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INDUSTRIAL INVESTMENT PROMOTION ACTIVITIES OF THE  
UNITED STATES OFFICE OF THE  
CHINESE INVESTMENT & TRADE OFFICE  
REPUBLIC OF CHINA

submitted by

T. Y. Hsiung, Assistant Director

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

CHINESE INVESTMENT & TRADE OFFICE, NEW YORK

The Republic of China has created in Taiwan an island of economic progress and investment opportunity. The Republic of China welcomes foreign investment to accelerate its continued growth and expansion. With the assistance of overseas capital, management techniques, and marketing know-how Taiwan has expanded its production, exports and investments in accord with established plans for the continuing development of the economy. The major need of Taiwan for industries is to create jobs for the growing population. Since the phasing out of U. S. aid in 1965, the Republic of China has maintained its economic growth rate and has exceeded some of the goals set by its plans for 1966. In 1965 the gross national product increased by 8.1%, per capita income by 4.5%, agricultural production by 5.9% and industrial production by 13.7%. The rapid growth in industrial output is one result of improvement in the investment climate and simplifying of investment procedures brought about by three major legislations:

1. The Statute for Investment by Overseas Chinese promulgated on January 19, 1955 and amended on March 26, 1960.
2. The Statute for Investment by Foreign Nationals promulgated on July 14, 1954 and amended on December 14, 1959, and
3. The Statute for Encouragement of Investment promulgated on September 10, 1960 and amended on January 4, 1965.

These Statutes provide incentives to investors that have led to the rapid industrial development and growth in investments in Taiwan from less than US\$ 1 million in 1952 to US\$ 72 million arrived through 1965. An additional US\$ 80 million had been approved under these Statutes through the end of 1965.

### The Importance of Investments in the Republic of China

#### Foreign Exchange

Although exports from the Republic of China increased by 12% in 1966 over 1965, and total trade reached a level of US\$ 1,172 million, the smallest annual trade deficit in the past few years is still US\$ 40 to 50 million. This deficit has been partly offset by foreign investments in Taiwan. Just one company which began with 800 workers two years ago and now employs 3000 is estimated to contribute US\$ 2 million to the local economy. Foreign exchange earnings are received from investors in the form of local purchases, wage and tax payments, purchase of land, construction of buildings, and personal expenses of investors.

#### Creation of New Job Openings

Of Taiwan's total population of 13 million 50% are under the age of 16. 150,000 new job openings are required each year to maintain the present level of employment and rising living standards.

#### Training of Technical Personnel

Foreign capital creates opportunities for training and improve-

ment of skills in management, as well as in technology. Many firms are managed and staffed entirely by local personnel, with one or few overseas resident administrators.

### Development of Satellite Supplies

Foreign investments create needs for many services and suppliers for packing and shipping, utilities and maintenance, raw materials and parts, and thus increase income, employment and utilization of resources in domestic industries.

### The Future Requirements

Although Taiwan's growth in 1966 is not a sporadic phenomenon of that particular year, it is rather a continuation of expansion at almost similar rates over the past fifteen years, there is an even greater need in the future for this growth to continue. A recent forecast by two World Bank economists as the result of a survey they conducted in 1966 shows that the ROC is expected to maintain its growth rate of around 8 per cent each year because its economy is picking up greater momentum. But they also estimate that Taiwan will need at least US\$ 720 million of investment in the next five years in order to sustain the 8 per cent annual growth rate. In 1966, 723 new factories were established in Taiwan with a total capital investment of US\$ 41.3 million, more than doubling the 1965 aggregate investment of \$20 million. These 723 factories have created 30,000 new job openings.

### Steps Being Taken to Attract Foreign Investment

In guiding Taiwan's economy, the ROC has established Four-year plans to pace the growth of the economy and to establish goals for achievement of progress. The needs to improve per capita income, provide jobs, and develop industrial skills are vital for this achievement. Overseas capital and skills must be acquired to achieve the goals established under these plans. Private enterprise plays a large role in this development. In 1965, almost 90% of farms were owned in total (67%) or partly (20%) by farmers; and private industrial output has increased from 43% of total industrial production in 1952 to 62% in 1965 while public output has become correspondingly less a factor in the total economy. The ROC has provided a remarkable example of how economic growth can prosper in a free, democratic society, and its success has frequently been cited as an example of how growth can be achieved by encouragement of private investment. To accelerate economic growth active encouragement of private business ownership is essential. Under its new foreign investment laws the ROC has held out attractive inducement to inflow of foreign capital. In addition, provisions are necessary to safeguard capital, and old laws and restrictions must be revised to enable overseas investors to re-patriate their capital and earnings from investments in their own currencies. Increased capital resources must be provided for local investment to develop satellite industries. New forms of legislation are required to facilitate increases in private savings, to maintain monetary stability, and to channel



savings into investment.

