

Taiwan Investments in China and Southeast Asia: "Go West, but Also Go South"



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Asian Survey, Vol. 36, No. 5 (May, 1996), 447-467.

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TAIWAN INVESTMENTS IN CHINA AND SOUTHEAST ASIA

"Go West, but Also Go South"

Xiangming Chen

Go West, young man, go West.

—Horace Greeley

The Americans historically went west, the Russians east, the Chinese south.

—S. Gordon Redding, *The Spirit of Chinese Capitalism*

Since the late 1980s, Taiwanese companies have "gone West" by investing heavily in China, primarily through Hong Kong. The early and mid-1990s also saw Taiwanese companies pursue an intensifying "go South" strategy of investing in such Southeast Asian countries as Indonesia, the Philippines, and Vietnam, continuing a trend of investing in Malaysia and Thailand since the late 1950s. The large flows of Taiwanese capital into China and Southeast Asia have begun to reshape the economic and political ties among these countries in the Asia-Pacific, with significant regional and global consequences. While the investment in China has been well documented, there is relatively little in the English literature on recent Taiwanese investment in Southeast Asia. Moreover, much less is known about whether and how the investments in China and Southeast Asia differ in terms of characteristics, determinants, and consequences and, more importantly, about how to explain the observed differences and similarities theoretically. In this article, I employ a systematic comparative approach to examining the charac-

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teristics and determinants of Taiwanese investments in China and Southeast Asian countries, thus establishing a broad empirical basis and an integrated explanatory framework to guide further comparative research.

I begin by providing a general statistical comparison of Taiwanese investment trends in China and Southeast Asia, and then focus on the salient features of Taiwanese investment in the two areas at the regional, industry, and firm levels; in the next section, I examine how and why Taiwanese companies "go both West and South," thus creating cross-national economic ties between China and Southeast Asia, and assess different arguments about the actual and perceived tradeoffs of Taiwanese companies "going West vs. going South." The next section synthesizes key determinants of Taiwanese investments in China and/or Southeast Asia by suggesting that these investments from the mid-1980s through the mid-1990s have been shaped by a temporal conjuncture of economic comparative and complementary advantages at the national, industry, and firm levels, the internationalization of state-business relations, historical legacy, cultural and ethnic ties, subregional integration, and locational advantages. Finally, I draw brief conclusions and identify primary consequences of Taiwanese investments in China and Southeast Asia for future comparative research.

General Statistical Comparison

Table 1 compares Taiwanese investments in China, five ASEAN countries, and Vietnam during 1959-93. Although trailing some Southeast Asian countries during the late 1980s, China absorbed a much larger volume of Taiwanese capital than all Southeast Asian countries in both 1992 and 1993, during which 66% of Taiwan's total outward investment flowed into China.¹ A dramatic shift of Taiwanese investment from Southeast Asia to China occurred in 1992, when the ratio of investment in China to that in Southeast Asia stood at 2.8:1 compared with 1:2.5 in 1991. Second, Taiwanese investments in all ASEAN countries declined during the early 1990s, when Vietnam received a growing amount of capital from Taiwan. At US\$0.92 million per case, Taiwan's cumulative average investment in China was less capital intensive than in all Southeast Asian countries, except the Philippines at US\$0.64 million per case. This higher average capital intensity in Southeast Asia reflects two new economic trends in the region: (1) rising production (mainly labor) costs in Malaysia and Thailand and efforts by both countries to stop promoting labor-intensive industries; and (2) growing investment from

1. The referee commented that Taiwan's investment in China involves used equipment that might be spruced up to look new and bring higher valuation, which could benefit the Taiwan investor in determining his equity contribution in a joint venture. There were also contracted investments that were later canceled but went unreported. Both factors might have contributed to an upward bias of the annual statistical series on investment in Table 1.

TABLE 1 *Taiwan's Annual New Investments in China and Southeast Asian Countries, 1959-1993*

Country: Indicator	Year							
	1959-1986	1987	1988	1989	1990	1991	1992	1993
China ^a								
(1) Capital (US\$m)	220.00		420.00	500.00	1,000.00	1,310.00	5,547.00	5,520.00
(2) Case	80		335	547	1,117	1,701	6,430	5,602
(3) 1 + 2 (US\$m)	2.75		1.25	.91	.90	.77	.86	.99
Singapore								
(1) Capital (US\$m)	61.62	.01	.67	.54	3.16	23.73	.19	—
(2) Case	48	1	3	1	3	4	1	—
(3) 1 + 2 (US\$m)	1.28	.01	.22	.54	1.05	5.93	.19	—
Malaysia								
(1) Capital (US\$m)	50.89	91.00	313.00	815.00	2,383.00	1,314.00	602.00	346.50
(2) Case	138	37	111	191	270	182	137	86
(3) 1 + 2 (US\$m)	.37	2.46	2.82	4.27	8.83	7.22	4.39	4.03
Thailand								
(1) Capital (US\$m)	577.45	307.58	859.94	892.20	782.59	593.46	289.92	215.00
(2) Case	157	102	308	214	144	69	44	61
(3) 1 + 2 (US\$m)	3.68	3.02	2.79	4.17	5.44	8.60	6.59	3.52
Indonesia								
(1) Capital (US\$m)	170.00	8.40	913.00	158.00	618.00	1,056.50	563.30	131.40
(2) Case	3	3	17	50	93	56	23	21
(3) 1 + 2 (US\$m)	56.67	2.80	53.71	3.16	6.65	18.87	24.49	6.26
The Philippines								
(1) Capital (US\$m)	7.82	9.04	109.87	148.69	140.65	11.61	9.27	5.37
(2) Case	54	43	86	190	158	109	27	21
(3) 1 + 2 (US\$m)	.14	.21	1.28	.78	.89	.11	.34	.26
Vietnam								
(1) Capital (US\$m)	—	—	—	1.00	104.43	457.66	531.41	436.54
(2) Case	—	—	—	1	18	28	23	47
(3) 1 + 2 (US\$m)	—	—	—	1.00	5.80	16.35	23.10	9.29

SOURCES: Taiwan's Ministry of Economic Affairs data on contracted investment approved by the various host governments, adapted from (1) Hsiao-hung Nancy Chen, "An Overview of Taiwan's Investment in Mainland China and Southeast Asia," chap. 5, pp. 188-89 in *Industrial Structural Change and Trends in Interaction Between Mainland China and Taiwan* (in Chinese) (Taipei: Chung-Hua Institution for Economic Research, June 1993), and (2) Steve J. F. Yan, "View the Development of Taiwan's Enterprises from the Westward and Southward Policy" (in Chinese), paper presented at the Conference on Economic Development across the Straits and Economic Cooperation in the Asia-Pacific, Chinese University of Hong Kong, Hong Kong, June 1994.

