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Securing Economic Relations Across the Taiwan Straits: new challenges and opportunities

TSE-KANG LENG*

Cross-Taiwan Straits economic interaction is a political as well as an economic issue. General trends of economic interdependence and globalization that are weakening the role of the nation state should promote a focus of shared 'civilian governance' between Taiwan and mainland China. WTO entry will provide opportunities as well as challenges for cross-strait economic relations. In anticipation of this dynamic, the new government in Taiwan is attempting to design a new national security web to guarantee Taiwan's 'economic security' in coping with Taiwan's increasing economic dependence on mainland China. As one key agent of globalization, economic cooperation in the urban areas on both sides of the Taiwan Strait may potentially improve relations between Taiwan and mainland China. As decentralization and privatization on mainland China proceed, major cities have developed closer interaction and systems of accountability with the civil society. From a prudent perspective, developing functional cooperation between Taiwan and mainland China at the urban level could be a first substantial step to confidence building between these two economies.

Introduction

Cross-Taiwan Straits economic interaction is a complicated economic as well as political issue. From the economic perspective, natural integration of these two economies creates economic benefits for both sides of the Taiwan Straits. Trends of economic globalization further weaken the role of the nation state and promote 'civilian governance' between Taiwan and mainland China. From the political perspective, however, rivalry across the Taiwan Straits in the past decades forces the Taiwanese state to intervene in economic transactions. Attempts to guarantee 'economic security' and a web of national security have been in great debate since Taiwan opened trade links with mainland China in 1987.¹ However, experiences in the past decade show that economic globalization has made traditional methods of economic regulation and constraint policies invalid. Due to a lack of mutual trust,

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1. For the concept of economic security, see Vincent Cable, 'What is international economic security?', *International Affairs* 71(2), (1995); Carl R. Neu and Charles Wolf, *The Economic Dimensions of National Security* (Santa Monica: RAND, 1994).

political deadlock has distorted economic momentum of further integration between these two most dynamic economies in East Asia.

National security considerations have always been of serious concern for Taiwan in managing cross-Straits economic relations. As Taiwan's economic development becomes more dependent on the mainland market, the Taiwanese state perceives rising pressures to accommodate business interests and political quests of autonomy. On the other hand, recent trends of economic globalization further weaken the regulatory capacities of national states and introduce external factors such as World Trade Organization (WTO) to institutionalize normal economic relations with mainland China. In order to understand the impacts of national security and globalization on cross-Straits economic relations, this article analyses the nature of Taiwan's economic security concerns and substantial efforts of the new administration on Taiwan to re-interpret and cope with Taiwan's economic security challenges. Both state policies and business responses will be elaborated. New challenges and opportunities to 'normalize' cross-Straits relations after both sides of the Taiwan Straits join the WTO, the institutionalized force of globalization, will be discussed in this article.

This article also argues that analyses of cross-Straits economic relations in the era of globalization should not be limited to the national level. Given the fact that most Taiwanese investment is concentrated in specific locations in mainland China, analysis of Taiwan's economic security must consider both central and local political economy on mainland China. Furthermore, as 'agents' of economic globalization in a changing world, major cities in mainland China have played a more autonomous role in linking domestic interests with the international division of labor. Considering the current political deadlock across the Taiwan Straits, this paper introduces the sub-national level of analysis and discusses various benefits and limitations of building confidence measures between Taiwan and mainland China.

Security challenges to cross-Straits economic relations

Cross-Straits economic relations are treated as a political, rather than a purely economic, issue for policy making in Taiwan. From the economic statecraft perspective, the main negative impact that Taiwanese investment in mainland China has on Taiwan's economic development is the 'hollowing out' effects of Taiwan's labor intensive industries and the loss of Taiwan's industrial competitiveness to mainland China. This may increase Taiwan's vulnerability and sensibility to the mainland's 'economic warfare'. In the early 1990s, Taiwan's Ministry of Economic Affairs selected 12 categories in the manufacturing sector to promote a vertical division of labor with mainland China. Major policy instruments included the control of technology transfer and capital accumulation to mainland China. However, as the mainland gradually upgrades its technology level and achieves technological breakthroughs in some manufacturing sectors such as the textile and petrochemical industries, Taiwan is gradually losing its competitive advantage. In other words, mainland China is becoming a competitor, rather than a labor-intensive processor for Taiwanese industries. Many Taiwanese firms transfer capital and

technologies through their overseas subsidiaries to mainland China in order to avoid monitoring by the Taiwanese government. In brief, globalization of Taiwanese firms and technology development in mainland China vitiates Taiwan's grand strategy of vertical division of labor. From the economic statecraft perspective, as cross-Straits economic relations deepen, Taiwan's national security will be in jeopardy.

Political implications of Taiwan's economic security

From a pure statistical perspective, Taiwan is becoming more dependent on the mainland market. According to various surveys, around half of the Taiwanese firms on mainland China are turning a profit to various degrees. The 2000 survey shows that 57.5% of Taiwanese firms on mainland China are profitable. Only 8.6% of Taiwanese enterprise owners anticipate a loss next year. Only 4.2% of Taiwanese enterprises consider decreasing or withdrawing investments on mainland China.² Due to political and business concerns, the real percentage of profitable firms may be higher than the reported data. Taiwan's average trade surplus with mainland China over the past three years reached around US\$16 billion per year. In 2000, the bilateral trade value between Taiwan and mainland China reached US\$31.2528 billion, an increase of 20.9%.³ Taiwan's estimated trade surplus with mainland China occupies 153% of Taiwan's global trade surplus in 1999.⁴ In other words, without the huge trade surplus with mainland China, Taiwan's international trade balance would be in deficit. This huge trade surplus raises issues of balancing national security and economic benefits of cross-Straits interaction. From Taiwan's perspective, 'putting your eggs in one basket' will put national security in danger if mainland China holds the Taiwanese business benefits hostage out of political concerns. But some scholars on mainland China argue that Taiwan uses the huge trade surplus with mainland China to purchase advanced weapons, upgrade Taiwan's industrial levels, and strengthen the economic foundation for Taiwan independence.

