

國立政治大學亞太研究英語碩士學位學程  
International Master's Program in Asia-Pacific Studies  
College of Social Sciences  
National Chengchi University

碩士論文  
Master's Thesis

兩岸經濟互動：  
保護主義下與中國南方形成整合體制的可行性  
Economic Interaction across the Strait:  
The Feasibility of an Integration Regime in Southern  
China Among Protectionist Trends

Student: James Xavier Morris  
Advisor: Professor Chung-min Tsai

中華民國 105 年 7 月  
July 2016

兩岸經濟互動：

保護主義下與中國南方形成整合體制的可行性

Economic Interaction across the Strait:

The Feasibility of an Integration Regime in Southern China

Among Protectionist Trends

Student: James Xavier Morris

Advisor: Tsai Chung-min

國立政治大學

亞太研究英語碩士學位學程

碩士論文

A Thesis

Submitted to International Master's Program in Asia-Pacific Studies

National Chengchi University

# Acknowledgements

I would like to thank my advisor, Professor Tsai Chung-min, for his assistance and support in organizing this research and thesis. His guidance has helped to keep this research focused and on track in this new and relatively unexplored area of study. In addition, I would like to thank my committee members, Professors Leng Tse-kang and Su Yu-hsuan, for their feedback and suggestions. I could not have asked for a more supportive team of experts to provide their insight on trends, research methodology, and style.



# Abstract

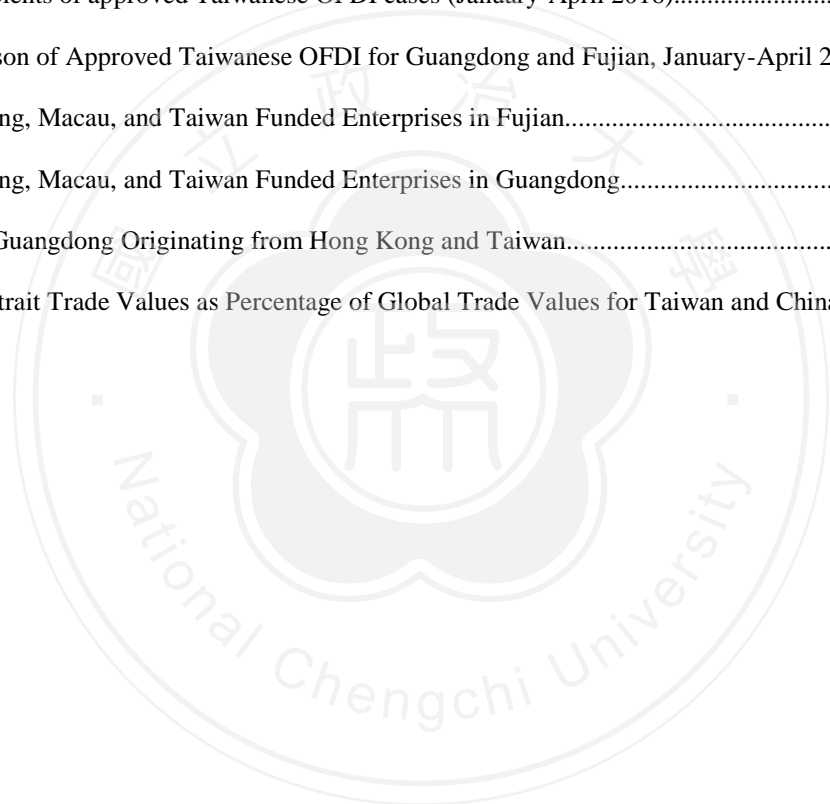
The introduction of the Economic Cooperation Framework Agreement (ECFA) signed between China and Taiwan in 2010 has added a significantly important economic element to cross-strait relations. Little research has been done on cross-strait integration from an economic standpoint, and to analyze the potential for successful economic integration between the parties it is necessary to determine whether their political economies are compatible for integration. In this research comparative studies of the political economies of Taiwan and China are conducted with focuses on industrial orientation, market mechanisms, and the motivations driving major economic actors. This research focuses on Fujian and Guangdong, Taiwan's closest economic partners on the mainland and the cornerstones of Beijing's integration incentives, with a minor study conducted on Hong Kong-China integration due to similarities of economic integration mechanisms. This study uses models constructed by scholars on Chinese provincial protectionism and trade barriers to determine whether Taiwanese integration with the "Common China Market" will be mutually beneficial for the economies on both sides of the Taiwan Strait. Economic indicators, trade trends, and economic policy incentives indicate that integration under ECFA is amplifying trade asymmetries and is stalling real economic growth in Taiwan. Findings also show that trade liberalization has allowed major trade barrier and protectionism-creating phenomena that were once limited to the mainland to contribute to cross-strait competition regime among the economies studied. This research contributes to the fledgling body of academic research on cross-strait economic integration and its impact on the parties directly impacted by it. Implications of this study show that it would be beneficial for the speed of ECFA integration to be reigned in, and for Taiwan to use the trade agreement as a counter to pursue bilateral regional trade that can ensure its competitiveness.

# Table of Contents

Chapter I	Introduction.....	1
I.1.	Background and Research Motivation.....	1
I.2.	Literature Review.....	4
I.3.	Analytical Framework and Methodology.....	14
Chapter II.	Findings: China.....	18
II.1.	Economic Strategies of the People’s Republic of China.....	19
II.2.	Overview of the Political Economies of Fujian and Guangdong.....	30
Chapter III	Findings: Taiwan.....	39
III.1.	Economic strategies of Taiwan.....	39
III.2.	Failing economy.....	42
III.3.	Taiwanese steps toward integration.....	44
III.4.	FDI and the Taishang.....	47
Chapter IV.	Findings: Trade, Convergence, and Hollowing Out.....	53
IV.1.	Sources of industrial convergence and protectionism across the strait.....	53
IV.2.	Manufacturing, trade, and industrial trends.....	58
IV.3.	Interdependence and hollowing-out.....	64
IV.4.	Findings: Minor Case Studies.....	69
Chapter V.	Ramifications under ECFA.....	74
Chapter VI.	Conclusion.....	83
Bibliography	.....	88

# List of Figures

Figure 1. Percentage of SOE contributions to Provincial level GDP Output, 2011.....	34
Figure 2. State Owned Enterprise contributions to GDP in Fujian and Guangdong 2000, 2005, and 2010.....	36
Figure 3. Comparison of Top Five Taiwanese OFDI Industries (January-April 2015, 2016).....	43
Figure 4. GDP figures for Taiwan, Guangdong, and Fujian.....	54
Figure 5. Breakdowns of industrial sectors to GDP, changes between 2000 and 2010.....	55
Figure 6. Top recipients of approved Taiwanese OFDI cases (January-April 2016).....	59
Figure 7. Comparison of Approved Taiwanese OFDI for Guangdong and Fujian, January-April 2016 and 2016.....	60
Figure 8. Hong Kong, Macau, and Taiwan Funded Enterprises in Fujian.....	62
Figure 9. Hong Kong, Macau, and Taiwan Funded Enterprises in Guangdong.....	63
Figure 10. FDI in Guangdong Originating from Hong Kong and Taiwan.....	64
Figure 11. Cross-Strait Trade Values as Percentage of Global Trade Values for Taiwan and China.....	66



# Abbreviations

ASEAN	Association of Southeast Asian Nations
CEPA	Closer Economic Partnership Agreement
DPP	Democratic People's Party
ECFA	Economic Cooperation Framework Agreement
FDI	Foreign direct investment
FTA	Free trade agreement
FTZ	Free trade zone
KMT	Kuomintang (Nationalist Party)
OBOR	One Belt, One Road
OCTS	One Country, Two Systems
OFDI	Outbound foreign direct investment
PFTZ	Pilot free trade zone
PRC	Peoples' Republic of China
PRD	Pearl River Delta
ROC	Republic of China
SME	Small and medium enterprise
SOE	State-owned enterprise
TBA	Taiwanese business associations
WFOE	Wholly foreign-owned enterprise
WTO	World Trade Organization



# CHAPTER I. INTRODUCTION

## I.1 BACKGROUND AND RESEARCH MOTIVATION

### Cross-Strait economics in the era of ECFA

For three decades the core of cross-strait relations has centered around economic integration. Taiwanese foreign direct investment (FDI), initially intended for export-manufacturing, has found itself evermore intended for domestic Chinese consumer goods and services. The development of China's middle class since its post-2000 economic boom has created an insatiable demand for consumer goods and services that mainland-owned firms simply cannot meet. As a result, Taiwanese manufacturing ventures have become more and more China-oriented. China's traditional role as a global factory has been important for continued Taiwanese growth and Taiwanese manufacturers have found a cheap source of labor and an expanding market for their products. Taiwanese investments in manufacturing are building up China's indigenous manufacturing sophistication, bringing China's more developed industry sectors up the value chain. While Chinese industry has found a model for growth and stability, many economists realize this has been at the expense of Taiwanese industrial hollowing out. In recent years, as China has developed, a shift has occurred in the cross-strait trade model caused by active policy implementation and passive market forces, resulting in a new trade dependency orientation. The economies of Taiwan and China, particularly the provinces of Fujian and Guangdong, are becoming more and more integrated. Taiwan has been struggling for over a decade to revitalize its stalled economy, and China has been one reliable regional market that Taiwanese firms have found themselves able to count on for growth. In its pursuit to prevent any perception of *de jure* Taiwanese independence China has followed a policy that constricts Taiwan's ability to pursue bilateral trade agreements in the greater global market, effectively forcing reliance upon the mainland for engagement in international economic activities.

Cross-strait economic integration was formalized with the 2010 signing of the Economic Cooperation Framework Agreement (ECFA). ECFA is based on an earlier trade agreement between Hong Kong and China and is meant to facilitate trade within the context of China's "One Country, Two Systems" (OCTS) policy, and is a formal arrangement that has



removed trade and investment barriers between the two parties. China has sought to implement a model such as ECFA for years, and found success with former Taiwanese President Ma Ying-jeou (2008-2016) who saw ECFA as a means to facilitate greater cross-strait trade, a tool for releasing Taiwan from China's constricting pressure on global market participation, and an assurance that Taiwan would be able to engage in its own bilateral international free trade agreements (FTAs). The initial ECFA framework has been followed up by several additional trade agreements. For all the benefits of ECFA, Taiwan is further placing itself in an evermore asymmetric integration with the mainland and will have to face down many of the same domestic barriers that China's provincial economies experience.

Taiwan also has to contend with the uncontrollable nature of its own primary economic actors, Taiwanese investors living on the mainland known as the *taishang* (台商). Chinese authorities actively pursue incentive policies aimed at coaxing greater participation of *taishang* in the Chinese market. The push and pull of market mechanisms that entice development are not making it any easier for the Taiwanese to steer themselves away from the current path toward disadvantageous interdependence. Chinese policy attempts to coax Taiwan into a path dependency heavily connected with investment incentives in Fujian and Guangdong. Despite the semi-incentivized, semi-forced nature of Taiwan-China integration, a great number of factors have been ignored which could prove unsustainable or even resource-exhausting, including the unusually high levels of protectionism existing among Chinese provinces.

As Taiwan continues to trade with China it is finding itself less and less in a position of economic security as it enters the integrated market, particularly as China's provinces continue to match their industrial sectors with that of the island. China's most advanced provinces are turning into Taiwan's competitors rather than partners, and as Taiwan is pulled further into China's "Common China Market" it will begin to experience the same phenomena that have created high levels of protectionism amongst the mainland's provinces. Protectionism in the People's Republic of China develops in order to remain competitive in the global market.

## Purpose of research

Taiwan and China now exist in the era of ECFA, and in the wake of its establishment there are many trends that must be evaluated in order to determine the short-term and long-term impacts that ECFA will have on the economies of China and Taiwan. This thesis will identify the

benefits and and disadvantages of integration under the first few years of ECFA and determine whether or not the cross-strait economic interdependence trend can overcome potential trade impediments. It will also determine whether further integration is possible without reducing any party's ability to project itself.

The problem this thesis seeks to address is whether or not both parties are moving toward a sustainable and beneficial economic policy. The World Bank has predicted that for the 2016-2018 period the Asia-Pacific region's average growth rate will decelerate to 6.2 per cent from its 2016 6.5 per cent rate.<sup>1</sup> This 6.2 per cent growth rate can be used as a benchmark for identifying whether or not economic integration is helping the economies concerned exceed this figure, or whether it is allowing economic growth to decelerate at a greater level. In short this it asks: Is further integration between Taiwan and China beneficial from an economic standpoint, and would the economies of Taiwan and China be able to integrate successfully?

#### *Contributing to the academic body*

The amount of literature available on China's reforms, decentralization, national development initiatives, and domestic trade barriers is vast. Equally voluminous is the amount of writings in recent years on ECFA, and cross-strait integration. What is missing, however, and what this paper seeks to contribute to the field, is an analysis of the feasibility of cross-strait integration in light of the behavior of Taiwan's and China's economic actors, in particular how China's domestic provincial-level trade barriers will exert influence on Taiwan's willingness to trade with the provinces now that ECFA has brought the island's economy into the seemingly dysfunctional economic fold.

The next sections will identify the themes already explored by scholars on this subject, and followed by an explanation of the hypothesis, its measurements and the methodology of how this research has been conducted before exploring the data and trends.

---

<sup>1</sup> See The World Bank, "Global Economic Prospects: Divergences and Risks," 2016.

## I.2 LITERATURE REVIEW

### *Economic foundation*

Economic fundamentals are at play in cross-strait relations. We find that the *taishang* and other actors all operate in their own self-interest: the *taishang* for greater profits, authorities for economic growth and domestic stability, SOEs for their continued profits and rent agreements. Smith (1776) wrote that self-interest drives market forces, and that self-interested behavior eventually creates benefits and goods for society. Society is a result of profit-seeking behavior, and political economy (in our case the structures guiding economic decisions and market orientation in China, Taiwan, and the provincial case studies) demotes politics while raising society. Smith conceived of the “invisible hand” analogy, in that market behavior is guided by unseen forces that operate better and more efficiently than public policy could direct. Later studies on the invisible hand would define it as “coordination without collusion” (Friedman 1953). Smith found that collusion between the state and companies generates money but no economic growth, effectively working against economic efficiency and the benefit of society. Steuart (*Works*, 1805), a contemporary of Smith, finds that social changes come from social processes and forces, and that there is a role for the state in that it must recognize and guide society through the changes, to help the system along correct path dependencies, but not to make the decisions itself.

### *Chinese trade barriers and protectionism*

This research assumes that a fully-integrated Taiwan may have to contend with the mainland’s endogenous border effects that limit domestic trade. A review of theories and research on these phenomena is necessary to draw conclusions regarding the potential success of integration. The study of Chinese provincial protectionism and the rise of trade barriers among the provinces is a relatively new subject. Trade barriers can be considered as any impediments to the free flow of service and goods including tariff-like regulations, outright prohibitions, and geographic obstructions (Young 2000, Poncet 2001, Sun 2013). The rise of this field originates in provincial disparity studies, the roots of which have been linked to China’s liberalization reforms and its fiscal decentralization. The reforms have been found to have also created a direct positive correlation between greater budgetary autonomy of decentralized provinces and the higher rates of trade barriers between the provinces (Poncet 2001, 2003, 2005). The rise of

interprovincial trade barriers has been found to be a result of provinces abandoning their natural advantages and varied factor endowments in favor of central policies stemming from the 1980s and 1990s that have encouraged provinces to develop their industries and move downstream in the production cycle. This has fostered similar and converged production structures and domestic competition (Young 2000). This study has made social scientists reconsider their classification of the Chinese economy from one monolithic unit to many separate economies.

Studies agree that the best strategy for reform was correctly thought to be continued international integration, but given China's complexities this had the effect of making the provincial economies more outward looking, further establishing conditions for the low levels of domestic trade we still see in China today (Guthrie 2006). Path dependency in economic development has had the effect of locking provinces into their preferential political economy (Goodman 1997).

#### *Economic decentralization*

Excitement over the Chinese market has often developed into self-perpetuating myths about a singular, large market existing in China, that China will modernize through investment, and that market forces have taken control over the economy. China's economy exists as a continental system, and its scale is so great that many of its provinces dwarf Europe's largest states in many categories. Taking these and the previous factors into account, it is better to think of the PRC as a series of fragmented markets under the direction of provincial level officials than as a single national economic system (Goodman 1997, Young 2000, Oizumi 2010, Wong 2012).

China's center of gravity for economic activity exists largely at the provincial level since post-Maoist decentralization handed the reigns of revenue collection and resource allocation over to the provinces as a way to incentivize overproduction for provincial coffers. Decentralization of economic affairs to the provinces had the effect of acting as a surrogate market mechanism, with incentivization acting as a "functional equivalent of privatization" (Cai and Treisman 2007). Scholars have found that China's reforms are limited, piecemeal, and incomplete. Nor have they replaced the old system with a functionally better model (Young 2000, Dreyer 2010). The new system does not distribute evenly, and stability and predictability are low. Central government shifts between mass mobilization models and professional development models have established the current incomplete reform arrangement experienced in the PRC today (Wang 2002). Some

scholars have found that popular enthusiasm for further reforms are low among many of the population, as real change has not happened, and the government has favored “tinkering” with “easy” reforms rather than addressing major structural overhauls. In either case the central government could regain the power to initiate reforms if it wanted to, but the means to recentralize the economy have “passed from its hands” (Dreyer 2010).<sup>2</sup>

Scholars have found this semi-reformed market structure has allowed the continued presence of SOEs at provincial levels. SOEs and rent-seeking behavior of private enterprises within the incentivized provincial industrial systems have created high levels of protectionism within the provinces. The defeat of the hard liners during the 1980s created the conditions for SOEs, rent, and capture to develop (Guthrie 2006).

#### *Measuring China's trade barriers*

Interprovincial protectionism studies have discovered that not only do domestic barriers exist, but their rates have increased over the past several decades. Application of the border effect model finds that globalization has driven local governments to adopt market segmentation policies resulting in international trade that “crowds out” interprovincial trade (Poncet 2005, Shantong and Shaojun 2011). Provinces are following a dual-preference for trade that reinforces domestic barriers. International trade is preferred, especially for investments, but provincial officials further push trade barriers up by incentivizing consumers choose local, same-province products over international or interprovincial products (Poncet 2005). These findings indicate that significant border effects and barriers still exist despite mandated stipulations from the World Trade Organization (WTO) that China enact policies to permit the free movement of market goods among the provinces (Poncet 2005).

Wong's measurements of trade barrier effects from 2012 find that domestic protectionism and trade barrier levels are not as bad as previous studies have suggested, however these rates are rising as provinces continue to increase their presence in the global market. Wong uses the gravity equation, wherein “the ratio of the local purchases of two regions over their respective bilateral trade” gives an “expression” of trade barriers. Her study finds that similar domestically manufactured goods will have different prices in different provinces. She concludes that this indicates extremely limited levels of cross-border trade throughout China. Wong's study finds

---

<sup>2</sup> June T. Dreyer, *China's Political System: Modernization and Tradition*, 2010, p. 137.

that SOE presence, rather than geography, is the most important factor in creating trade barriers (Wong 2012). Other studies have found that interprovincial administrative trade barriers grew as market reforms have deepened due to provincial protectionism before relaxing slightly between the years 1991 and 2007 (Fang, Qi, and Lin 2013). Other studies have shown that geographic considerations significantly impact the development of market mechanisms. For example, one study has found that the coastal provinces are much more liberalized and express a lower rate of SOE interference due to their proximity to the coast and international transportation networks. This same study finds that the general opening up of the inland provinces has eroded the advantages enjoyed by the coastal provinces as investment locations have generally started trending westward (Sun 2013). In this study it appears that economic disparity and the resulting SOE and protectionist phenomena are a product of the combination of geographic, policy, and network factors.

The assertion that China's general opening up has reduced the advantages of the coastal provinces needs further investigation. Several contemporary studies have found that the coastal provinces have managed to retain their advantages. In one study the trend of greater investment heading inland has only been identified along the inner fringes of the coastal provinces and not necessarily throughout the inland provinces themselves (Oizumi 2010). Sun and Oizumi both identify cities located along rivers as being the catalysts for local growth. Oizumi's study in particular identifies the inland prefecture-level cities of China's coastal provinces as being the main beneficiaries of China's general opening up, achieving rapid growth since 2010. His research highlights the inward movement of investment, and its reluctance to leave the relative assured safety of the coastal political economies. Additional research finds other reasons for the slow pace of investment and trade to penetrate inland has been due to investor confidence. Coastal provinces are still the more preferred areas for investment due to their longer experience with market liberalization, fewer SOEs, and the compounding factor of FDI accumulation generating greater profits (Poncet 2003, 2005, Shantong and Shaojun 2011).

Some studies have shown that trade liberalization efforts in China have been relatively unsuccessful. Flow irregularities have been discovered between Hong Kong and China where WTO commitments and domestic policy aimed at trade liberalization have been sidestepped in favor of controlling the types of capital imported. Manipulation of exchange rates to protect the mainland economies have also proven difficult for investors to avoid. A recent study has



identified that major irregularities are due to underreporting of exports and overstatements of imports, often associated with offshore “roundtripping” that creates inflated FDI figures. Fung, Yau, and Zhang have found that firms are incentivized to export excess money offshore to return as overstated inbound FDI. Their work has identified the worst offenders of trade irregularities are SOEs (Fung, Yau, and Zhang 2011).

#### *Guanxi business practices*

The concept of *guanxi* (關係) is an often overlooked element when considering trade with China and general business practices. Studies have found that *guanxi* exists in business culture and transactions on both sides of the Taiwan Strait and can have a strong impact on trade flows and investment networks. *Guanxi* is a principle used more and more in mainland business and is a key organizational principle in Chinese culture. It allows individuals to grow networks beyond the family (Hamilton 1998) and creates networks of obligation and indebtedness through social relations and can be thought of as a social tool to keep social networks open for “instrumental ends” (Guthrie 2006). In China *guanxi* is important for securing business transactions, though it does not drive market relationships. The work-unit system of communist China was made of patron-client *guanxi* relations for securing resources, and *guanxi* was essential in creating transactions in a post-Mao China that had a lack of experience with business. As the PRC moves further away from organizing around the family, party-state, and work-unit systems, the *guanxi* system comes more and more into play (Guthrie 2006).

#### *Role of the Taishang in China*

The *taishang* in China have been subject to many studies on cross-strait relations as well as business behavior and economic development within the mainland. Findings are straightforward and tend to agree that the *taishang* are some of the catalysts for China’s developing production industries as well as the engine for massive growth in China. Conclusions as to the implications of *taishang* in China have been mixed as they are seen on both sides of the strait as both the drivers of Taiwan’s economy as well as a tool for the PRC to manipulate and penetrate Taiwan.

Several studies indicate the most crucial aspect of *taishang* migration to the mainland has been in the transfer of talent. Chinese industry has learned how to advance and how to do business from the *taishang* in areas of technological know-how and management operations

(Reid and Rigger 2008). *Taishang* have proven incredibly difficult for the government in Taipei to control, and the government often having to play “catch up” to the *taishang*’s behavior, essentially acting as a rubber stamp of approval for their activities (Guthrie 2006). *Taishang* will use intermediaries for investments if direct investments cannot be made. Reid and Rigger (2008) estimate that in the first decade of the 2000s 75 per cent of British Virgin Islands and Cayman Islands investments, and 15 per cent of Hong Kong investments in China are in fact Taiwanese in origin.<sup>3</sup> This lack of control over *taishang* investment and their movements with market forces has allowed scholars to identify them as significant indicators or bellwethers for locations with proper market mechanisms for investment.

### *Regional trade*

In its pursuit of investment locations starting in the 1980s, and particularly of “Go South” and “Go West” investment policies in the 1990s, Taiwan has been found to be one of the leading initiators of regional trade structures in east Asia. The regional proliferation of FTAs is creating a new trend in regionalization and international division of labor and supply chains. “Factory Asia” is driven by intra-regional trade, and that regionalization is driven by FDI investors. China’s entrance in the regional trade architecture in the 1990s has only served to deepen regional economic interdependence (Wu 2010).<sup>4</sup>

### *ECFA’s benefits and weaknesses*

At the core, academics understand ECFA as a tool to facilitate trade and investment across the strait. Reading any further into the analyses often brings up conflicting conclusions among scholars. As a subject of study it is clear that not enough time has passed in order to give ECFA a fair assessment. Some view ECFA as an annexation tool of the PRC (Huang 2010). Others assess ECFA as an economic tool with a heavy political nature (Tsai 2010, Huang 2010). The international community views the trade agreement in a positive light, considering it beneficial.

Critics of this trade agreement have made many foreboding and ominous predictions, and critics have seen Ma’s policies as resulting in the fall of Taiwan to the PRC (Sutter 2011). PRC strategy is to force Taiwan into one direction, into the “One China Market” (also referred to as

---

<sup>3</sup> See Toy Reid and Shelly Rigger, “Taiwanese Investors in Mainland China: Creating a Context for Peace?,” August 2008, p. 9.

<sup>4</sup> Rong-I Wu and Tsai-Lung Hong, “Economic Integration in East Asia—Taiwan Perspective,” 2010, p. 33.



the “Common China Market”) China’s tactics have been called “boar hunting” in which Beijing’s harassment and international blockades of Taiwanese bilateral agreements is similar to a hunter forcing a boar into a trap where the only route for “escape” is to continue further into it so the hunter can easily capture his prey (Huang 2010). Critics argue that Chinese domination over Taiwan’s economy through the ECFA will impact the role Taiwanese small and medium enterprises (SMEs) traditionally play such as speeding up the rate that Taiwanese companies in China will buy from local intermediary suppliers rather than relying on imports from Taiwanese networks for their production supplies (Wilson 2014).

