland China

Year	Guangdong			Jiangsu			Shanghai		
	Case	Amount (US\$m)	%*	Case	Amount (US\$m)	%*	Case	Amount (US\$m)	%*
1991~2000	8214	61.41	35.91	2586	34.69	20.28	2729	24.20	14.15
2001	315	7.88	28.30	314	10.46	37.58	297	3.76	13.51
2002	877	16.35	24.32	639	22.23	33.07	568	9.49	14.12
2003	1228	20.54	26.69	815	26.01	33.79	641	11.04	14.34
2004	464	14.04	20.23	370	24.87	35.83	269	11.75	16.93
2005	314	12.20	20.31	332	23.49	39.11	203	10.18	16.94
2006	245	14.15	18.52	283	28.87	37.78	190	10.42	13.63
2007	216	19.78	19.84	279	38.42	38.53	138	14.40	14.44
2008	152	15.05	14.07	158	42.29	39.56	112	17.04	15.94
2009	132	12.82	17.95	158	27.47	38.45	81	9.55	13.37
2010	159	26.19	17.92	230	55.02	37.64	137	19.61	13.42
2011	187	22.05	15.34	204	44.26	30.79	108	21.76	15.13
2012	126	14.14	11.06	141	34.56	27.02	132	21.48	16.79
2013	126	14.79	16.09	125	23.11	25.15	97	23.93	26.04
2014	75	11.61	11.30	132	24.58	23.92	90	13.53	13.16
2015	81	14.70	13.40	92	22.89	20.87	63	12.87	11.74
1991~2015	12911	297.71**	19.22	6858	483.22**	31.19	5855	235.01**	15.17

*: the percentage of Taiwanese investment in the province / city in the total investment in the mainland in that year.

** : excluding the amount of investment by Taiwan businessmen into the mainland through free ports such as British Virgin, the Cayman Islands, Samoa, Mauritius and Barbados, the amount of investment approved by Taiwan's Investment Review Commission in mainland China is generally lower than the actual amount of Taiwan capital used by mainland statistics.

Source: Taiwan investment Ministry of economic affairs, approved overseas investment in January 2016, land investment to Taiwan, foreign investment and Chinese mainland investment statistics.

(2) Transfer of investment area

Since 2006, the mainland has been accelerating the reform of the foreign exchange system, taxation system,

financial system, and land environmental protection. Several new bills have been promulgated and implemented, including the new Labor Contract Law and

the Corporate Income Tax Law. With the gradual establishment and improvement of the market economic order in the mainland and the adjustment and fermentation of the Taiwan policy in recent years, the operating costs and operating difficulties of Taiwanese businessmen in mainland China are also increasing. Under the dual pressure of the transformation of economic growth mode and the rising cost of land and labor factors, some investment areas of Taiwan-funded enterprises in the Pearl River Delta have shifted.

Firstly, transfer within the province. Guangdong Province comprehensively launched the "dual transfer" strategy of industry and labor in 2008 to further enhance the industrial development level of the Pearl River Delta, realize brand output, industry transfer, expansion space, high-tech introduction and optimization of structure, and gradually shift labor-intensive industries to The east and west wings and mountainous areas will shift, and differentiated industrial policies will be implemented throughout the province to promote the formation of industries in the Pearl River Delta, the western and eastern Guangdong wings and the mountainous areas in northern Guangdong to form industrial gradients with their own emphasis and reasonable division of labor. Dongguan, Shenzhen and other densely populated cities with Taiwanese-funded enterprises have also introduced supporting measures such as "dual transformation" and "vacation of cages for birds". Affected by this, some Taiwanese-funded enterprises in the Pearl River Delta began to transfer or increase capital and expand factories to less developed areas in the province. With the support of 50 billion "double transfer" policy funds and the guidance of government policies, industrial transfer industrial parks in Jiangmen, Huizhou, Zhaoqing, Heyuan, and Shaoguan have become the main undertaking sites for the gradient transfer of Taiwanese enterprises. According to incomplete statistics, in Shenzhen alone, nearly 1,000 Taiwan-funded enterprises have moved to the eastern and western wings of the province and the northern mountainous areas.

