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Potential Business to Be Developed within Free Trade Zone in Taiwan

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ABSTRACT

This study focuses on investigating the promotion of free trade zone in Taiwan and what kind of business is full of potential to be developed within the zone. It begins with a brief introduction to the development of free port plan. Then, the responses from private enterprises are explored. Some potential business paradigm which can be developed within the free trade zone also will be discussed. An empirical study is conducted to further understand the business development within those existing free trade zones. Finally, some conclusions are presented. Results show that (1) “repairing and processing” has been evaluated as having the highest potentiality to be developed, which followed by “trading”, “logistics”, “sorting”, “warehousing”, “packaging”, and “assembling”; however, “displaying” of products has been evaluated as the business with least potentiality to be developed in FTZs; (2) almost all the non-FTZ businesses have been considered as lacking potentiality and “hotel”, “catering” and “transshipment services” are characterized as impossible developing items; (3) “regional hub/distribution center” and “regional service/repair center” have been evaluated as having higher degree of potentiality to be developed; nevertheless, “regional auction center” is with lowest potentiality.

Keywords: Free trade zone, Free port plan, Taiwan, Regional auction center, Regional repair center, Regional distribution center.

I. Introduction

A free trade zone (FTZ) or export processing zone (EPZ) is one or more special areas of a country where some normal trade such as tariff and quotas are eliminated and bureaucratic requirements are lowered in hopes of attracting new business and foreign investment. FTZ also can be defined as labour intensive manufacturing centers that involve the import of materials or components and the export of factory products. Most FTZs are located in developing countries. Bureaucracy is typically minimized by outsourcing it to the FTZ operator and corporations setting up in the zone may be given tax breaks as an additional

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incentive. Usually, these zones are set up in underdeveloped parts of the host country, the rationale being that the zones will attract employers and thus reduce poverty and unemployment and stimulate the area's economy. In addition, FTZs are often used by multinational corporations to set up factories to produce goods (such as clothing or shoes). Governments who believe the establishment of FTZ can help boost their economic development are eager to promote FTZ plan, aimg to achieve the following goals: (1) to enhance foreign exchange earnings; (2) to develop export-oriented industries; and (3) to generate employment opportunities. In 1999, there were 43 million people working in about 3000 FTZs spanning 116 countries, producing clothes, shoes, sneakers, electronics, and toys (*Wikipedia*, 2009).

The creation of special free trade zones is criticized for encouraging businesses to set up operations under the influence of often corrupt governments, and giving foreign corporations more economic liberty than is given indigenous employers who face large and sometimes insurmountable "regulatory" hurdles in developing nations. Klein (2002) pointed out that the widespread use of the FTZs by companies such as Nike causing many negative effects; one of these is “no job”. The manufacturing jobs in developed countries are being moved from local factories to foreign countries’ FTZ or EPZ. Within these zones, working conditions are very dire, and labour laws are all but non-existent. In North America, for example, where the lack of manufacturing jobs has led to an influx of work in the service sector, where most of the jobs are for minimum wage and offer no benefits. The term McJob is introduced, defined as a job with low wages that do not keep in line with inflation, poor hours, no benefits and high levels of stress. Meanwhile, the public is being sold the perception that these jobs are "temporary" employment for students and recent graduates, and therefore need not offer living wages or benefits.

Millen and Holtz (2007) mentioned some other drawbacks of the FTZ. Often the government pays part of the initial cost of factory setup, loosens environmental protections and rules regarding negligence and the treatment of workers, and promises not to ask payment of taxes for the next few years. When the taxation-free years are over, the corporation which set up the factory without fully assuming its costs is often able to set up operations elsewhere for less expense than the taxes to be paid, giving it leverage to take the host government to the bargaining table with more demands in order for it to continue operations in the country. Moreover, if human rights, labor or environmental abuses are challenged, subcontracted local entities may face consequences, but parent companies in the United States are rarely held accountable.

This study aims to on investigate the promotion of free trade zone in Taiwan and what kind of business would be developed within the zone. Due to the government originally promoted setting up free trade zone within seaport or airport area and called it “free port zone”, therefore, the terms free trade zone and free port zone are used interchangeably in this paper. It begins with a brief introduction to the development of free port plan. Then, the responses from private enterprises are explored. Some protential business paradigm which can be developed within the free trade zone also will be discussed. An empirical study is conducted to further understand the business development within those existing free trade zones. Finally, some conclusions are presented.

II. Developing the Free Trade Zone in Taiwan

2.1 Economic Development Programme Promoted by Government Authorities

For many developing countries, the government often proposes various economic development plans to keep their economy continuously to grow. Through those well-planned economic development projects, Taiwan has earned world-wide recognition for its remarketable transformation from a low-income agricultural backwater in the 1970s to a high-income newly industrialized country since the 1980s. In order to create another stage of high economic growth as from the 1990s, Taiwan government made concerted efforts to promote many economic development plans. (Chiu, 2008)

Since 1991, Taiwan government launched a very large-scale economic development project--the 6-year National Development Plan. The major purposes of the project are: (1) to promote local and foreign companies to use Taiwan as a base for conducting their Asia-Pacific business activities; (2) to establish Taiwan as a specialized regional centre for manufacturing, sea transport, air transport, financial services, networks of communications, as well as media enterprises; and (3) to liberalise its economic regime. After many years' promotion, only sea transport hub has got achievement, which port of Kaohsiung remained in the top ten largest container port group in the world by 2007.

