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Taiwan-Mainland Economic Nexus

Socio-Political Origins, State-Society Impacts, and Future Prospects

Hsin-Huang Michael Hsiao
Alvin Y. So

香港亞太研究所

Hong Kong Institute of Asia-Pacific Studies
The Chinese University of Hong Kong
Shatin, New Territories
Hong Kong

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Alvin Y. So

Hong Kong Institute of Asia-Pacific Studies
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About the authors

Dr. Hsin-Huang Michael Hsiao is Research Fellow at the Institute of Ethnology, Academia Sinica and Professor of Sociology at the National Taiwan University, Taiwan.

Dr. Alvin Y. So is Professor of Sociology at the Department of Sociology and Research Associate at the Social Science Research Institute, University of Hawaii.

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Abstract

Most researchers working on Taiwan's mainland investment are economists and tend to focus on the economic dimension of the Taiwan-mainland nexus. Consequently, they are unable to explain both the timing (why it started in 1987), the locale (why in Guangdong and Fujian), the ownership (why the preference for sole ownership), the investors (why small and medium enterprises took the lead), and the speed (why at such a rapid rate) of Taiwan's mainland investment. In this respect, the aim of this paper is to bring the socio-political dimension back in so as to gain a broader picture on its origins, impacts, and prospects. First, this paper will investigate to what extent have the origins of Taiwan's mainland investment been shaped by other than economic factors. Second, this paper will study how the Taiwan-mainland economic nexus has exerted such a profound impact on Taiwan's state-society relationship. Finally, this paper will briefly examine the future prospects for this nexus, extending it to the conception of the "Great Chinese Economic Circle."

Introduction

On December 5, 1985, Chen Guoxun, a small businessman in Taiwan, was sentenced to twelve years of imprisonment by his government on the ground of carrying out "rebellious" activities. The prosecutor charged Chen with illegally entering mainland China in 1984, signing a contract with mainland officials, and engaging in direct trade and investment on the mainland. Chen's twelve-year sentence sent a shock wave to those Taiwanese busi-

nessmen who had engaged in illegal mainland trade and investment since the early 1980s (*Pai Shing Semi-Monthly*, March 1, 1986).

Nevertheless, Taiwanese businessmen were not deterred by their government's ban on mainland investment. In the late 1980s, Taiwan's mainland investment increased at a very rapid rate. From US$100 million in 1987, it jumped to US$1 billion in 1989; and it reached the US$2 billion mark a year later. In 1990, Taiwan became the number two investor on mainland China, surpassing even the U.S. and Japan (Lee, 1991, p.1).

Aside from its illegality, Taiwan's mainland investment has also exhibited the following characteristics. First, with respect to locale, most Taiwanese investment has been in Guangdong and Fujian — two mainland provinces closest to Taiwan. Second, with respect to the investors, they are mostly from SME (small and medium enterprises). According to Chiu and Chung (1992, p.20), the average scale of mainland operations in terms of invested capital is US$650,000, and the average number of workers employed on the mainland is 312 (about 1.5 times of those employed by the parent firms in Taiwan). Third, with respect to ownership, it is estimated that 70 per cent of Taiwanese investment in Guangdong and Fujian provinces are sole ownership enterprises rather than joint ventures with mainland enterprises (Economic Division of Taiwan Institute, 1990, p.6). Finally, with respect to the nature of investment, most of them are in such labor-intensive industries as shoemaking, plastic products, and textiles. What attracts the Taiwanese investors to mainland China is the abundant supply of cheap labor.

This peculiar pattern of Taiwan's mainland investment has received widespread attention in the literature. Since most researchers on this topic are economists, they tend to focus on the economic dimension of the Taiwan-mainland nexus. In this regard, the literature has made a significant contribution to our understanding of the economic characteristics, the economic origins, the economic impact, and the economic prospect for Taiwan's mainland investment.

However, since the Taiwan-mainland nexus involves more than the economic dimension, it is necessary to bring the socio-political dimension back in if researchers want to gain a broader picture of its origins, impacts, and prospects. The aim of this paper is twofold: (1) it will investigate to what extent were the origins of Taiwan's mainland investment shaped by other than economic factors; and (2) it will study how the Taiwan-mainland economic nexus has exerted a profound impact on Taiwan's state-society relationship. In the end, this paper will briefly examine the future prospects for extending this nexus to the conception of "the Great Chinese Economic Circle."

Socio-Political Origins

There is, of course, no lack of sound economic explanations for Taiwan's mainland investment (see, for example, Chiu and Chung, 1992). It is pointed out that the Taiwanese economy had begun to experience three major developmental problems by the early 1980s. First, Taiwan faced such internal problems as labor shortages and rising labor costs, huge foreign exchange reserves and the rapid appreciation of the Taiwan dollar, escalating prices of land and factory sites, and emerging environmental measures and regulations — all of which reduced the competitiveness of Taiwanese exports in the world market. Second, Taiwanese exporters experienced intense competition from other newly industrializing economies in East Asia and Southeast Asia. Third, protectionism was on the rise, with the advanced industrialized nations setting up numerous quotas and tariffs on imports.

Although the discussion of Taiwan's developmental problems is helpful in delineating the general economic conditions which gave rise to the relocation of Taiwanese industrial firms to overseas, it is insufficient to explain both the timing (why it started in 1987), the locale (why in Guangdong and Fujian), the ownership (why the preference for sole ownership), the investors (why SME took the lead), and the speed (why such a rapid rate).