These two arguments need further discussion. First, a quantitative analysis of cross-Straits trade fails to clarify the significance of Taiwan's huge trade surplus. In reality, Taiwanese exports to mainland China are, in a large part, investment-driven. In other words, cross-Straits trade is actually inter- and intra-firm trade, rather than commodity trade. Taiwanese export of equipment and semi-finished materials supports their firms on mainland China, especially export-oriented firms. These Taiwanese firms contribute a large part of China's 40-billion trade surplus with the United States. According to estimation of Taiwan's Central Bank, US\$70 billion of Taiwanese capital were invested on mainland China over the past ten years.⁵ These Taiwanese investments create employment, promote know-how technologies, and boost mainland China's local economic prosperity. In other

2. *Zhongguo Shibao*, (3 December 2000).

3. Please refer to the Mainland Affairs Website for details: <http://www.mac.gov.tw>.

4. 'Taiwan's trade balance with mainland China, Hong Kong, and the world', Mainland Affairs Council data, <http://www.mac.gov.tw>.

5. *Gongshang Shibao*, (10 November 2000).

words, Taiwanese exports, plus Taiwanese investment, have created a situation of interdependence rather than unilateral dependence across the Taiwan Straits. In the era of globalization, unilateral economic 'sanctions' will not work well.⁶ The real guarantee to protect Taiwanese interests is to further internationalize Taiwanese economic transactions with mainland China, rather than imposing top-down restrictions.

In some perspectives, 'trade surplus' and 'trade dependence' issues have developed as useful political tools for domestic consumption in Taiwan. The Taiwanese government reiterates that 'national security' is the first priority before economic benefits across the Taiwan Straits. However, the contents of 'national security' and 'economic security' on cross-Straits economic issues have never been made clear. 'National security' has become a good excuse to cool down domestic pressure for further opening up of economic transactions. No wonder that in addition to all kinds of messages of embracing economic globalization, high-level officials in Taiwan are also arguing that the Taiwanese business people in mainland China 'do not contribute to Taiwan's economic development' and propose levying a 'national security tax' on them. Facing rising challenges from the business community on the existing 'self constraint' economic policy toward mainland China, the Chen Administration has indicated that Taiwan should not open the door for further interaction until it has finished building a 'national security network'.⁷ It may take up to five years, as the Taiwanese high-ranking official indicates, to integrate domestic politics and economic policy-making to build such a network in Taiwan. Before any further steps of economic integration, Taiwan needs to realize political autonomy and equality with the other side of the Taiwan Straits.⁸ These policy lines reverse the traditional wisdom of the interdependence school of thought about 'spill-over' effect from low politics to high politics. The official 'economic security' argument in cross-Straits relations implies that Taiwan's national security should be based on the ambiguous goal of political equality with mainland China, rather than continuous economic growth on Taiwan.

Policy initiatives to cope with economic security across the Taiwan Straits

Political interpretations of cross-Straits economic relations hamper further integration. However, facing rising demands from the business community, Chen Shui-bian released his strategic design to balance economic globalization and national security during the Presidential election campaign. Chen argued that instead of maintaining the 'self-constrained' (*Jieji Yongren*) policy, national security and economic benefit are not necessarily mutually exclusive. In order to implement the 'economic security' strategy, Taiwan must first endeavor to improve its capacity for technology innovation and global management skills. Chen indicated that what the government should do is to improve economic health and social stability in Taiwan. As to defensive economic measures, Chen focuses on regulat-

6. For a more detailed analysis on economic sanctions and cross-Straits relations, see Tse-Kang Leng, 'A political analysis of Taiwan's economic dependence on mainland China', *Issues and Studies* (August 1998).

7. Indicated by Chen Min-tong, Vice Chairman of Mainland Affairs Council, *Jingji Ribao*, (30 November 2000).

8. Remarks by Ing-wen Tsai, Chairman of Mainland Affairs Council, *T-Times*, (25 June 2000).

ing the import of mainland commodity goods—especially agricultural, energy and strategic imports—and improving the surveillance of capital from mainland China.⁹ In other words, Chen's policy design represented his attempt to accommodate business interests and attract more support on the domestic front from the business community. In his 2001 New Year's Remarks, Chen emphasized on the new perspective of 'positive openness with effective management' on cross-Straits economic relations. He elaborated further and argued that the integration of Taiwan and the mainland's economies, trade, and culture can be a starting point for gradually building faith and confidence in each other. This in turn can be the basis for a new framework of permanent peace and political integration.¹⁰

Substantial steps to embrace globalization and promote cross-Straits relations, however, are limited. While stressing the importance of a social and political web of security, the new government also released signals that the current administration 'does not exclude any future options, does not exclude any models of interaction, does not insist on any preconditions, and does not stick to any ideology' in improving cross-Straits economic relations. The Chen Administration emphasizes that direct economic cooperation in the WTO framework could alleviate political entangling and intensity.¹¹ The DPP government also recognizes that direct economic transaction will be more beneficial than the current policy.¹² On the other hand, economic and mainland affairs bureaucracies in Chen's administration openly expressed the anxiety that the technological gap between Taiwan and mainland China is decreasing.¹³ Ing-wen Tsai, Chairman of the Mainland Affairs Council, indicated that the real purpose of mainland China's technology interaction with Taiwan is to copy the experiences of Hsin Chu Science-Base Industry Park and boost the mainland's own technological development. If mainland China succeeds in integrating with the global economy smoothly, its huge economic capacities will 'absorb' Taiwan and challenge Taiwan's economic security as well as political integrity.¹⁴

In general, the DPP government still lacks a coherent policy incorporating national security and economic globalization. The lift of 'self-constraint policy' in economic interaction was delayed due to concerns of economic stability. What the Taiwanese government did in the first year after Chen Shui-bian's inauguration was to gradually 'normalize' the illegal parts of cross-Straits economic relations such as allowing long-existing illegal direct trade in offshore islands, and opening up 'mini three links' between offshore islands and the port of Xiamen in the mainland's Fujian province. In other words, a concrete policy framework able to create a win-win situation of national security and economic globalization has not emerged

9. Chen Shui-Bian, *Kua Shiji de Lianan Guanxi* [Cross-Straits Economic Relations in the New Millennium], speech delivered on Taipei, 7 November 1999.

