

Mergers and Acquisitions and Foreign Direct Investment in Taiwan: A Literature Review of Strategic Drivers, Institutional Constraints, and Geopolitical Realignment

Trung Duy Vu*, When Yu Tzu

National Taiwan University, No. 1, Section 4, Roosevelt Rd, Xuefu Village, Da'an District, Taipei City, Taiwan.

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ABSTRACT

Purpose: This study examines how mergers and acquisitions (M&A) and foreign direct investment (FDI) have shaped corporate strategy and economic development in Taiwan. It focuses on three questions: what drives M&A and FDI decisions of Taiwanese firms, how these strategies affect firm efficiency, productivity, and risk, and how regulation and cross-strait geopolitics condition their outcomes.

Method: The study applies a qualitative literature review. Twenty peer-reviewed articles and working papers published between 1999 and 2025 were selected from Crossref, OpenAlex, and RePEc/IDEAS, then analyzed descriptively and thematically.

Findings: M&A in Taiwan has been dominated by financial-sector consolidation under the Financial Holding Company Act and the financial restructuring scheme of the early 2000s. Its efficiency gains are modest, slow to appear, and strongly conditioned by corporate governance, managerial ownership, and the cultural fit of merging banks. FDI has served Taiwan both as a channel of technology spillover and as an outward strategy of Taiwanese manufacturers. Its domestic effects depend on the type of investment (horizontal, vertical, expansive, or defensive), its destination, and governance quality. Since 2016, the New Southbound Policy, the US–China trade war, and semiconductor geopolitics have redirected investment away from mainland China and toward Southeast Asia and technologically advanced countries, while inbound Chinese investment remains tightly screened.

Implication: The results help policymakers design investment and merger regulations that balance openness with economic security, and help managers plan post-merger integration and overseas expansion under geopolitical uncertainty.

Originality: This study integrates two research streams that are usually discussed separately in Taiwan, financial-sector M&A and manufacturing FDI, and reads them through synergy, agency, and eclectic-paradigm lenses together with the geopolitical dimension of cross-strait relations.

Keywords: Mergers and Acquisitions (M&A), Foreign Direct Investment (FDI), Taiwan, Financial Holding Company, New Southbound Policy, Geopolitics.

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Correspondence:

Trung Duy Vu, Email: t.duyvu@wvtake.com

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1. INTRODUCTION

Firms grow, restructure, and diversify through a limited set of strategic tools, and mergers and acquisitions (M&A) remain the most prominent of them (Cumming et al., 2023). M&A allows a firm to obtain assets, markets, technology, and managerial capabilities faster than organic growth, but it also exposes the acquirer to integration costs, overpayment, and conflicts between managers and shareholders (Suryaningrum et al., 2023). Foreign direct investment (FDI) is the closely related cross-border counterpart. Through FDI, a company establishes or acquires lasting control over productive activities in another economy, either by building new facilities or by purchasing existing firms. The eclectic paradigm explains that firms invest abroad when they combine ownership advantages, location



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advantages of the host economy, and internalization advantages that make direct control preferable to arm's-length contracts (Dunning, 1988). M&A and FDI are therefore two faces of the same strategic choice: how a firm reconfigures its boundaries and its geographical footprint to create value.

Taiwan is an unusually informative setting in which to study these strategies. It is a small, export-oriented economy that moved within a few decades from labor-intensive assembly to the frontier of advanced manufacturing, most visibly in semiconductors and electronics. Inward FDI played an important role in the early stage of this transformation by transferring technology and generating productivity spillovers to domestic firms (Chuang & Lin, 1999), and the determinants of these inflows have been a long-standing concern of Taiwanese economists (Tsai, 1991). As domestic wages and land costs rose, Taiwanese manufacturers became major outward investors, especially in mainland China, which raised concerns about the hollowing-out of domestic production and employment (Liu & Nunnenkamp, 2011). At the same time, Taiwan's financial sector experienced a wave of consolidation after the enactment of the Financial Holding Company Act in 2001, which made bank mergers and financial holding company (FHC) formation the dominant form of domestic M&A (Lin & Lee, 2010; Chiou, 2009).

Taiwan is also distinctive because its M&A and FDI activity is inseparable from geopolitics. The government has historically limited the amount that firms may invest in mainland China (Hung & Chiang, 2009), and it screens inbound investment from the mainland closely because of fears that Beijing may use capital as an instrument of economic statecraft (Lee & Knoerich, 2024). Since 2016, the New Southbound Policy (NSP) has sought to diversify Taiwan's economic relations toward Southeast Asia, South Asia, and Australasia (Jamil, 2023), while the US–China trade war has altered the research and development (R&D) and outward investment choices of Taiwanese firms (Lai & Sarkar, 2024). Taiwan's semiconductor dominance has even been framed as a "Silicon Shield" for its security, although that argument is contested (Weil et al., 2025). Corporate strategy in Taiwan is therefore shaped not only by synergies and costs, but also by regulation, national security, and great-power rivalry.

Despite a substantial body of research, the literature on Taiwan remains fragmented. Studies of bank mergers rarely engage with studies of manufacturing FDI, and studies of the NSP or semiconductor geopolitics are usually written from the perspective of international relations rather than corporate finance and accounting. Based on these issues, the objectives of this study are to analyze M&A and FDI in Taiwan, to explore the strategic drivers and challenges that Taiwanese firms face in implementing these strategies, and to review how these strategies relate to firm efficiency, productivity, risk, and business sustainability. The research questions are: What are the strategic drivers and key constraints that determine M&A and FDI in Taiwan, and how do these strategies affect the performance and sustainability of firms operating in Taiwan's business and geopolitical environment?

