The Chen Administration Acts to Expand Cross-Strait Economic Relations

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Two developments during the past six months have demonstrated a determination by the Chen administration to expand economic relations with mainland China, despite the continuing political impasse. These were the recommendations by the Economic Development Advisory Conference (EDAC), endorsed by President Chen, and the admission of Taiwan to the World Trade Organization (WTO).

The EDAC—composed of 120 business leaders, government officials, academics, and representatives of the ruling and opposition parties and presided over by Chen Shui-bian—reached a consensus in late August 2001 on 322 proposals. The willingness of the opposition parties to participate and the ability of EDAC to reach a consensus on a large number of proposals reflected a deep concern among the participants over Taiwan’s severe economic recession and the need to act to revive the economy.

Easing Restrictions on Cross-Strait Investment

On November 8, 2001, the People’s Republic of China (PRC) cabinet announced that the previous “go-slow, be-patient” policy toward mainland investment would be replaced by a new policy defined as “active opening, effective management.” A number of EDAC recommendations concerning mainland investment were adopted. The new policy lifted the $50 million limit on single investment projects on the mainland; simplified the process of seeking approval of investments under $20 million; authorized Taiwan banks, through their offshore banking units, to deal directly with mainland financial institutions, thus permitting entrepreneurs to send funds directly across the Strait rather than going through a third place; and exempted mainland investments from double taxation. In order to increase the flow of capital investment into Taiwan, the previous total ban on investment from mainland China is being lifted: Investment is being allowed initially in Taiwan real estate.

The Chen administration has recognized that Cross-Strait trade and investment policy must be an integral part of Taiwan’s global economic strategy. In order to compete effectively in the world marketplace, Taiwan’s entrepreneurs must be able to take full advantage of the mainland’s cheaper land and labor and its massive market. Chairwoman Tsai Ing-wen of the Mainland Affairs Council (MAC), pointed out that the transfer of Taiwan’s labor-intensive manufactures to the mainland had resulted in the upgrading of Taiwan’s industry. Now 55.8 percent of Taiwan’s exports constitute high-tech products, and industrial hollowing-out is no longer a major concern. She warned, however, that it will continue to be important for Taiwan’s industries to keep their roots in Taiwan.¹

Adjusting to Membership in the World Trade Organization

By January 1, 2002, both the PRC and Taiwan had become members of the WTO. Both will
have to make substantial adjustments in their trade regulations in order to comply with WTO requirements. Taiwan officials recognize that lowering import restrictions on imports from the mainland of China will result in a considerable increase in imports, especially in agricultural products, and that increase will have a damaging impact on Taiwan’s farmers. In order to limit that impact, investment from Taiwan has been banned in the production of hogs, chickens, pond-raised fish, and other agricultural products that can now enter Taiwan from the mainland under WTO rules. The impact on Taiwan’s economy will not be entirely negative, however. Taiwan authorities expect that the PRC’s membership in the WTO will open opportunities for an increase in Taiwan’s exports to the mainland and participation in service industries there.

In a talk at Twin Oaks in Washington, D.C., on December 4, 2001, Tsai Ing-wen stressed that both Beijing and Taipei would have to adjust to the globalizing trend and to the membership of both in the WTO. She said she expected that the process would be difficult, taking several years to complete. In order to bring Taiwan’s trade with China in line with its trade with other countries, Taipei would begin with unilateral actions, without consultation with Beijing—but eventually, with respect to some topics, consultation with Beijing would be essential. She hoped that the authorities there would be flexible enough to sit down with Taiwan representatives to discuss differences.