10. For the full text of Chen's speech, please refer to <http://www.mac.gov.tw/english/MacPolicy/ch9001e.htm>.

11. Speech delivered by Deputy Premier Yu Shi-kun on 27 June 2000. See *Zhongguo Shibao*, (28 June 2000).

12. Message delivered by the Minister of Economic Affairs Lin Shin-I on 14 June 2000. See *Zhongguo Shibao*, (28 June 2000).

13. *Zhongshi Wanbao*, (29 November 2000).

14. Ing-wen Tsai, *New Challenges and Policies of Taiwan's Mainland Affairs*, a speech delivered at the Third Overseas Chinese Affairs Meeting, 17 May 2001, Taipei. For the full text, please refer to <http://www.mac.gov.tw/ml-policy/tsai900517.htm>.

yet. There exists a gap between what the highest level of Taiwanese leadership has promised, and substantial policy initiatives that the mainland bureaucracies in Taiwan have undertaken. The existence of the gap raises skepticism from the other side of the Taiwan Straits, and deters the forming of domestic confidence on the direction and speed of cross-Straits economic relations.

In reality, the conservative cross-Straits economic policy in the past decade has greatly hampered Taiwan's attempts to become a high-tech and service center in the Asia Pacific. In 1995, Taiwan released an ambitious plan of building Taiwan into an 'Asia-Pacific Operation Center'. The initial plan was to grasp the timing to compete with, if not replace, Hong Kong as the service, finance, and manufacturing center in East Asia. With the smooth reversion of Hong Kong to China and the worsening of cross-Straits relations after the announcement of the special state-to-state policy in 1999, the Asia Pacific Operation Center also faced setbacks under this unfavorable political situation. In early 2000, a new policy plan to build Taiwan into a 'global logistics center' was released by Executive Yuan.¹⁵ If the new government intends to continue this policy plan, direct trade, transportation, and communication links with the other side of the Taiwan Straits must be realized.

Business responses to cope with political risks

In addition to the politics of national security consideration on cross-Straits economic relations, Taiwanese firms have developed their own strategies of survival to avoid potential political risks on mainland China. For small and medium firms, tensions across the Taiwan Straits do not have a significant impact on their daily operations. Psychologically they may support Taiwan's grass-roots opposition movement, but they choose to keep a low profile and avoid sensitive political controversies with the mainland's local authorities. As practical businessmen on a very uncertain soil, the Taiwanese business community has developed its own strategies of survival in order to avoid economic, social and political risks.

After Chen Shui-bian's victory in Taiwan's Presidential election in 2000, the mainland's central level Taiwan Affairs Office launched a verbal warning at such large Taiwanese firms as Acer and the Evergreen Group for their support of Taiwan independence. Other measures of sabotaging Taiwanese business people supporting Taiwan independence were said to be under consideration.¹⁶ By contrast, the new silicon wafer project of the Formosa Groups President Wang Yung-ching's son, Wang Wen-yang, received a warm welcome in Pudong, Shanghai because Wang Yung-ching's Formosa Group did not openly endorse Chen Shui-bian's bid for Taiwan's presidency.¹⁷ Since developing good 'Guanxi' (personal relationship) is the key to survival, these big Taiwanese firms tried to separate their support of Chen from their support of Taiwan independence. Three months after Taiwan's presidential election, Acer Group CEO, Stan Shih re-emphasized in a newspaper interview that he was always neutral regarding election campaigns. He even

15. *Zhongguo Shibao*, (24 January 2000).

16. *Shijie Ribao*, (12 June 2000).

17. *Zhongguo Shibao*, (20 April 2000).

predicted that someday Taiwan and mainland China would be part of the same greater China.¹⁸

On the other hand, big business groups in Taiwan are also in the transitional period of enhancing their collective bargaining capacities on both sides of the Taiwan Straits. In Taiwan, the defeat of KMT in the presidential election also signifies the KMT's loss of control over the major trade and industrial unions. In order to create new connections with the business community, the new government is expected to provide more preferential treatment on the issue of mainland trade. Furthermore, endorsement from many business groups for Chen's bid for presidency was based on the expectation that Chen will reverse the mainland investment restraint policy adopted during the Lee Teng-hui presidency. Most of these supports from the business community to Chen have potential business interests if Taiwan releases investment restrictions. For example, within Chen's 'National Affairs Advisory Committee', the Evergreen Group will take the initiative if Taiwan realizes direct sea and air connections with mainland China, while the Continental Engineer Group will benefit from new investment projects in mainland's huge infrastructure market.

Collective efforts to protect business interests are also an urgent agenda for the Taiwanese business community on mainland China. After ten years of continuous bargaining, the Taiwanese business community has only recently obtained permission to form an 'Association of Retired Presidents of Taiwanese Business' as a nation-wide liaison body.¹⁹ In the past, only local Taiwanese business associations were allowed. Local Taiwanese business associations are involved in more substantial issues closely related to the daily lives of the Taiwanese business people—such as establishing schools for children of Taiwanese businessmen. Under rising distrust from mainland China regarding the Taiwanese businessmen's political orientation, how to play the role as a bridge of communication will be a real test of these new bargaining capacities.

The preceding analysis demonstrates that the Taiwanese business community is a 'rational', if not 'independent' actor in cross-Straits economic relations. It is still possible for this community to become a target of mainland China's 'selective sanctions' if overall confrontation ever occurs across the Taiwan Straits. However, with their influential economic power and flexible strategies of survival, neither government on the two sides of the Taiwan Straits could impose effective 'sanctions' on these firms. Taiwanese firms' close connections with international capital and mainland China's local economic interests may further alleviate their political vulnerability.

