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城市外交與外商直接投資的區位選擇：以台灣直轄市為例  
Municipal Diplomacy and Foreign Direct Investment  
Location Choice: The Case of Taiwan's Major Cities

Student: Mark Gregory Henderson  
Advisor: Tsai Chung-Min

中華民國 108 年 3 月  
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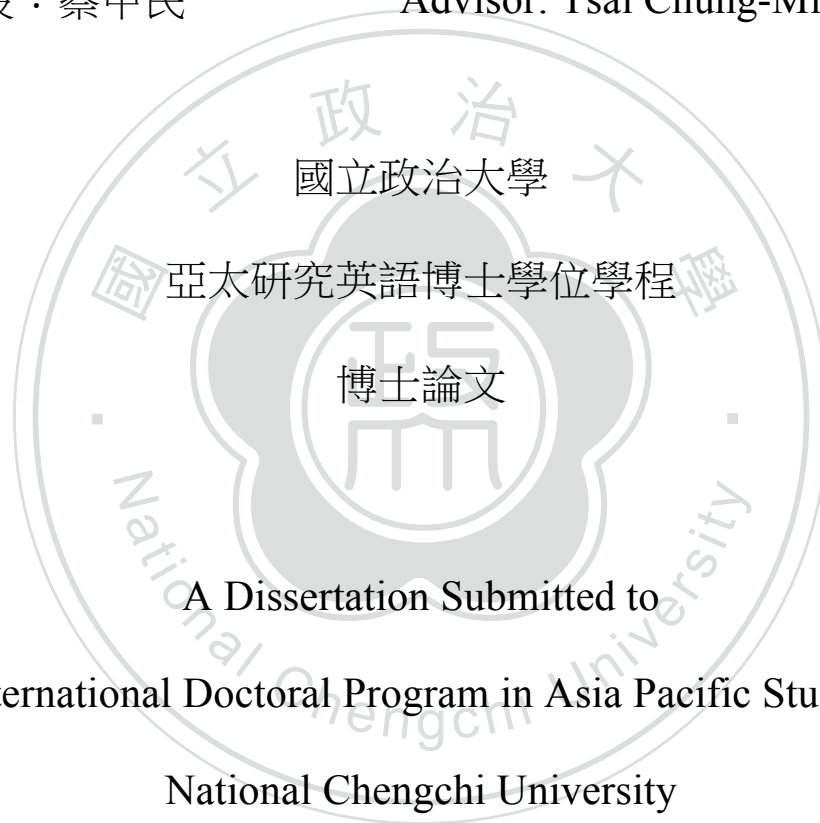
Municipal Diplomacy and Foreign Direct Investment  
Location Choice: The Case of Taiwan's Municipalities

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## Abstract

The intended aim of this study was to determine the relevance of relationship building through diplomatic policy at the local government level when attracting foreign direct investment to the four largest cities in Taiwan (Taipei, New Taipei City, Taichung, and Kaohsiung).

Taiwan was the focus of our study due to a number of factors, including; geographic location (the home of two thirds of the worlds middle class by 2030), relative transparency of government operation, resistance to deindustrialization (and therefore suitability to various forms of FDI), and due to a new trend of FDI flow into the Asia-Pacific region. In order to address the central question of our study we selected two leading frameworks, Dunning's OLI model and Wells and Wint's IPA theory, to guide our examination of FDI frequency among Taiwanese cities. We combine the two existing methods and introduce a new "relationship building" or "diplomacy" conception to Dunning's existing framework.

Employing a conditional logit model, we provide evidence that, in addition to agglomeration, infrastructure, and market size from Dunning's model, all of our newly formulated "relationship" variables came up as statistically relevant. Next, we further determine the relevance of our new relationship variable by garnering the opinions of FOE managers currently operating in the cities associated with our study. In order to design an appropriate questionnaire, we conduct a set of comprehensive interviews with local diplomatic departments in Taiwan.

By combining the outcomes from the quantitative analysis with the survey responses from FOE managers, this study introduces a new diplomatic variable, through city-country relationships, to the FDI research agenda.

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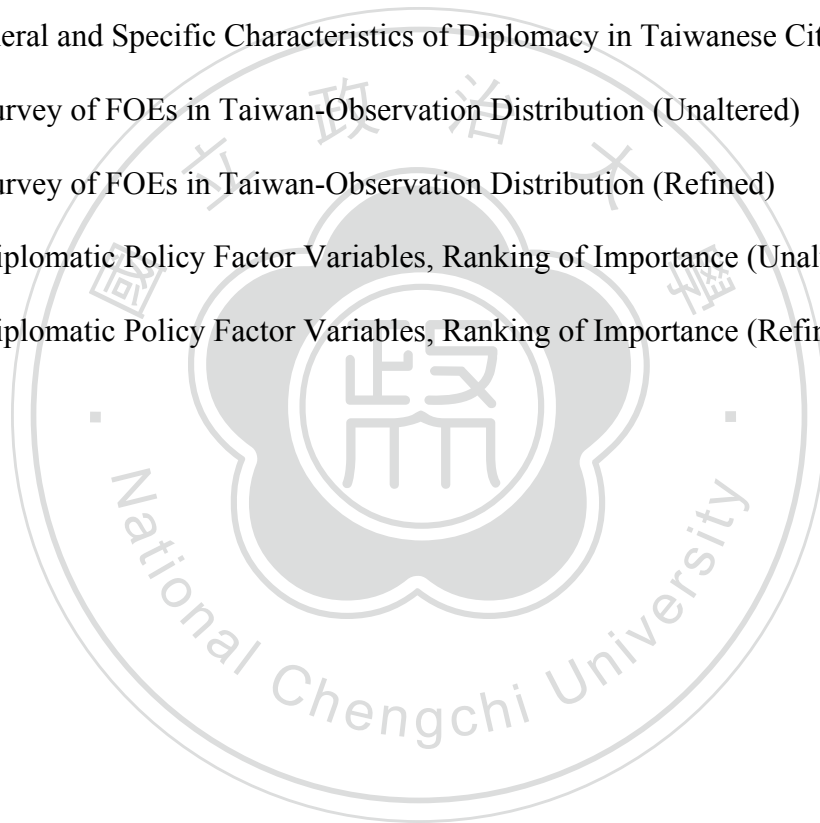
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## ABBREVIATIONS



CETRA	China External Trade Development Council
DPP	Democratic Progressive (Political) Party, Taiwan
EDC	Economic Development Corporation
FDI	Foreign Direct Investment
FOE	Foreign Owned Enterprise
IIA	Independence of Irrelevant Alternatives, Theory
IPA	Investment Promotion Agency
KMT	Kuomintang (Political) Party, Taiwan
MNE	Multinational Enterprise
MOEA	Ministry of Economic Affairs, Taiwan
MOFA	Ministry of Foreign Affairs, Taiwan
MOU	Memorandum of Understanding
NGO	Non-Government Organization
NTD	New Taiwan Dollars
OLI	Ownership, Location, and Internalization, Theory
R&D	Research and Development
RIA	Regional Integration Agreement
TWMNC	Third World Multinational Corporation

## **Chapter 1: Introduction**

Governing the conditions most suitable to promote economic vitality has gradually shifted away from the center. As a result, local policy makers, at the city, county and provincial level, are competing through local promotion, infrastructure strengthening programs and incentive packages for domestic and international business investment. These packages are meant to attract an expanding number of multinational enterprises (MNEs), which are utilizing the practice of foreign direct investment (FDI) to further integrate product and labor markets. Each entity follows a strategic plan. Businesses seek profit, while policy makers are concerned with creating jobs and efficiently utilizing or expanding a limited budget. Finally, researchers seek to develop theoretical frameworks that best explain the respective actions of each group.

In U.S. cities the prerogative to attract potential investments from abroad has been handed off to investment promotion agencies (IPAs) that are often funded through a combination of public and private funds. These IPAs, sometimes called economic development corporations (EDCs), are typically run by ex-government bureaucrats or business people, who have the specialization and know-how associated with creating meaningful investment partnerships. These organizations work together with the economic development departments of municipal and county governments to create a cohesive strategy aimed at investment attraction and trade promotion. Recently, the Brookings Institution has indicated that diplomatic and other non-economic focused exchanges are relevant when considering a locality's overall competitiveness when seeking to attract FDI. However, after examining some of the larger cities that

participated in the study by Brookings, we found that there is little to no allocation of funds for non-conventional programs aimed at building international relationships. For example, San Diego, Philadelphia, Los Angeles, Chicago and San Antonio, all of which were included in the Brookings “Global Cities Initiative”, do not have a department nor an NGO partner (with directly allocated city funds) that is charged specifically with carrying out non-economic international (diplomatic) exchange. The only exception to this trend was San Antonio, which recently dissolved their international relations department in 2011 due to budgetary constraints. All of these cities did, however, maintain economic development departments alongside a public-private funded IPA of some sort.<sup>1</sup>

The aim of this research is to further sophisticate the theoretical knowledge thus far, by incorporating an additional tool that could potentially be utilized by local policy makers, known as “relationship building”. This original term refers to the sum total of various exchanges and interaction between local governments or communities and their foreign counterparts resulting in little or no immediate economic impact. Such exchanges range from sister city relationship creation to support for international student exchange. Our purpose is to measure the efficacy of government spending to support such exchanges. By including this variable, we are better equipped to comprehend investor behavior and inform policy. The time is now to utilize these findings in order to add new and dynamic variables to the existing theoretical framework.

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<sup>1</sup> Brookings Institution. Metro, Global Cities Initiative. <http://www.brookings.edu/about/projects/global-cities/exchange>. (Accessed, April 2015).

### **1.1 Question:**

The core question of this project is as follows; Does relationship building (diplomatic efforts) at the local level of government have any effect on the inflow of foreign direct investment? We argue that an increased prioritization of international diplomatic exchange and relationship building will have a positive influence on FDI inflows to that locality.

### **1.2 Case Subject: Taiwan**

Taiwan was chosen for a number of reasons, including; its geographic location, relative transparency of government operation, resistance to deindustrialization (and therefore suitability to various forms of FDI), and due to a new trend of FDI flow into the Asia-Pacific region.

“Economic growth is shifting from the developed Western world to the Asia-Pacific region and other emerging markets. By 2030, two-thirds of the global middle class will live in the Asia-Pacific region.”<sup>2</sup>

Additionally, the Taiwanese strategy for foreign direct investment attraction is primarily created by government entities, therefore, the relative infrequency of an IPA-Government interplay simplifies the causal link between policy action and investment creation. In addition to local government offices for economic development, investment promotion comes from National Government bodies in Taiwan, for example; the Industrial Development & Investment Center (MOEA), the Industrial Development Bureau (MOEA), the Investment Commission (MOEA), the International Cooperation

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<sup>2</sup> Homi Kharas and Geoffrey Gertz, “The New Global Middle Class,” (Washington: Brookings Institution, 2010).

Department of the (MOEA), and the Small & Medium Business Administration (MOEA). The only non-government actor associated with national-level economic development in Taiwan is the China External Trade Development Council (CETRA), which is focused primarily on trade promotion for Taiwanese companies, rather than inward investment attraction, and therefore less relevant for our purposes.

Finally, unlike the major cities mentioned above in the Brookings Institution study, Taiwanese local governments all maintain separate international relations departments in addition to economic development bureaus, making Taiwan ideal for testing a new “relationship building” variable. Additionally, these local bureaus charged with conducting diplomacy hold a somewhat privileged position vis-a-vis their national governments when compared to their counterparts abroad, given Taiwan’s unique diplomatic status. In other words, the absence of a capacity for “official” international diplomatic ties places increased responsibility in the hands of Taiwan’s city level diplomats. An in depth look at the benefits afforded to each of these cities by choosing to maintain diplomatic bureaus will allow us to assess the potential economic returns of that decision. In essence: Is municipal diplomacy worth it?

By utilizing Taiwan as a case study, we are afforded a unique opportunity to juxtapose our findings with a consideration of a representative case, designated as most relevant in the coming decades.<sup>3</sup> For the purpose of applicability, this study will focus on four major municipalities “四都” (recently upgraded to 6 major municipalities “六都”) in Taiwan that are big enough to seriously undertake FDI attraction and accurately represent the Taiwanese locality. The cities selected to participate were; Taipei, New Taipei City,

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<sup>3</sup> Brookings Institution. Metro, Global Cities Initiative. <http://www.brookings.edu/about/projects/global-cities/exchange>. (Accessed, April 2015).

Taichung, and Kaohsiung. The two cities which were most recently afforded the title of “major city” by the National Taiwanese Government, Tainan and Taoyuan, will be excluded, as they have not had equal capacity with the original four until recently, which could taint our results.

### ***1.3 The Scale of Local “Relationship Building”***

So just how much are Taiwanese cities spending on non-economic international exchange? This research asks the following initial questions to paint a picture of the “relationship building” practice in Taiwan to consider the efficacy of such efforts in the attraction of foreign direct investment:

1. Exactly how extensive are the allocations towards “relationship building” at the local government level?
2. How big are these departmental budgets?
3. How many government employees are needed to carry out local diplomacy?

The following is an initial look at the case of Taiwan’s local government allocations toward “relationship building”.

Table 1: *Local Government International Relations, Taiwanese Cities*

<b>Taipei City</b> International Relations Department	
<b>Budget:</b> 24,441,432 NTD	<b>Office Size:</b> 15 Professional Staff
<b>New Taipei City</b> International Relations Division	
<b>Budget:</b> 13,755,000 NTD	<b>Office Size:</b> 10 Professional Staff
<b>Taichung City</b> Secretariat, International Relations Division	
<b>Budget:</b> 25,721,000 NTD	<b>Office Size:</b> 15 Professional Staff
<b>Kaohsiung City</b> Secretariat, International Affairs Division	
<b>Budget:</b> 16,395,000 NTD	<b>Office Size:</b> 10 Professional Staff

*Source: Local government departments*



## ***2.1 The Evolution of FDI as a Research Agenda***

FDI started after WWII and primarily took the form of capital investment in countries where there was stability but also higher interests rates to benefit investors who had a lower return at home. The original theories that described FDI in this way, however, did not account for the imperfection of markets, but merely the net economic gain primarily from US investors in Europe and Japan (MacDougall & Kemp). As other countries began to invest as well, and investment turned back towards the US, theorists started to account for the imperfections in the investment markets.<sup>4</sup>

The next grouping of theories began to look at FDI in terms of foreign owned enterprises (FOE's) operating in a domestic market that is dissimilar to their native markets, especially in terms of language, culture, and legal systems. Hymer and Kindleberger led the way in describing their success with the Industrial Organization and the Monopolistic Approach, through factors like economies of scale, technology, branding and marketing and cheap financing.<sup>5</sup> Buckley and Casson took the approach one step further in describing investment according to sector and industry with the Internalization Theory (vertical integration).<sup>6</sup> In 1973 Knickerbocker advanced his own theory of imperfect market conditions that focused on the domestic markets and

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<sup>4</sup> Kemp, M.C. (1964). *The Theory of International Trade*. Prentice Hall, London.

MacDougall, G.D.A. (1958). "The benefits and cost of private foreign investment abroad: A theoretical approach", *Economic Record*, vol. 36.

<sup>5</sup> Kindleberger, C.P. (1969). *American Business Abroad*. Yale University Press, New Haven, CT, United States.

Hymer, S.H. (1976). *The International Operation of National Firms: A Study of Direct Foreign Investment*. MIT Press, Cambridge, MA, United States.

<sup>6</sup> Buckley, P.J. and M. Casson (1976). *The Future of the Multinational Enterprises*. Macmillan, London.

resources, which encourages Oligopolistic behavior, whereby firms follow one another to foreign markets.<sup>7</sup> Dunning finally rounded out the imperfect market theories with his addition known as the Eclectic Paradigm theory, taking into account all of the above considerations while adding; local policies, firm strategy, and agglomeration economies.<sup>8</sup>

One alternative to the mainstream theories surrounding the paradigm of imperfect competition is the Strength of Currency theory, posited by Aliber, which attempted to make a connection between FDI and currency valuation. However, his argument of weak currency nations attracting FDI from stronger currencies only applied to developed countries like Canada, the USA and the UK.<sup>9</sup>

One of the most recent explanations of FDI reveals the previous deficiencies in the explanation of inter-firm business and supply lines, where one third of all international trade is conducted between businesses. The Product Life Cycle Theory traces these lines in order to explain such phenomena as; competitive production advantage, labor markets, and de-industrialization.<sup>10</sup>

Yet another theoretical contribution has come alongside the development of Regional Integration Agreements (RIA's), originally conceived by Yannopoulos, with early research conducted on the European Union and later, North America.<sup>11</sup> Salike later

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<sup>7</sup> Knickerbocker, F.T. (1973). "Oligopolistic reaction and multinational enterprise", Division of Research, Harvard University, Cambridge, MA, United States.

<sup>8</sup> Dunning, J.H. (1971). *The Multinational Enterprise*. George Allen and Unwin, London.

<sup>9</sup> Aliber, R.Z. (1970). "A theory of direct foreign investment", in C. P. Kindleberger (ed.), *The International Corporation*. MIT Press, Cambridge, MA, United States.

<sup>10</sup> Latorre, M.C. (2008). "Multinationals and foreign direct investment: Main theoretical strands and empirical effects", *Cuaderno De Trabajo*, No. 06/2008.

<sup>11</sup> Yannopoulos, G.N. (1990). "Foreign direct investment and European integration: The evidence from the formative years of the European Community", *Journal of Common Market Studies*, vol. 28, No. 3.

refined the RIA Theory by segregating inter and intraregional sources of FDI. He was able to distinguish more clearly the haphazard results of Salike by isolating those companies outside of the agreement, attempting to maintain their position in foreign markets, while those within were more interested in vertical integration. Those firms who are only interested in horizontal investment in new markets are less likely to invest in the countries where they have concluded RIA's, eliminating protective import measures.<sup>12</sup>

Recently, the theoretical paradigm of foreign direct investment is being pushed to account for investment originating in developing countries and landing in developed countries. This new phenomenon is carried out by Third World Multinational Corporations (TWMNC's).<sup>13</sup> These theories focus mainly on the advantages that TWMNC's have in developing countries; a reduced threat to big corporations, market diversification (away from an unstable home market and political atmosphere), and diaspora.<sup>14</sup>

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<sup>12</sup> Salike, N. (2010). "Effect of regional integration agreement on FDI: A theoretical perspective", MPRA paper No. 31859. Munich University Library, Germany.

<sup>13</sup> Aggarwal, R. and J.K. Weekly (1982). "Foreign operations of Third World multinationals: A literature review and analysis of Indian companies", *The Journal of Developing Areas*, vol.17, No.1; pp. 13-30.

<sup>14</sup> UNESCAP. Nayak, Dinkar & Choudhury, Rahul N. "Asia-Pacific Research and Training Network on Trade: Working Paper, A selective review of foreign direct investment theories". No. 143, March 2014.

## **Chapter 2: Reformatting Existing FDI Theory to Account for Relationships**

### ***2.1 Modern FDI Theory***

The cutting edge of FDI theory must account for two leading methods designed to understand the dispersal of investment, both globally and within a domestic setting. First, the Dunning OLI paradigm has given researchers a tool set to understand; 1) the decisions of the (O)wnership in moving operations abroad and thus the “why”, 2) the (L)ocation specific advantages and thus the “where”, and 3) the concept of (I)nternalisation contributing to our knowledge of the institutional factors which, if met, can lead to FDI. Dunning’s theory has been used since the early 1990’s to explain, not only why investment has landed in a certain country but also, why operations have left their native markets in the first place. Dunning gives our research a steady base from which to pull significant variables when analyzing the phenomenon of FDI locally, especially those associated with “Location Specific Advantages”.