^a For China, data for 1959-86 also include 1987 (almost all of the investment during that time period was made from the mid-1980s); the 1993 data are for January through June.

the newly industrialized countries (NICs), primarily Taiwan and South Korea, in more capital-intensive industries such as steel and petrochemicals in Malaysia and cement in Indonesia.²

2. Junko Takeuchi, "Trends and Prospect for Foreign Investment in ASEAN Countries in the 1990s," *Rim: Pacific Business and Industries*, 1:27 (1995), pp. 22-41.

TABLE 2 *Taiwan-Invested Factories in China and Southeast Asia, by Employment Size and Type, 1992*

<i>Employment: Size and Type</i>	<i>China</i>		<i>Southeast Asia^a</i>	
	<i>No. of Firms^b</i>	<i>Percentage^c</i>	<i>No. of firms</i>	<i>Percentage</i>
Total employment				
Below 100	20	29.9	9	31.0
101-200	18	26.9	8	27.6
201-300	11	16.4	2	6.9
301-500	10	14.9	2	6.9
501-1,000	7	10.4	7	24.1
1,001-1,500	0	0.0	0	0.0
Over 1,501	1	1.5	1	3.4
Total	67	100.0	29	99.9
Managers				
0	2	3.0	0	0.0
1-10	29	43.3	10	37.0
11-20	18	26.9	8	29.6
21-50	11	16.4	6	22.2
51-100	6	9.0	3	11.1
Over 101	1	1.5	0	0.0
Total	67	100.1	27	99.9
Engineers and technicians				
0	4	7.4	0	0.0
1-10	36	66.7	13	54.2
11-20	8	14.8	4	16.7
21-50	5	9.3	4	16.7
51-100	0	0.0	0	0.0
Over 101	1	1.9	3	12.5
Total	54	100.1	24	100.1

SOURCE: See Table 1, chap. 6, p. 206.

^a Includes only Malaysia, Thailand, Indonesia, the Philippines, and Vietnam.

^b Based on an early 1993 survey of 89 and 41 Taiwan-invested factories in China and Southeast Asia, respectively. The discrepancies between the number of factories reported and factories surveyed are accounted for by incomplete responses to the questions.

^c Some percentages do not add up to 100.0 due to rounding.

Survey data at the firm level confirm the aggregate difference between Taiwanese investments in China and Southeast Asia regarding average capital intensity (see Table 2). Only 11.9% of the surveyed Taiwan-invested factories in China had over 500 employees, compared with 27.5% in the five ASEAN countries. To the extent that firm size is positively associated with capital intensity, a greater share of larger Taiwan-invested factories in South-

east Asia indicates their greater capital intensity. While 26.9% and 11.2% of Taiwan-invested factories in China had over 20 managers and technical staff, respectively, the corresponding figures for Southeast Asia were 33.3% and 29.2%, reflecting a stronger capital and technological orientation than those in China. The tabular data provide a statistical basis for a more focused and detailed comparison of the differences and similarities between Taiwanese investments in China and Southeast Asia.

Go West: Investing in China

The trickle of Taiwanese investment into China through Hong Kong in the early 1980s turned into a torrent late in the decade. The total stock of Taiwanese capital in China, however, remains difficult to estimate, and the figures vary across time periods and information sources. During 1986-91, between 2,500 and 4,000 Taiwanese companies invested approximately US\$3 billion in China. By the end of 1992, Taiwan's investment amounted to US\$9 billion in 10,245 ventures,³ making it the second largest foreign investor in China after Hong Kong. According to the data in Table 1, cumulative Taiwanese investment in China reached US\$14.5 billion through June 1993 with a total of 15,812 ventures.

By mid-1994, the number of Taiwan-invested factories and establishments in China was estimated to be approximately 15,000, with about US\$4 billion in new investment under contract from January to May. The upper end of the total investment was estimated to be close to, or even exceed US\$20 billion in some 20,000 ventures, the majority of which are manufacturing facilities. And a more recent report put cumulative contracted Taiwanese investment in China at US\$26.3 billion in 29,500 joint ventures by June 1995. In the second half of 1995, the mainland-Taiwan relationship deteriorated, primarily due to Lee Teng-hui's visit to the United States. Investment slowed down considerably, and at the beginning of 1996 China's military threat through missile tests caused a further reduction. The Investment Commission of Taiwan's Ministry of Economic Affairs approved only 36 projects capitalized at US\$71 million in January 1996, 27% less than in the same month of 1995.⁴ Balancing the above sources leads to a rough estimate that the cumulative stock of Taiwanese investment in China today falls in a range of US\$20-25 billion involving between 25,000 and 30,000 ventures.

3. Hsiao-hung Nancy Chen, "An Overview of Taiwan's investments in Mainland China and Southeast Asia," in *Industrial Structural Change and Trends in Interaction Between Mainland China and Taiwan* (in Chinese) (Taipei: Chung-Hua Institution for Economic Research, June 1993), p. 180.

4. Charles H. C. Kao, Chu-Chia Steve Lin, Cher Hsu and Wennie Lin, *The Taiwan Investment Experience in Mainland China: A First-hand Report* (in Chinese) (Taipei: Commonwealth Publishing Co., 1995), p. 43; *Central Daily News* (hereafter *CDN*), intl. ed., February 11, 1996, p. 1; *Renmin Ribao*, overseas edition, November 1, 1995, p. 5.

Investment in China has generally been labor rather than capital intensive, due to the massive relocation to the mainland of Taiwan's small and medium-sized firms in highly labor-intensive industries. By 1992 plastic and rubber, electrical and electronic products, and food and beverages accounted for 26.3%, 16.5%, and 15.6% of Taiwan's total investment in China, ranking the top three in terms of industry shares. By July 1994 the rankings of the top three industries shifted to electrical and electronics (14%), food and beverages (12.1%), and plastics and rubber (11.7%).⁵ More recent Taiwanese investment has shifted from labor-intensive, low value-added, and short-term operations to more capital- and technology-intensive industries with longer investment horizons such as automobiles, computers, machinery, and petrochemicals. During January-August 1994, capitalization of the average approved Taiwan investment project peaked at US\$2.1 million. Taiwan's largest PC maker and the world's seventh largest—Acer Computer, Inc.—has invested US\$2 million in Suzhou, Jiangsu Province, to manufacture monitors, and half of the capital is valued as technology transfer. Having set up an "electronics street" in Shanghai earlier, some Taiwanese computer and information processing companies have recently planned to create a 2 km² science-based industrial park in Shanghai, with a total investment of US\$60 million, to promote computer and telecommunications industries. A petrochemical company has committed US\$100 million to building a plant in Huizhou, Guangdong Province, to make ABC resin and PVC (polyvinyl chloride). A rubber company and a plastics company have been approved by the Ministry of Economic Affairs to invest US\$30 million and US\$20 million in China, respectively.