Additional steps must be taken to open up new opportunities for investment. The services and inducements to investors must be expanded, and up-dated to keep in touch with changing conditions. For example, in March of this year, a five-year income tax holiday was restored to tourist hotels which are up to international standards, since the number of tourists is expected to double from the present 150,000 per year to over 300,000 by 1970.

An even more pressing need for investments in export industries has led to the establishment of the Kaohsiung Export Processing Zone under a Statute promulgated in January, 1965. In less than two years, the goals for export sales and employment in plants in this zone have been exceeded, and a total capital of US\$ 10 million has been invested, about 60% of the total goal of US\$ 18 million. The significance of this new concept in the administration of free trading privileges to encourage investments and exports is fully described in The Story of KEPZ which is appended at the end of this report.

In addition to the KEPZ which allows for freedom of imports and exports under a single administration, and has many other advantages, the ROC also offers investors wide latitude to locate plants throughout Taiwan wherever local advantages make it more profitable, convenient or economical for the investor. This is accomplished through



bonded warehouse arrangements whereby materials are imported directly to the manufacturer's warehouse for processing into goods for export, avoiding customs procedures and simplifying the delivery of needed materials to the manufacturer. Under these arrangements more than US\$ 40 million has been approved for investment in plants making products for export in the electronics industry in the past three years. Two of these are in production and one is under construction.

The ROC has adopted several guiding principles for screening of new investment projects and for promotion of foreign investments; while all efforts are being made to encourage the inflow of foreign capital these efforts are also selective. Detailed studies of international market conditions; investment feasibility; costs and availability of raw material; labor requirements; economical plant size; and financial resources and capabilities of investors are essential, and have been conducted by agencies of the Chinese government. Based on findings from these studies particular kinds of investments are encouraged, and supported, and specific foreign manufacturers have been selected as potential investors toward whom promotion efforts are directed. A recent example of this is the selection of the electronics industry for intensive promotional effort. In 1960 the Stanford Research Institute carried out a series of studies in cooperation with the Industrial Development and Investment Center in Taiwan to assess future potentials for industrial development and foreign investment in Taiwan. These studies included a careful evaluation of the limited natural resources of Taiwan with

special emphasis on its agriculture, water, forest, fishery, coal, natural gas, mineral, and manpower resources. This study concluded that manpower is Taiwan's greatest resource. The labor supply is intelligent, trainable, and productive, but underutilized. On the basis of these conclusions, plus the fact that the domestic market is small, the need was apparent to develop industries which could meet specific requirements for future industrial development. Fourteen industries were evaluated and ranked in order of their desirability and were selected for special study: chemicals, based on natural gas; chemicals based on petroleum; plastics, resins, and synthetic fibers; electronics; watches, clocks and parts; and optical products. The foresight of this study has been amply proven by subsequent experience in investment promotion and the success of investments to date in Taiwan. The major growth in investments is now in three main industries of chemicals, plastics, and electronics.

The electronics industry has been the subject of special study and promotion effort. The assembly of transistor radios in Taiwan began in 1961 and exports began in 1962. Because of the abundant supply of inexpensive, productive labor in Taiwan, Japanese manufacturers who received large orders from the U.S. did their actual production work in Taiwan. In 1966, 20 transistor assembly plants produced 2 million sets and provided US\$ 1 million in foreign exchange. Beginning in 1962, TV was introduced through a national network, and in 1966, ten plants produced 40,000 sets for domestic sales.

The introduction of foreign investments on a large scale began in 1964 when a U. S. manufacturer established a plant for exports which now employs 3000 workers and represents a capital investment of over US\$ 3 million.

This was the beginning of electronics production for export in Taiwan. The growth of this industry has been the result of intensive and directed efforts to attract foreign electronics manufacturers. By the end of April, 1967, a total of 28 foreign electronics manufacturers have received approval to establish plants in Taiwan. Fourteen are from the U. S. and twelve are from Japan. The U. S. firms include IBM, RCA, Philco, Admiral, General Instruments, TRW, and others. The total investment is about US\$ 41 million, and the single largest investment is US\$ 24 million. Five thousand local workers are now employed in these plants, and now, expanded operations will more than double this number by the end of 1967.

