

EXPLORING TAIWANESE FIRMS IN VIETNAM- AFTER THE EVENT OF 2014 ANTI-CHINA PROTEST

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ABSTRACT

The Go South policy has been one of the Taiwanese government and enterprises' significant investment strategies for many years. Vietnam is the vital country for Taiwanese investors since Taiwan is the fourth-largest foreign investor in Vietnam. In return, the Vietnamese government has implemented incentive policies for Taiwanese investors. The 2014 Vietnam anti-China Protest had had a great impact on the local Taiwanese traditional industries. This study aims to discover that whether the Taiwanese investors in Ho Chi Minh City and Bin Duong Province were seriously damaged, or had found alternative business opportunities from the incident. This research adopts both qualitative research and scale analysis. The former aims to figure out what the Taiwanese investors' primary economical features, the driving forces of the industrial changes, the Key Success Factors (KSF) and the industry attractiveness are via administering a questionnaire while the latter attempts to find out what will the Taiwanese investors' future operating directions (like integrated management). The result of this research shows that Vietnam has a uniquely beneficial environment for investors and has considerable advantages whether innate or acquired. The anti-China riot did have some influence on Taiwanese investors in Vietnam. However, the investors chose to expand investment instead of withdrawing after the incident. As a result, Vietnam still has its own operational advantages.

Keyword: Taiwanese Business in Vietnam, anti-China Protest, Qualitative research

INTRODUCTION

"Southward Policy" is already one of the most important policies in foreign investment for Taiwan government and major Taiwanese companies. Taiwan is Vietnam's fourth largest investor since 2013 (Huang Qiaowen, 2014). In recent years, Vietnam government has been also offering a great deal of incentives and favorable programs to lure Taiwanese firms' investments. In 2014, we learned that Taiwan traditional companies had been impacted significantly by the event of 513 (May 13) anti-Chinese riots. This study aims to understand how much impact the event may cause on Taiwanese firms which are located near Ho Chi Minh City and Binh Duong Province. Taiwan is an island country with small but open economy, as well as dense population and limited resources. Small-medium enterprises (SMEs) are the major economic backbone in Taiwan which once created a Taiwan economic miracle in 1980s. With the rapid increasing global competition, Taiwan's advantage, such as production capabilities and manufacturing skills, are gradually disappearing. Many manufacturers, particularly for traditional firms

therefore moved to south Asian countries to survive their businesses. However, the overseas relocation of Taiwanese companies has been aggregating in nearly two decades. Besides, the situation of Taiwan OEM, the prevailing economic patterns, has been resulting in economic issues such as capital outflows to other Asian countries, increasing low wages and more idle talented people which in turn lead to Taiwan's economic recession. Faced with Taiwan's industry in the case of continued emigration, this study tries to understand why Taiwan manufacturers choose to move their factories overseas, particularly in south Asian countries (Taiwan overseas network, 2008).

Operational Environment of Vietnam

There are diversified factors for determining operational environment, including political, economic, social and cultural factors, especially the investment environment. For textile garment industry, Taiwan had been eager to find overseas investment location with low costs since 1990s due to the increase of domestic production costs (Huang, 2011); while the occasion coincided with the reform and opening up of Vietnam, who was able to provide cheap land and labor. In addition, the political situation in Vietnam gradually stabled and it is near to Taiwan; most importantly, there was no violent anti-Taiwan action before this 513 Anti-Chinese Riot. Therefore, Vietnam became the main investment area of Taiwanese businessmen besides mainland China.

Vietnam is very competitive due to its advantageous geographical location and cheaper laborer wages and commodity prices compared to mainland China and it has been predicted to be the next Asian tiger by Goldman Sachs due to its cheap and abundant labor force and huge domestic demand market with nearly 100 million people. Meanwhile, Vietnam is a member country of both Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP). What's more, Vietnam will become one of the member countries of ASEAN Economic Community (AEC) after it comes into force this year (2015); therefore, Vietnam had boundless development potential.

The unexpected 513 Anti-Chinese Riot has shaken Vietnam's long-term and relatively stable political and economic system and investment environment. Taiwanese businessmen, who stayed for the longest time and invested most in Vietnam, have suffered the severest losses. Facing this 513 Anti-Chinese Riot, how will Taiwanese businessmen adjust their paces? Should they continue to invest in Vietnam, or withdraw the capital? Based on the above arguments, this study will discuss the advantages and disadvantages of the operational environment of Vietnam.

(1) Vietnam is the first stop of expanding the Southeast Asian market: the four key factors of investing in Vietnam include: advantage of demographic dividend, strong spending power of young people, an important base for marching into ASEAN market, political, economic, cultural and geographical advantages (Liu, 2012).