Taiwanese investment in China is generally concentrated in a few geographical areas in Guangdong and Fujian provinces. In 1991 four southeastern coastal cities—Guangzhou and Shenzhen in Guangdong and Xiamen and Fuzhou in Fujian—accounted for 45% of the investment cases and 44% of the contracted capital. Although Taiwanese investment continues to cluster in these cities, it has recently begun to move north and west within China. Shenzhen and Xiamen's shares of Taiwan's total investment dropped from 14.8% and 12.2% in 1991 to 9.6% and 6.9% in 1993, while Shanghai's share rose from 11.5% to 12.1%. During 1991–94 Shanghai accounted for 11.2% and 13% of all Taiwan investment cases and capital in China, leading the top six cities with the most investment (the other five being Shenzhen, Dongguan, Xiamen, Guangzhou, and Fuzhou in that order). By July 1994 Jiangsu Province (excluding Shanghai) took in 13.2% of all Taiwanese investment in China, topping all provincial and municipal shares. The proportion of

5. Ming-ying Chan, "Issues Regarding the Development of Economic and Trade Exchanges across the Strait." (in Chinese) *Tai-Gang-Ao Ji Haiwai Maoyi* (Taiwan-Hong Kong-Macao and Overseas Trade), no. 8 (1995), p. 9.

Taiwanese investment in provinces other than the southeast coastal region (Guangdong, Fujian, Jiangsu, Zhejiang, Shanghai) rose from 22.4% during 1991-93 to 25.4% in 1994.⁶

The spatial diffusion of Taiwanese investment in China has also been fostered by new investment by firms already operating there. One of Taiwan's oldest and largest food processing companies, Wei Chuan, first built factories in Fujian and Guangxi provinces, but in the second half of 1994, it developed new plans to set up a canned food factory in Huangyan, Zhejiang Province, a joint-venture fast food factory in Luohe, Henan Province, and a milk powder factory in Heilongjiang Province. Another giant Taiwanese food company, President Enterprise, has increased its joint-venture or affiliated factories in China from one to 17 since 1992 in all major regions of the country, with cumulative investment of US\$180 million, becoming the investor with the widest geographical spread and largest cumulative capital of all Taiwanese companies in China.⁷

Another striking feature of Taiwan-invested factories in China is that they tend to be wholly Taiwan owned. Three separate surveys have shown that about 55% of these factories in the early 1990s involved 100% Taiwanese capital, but varying across industries and localities from a low of 33% for plastics in Shanghai to a medium of 47% for electrical machine tools in Guangdong to a high of 92% for garments in Fujian. Taiwanese investors have preferred wholly owned ventures to joint ventures because of: (1) incompatibility with potential mainland partners in business values, management styles, and company goals and strategies; (2) lack of familiarity with the mainland business environment; and (3) small and medium-sized firms using their own material supplies, production equipment, and export channels.⁸ As Taiwanese firms become more familiar with China's business environment, as more large firms begin to invest in China, and as China's domestic market opens up more widely, there should be a gradual shift in Taiwanese investment from wholly owned to joint ventures.

Also Go South: Investing in Southeast Asia

While the Taiwanese government officially initiated the "go South" policy in 1994, companies began investing in Southeast Asia in 1959 when a

6. Ibid., and H. H. Chen, "Overview of Taiwan's Investments," p. 135.

7. *CDN*, intl. ed., September 7, 1994, p. 8; March 7, 1995, p.6; June 2, 1995, p. 6.

8. H. H. Chen, "Overview," p. 214; Kao et al., *Taiwan Investment Experience*, p. 165; Chang-yung Liu et al., "A Study of the Current Operation of Taiwanese Companies in the Mainland," in *Investing in the Mainland Market: Industry Investment and Cross-Straits Division of Labor* (in Chinese) (Taipei: The R.O.C. Association of Management Science, 1993), pp. 53 and 33; Xi-angming Chen, "The New Spatial Division of Labor and Commodity Chains in the Greater South China Economic Region," in Gary Geretti and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (Westport, Conn., Greenwood Press, 1994), p. 177.

Taiwanese firm set up a cement factory in Malaysia. In fact, during 1959-80, the bulk of Taiwan's total overseas investment was concentrated in Southeast Asia, especially Malaysia and Thailand. Although declining in the early 1990s (see Table 1), largely due to a diversion of investment to China, cumulative Taiwanese investment in five ASEAN countries and Vietnam during 1959-93 amounted to US\$16.1 billion, roughly equal to the estimated total Taiwanese investment in China. By June 1995, contracted cumulative investment in the ASEAN countries and Vietnam reached US\$25 billion, US\$21.6 billion of which had been committed since 1988, again keeping up with the estimated total investment in China.

By 1993, the ranked order of Southeast Asian countries receiving the volume of Taiwanese capital were Malaysia, Thailand, Indonesia, Vietnam, the Philippines, and Singapore. The order in which Taiwan ranks against other foreign investors in these countries is Vietnam (1), Malaysia (2, behind Japan), Indonesia (3, behind Japan and Hong Kong), Thailand (4, behind Japan, Hong Kong, and the U.S.), the Philippines (5, behind Japan, the U.S., Hong Kong, and the U.K.), and Singapore (13). In the first half of 1995, Taiwan remained the top foreign investor in Vietnam, surpassed Japan to become the largest investor in Malaysia, and moved from the fifth to third largest in the Philippines, while its investment rank in Indonesia dropped from third in 1993 to fifth in 1994 and sixth in the first half of 1995.⁹

During the 1960s and most of the 1970s, Taiwanese investment in Malaysia, Thailand, and Singapore focused on such typical labor-intensive industries as food and beverages, textiles, plastics and rubber, and electrical and electronics assembling. Since the late 1970s, it has involved more capital-intensive industries such as petrochemicals and some advanced electrical and microelectronics manufacturing; it also shifted more to Indonesia and the Philippines in the 1980s and to Vietnam in the early 1990s. Investment in the more capital-intensive industries has grown from the late 1980s; Chi Mei Enterprise, for example, recently planned to commit approximately US\$1 billion to making both upstream and downstream petrochemical products in Malaysia and Singapore.¹⁰ And as in China, Taiwanese investment in Southeast Asia is characterized by geographical concentration first and spatial diffusion later. Earlier investment tended to cluster in such major Southeast Asian cities as Kuala Lumpur, Penang, Bangkok, Jakarta, Bandung, and Manila. Since the late 1980s, rapidly growing Taiwanese investment has flowed into several new, smaller locations such as Batam Island and Medan in Indonesia, Subic Bay in the Philippines, and Ho Chi Minh City in Vietnam.