As a further step to develop investments in electronics industries, the ROC commissioned an industrial consulting firm to undertake a study of the U. S. electronics industry, and to plan a program to attract investors. The results of such studies have led to selection of specific companies to contact and to follow-up to invest in Taiwan. The selective screening of industries, and pinpointing of specific companies to contact to invest in Taiwan is based on principles and guidelines adopted by the ROC as the result of its planning objectives and studies. These principles include:

1. Diversification of products: This principle has been applied to agricultural as well as to industrial development programs. Under the effective leadership of the Joint Commission on Rural Reconstruction (JCRR) farmers have diversified from a concentration on rice and sugar cane into mushroom, banana, asparagus, orange, and pineapple production. Canning industries have expanded to meet growing export sales demand for products. Asparagus exports increased 150% from 1965 to 1966, surpassing mushrooms, of which Taiwan is the world's largest supplier. Diversification aims not only at balanced production of industrial as well as agricultural goods but is also aimed to increase the value of products produced. Furthermore, the ROC feels responsible to take all possible measures to enhance the opportunities for improvement of income, for foreign investors as well as domestic producers.
  
2. Labor-intensive industries: In highly developed countries the finishing of automatically produced semi-finished products adds greatly to the finished cost of goods sold. Therefore a highly desirable aspect of the Taiwan economy, its lower labor cost, can enhance the attraction of investors to finish products in Taiwan. U. S. investors are now finding that memory planes for computers can be assembled in Taiwan at one-third the cost to assemble in the U. S. even when parts and finished products are shipped bothways by air. While this produces a benefit to the investor by lowering

his costs, the opportunity is enhanced to provide more jobs and increase skills of workers in the ROC.

3. Stimulation of Local Supplier Industries: Those industries are more desirable which also increase output from domestic industries. In electronics for example the local production of parts and components has been greatly stimulated for assembly into radio and television sets for export to Japan and U. S. markets.
4. Products for Export: Priority consideration is given to investments which assist to increase foreign exchange earnings and do not compete with local industries.

#### Organizations for Encouragement of Investments

The Industrial Development and Investment Center (IDIC) was established in Taiwan in 1959 to improve the investment climate and bridge the gap between investors and government agencies concerned with industrial development. IDIC operates under the Council for Industrial and Economic Cooperation and Development (CIECD) which is responsible for economic planning.

IDIC has three major functions:

1. To help improve Taiwan's investment climate: IDIC constantly studies the existing legal structure to find ways to ease old investment restrictions, simplify regulations, and

broaden tax incentives for investors. This has resulted in revisions of many existing laws and regulations. Application procedures have been simplified, tax credits and exemptions created, and outdated statutes rewritten or eliminated. IDIC also studies the island's industrial development potential, its resources, and the nation's Economic Development Plan to pinpoint the most attractive investment opportunities. Once these are located, feasibility studies follow -- providing the prospective investor with data on which to base his decision.

Market information is collected, analyzed, and provided upon request.

IDIC provides a ready source of information and assistance for both foreign and domestic investors. It plays a unique role in promoting better relations between private business and government agencies.

2. To attract foreign investments: IDIC carries out a publicity program to encourage investors to visit Taiwan's industrial plants. The best sale for a new investment is an established, profitable, growing industry. Tours are arranged to give interested investors a brief but thorough look at industrial conditions in Taiwan.

Industrial exposure is provided in many countries each year by participation in industrial trade fairs. IDIC organizes and coord'nates Chinese participation in these fairs.

**IJIC maintains overseas branch offices:**

**in New York:**

**Chinese Investment & Trade Office  
515 Madison Avenue**

**in the Netherlands:**

**Free China-Europe Industrial Institute  
Exchange Building, Rotterdam**

**in Italy:**

**Investment & Trade Service, Republic of China  
via Fabio Filzi, Milano**

**and a representative in Hongkong:**

**Representative of IJIC  
P. O. Box 2769**

**IJIC publishes studies of investment opportunities for  
individual industries. These include:**

<b>Petrochemicals</b>	<b>April, 1966</b>
<b>Synthetic Fibers</b>	<b>April, 1966</b>
<b>Chemical Industry from Carbide</b>	<b>Sept., 1965</b>
<b>Polyethylene</b>	<b>April, 1966</b>
<b>Nelamine</b>	<b>Oct., 1964</b>
<b>Steel</b>	<b>Sept., 1965</b>
<b>Pulp and Paper</b>	<b>Oct., 1964</b>
<b>Dyes</b>	<b>Oct., 1964</b>
<b>Furniture</b>	<b>Dec., 1964</b>
<b>Canned Fruit</b>	<b>April, 1966</b>
<b>Glass</b>	<b>April, 1966</b>
<b>Methanol</b>	<b>Oct., 1964</b>