#### *Hollowing out and interdependence*

Central to critics’ appraisals of Taiwanese-Chinese economic integration, and thus central to this research are the concepts of core-periphery theory and the trend of region-to-region hollowing out, two theories proposed by scholars relating to asymmetrical trade theory. Core-periphery theory applies trade asymmetry in cases where one economy behaves as a magnet for other economies’ activity. Core-periphery theory states that large markets will make smaller regional economies into peripheries through their size advantages, and that markets mean ample economic growth opportunities (Huang 2010). ECFA critics argue that China is coercing Taiwan into a trap, and that core-periphery theory is what really benefits the PRC. Huang suggests that ECFA is simply a peripherization tool China is using. Additional arguments suggest that ECFA will allow asymmetrical interdependence to expand, drawing Taiwan further to the core (Sutter 2011). Hong Kong, for example, has not been able to shake itself out of the periphery role that it has fallen into (Yang 2005). Scholars note that because Hong Kong is not a centrally-controlled city within the PRC it has slipped in importance into a periphery role, and as of 2010 social inequality and poor living standards have been allowed to continue for over 1.2 million Hong Kongers (Huang 2010).<sup>5</sup> Within the mainland Guangdong was found to be the center for the domestic core-periphery model with both positive and negative spillover effects occurring between it and its neighboring provinces (Ying 2000), however additional tests could not determine that Guangdong itself was the sole core for spillover effects experienced by other provinces (Groenewold et al. 2008). Regardless many scholars recognize the effects of China’s pull over Taiwan. Tan (2016) has developed a model showing that Taiwan’s economic fate

---

<sup>5</sup> Tien-Lin Huang, “ECFA and the Core-Periphery Effect,” 2010, p. 86.

would be sealed to peripheral status should it lose its mechanical manufacturing backbone. Her model suggests that Taiwan should seek FDI from more advanced economies while it is similarly approving outbound FDI (OFDI).

Critics of ECFA have also highlighted that the type of hollowing out that Taiwan is experiencing is different from the industrial hollowing out that has plagued Japan since the 1980s. Taiwanese and Japanese hollowing out are frequently compared, but some recent research suggests that the Taiwan-China model is much more dangerous to Taiwan's national growth and security. Nobel Prize-winning economist Paul Krugman proposed that region-to-region trade is different from international trade in that it creates much more severe hollowing out effects that are often seen in local-level cases, similar to how one city may drain the economy of another nearby city. International trade is different in that while it may create some hollowing out, its intention is mutually beneficial rather than competitive (Tsai 2010). The migration of many talented Taiwanese to the PRC has led to economic security vulnerabilities including a hollowing-out of the Taiwanese economy and low domestic growth rates (Chu 1999). Tsai points out that the high rates of cross-strait free movement is unheard of in international scenarios and suggests that Taiwan and China trade has shifted to a region-to-region model. Using the computer chip industry as an example, Tsai explains how Taiwan's trade interaction with China is different from that with the United States and warns that ECFA will kill Taiwan's economy in the same way that other region-to-region trade models kill smaller economies.<sup>6</sup>

The phenomena and theories addressed so far lead the paper to the next area, one which has been written about extensively, and is central to the analysis of the benefits and disadvantages of trade integration between Taiwan and China. Interdependence between the parties, pressure exerted by economic actors upon other actors, and the hollowing out effect that Taiwan experiences in its moves toward greater trade relations with the mainland are all events that are interwoven and must be reviewed together to make sense of the trends that scholars have helped to uncover.

Cynical observers have put forward the argument that Taiwan has always remained dependent upon other economies and has simply shifted from dependence on the American economy to the Chinese economy (Wilson 2014). As much as critics of integration push their case that Taiwan is the only party that experiences dependence in the model, it is not true. While

---

<sup>6</sup> I-Ju Tsai, "The Impact of ECFA on Taiwan's Economy," 2010, pp. 64-66.

provincial gains in GDP grow year upon year due to their export nature, they still rely on Taiwanese operations to drive their manufacture, upgrade their sophistication, and provide provinces with a greater global reach and diversity (Poncet 2005). Interpenetration of the economies of Taiwan and China mean that the Taiwanese can equally apply pressure on China. The depth and variety of areas that are interpenetrated mean that Taiwan has “many options for exerting economic pressure” (Tanner 2007).<sup>7</sup> Another avenue for approaching interdependence between the two economies is that it revolves around the preference of the *taishang* to operate in China (Tanner 2007).

The degree to which a province depends upon Taiwanese investments has been summed up by Reid and Rigger in six points: The percentage of FDI in a province that comes from Taiwan as opposed to other locations, the dependence of a province upon FDI in general, the degree to which a province or economic sector depends upon FDI, the importance of Taiwanese investment as opposed to similar investments from potential substitute sources, the diversity of a province’s overall industrial sectors, and the ease and ability for a Taishang-invested enterprise to “pack up” operations and move elsewhere. “FDI dependence” and “Investment dependence” are two measures Rigger and Reid use for their results. The trend appears that Taiwanese firms will target smaller locations where they have more influence over the local economy. Traditional and built-up locations are often less accommodating. Taiwan invests in places where it cannot be substituted, so economies with specific needs that Taishang can fulfill are often the targets for investment (Reid and Rigger 2008). This analysis stands in contrast to the assumption that firms seek areas of proven capital returns.

From a larger perspective economic interdependence will make “permanent separation” from China incredibly difficult (Reid and Rigger 2008). Economic integration is often considered key to development and economic security, but some schools of thought believe it can often leave one or both parties vulnerable to “deliberate manipulations” of external parties and “larger systemic forces” in general. This creates a greater “economic security dilemma” across the strait (Crawford 1994, Narine 2007). Both China and Taiwan can fall victim to this trap. Reid and Rigger determine Taiwan is more vulnerable across the board given the way in which it depends on China. Taiwan is more susceptible to economic disruptions in cross-strait

---

<sup>7</sup> Murray Scot Tanner, *Chinese Economic Coercion Against Taiwan: A Tricky Weapon to Use*, 2007, p. 16.

relations, and it has a much larger proportion of its economy invested in China than China does in Taiwan due to the size of both economies (Reid and Rigger 2008).

Chinese pressure is often cited as a source of Taiwanese economic woes, but Chinese pressure, policies, and sanctions may not be effective as forms coercion against Taiwan. Chinese enforcement of coercion may see high rates of failure due to the general wealth of Taiwan and its important role in global manufacturing. In addition, Taiwan can undermine Chinese efforts at coercion by offering “free rider” and “defector benefits” to Chinese authorities and business partners. Furthermore, failure at coercion may also occur if Chinese sanctions hurt or impact domestic interests. Beijing has greater success with Taiwan when it uses restraint, though Tanner finds that it rarely does this as the PRC cannot ignore Taiwan’s international behavior (Tanner 2007). Chen finds that industrial hollowing out has not been as bad as scholars presume, finding that Hong Kong has suffered more from hollowing out than Taiwan has, and that despite its unemployment figures, Taiwan did not experience significant levels of industrial hollowing out until 2005 (Chen 2012).

#### *Subaltern realism*

One must keep in mind that China is still technically a developing state, even if its wealthiest provinces appear to be closing in on full industrialization. As a developing state, Chinese behavior is dependent upon its success in developing. “Subaltern realism” is a theory developed out of Asia-Pacific studies which posits that developing states are more focused on state-building and establishing political legitimacy, and that their domestic politics determine their international actions (Narine 2004, 2007). Under subaltern realism, China’s economic initiatives serve to provide security against economic problems such as the 1997 Asian financial crisis. Additionally, economic cooperation cannot yet be said to remove regional threats of force. Current efforts at cooperation and integration are not mature enough yet to determine whether this is so (Narine 2007). It is possible that China is doing both. It seeks economic cooperation at the threat of force because it seeks domestic political legitimacy.

### I.3 ANALYTICAL FRAMEWORK AND METHODOLOGY

This thesis sets out to determine whether further economic integration between China and Taiwan is beneficial for both parties' economies. In order to do so it must identify benefits and disadvantages of further integration. A secondary objective of this research is to determine if further integration is possible and whether or not it will be possible for Taiwan to protect its economy. The operating question asks whether or not further economic integration between Taiwan and China would be mutually beneficial, and if the economies of Taiwan and China would be able to integrate successfully.

#### *Definitions and Variables*

This thesis identifies the likelihood of successful economic cross-strait integration as its dependent variable. In addition, this research has identified four independent variables that are deemed contributing factors toward successful integration: The number of *taishang* workers in the local Chinese economies, the number of state-owned enterprises (SOEs) in the local Chinese economies, the level of domestic trade barriers among China's provincial economies, and the manufacturing and operating costs of integrating Taiwanese operations in China.

#### *Hypothesis and subhypotheses*

This thesis hypothesizes, based on the variables listed above, the developing trends of the path dependency of the cross-strait trade structure and the political economy of China's provincial trade system, particularly the influence of endogenous protectionism, would not lead to a mutually-beneficial cross-strait trade relationship if economic integration is pursued further.

In addition, this thesis identifies four sub-hypotheses based on its independent variables: First, it hypothesizes that a greater presence of *taishang* living and working in the local mainland economies has an overall positive effect on successful cross-strait integration. Second, it hypothesizes that provincial economies with large numbers of SOEs will engage in protectionist policies, stalling Taiwanese integration particularly to protect their own interests. Third, it assumes that any high endogenous trade barriers in the mainland economy will discourage cross-strait integration. Fourth, it hypothesizes that there is a limitation to how far Taiwanese investors are willing to locate their operations before it is deemed too costly or inefficient. That is to say, Taiwanese investors take geographic proximity and operating costs into account when considering economic integration.

### *Measuring success*

In order to measure the success of this thesis several benchmarks must be established. Using the World Bank's estimate for a regional average of 6.2 per cent growth this thesis will determine whether or not the parties studied, Taiwan, Guangdong, and Fujian, three of the Asia-Pacific's most robust and advanced economies are able to meet this criterion. This thesis has established four measurements that must be met. First, all parties should benefit from growing trade volume. Should trade decrease, integration under ECFA can be assumed to do harm. Second, both Taiwan and China would need to maintain healthy economic indicators. This measurement includes GDP growth, and strong performance among industrial sectors (primary, secondary, and tertiary production). Third, both parties must do their best to avoid creating asymmetrical conditions and actively avoid exploiting disadvantages. Finally, integration must ensure that no systemic shocks occur. Shocks may include phenomena such as industrial hollowing out, or subsequent sector transformations.

### *Research methodology*

The focus of this research is to update the literature and explore current phenomena on cross-strait integration. Its primary focus is on cross-strait integration in the "ECFA era," and looks at economic trends rather than government policy. Policy is provided as supplemental information if necessary, but in the course of conducting research it has been noticed more often than not that cross-strait trade occurs despite and in spite of official policies. It has found that economic forces and actors in nearly all cases disregard policies and restrictions, or find ways to work around them.

This research structures itself as a comparative literature review with quantitative data presented to help provide a solid understanding of cross-strait trends. Findings are largely qualitative because determinants of cross-strait integration tend to emphasize behavioral trends, therefore the majority of this work's findings are derived from policy reports and academic papers. Additionally, due to the contemporary nature of this research, many sources cannot yet be found in journals or databases. It therefore relies on news reports, communiqués, and press releases in order to identify current trends.

Due to the peculiarities of Taiwan's nature, acting as both a sovereign body in the Taiwanese narrative and as a local-level economy in the Chinese narrative, it is important to consider all cases herein studied as units of political-economies rather than as political bodies.



The provinces of Guangdong and Fujian are the primary case studies used in this analysis. Their proximity to Taiwan, cultural linkages, and long history as investment locations from the earliest stages of opening and reform make them ideal. Sustained Taiwanese investment in these provinces and their gradual convergence with Taiwanese industry make them important cases in order to understand the greater trends Taiwanese business will likely face on the mainland in coming decades. As such, case studies on the mainland will often refer to only Guangdong and Fujian's provincial figures and trends, though it is unavoidable to make references to the People's Republic of China when discussing greater trends or policies. Hong Kong has been used as a minor case study due to the similarities of its Closer Economic Partnership Agreement (CEPA) and integration with that of Taiwan's ECFA. The Pingtan Pilot Free Trade Zone is given special examination due to its operation as a strategic special economy aimed at facilitating deeper integration with Taiwan.

#### *Research limitations*

This research runs into several limitations, primarily in accessing specific datasets from mainland sources. China's reports are notoriously delayed, and in many cases they do not present data in an orderly fashion. Some developments, particularly ECFA, are too recent to articulate quantifiable trends, and in other instances developments are too recent to give a full fair appraisal. Databases have been used when possible and qualitative reports have been used to fill the gaps or supply supplemental data to help create a greater narrative. By looking at trends and certain values it is possible to determine a fairly accurate picture of the development of Taiwanese investment preferences. Taiwan and China quite often do not have standardized measurements for their reports, and qualitative terms for native industries on both sides of the strait must be viewed with some understanding of exaggeration or inaccuracy in certain cases. Reports from China are inconsistent in their years reported, and most recent data reported in for some measurements vary by several years. Additionally, the language barrier in conducting this thesis adds limitations to the research being conducted.

#### *Organization of the Thesis*

This thesis is organized as follows. Chapter II will introduce qualitative and quantitative findings regarding the political economies of China, with special attention given to the Provinces of Guangdong and Fujian. Development and incentive policies will be analyzed to gain an

understanding of the mainland's orientation towards integration. Chapter III looks at the political economy of Taiwan and its orientation toward integration. Attention is given to Taiwan's primary economic actors, the *taishang*, and its small and medium enterprise-driven (SME) economy. Chapter IV explores findings related to cross-strait trade and current patterns of hollowing out. It explains how convergence is related to the development of today's asymmetric trade flows. It then gives additional attention to the development of the Pingtan Pilot Free Trade Zone and the details of Hong Kong's experience with integration with the People's Republic of China (PRC, also referred to as the mainland, mainland China, or China) through CEPA. This thesis will then discuss the ramifications of integration under ECFA in Chapter V. Chapter VI will provide concluding remarks.





## CHAPTER II. FINDINGS: CHINA

Chinese incentives to attract Taiwanese FDI and ultimately integrate Taiwan's economy occurs at a time when the PRC is attempting to push an internal shift in the economic structure. Taiwanese investment is incentivized for both internal and coastal locations. Internally the PRC seeks Taiwan to do what it had done in the coastal areas and join the coast as it transitions into inland investors. Dually, Beijing pursues integration at the coast and hopes Taiwan will continue to deepen its trade ties there. undisputable fact that the economies of the parties across the strait are becoming ever more intertwined with one another. Both parties seek progress in developing a functioning and growing investment and trade structure. The PRC views integration as an end goal of unification that can provide benefits in the form of industrial investments and technological upgrading of its existing manufacturing structures from the more sophisticated Taiwan. For Taiwan integration is a double-edged sword. China provides a close and easy source of manufacturing labor for its export-driven market, but it also has also weakened Taiwan's hand over its own economics.

China's decentralization has left the central government ill-equipped to address fiscal issues, demographic changes, and slowing national growth. Central spending has found itself needing to outpace its ability to collect revenue, driving the center into greater debt and deficit, and often relying more and more upon a deficit model to sustain its activities giving the provinces greater economic autonomy. By 1993 it had become apparent to the central government that additional reforms were necessary in order to address banks' debts but local government opposition prevented the central government from adopting new fiscal systems,<sup>8</sup> so the Chinese leaders recognized that continued international integration was the best option they had for driving reform programs.<sup>9</sup>

---

<sup>8</sup> Chen-yuan Tung, "China's Fiscal Predicament," 2003, pp. 25-53.

<sup>9</sup> Doug Guthrie, *China and Globalization: The Social, Economic and Political Transformation of Chinese Society*, 2006, p. 26.

## II.1 Economic Strategies of the People's Republic of China

*Economic integration, The China narrative, & China's "One China Market"*

The People's Republic of China (hereafter referred to as PRC, the mainland, or China) has long proposed "One Country, Two Systems" as a model for "Greater-China" integration. OCTS is a PRC-centric narrative aimed to fulfill Beijing's nationalistic goals. China's national narrative holds that Taiwan is an integral part of China and seeks its eventual reunification with the PRC. The PRC's model has been rejected by Taipei since its proposal, however it has been applied fully for Hong Kong and Macau. China uses Taiwan's separation from the mainland as an excuse for China's domestic problems.

To coax Taiwan into its sphere of influence China applies economic pressure on Taiwan in order to convince the leadership to play by their rules or otherwise suffer economic pain. Beijing does not always apply restraint on its cross-strait pressure however, and this oftentimes emboldens the Taiwanese to seek other avenues. In some cases, China has harassed Taiwanese businesspeople on the mainland whose personal interests do not involve cooperation with China. Harassment of pro-Democratic People's Party (DPP) *taishang* during the presidency of the Taiwan's Chen Shui-bian occurred often. The PRC would often engage in industrial sabotage and constantly threaten to enact policies that could disrupt Taiwanese economic activity, including making overt gestures to the Taiwanese to disrupt stocks, communications systems, and transportation, and to withhold business.<sup>10</sup> The PRC has set as one of its goals the incorporation of Taiwan into its "One China Market" and has sought many different strategies to integrate Taiwan. China often vetoes Taiwan's attempts to engage in international trade agreements. Many times when Taiwan joins international organizations, the World Health Assembly for example, it is only because China has dropped its opposition. This has set a dangerous precedent for Taiwan's lack of international agency and has created a dependence upon China in world affairs.<sup>11</sup>

Domestically the People's Republic of China pursues active and passive strategies that often pursue greater provincial autonomy over economic pursuits. As mentioned above, although local economies fall under the aegis of central policies they are often free to pursue their own strategies for growth. The central government uses "macroeconomic tools" to enact regulations

---

<sup>10</sup> Tanner, pp. 18-19.

<sup>11</sup> Robert Sutter, "Taiwan's Future: Narrowing Straits," 2011, p. 18.

on market forces. Wang sites the single price systems for coal and oil as an example of such central regulations.<sup>12</sup> On the other side, the autonomy over incentives to draw investments in the Pingtan Pilot Free Trade Zone, which will be examined later, is an example of further moves toward local economy. For the most part the central government's role in the national Chinese economy has been limited to the Five-Year Plan system for growth along with incentive policies to encourage growth in targeted provinces and industrial sectors. Infrastructure projects have been used as drivers of growth in less developed regions where investment is believed to be a necessary driver.<sup>13</sup> Beijing otherwise leaves the provinces to pursue their own growth models.

### *National level initiatives*

To achieve the goals set out in its Five-Year Plan, the central government pursues sweeping national level initiatives for economic growth. Projects such as pilot free trade zones (pilot FTZs, PFTZs) in coastal provinces highlight the emphasis placed on continuing economic growth. PFTZs now permit wholly foreign-owned enterprises to operate financial services and trade facilitation, and they act as entryways for ambitious trade programs such as the Asian Infrastructure Investment Bank, the Eurasian Continental Bridge, One Belt One Road (OBOR), and the 21st Century Maritime Silk Road

National economic policy has largely moved toward regional initiatives and growth promotion. A policy of "general opening up" has been pursued that allows the initial market reforms and globalization links experiments from the 1980s to be applied throughout all of the PRC's 31 economies. While national economic policy officially trumps local policies, China has allowed administration of economic matters to slide into provincial hands, further affirming economic decentralization. If China's performance as a global factory is to be secured, more avenues for trade must be established to connect the nation with the global economy. Initiatives such as OBOR and the 21st Century Maritime Silk Road seek to establish new permanent networks between China and potential partners while enticing Taiwan to enjoy the benefits of the Chinese project.

---

<sup>12</sup> James C.F. Wang, *Contemporary Chinese Politics: An Introduction*, 2002, p. 309.

<sup>13</sup> See Bloomberg News, "China Regions Show Economies Differ as Slowdown Deepens," 10 November 2014.

### *Market reforms and growth*

Taiwan's participation in China's market reforms has proven that Chinese central leaders today are responsible to provincial economic forces and actors. The "selectorate" within China's authoritarian system are susceptible to the international influence of globalization. Shirk and Kastner both identify that provincial officials are particularly influenced by globalization trends due to their "increasing stake in access to global markets".<sup>14</sup> International economic interests play a much greater role in Chinese policy consideration and its reform process has been a global phenomenon.<sup>15</sup> Ming-Jer Chen is cautious to remind China-watchers that "the national government is not uniformly interested in all business activities" and that the central government still has specific "pillar" interest projects. China is still transitioning, and market forces in the PRC are a "myth." Business is still driven by social-political concerns. The PRC is still socialist under a communist party, and as a transitioning system it is still a perilous situation for foreign businesses entering the economy. Navigation of the Chinese economy is not simple. Constant changes create an unreliable long-term investment market which create a debate on whether or not China is a "lost cause." China has had heavy clout, but the ratio of business success to failure by the beginning of the 21st century was one-to-one by some estimates.<sup>16</sup>

Since its economic takeoff China has joined Taiwan in becoming a regional exporter of FDI. Wilson finds that since 2000 China's outbound FDI has increased from "almost nothing" to \$90 billion in 2013. Taiwan, unfortunately is not a mutual recipient. China's large state owned enterprises and champions of industry cannot benefit from Taiwan's significantly smaller market, and thus are not interested in making investments across the strait.<sup>17</sup> Taiwan, for its part, blocks many different types of mainland-originating investments anyway.

### *11th and 12th Five Year Plans*

China's central 11th and 12th Five-Year Plans span the period of 2001 to 2010 and have sought to address China's major developmental issues, mainly innovation-modernization and the rectification of regional disparity. These are enormous tasks that were facilitated partially thanks to the enormity of growth occurring within China at this period which could buoy many of these pursuits. It was the perfect combination of the right place and the right time.

---

<sup>14</sup> Scott L. Kastner, *Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond*, 2009, pp. 25-26.

<sup>15</sup> Doug Guthrie, p. 330.

<sup>16</sup> Ming-ger Chen, *Inside Chinese Business: A Guide for Managers Worldwide*, 2003, pp. 160-161, 172.

<sup>17</sup> William T. Wilson, "Market Solutions Should Be Central to U.S.'s Taiwan Policy," 1 August 2014, p. 8.

The 11th Five-Year Plan (2006-2010) focused generally on improving the strength of the Chinese economy rather than the scale. With domestic trade, expanding the socialist market system, balancing the development of primary, secondary, and tertiary industries, increasing rural development, and focusing on domestic consumption and domestic demand as the key goals.<sup>18</sup> The 11th Five-Year Plan marked a shift in China's thinking about growth, placing an emphasis on innovation and domestic commerce and trade expansion rather than heavy reliance on international investment and industrial resource exploitation. At that time, Ma Kai, Minister of National Development and Reform Commission stated that the 11th Five-Year Plan acted as a "solution targeting at the irrational industrial structure of China" and called for growth based on innovation and conservation, stating that the success of reform and opening up was the "impetus of growth" for the promotion of greater reform-based growth throughout China.<sup>19</sup>

The 12th Five-Year Plan (2011-2015) was oriented toward fostering the goals achieved in the previous plan while expanding their benefits throughout China. The new plan had more of a focus on developing the same industrial structures in central and western China as the coastal provinces had enjoyed<sup>20</sup> and restructuring the economy to be more reliant upon domestic consumption, as officials realized that "relying on Western consumer demand to sustain domestic growth is untenable."<sup>21</sup> Modest when compared to previous plans, the key concept behind the 12th Five-Year Plan has been to transform China's coastal economies from a "global factory" role into consumers and providers of services, moving the "factory" inland. To a certain degree the 12th Five-Year Plan has achieved many of its goals. Where it has fallen short is that the interior provinces did not achieve "factory" levels that the coast had seen. It may also be likely that its goals were achieved due to China's reliance on market mechanisms rather than any incentives from the center. In fact, during this period China saw many low-sophistication manufacturing jobs leave the coastal provinces for other locations in the global supply chain. An article from McKinsey explains with one example: "The challenges for low-skill assemblers in Guangdong and Zhejiang are well documented. They are downsizing, as countries from Bangladesh to Kenya gain share."<sup>22</sup> China in general was becoming more expensive at this time.

---

<sup>18</sup> See The State Council of The People's Republic of China, "Key points of the 11th Five-Year Plan," 7 March 2006, available at [http://gov.cn/english/2006-03/07/content\\_246929.htm](http://gov.cn/english/2006-03/07/content_246929.htm).

<sup>19</sup> See Kai Ma, The National Development and Reform Commission of The People's Republic of China, "The 11<sup>th</sup> Five-Year Plan: Targets, Paths and Policy Orientation," 19 March 2006, available at [http://www.gov.cn/english/2006-03/23/content\\_234832.htm](http://www.gov.cn/english/2006-03/23/content_234832.htm).

<sup>20</sup> Christina Nelson, "Economic Development Policies for Central and Western China," 1 November 2010.

<sup>21</sup> See US-China Business Council, "China's Priorities for the Next Five Years," 1 July 2010.

<sup>22</sup> Gordon Orr, "What could happen in China in 2015?," December 2014.

China's coastal provinces, however, were able to establish themselves in the right place in the supply chain per the plan's recommendations. The flight of low-tech manufacturing sectors from the coastal provinces at this time shifted the focus of their industrial structures into higher-sophistication manufacturing and services.

### *China Slowing Down*

Standing between China and its goals are a variety of economic factors that have led to China's shrinking growth rate. While still impressive, growth numbers are well below the impressive double digits seen at the beginning of the century. At its peak China's economic growth rate remained above 10% for five years starting in 2003, with its highest rate hitting 14.2 in 2007. Figures show that the global financial crisis did not impact China and as late as 2010 its growth rate had risen to tap the 10% mark again. Since then it has been on a backslide. The World Bank's latest available measurement, 2014, places China's growth rate at 7.3 per cent, roughly half of what it had experienced a decade ago. Nevertheless, The World Bank places China's 2014 GDP at US\$10.35 trillion.<sup>23</sup> By comparison the United States' GDP was US\$17.42 trillion.<sup>24</sup>

All provinces missed their economic targets in the first three quarters of 2014. Because of the different degrees to which provincial targets were missed the aggregate national growth rate was less noticeable than individual provincial rates. The real estate market in northeast China collapsed that year with a "double digit drop" in development. The previous year the region had had a real estate industry matching Indonesia.<sup>25</sup> Inland locations were doing better comparatively due to ongoing investments made to their infrastructure. What this slowdown highlights is that the central government is fine with allowing the market system run itself rather than artificially pumping growth into it.

A Chinese report issued for Quarter 3 of 2015 indicated that Chinese growth rates were at 6.9 per cent, sending pundits and economists into a debate about the future of China's growth, particularly whether China's reporting over its stellar performance a decade earlier was entirely accurate.<sup>26</sup> At the same time China's economy has marked an impressive shift toward service industry orientation. A 2016 report indicated that for the first time the service industry made up

---

<sup>23</sup> See The World Bank, "China," figures available at <http://data.worldbank.org/country/china>.

<sup>24</sup> See The World Bank, "United States," figures available at <http://data.worldbank.org/country/unitedstates>.

<sup>25</sup> Bloomberg News, "China Regions Show Economies Differ as Slowdown Deepens."