9. Chi Hsueh, "The Go-South Policy and the Asia-Pacific Operational Center," pp. 13-37 in Pai-hsian Peng, ed., *The Go-South Policy and Taiwan's Economic Future* (in Chinese) (Taipei: New Society Foundation, 1995), p. 23; *CDN*, intl. ed., June 2, 1995; August 28, 1995.

10. *CDN*, intl. ed., May 31, September 15, 1995.

The primary target of recent Taiwanese investment in Indonesia is Batam Island, 20 kilometers offshore from Singapore. In 1990 Taiwan established a special industrial park on Batam, which attracted a large number of potential Taiwanese investors. But by 1992, with three projects in operation, Taiwan accounted for only 2.1% of the total foreign investment on the island, behind 45.4% from Singapore, 15.7% from the U.S., 11.8% from Japan, 11.3% from Hong Kong, and 4.5% from the Netherlands.¹¹ More recently, Taiwan's investment has picked up: its machinery industry association has signed a letter of intent to put up a 25-acre assembling and warehousing center, and its ocean shipping giant, Evergreen, plans to build a container dock and shipyard on Batam. Evergreen also bought 10 acres of land in the Taiwan industrial park as a potential site for its Southeast Asian regional headquarters. With a new international airport opened to service in 1995 and a plan to become Asia's third largest duty-free port behind Singapore and Hong Kong, Batam Island is expected to attract more investors from Taiwan and other countries. In May 1995 Taiwan and Indonesia agreed to set up an industrial park primarily for small and medium-size Taiwanese firms in Medan on the eastern coast of Sumatra.

Recent Taiwanese investment in the Philippines has focused on Subic Bay, the former U.S. naval base that has been converted into a special economic and free-port zone of multiple functions, including export processing, financial services, transit shipping, and tourism, administered by the Subic Bay Metropolitan Authority (SBMA). Within Subic Bay's boundaries, 300 acres of land are being developed into a special industrial park for Taiwanese investors by the Taiwanese Subic Bay Development Management Corporation (SBDMC), a joint venture of SBMA and a Taiwanese consortium. With the first phase of land (105 acres) and infrastructure development completed, 47 Taiwanese companies have begun to build factories and facilities, committing to invest US\$200–300 million. By the end of 1995, all the available land was occupied. The second phase of land development (70 acres) has also begun and will accommodate 38 small and medium-sized firms. With about 50% of all the approved ventures and 24% of the total contracted overseas investment in Subic, Taiwan is the largest single-country investor. Of the Taiwanese factories already in operation in Subic, a shoe manufacturer employs about 4,000 workers to turn out 180,000 sports shoes a month, and Acer Computer is producing computer motherboards and planning to build complete PCs and set up a global repair center. Acer has projected employment of 19,000 people and annual sales of at least US\$1 billion by the year 2000.¹²

11. H. H. Chen, "An Overview," p. 194.

12. Investment activities in Subic Bay assembled from *CDN*, intl. ed., various; Michael DiCicco, "A Port Prospers in Civvies." *Business Week* (September 25, 1995), pp. 119–20; *Subic Bay Advantage* (official publication of the SBMA), 1:3 (September 1995), p. 4.

Vietnam has recently emerged as probably the most popular country location for southbound Taiwanese companies. By the end of 1995, Taiwanese companies had set up 236 manufacturing projects worth US\$3.6 billion, accounting for 18% of total foreign investment in Vietnam. These projects include food processing, shoemaking, textiles, plastics processing, cement production, vehicle parts, and timber processing. Similar to the arrangement on Batam Island and Subic Bay, a Taiwanese development corporation of joint public-private ownership created two export processing zones (EPZs)—Tan Thuan and Linh Trung—in Ho Chi Minh City primarily for Taiwanese investment; by March 1993, 14 of the 20 factories in the Tan Thuan EPZ were set up and running under management of Taiwan firms. The Vietnamese government recently issued a license to the Taiwan Hanoi Industrial Park Development Corporation, which will develop 40 acres of land for manufacturing facilities under a 70-year lease. The largest Taiwanese investor in Vietnam is the Chin Fong Group, which has set up three manufacturing ventures: two vehicle assembly works in Ho Chi Minh City and Hanoi for assembling small motorcycles to compete with Japan in the local market, and a joint venture cement factory in Haiphong, which is capitalized at US\$2.8 million, is scheduled to go into production in 1996, and will be capable initially of producing 1.4 million tons of cement per year.¹³

Go West and/or Go South: Ties and Tradeoffs

Instead of seeing them as mutually exclusive, many Taiwanese companies have attempted to create ties among China and Southeast Asian countries by investing in both regions across a number of industries. Taiwan's S.T. Group, which had been an early investor in Singapore's electronics industry, began to invest in China in 1985. From its Singapore-based holding company, S.T. has established and currently controls 17 subsidiary ventures in China, three in Singapore, two in Malaysia, and one in Hong Kong, which are involved in a wide range of businesses such as hotel management, construction materials, plastics processing, petrochemicals, computers, real-estate development, and warehousing and transportation. The rapid expansion of S.T. (Singapore) has followed the move of several large multinational electronics companies such as Motorola and Siemens in establishing facilities in China because it is the world's second largest manufacturer of silicon conductor plastics and a major supplier of these components to those companies. The fifth ministerial economic and trade conference between Taiwan and Singa-

13. *CDN*, intl. ed., June 2, August 27, 1995, and March 2, 1996; also Yung-ker Lin, "Taiwan Businessmen March with the Southward Policy?" (in Chinese), *China Times Weekly* (January 9-15, 1994) pp. 30-31.

