philippine studies

Ateneo de Manila University • Loyola Heights, Quezon City • 1108 Philippines

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Philippine Studies vol. 43, no. 1 (1995): 93–104

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Foreign direct investment (FDI) has played an increasingly important role in the economic development of the Asia-Pacific region. In the past, FDI in Asia was mainly from North America, the European countries and Japan. Today, the newly industrializing economies (Hong Kong, Taiwan, Singapore and the Republic of Korea) have become important sources of investment in the region. These countries have experienced remarkable economic growth and have invested substantially in other Asian developing countries in recent years.

Taiwan is one of the most dynamic and fastest growing economies in the developing world. To overcome the limitations of its small domestic market and scarcity of resources, the country has adopted an export-led development strategy since the 1960s, relying mainly on export industrialization as an engine of growth. Efforts have been made to increase the production and export of manufactured products. Moreover, Taiwanese firms undertook FDI to expand overseas markets and look for lower-cost production bases. Taiwan overtook Hong Kong in 1987 to become the largest foreign direct investor among the developing countries.

The main purpose of this note is to analyze the past record and future prospects of Taiwan's investments in the Philippines. In the first section, the major reasons and trends in FDI from Taiwan will be analyzed. The second section will discuss the amount and pattern of Taiwan's investments in the Philippines. The impact of Taiwanese investments on the Philippine economy will be discussed in section three. Finally, section four will analyze the future prospects of investment from Taiwan to the Philippines.

Paper prepared for the conference on "China, Taiwan and the Ethnic Chinese in the Philippine Economy" at the Ateneo de Manila University on 16 September 1993, Quezon City. The figures in this paper have been updated to September 1994.

Trends in Foreign Investments from Taiwan

Taiwan's outward investment started in the early 1960s, but the initial investment was small. According to official statistics, a total of US$215 million was invested abroad by Taiwanese firms during the period 1959-1985. However, Taiwan's FDI has expanded drastically since 1986. The direct outward investment from Taiwan as approved by the Republic of China (ROC) government, rose from $57 million in 1986 to $1,656 million in 1991 and then decreased to $887 million in 1992. Total outward investment amounted to $1,661 million in 1993 (see Table 1). From 1959 to September 1994, the approved FDI totalled $8,569 million for 2,074 cases. These figures appear to be underestimated as they are much lower than the figures released by host countries. This is because a great deal of Taiwan's outward investment did not go through official procedures in order to avoid tax, government scrutiny and red tape. Several factors have contributed to this rapid increase in Taiwan's FDI. These included: an emerging labor shortage, rising land costs, the appreciation of the New Taiwan (NT) dollar, relaxation of foreign exchange control and rules governing outward investment, and the proliferation of protectionism in the industrialized countries.

The wage rate increases, which started in 1986, were among the most important reasons for Taiwan's outward investment. A new Labor Law was promulgated in 1983 to give greater benefit to labor. The severe shortage of labor caused by the booming economy led to unit labor cost in the manufacturing sector increasing at an annual rate of 10.5 percent during 1986–1991, which was much faster than all major competitors. The sharp increase in labor cost reduced the international competitiveness of Taiwan's traditional labor-intensive products. As a result, producers were forced to move their production to neighboring Southeast Asian countries, particularly China and Vietnam, since these countries had an abundant supply of labor and their wage rates were much lower than those of Taiwan.

The sharp increase in land prices was another important reason for investment abroad from Taiwan. Land prices in Taiwan increased by more than three times during the period 1985–1989, a dramatic increase that made it very hard for Taiwan's enterprises to expand their establishments. It also forced new investors to go abroad to undertake new investment projects. The land price inflation enabled the existing firms and other landlords to acquire more funds for foreign investment by selling their property at a high price.

Table 1. Approved Outward Investment from Taiwan, 1959-September 1992
($ million)

Year	Case	Amount
1959–1979	136	59.3
1980	17	42.1
1981	10	10.8
1982	4	11.6
1983	7	10.6
1984	22	39.3
1985	23	41.3
1986	32	56.9
1987	45	102.8
1988	110	218.7
1989	153	931.0
1990	315	1,552.2
1991	364	1,656.0
1992	300	887.3
1993	326	1,660.9
1994 (Jan.-Sept.)	211	1,288.3
1959-Sept. 1994	2,074	8,569.1

Source: Investment Commission, Ministry of Economic Affairs, ROC.

