

An Evaluation of Free Trade Port Zone in Taiwan

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Abstract

This study focused on the development of FTPZs in Taiwan and examined factors influencing business activities in FTPZs and their degree of importance for improving the operational environment in FTPZs. A performance assessment of companies since operating their businesses in FTPZs was also undertaken. Data for the study were obtained from a questionnaire survey distributed to MNCs operating in FTPZs in Taiwan. The importance-performance analysis (IPA) technique was employed to analyse the survey results. Five factors were found to have a high degree of importance for business operations in FTPZs: government administration efficiency, cheap rates and charges, simplified customs procedures, clear regulations, and free tax incentives. Further, results indicated that firms in FTPZ had increased their performance in terms of reputation, investment, customer satisfaction, and revenue. The study provides insight into the evaluation and policy suggestions of FTPZ for government in Taiwan.

Key words : Free Trade Port Zone (FTPZ), Importance-Performance Analysis (IPA).

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I. Introduction

A free trade zone (FTPZ) is one or more special areas of a country where normal trade tariffs and quotas are eliminated and bureaucratic requirements are lowered in the hope of attracting new business and foreign investment. Basically, scholars considered the establishment of an FTZ can be feasible only by the removal of tariff on the imported intermediate material used in the manufacture of the FTZ commodity.¹⁾ FTZs can also be defined as labour intensive manufacturing centers that involve the import of materials or components and the export of factory products. Most FTZs are located in developing countries.²⁾ Bureaucracy is minimal as governments normally outsource the FTZ operations to private operators. MNCs which operate in the zones are also awarded tax breaks, or additional incentives to encourage them to move into the FTZs. Usually, such zones are set up in the developing parts of the host country, the rationale being that they will attract employers and thus reduce poverty and unemployment and stimulate the local economy. MNCs often set up their factories in FTZs to reduce the costs of producing such items. Governments that believe the establishment of FTZ can help boost their economic development are keen to promote them in order to enhance foreign exchange earnings; develop export-oriented industries, and generate employment opportunities. It is confirmed the welfare effect in duty free zones and indicated there are Pareto gains from duty free zones for a small country.³⁾ There are also researches indicated that free economic zones include free ports, freetradezones, foreign-trade zones and export processing zones with relaxation of laws or regulations can attract investment and create employment.⁴⁾ He concluded the future need for free zones, especially those associated with ports will be continued.

However, the creation of FTZs is criticised for encouraging businesses to set up operations under the influence of often corrupt governments. Such governments give foreign corporations more economic liberty than their domestic ones which face large and sometimes insurmountable “regulatory” hurdles in developing countries. Nevertheless, many countries allow local

1) Young and Miyagiwa (1987).

2) Papadopoulos (1987).

3) Facchini & Willmann (1999).

4) McCalla (1999).

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