Thus, it may be necessary to investigate the socio-political conditions in order to account for the unique pattern of Taiwan's mainland investment. In this section, this paper will discuss the state-small business relationship, political liberalization and the home visit movement, the mainland's coastal developmental policy, and the social networks of Taiwanese small businessmen.

Weak Small Business Class, Strong Authoritarian State

To begin with, of all the Taiwanese residents, the small businessmen were the hardest hit by the developmental problems. Without an adequate supply of cheap labor and affordable factory sites, it was doubtful whether the labor-intensive industries of Taiwan's small businessmen could survive against the keen competition and the protectionism in world market. Why then did the small businessmen fail to push the state to institute pro-small business policies?

The reason lay in the pattern of state-small business relationship in Taiwan. On the one hand, this business class was small and weak. The small manufacturers' contacts with the state were more at the bureaucratic level than the political level, and they had only a very loose and indirect relation with the state. Thus, beneath the glorified picture of the dynamic Taiwanese export drive was the marginal political role of the SME (Hsiao, 1992a).

On the other hand, there was a strong, authoritarian state in Taiwan. Gold (1986) characterizes the Taiwanese state, which was run by the ruling Kuomingtang (KMT), as an alien, Leninist bureaucracy which imposed its rule from the mainland onto the native Taiwanese population after World War II. Due to the imposition of martial law over the last four decades, civil liberties, such as the freedom of assembly and the right to strike, were severely limited; moreover, the mass media were strictly censored, and dissenters frequently faced political imprisonment (Chen, 1982).

In the eyes of KMT officials, the scattered SME constituted, if any thing, an insignificant threat to the regime. The KMT neither

paid serious attention to the trade associations organized by the SME nor developed any sophisticated mechanism to integrate such firms into its corporate structure. Furthermore, the small export businesses did not secure assistance from the public banking system at the time when the finance was greatly needed, and the risks of entrance into the unknown world market were great.

In the eyes of SME managers, the policies adopted by the government to deal with developmental problems (such as industrial restructuring, the diversification of trade, and relocation to Southeast Asia) could not solve their immediate and increasingly desperate problems in the early 1980s, i.e., how to survive as business in the short run. To the SME managers, the pronounced state policies were at best long-term solutions to Taiwan's industrial development; they were in no way a workable and effective remedy for their immediate future. In other words, during the difficult times since the 1980s, the KMT had not rendered much real assistance to the small and medium manufacturing businesses. Consequently, they had to rely upon their own efforts to survive, for example, turning to traditional business practices, informal money markets, and "self-exploitation" of themselves and their families in order to stay in business.

Under such hands-off attitudes by the KMT, the best that the small manufacturers could get was the "Three Nos" policy announced in 1985: no direct trade, no contact with mainland officials and agencies, and no interference in indirect trade. Although the KMT still rejected mainland's calling for "Three Communications" (through trade, post, and transportation), this new "Three Nos" policy couched in obscure language, actually suggested that the KMT would permit indirect trade between Taiwan and mainland China through an intermediary such as Hong Kong.

However, as authoritarianism was still rampart in 1985, residents of Taiwan were strictly forbidden to have any direct contacts with mainland China. They had to wait for the softening of authoritarianism before Taiwan's direct investment on the mainland could get a start.

Liberalization and the Home Visit Movement

The year 1986 was a turning point in Taiwan's modern political history. After key Western states, one by one, severed diplomatic ties with Taiwan, after the KMT was criticized by Amnesty International for human rights violations, and after speculation about the political succession in the post-Chiang Ching-kuo era, the KMT government faced a legitimacy crisis in the mid-1980s. To deal with this crisis, the KMT carried out democratic reforms in order to reestablish its mandate to rule Taiwan. Thus, in the late 1980s, the opposition Democratic Progressive Party (DPP) was legalized; there was real competition between the KMT and DPP in national elections; martial law was lifted; the press gained news freedom; and dissent was tolerated as never before (Cheng, 1989).

It was in the environment of such liberalization and democratization that various social movements began to spread. In 1986, a group of senior mainlanders, mostly veterans brought to Taiwan by the KMT on the eve of the Communist Revolution, began to demand permission to visit the mainland after forty years of separation from family members. This campaign was greeted with sympathy and support by the general public, by the reform-minded members of the KMT, and by DPP's legislators (Hsiao, 1992b).

Due to these pressures from the civil society, the KMT finally announced in late 1987 that mainland-born Taiwan residents would be permitted to visit the mainland for family reunions. In 1988, it further liberalized its mainland policy by permitting Taiwan residents to visit the mainland for tourism and other civilian purposes (such as sports and academic conferences). Since then, more than two million Taiwanese residents have visited mainland China (*Far Eastern Economic Review*, January 30, 1992, p.11). These civil contacts certainly helped to accelerate the "unofficial" economic linkages between Taiwan and mainland China, since it was estimated that one-third of Taiwanese visitors in Xiamen had expressed an interest in mainland investment (Hu et al., 1991).

Partly in response to this new wave of civilian contacts across the Straits, the Beijing government put forward a new coastal development strategy.