Another factor stimulating FDI was a sharp appreciation of the NT dollar after 1986. There was a continuing huge trade surplus and accumulation of foreign exchange reserves in Taiwan in the 1980s. Since 1985, international pressure to reduce trade surplus has become so intense that the NT dollar had to appreciate against the U.S. dollar rapidly. The exchange rate appreciated from about NT $40 for U.S. $1 in 1986 to about NT $25 for U.S. $1 at the end of 1989. In a short span of four years, the NT dollar appreciated by more than 50 percent. As a result, the international competitiveness and export profits of Taiwan's products were reduced considerably. Some export manufacturers had to relocate their production to low-cost countries if their production cost could not be reduced in line with the appreciation of the NT dollar.

The rising protectionism in Europe and America also made it difficult for some of Taiwan's producers to survive. Taiwan has been investing in industrial countries in order to bypass trade restrictions and maintain the same market share as before. Moreover, as the Southeast Asian countries still enjoy Generalized System of Preference (GSP) benefits, investment in these countries has become one of the major choices for many labor-intensive industries.

Favorable changes in the regulations on outward investment have been in effect since early 1989. Foreign investments between $1 million and $5 million, can be deemed approved if no disapproval from the Investment Commission of the Ministry of Economic Affairs is received by the investor within 30 days of submission of application. Furthermore, individuals have been allowed to remit up to $5 million abroad a year since 15 July 1987. This change has made outward investment much easier than before because it allows anyone to invest abroad even without the permission from the Investment Commission, provided that the amount of investment is less than $5 million.

The rising requirements for environmental protection in Taiwan and the increasing government incentives (e.g., tax holidays, relaxation of foreign exchange control, etc.) offered by the ASEAN countries have also attracted investments from Taiwan.

With regard to country distribution of FDI, official statistics indicate that the biggest outward investment went to the United States, amounting to $2,420 million, or 28.2 percent of the total approved outward investment from 1959 to September 1994 (see Table 2). The major motives behind Taiwan's investment in the U.S. are to expand the market for Taiwanese products and to acquire new technology. However, the growth of investment in U.S. has been declining since 1990, although it picked up in 1993. The second largest group recipient of Taiwan's FDI was the ASEAN countries. Based on the amount approved by the host country, as of June 1994, Taiwan invested $8.7 billion in Indonesia, $6.2 billion in Malaysia, $4.7 billion in Thailand, $447 million in the Philippines and $90 million in Singapore. Taiwanese firms invested a total of $1.8 billion in Vietnam. Malaysia and Thailand's good infrastructure and adequate supporting industries attracted many investors from Taiwan. However, the growth of Taiwan's investment to Malaysia began to fall after peaking in 1992. Hong Kong acted as an important base for Taiwan's investors interested in mainland China. Indirect FDI via the third country, Hong Kong, has been permitted in Taiwan since October 1990. In recent years, the Taiwanese have gradually reduced their

Table 2. Approved Outward Investment from ROC, by Country, 1959–1992 ($ million)

Country	1959–1985	1986	1987	1988	1989	1990	1991	1992	1993	1994[a]	1959–1994[b]
Asian countries	79.4	8.4	21.3	69.3	296.4	602.9	929.6	369.9	663.5	403.8	3,444.8 (1,056)
Philippines	9.9	0.1	2.6	76.2	66.3	123.6	1.3	1.2	6.5	8.5	256.6 (73)
Malaysia	7.3	-	5.8	2.7	158.6	184.9	442.3	155.7	64.5	48.8	1,070.4 (170)
Thailand	11.3	5.8	5.4	11.9	51.6	149.4	86.4	83.3	109.2	51.4	563.8 (195)
Hong Kong	8.1	0.3	1.3	8.1	10.4	33.1	199.6	54.4	161.9	115.7	592.9 (271)
Indonesia	25.8	1.8	1.0	1.9	0.3	61.9	160.3	39.9	25.5	10.5	328.9 (97)
Singapore	9.3	0.4	1.3	6.4	5.2	47.6	12.5	8.8	69.5	70.4	231.5 (92)
Vietnam	1.4	–	–	–	–	–	17.1	20.2	158.4	86.3	283.4 (50)
Mainland China	–	–	–	–	–	–	174.2	247.0	3,168.4	759.0	4,348.6 (10,591)
North America	123.9	46.7	80.3	130.3	624.4	838.7	659.0	449.1	740.1	832.3	4,524.8 (823)
USA	117.2	46.0	70.1	123.3	508.7	428.7	297.8	193.0	529.1	106.2	2,420.1 (654)
European countries	4.3	0.2	0.2	12.0	2.3	96.2	60.3	45.9	255.0	17.9	495.2 (154)
African countries	2.2	0.9	1.0	1.0	7.9	13.0	4.5	16.9	0.4	10.0	57.7 (19)
Oceania countries	5.1	0.7	–	6.1	–	1.4	2.4	5.4	1.0	24.3	46.5 (23)
Total	214.9	56.9	102.8	218.7	931.0	1,552.2	1,656.0	887.3	1,660.9	1,288.3	8,569.1 (2,074)

