Economic Analysis

Taiwan: A magnet for corporations leaving China?

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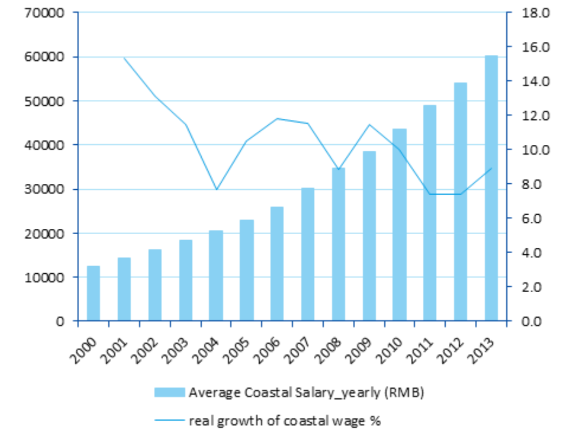
As China's manufacturing labor cost continue to up, many foreign companies are moving out of China (Figure 1and 2) We project that Taiwan will attract some of that FDI based on its exceptional advantages. Actually, Taiwan has long maintained an explicit policy of attracting FDI as part of its growth strategy. The primary objective of Taiwan's stance toward FDI was initially to attract export-oriented investment, while more recently, this objective has been modified to focus on technology-intensive areas and to promote domestic technological spillovers.

In recent years, although Taiwan's FDI stock has doubled from 2010 to 2014, it remains a relatively small when compared with Mainland China. (Figure 3) However, the changing environment in the Mainland, especially rapidly increasing wages, might offer Taiwan some new opportunities. In addition, the release of prohibition against mainland China investors on June 30, 2009, and the landmark cross-strait Economic Cooperation Framework Agreement (ECFA) on June 30, 2010 can clarify Taiwan's special situation with regard to the Mainland.

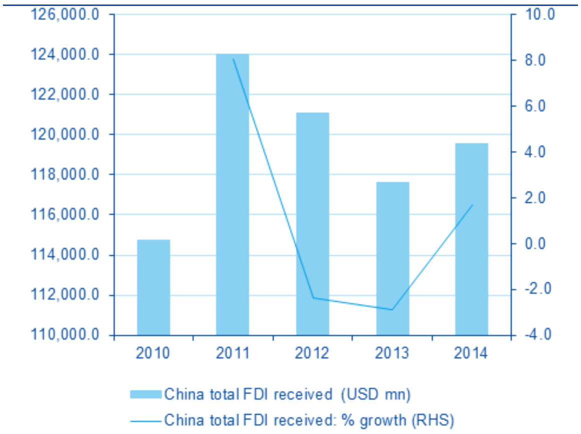
- **Taiwan has a stable political environment, well-functioning legal framework and high regulatory efficiency.** The efficient business environment is facilitated by a competitively low corporate tax rate and the elimination of minimum capital requirements for incorporating a company owned by a non resident. With no minimum capital required, it takes just simple procedures to incorporate a company. Completing licensing requirements is not time-consuming compared with other countries in Asia.
- **The wage of China's coastal provinces is converging with that of Taiwan, although there is still some way to go.** China's average wage as a whole and coastal province wage have been increasing significantly over time, indeed at a much faster pace than that of Taiwan. Particularly, average wages in coastal provinces is catching up with Taiwan's average wages, although, the convergence process is still undergoing. (Figure 4).
- **The well-established soft and hard infrastructure in Taiwan is another significant advantage to attract FDI.** Taiwan has abundance of skilled labor force and strong R&D capabilities, illustrated by Taiwan's considerable upgrading of the educational qualifications, a sustained and systematic shift in the composition of the labor force from agriculture into manufacturing and services. From the perspective of hard infrastructure, Taiwan has a considerable industrial and logistic fabric and world class international transportation facilities. Moreover, compared to other neighborhood countries, Taiwan provides quality and inexpensive utilities and telecommunication services, and the internet penetration rate is high.

Figure 1
China's coastal province wage has been two-digital increasing over time



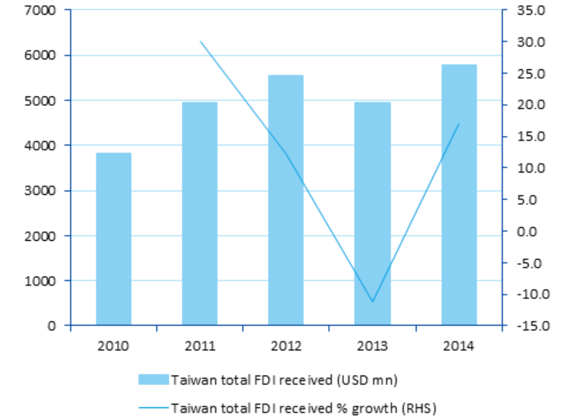
Source: CEIC and BBVA Research

Figure 2
Many foreign manufacturing corporations moved out of China due to increasing labor cost



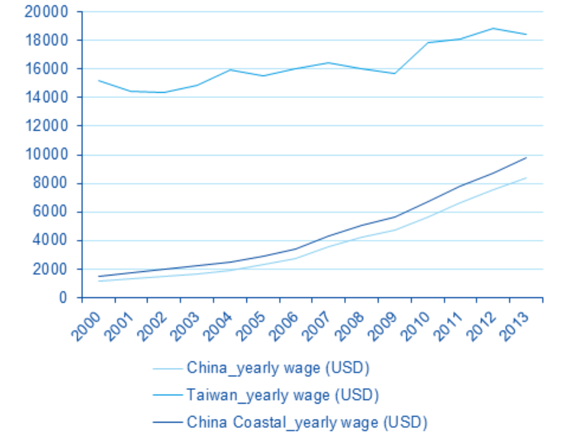
Source: CEIC and BBVA Research

Figure 3
The labor cost increasing in mainland might provide opportunities for Taiwan to attract FDI



Source: CEIC and BBVA Research

Figure 4
Wages between Taiwan and mainland coastal provinces displays a converging trend



Source: CEIC and BBVA Research