



ARE GROWING BUSINESS TIES BETWEEN TAIWAN AND CHINA A PRELUDE TO PEACEFUL UNIFICATION?

Prerna Gandhi
Research Associate, CAPS

In a speech posted on the presidential website on 1st January 2014, Taiwan's President Ma Ying-jeou New Year's address stated that the government needs to end its political stalemate with China to spur economic growth. In order for Taiwan to take its economy to the "next level," the island would need a breakthrough in the "cross-strait standoff" and "boost cross-strait economic and trade cooperationⁱ." Though since his election in 2008 and consequent re-election in 2012, President Ma is seen to have a pro-China agenda and secretly steering Taiwan to eventual unification, the growing economic integration between the island and mainland China cannot be discounted. From 26th largest trading partner in 1992 to 4th largest trading partner in 2002, China is currently Taiwan's number one trading partner with bilateral trade worth more than \$110 billion (2012) – Taiwan's largest export destination and second largest source of imports. What is even more interesting is that while Taiwan inward FDI stock is among the smallest in Asia-Pacific countries, 80% of all outward FDI in Taiwan goes to Mainland Chinaⁱⁱ.

The inclusion of China in Asian production networks since 1990s while allowing for higher economic gains for the participating countries has shifted much of the production work to China in view of cheaper costs of labor and greater economies of scale. In Taiwan's case, while its major export of IT hardware production increased from \$42.8bn to \$100bn in 2001-08, its actual production in Taiwan declined from 47.1% to 1.3% while China's share increased from 36.9% to 90.6% in the same periodⁱⁱⁱ. Of China's core industrial exports in the information technology (IT) sector, an estimated 70% are produced by foreign-invested enterprises, 70% of which are Taiwanese. Also Taiwanese companies relocate a high portion of their R&D to China pushing it up the technological ladder. China seems to respond to the three major strands of R&D motivation:

market, excellence in some areas, and costs^{iv}. Taiwan is also the second-largest investor in China after Hong Kong, accounting for roughly 5.2% of China's cumulative US\$960 billion FDI in 2009. However much of what is listed as Hong Kong outward FDI in China is, in fact, investment by domestic Chinese that is "round-tripped" through Hong Kong or from various western nations and Taiwan that is placed into China via Hong Kong intermediaries^v.

Economic ties have especially surged between Taiwan and China since Ma Ying-jeou became president in 2008 and instituted policies to build relations with China. The sides in 2010 signed the Economic Cooperation Framework Agreement, or ECFA, which has paved the way for other pacts such as one on investment protection in 2012 and a services agreement in 2013 that allowed for Taiwanese companies to take controlling stakes in China joint ventures, streamline approvals and expand operations in service sectors.^{vi} The Taiwanese businessmen or *taishang* were regarded with mistrust by the former DPP administration, which considered them as paving the way for unification. However this perspective has changed under the new KMT (Kuomintang) government, in power since May 2008. President Ma Ying-jeou has indicated his desire to work closely with the *taishang* and to facilitate the establishment of a common market across the Taiwan Strait and joining the TPP. With ever-growing competition for Taiwanese capital between China and some of its neighbors—most notably, Vietnam—as well as among various Chinese regions, provinces, and cities, the *taishang's* bargaining potential is significant. Moreover, the Chinese government is eager to diversify Taiwanese investment to areas where development is most needed. At the same time, the *taishang's* increasingly close relationships with mainland local authorities allow the Taiwanese to build well-functioning interest networks that give them substantial influence in Chinese local politics^{vii}.

Closer economic links with the mainland no doubt bring greater opportunities for the Taiwan economy, but also pose new challenges as the island which becomes more economically dependent on China while political differences remain unresolved. Concerns about the economic

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impact on Taiwan of large outward flows of FDI are also paralleled by political concerns about the leverage this may give China over Taiwan. Taiwan is not only more vulnerable to China than vice versa, but China has incentives to impose—or threaten to impose—economic sanctions against Taiwan. First, the economic linkages between China and Taiwan are asymmetrical: Taiwan is far more dependent on China than vice versa. Second, China has a much larger economy: its domestic market can easily absorb sudden impacts resulting from economic sanctions. Finally, China is still under authoritarian rule: domestic resistance caused by economic sanctions, whether political or social in nature, can be easily handled or suppressed. However in the case of a military escalation, Taiwan would ask the US to lend its military support to deter China from taking the island. If this support was given, the “bargaining value” of economic sanctions would be zero. Hence while large-scale economic sanctions by China are too devastating for trivial disputes, they are too feeble under conditions of urgency.

We can try and classify the Taiwanese businessmen’ role in cross strait relations in four categories: first *Taishang* as China’s hostages- if China threatens to cut off cross-strait economic ties, putting *taishang* business interests and assets in jeopardy and holding them as economic hostages, they may be used to force the Taiwan government into line. Second *Taishang* as China’s agents- in order to counter China’s pressure and to secure their own economic interests, the *taishang* actively support and promote China’s Taiwan policy, thus acting as Beijing’s agents. Third *Taishang* as Taiwan’s buffer- if the *taishang* are recognized by Beijing to be indispensable for the growth of China’s export economy, they may become a political buffer for Taiwan thus helping the Taiwan government. Fourth *Taishang* as Taiwan’s lobbyists- if the *taishang* can effectively use their own institutional channels such as the Taiwanese Business Associations (TBAs) to influence the Chinese government, they may become lobbyists for Taiwan^{viii}.