pore in February 1995 emphasized both countries' bilateral links to China and suggested that Singapore may replace Hong Kong after 1997 as the third-party intermediary through which Taiwan would conduct business with China. Located halfway between Hong Kong and Singapore, Subic Bay may also emerge as an alternative to Hong Kong as the gateway to China after 1997. This scenario would help Taiwan in bridging and mediating trade and investment flows between China and Southeast Asia.¹⁴

Another very large Taiwanese conglomerate, Tundex Group, has also been trying to integrate the westward and southward strategies, but unlike S.T., Tundex went from West to South. In Fuqing in Fujian Province, it set up a garment factory capitalized at US\$3 million; then together with the Salim Group headed by Soedono Salim (Liem Sioe Liong), the wealthiest overseas Chinese in Indonesia, Tundex built a huge facility in Xiamen to make PTA (polyterththalic acid), which is used in China and other countries for manufacturing such downstream products as industrial fibers. To increase PTA production, Tundex recently decided to inject US\$77 million into its factory in Thailand to double its current annual output of 300 tons in 1996.¹⁵

In a third case, the Pao Cheng Shoe Co., which earlier set up 17 production lines for making athletic shoes in China, subsequently established 11 similar production lines in Indonesia, and in 1994, committed US\$30 million to build a new factory with eight production lines on 20 acres outside Ho Chi Minh City. This expansion from China to Vietnam was intended to meet growing overseas orders from such American companies as Nike and shift them to more competitive production sites. Another Taiwanese shoe company, which has a factory in China, has decided to invest in the Philippines. Although the primary purpose of its southward move is to spread risks, this company also considered that the United States and European Community might impose some restrictions on China's shoe exports.

Although the above Taiwanese companies have "gone West and South," there have been debates about the trade offs between investment in China versus Southeast Asia. The arguments for going West are based primarily on comparative economic advantages. Taiwanese companies regard China's cheap and abundant labor, vast land, huge domestic market, and strong engineering and technological capacity in selected industries as complementary to Taiwan's abundant capital, manufacturing experience, management skills, and some research and development (R&D) capacity. This economic integra-

14. Hui-hsuan Huang, "Transnational Enterprises Are Flourishing," *China Times Weekly*, September 25-October 1, 1994, pp. 46-49; Dave Savona, "The Road to Hanoi," *International Business*, September 1995, pp. 14-16; Diane Brady, "Subic Bay Seeks to Be Alternative to Hong Kong as China Gateway," *Asian Wall Street Journal*, August 1, 1995, p. 3.

15. Chian-hua Tseng, "Tundex Goes West and South Simultaneously," *China Times Weekly*, May 15-21, 1994, p. 44.

tion, based largely on vertical division of labor, can encourage industries in China to concentrate on low value-added manufacturing while allowing Taiwan to accelerate industrial upgrading. Also, China's traditional orientation toward heavy industries and large state-owned enterprises can be balanced by Taiwan's small and medium-sized firms investing in China; these firms can use their well-established production and marketing networks to help similar firms in China enter the international market. These kinds of economic ventures are generally viewed by government and business in Taiwan as "win-win" or mutually beneficial situations. Taiwanese investors in China also expected to increase the domestic sales of their locally made products from 22% in 1992 to over 30% in 1994, and even more after China joins the World Trade Organization. The secondary arguments favoring going West emphasize cultural and linguistic similarities between China and Taiwan.

The primary argument against going West, as viewed by both the Taiwanese government and business, is that too much trade with, and investment in China is risky due to the latter's potentially unstable domestic policy and tough position on Taiwan's international status. China's missile tests near Taiwan in reaction to President Lee Teng-hui's U.S. visit in June 1995 caused immediate concern among a few Taiwanese investors who have begun to spread risks by increasing investment in Southeast Asia. The Pao Cheng Co., for example, decided to increase its shoe production lines in Indonesia from 11 to 24 in the first half of 1996.¹⁶ Related to the "risky China" argument are the lack of legal protection for investments in China and isolated instances in which Taiwanese businessmen and their factories on the mainland were robbed by local bandits.

Second, trade with, and investment in China may make Taiwan's economy too dependent on China's market. The most commonly used evidence in support of this market dependency argument is that Taiwan's trade with China as a share of its total trade has grown too fast and become too large, from 1.5% in 1986 to 8.4% in 1993; this figure would double to 17% if illegal direct shipment across the Taiwan Strait and other transit trade via places other than Hong Kong were included. Measured more meaningfully in exports, Taiwan depended on the China market for 16.5% of its total exports in 1993. Taipei recently estimated that discontinuing all trade with China could result in an annual loss of US\$12 billion (equal to Taiwan's approximate total exports to China through Hong Kong in 1994), and turn Taiwan's overall trade surplus into a deficit.

The third (potential) disadvantage is that heavy manufacturing investment in China may lead to deindustrialization in Taiwan—the so-called "hollowing out." A Taiwan source attributed the loss of close to 20,000 manufactur-

16. *CDN*, intl. ed. July 24, 1995, p. 3.

ing jobs and US\$10 billion in manufacturing output to the shift of production to China through 1993. The "hollowing-out" argument against going West, however, was countered by research showing that: (1) the Taiwanese firms that have relocated most of their manufacturing activities are no longer competitive in Taiwan; (2) the overwhelming majority of the Taiwanese firms with investment in China keep more important functions such as research and development, product design and engineering, finance and accounting, sales and marketing, planning and inventory control, quality control, and after-sales service in Taiwan; and (3) Taiwan's industries have already upgraded to more capital- and technology-intensive production and exports. Government data show that the share of high labor-intensive products in Taiwan's total labor-intensive exports decreased from 47.9% in 1987 to 39.2% in 1992, while the high capital-intensive products' share in Taiwan's total capital-intensive exports rose from 22.4% to 29.3%.¹⁷

The basic argument favoring going South is similar to the economic rationale behind going West. Besides the complementarity between Taiwanese and Southeast Asian economies, the government sees less political risk in developing close business ties with these countries as they have more compatible ideologies and political systems. Most ASEAN countries also have bilateral government agreements with Taiwan to guarantee its investment. Second, although Southeast Asia is a much smaller market than China, countries such as Indonesia, the Philippines, and Vietnam are potentially large markets because of their sizeable populations and growth momentum. Taiwanese companies are also attracted to Southeast Asia because they have a much longer history of investing in the region and greater familiarity with its business environment. Other conditions favoring going South include recent new incentives introduced by some Southeast Asian countries: both Indonesia and the Philippines in 1994 began to allow foreign companies to have 100% equity ownership, and to attract specific industries, the Philippine government offered Taiwan some of its textile and garment quotas for exports to the United States.