Following the 6-year National Development Plan, the government started to promote Taiwan as the Asia-Pacific Regional Operations Centre (the so-called APROC Project) since 1995. The goals of the project are: (1) to enhance Taiwan's economic liberalisation and internationalization; (2) to strengthen the flows of personnel, goods, and funds; and (3) to attract multinational and domestic enterprise's investments so that develop Taiwan as a base for expanding East Asian market.

To take its advantages on excellent location, high-quality human resources, and comparatively advanced electronic manufacturers, the government authorities again launched two programmes: the global logistics development plan (GLP) and the free port plan beginning from 2000 and 2003 respectively (Lin 2003). The momentum driving Taiwan to introduce the GLP is because logistics management or supply chain management has become highly important for multinational enterprises to enhance their global competitiveness since the 1990s. The goals of promoting GLP are as follows: (1) to eliminate problems encountered by enterprises in the process of global logistics development, and build Taiwan into a vital link in the international supply chain; (2) to use Taiwan’s manufacturing superiority to develop high value-added entrepot services; and (3) to strengthen global logistics-related e-commerce, flow of goods, and infrastructure environment.

In order to make Taiwan as one of the most convenient countries in the world for global trade logistics and to attract multinational enterprises to establish their Asia-Pacific operational headquarters within its free trade zone, Taiwan government launched the “free port plan” beginning from July 2003. Its objectives are as the following: (1) to extend the existing results of the Global Logistics Plan and to continuingly promote liberalisation and internationalisation; (2) to face the challenges from other neighboring countries’ free ports; (3) to enhance the operating efficiency of harbours and airports and to bolster the development of high velue-added trade activities; and (4) to facilitate the movement of foreign business personnel in and out of free ports and to reshape Taiwan’s environment as the operations centres for international enterprises. It has been emphasized that one of the most important factors to promote the free port programme is to eliminate the customs clearance barrier (Chiu and Chiang 2006).

To develop the project of free trade zone, governmental authorities should implement the infrastructure on the following items: (1) to integrate the sea/air joint transport services, (2) to create an obstacle-free customs clearance system, and (3) to implement the e-logistics. (Ho, 2002). In Taiwan, free trade/port area has been defined as a special zone within national territory, but outside the customs territory. Aside from removing the customs clearance barrier, Taiwan authorities also plan to provide many incentive schemes for attracting enterprises to operate their businesses.

As shown in Table 1, those incentives are including the following six aspects: allowing in-depth value- added processing; relaxing hiring ratio for foreign workers; duty & tax exemption; facilitating business activities; ease of financial operations; and within national territory, but outside the customs territory (CEPD Oct. 2003).

Table 1 The Incentives for Attracting Businesses to Free Ports in Taiwan

Incentives	Implementation Items
Allowing in-depth value-added processing	● Operators are allowing operating assembling, packaging, and manufacturing activities, etc.
Relaxing hiring ratio for foreign workers	● Access permit issued by the Free port(FP) management agency to the FP business employees. ● Visa-free for 21 countries. ● Landing visa for 24 countries. ● 40% of total workforce allowing to be foreigners.
Duty & tax exemption	● Operators are exempted from customs duties, commodity tax, sales tax, tobacco & wine exercise tax.
Facilitating business activities	● Streamlined procedures for granting entry and issuing landing visas to business personnel. ● Providing exhibition and other facilities and services.
Ease of financial operations	● Permitting setup of holding companies for offshore investment. ● Allowing OBUs to handle foreign-currency transactions.
Within national territory, but outside the customs territory	● Autonomous management on customs affairs. ● Exempt from customs checking & inspecking, and cargo tracking and escorting.

2.2 Regulation for Establishing and Operating the FTZ in Taiwan

On 23 July 2003, Taiwan government promulgated the “Act for the Establishment and Management of Free Trade Zones”, which is the fundamental ruling for establishing and operating businesses in free trade zone(FTZ). In Article 3, the Act defines the FTZ as “an area which is situated within a controlled district of an international airport or an international seaport under the approval of the Executive Yuan, or of an adjacent area demarcated as a controlled area, and an industrial park, Export Processing Zone, Science-Based Industrial Park, and other areas approved by the Executive Yuan for the establishment of a controlled district for the purpose of conducting domestic and foreign business activities where the comprehensive goods tracking system can be connected with the controlled district of an international airport or seaport by means of technological facilities.” Therefore, free trade zones are allowed to establish in three locations: the controlled area of seaport and airport, as well as an “adjacent area” demarcated as a controlled area. The Adjacent area is referred to any of the following circumstances:

(1) A piece of land whose joining width with the land of a controlled district in an international airport or an international seaport is 30 meters or more;

(2) A piece of land being separated from a controlled district in an international airport or an international seaport by a road or a water-way in between, but still suitable for the formation of a controlled area; or

(3) A piece of land which may be connected with a controlled district in an international airport or an international seaport by a dedicated road having a length of less than one kilo-meter.