The real challenge and opportunity to Taiwanese firms and Taiwan's economic security comes from the WTO. Many issues of cross-Straits economic interaction will be governed under the WTO framework if Taiwan and China succeed in entering this multilateral trade regime. From a more positive perspective, WTO regulations lower tariffs and increase economic transparency across the Taiwan Straits. WTO also leads to the perfection of a legal environment which facilitates

18. *New York Times*, (27 June 2000).

19. *Gongshang Shibao*, (16 February 2000).

Taiwanese commodity exports and investment to mainland China. At the same time, Taiwan must open direct trade, mail, and transportation links with mainland China. Big multinational corporations may also replace the existing Taiwanese enterprises as better technology and service providers in mainland China. Taiwan's restriction on imports and investment from mainland China must be changed. All in all, the Taiwanese government can no longer maintain the current unilateral policies that restrict cross-Straits economic transition. The real challenges of economic dependence are not from potential economic statecraft from mainland China, but rather due to the structural factor of institutionalized economic globalization. Facing direct challenges from MNCs, the Taiwanese business community may also increasingly try to push the current administration to adjust the current restraint policies toward mainland China.

WTO as challenges and opportunities to cross-Straits economic security

As indicated earlier, Taiwan and mainland China's entry into the WTO means both challenges and opportunities for Taiwanese business interests. The impact of WTO on cross-Straits economic relations could be analysed from the following perspectives.

First of all, opening direct trade, investment, and sea and air links may require a prolonged process of negotiations. Negotiations of the three links would be the first step of reopening cross-Straits talks. Regardless of all the economic benefits of cooperation, normalization of trade and investment needs political momentum in order to push forward. At the current stage, Taiwan is adopting more gradual steps toward further opening up the three links with mainland China. Taiwan's calculation is that direct talks across the Taiwan Straits are the precondition of the three links. In other words, 'three links' serves as a political symbolism to elicit mainland China to return to the negotiation table.

Secondly, in addition to the import of commodity goods and capital from mainland China, Taiwan must allow mainland managers and engineers to be stationed in Taiwan. If Taiwan really wants to be the global logistics center for multinational corporations, free movement of personnel is one of the basic requirements of globalization. The Taiwanese business community argues that talented mainland high-tech professionals will be an asset, rather than a liability, of Taiwan's technology development. Migration of mainland personnel may raise concerns of national security, but free interaction of brain power across the Taiwan Straits will create stronger bottom-up dynamics of integration based on mutual benefits and understanding.

Thirdly, arbitration mechanisms within the WTO framework may provide further protection for Taiwanese business interests. For a long time, mainland China has refused to sign an investment protection agreement with Taiwan because such a move implies 'international' instead of 'domestic' economic relations. Arbitration mechanisms within the WTO framework will help put cross-Straits economic relations in a multilateral, rather than bilateral framework of protection under international norms.

Finally, accession to the WTO may also provide opportunities for Taiwan to

fully integrate with mainland China's economic development. One of the direct challenges of WTO on China's domestic economic development is to speed up the steps of state-owned enterprise reforms. China's state-owned enterprise reform is not just a difficult economic task, but is also a wider package of social security reform. From this perspective, potential strategic alliances between Taiwanese firms and China's state-owned enterprises means first, accession to the mainland's domestic sales routes, and second, accession to new service sectors such as insurance and real estate markets. Furthermore, Taiwan's lifting of trade and investment restrictions may also promote new rounds of investment fever in China's infrastructure sectors. In the foreseeable future, China will provide the biggest infrastructure market for foreign investment in the world. Taiwan's integration with China's key infrastructure projects and state-owned enterprises reform will further promote, rather than hamper, Taiwan's economic security in a more positive way.

In the very deep structure of cross-Straits tensions, a lack of mutual trust is the major obstacle to future cooperation. In this sense, facilitating confidence building measures is among the most important task on both sides of the Taiwan Straits. The framework of WTO opens the door for further interaction under the protection of multilateralism and protects Taiwan's security. However, utilizing WTO as a tool to force mainland China into returning to the negotiation table without reaching a new consensus on interpreting the 'one China' principle beforehand is unrealistic. The DPP government in Taiwan has to provide its own interpretation of the 'one China' principle and a general agenda for subsequent talks. The WTO framework provides new opportunities to strengthen mutual trust across the Taiwan Straits, but is not the only channel for confidence building. Since cities will be the center of concentration of 'command functions' of MNCs, inter-city or sub-national cooperation may be a focus of coordination and confidence building across the Taiwan Straits. All in all, it is too optimistic to expect that economic benefits and economic globalization will cause advances on the political front. However, normalization of economic relations will certainly multiply channels of confidence building, and thus lay a foundation of mutual understanding and improvement of cross-Straits relations.

Sub-national interaction and opportunities of cross-Straits breakthrough

'Localization' of Taiwanese investment on mainland China

The preceding analysis demonstrates that flexible strategies of Taiwanese firms and the 'institutionalization' of economic globalization under the WTO framework may provide both opportunities and challenges for cross-Straits economic relations. National security concerns and dire need of economic boost from cross-Straits economic interaction create a dilemma for Taiwan. The analysis also indicates that cross-Straits economic relations are the interaction of three intertwined forces—top-down state policies, bottom-up business momentum, and general trends of economic globalization brought about by the WTO. In order to solve the cross-Straits dilemma and promote breakthrough, a linkage of these three forces must be

figured out. Considering the linkage effects of big cities on mainland China as the focus of attracting Taiwanese capital and embracing economic globalization, a sub-national analysis at the city level may provide fresh insights about cross-Straits relations.

