

## Chapter VI

### Private players

This chapter will analyze the role of the non-governmental players in Taiwan's cross-strait trading policy. Although it is difficult to estimate their role in real policy-making process, it is a fact that they have had an enormous role in the actual outcome of the trade and investment policies between the two sides of the Taiwan Strait.

The private players as described here include Taiwanese businessmen who trade with and invest in Mainland, and Taiwanese people who elect the leaders to make the rules. The process of democratization has created opportunities for them to participate in the decision making process. In a democratic regime, policy outcome is frequently the result of compromise among competing groups.<sup>1</sup> This has also been true in case of the process of democratization of Taiwanese society. During the Chiang's rule, the business community and public opinion played almost no role in the decision making process of Mainland policy. It all started to change after Lee Teng-hui took over the Presidency in 1988. Gradually, the influence of businessmen on the government grew and the people gained their chance through public elections. Today, one may say that cross-strait economic relations are characterized by "civilian governance."<sup>2</sup>

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<sup>1</sup> Leng Tse-kang. May, 1998. Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms. *Asian Survey*, Vol. 38, No. 5. p. 497.

<sup>2</sup> Leng Tse-Kang. Sovereignty at bay? Business networking and domestic politics of informal integration between Taiwan and mainland China in Philip Regnier, Fu-Kuo Liu. 2003. eds, *Regionalism in East Asia: Paradigm Shifting?* (London: Curzon/Routledge), ch. 10, p. 177.

## **Business community**

In 2002, China surpassed the US and became the biggest market for Taiwanese exports. The huge number of Taiwanese exports to Mainland China are driven by the investment activities of Taiwanese business people. However, a huge gap exists between the official estimation and real investment value to China. According to official statistics from Taiwan's Ministry of Economic Affairs released at the end of 2006, the Taiwanese had invested US\$ 43.2 billion in China by the end of 2005. The mainland Chinese authorities estimate that the number should be 90.1 billion (see Appendix I). According to Peng Huai-nan, Chairman of the Central Bank of Taiwan, the accumulated Taiwanese investments to China in 1990s might be around US\$104.5 billion.<sup>3</sup> This reconfirms the huge gap existing between official data and business activities across the Taiwan Strait. The real economic dynamics across the Taiwan Strait in terms of investment and trade volume comes from autonomous actions from the business community. Notwithstanding the official policy of keeping Taiwanese businessmen at home, the private sector took the lead, bypassing existing policies. As the society of Taiwan has become democratized, world markets more global, and Taiwanese companies internationalized, it has become harder for the government to control capital flows to Mainland China. Governmental interventions from Taiwan play only a marginal role in regulating this unique economic relationship. This paper will now outline this process.

Most of the Taiwanese investments on the Mainland during the early 1990s were made by small and medium-sized enterprises in labor intensive sectors such as garments, shoe making, and low end consumer electronics. They were seeking cheap

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<sup>3</sup> Ho Szu-yin, Leng, Tse-kang. November 2004. Accounting for Taiwan's Economic Policy toward China. *Journal of Contemporary China*, 13(41), p.738.

labor and were warmly welcomed. After the 1989 Tiananmen Square incident, the multinational corporations (MNC) withdrew their investments. At first, investors behaved cautiously, making small investments in the nearby provinces of Fujian or Guangdong, looking to recover their capital within two or three years.<sup>4</sup>

After Deng Xiaoping's Southern Tour and the Koo-Wang's talks, larger firms gradually began to participate, making larger, longer-term investments and the investment targets moved northward, to Shanghai, Jiangsu, and northern China. Many of the firms manufacturing labor-intensive products for export simply moved all, or part, of their production from Taiwan to the Mainland and continued exporting from there, but when it became possible to sell to the Mainland market, the attraction of operating in the PRC was greatly enhanced. By 1995, 37% of Taiwan's large, "blue chip" companies had invested in the mainland and 54 percent did business there.

Taiwan's largest food manufacturer, President Enterprises Group, began investing in the Mainland in 1991 and by May 1995 had invested \$150 million in eighteen plants. President's chairman, Kao Ching-yuan, told the press that his company planned to build three or four factories a year, aiming at having at least one in each province, with a total investment exceeding \$1 billion in ten years. Disturbed by the PRC's military exercises in July and August 1995, Kao, who was also chairman of the China National Federation of Industries and a member of the KMT's central standing committee, called on Taiwanese firms to halt their investment for the time being and said that his company would restudy its plans for the future. By February 1996, however, Kao was in Helongjiang province, surveying investment possibilities and the press reported that President was investing \$1.53 million in a pharmaceutical plant in Suzhou and \$6 million in an animal feed factory in Guangdong. By mid-1996

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<sup>4</sup> Clough Ralph N. 1999. *Cooperation or conflict in the Taiwan strait?* Lanham, Md. (Rowman & Littlefield Publishers), p.52.