Secondly, transfer domestically. In the central and western regions of the mainland, with its preferential investment policies, abundant natural resources, relatively secure energy and power supply, and cheap labor and land, it provides new investment for Taiwanese businessmen in labor and resource-intensive industries and high-energy-consuming industries. Opportunities have become increasingly attractive to Taiwanese businessmen. With Beijing and Tianjin as the center, the Shandong Peninsula and Liaodong Peninsula as the two wings of the Bohai Rim Economic Circle, Chengdu and Chongqing in the western region, Henan, Hubei and Hunan in the central region, Fujian in the Haixi region, and the China-ASEAN Free Trade Area (CAFTA) Guangxi and other provinces and cities have become new directions for the transfer of some Taiwanese businessmen in the Pearl River Delta. Such Taiwanese companies usually choose to keep their manufacturing bases in the Pearl River Delta region, and the main mode of industrial transfer is to increase capital and expand factories and deploy to the mainland. For example, the

Foxconn Group, headquartered in Shenzhen, has successfully moved north and west in recent years, actively deployed inland, and established industrial bases in Zhengzhou, Wuhan, Chongqing, Chengdu, Hengyang and Changsha.

Thirdly, transfer to foreign countries. There are also some large-scale Taiwan-funded enterprises in traditional industries, under the dual pressure of rising labor costs and insufficient supply in the mainland, choosing to invest in Southeast Asian neighboring countries and regions with relatively rich and cheap labor resources, such as Vietnam, India, the Philippines, Malaysia and Thailand and other countries established new production sites. For example, Zhenmingli Group, a leading company in the LED industry in Jiangmen City, moved its factory to Vietnam in 2011. In addition, in order to attract Taiwanese businessmen to invest in Taiwan, the Taiwan authorities have provided a series of preferential policies for relocating companies. In addition to the direct cross-strait flights reached in 2008 and the official signing of ECFA and other favorable policies, some Taiwanese businessmen in Guangdong chose to return to Taiwan or expand Taiwan's production capacity. , In order to reduce transportation costs and change the regional layout.

(3) Actively explore upgrading or transformation

Under the dual influence of market forces and policy guidance, most of Guangdong and Taiwan-funded enterprises choose to upgrade or transform to achieve redevelopment. A survey report on the transformation and upgrading of mainland Taiwanese businessmen conducted by Taiwan scholar Yang Ningren on the mainland shows that the mainland is still the first choice for many Taiwan-funded enterprises to invest. In the Pearl River Delta region, 75% of Taiwanese businessmen said that although their operations in the mainland were affected, they would not leave easily. 20% of Taiwanese businessmen said they would not be affected by the mainland's business environment and policies, and only 5% of them Taiwanese businessmen are preparing to leave. Another study on the attitude of Taiwanese-funded enterprises in Dongguan, mainland China towards transformation and upgrading showed that 58.6% of Taiwan-funded enterprises will actively take measures to promote transformation and upgrading (of which 6.9% will transform and 48.3% will Enterprises upgrade in place, 3.4% of enterprises choose to transfer), 41.4% of Taiwan-funded enterprises will maintain the status quo and wait for a turnaround.

Regarding the upgrading of industrial investment structure, the proportion of investment in processing and manufacturing has declined in recent years, and the proportion of investment in high-end manufacturing and service industries has continued to increase. According to data from Taiwan's "Investment Review Committee of the Ministry of Economic Affairs", investment in Guangdong's manufacturing industry approved in 2015 accounted for 55.62% of the total investment that year, and investment in the service industry accounted for 44.28%, which is close to half of the total investment. From the perspective of investment industry,

manufacturing investment is mainly concentrated in high-end manufacturing fields such as electronic component manufacturing, computer and electronic products and optical product manufacturing, and power equipment manufacturing, accounting for 60.63% of the entire manufacturing investment; services; Industry investment is mainly concentrated in finance and insurance, wholesale and retail, transportation and warehousing, information and communications, and professional, scientific and technical service industries. The proportion of investment in finance and insurance has been rising in recent years and accounted for the total in 2015 32.92% of the investment amount was the largest industry that Taiwanese businessmen invested in Guangdong that year. Financial institutions such as South China Bank of Taiwan, Yushan Bank, Fubon Bank, China CITIC Bank, Cathay Life Insurance, and Cathay Pacific Property & Casualty Insurance have established branches, representative offices or branches in Guangdong, and they are developing well. The industrial structure of Guangdong Taiwanese investment has been continuously upgraded, and the era of "outstanding" in the processing and manufacturing industry has come to an end.

