As long as the trend toward economic globalization persists and China absorbs increasing amounts of foreign direct investment and supplies a growing proportion of manufactured goods to the world market, Taiwan’s economy cannot avoid being drawn more and more into China’s orbit. In order to compete in the global market, Taiwan’s manufacturers increasingly have had to shift the manufacture of their export goods to mainland China to take advantage of the lower wages and land prices there. Many Taiwan companies have also found ways to compete with local companies in China’s huge domestic market. Taiwan companies often have technology and managing and marketing skills that mainland companies lack. Taiwan is also heavily dependent on the surplus in its trade with mainland China to maintain a high level of foreign exchange reserves. In 2002, that surplus amounted to $22.7 billion, an increase of 34 percent over the previous year.1

President Chen Shui-bian has recognized the importance to Taiwan’s economy of Cross-Strait relations. As he told U.S. Undersecretary of Commerce Grant D. Adonas in April 2002, Taiwan’s highest development strategy was “developing Taiwan with a global vision,” and, he added: “We have made mainland China an integral part of our global business development plan to ensure our best interests and sustain our national growth.” Despite Chen’s commitment in principle to making mainland China an integral part of Taiwan’s global business plan, many of Taiwan’s business leaders feel that Chen’s government has been slow to implement that commitment.

Former President Lee Teng-hui at one time also stressed the economic importance of mainland China to Taiwan, referring to the mainland as Taiwan’s “economic hinterland.” By 1996, however, Lee was urging manufacturers to invest in Southeast Asia instead of the China mainland and coined the slogan “Avoid haste, be patient” as a guide to prospective investors on the mainland. By 2001, Lee and the Taiwan Solidarity Union (TSU) he sponsored had become the leading opponents of easing restrictions on Cross-Strait investment and trade. During the debate over the transfer to the mainland of 8-inch wafer foundries, Lee declared that the shift should not be permitted until the PRC had renounced the use of force against Taiwan.

The Wafer Foundry Decision

In an article in American Foreign Policy Interests for the February 2003 issue, I discussed the intense debate in Taiwan as to whether the principal producers of computer chips should be allowed to build foundries in mainland China to produce 8-inch wafers for sale in the domestic market there. In May 2002, the government approved in principle the building of 8-inch wafer foundries on the mainland under the following conditions: (a) Only three Taiwan companies could do so prior to 2005; (b) only used machinery could be employed; (c) etching technology could not be smaller than 0.25 microns; and (d) the company involved had to demonstrate a production run in Taiwan of 12-inch wafers for at least six months.

The Taiwan Semiconductor Manufacturing
Company (TSMC) applied in September 2002 for permission to build a wafer foundry in Sungjiang, near Shanghai. On January 22, 2003, the Ministry of Economic Affairs (MOEA) approved, in principle, TSMC’s plan to invest $898 million to build the plant. The MOEA’s Investment Commission required, however, a second-stage review to determine where the financing would come from and which employees would be transferred to the mainland. TSU legislators questioned whether TSMC had achieved mass production of 12-inch wafers in its Taiwan plant, suggesting that the second-review process could take “between one and two years.”

In a review of Taiwan’s semiconductor industry, the U.S.–Taiwan Business Council pointed out that by delaying approval of the construction of wafer foundries in the PRC, Taiwan risked losing out on supplying China’s fast-growing chip market and would make it easier for the mainland’s top chip maker, the Semiconductor Manufacturing International Company (SMIC), to become a serious contender in the global foundry industry, currently dominated by Taiwan’s TSMC and United Microelectronics Corp. (UMC).

**Direct Cross-Strait Shipping and Flights**

Since the late 1990s, the government in Taipei has been responding slowly to the pressures from Taiwan businessmen to permit direct shipping and air travel across the Taiwan Strait. In 1997, the government established a transshipment center that allowed direct shipping to and from the mainland ports of Xiamen and Fuzhou of goods originating in or destined to third areas—not passing through Taiwan customs.

In September 2000, Chen Shui-bian declared, “It is about time to have direct shipping links and we must seriously face the issue. We can no longer act like an ostrich and use national security as an excuse.” Beginning in January 2001, Taipei authorized shipping companies to carry cargo and passengers between the mainland and the offshore islands of Jinmen and Mazu. The authorization was later expanded to include the Penghu Islands in the middle of the Taiwan Strait. This process, referred to as “the mini-links,” although subject to various restrictions on both sides, has opened a crack in the total ban on direct travel between Taiwan-held territories and the mainland.

