Tain-Jy Chen. 1992. Determinants of Taiwan's Direct Foreign Investment: the case of a Newly Industrialised Country. Journal of Development Economics 39. pp. 397-407.

Generalities

FDI = internalisation or superseding the market;
Why? = taking advantage of intangible assets or forestalling the loss of market for exporters.
Which (assets)? = technology, product differentiation and size of the firm.

Argument of the article: It is possible that under different macroeconomic conditions different sets of characteristics of the firms are conducive to FDI. Hence, macro and microeconomic conditions are two sides of the same coin. Microeconomic conditions provide the ability to FDI whereas the macroeconomic act as a catalyst.

Taiwan

Macroeconomic conditions in 1987:

- The real exchange rate appreciated significantly: exporters found it more difficult to exports and FDI become cheaper;
- The wage rate increased significantly: competitive advantage based on low labour costs was eroded; need to look for cheaper labour elsewhere;
- Forex controls were dismantled.

After 1987, there was a very large increase in FDI by Taiwanese firms:

Taiwan's percentage growth of FDI (%)

1987	1988	1989
81	113	326

Motivation for Taiwanese firms to FDI (rank in a list of motives)

	Before 1987	After 1987
Market expansion	1	1
Low labour costs	6	2
Exchange rate appreciation	Not referred	3
Raw materials	3	4

Note: Shaded area indicates the large change in rank associated with macroeconomic conditions.

Conclusions of the study

1) Large firms as a whole shown stronger inclination towards FDI than smaller firms;
2) Large firms' decision to FDI is significantly influenced by availability of raw materials in the host country, and this variable does not affect small firms;
3) Small firms' decision to FDI is significantly influenced by past and expected growth performance, and this variable does not affect large firms.

4) All firms that FDI were successful exporters prior to investing abroad. This might be an indication that:
    a. Real exchange rate appreciation and wage rate increases affected the relative competitiveness of exporting firms to the extent of making them to relocate investment instead;
    b. Firms FDI as a prudent means of forestalling the loss of market or, in Vernon's (product cycle) terms:

$$FDI = f(Q_{t-3}, X_{t-2}, Std_{t-1})$$

where Std refers to product standardisation.

    c. Only previously successful exporters managed/chose to FDI. This might mean that:
        i. Firms need firm specific advantages to compete in the world market;
        ii. Only efficient firms will be able to benefit from FDI;
        iii. Only firms that export are affected by macroeconomic conditions that gave them an incentive to FDI.
5) Firms' decision to FDI was sensitive to labour costs only when the export variable was excluded from the regression. Apart from the fact that labour costs and exports are correlated variables, this result might mean that labour costs are fundamentally captured by the export success of the firms.
6) Host countries characteristics are also important. These involve:
    a. Networks, both formal and informal (for example, the Chinese connection);
    b. Economic and political conditions.