

Taiwan's Offshore Shipping Center and Cross-Strait Commercial Opportunities

Kung Chun-sheng

Although Taiwan businessmen have called for direct transportation links across the Taiwan Strait for the purpose of saving costs and time in shipping cargo across the Strait, the government of the Republic of China (ROC), due to national security considerations, has assumed a conservative attitude in this matter. To meet cross-Strait commercial needs, Taiwan has opened an offshore shipping (or "point-to-point direct transportation," as referred to by mainland China) center in Kaohsiung to handle the transshipment and processing of cargo to be delivered between mainland China and third countries. However, under the current arrangement, cargo delivered between the two sides of the Strait still must make a transit or through a third area, and this continues to create problems for Taiwan businesses.

This article will first examine the impact of the offshore shipping center on Taiwan businesses' commercial activities, and then evaluate the center from a retrospective and prospective view. Finally, the author will make some suggestions based on his research findings.

Keywords: offshore shipping center; point-to-point direct transportation; flag of convenience ships; liner shipping and tramp shipping; maritime transshipment center; Asia-Pacific Regional Operations Center

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As large enterprises have entered the international market through joint ventures, wholly-owned subsidiary, or mergers and acquisitions utilizing their abundant funds and government loans,¹ owners of small and medium-sized

Dr. Kung Chun-sheng is Assistant Professor in the Department of International Trade, Tamsui Oxford University College, Taipei.

¹Stephen Young et al., *International Market Entry and Development* (Hertfordshire: Wheatsheaf, 1989), 3.

enterprises with less funds and resources have sought to relocate their labor-intensive industries in areas with cheaper labor. Such has been the case with Taiwan businesses, which have eyed mainland China as a hinterland which features the above characteristics, plus similarities in cultural background and language.² However, since the delivery of raw materials and semifinished products across the Taiwan Strait must currently pass through a third country due to the lack of direct transportation links between the two sides of the Strait, these enterprises are eager to build direct links in order to reduce their transportation expenditures and shipment time.

On January 22, 1997, Taiwan's Shipping Association and mainland China's Shipping Exchange Association met in Hong Kong and signed the "minutes of talks" as a preliminary agreement on the establishment of an offshore shipping (or "point-to-point direct transportation," as referred to by mainland China) center. This agreement was purely concerned with technical and functional affairs regarding the establishment of the center, without touching upon direct shipping links across the Taiwan Strait. In accordance with Article 1 of the regulations on the center promulgated by the Ministry of Transportation and Communications, the center is projected to increase the competitiveness of Kaohsiung as a transshipment port for cargo from and destined for mainland China, and thus attract business from Hong Kong, which is currently the major transshipment port for cargo between Taiwan and the mainland. According to the regulations, cargo will not pass through Republic of China (ROC) customs, nor enter Taiwan proper; instead, it will be combined with other shipments destined for third countries. Presently, the transaction of cargo between Taiwan and mainland China fall under the category of *wankao* or *zhongzhuan*,³ and pass through Singapore, Hong Kong, Pusan in South Korea, and Ishigaki Island in Japan.

Commercial Opportunities Across the Taiwan Strait

Taiwanese Investment in Mainland China

To obtain the highest profit, investors must seek the cheapest manufacturing costs, including the labor force and production element costs, which

²Kung Chun-sheng, "On the Necessity of Having Direct Transportation Links Across the Strait" (Paper presented at the Sixth Cross-Strait Symposium, Beijing, July 1996), 3.

³*Wankao* is also defined as "transit," and means cargos does not have to pass through customs and be unloaded when it passes through a certain country, while in *zhongzhuan*, or "transshipment," it is necessary to declare cargo at customs and unload it when it arrives at a port.

vary in different countries and areas. When costs rise, enterprises will either acquire cheaper elements from other places or relocate their capital and technology. In Taiwan, labor costs have risen rapidly since 1980 (with the exception of 1995), at a speed faster than productivity (see tables 1 and 2). As a result, many labor-intensive industries have moved to other areas. Table 3 indicates that Taiwan businessmen invested a total of over US\$11 billion in the mainland by the end of 1995, constituting 8.69 percent of all foreign investment on the mainland, behind only Hong Kong and Macao, with the latter two comprising 60.39 percent. The volume of Taiwan businessmen's investment on the mainland constituted 35.5 percent (or one-third) of Taiwan's total investment abroad that year.⁴

According to statistics prepared by the Investment Commission of the ROC's Ministry of Economic Affairs, Taiwan businesses indirectly invested in 383 projects on the mainland in 1996, at a total value of over US\$1.2 billion. The total number of investment projects in the period 1991-96 was 11,637, at a value of approximately US\$6.9 billion. Investment centered mainly in coastal provinces such as Jiangsu (US\$2.2 billion, or about 32 percent of the total), Guangdong (US\$1.97 billion, or about 29 percent), Fujian (US\$889 million, or approximately 13 percent), Hebei (US\$497 million, or 7.2 percent), and Zhejiang (US\$295 million, or 4.3 percent).⁵ If direct transportation links are opened between these coastal areas and Taiwan's two major ports of Keelung and Kaohsiung, Taiwan businesses will be able to save on transportation costs and shipment time when they import raw materials and semifinished products from the mainland.