The findings are expected to provide useful guidance for regulators, financial supervisors, executives of Taiwanese firms, and multinational companies that intend to invest in or partner with Taiwan, including investors from Southeast Asian economies such as Indonesia that are targeted by the NSP. The scope of the study is limited to published literature on M&A and FDI involving Taiwan. Because the study is a literature review and does not collect new data, its analysis relies on the availability and quality of prior studies. The paper is organized as follows: the introduction is followed by a literature review, a description of the research method, the results and discussion, and the conclusion.

2. LITERATURE REVIEW

2.1. Mergers and Acquisitions (M&A)

Mergers and acquisitions are transactions in which two firms combine into one entity or one firm obtains control of another. They are used to achieve economies of scale and scope, enter new markets, acquire technology, and restructure distressed industries. Bibliometric evidence shows that research on M&A in finance and accounting has concentrated on governance mechanisms, shareholder wealth effects, and the accounting treatment of goodwill, and that emerging markets, digitalization, and sustainability remain underexplored (Cumming et al., 2023). Evidence on post-merger performance is mixed. Managerial ability has been shown to shape whether acquiring firms improve their performance after an acquisition, which implies that the same transaction can create or destroy value depending on who manages the integration (Suryaningrum et al., 2023).

M&A is also increasingly assessed beyond its short-term financial outcomes. Cross-border M&A has been described as a challenge for sustainable business because it involves knowledge exchange, market positioning, risk reduction, and restructuring in addition to financial motives (Hečková

et al., 2019). A systematic review further concludes that sustainability considerations should be integrated throughout all stages of the deal, from target screening and due diligence to post-merger integration (Kayser & Zülch, 2024). In Taiwan, the largest and most systematically studied M&A wave occurred in banking and finance, where mergers were encouraged by legislation and by government-led restructuring after the Asian financial crisis.

2.2. Foreign Direct Investment (FDI)

Foreign direct investment refers to an investment through which an investor acquires a lasting interest and effective control in an enterprise operating in another economy. FDI can take the form of greenfield investment or cross-border M&A. According to the eclectic paradigm, firms engage in FDI when they hold firm-specific ownership advantages, when the host country offers location advantages such as markets, resources, or lower costs, and when internalizing the activity within the firm is more efficient than licensing or trading (Dunning, 1988). For a host economy, inward FDI can transfer technology and generate spillovers to local firms; for a home economy, outward FDI can raise the productivity of investing firms but can also shift production and employment abroad.

Taiwan has experienced both sides of this process. Early studies examined what attracted FDI into Taiwan (Tsai, 1991) and how foreign presence raised the productivity of domestic manufacturers (Chuang & Lin, 1999). Later studies shifted attention to outward FDI, its interaction with growth, openness, and unemployment (Chang, 2007), and its consequences for home-country production (Liu & Nunnenkamp, 2011) and firm-level productivity and innovation (Lin et al., 2015).

2.3. Corporate Performance after M&A and FDI

Corporate performance after M&A is commonly evaluated with accounting ratios, stock-market reactions, or frontier efficiency methods such as data envelopment analysis (DEA). In Taiwan, efficiency-based approaches dominate the banking literature. Studies have compared cost efficiency before and after mergers (Lin, 2005), measured the static and dynamic efficiency of merged banks (Lee & Chih, 2014), and examined whether conversion into financial holding companies improved efficiency and total factor productivity (Wu, 2015). These studies generally show that efficiency gains are neither automatic nor immediate.

Performance after FDI is evaluated through productivity growth, innovation capability, domestic production and employment, and risk. Taiwanese evidence indicates that outward investors tend to experience higher productivity growth than non-investors, although the effect differs between expansive and defensive investment motives (Lin et al., 2015). FDI can also raise the downside risk of investing firms, particularly when the investment is channeled into opaque destinations such as tax havens (Wang et al., 2019). Performance after M&A and FDI should therefore be read through multiple indicators rather than a single financial ratio.

2.4. Business Sustainability

Business sustainability refers to a firm's ability to create long-term value while managing economic, social, and governance risks. In the M&A context, sustainability is increasingly treated as a value driver and a risk factor that must be assessed at every stage of a deal (Kayser & Zülch, 2024). In the FDI context, sustainability includes the effect of investment on domestic employment and skills, labor relations, and the resilience of supply chains. For Taiwan, labor standards and the supply of skilled workers influence whether firms keep production at home or move it abroad (Lai & Sarkar, 2022), and geopolitical shocks such as the US–China trade war have changed how firms allocate R&D and overseas investment (Lai & Sarkar, 2024). Sustainability in Taiwan is therefore tied to economic security and supply-chain resilience as well as to environmental and social performance.

2.5. Taiwan as a Strategic Location

Taiwan occupies a strategic position in the global economy because of its role in electronics and semiconductor supply chains. This position gives Taiwanese firms strong ownership advantages in the sense of the eclectic paradigm, especially in precision manufacturing and process technology, and makes Taiwan an attractive partner for technology-seeking investors. It has also turned Taiwan's industrial base into a geopolitical asset. Some observers argue that global dependence on Taiwanese chips deters military aggression, an argument known as the "Silicon Shield"; however, a conceptual assessment through grand theories of international relations concludes that this narrative has weak academic foundations and functions more as a hopeful story than as a reliable deterrent (Weil et al., 2025).

