

CHINA'S RISE AND TAIWAN'S DILEMMAS

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THE TAIWAN-CHINA RELATIONSHIP – THE DILEMMA OF POLITICAL CONFRONTATION AND ECONOMIC INTER-DEPENDENCE

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History has placed Taiwan and China on opposite ends of the political and economic spectrum, more by accident than by design. Yet at the same time both have found the other to be, in many practical senses, ideal business partners. We know for a fact that both sides are likely to go on doing business together. The big question is: Can the two reconcile their political differences and stop the bickering and fighting against each other? Can they treat and represent each other as equal partners? Or will one continue to insist on being the whole and full entity while making the other its subordinate, as has been going on for so long?

Due to lack of natural resources and limited land, Taiwan's economy is heavily dependent on trade. Its total exports and imports as a percentage of its GDP is 79%. A great portion of this 79% involves trade with one single country, the People's Republic of China, and progressively so. Yet, contrary to some expectations, economy cooperation has not led to lessening of the political hostilities on China's part. The PRC is the only country in the world that has repeatedly threatened to take over Taiwan with force, and has hundreds of missiles ready to launch at Taiwan. The key issue for Taiwan is: when and how can the dilemma of political confrontation and economic interdependence be resolved? Before then, what are the viable economic alternatives for Taiwan?

As a retired banker whose career dealt daily with business transactions between these two countries, I can see some serious pitfalls, missed opportunities, and perhaps offer some solutions which I would like to share with you.

KEY POLITICAL FACTS

During the past century, Taiwan was loosely associated with China for three short years, which was mostly unpleasant, for example the 228 incident in 1947. At no time did Taiwan ever belong to the People's Republic of China. Japan ruled Taiwan for fifty years from 1895 to 1945. After Japan's surrender in World War II, General Douglas McArthur authorized Chiang Kai-shek's troops, as representatives of the Allied Forces to occupy the island for the time being. By default Taiwan turned into Chiang's permanent refuge after he was defeated by the communists and driven out of China in 1949.

Taiwan proved to be an ideal safe haven for Chiang. Chiang hid himself on this island, an international power vacuum, and smartly espoused his brand of ultra anti-communism to his American ally. He used to brag that Taiwan was "Free China" when in effect Taiwan was neither free nor China. However, for three decades the U.S. supported and perpetuated Chiang's myth that he represented all of China as if the real Chinese Communist regime didn't exist at all.

The occupation of Taiwan by this same regime continued until May 2000, when Chen Shui-bian of the Democratic Progressive Party won the presidential election. By then, Taiwan had already become an obscure entity having almost no recognition from the international community. Today, the Taiwanese people and its government fight an uphill battle to get their country the respect and representation they deserve, despite China's consistent effort in smothering Taiwan's attempt to establish its presence in the international arenas. Taiwan's latest defeat at the World Health Assembly as an observer is outrageous considering the SARS crisis. Most of the countries did not dare to vote in favor of Taiwan's bid in fear of China's political wrath, afraid that such would subsequently damage their own relationships with China.

ECONOMIC NECESSITY PREVAILED

From an economic standpoint, Taiwan and China make perfect partners--China provides cheaper labor, raw materials, land and other natural resources while Taiwan furnishes capital, capital goods, management expertise and technology. This kind of collaboration, in addition to geographical closeness and linguistic and cultural similarities, naturally propels the two economies into one efficient and productive linkage, unstoppable despite attempted containment by the Taiwan government. Thus despite, and as a result of, their world-renowned economic miracle, Taiwan's energetic small and medium-size businessmen have in the mid-80's discovered their absolute necessity to invest billions of dollars to relocate and further upgrade their enterprises in China.