Cross-Strait Travel

Since 1987, when large-scale travel from Taiwan to mainland China began, the government in Taipei has maintained tight restrictions on travel in the reverse direction. Restrictions were necessary to prevent the island, one of the most crowded areas on earth, and its population of 23 million from being overwhelmed by emigrants from among the 1.3 billion Chinese on the mainland. Pressures have been growing, however, to ease the restrictions. Married businessmen from the mainland wanted to bring their spouses and children to Taiwan. Companies with factories on the mainland wanted to bring technicians to Taiwan for training. The tourist industry, suffering from Taiwan’s economic recession, wanted to open the door to mainland tourists. The Chen administration responded by taking several steps to modify immigration strictures.

As of August 2001, approximately 120,000 marriages had taken place between people from the two sides of the Taiwan Strait. During the three years from 1998 to 2001, the number of spouses admitted to Taiwan for permanent residence was limited to 3,600 per year. Spouses admitted to Taiwan from the mainland were not allowed to take jobs. From January 1 to March 19, 2001, 346 mainland spouses were expelled for working illegally in Taiwan. Growing criticism resulted in the modification of this restrictive policy in April 2001. Mainland spouses are now allowed to work if their Taiwan spouses come from low-income families, are 65 or older, are mentally or physically disabled, or suffer from serious disease or injury. In August 2001, the Mainland Affairs Council announced that the quota for the admission of mainland spouses would be raised beginning in 2002.

In October 2001, Taipei relaxed its restrictions on the travel of merchants and business professionals from mainland China. Professionals had to have worked in their present posts for only three months instead of one year. They could reside in Taiwan for up to six years, instead of the previous three-year limit. They needed to file their entry applications only five days in advance, instead of two months before arrival. These decisions were responses to suggestions by the American Chamber of Commerce in Taipei and the European Council of Commerce and Trade, making it easier for multinational corporations to operate out of Taiwan. Requirements for the admission of mainland Chinese merchants were reduced from average annual Cross-Strait purchases of $500,000 to $300,000 or single-visit purchases of $100,000 instead of $200,000. Their
entry permits would also be processed in five days instead of two months.⁴

Vice President Annette Lu had announced in January 2001 that, beginning on July 1, 500,000 tourists from mainland China would be admitted to Taiwan. On July 9, however, the MAC announced that detailed arrangements would be “subject to Cross-Strait negotiations, which we cannot make public for the time being.”⁵ Finally, Tsai Ing-wen announced that mainland Chinese who were studying abroad or were permanent residents of foreign countries would be admitted to Taiwan as tourists beginning on January 2, 2002. These tourists would have to travel in groups, their visits would be limited to 10 days, and a limit of 1,000 per day would be imposed.⁶

**Petroleum Project Cooperation**

The China Petroleum Corporation (CPC) of Taiwan and the China National Offshore Oil Corporation (CNOOC) of mainland China agreed in December 2001 to resume the joint petroleum exploration project originally agreed to in July 1996 but suspended after Lee Teng-hui’s July 1999 characterization of Cross-Strait relations as “state-to-state” relations. The two state-owned corporations now will invest up to $20 million in a 50:50 joint venture registered in a third country. The agreement was expected to be signed in late December in Kaohsiung during an annual industry conference, which would permit drilling to begin as early as January 2002.⁷

**Information Industry Manufacturing Continues Shift to Mainland**

Taiwan’s government-backed China External Trade Development Council (CETRA) led a semiconductor trade mission to mainland China in December 2001 to promote cooperation between companies on the two sides of the Taiwan Strait. It was the first time that CETRA has gone to the mainland to promote sales of Taiwan’s semiconductor products. Seven of Taiwan’s leading semiconductor companies held seminars in Beijing for 800 representatives of mainland semiconductor-related businesses.⁸

In December 2001, the Ministry of Economic Affairs in Taipei announced that the ban on investment on the mainland for the manufacture there of 122 information technology products would be lifted. Among the 122 products were notebook computers, DVD players, and mobile phones. Notebook computer manufacturers, who for a long time had been manufacturing computer components in their mainland factories, now will be able to assemble notebook computers there, both for export and for sale on the growing mainland market.⁹ Taiwan’s Institute of Information Industry predicted that the mainland factories of Taiwan’s companies will produce 2 million notebook computers in 2002, 15 percent of their estimated production of 14 million units.¹⁰

Until recently, Taiwan had assembled liquid crystal display (LCD) monitors with LCD panels imported from Japan. Gradually, Taiwan manufacturers acquired the technology and, during 2001, produced nearly $3 billion worth of LCD panels in Taiwan. Some LCD manufacturing has already moved to mainland China, following the established pattern of higher technology flowing from Japan to Taiwan and then on to the mainland.