Mainland's Coastal Development Strategy

In 1988, a twenty-two point regulation was approved by the Beijing government to encourage Taiwanese investment in production and land development in Fujian, Guangdong, and other coastal provinces. It was guaranteed that Taiwanese establishments would not be nationalized, exported goods from Taiwanese investments would be free from export tariffs, Taiwanese management would have complete autonomy in running their firms in mainland China, and Taiwanese investors would be granted multiple entry visas.

There were several crucial differences between this coastal development strategy in the late 1980s and the previous open-door policy. First, instead of appealing to the American, European, and the Japanese investors, the coastal development strategy was targeting investors from Taiwan. Second, instead of aiming to attract large-scale investments from the transnationals, it sought small investment projects from the Taiwanese SME. Third, instead of demanding high-tech, capital-intensive investment, and the utilization of local materials, it allowed investment in labor-intensive industries which relied solely on raw material imports. Assembly-line industries would help solve the mainland's serious unemployment problem, and foreign raw-material imports would help ease the shortage of raw materials in mainland markets. Fourth, instead of encouraging joint-venture contracts, the present strategy preferred wholly-owned foreign investment because of mainland's capital shortages. Finally, instead of getting approval from such central government agencies as the Ministry of International Economic Relations and Trade, it decentralized investment decisions. Municipal and county, as well as township and village, government officials were author-

ized to sign contracts with foreign investors (Hsiao and So, 1993; So, 1992).

Local county and village government officials, in particular, took the initiative in developing power supplies, highways and port facilities to ensure a hospitable environment for Taiwanese investors. In general, mainland government officials appeared to be more comfortable dealing with Taiwanese than with Americans and Japanese. This may be because both mainlander and Taiwanese are Chinese, sharing similar customs, habits, language, and other cultural traits such as a "Chinese" way of doing business (Battat, 1991). Furthermore, mainland officials have been more flexible in such matters as labor practices, foreign currency policies, and tariffs in dealing with their Taiwanese compatriots because these favors can be rationalized through appeals for national unification. If the same favors were granted to Western businessmen, the officials would be condemned for betraying national interests! This differential treatment of Western businessmen and Taiwanese compatriots helps to explain why mainland China was much more successful in attracting investments from Taiwan than from Western transnationals.

Social Networks of the Small Businessmen

In the beginning, Taiwanese small businessmen were the first group to engage in "unofficial" trade and investment with the mainland. Their very survival caused them to defy the KMT's ban in order to explore mainland's labor market to prolong the life cycle of their labor-intensive industries. The self-made spirit, the quick response to the new opportunities, and the daring risk-taking must have prompted the SME to venture into the mainland domain.

Lacking any institutionalized support from their government, the SME, as they had traditionally done (DeGlopper, 1972; Silin, 1972), turned to the social networks for help in their mainland business endeavors. Three-quarters of the Taiwanese SME investors pointed out that similar language and ethnicity were key

favorable factors for their mainland investment (see Table 1). The small Taiwanese investors frequently invoked their mainland kinship and community ties (such as having family reunions in their native villages, donating generously to local schools and sports arenas, etc.) so as to strengthen their social bonds with mainlanders.

Table 1 How Taiwanese SME and Big Enterprises Assess Mainland China's Investment Climate

Big Enterprises	SME
Favorable Factors	
1. Market potential (41%)	1. Cheap, abundant labor supply (93%)
2. Low cost of production (27%)	2. Easy communication due to similar language and ethnicity (75%)
3. Easy to find labor (25%)	3. Low cost of land/factory (63%)
4. No more competitive in Taiwan (22%)	4. Huge mainland market (43%)
5. Afraid competitors invest in mainland first (7%)	5. Fully utilize the outdated machinery (31%)
	6. Cheap, abundant supply of raw materials (31%)
	7. Tariff privileges (31%)
Unfavorable Factors	
1. Imperfect legal system (33%)	1. Poor infrastructure (76%)
2. Low quality employees (15%)	2. Low government efficiency (74%)
3. Backward facilities (15%)	3. Too many irregular rules (67%)
4. Hard to secure raw materials (15%)	4. Too many overcharging fees (56%)
5. Insufficient satellite communication (15%)	5. Low productivity of mainland labor (49%)
6. Bribery of local officials (10%)	6. Taiwanese staff find it hard to adapt on mainland (44%)

Sources: *Commonwealth Magazine* (May 1991): A survey of 1,000 big enterprises' attitudes toward mainland investment;
Nation's Federation of Industries (August 1991): A survey of 2,500 enterprises on their mainland investment.

These social bonds were important because they helped to enrich the investment climate on the mainland. As mainland researchers have acknowledged, the Beijing government had not done a good job in enticing Taiwanese investment to the mainland (Hu et al., 1991). First, it had failed to provide information on the process of investment, such as which bureau to contact, how long it would take to process the forms, and what fees would be charged. Second, there was the problem of over-bureaucratization. It was generally necessary to submit at least a dozen forms to a variety of mainland bureaus just to get approval for an investment. Third, these bureaus imposed a lot of fees on overseas investment, such as application fees, stamp fees, permit fees, raw materials fees, etc. No wonder that Taiwanese small investors complained about "too many irregular rules" and "too many overcharging fees" (see Table 1). However, social bonds through friends and kin helped Taiwanese investors gain vital information on how to operate in the mainland, speed up the investment process through bypassing some layers of bureaucracy, and avoid paying unnecessary fees.