Presently, except for those engaged in producing precision machines and means of transport, most Taiwan businesses investing in mainland China are concentrating on labor-intensive industries,⁶ which feature horizontal divisions of labor with industries in Taiwan. The major reason for labor-intensive industries seeking opportunities on the mainland is the cheaper costs of mainland labor. In 1995, for example, the average worker's annual salary in the manufacturing industry was US\$52 on the mainland,⁷ while a Taiwan

⁴*Liang'an jingji tongji yuebaobiao* (Monthly Cross-Strait Economic Statistics) (Taipei), January 1997, 30-31.

⁵*Ibid.*, 5.

⁶Tsai Hung-ming, "The Offshore Shipping Center and Integration of the Work Division Between the Two Sides of the Taiwan Strait," *Jingji qingshi ji pinglun* (Economic Situation and Review) (Taipei) 1, no. 3 (November 1995): 168-70.

⁷In 1995, the average annual wage in mainland China's manufacturing industry was 5,169 yuan (equivalent to about US\$52 each month if calculated at the ratio of 1:8.32). See *Zhongguo*

Table 1
The Productivity of Taiwan's Manufacturing Industries

Base: 1991=100

Period	Manufacturing	Food & kindred tobacco	Beverages & tobacco	Textile mill products	Apparel & other textile products	Leather, fur & related products	Wood & bamboo products	Furniture & fixtures products	Pulp & paper products	Printing & similar products	Industrial chemicals	Chemical products
1980	54.61	59.77	85.77	54.74	104.64	42.65	89.57	37.42	55.91	152.11	41.54	41.74
1981	58.20	66.87	93.50	57.87	119.31	41.97	110.81	56.31	60.26	118.12	48.35	49.64
1982	58.74	70.18	120.66	55.86	109.27	56.97	102.66	60.58	63.75	94.89	49.97	49.70
1983	63.25	78.69	124.81	57.94	105.04	69.94	102.71	64.15	64.05	86.93	59.88	54.54
1984	63.09	73.96	121.49	60.65	105.36	75.31	99.50	62.35	62.03	94.97	61.75	58.03
1985	64.52	79.53	123.12	59.16	106.55	81.31	114.45	65.43	63.85	99.16	66.05	63.11
1986	69.26	80.20	127.84	67.92	108.83	89.71	120.05	71.95	73.73	96.49	76.58	69.98
1987	73.90	84.19	117.42	70.16	112.15	88.31	114.54	82.14	75.71	94.26	74.81	78.11
1988	77.78	90.89	126.55	65.77	98.70	85.49	101.81	85.93	78.94	91.47	76.23	81.67
1989	84.87	89.14	129.99	75.83	107.82	94.48	95.01	95.92	86.66	97.82	81.44	82.96
1990	91.26	93.78	108.52	88.45	99.39	99.95	85.51	90.95	94.10	99.15	88.72	91.33
1991	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1992	103.80	102.15	92.56	103.21	92.46	85.97	102.56	99.95	102.06	107.93	111.61	105.65
1993	107.16	103.85	95.26	100.69	83.75	79.46	101.56	91.69	98.07	108.18	118.41	106.05
1994	111.15	108.42	94.00	103.67	70.60	78.81	86.74	85.71	99.78	100.47	138.45	114.03
1995	118.72	111.61	112.15	103.36	71.32	73.19	76.87	81.33	101.17	101.40	146.17	119.00

Source: *Taiwan Statistical Data Book 1996* (Taipei: Industrial Development and Investment Center, Ministry of Economic Affairs, 1996), 24.

Table 2
Labor Costs for Taiwan Manufacturing Industries

Base: 1991=100

Period	Manufac- turing	Food & kindred tobacco	Beverages & tobacco	Textile mill products	Apparel & other textile products	Leather, fur & related products	Wood & bamboo products	Furniture & fixtures products	Pulp & paper products	Printing & similar products	Industrial chemicals	Chemical products
1980	55.73	47.14	23.67	53.43	32.50	76.70	37.16	79.50	64.77	20.96	67.65	72.36
1981	65.23	50.96	33.27	67.57	37.41	99.31	40.03	70.28	71.02	31.45	70.87	81.82
1982	70.90	56.42	33.36	77.41	46.94	78.06	45.24	74.23	80.29	40.14	76.94	84.90
1983	69.78	54.59	36.21	78.33	52.30	67.11	48.53	75.27	80.84	47.70	66.13	85.34
1984	75.55	63.40	36.48	84.15	56.92	74.07	51.95	80.98	92.35	44.77	74.72	82.09
1985	79.40	64.23	41.33	89.04	56.92	73.52	48.52	81.37	90.53	51.38	77.55	83.88
1986	79.63	70.72	41.96	88.95	61.35	67.76	49.74	79.63	82.55	55.95	73.83	82.72
1987	81.52	71.90	48.84	92.71	63.08	77.39	58.61	78.18	86.50	60.26	80.96	80.08
1988	87.04	74.69	49.92	108.40	76.62	88.75	71.90	86.32	92.17	68.79	90.64	85.87
1989	92.69	87.02	56.98	106.10	79.41	92.38	84.71	83.61	95.78	76.88	97.40	92.45
1990	98.77	96.20	80.26	101.65	93.55	95.77	107.00	99.81	99.09	88.36	99.22	98.61
1991	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1992	106.43	106.72	127.92	107.17	115.12	124.12	105.34	105.85	109.75	103.49	93.94	106.17
1993	110.34	111.56	123.14	115.40	135.15	152.32	118.29	123.87	118.53	112.69	88.96	109.37
1994	113.02	114.03	138.47	113.56	168.82	165.72	150.72	140.88	124.51	123.82	78.47	111.61
1995	112.35	115.88	117.20	120.58	175.32	189.01	178.65	153.97	132.95	134.88	85.29	111.41

Source: Taiwan Statistical Data Book 1996, 24.

