

1 Introduction

1.1 Background

Outsourcing is a hotly debated topic. The universal trend is labeled as “the new global job shift”.¹ Due to the strong impact of globalization, more and more enterprises in developed countries such as America, European Union, and Japan, develop a special managerial structure of “office moving offshore, outsourcing the production procedures” to promote their competitiveness. From the basic manufacturing industries initially to high-technique industries nowadays, these phenomena of industrial upgrading and outsourcing are adopted by most multinational firms in developed countries.

How to describe the globalization more concretely? Here we can show some actual data to depict it. Grossman and Helpman (2002) cited the annual report of World Trade Organization that, for an American car, “its production value can be sliced into several contributions of many countries. 30% of the value goes to Korea for assembly, 17.5% to Japan for components and advanced technology, 4% to Taiwan and Singapore for minor parts...This means that only 37% of the production value is generated in the United States.” Besides the formation of vertical outsourcing, The Hongkong and Shanghai Banking Corporation (HSBC) will release approximately 4,000 jobs about credit-card service in England from now on within three years, and shift these jobs to Asian countries in order to deal with ardent competition in international financial market; Intel Corporation anticipates to move approximately 3,000 jobs about chip-design and technical support to India; Philips Corporation chooses to increase 700 engineers in Mainland China to undertake the R&D of consumer electronics.² All of these businesses shift their job-duties overseas just want to take advantages of the lower wage rate and plentiful natural

¹ Business Week, February 3, 2003, p.36-45.

² For detail statistics, see footnote 1.

resources in India, Philippines, and Mainland China. In general, “the new global job shift” exactly reflects that outsourcing strategy are common used by businesses. We know almost every kind of works can be performed anywhere now.

Now let us focus the case of globalization on Taiwan industries alone and check out that how enterprises react and adjust their structures when they are faced with global economic integration. We all know that Taiwan is the biggest OEM/ODM economy in the computer industry,³ and nearly half of global computer products are outsourced to Taiwan.⁴ However, as the computer’s price gets lower and lower, computer OEM and ODM firms in Taiwan cannot do anything but re-outsource some parts of final production or components to Mainland China for consolidating their original superiority. Thus the mode that “orders collected in Taiwan but produced in Mainland China” is seen frequently in recent years.

(Re-) outsourcing of computer industry in Taiwan is not the only case. Other industries, for examples, electronic and electric appliances, basic metals and metal products, chemicals, precision instruments, and non-metallic minerals industries that all have set firms overseas and mostly locating in Mainland China. Outsourcing Mainland China carried out by Taiwan businesses creates a special Cross-Strait economic and trade relationship.

Outsourcing to Mainland China has begun as Mainland China tried to release their economic restraints in 1979 and became the current trend since 1990s. Half of the Taiwanese listed and over-the-counter (OTC) companies have already invested over Taiwan Strait now. According to the Investment Commission, Ministry of Economic Affairs (M.O.E.A), approved investment to

³ Another situation worthy to know is that the market of self-established brands of computers is growing in Taiwan. Acer, Asus, BenQ are major examples. The market shares of notebook produced by these firms and sold under their brand name are getting larger recently.

⁴ Such as IBM, Hp, Dell, Toshiba, Sony, NEC, Compaq, Apple and so forth.

Mainland China accumulated 29,113 cases from 1991 to the end of December 2003, which totaled US\$31.20 billion. 44.65% of Taiwan's total foreign investment was attracted by Mainland China such that it becomes the foremost destination for Taiwan's foreign investment. Taiwan approved indirect investment in Mainland China mainly concentrates in Jiangsu (41.07%) (Shanghai, Kunshan, Suzhou), Guangdong (30.81%) (Guangzhou, Dongguan), Fujian (8.93%) (Xiamen, Quanzhou) by area; and distributes among electronic and electric appliances (28.83%), basic metals and metal products (9.60%), chemicals (7.74%), precision instruments (6.31%), non-metallic minerals and etc. (5.99%) by industry.