In the same Article, it further classifies two kinds of business allowed to operate within FTZs: the so-called “FTZ enterprises” and “Non-FTZ enterprises”. The FTZ enterprises referred to “the enterprises which have been approved to engage in trading, warehousing, logistics, collecting and distributing(cargo of) containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service within a FTZ”. The Non-FTZ enterprises referred to “any enterprises providing financial, stevedoring, catering, hotel, business conference, and transshipment services, as well as other enterprises which are not a free port enterprise but has been approved to operate within a FTZ”.

In short, FTZ in Taiwan is allowed operating the primary businesses of trading, warehousing, logistics, collecting and distributing (cargo of) containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service; it also allows to engage in the financial, stevedoring, catering, hotel, business conference, and transshipment services as well as any other approval businesses.

III. Response from Entreprise on FTZ

3.1 The Existing FTZs as of 2008

According to government’s planning and assessment, the most possible locations to set up the free trade zone were in the area of international seaports and airports. As shown in Figure 1, four seaports in the western Taiwan were planned to establish FTZ; they are ports of Keelung, Taichung, Mai Liao, and Kaohsiung. Two airports were also assessed being fitted to set up FTZ which are the Taoyuan air cargo park (adjacent to Taoyuan International Airport) in northern Taiwan and Kaohsiung air cargo park (within Kaohsiung International Airport) in southern Taiwan.

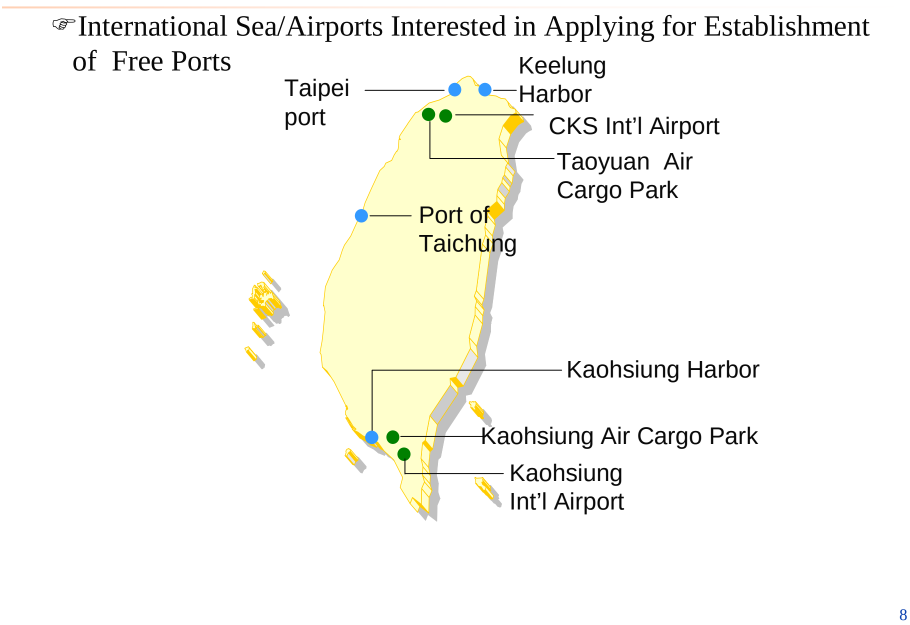


Figure 1. Potential FTZ Locations

Through promotion, as shown in Table 2, there are five FTZs established and began operation as of 31 December 2008. Four of them are located in seaport area and one in airport area. Currently, the three port area FTZs are public agencies; Taipei port FTZ and the only one airport FTZ-Far Glory FTZ are BOT projects and operated by private enterprises. Keelung port took the lead to establish and operate FTZ business from 10 September 2004; ports of Kaohsiung, Taipei and Taichung were subsequently allowed to establish FTZ. The private-owned Farglory FTZ was also followed to receive approval from governmental authority. In consideration of business potential and the intense competition fron domestic and foreign FTZs, the pre-planned locations-Mai Liao port and Kaohsiung air cargo park-were not yet filed their applications with the governmental authorities to establish the FTZ.

Table 2 Beginning Operation of FTZ in Taiwan Area as of 31 December 2008

Name of FTZ	Date of Beginning Operation	Location
Keelung Port FTZ	30 September 2004	Keelung City
Kaohsiung Port FTZ	01 January 2005	Kaohsiung City
Taipei Port FTZ	20 September 2005	Taipei County
Taichung Port FTZ	31 October 2005	Taichung County
Farglory FTZ	01 January 2006	Taoyuan County

Source: Website information in the respective FTZ: Keelung(www.klhb.gov.tw), Kaohsiung(www.khb.gov.tw), Taichung(www.tchb.gov.tw), Taipei(www.klhb.gov.tw), Far Glory(www.ftz.com.tw).