Notes: numbers in parenthesis refer to the cases of approved outward investment.
a. January-September 1994.
b. 1959-September 1994.
c. Excluding indirect investment in mainland China.
Source: Investment Commission, Ministry of Economic Affairs, ROC.

investments in Southeast Asia in favor of mainland China. Taiwan's investments in China increased dramatically due to common language and cultural background. According to the official statistics from China, investment from Taiwan during the period 1979–1992 totalled $9.0 billion. Taiwanese investment in European countries began in the late 1980s, largely for the purpose of doing business in the single European market. Generally speaking, Taiwan's FDI to industrial countries was directed at high-tech manufacturing and services, while FDI in the ASEAN countries and China has been concentrated in labor-intensive manufacturing production to take advantage of the lower labor costs.

Investments from Taiwan to the Philippines

Despite geographical proximity, Taiwanese investments to the Philippines were small prior to 1986. According to the statistics of the Board of Investments (BOI), Philippines, total approved investments from Taiwan amounted to only $7.8 million for 54 cases during the period 1959–1986. This amount increased from $9 million in 1987 to more than $100 million a year in 1988–1990 (see Table 3). However, this fell drastically to $11 million in 1991, $9 million in 1992, $5 million in 1993 and $6.4 million during the first nine months of 1994 due to security and strikes as well as the "black hole effect." Since 1990 China and Vietnam have become the favored locations for the Taiwanese investors. From 1959 to September 1994, Taiwanese investments in the Philippines totalled $448.7 million (or 8.3 percent of the total approved FDI) for 722 cases. Taiwan ranked fifth among foreign countries investing in the Philippines, next to Japan, USA, Hong Kong and United Kingdom.

Taiwan's FDI in the Philippines was mainly in the manufacturing sector, focusing on textiles, electronics and garments. However, Taiwanese investors have diversified their investments to petrochemicals, cement, lighting fixtures, furniture, sports shoes, plastic products, real estate, aquaculture, and paper products. The major investors from Taiwan include Fortune Integrated Textile, Chung Fu Industries Inc., Avantex Mill Corp., A.S.E. Philippines Inc., Global Lighting Inc., Tai Yuen Textile, and Rand Cement Manufacturing Corp., their investments varying from 102 million to 537 million pesos. Of these investors, the Avantex Mill Corp. received equity investment and loans from the Asian Development Bank (ADB), the

Asian Finance and Investment Corporation, Ltd. (AFIC), and the International Finance Corporation (IFC). The ADB approved an $8 million loan without government guarantee in December 1990, the AFIC provided $5 million loan and the IFC approved equity investment of $2.25 million and a loan of $11.25 million. It is worth noting that most of the investors from Taiwan are small- and medium-scale enterprises. They have engaged in labor-intensive production and created employment opportunities.

In recent years, investments from Taiwan have been adversely affected by the change in the investment climate of the Philippines. The economic progress made by the Philippines following the People's Revolution in early 1986 was negated by the adverse effects of a series of coup d'êtat attempts, earthquakes, typhoons, and droughts towards the end of the 1980s and the eruption of Mt. Pinatubo in mid-1991. From 1992, power outages stretching as long as 6-8 hours, adversely affected industrial output, employment and exports. Power shortages of such serious proportions were unprecedented over the last two decades. The negative impact on FDI to the country has been immeasurable. The high incidence of kidnappings has also shattered investors' confidence. Other problems and difficulties encountered by Taiwanese investors include strikes, the overvalued Philippine peso, high interest rates, and lack of coordination among the executive, legislative and judicial branches of the government (e.g., the cancellation of the Bataan Petrochemical Project due to conflicting decisions between the executive and legislative branches). All these problems and difficulties have impeded the flow of capital from Taiwan and other countries.

