

Investment of Taiwan’ s logistics service industry

I. Reason to Invest in Taiwan Logistics Service Industry

- A. As the geographical hub of Asia Pacific area, the minimum flight time from Taiwan to the seven major cities in west Pacific area takes only about 2.55 hour. On average, it takes 53 hours for sea freight to be transported from Kaohsiung port to the five major ports overseas.
- B. The establishment of cross-straits sea freight shipping system and the **enhancement of FTZ and FEPZ policies** are the basic conditions for the development of international logistics.
- C. Taiwan logistics service industry has been maturely developed. It has rich experiences in logistics management, equipment, techniques as well as professional human resources.
- D. With international logistics-oriented policy, the government aims to create premium international operation platform to support trade activities, making Taiwan the integration center for value-added logistics and supply chain resources in Asia-Pacific area.
- E. The signing of ECFA enables even closer trade cooperation between cross-straits in the future. It helps Taiwan to continually serves as the gateway to global cross border enterprises in China market, and becomes the propeller for Taiwan logistics business in short and middle terms.

II. Analysis of Taiwan’s Logistics Service Industry

- A. Taiwan, the geographical pivot of the Asia-Pacific region

Taiwan is located at the heart of the Asia-Pacific region. The average flying time from Taiwan to 7 major cities in Western Pacific is merely 2.55 hours. The average sailing time from Taiwan's largest international harbor Kaohsiung port to the 5 major Asia-Pacific harbors (Hong Kong, Manila, Shanghai, Tokyo and Singapore) is around 53 hours. As a hub connecting Europe, America, Japan and the Asia-Pacific emerging markets, Taiwan’s

location is very crucial in terms of industry strategies. Taiwan is the first choice for international corporations to build their headquarters.

B. Perfect for global logistics in terms of its shipping and airfreight services

Along with the opening of cross-strait direct links, Taipei has become the hub on two golden routes, one in Northeast Asia and another Southeast Asia, linking Tokyo Narita, Seoul Incheon and Shanghai Hongqiao to the north, Honk Kong Chek Lap Kok and Singapore Changi to the south, forming into a one-day living circle that connects Taipei, Shanghai, Tokyo and Seoul. Taiwan's geography has largely enhanced the convenience of business trip between the four major cities, bringing new opportunities for economic development and exchanges in the Asia Pacific region.