In the past two to three years, Taiwanese investments on mainland China have been concentrated in specific coastal areas, especially the greater Shanghai area. As Shanghai continues to develop as mainland China's center of globalization, this trend of concentration is expected to be strengthened. Taiwan's mainstream manufacturing industries, especially the electronics industries, are also ready for a new round of investment on mainland China. Statistics show that two thirds of investment projects in mainland China approved by Taiwan's Investment Screening Commission are electrical and technology-related.²⁰ Take the Acer group, the biggest Taiwanese computer company, for example. At the current stage, Acer's investment value on mainland China consists of only about 3% of its global investment.²¹ In 1999, sales value of Acer products on mainland China reached only US\$66 million. In 2000, Acer plans to double its sales on mainland China and spend at least US\$6 million on advertisement. In addition to low- and middle-end computer peripherals, Acer has moved the joint-production lines of DVD drives with Hitachi to Suzhou.²² Acer plans to maintain its manufacturing capacities in Southeast Asia at the current level, but expand its production lines in Suzhou.²³ Currently Suzhou Industrial Park has become the most popular location for technology-oriented electronics industries from Taiwan. Moreover, Taiwanese enterprises have established a software development center in Shanghai to attract talented, young, and relatively cheap mainland engineers for research and development. The potential Internet market, especially the business-to-business e-commerce market, will be the focus of Taiwanese firms' new competitive edge on mainland China. Yam web, the biggest Taiwanese domestic search engine, plans to develop Shanghai as its base to explore mainland's huge e-commerce market.²⁴

Taiwan's booming information technology industries are developing mainland China as a key component of their globalization strategies. The alliance between Yahoo and Kimo, one of Taiwan's biggest Internet portal site companies, signifies their collective ambition to explore the huge Internet market in mainland China. Yahoo made it clear that Taiwanese technology and talents serve as a stepping stone to develop the greater Chinese-language market.²⁵ Japan's NTT DoCoMo Inc. forged an alliance with Taiwan's KG Telecommunications to bring the Japanese mobile giant's multimedia services to Taiwan and eventually to mainland China.²⁶ A consortium of shareholders in Shanghai's Zhangjiang Industrial Park is building a \$1.6 billion foundry in the park. About 50% of the capital is coming from Taiwanese investors via offshore routes.²⁷ A recent survey on mid- and high-rank-

20. *Gongshang Shibao*, (19 January 2000).

21. *Zhongguo Shibao*, (20 April 2000).

22. *Gongshang Shibao*, (20 April 2000).

23. *Gongshang Shibao*, (19 January 2000).

24. *Gongshang Shibao*, (3 January 2000).

25. *Zhongguo Shibao*, (10 November 2000).

26. *China Daily*, (12 December 2000).

27. Trish Saywell, 'Making up for lost time', *Far Eastern Economic Review*, (23 November 2000).

ing IT managers in Taiwan shows that 92% of the managers select Shanghai as the most promising site for a science industrial park in the next three to five years, while 87% select Taiwan's Hsin-Chu and 56% select Beijing.²⁸

In the service sector, the greater Shanghai area is also the focus of new waves of Taiwanese investment. For instance, in expanding its market share in mainland China, Taiwan's President group has internationalized its projects and formed joint ventures with Starbucks International and Shanghai Luwan Tobacco, Sugar, and Wine Inc. This is a new alliance between Taiwan's domestic firms, multinational corporations, and the mainland's state-owned enterprises. Estimates hold that at least 30 Starbucks will open in Shanghai over the next few years.²⁹ AETNA Life Insurance and Ruentai Group of Taiwan have obtained a 24% stock share of China Pacific Insurance in Shanghai. It is expected that after China's entry into the WTO, the stock share will increase to 51% or higher. Major management, service and capital supports of AETNA's new initiatives to mainland China are from its Taiwan branch.³⁰ This is also the first case where a foreign insurance company has formed alliances with the mainland's local insurance service companies. The ultimate goal is to develop its Shanghai headquarters as the base of expansion towards a nation-wide web of insurance services.

The preceding cases show that in order to accommodate the new trends of economic globalization and in order to reduce the political risks of investment, Taiwanese enterprises have to select an ideal location on mainland China to link with global capital and the mainland's domestic market. Considering the upcoming competition from multinational corporations after China joins the WTO, Taiwanese firms must waste no time in occupying the strategic site on the mainland's booming coastal area. Shanghai's huge consuming market, plus its high-quality human resources and relatively advanced infrastructure, has become a new 'magnet' to attract new waves of Taiwanese investment. This new trend of Taiwanese investment in Shanghai and the Yangtze River Delta area reveals one crucial aspect of globalization: the political economy of location. Discussions on international business alliances and domestic linkages must incorporate this sub-national level of analysis in order to create a complete picture of cross-Straits political economy in the era of globalization.

Cities as the focus of globalization

Political deadlock is the main factor impeding normalization of cross-Straits economic transactions. However, economic globalization has introduced multilevel influences challenging traditional wisdom of national security. As Saskia Sassen has noted, the retreat of the state and the 'telematics' of international financial flows are just parts of globalization. Missing in the abstract model of globalization are the actual material processes, activities, and infrastructures crucial to the implementation of globalization. Overlooking the spatial dimension of economic globaliza-

28. *Zhongyang Ribao*, (18 December 2000).

29. *Zhongguo Shibao*, (24 March 2000).

