

OECD GLOBAL FORUM ON INTERNATIONAL INVESTMENT

New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century

26-27 November 2001, Mexico City, Mexico

FOREIGN DIRECT INVESTMENT IN CHINESE TAIPEI

Chinese Taipei Investment Regime and Investment Opportunities



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I. FOREWORD

Chinese Taipei is an island, lying off the southeastern coast of the Asian continent, that is filled with the entrepreneurial spirit. It is a place that encourages innovation and tolerates failure, and it records new stories of success every day. The brilliant economic achievements that Chinese Taipei has made over the past 50 years make it impossible for the world to ignore. Chinese Taipei's gross national product of US\$314.4 billion ranked the island as the world's 17th- largest economy in 2000; its trade volume of US\$288.4 billion made it the 15th-largest global trading power; and its foreign-exchange reserves of more than US\$116.3 billion ranked third in the world on October, 2001. In addition, its nimble and flexible entrepreneurial spirit allowed Chinese Taipei to escape most of the effects of the Asian financial crisis.

Chinese Taipei was the world's largest supplier of notebook computers, optical disks, and silicon wafer fabrication, in terms of production value, in 2000; total turnover on the stock market for the year amounted to US\$993.3 billion, the third-largest trading volume in the world; and the island's venture capital industry is second in size only to that of the United States. Its semiconductor equipment market is also the second-largest in the world, again following only that of the U.S. Its mobile phone penetration rate is 80.2%, the highest in the world. In the "information economy" ranking for 2001 as published by the International Data Corp. (IDC) and *World Times* newspaper, Chinese Taipei's information infrastructure (including telephone, radio, television, and facsimile machine penetration) ranks No. 1 in the world.

Much of Chinese Taipei's economic success is due to investment policies aimed at creating an obstacle-free investment environment with a high degree of openness, transparency, and internationalization. The concrete means used to achieve this objective include the implementation, beginning in 1995, of two stages of an "Asia-Pacific Regional Operations Center Plan" designed to reinforce the transparency of the investment system, relax legal strictures, abolish government controls, and revise laws and regulations to bring them into conformity with international norms and provide national treatment for foreign investors as well as to establish an investment environment characterized by fair and open competition. During the next 10 years Chinese Taipei will implement a "Knowledge Economy Development Program" and "Global Logistics Plan" aimed at building on the existing foundation of liberalization and internationalization to develop the island into a venture paradise for emerging industries, a base for the expansion of growth industries, a global operations center for traditional industries, and an Internet-linked global logistics center with the goal of achieving "free and open trade and investment."

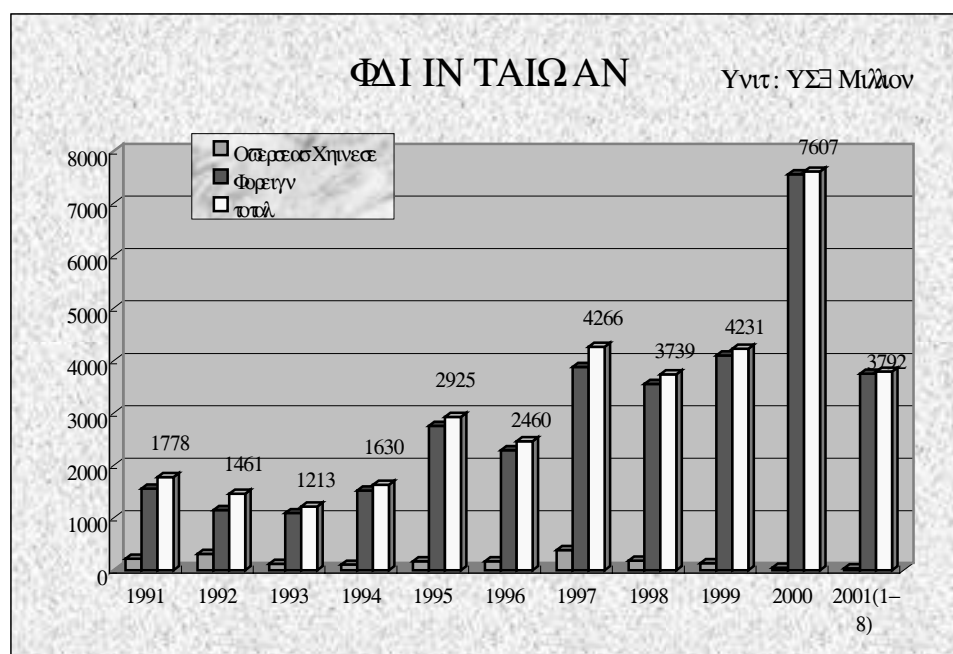
II. FDI IN CHINESE TAIPEI

1. Total Inward FDI

According to statistics compiled by the Investment Commission, Ministry of Economic Affairs, accumulated FDI in Chinese Taipei up to the end of August 2001 was 13,336 cases with a total value of US\$48.36 billion. The following chart gives FDI for the past 10 years:

Approved Overseas Chinese and Foreign Investment in Chinese Taipei by Year
Unit: US\$ million

Year	Economic Growth Rate (%)	Total	
		No. Cases	Amount
1952-1990	9.7 (average) for 1970's 7.9 (average) for 1980's 5.4 for 1990	5,772	13,251
1991	7.6	389	1,778
1992	7.5	411	1,461
1993	7.0	323	1,214
1994	7.1	389	1,631
1995	6.4	413	2,926
1996	6.1	500	2,460
1997	6.7	683	4,266
1998	4.6	1,140	3,739
1999	5.7	1,089	4,231
2000	6.0	1,410	7,607
2001 Jan.~Aug.	-0.37 (estimated)	817	3,792
1952-2001 Aug.		13,336	48,356



2. Inward FDI by source

Categorized by source area, the largest portions of foreign investment came from the United States (23.70% of the total), Japan (20.17%), British Territories in Central America (14.60%, with most of the investment coming from the British Virgin Islands and the Cayman Islands), Singapore (7.86%), Hong Kong (7.61%), and the United Kingdom (8.99%). These six sources together accounted for 78.09% of all investment by overseas Chinese and foreign nationals.

3. Inward FDI by industry

Categorized by invested industry, the largest portions of foreign investment went into electronic and electrical appliances (23.50%), banking and insurance (16.34%, invested mostly in holding companies), services (11.07%), chemicals (8.33%), wholesale and retail sales (6.17%), and trade (5.54%). These six categories together accounted for 64.88% of all investment by overseas Chinese and foreign nationals.

III. CHINESE TAIPEI'S ECONOMIC DEVELOPMENT STRATEGY FDI POLICIES AND METHODS

Chinese Taipei's economic development has progressed by stages through the labor-intensive import substitution of the 1950s, the export expansion of the 1960s, the intermediate-goods import substitution of the 1970s, and the industrial upgrading and technology orientation of 1981 up to the present. The island's FDI policies have changed during these four periods, with different policies being used for different periods of development. In general, policy orientation has evolved from government-guided protection for immature industries in the early periods to today's liberalized policy that emphasizes full respect for the market mechanism and the international division of labor. The policy goal has always been to establish an industrial system with comparative advantage and bring about the efficient allocation of resources.

1. Labor-intensive import substitution: 1953-62

Economic Environment	FDI Development Strategy
<p>⇒ Goods were in shortage, unemployment was high, trade was in deficit, there was a lack of foreign exchange; economic policy put equal emphasis on stability and accelerated development.</p> <p>⇒ War-damaged electrical power and fertilizer industries were restored; emphasis was on developing the labor-intensive textile industry.</p>	<p>⇒ First Four-Year Economic Construction Plan implemented in 1953, promoting the development of labor-intensive import-substitution industries so as to accumulate foreign exchange and provide jobs.</p> <p>⇒ FDI went mainly into labor-intensive daily-necessity and light industries.</p>

2.

3. Export expansion: 1963-72

Economic Environment	FDI Development Strategy
<p>⇒ Export-oriented strategy adopted in late 1950s; relatively passive import controls were switched to active encouragement of exports, with export tax rebates and relaxation of foreign exchange controls.</p> <p>⇒ Single foreign-exchange system adopted in 1960, and exchange rate changed from NT\$24 to the US dollar to NT\$40 to the dollar.</p>	<p>⇒ “Statute for Encouragement of Investment” passed, providing five-year tax holiday for investment in designated industries, authorizing the government to appropriate private land for industrial use, and providing for the development of industrial zones for private factories, all aimed at attracting domestic and foreign investment. This provided the major impetus for accelerated export expansion and technological upgrading.</p> <p>⇒ Kaohsiung Export Processing Zone established in 1966 to use low-cost labor for the production of export products for the international market.</p> <p>⇒ FDI went primarily into labor-intensive export industries.</p>

4. Intermediate-goods import substitution: 1973-80

Economic Background	FDI Development Strategy
<p>⇒ Following the previous period of export expansion, the trade balanced changed to a surplus in 1971 and the international account also went into the black.</p> <p>⇒ The oil crises of 1974~75 and 1979~80 occurred.</p> <p>⇒ The Ten Major Construction Projects were carried out in 1973~1978, boosting public investment, alleviating transportation bottlenecks, and softening the impact of the oil crises.</p>	<p>⇒ Industrial policy aimed at development of capital-intensive basic and heavy chemical industries, thus reinforcing backward industrial linkage through the establishment of intermediate industries.</p>