Taiwan's location also places it at the center of cross-strait economic integration. Mainland China has been the most important destination for Taiwanese outward FDI, and the government has long regulated these flows through approval procedures and an upper limit on investment (Hung & Chiang, 2009). Conversely, mainland Chinese investment in Taiwan has been permitted only under strict ownership limits and screening (Lee & Knoerich, 2024). Since 2016, the New Southbound Policy has sought to diversify Taiwan's trade and investment toward eighteen partner countries in Southeast Asia, South Asia, and Australasia (Black, 2019; Jamil, 2023).

2.6. The Relationship between Mergers and Acquisitions and Foreign Direct Investment

M&A and FDI are intertwined strategies. Cross-border acquisitions are one entry mode of FDI, while domestic mergers can prepare firms to compete internationally by increasing their scale and capital base. In Taiwan, the two streams interact in several ways. Financial-sector consolidation created larger financial holding companies with the capacity to serve Taiwanese manufacturers abroad, and the government has encouraged financial institutions to expand into overseas markets (Wu, 2015). Manufacturing FDI, in turn, has relied on Taiwanese firms' ability to transfer capabilities across borders, while inbound acquisitions by mainland Chinese firms in sensitive industries, such as semiconductor testing, have been blocked for security reasons (Lee & Knoerich, 2024). The relationship between M&A and FDI in Taiwan is therefore mediated by regulation as much as by market forces.

2.7. Synergy Theory

Synergy theory states that the main purpose of a merger or acquisition is to create a combined entity whose value exceeds the sum of the separate firms. Synergies may arise from cost reductions, better use of assets, market expansion, revenue enhancement, and the transfer of knowledge. Case-based research shows that synergy is not a single, fixed outcome; it is a process that unfolds over time and depends on how the acquirer integrates the target's resources and relationships (Holtström & Anderson, 2021). This perspective is useful for interpreting Taiwanese bank mergers, where efficiency gains appeared mainly when merging banks had complementary organizational cultures (Lin, 2005) and where efficiency improved gradually rather than immediately after the merger (Lee & Chih, 2014).

2.8. Agency Theory

Agency theory explains the conflicts of interest that arise when owners (principals) delegate decision-making to managers (agents) whose interests are not fully aligned with their own (Jensen & Meckling, 1976). In M&A, agency conflicts can lead managers to pursue empire-building acquisitions that enlarge the firm but destroy shareholder value. In FDI, agency problems can appear when managers channel investment into opaque jurisdictions where monitoring is difficult. Both issues are documented in Taiwan. Managerial ownership is positively related to bank merger results and board size is negatively related to them (Chu et al., 2016), while FDI into tax havens is associated with higher agency costs, earnings management, and downside risk (Wang et al., 2019). Sound corporate governance is therefore a precondition for M&A and FDI to create value.

2.9. Eclectic Paradigm and Economic Security

The eclectic paradigm offers a useful framework for explaining why Taiwanese firms invest abroad and why foreign firms invest in Taiwan. Ownership advantages include proprietary technology, process know-how, and managerial capabilities; location advantages include market size, labor costs, infrastructure, and policy incentives; and internalization advantages arise when firms prefer to control foreign operations directly rather than license their know-how (Dunning, 1988). In the Taiwanese case, however, the paradigm must be extended to include economic security. A location that offers low costs may still be unattractive if the investment exposes the firm to political pressure, export controls, or sudden regulatory changes. Likewise, a host government may block an acquisition that is commercially sound because it would transfer sensitive technology to a rival state (Lee & Knoerich, 2024).

This extension has direct consequences for corporate decision-making. When firms evaluate a potential acquisition or a new overseas plant, they must estimate not only expected synergies and costs, but also the probability that the deal will be approved, the possibility of future restrictions on technology flows, and the resilience of supply chains in a crisis. The literature on the US–China trade war and on the Silicon Shield debate shows that these risks are no longer marginal for Taiwanese firms (Lai & Sarkar, 2024; Weil et al., 2025). For this reason, the present study treats geopolitics as an integral part of the strategic environment of M&A and FDI rather than as a background condition.

3. RESEARCH METHOD

3.1. Research Design

This research was conducted using the literature review method, an approach that collects, evaluates, and synthesizes existing studies on a specific topic. A literature review is appropriate when the aim is to map the state of knowledge, identify patterns and contradictions among prior findings, and highlight directions for future research (Snyder, 2019). This study uses a semi-systematic, integrative approach because the literature on Taiwan spans several disciplines, including finance, accounting, economics, management, and international relations, and uses diverse methods ranging from efficiency analysis and econometric models to qualitative policy analysis.

3.2. Sample and Data Collection

The literature was searched in Crossref, OpenAlex, and RePEc/IDEAS, supplemented by targeted web searches to locate abstracts and verify bibliographic details. The keywords were combinations of "Taiwan", "Taiwanese firms", "mergers and acquisitions", "bank mergers", "financial holding company", "foreign direct investment", "outward FDI", "New Southbound Policy", "trade war", and "semiconductor". The inclusion criteria were: (1) the study explicitly analyzes Taiwan or Taiwanese firms; (2) it addresses M&A, FDI, or the policy environment of M&A and FDI; (3) it was published before 2026 as a journal article or a recognized working paper; and (4) its bibliographic record, including a DOI or an abstract page, could be verified. Based on these criteria, twenty studies published between 1999 and 2025 were retained, as summarized in Table 1.