3.2 Commercial Entity to operate business within FTZ

After established, one of the most important tasks for the FTZ organizor is to solicit enterprises for operating businesses within the FTZ. As indicated in Table 3, Taichung port has got best performance to entice 25 enterprises doing busnesses within its FTZ among the five port area FTZs in the end of 2008; regarding Farglory, it announced having solicited 43 companies to operate businesses within its FTZ.

Table 3 Numbers of Enterprises Operating Business within FTZ as of 31 December 2008

FTZ→	Keelung Port	Taipei Port	Taichung Port	Kaohsiung Port	Farglory
No. of Operating Enterprises→	10	2	25	20	43

Source: Tseng, Nai-Jeng (2008) *The Study of the Performance of Free Trade Zonse at Northern Taiwan*, p. 30 and 36; Chang, Steve S.D. (2008) *Management Strategies of Free Trade Zone in Taiwan–The Case of Farglory Free Trade Zone*, p. 43.

As mentioned in section 2.2, the FTZ-enetrprises are allowed operating 16 types of primary businesses including trading, warehousing, logistics, collecting and distributing(cargo of) containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service. As shown in Table 4, all the businesses were conducting by those enterprises whthin port area FTZ; nevertheless, those companies within airport area FTZ were more concentrating on manufacturing, processing, assembly, logistics and trading. Moreover, no any non-FTZ business has been operated in the end of 2008.

With short history of operation, Taiwan’s FTZ enterprises are still in the initial development stage and full of opportunity to increase their business performance. As pointed in Table 5, Taichung port has achieved the biggest volume of operational performance in terms of total importing and exporting cargoes’ value among the four prot area FTZs over the period 2006-2008; besides, all the port area FTZs have got huge increase of business volume during the period 2006-2008. The airport area FTZ-Farglory also increased 53 times of business performance between 2008 and 2006. In addition, the total volume of business performance of Farglory in 2008 is much higher than those four port area FTZs due to the air cargoes’ value are generally higher than those of seaborne cargoes.

Table 4 Type of Business operated by Enterprises in Respective Free Trade Zones in Taiwan as of 31 December 2008

Type of Business	Keelung Port	Taipei Port	Taichung Port	Kaohsiung Port	Farglory
Trading	✓	✓	✓	✓	✓
Warehousing	✓	✓	✓	✓	✓
Logistics	✓	✓	✓	✓	✓
Collecting and distributing (cargo of) containers	✓		✓	✓	
Transiting	✓	✓	✓	✓	
Transshipment	✓	✓	✓	✓	
Forwarding	✓	✓	✓	✓	✓
Customs clearance		✓	✓	✓	✓
Sorting		✓	✓	✓	
Packaging	✓	✓	✓	✓	
Displaying	✓	✓	✓	✓	
Technological service	✓	✓	✓	✓	✓
Repairing and fabricating	✓	✓	✓	✓	✓
Processing	✓	✓	✓	✓	✓
Assembling	✓	✓	✓	✓	✓
Manufacturing		✓	✓		✓

Source: Website information in the respective FTZ: Keelung(www.klhb.gov.tw), Kaohsiung(www.khb.gov.tw), Taichung(www.tchb.gov.tw), Taipei(www.klhb.gov.tw), Far Glory(www.ftz.com.tw).

Table 5 Statistics of Performance of Free Trade Zones in Taiwan

Unit: (thousand) New Taiwan Dollars

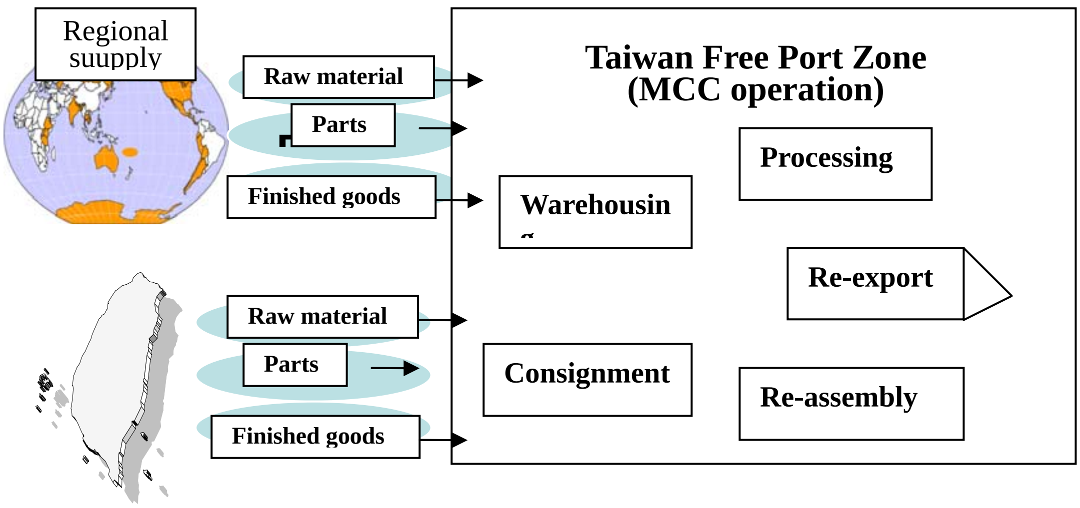
Year	Type of Business	Keelung Port	Taipei Port	Taichung Port	Kaohsiung Port	Farglory
2006	Import	50,195	3,052,689	4,464,397	715,307	68,646
2006	Export	18,993	1,378,341	3,008,376	407,887	991,581
2006	**Total**	**69,188**	**4,431,030**	**7,472,773**	**1,123,194**	**1,060,227**
2007	Import	713,186	1,918,893	7,992,256	1,778,762	20,492,782
2007	Export	1,104,368	2,857,834	4,722,480	1,334,914	16,709,715
2007	**Total**	**1,817,554**	**4,776,727**	**12,714,736**	**3,113,676**	**37,202,497**
2008	Import	1,948,869	2,442,419	24,296,958	4,769,947	30,452,754
2008	Export	2,239,184	4,468,713	19,169,921	2,549,216	26,541,505
2008	**Total**	**4,188,053**	**6,911,132**	**43,466,879**	**7,319,163**	**56,994,259**
Increase between 2006 and 2008		**6053 %**	**155.9 %**	**581.7 %**	**651.6 %**	**5375.7 %**