Taiwan's small and medium enterprises had to relocate to China because the main driving force behind its economic miracle was its labor-intensive advantages. By the 1980's they had run out of room inside Taiwan-- land and space literally were hard to come by, but particularly due to the scarcity and higher cost of labor. What China could offer in these areas was simply too good to pass up. So initially in the mid-80's, even though they knew this movement was against the law, the businesses invented all kinds of creative means-- such as black market foreign exchange, indirect through Hong Kong or the U.S., using personal rather than business identifications, etc. etc. -- to invest and trade with China. By then China had also loosened up its tight political and economical controls and realized the advantages of such unofficial bilateral activities. The Chinese government began offering various tax incentives to attract Taiwan businesses.

Soon medium and larger size businesses followed suit. By 1991 the overwhelming trend and the practical problems and needs that resulted then forced the authorities on both sides of the Strait, albeit grudgingly on the part of Taiwan, to set up some unofficial, but in reality quasi-governmental, institutions such as the Mainland Affairs Council and the Straits Exchange Foundation to deal with the bilateral affairs. However, Taiwan's government has not had much success in helping Taiwanese business in China in resolving business disputes when the disputes are quashed as domestic disputes by the PRC.

Taiwan's trade with and investment in China has grown even more dramatically in recent years. China lists Taiwan as its second largest source of investment after Hong Kong. While government statistics often disagree with each other, estimates of the cumulative level of investment by Taiwan firms in China are \$70 billion or higher. Two-way commerce with China accounts for 16.4% of the island's total foreign trade in the first three months of 2003. In just a few years China has become Taiwan's largest export market and second largest trading partner. China became Taiwan's largest source of trade surplus, presenting an otherwise deficit in trade accounts. Taiwan in turn provided China with the tremendous amount of equipment, know-how and management capabilities.

What is wrong with the picture above? Well, nothing is wrong, if you are Chinese. For Taiwan, this clearly signals an economic over-dependence on Taiwan's part. It severely violates the prudent economic policy of spreading and diversifying foreign investment risks, and should be addressed and rectified right away. This is true for economic dependency on any single country, and especially true if that country poses as a hostile political entity. To this day, China continues to insist that Taiwan is a part of China, and if necessary, it is determined to use force to take over Taiwan. Indeed, China has hundreds of short-range missiles aimed at Taiwan. The military build-up continues as we speak. The irony of all this is that the country that was most concerned about the well being of the Chinese economy and the value of the Renminbi is none other than Taiwan.

For the most part, Taiwan's government did little to stop the flow of investment to China. It did establish laws restricting companies over a certain size and from certain sectors to invest there, but businesses found ways to circumvent the law.

Taiwanese investments in China are also at the mercy of very crude and unsound legal, judicial, and governmental systems and regulations, which could all spell trouble and disaster. Where a legal system and regulations are in place, enforcement is often ineffective in a society such as the Chinese where political considerations and human intervention take precedence over the rule of law. Why then, given such a bleak circumstance, did Taiwan's business still swarm to China like there's no tomorrow? These businessmen believed that tomorrow would be bleak if they did not make the move. But an interesting twist was that they tried to justify and rationalize their decision by thinking that if they could handle and succeed under KMT's corruptive and "rule of man" environment, then they should be experienced enough to go one level up and manage a similar environment in China.

The wakeup call came when China fired its missiles across the Taiwan Strait in 1996 to intimidate Taiwan's presidential election. The only certain thing was that Taiwan's government subsequently laid out a "no haste, use patience" remedy to attempt to slow down the flow of funds to China. This kind of moral persuasion was naïve and impractical and did not solve the problem. It later offered a "Southward Policy" to encourage business investment in Southeastern Asian countries as if that were a panacea, only to find out that quite a few businesses had already made their presence there on their own. The government's actions were too late again, and no substantive plans or programs were ever promulgated.

