

Taiwan Advantages and Opportunities

**Presented to
Taiwan Business Alliance Conference
October 19-22, 2003
Taipei**

Paul S. P. Hsu

**Senior Partner
Lee and Li, Attorneys-at-Law
Professor of Law
National Taiwan University**

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In the past decades, Taiwan has traditionally focused on manufacturing activities and gained worldwide recognition for its competitive advantage in efficient and low cost production. Today, such advantages have shifted to other Asian countries that provide those advantages enjoyed by Taiwan during the 1960's to 1980's. To cope with the challenges ahead, the government has put forth various programs to encourage investment in R&D, acquisition of new technologies, and the upgrading of human resources. Furthermore, emphasis is equally placed on the service industry and the agricultural sector. However, to prevent Taiwan from being bypassed in the wake of industrial globalization, especially when mainland China has become one of the most notable "manufacturing centers," Taiwan, for the sake of transforming risks into opportunities, must be well aware of its advantages and niches to move Taiwan forward.

I. Taiwan Advantages

i. Abundant experience in the development of manufacturing sector as evidenced by the first economic miracle (1960's-1980's)

During the past four decades, Taiwan has undergone rapid economic development. The 1960's was a period of export-oriented manufacturing industries. We witnessed the rapid development of contract manufacturing and then the development of petrochemicals, information technology, and other

capital and technology intensive industries in the 1970's and 1980's. Taiwan has cultivated herself to have a solid foundation of manufacturing industries to promote the growth and to meet the demands of globalization. Taiwan has transformed herself to be a major manufacturing and trading partner to western countries.

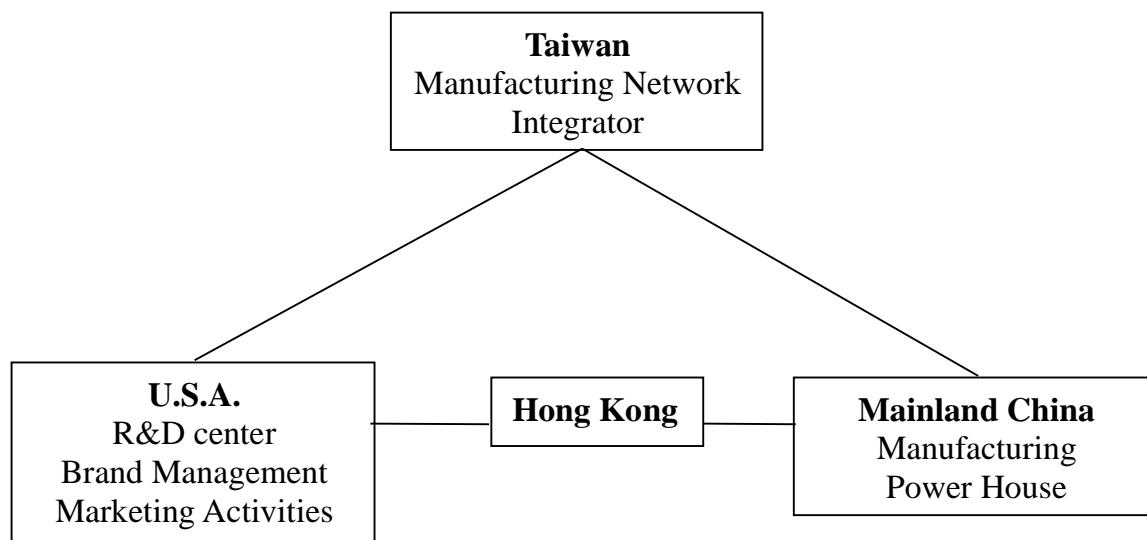
ii. Strong Entrepreneurship

One of the characteristics of Taiwan's business sector is the daring entrepreneurship. A good indication of the strength of entrepreneurship is the growth in start-up companies. Start-up companies and small and medium enterprises have greatly contributed to Taiwan's economy.

iii. Taiwan business network - how Taiwan businesses play the role of integrator of regional and global resources to become an important player in the global supply chain

Taiwan has been accumulating unique expertise and capabilities in doing business worldwide. Taiwan business sector, distinguished by its manufacturing technology and management know-how, is now an integral part of the supply chain of many global products and is also beginning to serve as an integrator of global resources by expanding its operations worldwide, especially in most Asian countries, including mainland China. Taiwan business sector owns expertise such as swift orders placement, flexible management, component sourcing capability and other core competence that make Taiwan sharply responsive to the global market.

After mainland China opened her gate to the world two decades years ago, one can clearly see the unique supply chain being developed among companies in the U.S.A., Taiwan and mainland China.



The following statistic may further explain the relationship illustrated above:

In 2002, according to the U.S. statistics, China had the largest trade surplus with the U.S., at around US\$103 billion. Her exports to the U.S. reached around US\$125.1 billion and imports, US\$22.1 billion. However, according to the mainland China statistics, her trade surplus against the U.S. was around US\$42.7 billion, with exports to the U.S. amounted to US\$69.9 billion and imports around US\$27.2 billion. At the same time, China enjoyed a trade surplus of US\$47.8 billion against Hong Kong in 2002. Moreover, last year, Taiwan's trade surplus against mainland China reached US\$21.5 billion. Given the huge differences between the statistics on the value of exports to the U.S., one may well wonder what role the cross-strait division of labor plays in it.

iv. Taiwan businesses' unique role in the vast China market

In addition to the role of supply chain, the advantages in terms of geography, cultural background and language give Taiwan businesses sector a niche to play the role as an integrator of global business activities in the Greater China region.

