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A Comparative Analysis of the Perception between Taiwanese and Foreign Executives for Taiwan’s Investment Environment

Juifang Chang*

Abstract

The purpose of this research was to examine the factors that influence foreign companies to do business in Taiwan. It also compares the perceptions of Taiwanese executives about the relative importance of each of the specific business environment factors in their decisions regarding investing in Taiwan.

This study used survey research methodology in the form of questionnaires administered to foreign executives of business enterprises operating in Taiwan. The sample of research participants selected consisted of Taiwanese and foreign executives who were working as top officers in foreign business ventures in Taiwan at the time of this study. Factors analysis and Ranking order was used to analyze 30 factors which may affect the decisions of foreign companies doing business in Taiwan.

For Taiwanese executives, the findings of this study regarding the Taiwanese government’s degree of stability was perceived as the most important factor affecting foreign companies’ decisions to do business in Taiwan. However, the results evidenced that, as evaluated by foreign executives, government policies on permitting repatriation of dividends and profits was considered the most important factor affecting foreign companies’ decisions to do business in Taiwan.

*國立高雄科學技術學院國資科講師
A Comparative Analysis of the Perception between Taiwanese and Foreign Executives for the Taiwan's Investment Environment

Juifang Chang

**Introduction**

As the business world becomes more global and the level of international competition continues to increase, managers will find themselves facing increasingly complex strategic decisions. Perhaps first and foremost among these decisions are the decisions relating to methods of expanding a firms' international operations. However, as one considers the prospects of international expansion, one cannot help but be aware of the many and varied risks facing firms in this "strange new land."

Johanson and Vahlne (1977) found a direct relation between market knowledge and market commitments. They mentioned that "in foreign operations, we have no such basic experiential knowledge to start with." Gray (1984) discussed many of the problems experienced by firms in their decisions to enter export markets. The most frequently mentioned, was related to the failure of many companies to arrange for adequate counseling to cover the development of a comprehensive master plan for international marketing, prior to entering the export market.

According to The Portable Encyclopedia for Doing Business with Taiwan, the cumulative foreign investment in Taiwan since the early 1950s totaled US$19.3 billion at the end of 1994. Fifty-eight percent of that sum came from Japan and the United States. Japanese and U.S. investment accounted for 31.83% and 27.44%, of total foreign investment approvals respectively. Among overseas Chinese investors, Hong Kong residents have the greatest presence in Taiwan. Much of the drop in foreign investment in recent years is due to a cutback of Japanese investors who are focusing on their own domestic situation.

Environments for international investment have changed swiftly with newly emerging markets. Countries set new "launching" strategies to explore and develop overseas markets. The objectives of the study were to examine factors that influence
foreign companies to do business in Taiwan. Further, it was an objective to compare the perceptions of Taiwanese executives and foreign executives about the relative importance of each of the specific business environment factors in their decisions regarding investing in Taiwan, and to make recommendations to foreign company that intend to do business in Taiwan, and to Taiwanese government agencies concerned with Taiwan’s international trade and economic growth.

**Research Design**

This study used survey research methodology in the form of questionnaires administered to foreign executives of business enterprises operating in Taiwan. The survey approach was deemed to be appropriate because the primary variables under investigation could be captured through the reported answers and perceptions of foreign executives about their companies’ economic performance information. The sample of research participants selected consisted of Taiwanese and foreign executives who were working as top officers in foreign business ventures in Taiwan at the time of this study. The total number of potential business executives in this sample was approximately 300: 100 of Taiwanese executives, and 200 of foreign executives. The actual response rate of participation was 32% of Taiwanese executives and 20% of foreign executives.

Factorial analysis was used to determine how thirty variables relating to the perceptions of senior executives of foreign companies doing business in Taiwan could be reduced to a simple set of valid constructs. The analysis revealed an underlying structure of three factors that explained 55.4% of the total variance. Three factors emerged in the data analysis by factor loading. All three factors were constructed by selected values of factor loading greater than 0.4260. (See Table 1) All three had significant figure values to identify them as relevant factors and solid constructs by which executives viewed their decisions about entry into Taiwan.