Table 1. Number of Literature Search Results

Database	Observation Date	Period	Keywords / Screening Step	Total
Crossref, OpenAlex, RePEc/IDEAS	10 October 2026	1999–2025	Taiwan, Taiwanese firms, mergers and acquisitions, bank mergers, financial holding company, foreign direct investment, outward FDI, New Southbound Policy, trade war, semiconductor	71
	10 October 2026	1999–2025	Removal of duplicate records	52
	10 October 2026	1999–2025	Elimination of records not focused on Taiwan M&A/FDI, without a verifiable DOI or abstract page, or published in 2026	20

Source: Research Data – processed (2026)

The twenty studies were then used as the main literature sources. The collected data were analyzed in three stages: first, the data were reduced according to the inclusion criteria; second, each study was read and coded according to its object, method, and main findings; and third, the coded findings were compared and synthesized to draw conclusions.

3.3. Data Analysis

The data were analyzed descriptively and thematically, in line with the literature review approach. Each selected study was classified into one of three themes: (1) M&A and consolidation in Taiwan's financial sector; (2) inward and outward FDI and their effects on productivity, employment, and risk; and (3) the regulatory and geopolitical environment of M&A and FDI, including cross-strait investment controls, the New Southbound Policy, the US–China trade war, and semiconductor geopolitics. Within each theme, the analysis identified patterns, relationships, and variations in findings across studies.

The analysis also considered the publication period, the methods employed in each source, and each study's contribution to theory and practice. This made it possible to trace how research priorities shifted over time, from inward FDI and technology spillovers in the 1990s, to financial-sector consolidation in the 2000s and 2010s, and to geopolitical realignment after 2016. The findings were then synthesized with synergy theory, agency theory, and the eclectic paradigm to identify general patterns and remaining research gaps.

While this method offers an integrated view of the existing literature, its main limitations are its reliance on secondary sources and the possibility of selection bias. To reduce this bias, the study used several databases, included only sources whose bibliographic records could be verified, and covered a long time span so that both early and recent evidence is represented.

4. RESULTS AND DISCUSSION

4.1. Results

The literature review shows that M&A and FDI in Taiwan are shaped by three forces: market-driven synergy and efficiency motives, institutional and governance conditions, and geopolitical constraints. In the financial sector, M&A has been driven largely by regulation. The Financial Holding Company Act and the financial restructuring scheme encouraged consolidation, but the resulting efficiency gains were weak (Lin & Lee, 2010), appeared only in the long run (Lee & Chih, 2014), or were not accompanied by higher productivity growth (Wu, 2015). Mergers between banks with different organizational cultures improved cost efficiency more than mergers between similar banks (Lin, 2005), and governance features such as managerial ownership and board size influenced merger outcomes (Chu et al., 2016). Bank mergers in Taiwan also tended to be countercyclical, with weak banks merging during economic downturns under government support (Guo & Yang, 2013).

For FDI, the literature shows that inward investment generated productivity spillovers to Taiwanese manufacturers (Chuang & Lin, 1999) and interacted with growth, openness, and unemployment over the long run (Chang, 2007). Outward FDI improved the productivity of investing firms, especially when the motive was expansive rather than defensive (Lin et al., 2015), and did not systematically hollow out domestic production (Inada & Guo, 2016); however, its domestic effects depended on the size, destination, and type of investment (Liu & Nunnenkamp, 2011). FDI also raised downside risk when it flowed to opaque destinations (Wang et al., 2019). Finally, the recent literature shows that cross-strait regulation, the NSP, the US–China trade war, and semiconductor geopolitics have become central determinants of where and how Taiwanese firms invest (Lee & Knoerich, 2024; Lai & Sarkar, 2024; Weil et al., 2025). Table 2 summarizes the twenty studies.

Table 2. Journal Article Results

No	Title and Author	Results
1	Foreign direct investment, R&D and spillover efficiency: Evidence from Taiwan's manufacturing firms Yih-Chyi Chuang & Chi-Mei Lin (1999).	Using firm-level data and Heckman's two-stage method, FDI and R&D both raise productivity through spillovers; labor quality, firm size, market structure, and export orientation also matter. FDI, purchased local technology, and outward investment act as substitutes for in-house R&D. Developing countries may first attract FDI for technology transfer and later shift to supporting R&D and intellectual property protection.
2	An empirical analysis of bank mergers and cost efficiency in Taiwan Ping-wen Lin (2005).	Using 1997–1999 panel data on 46 Taiwanese commercial banks and a two-stage DEA approach, mergers between banks with different organizational cultures raise cost efficiency, while mergers between similar banks yield only marginal gains with little financial innovation. Smaller banks outperform larger ones, which weighs against pursuing mergers for their own sake.
3	The interactions among foreign direct investment, economic growth, degree of openness and unemployment in Taiwan Shu-Chen Chang (2007).	Using VAR, variance decomposition, and impulse responses, FDI, growth, openness, and unemployment share a long-run equilibrium. In the short run, causality runs from FDI outflow to FDI inflow, and from growth to openness and unemployment. Shocks to growth and openness raise FDI inflows, and FDI inflows reduce unemployment.
4	Does an upper limit on foreign direct investment matter? The case of Taiwan Chih-Young Hung & Yi-Hui Chiang (2009).	A PLS path model of integrated circuit firms' investment in China (1998–2007) finds no significant evidence that Taiwan's upper limit on investment in China was effective. Firm-specific factors have the strongest influence, followed by the host country's macroeconomic environment.

