

## Investment for Development: Taiwan Experience

by Chen-en Ko, Ph.D., President of Chung-Hua Institution for Economic Research

Since the mid-1980s, Taiwan's manufacturers started to invest more aggressively in Southeast Asia countries due to the appreciation of Taiwan's currency and rising labor costs. In the early stage of this wave of outward investment, Taiwanese firms primarily focused in Malaysia, Thailand and Indonesia. Major investments by Taiwanese firms in these countries included electronics, textile, paper and shoemaking sectors, depending on the available resources in each country.

During mid-1990s, Taiwanese firms shifted their investment focus to China. Such a shift is primarily due to the opening of Chinese economy, as well as the rising production costs of labor, inadequate infrastructure, or social unrest in the South East Asia region. The Asian financial crisis in 1997 speeded up the process further. After China started to open its economy, its comparative advantage in labor, its cultural similarities and highly attractive incentives enticed investments from a significant number of Taiwanese firms. One notable exception is Vietnam, which gradually became a new investment destination for Taiwanese firms since late 1990s. The reasonable level of labor costs and supportive policies for foreign investments in Vietnam provide Taiwanese firms an attractive location to continue their manufacturing-oriented activities. As of the end of year 2005, Taiwanese investment ranked as number 2 in Vietnam.

It is generally true that FDI usually brings employment to the recipient countries. There are several salient features of Taiwanese FDI into other countries. First, Taiwan's economic development has been characterized by small and medium enterprises (SMEs) for several decades. These SMEs with their entrepreneurial spirits were the first groups making their outward investments when domestic production costs started to rise in 1980s. These firms are flexible enough to adapt to environment that may not be attractive to bigger companies. They seek opportunities for their survival and growth, as well as providing employment for local residents, that would otherwise be unavailable for them.

Second, these firms also set examples for local people to develop their own SMEs with minimum capital. Although each big multinational corporation (MNCs) creates more employment, they are more difficult to emulate because of the requirements of capital and sophistication. For many emerging economies to develop, SMEs provide an alternative to mobilize social resources and identify niche markets. Entrepreneurial SMEs from Taiwan provide examples, suggesting to local people the viability to develop their own SMEs. With a substantial number of SMEs active in various markets, their aggregate impact on employment cannot be ignored.

Third, in addition to SMEs, many larger size firms in Taiwan in various industries have developed more sophisticated production capability such as IT, shoemaking, textile, bicycle, etc. Facing rising costs in Taiwan, these firms create cluster effects with their investments in China and Southeast Asia countries. With segments of the industrial supply chain served by various firms, Taiwanese firms have a tendency to bring their upstream or downstream contractors with them for their overseas investments. Gradually, clusters are formed and create a broader scope of business activities to satisfy the needs for industries in the clusters.

Experiences of Taiwanese firms indicate international investments are not confined to large MNCs. Although activities of large MNCs are usually the primary targets for countries to attract, smaller international firms bring with them entrepreneurial spirit and capability that could inspire local business activities. Giving today's IT technology and flatter world, how to create an environment that is conducive for entrepreneurial firms from abroad and for domestic business to make investment is an important issue for future development.