Source: Directorate General of Customs (2009) *Internal Statistics*, Taiwan, ROC.

IV. The Potential Business Paradigm to Be Developed within FTZ

To take full advantages of location and manufacturing expertise, Taiwan's free port zones are full of potential to expand the following integrated logistics businesses: (1) Multi Countries Consolidation; (2) Regional Hub/Distribution Center; (3) Regional Service/Repair Center; (4) Regional Auction Center; and (5) Supply Chain Management & VMI (Hsih, 2008).

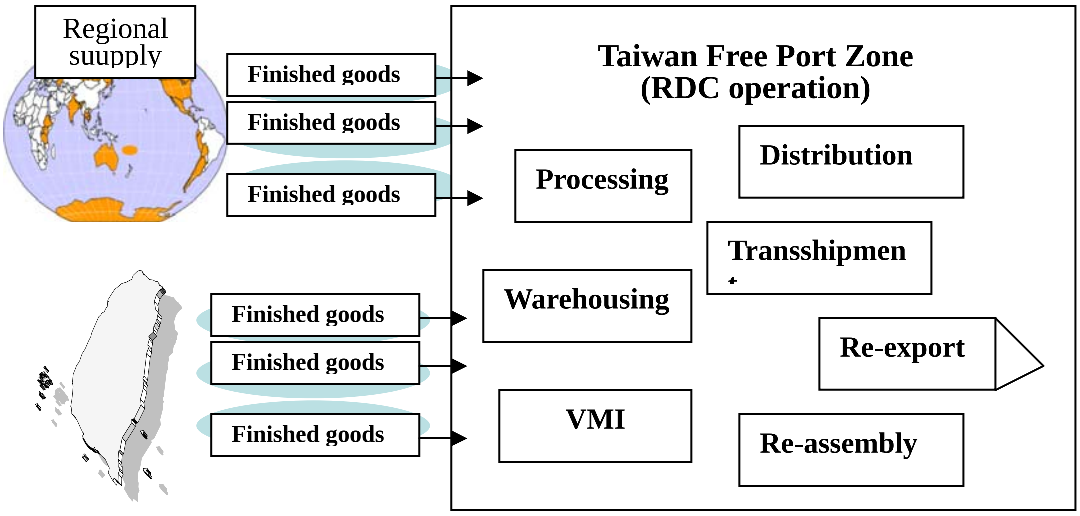
As shown in Figure 2, raw materials, parts or finished products come from foreign or domestic suppliers and consolidate together in accordance with customer's requirements. The MCC operators can provide services, such as warehousing, cargo consolidation or consignment, processing, re-assembly and re-export. Organizations which conducting consolidation operations are allowed to apply for running all the businesses the FTZ enterprises can offer including trading, warehousing, logistics, collecting and distributing(cargo of) containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service. After completing the consolidation operation, the materials, parts or finished products will be reexported or transshipped to foreign countries or domestic markets. With the frequent and high quality shipping services as well as manufacturing technology, Taiwan's free port zones are good locations for operating multi-country consolidation.



Source: Adapted and revised from Shih (2008) Speech in NTOU, October 2008.