5. Industrial upgrading and technological orientation: 1981-present

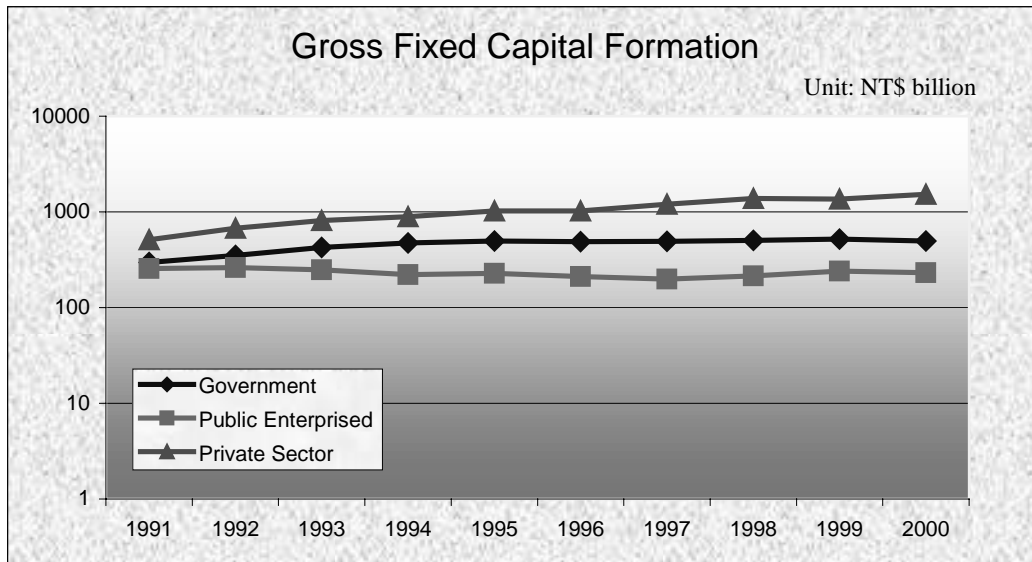
ECONOMIC BACKGROUND	FDI DEVELOPMENT STRATEGY
<p>⇒ Economic development policy aimed at promoting industrial restructuring and bringing about economic liberalization and industrialization.</p> <p>⇒ The NT dollar appreciated rapidly in the mid-1980s, eroding the competitiveness of export industries; the government actively encouraged the development of technology-intensive industries, in 1980 implementing the Science and Technology Development Program, establishing the Institute for Information Industry and the Hsinchu Science-based Industrial Park.</p> <p>⇒ The Statute for Privatization of Government Enterprises was revised in 1991 to promote privatization via the public sale of shares.</p> <p>⇒ The Statute for Upgrading Industries was implemented in 1991 as a replacement for the Statute for Encouragement of Investment.</p> <p>⇒ The Six-Year National Development Plan was implemented in 1995, and the Asia-Pacific Regional Operations Center Plan was introduced the same year.</p> <p>⇒ The Domestic Demand Expansion Program and the Plan for Reinforcing the Economic System were implemented in 1998 and 1999.</p>	<p>⇒ The 1990s were the period of accelerated industrial upgrading, with promotion of the Asia-Pacific Operations Center plan, implementation of the Statute for Upgrading Industries, and designation of Ten Emerging Industries and Eight Key Technologies aimed at the development of technology-intensive industries, guidance of manufacturing industries to transform and restructure rapidly in the direction of high technology, and development of the capital market and venture-investment industry; FDI went largely into high-tech and capital-intensive industries.</p> <p>⇒ The Global Logistics Center plan was implemented in October 2000 with the goal of helping enterprises to use Chinese Taipei as their base for global logistics operations.</p> <p>⇒ Planning was carried out for strategies and measures related to the Program for Assisting Enterprises to Establish Operations Headquarters in Chinese Taipei.</p>

IV. INVESTMENT ENVIRONMENT

1. Economic environment - 2000

- Area: 36,000 km²
- Population: 22.22 million
- GDP: US\$313.9 billion
- Economic growth rate: 6.0%
- Export: US\$148.3 billion
- Imports: US\$140.0 billion
- Unemployment: 2.99%
- CPI inflation: 1.3%

2. Gross Fixed Capital Formation



3. Legal environment

Chinese Taipei has established a stable and comprehensive legal system, and judicial independence and the assurance of a modern and progressive judiciary are major issues of judicial administration as the island enters the new age of the 21st century. Chinese Taipei's law protects the rights of foreign investors and affords them the same personal freedoms as local citizens. An Administrative Procedures Law was implemented on Jan. 1, 2001 to assure that fair, open, and democratic procedures will be followed in the government's administrative behavior, assure the principle of administration in accordance with law, enhance administrative efficiency, and boost public confidence in the government.

