Policy and Impacts of Taiwan’s Outward Investment

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This study sets out to examine Taiwan’s existing policies on outward investment and the impacts of such investment on the Taiwanese economy. The study begins by analyzing the growing trends towards outward investment on a global scale, and confirms that there has indeed been a dramatic increase in the overall volume of foreign direct investment (FDI) in recent years.

Many of the major capital exporting countries are now seeing their outward investment accounting for more than 10 per cent of their GDP each year, a proportion which is significantly higher than that of Taiwan. What is also clear is that these countries are both exporting and importing capital at the same time.

In a comparison of the outward investment policies of the various countries, the study finds that there are very few countries that restrict the level, or form, of outward investment; Taiwan, however, is clearly an ‘exception to the rule’. Nevertheless, the government in Taiwan is not alone in imposing regional restrictions on the targets for foreign investment, since South Korea and the US also impose similar restrictions. Indeed, the government of South Korea even goes so far as to control the way that companies are allowed to finance their overseas investment. The government in Taiwan is also not alone in providing administrative support for foreign investment activities.

As to the impacts of overseas investment on the domestic economy, the study finds that at firm level, overseas investment is beneficial to capital formation, revenue and domestic employment. However, it has yet to be determined whether it is possible to generalize that these benefits can be accrued at economy level.

Firms engaging in overseas investment are found to be more capable of undertaking further domestic investment and generating jobs than those that do not invest overseas. The only real negative effect identified by the study was related to those small and medium enterprises (SMEs) that have become involved in investment in mainland China, since there is a resultant marked decline in their domestic employment levels following such investment.

Case studies are undertaken on companies within the agricultural, manufacturing and service industries engaging in overseas investment, and the study finds that such investment in the agricultural industry is defensive in nature, largely in response to the deteriorating domestic production environment.

Overseas investment in the manufacturing industry involves a mixture of defensive and offensive moves. Such offensive moves involve the exploitation of the investing enterprise’s competitive edge in an effort to expand its overall market reach, and indeed, the overseas investment in the service industry is mostly offensive in nature.
This study introduces several case studies, each of which involves some form of industrial clustering, in an effort to gain an understanding of, and to draw some lessons from, their overall developmental experiences. The case studies comprise of Canada’s biotech clusters, the automotive parts industry in Thailand, the Silicon Valley in the US, Malaysia’s Penang and Kelang Valley clusters, the Hamamatsu cluster in Japan, and the Hsinchu Science-based Industrial Park (HSIP) and machine tool industry clusters in Taichung, both in Taiwan. The study also carries out a questionnaire survey and field interviews within some of these clusters, and then, following the subsequent analysis of the results, makes some policy recommendations for the various economies, in terms of the establishment of new clusters or the promotion of further growth within their existing clusters.

Although it is possible for a government to assist in the formation of a cluster through the establishment of industrial parks in the early stage, or through regulatory or policy measures, as noted by Pietrobelli (2002), it is extremely unlikely that one can determine a 'best practice' for the organization of industrial clusters, since both time and the unrelenting march of globalization will continue to provide challenges to them. However, as time goes by, and global competitive pressure increases, it becomes much more difficult for such groups to grow into major and more internationally recognized clusters.

As noted by Saxenian (2001), entrepreneurship, linkages to major and growing markets and the availability of skilled labor, are three important ingredients for the successful formation of a cluster. The success of Silicon Valley is no accident, since it satisfies all three conditions; access to the US and global markets, worldwide talent providing abundant skilled labor and the perennial encouragement of entrepreneurship through the widespread availability of venture capital.

The study points out that these same factors have also contributed greatly to the stable growth of the HSIP in Taiwan. Indeed, the same environment that is discernible in the HSIP, is also present in the biotech clusters in Canada, the Teheran Valley of Korea and the electronics industry in Penang; however, as a result of a lack of either indigenous effort or the availability of international technology and access to skilled labor, other clusters will find it extremely difficult to nurture their much looser formations. If these industrial formations desire to grow into clusters with an internationally recognised reputation, then they must realise that linkages to international markets, pools of skilled labor and venture capital are prerequisites.