Table 3
Investment in Mainland China by Major Countries (Areas)

Countries (Areas)	1995					1979-1995						
	Number of items	Contract volume (US\$100 million)	Average volume of each contract (US\$10,000)	Actual volume (US\$100 million)	Ratio of realization	Number of items	Contract volume (US\$100 million)	Ratio (%)	Average volume of each contract (US\$10,000)	Actual volume (US\$100 million)	Ratio (%)	Ratio of realization (%)
Hong Kong & Macao	17,685	419.28	237	205.00	48.89	157,636	2,413.76	61.13	153	805.48	60.39	33.37
Taiwan	4,778	57.77	121	31.62	54.73	31,780	293.90	7.44	92	115.85	8.69	39.42
USA	3,466	74.67	215	30.83	41.29	19,723	282.53	7.16	143	108.51	8.14	38.41
Japan	2,935	75.83	258	31.08	40.99	13,249	212.51	5.38	160	105.06	7.88	49.44
Singapore	1,275	86.43	678	18.51	21.42	5,842	172.83	4.38	296	39.23	2.94	22.70
South Korea	1,974	29.59	150	10.43	35.25	6,221	67.39	1.71	108	22.06	1.69	33.52
Britain	455	34.30	759	9.14	26.47	1,472	92.62	2.35	629	11.92	1.65	23.82
Germany	352	16.59	471	3.88	23.39	1,244	44.10	1.12	355	10.84	0.89	27.02
France	183	6.42	351	2.87	44.70	957	18.37	0.47	192	9.18	0.81	59.01
Thailand	304	6.37	210	2.88	45.21	2,132	35.19	0.89	165	83.05	0.69	26.09
Others	3,719	95.42	257	31.16	32.65	18,647	315.48	7.99	169	83.05	6.23	26.32
Total	37,126	902.90	243	377.40	41.80	285,903		100.00	153	1,333.37	100.00	33.78

Note: Foreign capital in mainland China is comprised mainly of foreign loans, foreign businesses' direct investment, and other forms of foreign investment. Included in this table is foreign businesses' direct investment.

Source: *Liang'an jingji tongji yuebaobiao* (Cross-Strait Monthly Economic Statistics) (Taipei), January 1997, 46.

worker's salary was approximately twenty-two times larger, at US\$1,190.⁸ Since the payment of wages is a major expenditure of labor-intensive industries, it is only natural that owners of these industries in Taiwan have relocated production to mainland China.

Trade Between the Two Sides of the Taiwan Strait

Trade between Taiwan and mainland China increased significantly following the initiation of mainland China's reform and opening-up policies, with total volume rising from US\$460 million in 1981 to over US\$23.7 billion in 1996. As a result, the degree of Taiwan's trade dependence on mainland China rose from 1.55 percent in 1981 to 10.95 percent in 1996, while the degree of mainland China's trade dependence on Taiwan rose from 1.04 percent in 1981 to 8.21 percent in 1996.⁹ A closer examination of the figures further emphasizes Taiwan's growing trade dependence on mainland China. Of the two sides' total trade volume in 1996, mainland China's exports to Taiwan accounted for approximately US\$3 billion, and Taiwan's exports to mainland China for over US\$20.7 billion. In other words, Taiwan's trade with mainland China gave it a surplus of about US\$17.7 billion in 1996.¹⁰ That same year, Taiwan's total trade surplus was only US\$14.7 billion.¹¹ Thus, if one does not include its trade with mainland China, Taiwan would have had an overall trade deficit that year.

On account of the large trade volume and high degree of interdependence between the two sides of the Taiwan Strait, cooperation between them would seem to be mutually beneficiary. It is this author's opinion that as long as Taiwan's security is not threatened, the ROC government should make an active effort to enhance Taiwan's economic relations with the mainland instead of placing too much emphasis on politics.

These issues play directly into the current system of shipments across the Strait. Presently, direct marine navigation is not allowed, and ships from either side must pass through a third area before reaching the other side, as stipulated in the ROC government's "Guidelines for National Unification."¹²

tongji nianjian 1996 (Statistic yearbook of China 1996) (Beijing: Zhongguo tongji chubanshe, 1996), 118.

⁸In 1995, the average monthly wage of a Taiwan manufacturing industry worker was NT\$32,441 (equivalent to about US\$1,190, calculated at the ratio of 1:27.27).

⁹*Liang'an jingji tongji yuebaobiao*, January 1997, 24-27.

¹⁰*Ibid.*, 24-25.

¹¹*Ibid.*, 56.

¹²Based on the ROC's "Guidelines for National Unification," direct transportation links can be opened only when relations across the Strait enter into the "medium term."