No	Title and Author	Results
5	The bigger the better? Merger and acquisition performance of financial holding corporations Chuang-Yuang Lin & Hung-Ta Lee (2010) .	Comparing 14 Taiwanese financial holding corporations before and after their establishment in 2002, the study finds only weak evidence of improved performance, questioning the assumption that larger financial groups automatically perform better.
6	Domestic repercussions of different types of FDI: Firm-level evidence for Taiwanese manufacturing Wan-Hsin Liu & Peter Nunnenkamp (2011) .	Ordered probit models on Taiwanese manufacturing multinationals show that larger FDI projects make negative domestic effects slightly more likely, investment in China has different domestic consequences than investment in advanced economies, and horizontal FDI tends to have positive employment effects, unlike vertical and export-platform FDI.
7	Are bank mergers procyclical or countercyclical? Theory and evidence from Taiwan Wen-Chung Guo & Chih-Ching Yang (2013) .	Unlike the procyclical pattern in developed countries, bank mergers in Taiwan are countercyclical. In a depressed economy, weak banks with poor revenue merge to gain market share, government support of the stock market makes mergers less costly, and weak banks that cannot compete are more likely to be forced into mergers.
8	Does financial restructuring change the relationship between corporate governance and the static and dynamic efficiency of bank mergers in Taiwan? Tung-Hao Lee & Shu-Hwa Chih (2014) .	Using a dynamic slacks-based measure, major shareholders of acquiring banks had greater power to decide on mergers during the restructuring period. Mergers under the financial restructuring scheme had lower static and dynamic efficiency in the short run but gradually improved in the long run, consistent with controlling shareholders pursuing long-term efficiency.
9	The impact of transformation on economic efficiency – a case study of financial holding companies in Taiwan Ming-Tse Wu (2015) .	Financial holding companies are significantly more efficient than non-FHC banks, but conversion does not significantly increase total factor productivity. The author recommends continued encouragement of transformation and support for overseas market expansion.
10	Do different types of FDI strategies spur productivity and innovation capability growth? Evidence from Taiwanese manufacturing firms Hui-Lin Lin, Yi-Chi Hsiao & Eric S. Lin (2015) .	Using propensity score matching, outward investors have higher productivity growth than non-investors. Expansive FDI strengthens productivity and innovation growth, whereas the effect of defensive FDI is not significant; firms combining both strategies also show positive productivity effects.
11	Corporate governance and mergers and acquisitions performance in banks: Evidence under the special regulatory environment in Taiwan Chien-Chi Chu, Ying-Maw Teng & Hsiu-Ling Lee (2016) .	Managerial ownership is positively related to bank merger results, while board size is negatively related to merger performance. Internal governance structures strongly affect the value effects of bank mergers, so regulators may improve M&A outcomes by strengthening governance codes.

No	Title and Author	Results
12	Heterogeneous impacts of a change in Chinese FDI regulations on domestic market outcomes: Empirical evidence from Taiwanese plant data Mitsuo Inada & Yung-Hsing Guo (2016) .	A difference-in-differences analysis of a 2002 change in Chinese FDI regulations finds mixed effects: new investors in deregulated industries gained productivity, employment, and sales, while earlier investors lost employment and sales. There is no statistical evidence that the change hollowed out domestic market outcomes.
13	Foreign direct investment and downside risk: Evidence from Taiwan Li-Hsun Wang, Chu-Hsiung Lin, Hung-Gay Fung & Tzu-Chuan Kao (2019) .	FDI is associated with higher downside risk. FDI in mainland China leaves downside risk unchanged, while FDI elsewhere, much of it to tax havens, raises it through higher agency costs and earnings management. Stronger corporate governance reduces downside risk by steering FDI toward less opaque markets.
14	Evaluating Taiwan's New Southbound Policy Lindsay Black (2019) .	Critics overstate Beijing's ability to obstruct the New Southbound Policy, which is a reasonable economic step already underway before 2016. China's hostility mainly pushes Taiwan closer to Japan.
15	The role of labour unrest and skilled labour on outward foreign direct investment in Taiwan, Republic of China, ROC Yu-Cheng Lai & Santanu Sarkar (2022) .	Using 2008–2017 data, compliance with labor standards improves industrial relations, and the rising share of skilled workers raises productivity enough to justify higher wages, making it easier for compliant firms to stay in Taiwan rather than invest abroad.
16	Performance evaluation of bilateral economic cooperation between Taiwan and partner countries under New Southbound Policy: Past, present, and future Thi-Nham Le (2022) .	Combining forecasting models with non-convex DEA and window analysis, seven of eight partners are expected to improve; Singapore is the most successful partner in stable scale efficiency, followed by Malaysia. The NSP remains an important policy supporting trade and outward FDI.
17	Taiwan's New Southbound Policy in Southeast Asia and the 'China factor': Deepening regional integration amid new reality Nur Shahadah Jamil (2023) .	China's economic leverage and promotion of the One China Policy limit the NSP's reach, and its impact varies with each Southeast Asian state's relationship with China. Taiwan still has room for maneuver and should build a visible institutional framework for the policy.
18	Buying Taiwan? The limitations of mainland Chinese cross-strait direct investments as a tool of economic statecraft Chun-Yi Lee & Jan Knoerich (2024) .	Mainland Chinese investment in Taiwan (2008–2016) was not an effective tool of economic statecraft. Taiwan's government and civil society imposed ownership limits, strict screening, and blocked major deals such as stakes in chip-testing firms; actual investments were modest with little political effect.