Transparency

Chinese Taipei has adopted the following measures to provide investors with information about the latest changes in the investment system and to keep them informed of all standards and other information regarding the investment promotion mechanism:

- Renewal of the fourth edition of the APEC Investment Guide in coordination with the work of the APEC Secretariat.
- Completion of the “Investment and Technology Transfer Information System” in May 1997 as a website to provide information about Chinese Taipei’s investment environment and emerging investment opportunities, and to offer a means for the retrieval of the full text of investment laws and regulations. The laws and regulations databank now contains English-language versions of 30 laws and regulations, and Japanese-language versions of five laws and regulations for the reference of investors. The web address is <http://www.idic.gov.tw>.
- In regard to foreign investment and company registration, Chinese Taipei has clear application procedures for the establishment of branches and representative offices in Chinese Taipei by foreign companies. These procedures are published on the Ministry of Economic Affairs website: <http://www.moea.gov.tw/~meco/doc/ndoc/e01-p01.htm>

Major laws related to foreign investment are listed below:

General investment laws

- Statute for Investment by Foreign Nationals
- Negative List for Investment by Overseas Chinese and Foreign Nationals
- Company Law
- Statute for Upgrading Industries
- Statute for the Establishment and Administration of Economic Processing Zones
- Statute for the Establishment and Administration of Science-Based Industrial Parks

Tax laws

- Income Tax Law
- Customs Tax Law
- Value-Added and Non-Value-Added Tax Law
- Regulations Governing the Offsetting of Duties and Taxes on Raw Materials
- Regulations Governing Customs Bonded Factories

Entry, exit, and work permit laws

- Statute Governing Issuance of Visas on Foreign Passports
- Regulations Governing Visiting, Residence and Permanent Residence of Aliens
- Employment Service Act
- Rules Governing the Approval and Administration of Foreign Specialist and Technical Personnel Employed by Public or Private Enterprises and Ranking Executive Employed by Overseas Chinese or Foreign National Invested Enterprises

Other related laws

- Trademark Law
- Copyright Law
- Patent Law
- Fair Trade Law

- Labor Standards Law
- Foreign Trade Act

Statute for Investment by Foreign Nationals

Foreign investment in Chinese Taipei, its protection, and its restrictions are handled mainly in accordance with the provisions of the Statute for Investment by Foreign Nationals. The main provisions of this statute are as follows:

a) Investments as referred to in this statute consist of the following:

- (i) Holding shares issued by an CHINESE TAIPEI company, or contributing to the capital of an CHINESE TAIPEI company.
- (ii) Establishing a proprietary business or a partnership in the territory of the Republic of China
- (iii) Providing loans to invested businesses referred to in the preceding two categories for a period exceeding one year

b) Prohibited or restricted investment areas:

- (i) **Prohibited industries:** Investors are prohibited from investing in industries that may negatively affect national security, public order, good customs and practices, or national health, and those that are prohibited by law.
- (ii) **Restricted industries:** Investors who apply to invest in an industry in which investment is restricted by law or by an order given under the applicable law, need to obtain approval or consent from the competent authority in charge of the industry in question.
- (iii) **Negative List for Investment by Overseas Chinese and Foreign Nationals:** Restricted and prohibited investment areas are stipulated in the Negative List for Investment by Overseas Chinese and Foreign Nationals, which was drafted by the Executive Yuan based on the principles in the above two categories.

c) Protection against requisition or expropriation

Enterprises in which 45% or more of the total capital is invested by foreigners may not be requisitioned or expropriated for 20 years after beginning operations, so long as foreign ownership remains at 45% or higher during this period. Enterprises in which less than 45% of the total capital is invested by foreigners may be requisitioned or expropriated if deemed necessary by the government for national defense reasons, though reasonable compensation will be made.

d) Protection of shareholders

Where an invested enterprise is organized as a company under the Company Law, the investor may be exempt from the restrictions on his/her domicile in Chinese Taipei, nationality and amount of investment. Provisions in the said law requiring the setting aside of a certain percentage of new shares to be purchased by the employees of the invested enterprise when the enterprise issues shares publicly or carries out a capital increase via cash injection shall not apply to investments in which foreign investment accounts for 45% or more of the total capital of the enterprise.

e) National treatment

Foreign-invested enterprises enjoy the same rights and obligations to which enterprises operated by local Chinese nationals are subject, except as otherwise provided for in other laws.