The major economic argument against going South is the increasing cost of investing and manufacturing in Southeast Asia due to high inflation and rapidly rising wages. Another unfavorable factor is the recent policy of Malaysia and Thailand to pull back from labor-intensive industries and withdraw the incentives for foreign investment in them. In addition, physical infrastructure in some Southeast Asian cities remains poor and underdeveloped, such as the lack of handling capacity at Bangkok's port; on the other hand, some investors regard Subic Bay's physical infrastructure as superior to

17. *Ibid.*, July 15, 1994, p. 7, June 11, 1995, p. 3; Shi-chun Hsu, "The Core-Peripheral Firm Relationship Across the Strait," in *Investing in the Mainland Market*, pp. 70, 97; Kao et al., *Taiwan Investment Experience*, p. 18.

many areas in China. One negative reaction toward going South is that the policy tends to benefit Taiwan's large state- or party-owned (KMT) companies, while offering limited opportunity to small and medium-sized private firms. This controversy centers around whether the use of public funds to invest in Southeast Asia is risky and irresponsible. Some cultural, religious, and language barriers may also make it more difficult for Taiwanese companies to invest in Southeast Asia than in China.

Despite these actual and potential trade offs, the policies toward the two regions are regarded as somewhat complementary by most top government officials in Taiwan. Although the government initiated the go South policy to cool down the high "investment fever" in China, some Taiwanese businessmen have suggested that the close cultural, kinship, and language connections with China favor investing there, and small and medium-sized companies may find it difficult to decide which way to go or how to split their limited capital between China and Southeast Asia. A 1994 survey by Taiwan's Ministry of Economic Affairs showed that in the next three years, 48% of the companies surveyed intended to invest in China, compared with 21% planning to invest in Singapore, Malaysia, Thailand, Indonesia, the Philippines, and Vietnam combined, followed by 11% planning to invest in Hong Kong and 9% in the United States.

Synthesizing Key Determinants of "Going West and/or South"

Economic Factors: From Product Cycles to Production Networks

The product cycle model, which predicts a staged shift of production-based investment and trade from the United States to other advanced industrial countries and then to less developed countries, provides a basic useful economic framework for understanding Taiwan's labor-intensive manufacturing investments. The large labor-cost differences make China and Southeast Asia logical locations for labor-intensive manufacturing but the "neat" stages of product cycles do not constitute the sole economic determinant of Taiwanese investments in the two regions. The division of labor between Taiwan and China is not exclusively vertical. Recognizing the engineering and technological capacity and skilled work force in some of China's large state-owned enterprises, Taiwanese companies have begun to ally with them to co-produce some relatively technology- and skill-intensive products such as major computer or vehicle components and parts. In Southeast Asia, especially in Malaysia, Taiwanese companies have also invested in such capital- and technology-intensive industries as computers, steel, and petrochemicals.

The movement of product cycles from Taiwan to China and Southeast Asia varies between and within countries and industries.¹⁸

The product cycle model, which emphasizes trade and investment between national economies as the basic unit of analysis, limits our understanding of the more varied and complex economic networks between Taiwan and China and Southeast Asia. In some industries, the network rather than the company has become the primary locus of productive and innovative activity. In addition, some of these production networks do not involve the one-way flow of capital from Taiwan to China or Southeast Asia and the return flow of exports from the latter two to the former, as predicted by the product cycle model.¹⁹

In the automotive industry, for example, some Taiwanese auto companies have become a crucial link between U.S. and Japanese multinational automakers and China. General Motors recently unveiled a long-range plan for including both Taiwan and China in the mutual supply and exchange of components and parts in the Asia-Pacific region; its primary objective is to use its cooperative ties with Taiwan to penetrate the mainland market. In the eventual division of labor, Taiwan and China will be engaged in mutual supply and exchange of components and parts for GM cars and even joint production of whole cars for the United States, Taiwan, China, and other markets. To achieve that long-term goal, GM and its Taiwan partner, Chinese Automobile Co. Ltd., have already established a joint venture in Hong Kong, which has been authorized to sell GM cars to China. After Toyota set up two manufacturing facilities in Shenyang and Hainan Island, and an R&D center in Tianjin, its Taiwan subsidiary followed up with a plan to build a repair facility and another factory to produce Toyota parts in China. This network allows Taiwan to carry out more sophisticated OEM (original equipment manufacturing) production as an experienced subcontractor and supplier of parts for the global auto industry.

Two other economic factors have functioned to induce Taiwanese investments toward China and Southeast Asia. The first was the continued high valuation of the new Taiwan dollar (NTD) from the mid-1980s through the early 1990s. A focused survey of Taiwanese firms in early 1992 showed that 55.4% of the respondents said they could not afford to keep their manufacturing in Taiwan if the exchange rate rose to 25 NTD to US\$1, while 19.5% set the bottom line at 26-27.5 NTD to US\$1. Of the respondent firms, 30% would move out of Taiwan if the rate hit 25 NTD to US\$1; of those, 56%

18. Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, 41:4 (1966), pp. 190-207.

19. See Mitchell Bernard and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics*, no. 47 (January 1995), pp. 171-209.

would likely choose China as their destination and 35% would likely go to Southeast Asia, with only 9% going elsewhere. Thus, the exchange rate staying at around 26 NTD to US\$1 through the 1990s has certainly been a "push" behind Taiwan's outward investments to China and Southeast Asia. The second economic factor is the termination of Taiwan's GSP (generalized system of preferences) status by the United States in January 1989. Since 1976, GSP had allowed thousands of Taiwan's small and medium-sized firms to export large quantities of labor-intensive products to the U.S. with no or reduced tariffs. The loss of GSP status has "pulled" the export-oriented Taiwanese firms more toward the ASEAN countries, which have GSP status in the U.S. market, than toward China, which does not.²⁰

*Political and Policy Factors: The Internationalization
of State-Business Relations*

The developmental state perspective emphasizes the strong and selective roles of the East Asian governments in Japan, South Korea, and Taiwan in channeling funds for investment, intervening directly in the economy, creating a market system, shaping industrial policy, devising indicative plans, and guiding these economies' incorporation into the capitalist world system. This perspective is useful for understanding the new role of the Taiwanese state in facilitating capital investments in China and Southeast Asia.