In addition, the Taiwanese small investors formed many "self-reliant mutual aid associations" along either territorial or industrial lines (*China Times Evening Post*, March 17, 1992). These self-help associations aimed to protect the Taiwanese small businessmen from the political uncertainty in mainland China. For example, there were incidents of Taiwanese businessmen being kidnapped, blackmailed, or even murdered. The ability of the Taiwan government to help was quite limited, as there were no official arrangements between Taiwan and the mainland. Thus the Taiwanese small businessmen had to bind themselves together to protect their lives and property. In the early 1990s, Taiwanese business associations were formed in Shanghai, Guangdong, and Fujian. However, these associations were still quite weak because their Taiwanese members were used to doing things individually, and the mainland local governments were suspicious of their operations.

In the late 1980s, although the KMT still legally prohibited direct investment on the mainland, it no longer imposed any severe punishments on those firms which had violated this law, except for such minor harassments as restrictions on bank loans and closer scrutinies of tax returns. This hands-off attitude further propelled a new wave of Taiwanese investment on the mainland.

In summary, aside from the economic conditions (such as labor shortages, high labor costs, expensive rent, and environmental regulations), there were socio-political factors which laid the foundation for Taiwan's investment on the mainland. Since the Taiwanese small businessmen were too weak to exert any influence on the KMT, they had to wait until the liberalization of the regime in 1986 before they dared to invest there; they had to use the excuse of home visits and tourism in 1987 in order to gain permission to visit the mainland; they had to seize the opportunity of the mainland's coastal developmental strategy in 1988 in order to invest in small-scale, labor-intensive enterprises; and they constantly had to rely on their mainland social networks to collect vital investment information, avoid lengthy bureaucratic procedures, and protect themselves in the unsafe environment there. However, because their mainland ventures were still not legal from the perspective of the Taiwan government, these small investors wanted to be sole owners of their enterprises so as to avoid any possible charge of engaging in a "joint-venture" with the communists. Intimidated by the political environment on Taiwan, the big enterprises naturally preferred to let the SME test the waters first before engaging in any long-term, large-scale capital investment on the mainland.

As business and other civilian contacts between Taiwan and mainland China became more frequent and routine, they exerted a profound impact on the state-society relationship in Taiwan. Many cultural artifacts, such as "Mainland Fever" and "Taiwan Identity" were brought into the civil society of Taiwan. Since then, in reaction to the Taiwan-mainland nexus, the DPP has openly advocated Taiwan independence; the KMT has proposed a strat-

egy of deferring unification; and the two parties have competed with one another at influencing public opinion in Taiwan.

State-Society Impacts

Mainland Fever

Before 1987, due to the ban on civilian contact with the mainland, the residents of Taiwan had known very little about mainland China except through the official propaganda of the KMT. On the one hand, the Chinese regime on the mainland had been condemned as a party of communist bandits, and the Chinese on the mainland had been portrayed as suffering from hunger, starvation, and dictatorship. Cultural products from the mainland had been taken to be communist propaganda and been prohibited. The Taiwanese, too, had not been allowed to identify at the cultural level with the Chinese mainland, otherwise they would have been charged as pro-communist. On the other hand, the KMT had proclaimed itself as the rightful heir of the glorious Chinese civilization. The KMT had enthusiastically promoted traditional Confucianism, restored imperial treasures in museums, and endorsed Mandarin as the official language. Children used to be penalized if caught speaking Taiwanese on the school playground. At various times, Taiwanese-language programs had not been allowed to be shown on television. Taiwanese folk operas and puppet plays had been decried as low and vulgar, and popular religious practices treated as superstition (Moody, 1992). In this respect, the culture of Taiwan had been a strange mixture of pro-traditional Chinese civilization, anti-Chinese mainland culture, and reviled native Taiwanese culture (Hsiao, 1990).

After 1987, the residents of Taiwan, through family reunions, tourism, trade and investment, began to get eyewitness accounts of the mysterious mainland that they had heard about only through propaganda. First, many Taiwanese visitors soon found out that mainland society was better than the one presented by the

KMT, as respondents of Chiu et al.'s (1989, p.85) ethnographic study reported:

> The real living standard on the mainland is not as poor as I have imagined; I felt that its standard of living is much better than before. I can buy a lot of things, although not as conveniently [as in Taiwan].

Second, some Taiwanese visitors not only were attracted to the magnificent scenery on the mainland, they also developed a historical sentiment toward the "motherland." Several visitors interviewed in Chiu et al. (1989, pp.88-89, 93) gave the following accounts:

> I went to mainland mainly for tourist reasons. The mainland is a part of the motherland, and is the source of tradition. I wanted to see the lovely landscapes described in the ancient books and the place where my ancestors resided.... [I went] mostly for a family reunion, but I also wanted to take a look at the magnificent rivers and mountains.... Reading on the famous historical sites was no comparison to visiting them, they were much more magnificent than I imagined.... [With regard to the question: where is your motherland?] It is certainly the mainland! Taiwan's cultural tradition is borrowed and inherited from the mainland.

Third, the experience of the Taiwanese visitors was shared by their families, friends, and even the officials in Taiwan. In order to cash in on this mainland sentiment in the late 1980s, the mass media competed among themselves in introducing mainland culture into the Taiwanese society. Suddenly, a kind of "Mainland Fever" was widespread in Taiwan's newspapers, magazines, literary circles, art galleries, and television programs. For example, the Taiwanese television stations vastly expanded their coverage of mainland scenery, mainland folk stories, and mainland ethnic customs; they even sent crews to the mainland to build up reserves for their shows and special programs. Taiwanese publishers reprinted books originally published on the mainland, and Taiwanese magazines commissioned mainland writers for their columns. A mainland rock singer's "Totally Nothing" got into the

top-ten popular songs in Taiwan. In addition, mainland musicians, painters, writers, academics, overseas students, etc., were invited to Taiwan to give talks, shows, and exhibitions (Hsiao, 1990).