Second, Wells and Wint contributed to our understanding of FDI determinants by looking exclusively at locational factors and Investment Promotion Agencies (IPAs). Their analysis utilized business marketing theory to determine how nationally funded investment promotion organizations “sold” themselves to potential investors. Their theory was, thereafter, narrowed to account for the effectiveness of spending on investment promotion by Morisset and Johnson. Since then, the IPA method has been

utilized by the World Bank in cooperation with Columbia University to construct a template for localities to follow when devising a strategic plan for investment attraction.<sup>15</sup>

Recently local practitioners and research institutions concerned with investment policy have been hinting at a shift in the current theory. In 2013-14, the Brookings Institution's Global Cities Initiative undertook a major study of 28 municipalities in the United States (Seattle, Portland, Sacramento, San Antonio, etc.) to assist in creating local economic development policy concerning; (1) international trade and (2) foreign investment. Their findings were published in 2014 and presented an excellent opportunity for theoretical expansion by emphasizing the importance of "relationship building" activities in 2 out of 10 new variables.

1. Global engagement must be a demonstrated priority.

*Metro areas, like firms, must institute intentional and committed international efforts to gain the full benefits of global markets.*

2. Global commerce is driven by relationships and networks.

*Metro areas generate value for firms by developing strategic relationships in high-potential foreign markets and by forming strong public-private and federal-state-local networks at home.<sup>16</sup>*

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<sup>15</sup> Wells & Wint. (2000). "Marketing a County: Promotion as a Tool for Attracting Foreign Investment". Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

Morriset & Johnson. (2004). "The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment". Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

<sup>16</sup> Brookings Institution. *Brookings Metropolitan Policy Program. The 10 Lessons from Global Trade and Investment Planning in U.S. Metro Areas. June 2014.*

*Brookings Institution. Metro, Global Cities Initiative.*  
<http://www.brookings.edu/about/projects/global-cities/exchange>. (Accessed, April 2015).

Although, the Brookings Institute is a policy-focused organization, their findings have lent a new perspective to our understanding of the current theoretical paradigm of local FDI attraction. Their findings, do not establish a new phenomenon, but rather, are merely an initial look into what has already been taking place in local governments.

Local, state and county level policy makers have been allocating funds to diplomatic initiatives in the hopes to build relationships for the purpose of economic exchange (specifically FDI). These “Relationship building” activities, however, are not characterized by direct economic impact, things like; cultural and artistic exchange, incubation of study abroad programs, support for ethnic organizations and cultural events, and sister city exchanges.

The budgetary allocations set aside to these local diplomatic agencies are supplemental to those already set aside for economic development, establishing competitive FDI attraction incentives, labor and workforce development, the building and maintenance of infrastructure, constructing a competitive investment promotion strategy and other proven avenues to international economic development. This indicates a previously established recognition of “relationship building” as an influential determinant of FDI attraction.

## ***2.2 Framework: Dunning’s OLI Eclectic Theory***

The framework for our study will follow Dunning’s OLI model as it refers to (L) location specific advantages. Dunning’s model categorizes the (L) variables into four respective areas which explain a firm’s choice through the utility of profit maximization. In essence, a firm will seek discounted profits through a range of considerations related to

the location choice of an FDI project. Dunning separates location choice by a firm into the following areas:

- 1) Resource Seeking: *Resource seeking behavior refers to MNEs making location choices based on the availability of; low rent or land cost; workforce availability (either skilled or unskilled depending on the industry); and the local cost of raw materials and other factors of production.*
- 2) Market Seeking: *Market seeking behavior refers to MNE's making location choices based on; local market size or growth; preferences of the consumer for individual products; market structure; distance from the host country or region; and access to regional or global markets.*
- 3) Efficiency Seeking: *Efficiency seeking behavior refers to MNE's making location choices based on; cost of resources and capabilities (i.e. electric power, land cost, rent, etc.); transportation and communication costs; industrial agglomeration factors (i.e. relative existence of R&D, level of employment in a certain industry, etc.); and whether the local government entity is a cosignatory of regional trade agreements.*
- 4) Strategic Asset Seeking: *Strategic asset seeking behavior refers to MNE's making location choices based on; technical and managerial assets; infrastructure (i.e. roads, ports, telecommunications, etc.); entrepreneurial or educational know-how; regulations on industrial competition.<sup>17</sup>*

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<sup>17</sup> Daria Zvirgzde & Daniel Schiller & Javier Revilla Diez, 2013. "Location choices of multinational companies in Ukraine," ERSA conference papers ersa13p219, European Regional Science Association.

### 2.2.1 Variables: Reformatting the OLI and IPA Theories

Our research program is meant to incorporate local diplomacy and “relationship building” into the leading theories on FDI. Our study will make use of those variables deemed significant through the OLI and IPA theories in order to juxtapose our new variables, associated with the practice of relationship building. As we are narrowing the scope to account only for local government initiatives, those variables under the control of the national government, will be excluded or reformatted in such a way that they are made to account for the difference in domestic FDI dispersion. Below is a graphic of the variables to be included in this study.

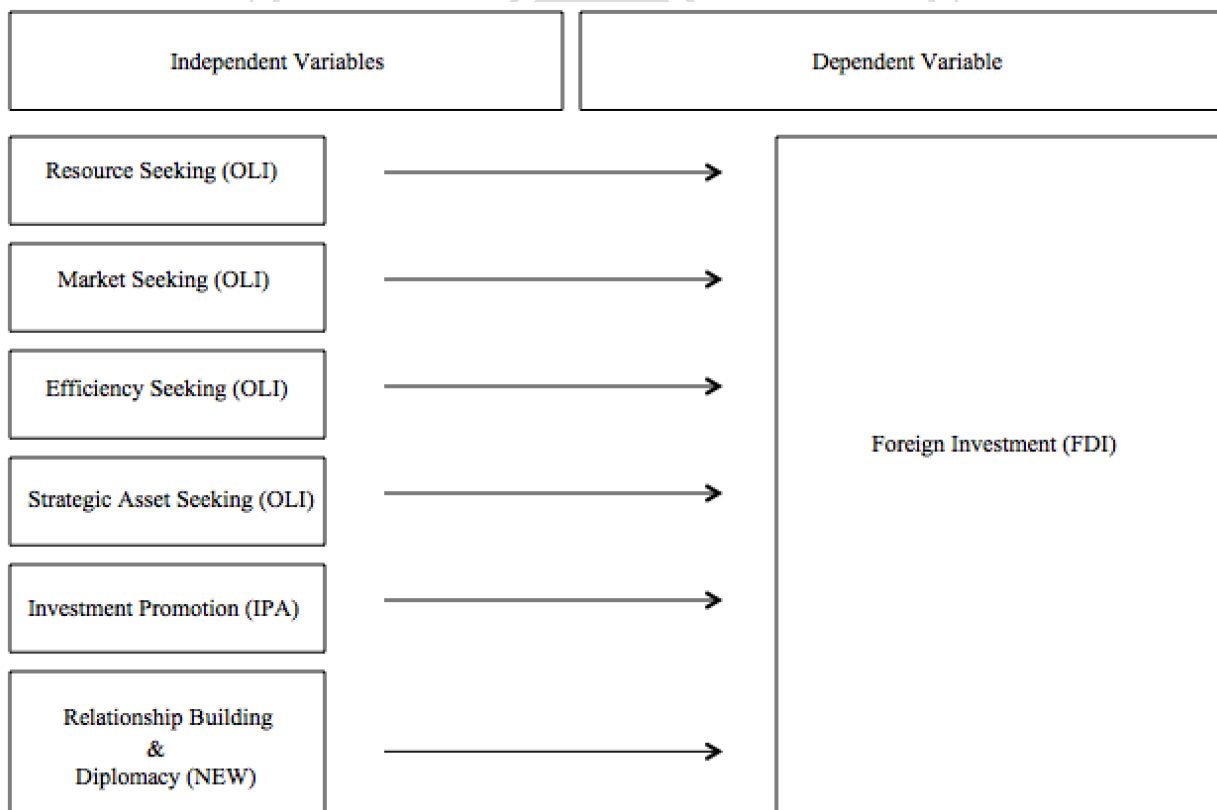


Figure 1: *OLI and IPA Frameworks Accounting for “Relationship Building” Variables*



In order to evaluate the relevance of each independent variable we will need to separate our study into two sections, quantitative and qualitative. This will allow us to first determine any possible relevance of a “relationship” variable before conducting in depth qualitative analysis. Ideally, the quantitative section will guide the research scope while a follow up with qualitative investigation could solidify theoretical relevance. For example, if “spending on diplomatic efforts” appears to be significant in the quantitative results, we will investigate further with local diplomats to determine specific policy objectives or areas of priority. Finally we would follow up with a survey of foreign companies in that city, to ask specifically about that policy. For this purpose, the quantitative section will precede the qualitative analysis, and both will remain separate with independent conclusions. In chapter 5, we will combine lessons from both testing methods to evaluate the position of a “relationship” variable in future theory.

### 2.2.2 *Quantitative Testing: Location Choice Trends in Taiwan*

First we will carry out a conditional logistic regression as popularized in FDI literature by McFadden (1974).<sup>18</sup> This model prioritizes the relative profit maximization value sought by a firm, which is provided to the firm by choosing either location-j or location-k. Below is the function for profit by firm-i which is derived by investing in location-j. The value-z indicates the specific qualities of a particular city (in our case; Taipei, New Taipei City, Taichung, or Kaohsiung).

$$\pi_{ij} = \beta_j \mathbf{z} + \varepsilon_j \quad (1)$$

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<sup>18</sup> McFadden, D. L. Conditional logit analysis of qualitative choice behavior. In Zarembka, P., editor, *Frontiers in econometrics*, pages 105-142. Academic Press, 1974.

However, if the firm decides to invest in location-k. The function changes to read as the following;

$$\pi_{ik} = \beta_k \mathbf{z} + \varepsilon_k \quad (2)$$

Given the above functions for firm choice in locations-j and -k, then the following function assigns a Y=1 value for the firms choice to invest in location-k instead of location-j;

$$\text{Pr ob}[Y = 1|\mathbf{z}] = \text{Pr ob}[\pi_{ij} > \pi_{ik}|\mathbf{z}] \quad (3)$$

In the conditional logistic model for determining which characteristics-z of each location are relevant, we code the dependent variable (investor choice) to be a case value of “1” for the location that was chosen for an investment, while coding the control value of “0” for all other locations in the group where the firm did not choose to invest. Given that our Y-i variable is random and indicates investor choice, then we can assume that the following function allows us to assess the maximum likelihood of investor choice based on a set of independent, location specific variables;<sup>19</sup>

$$\text{Pr ob}(Y_i = j) = \frac{e^{\beta' z_{ij}}}{\sum_{j=1}^J e^{\beta' z_{ij}}} \quad (4)$$

Since this project will not be analyzing firm specific variables, we will not make use of dummy variables to account for qualities of the investing MNE, but rather will conduct an exploratory, macro level data analysis, in order to determine the potential

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<sup>19</sup> Deichmann, Karidis, and Sayek. (2003). “Foreign Direct Investment in Turkey: regional determinants”. *Applied Economics*. 2003, 35, 1767-1778.

relevance of diplomatic activity at the local government level. Such firm specific characteristics might include; county of origin, operating budget, size of the firm, or degree of foreign ownership. Additionally, within our quantitative methodology we take on a level of limitation when using the conditional-logit model for only 4 choices for investment in Taiwan. This concept, known as the Independence of Irrelevant Alternatives (IIA), refers to the absence of additional choices that may have or may not have been considered by decision makers (i.e. Tokyo, Bangkok, Guangzhou or other industrialized cities in the region), and is commonly accounted for by distance and relative difference between choice options. However, in our study the nearness and similarity of choice in Taiwan provides additional obstacles. Our study can account for this limitation by assuming that those investors included in this study were already planning on operating in Taiwan and were therefore choosing between suitable locations on the island. Further, the primary test variable of relationship building, is only better tested by comparing local government variables once a company has chosen to invest in a country or region.<sup>20</sup>

Our selection of indicators for each independent variable deemed relevant by the literature were chosen on the basis of access to information and the metric's ability to be representative of the location specific quality. Each case provides us with a glimpse at the relative capacity for profit maximization in the four cities chosen for our study, Taipei, New Taipei City, Taichung and Kaohsiung.

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<sup>20</sup> Mukim and Nunnenkamp. (2010). "The Location Choices of Foreign Investors: A District-level Analysis in India". Kiel Working Papers. Kiel Institute for the World Economy. No. 1628. June 2010.

Arrow, Kenneth Joseph (1963). *Social Choice and Individual Values* (2nd ed.). Wiley.

Table 2 gives an overview of the data collected for each location specific (or city) variable and also includes a proxy variable for the IPA method as well as our own contribution, in the form of relationship building and diplomatic efforts.<sup>21</sup>

Table 2: *Location Specific Variables*

Variable	Explanation	Exp. Sign	Min.	Max.	Mean
Investment	Dependent variable where denoting choice to invest		0	1	.25
GOVQ	Air quality as a proxy for good governance, total (suspended particulates)	-	38	172	78.13
MKTS	Average family income (100,000s NTD)	+	10.32	16.98	12.89
INFRA	Govt. spending on transportation (billions NTD)	+	.75	35.5	11.34
AVGC	Average family expenditure on rent and utilities (1,000s NTD)	-	14.38	30.59	20.32
AGGL	Number of workers employed in the relevant industry (1,000s of workers)	+	0	197.01	37.95
IPASp	Govt. spending on investment promotion	+	1.79	25.38	6.04
DIPSp	Govt. spending on diplomacy (millions NTD)	+	10.33	25.72	17.01
SISCi	Investor headquartered in a sister city	+	0	1	.03
SISCO	Number of sister cities in the relevant source country	+	0	17	5.19

<sup>21</sup> Joyez, Charlie. (2015). "Location choices and foreign direct investment motives of heterogeneous firms." LEDa - DIAL, Paris-Dauphine University.

### 2.2.3 Qualitative Testing: Surveying Taiwan's MNE Managers

The qualitative chapter will be broken into two sections. First, local government diplomats will be interviewed in order to determine policy commonality and difference among cities in Taiwan. A semi-structured interview format will be used in person in either Chinese or English. Interviews will not be recorded and will not exceed 2 hours in length. As the purpose for the interviews is exploratory, topics may vary depending on the mood and direction of conversation, while maintaining a common vein which can properly measure one city to the next. Interviews are expected to uncover variables which can be tested to indicate success of common and specific practices alike. Therefore, the organization of interview content will fall into two categories; “general” and “specific”.

After the content of the interviews has been analyzed, our study will use that content to inform targeted survey questions, designed to gauge recognition of policies by investing managers. We will use an established 7-point, Likert scale survey to measure attitudes of relative importance from investing companies. The precedent for using such a method can be found in similar research projects concerning FDI determinants; especially Luo (2001, 2007) and Liu (2009).<sup>22</sup> Combining interviews with surveys in this way affords our research an informed perspective when formulating our survey. As such, we will be able to see, precisely, the attitudes of companies towards municipal diplomatic policy. In other words, was the decision to invest by the FOE influenced by the specific

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<sup>22</sup> Liu, Yulong. (2009). “Factors Determining Locations Choice of Foreign Direct Investment in China: A Perspective from an Inland Province”, Massey University, New Zealand.

Luo, Y. (2001). Determinants of Entry in an Emerging Economy: A Multilevel Approach. *Journal of Management Studies*, 38, pp. 443-472.

Luo, Y. (2007). Are joint venture partners more opportunistic in a more volatile environment? *Strategic Management Journal*, 28(1), pp. 39-61.

policies uncovered in the interviews? Did the work of local diplomats in Taiwan make any difference?

### ***2.3 Data: FDI Projects, Municipal Policy, and MNE Managers***

A combination of interviews and statistics were utilized to paint the most accurate picture of Taiwanese municipal FDI attraction policy. The interviews were exploratory, in that the relevant data on government spending and investment promotion was highly disparate among cities. It was necessary then, to first contact municipal bureaucrats in the International Relations and Economic Development Departments of each major urban area in order to determine the relevant indicator for variables like; NT dollars spent on investment promotion, budget allocation for diplomatic efforts, investment incentive indicators, and diplomatic policy. Without having explored, first quantitatively followed by qualitatively, the individual policies for conducting these activities, we may have unintentionally misrepresented each city in terms of their respective promotion or diplomatic efforts.

Having undertaken our primary data exploration, we then were able to distinguish between the sources for measurement of each variable. They were as follows:

- I. Interviews: Local Government Bureaus:
  - a. Economic Development Departments: *The Economic Development Department data concerns the variables associated with investment promotion efforts. First, the budget line items for things like business development “招商” or investment services “投資服務” often will*

*contain line items specific to those indicated as relevant in the literature.*<sup>23</sup>

- b. International Relations Offices: *The International relations offices were similarly assessed, however, the structure of the departments were quite similar to that of the Economic Development Departments. Typically, International Relations was an extension of the Secretariat or “秘書處” which was given its own line item, rather than an entire departmental budget. In depth interviews revealed discrepancies in policies among cities, while simultaneously illuminating several shared characteristics of Taiwanese municipal diplomacy.*
- II. Surveys: Foreign Owned Enterprises (FOE) in Taiwan: *The subjects surveyed will be FOE managers in Taiwan. Questions will be directed specifically and exclusively at “relationship” variables in order to maximize responses. The subjects of the survey will be branch managers of FOEs in each respective city. The assumption being that, any person in such a position would have either been part of the company during the decision to invest or at least have insight into specific motivations leading up to investment.*
- III. Regional Economic Statistics Collected by the National Government: *The Taiwanese National Development Council collects comprehensive economic, demographic, and environmental data on each region and county in Taiwan from 1975 to the present. Although some measures have dropped and others*

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<sup>23</sup> Wells & Wint. (2000). “Marketing a County: Promotion as a Tool for Attracting Foreign Investment”. Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

*added within that time span, those relevant to our study were consistently gathered within the time frame of our case.*

- IV. Industrial Clustering Data: *This data was obtained through a network of scholars at the National Chengchi University in Taipei, Taiwan, where a recent study, conducted by Dr. Janet Tan, established a comprehensive database on industrial clustering in Taiwan for the years 2006 and 2011.*
- V. fDi Magazine's Country Report (FDI): *This report provides retroactive comprehensive data on all investments in and out of the country from 2003 to the present, with destination and origin narrowed down to the locality. The report also indicates the estimated investment amount, industry specific, and company name/headquarter data, which will be useful in future projects designed to further establish the potential causality between diplomatic activity and investment decision. This specific data was necessary as neither national nor local government(s) gather such data on regional destination/source. The city level destination and source data is especially important in our initial analysis in order to trace variables such as, sister cities.*



### Chapter 3: Macro Trends, FDI Location Choice & Sister City Relationships

Our results are indicated in the section below. The model itself was significant with a strong likelihood ratio index; however, certain explanatory variables relating to the locality were found to be irrelevant. Despite the relatively poor performance of certain variables, the expected signs for the coefficients were all indicated as expected in Table 2 of the previous section. In this section, we will discuss the variables in detail, and try to account for their respective outcomes.