NEW EXACERBATIONS

Since the change of administration in 2000, the Democratic Progress Party (DPP) has had even more difficulty in controlling investment in China. As a result, capital flowed to China without any hold-back. When faced with the question of profits and survival, business people could not be as concerned about the wellbeing of Taiwan's economy, political stability, and national security. We saw an acceleration in the transfer of technology, including those technologies that have been essential to Taiwan's economic vitality. For example, the government caved under pressure from the chip makers to allow them to transfer the technology of computer chip manufacture to China. What is next? The U.S. might become reluctant to transfer technologies to Taiwan in the future. The danger is that Taiwan's superiority in manufacturing high-value added goods will erode.

As has already happened, there has been a continuous exodus of highly trained technology personnel from Taiwan. These scientists and engineers, who have made Taiwan a leading manufacturer in computers and related products, are finding employment in China. Taiwan is

now contemplating issuing immigration visas to other nationals who could fill this void in human resources.

POLITICAL STALEMATE

The big question I posed at the beginning: Can the two sides reconcile and co-exist peacefully? Given the historical background and the realities of today, barring any miracle, I'd have to say in the foreseeable future, the answer is an unfortunate "no." In spite of the glaring fact that Taiwan's economic relationship has afforded China so many benefits and advantages — capital inflow, employment opportunities, trade surplus, management expertise, etc. — why is it that this political stalemate is so diehard and un-resolvable? Three thoughts come to mind:

- 1) "Middle-Kingdom-Ruler's complex" — Since the inception of its empire the Huang Emperor, China has for 5,000 years regarded itself as the "Middle Kingdom". Its ruler is the sacred Son of Heaven. All other nations and peoples are considered barbarians. All peoples with Chinese blood running in their bodies are forever subjects of the one and only Chinese Nation. Therefore the Mandarin word for "Chinese" (中國人) implies both nationality and ethnicity. To the Chinese people, it is a matter of national pride to rein in Taiwan. Further, the one and only vested sacred motherland is not to be separated in any way. Territories that once belonged to China are forever considered a part of China. So Taiwan's hundred years of separation did not alter the grand scheme of things. Despite that the Taiwanese people have forged their own national identity, culture, life style, political orientation and language, the Chinese consider Taiwan an inseparable part of China, and that Taiwanese are compatriots of China, no matter what. They even apply this kind of absolute and unswerving "Grand China-ism" mindset to every Chinatown the world over. It is particularly unfair to apply and impose such an outdated concept devoid of logic and reality on today's Taiwan.
- 2) The Taiwanese people have been conveniently used as a scapegoat and imaginary enemy by the Communist rulers to divert its people's attention away from its internal problems and to mobilize its people to wrap up their proclaimed "unfinished revolution and unification of motherland." The hostility directed at Taiwan by these rulers is deep-rooted, dating back to the Civil War between Chiang and Mao. Yet it is so profound that it simply lingers on in spite of the passing of both Chiang and Mao, and their henchmen. I guess the Taiwanese people and their present leaders who played no part in that war are guilty by association. To the old-world leaders full of vengeance and hatred, letting Taiwan and its people go would not be face-saving; and face-saving is a big deal in Chinese politics. Further, to let go of Taiwan will pose a problem with Tibet and Chinese Turkistan, among others.
- 3) The 23 million Taiwanese people are unwilling to be swallowed up into a heterogeneous and backward system of China. They are already enjoying democracy that the Chinese people can only dream of. The "one country, two system" model being played out in Hong Kong casts doubt on China that it will live up to its promises. Recent case in point, the mere consideration of Article 23 led close to ten percent of Hong Kong's citizens protesting in the streets, which is a shock to Beijing. China's handling and lies about the SARS crisis and its continued blockade of Taiwan from entering the World Health Assembly speak loudly about China's lack of respect for the Taiwanese people's human rights and welfare.

The shame about all of this is the fact that political confrontation is absolutely unnecessary and of no benefit to any one. Instead, a friendly and accommodative relationship between the two countries would complement each other economically, greatly reduce the tensions in the region,

and bring about much good to the world community. Taiwan, for the sake of its survival and prosperity, would never want to be uncooperative or hostile toward China.