Cross-Strait investment, trade, and outsourcing are the natural formation under globalization. It is too early to tell that outsourcing will benefit one while hurt the other. However, because the political conflict between Taiwan and Mainland China, it seems that economic interaction of Taiwan-Mainland cannot simply be seen and explained as an economic issue only but a political one also.

1.2 Motivation

First, most current studies about outsourcing concentrate upon the effects of outsourcing on business performance, productivity (Huang, 2003) or deindustrialization (Chou, 2002). However, the effects of outsourcing on relative demand for the skilled workers and problem of widening wage inequality are still rare in related research.

Second, one of the controversial issues in the Taiwan presidential campaign of 2004 was the difference in Cross-Strait economic and trade relationship proposed by two parties, Pan-KMT alliance and Pan-DPP alliance. Pan-KMT alliance voiced the view that utilizing the plenty resources and the vast domestic-sale market of China well and promote Taiwan's economy and

trade liberal and international overall. Therefore they agree to open “three links” with Mainland China. While Pan-DPP alliance considered that approving investment in Mainland China will make Taiwan worse off and “three links” may further causes more severe effect of business moving offshore. So their ideal Cross-Strait relationship remains conservative. Not surprisingly, they are still undecided in the issue of whether to open “three links” or not. Obviously, there are significant differences between these two parties.

Thus I try to classify these issues resulted from outsourcing to Mainland China in Taiwan by their characteristics into two projects: The first one is unemployment and changes in relative wage caused by outsourcing; the second is outsourcing and economic periphery, which is to ask whether outsourcing induces the formation of economic peripherization of Taiwan. In next chapter, I use both a model and some empirical evidence to illuminate how outsourcing causes unemployment of unskilled workers and explain the phenomenon of widening inequality; in chapter 3, I employ Krugman and Venables (1995) to make exposition of two political alliances’ opinions and further clarify the issue of economic periphery. Chapter 4 is the conclusion of this thesis.

1.3 Research Questions and Frameworks

Before discussing the effects of outsourcing on unemployment and changes in relative wages and economic periphery, I have to define outsourcing first. Generally speaking, outsourcing is differently identified. Here I adopt the broadest range of the definition: *Outsourcing should not only refer to import intermediate inputs, but rather including all production procedures that done by others.* For example, final goods that sold under brand name of domestic firms (Feenstra and Hanson, 1995), the bilateral relationship-specific investment established with foreign firms (Grossman and Helpman, 2002) and multinational firms (Markusen and Venables, 1995) all belong to what we say outsourcing. Therefore, FDI, and international trade are one kinds of

outsourcing.

Furthermore, the effects of outsourcing on unemployment and changes in relative wages invoke three research topics: (1) According to the statistic data collected by the Directorate General of Budget Accounting and Statistic Executive Yuan (D.G.B.A.S), the unemployment rate in 2003 was up to 4.99%, and nearly 500.3 thousands labor force were unemployed. Lay-off and businesses moving offshore are accounted to take responsibility for half of the unemployment. So, does outsourcing make unskilled workers unemployed? (2) Does the shift of demand toward more skilled workers also reflect on the problem of wage inequality? (3) Technological exporting, which comes with outsourcing, may hurt Taiwan competitiveness in the long run. What should government take into account when forming the economic policies?

Not only Taiwan but also many Western nations are afraid of the adverse impacts from the powerful emergence of Third World. Because Mainland China has become the key-production center of the world, I emphasize the importance of her role to Taiwan alone here. Problems in the second project are: whether strong outsourcing/capital mobility to Mainland China makes Taiwan economic periphery and industrial hollowing-out in the long run. During the presidential campaign, economic and trade policies between Pan-KMT alliance and Pan-DPP alliance are very divergent. Are these divergences of Pan-KMT and Pan-DPP just due to their political ideology, or due to their lack of complete information about the economic and trade environment?