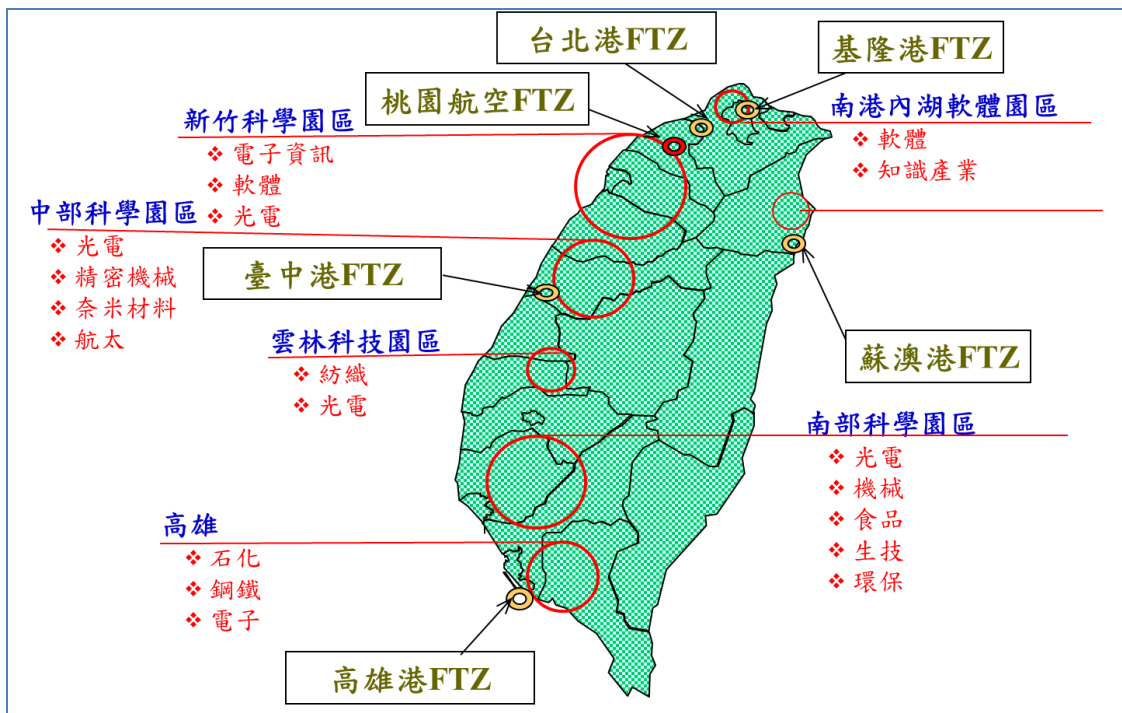


Source: Taoyuan Aerotropolis

Figure 1. Schematic diagram of “Center of Dual Golden Routes”

In recent years, the government has been actively promoting the business in free trade zone (FTZ). Since 2012, 111 vendors were stationed in each free trade zone. The import and export freight volume were 10.38 million ton in total, and the value was about NT\$501.9 billion, which grew 55.5% and 48.4% respectively than last year.

After sea freight normalization is granted, 40,486 vessels of ships directly sailed between the cross-straits ports in 2013, and the growth rate achieves 2.26%. The total loading and unloading containers reach 2.27 million TEU. Around 1.7 million of passengers are carried, and the growth rate arrives 2.68%.



Source: Ministry of Transportation

Figure 2. Locations of Taiwan’s free trade zones (FTZ)

III. Mature Development in Taiwan’s Logistics Sector

According to DGBAS and the Statistic Department, Ministry of Economic Affairs, the annual output value of transportation and warehousing in Taiwan’s logistics sector

in 2012 is 53.5 billion USD. There are several listed, OTC and public offering logistics vendors in Taiwan. Please refer to Table 3 for company names, revenue and profit ratio.

Table 3. Important Logistics Companies and Their Revenues

	2012 Revenue (1,000 USD)	Operating Profit Ratio (%)	2011 Revenue (1,000 USD)	Operating Profit Ratio (%)
CSBC	1,040,497.65	1.48	983,104.38	5.13
First Steamship	6,246.65	-19.12	6,686.59	-0.83
Evergreen Marine	547,722.51	-2.05	521,360.75	-5.05
Sincere Navigation	3,368.75	-175.49	5,336.59	-91.17
U-ming Marine	54,645.55	-13.82	54,055.33	-7.96
Evergreen International	148,329.74	7.26	145,342.33	8.02
Kerry TJ	219,820.35	13.36	205,971.27	13.8
Yang Ming	3,711,006.83	-4.6	3,327,114.05	-11.2
China Airlines	4,477,916.31	0.26	4,488,245.24	-1.18
Tze Shin	97,328.66	39.8	15,575.62	-3.44
Chinese Maritime	47,956.81	-0.48	56,492.63	-2.35
China Container	78,172.93	3.07	81,063.08	5.05
Eastern Media	126,068.86	-66.46	194,401.39	-15.52
Wan Hai	1,910,967.51	4.87	2,127,969.34	-3.14
Taiwan Navigation	70,697.03	13.76	60,878.91	12.56
EVA Airways	3,616,887.40	0.76	3,468,401.09	0.44
Farglory FTZ	3,694.98	83.37	1,300.24	25.37
Shih Wei Navigation	21,351.25	45.32	21,498.39	61.11
Transasia Airways	320,758.26	-0.89	296,672.91	7.14
T.H.I. Global	30,241.31	-0.49	35,329.02	0.65
Taiwan Allied Container	625.11	40.07	616.15	37.25
Sea & Land	43,731.61	-2.06	50,545.66	-2.82
Chung Lien	49,136.35	6.47	53,847.21	12.15
Dimerco	41,138.77	0.9	37,653.92	-2.37