Since 1996, Taiwan’s producers of motherboards have been establishing plants on the mainland. By 1998, 60 percent of the value of motherboards produced by Taiwan companies came from their mainland plants.¹¹ Asustek, Taiwan’s largest motherboard manufacturer, has shifted part of its production to the mainland, as have all of Taiwan’s other principal motherboard manufacturers. In September 2001, one of them (Gigabyte Technology Co.) announced that it was entering into a joint venture with Legend Holdings, the PRC’s leading computer company, to produce motherboards on the mainland. Each of
the partners will hold a 50 percent interest in the joint venture, which, by combining the production of their existing factories, will produce 9 million motherboards annually, making it the third largest manufacturer of motherboards in the world, after Taiwan’s Asustek and Elitech Computer Systems Company. By joining with Legend, Gigabyte will gain preferred access to China’s growing computer market.\footnote{12}

Silicon wafer foundries have been among Taiwan’s high-tech industries in which mainland investment has been banned, but the EDAC recommended that the ban on 8-inch chip foundries be lifted. In December 2001, Morris Chang, chairman of Taiwan Semiconductor Manufacturing Co. (TSMC), the world’s largest contract manufacturer of chips, urged the government to act on this recommendation. He said that, even though the mainland microchip market was relatively small, the global semiconductor industry was in a slump, and therefore there was no need for Taiwan companies to set up 8-inch foundries on the mainland in the near future. China’s semiconductor industry would grow rapidly during the coming five years, he predicted, and Taiwan companies would have to position themselves to participate in it. Chang also predicted that within 10 years the mainland’s integrated circuit design industry would exceed Taiwan’s. TSMC itself has opened a liaison office in Shanghai to explore business relationships and markets with potential foundry suppliers on the mainland, appointing a senior official from TSMC North America to head the office.\footnote{13}

Robert Tsao, the head of TSMC’s chief rival in Taiwan, the United Microelectronics Corp. (UMC), visited Shanghai in August to explore the possibility of selling 8-inch used foundry equipment to semiconductor manufacturers in mainland China. TSMC officials revealed that their company also had been assessing the prospect of selling some of its used machinery to the mainland.\footnote{14}

The PRC is pressing hard to surpass Taiwan in semiconductor production. Its wafer foundries currently turn out only 4-inch, 5-inch, and 8-inch wafers, but three plants under construction will produce both 8-inch and 12-inch wafers. Nevertheless, Taiwan, possessing the world’s most advanced 8-inch and 12-inch manufacturing equipment, will still hold an advantage. Its foundries currently account for 13.5 percent of global production. Taiwan also exceeds mainland China in design houses. There are 140 in Hsinchhu Science-Based Industrial Park, compared to only 21 in Shanghai. Nevertheless, the PRC has plans to make the Shanghai area the largest semiconductor base in the world and has attracted semiconductor firms from Taiwan, Japan, and the United States to the Zhangjiang High-Technology Park in the Pudong district. Dr. Gong Wang of Taiwan’s Industrial Technology Research Institute points out that Taiwan and the PRC are competing strenuously for technology; capital; well-trained, high-caliber engineers; and an investment environment for building their semiconductor bases.\footnote{15}

\section*{Three Links}

At the panel presentation at Twin Oaks on December 4, 2001, Tsai Ing-wen said, “if we need three links for Cross-Strait trade, we will find ways to accomplish this.” Some progress in devising ways to continue to expand Cross-Strait trade and travel was evident, despite the inability to reach agreement on instituting the full three links.