(2) For Taiwan, Vietnam is an ideal place providing Taiwan manufacturers with cost competitive advantages due to its rich natural resources and abundant labor force; in addition, Vietnam is one of the member countries of ASEAN and Taiwanese enterprises can march into ASEAN market by investing and establishing factories in Vietnam; the market includes southern China, Indo-

China Peninsula, and ASEAN Free Trade Area. Vietnam had more advantageous land rent standards than any other countries and Vietnam government promised to open the financial market after it became a WTO member; therefore, the import duties also fell by 22% (Kyang, 2010). Taiwanese businessmen can select Vietnam as the second country for investment according to the hedging strategy so as to reduce risks. The most practical approach is to keep a second production line in other countries in Southeast Asia.

Brief introduction of the recent operational environment and government's improvement measures of Vietnam: Yeh (2015) Vietnam News Agency briefly reviewed the "10 Economic Events of Vietnam in 2014" on December 30, 2014; one of the events was to focus on the improvement of the socialist market-oriented economy system; another was to vigorously promote administrative reform and improve operational and environment environments.

Operation Analysis

If enterprises intend to turn adversity into opportunity in today's global economic crisis, they must have strong human resources and the operation team must have a brand-new concept of management, professional dedication spirit, responsible attitude and resolution of reform. "Personnel" is the most important resource for the development of enterprises. It is necessary to let employees from different places who study and grow under different backgrounds give full play of their talents and create value, and establish a simple and effective management system.

Basically, the revenue of an enterprise depended not only on its own profitability, but also on the overall performance of its industry. If belonging to an unappealing industry, which we usually called the Sunset Industry, even the most excellent enterprise may feel difficult to achieve good business performance. Therefore, this industry and competition analysis could help specific enterprises to acquire the overall situation of the industry and future profitability. The direct result of this analysis was to let enterprises have a better understanding and a bright outlook of the economic characteristics of the industry, competitive status, change driving factors, major competitors and strategies, key success factors, and future prospects of the industry. We called the industry with best conditions the Star Industry (Li, 2006).

The overall definition of enterprise management is enterprise's pursuit of sustainable survival. In order to facilitate the division of labor and the cooperation, the management is divided into five parts, including the production department, the marketing department, the human resource department, the development department and the financial department. The management quality of an enterprise depends on the overall integration, which means that enterprises shall adhere to the operation principle of "overall management" besides the "Five division management" so as to achieve sustainable operation and survival.

513 Anti-Chinese Riot

This study has referred to the statement of Tsang (2014) and Yeh (2014) et al. and combined the latest reports of many newspapers and magazines with the author's own experience and first-hand observations. 513 Anti-Chinese Riot was purely a matter of emergency and many Taiwanese businessmen in Vietnam felt anxious and helpless.

(1) Background of 513 Anti-Chinese Riot: On May 13, 2014, many mobs broke into the

factories of Taiwanese businessmen in Vietnam, robbed goods and equipment and destroyed the factories. The riot caused several casualties and destroyed most of the Taiwanese factories; the overall losses of Taiwanese businessmen were substantial. According to the preliminary estimation of the Ministry of Economic Affairs, as of Mar 25, a total of 358 Taiwanese factories were invaded and 21 Taiwanese factories were set on fire; the amount of losses was estimated to be USD 150 million-USD 500 million according to the estimation of Taiwanese property insurance companies in Vietnam and Taiwanese Businessmen Association.

- (2) Causes of 513 Anti-Chinese Riot: (a) the territorial dispute between China and Vietnam triggered the dissatisfaction of Vietnamese; (b) the inflation in Vietnam was serious and people were underpaid (3) there were many strikes due to strict management of Taiwanese businessmen.
- (3) Inspirations of Anti-Chinese Riot: (a) we shall fight for the rights and interests of victimized Taiwanese businessmen; (b) a complete investment guarantee shall be established; (c) the risks shall be spread; (d) a good labor-capital relationship shall be established; (e) transformation and upgrading shall be conducted.

RESEARCH METHOD

This research adopts both qualitative research and scale analysis. The former aims to figure out what the Taiwanese investors' primary economical features, the driving forces of the industrial changes, the Key Success Factors (KSF) and the industry attractiveness are via administering a questionnaire while the latter attempts to find out what will the Taiwanese investors' future operating directions (like integrated management) be besides the present management divisions such as production and operation, marketing, human resource, research & development and finance management. There are two methods: conducting an in-depth interviews with 15 senior managers near Ho Chi Minh City in Vietnam Binh Duong province in various industries, mainly traditional industries, Such as garments, plastics, molds and deploying a survey with Likert's five scale.

Results of Qualitative Interviews

Most of the interviewed companies of this study are in traditional industries. In terms of external environment pressure, many companies are facing the market pressure caused by continuous market decline and the competitive pressure brought by domestic and overseas competitors. In terms of internal pressure, many companies are facing the pressure of overcapacity, the lack of close connection between production and sales processes, which result in poor internal communication, aging of enterprises and overstaffing. The driving factors for the industry reform of Taiwanese enterprises in Vietnam: 1. market pressure, 2. competitive pressure, 3. overcapacity, 4. repeated consumption of organizational resources, and 5. oversize organizations, aging of enterprises and overstaffing, which result in poor organizational performance of organizations. Generally, many enterprises have problems and difficulties in the promotion of

technological innovation, for example: “distrust of customers”, “lack of advanced technologies”, “increase in peer competitions and decrease in market demands”. It can be seen that “the support and investment of leaders” is the most important key successful factors for enterprises; the internal and external knowledge including “internal knowledge sharing of enterprises” and “understanding of customers’ demands” also plays an important part; in terms of “flexible usage of relevant technologies” and “investment in patent right, research and development”, the situations of enterprises are different depending on their own conditions and scales.