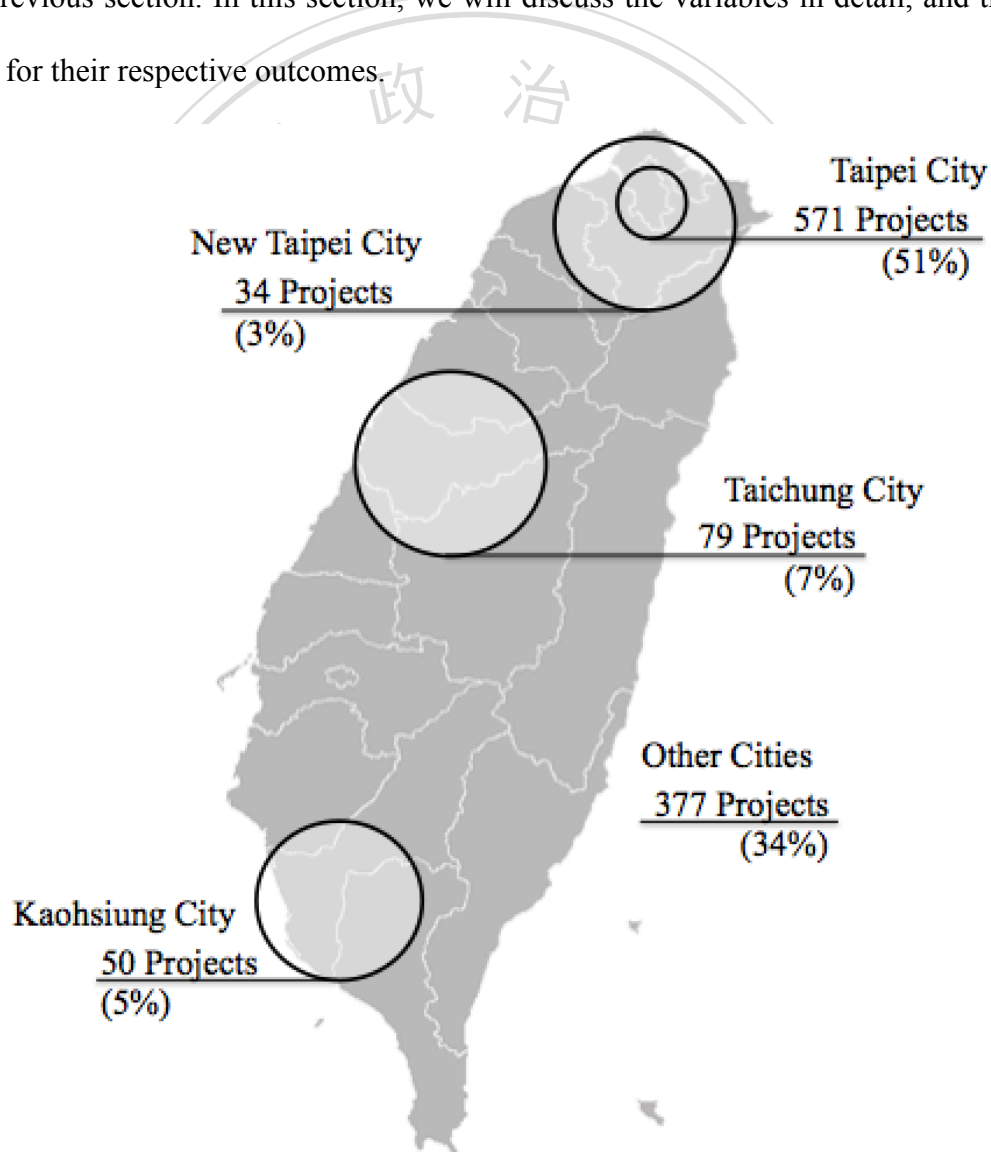


Figure 2: FDI Projects in Taiwan by City from 2003-2018, Source: CC-BY-SA-4.0

### 3.1 Dunning's OLI (Location Specific) Variables:

First, let's review the outcome of Dunning's variables. Although Dunning provides the basis for each variable choice, our selection was also limited by data access, and therefore has followed in a manner in which we were best able to collect indicators for each determinant. Several authors have already utilized Dunning's work and tested the variables in their own studies. However, our variable for *GOVQ* (quality of government) was primarily tested in order to evaluate the relevance of a variable that would traditionally be measured at the "country" level. Since our research is exclusively concerned with local government policy, however, it was important to determine the relevance of such a variable when the project parameters have been scaled down. The measurement of government quality, air pollution (suspended particulates per. cm. squared), was not found to be significant; however, the direction of the correlation was in agreement with our prediction. As air pollution decreases, investment levels should grow. Although this is not surprising, it has been worthwhile to test as it has been found to be significant at the national level. According to Dunning & Lundan, the MNE is more often searching for good governance and environmentally responsible locations.<sup>24</sup> The failure of *GOVQ* as a variable is likely due to the perception of a firm entering the Taiwanese market. The island is relatively small, and therefore local and national government quality is highly correlated, especially as it relates to environmental quality. The time frame of our study may have also played an important role in the outcome of this variable. Since our data on regional government is more comprehensive (beginning in 1975) than the statistics related to city-level investment, we are able to see a leveling off

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<sup>24</sup> Dunning & Lundan. (2006). *Multinational Enterprises and the Global Economy*. Edward Elgar Publishing. Cheltenham. UK.

of variance in terms of air quality among Taiwan's major cities. Beginning in the late 1990's the air quality in every city in Taiwan began to simultaneously improve, eventually leading to a variance of less than 10% of the variance in previous decades.

Our next variable, *MKTS* (market size), is one that is proven relevant time and again by studies specifically aimed at explaining regional FDI dispersion.<sup>25</sup> Our measurement of market size was an annual figure indicating average family income for citizens living in each municipality. In Taiwan, despite the geographic proximity of each city, the variance of income is quite substantial. This particular variable was in-fact, significant and followed the expected sign. The exponential B output indicates that for every 100,000 New Taiwan Dollars (NTD) increase in the annual average family income of a municipality, the odds of receiving a new foreign investment project will increase by an additional 1.5%.

Apart from the variable related to sister cities in a given county; the strategic asset-seeking variables have performed the best. The Infrastructure (*INFRA*) variable was proven significant in the earlier work of Glickman and Woodward.<sup>26</sup> The inclusion of such a variable can be accounted for by studies carried out by Barrell and Pain and have often followed a similar vector as our study in public sector spending on transportation.<sup>27</sup> In the case of infrastructure spending, our model shows that for every additional \$1 bil. NTD of local government spending on transportation, the odds of investment from a

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<sup>25</sup> Coughlin, C., Terza, J. and Arromdee, V. (1991) State characteristics and the location of foreign direct investment in the United States, *The Review of Economics and Statistics*, 73(4), 675–83.

<sup>26</sup> Glickman, N. and Woodward, D. (1988) The location of foreign direct investment in the United States: patterns and determinants, *International Regional Science Review*, 11(2), 137–54.

<sup>27</sup> Barrell, R. and Pain, N. (1999): Domestic institutions, agglomerations and foreign direct investment in Europe. *European Economic Review*, 43, pp. 925–934.

multinational firm increase by 1.03%. The measure for industrial agglomeration or clustering has also been consistently relevant in the literature on regional FDI attraction.<sup>28</sup> The measurement given was a labor registration for those working in a certain industry in each city. The expectation was that, the presence of more workers in the industry of concern would lead to a higher number of investments from those companies participating in that specific industry. Our results show this to be true, as each increase in relevant labor count of 1000 persons, the odds of investment grew by 1%.

Finally, the efficiency seeking variable in our study, *AVGC*, measured the average cost for rent and utilities per household. Although proven to be explanatory in previous studies, the costs associated with a specific community were not found relevant in our model.<sup>29</sup> Despite a negative sign, as expected, the correlation is totally insignificant. This could be for two reasons. One, perhaps our model is improperly using rent and utility cost, where former studies have used tariff and labor cost indices. Second, Taipei was overwhelmingly chosen as a destination over New Taipei, Taichung and Kaohsiung, despite a significant cost increase, 571 out of 734 projects.

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<sup>28</sup> Feenstra, R.C. and G.H. Hanson (1997). Foreign Direct Investment and Relative Wages. *Journal of International Economics* 42 (3-4): 371-393.

<sup>29</sup> Baldwin, R. and Okubo, T. Networked fdi: Sales and sourcing patterns of japanese foreign affiliates. *The World Economy*, 2013.

Table 3: *Statistical Findings where the Dependent Variable is “Choice to Invest”*

Category	Variable	Coefficient (z-stat)	Exp(B)
Location Specific (Dunning)	GOVQ	-.007 (2.197)	.993
	MKTS	.403 (4.008)**	1.496
	INFRA	.030 (8.999)***	1.030
	AVGC	-.013 (.022)	.987
	AGGL	.006 (9.831)***	1.006
Investment Prom. (Wells & Wint)	IPASp	.014 (.199)	1.014
Relationship Build. (New)	DIPSp	.057 (3.855)**	1.059
	SISCi	.635 (3.553)*	1.887
	SISCo	.135 (10.932)***	1.144
		Total Number of Cases	734

Notes: \*, \*\*, and \*\*\* indicate significance at the .1, .05, and .01 confidence level respectively. Model LR value =1085.28

### 3.2 Wells & Wint (Investment Promotion) Variable:

The investment promotion variable, *IPASp*, indicated the amount of \$NT Dollars allocated by each city in order to promote themselves as an ideal investment location for MNEs. An indication for each amount was gathered from the yearly budgets published by the Economic Development Departments for each city, back to 2010 in most cases. Thereafter an estimate was given for the years antedating the documents available online.

In future studies, a more precise representation could be obtained through archival access, which may alter the results of future regressions. However, the variable for investment promotion spending was not found to be significant given our current level of data. In fact, this is somewhat to be expected. In the follow up research conducted on national-level IPAs, Morriset & Johnson reveal the intricacies of budget allocation and their association with investment results.<sup>30</sup> Their study ranks the budget allocations for IPAs, which are more or less influential on the decision of MNEs, into the following categories.

1. Policy advocacy (strongest)
2. Image building (2nd)
3. Investor services (3rd)
4. Investment generation (least effective)

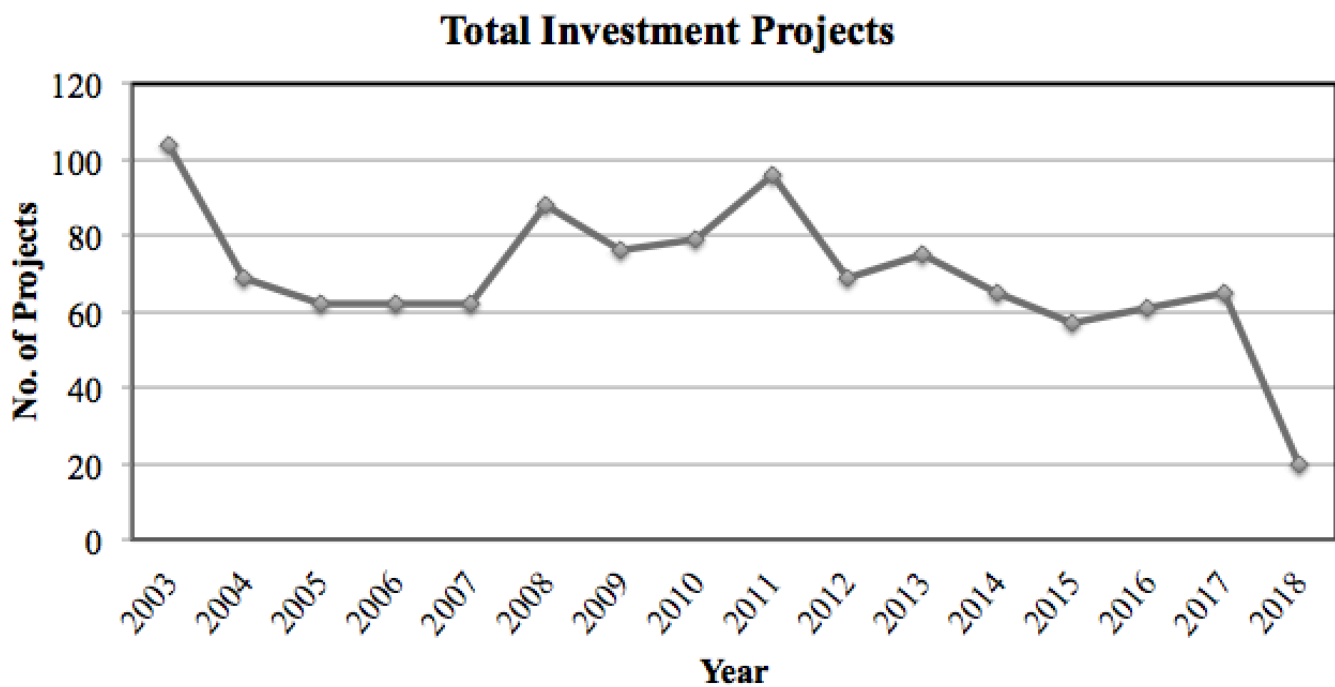
They also find that investment promotion is only truly effective for a county between the ranges of \$1 million to \$11 million US. This information allows us to understand the problems when applying their theoretical contribution to Taiwanese cities. First of all, the cities in our case, by their nature, do not share the same qualities of a nation as a site selection. Perhaps first, a comprehensive application of IPA style theory should first be pursued in a county where local level non-government IPAs are more similar to those at the national level (i.e. The United States). Second, every city except for Kaohsiung spent the equivalent of \$1 million US, which is the minimum for their framework. Not only does this make their promotion efforts effectively equal, the relative activities allowed for under a minimum budget are not sufficiently variant. Finally, we notice that the most

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<sup>30</sup> Morriset & Johnson. (2004). "The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment". Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

effective budget line item falls under the “policy advocacy” category. It is not surprising then, that a local government entity who is neither concerned with nor ethically able to influence policy would miss out on the most important component of investment promotion. With these considerations in mind, we can adequately account for the lack of significance in the *IPASp* variable. It may be that later consideration of specific budgetary expenses, and a more complete knowledge of the allocation of funds would yield a more precise understanding of the effectiveness of Taiwanese local government FDI attraction policy.

Table 4: *Total Investment Projects from 2003-2018*



Source: *Financial Times, fDi Magazine Country Reports – Taiwan*

### **3.3 Relationship Building (New) Variables:**

In the last three variables, we have selected statistics related to municipal diplomatic efforts. The three measures; spending on diplomacy (*DIPSp*), sister city source investors (*SISCi*), and number of sister cities in the source country (*SISCO*) were each found to be statistically related to FDI inflow to varying degrees. From here we will deconstruct each variable in order to assess the potential contribution of our study to the OLI model, as well as to guide further analysis which might establish “relationship building” as a relevant consideration for municipal policy makers.

#### **3.3.1 Spending on Diplomacy (*DIPSp*)**

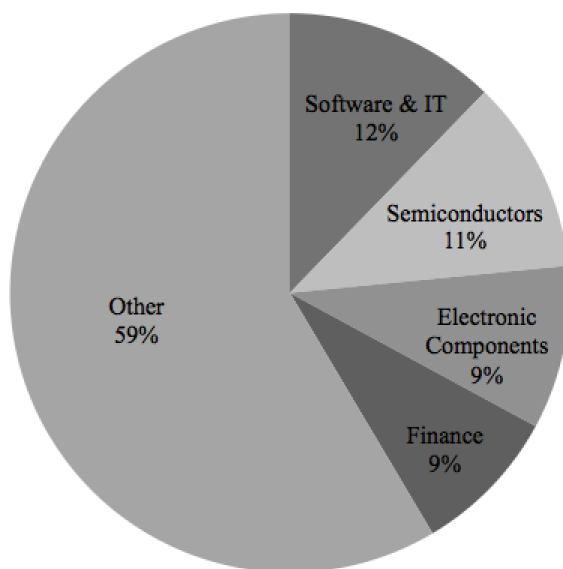
The first indicator for local diplomatic efforts, *DIPSp*, was gathered by looking through the itemized budget allocations for Taipei, New Taipei, Taichung and Kaohsiung Cities. In the years from 2003 to 2018 the allocations of each department were consistently weighted in favor of Taipei, with Taichung eventually allocating a slightly larger budget. Interestingly, the significance of this variable indicates that perhaps the ca. \$1 million US watermark for diplomatic dollars is far more influential in Taiwan than a similar level of spending in investment promotion activities. Perhaps it is due to the manner in which they spend it; typically for high-level protocol, hospitality, conference hosting, and travel expenses. It’s also possible that a larger staff dedicated to diplomacy as compared to smaller units charged with investment promotion is able to make a bigger impact on their foreign counterparts, both in the public and private sectors.

If this is the case, a follow up study designed to dissect diplomatic efforts and further explain the connection would be necessary. As it stands, the probability exponential for *DIPSp* tells us that an increase of spending on “relationship building” that



amounts to \$1 million NTD increases the chance of an investor selecting that city by 1.05%. It would be conceivable that municipal diplomats are paving the way for business relationships to bear fruit in the form of tangible investment into Taiwanese cities. For instance, if a public-private delegation from the United States conducts a tour of Taiwan with the goal of expanding their export markets, government bureaucrats in each location may be responsible for setting meetings with local businesses, touring R&D facilities and industrial parks, or even facilitating high level meetings with political leaders. The MNE who may already be considering an investment project in Taiwan may be swayed to redirect their investment dollars from Taipei to Kaohsiung. This kind of assessment will have to wait for a deeper, qualitative analysis, which would include interviews with city bureaucrats as well as business decision makers.

**Dispersion-Industrial Sector**



**Dispersion-Country of Origin**

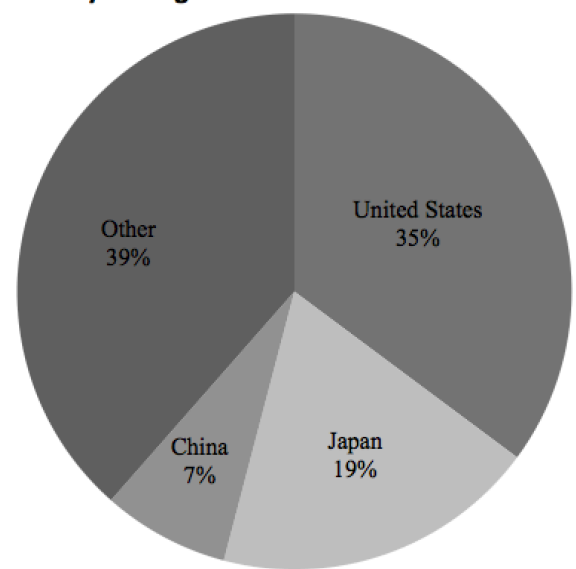


Figure 3: *Dispersion of Investment Projects by Industry and Country, 2003-2018*

### 3.3.2 City-to-City Diplomacy (*SISCI*)

The second “relationship building” variable, *SISCI*, was the weakest, only showing significance at the 90% confidence interval. This measure indicated whether the investing MNE originated from a city where there was already an established sister city relationship. Although the instance of an investor source coming from a sister city appears to change the probability of investment from 50% to 65%, the statistical significance is tenuous at best. This loose statistical connection may be due to the inappropriate application of the variable itself, or it may be unique to the Taiwanese case. If the cause is the latter, then there may be some explanations.

On one hand we note that the selection of sister cities by Taiwanese local governments, is heavily related to the sources of their business. For example, the United States (390 cases) and Japan (210 cases), first and second in terms of investment origin, were both prevalent in the choices for sister cities in Taipei, Taichung and Kaohsiung. This will be discussed further in the final variable. However, Taiwan’s third most frequent investor, China, was not represented in the sister cities of any of the cities in our case. This is almost certainly due to the precarious nature of Taiwan-China diplomatic relations and may be skewing the relationship between the dependent and independent variable. Additionally Taiwanese national diplomatic policy may be leaking into local policy when city leaders are choosing their foreign partners. This seems especially true in Taipei where many of the countries who still recognize Taiwan as a sovereign entity are represented in their sister city ranks (i.e. El Salvador, Honduras, Marshal Islands, Guatemala, Nicaragua and until recently, Dominican Republic and Burkina Faso). This

kind of targeted relationship building may be beneficial to Taiwanese sovereignty claims, but could also be inhibiting any potential economic development effects.

However, even if we were certain of the link between sister city relationships and investment attraction, we would need to be cautious when assuming the direction of causality. In other words, does a sister city lead to investment? Or is the business relationship making the sister city ties more natural? Therefore, we will need to conduct deeper qualitative analysis to assess the potential skew caused by Taiwanese national diplomatic policy and to assess the direction of causation.