Taiwan–Hong Kong aviation relations, which were extended for six months after the previous five-year agreement expired on July 1, 2001, continued into the beginning of the new year, even though no new multiyear agreement had been signed. The delay apparently resulted from differences over whether the new agreement could be negotiated entirely by unofficial organizations, as preferred by Beijing, or would include participation by the MAC, as desired by Taipei.

On October 12, 2001, the MAC reported that the PRC had gradually relaxed its restrictions on visits to Jinmen and Mazu by mainland ships and
people under the mini-links program. By the end of September, mainland ships had made 27 voyages to the two offshore islands, and 524 people from the mainland had made the trip. Taiwan vessels made 96 voyages to mainland ports, and 8,703 persons from the islands visited the mainland.16

On September 5, 2001, the cabinet approved expanding the operation of the mini-links to the Penghu Islands in the middle of the Taiwan Strait. In December, the PRC invited two magistrates-elect from Jinmen and Mazu to go to Beijing to discuss cooperation on the mini-links, which Taipei welcomed as an indication that Beijing was becoming more proactive in promoting such exchanges.

Taipei altered its regulations to make possible some Cross-Strait direct shipments via the transshipment center in Kaohsiung, but Tsai Ing-wen said this was not enough, and that means should be found to expand it.

Tsai said that establishing a Cross-Strait air link was the most difficult. She said that once such a link had been established, trips by people from Taiwan to the mainland would increase from the current 3 million per year to 5 million. Cross-Strait negotiations on an air link have been delayed not only by differences between Beijing and Taipei about the institutions empowered to negotiate but also by the difficulty of reaching a consensus among Taiwan agencies about how to prevent the opening of a Cross-Strait air link from endangering Taiwan’s security.

Other indications of movement toward opening the three links include the purchase by Taiwan’s China Air Lines of a 25-percent stake in a newly established mainland air cargo company, the purchase of a 49-percent stake by four Taiwan air companies in a new air freight terminal in Xiamen, and the resumption of a biannual seminar on Cross-Strait shipping services. The seminar, originally established in 1991 but suspended since 1997, was cosponsored by Taiwan’s Chinese Maritime Research Association and the mainland’s Association for Shipping Across the Taiwan Strait and was held in Shenzhen in September 2001. Two low-level officials from Taiwan’s Ministry of Transportation and Communication attended the seminar.17

Conclusions

Although neither Jiang Zemin nor Chen Shui-bian has been willing to meet the other’s terms for the opening of a political dialogue between their representatives, both have favored the expansion of Cross-Strait economic relations. The interactions of both economies in the WTO will promote further movement in that direction, although it will take time to make the necessary adjustments.

Yielding to business pressures, Chen Shui-bian has consented to the replacement of Lee Teng-hui’s policy of “no haste, be patient” regarding Taiwan’s investments on the mainland with a new policy designated “active opening, effective management.” The new policy reflects Chen’s espousal of “the middle way” in his governance of Taiwan. In carrying out active opening, the government relaxed restrictions on mainland investment, and through effective management, it moved gradually and carefully on the three links and the admission of mainland tourists to Taiwan. Chen sought a balanced Cross-Strait policy that would enhance Taiwan’s ability to prosper in the global trend toward interdependence without imperiling Taiwan’s security or his own political position and prospects.

Taiwan and the PRC are in a transitional period in Cross-Strait relations. The Chen administration is seeking ways of taking advantage of its election gains in the Legislative Yuan to improve its ability to govern. Leaders in the PRC probably are still mulling over the implications of the Taiwan election for their own Cross-Strait policy. Both governments need time to adjust to their membership in the WTO. In the meantime, business enterprises on both sides of the Strait will be finding ways to expand Cross-Strait economic relations in anticipation of an upturn in the global economy in 2002.
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