<sup>26</sup> Chris Devonshire-Ellis, "China's GDP Growth – More Shocks Ahead," in *China Briefing*, 26 October 2015.



more than half of the economy, 50.5 per cent, up more than two points from 2014, while manufacturing dropped to 40.5 per cent.<sup>27</sup>

A recent report from China indicates its economy may be slowing down at an even greater rate. Investment has slowed down to a record low since 2000 prompting debt fears and worries that China will be able to even maintain the modest 6.5 per cent projected growth rate it expected to maintain for its “new normal.” Central planning had been oriented around this figure. The central government has been pumping stimulus money into the economy, but nowhere near the amounts from 2008’s crisis or the 1997 Asian financial crisis. Whether China will push for more rapid integration from Taiwan is yet to be seen but it may significantly impact the cross-strait investment dynamics.<sup>28</sup>

China cannot claim its rise due to its own momentum. Skyrocketing inbound FDI is moving China’s industry up the technology ladder,<sup>29</sup> particularly in coastal provinces where market and trade liberalization policies have been pursued with the greatest intensity. China’s dependence upon FDI is now highlighting the issues that it had sought to address with the 12th Five-Year Plan, though the shift to domestic consumption and moving “factory China” inland has not happened soon enough due to policy and market forces. The 13th Five-Year Plan, begun in March 2016, has placed an emphasis on consumption-led growth, highlighting that manufacturing growth is shrinking to what has been referred to as the “new normal.”<sup>30</sup> Proposed reforms for the latest Five-Year Plan include reform of SOEs which the Chinese Communist Party views as “bloated” and inefficient. Today SOEs provide China with 60 per cent of its annual revenue and upwards of 150,000 SOEs are managed by local government and provincial authorities.<sup>31</sup> The Communist Party Central Committee and The State Council issued guidelines on their plans to develop a mixed ownership system over SOEs by 2020.<sup>32</sup> Despite generating US\$2.48 trillion in profits in 2014 the central authorities say SOEs are too inefficient and take up too many labor resources that could slow future potential growth.<sup>33</sup>

Reforms in 1992 and 1993 allowed SOEs to compete in a market economy, but these reforms have had negative side effects and have allowed harmful developments such as SOE

---

<sup>27</sup> Mark Magnier, “As Growth Slows, China Highlights Transition From Manufacturing to Service,” 19 January 2016.

<sup>28</sup> Kevin Yao and Elias Glenn, “China investment slows to 15-year low, more stimulus seen despite debt fears,” 13 June 2016.

<sup>29</sup> Reid and Rigger, pp. 2-3.

<sup>30</sup> See CCTV News, “Xi expounds on guideline for 13th Five-year Plan,” 3 Nov. 2015.

<sup>31</sup> Alice De Jonge, “China’s grip still tight on state-owned enterprises,” 17 September 2015.

<sup>32</sup> See Seewebnew, “CPC Central Committee and State Council issued the ‘Guidelines on Deepening the Reform of state-owned enterprises’,” 13 Sept. 2015, available at <http://www.seewebnew.com/news-10533820.html>.

<sup>33</sup> Andrew Moody, “Dissecting China’s Five-Year Plan,” 23 November 2015.

subsidiary systems to arise, often with incompetent or corrupt management (Wang 2002).<sup>34</sup> A 2004 study on SOE workers' attitudes toward their "organization citizenship" in the mainland found that on average SOE employees "expressed more interest in social welfare participation and showed less concern about taking initiatives, protecting enterprise properties and saving company resources." Jin explains that this is an indicator of the low-priority for productivity that exists within Chinese SOE culture, and highlights the pressure that government-owned business places upon other government sectors. Workers in highly-innovative foreign-owned companies in China have a high-turnover rate, indicating that despite the high salaries, workers are more concerned with benefits than with productivity.<sup>35</sup> This shows a tendency that the general attitude on the mainland is to allow overseas firms to foster sector and industry development while local firms and SOEs provide social services.

China appears committed to its market reforms. Although the less developed and less market-oriented provinces are the targets of central development initiatives, Beijing has stuck to its guns on permitting the more developed and market-oriented provinces to continue ahead with their economic autonomy. The recent negative market events are evidence that market forces are at greater play in certain areas of China.

#### *Interior development initiatives*

China has been facing an income disparity crisis over the past decade. Although the gap between the coast and inland regions has been increasing since the 1950s, in recent years the growth of regional disparities has become a policy concern and has led the central government to address a "co-ordinated regional policy."<sup>36</sup>

The current economic strategy of the PRC is to allow market forces to drive provincial growth while guiding incentives for investment inland. China's inland investment initiatives are not as successful in attracting overseas investment as is hoped. Taiwanese investment in the mainland highlights a global trend. Investors prefer to place FDI in areas of relatively cheap, high-sophisticated manufacturing which can benefit their overall high-sophistication output, such as the coastal provinces or diversifying investing elsewhere where the international division of labor can be taken advantage of and where labor is as cheap as the inner Chinese provinces with

---

<sup>34</sup> Wang, 2002, pp. 324-325.

<sup>35</sup> Putai Jin, "Worker Motivation During Changing Periods: The Role of Psychological Capital in China's Economic Reform," 2010, pp. 106-107.

<sup>36</sup> Nicolaas Groenewold, et al., *Linkages between China's Regions: Measurement and Policy*, 2008, pp. 1, 28.



the notable advantage of easier port access. China has sought to capitalize on this preference for areas of high-sophistication. A 2010 incentive program to add high value-added and energy efficient production in western China was rolled out with the aim to attract foreign investors.<sup>37</sup> Overall, results have been mixed.

*The Southern Coast -- Economic policy toward Taiwanese integration*

China's intentions to economically integrate Taiwan has been tied largely with its coastal initiatives seeing that it cannot easily attract Taiwanese investment to its interior. The importance China has placed on this can be seen in its recent sidelining of interior development investments in favor of building up the coastal infrastructure to solidify its already established links with Taiwan.<sup>38</sup> China has designated the western coast of the Taiwan Strait, the coastal area comprising Fujian Province, the coastal peripheries of Guangdong and Zhejiang Provinces, and the bordering area of Jiangxi Province, as the "Haixi Economic Zone." Haixi (海西, an abbreviation referring to the western part of the Taiwan Strait) is an economic bridge between the economies of the Pearl River Delta (PRD) in Guangdong and the Yangtze River Delta in Shanghai. Haixi is an ambitious project in which the economies between Guangdong, Shanghai, and Taiwan will be joined at Fujian. To make this project a reality Fujian and Guangdong have been designated as Pilot Free Trade Zones, with local governments given special autonomy to develop infrastructure as they see fit. Liberalization and facilitation are the key aims of this project, intended to pull foreign corporations to the mainland through the establishment of secure legal codes, permission for wholly foreign-owned enterprises (WFOE) to establish themselves, and streamlining investment and business entry. The goal is to create a large "Taiwan Strait Industrial Cluster."<sup>39</sup> In this respect Haixi is intended to facilitate "economic and cultural integration" between China and Taiwan<sup>40</sup> as Taiwanese integration within these pilot zones is a significant part of the plan.

Special exemptions have been made for Taiwanese industry, such as tax and fee exemptions for firms opening in the specific pilot zone areas and reduced utility prices for

---

<sup>37</sup> See Nancy Huang, et al., "Economic Development Policies for Central and Western China," 1 November 2010.

<sup>38</sup> See Consulate General of Switzerland Guangzhou, "Taiwan-Mainland China and Fujian/Cross-Strait Economic and Trade Cooperation," July 2013.

<sup>39</sup> See China Briefing News, "The New Free Trade Zones Explained, Part IV: Fujian," 27 May 2015.

<sup>40</sup> See Fujian Provincial Department of Foreign Trade and Economic Cooperation, "Invest Fujian: Coastal China's Emerging High Growth Province," p. 13.

Taiwanese firms.<sup>41</sup> The area comprising the Haixi Economic Zone had a 2013 population of roughly 80 million people. It was established during the 12th Five Year Plan, and is intended to promote integration across the strait, and link the deltas' populations and markets.<sup>42</sup> The Haixi strategy for the Taiwan Strait Industrial Cluster involves establishing a high value manufacturing center focusing on global competition. Fujian stands to benefit greatly from Haixi, and has been granted special authority to experiment with its cross-strait pilot zones to deepen integration.<sup>43</sup>

### *Coastal Pilot Zones*

Guangdong has reaped more rewards from the policy than Fujian through its proximity to Hong Kong. Chinese policy seeks to rectify these inequalities by establishing the Fujian Pilot Free Trade Zone and providing further incentive for trade integration with between Fujian and Taiwan along with the greater world market. Fujian will be shifted to the forefront of China's continued experiments with liberalization and opening up. China's experimentation with Pilot Free Trade Zones began with the 2013 establishment of the Shanghai Pilot FTZ with the main objective to create conditions easier for inbound FDI. The success of Shanghai, and its draw for FDI inspired the development of PFTZs in the southern provinces. Shanghai's comparatively small size has made development and management easy. The PFTZs in Fujian and Guangdong are limited in size for the time being, allowing authorities to focus on development and necessary logistics infrastructure in limited, manageable areas.

Trade and investment liberalization in the new trade zones includes many concessions to business interests at the expense of local regulations, emphasizing the importance placed on attracting investment and integration with Taiwan's industrial sectors. The goal is to make it easier to establish a firm in China. The Fujian and Guangdong Pilot Free Trade Zones, established in 2015, allow wholly foreign-owned enterprises to set up shop, offer one-stop shops for new ventures, tax rates to benefit small start-ups that may expand to larger corporations in the future, "expedited" customs, simplified logistics to create regional trade hubs, create a useable e-commerce and cross-border e-commerce system that benefits foreign enterprises and customers, and "promote RMB convertibility."<sup>44</sup> In Fujian alone many concessions are being made to Taiwanese investors: customs simplification will enable more cargo to enter port facilities

---

<sup>41</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 53.

<sup>42</sup> Consulate General of Switzerland Guangzhou.

<sup>43</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 13.

<sup>44</sup> Joanna Lavan, "What difference can the Free Trade Zones make to your China business?," 22 June 2015.

without inspection delays, Taiwanese call centers are permitted to handle offshore business, and telecom services will be permitted in the pilot FTZs as either joint ventures or as Taiwanese WFOEs, Taiwanese dispatch services for Taiwanese shipping will be permitted in the PFTZs, Taiwanese tourism companies will be allowed to register and operate, and Taiwanese WFOE construction firms will be allowed to undertake construction projects in Fujian. International banking facilitation will be a priority and currency liquidity will be encouraged, and enterprises and foreign banks established in the PFTZs will be able to borrow foreign currency and overseas RMB. Taiwanese joint venture fund management firms will be permitted and can be majority-held by Taiwanese investors for the first time.<sup>45</sup>

China is attempting to create a new coastal prosperity zone that ties in all of its global economic initiatives, with Taiwan at the head. Fujian is a “core area” of the 21st Century Maritime Silk Road. Beijing’s aim is to have Shanghai, Fujian, and Guangdong linked to the silk road to create “common” prosperity in the region. The Fujian FTZ will help two-way trade, investments, and connections with China’s partners along the Silk Road Economic Belt and the 21st Century Maritime Silk Road.<sup>46</sup> The strategy is to allow Taiwan to take advantage of the market liberalization on the mainland, to secure greater amounts of Taiwanese investment and technology transfer in the provinces, to provide more consumer goods locally, and to further tie the fate of the Taiwanese economy with the growth of the mainland.

#### *Chinese emphasis on Fujian development*

Fujian has become the big showcase for the new round of reforms and it is perfectly poised for its new role. Fujian is economically behind the other free trade areas in Guangdong and Shanghai and stands to gain much more. Chinese policy intends to move Fujian to the “front line” of continued opening up and to establish new trade patterns. An incredible emphasis has been placed on integration with Taiwan, and initial phases of attracting more Taiwanese business will include taking advantage of cultural ties. From its launch in April 2015, the program will span a three to five year reform period aimed at attracting a greater amount of Taiwanese investment by playing to Taiwan’s advantages, including cross-strait cooperation mechanisms

---

<sup>45</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation.

<sup>46</sup> Yi Ding, “Pingtan Area in Fujian FTZ promotes cross-strait cooperation, serves ‘One Belt, One Road’ strategy,” 9 June 2015.

such as the free flow of goods, services, and people, and enhancing “the economic connection of Fujian and Taiwan.”<sup>47</sup>

Further signaling the Chinese government’s commitments to push trade liberalization further are the restrictions enumerated in the central government’s initiative for Fujian. While the Shanghai pilot zone initially had 140 items on its negative list, it is being reformed. At the same time Fujian’s new Pingtan Pilot Zone will only have 122 items on its negative list, applying lessons learned from Shanghai.<sup>48</sup> The main emphasis for cross-strait integration is to streamline FDI service and support and draw greater investments from across the strait. Developments will be concentrated in three key locations, covering a development area of approximately 118 square kilometers within the locations of Fuzhou City, Pingtan Island, and Xiamen Island.

Fuzhou’s free trade area is divided into six sub-zones intended to create a “market-oriented business environment” across the prefecture-level city protected by an effective legal system. The Pingtan area is a 43 square kilometer zone aimed at attracting Taiwanese business and investment, liberalizing and facilitating trade and exchanges with Taiwan comprised of a 16 square kilometer port and trade zone positioned as a cluster for port logistics and business services. A 15 square kilometer high-tech industrial zone will focus on electronics manufacturing and R&D facilities and a 12 square kilometer business and tourism zone will create a coastal enclave for Taiwanese tourism that will eventually expand to the entire island for general international tourism. The Xiamen Area is a modern port and logistics center. It will focus on joint development of ports, airports, and trade facilities, establishing greater links, developing R&D, information services, trade services, and cruise services. Xiamen will be Fujian’s “foothold in the mainland” and will also focus on building cross-strait trade cooperation.<sup>49</sup> Of these locations, Fuzhou had a 2011 population of 7.1 million, Xiamen had a population of 3.5 million, and Pingtan had a population of 350,000.<sup>50</sup> Fujian has been given special authority to experiment with its pilot zones as it sees fit in order to create integration across the strait.<sup>51</sup>

In a 2012 foreword for investors in Fujian, Su Shulin, Governor of Fujian indicated that his province has begun streamlining the process for businesses to establish themselves in the province. The aim, he states, is to create an FDI magnet in Fujian: “All major cities in Fujian are

---

<sup>47</sup> See Hong Kong Trade Development Council, “China (Fujian) Pilot Free Trade Zone,” 29 June 2015.

<sup>48</sup> Ding.

<sup>49</sup> Hong Kong Trade Development Council.

<sup>50</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 5.

<sup>51</sup> Consulate General of Switzerland Guangzhou.

equipped with professional services offices that provide investment promotion, project consulting, corporate registration, legal, financial and other one-stop shop services.”<sup>52</sup> The provincial authorities were already well on their way towards building up Fujian as the next investment hub.

### *Economic Cooperation Framework Agreement*

China understands the core-periphery effect and seeks to exploit it in their favor. Exchanges between 1990 and 2000 have shown that as Taiwan reduces restrictions on cross-strait trade the PRC’s “magnetic effect” expands rapidly. China reaps the benefits. China seeks to force Taiwan into the “One China Market” through ECFA.<sup>53</sup> Wu states: “After signing the ECFA, Taiwan will be more economically dependent on China and Taiwan’s economic activities will be carried out within the range of China’s influence. This is an effective application of China’s geopolitical strategy for Taiwan.” China has achieved its major strategic goal with the signing of ECFA. Taiwan has its eggs all in one basket and now must support it.<sup>54</sup>

## II.2 Overview of the Political Economies of Fujian and Guangdong

Fujian and Guangdong have enjoyed significant benefits over other provinces in both industrial development, investment, and standards of living. For over thirty years they have been the testing grounds of China’s economic experiments with trade liberalization and market reforms. Their locations near two of Asia’s first industrialized economies, Taiwan and Hong Kong, have given them an additional edge over their competition with the ease in which they can attract investment and trade. Their history has allowed them to prosper. We can find in Fujian and Guangdong higher standards of living, greater economic diversity, modern infrastructure, advanced logistics, and evermore sophisticated industrial sectors. These provinces are among the richest in China with a sizeable middle class, consumer-oriented economies, and highly educated and technologically literate populations. In general, Fujian and Guangdong have very similar commerce infrastructures. They have well developed, high capacity ports and airports with extensive trade networks, excellent transportation and supply networks including rail and

---

<sup>52</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 7.

<sup>53</sup> Huang, 2010, p. 76.

<sup>54</sup> Chih-Chung Wu, “The Geopolitical Implications of ECFA,” 2010, p. 61.

highways linking cities together. This section will give an overview of the political economies of these provinces and will identify the uniqueness of their trade infrastructure, industrial sectors, policies, and role in cross-strait integration.

Fujian and Guangdong share equally sophisticated domestic industry sectors that have been moving away from labor-intensive manufacturing to high-tech manufacturing and service industry. This convergence of industry sectors prevents inter-provincial trade from occurring at high rates, but has allowed both provinces to attract international investments. Guangdong had always been advantaged due to its connection with Hong Kong. Even during the pre-reform period the barrier between Guangdong and Hong Kong had never been completely closed. Higher standards of living existed due to family members in Hong Kong and Macau sending remittances to nearby villages. After the 1970s the link only intensified.<sup>55</sup>

Fujian follows the economic models set out in Shenzhen, Shanghai, and Tianjin in its pursuit as the “core hub” of the Haixi region. Targets for Fujian during the 12th Five Year Plan intended to double the province’s GDP, and it aims to achieve the same GDP as Switzerland by 2020. One of Fujian’s most ambitious recent investment projects has been in establishing its transportation networks. Fujian earmarked nearly \$40 billion “of public funds for infrastructure development in Pingtan County,” the location of one of its pilot FTZ projects.<sup>56</sup>

#### *Two of the wealthiest provinces*

Fujian and Guangdong are two of China’s wealthiest provinces. Data from the PRC National Bureau of Statistics highlights the vast wealth of the coastal provinces. With the exception of Hebei, all coastal provinces enjoy a GDP of over 60,000 RMB. Inner Mongolia is the only inland province to enjoy such benefits.<sup>57</sup> Guangdong and its position near Hong Kong and role as the controller of the Pearl River Delta has by far been the major winner in the rush to gain wealth. Fujian has had more modest success, but owes much of it to its early and sustained role in the China’s opening and reform.

#### *Fujian*

Fujian ranks third highest in all of China in terms of education and technical proficiency. The province has 83 institutes of higher education including some of the best technical

---

<sup>55</sup> You-tien Hsing, *Making Capitalism in China: The Taiwan Connection*, 1998, pp. 27-28.

<sup>56</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 7.

<sup>57</sup> Hudson Lockett, “Regional Disparities in China: Time for a Lift Up,” 16 September 2015.



universities in China, and additional industrial vocational training networks are found throughout the province. Fujian welcomes an average of 1.4 million foreign visitors per year, and boasts Western-standards of living and infrastructure including “top quality international hospitals, airports, and schools” in addition to having “high-end shopping” in all of its major cities. Fujian in 2011 had a population of 37.2 million people with a workforce of 22 million, and a nominal GDP of 1.817 trillion RMB (US\$276.3 billion), roughly equivalent to Singapore.<sup>58</sup> GDP figures had grown to 2.59 trillion RMB by December 2015.<sup>59</sup> In 2012 Fujian ranked as the fifth most open of China’s 31 local-level economies. Investment promotion literature states that “after 30 years of robust growth, Fujian remains one of coastal China’s most rapidly expanding economies. The province ranks highly against other provinces in per capita GDP, household consumption, and market privatization.” Indicators include a \$276 billion economic output figure for 2011, ranking 12<sup>th</sup> among the economies, and 5% above the cross-country provincial average, an annual per capita GDP of over \$7456 by 2011, 14% above national average, and “retail sales of consumer goods reached \$97.9 billion in 2011.” Compared to other coastal provinces, Fujian has a much higher rate of market privatization. 57% of its workers are employed in the private sector and foreign-owned businesses.<sup>60</sup>

### *Guangdong*

By comparison, Guangdong’s economy far outshines that of Fujian. With a 2015 GDP of 7.281 trillion RMB (US\$1.105 trillion), the southern coastal province is an economic giant and a success story for China’s market reforms.<sup>61</sup> Guangdong has long drawn Hong Kong investments, and unlike Fujian it has had a longer history of connection with its nearest capitalist neighbor. Guangdong was one of the main benefactors of Taiwanese offshore investments in the 1980s. Figures from 2005 indicate that Guangdong’s population stood at 91.94 million people, 37.92 million of which were classified as peasants.<sup>62</sup> By the end of 2012 the population had grown to 105.94 million.<sup>63</sup> Its geological location along tectonic boundaries supplies the province with a wealth of mineral resources<sup>64</sup> and its primary industry sector has more than doubled since 2005,

---

<sup>58</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, pp. 5, 7, 9, 22.

<sup>59</sup> See People’s Republic of China, National Bureau of Statistics.

<sup>60</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, pp. 6, 15, 18.

<sup>61</sup> People’s Republic of China, National Bureau of Statistics.

<sup>62</sup> See Peoples’ Republic of China, Ministry of Commerce, *Doing Business in Guangdong Province of China*, available at <http://english.mofcom.gov.cn/aroundchina/Guangdong.shtml>.

<sup>63</sup> Expo China.

<sup>64</sup> Peoples’ Republic of China, Ministry of Commerce.

from a GDP of 142.827 billion RMB to 334.482 billion RMB reported in December 2015. Overall GDP figures have grown significantly. GDP was reported at 2.25 trillion RMB in 2005, 4.6 trillion RMB in 2010, and December 2015 reports indicate it stood at 7.28 trillion RMB by year's end. Tertiary industry GDP composed 3.69 trillion RMB.<sup>65</sup> Guangdong has also hosted the semi-annual China Export Commodities Fair (also called the Canton Fair), a “comprehensive international fair.” Registered trade from its spring and autumn 2005 events surpassed US\$58 billion.<sup>66</sup>

*Infrastructure (Ports, Transportation Networks, Supply Networks, Industrial Sectors)*

In terms of natural trade facilitating factors, Fujian has a higher number of deep water ports compared to Guangdong allowing for a higher volume of cargo pass-through. Guangdong, however, has a significant amount of navigable river ways that can transport cargo deeper into the province.

Fujian's trade networks include interprovincial railway connections, an extensive highway network connecting nearly all of Fujian's cities and many of its “sub-municipal districts.” With 2 international airports and three domestic airports, the province is connected to more than 200 cities. Its core strength lies in its harbors, with a high cargo capacity and highly connected shipping network. Fujian's major ports are Xiamen, Fuzhou, and Meizhou Bay. Each has the capacity of 100 million tons of cargo throughput. Fujian's ports connect it to the world through 235 international shipping lanes. Fujian's port and harbor system can be further broken down: As of 2011 Fujian had 7 major ports, 125 harbors, and 27 port zones. Fujian features 10 industrial clusters with an average output of over \$15.9 billion in sectors ranging from textiles to electronics. Fujian boasts internet penetration throughout 65% of the province. All major cities offer Wi-Fi services.<sup>67</sup>

Owing to its position on the Pearl River Delta, Guangdong has a sophisticated and advanced transportation system. Shipping, air, and land networks connect Guangdong with over one thousand ports and 130 “countries and regions” worldwide. The Ministry of Commerce reports that Guangdong boasts China's most complete transportation and infrastructure systems in the entirety of China. In recent years it has become the “transportation hub of South China,”

---

<sup>65</sup> People's Republic of China, National Bureau of Statistics.

<sup>66</sup> Peoples' Republic of China, Ministry of Commerce.

<sup>67</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, pp. 9, 20, 22.



connecting itself with surrounding provinces. Guangdong's major port hubs are located in Shenzhen, Guangzhou, Zhuhai, Shantou, and Zhanjiang, with additional "lateral or replenishing ports" scattered around the province. Guangdong's level of internet penetration is significantly high, with access available to 37.5 million residents as of 2005, more than 40 per cent of Guangdong's population. When taken into consideration, this was nearly 70 per cent of Guangdong's non-peasant population.

*State Intervention, Protectionist Policies, SOE penetration*

Due to their relatively high rate of market liberalization Fujian and Guangdong experience a relatively low level of intervention from provincial authorities and provincial incentives to attract market-oriented foreign business lead to a higher degree of administrative "hands off" policies. Though some elements of subsidized industry still exist, Fujian and Guangdong by far have the fewest numbers of SOEs present in their economies, and the numbers of State Owned Enterprise in Fujian and Guangdong have shrunk over time. There is less of a need for rent-seeking arrangements as the provinces have become leaders in China's experiments at liberalization, market mechanisms, and internationalization of economies.

**Figure 1.** Percentage of SOE contributions to Provincial level GDP Output, 2011

Beijing	50%	Anhui	55%	Sichuan	37%
Tianjin	74%	Fujian	18%	Guizhou	52%
Hebei	44%	Jiangxi	35%	Yunnan	50%
Shanxi	73%	Shandong	43%	Tibet	8%
Inner Mongolia	43%	Henan	38%	Shaanxi	70%
Liaoning	56%	Hubei	54%	Gansu	98%
Jilin	66%	Hunan	34%	Qinghai	66%
Heilongjiang	52%	Guangdong	26%	Ningxia	61%
Shanghai	64%	Guangxi	38%	Xinjiang	75%
Jiangsu	24%	Hainan	13%		
Zhejiang	25%	Chongqing	39%		

Source: People's Republic of China, National Bureau of Statistics

As Figure 1 shows, Guangdong and Fujian levels of SOE output contributing to overall GDP output are comparatively among the lowest of the mainland's 31 economies in 2011.

### *SOE penetration*

Trade barriers exist for both provinces. The barriers are a combination of natural border effects and policy orientation. As previous studies have identified, Fujian and Guangdong do not have high rates of trade with each other largely due to the domestic and outward orientation of their growth models. Despite having similar market structures, they have little need for interprovincial trade.