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These principal factors can be described as follows:

1. The first principal factor, government stability, actions, and desirable business-government conditions, consists of the factors of ability to implement knowledge-intensive technology; availability of skilled labor; educational infrastructure; the attitudes of government toward foreign investment; the extent of government control and restrictions on property ownership by foreigners; the extent of government exemptions or reductions of import duties on imported machinery, raw materials, and components; the existing telecommunications infrastructure; the existing transportation infrastructure; toward foreign investment; the extent of government control and restrictions on property ownership by foreigners; the extent of government exemptions or reductions of import duties on imported machinery,

Table 1
Principal Component Factor Analysis for 30 Factors of Executives' Perceptions about Foreign Companies Doing Business in Taiwan

<table>
<thead>
<tr>
<th>Perceptual Construct of Cluster</th>
<th>Factor Loading</th>
<th>Percent of Variance</th>
<th>Alpha Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Actions and Desirable Business-Government Conditions</td>
<td>0.723</td>
<td>34.3</td>
<td>0.8784</td>
</tr>
<tr>
<td>The extent of government exemptions or reductions of import duties on imported machinery, raw materials, and components</td>
<td>0.698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The extent of government control and restrictions on property ownership by foreigners</td>
<td>0.665</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High entrepreneurial spirit and dynamic activities</td>
<td>0.663</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to implement knowledge-intensive technology</td>
<td>0.647</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax holidays and other substantial tax advantages (e.g., low taxes for importing equipment or raw materials)</td>
<td>0.634</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceptual Construct of Cluster</td>
<td>Factor Loading</td>
<td>Percent of Variance</td>
<td>Alpha Coefficients</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>---------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Government targeting the growth of specific industries</td>
<td>0.608</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government policies on permitting repatriation of dividends and profits</td>
<td>0.598</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The attitudes of government toward foreign investment</td>
<td>0.595</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of skilled labor</td>
<td>0.581</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The existing port facilities</td>
<td>0.569</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No fear of Chinese military or political threats</td>
<td>0.541</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational infrastructure</td>
<td>0.532</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental control policies in Taiwan</td>
<td>0.490</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessibility of capital in Taiwan</td>
<td>0.486</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwanese government degree of stability</td>
<td>0.426</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2. Quality, Desirable Work Force**

|                                                                                             |                | 10.2                | 0.2198             |
| Quality of Taiwan work force in general                                                     | 0.690          |                     |                    |
| Availability of technical and managerial staff                                               | 0.597          |                     |                    |
| Cost of labor                                                                                | 0.493          |                     |                    |
| Availability of foreign capital, multilateral investment                                     | -0.556         |                     |                    |

**3. Increasing Industrialization of Society**

|                                                                                             |                | 5.9                 | 0.3855             |
| Capital-intensive industrial products are replacing labor-intensive products                 | 0.614          |                     |                    |
| The level of industrialization in Taiwan                                                    | 0.571          |                     |                    |
| Similarity to home country's technological requirements                                     | 0.449          |                     |                    |

raw materials, and components; the existing telecommunications infrastructure; the existing transportation infrastructure; the existing port facilities; high entrepreneurial spirit and dynamic activities; environmental control policies in
Taiwan; tax holidays and other substantial tax advantages; government policies on permitting repatriation of dividends and profits; the extent of government intervention in the economy; the existing telecommunications infrastructure; the existing transportation infrastructure; the existing port facilities; high entrepreneurial spirit and dynamic activities; environmental control policies in Taiwan; tax holidays and other substantial tax advantages; government policies on permitting repatriation of dividends and profits; the extent of government intervention in the economy; accessibility of capital in Taiwan; the Taiwanese government's degree of stability; government targeting the growth of specific industries; cross-strait economic relations are good for Taiwan's investment environment; and no fear of Chinese military or political threats. These factors accounted for 34.3% of the total variance.