Hong Kong is currently the main transshipment port (handling about 80 percent of the transshipment work) for cargo traffic between the two sides.¹³ At the start of indirect commercial transactions between Taiwan and mainland China, only tramp shipping by bulk carriers was allowed to travel through a third country between mainland China and Taiwan, since it would be difficult to unload such bulk cargo as grain, slag, timber and coal, as well as change ships. However, under pressure of foreign businesses, in January 1997 the ROC government also began to allow liner shipping by container ships with foreign registries or flags of convenience (FOC) for indirect transit between the two sides of the Strait.¹⁴ However, from table 4, we can see that although *wankao* transit is more economic than *zhongzhuan* shipping both in time and costs, it is still more expensive than direct transportation. With Taiwan's growing dependence on the mainland, questions concerning these transportation costs are worth noting.

To enhance its economic competitiveness in the world, Taiwan needs a stable economic environment and high management efficiency. However, the current indirect transportation arrangements have not only incurred higher expenses but also wasted time. Shipments between Kaohsiung and Xiamen can be taken as an example: as cargo must pass through Hong Kong, the length of the voyage has increased from 170 to 632 nautical miles, and the time consumed has increased from one day to three or four days with *wankao* transit, and seven to ten days with *zhongzhuan* transshipment (see table 4). Moreover, transportation expenses have also increased by 3.5 to 4.5 times as a result. Direct transportation links are therefore necessary if Taiwan businesses are to maintain a competitive edge in the international market.

The Maritime Transshipment Center

To maintain Taiwan's cutting-edge competitiveness in regional and world markets, the ROC government designed the Asia-Pacific Regional Operations Center (APROC) plan in the early 1990s. It envisions the development of Taiwan operation centers in six categories: financial services, telecommunications, air transportation, sea transportation, manufacturing, and media. The goal is to make the island both a base for domestic enterprises

¹³Kao Charng, *Liang'an sandi jianjie maoyi de shizheng fenxi* (An empirical analysis of indirect trade in Taiwan, Hong Kong, and mainland China) (Taipei: Mainland Affairs Council, Executive Yuan, September 1995), 33.

¹⁴In liner shipping, the line and sailing date, the port of call, and the freight list for shipping are all fixed, while in tramp shipping, all of the above are negotiated between shipowners and consignors.

Table 4
A Comparison of Direct and Indirect Shipping Across the Taiwan Strait

Shipping line	Indirect transport						Direct transport				
	Voyage (nautical miles)	Time needed (days)		Estimated freight (US dollars)				Voyage (nautical miles)	Time needed (days)	Estimated freight (US dollars)	
				20 ft. container		40 ft. container					
		Wankao	Zhongzhuan	Wankao	Zhongzhuan	Wankao	Zhongzhuan				
Keelung to Fuzhou	943	3-4	7-10	840	1,020	1,580	1,850	150	1	280	320
Kaohsiung to Xiamen	632	3-4	7-10	700	880	1,310	1,580	170	1	300	350

Source: *Weilai liang'an keneng zhihang zhi tonghang wenti yanjiu* (A study of shipping matters as related to opening direct transport links between the two sides of the Taiwan Strait) (Taipei: Institute of Transportation and Communications, 1994), 6-7.

and a gateway for North American and European nations, with Kaohsiung becoming a cargo transshipment center handling transit cargo and other operations such as commodity storage and distribution.¹⁵

The APROC plan is aimed at soliciting more foreign investment. Many foreign businesses have invested in Taiwan because they consider mainland China to be Taiwan's hinterland, both geographically and economically.¹⁶ In other words, mainland China has been considered a market for the sale of products and a source of basic production elements. On the other hand, if Taiwan cannot take full advantage of mainland China's cheap production elements, foreign businesses may opt to invest in other areas.¹⁷ A lack of readily available foreign investment and cheap production elements would certainly hinder Taiwan's development as an Asia-Pacific manufacturing center, and thus its aspirations to become a financial and air and sea transportation center.

Direct transportation links between the two sides of the Strait would help Taiwan fulfill its objective of becoming a maritime transportation center due to the following advantageous effects:

1. *Enhancing the competitiveness of products manufactured by Taiwan businesses.* Based on estimates made by the Council for Economic Planning and Development, direct shipment of cargo across the Strait would save Taiwan businessmen a total of US\$248 million each year.

2. *Enabling Taiwan and mainland China to further supplement each other.* Since mainland China has abundant raw materials, while Taiwan is experienced in the processing of raw materials, direct transportation links would enable both sides to deepen their exchanges.

3. *Improving management efficiency.* Direct transportation links would not only make it more convenient for Taiwan businesses to transport their products, but also make it easier for them to establish offices on the mainland to boost their sales.

4. *Promoting economic growth.* A proper disposition of resources would reduce production costs, enhance productivity, and consequently enhance production competitiveness and promote economic growth.

5. *Creating a market for increased trade.* Increased economic exchanges across the Strait would also create a greater market for areas such as

¹⁵*Kuashíji daxingdong* (Major actions that go beyond this century) (Taipei: Council for Economic Planning and Development, March 1995), 2-5.

¹⁶Taiwan also takes East and Southeast Asia as its hinterland.

¹⁷Wang Chun-yuan and Kung Chun-sheng, "Why Taiwan Cannot Use Mainland China as Its Hinterland?" *Zhongguo shibao* (China Times) (Taipei), August 24, 1996, 11.

insurance, tourism, and legal services.

6. *Increasing productivity.* Direct transportation links would promote vertical and horizontal work divisions between the two sides of the Strait and consequently help both sides to increase their productivity.