### 3.3.3 *City to Country Diplomacy (SISCO)*

Our final variable for relationship building was the strongest in the model, *SISCO*, or the number of sister cities in the investor source country. Our statistical readout tells us with a 99% confidence interval that, for every additional sister city relationship in the MNE source country, the probability of investment increases by 1.14%. This distinction is extremely important when evaluating the relative contribution that a newly conceived “relationship building” component may make to the OLI paradigm. In some cases the diplomatic efforts of Taiwanese cities tend to follow the national line. However, once the obligations of supporting the national level diplomatic agenda have been met, Taiwanese cities seem to be taking the reigns and creating their own priorities.

In Taipei for example, there is a country-specific line item for Mainland China, while in Kaohsiung there is a separate funding account for specific areas of N. America and S. Korea. This points to an intentional prioritization of certain “areas” (county or regional) where Taiwanese bureaucrats have identified the most valuable recipients of

their diplomatic efforts. This all is in spite of the national agenda to avoid “official” diplomatic exchange with certain countries. While Taipei has been the most successful in attracting US sourced investment (17 sister cities), Taichung has appeared to utilize their relations with Japan (6 sister cities) to attract 216 out of 390 and 22 out of 68 projects, respectively. This trend appears to be quite substantial, but we should reiterate that it is merely a trend. We will need a further investigation to justify this variable as an important contribution to the current literature.

### 3.4 Conclusions

Lets recount our case and the potential contributions we have attempted to make to the current literature concerning FDI choice. First, the (L) location specific variables pioneered by Dunning have largely withstood the Taiwanese test. The resource seeking (*AGGL*), market seeking (*MKTS*), and strategic asset-seeking (*INFRA*) variables all were relevant in the cases of MNE investor activity from 2003-2018 in Taiwan. However, the national level (*GOVQ*) variable was inapplicable to the local setting. This was not surprising given the data which showed air quality across Taiwan merging together as the central governments led the localities towards a greener island, beginning in the 2000s. Also, the efficiency-seeking variable (*AVGC*) was inconsequential when predicting investment location in Taiwan. This much is apparent even to the local Taipei citizen who pays an inflated cost for their rent, in order to find close and gainful employment opportunities, which may be less prevalent in the Southern cities.

Our attempt to apply Wells and Wint’s IPA theory, normally reserved for quasi-governmental agencies in the United States, was unsuccessful. This was most likely due

to the relatively low budget allocations for investment promotion-type activities. It may also be thanks to the clarifications made by Morriset & Johnson's later contribution, which prioritized "policy advocacy" as the most effective method for attracting FDI (under the conditions of that organizational structure).

Finally we have attempted to make our own contribution to the theory by introducing three new variables. First, our (*DIPSp*) variable helped illuminate the connection between a robust international relations plan at the city level and the incidence of foreign investment. Second, we established that Taiwan's sister city relationships may be able to explain investor behavior, if the inhibitions of national policy are removed. This will most likely require a similar model to be carried out in a separate country that is simultaneously characterized by an independent municipal-federal government link and the existence of foreign relations departments at the local level. Lastly, our most important contribution has been to show that cities may benefit from strengthening ties with specific countries by targeting desired relationships. Already, Taipei and Taichung have been able to utilize their sister cities in the USA and Japan to attract new investors.

Although the evidence is promising for the introduction of a "relationship building" variable into the discussion on FDI, we will need to trace our steps to ensure a proper causal direction and gauge the efficacy of municipal diplomacy as a tool for economic development.

#### **Chapter 4: Comparing Municipal Diplomatic Policy & FOE Attitudes**

This section is necessary in order to further investigate the relationship observed in the quantitative section. How can we be sure that the investment projects initiated in each Taiwanese city were, to some degree, caused by an existing diplomatic relationship? The danger is that we could misread the direction of causality. In other words, investment could lead to diplomatic interaction, rather than diplomatic interaction contributing to a decision to invest. Our approach has taken two steps further in solidifying the claim that “diplomacy matters” when attracting foreign investment into a municipal area. First, we have interviewed bureaucrats in each case city (Taipei, New Taipei City, Taichung, and Kaohsiung) in order to define diplomatic policy and international efforts both in Taiwan generally and in each respective city. By making a distinction between the norms for municipal diplomacy in Taiwan and the distinct qualities within each city department, we are able to simultaneously determine the value of a normalized method while comparing best practices within Taiwan. Second, we apply that information to a survey, sent to each investment project in our data source. Only by categorizing and then comparing efforts from each municipal international relations section, were we able to design an appropriate survey, which would reflect an accurate impression of each city on investing managers. Our survey then is able to adequately assess whether the efforts being carried out by each city made any difference to the decision makers in the FOE.

#### ***4.1 Interviews: Municipal Diplomatic Policy in Taiwan***

The interviews carried out were semi-structured, in-depth interviews with bureaucrats (officers, section chiefs, general directors, etc.) in the international relations offices of each city in our study. The interviews were carried out by the author in the time span of 1 month and conducted using a combination of English and Chinese. Some interviews were conducted solely in English or Chinese, while others shifted based on topic and mood. The language and time were chosen by the interviewees, and each interview did not exceed 90 minutes in duration.

The outcome of the interviews are broken into two sections for each category; The first, which observes a general formulation of municipal diplomacy across Taiwanese cities and the second, which highlights specific efforts and difference in policy objectives. Both are instrumental in designing an appropriate survey for FOE managers in Taiwan, allowing us to evaluate the impact of diplomatic efforts on their decision making process.

It is important to note, that while many of the efforts described in this section may be common to all four of our case subjects, some may still have some variance associated with them, especially in terms of the vigor with which they are carried out. For example, although all municipal diplomatic departments in Taiwan seem to be concerned with projecting an “International Image” to foreign partners or acting as a “consulate” or “window to the city”, Taipei seems to be most vigorous in providing material online, especially through their annual “Year Book” publication. On the other hand, Kaohsiung is known, even among other city diplomatic offices for having “The best know-how when preparing for foreign visitors. They are really aware of protocol norms and do their best

to make their guests feel at home. This is probably due to their director and section head.” In order to organize the entire picture of diplomatic efforts, they have been broken into a consumable set of ideas, including; Organization, Function, Accountability, National Government Interaction, Political Issues, Mainland China Issues, and Economic Value. This organization allows us to see city diplomacy in Taiwan from a bird’s eye view, without losing continuity when considering specific efforts or examples of exchange.

#### *4.1.1 Organization*

Organization refers to the departmental role within the city as a bureaucracy. Here we have learned, specifically, how Taiwanese cities generally value and assign the role of municipal diplomats in the overall structure of city governance. Given its nature, this section is noticeably absent of deviation between cities as compared to the following groups. Despite the similarity, it is still important to ascertain an understanding for how governing organization is similar, whether as a result of national law or through emulation of best practices, in order to avoid attributing shared organizational characteristics to one or two of the subjects unfairly. Also, further developing an image of Taiwan as an investment destination when in competition with other countries in the same economic league provides us with supplemental conclusions, which can be utilized for research in a different context.

Taiwanese municipal governance structure is, first and foremost, what American local government experts refer to as a “strong mayor” system. This system is the alternative to a vastly more popular system in the United States known as the “city manager” system. The difference lies in the wielder of executive power. “Strong mayors”



are elected officials at the head of the executive branch of city government, while city managers are typically hired by city council and the mayor to run the city under a contract that must be renewed periodically. In Taiwan, executive leadership is extremely powerful and policy making is not shared with city council, whose role is primarily oversight. In fact, almost every major initiative begins with paperwork on the Mayor's desk and is pushed down a line of bureaucratic responsibility through a series of either dictations or delegations. When asked about policymaking and credit for success or failure, one interviewee claimed that, "Everything passes through the Mayor's hands. If we have a new Mayor, the policies typically don't change much but new efforts are sometimes undertaken to show that the new leadership is active and achieving at a high rate. This might include a new sister city relationship or the announcement to host an international conference. The mayor takes credit for everything."

With the recent exception of Kaohsiung, all city international relations offices fell under the umbrella of a "Secretariat". This is essentially a department exclusively designed to assist the city executive leadership. This also means that when exchanges take place between local governments and foreign entities (local, national, or private), typically there is a member of the executive team present and in charge—typically the Mayor or Deputy Mayor. For those visitors deemed less of a priority, the international section simply creates a link to the relevant department head, bypassing the Mayor (with approval) and providing assistance in the form of protocol services or translation.

Finally, and in the context of policy planning, it is important to know that all department heads are typically political appointees. This similarity in structure, therefore, actually provides an opportunity for fundamental differences in objectives. For example,

one director mentioned that under her leadership, “Our section’s objectives and method for carrying out policy are mostly up to me. This is not the case everywhere, though, and depends significantly on the relationship each director may have with the sitting mayor.” Our interview with this particular subject came just 20 days before a change of regime in the case cities, and as a result, 20 days before a substantial change in the way that office would design and accomplish goals. Another section head referred to their general director as being an ex-diplomat for the Ministry of Foreign Affairs (MOFA). After taking the reigns, their new director, “Completely changed the direction of our efforts. We are no longer focused on sister city exchange, but have injected some MOFA techniques into our policy, which has resulted in the prioritization of international forums and knowledge sharing”.

#### Specific

The first to stand out in organization is Kaohsiung. They recently reformulated the international department, originally as part of the secretariat, into a stand-alone office that includes administrative and consumer protection functions. Although this difference may seem substantial, the function of their office has changed very little as a result. Additionally, the change has only taken place in 2018 and will, therefore, have no impact on our study whatsoever. One notable difference with Kaohsiung’s structure is the presence of and cooperation with local ethnic-based NGO’s. For example, The Korean Society of Kaohsiung holds a Korean Culture Festival, Culture Day, and even brought in traditional musicians from a sister city in Korea, all in cooperation with the international department. Of specific interest to this study, is the Portland-Kaohsiung Sister City Association. Although the NGO is based in America, many of the members are

Taiwanese and have pushed for various objectives alongside the city diplomats in Portland and Kaohsiung. This has even included a push for a deeper economic focus on trade and investment, as well as a recent 30<sup>th</sup> anniversary celebration where an MOU was signed between Kaohsiung and Portland State University for student exchange.

Taipei and New Taipei City have also exhibited some variance in structure, both with specific implications for policy achievement. In New Taipei City, the staff of the international component of the Secretariat is almost twice as small as any other diplomatic department in this study. This means that their work must be highly prioritized and may be limiting the scope by which the New Taipei City government can engage internationally. Interestingly, in New Taipei City the interviewer was told that, “We are not only short staffed, but qualified talent is extremely difficult to attain in this department. First, city bureaucrats need to pass a rigorous test, and from that pool of candidates, we have to find one that can confidently communicate in a second or third language. We can’t hire just anyone and most qualified candidates are put off by the immense workload associated with our duties.” Despite their shortage of manpower, New Taipei City is extremely active in international objectives. Their goals though, are much more specific than other cities in the list, especially in terms of attending or hosting international best practice forums.

Lastly, Taipei is a unique case. This is not merely due to its status as the capital of Taiwan, but also due to their resources and ability to organize efforts in unison with other city departments. In Chapter 17 of the “Taipei Yearbook”, there are entire sections of the inter-city exchange section exclusively dedicated to sports and education, respectively. This means that follow up and execution is consistent throughout consecutive years and

even across regime change (the method of reporting activity and organizing initiatives remained consistent after 2014 and the Mayoral seat shifting hands from Hau Long-bin to Ke Wen-zhe). This may give investors the impression that Taipei is a comprehensive bureaucracy, adept at meeting needs across departmental jurisdiction. Also, consistency in vision, especially across regime change, allows an investor to know what to expect with an investment partner. These two factors may have contributed to the relative success of Taipei as an investment destination in Taiwan.

#### *4.1.2 Function*

This section is the most extensive as it covers the areas which are of the most concern to our research. The function of the diplomatic sections for the individual cities in this project is fairly consistent, while most of the deviation stems from varying levels of priority on international objectives. Upon taking an inventory of different functions, we are called back to the earlier sections of this study. They can be adequately placed into one of the five following areas; (1) International Delegation Planning (inbound/outbound), (2) Protocol Services, (3) Attendance of or Hosting International Forums, (4) Sister City Exchange, and (5) Cultural Exchange, Educational, & Sports Exchange. These are the areas of responsibility that all cities relegate to the international offices, with some departmental overlap in each section. For example, when a delegation of Fulbright scholars visited Taipei in 2017, the Department of Education was the lead in organizing the content of the program, while the international section dealt with logistics and protocol. Another case was a program celebrating the 10-year anniversary between Fort Lauderdale and Kaohsiung in 2018, which has focused on yacht industry

cooperation. In these cases, the tangible contribution made by the international section, whether it be improved teaching practices or increased bilateral trade in a certain industry, is almost impossible to quantify. Nevertheless, the role of the city diplomats seems to be valuable in cases like these, even if it was simply to provide a seamless introduction to the relevant authorities.

First, we will discuss the general consensus on the role of city diplomacy in Taiwan, as represented by the commonly supported initiatives among the cities in this survey.

1. Inbound/Outbound Delegation Planning: In general, only high-level delegations of Mayor or Deputy Mayor are typically accepted. That is not to say that groups of international guests do not come or go without executive leadership, but that the role of the international sections is limited otherwise. As mentioned above, all incoming delegations, whether private, public or mixed, must cross over the Mayor's desk to be accepted and usually are handed down depending on the level of guest. Obviously a Mayor or Governor from the United States would merit a more substantial commitment than a group of musicians from a village in Turkey. Sometimes delegations are just handed to the appropriate department and full responsibility is relinquished. The International section was described as a sort of "Gate" or "Consulate" in most interviews. If a delegation is accepted there is paperwork to fill out and the visiting delegation needs to provide a schedule, a resume, name, etc. Assistance in planning such schedules varies based not only on group size, importance, and the city they're visiting, but also on Mayor and department director. For example, in Taichung, "We used to commit much more

- to planning international visitor schedules (the former Mayor had once held the position of Foreign Minister of Taiwan). We could even send cars to the HSR station and provide full time accompaniment from a member of our staff; however, after the new Mayor was elected, priorities have changed and our belts have tightened.” Outbound delegations are similar, in that the international section is rarely involved without the commitment of a member of the city’s executive leadership. For example in 2016, Taipei Mayor, Ke Wenzhe, participated in at least three different outbound missions to Japan, the United States, and Singapore. These were all independent missions, conducting exchanges which included; the Taipei-Yokohama 10 year anniversary and disaster relief best practices with Tokyo; attendance to an economic forum and smart city policy exchange with Silicon Valley and the State of Arizona; and the sharing of best practices at the 2016 World City Forum in Singapore. In each of these contexts, there will have been a minimum of two staff from the international section providing translation, protocol, and logistical support to the Mayor and his entourage.
2. Protocol Services: This role is incredibly vast, yet dependent entirely on the initiative of each office. Additionally, efforts included in this section relate to mood, formality, detail, culture, and language, none of which are typically quantified in FDI studies. This sentiment was reinforced by interviewees, especially when asked about economic contribution. “Placing nametags, translating official letters, and providing meetings with relevant parties certainly helps in promotion of the city as a destination for investment, but it isn’t direct. What we do makes all of the other government departments’ jobs easier.”

3. **Hosting/Attendance of International Forums:** Taiwan is in a precarious position in this regard, mostly when it comes to the hosting component. Attendance to international forums for best governance practices, green city initiatives, or sister city conferences are a norm for municipal diplomats, even outside of Taiwan. However, an interview with New Taipei City illuminated an uncommon obstacle towards hosting international conferences, not only due to the sovereignty issues associated with Taiwan but also in terms of the governance structure for certain forums. This will be discussed further in the section dedicated to Mainland China Issues, but is nonetheless relevant in the description of an initiative, which is shared by every major city in Taiwan.
4. **Sister City Exchange:** For many municipal international departments, sister city exchange is the cornerstone of their work. That is true for all cities in our case study with the exception of New Taipei City. This is not to say that New Taipei City has relegated sister city relationships to a lower position in their list of priorities, but that their approach to sister city interaction is singular (discussed further in the next section). What we have learned about sister city exchange in Taiwan, is that the benefit from having such interaction is largely dependent on the level of commitment to consistently carry out initiatives from both cities. Sometimes the relationship will have been dictated by the circumstances of its initiation. For example, in Taichung, “Before 2010 (and an official change in city designation), our sister partnerships were introduced by the Ministry of Foreign Affairs (MOFA) of the national government, but now there is more autonomy. Now, we usually choose those with similar size or that can be of some value,

especially economic (recently Taichung became friendship cities with Cupertino, despite an existing relationship with Hsinchu).” Reasons otherwise seem flimsy; Sometimes the Mayor decides based on where he wants them to head, or sometimes it is the result of a delegation or specific exchange.” In Kaohsiung one interviewee called, “Every sister city an opportunity, but it needs to be harnessed and substantialized.” Another commonality across Taiwan is a stated prioritization of relationships with the United States and Japan. Unsurprisingly, the FDI statistics reflect that prioritization, but the issue of direction of causality remains. In Taichung, when asked why Japan and the U.S. were a priority for their city, the respondent answered that, “This primarily seems to be due to our feeling towards the United States. Something about how easy going and open they are to any exchange without having very strict expectations. When exchanges take place with US cities, normally the Taichung Government has to interface directly with local non-profits (Taiwanese people), which means that Taichung never signs sister cities in the USA without the presence of a Taiwanese expat community. When it comes to Japan, it’s more to do with history and cultural/physical proximity. Japan is closer and people here like Japan.” New Taipei City reiterated the sentiment by explaining that, “The USA is obviously important. Also, a big draw is the sheer number of overseas Taiwanese in the country, which facilitates and necessitates interaction.” Finally, the Kaohsiung diplomats, although in agreement as to a higher relevance with US and Japanese sister cities, indicated that their sister city relationships with the USA had become relatively inactive since the late 70’s, with the exception of 3 or 4 strong



- partnerships. This is an important distinction, not only in understanding a discrepancy of investment projects from the US in Kaohsiung but also in terms of understanding the importance of a commitment to interact on both sides.
5. Cultural, Educational, & Sports Exchange: These are the areas in which we expect very little direct contribution towards a decision to invest. However, that is not to say that this type of relationship building is altogether disconnected from such decisions, merely that the connection is almost immeasurable. Additionally, every city seems to participate in these areas regardless of the lack of deliverable economic benefits. However, the stories of exchange in these areas are undeniably impactful on the social welfare of these cities. One such exchange in Taichung, “involved a beloved ‘grandma teacher’ from Japan who was looking for her students and asked our office for help in locating them (most of them were in their 60’s). We held a conference-skype call after locating several students and it was very emotional. Many of the older students spoke Japanese to the teacher and some of our staff had trouble holding back their tears.” Some exchanges, despite a non-economic focus, have had some potential for trade and consultation. In New Taipei City, their emphasis on sharing best practices for governance has taken the international section, along with relevant city departments, to several counties in Asia in promotion of day-care services. Although there has yet to be any such entrepreneurial capitalization, this relationship could easily evolve into a business opportunity for experts in New Taipei City to outsource their know-how to growing urban settings in Southeast Asia.

### Specific

Efforts and functions of municipal diplomats in Taiwan can generally be expected to fall into one of the five categories above. However, some deviation exists among the major cities of concern to our project, both in terms of particular efforts and in varying levels of commitment to common practices.