Transfers of capital related to investments

- a. Overseas Chinese and foreign investors may remit profits and interest on their investment, invested capital, and loan investment capital and interest.
- b. Remittances relating to direct investments approved by the competent authorities are completely unrestricted.
- c. Remittances of dividends or earnings related to direct investments as well as withdrawal of direct investments approved by competent authorities are completely unrestricted.
- d. There are, in principle, no restrictions on foreign borrowings by local corporations except that the foreign borrowings are for the purpose of conversion into NT dollars for short-term financing, which are subject to an annual limit of US\$50 million for each corporation.
- e. Resident individuals may freely settle foreign exchange against NT dollars up to the accumulated amount of US\$5 million per year.

Entry, stay and work permit of personnel

- a. Invested enterprises may apply for visitor visas enabling persons of any nationality to stay in Chinese Taipei for up to six months; with a recruitment permit issued by the competent agency, persons essential to the execution of an investment project may apply for resident visas.
- b. Foreign business persons who come to R.O.C. frequently for short periods to handle investment matters may apply to Chinese Taipei's visa-issuing offices overseas for multiple-entry visitor visas with a validity of three months to one year.
- c. Persons from the United States, Canada, Japan, Australia, and New Zealand who come to Chinese Taipei to handle investment matters may enter visa-free for up to 14 days, or may apply for landing visas for stays of up to 30 days.
- d. Foreign business persons who reside in Chinese Taipei for long periods for purposes of investment may apply for a multiple re-entry permit with the same period of validity as that of their alien resident certificates.
- e. Application documents will be simplified and the time required for the issuance of hiring and entry/exit permits will be shortened from the present two months to one month.
- f. Article 49 of the Employment Service Act was revised on May 21, 1997 to lengthen the maximum stay in Chinese Taipei by foreign workers, allowing employers to hire foreigners to engage in work as stipulated in paragraphs 1 through 6 and paragraph 9 of Item 1, Article 43 of the Act for a maximum period of three years, up from the original two years.
- g. Foreign personnel who are assigned to Chinese Taipei to carry out contracts signed with Chinese Taipei enterprises may apply for visitor visas for stays of up to 90 days provided they can present official letters of approval issued by the competent authorities. For those who have legitimate reasons for failing to submit work permit application prior to their arrival, visitor visas for stays of 14 days will be issued instead to facilitate their immediate travel. Still, those foreign personnel must apply for official letters of approval issued by the competent authorities within seven days upon their arrival in Chinese Taipei, in order to extend the duration of stay.
- h. To facilitate application by foreign specialist and technical personnel for work permits in Chinese Taipei, and to simplify administrative procedures, on Feb. 6, 2001 the government lengthened the extension of employment of foreign specialist and technical personnel from one year to two years,

with the possibility of further extension when the period of employment has expired.

Investment Tax Incentives

The revised Statute for Upgrading Industries was passed on Dec. 31, 1999 and implemented on Jan. 1, 2000. Among the key points of the revised statute is an extension of tax incentives until Dec. 31, 2009.

- a. Under the revised statute, investment tax credits are offered to companies that engage in R&D and personnel training; that purchase automation or pollution control equipment or technology; and that use equipment or technology for new and clean energies, energy conservation, or the recycling of water.
- b. To promote balanced regional industrial development, investment tax credits are also offered to certain industries that invest a certain amount in resource-poor and underdeveloped areas.
- c. Chinese Taipei encourages the establishment and expansion of important emerging strategic industries by offering them a choice between taking a five-year business income tax holiday or giving investment tax credits to their shareholders.
- d. There are tax incentives for mergers and reinvestments as well.

Tax

- a. Business income tax: 0%~25%.
- b. Preferential income tax treatment for dividends and profits: Income tax on stock dividends and profits distributed by approved foreign-invested enterprises is withheld at a rate of 20%.
- c. Business tax: 5%.
- d. Other taxes: Estate and gift tax, commodity tax, security transaction tax, futures transactions tax, stamp tax, house tax, deed tax, land value tax, customs tariffs.