Taiwan Identity

Side by side with the "Mainland Fever," however, was the growth of "Taiwan Identity." Although impressed by the mainland's magnificent scenery, historical sites, and cultural tradition, residents from Taiwan were also conscious of the vast political and economic differences between the two.

At the economic level, there emerged a sentiment of "Modern Taiwan versus Backward Mainland" and a contempt of the mainland's work ethics. Thus, the interviews of Chiu et al. (1989, pp.84-86, 103) showed that:

> The Mainland is about twenty years behind Taiwan.... The general population had little incentive to work because their wages would be the same no matter they work hard or not.... Because the business was state-owned, therefore its efficiency is low. Workers are lazy and idle, just waiting to get off work.

At the political level, the Taiwanese visitors were highly critical of the communist regime on the mainland. They were often suspicious of the friendly attitudes of mainland officials. In Chiu et al.'s (1989, pp.96-97, 99) study, several respondents commented:

> The Communist Party has never believed in peaceful unification. It has always carried out the tactics of "united front." Many people were killed or rectified during the last forty years.... They were very smart and highly political. Once you started talking with them, they would bring in political issues. I didn't want to discuss politics with them, but they still described ours as the Taiwan government — just a provincial government,... they treated us like a strong state would take care of a small, weak state.

In this respect, the vast political-economic differences separating the two further provoked a new kind of "Taiwan Identity." Through the experience of mainland visits, the residents of Taiwan suddenly realized that they shared a lot of things in common — their contempt of the mainland's economic backwardness, their suspicion of the communists' united front tactics, their pride in Taiwan's modernization, their common classification as Taiwan compatriots by the mainlanders, their Taiwan life styles, etc. Again, trying to cash in on this newly-emerged political "Taiwan Identity," the mass media started to promote native Taiwanese folk songs, movies in indigenous Taiwanese languages, magazines and trade books that discussed local Taiwanese history, literature, politics, and customs (Hsiao, 1990).

The emergence of the "Taiwan Identity" transformed the axis of social division in Taiwan. Up to the mid-1980s, the dominant pattern of social division had still been along ethnic lines. This ethnic division had been the historical legacy of the KMT's violent suppression of a riot by native Taiwanese on February 28, 1947, the massive influx of mainland Chinese to Taiwan on the eve of the 1949 Communist Revolution, and the monopolistic control of the state by KMT mainlanders. Under this ethnic division, the ruling KMT had been looked upon as a mainlander's party while the opposition DPP had proclaimed itself as a party for native Taiwanese.

In the late 1980s, however, the new "Taiwan Identity" served to transform the pattern of ethnic conflict in Taiwan. This was because a new ethnic group — the mainlanders from the communist regime (called mainland-mainlanders) — had been added to the Taiwanese society. To the residents of Taiwan (including both Taiwan-mainlanders and Taiwan-Taiwanese), the mainland-mainlanders from the communist regime were the new mainlanders and were even a greater potential threat to the Taiwanese society as a whole. So instead of fighting along the old ethnic lines between Taiwan-mainlanders and Taiwan-Taiwanese, the conflict now shifted to the new ethnic line of all residents of Taiwan versus the mainland-mainlanders. When security issue was at

stake, the Taiwan residents were united in a common cause of protecting Taiwan from mainland intrusion into the island's affairs.

In addition to the above socio-cultural impact arousing both "Mainland Fever" and "Taiwan Identity," Taiwan-mainland economic nexus has also complicated the political situations in Taiwan through the controversy of the DPP's independence platform versus the KMT's unification strategy.

The DPP's Platform on Independence

Prior to the late 1980s, Taiwan independence movement had been promoted by dissent against the KMT government. It had been a political struggle waged by the ruled majority (the Taiwanese) against the ruling minority group (the mainlanders) in Taiwan. However, in the late 1980s, with the emergence of the "Taiwan Identity," and with the massive recruitment of Taiwanese into the KMT, the old political conflict of Taiwan-Taiwanese versus Taiwan-mainlanders became less important. As a result, the dissenting group, now united under the umbrella of the DPP, needed to articulate a new political platform in order to pose a challenge to the ruling KMT. Consequently, the DPP redefined the political content of the Taiwan independence movement: instead of being anti-KMT, it became anti-mainland China. Thus the Taiwan independence movement took upon itself a new mission of protecting Taiwan from mainland domination.

In April 1988, the DPP first tested the political climate by announcing a timid proposal of "conditional" independence: "if the KMT engages in unification talks with the CCP, if the KMT sells out the interests of the Taiwanese people, if communist China invades Taiwan, and if the KMT does not carry out democratic politics in Taiwan, then the DPP will promote Taiwan independence." In October 1990, the DPP further declared the *de facto* sovereignty of a Taiwan which excluded mainland China and Outer Mongolia. In August 1991, the DPP openly proclaimed the title of "Republic of Taiwan" in defiance of the "Republic of China" of the KMT. Finally, in October 1991, just before the election, the DPP wrote in its party charter that the issue of Taiwan's independence should be democratically decided by a referendum of all the residents of Taiwan. What the DPP wanted was to turn the 1991 election into the issue of independence versus unification (Hsiao, 1992c).