An extensive look into the structure of Taipei's annual yearbook publication is enough to recognize a highly developed and sustainable norm of operations when it comes to what they refer to as "inter-city exchange". Here, it is worthwhile to take a snapshot of the latest report (2017). Below is an index, outlining major achievements from the previous year;

- a. Intercity Diplomacy
  - i. Mayor's Overseas Visits
  - ii. Sister Cities/Partner Cities (MOU's and other Agreements) – High Level
  - iii. International Conferences and Activities
- b. Cultural Exchange
  - i. International Cultural and Performing Arts Forums
  - ii. Sister City Cultural Exchange (Fairs and Festivals)
  - iii. Cooperating with Embassies and Representative Offices
  - iv. Summer Universiade (2017 Specific)
  - v. Engaging with International and Foreign Worker Population
- c. Educational Exchange
  - i. Educator Exchange Programs
  - ii. Curriculum and Teaching Exchanges
  - iii. Teachers and Students Participation in International Events
  - iv. Social Education Institution Exchanges (Libraries/Museums/Zoos)
- d. Sports Exchange
  - i. Dragon Boat Exchanges (emphasis on China)
  - ii. Marathon Exchanges (emphasis on Japan)
  - iii. Miscellaneous Sports Exchanges<sup>31</sup>

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<sup>31</sup> Taipei Yearbook Editorial Group. Taipei Yearbook 2017. Taipei, Taiwan. June, 2018. <http://ebook.taipei.gov.tw/yearbook/2017/>

The mere existence of such a document (especially one easily accessed publicly), which remains relatively unchanged in organization since 2004, indicates a continuity of policy as well as a highly organized approach, incorporating many departments to enrich efforts on a regular basis. Not only are their efforts consistent and rigorous across Mayoral regime change, all of the interviewees in the other cities within our survey referred to the relative advantage of Taipei in terms of their budget and resources. This is where Taipei seems to stand out. Interestingly, New Taipei City shares one such resource – proximity to diplomatic and representative offices. In an interview with one section chief in New Taipei City, the interviewer was told of, “Our commitment to take advantage of the presence of foreign diplomats to advertise New Taipei City as a place to do business. Taipei City takes this for granted, but if we can get our resident diplomats to distinguish between New Taipei City and Taipei, that may yield tangible benefit to our citizens, even after those diplomats have moved on.”

In addition to utilizing the proximity of resident diplomats, New Taipei City has two unique policies that have resulted in a substantial difference in the way diplomatic efforts have evolved there. First and most obvious is their relative lack of sister city relationships as compared to their neighbors in Taiwan. New Taipei City has almost three times fewer official partnerships than every other city in the study. See the table below for a more detailed picture.

Table 5: *Sister & Friendship City Relationships, Organized by Region*

	Taipei	New Taipei City	Taichung	Kaohsiung
North America	14 (13 USA)	7 (7 USA)	19 (17 USA)	15 (15 USA)
Central America	6	-	1	2
South America	2	-	1	2
Europe	5	1	-	1
Middle East	1	-	1	-
East Asia	3 (1 Japan)	-	9 (6 Japan)	5 (3 Japan)
Central Asia	2	-	-	-
South East Asia	-	-	-	2
Africa	11	-	1	3
Australia & Pacific Islands	7 (1 USA)	1	2 (1 USA)	2
<b>Total</b>	<b>52</b>	<b>9</b>	<b>34</b>	<b>32</b>

*Source: Local government departments*

When asked about sister cities, the New Taipei City officials explained that, “Sister Cities are not our primary focus, just one way of exchange. Also, sister city relationships are kept few as we want to avoid superficial friendship-type agreements and focus on concrete outcomes or real exchanges. In addition, our sister city exchanges

focus mostly on culture or education. Although we would like to incorporate more business interaction, business is difficult. The private sector has their own agenda and can not be directed in the same way culture and education can be.” New Taipei City’s most unique characteristic is in their primary goal, participation in international forums. Most efforts there go towards cooperative events. “Our primary goal is to take advantage of the freedom we have to participate in the international sphere as a city (where Taiwan is limited) to promote the city as a leader in policy making and best practices. Specifically, our areas of participation are mostly related to the SDG’s (UN Development Goals). One example of such an exchange took place recently in the form of a delegation from New Taipei City to Medellin, Columbia. The international office traveled to South America with 3 other city departments and presented a new policy to reduce food waste. They learned a new method (UN Taught) to collect statistics and data to analyze the waste. Once they returned, the Social Affairs Office brought in university researchers from local schools to help implement and meet goals for the program.

In our interviews with Taichung there was very little deviance from the “standard operating procedure” in their form of Taiwanese municipal diplomacy. The recent changes in their leadership suggest that the rigor with which they are able to conduct efforts though, may be in decline. In the context of new leadership though, one interviewee pointed to a retinue of new sister and friendship relations, especially in Japan and Korea. “This is our Mayor’s way of showing initiative. More partnerships can be a form of accomplishment to report to city hall. Also, given the historic ties we have with Japan, a deepening of that relationship seems natural.”

Over the last eight years, Kaohsiung has taken steps to internationalize the city from every angle. In addition to the kinds of initiatives shared among her northern neighbors, Kaohsiung has begun several student and foreign labor retention programs. They include; the “I am Taiwan Intern”, “International Student Welcome”, and “Municipal International Student Internships” programs. One director pointed to the, “Confidence this gives our citizens. When people look around and see a talented, foreign workforce cooperating on shared goals, that instills a sense of self-confidence.” In addition to foreign talent retention and employment fairs, all led by the international section, Kaohsiung is the only city which has distinguished their diplomatic section as independent from the secretariat. Although this is a recent development, it may have implications down the road.

#### *4.1.3 Accountability*

In the field of municipal international relations there is a significant debate on goal setting and accountability. In other words, as you move from city to city (even within the same country or region) the way they plan for and measure the success of their efforts in diplomacy, is extremely different. Despite some variation in policy, Taiwan is unsurprisingly uniform in the way they measure success in this field with one or two exceptions. This is most likely due to Taiwan’s size and tendency towards top-down policy dictation.

As is the case with any governing body, Taiwanese cities must report on efforts to the legislative branch of government. This means that every city in Taiwan, must give at least two reports on diplomatic efforts to City Hall every year. Depending on the

circumstances, that may increase but the resounding consensus is a bi-annual report. This report is typically written and submitted to the Mayor for a comprehensive report, which informs the city council of all city initiatives. The structure of the international office report is dependent on the department director, as mentioned in the previous section. However, there is a common expectation that major ingoing and outgoing delegations, sister city exchanges, and international forum attendance will be included. When asked about an economic or even tourism component, all departments were in agreement that, “This is not something that we would take credit for. It may be the case that our efforts facilitated such an outcome, but it is not officially within our job functions or expectations in the eyes of city council. In fact, credit for any accomplishment is generally shared by the entire bureaucracy, especially through the Mayor.”

The reports instead will mostly include things like; who came during the previous six months and why they came. This rubric would also be used to report on outbound missions, as well as sister city delegations. In addition to exchange programs, noteworthy accomplishments also include, the signing of Memorandums of Understanding (MOUs), new sister city partnerships, and international forum hosting/attendance.

#### Specific

As mentioned previously, there is very little deviance from the method above in reporting accomplishments to the city council in Taiwan. Any difference in each city’s respective reports would, then, only change based on mayoral or departmental leadership, especially in the context of goal setting. For example, in Kaohsiung, their unique programs for international student and talent retention would merit a special mention in their reports to city council. Likewise, in Taipei, there is an additional form of

accountability reporting, in the form of their “Taipei Yearbook”. Reporting efforts straight to the public takes on an entirely different structure and requires that efforts appear to be leading to tangible benefits for the citizens. Taipei has taken their commitment to accountability to an even higher level recently through online inquiry system called “Hello Taipei”.

#### *4.1.4 National Government Interaction*

With any city government in any country, policies are constantly at play with national objectives. Taiwanese cities are of particular interest in this context due to the sovereignty issues facing Taiwan. This is even truer when comparing municipal and national diplomatic efforts.

While visiting each city bureaucracy, there was an obvious recognition of Taiwanese common diplomatic conceptions. These were particularly apparent in issues related to China (discussed further in the section below), national sovereignty, and even sister cities. For example, Taipei City has made a special effort to maintain sister relationships with cities in countries with which Taiwan has official diplomatic ties. Some of these have recently been terminated (the Dominican Republic, Burkina Faso, and El Salvador). This cohesion between national and local government policy primarily manifests itself in the form of “Guidance to serve policy objectives. We won’t go against national policy, we will try to support them if we have the funding”.

Aside from official recognition and diplomatic partnerships, every city in Taiwan has, in some way, been involved with Tsai Ing-wen’s New Southbound Policy. In Taichung, all that was mentioned was cooperation with sister cities and others to send



formal invitations for international delegations. The interviewee mentioned that, “Almost all of our invitations have been ignored (especially in India). In fact, most of this work in Taichung is handled by the economic bureau where they have more to do with this kind of initiative.” New Taipei City, seemed to have more substantial cooperation with the Southbound initiative, when an Indonesian delegation came to Taiwan and MOFA “ordered” them to play host.

### Specific

The purpose of showing these sorts of interaction is to inform our research as to the level of independence that local policy makers have from the national government, as well as to ascertain the nature of each city’s relationship with the national government. Much of that interaction will depend on the political relationship between the Mayor and the President (discussed below) as well as the specific program being undertaken. For example, while the New Southbound Policy is extremely broad and can be incorporated into local policy across Taiwan, certain national initiatives may be targeted specifically to certain communities or industries. One such program in Taichung was referred to as “Build a Beautiful Road”. The interviewee was adamant in communicating the high level of labor commitment allocated toward this project, despite the relatively low impact on local objectives. Programs like this one may be an example of the national government hindering local bureaucrats with time consuming or lengthy administrative functions. On the other hand, some national programs may provide low cost opportunities for city promotion. New Taipei City took part in such an event in October of 2018. “The Asia Pacific Rim Cultural Festival is a MOFA initiative that gives our city an opportunity to

attend and set up a booth. It's just another chance for us to put New Taipei City on show and share our accomplishments with a foreign audience.”

Finally, a national program in Taiwan, called “National Diplomacy Training Camp, is an opportunity for local diplomats to gain expertise in protocol and other skills. Although this initiative was only mentioned in our interviews with Kaohsiung, it is possible that training is a constant interaction point between local and national governments in Taiwan.

#### *4.1.5 Political Issues*

This section considers three levels of political context in Taiwanese cities. First, are the international political considerations that go along with Taiwan's sovereignty status and are of concern to every city in Taiwan. The second two can help to distinguish cities in Taiwan from each other. Here we refer to the political relationship between the City Mayor and the President of Taiwan, as well as the phenomenon of regime change at the local level.

Taiwan's precarious international status is understandably determinant of local diplomatic policy, especially when it comes to Mainland China. However, since we have an entire section dedicated to that specific bilateral exchange, this section will focus on “the rest” of Taiwanese municipal relationships. Most importantly, sister city exchange has been highly affected by Taiwan's diplomatic status.

As mentioned above, Taipei has made special efforts to cultivate partnerships with those countries that have official ties with Taiwan. That commitment has unfortunately been relatively one sided, with much of the efforts understandably

originating from Taiwan. Since the Tsai administration has taken power in 2016, Taiwanese diplomats have also followed suit with national policy when relinquishing such efforts, recently with the Dominican Republic, Burkina Faso, and El Salvador. New Taipei City, in fact, was in the “courting process” with an Ecuadorian city just before an official dropping of diplomatic ties. Since then, all efforts to engage with recently lost national diplomatic partners have been ceased. This is interesting given a consistent iteration that, “Taiwan’s independence problem gives cities more room to exchange. We are attempting to take advantage of our relative freedom visa vie the national government and will mostly make our own policy in this respect.” Such sentiments were common across cities in Taiwan. When asked about the reaction to recent losses in diplomatic partners, one bureaucrat in Taichung assured the interviewer that, “The recent changes don’t affect our work at all. They only hurt our feelings.”

In the context of Taiwan’s diplomatic status, it is also worth mentioning a similarly shared sentiment on Japan, specifically. In both New Taipei City and Kaohsiung, the interviewer was told, “We are less likely to be successful in garnering exchange with major cities in Japan. This is typically due to two variables. First, Japanese cities are only interested in rigorous exchange. When they sign an agreement, they want to be sure that there will be follow-through. The second is due to the China factor. Major cities like Tokyo, Kyoto, and Osaka are more likely to seek relationships in Mainland China to avoid any political issues.” Although this phenomenon was only mentioned in Kaohsiung and New Taipei City, the lack of major city-to-city ties between Taiwan and Japan suggest that there is some truth to the sentiment, especially considering the stated prioritization of Japan and the United States as partners.

### Specific

The remaining two contexts illuminate differences in local policy that may have been substantial enough to influence investment decisions. First, we should consider the effects of regime change at the mayoral level on policy, as these are likely to be the most direct. Obviously there are inherent differences across cities in the policies outlined in the sections above, but this context refers to policy continuity in a single city when the mayor's seat changes hands. During the time of our interviews, Taiwan was preparing for a midterm election which included local leadership as well as the national legislature. In New Taipei City and Kaohsiung, especially, they were preparing for a new Mayor, as both had served their maximum term limits. While the mood in Kaohsiung was somewhat disgruntled (the new Mayor was from an opposing political party to the incumbent), New Taipei City was experiencing a more "Typical transition. We expect much of our work to remain the same, and since the most likely candidate to win is the sitting Deputy Mayor, our departmental leadership will most likely also remain unchanged. A lot of the differences we can expect are in the details of hosting. Every mayor likes certain foods to be served or may like to focus on different delegations and travel destinations. The goals of our office though, will remain the same." Taichung expressed similarly that, "Our overall direction is fairly constant. But one notable difference is in the personality of the sitting Mayor. The former mayor was much more capable of creating exchange and getting things done due to his personality and humor. Right now, our Mayor is more serious and meetings can be stuffy." There was some mention of a City Council majority causing things to get "interesting" but since there are very few policy implications from

the legislative body, any political tension may not be so readily apparent to foreign guests.

The final political context - the political relationship between the Mayor and the President - is less direct and yet may have an equal influence on FOE decision makers as the policies themselves. In Taichung the relationship has been stable as the Taichung Mayor has mostly been in the same party as the president, and therefore has left little room for political disagreement. On the other hand, the diplomatic team in New Taipei City asserted that, since the election of President Tsai, the result has been tangible. "Now that our Mayor and the President are in opposing political parties, it is harder to get subsidies for projects from the national government. Also, the MOFA used to introduce foreign delegations to New Taipei City quite regularly, but now they are more often sent to Taichung or Kaohsiung. And that isn't just a feeling. It's based on statistics."

Taipei has gone through a similar experience since 2016, but with different results. Although a change in Leadership from (KMT) Hau Long-bin to (Non-Party) Ke Wen-zhe took place in 2014-2015, there has been very little structural change in the methods by which Taipei City carries out and reports their international objectives. This could be thanks to Mayor Ke's relatively neutral political position as compared to a DPP President and KMT mayor. As mentioned above, external forces, such as a change in National leadership (Ma-Tsai) and the associated fallout of diplomatic ties with several of Taiwan's remaining official relationships, are perhaps more influential on Taipei's international efforts.

#### *4.1.6 Mainland China Issues*

The bilateral relationship between Taiwanese cities and Mainland China has been relevant to every section above and yet, there are no official partnerships between the two. Interestingly and despite the absence of such “official” ties, China seemed to consistently rank third (behind the United States and Japan) in priority for municipal diplomats in every major city. In some cases, the China relationship may soon take the place of one or the other of the top two priorities in the near future. In Kaohsiung for example, one director believed that, “The China issue will be solved in the next generation. So, this department is absolutely necessary in order to say that ‘Kaohsiung still exists’. Regardless of the outcome, China is going to be an important component of our policy.”

Every city in Taiwan seems to take a different approach in their interaction with Mainland China. This is not only due to political ideology, though. Much of the variance can also be explained by the relative “newness” in the relationship, as well as by considering policy priorities. For example, our discussion with New Taipei City on Mainland China focused on international forums, a paramount component of their daily work.

Having said that there is one commonly held belief regarding relationships with China among all cities in Taiwan. “There is no rule against sister cities in China but it is ‘common sense’ not to have them.” This sentiment was expressed unanimously across all respondents, and although each city may have a difference in their unofficial interactions with Chinese cities, this common vein remained true.

### Specific

In all of our interviews, the topic of China was treated with a special feeling, whether it was concerned, disgruntled, or even optimistic. In New Taipei City, the feelings were unsurprisingly related to international forums. In that context, the interviewees contextualized Chinese cities as obstacles to be overcome in their collaboration with international groups. “Chinese cities have a lot more money to participate in anything international. They use that activity and funding to try to control international forums (even at the city level) to decide; who participates, what the topics are, and where the forums are held, etc.” This suggests that the relative “freedom of action” afforded by Taiwanese cities, as compared to the national government, may be beginning to disappear. Their objective in New Taipei City is to secure their position in relevant international organizations first, before Chinese cities can push them out through organizational rule making and procedures. The implications of this particular phenomenon have far reaching effects on Taiwan, outside of investment and economic considerations and certainly deserve attention in future research projects.

In Taipei, their reports seem to emphasize several exchanges with China across the years, to an extent that shows more distinction than other country exchanges. This could be due to the distinction of “official/foreign” relationships or it could indicate a prioritization of an important partner for the future. Nevertheless, Taipei seems to have the most rigorous exchange program with Mainland China. For example, the Taipei Yearbook reports that;

“On 9 June 2017, Taipei City signed an accord for promoting cross-strait dragon boat events with Shanghai, Nanjing, and New Taipei City. The accord, effective from

2017 to 2020, dictate that the four signing parties shall host dragon boat events in rotation. Shanghai City became the first city to host dragon boat events after the accord was signed. From 9 June to 12 June 2017, dragon boat competitions were held at Huating Lake in Songjiang District, Shanghai. A total of 386 athletes in 16 teams from Shanghai, Taipei City, Nanjing, and New Taipei City participated in the races. The Department of Sports, Taipei City Government, led the Taipei City Guandu Culture Promotion Association, the Pigeon Pea Dragon Boat Team, and the Amis Youth Dragon Boat Team to participate in the competition, among which the Taipei City Guandu Culture Promotion Association won silver and the Pigeon Pea Dragon Boat Team won sixth place.<sup>32</sup>

This is just one of many ongoing partnerships that have been carried out between Taipei and China, including mutual exchanges of top-level delegations. Taipei may end up being the pace-setter for “official” cross strait relationships between Chinese and Taiwanese cities. Also, this unique commitment to rigorous and sustainable exchange may account for an increased level of investment from Chinese partners.

Kaohsiung and Taichung also have unique approaches when it comes to China. In Taichung, “The kinds of delegations that used to come from China were high level and made no concrete agreements. They just had fun or exchanged ideas.” Perhaps due to a combination of political change and the lack of tangible outcomes, Taichung has since stopped all delegations from the Mainland to Taichung. “This order came directly from our new Mayor.” Kaohsiung is particularly special as they have a workforce that manages all “China issues”. The international section is still in charge of preparation and protocol

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<sup>32</sup> Taipei Yearbook Editorial Group. Taipei Yearbook 2017. Taipei, Taiwan. June, 2018. <http://ebook.taipei.gov.tw/yearbook/2017/>



for their visits, but most of the work is handled by a separate entity. Like all other cities in Taiwan, Kaohsiung has no official relationships with the Mainland, but when asked about the potential for sister cities in China, one interviewee suggested that, “For now, that is impossible, but the prospect of sister partnerships in China could alleviate some pressure.”

#### *4.1.7 Economic Value*

This final section is less a discussion of general and specific efforts and more a recognition of instances where an outcome of exchange, conducted by the international section, was related to economic development. There is no reason to delineate between shared and specific policy ideas as every city department agreed that the diplomatic office has no official economic function. For example, the Taipei Yearbook never mentions anything directly related to economic development unless it is in the context of a high level agreement with the Mayor’s involvement. Paradoxically, when asked about whether their work has an effect on investment prospects, the answer was unabashedly, yes. At first glance, such a response seems contradictory, until one considers the complexity of the decision making process carried out by FOE managers. Such is the inspiration of this project and the justification for its existence.

The following examples of economic impact all stem from diplomatic relations carried out by the international departments. Additionally, this list is by no means comprehensive. In other words, these cases are merely representative of the types of exchange that happen regularly in the course of carrying out diplomatic initiatives.