Acetylene Black	Oct., 1964
Rugs	April, 1966
Agricultural Chemicals	Sept., 1965
Preserved Fruits	Dec., 1964
Polystyrene	Dec., 1964
Natural Gas	Oct., 1964
Hand tools	Dec., 1964
Toys	Dec., 1964
Radio and TV Receiver	Feb., 1965
Styrene monomer	April, 1966

Publications on investment laws and regulations, labor conditions, economic progress, and other conditions for investment are issued periodically.

3. Promote Domestic Industrial Development: IDIC helps local industry expand and modernize by providing contacts with foreign sources of capital and technical assistance. Its full line of investment services is available to domestic manufacturers as well as to foreign investors.

IDIC's sponsoring role in the creation of industrial districts and the organization of local investment promotion committees has spurred the domestic industrial community. Seminars are frequently held by IDIC to acquaint domestic industrialists and businessmen with procedures and requirements relating to initiation and operation of a business enterprise.

IDIC has played an active part in the establishment of the Kaohsiung Export Processing Zone which provides duty-free benefits to export manufacturers. The KERP project is just one of the many activities pursued by IDIC in promoting industrial growth.

Chinese Investment & Trade Office, New York (CITO)

CITO was established in February, 1962 to facilitate U. S. investments in Taiwan as well as to promote trade between the U. S. and Taiwan.

CITO operates on a modest budget with a staff of six persons, a Director, an Assistant Director, one assistant, one researcher, and two secretaries.

CITO's principal activities include:

- \*Provide investors with preliminary information on investment conditions and opportunities in Taiwan.
- \*Issue publicity releases to media.
- \*Hold seminars, luncheons, and meetings with groups of potential investors.
- \*Maintain close contact with banking and financial institutions.
- \*Initiate contacts with prospective investors in desired industries.
- \*Make arrangements for investors to visit Taiwan and encourage these visits.
- \*Assist investors to fill out and file applications.

All work is performed in coordination with IDIC so it is difficult to credit specific investments to this office, since CITO performs advisory services to create closer liaison between IDIC and U. S. investors.

A statement of activities does not adequately describe the work of this office, and a better example would be a typical composite of several of the varied functions which this office performs in securing investments.