7. *Making better use of the hinterland on the mainland.* Direct transportation links would encourage foreign businesses eager to use the services that Taiwan's APROC can offer, as it would be easier for them to keep abreast of mainland China's developments, make use of mainland China's resources, and expand their sales on the mainland market.¹⁸

The statistics support the view that Taiwan has suffered in lieu of no direct transportation links with mainland China. In 1981, Kaohsiung handled a total container volume of 1,124,709 TEUs (twenty-foot equivalent units), while Hong Kong and Singapore handled 1,559,819 and 1,121,600 TEUs, respectively.¹⁹ However, the figures for all three areas in 1995 were 5,230,000 TEUs, 12,600,000 TEUs, and 11,860,000 TEUs, respectively (see table 5). Such a change can be attributed not only to the improvement of port management and economic environment in the latter two areas but also their access to the economic hinterland on the Chinese mainland.²⁰ If Taiwan wants to become a transshipment center in the Asia-Pacific region, it should take East and Southeast Asia, especially mainland China, as its hinterland. However, since the direct transportation links are currently unavailable, the ROC government has decided to set up an offshore shipping center prior to building Taiwan into a transshipment center.²¹

Taiwan as an Offshore Shipping Center

The Development of the Offshore Shipping Center

To cope with the need for direct transportation and promote its APROC plan, the ROC government established Kaohsiung as an offshore shipping

¹⁸Ibid.

¹⁹Chen Kuang-hua, "Issues and Policies Regarding the Asia-Pacific Regional Operations Center: The Asia-Pacific Shipping Center," in *Yatai yingyun zhongxin yu Xianggang jingyan yantaohui* (Symposium on the Asia-Pacific Regional Operations Center and the Hong Kong experience) (Taipei: Chung-Hua Institution for Economic Research, June 1996), 126.

²⁰Hsu Hsiao-po and Chi Schive, *Zai Taiwan sheli Yatai yingyun zhongxin kexingxing yanjiu* (A study on the feasibility of establishing the Asia-Pacific Regional Operations Center in Taiwan) (Taipei: MOEA Industrial Development and Investment Center, January 1994), 34-39.

²¹Mao Chih-kuo, "The Plan for the Development of the Offshore Shipping Center," *Shangye zhiye jiaoyu* (Commercial Professional Education) (Taipei), no. 63 (February 1996): 49.

Table 5
The Handling Capacity of Major Ports in the Asia-Pacific Region

Year	Hong Kong	Singapore	Kaohsiung	Pusan	Kobe	Yokohama	Keelung	Tokyo	Unit: TEU	
									Bangkok	
1980	1,464,961		802,645	632,866	1,236,332	659,642	659,642	631,505		
1981	1,559,819	1,121,600	1,124,709	743,968	1,334,938	655,445	655,445	695,162		
1982	1,659,943	1,174,300	1,194,709	793,254	1,261,134	702,924	702,924	665,095		
1983	1,837,047	1,340,000	1,194,000	898,029	1,345,956	942,526	942,526	698,321		
1984	2,108,583	1,552,200	1,497,482	1,084,431	1,827,221	1,094,001	1,233,794	786,060		
1985	2,288,953	1,698,800	1,784,982	1,172,764	1,857,202	1,219,224	1,157,840	847,776		
1986	2,774,025	2,203,100	1,900,853	1,490,566	1,884,738	1,210,290	1,503,907	913,171		
1987	3,457,182	1,634,400	2,482,475	1,887,138	1,887,459	1,299,645	1,938,903	1,092,701		
1988	4,033,427	3,375,100	2,778,788	2,135,497	2,091,048	1,428,587	1,761,695	1,184,769		
1989	4,463,709	4,364,400	3,082,837	2,257,412	2,267,364	1,505,636	1,771,930	1,232,089		
1990	5,100,637	5,223,500	3,382,511	2,348,475	2,388,855	1,647,891	1,828,144	1,402,338	1,018,290	
1991	6,161,912	6,354,000	3,494,631	2,694,115	2,595,940	1,796,368	2,004,655	1,783,837	1,170,697	
1992	7,972,235	7,560,000	3,913,108	2,751,006	2,635,425	1,886,789	1,940,587	1,728,548	1,303,308	
1993	9,204,236	9,046,100	4,635,896	3,070,681	2,696,085	2,167,792	1,886,429	1,537,637	1,273,798	
1994	11,265,984	10,400,000	4,899,878	3,700,000	2,787,000	2,390,629	2,046,589	1,720,000	1,337,009	

Source: *Containerization International Yearbook* (London: ENAP Business Communications Ltd.), 1981 to 1995 editions. All these related figures are put in Section A which entitled Ports and Terminals: Far East and Asia. Cited in Chen Kuang-hua, "Issues and Policies Regarding the Asia-Pacific Regional Operations Center: The Asia-Pacific Shipping Center," in *Yatai yingyun zhongxin yu Xianggang jingyan yantaohui* (Symposium on the Asia-Pacific Regional Operations Center and the Hong Kong experience) (Taipei: Chung-Hua Institution for Economic Research, June 1996), 126.

center in 1995, with the intention of making it a cargo transshipment center which would eventually handle shipments in the Asia-Pacific region. Although the center's establishment is an indication of Taiwan's determination to set up its APROC, the comparatively higher transportation costs may discourage foreign businesses from coming to Taiwan. Indeed, some may even move their capital to other areas in order to reduce costs.