In Taichung, sister city interactions have had mixed results in terms of yielding tangible economic prospects. In 2018, their sister city in Auckland, New Zealand came to a flower exhibition which resulted in some possible business exchanges related to water management and tourism creation. Additionally, Taichung and Boise, Idaho have a shared specialty in aerospace, which eventually led to a factory-level investment in Taichung. The investing company mentioned that with the proper incentive and knowledge, more American companies would be willing to come to Taichung. Finally, one diplomatic officer made note of a recent agreement between Cupertino and Taichung, aimed specifically at economic initiatives.

In New Taipei City, the examples of success and failure stemmed from a stated policy emphasis. Last year, for instance, the New Zealand representative office contacted the New Taipei City diplomatic unit in search of land to set up a theme park in New Taipei City. Another sister-county relationship with Loudoun County, Virginia even requested a meeting with Foxconn in light of the newly announced investment in Wisconsin. Although most economic efforts are sent to the economic development department, including business delegations as well as city-to-city missions, the interviewees reiterated that, “Our promotion of the city helps, but it isn’t direct. What we do makes all of the government department’s jobs easier. Here, we try to work as a team and we believe that FDI is easiest in New Taipei City due to our simple and helpful system provided to foreign investors.”

The difficulty in quantifying their contribution to economic initiatives stretched across the entire country. Even in Kaohsiung, one director raised the example of their sister city relationship with Portland, Oregon. “When delegations come from Portland,

they bring businesses and we host them using gifts and products from indigenous producers to promote local business. But Kaohsiung is still developing, so sister cities have had difficulty bringing economic value. Also, FDI is a long term goal and we can't quantify our contribution." In Kaohsiung, they hope to utilize their position as executive support to push meaningful interaction between city leaders. Their plan is to add more emphasis on high-level meetings with mayors and businessmen to have deeper connections and more potential for economic outcome.

Ultimately, our research could be justified by specific cases of success as covered in this section, but the goal of our research is not to give merely anecdotal examples to perpetuate the often-repeated sentiment of "relationships matter". Instead, we wish to add to an existing framework for rigorous analysis of the determinants for foreign direct investment. Only then will we be able to identify trends that can be reliably tested in various contexts to quickly see if a policy is justified or a prospective inquiry has merit. It is only through combination of our methods, the initial quantitative and this qualitative chapter, that we can achieve that goal. The following section justifies our exploration of the Taiwanese case by measuring efforts against the opinions of investing managers through a targeted survey.

## ***4.2 Survey: FOEs in Taiwan, Recognition of Diplomatic Efforts***

The second half of this chapter is designed to distil the information gathered from our interviews in section 6.1 into a comprehensive survey which was sent to investing managers of all major projects in our data. The questions included in the survey were derived entirely from the stated policies of local bureaucrats. The survey focuses solely on the constructions specifically associated with the new “relationship” variables for three reasons. First, we want to inquire with decision makers precisely on the topic of concern to our research, without clouding their responses in a lengthy survey that would incorporate variables from the existing eclectic paradigm. Second, we have already provided sufficient evidence in favor of the existing theories in the quantitative section of our study. Finally and most importantly, we wish to maximize responses by maintaining brevity in our questionnaire.

### ***4.2.1 Designing a Survey for FOEs in Taiwan***

The most important component in developing our survey was to extract the relevant variables from the information provided to us in our interviews with local diplomats in Taiwan. In order to do that, we organized the concepts into “general” and “specific” qualities among the four major cities associated with our survey. “General” refers to the qualities shared among most or all of the international departments, whereas “specific” refers to characteristics which were unique to one or two of them. These conceptions are made more accessible in the table below.

Table 6: “General” and “Specific” Characteristics of Diplomacy in Taiwanese Cities

General Qualities				
	TP	NTP	TC	KS
“Secretariat” structure, serving Mayor and executives.	✓	✓	✓	
Staff size over 10.	✓		✓	✓
Role as window and protocol experts, resulting in an “intangible” economic effect.	✓	✓	✓	✓
Over 30 sister cities.	✓		✓	✓
Prioritization of the United States and Japan.	✓	✓	✓	✓
Lack of “official” relationship in China.	✓	✓	✓	✓
Specific Qualities				
	TP	NTP	TC	KS
Public accountability publication.	✓			
Emphasis on international forums.		✓		
Utilization of diplomatic/representative offices.	✓	✓		
Political opposition between Mayor & President.			✓	✓
Emphasis on sister cities with “official” diplomatic partners.	✓			
Programs for foreign workforce retention and internationalization.	✓			✓

Table Key: TP = Taipei, NTP = New Taipei City, TC = Taichung, KS = Kaohsiung

After organizing the thoughts into the format provided by Table 5, we were then able to extract the most relevant ideas for use in a targeted survey. The logic of this organization allows us to measure two outcomes. First, the “General” section allows us to measure the characteristics common to all Taiwanese cities, which may have contributed to a decision to invest. Second, the “Specific” section gives us insight into distinguishing qualities in each city’s diplomatic efforts, allowing us to compare policy success among cities in Taiwan. In essence, we might be able to see if a diplomatic policy in Taipei made investment more attractive than those in Kaohsiung. A copy of the resulting survey may be perused in the index section of this research, both in Chinese and in English.

During the development of the survey, we utilized an established process for testing the relevance and accuracy of wording through a screening process with a test audience. The process included reviewers in both Chinese and English (as the questionnaire provides both options) and was completed in several rounds prior to its dispersion.

The survey utilized a seven-point Likert scale measuring relative importance of variables in the decision making process. Justification for such a scale in this type of inquiry has been provided in previous studies, including (Luo, 2001, 2007) and (Liu 2009). Such a scale has been deemed suitable for respondents, especially in societies more likely to give neutral responses.<sup>33</sup>

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<sup>33</sup> Liu, Yulong. (2009). “Factors Determining Locations Choice of Foreign Direct Investment in China: A Perspective from an Inland Province”, Massey University, New Zealand.

Luo, Y. (2001). Determinants of Entry in an Emerging Economy: A Multilevel Approach. *Journal of Management Studies*, 38, pp. 443-472.

#### 4.2.2 Survey Results

The analysis of the survey responses is somewhat less statistically convoluted as compared to the conditional logit model employed in the quantitative section. Instead, existing research articles on the relative importance of FDI-related variables have used either a simple distribution and mode score, or a scale reliability analysis followed by two steps of statistical testing as made relevant for such data through Stacey's (2005) Distribution Fitting Approach. Both are useful measures for analysis from different perspectives. Stacey's analysis, first, orders ranking of relative importance among variables through standardized means, and by converting the Likert scores into a distribution fitting algorithm and measuring the responses as an interval variable. Precedence for such an approach in this field can be found in the works of Hogenbirk (2002) on foreign investment in electronics production the Netherlands and in Luiz & Stephan (2011) on FDI in determinants in Sub-Saharan Africa. Stacey's method is ideal for measuring an overall attitude across respondents while measuring the mode and providing a frequency distribution allows for analysis using descriptive statistics. Additionally, there is some discussion among scholars as to the meaning and reliability of treating Likert item responses as an interval variable, since outcomes contrived from averages of responses may hold little real meaning. Some studies, like Liu (2009) have also conducted non-response bias analysis, however, the nature of the survey employed here, makes such a test impractical, as our respondents remained anonymous.<sup>34</sup>

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Luiz & Stephan. (2011).

Hogenbirk, Anne Elisabeth. (2002).

<sup>34</sup> Stacey, A.G. (2005).

Due to the consistency of certain responses, especially those associated with “very important” or “very irrelevant”, we have refined the outcome of our surveys into a more suitable scale. In doing so, we are able to disregard extreme responses as statistical noise. This decision is based on the types of surveys which came back as predominantly one sided in every survey question, especially in the “very irrelevant” category. Most likely, those respondents who gave only extreme responses, were either not considering the subtlety of choices provided, or in some way inherently bias towards the topic. Additionally, all mode scores fell within the range of “non-extreme” responses, further justifying our omission of outliers. To be consistent, we have eliminated extreme responses on both sides and thus rendered the outcome as more representative of the overall population. The following analysis will consider the refined outcome while providing the unaltered outcome for context.

All responses were subjected to a scale reliability test, and received an overall score of (9.11) which indicates a high level of suitability as scores of 7 or above are typically considered optimal. A total of 730 surveys were sent out via email with 38 anonymous responses. The tables and figures below are provided to show the outcome of the survey.



Table 7.1: Survey of FOEs in Taiwan-Observation Distribution (Unaltered)

Observations	Very Irrelevant (1)	Irrelevant (2)	Slightly Irrelevant (3)	Not Sure (4)	Slightly Important (5)	Important (6)	Very Important (7)
City Government Efficiency	6	2	6	6	4	14	0
Guidance from Home Country	8	4	4	4	6	10	2
City to Country Relationship	6	6	6	2	4	12	2
Guidance from Taiwanese Nat. Gov.	6	10	0	2	8	10	2
City Website Quality	6	6	8	2	8	6	2
City Diplomatic Efforts	6	8	8	2	8	6	0
Interaction with City Executives	6	12	0	8	6	6	0
Interaction with City Officials Abroad	8	10	8	2	4	6	0

*Notes: Modes are highlighted to show the most frequent response for each diplomatic policy factor. Additionally “very important” responses are highlighted to show factors that received recognition as critical to the investment decision.*

Table 7.2: Survey of FOEs in Taiwan-Observation Distribution (Refined)

Observations	Irrelevant (2)	Slightly Irrelevant (3)	Not Sure (4)	Slightly Important (5)	Important (6)
City Government Efficiency	2	6	6	4	14
Guidance from Home Country	4	4	4	6	10
City to Country Relationship	6	6	2	4	12
Guidance from Taiwanese Nat. Gov.	10	0	2	8	10
City Website Quality	6	8	2	8	6
City Diplomatic Efforts	8	8	2	8	6
Interaction with City Executives	12	0	8	6	6
Interaction with City Officials Abroad	10	8	2	4	6

Table 8.1: *Diplomatic Policy Factor Variables, Ranking of Importance (unaltered)*

Diplomatic Policy Factor	Factor Type	Rank	Mean ( $\mu$ )	S.D. ( $\sigma$ )	Mode (Mo)
City Government Efficiency	General	1	0.1053	1.857	(6)
Guidance from Home Country	Specific	2	0.0000	2.156	(6)
City to Country Relationship	General	3	-0.0526	2.039	(6)
Guidance from Taiwanese Nat. Government	Specific	4	-0.1053	2.077	(2)(6)
City Website Quality	Specific	5	-0.3158	1.890	(3)(5)
City Diplomatic Efforts	General	6	-0.5789	1.750	(2)(3)(5)
Interaction with City Executives	General	7	-0.6316	1.777	(2)
Interaction with City Officials Abroad	Specific	8	-0.9474	1.754	(2)

Notes: Mode Scores correspond with the original coding for responses in table 6.

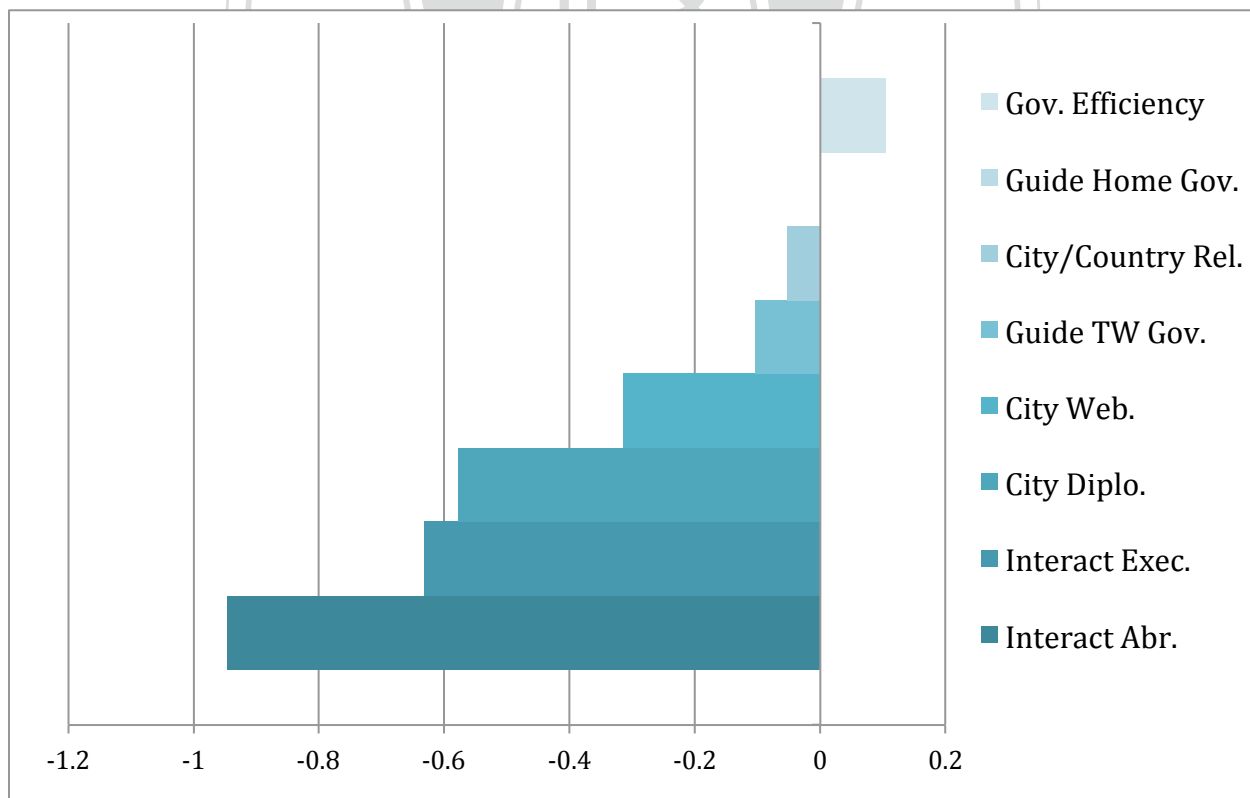
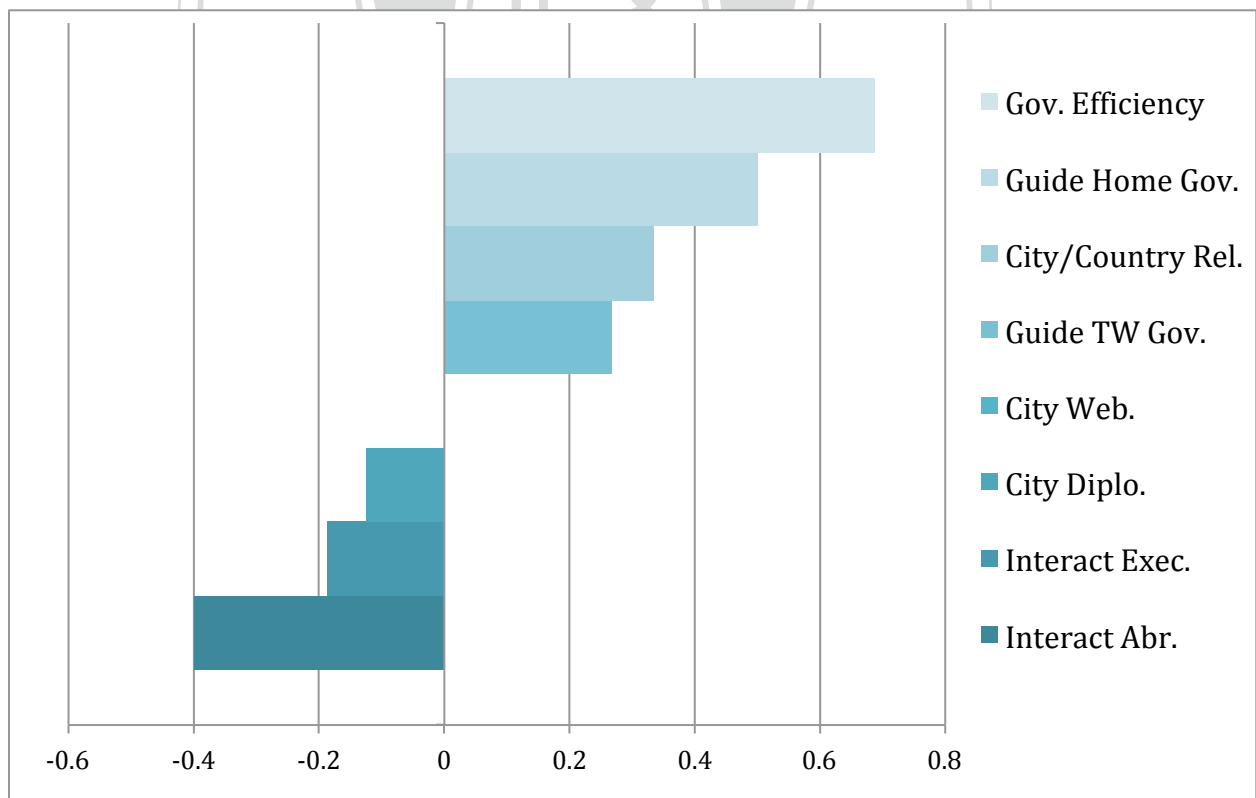
Figure 4: *Diplomatic Policy Factor Variables, Ranking (unaltered)*

Table 8.2: *Diplomatic Policy Factor Variables, Ranking of Importance (Refined)*

Diplomatic Policy Factor	Factor Type	Rank	Mean ( $\mu$ )	S.D. ( $\sigma$ )	Mode (Mo)
City Government Efficiency	General	1	0.6875	1.378	(6)
Guidance from Home Country	Specific	2	0.5000	1.478	(6)
City to Country Relationship	General	3	0.3333	1.647	(6)
Guidance from Taiwanese Nat. Government	Specific	4	0.2667	1.721	(2)(6)
City Website Quality	Specific	5	0.0000	1.486	(3)(5)
City Diplomatic Efforts	General	6	-0.1250	1.518	(2)(3)(5)
Interaction with City Executives	General	7	-0.1875	1.575	(2)
Interaction with City Officials Abroad	Specific	8	-0.4000	1.567	(2)

Notes: Mode Scores correspond with the original coding for responses in table 6.

Figure 4: *Diplomatic Policy Factor Variables, Ranking (refined)*

### **4.3 Conclusions**

In this section we will analyze the outcome of our survey through the 38 responses presented in the figures above. The specific purpose of our analysis is to accomplish two goals. First, we will compare the attitudes of FOE managers with the outcome in the quantitative section. More specifically, we are gauging the relevance of a diplomatic variable in future research. As we saw in Chapter 3, our new variables –sister city relationships (SISCi), diplomatic spending (DIPSp), and number of sister cities in the parent country (SISCO)– were all found to be statistically correlated with the decision to invest at a 90, 95, and 99 level confidence interval, respectively. By comparing the perspective of FOE managers to our quantitative results, we are able to further justify a claim that relationship building through municipal diplomatic interaction is an important component of FDI attraction.

Second, we will compare the attitudes of FOE managers against the specific variables derived from our interviews with Taiwanese city-level diplomatic departments. In doing so, we are able to simultaneously provide precedence for indicator choice in future research on municipal diplomacy in FDI attraction, while also determining the impact of specific policies among Taiwanese cities on foreign business owners. In order to achieve a reasoned analysis of attitudes towards policy through survey responses, each section below will also include a brief explanation for how each survey question was derived. In other words, the second goal of the analysis below is to gauge how FOE managers have responded to diplomatic policies, specific to Taiwanese cities. The justifications for all questions in the survey are drawn from table 5, which consolidates the information about Taiwanese municipal diplomatic policy in Section 1 of this chapter.

They are separated into “General” and “Specific” categories to differentiate common policies among all cities from those specific to only one or two of them. For example, the question pertaining to interaction with city officials abroad has an emphasis on city officials meeting with FOE managers in the context of an international forum. In this case, New Taipei City is the most active advocate for this type of policy, with Taipei placing more emphasis on forums than either Taichung or Kaohsiung. Despite a shared prioritization for forum attendance across all Taiwanese cities, the policy is important enough to New Taipei and Taipei to be included in the survey. Additionally, had this component of their policy been considered of relatively high importance as compared to the other items, we would expect New Taipei City to have a distinct advantage, when attracting investment. The following sections separately provide an analysis of responses and justification for their incorporation into our survey of FOEs in Taiwan.

