

# Taiwan to increase economic links with China

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In an historic move, the Taiwan Economic Development Advisory Conference (EDAC) recommended last weekend that the island's government remove restrictions on trade and investment with China. Taiwan's president, Chen Shui-bian, has already indicated that his administration will fully implement the conference's proposals.

The restrictions to be dispensed with date back to the 1949 overthrow of the Chinese Kuomintang (KMT) or Nationalist Party regime by the peasant armies of the Stalinist Communist Party. The KMT and much of the Chinese capitalist class fled to Taiwan, where they imposed a brutal dictatorship over the island's population. With US support, it maintained it was the legitimate Republic of China government and severed all contact with the mainland.

Fifty-two years later, EDAC is proposing that direct shipping and air links be re-opened from major Taiwanese cities. It has also called for the removal of restrictions on investment in China, introduced in 1996, which limit projects to \$US50 million and proscribe any investment in computer or information technology industries. The conference has recommended that tourism and investment from China be allowed.

Taiwan permitted "mini-links" in January, allowing direct travel to the mainland from two Taiwanese-held islands off China's coast. Full links had been anticipated by the end of the year as both China and Taiwan are scheduled to enter the World Trade Organisation (WTO) in 2002. Under WTO rules, China could have challenged the restrictions as trade barriers.

The increased links are the product of pressure on the Taiwanese government by sections of the island's corporate elite. Eager to maintain and extend the investments they have built up in China during the 1990s, leading business figures are advocating closer ties and even talks toward some form of reunification, similar to that carried out between the mainland and Hong Kong in 1997.

Cumulative Taiwanese investment in China is estimated to range from \$US60 billion to \$US100 billion. There are 50,000 Taiwanese-owned businesses in operation and some 250,000 Taiwanese work and live on the mainland. *Asiaweek* commented in its July 6 issue: "Taiwan's political

leaders officially gave up the goal of retaking the mainland in 1987, but an economic assault by its businessmen is now in full swing. What's more, Beijing is welcoming the attack with open arms."

The accelerating exodus of capital to the mainland has been fueled by Taiwan's descent into recession. The island's Gross Domestic Product (GDP) contracted by 2.35 percent in the June quarter, the worst figure in 26 years. The main factor in the slowdown is the collapse of high-tech exports to the US and Japan. In July, Taiwan's exports of electronics plunged 43.5 percent and telecommunication sales fell by 27.9 percent.

Taiwan's high tech and computer industry is transferring production to China, in order to take advantage of low-cost labour, cheap land, favourable tax rates and potential sales to the mainland's growing middle class. In the past 16 months, Taiwanese firms, both large and small, have contemptuously bypassed the government's attempt to restrict investment and poured up to \$US15 billion into China. Taiwanese-owned companies are now responsible for 60 percent of China's IT exports.

A series of major high-tech investments—still illegal under Taiwan law—are underway according to *Asiaweek*. Taiwanese conglomerate Formosa Plastics is alleged to be involved in constructing a \$1.6 billion semiconductor plant in Shanghai in a joint partnership with Chinese entrepreneur Jiang Mainheng, the son of Chinese president Jiang Zemin. Taiwan's second largest semi-conductor manufacturer, United Microelectronics, is believed to be investing in six Shanghai assembly plants at a cost of \$2.6 billion, funneling the money through Singapore.

Flowing from the economic ties, there are growing calls that Chen Shui-bian recognise the "One China" policy—that the island is an inseparable part of China—insisted upon by Beijing and supported by Taiwan's former KMT regime. For Chen, such a step would involve repudiating the platform of his Democratic Progressive Party (DPP), which is formally committed to declaring Taiwan a separate nation-state from China. China, which regards the island as a rogue province, has previously threatened to invade Taiwan if independence is declared.

Since his victory in last year's presidential election, Chen has repeatedly pledged not to implement the DPP's independence platform unless Taiwan is attacked. He has projected a moderate image and stated his willingness to enter into negotiations with China, including on reunification. His refusal to accept the "One China" formula, however, has been held up by Beijing as evidence that he is a "separatist" and used to justify not holding official talks with his administration.

The recriminations in Taiwan over the tense relations with China have increased since the installation of George W. Bush as US President. The Republican administration has adopted a bellicose and provocative stance toward China, labelling it a "strategic competitor" and a long-term threat to US interests. Bush stated in April that his administration would "do whatever it took" to defend Taiwan in the event of a Chinese invasion.

The prospect of Taiwan being used as a justification for US hostility against China has produced alarm and fear on the island. Wang Yung-ching, the chairman of Formosa Plastics, bluntly warned in June that the island risked being sacrificed "as a frontline pawn for the US". In a direct attack on the government, he declared: "Taiwan simply can't run against the global trend of opening up to the mainland market. Taiwan people should calmly accept the 'One China' principle and enjoy long-lasting mutual benefits."

Reflecting the divisions in the US itself over Bush's policies toward Taiwan, Dell Computer, the largest purchaser of Taiwanese-manufactured laptops, became the first foreign transnational to join the criticism of Chen and the ongoing rift with China. In late July, Max Fang, the company's senior representative in Taiwan, told a business audience: "How can you expect to be an Asia-Pacific procurement centre if you are isolated from the biggest market in the region?"

Corporate leaders even suggested earlier this month that they be permitted to represent Taiwan at China's annual National Peoples Congress (NPC) so they could more directly influence mainland economic policy. Token delegates appointed by Beijing currently represent Taiwan at the NPC.

These layers have hailed the EDAC proposals. Others, however, have responded by denouncing the recommendations as a dangerous capitulation to Chinese pressure. Sections of big business are wary about making any concessions to Beijing and support independence, regarding the present indeterminate status of Taiwan as an impediment to their broader international economic interests.

Vice-President Annette Lu, a senior DPP leader and aggressive advocate of Taiwan independence, attacked both Chen and pro-China sections of big business on August 13.

"That individual in control, that person in power, should gather his courage and consult his conscience, so that he can take responsibility for the historical decision to remove the \$US50 million limit on investments in China. Taiwanese businessmen are fleeing like a swarm of bees to China, taking Taiwan's hard-earned capital and investing it there. And now they want to force the government to open up trade without any limitations."

Others have warned of a "hollowing-out" of industry or Beijing using economic blackmail—such as seizing investments—to force Taiwan to give the mainland control over the island's internal affairs.

As a result of these divisions, the legislative elections in December this year are shaping up to be a bitterly fought, de-facto referendum on which direction Taiwan will take—toward reunification or independence.

The KMT and the other major opposition party, the Peoples First Party (PFP), which was formed from a split in the KMT after last year's election, have restated their adherence to the "One China" policy and the ultimate goal of reunification. Both are attacking Chen as being incapable of ensuring stability across the Taiwan Strait and have sent delegations to China to hold talks with senior mainland officials on cross-strait relations. If they retain their majority in the parliament—and the ability to block government legislation—Chen will be pressured to increase the overtures toward Beijing, or face being forced out of office.

To prevent a pro-China legislature, elements of the KMT that harbour pro-independence positions are moving toward an open split. A new political party, the Taiwan Solidarity Union (TSU), was formed in June by supporters of former KMT president Lee Teng-hui. Lee, a Taiwanese nationalist, introduced the "no haste" policy in 1996 and sought to cultivate pro-independence sentiment in the population. The TSU's stated aim is to win seats from the KMT, form a majority coalition with the DPP and block closer ties with the mainland.

The conflicting outcomes desired by Beijing and Washington are turning what is already an unstable and flammable domestic situation into one of the most explosive international flash points.



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