This latest DPP's independence platform greatly intensified the tension between the KMT and the DPP. The KMT first threatened to enforce sedition laws against advocating separatism and to dismantle the DPP. Then the KMT framed the DPP's platform as advocating "hasty independence," charging that it would immediately provoke a mainland military invasion. Cooperating with these KMT scare tactics, mainland China subsequently issued a warning that "those who played with fire should know the dire consequences." This heightened tension across the Taiwan Straits helped to bring 71 per cent of some 8.5 million voters to the ballot box in December 1991. The result for the DPP was a disappointing 24 per cent of the popular vote, well below the 30 per cent it had won in the 1989 election. This election defeat for the DPP was generally interpreted as a voter sentiment against the independence movement. On the other hand, the election victory empowered the KMT, giving it a free hand to carry out its own one-sided version of "constitutional reform" (*Far Eastern Economic Review*, December 12, 1991, p.19; January 9, 1992, p.28).

However, the DPP made a comeback in the December 1992 legislative election. Although still putting up the platform of Taiwan independence, the DPP also raised bread-and-butter issues, condemning the KMT for corruption, money-politics, and vote-buying. Consequently, the KMT won only a 53 per cent share of the popular vote (the lowest on record), while the DPP scored a record high share of 31 per cent (*Far Eastern Economic Review*, January 7, 1993, p.14). In 1993, the emboldened DPP criticized the KMT for not including a DPP member in the historic talks with mainland officials in Singapore; and the DPP further warned that the fate of Taiwan should be determined by its 21 million residents, not by a small group of KMT members.

The KMT's Strategy of Deferring

In contrast to the DPP's independence platform, the KMT had consistently advocated political unification with the mainland over the last four decades. Nevertheless, it knew well enough that it lacked sufficient bargaining position to have an equal say in the ultimate unification structure because of its relatively weak military and political strength compared to the mainland. Thus, engaging in the near future in talks on unification with the mainland was not a good strategy for the KMT.

Hence, the KMT pursued a strategy of deferral, a strategy through which it hoped to gain more room to maneuver vis-à-vis the mainland by not upsetting the communist regime. While the mainland wished to incorporate Taiwan by means of economic integration, the KMT wished to use economic integration to defer and halt the threat of political unification with mainland China. The KMT figured that if Fujian was going to be transformed from a military into an economic center, it would be difficult for the mainland to use force against Taiwan. Furthermore, if there were a large volume of Taiwanese investment on the mainland, the communist regime would need to think twice before invoking the military option, otherwise it would put an end to the prosperous coastal developmental strategy (Hsiao, 1992c).

Therefore, in mid-1991, the KMT formulated a stage model in its "National Unification Guideline" to counteract the mainland's "One Country, Two Systems" model. The KMT pointed out that the timing of and the way in which national unification was to be carried out should consider the well-being, rights, security, and welfare of Taiwanese residents; and it should be based upon rational, peaceful, equal, and mutually beneficial principles. Three stages of unification were proposed by the KMT. First and in the short term, there should be mutually beneficial communication, aiming to lessen the hostility on each side, and each side should recognize the other as a legitimate political entity. Second and in the middle term, there should be mutual trust and cooperation, through the development of direct mail, transportation, and trade.

In particular, both sides should jointly develop the mainland's coastal region in order to bridge the existing gap in living standards between the two sides. Moreover, each side should assist the other at participating in international organizations. Third and in the long term, there should be unification talks governed by the principles of political democracy, economic freedom, social justice, and the compliance with the wishes of the people in both Taiwan and mainland China. Since the KMT defined the present period as still at the first stage, it was, of course, unwilling to engage in any political unification talks with the mainland (Hsiao and So, 1993).

The KMT was very sensitive to the possibility of being misinterpreted by the public as too pro-unification, as selling out the interests of Taiwanese residents to the mainlanders. The deferral strategy, then, was to make it clear that although the KMT was for unification in the long run, there was no immediate need to engage in any formal, political negotiations with the mainland regime.

The Politics of Public Opinion

Recent democratization has further complicated the issue because the Taiwan electorate has now entered the unification game as an important player. The opposition DPP, for instance, has criticized the KMT's stage model for not giving priority to the Taiwanese people: including them as a major player, and granting them veto power for any policy concerning national unification with the mainland. On the other hand, the KMT has condemned the DPP's independence platform as risking the public security of Taiwan. In this regard, public opinion on Taiwan-mainland nexus has become the bone of contention between the two parties, which is used politically to denounce the other party's platform and to justify its own strategy.

Where does public opinion stand on the independence-unification controversy? Chiu et al. (1989, p.101) point to the public's

utilitarian and pragmatic mentality on the Taiwan-mainland nexus:

> The mainland has abundant raw materials, and through us, it will enhance its competitive power. On the other hand, we can sell our products there.... If mainland sports team can come to Taiwan for competition or exhibition games, it will surely stimulate us, bring us forward, and help us because athletics is more advanced there than here.... The film industry hopes that it can shoot movies on the mainland, free of any political interference.... Under the present ordinance, we must trade through a third country. We cannot avoid paying administrative fees and transportation fees to the third country. The chief reason for exploring the mainland market and investment is that mainland has big market, cheap raw materials, and cheap labor.