The Impact of Taiwan's FDI on the Philippine Economy

The benefits of Taiwan's FDI to the Philippines include a package of capital, technology and export market access, which have the effect of improving economic efficiency and stimulating structural change. First, FDI has provided additional capital which, albeit small, is important for the host country as it has continued to register a large resource gap over the past years. Although FDI has not been a major contributor to the external financing needs of the Philippines in the past, it is preferable to other types of external funds such as official development assistance and commercial bank loans. Both official and private loans are often tied with social overheads and

Table 3. Equity Investment of Major Foreign Investment Countries, 1980-September 1994 ($ million)

Year	Taiwan, ROC Amount	Taiwan, ROC Case	USA	Japan	Total
1959–1986	7.8	54	n.a.	n.a.	n.a.
1980	0.2		37.7	48.7	236.4
1981	0.4		62.8	47.7	252.2
1982	0.1		120.8	13.7	255.6
1983	0.5		182.6	5.1	268.0
1984	0.8		102.3	34.1	235.6
1985	0.7		58.4	26.1	131.7
1986	0.4		22.4	22.3	78.2
1987	9.0	43	36.0	28.7	166.7
1988	109.9	86	153.1	95.6	473.2
1989	148.7	190	131.1	151.0	803.5
1990	140.7	158	59.5	305.9	961.3
1991	11.6	109	79.1	209.5	761.9
1992	9.3	27	62.8	73.9	290.8
1993	5.4	21	88.5	134.9	533.9
1994 (Jan.-Sept. 1994)	6.4	34	56.0	70.4	157.8
1980-Sept. 1994	448.7	722	1,253.1	1,265.6	5,385.6

Source: BOI, Philippines.

sectors that do not enjoy comparative advantage. Most of Taiwan's FDI is invested in the manufacturing industries which enjoy a potential comparative advantage. Moreover, FDI does not constitute external debt. It will repay only if the productive activity is profit-making and the repayment is, to a large extent, regulated by tax policies and legislation. There is a close match between the maturing schedules of earnings and repayment.

Second, FDI from Taiwan often brings with it advanced technology and modern managerial skills. In the case of processing and product technology, the technology and know-how transferred by Taiwan could well be more appropriate than those from the industrial countries. Third, investors from Taiwan have come to the Philippines with market information and channels, trademarks and goodwill, and as specialists in product design. They have all adopted an export-oriented strategy. With access to new foreign markets, most of their products are for export with only a small portion sold in local markets.

Empirical studies of FDI in Malaysia, Thailand, Philippines and China have revealed that investment from Taiwan have yielded positive effects on output, employment and export (Chen 1992). Due to the changes in their comparative advantage, labor-intensive industries in Taiwan have lost their international competitiveness. In the past years, Taiwanese firms have tried to phase out the traditional labor-intensive industries and move into new capital-intensive and high-tech industries. On the other hand, the Philippines, at its early stage of development, has accorded the highest priority to the development of new industries. The transfer of the "phased out" industries from Taiwan to the Philippines through FDI would enable the latter to establish new industries at low cost. The investment from Taiwan is, therefore, beneficial to both countries, and an example of the so-called "complementarity in development."

Most of the projects in which Taiwanese firms have invested have contributed to employment generation and export expansion. The investment in the Philippines has been dominated by the textiles, clothing and electronics industries. Their production is labor-intensive, and their employment-creation effect is substantial. Since they are produced to meet the demand of world markets, there has been a rapid increase in the exports of textiles, clothing and electronic products in the Philippines in recent years.

Following the increase in Taiwan's FDI to the Philippines, the shipment of machinery and equipment, and raw materials from the parent companies and export suppliers to Philippine subsidiaries has increased. Consequently, Taiwan's trade surpluses with the Philippines have expanded rapidly since 1988; rising from $358 million in 1988 to $710 million in 1992. Chronic and growing imbalance is likely to continue for the Taiwan-Philippine trade over the medium term.