Mainland China has been cold to the offshore shipping center project, insisting that direct cross-Straits links should be installed. Without mainland China's cooperation, the offshore shipping center has thus not fulfilled its intended role. The reasons behind mainland China's opposition to Taiwan's vision of the offshore shipping center can be summarized as follows:²²

1. *Assuming sovereignty over Taiwan.* Upholding the principle of "one China," mainland China has maintained that shipping across the Taiwan Strait should belong to the rights of cabotage, with no foreign ships allowed to sail between China's ports. However, based on the regulations for the offshore shipping center, foreign and FOC ships are allowed to sail between ports on both sides of the Taiwan Strait, which is considered by mainland China to be an attempt to internationalize the shipping lines between the two sides of the Strait and violates the "one China" principle.²³ In addition, Article 3 of the "Regulations on the Establishment of the Offshore Shipping Center" stipulates that the following foreign ships can sail between the offshore shipping center and mainland China ports: (1) foreign ships run by foreign shipping companies; (2) ships owned by ROC shipping companies; and (3) foreign ships run by mainland Chinese shipping companies. However, mainland China has claimed that shipments between the two sides of the Strait should be considered as part of a "domestic shipping line which should be put under special administration," and that shipping should be handled by businesses with capital coming from both sides of the Strait. In other words, businesses with foreign capital should not be allowed to participate in the management of cross-Straits shipping.

2. *Promoting unification by opening direct transportation links and having businesses force the ROC government to change its mainland policy.* To mainland China, direct links with Taiwan would help it realize its political goal of reunifying Taiwan, as increased exchanges of people and products

²²Kung, "On the Necessity of Having Direct Transportation Links," 2.

²³Hu Nian-tsu, "The Running of the Offshore Shipping Center," *Lianhe bao* (United Daily News) (Taipei), May 11, 1995.

Table 6
Minutes of the Development of Navigation Between the Two Sides of the Taiwan Strait

January 5, 1995	The Executive Yuan passed the plan proposed by the Council for Economic Planning and Development for the establishment of the "Maritime Transshipment Center."
January 1995	The Mainland Affairs Council of the Executive Yuan passed the plan on the "Development of Economic Relations Across the Strait at the Present Stage" in which it was proposed to establish an "offshore shipping center" which would be mutually beneficiary to the two sides of the Taiwan Strait.
July 10, 1995	Mainland China's Ministry of Communications formulated the draft of the "Regulations on the Special Shipping Line Across the Taiwan Strait" in which the following ports were decided to be opened for direct transport with Taiwan's offshore shipping center: Dalian, Tianjin, Shanghai, Qingdao, Guangzhou, and Xiamen.
December 1995	Jiang Zemin approved the "Regulations on Sea Line Transportation Between the Two Sides of the Taiwan Strait" by which FOC (flag of convenience) ships should transport cargo directly between the two sides of the Strait.
April 24, 1996	The ROC's Ministry of Economic Affairs proposed to establish the "special economic zone for the two sides of the Taiwan Strait" to enable the two sides to freely exchange personnel, capital, and commodities, and enable ships from both sides to sail directly to each other.
August 20, 1996	Mainland China's Ministry of Communications promulgated the "Regulations on Shipping Between the Two Sides of the Taiwan Strait" and opened Xiamen and Fuzhou for the "point-to-point direct transportation."
August 21, 1996	Mainland China's Ministry of Foreign Trade and Economic Cooperation promulgated the "Regulations on the Cargo Transportation Agents of the Two Sides of the Taiwan Strait."
October 29, 1996	The ROC's Ministry of Transportation and Communications decided to allow mainland China "mother-ships" to make transits through the offshore shipping center in Kao-hsiung in the form of FOC ships, and allow foreign ships to handle cargo delivery between the two sides of the Taiwan Strait if they passed through a third country.
November 1, 1996	Mainland China's Ministry of Communications expressed that it would accept Taiwan shipping companies' applications within one month and open regular shipping lines between Kaohsiung and the two ports of Fuzhou and Xiamen.
November 15, 1996	Mainland China's Ministry of Communications issued the "Notice on Questions Concerning the Implementation of Regulations on Shipping Between the Two Sides of the Taiwan Strait" in which shipping companies on both sides of the Strait would be able to apply for shipping business in accordance with related regulations published by both sides.
January 17, 1997	ROC's Ministry of Transportation and Communications issued notice to harbor bureaus to the effect that they could accept applications of foreign ships and FOC ships for the opening of regular shipping lines to carry cargo between the two sides of the Strait after passing through a third area.

Table 6 (Continued)

January 22, 1997	Taiwan's Shipping Association and mainland China's Shipping Exchange Association met in Hong Kong, with officials from both sides attending as advisors. The meeting was concluded by the signing of a set of minutes in which the shipping associations of two sides were held responsible for the verification of shipping documents. The mainland China side expressed that it would soon accept applications from Taiwan shipping companies.
March 1997	Taiwan's shipping companies applied to concerned mainland Chinese units for direct shipping business between fixed ports on both sides of the Strait.
April 11, 1997	A fifth mainland shipping company applied to the ROC government departments for use of the offshore shipping center.
April 16, 1997	Taiwan approved the fifth mainland shipping company to use the offshore shipping center.
April 17, 1997	Mainland China approved a sixth Taiwan shipping company to engage in shipping between Kaohsiung and mainland ports.
April 19, 1997	The first mainland Chinese ship— <i>Shengda</i> —arrived in Kaohsiung.
April 24, 1997	The first Taiwan ship— <i>Lishun</i> —arrived in Xiamen.

