

Impacts of Outward FDI on Domestic Economy in Taiwan: Evidence from Panel Data of Manufacturing Firms

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Since the mid-1980's, the outward FDI from Taiwan has become rather significant and called great attention to its possible impacts on domestic economy. By using a set of panel data of 1,127 Taiwanese manufacturing firms from TEJ during 2000-2010, this paper aims to explore how the outward FDI to China, the U.S., Japan, Hong Kong, Singapore and Vietnam affects these firms' decisions on domestic production, investment as well as employment and income distribution. The empirical results reveal that the Taiwanese manufacturing outward FDI to the high-wage countries (the horizontal/expansionary FDI) has a favorable impact on domestic production, investment and employment, whereas the outward FDI to the low-wage economies (the vertical/defensive FDI) has a harmful effect. In addition, domestic income distribution is widened by the manufacturing outward FDI in general and is statistically significant in the case of the vertical FDI in particular.

Keywords: outward FDI, de-industrialization, employment, income distribution