

The Taiwanese government plans to invest \$17 billion in the development of advanced technologies over the next six years. It is emphasizing the development of applied technologies and computer-driven R&D by funding specific high-tech projects as well as the creation of new laboratories. In addition, the Hsinchu Science Park was established in 1980 to promote technology-intensive R&D by domestic and international companies. More than 100 companies are located there already and the government intends to encourage its expansion.

As a result of this program, the Taiwanese government hopes that the country will have 50,000 people engaged in R&D by 1996. Through tax incentives and direct financial assistance, it intends to bring R&D spending up to 2.2% of GNP. To focus activity, the government has identified five "star" industries that are to be the mainstays of the technology drive: information, consumer electronics, telecommunications, automation systems, and advanced materials. As part of this process, the government will also support the acquisition of foreign technology, marketing skills, raw materials, and environmental equipment.

II. Investment Behaviour

Relevant regulations

Taiwan's export-oriented development strategy and tight controls on the financial sector have resulted in the accumulation of huge foreign exchange reserves. In 1989, Taiwan's reserves totalled \$86.4 billion. This glut of cash contributed to domestic inflationary pressures. At the same time, it provoked U.S. complaints about trade imbalances caused by unfair trading practices.

The Taiwanese government's program of economic and financial liberalization has been motivated, in part, by an effort to reduce these reserves by channelling them into productive investment abroad.

Outbound investment had been strictly limited, but exchange controls were loosened in 1986 and a new policy on outbound investment was inaugurated. The government began providing investment information as well as financial and technical assistance for investors. It established an international economic cooperation and development fund and organized Chinese investment clubs.

Because outbound investment was discouraged for so long, Taiwan's government and financial institutions lack experience in the area. The government is now trying to catch up. In 1989, the China External Trade Development Council opened an office dealing with foreign acquisitions in order to help Taiwanese businesses secure high technology, raw materials, and sales channels abroad. Since April 1990, the Central Bank has been lending American dollars to Taiwanese enterprises through the Bank of Communications, the Export-Import Bank, the International Commercial Bank of China, and the China Development Corporation to cover up to 80% of the cost of investment projects abroad. The Bank of Communications has recently opened a subsidiary in Amsterdam to help Taiwanese get a foothold in Europe.

Estimates of Taiwanese FDI

While everyone agrees that outbound foreign direct investment from Taiwan has increased dramatically in the past three years, there are no accurate figures on how much investment is involved. Comparisons of official Taiwanese statistics on FDI with statistics kept by other countries show wide discrepancies. It is difficult to track Taiwanese FDI since many Taiwanese business people operate through overseas subsidiaries or they split up investments among family members to keep individual transactions below the \$6 million ceiling, above which they have to secure government approval for foreign exchange transactions.