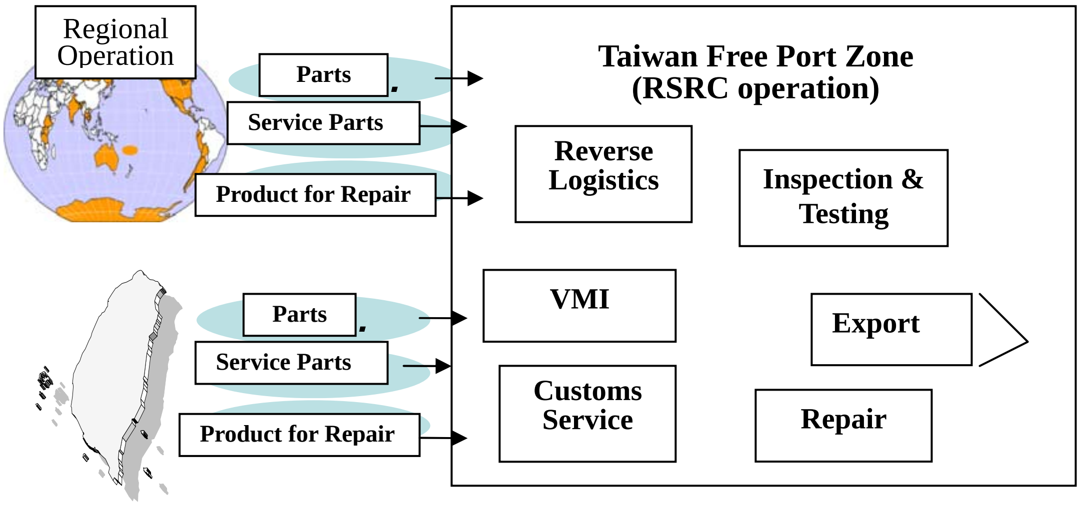
Figure 2 Multi Countries Consolidation (MCC)

Situated in the center of eastern Asia, Taiwan is also suitable to be a regional/hub distribution center. As presented in Figure 3, finished products gathered from global factories can be distributed to Asian markets. In the RDC established within Taiwan's free port zone, products can be stored, processed, or re0assembly. The functions of the RDC include warehousing, VMI, distribution, processing, and transshipment, etc. There is full of potential to set up a regional service/repair center(RSRC) within Taiwan's free port zones. As exhibited in Figure 4, the services provided by RSRC are VMI, reverse logistics, customs service, repair, inspecting & testing, and export. Parts from foreign countries or domestic factories gather in RSTC and conduct reoairing service for the products to be fixed. With high quality of manufacturing technology, Taiwan is capable of operating RSTC.



Source: Adapted and revised from Shih (2008) Speech in NTOU, October 2008.

Figure 3 Regional Hub/Distribution Center (RDC)



Source: Adapted and revised from Shih (2008) Speech in NTOU, October 2008.

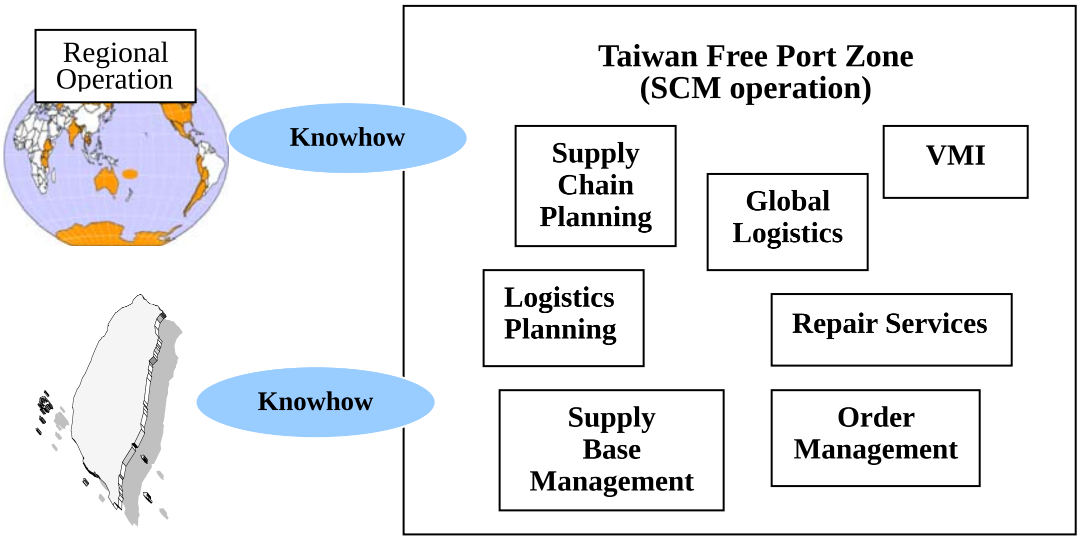
Figure 4 Regional Service/Repair Center (RSRC)

Regional auction center (RAC) is also possible to be operated in Taiwan's free port zones. As demonstrated in Figure 5, those high-valued used cars or construction machines collecting from domestic market or neighboring countries (Japan or Korea) will be sold by auction. Some beneficial conditions will help the operations of RAC, such as: (1) free port zone is a tax-free and exemption of customs control area, (2) high quality and frequent shipping services, and (3) high security and stable business environment, etc.

Source: Adapted and revised from Hsih (2008) Free Trade Port Zone, speech in NTOU, October 2008.