President's cumulative investment had reached \$300 million. In August 1996 Kao led a group of sixty senior executives to a conference in Beijing, where Jiang Zemin told them that political differences should not be allowed to interfere with economic cooperation between the two sides of the strait. Jiang pledged to continue to encourage Taiwanese investors and to protect their legitimate rights.<sup>5</sup>

The Ting Hsin Group, another company in the food industry, entered the Mainland market in 1992 through its subsidiary, Tingyi Holdings, registered in Cayman Islands. Its Master Kang-brand instant noodles were great success. In early 1996, the 17 million packets and bowls per day produced by Tingyi factories in four cities, and distributed through a nationwide sales network, held 23.5 percent of the instant noodle market.<sup>6</sup> Following the trend among Taiwanese companies, Tingyi raised \$180 million in Hong Kong to finance further expansion. Its stock issue was oversubscribed fifteen times. By October 1997, Tingyi Hsin, which was vying with President to become the largest food distributor among the world's Chinese population, took over Wei Chuan, Taiwan's second largest food distributor, which also had extensive operations on the Mainland.

Firms from other industries also had "China fever". The petrochemical business also moved to China in order to supply intermediate goods to SMEs in the proximity and look for cheap land. With the environmental movement in Taiwan growing, it became difficult for them to establish new factories. The transportation sector moved to China, too. Taiwan's largest bicycle maker, Giant Manufacturing Co., investing through its Singapore holding company, built a plant in Qunshan, Jiangsu in 1994. By 1997 the plant's annual production reached one million bicycles, nearly half

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<sup>5</sup> Clough Ralph N. 1999. Cooperation or conflict in the Taiwan strait? Lanham, Md. (Rowman & Littlefield Publishers), p.52.

<sup>6</sup> Ibid. p.53.

of Giant's worldwide production.

Taiwan's leading motorcycle manufacturer, the Kwang Yang Motor Company (KYMCO), invested in four joint ventures on the Mainland. Since the PRC requires motorcycle manufacturers to purchase 40 percent of their parts locally, thirty Taiwanese firms associated with KYMCO established production bases on the Mainland to supply parts. At a meeting in Guangzhou in late 1996, KYMCO's president, Wang Guangdong, announced plans to surpass Honda by 2010 as the world's largest name-brand motorcycle maker at a cost of some \$1.5 billion. To reach this goal, KYMCO was not only expanding its operations in Mainland China but also building new plants in Taiwan, Indonesia, India, Vietnam, and the Philippines.<sup>7</sup>

Automobile makers in Taiwan, restricted by Taiwan's small market, have also been sounding out possibilities on the Mainland. China Motor Co., Taiwan's largest car manufacturer (16.5 percent owned by Japan's Mitsubishi Motor) announced a \$200 million plan to make vans in Fujian province in a joint venture with the Fujian Automobile Industry (Group) Corporation. Taiwanese auto parts makers have also invested, or plan to invest, in Mainland plants to supply China Motor and other Mainland customers. Taiwanese automobile manufacturers may find it more difficult than other Taiwanese industries to break into the Mainland market however, for the PRC has tended to limit investments in the automobile industry to the world's largest companies and has insisted on cutting-edge technologies.

However, these companies were weak in organization and could hardly lobby the government for a preferred policy in the first half of 1990s. We also have to keep in mind that former President Lee Teng-hui exercised stringent control over the highly political Mainland policy. He never encountered much significant opposition from the

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<sup>7</sup> [www.KYMCO.com](http://www.KYMCO.com)

bureaucracy, the legislature, the DPP, or even the business community. While the small and medium enterprises (SME) could slip through his fingers, he went out of his way to half-cajole and half-coerce those few business tycoons who wanted to invest in the Mainland into staying home. In June 1990, Y.C. Wang, the President of the Taiwan Plastics, announced a plan to build a US\$5 billion petrochemical complex on Haicang Island near Xiamen in Fujian Province. This investment was about equal in value to Taiwan's total domestic investment between 1980 and 1989. In late 1991, however, under the pressure from the government, he declared that Haicang project was postponed, but not canceled. The negotiations between the government and Formosa Group continued and as a result, in June 1992, the government approved Wang's proposal to build a US\$9.5 billion naphtha cracker in southern Taiwan. It was actually a much bigger project than the one, planned on the Mainland. Formosa Group also agreed to a deal with the government under which the company agreed to fund much of the zone's infrastructure in return for long-term, low-cost financing totaling US\$5.4 billion. Other concessions included a five-year tax break, low-cost water supplies, and a governmental agreement to fund port development and other costs.<sup>8</sup>