It is clear that Taiwan's industry enjoys certain advantages in areas of management, operation, technology and marketing while mainland China, on the other hand, offers low-cost labor and resources and a vast domestic market. These advantages plus the common cultural background give Taiwan business sector a great advantage to play the role as an integrator of activities in the supply chain of global products.

v. Abundant resources in financial market

To Taiwan capital is not a problem, we have overseas reserve in the amount of US\$190 billion (official). As of June 2003, Taiwan had 202 Venture Capital (VC) companies, with a total paid-in capital of US\$4.74 billion. From 1996 to 2002, they have invested in 7560 projects with a total investment of US\$4.27 billion.

Certainly, government is making efforts in facilitating access to efficient capital markets. The recent abolition of QFII system is one of the indicators of the government's efforts in eliminating investment obstacles to attract foreign investment into Taiwan's capital market. At the same time, the government is also conducting researches on the establishment of industrial holding companies and financing companies. We expect the government to expedite its financial reform to facilitate Taiwan to become a global funding center.

vi. Management and business experience for doing business in Asia

Taiwan has sufficient talents in establishing and managing manufacturing operations in different geographic locations with diverse cultural backgrounds to meet the demands of globalization activities. By accumulating experience from doing business worldwide, especially in Southeast Asia, Taiwan business sector has established certain foundation of skills. Taiwan business sector knows how to train workers in different cultural environments and how to

ensure prompt delivery of goods as well as quality control. They also know how to deal with buyers and markets and how to maintain worldwide distribution network. They have R&D capability as well as system integration capability.

II. Opportunity for strategic alliance

i. Partnering with Taiwan's industries/business to enter the vast Asian market

Taiwan's excellent relations with foreign manufacturing and service industries provide a good opportunity for cooperation with foreign investors and for access to the Asian market. Since Taiwan and mainland China have both joined the WTO, Taiwan industries/business have become more eager to explore new business opportunities in mainland China, either on their own or through joint venture with other international investors.

ii. Partnering with Taiwan industry for role in the global supply chain management

As a result of the huge investment worldwide, Taiwan industries/business have built up remarkable networks around the world for manufacturing, distribution, marketing and logistic support. Businesses from other countries can tap into such networks through their strategic alliance with Taiwanese partners.

iii. Partnering with Taiwan business to develop a whole range of high value-added knowledge-based service industry in the Asian Market

For the service industry, in addition to the financial reform that we mentioned previously, the government has come up with other measures to facilitate the introduction of new ideas and technologies to improve the quality of the service sector. Meanwhile, the government is also actively promoting the

development of logistics and distribution business, human resource training, healthcare, communications and media, R&D and technology, information technology, cultural innovations, construction and manufacture engineering, environmental protection, product design as well as tourism.

I believe that tremendous new business opportunities will become available, especially in a new environment created by Taiwan's WTO accession. In the case of Taiwan's agricultural sector, the government will assist farmers in upgrading their operation, improving the distribution system of agricultural products, and increasing the added value by integrating environmental protection, recreation and tourism with agriculture. Furthermore, Taiwan's agricultural technologies need to be commercialized by means of packaging such technologies for license to other areas where the cost of production is lower and more competitive.

III. Structure Issues

Structure issues examine how to stimulate sustainable economic growth in a country through building a sound legal, economic, political and social framework. It involves facilitating an environment that supports thriving entrepreneurship for economies to grow themselves and witness increased standards of living. Structure issues are also characterized by developing a highly educated, innovative, and creative populace that can apply those traits to businesses and continued economic growth.

Taiwan has experienced how economic development and openness contributed to political change. Taiwan's example proves that democracy and capitalism can successfully engage in Asian culture. We proposed the *APEC Best Practice Guidelines for Entrepreneurship and Start-up Companies* and the *APEC Best Practice Guidelines for Enhancing Women's Entrepreneurship and Start-up Companies* and were endorsed by the Ministers at the APEC Ministerial Meeting in 2001 and 2002 respectively. In 2003, we continued to propose the *Best Practice Guidelines for Enhancing the Financing Chain for*

SMEs at Different Growing Stages at the 15th APEC Ministerial Meeting. The *Guidelines* were endorsed by the Ministers again and serve as a model for future development of all Asian economies.

This is a fine example of how structure issues can be incorporated into international policy. Taiwan industries/business can absolutely assist their foreign partners to access the Asian market.

Today, we are delighted to see the government considering re-building Taiwan's legal framework to eliminate legal barriers and enhance administrative efficiency through the process of negative listing.

Conclusion:

The 21st century is a century of strategic alliance. Taiwan has traditionally focused on manufacturing activities and gained worldwide recognition for her competitive advantage of efficient production. However, with the increasing competition from a number of developing countries led by mainland China, Taiwan should rethink the policies in assisting domestic industries in their restructuring and upgrading so as to maintain her niche and competitiveness.

Some people think "Globalization" will undermine the importance of national economic policy and will threaten their local business. Economic policy in the age of globalization is by no means irrelevant. "Localization", in my view, is upgrading our traditional industries and know-how through our international partners and enabling them to accommodate the local environment. In the past, manufacturing power determined competitiveness; but now knowledge determines competitiveness. The challenge would always exist.

From a practical viewpoint, what is critical for Taiwan's future is to ensure that businesses will conduct their core operation and retain the key value in the global supply chain management in Taiwan and what is crucial for Taiwan business to remain dynamic.

I would like to suggest that the government must:

- liberalize capital market;
- encourage entrepreneurship and establish Taiwan's brand names;
- develop high quality educational systems that lead to social advancement;
- attract high-end human resources;
- facilitate an environment where corporate governance and a healthy business culture are observed;
- create a fair and reasonable environment for competition; as well as
- create optimal conditions for the creation of wealth and ensure the proper and fair distribution of wealth.

Only a sound legal, economic, and social structure environment would attract any industries worldwide to establish their business operation in Taiwan.