Figure 5 Regional Auction Center

To cope with the needs of multinational enterprises to conduct global supply chain operating model, Taiwan government began promoting the establishment of global logistics centres to upgrade its national economic development since 2000. As of 31 December 2007, eleven companies were formally received licenses from Customs Agency to establish the global logistics center(Chiu, 2008). Nevertheless, those existed global logistics centers has not been developed successfully. With the more incentives provided by free port plan, enterprises to operate business of supply chain management within free port zones is expecting to be more prosperous than those existing global logistics centers. As displayed in Figure 6, the SCM center can provide services including VMI, supply chain planning, logistics planning, supply base management, order management, repair service, and manufacturing operations, etc. The most important factor for an enterprise to provide supply chain management service is know-how; i.e., fully understanding the client's product supply chain and capable of designing efficient and effective supply chain system for customer's requirement.



Source: Adapted and revised from Shih (2008) Speech in NTOU, October 2008.

Figure 6 Supply Chain Management Center (SCM)

V. Empirical Results

To deeply understand the current situation on the business development in the FTZ, an empirical study was conducted in January 2010 to collect the opinions from the experts and practioners. Following academic guidance (Oppenheim, 1992), a copy of questionnaire was designed, which composed of four parts: (1) part I is a short cover letter; (2) part II includes 21 types of businesses originally planned by government; (3) the third part includes 5 new business paradigms potentially to be developed; and (4) part IV is other written suggestions. Respondents were asked to assess the potential for developing those FTZ and Non-FTZ businesses as well as new businesses. Purposive sampling was employed to select some experts or practioners working in companies of existing FTZs to answer the questionnaire.

5.1 Basic Information of Respondents

As shown in Table 6, totally 26 copies of completed questionnaires were collcted from respondents operating businesses in the existing FTZs (port of Keelung, Taipei, Taichung, Kaohsiung and Far Glory). Over 75 percent of the opinions were provided by FTZ practioners who were having long working experience (over 10 years) and taking a senior position (senior sales above) in their organizations. Therefore, the results contain valuable information for the industry and governmental agency.

Table 6 Information of Respondents

Company category	Data category	No. of Respondent	Perecntage (%)
Academic		4	15.4
Location of company	Keelung port	6	23.1
	Taipei port	1	3.8
	Taichung port	6	23.1
	Kaohsiung	2	7.7
	Far Glory	7	26.9
Time to work in company	Less than 5 years	2	7.7
	6-10 years	7	26.9
	11-15 years	4	15.4
	16-20 years	7	26.9
	More than 21 years	6	23.1
Job title	VP and above	3	11.5
	Manager	5	19.2
	Section chief	6	23.2
	Senior sales	5	19.2
	Sales Representatives	3	11.5
	Others	4	15.4

5.2 Empirical Data Showing the Potentiality for Developing Businesses in FTZs

As mentioned in section 2.2, two types of business are allowed to operate within FTZ. The first is FTZ enterprises who are allowed to engage in trading, warehousing, logistics, collecting and distributing(cargo of) containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing and fabricating, processing, manufacturing, displaying, or technological service within a FTZ; the second is Non-FTZ enterprises who are allowing to provide financial, stevedoring, catering, hotel, business conference, and transshipment services.

Table 7 Potential for Developing FTZ Businesses

Types of business	Degree of potential					
	Impossible to develop	Least potential	Less potential	Have potential	More potential	Great potential
Repairing and Processing	0	0	0	7.7 %	53.8 %	38.5 %
Trading	0	0	0	19.2 %*	42.3 %	38.5 %
Logistics	0	0	3.8 %	3.8 %	46.2 %	46.2 %
Sorting	0	0	3.8 %	3.8 %	50 %	42.4 %
Warehousing	0	0	3.8 %	11.5 %	50 %	34.7 %
Packaging	0	0	3.8 %	7.7 %	57.7 %	30.8 %
Assembling	0	0	3.8 %	7.7 %	57.7 %	30.8 %
Collecting and distributing(cargo of) containers	0	3.8 %	0	34.6 %	42.4 %	19.2 %
Transiting of cargo	0	3.8 %	11.5 %	26.9 %	34.6 %	23.2 %
Transshipment of cargo	0	3.8 %	7.7 %	26.9 %	34.6 %	26.9 %
Forwarding	0	0	3.8 %	53.9 %	30.8 %	11.5 %
Customs clearance	0	3.8 %	0	46.2 %	34.6 %	15.4 %
Technological service	0	3.8 %	19.2 %	34.6 %	26.9 %	15.5 %
Manufacturing	0	3.8 %	15.4 %	42.3 %	30.8 %	7.7 %
Displaying	3.8 %	7.7 %	11.5 %	38.6 %	26.9 %	11.5 %

* The ratio of respondent's evaluation of potentiality.

Table 7 summarizes the respondent's evaluation of potentiality on FTZ-business. Among those 15 types of business planned by government, "repairing and processing" has been pointed out having the highest potentiality to be developed within the free trade zone in Taiwan. Over forty percent of respondents consider the businesses of “logistics” and “sorting” having higher potentiality to be developed than other types of business. On the contrary, “displaying” of products has been evaluated as the business with least potentiality to be developed in FTZs. The other businesses with lower potentiality are “manufacturing”, technical service”, and “customs clearance”.

Regarding those six items of non-FTZ businesses, experts and practioners generally consider they are lack of development potentiality (Table 8). Over ten percent of respondents even think “hotel” is impossible to develop. In the meantime, the businesses with least potential to be developed include “catering”, “transshipment services”, “business conference”, and “financial”.