Source: organized by CDRI

IV. Government's Strong Support of Global Logistics Service Industry

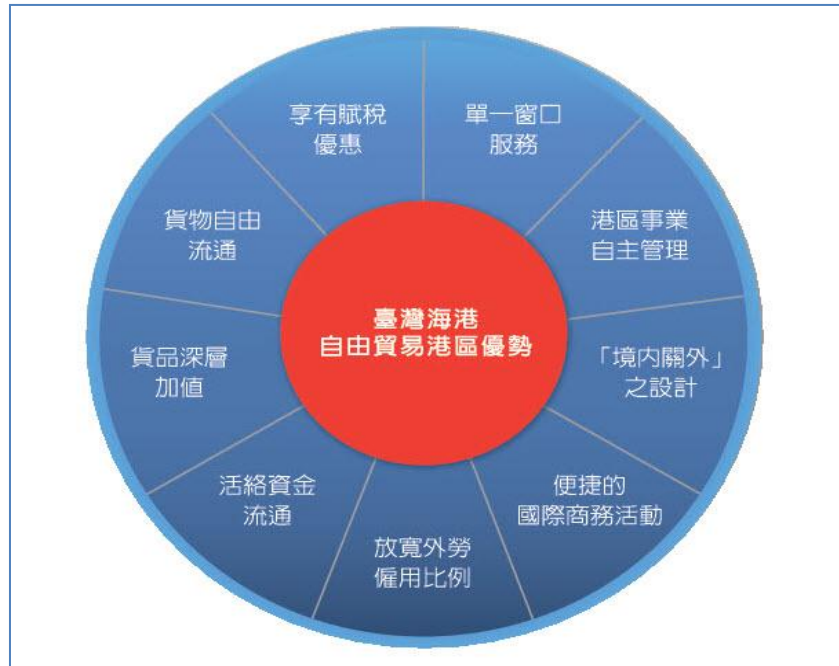
A. Development strategy of global logistics services

In 2010, Council for Economic Planning and Development integrated departments of Executive Yuan, presenting an action plan for the development of global logistics service industry. With “enhancing the efficiency of customs clearance,” “complete infrastructure,” “strengthening logistics services” and “encouraging cross-border corporations” as four development dimensions, it is expected that Taiwan will have a better opportunity in controlling over global logistics business. Such plan is expected to accomplish the following three objectives:

1. Develop the core strength of global logistics services and implement cross-departmental integration between custom, harbor and trade to enhance Taiwanese enterprises' global logistics capabilities.
2. Make full use of cross-strait direct flights and economic exchanges to establish supporting policies in logistics and promote connections between the supply chains in Taiwan and the Asia-Pacific region.
3. In response to the signing of ECFA, provision a global service network to launch Taiwan's ten golden years in economy and trade, making Taiwan an important stronghold that integrates logistics services and supply chains in the Asia Pacific region in 2020.

B. Operation niches of Taiwan's free trade zones

Major economic regions and nations around the globe now all extensively make use of free trade zones (FTZ) as the operations nodes for their global supply chains.



Source: Ministry of Transportation

Figure 3. Operation Niches of FTZ

By providing complete services through the nine measures, it is expected to see vendors stationing in Taiwan’s free trade zones:

1. Autonomous management on FTZ business: Government interference can be reduced through a highly autonomous management system implemented in the FTZ. Goods are exempted from audits, inspections and escorts, which may accelerate the circulation of goods and manpower.
2. “Outside the custom territory”: A FTZ is seen as a special economic region outside the nation’s custom territory. Goods in the FTZ are free to circulate in and out of the country and are exempted from regulations of out/input business, tax and other limitations, which may lower possible hindrance to logistics, commerce and manpower circulation during a multinational operation.
3. Fast and convenient international business activities: To simplify immigration paperwork, foreign business people (including people from the mainland China) may ask the vendors in the FTZ to apply to the management authority for “selective landing visa.” Exhibitions and trade activities are also held in the FTZ.
4. Relaxation of the hiring ratio of foreign workers: The manufacturing

sector's hiring ratio of foreign labor in the FTZ can be increased.