The downstream of the industry is less profitable due to the top-heavy trend. For example, international large factories have strong abilities to control orders, and their bargaining powers have also become so strong that they will require downstream factories to lower prices continuously. The upstream of the industry is more profitable because the upstream includes industries with large capital expenditures and high technical threshold; in addition, due to the slow rapid of mainland China, Taiwanese businessmen still have short-term competitiveness because they have command of the know-how of experience and management. On this stage of global economic recovery, the upstream will have demands first, then the orders start to be released and the downstream will gradually have demands too.

Results of Quantitative Questionnaire Survey

Looking from the ranking of the main difficulties faced by Taiwan-invested enterprises in Vietnam, the greatest difficulty for local Taiwanese businessmen is “personnel”. As Vietnam has suffered from the economic blockade of the United States and it is still a developing country with lower degree of internationalization. There is a shortage for talent. The problem of “research and development” ranks the second. Most of the industries in Vietnam is traditional industries, such as labor-intensive industry and contract manufacturing industry; therefore, there are fewer research and development opportunities for enterprises to design, improve or create new products and the demand for research and development is not much. The problem of “finance” ranks the third and has always been one of the three issues (personnel, finance and matter) troubling enterprises. Financing is a common problem for enterprises and there are few exceptions. The problem of “operation” ranks the fourth, including the difficulties in local administrative processing, sales and accounting. The problem of “production” ranks the fifth; even the environment protection issue has become more and more important and the settlement effect of Taiwanese businessmen in Vietnam hasn’t been formed completely. In the end, the problem of “sales” is the last difficulty faced by Taiwanese businessmen. Many Taiwanese manufacturers are export-oriented and haven’t become mainstream in local market. Therefore, Taiwanese businessmen have fewer problems in this field.

Looking from the ranking of the main assistance needed by enterprises with investment difficulties in Vietnam, the assistance in “finance” ranks the first; it is obvious that enterprises need financial assistance no matter at home or abroad. The assistance in “production” ranks the second; the reason may be that the settlement effect of Taiwanese businessmen in Vietnam hasn’t been formed completely and there are broken parts on the supply chain. The assistance in “operation” ranks the third; it mainly involves the assistance in law and human resources. The assistance in “personnel” ranks the fourth; the selection of personnel will give priority to the

operators, managers and backbones of Taiwanese enterprises, if it is insufficient, enterprises can consider the aid of external force. The assistance in “sales” ranks the fifth; it is mainly because the local labor costs are low and the products will be exported overseas after production. The assistance in “research and development” ranks the last; this is mainly because Taiwan enterprises put the research and development center in Taiwan and overseas bases are basically focused on production and manufacturing, and the sales depends on whether there are market demands in local area.

CONCLUSION AND SUGGESTIONS

For Taiwanese businessmen, what is the operational environment in Vietnam? The analysis can become the references for future operation, that is, whether to withdraw capital from Vietnam or invest more capital in Vietnam. To be fair, Vietnam's operational environment should be one of the best in the ten countries of ASEAN. Vietnam is located at the hub with advantageous geographical location, and it is the member country of both TPP and RECP; the overall investment environment of Vietnam is better than Indonesia, another country where Taiwanese businessmen often go to. Therefore, in the future, the existing Taiwanese businessmen in Vietnam have no choices but to “increase rather than reduce investment”. Actually, although the efforts of many Taiwanese factories were wasted in 513 Anti-Chinese Riot and the amount of losses were substantial, after the tense situations of the riot and the demonstration on May 18, all the factories of Taiwanese businessmen in Pingyang County gradually started the work. Most Taiwanese businessmen said: “We must carry on no matter how hard it is, or where else can we go?” There was at least one thing in common, that is, every interviewed manufacture expressed that they would “definitely stay in Vietnam” after the 513 Anti-Chinese Riot. In addition to the advantages mentioned above, Vietnam is still a relatively mature country in terms of free trade compared to other counties of ASEAN. Even the tariff alone is enough. Vietnam successfully joined TPP at the end of 2014; a total of 12 countries of TPP have now signed the Free Trade Agreement (FTA); if the negotiation is successful, the tariff on exporting the textile and clothing from Vietnam to the United States will be reduced from existing 17% to 0%. The tax exemption policy of TPP will bring considerable benefits to Taiwanese businessmen who establish factories in Vietnam. Looking into the future, many agreements such as TPP and RCEP will come into force this year; some interviewed Taiwanese businessmen said directly, “What other countries of ASEAN can we go to except for Vietnam?”

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