Table 8 Potential for Developing Non-FTZ Businesses

Types of business	Degree of potential					
	Impossible to develop	Least potential	Less potential	Have potential	More potential	Great potential
Stevedoring	0	0	7.7 %*	38.5 %	42.3 %	11.5 %
Financial	3.8 %	15.4 %	11.5 %	38.5 %	19.3 %	11.5 %
Business conference	3.8 %	15.4 %	15.4 %	46.2 %	11.5 %	7.7 %
Transshipment services	7.7 %	7.7 %	23.1 %	26.9 %	23.1 %	11.5 %
Catering	7.7 %	23.0 %	19.3 %	38.5 %	7.7 %	3.8 %
Hotel	11.5 %	19.3 %	19.3 %	34.5 %	7.7 %	7.7 %

* The ratio of respondent’s evaluation of potentiality.

Focusing on the new business paradigms, as indicated in Table 9, all experts and practioners agree that “regional hub/distribution center” and “regional service/repair center” are having higher potentiality to be developed in Taiwan’s free trade zones. Nevertheless, “regional auction center” is having least potentiality to be developed.

Table 9 Potential for Developing New Business Paradigms

Types of business	Degree of potential					
	Impossible to develop	Least potential	Less potential	Have potential	More potential	Great potential
Regional Hub/Distribution Center	0	0	0	19.2 %*	42.3 %	38.5 %
Regional Service/Repair Center	0	0	0	19.2 %	46.2 %	34.6 %
Multi Countries Consolidation	0	0	7.7 %	15.4 %	42.3 %	34.6 %
Supply Chain Management & VMI	0	0	3.8 %	23.1 %	38.5 %	34.6 %
Regional Auction Center	3.8 %	3.8 %	11.5 %	34.6 %	30.9 %	15.4 %

* The ratio of respondent’s evaluation of potentiality.

VI. Conclusions

Following the other country’s model, Taiwan government made concerted efforts to initiate a series of economic development programmes to increase its economic growth. In 2003, Taiwan began promoting the “free port plan” to further upgrade its national economic development. The major purpose is attracting multi-national enterprises to establish their Asia-Pacific operational headquarter within Taiwan’s FTZ. The major incentives provided are as follows: (1) allowing in-depth value-added processing; (2) relaxing hiring ratio for foreign workers; (3) Customs duty & tax exemption; (4) new regulations for facilitating business activities; (5) ease of financial operations; and (6) granting operators autonomous management and exempt from customs checking and inspection, as well as cargo tracking escort.

As of December 2008, there were five FTZs established in Taiwan. Farglory is the only one private-owned FTZ and adjacent to international airport area; the other four FTZs are situated in seaport area and are public harbour bureaus-the ports of Keelung, Taipei, Taichung and Kaohsiung. Taichung port has achieved the biggest volume of operational performance in terms of total importing and exporting cargoes' value among the four prot area FTZs in 2007; besides, all the port area FTZs have got huge increase of business volume between 2007 and 2006. The airport area FTZ-Far Glory also increased 35 times of business performance between 2007 and 2006. In addition, the total volume of business performance of Farglory in 2007 is much higher than those four port area FTZs due to the air cargoes' value are generally higher than those of seaborne cargoes.

Owing to the time and cost constraints, the study only collected empirical data from a small sample. Nevertheless, the empirical data still pointed out the direction of developing some types of business within the free trade zones in Taiwan. Among those 15 types of FTZ-business planned by government, "repairing and processing" has been pointed out having the highest potentiality to be developed within the free trade zones, which followed by "trading", "logistics", "sorting", "warehousing", "packaging", and "assembling". On the contrary, "displaying" of products has been evaluated as the business with least potentiality to be developed in FTZs. The other businesses with lower potentiality include "manufacturing", technical service", and "customs clearance". Almost all the non-FTZ businesses have been considered as lacking potentiality; over ten percent of respondents even think "hotel", "catering" and "transshipment services" are impossible to develop in existing free trade zones.

Some practioners pointed out that Taiwan's free trade zones are full of potential to expand the following integrated logistics businesses: (1) Multi Countries Consolidation; (2) Regional Hub/Distribution Center; (3) Regional Service/Repair Center; (4) Regional Auction Center; and (5) Supply Chain Management & VMI. The empirical survey confirmed that "regional hub/distribution center" and "regional service/repair center" are having higher potentiality to be developed; nevertheless, "regional auction center" is with lowest potentiality. There are some beneficial conditions which will help the successful operations of the five centers, such as: (1) Taiwan located in the center of eastern Asia, (2) high quality of manufacturing technology, (3) high quality and frequent shipping service, (4) many incentive measures offered for operation within free trade zone, and (5) high quality human resources and stable business environment.

In the future, we suggest researchers may conduct further study on the following issues: (1) to coduct empirical survey to understand the important factors which will help enterpeises successfully operating those potential businesses mentioned above; (2) to continue exploring what incentive schemes would be more effective for promoting business operations within free trade zones in specific areas/regions.

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