In response to a proposal by KMT legislator John Chang, endorsed by more than 200 other legislators, the government authorized indirect charter flights during the January–February Chinese New Year by six Taiwan airlines in order to handle the overflow that could not be accommodated on scheduled flights. The charter flights passed through Hong Kong or Macau, but passengers remained on the same plane and, for the first time since 1949, Taiwan airliners landed in Shanghai to unload or take on passengers. PRC officials criticized the requirement that the charter flights had to be indirect but did not insist that mainland airlines be allowed to participate. During the same Chinese New Year period, hundreds of Taiwan business people based in Fujian and elsewhere in China were allowed to travel by ferry from Xiamen to Jinmen, where they flew to destinations in Taiwan. In early March, five ships in Jinmen and Xiamen began regular Sunday service between the two places to facilitate travel by this route.

These baby steps toward direct shipping and air travel have done little to satisfy those desiring direct flights. Representatives of multinational corporations point to the lack of direct flights as a serious impediment to establishing their regional headquarters in Taiwan. Decisions by Taiwan companies on the relative size of operations in Taiwan and on the mainland are also affected. J. T. Wang, president of Acer, Inc., said that if direct flights are not established soon, he could be forced to shift more of his personnel from Taiwan to the mainland.

The Chen administration, despite Chen’s earlier promise to move forward on opening direct
Cross-Strait transportation, in recent months has stressed the problems and difficulties of doing so. In January 2003, Tsai Ying-wen, chairman of the Mainland Affairs Council (MAC), warned that “direct Cross-Strait transportation will not be as wonderful as the public thinks.” She said that the mini-links had not produced a balanced flow of people and resources but simply resulted in more residents of Jinmen and Mazu traveling to the mainland to spend money there. She added, “We can’t ignore the negative impact brought by Cross-Strait direct transport links, especially given that the flow of economic resources is seriously uneven.” She commented further that national security and political and social stability had to be taken into account. The MAC has completed a massive study of the advantages and disadvantages of direct Cross-Strait transportation, but, as of April 1, 2003, it had not been released to the public.

**Advances and Regression in Cross-Strait Relations**

Five Taiwan banks—the United World Commercial Bank, the Chang Hwa Bank, the China-Trust Commercial Bank, the First Commercial Bank, and the Land Bank of Taiwan—have set up representative offices in mainland China. The Bank of Taiwan has also received approval from Taiwan’s Ministry of Finance and expects soon to apply for permission from the People’s Bank of China to join the other Taiwan banks on the mainland. Once they have been authorized to upgrade their offices to branches, these banks will be able to offer important services to the thousands of Taiwan-owned businesses on the mainland.

Chungwha Telecom, Taiwan’s leading telecommunications company, in February 2003 reached agreement with the PRC’s China Telecom to provide “virtual private networks” (VPNs) to companies on either side of the strait. Through VPNs, businesses will be able to conduct two-way videoconferencing and individuals at remote locations will be able to access their companies’ local area networks through public phone lines. Transmissions will be encrypted to maintain confidentiality.

Governor Perng Fai-nan of Taiwan’s Central Bank of China announced in January 2003 that mainland investments by Taiwan firms totaled $66.8 billion, including both investments approved by the Ministry of Economic Affairs and nonregistered investments reaching the mainland through various channels. He quoted PRC statistics that contracted Taiwan investments amounted to $61.6 billion, with $33.2 billion actually realized. Perng also noted that Taiwan’s exports to Hong Kong and mainland China in 2002 totaled $40.8 billion, a 28 percent increase over the previous year and a sum amounting to 31.2 percent of Taiwan’s total exports. Imports increased 25 percent to $9.7 billion. Thus economic ties between Taiwan and the mainland continued to grow rapidly.

Less noticed, perhaps, have been the increasing family ties across the strait. The latest census by the Ministry of the Interior in Taipei reports 148,000 spouses from mainland China now living in Taiwan. Vice Premier Lin Hsin-yi announced that more than 500,000 people from Taiwan are now living on the mainland.

In January 2003, MAC authorized the legal import and sale of books from mainland China for use in colleges and universities. This action simply legalized a practice that had been going on illicitly for many years. According to press reports, at least seven bookstores near National Taiwan University and National Taiwan Normal University have specialized in selling books from mainland China.

For more than 10 years, TV stations in Taiwan have broadcast the programs of the mainland CCTV-4 network. Taiwan stations have unsuccessfully sought to obtain permission from the PRC government to broadcast their programs on the mainland. In February 2003, the government information office (GIO) in Taipei issued an order prohibiting Taiwan stations from broad-
casting CCTV-4 programs. GIO officials expressed the hope that shutting down the CCTV-4 programming would exert pressure on the PRC authorities to open the mainland market to Taiwan programs.\textsuperscript{12}

For years Taiwan fishing companies hired mainland fishermen to work on their boats because too few people in Taiwan were willing to sign on for the low-paid, dirty work.\textsuperscript{13} In February 2002, the PRC issued an edict forbidding mainland fishermen to work on Taiwan boats, allegedly because of poor working conditions. Some boat owners have substituted fishermen from Southeast Asia, but they much prefer crews from mainland China because of the common language. Many fishing boats have been idled for lack of crews.\textsuperscript{14}

Golfers, like businessmen, seem little troubled by the political gulf between the two sides of the strait. In March 2003, 24 professional golf players from both Taiwan and mainland China gathered at the Hong Shee Golf and Country Club at Taoyuan for the seventh annual competition between players from the two sides of the strait. Any player making a hole in one on the 18th hole received a free Land Rover.