No	Title and Author	Results
19	The impact of the US–China trade war on Taiwanese firms' R&D investment and outward investment to technologically advanced countries Yu-Cheng Lai & Santanu Sarkar (2024).	Using 2012–2019 survey data and triple- and quadruple-difference estimators, the trade war boosted Taiwan's labor market, especially for skilled workers; industries in which more firms increased R&D and invested in technologically advanced countries saw higher employment.
20	The European Union, Taiwan, and the Silicon Shield argument: A conceptual assessment through the lens of grand theories Stefanie Weil, Jörn-Carsten Gottwald & Markus Taube (2025).	Assessed through grand theories of international relations, the argument that Taiwan's semiconductor industry deters Chinese aggression has weak academic foundations and functions more as a hopeful narrative than a reliable deterrent.

Source: Research Data (2026)

4.2. Discussion

The first theme concerns M&A in Taiwan's financial sector, which is the most extensively documented form of M&A in the country. The literature consistently shows that consolidation was policy-led. After the Financial Holding Company Act took effect, banks, insurers, and securities firms were reorganized under holding companies, and the effects of this act on bank efficiency and productivity became an important research topic (Chiou, 2009). Despite this policy push, the evidence on performance is sobering. Lin and Lee found only weak evidence that the performance of fourteen financial holding corporations improved after their establishment in 2002, which challenges the assumption that "bigger is better" (Lin & Lee, 2010). Wu reports that FHCs were more efficient than non-FHC banks, but that conversion did not lead to a significant increase in total factor productivity (Wu, 2015). These findings indicate that the synergies expected from scale were limited, and that structural reorganization alone does not guarantee better performance.

Synergy theory helps explain why the outcomes of Taiwanese bank mergers were heterogeneous. Lin showed that mergers between banks with different organizational cultures raised cost efficiency, whereas mergers between similar banks produced only marginal gains and little financial innovation, and that smaller banks outperformed larger ones (Lin, 2005). This is consistent with the view that synergy is a process built from complementary resources rather than a mechanical result of size (Holtström & Anderson, 2021). Lee and Chih add a temporal dimension: banks that merged through the financial restructuring scheme had lower static and dynamic efficiency in the short run but gradually improved in the long run, which they interpret as evidence that controlling shareholders pursued long-term efficiency (Lee & Chih, 2014). For managers and regulators, this means that post-merger evaluation windows that are too short may understate the benefits of consolidation, while windows that are too long make it difficult to attribute improvements to the merger itself.

Agency theory provides the second lens for understanding M&A outcomes in Taiwan. Chu et al. found that managerial ownership is positively related to bank merger results, whereas larger boards are associated with weaker merger performance (Chu et al., 2016). Managerial ownership aligns the interests of managers with those of shareholders, reducing the incentive to pursue value-destroying acquisitions, while large boards may suffer from coordination problems and weaker monitoring (Jensen & Meckling, 1976). These findings are consistent with evidence from other emerging markets that the ability of managers shapes whether acquirers improve after an acquisition (Suryaningrum et al., 2023). The Taiwanese evidence also shows that the timing of mergers is influenced by government intervention: Guo and Yang argue that bank mergers in Taiwan were countercyclical, with weak banks merging during downturns to gain market share and with government support of the stock market lowering merger costs (Guo & Yang, 2013). Policy-induced mergers may therefore preserve financial stability, but they may also combine weak institutions whose integration absorbs management attention for years.

The second theme concerns inward and outward FDI. Early evidence demonstrates that inward FDI was an important source of technology for Taiwan. Using firm-level data, Chuang and Lin showed

that FDI and R&D raised productivity through spillover effects, and that FDI, the purchase of local technology, and outward investment acted as substitutes for in-house R&D (Chuang & Lin, 1999). Their policy implication is highly relevant for other developing economies, including Indonesia: countries may first attract FDI to obtain technology transfer, but once domestic capability is established they should shift toward supporting R&D, infrastructure, and intellectual property protection. At the macroeconomic level, Chang found a long-run equilibrium among FDI, economic growth, openness, and unemployment in Taiwan, with shocks to growth and openness raising FDI inflows and with FDI inflows reducing unemployment (Chang, 2007).