30. *Zhongguo Shibao*, (15 April 2000).

tion and overemphasizing the information dimensions have both served to distort the role played by major cities in the current phase of economic globalization.³¹ Including cities in the analysis adds three important dimensions to the study of economic internationalization: first, such an approach breaks down the nation-state into a variety of components that may be significant in understanding international economic activities. Second, it displaces our focus from the power of large corporations over governments and economies to the range of activities and organizational arrangements necessary for the implementation and maintenance of a global network of factories, service operations, and markets. Third, it contributes to a focus on place and on the urban social and political order associated with these activities of the global network. Focusing on cities allows us to specify a geography of strategic places on a global scale, as well as the microgeographies and politics unfolding within these places.³²

Cities emerge as 'agents' of globalization. In reality, a city occupies a position that reflects its relative importance in the spatial articulation of economic and financial activities or its relative economic power. Hence, the process of globalization is a significant reallocation of economic coordination and steering function away from the sovereign state, up to the international and down to the regional level. The status of cities as agents of globalization is changing. The following factors affect a city's future and status in the era of globalization: (1) changes in exogenous political circumstances; (2) economic restructuring under global competitive conditions, coupled with a city's ability to respond creatively to exogenous changes; (3) inter-city competition and cooperation; (4) socially and environmentally unsustainable growth.³³

However, the ascendancy of sub-national governments in the global economy does not mean the total retreat of the state. The globalization of finance and corporate services is embedded in a grid of strategic sites, which are partly embedded in national territories. Firms which operate globally still require the guarantee of rights of property and contract they expect within their national territories. The new geography of global economic processes, the strategic territories for economic globalization, had to be produced, both in terms of the practices of corporate actors and the requisite infrastructure, and in terms of the work of the state in producing or legitimating new legal regimes. Representations that characterize the national state as simply losing significance fail to capture this very important dimension, and reduce what is happening to a function of the global national duality—what one wins the other loses. Deregulation of economic activities should be viewed not simply as a loss of control by the state but as a crucial mechanism to negotiate the juxtaposition of the inter-state consensus to pursue globalization and the fact that national legal systems remain as the major, or crucial instantiation through which guarantees of contract and property rights are enforced.³⁴

31. Saskia Sassen, *Cities in World Economy* (Thousand Oaks, CA: Pine Forge Press, 2000), p. 2.

32. *Ibid.*, p. 4.

33. John Friedmann, 'World city futures', paper presented in the Mega-city Workshop held at the Chinese University of Hong Kong, 14–20 October 1996.

34. Saskia Sassen, 'Losing control? The state and the new geography of power', paper presented at the Global Forum on Regional Development Policy, Nagoya, Japan, 1–4 December 1998, p. 15.

The preceding analysis shows that in addition to the main framework of national level of analysis of cross-Straits relations, sub-national factors have become crucial links with economic globalization. Given the fact that Taiwanese investment has concentrated in mainland's southeast coastal and greater Shanghai area, research focusing on the interaction of urban politics and business interests illuminates the importance of urban actors in the political entanglement of economic interaction. Cities themselves could also play certain roles in accommodating or resisting central government's political interventions. Considering Taiwan's economic security, researchers have to incorporate mainland China's mega cities as important actors of economic, social, and political interaction.

Momentum of inter-city cooperation and cross-Straits relations

If cooperation at the national level is a long-term goal across the Taiwan Straits, confidence-building measures could begin with the sub-national coordination on strategies of embracing globalization. Coordinating mechanisms at the sub-national level include forming strategic regional, national and transnational urban networks for gaining better access to information and communication power. Coordination among cities on issues pertinent to enhancing capacities to accommodate in a globalized world lays a foundation for future cooperation at the national level. Two other points are crucial to the 'urban networks' among cities. First, an urban network is a system of cities, characterized by a certain space-functional division of labor. Second, an urban network is also a strategic alliance of cities, which is established for mainly two reasons, for sharing information on best practice projects and on problem-solving achievements, or for joint lobbying at national or supranational levels of decision-making. In brief, inter-city networks and cooperation could be realized from the following perspectives.

- (1) Intercultural information exchange: the urban network is the traditional source of exchanging intercultural information.
- (2) Selecting information: the urban networks and their individual actors in the cities linked to the network are a filter for the selection of information on the other city or country.
- (3) Sharing information: information relevant for day-to-day work is usually shared among the urban networkers.
- (4) Co-financing research and intelligence activities: limited financial resources available at the local level and the need for international knowledge may cause cities in an urban network to co-finance research and intelligence activities.
- (5) Creating a mental reference network for citizens: the local network, if widely covered by the local media, and when involving a wider number of multipliers in the city in network activities, may function as a mental reference worked for citizens and local businessmen.
- (6) Forming strategic alliances to lobby at higher levels of decision-making: it is an alliance against an institutional 'enemy' who has to be warned or even stopped from further pursuing things which may have negative implications for the cities organized in the network.

- (7) Sharing urban facilities and sharing revenues: laid down in intercommunal contracts, such cost or revenue sharing efforts may help the cities in a region to provide public services, which they otherwise could probably not afford, or not with a similar quality standard.³⁵

However, given the above optimistic options for inter-city cooperation, the current situation on urban interaction in East Asia in general, and between Taiwan and mainland China in particular, is more like competition than cooperation. For instance, East Asian cities are competing to build new airports or enlarge airport facilities to attract related commercial benefits. In addition to Hong Kong's new airport, mainland China has built three new airports in the Pearl River Delta area. Osaka, Hong Kong, and the new airport of Incheon escalate harsh competition over becoming East Asia's hub city in air transportation. Shanghai's ambitious Pudong project and potential of building a global city have stimulated competition from Taipei, Hong Kong, and other East Asian cities. One salient characteristic of the international 'city system', just like the international system of nation states, is anarchy. Without a competent central government, the issue of 'cheating' cannot be solved.

One possible solution for inter-city cooperation is to focus on building a 'livable city' in the region. Since most cities in East Asia are capable of offering an industrial estate in various degrees, the decisive factor for city dynamism is an attractive ambiance for daily living, cultural amenities, and a clean environment along with political and social stability. If joint projects on financial and transportation centers are such 'high economy' or 'high politics' issues, cooperation on sustainable development and environmental protection at the urban level may create a local win-win situation.