The sustainable growth of an industrial cluster relies upon the ability to take advantage of international networking, technology transfer and the introduction of skilled labor; this study argues, however, that the advantages of the global production network (GPN) do not rely solely upon market power since there is still a requirement for government support and policies. According to the major findings of the questionnaire survey undertaken within this study, tax incentives, technological support from research institutions, and the provision of appropriate infrastructure, are the policies most needed for clusters to achieve sustainable growth.

The study points out that it is also crucial to take into account industry-specific characteristics in the design of policy measures aimed at fostering the growth of a cluster. A traditional industry cluster, for example, needs to seek out technology transfer from its buyers or suppliers, introducing IT technology to speed up innovation and to fit into the system of the global division of labor; these are key factors in the success of their industrial cluster. Crucial factors for the further growth of a high-tech cluster, on the other hand, involve facilitating labor mobility, and the related ‘lemming effect’, as well as strengthening the support from the academic circle or related research institutions. As for the emerging industries, university manpower will ultimately play a crucial role in their eventual development. The study concludes by noting that the capital market and the flow of venture capital are also key elements in the starting up of new businesses and new clusters.
Strategies for Promoting the Industrial Value Chain and its Extension to Own Brands and Marketing Channels, Jiann-Chyuan Wang, Chia Hui Lin, Su-Wan Wang and Kuen-Hung Tsai, 31 December 2003

This project has a twofold purpose. First of all, it carries out case studies and a questionnaire survey in order to analyze the current bottlenecks and the possible opportunities for Taiwanese firms to establish their own name brands and marketing channels; and secondly, it provides recommendations for strategies and policy measures, for both the government and Taiwanese firms, to assist in the establishment of firms’ own brands and marketing channels.

Based upon interviews with various firms, the study finds that product quality is the key to establishing an own name brand, whilst for market selection, the study suggests that it is easier for firms to promote their own brands in new markets than in mature ones. It also notes that a complete analysis of the product characteristics and the financial risks involved, prior to the establishment of an own brand, is a must.

From a questionnaire survey carried out amongst appropriate ‘experts’, based upon the 30 effective questionnaires returned, the major findings were: (i) in their attempts to establish their own brand name, the main problems for firms were a lack of marketing channels and manpower, followed by a shortage of capital; (ii) in terms of product characteristics, it was easier to establish an own brand name for core products and for more differentiated products; (ii) the acquisition, or merger, of existing marketing agents is an appropriate choice when attempting to establish marketing channels; (iii) tax incentives, the promotion of top quality products, marketing channels, manpower and financial capital are all policy measures to which the government should give greater priority; and (iv) quality control, marketing channel selection, and consistent marketing, are all crucial factors in the establishment of an own brand name.

The study provides a number of policy recommendations for the government, which include the provision of low interest rate loans, the loosening of loan regulations and the provision of information, all of which can increase the incentives for firms to establish their own name brand names, as well as providing tax credits based upon the amount of investment by firms in their own brand name.

Policy recommendations for firms include: (i) during the early stages of establishing an own brand, it will be necessary for firms to maintain a certain proportion of their OEM in order to reduce the overall financial risks; (ii) it is easier to create a new brand for core products and more differentiated products, and in new areas (markets); and (iii) acquiring existing channels, or cooperating with existing marketing agents are appropriate ways for Taiwanese firms to establish new brands.


The aim of this study is to gain an understanding of the impact on agriculture from Taiwan’s recent accession into the WTO, reflecting the problems faced by farmers and related production and marketing groups. The study also attempts to form a bridge between the government and farmers, through the appropriate highlighting of the key issues and the results of government administration.

The study is appropriately divided into three subsections: (i) the staging of an Agricultural Administration seminar in the northern, mid, southern and eastern areas of Taiwan, in order to disseminate details of the key issues and the results of government administration, and to gather the opinions of the farmers for reference by the government; (ii) the staging of five panel discussions on floriculture, fishery, agricultural-biotechnology, fruit and vegetable marketing and organic food, in order to discuss fully each of these topics and to offer some suggestions; and (iii) the staging of a seminar on contemporary rural problems and strategies for the development of farming villages, thus providing extensive discussion on agricultural transformation and trends.
Investment Promotion for Overseas High-Tech Chinese Firms in America and Canada, Jiann-Chyuan Wang, Feng-Cheng Fu, Su-Wan Wang, 31 December 2003

The purpose of this project is twofold. It begins with an analysis of Taiwan’s strengths in high technology, the current and potential future developmental trends, and policy measures aimed at attracting foreign investment. It then goes on to design a potential ‘new’ investment model capable of attracting potential overseas Chinese firms to invest in Taiwan, and to promote the further development of Taiwan’s high technology industry.