Policy barriers also come from the protectionist policies of the competing SOE- and rent-oriented inland provinces. SOE reform is underway in China's market liberalizing economies, and Fujian and Guangdong are no exceptions. The major question is how to reform SOEs. One argument states that reducing the number of SOEs is key, another suggests reducing the percentage of shares a government can control. A seemingly counter-productive argument suggests to allow the top producing SOEs to continue to get bigger.<sup>68</sup>

Guangdong has been especially proactive towards reducing SOE penetration in the economy. In 2014 the province controlled over 130 SOEs, 34 of which were directly under the Guangzhou State-owned Assets Supervision and Administrative Commission,<sup>69</sup> and has targeted that 70 per cent of its SOEs should have mixed ownership by 2017.<sup>70</sup> The province also seeks to establish at least 30 companies that are co-owned by both the provincial government and private investors that will create profits exceeding 100 billion RMB per year.<sup>71</sup> The Guangzhou State-owned Assets Supervision and Administrative Commission has been tasked with consolidating the more than 130 SOEs both under its control and under other administrative control down to roughly thirty.<sup>72</sup> It is evident that Guangdong seeks to create a much more liberalized market, but still cannot part completely with the incredibly lucrative revenue-generating SOE model.

---

<sup>68</sup> Qiren Zhou, "The Future of SOE Reform May Lie in the Past," 4 August 2015.

<sup>69</sup> See CCTV News, "Guangdong reforms state-owned enterprises," 17 September 2015.

<sup>70</sup> Wenfang Li, "70% mixed ownership target for Guangdong SOEs," 19 August 2014.

<sup>71</sup> See South China Morning Post, "Guangdong eyes SOE reform," 29 September 2014.

<sup>72</sup> CCTV News, "Guangdong reforms state-owned enterprises."

**Figure 2.** State Owned Enterprise contributions to GDP in Fujian and Guangdong 2000, 2005, and 2010

Unit: Millions of RMB

Year	Gross SOE Industry Output		Revenue derived from SOE activity	
	Fujian	Guangdong	Fujian	Guangdong
2000	85,495	312,612	463.72	764.85
2005	153,288	637,544	777.51	3,107.27
2010	298,330	1,316,637	2,195.30	9,000.29
Year	Gross SOE Output as % of Gross GDP		Gov't Revenue from SOE as % of output	
	Fujian	Guangdong	Fujian	Guangdong
2000	22.70%	29.10%	0.50%	0.20%
2005	23.39%	28.26%	0.50%	0.49%
2010	20.24%	28.60%	0.70%	0.68%

Source: People's Republic of China, National Bureau of Statistics

As can be seen in Figure 2, SOE activity still contributes a significant amount toward total percentages of GDP for both Fujian and Guangdong. By looking at the figures supplied from the mainland's National Bureau of Statistics and the Ministry of Finance we can derive several assumptions. First, Fujian's SOE sector produces far less than that of Guangdong and as a result Fujian's SOE sector contributes less gross revenue than Guangdong's. Second, that Fujian has a lesser rate of SOE penetration within its economy than Guangdong does. We can see that Fujian's SOE sector contributes to roughly twenty per cent of overall GDP while the SOE sector in Guangdong contributes to thirty per cent of the province's GDP. Finally, though statistically insignificant, a growing amount of SOE output contributes to provincial revenue in both cases.

#### *Development Incentives*

Fujian and Guangdong have continued to grow and attract Taiwanese FDI through incentive policies at both the local and central government levels. Central policy seeks to harness the full potential of the geographic and internationalized factors of Fujian and Guangdong. Local policy seeks to outcompete rival provinces for a greater portion of the international market.

*Fujian.* Fujian's development incentives are aimed at attracting investment which include "two year corporate tax exemptions; three year corporate tax discounts of 50%; and a preferential corporate tax rate of 15% for qualifying companies." Fujian wants FDI, so it has streamlined the steps to keep barriers and costs low. It has initiated an online approval system, and was one of

the first provinces to establish “one stop shops” for FDI investment services. It has shortened the time to approve FDI and made the system more efficient, and has established multi-city trade fairs.<sup>73</sup>

Policies and incentives depend upon the industries that are investing, meaning that although all foreign entrepreneurship and investment is welcome, specific investments which help the province move up the value chain will receive greater preference. Specific targeted areas will also feature special incentives. For example, Fujian’s Pingtan Comprehensive Pilot Zone provides two different establishment funds, the Eaglet and the Eagle Fund, for enterprises seeking financial aid to establish themselves on the developing offshore port hub island.<sup>74</sup>

Fujian’s government has developed programs to target specific industries for growth. Major industrial parks have been established for this project. For its own part during the 12<sup>th</sup> Five-Year Plan the government aimed to have its strategic industries reach twelve per cent of its GDP by 2015. Fujian seeks greater investments in biotech, IT, petrochemicals, electronics, and service sectors to move the province up the value chain. As of 2012 Fujian boasted twenty-five nationally endorsed business parks with more than ninety additional provincially-endorsed business parks to promote investment. To draw potential investors the province has equipped the parks with utilities such as electricity, water supply, and treatment plants.<sup>75</sup> Fujian currently has six international-level investment zones for Taiwanese businesses, six national level gardens for Taiwanese farming investments, and hosts the largest cross-strait agricultural zone. Fujian’s Pingtan Comprehensive Pilot Zone established the Taiwan Pioneer Park, an industrial park, in June 2015. Before opening it had already drawn in over 120 firms from both the mainland and Taiwan.<sup>76</sup>

*Guangdong.* Aside from trade fairs and expos used to attract investment, Guangdong, under the authority of the PRC Ministry of Commerce (MOFCOM), also offers subsidies to multinational companies that establish their headquarters and R&D operations there. Firms that seek to establish “cultural facilities” in Guangdong are also highly subsidized and given assistance with funds, construction costs, and utilities among other perks. Tax breaks are given to foreign enterprises that engage in provincially-targeted industry areas such as establishing operations in designated special economic zones (SEZs), high-tech operations, port construction,

---

<sup>73</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, pp. 54-55.

<sup>74</sup> Ding.

<sup>75</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, pp. 9, 41.

<sup>76</sup> Ding.

and export and transportation industry operations that exceed US\$30 million.<sup>77</sup> Guangdong also seeks to capitalize on its position as a link between regional economies and the rest of China. For example, on June 30, 2015 a joint announcement between the Guangdong Department of Commerce, Invest Hong Kong, and the Macau Trade and Investment Promotion Institute indicated the three economies were joining forces to attract Singapore investments in the Greater Pearl River Delta region to highlight their role as a super corridor between China's markets and other regional markets.<sup>78</sup>



---

<sup>77</sup> See Understand China, "Guangdong Foreign Investment Incentives," available at <http://understand-china.com/manufacturing/guangdong-investment-incentives>.

<sup>78</sup> See Invest Hong Kong, "Invest Hong Kong joins forces with Guangdong and Macao governments to attract Singaporean companies," 20 June 2015.

# CHAPTER III. FINDINGS:

## TAIWAN

### III.1. Economic Strategies of Taiwan

Taiwan is a middle power economy in the global market, and it seeks to use this position to its advantage for its economic growth and status. Taiwan's political economy is marked by significantly high market and trade liberalization, advanced trade facilitation networks, service sector industry, and high-sophistication manufacturing. Taiwan is unique among its neighbors, particularly the other three Asian Tigers (South Korea, Hong Kong, and Singapore) in several ways. First, its economy is primarily based on the collective innovation of SMEs that operate together as a surrogate to large corporations, and that as an independent economy it has tied much of its fortunes recently to the development of the mainland's economy. SMEs have been traditionally the area of native-born Taiwanese families whereas the elites, mostly KMT-mainlanders, occupied the large state and corporate areas. Taiwan is unique in that the non-elites are its major innovators. Taiwanese entrepreneurs have been comfortable investing in China because there are little to no cultural barriers such as language or social norms. The proximity of China to Taiwan makes it the primary investment target. It is simply easier to invest in China than elsewhere.<sup>79</sup> Today, due to the rising cost of low-sophistication and labor-intensive manufacturing on the mainland, particularly in the coastal provinces, Taiwanese investment in china is moving up the sophistication ladder and emptying out Taiwan's native industry to take advantage of China's price margins. Low-pay labor intensive investments from Taiwan are very rarely taking the bait offered by Chinese incentives to move further inland, and are largely beginning to turn south to the easily accessible production markets of southeast Asian states (ASEAN). Complexities in the region's trade networks are contributing to the shifts. Not all Taiwanese manufacturers that are taking advantage of ASEAN are moving their facilities to southeast Asia. Some *taishang* are setting up manufactories in China to take advantage of

---

<sup>79</sup> Huang, 2010, p. 80.

China's tariff-free trade agreement with ASEAN. Regardless, much of Taiwan's overseas SMEs are still reinforcing the "central" role of China's economy to Taiwan.<sup>80</sup>

Due to being locked out of FTA networks, Taiwan is forced to become economically dependent upon China. In some cases, even outward-bound FDI has been forced to go through the PRC, highlighting the "deterioration of Taiwan's economic fundamentals." The economic dependency that Taiwan has found itself in is not sustainable for the island's economy, but it can be changed.<sup>81</sup>

Taiwanese capital has shown, as one of the winners of globalization, particularly through its incredible mobility and flexibility, that it can avoid political restrictions and completely move to China if favorable conditions exist. Capital's mobile factors make greater profits due to their ability to exploit profit margins, yet Taiwan faces a problem where its own capital has become completely disinterested in its own economy. Such free movement of capital is a threat to Taiwan's economic wellbeing.<sup>82</sup> When President Chen Shui-bian (DPP, 2000-2008) initiated the 2006 "Active Management, Effective Opening" policy he announced that Taiwan must be mindful of reducing cross-strait trade risks when opening up. Three concerns of his regarding deepening ties were: the hostage effect, hollowing out, and the *taishang* fifth column. Missing from the debate, according to Chen Ching-chang, is that China may not just exploit its gains over Taiwan, but over who the actual threat to Taiwan's economy is: China or overseas businesspeople.<sup>83</sup>

#### *SME-Driven Market Economy*

Taiwan features a heavily liberalized market economy with high integration with in the global market and supply chains. State economic policy is largely reactive to existing trends and developments. Government policy toward the economy is mainly reactive, with intervention largely to help create brand firms.<sup>84</sup> Business networks in Taiwan are based on *guanxi* and often the state will identify and cultivate existing patterns of industrial development rather than creating the industry trends itself thus *guanxi* capitalism and networks are allowed to drive development patterns in Taiwanese business and economic growth. Many of Taiwan's largest business groups and SMEs found their start-up and investment capital from the curb market,

---

<sup>80</sup> Huang, 2010, p. 87.

<sup>81</sup> Wilson, p. 1.

<sup>82</sup> Kenneth S. Lin, "Cross-Strait Economic Integration and Its Impacts on Taiwan's Society," 2007, pp. 291-292.

<sup>83</sup> Ching-Chang Chen, "Useful adversaries: How to understand the political economy of cross-Strait security," 2012, p. 56.

<sup>84</sup> Gary G. Hamilton, "Culture and Organization in Taiwan's Market Economy," 1998, p. 70.



family and friends, or other “informal money markets.” Taiwanese business startup capital often comes from reinvestments of profits or informal connections. Larger businesses use loans for raising capital but keep their *guanxi* networks as backups.<sup>85</sup> Often the *guanxi* capitalism leads to high assessments of cronyism within the economic system. According to a Corruptions Perception Index poll conducted in 2015, the perception of nepotism and personal connections in business has become better over the years, with Taiwan improving its ranking to be the 30<sup>th</sup> cleanest country for business out of a total 168 surveyed. In the past three years Taiwan has slowly moved up the list.<sup>86</sup>

SMEs do not have large profit margins. Innovations are drivers of competition within the SME system. SMEs seeking the largest profit margins drives innovation. As a result, Taiwan’s business and manufacturing industry does not typically generate large revenue despite huge production output.

By the late 1990s most of Taiwan’s business competition occurred among SME networks oriented toward export markets. Unlike Japanese or Korean style corporatism, where large corporations drove growth, Taiwan’s SME entrepreneurship behaved like a “swarm of bees” to create growth. “Swarm of bees” growth stemmed from a bandwagoning effect of pre-1990s SMEs fostering a gold rush mentality toward exporting to the global market. The first group of “swarm of bees” SMEs initially found low profits and few benefits, but as more joined the cutthroat industry the industrial structure transformed as the swarm shifted and changed with the product demands.<sup>87</sup>

Today Taiwan is moving away from its supply-driven manufacturing economy toward one based on demand-driven manufacturing. Rather than manufacturing products at large scale, producers take small special orders for specialization manufacture. This is a result of much of Taiwan’s former manufacturing roles are moving offshore. Taiwan’s IT industry, however, is growing. Tan identifies a spillover effect of the growing IT industry from Hsinchu, where Taiwan had established a technology park in the 1970s, to surrounding cities.<sup>88</sup>

---

<sup>85</sup> Hamilton, pp. 60-61, 68, 70-71.

<sup>86</sup> See Taiwan Today, “ROC improves in Corruption Perceptions Index ranking,” 28 Jan. 2016.

<sup>87</sup> Gary G. Hamilton, pp. 45, 48.

<sup>88</sup> PhD research conducted on Taiwanese industrial cluster growth at National Chengchi University, Taipei, 2016.

### *Development initiatives*

From a national perspective the government of Taiwan has sought to take advantage of Taiwan's relatively early industrialization and transform the island into a regional hub for investments, production, and trade. National economic policy has been one of increasingly fewer restrictions on greater amounts of investments with China in order to facilitate economic growth and take advantage of China's market. Taiwan would prefer to diversify to other avenues of investment and has actively sought improved trade relations with Southeast Asia to counter its dependence upon China. Taiwan incentivizes domestic investment and attempts to establish trade agreements with other countries to promote growth with limited success. This is due in part to Taiwan's higher costs of production when compared with the opportunities and advantages available for manufacturers in China. Restrictions impeding cross-strait trade have been reduced dramatically in recent years. Chinese investment is severely restricted in Taiwan largely due to fears of inundation. Restrictions on investing in China are often circumvented by *taishang* establishing manufacturing ventures directly in China. Taiwan has a relatively small and uncompetitive domestic-oriented service sector, a surprising contrast to its counterparts Hong Kong and Singapore, which have robust, competitive international service sectors.<sup>89</sup>

## III.2 Failing economy

There are many signals that the halcyon days of Taiwan's economy are behind it. Today the economy is stagnant and is not providing the Taiwanese with the opportunities they expect. Taiwan's competitiveness has been significantly falling behind despite the apparent advantages that it has. In 1995 Taiwan's economy was valued at more than one third of that of China. By 2011 it was worth less than one fifteenth.<sup>90</sup> China's share in world trade has increased while Taiwan's has declined. In the decade between 2004 and 2014 Taiwan's share in global trade decreased by 30 per cent. At the same time Taiwanese firms have significantly reduced their expenditures on domestic R&D. The exception being Taiwan's prized semiconductor industry, which "continues its investment in R&D and capital equipment for its expansion in high-end production..."<sup>91</sup> Tan's 2016 dissertation has identified the nearly universal inability of industry

---

<sup>89</sup> Wilson, p. 3.

<sup>90</sup> Sutter, p. 17.

<sup>91</sup> Wilson, p. 4.

to keep up with transportation demands.<sup>92</sup> Her research has shown a key reason for Taiwan's drain: with SME operations moving more and more to the mainland it is no wonder that Taiwanese manufacturers are moving entire operations networks to China in response. The less transportation logistics there are for supplies, the greater the volume of manufacturing can be.

The 2014 World Bank *Doing Business* report indicated that Taiwan ranks relatively well in terms of international competitiveness, listed at number 16, but it has fallen far behind its neighbors. Hong Kong and Singapore are in 1st and 2nd place respectively. Malaysia is in 6th place, and South Korea in 7th. Increasing regional competition is putting Taiwan's industry to the test. Wilson finds that although Taiwan's agreed upon WTO requirements in 2002 have boosted its productivity and growth, its reforms have stalled. Taiwanese agreements to reduce barriers and tariffs have not been fruitful because of the dormant nature of the WTO's Doha round's "multilateral trade liberalization" efforts combined with Taiwan's limited access to FTAs.<sup>93</sup> It creates a problem for Taiwan: What good is boosting productivity potential when you cannot access the trade?

**Figure 3.** Comparison of Top Five Taiwanese OFDI Industries (January-April 2015, 2016)

	Cases	Value (1,000 USD)	% of total	2015 value (1,000 USD)	value difference	growth rate
Electronics	10	1060374	33.21	375468	684906	182.41
Finance & Insurance	13	958995	30.03	938164	20830	2.22
Computer electronics	6	257814	8.07	331539	-73725	-22.24
Distribution	16	124732	3.91	116481	8251	7.08
Chemical material production	3	104876	3.28	23120	81756	353.61

Source: Republic of China (Taiwan), Investment Commission, MOEA, "Taiwan FDI Statistics Summary Analysis (April 2016)"

Figure 3 highlights the top five industries for Taiwanese OFDI in January to April 2016. It indicates that Taiwanese computer electronics have slipped in importance, highlighting Taiwanese comparative weakness in this area compared to traditional recipients of OFDI.

<sup>92</sup> PhD research conducted on Taiwanese industrial cluster growth.

<sup>93</sup> Wilson, pp. 3, 10.

Electronics manufacturing has still grown, nearly tripling in amounts since January to April of 2015, and chemical productions have remained strong.

Tan's research corroborates with Taiwan's reports. She identifies that Taiwan cannot keep up with transportation demands, that government-business communication and connections are weak or nonexistent, and that Taiwan's machine production industry is being lost. Taiwanese manufacturers, often producing for export, seek larger profit margins by moving more production overseas, but they themselves become less competitive, giving the edge to their investment locations.<sup>94</sup>

### III.3 Taiwanese steps toward integration

The rate at which Taiwan takes steps towards integration with China varies depending on the orientation of the political powers that be. Under the pro-mainland Nationalist Party (Kuomintang, KMT) the rate has been much higher. The Democratic People's Party (DPP) leadership typically places restrictions on integration, but we can still see that even they have allowed integration to continue forward—albeit at slower rates. This suggests that there is an undercurrent somewhere in Taiwanese society to integrate the economy with the mainland in some way. It is most likely due to the profit margins associated with shifting manufacturing bases to the mainland than to any social desire to be reunited. Though it can be argued that Taiwan has increased its amount of trade with China largely out of necessity evidence has shown that China has become more important for Taiwan to export to than to import from.

Globally Taiwan has seen its share of trade with traditional partners shrink as its trade shares with China have increased. We can see this in figures with Taiwan's former greatest trade partner, the United States. Total trade with the United States in 2000 amounted to US\$64.9 billion, with Taiwanese exports amounting to US\$40.5 billion. US-Taiwan trade made up roughly 41 per cent of all of Taiwan's total global trade for that year. By 2013 trade had shrunk to 21 per cent of total global trade at US\$63.46 billion, with 11 per cent of that amount being exports to the US.<sup>95</sup> <sup>96</sup> While overall trade with the United States, we do see that Taiwan's trade priorities had certainly shifted. Trade with China, including Hong Kong, in 2000 amounted to

---

<sup>94</sup> PhD research conducted on Taiwanese industrial cluster growth.

<sup>95</sup> See United States Census Bureau, "Trade in Goods with Taiwan."

<sup>96</sup> Wilson, pp. 5-6.

US\$18.5 billion. In 2013 this trade had grown to US\$165 billion, with US\$121 billion in exports and US\$44 billion in imports.<sup>97</sup>

Integration policy has shifted in its pace over time. As China's market has grown and its ability to edge out Taiwan from global economic networks has increased. At the same time integration trends have sped up. In 1996, under the administration of Taiwanese-born KMT President Lee Teng-hui (KMT, 1988-2000), Taiwan adopted a "no haste, be patient" stance towards China. By 2001, under President Chen Taiwan adopted a "proactive liberalization" policy toward China, which aimed at improving official trade relations and increasing trade. Chen's liberalization had the effect of shrinking Taiwan's native industry.<sup>98</sup> Chen's 2001 "Active Opening, Effective Management" plan was revoked in 2006, and replaced with "Active Management, Effective Opening" which aimed to place restrictions on cross-strait trade. Embroiled in personal scandals, Chen's reversal of policy was meant to rally the DPP base, and halted large companies such as Taiwan's semiconductor manufacturers from investing in China, allowing the SMEs to continue moving across the strait between 2006 and 2008.<sup>99</sup> President Ma's loosening of restrictions for economic growth has not helped keep Taiwanese business in Taiwan nor make it more globally competitive. Taiwan has become "locked" more and more with China. Even before the ECFA, the core-periphery effect was at work having a negative impact on Taiwan's liberalization attempts.<sup>100</sup> President Ma Ying-jeou (KMT, 2008-2016) established the three links with China, enabling direct trade, direct transport, and direct communication with the PRC.<sup>101</sup> His ratifying of ECFA has been the largest trade liberation action toward cross-strait integration, yet it sought to encourage Taiwanese business to reconsider remaining in Taiwan.

#### *ECFA in Taiwan and its effectiveness*

The Economic Cooperation Framework Agreement and its subsequent developments have been the most influential and controversial integration step in recent years for the Taiwanese. The 2013 signing of the Trade Services Agreement, a cross-strait service industry facilitation document, prompted student protests and the eventual student occupation of the

---

<sup>97</sup> Wilson, p. 5.

<sup>98</sup> Tsai, p. 69.

<sup>99</sup> Lecture given by Syaru Shirley Lin, "Taiwan's China Dilemma: contested identities and multiple interests in Taiwan's Cross-Strait Economic Policy," National Chengchi University, Taipei, Taiwan, 6 June 2016.

<sup>100</sup> Huang, 2010, p. 87.

<sup>101</sup> Gunter Schubert, "Facing the dragon and riding the tiger: assessing the mainland Taishang as an 'impact factor' in cross-Strait relations," 2016, p. 91.

Taiwanese legislature. The adoption of ECFA in June 2010 has had a major impact on Taiwanese politics and the interpretation of economic advantages.

Taiwanese economic actors have decided that the market forces are in China. To them, ECFA is an official sanction for their continued cross-strait behavior, and the government has allowed the further facilitation of free flow of investments. ECFA will not bring back the business and jobs that Taiwan has already lost to China. Even with the ECFA, border effects still exist in the form of domestic Chinese firms capturing the market first. To address this the Chinese have permitted “early harvest” clauses for Taiwanese firms, further incentivizing firms to relocate to the mainland.<sup>102</sup>

Despite the economic incentives and concessions to Taiwanese business, the ECFA is regarded skeptically by the Taiwanese. One survey found that 47.4 per cent of Taiwanese respondents believed that just the Trade Services Agreement would “bring more harm than good to the local service industry.”<sup>103</sup>

Owing to the controversy surrounding the ECFA is that it was passed only by KMT legislators.<sup>104</sup> For the pro-reunification KMT, ECFA is a tool for access to China and reconciliation with the mainland. The KMT sees cross-strait relations as being incredibly important to its platform, as reconciliation creates global access to China’s trade partners and prosperity. Integration with ASEAN’s markets, for example, could be established through China’s FTA with ASEAN. The bottom line is that the KMT sought to avoid marginalization by China by going through China instead of relying on its bilateral links. Arguments for the ECFA appear pragmatic given the realities. Wu states that “on July 2, 2010, Deputy Minister of Foreign Affairs Shen Lyu-hsun explained that Taiwan does not want to become the second North Korea and ECFA can prevent Taiwan from being marginalized.”<sup>105</sup> Ma Ying-jeou considered the ECFA as a means to reduce barriers on imports that had forced firms to move to China<sup>106</sup> while the KMT blamed the Chen Administration for Taiwan’s sluggish economy, and sought to revitalize it.<sup>107</sup>

Taiwan’s government, under the KMT control, declared that ECFA would “help people do business and increase Taiwan’s competitiveness.” It is important to note that the ECFA was

---

<sup>102</sup> Tsai, pp. 66, 71-72.

<sup>103</sup> Consulate General of Switzerland Guangzhou.

<sup>104</sup> Tsai, p. 63.

<sup>105</sup> Wu, pp. 59-60.

<sup>106</sup> Tsai, p. 71.

<sup>107</sup> Rong-I Wu, “ECFA and Taiwan-China Trade Relations,” 2010, p. 101.



only passed by KMT legislators.<sup>108</sup> The ECFA has ended more than 60 years of cross-strait competition. At the same time other scholars argue that by signing the ECFA President Ma has made Taiwan more dependent upon China without a reciprocal level of dependency of China on Taiwan (Sutter 2011).<sup>109</sup>

For the pro-independence DPP, the ECFA is a troubling agreement that signals the loss of Taiwanese economic independence. The argument mainly centers around China's ability to pull business out of Taiwan. ECFA's reductions of barriers and Taiwan's lack of restrictions toward investment in China will increase Taiwanese economic migration. China has many advantages due to its role as the core of activity within Krugman's core-periphery theory, creating a hollowing out of Taiwan.<sup>110</sup> Due to the advantages seen in establishing all production activities in one location, Taiwanese firms will be encouraged to invest in only one location: the PRC.

### III.4 FDI and the *Taishang*

Today the *Taishang* in China manufacture under three rationales: production for export to Taiwan and the globe, production for Chinese consumption, and access to Chinese FTA partners. These three trends, along with the lifting of many restrictions regarding Taiwanese investment in China, have had a huge impact on how Taiwanese manufacturing firms invest in China.

Taiwanese FDI in China has consistently increased since the first investments were made in the late 1980s. The first wave of *taishang* arrived in the areas surrounding the Pearl River Delta beginning in the early 1990s. The second wave settled in Shanghai in the late 1990s, away from the labor-intensive manufacturing regions of the Pearl River.<sup>111</sup> Reid and Rigger find that "through the early 2000s *taishang* investment was overwhelmingly concentrated in a narrow band of just four or five coastal provinces" from Guangdong to Jiangsu, and have since slowly been moving further up the coast.<sup>112</sup> The second wave of Taiwanese FDI moved along the Chinese coast, but as locations found their industrial structure converging, FDI eventually settled back to Fujian and Guangdong due to the convenience of proximity.

---

<sup>108</sup> Tsai, p. 63.

<sup>109</sup> Sutter, p. 17.

<sup>110</sup> Tsai, pp. 68-69.

<sup>111</sup> Schubert, pp. 93-94.

<sup>112</sup> Reid and Rigger, p. 9-10.