Major Taiwan and mainland cities are suffering from environmental deterioration and becoming 'unlivable' in many perspectives. For example, Taipei and Shanghai both have serious environmental problems such as air pollution, noise, loss of ground cover, low coverage of sewage, solid waste management problems, traffic congestion, and lack of urban amenities. In coping with these common problems, Taipei and Shanghai could develop collective efforts to improve issues of urban sustainable development. In addition to institutional capacity building efforts, joint city alliances may exchange experiences in utilization of policy instruments, such as traditional command and control methods, demand side management, Environmental Impact Assessment (EIA), and privatization of infrastructure management. Moreover, both sides could also consider one very important aspect of environmental management—accommodation of civil society and collaborative governance between city government and civil society. These issues include the readjustment of the role of local government and the interaction between the urban government and the business community. Urban cooperation on sustainable development has the potential to create cross-Straits cooperative mechanisms at the grass-roots level.

To guarantee a successful urban network of cooperation, sub-national govern-

35. Klaus Kunzmann, 'Network and creativity: urban survival strategies in a global economy', paper presented at the Joint OECD/Australian Government Conference 'Cities and the new Global Economy', Melbourne, 20–23 November 1994.

ments must enjoy a certain degree of autonomy from direct central government intervention. One crucial precondition of the ascendance of sub-national governments, especially big cities, in national affairs is financial autonomy. Without this basic requirement, developing autonomous urban external initiatives will be groundless. The recent case in Taiwan shows that central government's direct intervention in the local financial affairs is still a highly political controversy. In January 2000, the Legislative Yuan at the central level revised the regulation governing salaries of local legislators. Salaries of councilors of Taipei and Kaohsiung city were decreased without any prior coordination with the local governments.³⁶ More serious confrontation between Taipei, Kaohsiung, and the central government is demonstrated in the 'distribution funding' controversies. In protecting their 47% rate of distribution funding from the central treasury, Taipei Mayor Ma Yingjiou and Kaohsiung Mayor Hsieh Chang-ting launched unprecedented protests against the central government's attempts to shrink the funding rate. Although the final results maintained the 1999 dollar amount of 83.1 billion New Taiwan Dollars in distribution funds, Taipei and Kaohsiung failed to force the central government to put the original 47% rate into any written public document.³⁷ This case shows that prolonged negotiations, instead of increasing financial autonomy, may be the main theme of future interaction between central and major urban governments in Taiwan.

The real driving forces for potential cooperation at the urban level between Taiwan and mainland China are trends of decentralization. As Dillinger and Fay correctly state, the issue of decentralization is not whether governments should decentralize or not, but rather how to accommodate underlying political pressures so that the developmental potential of decentralization can be realized and the risks minimized.³⁸ Therefore, decentralization includes readjustment of sub-national functions and resources, establishment of local accountability, and overall management of decentralization. In Taiwan, distributive capacities of the 'developmental state' in the past two decades have been on the decline. Local authorities are all in the process of developing their own web of influence with the business community. Electoral mechanism and democratic accountability in big cities were established as a result of democratization. In mainland China, big cities such as Shanghai have regained the function of being the dragonhead of China's development. The social welfare reform, affiliated with the state-owned-enterprise reform in mainland China, further decentralized the distributive power of the center down to the local authorities, enterprises, and individuals. The common characteristic of decentralization on both sides of the Taiwan Straits is the closer interaction between local government and business interests. From this perspective, business links across the Taiwan Straits, combined with the current trend of decentralization on the two sides, have created a local-business web pushing forward further integration in the economic life.

36. Lienhe Bao, (13 January 2000).

37. *Zhongguo Shibao*, (19 April 2000).

38. William Dillinger and Marianne Fay, 'From centralized to decentralized governance', *Finance and Development*, (December 1999), p. 19.

Prospects of urban cross-Straits policies

Regardless of the ascendance of urban autonomy in the era of economic globalization, various networks of city alliances are limited to functional fields. Traditional wisdom indicates that official foreign relations are monopolized at the central level. However, recent literature suggests that local people and authorities may more directly challenge the long-assumed foreign policy pre-eminence of states. These efforts reflect an important transition in the involvement of local communities in world affairs. The exchange and twinning efforts tend to assert that local governments are directly involved in, or will be affected by, foreign policy decisions and thereby have a right to participate in policy-making.³⁹

In cross-Straits relations, local governments in Taiwan, especially the capital city of Taipei, struggle to have their voices heard in a changing political environment at the central level. Examining recent speeches of current Taipei Mayor Ma Yingjiou on cross-Straits relations, differences from the mainstream thinking of the central government can be found. Two months after the release of the 'special state to state' policy by ex-President Lee Teng-hui in 1999, Ma indicated that 'special state to state' is just a reflection of the current situation across the Taiwan Straits. Instead of further elaborating the implication of this new policy, Ma argued that both sides of the Taiwan Straits should avoid debating the unsolvable issue of national sovereignty, and rather focus their energies on more substantial issues such as joining the WTO.⁴⁰ To Ma, the practical solution to the political deadlock was to return to the 1992 consensus of 'one China, separate explanations'.⁴¹ He expressed his worry that after the release of this new statement of special state-to-state relations, China experts in the US would perceive that President Lee's statement was both 'problematic' and would cause problems in handling cross-Straits relations.⁴² Ma skillfully shifted the attention of 'special state to state' policy to Taiwan's domestic political competition, and argued that Chen Shui-bian had no choice but to follow President Lee's new policy line, with James Soong not daring to touch this sensitive issue.⁴³ In other words, in Ma's interpretations, the special state-to-state policy is for domestic consumption, not a new policy guideline slipping to de jure Taiwan independence.

The triumph of DPP's Chen Shui-bian in the Presidential election has put Ma in a fresh but challenging situation. As the mayor of the capital city of the ROC, Ma could not go too far to challenge current policies of cross-Straits relations initiated by the central government; as the leader of the 'last territory' of the now opposition KMT, Ma needs to lead a 'workable' solution to break the ice between Taiwan and mainland China; as a star in Taiwan's competitive political arena, Ma himself must have his own vision toward cross-Straits relations as well. No wonder that in a press interview, Ma launched an attack on the Chen Administration's interpretation of the 1992 cross-Straits 'consensus'. Ma argued that in 1992 Taiwan and mainland

39. Chadwick Alger, 'The future of democracy and global governance depends on widespread public knowledge about local links to the world', *Cities* 16(3), (1999), p. 196.