As Taiwan matured, research turned to outward FDI and its consequences. The fear that outward investment, especially into mainland China, would hollow out Taiwan's industrial base has been tested from several angles. Liu and Nunnenkamp found that the domestic consequences of FDI depend on its size, location, and type: horizontal FDI tends to have positive employment effects, whereas vertical and export-platform FDI do not share this pattern, and investment in China has different domestic consequences than investment in advanced economies (Liu & Nunnenkamp, 2011). Inada and Guo, using plant-level data and a difference-in-differences design around a 2002 change in Chinese FDI regulations, found mixed effects but no statistical evidence that the regulatory change hollowed out domestic market outcomes (Inada & Guo, 2016). Lin et al. showed that outward investors enjoy higher productivity growth than non-investors, and that expansive FDI is more beneficial than defensive FDI for both productivity and innovation (Lin et al., 2015). These studies collectively suggest that outward FDI is not inherently harmful to the home economy; its effects depend on whether firms invest abroad to expand capabilities or merely to escape rising domestic costs.

The FDI literature also highlights the role of governance and risk. Wang et al. found that FDI by Taiwanese firms is associated with higher downside risk overall, but the effect differs by destination: FDI into mainland China does not change downside risk, whereas FDI elsewhere, much of it channeled through tax havens, raises it through higher agency costs and earnings management (Wang et al., 2019). Stronger corporate governance reduces this risk by directing investment toward less opaque markets. This finding links the FDI stream directly to agency theory and to accounting quality. For auditors, investors, and regulators, it suggests that the structure of overseas holdings deserves as much attention as the volume of investment, because complex ownership chains can obscure the real economic exposure of a firm.

Labor-market conditions form another determinant of Taiwanese FDI. Lai and Sarkar showed that when Taiwanese firms complied with labor standards, the industrial relations climate improved, and the rising share of skilled workers raised productivity enough to justify higher wages, which made it easier for compliant firms to remain in Taiwan rather than invest abroad (Lai & Sarkar, 2022). This finding challenges the simple view that stronger labor standards automatically push production offshore. Within the eclectic paradigm, it implies that the location advantage of a home economy can be rebuilt through human capital, so that the decision to invest abroad becomes a choice about capabilities rather than only about costs (Dunning, 1988).

The third theme concerns the regulatory and geopolitical environment, which distinguishes Taiwan from most other economies in the M&A and FDI literature. Cross-strait investment has long been regulated by the Taiwanese government. Hung and Chiang studied whether Taiwan's upper limit on investment in China affected the investment decisions of integrated circuit manufacturers between 1998 and 2007, and found no significant evidence that the limit was effective; firm-specific factors and the host country's macroeconomic environment were more influential (Hung & Chiang, 2009). This result implies that when strong economic incentives exist, quantitative caps alone may be insufficient to redirect corporate investment, and that policy works better when it changes the underlying location advantages of alternative destinations.

Inbound investment from mainland China shows the opposite side of the same dilemma. Lee and Knoerich examined mainland Chinese direct investment in Taiwan from 2008 to 2016 and concluded that it was not an effective tool of economic statecraft. Taiwan's government, bureaucrats, and civil society resisted large or sensitive investments, which resulted in tight ownership limits, strict screening, and the blocking of major deals, such as proposed acquisitions of stakes in chip-testing firms (Lee & Knoerich, 2024). For M&A practitioners, this case shows that in strategic industries, regulatory approval and national-security review can determine whether a deal proceeds at all, regardless of its financial merits. The host society retains significant leverage over foreign investors, and acquirers must therefore treat political feasibility as part of due diligence.

Since 2016, the New Southbound Policy has become the main framework for diversifying Taiwan's outward investment. Black argues that critics overstate Beijing's ability to obstruct the policy,

which the author sees as a reasonable continuation of economic diversification that was already underway (Black, 2019). Le, using forecasting models and non-convex data envelopment analysis with window analysis, found that most of Taiwan's NSP partners are expected to improve their cooperation efficiency, with Singapore and Malaysia emerging as the most successful partners, and that the NSP remains an important foreign policy supporting trade and outward FDI (Le, 2022). Jamil, however, emphasizes that China's economic leverage and the "One China Policy" have limited the reach of the NSP, and that its impact varies across Southeast Asian states depending on their relationship with China (Jamil, 2023). For Indonesian policymakers and firms, these findings indicate that Taiwanese investment opportunities are real but depend on institutional frameworks that can operate within the constraints of cross-strait politics.

The US–China trade war further accelerated the reallocation of Taiwanese investment. Lai and Sarkar found that the trade war boosted Taiwan's labor market, particularly for skilled workers, and that industries in which more firms increased R&D and invested in technologically advanced countries experienced higher employment (Lai & Sarkar, 2024). This evidence suggests that geopolitical shocks can push Taiwanese firms toward technology-seeking outward FDI and greater domestic R&D, rather than merely relocating low-cost production. In the semiconductor industry, the debate on the "Silicon Shield" illustrates how corporate investment has become entangled with security narratives. Weil et al. caution that the Silicon Shield is a hopeful narrative rather than a reliable deterrent (Weil et al., 2025). For firms, the implication is that geopolitical risk cannot be outsourced to the strategic importance of the industry; it must be managed directly through diversified locations, robust contracts, and resilient supply chains.

Integrating the three themes yields several general patterns. First, both M&A and FDI in Taiwan are strongly conditioned by the state. Domestic financial M&A was triggered by legislation and restructuring programs, outward FDI to China was regulated by caps and approvals, inbound Chinese investment was screened, and outward FDI to Southeast Asia has been promoted through the NSP. Second, the value-creating potential of both strategies depends on governance. Managerial ownership, board structure, and investment transparency determine whether M&A and FDI enhance or erode firm value (Chu et al., 2016; Wang et al., 2019). Third, the benefits of both strategies take time to materialize. Bank mergers improved efficiency gradually (Lee & Chih, 2014), and the productivity gains of outward FDI depend on the investment motive (Lin et al., 2015). Fourth, sustainability in the Taiwanese context extends beyond environmental issues to include labor standards, skills, and supply-chain resilience under geopolitical tension (Lai & Sarkar, 2022; Kayser & Zülch, 2024).