The President Group also obeyed Lee and in September 1996 abandoned a plan to invest \$100 million in two power plants in Wuhan. There was also another reason for this as they failed to agree to terms with its Mainland partners. Other President projects on the Mainland went forward. In December 1996, the company announced that it planned to open a discount store in Tianjin in 1997 together with the French Carrefour Group.<sup>9</sup>

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<sup>8</sup>Leng Tse-kang. May, 1998. Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms. *Asian Survey*, Vol. 38, No. 5. p. 503.

<sup>9</sup> Clough Ralph N. 1999. *Cooperation or conflict in the Taiwan strait?* Lanham, Md. (Rowman & Littlefield Publishers) p.53.

The military exercises during 1995 and 1996 adversely affected Taiwan's investment on the Mainland, and two-way trade. According to the PRC's Minister of Foreign Trade and Economic Cooperation, Wu Yi, between July and September 1995, contracted investment declined 28 percent, and actually utilized investment declined 20 percent compared to the same period of 1994. Two way trade in this period increased only 1 percent, as compared to 21 percent in 1994. In 1996, according to Taiwan's Board of Foreign Trade, two-way trade increased only 5.8 percent to \$22 billion, in comparison with double-digit growth in previous years. Accurate figures on Taiwan's investment are more difficult to obtain. A Mainland official source estimated that actual investment from Taiwan declined 10 percent during 1996, but a Taiwanese official source estimated the flow of Taiwan funds into mainland at about the same level as 1995.<sup>10</sup>

The effect, however, was only fugacious. In early August 1995, in the midst of the "missile crisis," Kao Ching-yuan, the chairman of President Company and the head of the Chinese National Federation of Industries, called for a halt of investments in mainland China. But a few weeks later, he urged Taiwan's politicians to avoid "antagonizing" mainland China, fearing the tension across the Strait would "bring an extremely huge blow to businesses." Another example is the initiative taken by Chiayi city officials in June 1995 to negotiate with the Fujian authorities on the establishment of direct maritime links between Putai harbor and Xiamen. Though disapproved of by the Taiwanese government, this initiative was discreetly supported by Vincent Siew, former Chairman of the MAC, and a native of Chiayi, while he was preparing to

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<sup>10</sup> Clough Ralph N. 1999. *Cooperation or conflict in the Taiwan strait?* Lanham, Md. (Rowman & Littlefield Publishers), p.55.

campaign to represent this city in the Legislative Yuan.<sup>11</sup> Y.C. Wang also made another attempt to challenge Taiwan's economic policy. In May 1996, he announced his plan to establish a power plant in Zhangzhou, Fujian Province. A US\$ 3 billion investment project was approved by the mainland China's State Council. Preliminary construction was launched in May 1996. When the news was released, it caused a big shock to the MAC. This is also an example of how multinational corporations can evade a home country's control. The parent company only invested US\$400 million of the total US\$ 3 billion. The overseas subsidiaries played the major role. Many international banks expressed their interest in loaning more than US\$2 billion. The major financial support came from international, rather than domestic sources.<sup>12</sup>

Toward the end of 1990s however, several factors converged to change the picture. More than half of the companies listed on Taiwan's stock exchange had by then invested in the Mainland. Anticipation of the PRC's entry into the WTO and Beijing's expansive fiscal policy added more impetus to the westward drive. Clearly these large enterprises needed longer-range planning for their investments, and they needed lobbying to ensure a more favorable, or least more predictable, environment. A new trend began when the Taiwanese IT sector started to move to the Mainland. One of the reasons was cheap labor, of course. But there were other reasons. Western firms began to request their Taiwanese sub-contractors to use China's production costs as the base to quote prices. The paper will return to this point later.

During the Presidential elections in 2000, Taiwanese businessmen in China were dragged into a political fight. Many of them actually supported Chen Shui-bian

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<sup>11</sup> Cabestan Jean-Pierre. Dec 1996. Taiwan's Mainland Policy: Normalization, Yes; Reunification, Later. *The China Quarterly*, No. 148, Special Issue: Contemporary Taiwan. p. 1277.