#### *4.3.1 City Government Efficiency*

This section orders the analysis of our survey questions in relation to their relative importance to FOE managers in Taiwan. This puts the policy factor of city government efficiency in the position of most relevant. The survey included this measure as a result of a shared feeling among all Taiwan’s municipal diplomats, that their most significant contribution is to “make the jobs easier of all departments”, especially when dealing with foreign entities. The mean value places government efficiency on the “important” side of the spectrum with a score of (0.6875). It is important to note that, this score merely tells us the aggregated view among all respondents, and does not provide us with a “real” measure for importance. Instead, our research will rely on the mode(Mo)

score for analysis, which may better represent “actual” attitudes towards policy, than a contrived numerical score. The mode score for city government efficiency was (14) responses in the “Important” category, representing 44% of total responses. In this case, “important” also received more than double the next most commonly chosen responses; (6) “not sure”, (6) “slightly irrelevant”, and (6) “very irrelevant”, each individually accounting for 19% of total responses. This policy function has little connection to the diplomatic variables in our quantitative section; however, as it is a primary function among all municipal diplomats in Taiwan, it merits a place in our survey. By including such a question, we may extrapolate that the work conducted by the international sections in Taiwan relating to government efficiency might have been an “important” or “slightly important” factor for at least 56% of foreign companies when choosing the city in which they invested. This leads us to two major implications. First, efficiency seeking variables associated with Dunning’s OLI theory are strengthened.<sup>35</sup> Second, the role of international relations departments as a “window” to the city for foreign interaction contributes significantly to at least one third of investment decisions in Taiwan. In addition to their cultural and educational contribution to the city, this may provide some justification for the existence (budget) of such departments.

#### *4.3.2 Guidance from Home Country*

The question regarding the factor of guidance from the investor’s home country was derived from a policy that was “specific” to New Taipei City and Taipei. Their location relative to Taichung and Kaohsiung puts them in the position to take advantage

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<sup>35</sup> Dunning, J.H. (1971). *The Multinational Enterprise*. George Allen and Unwin, London.

of foreign diplomatic entities stationed in the capitol. Therefore, this question measured the relative importance of guidance from the government of the FOE's home country, as it would be administered through the foreign commercial and diplomatic office in Taiwan. Amazingly, this indicator fell in the "Important" category with the product of the combined responses at a mean value of precisely (0.5000). This means that the importance placed on guidance from their home country government is similarly viewed as an "important" variable. The mode score of (10) for "important" tells a story which places emphasis on guidance from the national government, as "important" represented the largest percentage of responses at 36%. Additionally, this item was the first of four questions to receive (2) responses that valued home government guidance as "very important". Although these two responses account for a mere 5% of the total original responses and were removed from our outcome, any variable deemed to be "very important" is telling for policy makers seeking to influence investment decisions. In terms of contribution to our theory, the policy function of relationship building with consulates in Taiwan may, in fact, lend itself to the (SISCo) variable in the quantitative section. Although, indirectly related to sister city count in a single foreign country, an emphasis on particular consulate's and diplomatic residents could be a measure to explore in future research. In the same way that sister city count represents city-country relations, targeted exchange with embassies and consulates might similarly show a trend. When considering Taiwanese municipal policy, the overwhelming favorability of Taipei as an investment destination, may be in part due to its distinction as the diplomatic center of Taiwan.



### 4.3.3 City to Country Relationship

The third ranking diplomatic policy function pertains to the relationship between investment destination (city) and source (country). This survey question, along with question #8 (city diplomatic efforts), was unique as it was derived from both the quantitative outcome and the interviews with city diplomats. In the quantitative section, the most correlated “relationship” variable (SISCO) pertained to the number of sister cities the municipality had in a single foreign country (see Table 4). This indicator acted as a proxy for the strength of relationship between the Taiwanese city and the foreign country, generally. When conducting our interviews, each international department had a unique perspective on “target countries”, with New Taipei as an exception. Asking FOE managers about the importance of their home country’s relationship with their investment destination city was meant to simultaneously test our strongest indicator for the quantitative section, while providing feedback on varying levels of country-targeting by municipal policy makers. With a mean value of (0.3333) the general attitude of FOEs towards city-country relationship can be seen as still solidly on the “important” side of the spectrum. This is not to say that the measure is necessarily less important than the home country guidance. Instead, we may look at the mode score for a more accurate account of actual attitudes. The mode score of (12) in the “Important” category, renders this response twice as likely (40% of total responses) as the next most common responses on the irrelevant side of the spectrum, each with (6), or 20% of total responses. This is perhaps the most important outcome of our survey as our quantitative trend, regarding sister city number in a single country, was twice as likely to be recognized as “important” by foreign investors than any other response. This justifies the trend and places our

theoretical contribution on more solid ground. Additionally, at least 5% of respondents viewed this variable as “very important” when considering an investment destination. When we take this in combination with the relative frequency of its recognition as “important”, there is no longer any excuse to ignore municipal diplomats in the context of FDI attraction theory. Certainly, this is not to say that a “relationship variable” belongs along side “market size” or “agglomeration”, but that it has a place in the OLI paradigm, perhaps in a “relationship seeking” group. Finally, we can extrapolate the analysis of this item by applying it to Taiwanese municipal policy. There seems to be a fierce race among the cities in our study, New Taipei excluded, to cultivate stronger relationships with specific countries. Not only has this policy shown to be effective in macro-level quantitative analysis, but also through our targeted questioning of FOE managers.

#### *4.3.4 Guidance from Taiwan’s National Government*

The question relating to guidance of investors from Taiwan’s national government was derived entirely from interviews with city bureaucrats. One interviewee particularly focused a large part of the interview on the nature of their department’s relationship with the Ministry of Foreign Affairs before and after a partisan regime change in the presidency. Another interviewee claimed that as mayors have changed their party affiliation, funding and other forms of national government assistance in major projects are similarly affected. While this is not surprising, the existing literature rarely accounts for such a dynamic, perhaps under the assumption that politically stable and open societies would avoid bias with domestic local governments. The initial median score (-0.2667) places the aggregated importance of guidance from Taiwan’s national

government closer to the edge of “important” and “irrelevant”. More importantly, this policy is the last to be identified in favor of “important” by a large percent of respondents. In fact, the mode score of (10) for “important” and “irrelevant” is shared. In other words, just as many respondents found this type of guidance important as found it irrelevant. In spite of a shared mode, 30% of respondents still found this to be “important”, while 60% overall found it to be varying levels of important; 26% for “slightly important”. That means that more respondents found this function to be some degree of important than any other function in our list. This provides backing for our introduction of a “relationship variable”, but may necessitate additional revisions to the OLI paradigm, in order to account for domestic political bias (when not evident in infrastructure spending and investment incentives). In terms of justifying Taiwanese local policy, it’s safe to say that this matters. One interviewee proposed a solution by advocating for a MOFA committee or “task force” specifically charged with interfacing between the local and national diplomatic entities. In the absence of such a solution, there seems to be little room for a policy shift that would account for the political bias.

#### *4.3.5 City Website Quality*

The remaining policy functions in our list rapidly decline in relevance to FOE managers, beginning with city website quality. This question was primarily derived from interaction with city websites over the course of this research, rather than as a direct product of either the quantitative section or interviews with bureaucrats. Over the course of obtaining data, reaching relevant contacts, and consistently revisiting publicly available resources, it became evident that there were significant discrepancies among the

websites of each city in the study. This was not only a function of available information in English, but also as determined by direct access to resources for business; i.e. – incentive packages, office contacts, and statistics. Unsurprisingly, the resulting median average for responses was balanced equally between “important” and “irrelevant with a score of (0.0000). Additionally, it was neither a point of policy focus, nor a function of the statistically significantly variables in the quantitative section, most likely falling under the variable related to investment promotion spending (IPASp). Despite a lower aggregated mean, and a shared mode of (8) between “slightly important” and “slightly irrelevant”, the function still garnered (2) “very important” responses. This means that, even though the variable was three times less favorably viewed by FOE managers than the previous function, 5% of respondents still found it to be critical when selecting an investment destination. In terms of a theoretical contribution, this provides marginal support for Wells and Wint’s IPA theory on investment promotion. This is especially true for a variable related to “image building”, ranked second highest ranked among the types of investment promotion activities undertaken by the quasi-government agencies of concern in the theories of Wells & Wint (2000) and Morriset & Johnson (2004).<sup>36</sup> Finally, local Taiwanese bureaucrats tasked with functions related to FDI, regardless of departmental affiliation, would benefit from an overhaul of inferior website components.

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<sup>36</sup> Wells & Wint. (2000). “Marketing a County: Promotion as a Tool for Attracting Foreign Investment”. Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

Morriset & Johnson. (2004). “The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment”. Foreign Investment Advisory Service. World Bank. Occasional Paper No. 13.

#### 4.3.6 City Diplomatic Efforts

The inclusion of a function related to city diplomatic efforts was essential to the nature of this research. It serves as, not only a catch all for municipal diplomatic policy, but also points to the fundamental relevance of our “relationship” variable. Given the broad nature of the question, the importance assigned to it by FOE managers was unlikely to be deemed critical, with a few exceptions where individuals would have had deep and meaningful contact with the international departments. Unsurprisingly, the mean score for diplomatic activity (-0.1250) further distanced the aggregate perspective to be officially within the area of “irrelevant”. Additionally, the mode score (8) was shared equally among 3 responses – “slightly important”, “slightly irrelevant”, and “irrelevant” – for the first time. This means that, of the most common responses, two times as many managers were likely to deem city diplomatic efforts as some level of irrelevant as those who deemed it “slightly important”. Additionally, there were no responses in the “very important” category. At first glance, this may seem to bode ill for a theory placing new importance upon a “relationship building” or “diplomacy” variable; however, when we consider the perspective of private business, the outcome seems less of a hindrance. First, FOE managers without experience in diplomatic, or even public, policy are unlikely to be capable of fully comprehending the role of international departments at the municipal level. This makes such a direct question about diplomatic policy quite alien to respondents, and therefore less impactful. Furthermore, the function of city-country relationship (section 4.3.3) discussed above is more relatable to members of the private sector. It may also be that, an intangible notion such as implied by the “relationship” between an FOE’s home country and the destination city, may be difficult

to quantify or weigh. Therefore, it's understandable that FOE managers need targeted and understandable measures to assign importance to diplomatic efforts, deeming a catch-all function inadequate as an attitudinal measure. Future research, especially in cities with significantly different policy objectives may illuminate additional measurements with which to quantify a "relationship" variable.

#### *4.3.7 Interaction with City Executives*

The next policy function concerns the relative importance of interaction with city executives. The justification for including a question about city leadership in our survey was based entirely upon the nature of Taiwanese municipal governance, and therefore from our extensive interviews with city bureaus. In Taiwan, there is a consensus that "strong mayor", or in other words "top-down", leadership is preferred to a managerial-type method. Interviewees from every city reiterated the necessity of paperwork and deferment to the Mayor, Deputy Mayor, and Departmental Heads when carrying out even simple and routine city services. As a result, the personality component of leadership may be relevant as a "relationship building" measure in cases with similar governing structures. In other words, individual mayors with a passion for international activity may influence investment decisions based on personal relationships or policy guidance towards certain regions. In the case of Taiwan, that possibility seems unlikely. The median score of (-0.1875) provides us with an aggregated signal towards irrelevancy of executive-level contact. Further, the mode (12) of "irrelevant" accounted for 38% of all responses and effectively doubled that of any other single (non-neutral) response category. Theoretically, we can assume that using executive-meetings as a proxy for

“relationship building” is unsuitable for two reasons. First, the outcome of our survey undeniably shows a strong trend towards irrelevancy. Second, if we were to consider utilizing such a measure in a different region, there could be no stronger example of top-down leadership than Taiwan, especially in politically stable and open societies. For policy makers in Taiwan, this might be a welcome sign. With such a heavy emphasis on executive approval, and a therefore an overloaded Secretariat (charged with assisting the Mayor and Deputy Mayor), direct interaction with potential investors could be left for department heads or an economic development representative. Essentially, if executive interaction is not critical to successfully attracting foreign investment, top leadership can be left to deal with more pressing or politically charged issues.

#### *4.3.8 Interaction with City Officials Abroad*

The final diplomatic policy function, interaction with city officials abroad, was extracted from a “specific” policy measure discussed in our interviews with city diplomats. Specifically, the international section of the New Taipei City government has dedicated the majority of their resources to attending international forums for best-practice exchange. The wording of this item in our survey targeted “international forum” specifically, while leaving some ambiguity with “interaction ... overseas”. The reasoning behind this wording was to ask generally about shared policies, like outbound trade missions, cultural exchange, and sister city visits, while also targeting the specific example of international forums. The aggregate response score as represented by the mean (-0.4000) was by far the least important to FOE managers in our survey. Additionally, the mode score of (10) in “irrelevant” was equal to the entire number of

responses on the important end of our spectrum. Additionally, the next two most frequent responses, both with (8), fell in the “very irrelevant” and “slightly irrelevant” categories. Such a dismissive response to this policy function may have been due to a number of reasons. First, private sector managers are not likely to fully comprehend the range of circumstances in which they might interact with city officials where business development is likely to be the outcome. The only exception to this rule would be those businesses that rely on government contracts for big accounts, i.e. architectural firms, construction companies, etc. Subsequently, the context of “international forum” may be too specific for the majority of FOE managers to value. Second, “interaction...abroad” may seem superfluous to those simply thinking of profit maximization. In other words, if the FOE is primarily exhibiting market-seeking behavior, then a meeting with city officials is a means to an end, and can therefore take place when negotiating investment incentives, land grants, etc. In these cases, meeting with city officials abroad may not have been necessary when looking for a supplier to vertically integrate, or when finding partners in R&D, especially in industries where Taiwan is a world leader (semiconductors, electronic components, or luxury boating). Theoretically, we cannot rely on this measure as a consistent indicator of the “relationship variable”. If there is an argument to be made for investment through foreign trade missions or in the setting of an international forum, it must be done through case study analysis. For Taiwanese municipal diplomats, especially in New Taipei City, this is probably not surprising. As was mentioned in the interviews, there is very little expectation from city executives that the international department would serve in an “economic development role”. As such, the policy to attend conferences and share best-practices was never driven by the



expectation of economic return. That is to say, although attending international forums is not likely to produce opportunities for attracting foreign investment, the policy is not without merit. This goes for all the policy functions discussed in this section and similarly, this entire research agenda. Disproving the relevance of certain variables in their role of FDI attraction does not make them unworthy of funding. Instead, they must be valued for their contribution to the lives of citizens. The discussion of such value will be raised further in Chapter 5.



## Chapter 5: Conclusions

The intended aim of this study was to determine the relevance of relationship building through diplomatic policy at the local government level when attracting foreign direct investment to the four largest cities in Taiwan (Taipei, New Taipei City, Taichung, and Kaohsiung).

Beginning with Chapter 1, we explained the motivation for regarding diplomacy as a determinant for FDI, laid out the purpose for choosing Taiwan as a case study, and provided an initial overview of municipal diplomacy in our four case cities. Taiwan was the focus of our study due to a number of factors, including; geographic location (the home of two thirds of the worlds middle class by 2030), relative transparency of government operation, resistance to deindustrialization (and therefore suitability to various forms of FDI), and due to a new trend of FDI flow into the Asia-Pacific region.

In order to address the central question of our study, it was necessary to formulate a conceptual framework based on existing research of the phenomenon of FDI and location determinants. In Chapter 2 we provide the background for the academic pursuit of FDI determinants through a historical scope. Next, we selected two leading frameworks, Dunning's OLI model and Wells and Wint's IPA theory, to guide our examination of FDI frequency among Taiwanese cities. Dunning's model provided a comprehensive framework to understand MNE behavior by breaking motivations into three groups, (O) ownership advantages, (L) location specific advantages, and (I) internalization advantages, to provide insight on the decision making process from start to finish. Due to the nature of our study and targeted concern with local government

policy, such a comprehensive evaluation was unnecessary, allowing us to isolate (L) location specific advantages. Next, we borrowed from Wells & Wint's (later revised by Morriset and Johnson) IPA theory. Their studies of investment promotion agencies could, in this case, be applied to government bodies in the absence of such institutions in Taiwan. Additionally, the selection of Taiwan as our case simplified the collection of indicators, as the city government is the only body responsible for carrying out investment promotion-related activities. Next, we examine contemporary literature that has pointed to a possible connection between diplomacy (at the local government level) and economic development, including bilateral trade and foreign investment.

Finally, we combine the two existing methods and introduce a new "relationship building" or "diplomacy" conception to Dunning's existing framework. In doing so, we offer a new angle when considering indicators for foreign investment. Further, the final section elucidates our sources of data. By, first, combing quantitative data from local international relations offices and economic development departments with a comprehensive database from the Financial Times, fDi magazine, we are able to set up for a quantitative analysis to test variables associated with the two existing theories while simultaneously determining the value of a deeper looking into the "relationship variable". Pending the discovery of a trend, a plan was laid out to conduct semi-structured interviews with city diplomats to ascertain the nature of Taiwanese municipal relationship building. This, followed by a survey to be sent to FOE managers from our database, would allow us to compare the attitudes of foreign business managers to the actual diplomatic policy functions being executed in Taiwan.

Chapter 3 presents the outcome of the quantitative section of this study. In order to justify a deeper look into diplomacy policy in Taiwan, it was necessary to, first, determine the existence of a trend. Also, by testing three new “relationship” variables alongside the established indicators associated with the OLI and IPA theories, this study was able to determine the relevance of all three conceptions in the Taiwanese case. Employing a conditional logit model, we were able to see that, in addition to agglomeration, infrastructure, and market size from Dunning’s model, all of our newly formulated “relationship” variables came up as statistically relevant. The most promising of the new trends was a city to country relationship proxy as represented by the number of sister cities in a single foreign country. Unsurprisingly, the IPA model was not able to explain the variance in dispersion of FDI in Taiwan, probably due to a mismatch in suitability outside the realm of proper quasi-governmental investment promotion agencies. Nevertheless, such a strong association with a city-country variable validated our further pursuit of a causal link in Chapter 4.

Finally, in Chapter 4 we sought to further determine the relevance of our new relationship variable by garnering the opinions of FOE managers currently operating in the cities associated with our study. However, in order to design an appropriate questionnaire, it was necessary to conduct comprehensive interviews with local diplomatic departments in Taiwan. Only after fully understanding their policy objectives and method for carrying out projects, would we be able to ask targeted questions, which would address the attitudes of FOE managers towards those policies. Once we carried out the interview process and consolidated the resulting data, we were able to categorize efforts into “general” (shared) and “specific” (unique) policy functions among the four

cities. Finally, we created a survey with the most relevant policies in mind, and submitted it to the companies in our database. The outcome and resulting analysis of that survey is discussed in detail in Chapter 4, Section 3.

In the remaining pages of Chapter 5, we will examine any theoretical contributions made by this study. Additionally, the implications of our discoveries will be discussed further from the perspective of researchers, city diplomats generally, and finally from the perspective of Taiwan. Immediately following a brief section on the limitations of our study, we will end with suggestions for future research projects, both within and outside of the phenomenon of FDI.

### **5.1 OLI Theory & “Relationship Seeking” Behavior**

By utilizing a two-step exploratory study, initially with quantitative macro-level data followed by a qualitative interview process and subsequent survey, this study has made identifiable contributions to the existing eclectic paradigm concerning FDI attraction theory. As we utilized a framework from two existing methods, the subsequent reporting of our contribution can be organized into three respective categories; Dunning’s OLI theory, Wells & Wint’s IPA Theory, and this study’s “relationship” conception.