SUGGESTED COURSES OF ACTION FOR TAIWAN

(1) Political Actions

In the face of this insurmountable political stalemate, Taiwan needs to win the sympathy and understanding of the international community. It should emphasize to the world that Taiwan is now a sovereign democracy, its people desire peace and co-existence with the PRC, and that the Taiwanese national identity has emerged and cannot be quashed.

To avoid being viewed as a provocateur Taiwan should engage in dialogues or negotiations with China as equal political entities without pre-set conditions, time tables or undue pressures from any party. This is the only fair and honest way to truly negotiate. It took decades and many meetings for the U.S. and the PRC to negotiate and establish diplomatic relations under a much less strained situation. It will take much more time to effect a peaceful resolution between China and Taiwan.

Until a peaceful resolution is reached, and until China abandons the option to use force against Taiwan, Taiwan has to continue to enhance its national defense capabilities and to safeguard itself from potential hostile infiltration. A lot of things could happen in China in the meantime -- contradictions and conflicts between central and local governments, between the communist system and free market reforms, between old rulers and new cadets, between party members and non-members, between coastal and inland provinces, etc. With China's increased exposure to the outside world's technological, informational and communicational developments, penetrating impacts can be expected on its population to bring about desirable changes. Time will heal the wounds and scars of history, as older generations fade away, younger ones take over. One can expect that perhaps someday a viable solution can be found, but more likely later than sooner.

(2) Economic Diversification

a. Free Trade Agreement

The most immediate remedy is for the Taiwan government to aggressively pursue bilateral free trade agreements that would result in favorable trade terms and/or lower tariff for the respective countries involved, and that which would be conducive in international joint ventures between Taiwan and other countries. The first of these free trade agreements should be negotiated with the United States.

Even though Taiwan and the U.S. already have a history of strong trade relations, a free trade agreement with the United States is particularly critical for both economic and political reasons. Trade volume between the two countries will increase and economic relationship enhanced. In addition, a free trade agreement that encourages international joint ventures can create mutually beneficial business opportunities for both Taiwan and the United States. Taiwanese companies have had tremendous success engaging in international business in Asia; Taiwanese corporations are one of the largest investors in Asia. In a U.S.-Taiwan joint venture where the American partner supplies the technology and capital and the Taiwanese partner provides the management capabilities and investment experiences in Asia, they can penetrate new markets where each alone cannot. To the extent of doing business in China, the Taiwanese partners have the added language skills and cultural similarities to help their American partners; the American presence gives the business entity the "international" status

needed in negotiating with the Chinese, and thus reduces political risk. As pointed out earlier, for Taiwan companies without a strong “international” partner, business disputes with the Chinese are often quashed by the PRC as domestic disputes.

United States is the one Taiwan looks to for defense against China’s threats. A U.S.-Taiwan FTA would signify the strong ties between Taiwan and U.S., and therefore boost Taiwanese people’s confidence and optimism. And when the leader of the world signs a free trade agreement with Taiwan, many countries will be more willing to sign similar free trade agreements with Taiwan. FTAs with other countries will certainly help Taiwan build more international relationships.

Lastly, Taiwan is not the only country that is becoming overly dependent on China and in need of economic and risk diversification. Many other countries also face the same problems and are in need of diversification. All in all, the FTA would lessen everyone’s dependency on China. The risk to everyone is too great if China becomes the sole factory of the world.

b. Education

The main problem with over-concentration in China is because most Taiwanese businessmen lack the language skills and adaptability to do business elsewhere. The most fundamental and long term investment Taiwan can have for its own economic vitality is to educate its future generations. Business schools and universities should set up divisions or departments that specialize in the studies of certain geographical areas and/or countries. Offer curriculum that teaches the economic and political systems, as well as the languages skills and cultures of these foreign countries. Equip business students with the knowledge of each foreign country’s geo-economic systems and the complementary relationship with Taiwan’s economy, so after they graduate, they would be able to do business in or with these foreign countries.

c. Government’s Planning and Assistance

In conjunction with educational institutions, the government needs to cultivate regional economic specialists who are familiar with political, social, linguistic and cultural affairs of the countries targeted for investment. The purpose is to lend a useful and helping hand to the businesses, including but not limited to seminars and workshops and the timely update of new information, to minimize their risks and costs, and to maximize their profit while contributing to the local economy.