Sources: *Gongshang shibao* (Commercial Times) (Taipei), January 23, 1997, as well as information collected by this author.

would draw both sides closer, while an offshore shipping center would only benefit cargo transshipments.

3. *The need for Taiwan to negotiate with mainland China on the establishment of the offshore shipping center.* The ROC government has maintained that there has been no need to consult mainland China on the establishment of the center, as it has sovereignty over its own affairs. However, such a center would only operate smoothly if the ROC government consults with ports of destination on matters concerning shipping agents, divisions of sea lanes, freight management, and the sea rescue arrangements.

Despite the above differences, mainland China proposed the "point-to-point direct transportation" project in the hopes of promoting direct links across the Strait. In reference to this, it published the "Regulations on Shipping Across the Taiwan Strait" on August 20, 1996 (see table 6). The two sides originally agreed to have their respective shipping associations meet in October 1996 to discuss matters concerning the center; however, the meeting was delayed until January 22, 1997.

While mainland China considers the offshore shipping center plan as a step toward direct transportation across the Strait, Taiwan has urged mainland

China to open more ports, so as to enable its center to operate smoothly.

*The ROC Government's Principles and Misgivings
about Direct Transportation Links*

It is justifiable for a country to take its national security into consideration when it looks for economic opportunities abroad. The ROC's official stand is that direct links with mainland China would constitute a considerable threat to its security, as it would cut down its air and navy early warning response time in half. However, in the author's opinion, since mainland China can already exert pressure on Taiwan through missile threat, the strategic use of aircraft and naval vessels does not seem as important. A better way to maintain Taiwan's security would probably be allowing mainland China businesses to invest in Taiwan, and thus make the Chinese Communists think twice before taking any potentially damaging military actions against Taiwan.

Also linked to the sovereignty and direct link issues is mainland China's stand on nonrecognition of the ROC as a separate entity as well as all certificates issued by the ROC government. However, not using the title of the ROC does not necessarily entail that Taiwan would disappear from the international community. For example, Taiwan has continued to take part in international athletic activities, although it has not used the title of "Republic of China" in these gatherings. Ultimately, a good investment environment is of paramount importance, so that businesses are willing to keep their roots in Taiwan and upgrade their production levels. Moreover, businesses which cannot afford to upgrade their production but wish to invest in the mainland should be assisted, as they can also make a contribution to Taiwan's economy through the export of products assembled with raw materials and semifinished products supplied by the mainland. Thus, a more pragmatic strategy for the ROC might be in order.

The ROC government has decided to solve questions concerning transportation between the two sides of the Strait in three stages. The first stage is establishment of its offshore shipping center, the second is the establishment of storage and processing zones, and the third is the establishment of an economic operation special zone. However, as far as we know, the first and the second steps can only help some shipping companies increase their cargo handling capacity, but cannot reduce transportation costs for most small and medium-sized enterprises. In the third stage, all products permitted by the government would be shipped to mainland China or Taiwan, passing through the special zone. However, under the present trading system, these products already can be shipped between the two sides. Hence, the ROC government's

policy may have the following adverse effects: (1) provide mainland China with an excuse to charge the ROC of not respecting public opinion in establishing direct transportation links; (2) waste natural resources and administrative personnel, and create unnecessary administrative procedures; and (3) create conflicts between the Taiwan people's representatives and its government at all levels, as each of them may insist that the economic operation special zone be established in their own electoral areas. A better solution may be to first open several ports for the experimentation of direct transportation, and then do the same for other ports.

Furthermore, the total transshipment volume handled by Kaohsiung has been quite limited because the two mainland ports of Fuzhou and Xiamen only have a small cargo handling capacity. As a result, much of the cargo transported between the two sides of the Strait has been transshipped through ports in other areas. From table 7, we can see that its role as an offshore

Table 7
Handling Capacity of the Offshore Shipping Center

Name of ships	Date at anchor	Loading capacity of containers (TEU)	Number of containers unloaded (TEU)	Number of containers loaded (TEU)	Remarks
<i>Shengda</i>	April 19	328	50	30 empty containers	
	May 3		41	Not decided	Reserve for the second shipping
<i>Ronghua</i>	April 20	175	59	94 empty containers	
	April 24		44	empty ship	
	May 2		78	empty ship	
<i>Lishun</i>	April 24	1,210	—	400 empty containers	First shipping to Xiamen
	April 26		135 empty containers	—	Back to Kaohsiung from Xiamen
<i>Zhufengshan</i>	April 26	303	148	142 loaded containers	
<i>Qiangwehe</i>	May 1	330	49	empty ship	

Source: *Lianhe wanbao* (United Evening News) (Taipei), May 2, 1997, 4.