To the residents of Taiwan, the Taiwan-mainland nexus is seen as a pragmatic strategy for Taiwan to upgrade its trade, sports, film industry, manufacturing industries, etc. As such, the Taiwanese public wants to avoid any Taiwan-mainland nexus that will endanger the economic prospect for Taiwan. For instance, the public opinion is against selling high technology to the mainland for fear that the mainland compete with Taiwan in the world market, against the importation of mainland laborers into Taiwan, and against granting permission for mainland investment in Taiwan (Lin, 1990).

Subsequently, Taiwanese residents wish for more civilian contacts across the Straits but do not want these to be taken as a definite step toward political unification. Although a survey reports that two-thirds of Taiwanese residents are for unification (Wu, 1992), they clearly envision this to be a very lengthy process with many complicated issues. Respondents in Chiu et al.'s (1989, pp.104-105) study commented:

> I think the situation of Taiwan and mainland will follow the present gradual, piecemeal changes — but it needs to take at least 15 or 20 years before we will be able to detect any clear pattern of unification. Surely, it cannot be detected in only five or six years.... It is hard to say anything about the relationship between mainland and Taiwan. This depends on how the world will change. It isn't only the mainland and Taiwan, but the whole world is changing too.

In short, the public attitudes toward Taiwan-mainland relations have been very pragmatic, security-conscious, and in support of a flexible policy toward mainland China and yet suspicious of the communist regime, more open to economic linkages, and with guarded reservation toward further political contacts. They are against both hasty independence and hasty unification, and they prefer the present *status quo* of "neither independence nor unification."

The Emergence of Class Politics

As the authoritarianism of the Taiwanese state has subsided, as liberalization and democratization have become institutionalized, and as the old ethnic division between mainlanders and Taiwanese has become less meaningful in the late 1980s, a new kind of social conflict has begun to emerge, this one along class lines (Moody, 1992).

First, the growing political influence of big business has become much more visible and intense. Unlike late Chiang Ching-kuo and his father Chiang Kai-shek, who held an anti-business ideology, the present president, Lee Teng-hui, is known for his favorable attitude toward business. President Lee has a list of close Taiwanese business friends whom he often consults on various economic issues. Besides this direct influence on the President by big business interests, the Legislative Yuan also serves as a source of pressure on the state officials through the elected businessmen. Moreover, since General Hao Pei-tsun has become Premier in mid-1990, the KMT has begun to take tougher positions in response to the demands from social movements (e.g., labor and environment) which have threatened the interests of big business. The KMT has also insisted on going ahead with big industrial projects (e.g., the industrial zone and the petro-chemical project in

central and southern Taiwan) that had been strongly opposed and effectively halted for some years (Hsiao, 1992a).

Second, the new middle class — the professionals and managers — have become very active in social movements against the state. This class has raised many new social issues such as consumer protection, pollution, rising housing costs, environmental conservation, human rights, and gender inequalities. These social movements from the new middle class have, to a certain extent, accelerated the democratic transition in Taiwan (Hsiao, 1992b).

Third, there is a possibility that the DPP may turn to the workers, the small farmers, and the small businessmen as its key supporters. Arguing for the workers, the DPP has advocated strengthening the labor unions and setting up regulations to promote industrial safety. Arguing for the urban masses, it has advocated a national health care system and an increase in education and transportation spending. Arguing for the farmers, it calls for restricting U.S. agricultural imports into Taiwan. Arguing for the small businessmen, it condemns the concentration of wealth and the monopoly of big capital. Thus, the DPP wants to set constraints on profit maximization, provide more human services to the deprived, and reduce social-economic inequalities (DPP, 1989; So and Hua, 1992).

If such class issues are to intensify in the near future, the struggle between the KMT and the DPP may shift from ethnic conflict to class conflict. The KMT will stand on the side of big businessmen, while the DPP will campaign on behalf of the professional-managers, small businessmen, and the working masses.

In summary, the Taiwan-mainland nexus has stimulated a strange mixture of "Mainland Fever" and "Taiwan Identity" at the cultural level, has complicated the political struggle between the KMT and the DPP at the state level, has provoked an ambivalent public opinion of "neither independence nor unification," and has shifted the axis of social conflict from ethnicity to class. How then will this profound transformation of state-society relationship in Taiwan affect the prospect for Taiwan-mainland integration?

Future Prospects

Enter Big Businessmen

In 1991, the KMT finally recognized the reality of active Taiwanese trade and investment on the mainland. It relaxed its ban on direct trade and investment beginning in 1991. Only those corporations which had invested in mainland China and failed to file a report with the government would be punished. By June 1991, some 2,600 Taiwanese companies had reported their investments in mainland China. In addition, the KMT modified its mainland policy in a pragmatic direction. The cabinet level Mainland Affairs Council was established, and the semi-governmental Straits Exchange Foundation was formed; both were to be responsible for future policy-making and implementation at official and civilian levels. The Straits Exchange Foundation, in particular, has been charged by the KMT with the mission of "front line" contact with mainland officials to deal with civil and business disputes that have already occurred or might occur in the future.