Conceptually, this study has further driven the theoretical pursuit of the FDI phenomenon away from an approach, which exclusively emphasizes macro-level data. Furthermore, our study is representative of a current trend in the literature that is shying away from country to country analysis and focuses, instead, on the municipality.

From a practical perspective, our testing of Dunning’s OLI variables in the case of Taiwan resulted in the strengthening of the theoretical foundations of several (L) location

specific indices. First, through our conditional logit model, the conception of “market seeking” behavior associated with foreign investment decisions by MNEs was upheld. As there is a significant difference in average disposable income in Taipei, as compared to the remaining three cities in our study, this outcome is unsurprising. Even more promising were the emphases on “strategic asset seeking” and “efficiency seeking” behaviors as represented in this study by an agglomeration of like-industries and government spending on infrastructure per year. We see here that businesses investing in Taiwan tend toward regions with access to skilled labor and R&D in their respective industries. Additionally, given the industrial makeup of the Taiwanese economy, MNEs are likely to choose a location with access to high quality infrastructure. The remaining two indicators, borrowed from the existing OLI variables related to “resource seeking” and a specific element of “efficiency seeking” behavior, were not relevant in the case of Taiwan. Our indicator of government quality, through yearly air quality measurements, was trivial when compared to the other variables. Additionally, the average cost of living in each major city was inconsequential to investing managers when making a selection in Taiwan. Although the variance for these indicators were substantial in the years leading up to our study, their irrelevance may be explained by a convergence among the cities in the air quality as well as the price indicators, beginning in the late 1990’s.

In addition to testing indicators from Dunning’s OLI theory, the quantitative section juxtaposed Wells & Wint’s IPA model through a measure of investment promotion spending across all cities. Surprisingly, each city maintained a similar level of commitment to such efforts, with the exception of Kaohsiung. In their line items, a large portion of the annual economic development budget is sent to a quasi-government IPA-

style group charged with investment promotion. Despite the variance, and perhaps due to a consensus on level-of-commitment among the remaining three cities, the variable was not correlated with investment cases during the time frame of our study (2003-2018). Theoretically, however, this outcome may have little impact on the IPA model, especially as it is designed to assess separately organized and independent agencies with the exclusive goal of investment promotion, nationally or locally. In the case of Taiwan's major cities, this particular measure may have been unsuitable from the start. Nevertheless, testing the budget allocations towards investment promotion for each government department, in the absence of a non-government promotion agency, tells us that Taiwanese economic bureaus may need to revise their level of commitment in order to compete with one another.

Finally, we saw a trend in the quantitative outcome to indicate that there was some connection between city-to-country relationship building as represented by sister city number in a single foreign country. Furthermore, spending on diplomatic efforts as well as city-city relationships seemed to be relevant, albeit less so. By adding these three variables to our regression through the conditional logit model, we were able to justify a deeper look into causality. The quantitative section allowed us to; first, identify potentially influential policies from the international departments in Taiwanese cities; and second, to measure attitudes of FOE managers against those efforts. The resulting analysis provided adequate grounding for our own contribution to FDI theory.

Through the business survey responses we have proven that the diplomatic relationships between cities and countries is an important component of FDI location choice. As an auxiliary outcome of our survey, three other components of Taiwanese

municipal foreign policy seemed to be important as well. First, government efficiency, as facilitated by the international sections and others, gives further backing to Dunning's conception of "efficiency seeking" behaviors. Interestingly, investing managers indicated that guidance from the government of their home country was also influential in their decision making process. This has theoretical implications in both our new relationship conception as well as in Dunning's (O) Ownership category. The ownership component of the OLI theory is explanatory of MNE behavior based on qualities of the company itself. Such variables also tell researchers about motivations to conduct foreign investment in the first place. The outcome also supports our new city-country relationship-building indicator. As is the case in New Taipei City and Taipei, city diplomats cultivate valuable partnerships with foreign consulates in their vicinity. As such, that exposure may give such partners an advantage when foreign ambassadors are advising their native businesses on where to invest. It is reasonable, then, to assign the outcome associated with "home country guidance" to these two conceptions. The final auxiliary outcome of our survey speaks to the importance of domestic political factors in FDI choice. This was made evident through a combination of interview responses indicating potential favoritism by nationally sanctioned foreign trade missions, as well as our survey responses which displayed the importance of investment guidance from the national government of Taiwan. Although evidence for such a phenomenon is exhibited here merely through the case of Taiwan, it is reasonable to expect that countries with less regulation on political bias and cronyism could exhibit similar characteristics.

The final outcome of our survey, related to the importance of city-country relationships, is of paramount importance to this study's theoretical claim. Although



diplomatic efforts generally go unnoticed by MNEs when making a selection, the responses related to the city-to-country relationship were substantially more relevant. Traditionally, the effect of diplomatic policy on FDI location choice has been an overlooked research topic, especially considering the various policy functions of diplomatic entities (usually not economic). This is even more true of municipal government policy as compared to purely international diplomacy. This research is the first attempt to tie diplomatic activities at the municipal level to foreign investment through rigorous and meaningful testing. The identification of city-country relationship building as an influential component of investment choice is a first step toward opening the doors for new variables. We can expect the conception of diplomatic relationship building to further expand in different settings, including considerations in various countries, levels of development, governing structures, or with significantly different policy objectives. By pioneering such a pursuit, this study has contributed to the body of knowledge concerning FDI determinants and opened a pathway for deeper consideration of a new “relationship” variable in the existing eclectic paradigm.

## ***5.2 Implications***

By constructing a framework capable of testing existing theoretical conceptions on the topic of FDI location choice, while accounting for the contributions made by municipal diplomats, this research has significant theoretical implications. In the context of Taiwan and through the lens of local government, there are additional contributions to be made as they relate to the application of municipal diplomatic policy (generally), as well as in the Taiwanese case (specifically).

### *5.2.1 Theoretical Implications*

This study has presented a comprehensive review of theories historically related to the phenomenon of FDI location choice. Such a review led to an identification of the most appropriate contemporary theories, including the eclectic paradigm of (O) ownership, (L) location, and (I) internalization associated with Dunning's theory, as well as Wells & Wint's IPA theory. By targeting related components of each conception, particularly related to location choice, this study has identified a missing component in the current body knowledge. By adjusting the existing framework to account for diplomatic relationship building, this study has improved our ability to explain the complex decision making process associated with foreign direct investment.

By selecting Taiwan as a case study, this new structure is capable of being applied to the Asia Pacific Region, most likely to be the focus of FDI related studies in the coming years. Further application of this method could be expanded by future research in different contexts, allowing for a more robust understanding of MNE investment activity with the incorporation of diplomatic policy considerations.

### *5.2.2 Implications for Municipal Diplomacy Generally*

The motivations behind maintaining a municipal department with the function of carrying out diplomatic policy are entirely dependent on the context of the specific community. For example, in San Antonio, Texas, there was a consensus in the 1990's and early 2000's that diplomacy mattered. After budgetary stress and changes in leadership, priorities changed and led to the dissolution of such an office, resulting in a small unit of international protocol experts operating within the organization of the economic

development department. In this context, the changes represented a shift in focus from cultural and international enrichment of the community towards economic development. In Taiwan, however, practically every city shares an understanding of municipal diplomacy. In the major cities, the mission of municipal diplomats centers on the executive leadership, as expressed through their organizational structure under the Secretariat. Specific policies may be shared across these two contexts, however, the expectation of economic development as an outcome of policy implementation is noticeably absent. Taiwanese officials rarely see their role as specifically “economic”, yet paradoxically recognize their contributions as an important factor. This research has focused on the “economic” contribution, recognized by city diplomats in both contexts. More specifically, the implications of our research speak to the effect of municipal diplomacy on FDI attraction.

First, we have shown that emphasizing policy that promotes city-country relationships has proven to give cities a competitive edge in attracting FDI. Although this may be less of a policy implementation issue and more of a grassroots phenomenon based on cultural affinity and expatriated population, FOE managers have taken note of its effect. This concept is even more likely to be true in larger countries with a less uniform prioritization of international partners locally. Imagine the amplified effect when comparing Taichung’s 20 sister city partnerships in the USA with a city in Thailand that only has one. In other words, cities with international policy that prioritizes specific countries are more likely to successfully attract FDI projects originating there than competing domestic counterparts. On the subject of sister cities, our interviews with

diplomats in Taiwan have indicated that rigor of exchange, as well as magnitude (as represented by the number of partnerships) is important in obtaining tangible outcomes.

International recognition is also important. The IPA theories have emphasized such policy through independent promotion agencies, but our research has also eluded to a similar conclusion. Anything that raises your profile could contribute to city policy objectives, including through international idea-exchange as well as by simply improving your city website.

Protocol is an unsung hero in the realm of international economic development. Interviewees in every city bureaucracy reiterated the same notion that “our job makes all other department’s jobs easier”. A large percentage of FOE managers also indicated that this was a critical component in their FDI location selection process. Improving efficiency of interaction with foreign delegates is not only a worthy pursuit in its own right, but is also a contributing element of economic policy.

Lastly, it is important to note that even in the absence of a contribution to economic development, municipal diplomacy retains a multitude of beneficial outcomes. In the case of Taiwan these may come through the exchange of governance best-practices as displayed through the example of New Taipei City and their commitment to participate in international forums. It may enrich grassroots citizen-based exchange, as was the case in Taichung and their program to reunite a Japanese sensei and her former students from the Japanese colonial era. It may also provide a release valve for tensions between conflicting national governments, as remains the case between Taipei and Kaohsiung’s exchanges with Mainland China. Although the economic impact of diplomatic activity is

still difficult to measure, cities may still wish to prioritize international relationship building for citizen self-esteem and quality of life.

### *5.2.3 Implications for Taiwan*

This study has enriched our understanding of municipal diplomatic activity, not only in a general sense, but also in the case of Taiwan. Some discoveries have interesting applications outside of FDI attraction policy though, and may create opportunities for Taiwan to advance their national agenda through the medium of city-to-city exchange.

Some of the struggles facing Taiwanese municipal diplomats may be alleviated through a formalized partnership with her national diplomatic entity, the Ministry of Foreign Affairs. This proposal was brought up in several interviews with city bureaucrats in the context of protocol training, political bias in high level delegation planning, and even in terms of China policy objectives. Taiwan may, therefore, benefit from a “municipal division” of MOFA to push efforts forward and dissuade partisan decision-making and favoritism. In the case of Taipei (and perhaps as a result of proximity to the national government), there was a concerted effort to maintain sister city partnerships with countries that gave official recognition to Taiwan, as a sovereign entity. However, the macro statistics along with reports from interviewees have shown that these partnerships rarely yield mutually beneficial exchange, economic or otherwise. By formalizing the connection between local and national diplomatic policy, Taiwan could avoid political bias, while consolidating efforts for economic development. On the other hand, Taiwanese cities could utilize their current independence from national policy by

divorcing themselves from MOFA objectives to pursue valuable and fruitful relationships, which are more likely to yield results in line with municipal policy.

This brings up the condition of Taiwanese cities vis-a-vis the national government. City diplomats in Taiwan recognize their relative freedom of action as compared to their national counterparts in MOFA. In that context, opportunities and challenges due to the “China factor” have presented themselves. On one hand, certain interviews have drawn out a prevailing feeling that Taiwanese cities would benefit from formalizing city relationships further with China. This is more to do with economic development and long-term goals than any conception of sovereignty. For example, one bureaucrat in Kaohsiung believed that “China is in our future and we should recognize that fact and take steps to embrace whatever our future holds in order to declare that Kaohsiung still exists.” In Taipei, there has been rigorous exchange in business as well as culture. Northern cities, in fact, are regularly sending their executive leadership to China for exchange, utilizing the relative openness of cross-strait relations, currently.

One big obstacle remains for municipal diplomats in the context of China-Taiwan relations. The relative independence of action enjoyed by Taiwanese municipal diplomats discussed above may be disappearing. In the case of New Taipei City, bureaucrats in the international section voiced their concern related to international forum attendance. Recently, Chinese cities have been systematically pushing Taiwanese cities to the margins by joining international organizations specifically designed for city-to-city exchange. They have done so by acting quick to join as charter members or by contributing large sums to the budgets and therefore securing a large portion of voting rights on member attendance and conference locations. This is a new field of

international conflict between China and Taiwan. Municipal diplomats in Taiwan will need to act quickly and collectively to establish profile and leadership before being shut out by their Chinese counterparts.

### ***5.3 Limitations***

As our study represents the first attempt to investigate the connection between municipal diplomatic exchange and foreign direct investment choice, this study inevitably contains several limitations. In addition to the subject matter, the nature of our case study, Taiwan, may also have several components, which could limit the universality of the results.

The methodological choices for data analysis have two minor limitations, both in the quantitative and qualitative section. By employing a conditional logit model to analyze the macro-level statistics in Taiwan, we are faced with a common limitation known as the Introduction of Irrelevant Alternatives (IIA). By confining the grouping variable to 4 choices (Taipei, New Taipei City, Taichung, and Kaohsiung), we inadvertently take on a generally acceptable level of bias, which would account for cities that may not have been considered during an investment decision, even those outside of Taiwan.

In the qualitative section, our distribution method through an anonymous survey generates two obstacles to this research. First, without specific information tying responses to their respective companies, we were unable to run a non-response bias analysis which would allow us to insure that similarly-motivated decisions were not solely represented in the outcome. A further limitation presented by the anonymous

survey, was an inability to compare survey responses to company characteristics. Although such a comparison was never an aim of this research, it may have been compelling to test additional variables associated with Dunning's eclectic paradigm, specifically (O) ownership variables.

In consideration of the newly proven relationship variable, our use of sister city number initially as an indicator for city-country relationship strength is imperfect. This is acceptable, however, in the context of an explorative research project, and can be expected to improve with further application and deeper study. Additionally, the qualitative measurement of FDI amount as a case-by-case dependent variable does not account for investment size. Therefore, our method can only be substantiated by number of FDI projects, rather than dollar amount. Although this is the more popular method of measurement, it might be interesting to use dollar amount as the dependent variable in future research.

Finally, in choosing Taiwan as our case subject we are provided with a number of advantages, including those mentioned in Chapter 1. However, the nature of the Taiwanese case comes with its own limitations. For example, application of our method may need to be altered in the context of different government types. This is particularly important in cases where strong-mayor systems are substituted by managerial-type public administration. In terms of policy, the major cities of concern in our project may differ less substantially than those in the United States, Japan, or any other less centralized system. This provides future studies with the opportunity to shed these limitations by applying our framework in other contexts. Also, by isolating the four major cities in Taiwan, this project is unable to account for cases of investment in major industrial hubs



like Hsinchu, Tainan, and Taoyuan. These cases may be explored after a period in which ample data can be collected to test their contribution. For now, their recent designation as major municipalities, especially Tainan and Taoyuan, necessitates their exclusion.

#### ***5.4 Suggestions for Future Research***

Despite several limitations, this study has uncovered the connection between municipal diplomatic policy and FDI attraction. In doing so, we have opened a door for scholars interested in the interaction between diplomacy and economic development. More still are the implications for a current wave of literature which is shifting away from country-country level interaction and centering on local government.

In order to strengthen the theoretical claim initiated by this study, future projects related to city diplomacy and FDI will need to approach the subject from new angles. First and foremost, the indicators for our relationship variable are currently isolated to interaction between sister cities. Our own interviews have signaled potential new candidates, including city interaction with resident diplomats as well as protocol as a measure of efficiency. These variables are currently loosely defined and could be further illuminated by future research. In addition to new indicators, the diplomacy component of FDI decision-making will need to be applied in various contexts, outside of Taiwan. This would make it possible to account for various governing structures, policy dispersion, and political ideology. For now, the theoretical footing of our new concept could be strengthened by such application with an emphasis on city-country relationship building.

Taking into account our incidental findings related to political bias and the relationship between local and national governments, future projects might be able to

account for discrepancies in investment choice as measured against political regime change.

Finally, this research may have uncovered a new component of cross-strait relations in the conflicts related to international organizations and forums. Concerns expressed by the diplomats interviewed in our study reveal a disturbing truth for anti-unification advocates. The area of municipal diplomacy may be shrinking as an avenue for foreign interaction in Taiwan. The international policy of Chinese cities, thus, could provide insight as to the development of this phenomenon and its resulting effects.



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## Appendices

### **Appendix 1: Survey (English Version)**

Why did your company invest in (City Name)?

*We are conducting an academic research project on foreign direct investment in Taiwan. The following questions indicate the importance of the characteristics when your company made the decision to invest in (City Name).*

1. (City Name) had a better relationship than other cities with my company's country.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
2. Interaction with executive-level city officials (Mayor, Deputy Mayor, or Department Directors).  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
3. Guidance from my company's national or local government.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
4. Interaction with officials from (City Name) overseas or at an international forum.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
5. Guidance from the National Government of Taiwan on where to invest.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
6. Information about (City Name) on the city website.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
7. Efficiency (lack of red tape) in dealing with the government of (City Name).  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
8. (City Name)'s diplomatic efforts my company's country or city, including cultural and sister city exchange.  

1	2	3	4	5	6	7
---	---	---	---	---	---	---
9. Would you be willing to submit to an extended interview sometime in the future?



Yes No

10. If your answer to question #9 was "yes", please provide your name and telephone number and I will contact you.

11. If there are any important factors that are not listed above, please specify.

*Survey Key*

Value 1=Very Irrelevant

Value 2=Irrelevant

Value 3=Slightly Irrelevant

Value 4=Not Sure

Value 5=Slightly Important

Value 6=Important

Value 7=Very Important



## Appendix 2: Survey (Chinese Version)

請問您為何選擇投資於(XX 市)。

我們正在進行一項關於外商直接投資台灣的學術研究。下列問題想了解以下因素對於貴公司決定投資(XX 市)的重要程度。

1. (XX 市)與我公司所在國家的關係比其他城市好。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
2. 與行政級市政官員（市長，副市長或部門主管）的互動。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
3. 我公司國家或地方政府的引導。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
4. 與(XX 市)官員在海外或國際座談會的互動。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
5. 台灣政府對投資地點的指導與引導。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
6. 關於(XX 市)在城市網站上的資訊。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
7. 與(XX 市)政府溝通交流時的效率。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
8. (XX 市)與我公司國家或城市所作的外交努力，包括文化和姐妹城市交流。
 

1	2	3	4	5	6	7
---	---	---	---	---	---	---
9. 您願意在將來的某個時間接受訪談嗎？
 

願意    不願意
10. 如果您對問題 #9 的回答是“是”，煩請提供您的姓名和電話號碼，我會與您聯繫。

11. 若有其他上面沒有列出關於外資投資台灣的任何重要因素，請註明。

選項如下

1=非常不相關

2=不相關

3=有點不相關

4=不確定

5=有點重要

6=重要

7=非常重要



**Appendix 3: Survey Preface (English Version)**

I am a PhD student at the National Chengchi University in Taiwan conducting research about the factors that lead to foreign direct investment (FDI).

I am looking for a qualified member of your staff to answer a very brief (2 minute) survey on why this company decided to invest in (City Name). Your responses will be extremely helpful and appreciated.

The survey can be accessed in the link below;

(LINK)

Thank you very much for your time. Please feel free to contact me with responses or questions.

Sincerely,

Mark Henderson  
PhD Candidate  
National Chengchi University, Taipei, Taiwan

Email: markuiw@gmail.com  
Phone: 0963-805-826



#### Appendix 4: Survey Preface (Chinese Version)

我是台灣國立政治大學的博士生，正在進行外商到台灣投資的研究。

我希望貴公司的同仁能幫忙回答一個簡短問卷調查(大約兩分鐘)，關於究竟是什麼樣的因素使貴公司決定投資(XX市)。您的回覆對我的研究將會非常有幫助。

線上問卷的連結如下，您可以直接點閱：

(LINK)

非常感謝您寶貴的時間。如果有任何疑問，歡迎您隨時與我聯繫。

Mark Henderson  
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