2. The second principal factor, quality, desirable work force, consists of the factors of availability of technical and managerial staff; quality of Taiwan's work force in general; cost of labor; and availability of foreign capital and multilateral investment. These factors accounted for 10.2% of the total variance.

3. The third principal factor, increasing industrialization of society, consists of factors of level of industrialization in Taiwan, capital-intensive industrial products replacing labor-intensive products, and similarity to the home country's technological requirements. These factors accounted for 5.9% of the total variance.

**Research Findings**

The ranking order was used to analyze the three factors which may affect the decisions of foreign companies doing business in Taiwan, as viewed by top executives or managers of those companies. The ranks of the mean responses of foreign and Taiwanese executives of foreign companies for each cluster of factors are presented in Table 2, 3, and 4.
**Factor one: Government Actions and Desirable Business-Government Conditions**

From principal component factor analysis for 30 factors of senior executives' perceptions about doing business in Taiwan. Table 2 provides the results for the factor of government stability, actions, and desirable business-government conditions, which indicate that for Taiwanese executives managing foreign firms.

These findings indicated that the government provides critical policy conditions, not just in political matters but also in economic and social development. The findings support Ho's\(^1\) (1978) and Lim's\(^2\) (1990) studies.

The findings of this study regarding the factor of governmental factors suggested that for executives operating in Taiwan, the Taiwanese government's degree of stability was perceived as the most important factor affecting foreign companies' decisions to do business in Taiwan. This was true for both foreign and Taiwanese managers who do business in Taiwan and continually worry about the political environment, and if the government was not stable, the people would experience insecurity. The Taiwanese people fear the Chinese Communist military threat, and the possibility that Mainland China might take over Taiwan. If so, all their endeavors and wealth would be gone. Government reports show that many people apply to emigrate from Taiwan to America, Canada, Australia, and New Zealand every year.

For executives surveyed, the accessibility of capital in Taiwan was seen as the least important variable affecting foreign executives' decisions to do business in Taiwan. This was quite in contrast to Taiwanese managers of foreign firms for whom the availability of capital was the third most important variable of the factors. This was also, despite the readily available capital in Taiwan, an element that Taiwan's

---

\(^1\) Ho (1978) declared that an important dynamic element in Taiwan's economic development has been the government, which has played a central developmental role. Government investments in material and human capital and the economic policies of the government have affected all aspects of Taiwan's economic development.

\(^2\) Lim (1990) indicated that the government provided critical policy options, not just in politics but also in economic and social development. In economics, the government promulgated fiscal policy, monetary policy, foreign exchange policy, immigration policy, agricultural policy, land reform policy, and industrialization policy.
Table 2
Rank Ordering of Taiwanese and Foreign Executives’ Mean Responses about the Importance of Government Stability, Actions, and Desirable Business Government Conditions Factors for Foreign Companies Doing Business in Taiwan

Rank I Represents the Most Important Factor
(Mean Closest to 5.00 on the Scale)

<table>
<thead>
<tr>
<th>Factors</th>
<th>Perceptions of Taiwanese Executives</th>
<th>Perceptions of Foreign Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>Taiwanese government degree of stability</td>
<td>32</td>
<td>4.38</td>
</tr>
<tr>
<td>The existing transportation infrastructure</td>
<td>32</td>
<td>4.06</td>
</tr>
<tr>
<td>Cross-strait economic relationships good for Taiwan's investment environment</td>
<td>32</td>
<td>4.00</td>
</tr>
<tr>
<td>The existing telecommunications infrastructure</td>
<td>32</td>
<td>3.97</td>
</tr>
<tr>
<td>The extent of government exemptions or reductions of import duties on imported machinery, raw materials, and components</td>
<td>32</td>
<td>3.94</td>
</tr>
<tr>
<td>Educational infrastructure</td>
<td>32</td>
<td>3.88</td>
</tr>
<tr>
<td>No fear of Chinese military or political threats</td>
<td>32</td>
<td>3.88</td>
</tr>
<tr>
<td>The existing port facilities</td>
<td>32</td>
<td>3.87</td>
</tr>
<tr>
<td>High entrepreneurial spirit and dynamic activities</td>
<td>32</td>
<td>3.87</td>
</tr>
<tr>
<td>Tax holidays and other substantial tax advantages</td>
<td>32</td>
<td>3.84</td>
</tr>
<tr>
<td>The attitudes of government toward foreign investment</td>
<td>32</td>
<td>3.81</td>
</tr>
<tr>
<td>Government policies on permitting repatriation of dividends and profits</td>
<td>32</td>
<td>3.78</td>
</tr>
</tbody>
</table>
government has always felt very important. In general, a company that is able to go to other countries to do business already has a complete financial plan and availability of capital is of lesser importance.

