

## Economic Analysis

## Taiwan: A magnet for corporations leaving China?

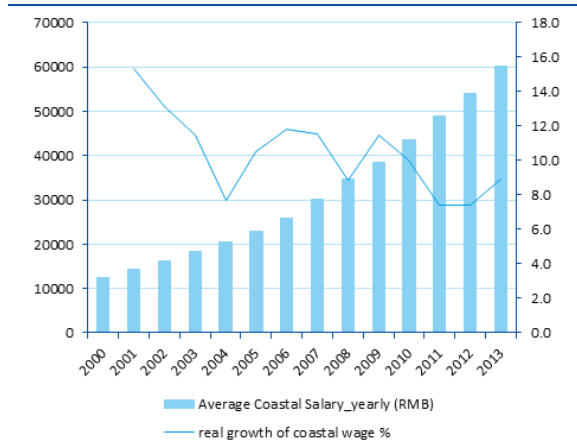
Alicia Garcia-Herrero and Jinyue Dong

As China's manufacturing labor cost continue to up, many foreign companies are moving out of China (Figure 1 and 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**



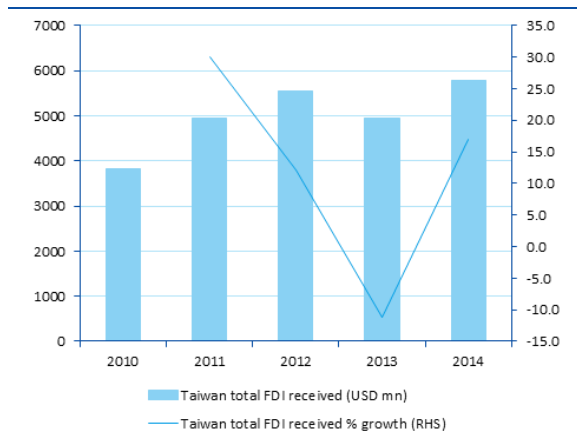
Source: CEIC and BBVA Research

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



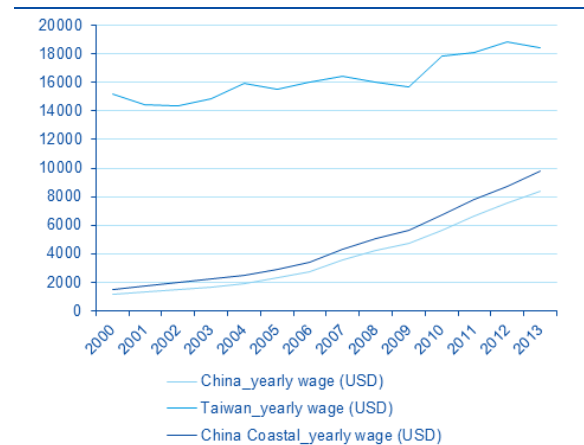
Source: CEIC and BBVA Research

**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

**DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes. BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents. This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.