From the perspective of the industrial chain, actively promote the transformation and upgrading of enterprises through the extension of the industrial chain, and seize both ends of the "smile curve". With the upgrading of industrial investment structure, Taiwanese business focus has shifted from the Taiwan parent company to the mainland subsidiary. Their investment in Guangdong has gradually expanded from simple manufacturing to R&D design, procurement, production management, sales and after-sales service. In other links, the level of value continues to rise to both ends of the "smile curve". Taiwanese-funded enterprises pay more attention to deepening the mainland, setting up diversified and increasingly complete department classifications in local subsidiaries. In addition to traditional manufacturing and production centers, more and more Taiwan-funded enterprises have set up R&D and design centers, purchasing centers, quality control centers, marketing centers, and after-sales service centers in Guangdong. Upstream and downstream partner companies, scientific research institutions and technology transfer units, as well as colleges and universities to establish "production, study and research" cooperative relations. The production mode of these enterprises is gradually developing along the path of "OEM-ODM-OBM", and their operation mode has gradually changed from the traditional "four-corner mode", that is, "Japanese technology-Taiwan design-mainland processing-US and European exports" The cycle of "Japanese technology-Taiwan design-Mainland processing and sales" is shifted to the "triangular model" of "cross-strait technology and design-Mainland processing and sales".

(4) Seeking for "landing roots" and "market transfer"

Although since the financial crisis, Guangdong's Taiwan-funded enterprises have shown signs of shrinking in scale and regional relocation, after more than seven years of adaptation and adjustment, most of the enterprises in Guangdong and Taiwan still choose to stay

and achieve "rooting" through transformation and upgrading. Taking Dongguan as an example, survey data shows that 91.6% of the surveyed Taiwanese companies expressed their willingness to continue operating in their industry, 82.3% of Taiwanese companies are willing to expand investment in Dongguan, 81.5% of Taiwanese companies are confident in transformation and upgrading, and 86.1% Of Taiwanese companies hope to continue to take root in Dongguan.

The government's auxiliary guidance policy has obvious effects. For example, Dongguan City pioneered a cooperation mechanism with Taiwan Productivity Counseling Organizations in China, with 140 million yuan funding from the city, and introduced Taiwan Industrial Technology Research Institute, the China Productivity Center, the Zhongwei Development Center, the Electrical and Electronics Industry Association, and Taiwanese businessman Zhang 14 well-known industrial service organizations in Taiwan have provided diagnostic counseling services for local Taiwan-funded enterprises in terms of technology upgrading, product design, management optimization, domestic sales, and intellectual property rights. They have diagnosed 823 Taiwan-funded enterprises and provided in-depth counseling to 375. The average production cost of the enterprises receiving diagnosis and counseling was reduced by 15%, inventory was reduced by 20%, labor was reduced by 10%, investment increased by US\$958 million, domestic sales increased by 7.92 billion yuan, and taxes generated by 1.58 billion yuan.

Exploit the domestic market through "market transfer". "Market transfer" refers to the shift of Taiwanese-funded enterprises' product sales from relying mainly on the international market to the mainland domestic market. It is the only way for mainland Taiwan-funded enterprises to avoid market uncertainties and obtain stable market support. With the sustained high economic growth and the development orientation of "adjusting structure and expanding domestic demand", the mainland's domestic demand market has a vast space, providing market conditions for Taiwan-funded enterprises to "market transfer". According to the survey, among the Taiwanese enterprises surveyed in Dongguan, 33.3% of the enterprises are exporting all their products, 52.4% are "mainly exporting products, and domestic sales are supplemented", and 14.3% of all products are sold domestically, indicating that local Taiwanese enterprises are expanding into the domestic market. The pace is significantly accelerating. At present, the Taiwan Expo and Damaike have become important platforms for Taiwanese enterprises in Guangdong to explore the domestic market. In addition, the "localization" of corporate procurement and talent has become increasingly prominent. "Sourcing from local materials" has become the most important form for Taiwan-funded enterprises to purchase machinery and equipment, raw materials, parts, and semi-finished products needed for production; enterprises are paying more attention to market-oriented and recruiting mainland high-level talents. In terms of investment cooperation objects, more and more Taiwan-funded enterprises choose to cooperate

with local governments, state-owned enterprises, private enterprises or individuals to speed up the deployment of the mainland market.

3 Conclusion Remarks

Despite the challenges facing Taiwanese investment enterprises in upgrading and transformation, Chinese mainland is still the most active and potential economy in the world compared with neighboring countries and regions. In the long term, Guangdong will remain one of the most open, dynamic and most innovative mainland provinces. Under normal conditions, the mainland's overall economy will still maintain medium and high-speed growth. Its huge population size, growing domestic demand market, and a series of adjustments and development under the new economic normal will bring new development opportunities for Taiwan funded enterprises.

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