Table 8

A Comparison of Transportation Costs for Each TEU Across the Taiwan Strait by Way of Hong Kong and Kaohsiung

Unit: U.S. dollars			
From/To	Hong Kong	Kaohsiung	Cost difference
Nanjing	750	450	300
Shanghai	500	300	200
Ningbo	450	270	180
Fuzhou	400	240	160
Xiamen	350	210	140

Source: John Ricklefs, "Memo on the Savings in Transport Costs Due to Offshore Zone Policy" (Research report trusted by the Ministry of Transportation and Communications and published by the F. R. Harris, Inc. on June 19, 1995). Cited in Mao Chih-kuo, "The Plan for the Development of the Offshore Shipping Center," *Shangye zhiye jiaoyu* (Commercial Professional Education) (Taipei), no. 63 (February 1996): 50.

shipping center has done little to transform Kaohsiung into a maritime transshipment center. At the present time, without direct transportation links, it seems unlikely that mainland China will open more ports to complement the transshipment operation in Kaohsiung. Under such circumstances, the container volume handled by Kaohsiung will hardly be comparable to that handled by Singapore and Hong Kong.

Finally, Taiwan businesses still must transship their raw materials, semi-finished products, and products through Hong Kong. They thus cannot make the most efficient use of the potential market and cheap production elements that mainland China can provide.

In short, the government should reexamine the value of the offshore shipping center, as in its current state it cannot meet Taiwan businesses' desperate need for direct transportation links across the Strait, or handle enough cargo to qualify it as a maritime transshipment center.

Conclusions

Although the offshore shipping center has been designed as an alternative for direct transportation link across the Taiwan Strait, the small and medium-sized enterprises that have played a major role in Taiwan's economic miracle still must go through a third country in their commercial transactions with the mainland. In addition, as mainland China has only opened two ports to Taiwan shipping thus far, and since the ROC government stipulates that

cargo using offshore transshipment facilities will be combined with other shipments destined for third countries, without passing through ROC customs or entering Taiwan proper, businesses have shied away from the center. Only 50,000 to 100,000 TEUs of containers have been annually transported between Kaohsiung and the two mainland ports, a volume far below that of Kaohsiung's total carrying capacity, which in 1995 was about 5,230,000 TEUs. Moreover, the transshipment of cargo from Xiamen and Fuzhou by the offshore shipping center in Kaohsiung would save mainland China only an average of US\$150 per TEU (see table 8), which is insignificant compared with mainland China's GNP, which totalled US\$814.9 billion in 1996.²⁴

Based on the above facts, the author would like to make the following suggestions:

First, the ROC's current policy should be changed to allow direct transportation links between the two sides of the Taiwan Strait, so as to reduce businesses' production costs and enhance their management efficiency. This will not only alleviate discontent among small and medium-sized enterprises but also help promote Taiwan's economic growth.

Second, the ROC government should be consistent in its words and deeds. For example, although President Lee Teng-hui has claimed to be sensitive to the people's needs, his government still refuses to open direct transport links, while mass polls indicate that the building of such links will be inevitable. In another example, although the government has reiterated its intention to internationalize, its internationalization rating has dropped to 34th place from a 24th place ranking based on a report issued by the Switzerland-based Institute for Management Development. Although the government has called for improved efficiency, it has not taken relevant measures. For instance, the opening of the offshore shipping center has neither been a major boost for businesses, nor helped Kaohsiung become a maritime transshipment center. In fact, under the condition of "relatively safe," the government should promise to open direct transport link.

Third, proper attention should be placed on the mainland Chinese market. As we know, many foreign businesses would choose to invest in Taiwan if direct transportation links across the Strait existed, as they could then make Taiwan a base to develop business in mainland China. However, the offshore shipping center arrangement has not erased difficulties in making

²⁴In 1996, mainland China's GNP totalled 6.78 trillion yuan, which is equivalent to US\$814.9 billion if based on the exchange rate at the time.

the most efficient use of raw materials, semifinished products, and the Taiwan and mainland China markets. If a production industry based on foreign capital and technology cannot develop, the financial industry would also lag behind, and consequently Taiwan would be hindered in its efforts to build itself as an Asia-Pacific Regional Operations Center.

Fourth, the two sides of the Taiwan Strait should seek common ground in certain aspects. Although the two sides of the Taiwan Strait have different value judgments and ideology as a result of their separation for over four decades, they still share many aspects, and should promote economic, cultural, and sports exchanges. In the economic arena, direct links would not only reduce Taiwan businesses' transportation costs and enhance their production efficiency, but also increase Kaohsiung's cargo handling volume so as to truly transform it into a maritime transshipment center and Taiwan into an Asia-Pacific Regional Operations Center. With direct transportation links, products in central and south China could also be shipped to Europe and America via Keelung and Kaohsiung, with much fewer expenses.

Fifth, the ROC government should have confidence in itself. Although the Chinese Communists have been said to be using Taiwan businesses to influence Taiwan's politics and promote China's unification through close contact between both sides of the Strait, the Taiwan people should be able to resist Beijing's united front offensive, considering the economic miracle and political achievements it has made in recent decades. If the government places too much stress on Beijing's united front tactics, it will give people the impression that the government has no confidence in itself.²⁵ It is also unnecessary to criticize the Chinese Communists for promoting unification through direct transportation links, since unification is also the goal stated in the ROC's "Guidelines for National Unification," the only difference being that the latter further notes that the two sides should unify under the conditions of freedom, democracy, and rule by law. Therefore, the ROC government should try to improve relations with mainland China and not create a rivalry with it which would place Taiwan in a more disadvantageous position.

²⁵Chao Chien-min and Kung Chun-sheng, "Integrate the Two Sides of the Taiwan Strait Through Cultural and Academic Exchanges and Unify China Under the Principle of Freedom and Democracy," *Hongguan zazhi* (Macroscopic Magazine) (Taipei), January 1, 1997, 12.