Although the state plays a crucial role in shaping Taiwan's economic development, much of its influence is confined to the domestic arena. However, the state has gradually taken on an expanded external role regarding investments in China and Southeast Asia, which may be characterized as the internationalization of state-business relations. While continuing to ban official direct trade, the Taiwanese government has incrementally expanded the list of agricultural and manufactured commodities that can be indirectly imported from China; that list grew, year by year, from 30 items in 1987 to approximately 4,500 at the end of 1994. In 1990 Taipei allowed indirect investment in China, and in 1991 the Ministry of Economic Affairs began to promote a division of labor in which core factories are based in Taiwan ("keeping the roots planted") and peripheral (supporting) factories are set up in China ("letting the branches and leaves grow out"). Between August and October 1994, the government approved hundreds of new products whose manufacturers could invest in China, and most recently it decided to allow trade officials and managers of Taiwan-invested factories in China to visit Taiwan for business purposes.

20. Ching-hui Huang, "An Analysis of the Relationship Between Taiwan's Investment on the Mainland and Manufacturing 'Hollowing Out'," in *Winning in the Mainland Market* (in Chinese) (Taipei: The R.O.C. Association of Management Science, 1993).

Taipei has adopted several external policy measures to facilitate investment in Southeast Asia. First, the Executive Yuan enacted the Operational Programs for Economic and Trade Relations with the Southeast Asian Region, whose goals were to: (1) conduct research on economic and trade developments in Southeast Asia through data collection and holding symposiums; (2) strengthen bilateral trade by helping businesses set up marketing channels; (3) promote mutual investment by providing banking and insurance services; and (4) use the government-financed Overseas Economic Cooperation Fund (OECF) to support private businesses indirectly. Second, the government set up special cooperative work groups to focus on promoting trade with, and investment in Singapore, Indonesia, the Philippines, and Vietnam. The work groups on Indonesia and the Philippines, for example, helped develop the industrial parks on Batam Island and in Subic Bay. Under this formal policy structure, Taiwan signed an official agreement with the Philippines to provide a low-interest loan of US\$60 million through the OECF to improve the physical infrastructure in Subic Bay; the first installment of US\$23 million has already been committed to building the Taiwan industrial park. Initiated by the Economic Affairs Ministry, Taiwan's Overseas Economic Cooperation Council and Central Bank are developing a joint program that, if approved, will allow Taiwanese firms investing in Subic to qualify for 6% low-interest loans. The government also provided US\$45 million to help Vietnam improve its business infrastructure.²¹

President Lee Teng-hui's "diplomatic vacation" in the Philippines, Indonesia, and Thailand in the beginning of 1994 gave the highest official blessing to the go South policy. The "inspection" tours by the Minister of Economic Affairs to Batam in November 1993 and Subic in February 1994 provided a strong boost to the investment confidence of Taiwanese companies in these specifically targeted areas. Other lower-ranked government officials have also led private business groups to Southeast Asian countries. These conscious policies reflect the aggressive effort of the Taiwanese state to "seize the chance" to continue advancing Taiwan's position in the capitalist world economy through internationalizing state-business relations, not during a global economic contraction as suggested by world-system theory for peripheral economies, but for a solid semi-peripheral economy during a period of economic expansion in the Asia-Pacific region.

Historical and Sociocultural Factors: Traditional and Ethnic Connections

While product cycles and external state policies are key contemporary determinants of Taiwanese investments in China and Southeast Asia, the impact of

21. *CDN*, intl. ed., March 3, 1996, p. 6; Chi Hsueh, "The Go-South Policy," pp. 28-30.

these factors is magnified in the favorable sociocultural environment of traditional and ethnic ties among the peoples of the region. As early as the mid-1600s when Taiwan was under Dutch occupation, it served as an intermediary between China, exporting silk, porcelain, and cane sugar to Japan, and Japan sending silver back to China. The same exports from China also went to Southeast Asia via Taiwan. At the turn of the century, after Japan's colonial rule began, investment flowed into China from Taiwan, heavily concentrated in Xiamen, Fuzhou, Shantou, and Guangzhou where it still tends to cluster today.²² During the 1930s and 1940s, Japan's go South policy of using Taiwan as a base for simple manufacturing activities and Southeast Asia as a source of raw materials also strengthened the existing economic ties between Taiwan and Southeast Asia countries. These traditional ties laid the groundwork for investments in Southeast Asia from the late 1950s and in China from the late 1980s.

Taiwanese investments in China and Southeast Asia are also fostered by the strong, long-standing ethnic ties among overseas Chinese in these countries based on migratory movement, linguistic similarities, family connections, and geographical affiliation by birthplace. This sociocultural environment helps forge four interconnected capital flows across many economic and political entities of Chinese background: Taiwanese and Hong Kong investments in southern China (Taiwan going West), investments from the three NICs of Chinese descent (Hong Kong, Singapore, Taiwan) to Southeast Asia (Taiwan going South), the movement of funds from overseas Chinese enterprises in Southeast Asia to China via Hong Kong and Singapore (Southeast Asia going West), and mainland Chinese investment to Hong Kong and Southeast Asia (China going South).

Other analysts see these investment flows as contained within and channeled through a series of concentric circles embedded in the overarching China Circle.²³ In the Taiwanese-to-mainland China capital flow, Taiwanese businessmen identified similarity in culture and language as one of the three main factors in investing in China, with the other two being cheap and abundant labor and a huge domestic market. Although Taiwanese companies have begun to spread their investments, a disproportionately large share continue to concentrate in Fujian Province, which has particularly close historical and ethnic ties with Taiwan. In the Southeast Asia-to-China flow, Thailand's Chinese-controlled Charoen Pokphand Group, the largest Southeast Asian conglomerate with 200 companies, has been one of the earliest and most active investors in China since the early 1980s. In the capital flow from main-

22. Man-houng Lin, *The Separation and Unification of Taiwan and the Mainland in the Last 400 Years* (in Chinese) (Taipei: Wu Shih Book Publishing, Inc., 1994), pp. 135-58.

23. *Newsletter*, Institute on Global Conflict and Cooperation (IGCC), University of California at San Diego, 11:1 (Spring 1995), pp. 1-2.

land China to Hong Kong and Southeast Asia, it is public knowledge that Chinese red chip companies are listed on the Hang Seng Stock Exchange in Hong Kong but perhaps less known that China National Chemicals Company (CNCC) has set up a soda ash plant in Indonesia and a rubber products project in Malaysia.