The research frameworks of Chapter 2 and Chapter 3 can be illustrated in Figure 1.1 and Figure 1.2.

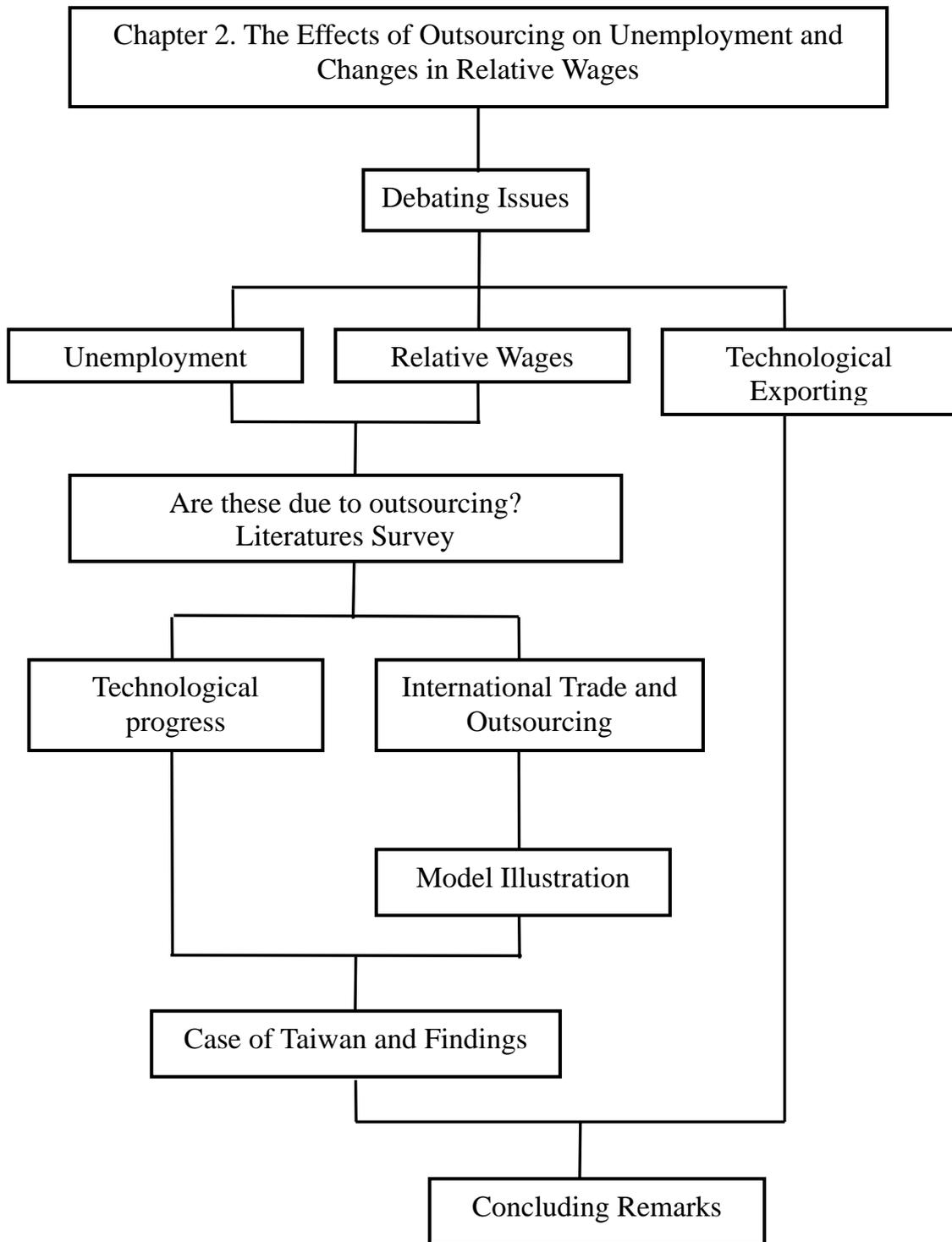