<sup>12</sup> Leng Tse-kang. May 1998. Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms. *Asian Survey*, Vol. 38, No. 5. p. 503.

and were supportive of Taiwan independence. Chen's government was expected to provide preferential treatment on the issue of Mainland trade. As there are no free launches, the endorsement from many business groups for Chen's bid for presidency was based on the expectation that Chen would reverse the Mainland investment restraint policy adopted during the Lee Teng-hui presidency. Most of this support from the business community for Chen had potential business interests if Taiwan relaxed investment restrictions. For example, it was expected within Chen's "National Affairs Advisory Committee," that Evergreen Group would take the initiative if Taiwan opened direct sea and air connections with Mainland China, while the Continental Engineer Group would benefit from new investment projects in the Mainland's huge infrastructure market.<sup>13</sup>

After Chen Shui-bian's victory in Taiwan's Presidential election in 2000, the Mainland's central level Taiwan Affairs Office launched a verbal warning. Li Bingcai, deputy director of the Taiwan Affairs Office stated that those Taiwanese entrepreneurs who called for Taiwan independence would no longer be able to engage in business with China. The pressure against Taiwanese supporting Chen Shui-bian continued in June when such Taiwanese tycoons as Stan Shih from Acer, Chang Yung-fa from Evergreen Group, and Nita Ing from Continental Engineering Corporation were identified as targets. Petrochemical firm Chi Mei was subject to numerous special inspections during that summer because of the support given by its chairman, Shi Wen-lung, to both Chen and Taiwan independence.<sup>14</sup> Other measures of sabotaging Taiwanese businesspeople supporting Taiwan independence were said

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<sup>13</sup> Leng Tse-kang. 2002. Securing Economic Relations Across the Taiwan Straits: new challenges and opportunities. *Journal of Contemporary China*. 11(31), p. 266.

<sup>14</sup> Bolt Paul J. March/April 2001. Economic Ties Across the Taiwan Strait: Buying Time for Compromise. *Issues and Studies* 37, No. 2. p. 84.

to be under consideration. By contrast, the new silicon wafer project of the Formosa Groups President Wang Yung-ching's son, Wang Wen-yang, received a warm welcome in Pudong, Shanghai because Wang Yung-ching's Formosa Group did not openly endorse Chen Shui-bian's bid for presidency. Since developing good "guanxi"<sup>15</sup> is the key to survival, these big Taiwanese firms tried to separate their support for Chen from their support for Taiwan independence. Three months after Taiwan's presidential election, Acer Group CEO, Stan Shih re-emphasized in a newspaper interview that he was always neutral regarding election campaigns. He even predicted that someday Taiwan and Mainland China would be part of the same greater China.<sup>16</sup>

When Chen Shui-bian assumed the presidential office in 2000, he could not afford the institutional luxury his predecessor enjoyed. Chen was elected by less than 40% of the total vote. His party was vastly outnumbered in the legislature. The bureaucracy had never taken orders from a party that was not the KMT. Chen definitely needed time to consolidate his power. By the time Chen replaced Lee's "no haste, be patient" with his own "active opening, effective management" policy in September 2001, many Taiwanese businessmen had already invested in the Chinese market, disregarding government regulations. Business leaders were clearly not satisfied with Chen's new policy. Morris Chang, chairman of Taiwan's largest

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<sup>15</sup> *Guanxi* is a central concept in Chinese society and describes, in part, a personal connection between two people in which one is able to prevail upon another to perform a favor or service, or be prevailed upon. The two people need not be of equal social status. It could also be a network of contacts, which an individual can call upon when something needs to be done, and through which he or she can exert influence on behalf of another. It can also describe a state of general understanding between two people: "he/she is aware of my wants/needs and will take them into account when deciding her/his course of future actions which concern or could concern me". [www.wikipedia.org](http://www.wikipedia.org)

<sup>16</sup> Leng Tse-kang. 2002. Securing Economic Relations Across the Taiwan Straits: new challenges and opportunities. *Journal of Contemporary China*. 11(31), p. 266.

chip-making company, Taiwan Semiconductor Manufacturing Co, for example, insisted that the phrase "ease restrictions" under the principle of "easing restrictions on cross-strait trade and investment" also includes the phrase "actively opening." Chang had claimed earlier that China's market was not mature enough for his company to invest there, but later changed his attitude.