4. Bilateral agreements on Promotion and Protection of Investments

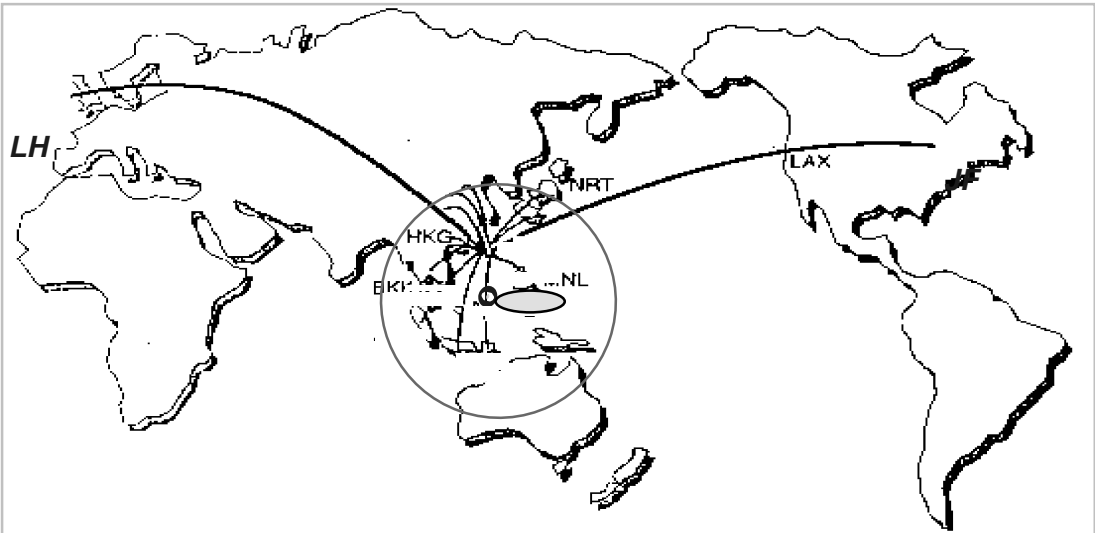
Chinese Taipei has signed investment protection agreements with 27 countries with the aim of strengthening the protection of investors from those countries:

Area	Country
Asia	Singapore, Indonesia, the Philippines, Thailand, Malaysia, Vietnam, Saudi Arabia
America	U.S.A., Panama, Paraguay, Honduras, El Salvador, Dominican Republic, Argentina, Nicaragua, Belize, Costa Rica, Guatemala
Oceania	Marshall Islands
Africa	Nigeria, Malawi, Senegal, Swaziland, Burkina Faso, Liberia
Europe	Latvia, Macedonia

**V. WHY CHINESE TAIPEI ?
THE STRATEGIC POINT FOR YOUR INVESTMENT IN THE ASIA-PACIFIC REGION**

1. An advantageous geographic location

Chinese Taipei is situated at the hub of the Asia-Pacific region, with an average sailing time to five major harbors of only 53 hours—the shortest of all regional ports. Average flying time from Taipei to seven major cities in the Western Pacific area is also the shortest in the region at just two hours and 55 minutes.



City	Average Flying Time to Eight Major Airports in the Asia-Pacific (hours:minutes)	Average Sailing Time to Five Major Harbors in the Asia-Pacific (hours)
Taipei	2:55	53
Hong Kong	3:05	64
Shanghai	3:25	78
Manila	3:30	68
Seoul	4:00	
Tokyo	4:15	110
Singapore	4:55	124
Sydney	6:15	

Source: Council for Economic Planning and Development, Executive Yuan

2. The core of global logistic and production systems

A. Manufacturing industries have established core competitive advantages

During a speech that he delivered in Chinese Taipei in 1997, Harvard management guru Michael Porter pointed out that within the Asian area, only Japan and Chinese Taipei had formed cluster economies. Chinese Taipei has built up a rich store of manufacturing strength, engineering capability, and logistics experience over the past 20 years, and its major industries have established solid and complete systems for upstream, midstream, and downstream development. This makes it easy for foreign investors to find in Chinese Taipei the cooperative partners and industrial support systems that they need to set up Asia-Pacific or global high-value-added production, research and development, marketing, and logistics centers to serve Asia-Pacific or global markets. The following chart lists products for which Chinese Taipei is the world's first, second, or third largest supplier in terms of production value:

Chinese Taipei's World Ranking as a Product Supplier		
No. 1	No. 2	No. 3
Wafer fabrication	IC design	Printed circuit boards
IC packaging	MASK ROM	Desktop computers
Notebook computers	LEDs	Monitors
CDR optical disks	Chipset	Polyester cotton
Hub	Motherboards	Polyvinyl chloride(PVC)
Modems	Polyester resin	Purified Terephthalic acid (PTA)
Network cards	Nylon fiber	Bicycles
ABS resin	Thermal plastic elastomer (TPE)	
Home sewing machines		
Hand tools		

B. Manufacturing capabilities have won international affirmation

Chinese Taipei’s companies have abundant experience at internationalization and a strong ability to grasp market trends. With their high-quality human resources and the production bases they have set up in mainland China and Southeast Asia (for example, Chinese Taipei is the fourth largest source of foreign investment in mainland China, the third largest source in Thailand and Malaysia, and the second largest source in Vietnam), they have built up solid systems for stable product quality and rapid delivery. With these advantages, it is not hard to see why the world’s major information technology (IT) manufacturers choose Chinese Taipei as their main cooperative partner.