### *Understanding the taishang*

Between 1 and 2 million Taiwanese lived and worked in mainland China by 2010<sup>113</sup> and have provided China with invaluable advantages both as social services and in industry learning. Aside from acting as a trade liberalizing economic force in China, a counter to SOE entrenchment,<sup>114</sup> *taishang* manufacturing plants often establish on-site clinics and elementary schools for the benefit of their employees and families. Taiwanese donations have gone toward university construction and hospitals. Chinese industry has learned how to advance and how to do business from the *taishang*. Technological know-how, efficient enterprise management, and negotiations in international forums have all been benefits China has reaped from Taiwanese investors. Of particular significance to Chinese-Taiwanese relations on the mainland is that PRC officials do not know how many locals Taiwanese firms employ.<sup>115</sup> Any official figures are likely to be low estimates.

Taiwanese investors are generally a-political and are self-centered, choosing to focus mainly on their economic affairs though they do feel pressure when cross-strait relations are tense. Any pressure felt by the *taishang* is typically related to the success of their enterprises under favorable or unfavorable conditions rather than ideology. While *taishang* avoid politics because it creates problems for business ventures it has been found that the longer they live in China the more likely their identity will change, gradually adopting mainland-centric interests in affairs. By the end of 2014 *taishang* had organized over 138 Taiwanese business associations (TBAs) based in the mainland in order to lobby Taiwan and the PRC on issues relating to business conditions. TBAs serve as conduits for government policy-making and are a lobbying force for their own business interests. The *taishang* also attempt to influence popular opinion with their relations to the “financial stakes” of the media. Taiwan’s investment community acts as lobbyists to influence Taiwan’s export industry and policies through “informal power,” but are not involved in the political or governmental processes of either Taiwan or China.<sup>116</sup>

*Taishang* behavior is market-driven, and their penetration has been incredibly deep among China’s southern coast where they have had time to establish their support networks. They have been found to operate as enclave communities of Taiwanese small and medium enterprise managers, operating under their own *guanxi* principles, who serve many roles in the

---

<sup>113</sup> Tsai, p. 65.

<sup>114</sup> Tanner, p. 141

<sup>115</sup> Reid and Rigger, pp. 17, 20-21.

<sup>116</sup> Schubert, pp. 94-97, 99, 102.

production cycle, from materials procurement, to parts repair, to niche business services. *Taishang* have become so widespread within the Chinese economy in recent years that they have become less important in the eyes of mainland officials, losing clout and positions of prestige among economic policymakers, especially since the 2010 ECFA and the thawing of Taiwan-China relations under Ma Ying-jeou.<sup>117</sup>

#### *Investment locations in China*

Guangdong and Fujian have long been investment locations for Taiwan. Location, economic stability, and proven investment climates through their accrual of capital have been the main factors in Taiwanese investment decisions. Target cities for Taiwanese capital have traditionally been Dongguan and Shenzhen in Guangdong, Shanghai, and Kunshan and Wuxi in Jiangsu Province.<sup>118</sup> Xu and Yeh corroborate previous assumptions that Taiwanese investors choose specific locations for investment based on geographical and supply chain considerations. With Guangdong as their case study they have identified that Taiwanese manufactories prefer establishing themselves in close proximity to Hong Kong, primarily within the Pearl River Delta, in “secondary cities” such as Dongguan in particular. Their research also identifies that Taiwanese SMEs determine investment locations based on the presence of already existing FDI stock and connectivity to other Taiwanese firms and suppliers within their networks rather than provincial incentives such as special development zones that are established by the local or national government. Finally, their research indicates that Taiwanese on the mainland do keep themselves well connected with upstream and downstream partners in Taiwan, and that due to their insular network structure on the mainland they are highly mobile and able to move to various locations in China as conditions change.<sup>119</sup> This work suggests that the wholesale movements of upstream and downstream networks to the mainland is not as problematic as other reports suggest.

#### *Taishang attitudes toward investment*

*Taishang* often disregard Chinese incentives to invest inland. Their focus is on making money, not developing China. China’s focus on incentivizing investment away from the coast in its 12th Five-Year Plan had many risks that made attracting investment difficult. Central and

---

<sup>117</sup> Schubert, p. 92.

<sup>118</sup> Ding.

<sup>119</sup> Zhihua Xu and Anthony Yeh, “Origin Effects, Spatial Dynamics and Redistribution of FDI in Guangdong, China,” 2013, p. 449.

western China had a lack of experience with investors, local officials lacked experience with managing investment environments, local protectionism was high with obvious “favoritism” played for local SOEs. Investors must consider additional factors for their operating environment such as the local labor skill and the existing or lacking logistics networks and supply chains.<sup>120</sup> As seen, the attitude of the *taishang* toward China is not political, but one of profit-maximization for the firm. As such *taishang* appear able to take advantage of their position within market asymmetry.

Trends are showing that the *taishang*'s next target for investments are in southeast Asia, countries that China has FTAs with. Fujian and Guangdong are among the closest of China's provinces to these targeted areas. What's important to note is that the *taishang* have largely discounted inland China for the next wave of market-driven investment, where costs are still too high due to border effects, preferring coastal locations elsewhere such as Vietnam where costs remain much lower. “Go South” and “Go West,” despite being channeled and focused by shifting Taiwanese and Chinese governmental incentives and restrictions over the years, still follow market forces.

Chinese local authorities see Taiwanese companies as reliable sources of tax revenue who are able to promote jobs, particularly in low-skill manufacturing. Chinese authorities and localities make great effort to attract Taishang, promoting many incentivized programs to attract Taiwanese investment. The City of Chongqing, in an effort to attract PromOS Technologies, a Taiwanese chipmaker, pursued aggressive perks for the company to establish a local branch with the expectation it would eventually purchase a permanent manufacturing location. Perks included an up-front loan of US\$200 million to establish a presence and an additional US\$360 million loan from local state-owned banks to complete plant construction.<sup>121</sup>

Foxconn is one of Taiwan's best known cross-strait investment success stories. The company is a manufacturing contractor for high-sophistication electronics, and has frequently exported manufacturing to subsidiary and joint ventures in China. Foxconn's investment strategy is typical of what many Taiwanese firms in the mainland do. Previous research conducted in 2015 on Foxconn by Michaele Gori has found that investments in the mainland between 2002 and 2013 totaled 282, with 219 being indirect investments and 63 direct. Gori assumes that the

---

<sup>120</sup> Nelson (2010).

<sup>121</sup> Reid and Rigger, pp. 7, 15, 19.

high rate of indirect investments comes from Taiwanese restrictions prohibiting specific high-tech investments in mainland China.

Gori's research identifies four major export "macro-regions" in China for Foxconn operations: The Pearl River Delta cluster, the Yangtze River Delta cluster, the "Bohai Region" clustered at Tianjin, and the "Great Western" region comprised of a more evenly-spread set of sites among the central provinces. Gori finds that the "Great Western" region has received the most investments from Foxconn, amounting to 31 per cent of total investments between 2002 and 2013, while the Bohai region received the least, at seventeen per cent. However, his research identifies the greatest cluster of investment sites is in Shenzhen in Guangdong.<sup>122</sup> Foxconn invested in 17 companies in Shenzhen amounting to US\$1,475,157,507 by 2014. Nearby in the same manufacturing macro-region, in Fuzhou, Fujian, Foxconn had only opened one investment site with only US\$127,559 worth of investments by the same time.

Gori's work identifies that direct and indirect investments have been made at 27 different sites in the Pearl River Delta region totaling nearly US\$1.77 billion between 2002 and 2013, 17 separate direct and indirect investments made by Foxconn in Shenzhen alone, comprising nearly US\$1.5 billion of the region's total figure. 42 direct and indirect investments were made within the Yangtze River delta during this same time totaling more than US\$2 billion with 15 sites located in Kunshan (nearly US\$644 million), and 8 in Shanghai (roughly US\$164 million). Investments in the Bohai region totaled to 29 sites at US\$1.2 billion, and the Great Western region received investments at 27 sites totaling nearly US\$2.3 billion. Overseas subsidiaries of Foxconn invested additional amounts in China.<sup>123</sup>

HTC is another Taiwanese firm that has followed a different model. HTC is an electronics designer and manufacturer, best known for its smartphone lines. Preferring to keep its production in-house, it recently began a limited manufacturing test in China for local Chinese consumption of mid-sophistication smartphones as a way to improve its lagging growth figures. It has paired with Taiwanese manufacturing contractor Compal Electronics and Chinese manufacturing contractor Wingtech Group to develop a line of mid-sophistication smartphones for Chinese consumers. The move to produce in China is a means to reach the Chinese consumer market.<sup>124</sup> The mid-level sophistication phones will naturally prevent local Chinese

---

<sup>122</sup> Michele Gori, *China's spatial development and inland industrial relocation: A case study of Honhai-Foxconn*, 2015, pp. 36-39.

<sup>123</sup> *Ibid.*, pp. 78-88.

<sup>124</sup> Eva Dou, "HTC Outsources Some Smartphone Production," 5 May 2014.

manufacturers from acquiring Taiwanese proprietary R&D, but will nonetheless assist mainland growth.

Initial reports indicate that HTC's sales are not as strong as anticipated. A May 2016 article in *Focus Taiwan* reports:

Market sources said that Chinese consumers are irritated by a move by HTC to use a lower grade of specifications for the HTC 10 offered in the China market than the version provided in other markets around the world.<sup>125</sup>

Regardless, HTC's approach is novel and innovative. It reflects a new trend in Taiwanese manufacturing in China that recognizes that traditional in-house manufacturing needs to diversify production areas. The end-market consumers in China do not appear too thrilled with sub-optimal electronics options from this model however.

Wingtech was founded in 2006 and has three R&D centers based in Shanghai, Shenzhen, and Xian, and has a production center located in Jiaying. It has positioned itself to be a leader in "Internet+" technology including smartphones, electronic-mall services, and big data services. It has since become a domestic leader in smartphone production in China.<sup>126</sup> A March 2010 report indicated that Wingtech ranked first among Chinese mobile phone design companies. The report continued that the company was orienting itself for a future integration of mobile phone companies and planned to play the leading role by acting as a one-stop shop for "service and efficient supply chain management."<sup>127</sup>

Taishang and their role in the PRC economies have shaped the PRC's national interests. The Central government does not understand the nature of Taishang relationships at the local level and local administrators often do not understand the "off-the-books" relationships that Taishang have developed in their investment ventures. Nevertheless, localities have come to rely on the Taishang relations for their prosperity which the central and local governments acknowledge.<sup>128</sup>

---

<sup>125</sup> Esme Jiang and Frances Huang, "HTC 10 faces lackluster sales in China," 5 May 2016.

<sup>126</sup> See Wingtech Group, "Wingtech Introduction."

<sup>127</sup> See Wingtech Group, "Wingtech ranks first again of China mobile phone IDH (March 1st, 2010)," 1 March 2010.

<sup>128</sup> Reid and Rigger, p. 5.

# CHAPTER IV. FINDINGS:

## TRADE, CONVERGENCE, AND HOLLOWING OUT

### IV.1. Sources of industrial convergence and protectionism across the strait

Sources of industrial convergence and protectionism are two sides of the same coin. Fujian, Guangdong, and Taiwan are all facing ever-increasing rates of industrial convergence due to their development. Protectionism on the mainland stems from the duplicated industry orientations among the provinces, which view each other as competition for resources and materials that are necessary for provincial economic development. Among the more technologically sophisticated industries we find the same scenario. Fujian and Guangdong are now reaching a level of industrial sophistication comparable with Taiwan of the 1980s. While still lagging far behind Taiwan's current industrial sophistication they have made the industrial shift that brings their sectors much closer to those of Taiwan than their domestic neighbors. Fujian and Guangdong now run the risk that Taiwanese economic actors will see them more as competition than as investment locations, and could engage in protectionist measures or create trade barrier effects against the Chinese economies.

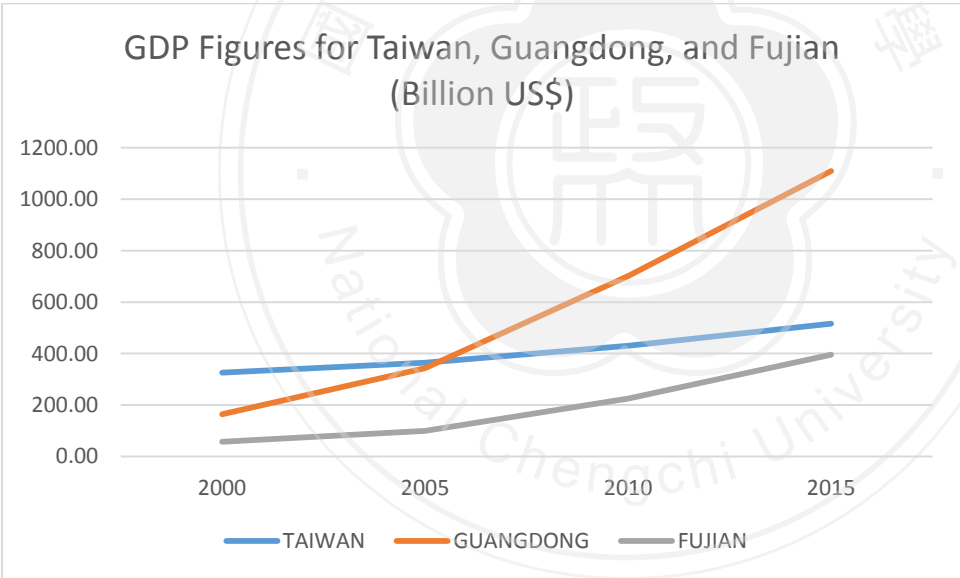
*Convergence: Fujian and Guangdong close the gap with Taiwan*

There is ample evidence to highlight a rising rate of convergence between the economies of Taiwan, Fujian, and Guangdong. Figure 4 identifies the GDP power of the three economies. In 2000 Taiwan's GDP was twice that of Guangdong and nearly six times greater than Fujian. Guangdong itself was nearly three times more productive than neighboring Fujian. This was occurring at a time when Taiwanese FDI was flowing freely into China on the second wave of investment in the mainland. By 2005 Guangdong's productivity had grown to essentially match Taiwan, with Fujian still behind. 2005 is a turning point in many ways. First, Guangdong would overtake Taiwan in productivity. Second, this point marks the turning point for Fujian's slow, but steadily increasing growth rate. Third, and most importantly, this was the last year before Chen reigned in high-sophistication investments to the mainland. Chen's switch to "active

management” of cross-strait trade does not seem to have had much of an effect on the GDP growth of Taiwan’s nearest neighbors. As the graph below indicates, 2005 appears to be the key year in which GDP growth changed its trajectory to greater rates. Even the line for Taiwan’s growth in GDP appears to have shifted upward at this point, though ever so slightly. Particularly interesting is when these growth rates are divided up amongst primary, secondary, and tertiary sectors.

**Figure 4.** GDP figures for Taiwan, Guangdong, and Fujian

GDP Figures (Billion US\$)				
Year	2000	2005	2010	2015
Taiwan	326.20	364.83	430.09	516.26
Guangdong	163.67	343.72	701.14	1,109.50
Fujian	57.36	99.88	224.56	395.87



Sources for Figures 4, 5, and Graph 1: Republic of China (Taiwan), Statistical Bureau, <http://eng.stat.gov.tw/>  
 Republic of China (Taiwan), National Development Council, Taiwan Statistical Data Book 2011, <http://www.ndc.gov.tw/>  
 People’s Republic of China, National Bureau of Statistics.



**Figure 5.** Breakdowns of industrial sectors to GDP, changes between 2000 and 2010

	2000	2010
Taiwan	<p>■ Primary ■ Secondary ■ Tertiary</p>	<p>■ Primary ■ Secondary ■ Tertiary</p>
Primary	6.36 Billion USD (1.9% total)	6.64 Billion USD (1.5% total)
Secondary	96.12 Billion USD (29.5% total)	131.87 Billion USD (30.7% total)
Tertiary	212.51 Billion USD (65.1% total)	282.28 Billion USD (65.6% total)
Guangdong	<p>■ Primary ■ Secondary ■ Tertiary</p>	<p>■ Primary ■ Secondary ■ Tertiary</p>
Primary	15.03 Billion USD (9.2% total)	34.85 Billion USD (4.9% total)
Secondary	76.18 Billion USD (46.5% total)	350.69 Billion USD (50.0% total)
Tertiary	72.46 Billion USD (44.3% total)	315.60 Billion USD (45.0% total)
Fujian	<p>■ Primary ■ Secondary ■ Tertiary</p>	<p>■ Primary ■ Secondary ■ Tertiary</p>
Primary	9.76 Billion USD (17.0% total)	20.78 Billion USD (9.3% total)
Secondary	24.81 Billion USD (43.3% total)	114.63 Billion USD (51.0% total)
Tertiary	22.79 Billion USD (39.7% total)	89.15 Billion USD (39.7% total)

In the decade between 2000 and 2010 we see that Taiwan's industrial sectors have not changed their sizes by any large margin. Primary industry, defined by the Taiwanese government as agriculture, has shrunk, but has remained largely within the 1.5 to 2 per cent GDP bracket. Secondary industry, identified as production industry, has hovered at 30 per cent of GDP, while tertiary industry, identified as service sectors, has held itself at 65 per cent of GDP. In terms of value of output, primary industry has largely remained the same while secondary and tertiary industry had not doubled in output. Secondary industry had grown by 73 per cent while tertiary industry grew roughly 75 per cent.

The industrial sector make-up of Guangdong and Fujian, on the other hand, has changed dramatically between 2000 and 2010. We can see that in Guangdong the total percentage of primary industry GDP (identified as agriculture and raw materials) has shrunk by more than half, while secondary industry (including construction and product manufacturing) has increased by nearly 5 points to make up half of the overall GDP. Tertiary industry has largely remained unchanged. While Guangdong's industry sector percentages have not seen much of a change over time, it's important to recognize that primary industry has more than doubled in its total output, while secondary and tertiary industry have grown by more than 400 per cent in output.

Fujian has produced more impressive results over the same time, largely due to its relative position coming from behind. Primary industry more than doubled, but its presence within total GDP shrank from 17 to 9 per cent to make room for secondary industry to quadruple from nearly US\$25 billion to 114 billion, shifting from 43 per cent to 51 per cent of industry. Tertiary industry also grew impressively, growing by a factor of 3.8 from US\$22.79 billion to 89 billion, but holding steady at roughly 39 per cent of total GDP output.

It is evident at this point that Taiwan is not only remaining stagnant, but its closest Chinese competitors are steadily outpacing Taiwan's rates, and in the case of Guangdong, is already out-producing Taiwan's economy. It is also apparent that regardless of output total the coastal provinces' economies are reaching identical economic orientation. Their rate of convergence, particularly with Fujian coming from behind Guangdong, may indicate a race to reach a similar orientation of sector percentages in GDP with Taiwan.

### *Sources of protectionism*

Sources of protectionism among these economies are varied but the end goal is the same: growing the local economy and protecting native competitiveness and economic interests against external influences that could slow growth, reduce competitiveness, or create a hollowing out. Despite achieving some of the highest rates of trade liberalization, market reforms, and internationalization of local economies, Fujian and Guangdong are now forced to defend their significant gains against Beijing's domestic division of labor reshuffling. Fujian and Guangdong seek to ensure their positions as major destinations for varied foreign investments and do not wish to see FDI move elsewhere in China. They seek to protect their manufacturing capabilities through aggressive product diversification and outcompete their neighbors to ensure their success. Taiwan, their key investor, is not exempt from their competitive mindset. A stated goal of Fujian province is to outcompete Taiwan and surpass its GDP by the year 2020.<sup>129</sup>

Taiwanese protectionism stems from Taipei's desire to limit effects that could hollow out the local economy, protect its role in high-sophistication international manufacturing, and to prevent its local economy from being inundated by the mainland Chinese economy. Taiwanese economic growth has stalled and its real wage growth has not improved. The island's industries are hollowing out because its economic actors are not thinking of Taiwan and China as separate political bodies, and instead are following the principles of "region-to-region" hollowing out. This has become a major cause for alarm in Taiwan. The movement of manufacturing to the mainland has been a significant contributing factor of economic sluggishness. The movement of Taiwan's economic activity to the mainland has seen a complete transplant overseas of many of Taiwan's once-prized niche production cycles. While still Taiwanese in name, this exported business lifecycle is incredibly isolated from Taiwan's day to day economy, hurting real growth at home. Fewer materials from Taiwan are being used by firms in China, and reinvestment within the Taiwanese economy is shrinking.

Taiwanese manufacturing firms in China are importing less and less from Taiwan. Reported imports of parts and goods had slid from 53.72 per cent of operating stock in 1996 to 47.06 per cent in 2002, to 39.31 per cent in 2006.<sup>130</sup> Domestic investment levels in Taiwan also

---

<sup>129</sup> Ding.

<sup>130</sup> Tsai, p. 70.

shrank during this period. Reported investments in the period between 1997 and 2000 averaged a rate of 25.17 per cent, while the period between 2001 and 2008 saw an average of 21.07.<sup>131</sup>

Taiwan plays a critical role for manufacturing high-value-added products in the global market, a role that China cannot yet fulfill. Taiwan is ever mindful that this will not always be so. Taiwanese manufacturing has developed indigenous R&D that has moved the industry up the technological ladder, providing the globe with high-quality and high-sophistication products. Taiwan's government has been very keen to keep this technological edge located on the island. Taiwanese high-tech sectors are off-limits for mainland investors and are barred from moving to the PRC.<sup>132</sup> Although China's orientation is still largely based on growth and industrialization, with the focus still primarily on low-tech production and manufacturing, mainland firms are eager to gain access to Taiwan's market for construction and production. Mainland operations in Taiwan would be poised to outcompete and flood Taiwan, and Taipei seeks to keep China's competitiveness limited to the mainland in order to protect native Taiwanese firms and to foster new local enterprises. Taiwanese investment in China is a drop in the bucket, and the PRC has no reason to fear Taiwan flooding China's markets or a reversal of the core-periphery model. Taiwan on the other hand faces a dilemma. It could be inundated by mainland investment so it must be particular about what investments it permits from China. Huang finds that this cautiousness may hurt Taiwan's international presence more as it makes Taiwan look "narrow minded" toward international investors.<sup>133</sup> In 2004 Taiwanese investment was not a significant portion of China's overall trade. Despite the emphasis China places on Taiwanese integration Taiwan did not place among its top five investors.<sup>134</sup>

## IV.2. Manufacturing, trade, and industrial trends

### *Cross-Strait Trade and Industrial Trends*

Cross-strait trade and industrial trends have seen a shift of manufacturing bases away from Taiwan and into China. Taiwan's high value-added manufacturing sector is no longer seeing the same benefits it once had by producing in Taiwan and progressively greater amounts

---

<sup>131</sup> Tsai, p. 70.

<sup>132</sup> Wilson, p. 8.

<sup>133</sup> Huang, 2010, p. 79.

<sup>134</sup> Kailash Khandke, "The Economies of Asia Pacific," 2007, p. 142.

of high-sophistication manufacturing are moving to China. Typically, Fujian and Guangdong have received much more traffic from Taiwan than Taiwan has from them.

**Figure 6.** Top recipients of approved Taiwanese OFDI cases (January-April 2016)

	Shanghai	Jiangsu	Guangdong	Fujian	Beijing
Cases	23	21	18	17	7
Value (1,000 USD)	725,102	1,460,698	179,570	174,741	417,598

Source: Investment Commission, MOEA, ROC (Taiwan) "Taiwan FDI Statistics Summary Analysis (April 2016)"

Figure 6. highlights the orientation of Taiwanese investors in China at the beginning of the year 2016. Within the first four months approximately US\$2.99 billion of approved direct OFDI was invested in the top five locations in China. With the exception of Beijing, these locations are all coastal and nearly make up a contiguous string of the Chinese southern and eastern coastal provinces. Shanghai, being an earlier experiment in pilot Free Trade Zones, as well as a financial hub, a global city, and the entryway to the Yangtze River, has taken the most of the investment cases. However, it has not attracted the lion's share. Jiangsu, Guangdong and Fujian, have attracted a similar amount of cases, especially when compared to Beijing in fifth place with only 7 cases. In terms of the value of investments, out of the five locations Guangdong and Fujian have received the lowest amounts. This does not necessarily indicate the lack of preference for these locations, and real investment figures could in fact be betrayed by the preference for investments to go through Hong Kong and offshore havens due to the restrictions placed on investing in their higher-sophistication production and service sectors.

#### *Cross-Strait Shipping Destinations and Values*

Taiwanese annual investment in China increased from an average of US\$1.71 billion from 1990-2000 to an average of US\$7.31 billion between 2001-2008.<sup>135</sup> Trade between Taiwan and China has continued to grow year on year. One recent report from the Swiss Consulate General in Guangzhou highlights the trend during the peak of China's economic growth. Trade between China and Taiwan amounted to 4.4 per cent of China's overall trade in imports and

<sup>135</sup> Tsai, pp. 65-66.

exports in 2012, at \$168.96 billion. This figure is a 5.6 per cent increase from the previous year. China exported \$36.78 billion to Taiwan and imported \$132.18 billion from Taiwan in 2012. These are both increases from 2011. China approved 2,229 new Taiwanese FDI programs in 2012 valued at \$2.85 billion used, falling 15.5 per cent from 2011. The Taiwanese invested in a total of 88,001 projects both old and new in China in 2012 amounting to \$57.05 billion.<sup>136</sup> 2013 saw 84 per cent of Taiwan's outbound FDI heading to China.<sup>137</sup>

**Figure 7.** Comparison of Approved Taiwanese OFDI for Guangdong and Fujian, January-April 2015 and 2016

Location	Cases	2016 value (1,000 USD)	2016 percentage of total Taiwanese FDI to China	Total 2015 value	value difference	growth rate
Guangdong	18	179,570	5.62	787,083	-607,513	-77.19
Fujian	17	174,741	5.47	252,087	-77,346	-30.68

Source: Republic of China (Taiwan), Investment Commission, MOEA, "Taiwan FDI Statistics Summary Analysis (April 2016)"

Figure 7 compares approved Taiwanese OFDI in greater detail for Guangdong and Fujian provinces for the period of January-April 2016 with figures from the same time in 2015. What it finds is that officially, Taiwanese combined investments to these provinces only make up 11 per cent of early 2016 figures. While it is possible that these percentages will increase over the course of 2016, what is important to recognize is that the provinces that rank third and fourth for investments from Taiwan make up such a miniscule percentage. In addition, the table identifies that investment values have shrunk by more than US\$600 billion for Guangdong compared to 2015, and have shrunk by more than US\$77 billion for Fujian. Growth rates are significantly negative, particularly for Guangdong. What is possible? A few trends may be at play. First we can expect offshore re-routing of investments through Hong Kong and other havens to be a significant factor. Secondly, however, is that investments may be slowing down because Taiwan has found its nearest Chinese neighbors' economies are converging with its own, driving down the amounts of investments available. As figures 3, 4, and 5 help to highlight, Taiwan's traditional OFDI industries may not be finding themselves as successful in Guangdong and Fujian due to shrinking profit margins and greater rates of convergence.