The study suggests that the strengths of Taiwan’s high technology sector include an abundant supply of high quality manpower, a comprehensive supply chain management system, an extensive production network in mainland China, a superior geographical location, better protection of intellectual property rights, and an active capital market.

In an effort to attract overseas Chinese to return home to invest in Taiwan, the study designs three potential investment models based upon (i) R&D and technological-type investment; (ii) strategic partner type-investment; and (iii) entrepreneur venture-type investment. The study suggests that in order to attract potential investors, the government can design different incentives based upon these classifications of the type of investment.

As regards channels for attracting foreign investors, Taiwan’s venture capitalists, which have already set up subsidiaries in both the USA and Canada, are proving to have made an inappropriate choice. Following the bursting of the ‘high-tech bubble’, the chances for firms to seek out IPOs in the USA are limited; therefore, several venture capital businesses have already demonstrated their intention to move their investment firms back to Taiwan (or into mainland China). The timing is therefore clearly right for the government to seek to attract them to invest in Taiwan, and this would of course represent a win-win strategy for both the Taiwanese government and for these venture capital businesses.

In addition to the above tasks, this project was also successful in inviting 20 firms to return to Taiwan to attend the ‘2003 Business Alliance Conference’, from 19 to 21 October 2003, which resulted in all of these firms signing ‘letters of intent’ to show their interest in investing in Taiwan.

Science and Technology Drivers in a Knowledge-based Economy. Exploring Technological Opportunities and Promoting Technological Cooperation in APEC Economies, Tain-Jy Chen and Shin-Horng Chen, December 2003

One of the salient features of KBEs is their reliance on knowledge as the most important form of productive assets. In order to gain deeper insights into the workings and, more fundamentally, the successful formation of KBEs, it is essential to address the following questions: How does useful knowledge come about and how is it transmitted? Why are some economies able to produce and accumulate more knowledge and in a more efficient way than others? Are the differences explicable merely in terms of differences in ability to accumulate human capital in which knowledge is embodied? Or is it in fact more an institutional issue, in that some economies prove able to provide more suitable incentive systems or stronger innovative infrastructures such that more creative activities are stimulated, organized and commercialized, leading to faster, more efficient accumulation and diffusion of knowledge embodied in different forms?

The purpose of the subproject “Science and Technology Drivers in a Knowledge-Based Economy - Exploring Technological Opportunities and Promoting Technological Cooperation in APEC Economies,” is precisely to identify those institutional and structural forces that help explain the difference in performance of knowledge creation and dissemination across the spectrum of APEC economies. Our goal is to develop a comprehensive, in-depth understanding of current achievements, challenges and difficulties facing APEC economies as they strive to advance KBEs. Three sets of broadly defined structural and institutional issues are addressed
in this context:

First, how does rapid progress in information and communications technologies affect ability of economies to shorten the gap between current status and state-of-the-art technological development? What are the contributions and limitations of digitalization in these type of efforts? Are there other key conditions and mechanisms required that may invite policy initiatives at the international, central or local government levels?

Second, with proliferation of globalized business operations on the one hand and localized R&D activities on the other, what are the new modes of innovation commercialization and technology transfer? What kind of factors would determine the success or failure of knowledge dissemination in this new environment? What can governments do, individually or collectively, to enhance efficiency of technology transfer and innovation commercialization?

Third, given that human capital is the main vehicle carrying valuable knowledge and creativity, we need to better understand the institutional, social and economic forces that foster human-capital accumulation and mobility in KBEs. In particular, what are the macro- and microeconomic factors and/or policy measures that contribute to accumulation of human capital in high-tech industries in APEC economies? What type of incentives and mechanisms have fostered observed international, intersectoral and intrasectoral mobility of skilled labor? Finally, what is the relationship between HCAM and technology spillover according to the experiences of APEC economies?