5. Activate capital flow: Vendors in the FTZ may engage in foreign currency exchanges and foreign exchange transactions. OBU may handle the foreign currency exchanges and foreign exchange businesses in the FTZ. Vendors may apply to the FTZ management authority for establishing a holding company for overseas investment.
6. Value added cargos: In the FTZ, vendors may conduct a more complex repackaging, processing and manufacturing of their goods, utilizing Taiwan's advantage in producing high value-added products. Logistics business owners may enhance their competitiveness by carrying out substantive processing through individual project approvals.
7. Free circulation of goods: When shipped into, out of the FTZ or transported into another FTZ, goods are exempted from audits and inspections under the principle of custom clearance. Cargo circulations between domestic tax zones and bonded zones should be reported on a monthly basis, which may increase circulation efficiency.
8. Tax incentives: When transporting operation cargos (including warehouse, logistics, assembly and repackaging cargos) as well as machinery and equipment into the FTZ, vendors are exempted from custom duties, excise duties, sales tax, the charges for promoting trade service and commercial harbor service. Selling goods from domestic tax zones or bonded zones to the vendors in the FTZ also applies to zero tax rate of business tax. Foreign vendors in the FTZ selling inventory goods or simple processed goods to domestic and foreign customers is also exempted from business income tax.
9. Single window service: Ministry of Transportation established the "FTZ Cross-Ministerial Task Force," which is solely responsible for deliberating FTZ development policies, establishing cases as well as consulting cross-ministerial matters. A single window as the management authority "The FTZ Working Group" was also established, responsible for related businesses in the FTZ.

In addition, when vendors enter the FTZs, Keelung Harbor, Taipei Harbor, Taichung Harbor, Kaohsiung Harbor and Suao Harbor, they are required to pay for land rent and management fees. As in Taoyuan Aerotropolis, land rent is not required

since this FTZ only provides warehouses for rent.

Table 5. Rental and Related Cost in Taiwan FTZs

Unit : 1,000 USD/m ² /month				
FTZ	Area (Hectares)	Company Number	Land Rental/ Warehouse Rental	Management Fee
Keelung Harbor FTZ	71.16	10	1-5	15% of the gross rental
Kaohsiung Harbor FTZ	415.41	25	0.5 (facility rent not included)	10% of the gross rental
Taichung Harbor FTZ	536	25	0.2 (facility rent not included)	2.5-3.3
Taipei Harbor FTZ	79	2	0.8-1	15% of the gross rental
Taoyuan Aerotropolis FTZ	35	83	12	30.25
Suao Harbor FTZ	71.5	-	-	-

Source: Ministry of Transportation

V. Signing of ECFA Reduced Cross-Strait Trade Barriers

A. The advantage of preemptive market share

The signing of ECFA enables the cross-straits flight normalization. The logistics vendors are able to set up the freight gather center in Taiwan, entering Yangtze River Delta and the eastern and northern part of China. Or, they may take the advantage of Taiwan's key position in global supply chains, settling in Taiwan as their global shipping center. Providing logistics services directly in China or making Taiwan the relay station (logistics center) for investing in China are both expected to see the growth overall supply number, which may make up for the loss of supply number due to industry migration. In the future, Taiwan not only is able to provide logistics centers with functions such as distribution, gather, transfer, value-adding, but also establish friendly logistics environment and assist the vendors to upgrade the system and technology. By supporting the cooperation between Taiwan/Chinese business and forwarders, Taiwan is able to bring excellent and quality logistics service with adequate supply.