Hsu Chun-hua, manager of the Chi Mei Enterprise, who coordinated the company's China investment, said that except for slogans, little has changed in the government's China investment policy. "There have been so many enterprises investing in China, which matches the meaning of "actively opening," but how does the government manage "effectively" and draw back the [capital] flow from China?" he asked.<sup>17</sup>

To many in the business community "active opening, effective management" was nothing more than a rationalization of *fait accompli*, as it is an open secret that many investors could simply route their money to a third country, then transfer the fund to China.<sup>18</sup>

There was, however, another hope. It was also expected among the Taiwanese business community that joining the WTO brings real challenges and opportunities to Taiwanese companies and Taiwan's economic security.

At a basic level, two of the core principles of the WTO: MFN (most favored nation)<sup>19</sup> treatment and national treatment generally require that all WTO members be

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<sup>17</sup> *Taipei Times*, August 27, 2001, Page 3.

<sup>18</sup> Ho Szu-yin, Leng Tse-kang. November 2004. Accounting for Taiwan's Economic Policy toward China. *Journal of Contemporary China*. 13(41). p.737.

<sup>19</sup> Most favoured nation (MFN), also called normal trade relations in the United States, is a status accorded by one nation to another in international trade. It does not confer particular advantages on the receiving nation, but means that the receiving nation will be granted all trade advantages, such as low tariffs that any third nation also receives. In effect, having MFN status means that one's nation will not be treated worse than anyone else's nation, as reflected by the American term.

treated similarly and that foreign trade and investment generally be treated the same as that of domestic origin. Although exceptions are sometimes permissible, the laws and policies of the governments of Taipei and Beijing violate one or both of these basic principles. In particular, Taiwan's ban on shipments to and from China and some other restrictions obviously violate the MFN principle, which also applies to services under the WTO agreement. Similarly, China's discriminations against Taiwan are difficult to justify.<sup>20</sup>

After Taiwan and China entered this multilateral trade regime however, no major changes happened. Most of the issues of cross-straits economic interaction are still governed by governments, rather than the WTO framework. From a more positive perspective, WTO regulations increased economic transparency across the Taiwan Strait. Mainland China is also forced to improve its legal system and property rights. Among others, Taiwanese businessmen benefit from this, too.

The hardest blow by Taiwanese businessmen to the government's Mainland policy and concerns about national security was still to come as the IC industry, the crown jewel of Taiwanese information technology, had stayed at home. Taiwan Semiconductor Manufacturing Co. and other leading firms did not bypass regulations to venture into China, unlike firms in many other fields during the 1990s. In fact, TSMC accelerated the construction of its new 8-inch site and its first 12-inch facilities in Taiwan, which were completed and put into operation ahead of schedule in the spring of 2000. Furthermore, Morris Chang even announced that new investments would be mainly based in Taiwan for the next 5 to 10 years and that TSMC would not

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<sup>20</sup> Mastel Greg. China, Taiwan, and the World Trade Organization. (The Washington Quarterly). Volume 24, Number 3. p. 52.

invest in China for at least four years.<sup>21</sup>

However, in spring 2000, Chang stated that TSMC must have production facilities (presumably 8-inch wafer foundries) in China to meet the growing IC market demand there, and that in ten years, China's market would overtake Japan's to become the second largest in the world.<sup>22</sup> In early summer, Advance Semiconductor Engineering Inc, the world's number two packaging and number one testing company, also called for a new policy. In summer 2001, Morris Chang even took a trip to China for a preliminary study of TSMC's investment there.

With pressure from the IC sector growing drastically, the latest phase in cross-Strait trading and investing began in April 2002, when the government decided to lift the ban on investment in China, but promised to modulate the pace and the terms of investment on 8-inch wafer production there in conjunction with this decision. The government spurned the proposal to restrict the free flow of high tech personnel across the strait, but committed to drafting the National Technology Protection Law, a law akin to a technology export control regime that many Western nations have. A victory for the semiconductor industry, the current policy measure does not give the industry carte blanche. TSMC and other IC companies must apply for approval in two phases. The first phase is for the approval of financing arrangements for initial investment; the second is for the approval of relocating the equipment. It is understood that the bulk of capital for 8-inch wafer production will be raised in China and the approval for the second stage application hinges on the performance of each company's 12-inch fabs in Taiwan. Disappointed with the policy shift, the opponents

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<sup>21</sup> Cheng Tun-jen. *China-Taiwan Economic Linkage: Between Insulation and Superconductivity* in Tucker. Nancy Bernkopf. 2005.(ed) *Dangerous Strait. (The U.S.-Taiwan-China Crisis, Columbia University Press)*. p.122.