The results also evidenced that, as evaluated by foreign executives, government policies on permitting repatriation of dividends and profits was considered the most important factor affecting foreign companies' decisions to do business in Taiwan. Foreign companies invest their capital to earn profits; hence, they want to be fully assured that they will be able to take their earnings home. On the other hand, these foreign executives considered the educational infrastructure the least important factor affecting foreign companies' decisions to do business in Taiwan. Foreign companies come to Taiwan to invest, and although they concentrate on the ability to implement knowledge-intensive technology. The amount of money the Taiwanese government spends in improving education apparently goes virtually unnoticed by foreign executives, despite the Taiwanese governments heavy investment in education.
Factor two: Quality, Desirable Work Force

Table 3 displays the ranks of the mean responses of Taiwanese and foreign executives of foreign companies about the importance of a high quality, desirable work force. The results indicated that the availability of technical and managerial staff was considered the most important factor affecting foreign companies' decisions to do business in Taiwan for both Taiwanese and foreign managers. On the other hand, the availability of foreign capital multilateral investment was the second most important factor for foreign executives; it might that they are concerned about how to manage capital to earn more money in the host country. However, Taiwanese executives considered the availability of foreign capital, multilateral investment was the least important factor for foreign investment; it may be because controlling capital in their won country is easier change. Furthermore, foreign executives thought the cost of labor was the least important factor for doing business in Taiwan; this may be because the cost of labor in Taiwan is comparatively lower.
Factor three: Increasing Industrialization of Social Factors

Table 4 displays the ranks of the mean responses of Taiwanese and foreign executives of foreign companies about the importance of increasing industrialization of society. For the factor of increasing industrialization of society, evidenced that Taiwanese executives considered the fact that capital-intensive industrial products are replacing labor-intensive products to be more important than the similarity to the home country's technological requirements since Taiwan is their home country, it would not be expected they would perceive a difference in technological requirements. However, foreign executives considered similarity to their home country's technological requirements more important than the fact that capital-intensive industrial products are replacing labor intensive products. There are certain factors on which the two groups of respondents significantly differed in terms of their perceptions of importance for doing business in Taiwan. On the other hand, both the Taiwanese and foreign executives have the same opinion. They ranked the level of industrialization in Taiwan in the same place in these three factors.

Table 4

Rank Ordering of Taiwanese and Foreign Executives' Mean Responses about the Importance of Increasing Industrialization of Social Factors for Foreign Companies Doing Business in Taiwan

<table>
<thead>
<tr>
<th>Factors</th>
<th>Perceptions of Taiwanese Executives</th>
<th>Perceptions of Foreign Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>Capital intensive industrial products</td>
<td>32</td>
<td>3.87</td>
</tr>
<tr>
<td>products are replacing labor intensive products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of industrialization in Taiwan</td>
<td>32</td>
<td>3.81</td>
</tr>
<tr>
<td>Similarity to home country's technological requirements</td>
<td>32</td>
<td>3.75</td>
</tr>
</tbody>
</table>
Conclusions and Recommendations

From principal component factor analysis for 30 factors of senior executives' perceptions about doing business in Taiwan, the first cluster, "Government stability, action, and desirable business-government conditions," loaded 19 of the 30 factors. It indicated that the Taiwan's government provides critical policy conditions, not just in political matters but also in economic and social development.