<sup>136</sup> Consulate General of Switzerland Guangzhou.

<sup>137</sup> See European Institute for Asian Studies, "Taiwan's Outward Foreign Direct Investment (OFDI) Into The European Union and its Member States," October 2014.

### *Taiwan-Fujian Trade*

One of the most recent full pictures we can find from cross-strait Trade with Fujian comes from 2012. At this time trade between the two economies had grown by 3 per cent compared to 2011. Cross-strait trade was valued to be worth US\$11.96 billion. Fujian was reported to have a trade deficit of US\$5.78 billion, and reported its imports from Taiwan had grown by 3.1 per cent to US\$8.87 billion. Fujian's exports to Taiwan had also grown, increasing 2.8 per cent to US\$3.09 billion. It appears that "machinery, apparatus and electronics" were the most important trade sectors during 2012: Taiwanese exports to Fujian were worth \$6.15 billion, 69.3 per cent of total trade for 2012. Taiwanese imports in these sectors from Fujian were valued at \$1.31 billion, 42.4 per cent of Taiwan's imports from Fujian. Imported "agricultural products" were valued at \$0.93 billion, up 32.4 per cent from 2011.<sup>138</sup>

We can draw a few conclusions from the 2012 figures. Primarily it appears that more trade was going to Fujian than from Taiwan. Secondly it appears that trade during this period has seen a growing trend. Total trade between the two economies dropped for 2014 and totaled \$76.41 billion. Investments and exports to Fujian dropped 11.5 per cent between 2013 and 2014 to \$52.94 billion while Taiwanese imports from Fujian made up roughly one third the total trade in 2014.<sup>139</sup> The PRC National Bureau of Statistics identifies that since 1995 Hong Kong, Macau, and Taiwan-funded enterprises in Fujian have shrunk in number but have consistently proven more productive and efficient. Hong Kong is a significant economy to include, as Taiwanese investors often choose the city as an intermediary. Kevin Zhang of the University of Chicago estimates that between 1979 and 2001 56 per cent of China's total inbound FDI came from Hong Kong-Taiwan investment patterns.<sup>140</sup>

Figure 8 indicates that over the years the number of enterprises being funded by Hong Kong, Macau, and Taiwanese FDI in Fujian have dropped while these same operations have seen greatly increased output. This indicates an efficiency of production in Fujian has increased and potentially reached higher levels of sophistication while investors have likely found new locations for investing in low-cost, high-profit margin operations.

---

<sup>138</sup> Consulate General of Switzerland Guangzhou.

<sup>139</sup> Ding.

<sup>140</sup> Kevin Honglin Zhang, "Why does so much FDI from Hong Kong and Taiwan go to Mainland China?," 2005, p. 294.



**Figure 8.** Hong Kong, Macau, and Taiwan Funded Enterprises in Fujian

Year	Number of HMT-funded enterprises	Gross industrial output of HMT enterprises (million RMB)	Gross industrial output of HMT enterprises (million USD)
1995	4,357	65,050	9,885.49
2000	2,076	112,770	17,143.25
2005	3,165	257,823	39,180.75
2010	3,705	561,355	85,336.96
2014	2,604		

Source: People's Republic of China, National Bureau of Statistics

While total trade may have dropped by 2014 we cannot determine that Fujian was no longer an attractive destination. One may think that it is quite possible that entire Taiwanese production cycles had moved across the strait due to ECFA, as is the case during periods of economic hollowing out. The significant drop since 2010 suggests that investors from Taiwan as well as Hong Kong and Macau may have pulled out in favor of other cheaper manufacturing bases. Another potential source may be that Taiwanese firms are registering in offshore havens and that figures are reduced because many Taiwanese firms have dropped out of the tally. This could be in response to restrictions on specific trade that Taiwan has placed on their firms in light of ECFA.

#### *Taiwan-Guangdong Trade*

Guangdong is a well-established “major export-processing base” for foreign investors of which Hong Kong and Taiwan are among the major investors.<sup>141</sup> Xu and Yeh find that initial Taiwanese investment in Guangdong in the 1980s was labor-intensive assembly manufacturing of textiles, footwear, and toys while the second wave of Taiwanese investment in the 1990s became more sophisticated, including peripherals for PC manufacturers.<sup>142</sup> We can see that compared to Hong Kong, direct Taiwanese investment to Guangdong is a very small proportion of Guangdong's total inward FDI. This does not indicate that Guangdong is not a popular investment location. As many scholars have pointed out, a good proportion of Taiwanese FDI enters through third parties including the British Virgin Islands, Cayman Islands, and other investment havens. These locations will be discussed in more detail in the next sub-chapter. What we can tell is that Guangdong is experiencing the same patterns as Fujian.

<sup>141</sup> Billy Wong, “Guangdong: Market Profile,” 18 December 2015.

<sup>142</sup> Xu and Yeh, p. 447.

**Figure 9.** Hong Kong, Macau, and Taiwan Funded Enterprises in Guangdong

Year	Number of HMT-funded enterprises	Gross industrial output of HMT enterprises (million RMB)	Gross industrial output of HMT enterprises (million USD)
1995	8,776	237,622	36,100.15
2000	6,731	474,730	72,098.11
2005	11,292	1,170,800	177,904.75
2010	13,151	2,181,334	331,393.91
2014	9,274		

Source: People's Republic of China, National Bureau of Statistics

Figure 9 indicates that although the overall number of Hong Kong, Macau, and Taiwanese-investing firms in the province has shrunk since 2010 the firms were becoming significantly productive.

Figure 10 highlights just how much of a role direct Taiwanese investments play in Guangdong. In general investments from Hong Kong dominate the figures, contributing the majority in the 1990s and most recently again in 2010. Taiwanese figures had barely managed to reach five percent of total FDI in 2000 before backsliding to just above one percent in 2010. We can make some assumptions about this data. First, Guangdong has not been a popular location for direct Taiwanese investments. Second, we can assume that Guangdong is a very popular location for investing and that Taiwanese investments go through Hong Kong before arriving in the province, adding to Hong Kong's totals. We can see that in 2000 at the highest point in Taiwanese direct investment in Guangdong FDI from Hong Kong was at its lowest. This may highlight specific trends, particularly that once Hong Kong signed CEPA with China, Taiwanese investors saw no reason to invest directly and returned to the Hong Kong gateway.

**Figure 10.** FDI in Guangdong Originating from Hong Kong and Taiwan

Unit: US\$10,000

	1990	1995	2000	2005	2008	2009	2010
Total FDI in Guangdong	202,347	1,210,037	1,457,466	1,236,391	1,916,703	1,953,460	2,026,098
From Hong Kong (% of total)	126,156 (62.35%)	654,570 (54.10%)	625,180 (42.89%)	582,361 (47.10%)	1,054,412 (55.01%)	1,187,737 (60.80%)	1,291,738 (63.75%)
From Taiwan (% of total)	7,033 (3.48%)	35,951 (2.97%)	73,359 (5.03%)	33,370 (2.70%)	33,382 (1.74%)	25,545 (1.31%)	24,543 (1.21%)

Source: Guangdong Provincial Statistical Bureau, via research conducted by Zhihua Xu and Anthony Yeh

### IV.3 Interdependence and hollowing-out

As trade across the Taiwan Straits has increased over the years the principle actors, namely Taiwanese firms and authorities and Chinese central and provincial authorities, have developed a path dependency that has tied economic growth, employment, stability, and productivity together between several different economies. The nature of this arrangement is naturally asymmetrical, but the forces of development and profit within an ever globalizing division of labor are seeing rational actors pursue their interests. Despite the great amount of trade between the two parties, it is very imbalanced.

The emphasis on manufacturing ever larger amounts and the growing levels of technological sophistication (often via the Hong Kong route) have encouraged a shift in the types of firms that invest in China. While the swarm of Taiwanese SME networks are still the largest factor on the mainland there has been a steady increase in larger Taiwanese enterprises entering the field. The combination of larger proportions of Taiwanese enterprise (both SMEs and larger firms) and the increasing levels of manufacturing sophistication that are invested in China leads to a scenario where more and more of Taiwan's industry is lost to mainland economies that can do the same work cheaper. Reid and Rigger identify that even by 2003, of Taiwan's 250 largest enterprise groups, thirty-six per cent of their 4,074 overseas subsidiaries had been established on the mainland.<sup>143</sup> They highlight that by 2005 71.3 per cent of all "publicly traded Taiwanese IT and electronics conglomerates" had established manufacturing enterprises in the PRC, and that

<sup>143</sup> Reid and Rigger, p. 11.

by 2006 63.3 per cent of Taiwan's publicly traded traditional manufacturers had also established operations in China.

Taiwan's IT industry has picked up in pace at the end of the 1990s as Taiwanese investors were returning to China. The Taiwanese IT industry followed manufacturing into China and became global hardware leaders because of their use of the PRC's manufacturing base. They had found a winning formula, and by the beginning of the 21<sup>st</sup> Century between 60 to 80 per cent of Taiwan's IT hardware was being produced in China.

Trade interdependence between Taiwan and China is incredibly complex and quite often subtle or clandestine. While many *taishang* operate openly and freely within the mainland, there are still many hidden routes that Taiwanese FDI penetrates China. Offshore havens have long remained a preferred route for investments. Hong Kong has been one of the major locations for Taiwanese investment to pass through since the 1980s. Other tax and regulatory havens include the British Virgin Islands, Panama, and the Cayman Islands. Figures indicate that Taiwanese clandestine investors were responsible for nearly 70-80% of British Virgin Islands investments to China.<sup>144</sup> The recently leaked "Panama Papers" comprised of 11.5 million leaked documents from the Panamanian investment-facilitating firm Mossack Fonseca have named over 16,000 Taiwanese customers.<sup>145</sup> Taiwanese firms also manage to get around imposed restrictions into China by registering as multinational firms with business units registered in several different countries. *Taishang* are driven by returns on investments. The bottom line creates the many paths found. *Taishang* investment in Guangdong, for example, officially made up only 3.38% of the province's inbound FDI in 2004, but through intermediaries such as the British Virgin Islands the total was closer to 23%.<sup>146</sup> Any disruption to these forces would be devastating for China.

The trade balance between the two parties has also become increasingly asymmetrical. Figure 5 shows the percentage of cross-strait trade compared to total global trade for both Taiwan and China from 1990-2015. Chinese imports of Taiwanese products are shrinking as Taiwan continues to shift its industry to the mainland. According to Wilson this is due to two key factors: First, to keep costs on factors such as land and labor down, many Taiwanese firms operating in the mainland have reduced their supply imports from Taiwan and instead focus on items provided by mainland-based suppliers. Taiwanese companies in China have a growing

---

<sup>144</sup> Reid and Rigger, pp. 5, 11-14.

<sup>145</sup> Lisa Wang, "PANAMA PAPERS: More than 16,000 Taiwanese appear in Panama Papers," 5 April 2016.

<sup>146</sup> Reid and Rigger, 9.

preference to buy goods locally than to import from Taiwan. In 2002 only 15 per cent of goods purchased came from local sources. By 2010 over 60 per cent of goods purchased came from local sources. Second, China's import structure is changing. China's economies are moving up the value chain. The "intermediate" goods that are purchased from Taiwan are less and less sought after as higher-end goods are becoming more necessary for higher-sophistication production.<sup>147</sup>

**Figure 11.** Cross-Strait Trade Values as Percentage of Global Trade Values for Taiwan and China (selected years)

Unit: US Dollars

Year	Total Cross-Strait Trade Amount	Taiwan Global Trade Amount	Cross-strait trade as % of Global Trade	China Global Trade Amount	Cross-strait trade as % of Global Trade
1990	341,687,677	121,929,180,127	0.28%	115,440,000,000.00	0.30%
1995	3,467,857,572	215,203,771,718	1.61%	280,860,000,000.00	1.23%
2000	10,440,540,918	288,321,181,753	3.62%	474,290,000,000.00	2.20%
2005	63,736,408,872	381,034,544,003	16.73%	1,421,910,000,000.00	4.48%
2010	112,879,654,027	525,829,376,825	21.47%	2,974,000,000,000.00	3.80%
2015	115,392,430,915	508,999,362,766	22.67%		

Sources: Republic of China, (Taiwan), Bureau of Foreign Trade, [www.trade.gov.tw](http://www.trade.gov.tw);

People's Republic of China, National Bureau of Statistics of China, China Statistical Yearbook, [www.stats.gov.cn](http://www.stats.gov.cn)

China has scared *taishang* away in some cases due to measures undertaken through its tax reform system or local fees levied on Taiwanese firms in order to even the field for local business. The restructuring of the corporate income tax in 2008 is a prime example of the fragility of the system. *Taishang* were heavily affected by new rules which reduced tax rebates and the efforts to create similar rates between foreign income tax and domestic income tax rates. Due to the nature of the local-central revenue collection system in China, and the lack of redistribution from the center to the provinces following reforms in the 1980s, localities had begun to levy their own fees on *Taishang* in order to make up for the lack of revenue sharing. The hike in central income tax rates forced some *Taishang* to pull out of China, creating a precarious situation for the central government to manage.<sup>148</sup>

<sup>147</sup> Wilson, p. 7.

<sup>148</sup> Reid and Rigger, p. 16.

On some levels we can find that Taiwan holds some leverage over the mainland economies. The *taishang* are a very important factor in creating local-level stability, especially in terms of economies and exports, and Taiwan is disproportionately influential in China's most productive provinces. The local-center divide on the mainland may impact policies relevant to the *taishang*. The center may be disconnected from the realities of the provinces, though it is assumed some officials may have an understanding as they have risen through the ranks from their provincial posts.<sup>149</sup>

### *The Hollowing out of Taiwan*

The rates at which Taiwan is losing manufacturing indicates a very real threat of industrial hollowing-out. What makes Taiwan particularly susceptible today is that there are fewer and fewer restrictions on FDI and technological outflow to China. Tsai explains further: "Owing to linguistic and cultural similarities as well as Taiwan's liberalization of various policies toward China in recent years, the movements of Taiwan's capital, techniques, and personnel to China have become increasingly free. There is almost no restriction on these outflows any more."<sup>150</sup> One of the last barriers was struck down in June 1, 2013, when the Cross-Strait Agreement on Trade in Services was signed and "laid the foundation for the final realization of liberalization of trade in services between both sides of the Strait."<sup>151</sup>

The hollowing out of Taiwan may be a conscious strategy of the PRC to forcefully integrate Taiwan using peaceful means. The PRC has had three successes in its attempts to economically annex Taiwan through the ECFA. First, China has succeeded in relocating Taiwan's traditional businesses to the mainland. Consumer goods for example, once a staple of production in Taiwan, are all largely relocated in the PRC. Second, China has successfully brought much of Taiwan's IT and high-tech industry to the mainland's shores. DPP policy was broken by the PRC with promises of another "economic boom" and fears of a "dead end" for Taiwan should it not engage in liberalization policies. As a result, the DPP issued permission for 7,078 "industrial products" to invest in China between 2000 and 2008 including high-tech consumer electronics. Finally, China has successfully established the core-periphery principle across the strait, using its vast markets as a magnet to pull Taiwanese economic interests ever

---

<sup>149</sup> Reid and Rigger, p. 22.

<sup>150</sup> Tsai, p. 65.

<sup>151</sup> Consulate General of Switzerland Guangzhou.



closer.<sup>152</sup> China's economic game may also be to "undermine Taiwan's long-term economic importance" and erode its social resources to render it economically dead to significant levels of trade by moving the most productive elements of Taiwanese industry to the mainland.<sup>153</sup> In these ways, China may be actively exploiting and forcefully hollowing out the Taiwanese market.

On the other hand, recent evidence suggests that hollowing out may have been a natural, though periodically inevitable phase wherein a unique economic trade model such as cross-strait trade facilitation is attempted. Between 2009 and 2012 over one hundred Taiwanese firms returned to Taiwan each year suggesting that ECFA, tax incentives, and development parks were not strong enough tools for China to convince firms to stay. Hsiung and Hsu have found that between 2011 and 2012 71% of Taiwan's reinvestment was coming from the manufacturing industry, and an additional 19% was coming from the service sector. Reinvestment in Taiwan had been growing since 2006, and more than 27,000 jobs had been created by 2012. While the return of jobs has been praised, the challenge is to turn the returning manufacturing industry into high value-added manufacturing or else Taiwan will have to rely on cheap foreign labor. They find that one large benefit of the return of industry is its impact on expanding and rejuvenating the local upstream and downstream sectors.<sup>154</sup>

Hollowing-out across the strait is has been found to be particularly dangerous for Taiwan as its recent trade liberalization policies have created a scenario where there is "almost no restriction on these outflows anymore." This level of cross-strait free-movement is unheard of and abnormal for most countries. It is evident that Taiwan's integration with China has reached a level seen only in domestic region-to-region trade regimes.<sup>155</sup> Taiwan's manufacturing industries, from consumer goods and commodities to machine tools, have all begun shifting their full manufacturing operations directly into China. Taiwan is facing a dilemma, as these are the backbone industries that are crucial to Taiwan's ability to engage in international trade, particularly for its role in specialization with other trade partners.<sup>156</sup>

---

<sup>152</sup> Huang, 2010, p. 81-82.

<sup>153</sup> Tanner, p. 19.

<sup>154</sup> Jimmy Hsiung, and Cindy Hsu, "Taiwanese Industry Returns from China," 20 September 2012.

<sup>155</sup> Tsai, pp. 64-66.

<sup>156</sup> PhD research conducted on Taiwanese industrial cluster growth.



## IV. 4 MINOR CASE STUDIES

This thesis has covered many of the policy developments and identified the trends occurring that are contributing to Taiwan-China economic integration. Case studies are provided in this next section in order to determine whether or not further integration is beneficial for either or both parties. The Pingtan port area of the Fujian Pilot Free Trade Zone is chosen to examine the nature of China's latest round of incentives, and because it has been specifically tasked with targeting Taiwanese investment with the explicit purpose of bringing Taiwan into China's economic fold. The second minor study looks at Hong Kong's experience with CEPA and its integration with the Greater Pearl River Delta is necessary in order to draw lessons that are applicable to the ECFA and Fujian developments.

### Pingtan Pilot Free Trade Zone

Chinese marketing for the Pingtan Pilot Free Trade Zone project is semi-nationalistic and calls for greater participation in regional trade. As part of the larger OBOR and 21<sup>st</sup> Century Maritime Silk Road projects, Pingtan will act as a sea-railway link for an economic belt that spans from Taiwan to Europe. The intent is a Chinese drive to re-internationalize Taiwan under Chinese terms.<sup>157</sup>

Chinese President Xi Jinping has stated Pingtan is a window of China's opening up as well as a site for Taiwanese-Fujian collaboration. Vice director of the management committee for the Pingtan Comprehensive Pilot Zone, Lin Jiangling, has stated Pingtan's purpose is for "providing policies and measures that can promote liberalization of investment, trade and personnel exchanges between Fujian province and Taiwan."

Fang Ming, a member of the management committee for the Pingtan Comprehensive Pilot Zone has stated, "The current goal of the Pingtan free trade area is to deepen economic exchanges with Taiwan. But we will look at the whole world with the development of the free trade area."<sup>158</sup> The Pingtan Area has established new industrial parks specifically targeting Taiwan, taking advantage of the proximity of Pingtan Island.<sup>159</sup> It has established many preferential policies for investment there, such as opening the entire island to foreign ports and

---

<sup>157</sup> See China Daily, "Pingtan a window to Taiwan and Europe," 6 November 2015.

<sup>158</sup> Ding.

<sup>159</sup> Lavan.

foreign port service providers, improving infrastructure, and guaranteeing land availability for international development.<sup>160</sup>

There are four aspects of reform that authorities are putting into place in Pingtan. First, it will “ease market access” for all foreign companies, including shipping, trade, and services aspects. Second, Pingtan-Taiwan trade will not need to be inspected to clear customs. Instead, goods can be declared and enter port. Third, Pingtan “deepens cross-strait financial cooperation by encouraging Taiwanese financial institutions to set up branches in Pingtan, launching pilot projects for cross-border, two-way yuan lending between Pingtan and Taiwan, and allowing firms registered in Pingtan to accept yuan-denominated loans issued by Taiwanese banks.” The term “deepening” is equivalent to coaxing Taiwanese business to move completely to Pingtan. Fourth, Pingtan will be transformed into an “international tourism island” akin to an adult playground with shopping, theme parks, and extreme sports venues.<sup>161</sup> Pingtan is intended to deepen trade ties with Taiwan while acting as a hub to serve the global economy.

### Hong Kong and the CEPA effect

Hong Kong signed the Closer Economic Partnership Arrangement (CEPA), a prototype for ECFA, with China in 2003. Since integrating with the mainland economically, Hong Kong’s manufacturing industry has declined noticeably, from 168,000 employed in 2003 to 123,000 employed in 2010. Hong Kong’s exports to China shrank by nearly half, from HKD\$44.6 billion to HKD\$26.6 billion between the years 2005 and 2009.<sup>162</sup> Hong Kong’s “socioeconomic interaction” with the mainland is limited primarily to the Pearl River Delta area, linked through a century of “business, family, and migration ties.” By 2001 85 per cent of Hong Kong economic activity in the PRC was occurring within the Pearl River Delta. The Pearl River Delta has become a major destination for Hong Kong outbound migration.<sup>163</sup>

More than a decade after its establishment, CEPA highlights some of the dangers inherent in ECFA for Taiwan’s growth. CEPA, like ECFA, was pushed by authorities who argued that reducing tariffs to zero would lead to a return of industry to the Special Administrative Region.

---

<sup>160</sup> Fujian Provincial Department of Foreign Trade and Economic Cooperation, p. 52.

<sup>161</sup> Ding.

<sup>162</sup> Tsai, p. 72.

<sup>163</sup> Chun Yang, “Multilevel governance in the cross-boundary region of Hong Kong-Pearl River Delta, China,” 2005, pp. 2148, 2151, 2154.

Instead, CEPA has hurt Hong Kong's manufacturing sector, bringing manufacturing's percentage of GDP down from 12.67 per cent in 2002 to 10.17 per cent in 2007.<sup>164</sup>

Development fever in the Pearl River Delta has created an incredibly "severe" amount of competition among the port facilities that are all vying for international access within the same geographic area. There are "five international airports and the same number of deep-water container ports, all vying for the goods and passengers of South China." Throughout this intraregional competition regime Hong Kong has been ignored and no establishment of a system for intraregional communication to address issues has been established. Due to competition, Hong Kong has become isolated and insulated from the PRD region but still functions as the dynamo for the region's growth. By 2004 local governments in the Pearl River delta were reluctant to acknowledge Hong Kong's important position as "the key economic city in the region." Despite Hong Kong's role in the development of the PRD, we see the region is trending toward intraregional competition with Hong Kong as industries and networks converge.

By 2004 Hong Kong had strong business links but still no government-to-government channels. "Since 1997 the management of the boundary between [Hong Kong the Pearl River Delta region] has continued to resemble an international border as it was before 1997 (Shiu and Yang, 2002)." Hong Kong worries that an always-open border for trade flow would have a serious impact on the operation and nature of its economy.<sup>165</sup>

Hong Kong's 1997 political integration with China had no impact on Hong Kong's economy. However, with the introduction of economic integration under CEPA six years later, confidence in Hong Kong's economy returned and economic integration "raised Hong Kong's annual real GDP by about 4%." Hsiao et al. state that the Hong Kong model is unique due to its special size, and that although it is "a tiny city relative to other countries and regions," they conclude that "whatever happened in Hong Kong will have no bearing on other countries."<sup>166</sup> Hong Kong proposed CEPA, which has been beneficial for the SAR, giving it greater preference and incentives than the WTO standards. One benefit that Hong Kong has seen is the desire of well-educated, talented, and professional mainlanders to migrate to Hong Kong.<sup>167</sup> The

---

<sup>164</sup> Huang, 2010, p. 86.

<sup>165</sup> Yang, pp. 2155, 2159, 2161, 2163.

<sup>166</sup> Cheng Hsiao, et al., "A Panel Data Approach for Program Evaluation: Measuring the Benefits of Political and Economic Integration of Hong Kong With Mainland China," 2011.

<sup>167</sup> Yang, pp. 2154-2156.

introduction of CEPA rebuilt confidence in Hong Kong's economy after a long period of low growth. Service trade liberalization "further stimulated capital investment."<sup>168</sup>

Trade flow irregularities between Hong Kong and China come from Beijing's attempts to control the type of capital being imported and that it manipulates exchange rates to protect the economy of the PRC. Structural impediments, trade figure manipulation, and FDI "roundtripping" are the sources of China's "trade figure discrepancies." Half of FDI comes from Hong Kong, and "roundtripping" investments are a significant factor to consider when looking at Hong Kong's FDI figures. Mainland SOEs are the worst offenders. Irregularities include China's underreported exports, overstated imports, offshore "roundtripping" of self-reinvestments which creates a large proportion of reported FDI, and certain blocks on direct international trade. Export understatement figures have become less of a problem in recent years, however import overstatements have become worse. Fung et al. find that the "removal of import tariffs seems to have encouraged Chinese firms to increase the amount of import overstatement."<sup>169</sup>

While Hong Kong may have lost significant sections of its manufacturing sector, CEPA has promoted greater trade in the service sector with the service industry either exporting to China or trading with China. Most of the service industries moving to China are traditional areas such as tourism, however, while financial services have remained largely in Hong Kong. Traditional services still make up the bulk of service trade between Hong Kong and the mainland, but within that area the types of traditional services have changed.

Looking at it from another perspective, one could argue that the emphasis on traditional services indicates that Hong Kong is protecting its natural advantage within high-tech and modern services. CEPA has promoted tourism services to a great extent, however other forms of service such as insurance have not seen as much success.<sup>170</sup> Chiu finds that CEPA helps Hong Kong recover some of its lost old industry, likely in the form of newer, value-added components. It also strengthens Hong Kong's status as a commercial center by creating more business opportunities in the mainland for Hong Kong firms, and more jobs for Hong Kong workers.<sup>171</sup> The manufacturing sector returned to Hong Kong to take advantage of Hong Kong's reputation and protection laws. Zero tariffs allows them to trade goods back to the mainland for sale.