The accounting implications of these findings deserve particular attention. Because many Taiwanese M&A transactions involved the combination of financial institutions under holding company structures, the measurement of performance is sensitive to how assets, liabilities, and intangible items are recognized after the combination. Efficiency studies based on DEA capture changes in the relationship between inputs and outputs, but they do not reveal whether acquirers overpaid, whether goodwill was later impaired, or whether reported earnings were managed around the merger. Similarly, the evidence that FDI into tax havens is associated with earnings management (Wang et al., 2019) indicates that the reporting of overseas subsidiaries can obscure the true risk profile of the group. Accounting research can therefore complement the existing efficiency and economic studies by examining purchase price allocation, impairment testing, segment disclosure, and the quality of consolidated reporting for Taiwanese groups with extensive overseas operations.

The Taiwanese experience also offers lessons for other emerging economies in Asia, including Indonesia. First, policy-led consolidation can stabilize a financial system, but it does not automatically produce efficient institutions; supervisors should therefore combine merger incentives with strong governance requirements and long-term performance monitoring (Lin & Lee, 2010; Chu et al., 2016). Second, inward FDI is most beneficial when it is accompanied by policies that build domestic absorptive capacity, so that technology spillovers are converted into local innovation over time (Chuang & Lin, 1999). Third, outward FDI by domestic firms need not hollow out the home economy if firms invest abroad to expand capabilities and if the home economy continues to upgrade its skills base (Lin et al., 2015; Lai & Sarkar, 2022). Fourth, investment screening is a legitimate policy instrument in strategic sectors, but it should be transparent and predictable so that it does not deter beneficial investment. For Indonesia, which is one of the target countries of the New Southbound Policy, these lessons are relevant both for attracting Taiwanese manufacturers and for designing a merger and investment regime that supports industrial upgrading.

These patterns also reveal clear research gaps. Most M&A studies on Taiwan focus on banking and financial holding companies; there is far less evidence on M&A in technology and manufacturing,

even though these sectors define Taiwan's global position. Few studies combine accounting-based performance measures with efficiency and market-based measures, and few examine the role of goodwill, purchase price allocation, or financial reporting quality in Taiwanese acquisitions, topics that have been identified as priorities in the broader M&A literature (Cumming et al., 2023). The literature on the NSP and semiconductor geopolitics is still largely qualitative and would benefit from firm-level data on investment decisions and outcomes. Finally, the integration of environmental, social, and governance criteria into Taiwanese M&A and FDI decisions remains underexplored, despite growing attention to sustainability throughout the deal process (Kayser & Zülch, 2024).

5. CONCLUSION

Mergers and acquisitions and foreign direct investment have been central strategies in Taiwan's economic development, but their outcomes have depended on institutions and geopolitics as much as on market forces. M&A in Taiwan has been dominated by policy-led consolidation in the financial sector, where efficiency gains have been modest, gradual, and conditioned by organizational fit and corporate governance. FDI first brought technology and productivity spillovers into Taiwan and later became an outward strategy through which Taiwanese manufacturers expanded their capabilities; its effects on the home economy depend on the type, destination, and governance of the investment. In recent years, cross-strait investment controls, the New Southbound Policy, the US–China trade war, and semiconductor geopolitics have reshaped where and how Taiwanese firms invest. The success of M&A and FDI in Taiwan therefore depends not only on financial figures but also on sound governance, long-term integration management, human capital, and the ability to navigate geopolitical risk.

5.1. Implications

Theoretically, this study shows that synergy theory, agency theory, and the eclectic paradigm are complementary in explaining M&A and FDI in a geopolitically sensitive economy, and that a political feasibility dimension should be added to conventional models of deal value. Practically, regulators in Taiwan and in partner economies should design merger and investment rules that strengthen governance and transparency rather than relying only on quantitative caps. Managers should evaluate post-merger performance over sufficiently long horizons, prioritize complementary capabilities over size, and treat geopolitical and regulatory approval risk as part of due diligence. For Indonesian policymakers and firms, the Taiwanese experience offers lessons on absorbing technology from FDI and on building institutional frameworks that can attract Taiwanese investment under the New Southbound Policy.

5.2. Limitations

This study has several limitations. First, it relies on twenty secondary sources, so its conclusions depend on the scope and quality of the available literature. Second, the selected studies are concentrated in banking M&A and manufacturing FDI, so M&A in the technology sector is underrepresented. Third, several sources are policy-oriented and qualitative, which limits the possibility of comparing effect sizes across studies. Future research should use firm-level data to examine technology M&A, the accounting consequences of acquisitions in Taiwan, and the investment outcomes of the New Southbound Policy.

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Abbreviations

DEA: Data Envelopment Analysis
FDI: Foreign Direct Investment
FHC: Financial Holding Company
M&A: Mergers and Acquisitions
NSP: New Southbound Policy
R&D: Research and Development
TFP: Total Factor Productivity

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All authors contributed equally to the research and writing the article.

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