

Developments in the Cross-Strait Economic Relationship

In his summary report to the National Assembly on August 14, Republic of China (ROC) President Lee Teng-hui strongly warned against growing economic ties to mainland China, stating that increased capital flows across the Taiwan Strait had placed a strain on Taiwan's economic growth and industrial upgrading. He therefore demanded a review of the idea of using mainland China as a hinterland market in building Taiwan into an "Asia-Pacific Regional Operations Center." In addition, he also called for related economic and financial agencies in the government to draft three sets of investment guidelines: (1) setting an appropriate ratio for Taiwan's overseas investment to its domestic investment (for example, the ceiling for the former could be set at 20-30 percent of the investments for domestic manufacturing); (2) establishing a ceiling on the total mainland investment permitted to any individual Taiwan company, with the ceiling based on the company's effective domestic investment during the last two years; and (3) setting an appropriate ratio for Taiwan's mainland investment to its overseas investment.

President Lee's remarks have produced a great impact on cross-Strait relations, which remain at a low ebb. The first response was the Formosa Plastics Group's decision to temporarily suspend its plan to invest in a US\$3 billion power plant in Zhangzhou, Fujian. President Enterprises followed suit and aborted a plan to build power plants in Wuhan. Concerned government departments have also reviewed their policies on investing in mainland China. The general conclusion has been that reliance on mainland China should be reduced in order not to endanger national security. Obviously intending to placate Taiwanese businessmen, People's Republic of China (PRC) President Jiang Zemin told a visiting Taiwanese industrial and commercial delegation on August 29 that political differences should not be allowed to affect and interfere with economic cooperation between the two sides. In other words, mainland China has tried to hold on

to Taiwan investors by using a tactic of "separating economic matters from politics."

Speaking strictly from the economic point of view, Taiwan needs to make the fullest use of mainland China's market, resources, and manpower to upgrade its economic capacity and enhance its international competitiveness, especially as mainland China has "taken off" economically. A stable cross-Straits economic relationship, including Taiwan investors' capital flows to mainland China, would benefit such an effort. With a perfect understanding of this fact, both President Lee and other ranking officials have denied reports of a dramatic shift in cross-Straits economic policy, maintaining only that economic interests need to be balanced with the political risks involved and other policy objectives. From the above, it is clear that the whole matter could also be viewed from a political perspective.

As is already known, President Lee's June 1995 visit to the United States has not only incurred severe criticism and military threat from Beijing but also resulted in Beijing's suspension of the semiofficial talks between the PRC and ROC which began in 1993. In spite of Beijing's demand for a more specific response to its "one China" proposal, President Lee obviously has played a card most undesirable to mainland China: that is, letting political conflict across the Straits affect their economic cooperation and exchanges. Within a month of Lee's National Assembly remarks, government agencies in charge of mainland affairs reached a consensus to slow down cross-Straits economic exchanges, although no specific restrictions on such exchanges have been announced. The initial effects have been felt by Taiwan investors' large mainland investment projects, including the investment in infrastructural construction that the PRC urgently needs for the fulfillment of its Ninth Five-Year Plan. While Taipei has laid bare the assertion that cross-Straits economic exchanges inevitably will be affected by political stalemate between the two sides, Beijing has responded with the rhetoric of "separation between economic matters and politics" in an effort to reassure Taiwanese businessmen even as it continues to exert political pressure on Taiwan. However, since recent mainland-bound investment projects have become increasingly large in scale and ranking Taiwan officials have had close relations with consortia, it has not been difficult for the Taiwan authorities to exert influence on business leaders. Beijing's tactics of separating economic matters from politics thus may not work, as proven by the investment cases of the Formosa Plastics Group and President Enterprises.

Obviously, Taiwan is now playing the card of “keeping politics and economic matters as an integral whole” in order to drive mainland China back to the negotiation table; such an offensive has already put mainland China in an impasse. Having long been aware of Beijing’s tactics of using Taiwan businessmen to force the ROC government to yield to its political demands and using commerce to achieve political objectives, the ROC government has been unwilling to see the rapid development of cross-Strait economic exchanges in an uncontrolled fashion. However, as mainland China is currently in urgent need of Taiwanese capital for its economic development, it seems that the ROC government can use economic leverage as its best weapon in dealing with mainland China.

(Allen Y. Tso)