Given Taiwan’s growing trade dependence on the Chinese mainland and the attractiveness of China’s enormous market for Taiwanese entrepreneurs and investors, Beijing is often seen as

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trying to “use business to steer politics” or to “use economics to promote unification”. It has sought various means to seek political leverage over Taiwan by making full use of the mainland’s economic clout. Taiwan in turn since the mid-1990s has promoted policy initiatives of “going south” and “patience over haste”, in an effort to dampen the effects of economics on politics^{ix}. While the “firm hand” aspects of policy such as the 2005 Anti-Secession Law can be said to be offensive to counter Taiwan’s pro-independent agenda, one can say greater challenges are posed for Taiwan by the “soft hand” aspects of China’s current Taiwan policy^x. This “soft hand” policy is designed to intensify cross-strait economic integration, or—in the DPP’s interpretation— to increase Taiwan’s economic dependency on the mainland. It can be safely assumed that this policy rationale has been reinforced after the KMT victory in May 2008.

Burgeoning economic ties across the Taiwan Strait have slowed the development of a separate Taiwanese identity. Though there is little evidence that economic integration is transforming Taiwan public opinion in a decisive way toward a pro-unification consensus, the growing economic integration—and the changed image of China as a vibrant economy to which Taiwan's future will be hitched—has acted as a brake on the growth in a separate Taiwan identity. And even though the percentage of Taiwan citizens self-identifying as exclusively “Taiwanese” has grown in recent years, most Taiwan citizens continue to oppose the adoption of policies that might trigger war with China^{xi}. Though China may keep missiles pointed at Taiwan, more than a million Taiwanese (5% of population) now live in China full time -- about half of them in the Shanghai area -- running factories, starting restaurants, attending universities, buying property. There are 270 regularly scheduled flights each week between Chinese and Taiwanese cities, and they are almost always fully booked^{xii}.

China's long-term goal is reunification, and the actors in Taiwan who would be hurt most by economic sanctions are those businesses that also happen to have a large stake in the China market and are quite pragmatic on the issue of Taiwan's sovereignty. Hence ultimately, if Beijing is going to achieve its goals vis-à-vis Taiwan, unless it hopes to conquer the island and rule it through coercion alone (which would be extraordinarily costly), it needs long-term allies there (or, if not allies, at least actors who might acquiesce to Mainland authority). Taiwan businesses with Mainland investments thus become the most obvious candidates, because they already have a stake in China. So while growing business ties may strongly deter a military led unification if not allow for a peaceful unification- they have helped in calming the cross-strait tensions and prompting the

increasing economic integration to allow for even greater economic interdependence between Taiwan and China.

Endnotes:

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies CAPS)

ⁱ The Malaymailonline.com, *Taiwan President Ma says ending China standoff will spur growth*, Jan 1, 2014 at <http://www.themalaymailonline.com/money/article/taiwan-president-ma-says-ending-china-standoff-will-spur-growth>

ⁱⁱ China Taiwan Economic relations at http://www.piie.com/publications/chapters_preview/5010/01ie5010.pdf

ⁱⁱⁱ Congressional Research Service, *US Taiwan Relationship: Overview of Policy Issues*, Aug 4, 2011 at <http://fpc.state.gov/documents/organization/170495.pdf>

^{iv} Meng Chun Liu, *Regional Innovation System and Offshore R&D Networks of Taiwan-based Firms in China*, Chung-Hua Institution for Economic Research

^v Guoqiang Long, *China's policies on FDI: Review and Evaluation* at <http://www.cgdev.org/sites/default/files/9780881323818-Ch12.pdf>

^{vi} Bloomberg News, *China Signs Pact With Taiwan to Open Services Trade Sectors*, Jun 21, 2013 at <http://www.bloomberg.com/news/2013-06-21/china-taiwan-services-pact-signals-warmer-ties-after-2010-deal.html>

^{vii} Shu Keng and Gunter Schubert; *Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration*, *Asian Survey*, Vol. 50, No. 2 (March/April 2010), pp. 287-310 accessed from <http://www.jstor.org/stable/10.1525/as.2010.50.2.287>.

^{viii} *ibid*

^{ix} Scott L. Kastner, *When Do Conflicting Political Relations Affect International Trade?*, *The Journal of Conflict Resolution*, Vol. 51, No. 4 (Aug., 2007), pp. 664-688 accessed from <http://www.jstor.org/stable/27638570>

^x Shu Keng and Gunter Schubert; *Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration*, *Asian Survey*, Vol. 50, No. 2 (March/April 2010), pp. 287-310 accessed from <http://www.jstor.org/stable/10.1525/as.2010.50.2.287>.

^{xi} Scott L. Kastner, *Does Economic Integration Across the Taiwan Strait Make Military Conflict Less Likely?*, *Journal of East Asian Studies*, Vol. 6, No. 3 (SEPTEMBER–DECEMBER 2006), pp. 319-346 accessed from <http://www.jstor.org/stable/23417931>

^{xii} The Washington Post, *Despite a government standoff, people of China and Taiwan increasingly mingle*, July 20, 2010 at <http://www.washingtonpost.com/wp-dyn/content/article/2010/07/19/AR2010071905247.html>