B.The advantage as regional hub

As a close neighbor to China market, Taiwan has the advantage of geographical distance and Chinese culture. With high acceptability to technology and well-connected networks with the international society, Taiwan is an ideal choice for strategic alliance partner. Secondly, As Taiwan business enjoys language and culture advantage, cross border enterprises find it easier to make investment and production in mainland China. Also, Taiwan is able to bring European and American countries to enter the China market. Since the logistics efficiency in China market is not as good as that in Taiwan since Taiwan performs better in terms of overall design, FTZ infrastructure, logistics enterprise development and e-commerce. Therefore, vendors are encouraged to enter potential China market in combination with enterprise logistics system.

VI. Create International Value Added Chain through Strategic Alliance to Achieve a Win-Win Situation

Taiwan's logistics vendors are capable of providing integrated services on logistics supply chains, advising cargo owners about management and planning of their supply chains and related strategies. From the development of global logistics industry, it is obvious that the logistics vendors have been actively working on strategic alliances as well as mergers and acquisitions so that they may continuously expand the scope of company in niche investment. Large logistics vendors use traditional sea and air freight forwarding and customs declaration as their fundamental service and apply ICT technology to develop supply chain management service in order to enhance their customer relations and establish their competitive advantages. The value chain of the overall logistics service in Taiwan can be observed through two dimensions: import and export businesses.

A. Import: transport service providers and the inventory management service providers

1. Success stories: Enterprises have introduced advanced management systems and operation techniques from abroad, such as President Transnet and Yamato Transport, TECO Group and Nippon Express,

HCT Logistics and Sagawa Express as well as Kerry TJ Logistics and Seino Transportation. Through the injection of foreign investment, HCT Logistics has successfully transformed into a third-party logistics service provider with the introduction of home delivery technology and management system. In the case of foreign investment in the inventory management service providers, DKSH Swiss obtained equity interest in Chiao Tai Logistics in March, 2010. Chiao Tai Logistics is the biggest logistics company in Taiwan, providing a third-party logistics service for over 100 well-known enterprises. The acquisition of Chiao Tai by DKSH has enhanced the company's delivery quality in consumer goods sector and improved their logistics services.

2. Rising stars: Third-party logistics service providers often provide value added services to enhance their competitiveness. Besides building or leasing a logistics center, they also provide services like processing, packaging, labeling and releases of promotional commodities. P&G and Avon and inventory management service providers, such as convenience stores, supermarkets or hypermarkets, are all worth the investment of overseas Chinese and foreign capitals.

B. Export: Freight Forwarders and Warehouse Service Providers

1. Success Stories: Established in 1995, UTi Logistics Taiwan provides integrated domestic and international logistics services, sea and air freight forwarding services and sea and air import and export declaration services. The company has established a full spectrum of logistics service system. Their service is well received by customers from home and abroad, making them a third-party logistics company with excellent performance. In 2005, it was merged with one of the world's top 10 international freight forwarders UTi, becoming one of the few logistics companies capable of providing a global supply chain solution for customers in Taiwan. Kerry Logistics of Honk Kong was optimistic about the impact of ECFA, so it became a shareholder of Taiwan's TJ Logistics in 2008. Through the integration of Kerry Logistics of Hong Kong, Kerry EAS Logistics of China and Kerry TJ Logistics of Taiwan, Kerry Logistics provides an integrated supply

chain solution in the Greater China Region for IBM, DELL, 3M, and many other important clients. At the same time, Kerry Logistics also took advantage of the opportunities from ASEAN Plus One. They expanded their business scope in Southeast Asia, becoming the biggest third-party logistics service provider in East Asia.

2. A new operation mode includes a horizontal logistics delivery service and a vertical integrated international logistics and transport service. For vendors that used to focus on a specific activity in value chain as the main area of their business, horizontal and vertical integrations both concern the question about how to integrate different companies, involving problems about domination, risk-taking, business opportunity and even sharing of information. In the logistics sector, successful integrations of small and medium vendors are still rare, meaning that Taiwan's SMEs still need logistics partners to provide an overall logistics solution in China or global market. Therefore, international logistics service vendors with regional or transnational logistics solutions can enter Taiwan in cooperation with Taiwan's logistics vendors. Together they can create cross-strait economy and trade integration, expanding their business territory and global layout.