#### The prospective investor

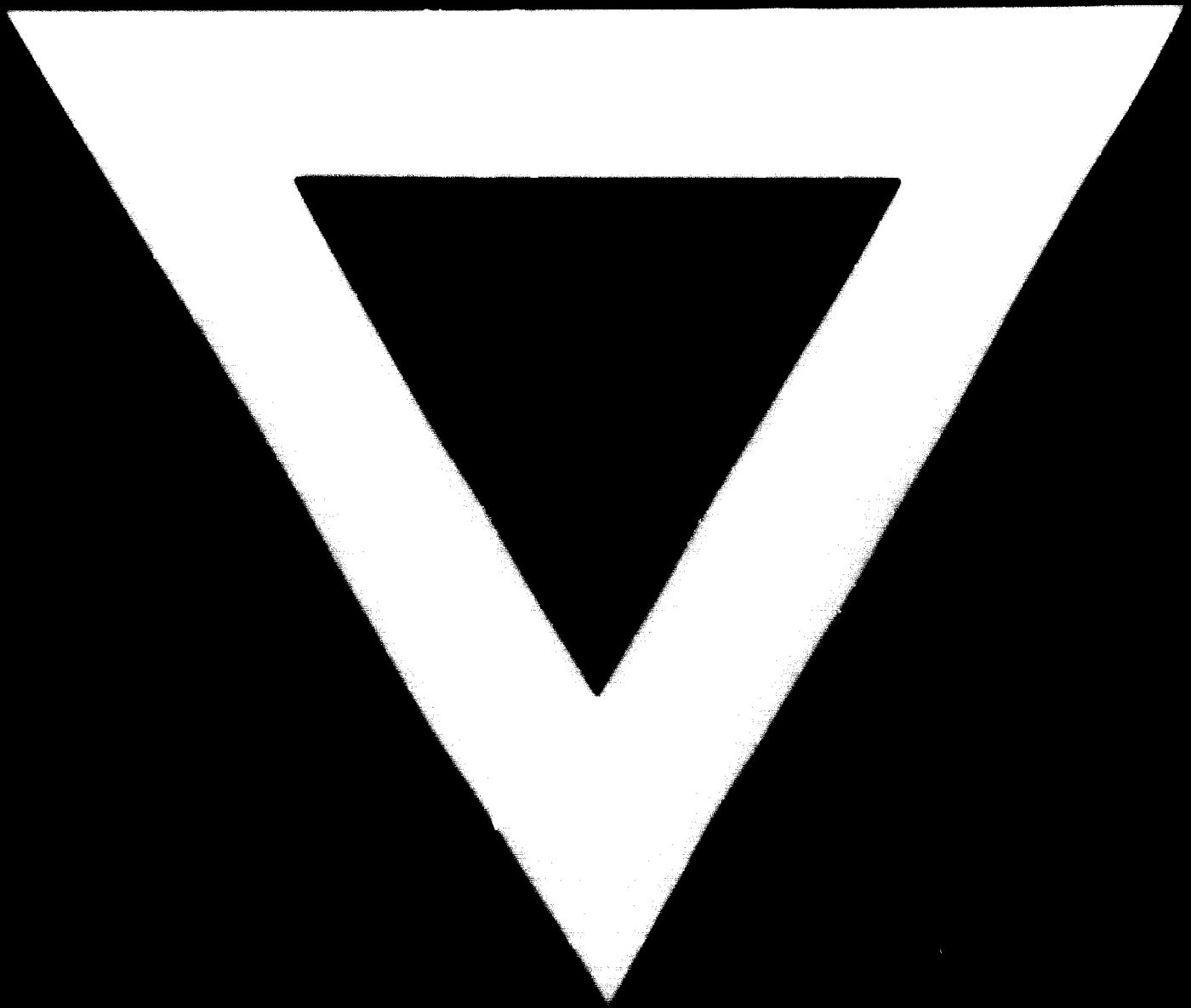
Typically the initial contact with a company interested in Taiwan as an investment opportunity is a phone call or letter from a Vice President of the interested company. This person has not been to Taiwan. He knows little or nothing about Taiwan except what he may have read in a magazine or newspaper article. (Time Magazine, Hart, TV Digest, New York Times, Wall Street Journal, Newsweek, for example, have carried articles on the Taiwan economy). He may call in response to an advertisement or as the result of talking with others who have invested in Taiwan but seldom in response to a TV show or direct mail promotion. Most often he is looking for lower labor costs in production. He wants to obtain preliminary information about incentives to invest, land and labor availability, wage rates, power and water facilities, shipping and transport facilities, supply of engineers and skills available. These questions are answered and

relevant booklets are mailed to him with a cover letter. From about two weeks to a month later a second call will be received if the investor is interested. He is now planning a trip to visit Taiwan to obtain first-hand information. He wants to arrange his trip. CITO will then arrange a very successful itinerary for him to see whatever he wants to see within a limited time, and to get the information he desires on his arrival in Taiwan. IDIC is notified to prepare for his arrival. When he returns to the U. S. there are further questions he would like answered. CITO will provide them if they are available or obtain them from IDIC. Close coordination between CITO and IDIC is of essential importance for successful performance. The investor will then send personnel to Taiwan to carry out the project with direct assistance from IDIC.

From this example it is clear that preparation, publicity, a planned program, coordination of branch and home office activities, literature, and a receptive attitude are essential to a successful investment program. Experience and familiarity with U. S. business practices on the one hand, and on the other, knowledge of the industrial environment in Taiwan would be the primary requirement for the person directing the program of the field office in New York. One of the most difficult problems is to identify which of many potential investors to contact who would be interested to invest in a particular project; and after firms have been identified, to make the best approach to persons who have responsibility to determine investment policies in the company.

#### Suggestions for UNIDO Assistance

Training of personnel who are working in a capital source country will shorten the time required and facilitate the finding of new and prospective investors, and is suggested as supplemental to Item 6 b) of the Provisional Agenda.



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