Among major locations in Southeast Asia, some Taiwanese companies have expressed a preference for Vietnam over Batam and Subic because Taiwan conducted business in southern Vietnam for many years before the country's unification in 1975. In fact, Taiwan provided logistical assistance to then South Vietnam in setting up its first export processing zones in Saigon (now Ho Chi Minh City) in the 1970s. Today Ho Chi Minh City, whose Cholon district has always been a bastion of ethnic Chinese business, has the heaviest concentration of Taiwanese capital in Vietnam. The shared historical and ethnic ties make it easier for some Taiwanese companies to go West via a southern detour. The crosscutting investment flows among the overseas Chinese economies and companies provide strong support for the sociological perspective on economic transactions being embedded in deep and dense social and personal relations and networks based on trust.²⁴ The overseas Chinese diaspora in East and Southeast Asia provides the cultural "glue" for sustaining organizationally and spatially integrated economic activities in the region.

*Geoeconomic and Geographical Factors: Subregional
Integration and Locational Advantages*

The China-Hong Kong-Taiwan economic triangle has formed one distinctive subregion of spatially integrated commodity chains. In making garments, bikes, and electrical appliances in China, a Taiwanese firm usually receives overseas orders in Taiwan, brings raw materials from Taiwan or other countries into China through Hong Kong, has the product made partially or completely in a Taiwan-invested Chinese factory, ships the product out via Hong Kong (again) to destined markets, and eventually settles the financial transactions back in Taiwan. The transportation costs incurred in this long and roundabout movement of products will be reduced considerably by the opening of direct shipping between Taiwan and China expected during 1997-99. While Kaohsiung will function as Taiwan's primary port for direct shipping, local governments at Chiayi, Tainan, and Yunlin have begun to campaign for their small ports to compete for freight business to and from Xiamen when direct shipping is established. The Taiwanese government has also approved

24. Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology*, no. 91 (November 1985), pp. 481-510; also John Kao, "The Worldwide Web of Chinese Business," *Harvard Business Review* (March-April 1993), pp. 24-36.

direct flights between Taiwan and the mainland via Hong Kong and Macao. This agreement, which began at the beginning of 1996 and is renewable to 2001, allows Taiwan's China Airlines and Evergreen Airlines (EVA), Hong Kong's Cathay Pacific Airways and Dragonair, and Macao Air to fly between Taiwan (Kaohsiung) and China with a stopover in Hong Kong and Macao where flight numbers have to be changed.

As Taiwanese companies search for more investment opportunities in Southeast Asia, the region has seen the emergence of two distinctive cross-national growth zones that cover contiguous or adjacent border economies. The more developed of the two involves a subregional division of labor among Singapore, the Johor state of Malaysia, and the Riau Islands of Indonesia, based on comparative economic advantages, government facilitation, some ethnic ties, and geographical proximity, as well as on their joint effort to attract outside investment.²⁵ In the meantime, the ASEAN has proposed to create the ASEAN Free Trade Area (AFTA) to gradually formalize free trade among the member countries. Since the AFTA grants favorable tariffs to products with over 40% ASEAN content, it will benefit Taiwanese companies to increase local product content in Southeast Asia by setting up more manufacturing facilities or sending semi-processed materials there for finishing and then exporting to other markets.²⁶ While the *geoeconomic* factors created by the emergence of the subregional growth zones have become very significant, *geopolitical* conditions remain important in channeling Taiwanese investment to Southeast Asia. After all, the go-South program is a conscious government policy, and some major respondents have been KMT-controlled firms. The recently popular investment sites in Southeast Asia—Batam Island, Medan, and Subic—are also in highly favorable and strategic physical locations.

Conclusion and Future Research

This article has provided a detailed and most updated account of the salient characteristics of Taiwanese investors going West to China and going South to Southeast Asia through the mid-1990s. Taiwanese companies have also been "going East" by investing in California's Silicon Valley and the Los Angeles area since the 1970s, and it is worth noting that the recent military tension in the Taiwan Strait triggered a surging flow of Taiwanese capital into the overseas Chinese-owned banks in southern California. What is more relevant to, but cannot be covered in this article is that Taiwanese companies

25. See Xiangming Chen, "The Evolution of Free Economic Zones and the Recent Development of Cross-National Growth Zones," *International Journal of Urban and Regional Research*, 19:4 (1995), pp. 593-621.

26. Yeh-ping Chen, "AFTA and Taiwan's Go-South Policy" (in Chinese), *National Policy Dynamic Analysis*, no. 81 (March 8, 1994), pp. 10-13.

have already begun to “go Southwest” beyond Vietnam by developing economic ties with, and making initial small investments in Burma, Cambodia, and Laos.

The information presented here has shown that although sharing a similar general orientation, Taiwanese investors in China and Southeast Asia differ by industrial sectors and geographical locations. There has emerged complex investment links and production networks at the industry and firm levels among each of the dyads (Taiwan-China, Taiwan-Southeast Asia, China-Southeast Asia) in a broad regional triangular economic structure. Standing alone, the key determinants of Taiwanese companies going West and/or South—comparative and complementary economic advantages, the internationalization of state-business relations, historical and ethnic ties, or subregional integration and favorable location—offer only partial insights. Together they constitute a causal cluster of interdependent determinants that fully explain the magnitude, features, and spatial distribution of Taiwanese investments in China and/or Southeast Asia.

This article does not attempt to analyze the consequences of Taiwanese investments in China and Southeast Asia for the countries involved and for the regional and global economies. Evidence already points to their strong impact, as investment and trade tend to go together; Taiwan’s exports to China in 1994 reached US\$12.6 billion, ranking second only to exports to the United States, while Taiwan’s exports to the five ASEAN countries and Vietnam amounted to US\$11.4 billion, trailing only its exports to the United States and China via Hong Kong.²⁷ Finally, it is important to point out that the Taiwanese government intends to make investments in China and Southeast Asia dovetail with its official policy of developing Taiwan into the operational center of manufacturing, sea and air transit shipping, financial services, and telecommunications for the Asia-Pacific region. This policy envisions China, and Southeast Asia to a lesser extent, as a large hinterland for Taiwan. But even as the shift to high-tech industries enhances its potential to become a regional manufacturing operational center, Taiwan faces fierce competition from other NICs in several functional areas: South Korea in manufacturing and Hong Kong and Singapore (post-1997) in financial services and transit shipping. More extensive and in-depth comparative analysis based on this explanatory framework will be needed if we want to understand the full impact of Taiwanese investments in China and Southeast Asia at the local, national, regional, and global levels.

27. *CDN*, intl. ed., June 15, 1995, p. 3; March 2, 1996, p. 3.