In retrospect, the impetus behind the changed mainland policy of the KMT has been, in large part, initiatives and pressures from big business. After small investors have made their risky but highly lucrative investment in mainland China, big businessmen began to follow. But it has been the big enterprises which, after investing in the mainland and developing vested interests there, have been able to exert pressure on the state, and only then has the KMT government shifted to more pragmatic mainland policies. The close relationship between the KMT and big business is also revealed by the fact that many of the donors to the Straits Exchange Foundation are influential businessmen, who also serve on its board. And it is they who are pushing the KMT toward a more flexible mainland policy, with more economic, cultural, and civilian contacts between the two states. Moreover, while small businessmen are attracted to the mainland's cheap labor, big businessmen are more attracted to the mainland's market potential and raw materials (see Table 1).

Toward a Great Chinese Economic Circle

With an aim to promote more economic linkages with mainland China, a conference was held in Hong Kong in early 1992 on the conception of a "Great Chinese Economic Circle." This conception is nothing new, having been discussed, over the past few years, under such rubrics as the "Great Chinese economic community," the "South China economic circle," the "Great China natural economic region." Nevertheless, what is significant about the "Great Chinese Economic Circle" conference is that: (1) it was sponsored by the big businessmen and mass media of Taiwan; (2) it was well attended by their counterparts from mainland China and Hong Kong; and (3) it received widespread attention in the mass media of Taiwan, Hong Kong, and mainland China. However, it also faced serious criticism and suspicion from Taiwan's intellectuals and opposition politicians.

Proponents of the "Great Chinese Economic Circle" regard economic integration as mutually beneficial and claim that it will enhance the competitiveness of the mainland, Taiwan, and Hong Kong in the world economy. And it is true that, on the one hand, mainland China has helped solve the developmental problems of Taiwan and Hong Kong by providing them with cheap labor, resources, and investment opportunities, while on the other, Taiwan and Hong Kong have contributed to mainland development through providing employment opportunities, market stimulus to local enterprises, and the vital information and contacts needed to re-enter the world market. In the 1980s, mainland China's state managers had successfully developed close business partnerships with the Hong Kong and Taiwan businessmen. Should this economic integration continue in the 1990s, this "Chinese triangle" could evolve into a new regional economic power, challenging the domination of Japanese and American capital in East Asia.

The Enduring Political Rivalry

But the prospects for this "Chinese triangle" are highly uncertain because economic integration has also produced significant political divisions both within Taiwan and between Taiwan and mainland China.

First, tension may increase between big business and the KMT. As big business gains more and more influence on the KMT, the speed of the push for direct economic linkages across the Straits may arouse strong oppositions among some of the leading KMT members. Moreover, the KMT prefers to maintain its strategy of deferral and does not want to be seen as pursuing a policy of hasty unification.

Second, although Taiwanese small businessmen might agree to develop more economic linkages with the mainland, they are not necessarily advocating speedy economic integration. The small export manufacturers especially have already faced competition from their fellow big businessmen for access to mainland labor and raw materials. In addition, the SME leaders worry that their existing privileges to do business on the mainland through informal means (many back-door tactics are employed) may disappear once communications between the two sides are officially institutionalized. Thus the SME are guarded as to further institutionalization of Taiwan-mainland linkages.

Third, the prospect of political unification has deepened the division between the right wing KMT and the radical Taiwan independence faction of the DPP. Both parties watch each other very closely to ensure that the other does not to go too far in their respective campaigns for unification or independence.

Finally, the prospect of a "Chinese triangle" is jeopardized by the political rivalries between mainland China and Taiwan. Mainland China is always suspicious of the KMT which may, in the near future, endorse DPP's platform on Taiwan independence. On the other hand, the residents of Taiwan are skeptical of the mainland's promise to establish highly autonomous special administrative zones after national unification. Aware of their less

than equal bargaining position with the Beijing government, the Taiwan government has been unwilling to enter into any political negotiations.

These political forces have compressed the Taiwanese political spectrum toward the center and strengthened the moderate elements within the KMT. Thus, the most likely short-term scenario appears to be the continuation of the present policy of economic cooperation without political unification. Economic integration, then, should be seen as a strategy to defer political unification and divert the military threat, in order to buy more time for the Taiwanese state to use "flexible" and "dollar" diplomacy to upgrade its relationships with Western states and to regain political legitimacy in the international political arena.

In sum, Taiwan and mainland China are not just significant business partners, but they are also key political rivals. The future prospect of the Taiwan-mainland nexus, then, is contingent upon whether business interests or political sentiments triumph in the end.

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台灣與大陸的經濟連繫

社會政治的起源、對國家與社會關係之影響及未來之展望

蕭新煌　蘇耀昌

（中文摘要）

目前從事台灣對大陸投資的研究者多為經濟學家，其所側重者多為兩地連繫的經濟方面，因而無法對台灣在大陸投資的起始時間（為何始於一九八七年）、投資地點（為何在廣東與福建）、所有權型態（為何偏好獨資）、參與的投資者（為何率先的是中小企業），以及投資速度（為何如此快速增加）等問題提供妥善解釋。

基於此，本文嘗試重新引入社會與政治因素，以期對兩地經濟連繫的起源、影響與展望能有更全面的掌握。本文首先探討在何種程度上，台灣對大陸投資是受到非經濟因素的影響，再而分析兩地的經濟連結如何對台灣國家與社會間的關係產生深遠的影響。本文最後並對現階段的經濟連繫是否會發展成所謂「大中華經濟圈」的構想作一簡略而嚴肅的評估。