40. *Zhongyang Ribao*, (15 September 1999).

41. *Ziyou Shibao*, (16 September 1999).

42. *Lienhe Bao*, (15 September 1999).

43. *Ziyou Shibao* (16 September 1999).

China did reach a consensus on 'one China', but differed over the substantial content of the 'one China' principle. Acknowledging the 'one China, separate interpretation', in Ma's words, should not be of any hardship to the central government in Taiwan. Furthermore, without clarifying the 'one China' principle, establishing confidence-building measures across the Taiwan Straits would be a remote goal. The issue of 'three links', on which Taiwan is eager for a breakthrough, will be held back by the one China deadlock.⁴⁴ Ma's flexible interpretation of the 'one China' principle received positive responses from the other side of the Taiwan Straits. CCP Party Secretary of Shanghai Huang Ju offered an invitation to Ma for a visit to Shanghai.⁴⁵ The invitation was extended during the historic visit of KMT's Vice Chairman Wu Bo-hsiung to mainland China. This message implies that in addition to KMT's new policy front of mainland affairs after becoming an opposition party, city to city interaction may also serve as a catalyst to boost KMT's status as the only partner which the other side of the Taiwan Straits really wants to deal with.

Regardless of various optimistic prospects for bilateral cooperation between Taiwan and mainland cities, cooperative mechanisms of cross-Straits urban relations in international organizations have not been established. In some occasions cross-Straits city interaction is still a zero-sum game. The most recent case is mainland China's boycott over Taipei's participation in the International Union of Local Authorities (IULA). The IULA, a democratically accountable body representing the interests of local governments and their national associations in all regions of the world, exists to promote the strengthening of democratic local government. As IULA's platform indicates, international development cooperation contributes significantly to effective decentralization. Traditionally this has been seen as the concern of international agencies, national governments, institutional experts, and consultants. But it has now, as IULA argues, increasingly been recognized that cities, local governments, and other local government institutions have a major potential contribution to make to international programs of development cooperation—via decentralized cooperation and 'Municipal International Cooperation, MIC'.⁴⁶

During Chen Shui-bian's tenure as Mayor, Taipei was an active member in the IULA World Executive Committee. However, Taipei's enthusiasm was still sabotaged by mainland China due to political reasons. Taipei's hosting of the 1998 World Capital Forum outraged Beijing and led to Taipei being dispelled from the World Executive Committee. In order to retain continuous participation in the IULA Asian & Pacific Section, the current Mayor Ma Yingjiou has put tremendous efforts into promoting 'city diplomacy' since 1999. In order to isolate Taipei, mainland China's strategy was to mobilize more than 1,000 mainland cities to become members in the Asian & Pacific Section. Taipei's response was to avoid some highly sensitive political activities, and focus on more substantial urban issues such as disaster mitigation.⁴⁷ Whether Taipei's efforts will work are still

44. *Zhongguo Shibao*, (21 June 2000).

45. *Gongshang Shibao*, (27 November 2000).

46. For details of IULA policy on MIC, please refer to IULA home page at <http://www.iula.org>.

47. *Zhongguo Shibao*, (24 March 2000).

under observation. Once sovereignty controversies can be skillfully avoided, functional cooperation in international organizations and non-governmental organizations at the city level may serve as a catalyst to break the zero-sum nature of the cross-Straits tug of war.

Conclusion

Traditional wisdom regarding economic security focuses on how economic statecraft influences economic transactions. spurts of economic globalization since the last decade of the twentieth century have forced nation states to readjust their roles in economic life. In the era of economic globalization, however, states do not totally withdraw from regulating economic transactions. What often changes in the bargaining process between business and state is the ascendance of specific locations having key agents which link business and state interests. Securing economic interaction and promoting integration in global and regional economies must be understood in both a national and a sub-national context.

In the case of cross-Straits relations, economic globalization imposes both challenges and opportunities for Taiwan. Globalization does not signify the demise of state sovereignty. Instead, to cope with challenges of globalization, the state has to enhance its capacities to develop collaborative mechanisms of governance with the business community and civil society. National security is vital to Taiwan's survival, but the Taiwanese state has to identify the operational content of economic security and avoid entanglement with domestic political struggling. In order to embrace globalization and transfer challenges into opportunities, the Taiwanese state has to help promote dynamism of the Taiwanese business community to catch up with globalization trends and explore the emerging mainland China market. Traditional ways of top-down regulatory efforts will not work in a world of globalization. The Taiwanese state has to enhance the global-oriented economic infrastructure and rebuild the political foundation of stable relations with mainland China based on pragmatism, and avoid ideological crusading.

At the current stage of cross-Straits economic interaction, economic benefits of further integration are overshadowed by political confrontation. Political intervention and 'reverse spill-over' effects raise great concerns for Taiwan's national security. Various cooperative mechanisms and confidence-building measures are now under discussion to increase mutual trust across the Taiwan Straits. To understand economic globalization, including major cities as a focus of analysis, throws light on the potential for breaking the ice in cross-Straits economic issues. Thorough studies on local linkage of Taiwanese capital provide fresh insight on economic interdependence at the grass-roots and urban levels. Interdependence and integration between the dynamic Taiwanese business community and the mainland's strategic sites of economic growth may create bottom-up impacts on the political use of economic instruments at the central government level. On the other hand, as decentralization and privatization on mainland China proceed, major cities have developed closer interaction and systems of democratic accountability with civil society. Cities reflect more local interests than direct orders from the central government. Developing a functional cooperative mechanism between Taiwan and

mainland China at the sub-national level can create confidence-building measures between urban societies, and lay a foundation for overall cooperative mechanisms between the two economies.