---

<sup>168</sup> Hsiao, et al.

<sup>169</sup> Hung-Gay Fung, et al., "Reported trade figure discrepancy, regulatory arbitrage, and round-tripping: Evidence from the China-Hong Kong trade data," 2011, pp. 152-153, 163, 168, 170.

<sup>170</sup> Yan Chen, "Research about the Influence of CEPA on the Service Trade in Mainland China and Hong Kong," 2016, pp. 39-42.

<sup>171</sup> Y.W. Peter Chiu, "CEPA: a milestone in the economic integration between Hong Kong and Mainland China," 2006, p. 226.

Manufacturers in Hong Kong would be the first to immediately see savings from this advantage. ECFA, like CEPA, can allow third party countries to benefit from manufacturing on site in Hong Kong or Taiwan to sell to China. Hong Kong and Taiwan become beneficial for foreign firms seeking to establish themselves in the Chinese market (Chiu 2006).<sup>172</sup>

The experience of Hong Kong and its CEPA trade agreement with China may be considered as a “mirror” of ECFA. Critics of CEPA site it as a tool to economically colonize Hong Kong. Huang states that flow from the PRC to Hong Kong is “refugee capital” that has been used for acquisitions and speculation in stock and land, and that nothing productive has been invested in Hong Kong by the PRC. Most jobs, for example, have not returned to the SAR from China.<sup>173</sup>



---

<sup>172</sup> Chiu, pp. 277-279.

<sup>173</sup> Huang, 2010, p. 85.

## CHAPTER VI. RAMIFICATIONS UNDER ECFA

*Findings based on trends and data*

This research has found major shifts are occurring in the cross-strait trade system today. In particular, results show that trade flows are directed by the international division of labor, and that actors within the developing structure (primarily Taiwanese firms and provincial officials) are behaving in their own self-interest. In this section consideration of these developments and what they mean in light of other regional developments will be discussed

The research shows us that China is committed to market development and liberalization reforms, but is incredibly concerned about the rising disparity among its provinces and is fostering a national political economy to help correct these regional differences. It must be noted that despite market reforms, China is not taking steps to allow greater Taiwanese autonomy with regards to bilateral participation in the global economy. Taiwan is placed at the head of China's domestic division of labor, acting as a catalyst for investments, growth, learning, and pushing industrial and behavioral shifts. Taiwan, like Hong Kong, is an investment leader. Taiwanese investors, however, are uninterested in developing China. *Taishang* have shown that they are simply self-interested investors whose operations follow globalization trends to establish manufacturing bases in the most cost-effective and advantageous locations. We have seen that China's inland is viewed as too costly and distant when compared to equally cheap Southeast Asia.

China is slowing down, but it has found that by employing limited experimentations on high rates of trade liberalization and market reforms, as well as making concessions to foreign-owned firms and foreign-managed port operations, that it can propel its wealthiest provinces into higher-sophisticated industrial sectors. The development of the Haixi Economic Zone and the expansion of pilot free trade zones is China's solution to create a fully interconnected industrial cluster that connects the economies of Taiwan, Guangdong, Fujian, Zhejiang, and Shanghai to its massively ambitious OBOR and 21<sup>st</sup> Century Maritime Silk Road projects.

This research has found that target industries that are incentivized in China are often the ones that Taiwan should want to protect the most. Incentives for target industries are the same motivators that aim to hollow Taiwan out. By internationalizing these target areas, Fujian and

Guangdong are seeking to establish capital bases to help entice Taiwanese FDI and essentially develop their economies into a Taiwanese model.

Throughout all of this Taiwan's dependence on trade with China has increased dramatically as entire *taishang* business networks have relocated to the mainland. ECFA has had a negative impact on Taiwan's overall trade with China as more and more Taiwanese operations have disconnected from Taiwan-located suppliers or as suppliers themselves have moved across the strait. ECFA has seen some manufacturing operations return to Taiwan, but it has not been great enough to slow down the rate at which Taiwan has hollowed out. The recent movement of many Taiwanese production and supply networks to the mainland further establishes Taiwan's place in periphery role to the magnetic economic forces in China. Should this trend entrench itself and Taiwan become economically impotent it will be the death knell of the Taiwan Miracle. This research has shown that Taiwan does have one advantage in the cross-strait asymmetry structure. China is dependent upon the *taishang*, and should they move in greater numbers to other locations, the PRC may find its sector upgrades stalled.

Taiwan is playing into the provincial system and is erecting its own border effects slowly but surely. The Hong Kong model suggests that Taiwan can gain some benefits such as talent immigration, revitalized confidence, and positive effects of the service trade agreement. It's important to keep in mind Taiwan's size and the lack of political integration with the PRC. These two factors create much different conditions moving forward than can be predicted simply by analyzing the Hong Kong model.

#### *Analysis of findings*

How deep is integration today? To what extent are the two economies linked? And is there an opportunity to decouple integration if it has gone too far? Obviously Taiwan's external trade is disproportionately reliant upon China, and many of its most productive manufacturing and supply networks are not even operating on home soil. Despite the apparent loss of productivity from Taiwan's shores, the *taishang* enjoy an incredible amount of freedom and mobility within and outside of China which indicates that integration exists but the two economies, as far as the *taishang* are concerned, are not necessarily strongly linked except other than through convenience and mutual benefits. *Taishang* have shown before that their operations only exist insofar as the operating environment is advantageous. The political economies of



Taiwan and China are engaged in a dangerous choreography, economically chained to and reliant on one another, each seeking the upper hand, with one aware that it must escape or at least gain some breathing room for survival. It would be easy for Taiwan to decouple integration at this point if it has another reliable and large production base and trade partner to shift to.

Another question this research has brought up is whether or not the hollowing out trend that Taiwan is experiencing is a deliberate plan of the PRC. Taiwanese hollowing out does not appear to be an overtly malicious policy pursued by China to force integration upon Taiwan, however evidence shows that China understands the principles of the core-periphery theory and has provided many incentives time and again to encourage Taiwanese investors to stay. The KMT's pre-2010 narrative that Chinese tariffs were responsible for creating hollowing out has been proven incorrect. Since ECFA some Taiwanese companies have returned to the island, however many have chosen to remain on the mainland either due to the cost competitiveness of manufacturing in China, or a shift in orientation to manufacture directly for Chinese consumers, as is the case with HTC's operations. One cannot expect China-based firms that are manufacturing for Chinese consumers to return to Taiwan to carry out their operations. Tsai I-Ju comes to the conclusion that under ECFA the incentives for Taiwanese SMEs to relocate to China will not disappear. Hollowing out appears to be a trend created by the activities of the *taishang* that Beijing fosters for its own ends.

Is the ECFA beneficial for Taiwan in the long run? This research has found that it has not been as effective as the Taiwanese had hoped for. Most authors have argued that ECFA is not the best tool for Taiwan to use to jump-start its economy. The likelihood of a Hong Kong CEPA scenario is too real. Tsai's suggests the Korean model as an alternative, focusing on driving growth by developing its own global brands that stay linked strongly to the local economy. Following the South Korean model may be Taiwan's way out of its ECFA entanglement.<sup>174</sup>

One difference between Taiwan and Hong Kong is the industry sector base. Hong Kong could afford to move much of its manufacturing jobs to China as it advanced to a service industry base. It would be devastating for Taiwan to see a shrink in its manufacturing industry similar to that of Hong Kong. Taiwan has too large of a population to feasibly shift its economic activities solely to the service sector. It must retain manufacturing for the population.

---

<sup>174</sup> Tsai, pp. 71-73.

There are arguments that Taiwanese integration with the PRC economies will result in a Hong Kong-CEPA effect, seeing a fleeing of manufacturing jobs and a loss of economic sovereignty. Yang looks at cross-border management between Hong Kong and the PRD region. They find that the central government plays a backseat role in the cross-border governance of the Hong Kong-PRD region, where connections are based primarily on business links, family networks, and “migration ties.” They find that an authority needs to be established at the regional level to facilitate integration if China’s OCTS model is to be successful.<sup>175</sup>

A challenge that Taiwan will not have to overcome, should economic integration deepen, is that of any sort of legal framework. Hong Kong’s integration was never given assurances of solid legal bases for its economic endeavors. Hong Kong’s interaction with the mainland, as discussed earlier, still behaves like an international boundary despite integration. Taiwan’s potential interaction with the mainland will not only provide it with a solid legal basis from the get-go, but it will also establish domestic border mechanisms for the ease of Taiwanese business.

Taiwan is not just becoming dependent upon China for its economic activity. It is losing its economic and innovative edge at the same time. Chen argues that Taiwan has been concerned about realist perspectives on cross-strait issues for the wrong reasons. Its cross-strait policy has recognized the potential for regional war, but has ignored the structural constraints of today’s system in China. As a result, Taiwan’s policy did not aim to see its own economic wellbeing established which could counter against China, but instead attempted to restrict its trade with China without doing much to protect its home industry.<sup>176</sup> Wilson argues that Taiwanese pursuit of FTAs will not be enough to save its economy and argues that Taiwan needs domestic reforms that focus on “a strong free-market disposition.” Wilson prescribes a focus on software and services, low-cost energy, competitiveness, and a focus on investor protection for Taiwan’s renewed competitiveness. He also argues that to promote domestic growth Taiwan should focus on domestic consumption and investing inward.<sup>177</sup> This is a model that China’s provinces are already pursuing.

It is interesting to analyze how the WTO’s standards and timetables have forced China to change its tax incentive structure.<sup>178</sup> In order to give Taiwan preferential treatment and to foster

---

<sup>175</sup> Yang.

<sup>176</sup> Chen, 2012, p. 57.

<sup>177</sup> Wilson, p. 10-11.

<sup>178</sup> Reid and Rigger, p. 15.

integration China has developed an “early harvest” tax reduction system.<sup>179</sup> The early harvest incentives allow Taiwan to access Chinese markets at the same time as other Chinese provinces would, by nature allowing Taiwan to behave more like a provincial economy. This begs the question: Does this mean that Taiwan will fall into the trade barrier regime within China’s domestic economy or would Taiwan still benefit as an external economy and not fall into the protectionism trap? At the moment it is difficult to say. Both cases are just as likely. Taiwan has access to the interior provinces should it choose to do so as it would be seen as an investor, but for the coastal provinces, where Taiwan is slowly but surely becoming seen more and more of as a competitor, its time to enjoy the “early harvest” benefits may be limited.

The concessions being made in the PFTZs are limited and limiting in many ways. Small areas to invest in, investors must be mindful that this isn’t their home territory. Despite the red carpet treatment, the PFTZs are smoke and mirrors to give the illusion they’re benefitting from the PFTZs and China’s economy. The limited scope and scale of the PFTZs do not make them entirely economical, especially when there are countries in ASEAN who assure the same legal and WFOE protections at a national level who are not seeking to pull Taiwan into their economic core.

#### *Dilemmas inherent in ECFA integration*

Integration issues and dilemmas largely exist on Taiwan’s end. This research has identified that Fujian and Guangdong are slowly transitioning from Taiwan’s partners to its competitors. The industrial convergence between Taiwan, Fujian, and Guangdong along with Taiwan’s transition towards “region-to-region” trade highlights a vulnerability it faces in becoming part of the “domestic” Chinese economy, and may potentially run into the same barriers that China’s provinces experience. Continued liberalization will only speed up the effects of core-periphery and region-to-region theories, leading to greater rates of protectionism. Taiwan has focused “inward” to China and is establishing stronger trade links to promote manufacturing operations aimed at Chinese consumers. Meanwhile Fujian and Guangdong have oriented their economies outward, and can make use of China’s many regional FTAs to their advantage. We can expect to see the rest of coastal China following the path that Fujian and Guangdong are pursuing. With the *taishang’s* obvious preference for coastal locations for

---

<sup>179</sup> Consulate General of Switzerland Guangzhou.

investment drying up, Taiwan would do well to pursue greater international manufacturing bases.

Taishang interest in taking advantage in asymmetry is not the same as Taiwan gaining an advantage. Adding to the complexity of this situation is the underlying trend that only China's actors are one hundred per cent on board with the developing integration while many Taiwanese actors do not endorse further integration or are flat-out uninterested in the overall outcome. *Taishang* are recognizing the rising costs of operating in China and as China itself becomes more and more service sector-oriented they are beginning to move to cheaper alternatives in Southeast Asia and elsewhere rather than moving inland where transportation costs are seen as too great. Some of the Taiwanese operations active in China today are using China's connections to the cheaper manufacturing bases in ASEAN as routes for low- or no-tariff investments.

Tsai I-Ju suggests that Taiwan must also focus on reducing the trade cost with other countries.<sup>180</sup> Should Fujian and Guangdong realign themselves into investors in other provinces as China's 13<sup>th</sup> Five-Year Plan intends, they will become competitors with Taiwan rather than benefactors. It would be embarrassing and foolish for Taiwan to find itself in a situation where it's giving away manufacturing and service industry technology to its competitors.

Economic integration ties Taiwan to the PRC forever, not allowing it to position itself in any beneficial economic placement. Integration creates vulnerabilities on both sides and we can also expect to see the economies on both sides of the strait putting themselves into a potential lose-lose scenario with integration. As a competitor with Fujian and Guangdong, Taiwan will find itself part of the endogenous barrier system. Taiwan may then focus outward, and China will lose an investor. In addition, it is not cost effective to have Taiwan act like Hong Kong in China's plans for a Eurasian ferry train. Unlike Hong Kong, there's no easy land connection between the two economies, creating an offshore shipping location where unloading cargo for the sake of reloading makes no sense.

Despite its role in forming regional trade networks, and its participation in them, Taiwan has been "locked out" of being a member of the regionalization architecture by China.<sup>181 182</sup> As a result, Taiwan is forced to take independent actions as regional crises arise. Wu highlights that this can harm other networked actors, such as the case when Taiwan braced their economy for the Asian Financial Crisis. Wu has found China's continued isolation of Taiwan could create

---

<sup>180</sup> Tsai, p. 73.

<sup>181</sup> Wilson, p. 1.

<sup>182</sup> Wu and Hong, p. 31.

more crises.<sup>183</sup> Analyses have argued instead that China's political economy makes it vulnerable to another Asian financial crisis.<sup>184</sup>

This research has found that conditions are not beneficial for Taiwan and China to pursue deeper cross-strait economic integration at this time. What is special in this scenario is that Taiwan and China are engaging in integration during a period of China's industrial shift. What actions they take today will have major path dependency ramifications later and will define the next chapter in cross-strait economic arrangements. There is no other example of a sovereign economy becoming so closely integrated with a larger core economy that was undergoing a realignment in its own primary industry sectors. The ease with which Taiwan could potentially find itself becoming further caught up in these developments seems all too apparent. What is to be done?

#### *Implications of this research*

This research has found that the current cross-strait integration regime is not organized in a way to be mutually beneficial to both parties. There are several significant implications it has for Taiwan's current behavior and how it should respond instead in order to look out for its own wellbeing. Taiwan can hedge against losing its economy to China while ensuring a fair and equal cross-strait trade structure.

First, Taiwan must put the brakes on ECFA developments. Second, Taiwan must use ECFA as a tool to prevent Chinese isolation. Third, Taiwan must pursue diplomatic and economic links with ASEAN for FTA development and to foster investments and investment environments. Fourth, Taiwan must take advantage of inbound FDI, particularly in the IT and software sectors. Fifth, the Taiwanese must use the inherent disadvantages in the current structure to persuade China that current developments are not beneficial for them either. Finally, Taiwan must take advantage of this period of shift in China's domestic economic structures and exploit the benefits that it could provide Taiwan.

*First, Taiwan must put the brakes on ECFA developments.* It is obvious that ECFA and its subsequent developments have thrown open the floodgates, and the flow has been incredibly one-sided. Tsai Ing-wen was elected Taiwan's president as a popular mandate against the policies of the Ma Administration's fast-paced pro-integration policies. In her inaugural address

---

<sup>183</sup> Wu and Hong, p. 47.

<sup>184</sup> Louis Kraar, "Five Chinese Myths," 1999, p. 30.

she called for a new development model for Taiwan. It is apparent, based on the disadvantageous nature of current integration trends and realities in China, along with the populist sentiment against ECFA and closer economic integration with China, that Taiwan should put the brakes on ECFA-related integration. A caveat cautions against a complete closure of trade. This is obviously impossible; therefore, Taiwanese actors should continue to pursue pragmatic investments that benefit Taiwan.

*Second, Taiwan must use ECFA as a tool to prevent Chinese isolation.* ECFA is a two-way document and a formal FTA-like agreement that free trade will not be impacted by barriers. With the establishment of a DPP-run government, Taiwan can use the ECFA framework as a means to prevent China from exerting economic pressure on Taiwan. In this way the DPP could express the independence of Taiwan while reaping the economic benefits of a free trade agreement. Too often it seems that the Taiwanese authorities do not do enough to stand up. Current developments have provided Taiwan with the opportunity to break from its economic stoicism and revitalize its orientation

*Third, Taiwan must pursue links with ASEAN for FTA development and creating investment environments.* To facilitate this ECFA could be put to use helping Taiwanese manufacturers establish shop in ASEAN through China's FTA with the southeast Asian economies. Once established in ASEAN, Taiwanese-invested manufacturers would be able to access other markets that ASEAN has FTAs with. In her inaugural address, Taiwanese President Tsai Ing-wen called for Taiwan to pursue a new developmental model. By reinterpreting what ECFA can do and establishing restrictions and incentives to revitalize the "Go South" policy, this may be it. The growing status of ASEAN's economy in the decades to come can help Taiwan counter against Finlandization of its economy. It has been noted by some scholars that the *taishang* maintain home bases in Taiwan for R&D purposes when investing in southeast Asia to inflate their profit margins.<sup>185</sup> If this plan is encouraged, it may create a more robust research industry in Taiwan.

*Fourth, Taiwan must attract more inbound FDI.* Scholars have identified the necessity for Taiwan to play up to its role in the greater FDI game by attracting more advanced investments in its successful sectors. Tan notes that Taiwanese industries are prone to risk aversion. However, with the attraction of FDI from more experimental, risk-taking parts of the IT sector, such as

---

<sup>185</sup> PhD research conducted on Taiwanese industrial cluster growth.



Silicon Valley, they may be able to find significant sources of IT sophistication to speed up the regional spillovers this industry is creating in Taiwan.<sup>186</sup>

*Fifth, China must be persuaded to accept this new scenario.* This is the most difficult step for Taiwan to accomplish, but if it hopes to remain economically independent it must use all tools at its disposal to wrestle itself farther away from China. Persuading China may be as simple as convincing China to wait, or to slow down its integration policies. Using the asymmetric disadvantages of ECFA in their favor by influencing *taishang* behavior with their own incentive policies, emphasizing the growth of ASEAN, and encouraging further investments in southeast Asia can help open China's eyes to the new developments in the region.

*Finally, that Taiwan must take advantage of this period of shift in China's domestic economic structures, and exploit it* may be the best way to convince China to accept Taiwan's preferred trade orientation. It is obvious that Taiwan must take action in order to prevent itself from being locked into the new industry sector structures with no hope of autonomy developing in coastal China. Yet Taiwan should not pull completely away from China. It must invest cautiously in China and be aware that the preferred provinces are undergoing sector and industrial shifts. The mainland places special emphasis on pillar industries it seeks to develop. If possible Taiwan can assist with this, but building up its other industries and not falling for over-focusing on one location can stave off hollowing out. ASEAN, again, appears to be the perfect location.

As China reorganizes its developmental paths Taiwan will have room to renegotiate trade deals and reanalyze its own path, and can place itself along a more beneficial trajectory. It is recommended that Taiwan repositions itself within the regional structure. Taiwan should wait out China's current shift by focusing on ASEAN, staving off entrenchment within the Chinese system, and establishing itself as an autonomous economy. Taiwan's SME-growth model is unique to the industrialization model, but to ensure that it was not just a fluke, Taiwan must reign in the behavior of its SMEs. Given the asymmetrical advantages and disadvantages that the *taishang* play for China's overall development, this may be a way for the Taiwanese to pull back on the chain that China has been dragging their economy with.

---

<sup>186</sup> PhD research conducted on Taiwanese industrial cluster growth.



## CHAPTER VII. CONCLUSION

This thesis has set out to determine whether further economic integration between China and Taiwan is beneficial for both parties' economies. In the process it has identified the benefits and disadvantages of further integration. Its secondary objective has been to determine if further integration is possible is it possible for Taiwan to protect its economy. The operating question of this thesis was: Is further integration between Taiwan and China beneficial from an economic standpoint, and can the economies of both Taiwan and China integrate successfully? The answer that this research determines is no, and expresses that there are too many vulnerabilities and asymmetric disadvantages within the present arrangement and assumed path development that would damage the economic vitality of Taiwan, and would establish protectionist agendas against many future investments in Guangdong and Fujian.

Having reestablished the purpose and research question of this paper, the conclusion will move to the following sections: It will first review the hypothesis and sub-hypotheses and confirm whether or not they are correct. It will then review the qualifying measurements outlined in the beginning of the paper. It will identify the limitations that this research has encountered. A conclusion will then be given before identifying potential research for the future.

This thesis hypothesized that the developing path dependency of the cross-strait trade structure and the political economy of China's interprovincial trade system, particularly the influence of endogenous protectionism, would not lead to a mutually-beneficial cross-strait trade relationship if economic integration is pursued further. This hypothesis has been confirmed. The data collected indicate that conditions are not favorable for a mutually-beneficial cross-strait trade regime. Many issues stand in the way. In particular cross-strait trade exists more or less as a hollowing-out of Taiwan. The research has identified that there are too many factors that could lead to greater rates of protectionism between the parties, particularly when the sources of endogenous mainland protectionism are considered.

This thesis had four sub-hypotheses:

It assumed that a greater presence of *taishang* living and working in the local mainland economies has an overall positive effect on integration with Taiwan. This has been proven true. It should be noted that while objectively integration has increased, from a subjective standpoint economic integration does not appear to be beneficial. In addition, integration has seen the

movement of entire manufacturing operations to the mainland. If one considers free movement of industry activity to be a sign of integration, then the sub-hypothesis holds. Integration is not to be confused with mutually-beneficial trade specialization, but instead must be considered as a regime in which the economies of Taiwan and the mainland are closer and behave more as a single domestic unit rather than an international arrangement. The sub-hypothesis is confirmed.

It assumed that provincial economies with large numbers of SOEs will engage in protectionist policies, stalling Taiwanese integration. This is inconclusive. The initial assumption was that a large SOE presence will be the largest determinant of protectionism. It appears, based on these findings, that convergence is a major factor. For this sub-hypothesis to be proven true there must be evidence of interprovincial trade rates being lower between provinces with high SOE presences. This research has found that Taiwanese integration with China has not been stalled by large numbers of SOEs within Chinese provinces, that *taishang* and Taiwanese firms operate within their own export-oriented networks that are separate from SOE provincial-social structures that would otherwise create protectionist barriers from being established between Taiwan and its trade partners. We have also found that Taiwanese investments do not prefer to trade with inland provinces because of their distance from the coast and transportation cost considerations rather than competition with SOEs. In addition, this research has found that industrial convergence is the likeliest mechanism to stall integration. The sub-hypothesis is likely false.

It assumed that if China's provinces had relatively high endogenous trade barriers cross-strait integration would be discouraged. This has been proven false. Similar to the previous sub-hypothesis it appears that the trade behavior amongst the many economies of the PRC will not likely have an impact on cross-strait integration any time soon.

It assumed that as inexpensive manufacturing clusters moved geographically farther from Taiwan that Taiwanese investors would find pursuing manufacturing in China less cost-effective. This has been proven true. Based on the findings it appears that Taiwanese economic behavior with the PRC takes geographic proximity into significant account. As the same operations find alternative locations for their activities in countries such as Vietnam, economic integration will slow down. What may be left, if Taiwan maintains its restrictions on high-sophistication manufacturing and service sector investments, are unofficial economic links through third parties. This would not be considered integration.

This thesis had four measurements to determine whether integration could be successful: First, all parties should benefit from growing trade volume as integration under ECFA continues. Second, both Taiwan and China would need to maintain healthy economic indicators. Third, both parties must do their best to avoid creating asymmetrical conditions or actively exploiting disadvantages. Finally, integration must ensure that no systemic shocks occur. Both parties are failing to achieve even the most basic of these criteria.

As has been seen, cross-strait trade has been becoming increasingly lopsided as Taiwanese manufacturers in China are more frequently using local suppliers and have moved their entire support networks to the mainland in many cases. Taiwanese OFDI has become less competitive in China where native R&D and technical learning has replaced the need for Taiwanese investment in once-traditionally strong sectors like electronics production due to industrial convergence. Taiwan has become evermore reliant on cross-strait trade for its economy, partially due in part to China's growing international influence limiting its participation in global networks, and partially due to the hollowing out occurring by the behavior of its economic actors. China, for its part, as the world's factory, is better connected to the global market, and has found cross-strait trade levels are negligible. The logic behind the necessity of increasing levels of trade volume is that should trade decrease, integration under ECFA can be assumed to do harm. Trade volumes have not decreased per se, but they have become incredibly skewed in one direction, and if acting as a proportional decrease they are potentially creating an artificial volume reduction scenario.

Economic indicators since 2010 have not improved for Taiwan as much as they have on the mainland. Guangdong and Fujian have seen phenomenal industrial growth and sector shifts away from primary industry. Taiwan, however, has remained stagnant, both in terms of sector expansion and sector production. GDP growth for Taiwan has remained significantly low. If the World Bank's estimate of 6.2 per cent average regional economic growth is to be used as the standard, Taiwan is far off the mark. Annual growth rate is predicted to average 2.2 per cent for the island economy between 2016 and 2020, with an average of 1.14 per cent estimated between 2016 and 2017.<sup>187</sup>

Determining exploitation of asymmetries across the strait is less easy to measure. One could argue that in many cases China has an advantage in its relatively cheaper economy, and

---

<sup>187</sup> See Trading Economics, "Taiwan GDP Annual Growth Rate," 2016.

that the behavior of the *taishang* is simply what one would expect to see in a liberalized market trade regime. Where exploitation exists is in the nature behind China's incentivization policies, and how China particularly seems to be targeting Taiwan's protected high-sophistication manufacturing and service industries. In the race for convergence with Taiwan, Fujian and Guangdong are ignoring their natural advantages in order to exploit the "region-to-region" nature of cross-strait trade. Beijing's nationalist narrative and incentive policies also provide evidence that maintaining Taiwan's economic vibrancy is not a major concern should integration continue. By draining Taiwan of its economic backbone it can ensure the island has no choice but to toe Beijing's line.

