Shifting to a Domestic Focus

To some extent, Taiwan's weaker export performance was compensated by a shift toward satisfying domestic demand. Between 1987 and 1989, private consumption grew by more than 12% each year as Taiwan's 20 million inhabitants began to take advantage of their new-found affluence. Taiwan's economy remains heavily export-oriented with the value of its exports equal to half of its GDP. Even so, rising domestic consumption will, at least in part, replace external demand-orientation with domestic demand-orientation.

The Role of Government

Traditionally the government of Taiwan has been very involved in the economy, particularly in the energy, heavy industry and financial sectors. Planning usually took the form of suggestions from the government, backed up with sympathetic fiscal, monetary and trade policies and the provision of infrastructure.

Taiwan is liberalizing its domestic regulatory regime and opening up its economy to foreign investors. As a result, there have been dramatic increases in foreign direct investment in Taiwan. FDI doubled in 1987, and doubled again in 1989 to $2.6 billion, totalling about $11.8 billion at the end of that year.

The Taiwanese government is now becoming less involved in the economy and public corporations are being privatized. The government realizes that financial restructuring is necessary to channel resources away from the stock market and into more productive areas. However the government continues to encourage businesses into industries it sees as strategic. In the export market, the government is emphasizing consumer electronics, information systems, telecommunications, and automated production systems. In the domestic market, it is encouraging food processing, pharmaceuticals, biotechnology, and diagnostic imaging.

Industrial Structure

Small- and medium-sized enterprises are the backbone of the Taiwanese economy. They account for more than 80% of industrial production. Yet these companies tend to be undercapitalized; more than 90% have paid up capital of less than $436,000. Few of them have a long-term international strategy to up-grade their operations and move into high value-added activities. Taiwan's initial strength was in labour-intensive manufacturing, particularly food processing and clothing and textiles as well as in "copy-cat" manufacturing using other people's technology. Although such industries have responded to rising wage costs better than those in many other countries, their first instinct is often to move existing operations to countries with low labour costs rather than to develop higher value-added activities at home. As a result, it is estimated that in 1988 and 1989 Taiwanese companies invested about $5.3 billion to establish new production facilities in lower-cost regions of Southeast Asia.

A New Technology Focus

The Taiwanese government is promoting restructuring of the economy in order to move more forcefully into technology-intensive and service industries. Some Taiwanese manufacturers are beginning to focus on more sophisticated technologies, particularly computer components and parts, television sets, and calculators. Yet many are finding it difficult to move to more modern management systems or to find qualified personnel to enhance their R&D activities. The smaller enterprises that dominate Taiwan's economy seldom have the resources needed to undertake major R&D projects. On average, Taiwan's companies spend .5% of sales on R&D – less than half of the average expenditure in Korea.