3. Chinese Taipei’s international economic ranking

Ranking Organization	Ranking Indexes	No. of Countries Ranked	Chinese Taipei’s Ranking
IMD World Competitiveness Yearbook	Economic performance, Government efficiency, Business efficiency, Infrastructure	49	18
PERC Comparative Country Risk Report	Systemic & Socio-Political Risk, Market Size, Economic Dynamics	14	5
BERI Profit Opportunity Recommendation	Operational Risk, Political Risk, Remittance and Repatriation Factor	50	5

4. A good commercial environment

The investment environment in Chinese Taipei, like that in other advanced countries, is facing the impact of the development of the knowledge economy, the widespread adoption of information technology, and the tide of globalization. In addition, over the past five years the rise of emerging Asian economies has attracted much of the FDI coming to the Asia-Pacific region. To maintain Chinese Taipei’s competitive advantage under these conditions, one of the most important objectives at the present time is the establishment of a good commercial environment. The concrete means by which this objective is being pursued are described below:

A. Promotion of the Global Logistics Center plan

In view of the current development of the economic environment toward digitization and Internet operations, the establishment of global production and marketing systems by multinational enterprises has become a necessary trend. Chinese Taipei implemented its Global Logistics Center Plan in October 2000 to work in line with the vision of developing of Chinese Taipei into a “green silicon island” by making the best use of the island’s geographic position and manufacturing industry-related advantages to simplify and integrate the flow of commerce, goods, information, and other operating systems, thus helping companies to carry out transnational integration so that all economic activities, from product design and manufacturing to distribution and marketing, can be rapidly and conveniently

competed in Chinese Taipei, thus achieving the competitive advantage of assured delivery of products to customers in different countries rapidly and on time.

B. Encouraging the establishment of global operations headquarters

Strategies and measures for the program for assisting companies to set up operations headquarters in Chinese Taipei are being actively planned. The main force of the program will be to relax restrictions on bringing in foreign technology and management professionals so as to support operating headquarters in gaining a firm grasp of such core tasks as R&D, design, and logistics. The program will also consider the relaxation of regulations governing the lease and sale of government land as well as the provision of such land at preferential prices, so as to help companies that conform to incentive conditions to acquire land for their operations headquarters. The program also proposes a revision of the Statute for Industrial Upgrading to add tax incentives for the establishment of operations headquarters.

C. Formulation of a Corporate Mergers and Acquisitions Law

In the face of the trends toward globalization and economic integration, companies can use mergers and acquisitions to transform themselves and grow rapidly, and to promote industrial readjustment and the creation of shareholder value. Chinese Taipei is currently formulating a Corporate Mergers and Acquisitions Law designed to simplify the procedures and reduce the costs of mergers and acquisitions, and thus attract foreign investment which can accelerate the improvement of Chinese Taipei's system for corporate operations, reinforce corporate competitiveness, bring about corporate operating efficiencies, and boost economic development.

VI. INVESTMENT OPPORTUNITIES

Chinese Taipei is about to enter the WTO, and the progress of economic liberalization can be accelerated under the WTO framework. In addition, the scope of the island's liberalization will expand from manufacturing industries to agriculture and services, as well as related investment activities. For multinational enterprises, Chinese Taipei's market will become more liberalized, open, and competitive in the future. Chinese Taipei currently welcomes foreign investment in the following areas:

1. Manufactures investment opportunities

- A. The CHINESE TAIPEI government is currently refining its plan to develop Chinese Taipei into a global logistics center. Foreign enterprises are welcome to come to the CHINESE TAIPEI and invest in such important emerging strategic industries as information, communications, consumer electronics, sophisticated electronic parts, precision machinery, aerospace, pharmaceuticals and specialty chemicals, environmental protection technology, and advanced materials, as well as other high-tech, high-value-added industries. The Economic Ministry's IDIC, along with its five industry promotion committees— aerospace, information, biotechnology, high-definition, and precision machinery—will provide assistance in finding suitable partners in Chinese Taipei, procuring industrial land, applying for tax and R&D incentives, and removing obstacles to investment.
- B. Preliminary investment feasibility reports are provided on around several emerging industrial items, for the reference of interested investors.

2. Infrastructure investment opportunities

The CHINESE TAIPEI Executive Yuan's program for the expansion of domestic demand calls for the release of various infrastructure projects to international bidding. There are 94 of these projects, including the initial network for the Taipei MRT system construction plan, telecommunications, information and broadcasting integration, access road systems for the Taoyuan Aviation City plan, the Hsinchuang and Luchou lines of the Taipei metropolitan MRT system, the sixth power transmission and distribution project, and natural gas supply for third-stage IPP projects. Interested foreign companies are welcome to participate; for further information, they may visit the Public Construction Commission's website at <http://gpic.pcc.gov.tw>.

3. Investment opportunities in mixed industrial/commercial zones in Chinese Taipei

Mixed industrial/commercial zones are a new type of multipurpose suburban zones that combine the functions of shopping, recreation, exhibition, and others. The CHINESE TAIPEI government hopes that foreign companies will invest in these zones in Chinese Taipei to promote the modernization of the island's commercial and service industries, and thus to upgrade its quality of life.