The findings of this study regarding the factor of governmental factors suggested that for executives operating in Taiwan, the Taiwanese government's degree of stability was perceived as the most important factor affecting foreign companies' decisions to do business in Taiwan, and the accessibility of capital in Taiwan was seen as the least important factor affecting foreign executives' decisions to do business in Taiwan for Taiwanese executives. The results also evidenced that, as evaluated by foreign executives, government policies on permitting repatriation of dividends and profits was considered the most important factor affecting foreign companies' decisions to do business in Taiwan. On the other hand, these foreign executives considered the educational infrastructure the least important factor affecting foreign companies' decisions to do business in Taiwan.

Within the factor of a quality, desirable work force, the results indicated that availability of technical and managerial staff was considered the most important factor affecting foreign companies' decisions to do business in Taiwan. However, foreign executives considered the similarity to their home country's technological requirements more important than the fact that capital-intensive industrial products are replacing labor-intensive products. There are certain factors on which the two groups of respondents significantly differed in terms of their perceptions of importance for doing business in Taiwan.

For the factor of increasing industrialization of society, evidenced that Taiwanese executives considered the fact that capital-intensive industrial products are replacing labor-intensive products to be more important than the similarity to their home country's technological requirements. However, foreign executives
considered the similarity to home country’s technological requirements more important than the fact that capital-intensive industrial products are replacing labor-intensive products.

Based on the present study, the following suggestions may benefit both foreign companies desiring to do business in Taiwan, and the Taiwanese government in its concerns about Taiwan’s investment environment.

**For foreign companies:**

Foreign investors should consider setting up head offices in Taiwan or forming a joint venture with Taiwanese enterprises, utilizing skilled labor and technical and managerial staff to enter into the market in China. Taiwan has huge foreign exchange reserves, totaling US$82.55 billion in April, 1996; immense purchasing power, with per-capita income of US$14,000; a high-quality work force; high technology industries; a government with outward-oriented trade policies, especially the removal of the obstacles of taxes, import duties, and the foreign exchange system. Taiwan is a good potential market for investment. Moreover, Taiwan shares the same language and culture as Mainland China; only some customs and political and economic freedom are different. To explore the market of China, a company should consider the economy of Taiwan as an entry point. Moreover, the Taiwanese government is striving to pave the way for its development as a regional operational center, she will press ahead with the liberalization of her economy. Foreign companies investment in Taiwan will then be able to take the advantage of the Taiwanese governments’ promotional packages, such as tax reduction, key personnel, etc. to play a role in its companies’ regional integration in manufacturing and operation.

**For Taiwan’s government:**

In regards to its increasing wages and rising exchange rates, Taiwan has lost, or at least shifted, its competitive power with other developing countries. The government should therefore provide incentives for foreign companies to come to
Taiwan and invest, such as reducing the government's intervention in business, eliminating corruption practiced by some officials, improving the nation's infrastructure (e.g., telecommunications and transportation), and accelerating privatization, liberalization, and deregulation. Continuing cross-strait military threats could cause many foreign companies to reduce their investments or withdraw investments from Taiwan. The government consequently has to erect good realistic communication with Mainland China to enforce agreed-on terms of the cross-strait economic and trade relationships, so that these remain beneficial to Taiwan and investment in Taiwan.
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外商公司經理人員對台灣投資環境認知之比較分析

張 瑞 芳

摘 要

本研究係參考多國籍企業對外投資考量因素實證研究之文獻，著參酌本國經貿現況，以外商公司的台籍與外籍經理為對象，設計影響外商公司在台灣投資的30個主要影響因素，作實地問卷調查，以求了解他們對台灣投資環境因素的認知，並作比分析。

研究結果發現台灣政府在整個政治、經濟及社會上扮演著非常重要的角色，台籍經理人員認爲台灣政府的穩定性程度最為重要，而外籍經理人員認爲政府對於外商股利與利潤如何退回本國所採取的政策最為重要。

關鍵詞：台灣投資環境，外人投資，台籍經理，外籍經理