<sup>22</sup> *Taipei Times*, July 26,2000, p 17.

swore to oversee the approval process.

In the case of TSMC, it submitted a Phase-I application in September 2002, which took the investment Commission of the Ministry of Economic Affairs six months to review. TSMC planned to transfer \$371 million from its head-quarters and raise \$418 million from Chinese banks, and expected to draw \$109 million from the revenue of the proposed plant to finance its \$898 million factory.<sup>23</sup> This caused a lot of criticism from the Taiwan Solidarity Union (see also chapter IV) and other opponents. The premier eventually was able to neutralize the opposition by promising to punish the perpetrators (former TSMC employees who betrayed the company and struck a deal with the PRC to build two 8-inch fabs in Shanghai,) and to enhance anti-dumping measures to prevent cutthroat competition from China's fabs. In February 26, 2003, the Phase-I application was approved when the Investment Commission gave the green light to plans by TSMC to construct a factory in China. With the commission's approval, TSMC transferred up to 6 percent, or approximately US\$50 million, of the planned total investment to set up TSMC (Shanghai) Ltd. to China. However, it also pledged to invest NT\$200 billion in Taiwan to build three more 12-inch wafer fabs over the next five years to convince the government that the most advanced technology will remain in this country.<sup>24</sup>

In 2004, the new factory in Shanghai was finished and production started. Its revenue soared 35 percent in April 2004 to a new all-time high. TSMC said in April 2004 that its revenue rose to NT\$20.63 billion, up sharply from the year-earlier NT\$15.26 billion.<sup>25</sup> In 2007, TSMC started making 8-inch wafers in China using

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<sup>23</sup> Cheng Tun-jen. *China-Taiwan Economic Linkage: Between Insulation and Superconductivity*. p. 123.

<sup>24</sup> *Taipei Times* February 27, 2003, Page 1.

<sup>25</sup> *Ibid.* May 08, 2004, Page 11.

relatively advanced 0.18-micron processing technology - as opposed to the previously used 0.25-micron technology it used - after receiving approval from the Taiwanese government at the end of 2006. The Shanghai plant is expected to make 34,000 8-inch wafers a month by the end of 2007. In May 2007, TSMC also released news saying it expects the company's Shanghai plant to become profitable this year, three years after starting production.<sup>26</sup>

But what are the reasons that push Taiwanese businessmen to go to China? When analyzing that, the first reason, of course, is the cheap labor. This has been pointed out by many authors (see Mastel 2001, Leng 2003, Bergsten, Gill, Lardy, Mitchell 2006). There is no doubt that wages in China are very low. The average monthly wage in manufacturing establishments in Mainland urban areas is only about US\$120; wages in manufacturing outside of urban areas and for unskilled labor are even lower. Taking into account bonuses, incentive pay, and fringe benefits, the total average hourly labor cost in manufacturing in urban areas in China is about US\$1. Wages in China are low primarily because productivity is low. The World Bank for example, calculates that average value added per U.S. manufacturing worker in 1995-99 was 28 times the Chinese level.<sup>27</sup> However, this is a huge advantage for the companies in labor intensive industries such as garments, shoe-making etc. But it matters for the PC-related companies, too. As shown by Chung (Table2), relative to home production, manufacturing operations in the mainland provided Taiwanese PC components producers unit costs savings ranging from 8 to 22 percent and savings relative to ASEAN venues of 3 to 8 percent.

<b>Table 2 Percentage Cost Savings for Taiwanese Companies</b>
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<sup>26</sup> *Taipei Times* May 09, 2007, Page 11.

<sup>27</sup> Bergsten C. Fred; Bates Gill; Lardy Nicholas R; Mitchell Derek J. "China: The Balance Sheet: What the World Needs to Know about the Emerging Superpower" (Public Affairs, 2006), p. 87.

<b>Producing PC-Related Goods in China and Southeast Asia,1993</b>		
	<b>China</b>	<b>ASEAN</b>
Monitors	8%	5%
Motherboards	10%	4%
Switch power supplies	16%	8%
Keyboards	21%	16%
Mice	22%	n.a

**Source:** Chung, Chin; Division of Labor Across the Taiwan Strait: Macro Overview and Analysis of the Electronics Industry, in Naughton (1997), pp. 164-209

Other well known reasons are China`s huge domestic market, and cultural proximity. China with its population of 1.3 billion, double digit economic growth, and growing income is an Eldorado for every businessman. The second reason is also obvious; many residents of Taiwan enjoy family ties with the mainland, particularly in Fujian province. About 80% of residents of Taiwan trace their origins to Fujian. This cultural and linguistic propinquity effectively lowers the transactions costs of conducting business on the Mainland. Only Hong Kong can lay claim to a comparable or superior advantage.