Prospects of Taiwan's FDI in the Philippines

The Philippines has relatively rich natural resources, a large literate, labor force partly conversant in English and a reasonably well-developed institutional framework. The country offers potent comparative advantages in many sectors for FDI. However, FDI to the Philippines has been the lowest among the ASEAN countries in the past years. The fact that the Philippines has not developed as fast as it could, and the country has not received FDI flow as much as her ASEAN neighbors have, implies that a substantial portion of its latent potential has remained unexploited so that its absorptive capacity for FDI is still large. In light of various positive actions taken by the Ramos administration since June 1992, a climate more conducive to investment is clearly emerging. Political stability has been achieved and prudent macroeconomic policies have been formulated for implementation. However, greater effort can still be made to attract a higher level of FDI including, among other measures, the fundamental solution of power shortage, the restoration of peace and order to free foreign investors from the threat of organized crime, the improvement of coordination among the executive, legislative and judicial branches of the government, and the establishment of a sound management-labor relationship to attain industrial harmony.

In choosing their investment destinations, investors from Taiwan will be guided by traditional investment criteria. From this point of view, Singapore, Malaysia and Thailand, though witnessing high economic growth, low investment risk and high return investment destinations, are currently experiencing a shortage of skilled labor which has limited the scope for foreign investment. Indonesia offers vast opportunities to foreign investors because of an abundant supply of low-cost labor, natural resources and conducive policy framework. But the country is in the process of adjustment following a dramatic upsurge in investment. China and Vietnam pose keen competition for FDI as they have an abundant supply of cheap labor and low land rents. They have adopted outward-looking policies and undertaken economic reforms. However, both of these countries still have to come up with clear legal and administrative frameworks for FDI as well as rules and regulations governing private property ownership and business. In view of all this, the Philippines is considered by Taiwanese investors as a new frontier for FDI in the coming years.

On 6 August 1993, Taiwan and the Philippines signed an agreement to jointly develop an industrial park of 300 hectares in Subic Bay. The International Economic Cooperation and Development Fund of Taiwan, ROC, provided a loan of $23.57 million to finance the first-phase infrastructure construction of 100 hectares of the former U.S. naval base into an industrial zone to accommodate Taiwan and Philippine firms. The construction of the zone is scheduled to be completed by July 1995. Initially, a total of 38 large companies from Taiwan will move into the Subic Bay Industrial Zone for production. For example, the Subic Star, a shoe manufacturer, employed 1,129 workers; the Kun-Hsin Co., Inc., a novelty figurine manufacturer, employed 300 workers, and the Chung Nan Textile Co., Ltd. employed 275 workers. Other major investors include the Chern-Lih Industrial Co., Ltd., Golden Power International Manufacturing Company, Inc., Alpha Machinery Equipment Co., Ltd., Cendai Industrial Col. Ltd., etc. This pilot project is expected to attract a large group of Taiwanese businessmen to the Philippines in the coming years, thus leading to the second wave of investment from Taiwan. The first wave of Taiwan's FDI in the country occurred in 1988–1990.

Thirty years ago, the per capita income and total exports of the Philippines were higher than those of Taiwan. Today, Taiwan's per capita income is about $11,000 and it ranks 19th among all the nations of the world. Taiwan's international trade volume totalled more than $160 billion; it is the world's 14th largest trading country. Moreover, Taiwan has the world's second largest foreign exchange reserves next only to Japan, and a strong economic and trade performance. The ROC would thus be able to contribute substantially to the development of the Philippines. Moreover, many of Taiwan's development strategies, approaches and experiences can be learned by other Asian developing countries, including the Philippines.

Since Taiwan and the Philippines are at different stages of economic development and have different resource endowments, there is great scope for economic cooperation between the two countries. They complement each other in production and trade. Investments from Taiwan and other countries could provide sources of capital, technology and the means of expanding exports. FDI is of critical importance to the Philippines today as its government has decided to adopt export promotion as a development strategy to propel the nation into newly industrializing country (NIC) status by the year 2000. With a continuous flow of FDI, the Philippines can be expected to maintain economic dynamism and rejoin the ranks of the high-growth economies.

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