4. Investment opportunities in services

A. Telecommunications enterprises

The amendment to the Telecommunications Act of 1996 was promulgated and put into effect on Nov.3, 1999 to raise the ceiling on foreign shareholdings in Type I telecommunications enterprises from 20% up to 60% with direct ownership to be limited to 20%. The revised rule on the foreign shareholdings in Type I telecommunications enterprises was effective from Jan. 31, 2000.

Chinese Taipei has already proposed a revision of the Telecommunications Law to raise the ceiling on direct foreign shareholding in Type 1 telecommunications enterprises from the current 20% to 49%; when indirect shareholdings are added, the ceiling on foreign shareholding will rise to 60%.

B. Financial services

To enhance the competitiveness of the domestic financial industry, expand the economic scale and operating space of domestic financial institutions, and maintain a suitably competitive environment, Chinese Taipei promulgated a Financial Institutions Merger Law on Dec. 13, 2000 and a Financial Holding Company Law on July 9, 2001. These laws allow foreign financial institutions to merge with and acquire domestic financial institutions and to operate domestic financial institutions through holding companies, so as to promote accelerated integration, transnational operations, and the formation of specialized groups in Chinese Taipei's financial services industry.

C. Air freight forwarders and air cargo terminal operators

To meet the needs of its impending entry into the WTO, Chinese Taipei has formulated a revision of Article 49 of the Civil Aviation Law (which is now under deliberation in the Legislative Yuan) to remove restrictions on foreign-investment ratios for air freight forwarders and air cargo terminal operators. Following the accession of Chinese Taipei to the WTO, therefore, the maximum ratios of foreign participation in the capital and number of directors of enterprises in these two industries will no longer be subject to any restriction whatsoever.

VII. PROSPECTS

The important role that FDI has played in Chinese Taipei's economic development over the past 50 years cannot be denied, and for this reason the island has always striven toward the establishment of a more open, more liberal investment regime in order to bring its capital, technology, personnel, markets, and other factors into line with the rest of the world and create the maximum value-added. In addition, only a more open developmental environment will be able to cope with the rapid changes that are taking place in the international economic and trade environment. In the pursuit of sustained development, we must reposition Chinese Taipei's role in the global investment system and establish an intimate relationship with the global economic network.

1. The challenges of WTO membership

In response to the demand by international economic and trade organizations for further liberalization of each country's investment system, Chinese Taipei has already largely opened its finance, insurance, transportation, telecommunications, and real estate industries to foreign investment. At present, except for a small number of ratio restrictions on foreign investment in such industries as telecommunications services, foreign investors in most cases enjoy national treatment.

All manufacturing is open to foreign investment except for a small number of items that affect national security, health, and environmental protection; in fact, the degree of liberalization has reached 99% of manufacturing sector. In the area of services, the degree of liberalization has reached 95%.

To promote ongoing investment liberalization in the future, Chinese Taipei will continue to review and revise policy concerning foreign investment in reference to international norms, and will completely eliminate unnecessary restrictions. Chinese Taipei has already committed to the abolishment of local-content requirements for automobiles and motorcycles/scooters upon accession to the WTO.

2. Repositioning of Chinese Taipei in the global investment system

In consideration of Chinese Taipei's advantageous conditions and the external developmental environment, in the future the island will be positioned as a high-value-added manufacturing center that utilizes foreign and domestic capital, manpower, and technology to engage in manufacturing R&D, logistics, and innovation activities, and that uses mass-production bases that have already been established in mainland China and Southeast Asia to carry out an international division of labor. The aim of all this is to maximize economic efficiencies and allow foreign companies and domestic enterprises to exist and prosper together.

3. Chinese Taipei's industrial development prospects

- A. Chinese Taipei will become a globally competitive economy within 10 years.
- B. Chinese Taipei's industrial competitiveness will be based on (i) industrial technology capability, (ii) existing industrial advantages, (iii) an entrepreneurial spirit rich in flexibility and vitality, and (iv) the ability to integrate resources and bring the factors of production together with market opportunities.
- C. Industrial production methods will switch from an emphasis on the economies of scale to a stress on economies of scope, and from an emphasis on a detailed division of labor to the pursuit of flexible and rapid integration between different sectors and different industries.

- D. In view of the fact that Chinese Taipei is about to enter the WTO and become a member of the world's largest economic organization, the government will continue building the island into a liberalized and internationalized open economy. The government will switch from its traditional role as an allocator of resources to the function of encouraging the exercise of vitality in the private sector, making Chinese Taipei's investment environment into a place where domestic enterprises can grow and become internationalized and where multinational companies can also establish their operations centers.