We can already see that Taiwan is experiencing an enormous backslide in its real productivity and real growth due to its hollowing out. Trends and data give ample evidence that a covert systemic shock is occurring in Taiwan.

This thesis set out to identify whether or not economic integration between Taiwan and China in the ECFA era is beneficial to both economies. This paper analyzed trends, trade variables, and political economies in the current cross-strait trade regime in order to do so. It has found that the behavior of Taiwanese investors, the development incentives of mainland provinces, and the national narrative of the People's Republic of China are all responsible for the dynamics occurring today. Based on the evidence reviewed, this research concludes that further integration between Taiwan and China is not beneficial from an economic standpoint and it is unlikely, given the current political-economies and cross-strait patterns of economic exchange, that the economies of Taiwan and China would be able to integrate successfully. It finds that there is too much for Taiwan to lose and not enough for China to gain from economic integration.

Advantages and disadvantages have been covered in great detail in this research. Two major questions that this thesis sought to address in the context of deepening integration are as follows: First, is it possible to pursue further integration while allowing both parties to project themselves? Second, is further integration mutually beneficial?

This research finds that the hollowing-out of Taiwan, the increasing pressure that Beijing exerts on Taiwan internationally and bilaterally for its One Country Two Systems model, and the rise of the economies of coastal China along with their outward orientation and their

convergence with Taiwan's industrial structure have all but put a stranglehold on Taiwan's ability to project itself. In light of continued integration, the answer to this question is no. Short of a reversal of many trends identified, it is unlikely that Taiwan will be able to project itself in the near future. For economic project, Taiwan and its economic actors will need to reassess where its investments are going. This research identifies a return to the "Go South" policy as a likely solution, and its pursuit may be more natural and organic than expected.

This research also identifies that integration across the strait would not be mutually beneficial. Current patterns show that integration is largely under Beijing's terms and is an active policy for the dual purpose of tethering the island to the mainland and expanding the coastal provinces' industrial capabilities in order to bolster domestic growth and address regional disparity.

This research has analyzed the feasibility of cross-strait integration under ECFA in light of the behavior of Taiwan and China's economic actors, particularly identifying how China's domestic provincial-level trade barriers are already influencing Taiwan's willingness to trade with the provinces now that ECFA has brought the island's economy closer to that of the mainland. This research has hopefully opened new doors to the study of cross-strait integration. With consideration given to the criteria this research used, successful integration does not appear possible. There are too many inequalities that actors on both sides of the strait seek to exploit. Future studies may be able to develop roadmaps for both parties to follow should they seek meaningful, deep, vibrant, and beneficial economic integration.

# BIBLIOGRAPHY

- Amsden, A. "Third World Industrialization: 'Global Fordism' or a New Model?" *New Left Review*. 182 (1990): 5-31.
- Barron, William. "The Environment and the Political Economy of Hong Kong." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Blundell, Chris. "Housing: Getting the Priorities Right." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Cai, Hongbin and Daniel Treisman. "Did government decentralization cause China's economic miracle?" January 2007. Web. 3 March 2016.
- CCTV News. "Xi expounds on guideline for 13th Five-year Plan." *CCTV News*. Ed. Zhang Jianfeng. 3 Nov. 2015. Web. 2 June 2016.
- Chan, Pamela Wong Shui. "Protecting Hong Kong Consumers." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Chen, Ching-Chang. "Useful adversaries: How to understand the political economy of cross-Strait security." *New Thinking about the Taiwan issue: Theoretical insights into its origins, dynamics, and prospects*. Ed. Jean-Marc F. Blanchard and Dennis V. Hickey. New York: Routledge, 2012. 48-70.
- Chen, Ming-jer. *Inside Chinese Business: A Guide for Managers Worldwide*. Boston: Harvard Business School Press, 2003.
- Chen, Yan. "Research about the Influence of CEPA on the Service Trade in Mainland China and Hong Kong." *Journal of Service Science and Management*. 9 (2016): 36-44. Web. 31 March 2016.
- Cheng, Chu-yuan. *China's Economic Development 1950-2014: Fundamental Changes and Long-Term Prospects*. London: Lexington Books, 2014.
- The World Bank. "China." *World Bank Group*. Web. 31 May 2016. <<http://data.worldbank.org/country/china>>.
- "China (Fujian) Pilot Free Trade Zone." *Hong Kong Trade Development Council*. 29 June 2015. Web. 14 May 2016.
- "China Regions Show Economies Differ as Slowdown Deepens." *Bloomberg News*. 10 Nov. 2014. Web. 3 March 2016.
- Chiu, Y.W. Peter. "CEPA: a milestone in the economic integration between Hong Kong and Mainland China." *Journal of Contemporary China*. 15.47 (2006): 275-295. Web. 3 March 2016.
- Chu, Ming-chin Monique. "Globalization and Economic Security: The Case of the Taiwanese Semiconductor Industry." *Taiwan Since Martial Law: Society, Culture, Politics, Economy*. Ed. David Blundell. Taipei: University of California, Berkeley & National Taiwan University Press, 2012. 549-596.
- Chu, Yun-han. "The Political Economy of Taiwan's Mainland Policy." *Across the Taiwan Strait: Mainland China, Taiwan, and the 1995-1996 crisis*. New York: Routledge, 1999. 163-195.
- "CPC Central Committee and State Council issued the 'Guidelines on Deepening the Reform of state-owned enterprises'." *Seewebnew*. 13 Sept. 2015. Web. 12 Jan. 2016. <<http://www.seewebnew.com/news-10533820.html>>.



- Crawford, Beverly. "The New Security Dilemma under International Economic Interdependence." *Millennium*. 23.1 (1994): 25-55. Print.
- De Jonge, Alice. "China's grip still tight on state-owned enterprises." *The Conversation*. 17 Sept. 2015. Web. 10 Jan. 2016.
- Devonshire-Ellis, Chris. "China's GDP Growth – More Shocks Ahead." *China Briefing*. 26 Oct. 2015. Web. 31 May 2016.
- Ding, Yi. "Pingtan Area in Fujian FTZ promotes cross-strait cooperation, serves 'One Belt, One Road' strategy." *Sino-US.com*. 9 June 2015. Web. 14 May 2016.
- Ministry of Commerce, PRC. "Doing Business in Guangdong Province of China." Web. 31 May 2016. <<http://english.mofcom.gov.cn/aroundchina/Guangdong.shtml>>.
- Dou, Eva. "HTC Outsources Some Smartphone Production." *The Wall Street Journal*. 5 May 2014. Web. 9 June 2016.
- Dreyer, June T. *China's Political System: Modernization and Tradition*. 7th ed. New York: Pearson Education, Inc., 2010.
- Fang, Ying, Li Qi and Zhongjian Lin. "China's Internal Borders: Evidence from the Business-Cycle Correlations across Chinese Cities." *The Chinese Economy*. 46.3 (2013): 42-62. Web. 1 June 2016.
- Foot, Rosemary. "Modes of Regional Conflict Management: Comparing Security Cooperation in the Korean Peninsula, China-Taiwan, and South China Sea." *Reassessing Security Cooperation in the Asia-Pacific: Competition, Congruence, and Transformation*. Ed. Amitav Acharya and Evelyn Goh. Cambridge, Massachusetts: The MIT Press, 2007. 93-112.
- Fujita, Masahisa and Dapeng Hu. "Regional disparity in China 1985-1994: The effects of globalization and economic liberalization." *The Annals of Regional Science*. Springer-Verlag, 2001. Web. 3 March 2016.
- Fung, Hung-Gay, Jot Yau, and Gaiyan Zhang. "Reported trade figure discrepancy, regulatory arbitrage, and round-tripping: Evidence from the China-Hong Kong trade data." *Journal of International Business Studies*. 42 (2011): 152-176.
- Gereffi, Gary. "Paths of Industrialization: An Overview." *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia. Part I: A cross-regional overview of national development trajectories*. Ed. Gary Gereffi and Donald Wyman. Princeton: Princeton University Press, 1990. 3-31.
- Gilley, Bruce. "Provincial Disintegration: Reaching Your Market Is More Than Just A Matter Of Distance." 22 November 2001. Web. 3 March 2016.
- The World Bank. "Global Economic Prospects: Divergences and Risks." *World Bank Group*. 2016. Web. 15 July 2016.
- Gold, Thomas B. "Explaining the Taiwan Miracle." *State and Society in the Taiwan Miracle*. New York: Armonk, 1986.
- Goodman, David S.G. "China in reform: the view from the provinces." *China's provinces in reform: Class, community and political culture*. Ed. David S.G. Goodman. London: Routledge, 1997. 1-20.
- Gori, Michele. "China's spatial development and inland industrial relocation: A case study of Honhai-Foxconn." MA Thesis. Taipei: National Chengchi University, 2015. Print.



- Groenewold, Nicolaas, Anping Chen, and Guoping Lee. *Linkages between China's Regions: Measurement and Policy*. Cheltenham: Edward Elgar Publishing, Inc., 2008.
- "Guangdong eyes SOE reform." *South China Morning Post*. South China Morning Post. 29 Sept. 2014. Web. 31 May 2016.
- "Guangdong Foreign Investment Incentives." *Understand China*. TriVista. Web. 31 May 2016. <<http://understand-china.com/manufacturing/guangdong-investment-incentives/>>.
- "Guangdong Overview." Expo China. Web. 31 May 2016. <[http://en.expochina2015.org/2014-10/20/c\\_2117.htm](http://en.expochina2015.org/2014-10/20/c_2117.htm)>.
- "Guangdong reforms state-owned enterprises." *CCTV News*. 17 Sept. 2015. Web. 31 May 2016.
- Guthrie, Doug. *China and Globalization: The Social, Economic and Political Transformation of Chinese Society*. New York: Routledge, 2006.
- Hamilton, Gary G. "Culture and Organization in Taiwan's Market Economy." *Market Cultures: Society and Morality in the New Asian Capitalism*. Ed. Robert W. Hefner. Boulder: Westview Press, 1998. 41-77.
- Harvie, Charles, Dionisius Narjoko, and Sothea Oum. *Economic Integration in East Asia: Production networks and small and medium enterprises*. London: Routledge, 2015.
- Ho Lok Sang. "Labour Market Policies in a Changing Political Economy." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Hsiao, Cheng, H. Steve Ching, and Shui Ki Wan. "A Panel Data Approach for Program Evaluation: Measuring the Benefits of Political and Economic Integration of Hong Kong With Mainland China." *Journal of Applied Econometrics*. (2011). Web. 31 March 2016.
- Hsiung, Jimmy, and Cindy Hsu. "Taiwanese Industry Returns from China." *CommonWealth*. Trans. Susanne Ganz. 20 Sept. 2012. Web. 1 June 2016.
- Hsing, You-tien. *Making Capitalism in China: The Taiwan Connection*. Oxford: Oxford University Press, 1998.
- Huang, Guobo. "The Linked Exchange Rate and Macroeconomic Policy." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Huang, Nancy, Kyle Sullivan, and Joie Ma. "Economic Development Policies for Central and Western China." *China Business Review*. 1 Nov. 2010. Web. 10 Jan. 2016.
- Huang, Tien-Lin. "ECFA and the Core-Periphery Effect." *Deconstructing ECFA: Challenges and Opportunities for Taiwan*. Ed. Chih-Cheng Lo, and Tien-Wang Tsaur. Taipei: Taiwan Brain Trust, 2010.
- "Invest Fujian: Coastal China's Emerging High Growth Province." *Fujian Provincial Department of Foreign Trade and Economic Cooperation*. Web. 17 July 2016.
- "Invest Hong Kong joins forces with Guangdong and Macao governments to attract Singaporean companies." Invest Hong Kong. 20 June 2015. Web. 31 May 2016.
- Jacques, Martin. "China as an Economic Superpower." *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World*. London: Allen Lane, 2009. 151-193.
- Jarreau, Joachim and Sandra Poncet. "What Chinese Provinces Export Matter for Their Income and Export Performance." *Asia-Pacific Journal of Accounting & Economics*. 17 (2010): 279-298. Web. 3 March 2016.

- Jiang, Esme, and Frances Huang. "HTC 10 faces lackluster sales in China." *Focus Taiwan*. Focus Taiwan. 5 May 2016. Web. 9 June 2016.
- Jin, Putai. "Worker Motivation During Changing Periods: The Role of Psychological Capital in China's Economic Reform." *Thirty Years of China's Economic Reform: Institutions, Management Organizations and Foreign Investment*. Ed. Yue Wang and Prem Ramburuth. New York: Nova Science Publishers, Inc., 2010. Print
- Kastner, Scott L. *Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond*. Stanford: Stanford University Press, 2009. Print.
- "Key points of the 11th Five-Year Plan." *The 11th Five-Year Plan*. The State Council, The People's Republic of China. 7 March 2006. Web. 31 May 2016. <[http://www.gov.cn/english/2006-03/07/content\\_246929.htm](http://www.gov.cn/english/2006-03/07/content_246929.htm)>.
- Khandke, Kailash. "The Economies of Asia Pacific." *Understanding Contemporary Asia Pacific*. Ed. Katherine Palmer Kaup. London: Lynne Rienner Publishers, Inc., 2007. 113-150. Print.
- Koizumi, Daisuke, Jenny Yang, and Zhi Yang. "China's State Council released framework plans for the Guangdong, Tianjin and Fujian Free Trade Zones along with a new negative list and national security review measures." *News Focus*, The Bank of Tokyo-Mitsubishi UFJ. 10 (2015): 1-4. Web. 14 May 2016.
- Kraar, Louis. "Five Chinese Myths." *Fortune*. 10 May 1999. 30.
- Ku, Julian. "International Law is Taiwan's Enemy." *The Diplomat*. 16 July 2014.
- Landry, Pierre F. *Decentralized Authoritarianism in China*. Cambridge: Cambridge University Press, 2008. Print.
- Lavan, Joanna. "What difference can the Free Trade Zones make to your China business?" *Connect China*. 22 June 2015. Web. 14 May 2016.
- Li, Chen. *China's Centralized Industrial Order: Industrial reform and the rise of centrally controlled big business*. London: Routledge, 2015. Print.
- Li, Shantong and Zhang Shaojun. "The International Trade and Inter-provincial Trade of China—An analysis from regional input-output table." Web. 3 March 2016.
- Li, Wenfang. "70% mixed ownership target for Guangdong SOEs." *China Daily*. 19 Aug. 2014. Web. 31 May 2016.
- Liberthal, Kenneth. *Governing China: From Revolution through Reform*. New York: W.W. Norton, 2004.
- Lin, Kenneth S. "Cross-Strait Economic Integration and Its Impacts on Taiwan's Society." *Institute of International Relations English Series No.53*. Ed. I Yuan. Taipei: Institute of International Relations, National Chengchi University, 2007. Pp. 273-300.
- Lin, Syaru Shirley. "Taiwan's China Dilemma: contested identities and multiple interests in Taiwan's Cross-Strait Economic Policy." National Chengchi University. Taipei, Taiwan. 6 June 2016. Guest Lecture.
- Liou To-hai. "Cross-Taiwan Straits Economic Relations and the ECFA." *Cross-Taiwan Straits Relations Since 1979: Policy Adjustment and Institutional Change Across the Straits*. Ed. Kevin G. Cai. Taipei: World Scientific Publishing Co., 2011. Print.
- Lockett, Hudson. "Regional Disparities in China: Time for a Lift Up." *CKGSB Knowledge*. CKGSB Knowledge. 16 Sept. 2015. Web. 31 May 2016.
- Ma, Kai. "The 11<sup>th</sup> Five-Year Plan: Targets, Paths and Policy Orientation." National Development and Reform Commission. Ed. Du Jing. Beijing. 19 March 2006. <[http://www.gov.cn/english/2006-03/23/content\\_234832.htm](http://www.gov.cn/english/2006-03/23/content_234832.htm)>.

- Madsen, Robert A. "The Struggle for Sovereignty Between China and Taiwan." *Problematic Sovereignty: Contested Rules and Political Possibilities*. Ed. Stephen D. Krasner. New York: Columbia University Press, 2001. Print. 141-193.
- Magnier, Mark. "As Growth Slows, China Highlights Transition From Manufacturing to Service." *The Wall Street Journal*. 19 Jan. 2016. Web. 31 May 2016.
- Manion, Melanie. *Corruption by Design: Building Clean Government in Mainland China and HK*. Boston: Harvard University Press, 2004. Print.
- Murphey, R. "City and Countryside as Ideological Issues: India and China." *Comparative Studies in Society and History*. Vol. 14 (1972): 250-267.
- Mole, David. "Introduction." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Moody, Andrew. "Dissecting China's Five-Year Plan." *The Telegraph*. 23 Nov. 2015. Web. 12 Jan. 2016.
- Narine, Shaun. "Economic Security and Regional Cooperation in the Asia-Pacific: Evaluating the Economics-Security Nexus." *Reassessing Security Cooperation in the Asia-Pacific: Competition, Congruence, and Transformation*. Ed. Amitav Acharya and Evelyn Goh. Cambridge, Massachusetts: The MIT Press, 2007. Print. 195-218.
- Nelson, Christina. "Economic Development Policies for Central and Western China." *China Business Review*. 1 Nov. 2010. Web. 3 March 2016.
- Orr, Gordon. "What could happen in China in 2015?" *McKinsey&Company*. Dec. 2014. Web. 31 May 2016.
- Oizumi, Keiichiro. "A Geographical View of China's Economic Development: Observations Focusing on 337 Prefecture-Level Cities." *RIM Pacific Business and Industries*. X.35 (2010): 2-32. Web. 3 March 2016.
- "Pingtan a window to Taiwan and Europe." *China Daily*. 6 November 2015. Web. 14 May 2016.
- Poncet, Sandra. "A Fragmented China: Measure and Determinants of Chinese Domestic Market Disintegration." *Review of International Economics*. 13.3 (2005): 409-430. Web. 3 March 2016.
- Poncet, Sandra. "The Magnitude of Chinese provinces' internal and international trade integration. Is Chinese provinces' greater international openness threatening China's domestic market integration?" April 2001. Web. 3 March 2016.
- Poncet, Sandra. "Measuring Chinese domestic and international integration." *China Economic Review*. 14 (2003): 1-21. Web. 3 March 2016.
- Reid, Toy and Shelly Rigger. "Taiwanese Investors in Mainland China: Creating a Context for Peace?" The 35th Taiwan-American Conference on Contemporary China. National Chengchi University, Taipei, Taiwan ROC. N.p. 26-27 August 2008.
- "ROC improves in Corruption Perceptions Index ranking." *Taiwan Today*. Taiwan Today. 28 Jan. 2016. Web. 8 June 2016.
- Schubert, Gunter. "Facing the dragon and riding the tiger: assessing the mainland Taishang as an 'impact factor' in cross-strait relations." *Taiwan and the 'China Impact': Challenges and opportunities*. Ed. Gunter Schubert. London: Routledge, 2016.

- Su, Fubing and Dali L. Yang. "Political Institutions, Provincial Interests, and Resource Allocation in Reformist China." *Journal of Contemporary China*. 2 August 2010. Web. 3 March 2016.
- Sun Shengliang. "Economic Relations Across the Taiwan Straits and Beijing's Policy Adjustment." *Cross-Taiwan Straits Relations Since 1979: Policy Adjustment and Institutional Change Across the Straits*. Ed. Kevin G. Cai. Taipei: World Scientific Publishing Co., 2011.
- Sun, Zhengyun. "Explaining Regional Disparities of China's Economic Growth: Geography, Policy and Infrastructure." University of California, Berkeley. Dec. 2013. Web. 3 March 2016.
- Sutter, Robert. "Taiwan's Future: Narrowing Straits." *The National Bureau of Asian Research*. May 2011. Pp. 3-22.
- "Taiwan-Mainland China and Fujian/Cross-Strait Economic and Trade Cooperation." *Consulate General of Switzerland Guangzhou*. July 2013. Web. 14 May 2016.
- "Taiwan's Outward Foreign Direct Investment (OFDI) Into The European Union and its Member States." European Institute for Asian Studies. Oct. 2014. Web. 31 May 2016.
- Tang Shu-hung. "Reforming Hong Kong's Fiscal System." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Tanner, Murray Scot. *Chinese Economic Coercion Against Taiwan: A Tricky Weapon to Use*. Santa Monica, CA: RAND, 2007.
- Tao, Ran and Dali L. Yang. "The Revenue Imperative and the Role of Local Government in China's Transition and Growth." University of Chicago. July 2008. Web. 3 March 2016.
- "Trade in Goods with Taiwan." *Foreign Trade*. United States Census Bureau. Web. 8 June 2016. <<http://www.census.gov/foreign-trade/balance/c5830.html>>.
- "Trade Policy Review; Report By Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu." World Trade Organization. 19 July 2014. Web. 1 June 2016.
- "Taiwan GDP Annual Growth Rate." *Trading Economics*. 2016. Web. 17 July 2016.
- Tsai, I-Ju. "The Impact of ECFA on Taiwan's Economy." *Deconstructing ECFA: Challenges and Opportunities for Taiwan*. Ed. Chih-Cheng Lo, and Tien-Wang Tsaur. Taipei: Taiwan Brain Trust, 2010.
- "The New Free Trade Zones Explained, Part IV: Fujian." *China Briefing News*. 27 May 2015. Web. 14 May 2016.
- "The Organization of Private and Public Enterprises." *Industrialization and the State: The Changing Role of the Taiwan Government in the Economy, 1945-1998*. Ed. Li-min Hsueh, Chen-kuo Hsu, and Dwight H. Perkins. Cambridge, MA: Harvard Institute for International Development, 2001.
- Tung, Chen-yuan. "China's Fiscal Predicament." *American Asian Review*. XXI.1 (2003): 25-53. Web. 3 March 2016.
- The World Bank. "United States." *World Bank Group*. Web. 4 June 2016. <<http://data.worldbank.org/country/unitedstates>>.
- US-China Business Council. "China's Priorities for the Next Five Years." *China Business Review*. 1 July 2010. Web. 31 May 2016.
- Wang, James C.F. *Contemporary Chinese Politics: An Introduction*. 7th ed. New Jersey: Upper Saddle River, 2002. Print.

- Wang, Lisa. "PANAMA PAPERS: More than 16,000 Taiwanese appear in Panama Papers." *Taipei Times*. 5 April 2016. Web. 1 June 2016.
- Weiss, Linda. *The Myth of the Powerless State: Governing the Economy in a Global Era*. Cambridge: Polity Press, 1998. Print.
- Wilson, William T. "Market Solutions Should Be Central to U.S.'s Taiwan Policy." *Backgrounder*. The Heritage Foundation. 2930. 1 August 2014.
- "Wingtech Introduction." *Wingtech Group*. Wingtech Group. Web. 9 June 2016.  
<<http://www.wingtech.com/EngLish/Company.Asp?Action=Content&ID=8>>.
- "Wingtech ranks first again of China mobile phone IDH (March 1st, 2010)." *Corporation Information*. Wingtech Group. 1 March 2010. Web. 9 June 2016.  
<<http://www.wingtech.com/EngLish/News.Asp?Action=Content&ID=202>>.
- Womack, Brantly and Guangzhi Zhao. "The many worlds of China's provinces: foreign trade and diversification." *China Deconstructs: Politics, Trade and Regionalism*. Ed. David S.G. Goodman, and Gerald Segal. London: Routledge, 1994.
- Wong, Anna. "Measuring Trade Barriers: An Application to China's Domestic Trade." University of Chicago. 1 Jan. 2012. Web. 3 March 2016.
- Wong, Billy. "Guangdong: Market Profile." *HKTDC Research*. HKTDC Research. 18 Dec. 2015. Web. 31 May 2016.
- Wong, Teresa Y. C. "Going Up-market: An Industrial Policy for Hong Kong in the 1990s." *Managing the New Hong Kong Economy*. Ed. David Mole. Hong Kong: Oxford University Press, 1996.
- Wu, Chih-Chung. "The Geopolitical Implications of ECFA." *Deconstructing ECFA: Challenges and Opportunities for Taiwan*. Ed. Chih-Cheng Lo, and Tien-Wang Tsaur. Taipei: Taiwan Brain Trust, 2010.
- Wu, Rong-I. "ECFA and Taiwan-China Trade Relations." *Deconstructing ECFA: Challenges and Opportunities for Taiwan*. Ed. Chih-Cheng Lo, and Tien-Wang Tsaur. Taipei: Taiwan Brain Trust, 2010.
- Wu, Rong-I, and Tsai-Lung Hong. "Economic Integration in East Asia—Taiwan Perspective." *Deconstructing ECFA: Challenges and Opportunities for Taiwan*. Ed. Chih-Cheng Lo, and Tien-Wang Tsaur. Taipei: Taiwan Brain Trust, 2010.
- Xu, Zhihua, and Anthony Yeh. "Origin Effects, Spatial Dynamics and Redistribution of FDI in Guangdong, China." Royal Dutch Geographical Society KNAG. 2013. Web. 1 June 2016.
- Yan, Chen. "Research about the Influence of CEPA on the Service Trade in Mainland China and Hong Kong." *Journal of Service Science and Management*. 9 (2016): 36-44.
- Yang, Chun. "Multilevel governance in the cross-boundary region of Hong Kong-Pearl River Delta, China." *Environment and Planning A*. 37 (2005): 2147-2168.
- Yao, Kevin and Elias Glenn. "China investment slows to 15-year low, more stimulus seen despite debt fears." Reuters. *Reuters*. 13 June 2016. Web. 14 June 2016.
- Young, Alwyn. "The Razor's Edge: Distortions and Incremental Reform in The People's Republic of China." *The Quarterly Journal of Economics*. CXV.4 (2000): 1091-1135.
- Zhang, Kevin Honglin. "Why does so much FDI from Hong Kong and Taiwan go to Mainland China?" *China Economic Review*. 16.3 (2005): 293-307.

Zhou, Qiren. "The Future of SOE Reform May Lie in the Past." *Caixin Online*. Caixin Online. 4 Aug. 2015. Web. 31 May 2016.

Zou, Qi. "An Empirical Study on the Influence of the Economic Cooperation between the Mainland of China and Hong Kong on Economic Growth and Industrial Development of HK since the Return to China." *Modern Economy*. 7 (2016): 92-101.