Figure 1.1 Framework of Chapter 2

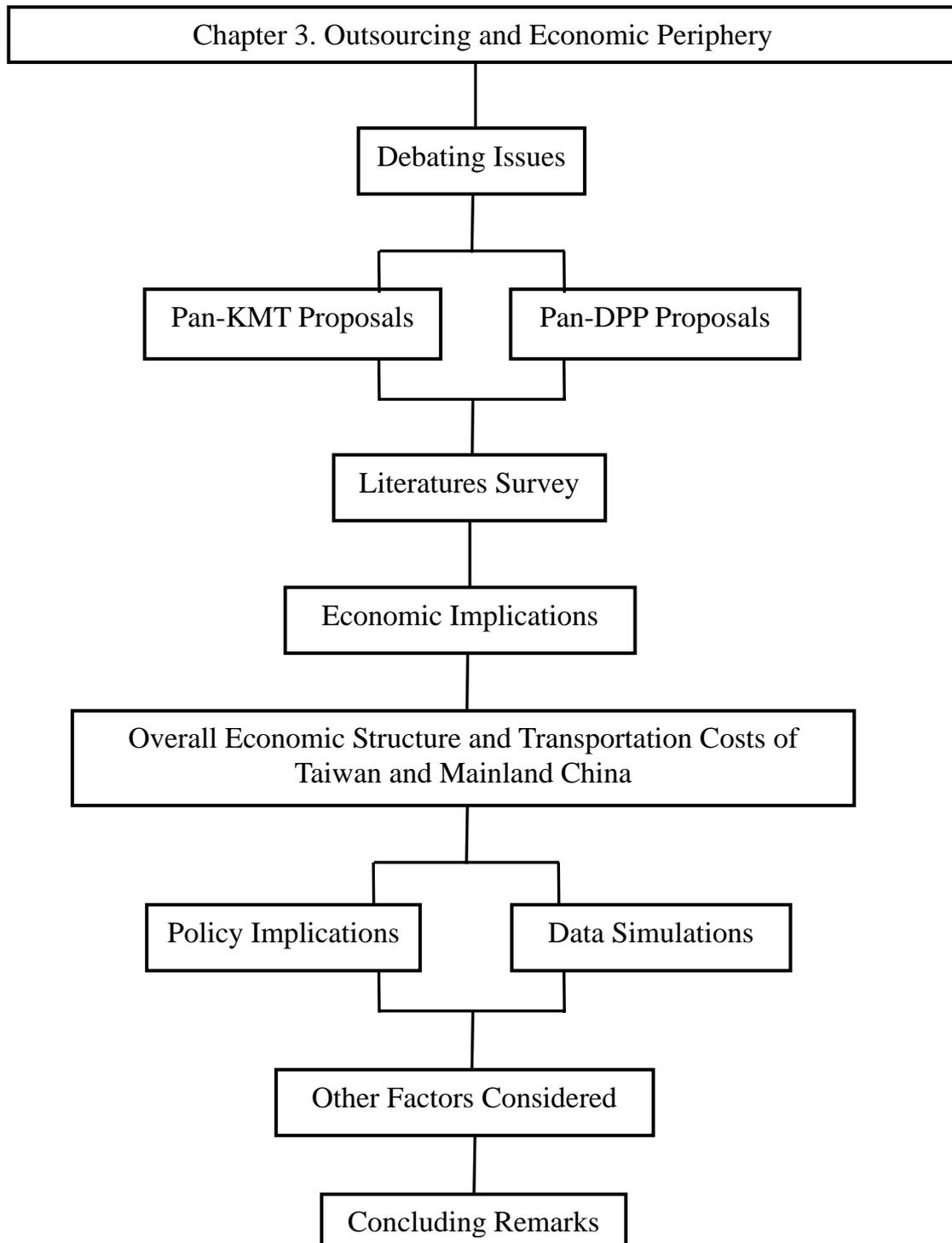


Figure 1.2 Framework of Chapter 3