This paper however, shall stress a factor that has not been so widely known. It is a remarkable reason for Taiwanese businessmen (especially in the IT sector) to move their factories to Mainland and it could be called the trend towards globalization and vertical disintegration<sup>28</sup>.

Globalization is reshaping the landscape of industrial competition and the rules of the game. One aspect of globalization over the last few decades has been the increasing disintegration of capabilities in production, and even innovation, across

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<sup>28</sup> Vertical disintegration refers to a specific organizational form of industrial production. As opposed to integration, in which production occurs within a singular organization, vertical disintegration means that various diseconomies of scale or scope have broken a production process into separate companies, each performing a limited subset of activities required to create a finished product.

nations.<sup>29</sup> Driven by this disintegration, the outreach of multinationals takes the form not only of direct investment, but also outsourcing of production, and even knowledge. As Chen Shin-Horng puts it, industrial competition within the PC industry relies not just on lower costs, but also on rapid response capabilities and flexibility. For such IT products as PCs and notebooks, their markets are controlled by a limited number of global brand marketers, such as Dell, Compaq and HP. As a result, the global brand marketers may have strong bargaining power to drive their Taiwanese OEM/ODM<sup>30</sup> subcontractors to relocate the Taiwanese firms' manufacturing facilities to China in order to reduce production costs and to explore the market potential in China.

Most of Taiwan's IT firms undertake OEM/ODM contract works, without any strong ability to control, or even gain direct access to, the final market. They are the sub-contractors to the MNCs, whose advantages generally lie in their core technology and world-class brand names. Their core technologies allow them to set the agenda at an international level, and influence the way in which technology progresses, whilst their world-class brand names enable them to gain direct access to customers and marketplaces. This in turn facilitates their initiation of concepts for product development and the means of further exploiting market potential elsewhere.

This trend influences the entire IT industry. Both the Taiwanese PC and IC industries have encountered the problems that emerge with the changing structure of industry. This trend is hereby explained by using the example of the PC industry.

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<sup>29</sup> Chen Shin-Horng "Global Production Networks and Information Technology: The Case of Taiwan, Industry & Innovation" Vol.9, No.3, 2002 p. 253.

<sup>30</sup> Original equipment manufacturer, or OEM, is a term that refers to a situation in which one company purchases a manufactured product from another company and resells the product as its own, usually as a part of a larger product it sells. Original design manufacturer (ODM) is a company which manufactures a product which ultimately will be branded by another firm for sale. Such companies allow the brand firm to produce (either as a supplement or solely) without having to engage in the organization or running of a factory.

By the late 1980s, rising labor and land costs were eroding Taiwan's comparative advantage in producing lower-end PC products. Before the Mainland became available as an outlet for FDI in the PC industry, Taiwanese FDI flowed principally toward the ASEAN countries, especially Malaysia and Thailand, first with the manufacture of keyboards and switch power supplies and later monitors and motherboards. Later, when investment to Mainland became possible, the trend changed toward China. In 1999, Taiwan was the world's third largest producer of PC-related products, with a significant number of Taiwanese-made products such as motherboards, scanners, monitors and notebook computers, enjoying a healthy global market share. Since that time, the dynamics of Taiwan's PC industry has changed a lot because, whilst global production networks have come to the fore, the way in which the global PC industry was organized has changed.

The PC industry's drive towards the reduction of lead-time to market, along with lower production and inventory costs, brought about a profound change in the manufacturing system and inter-firm competition within the industry. It became commonplace for components to be sourced from a global network of suppliers and for final assembly to be undertaken in the end-market.<sup>31</sup> More specifically, major brand marketers moved to adopt outsourcing and order-based production, which greatly rationalized their global supply chain, hence altering their contractual relationships with Taiwanese firms. Compaq, for example, pioneered the so-called "optimized distribution model" which, in essence, was aimed at allowing customers to choose what they wanted, when and how, at the lowest prices. There are three aspects to this operational model. Firstly, in order to narrow the gap between supply and demand, production must be "build-to-order" (BTO), based on meeting orders, rather than forecasts. A significant change brought about by BTO is the substantial increase in the frequency of ordering and hence rising speed of delivery. In the past, it took 40 to 60 days for PC firms to go through the entire transaction process, from order to

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<sup>31</sup>Chen Shin-Horng. 2002. Global Production Networks and Information Technology: The Case of Taiwan, *Industry & Innovation*. Vol.9. No.3. p. 256.