The 2004 Presidential Election

Less than one year remains before the March 2004 presidential election. The parties concerned are already organizing themselves for that contest. The “pan-blue” forces, consisting mainly of the Kuomintang (KMT) or Nationalist party, headed by Lien Chan, and the People First party (PFP), headed by James Soong, have publicly declared they will cooperate to defeat the “pan-green” forces, consisting of the Democratic Progressive party (DPP), headed by Chen Shui-bian, and the TSU, sponsored by Lee Teng-hui. Soong has accepted nomination as the vice presidential candidate, supporting Lien as the presidential contender, despite the fact that in the 2000 election Soong received 37 percent of the popular vote and Lien only 23 percent. Because the two of them together received 60 percent of the popular vote, compared to Chen’s 39 percent, it is clear that if Soong had not left the KMT and organized his own rival party, the KMT would not have lost its hold on power. Thus if the pan-blue forces truly cooperate in the coming election, they will have a good chance of defeating Chen.

On March 16, 2003, Lee Teng-hui once again injected himself into the political scene with a speech to the annual conference of the World Taiwan Association, in which he called for a new constitution for Taiwan that would change the name of “the Republic of China” to “the Republic of Taiwan.” Premier Yu Shyi-kun promptly rejected the proposal, declaring that a change in the national designation would sabotage stability across the strait. He stressed that the Cross-Strait policy of the Chen administration was stability and peace, and that taking provocative action was not a good idea. A public opinion poll by the Lien Ho Pao indicated that only 27 percent of respondents supported Lee’s proposal, whereas 49 percent opposed it. The poll also found that only 17 percent favored Lee’s continued effort to influence the political scene, whereas 62 percent expressed the hope that he would completely withdraw from politics.\textsuperscript{15} This development suggests that cooperation between the DPP and the TSU may not come easily.

The pan-blue forces are blaming the Chen administration for Taiwan’s lagging economy. In the year 2001, Taiwan suffered unprecedented negative results. In 2002, the economy expanded by 3.27 percent, slow growth by Taiwan standards, and it is projected at only a slightly higher rate in 2003. Related to the slow growth of the economy is the debate over whether investment on the mainland is helpful or harmful.

On March 30, 2003, the KMT nominated Lien Chan as its presidential candidate and James Soong as his running mate. Lien declared that after winning the election, he would make a “journey of peace” to mainland China. Why Lien chose to repeat the same proposal in the same words used by Lee Teng-hui in his May 1996 inaugural address is a puzzle. Chen Shui-bian promptly
slapped it down as a “journey of surrender,” tantamount to the denial of the Republic of China’s (ROC’s) sovereign status. “I think such a person is unlikely to be elected as ROC president,” he added. Lien also pledged that he would push for the opening of direct Cross-Strait transportation links. These opening salvos indicate that Cross-Strait relations and the closely allied topic of Taiwan’s economy will be important topics in the presidential election campaign.

A Vision of the Future

The American Chamber of Commerce in Taiwan envisions a future in which the island could become a world-class global business platform for both foreign and domestic firms. Such a future would require several factors:

1. intellectual property protection better than that accorded by any other economy;
2. a fully transparent capital market with outstanding accounting, corporate governance, and debt resolution systems;
3. open work permit and immigration policies that promote rather than restrict immigration; and
4. direct telecommunication and transportation access to every major manufacturing base and consumption market.

The chamber acknowledges that achieving this vision would involve some risk but believes it would solidify Taiwan’s position as a global player and prevent its marginalization.

In a speech to the American Chamber of Commerce on February 20, President Chen Shui-bian sought to address some of the chamber’s concerns by outlining measures the government was taking to reduce the banks’ ratios of nonperforming loans and to protect intellectual property rights.

As of late May 2003, the Chen administration had made some progress on financial reform but had difficulty in winning public approval for its economic performance because the unemployment rate remains stubbornly at around 5 percent, two or three points higher than during the period of KMT rule.

About the Author

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Notes

13. Ralph N. Clough, Reaching Across the Taiwan Strait (Connecticut, 1993), 74–76.