In addition to signing as many free trade agreements as it makes economic sense, and providing updated information to the business sector as indicated above, the government has to engage in negotiation with the host countries to provide the best trade terms and investment environment, including tax incentives, labor, land, etc. This should be backed by formal governmental agreements to facilitate and protect investors' interests and well being.

By helping Taiwanese firms to invest in or trade with the right country at the right time given the right opportunity and environment, Taiwan can help enhance the host country's economic development. The two countries will form a permanent bond and mutual acceptance, one that the expedient "money diplomacy" cannot buy. This will, in turn, enhance Taiwan's international status and diplomatic relations. Ultimately, this should send a message to Beijing that Taiwan no longer depends so much on the mainland market and strengthen Taiwan’s bargaining power with China.

CONCLUSION

China is too big, too real, and too important for Taiwan to ignore. The first order of business is for Taiwan to solidify its national defense and security. At the same time Taiwan should redirect its foreign investment program away from China but to other suitable countries in order to reduce its dependence on China and to diversify its efforts and spread its risks. The solutions I proposed earlier are just some of the ways to achieve that goal. Concurrently, attempts to dialogue and negotiate with China should continue in the hope that someday China will sincerely come to the table, wanting to effect a mutually equal, equitable, friendly and beneficial relationship. Negotiation is also a must to extract whatever better terms to protect the investment and human rights of the Taiwanese doing business in China, to facilitate business activities and to resolve disputes, and to enhance the understanding of each other's cultures. Finally, negotiations show Taiwan's international friends that it is sincere in wanting to be a friendly and cooperative member of the international society and worthy of their sympathy and support. I would argue that a democratic capitalist Taiwan is a natural ally for newly emerging democracies.

Taiwan's President Chen Shui-bian once said, "Dream is beautiful, and with dream hope follows." I would like to close by offering my own version of Dr. Martin Luther King's famous "I have a dream" speech as follows:

"I have a dream, that someday—

*Taiwan will enact a new constitution declaring its sovereignty covering the territory it now actually occupies, separate and independent from mainland China;

*Taiwan will change its national name from the "Republic of China" to the "Republic of Taiwan";

*Taiwan will formally announce its recognition of the sovereignty of the People's Republic of China as the sole government of China;

*Taiwan will declare its intention to become the friendliest nation to China and to offer to establish diplomatic relation with China;

*Taiwan will strengthen its national defense, both militarily and spiritually, enough to preserve its independence and integrity;

*Taiwan will develop long-term, well-diversified and balanced economic policies and plans to ensure its continued prosperity;

*China will realize that a friendly Taiwan is in the best interest of China's development and world peace;

*The international society will no longer pretend like Taiwan doesn't exist, much like the same way China was once ignored for more than thirty years;

*Taiwan will be freely re-admitted to all the international organizations as a full-fledged member to fulfill its obligations and enjoy its rights."

Thank you.

About the Speaker:

Following a life-long commitment to promoting human rights and democracy for Taiwan, in 2002 Li-Pei Wu founded the Formosa Foundation, non-partisan, public interest group dedicated to promoting human rights and democracy, and exchanging ideas and fostering better understanding and friendship between the United States and Taiwan. In 2004, Taiwan's President Chen appointed Wu as Senior Advisor to the President.

Wu has been a banker by profession. In 2003 he retired from GBC Bancorp and its subsidiary bank, General Bank, as Chairman of the Board, before GBC Bancorp merged with Cathay Bancorp to form Cathay General Bancorp in the same year.