delivery. Under BTO, however, subcontractors have to meet a tightened schedule of 5 to 7 days, or even 2 to 3 days. In addition, patchy production, instead of mass production, has become the dominant practice. Secondly, in order to meet the wide variety of consumer demands, producers must not only build-to-order but also configure-to-order, making customized products in specific quantities. Thirdly, vendors must undertake final assembly, bringing together a set of subassemblies produced and delivered by subcontractors.<sup>32</sup> Compaq imposes a '98-3' operation formula on subcontractors, requiring them to collect 98 percent of the components and parts needed for production within 3 days of the order and to ship the product within six days of receipt of the order.

Such contractual arrangements with global leaders in the PC industry prompted Taiwanese IT firms to upgrade their position within the global production system and these firms have subsequently taken on the essential functions of coordinating the global supply chain for their OEM customers. For example, under its new business model, Compaq outsourced every element of the value chain, with the exception of marketing, to Taiwanese subcontractors. By so doing, the company completely handed over its inventory costs to these subcontractors, who were also required to produce and deliver sub-system products on tight schedules and in tune with the market demand. The Taiwanese firms had to ensure that everything was synchronized up and down the supply chain, and in order to do this they had to participate in cross-border supply-chain management, logistics operations, and after-sales services, coordinating all of these functions through the formation of a fast-response global production and logistics network or "global logistics."

A case study of Mitac presented by Chen (Chen 2002) brings some examples of this trend. Mitac International Corporation is one of Taiwan's leading PC manufacturing services companies. In April 2007, its revenue was NT\$6.775 billion dollars and its overseas operations cover the US, UK, Germany, Belgium, Japan, and China with its headquarters in Taiwan.

Mitac's strategic restructuring, with a global logistics and e-commerce flavor, started from the early 1990s. However, during 1992 and 1993, the company suffered

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<sup>32</sup> Chen Shin-Horng. 2002. Global Production Networks and Information Technology: The Case of Taiwan, *Industry & Innovation*. Vol.9. No.3. p. 256

serious deficits because of the oversupply of PC components and parts. The system-integrated production under one roof in Taiwan was the reason leading to overstocking. In response, Mitac pioneered the Modulus Manufacturing System under which the PC, as a system, was divided into different moduli to enable fast-food style production, the ultimate purpose being 'build-to-order' (BTO). Its partnership with Compaq, a global leading brand-name marketer, has facilitated Mitac's large-scale deployment of global logistics and e-commerce.

Mitac placed a lot of effort into reconfiguring its international production and logistics network in order to serve Compaq's global operations and its '98-3' operation formula. In 1998, Mitac began setting up a materials hub in Hsinchu, Taiwan, where its main production site is located. This materials hub stocks parts and components for producing barebones, mainly from its own suppliers, who have to bear inventory and warehousing costs before Mitac gives a green light for delivery for production. As soon as all the parts and components arrive at the production site, they are manufactured into barebones, which are then immediately shipped, normally by sea, to overseas assembly sites. At the same time, immediately after its materials and configurations hubs were set up, its inventory cycle time was reduced substantially from 103.4 days to 30 days. As a result of this process, Mitac substantially reduced its inventory risks, whilst its suppliers, in return, got better payment terms and swifter financing services from Mitac.

In an effort to meet Compaq's configure-to-order practices, Mitac also had to set up a number of configuration hubs close to its overseas assembly sites located in major international market areas, including the Mainland. In China, Guangdong Mitac Shunde factory now produces motherboards, desktop computers, workstations, and servers. The Jiangsu Mitac Kunshan factory is chiefly focused on production of wireless communications products, such as handheld GPS devices, Pocket PCs, and smart phones. These configuration hubs serve to stock key and price-sensitive parts and components. The overseas assembly sites undertake the final assembly function, bringing together the barebones delivered from Mitac's manufacturing sites and key parts and components from configuration hubs. Compaq dominates the operation of the configuration hubs, using its bargaining power to gain better prices for the key parts and components. In addition, Mitac established a few fulfillment centers in the major market areas in order to broaden its value chain. By doing so, Mitac begun to

shoulder the responsibility for after-sales services for Compaq. The returns were not only financial, but also technical, because it helped Mitac to gain direct feedback for its product designs and production.

Such arrangements also entail progressive deployment of e-commerce links between Mitac and its vertical and horizontal counterparts all over the world. In fact, it was Compaq's requirement of "no electronic data interchange (EDI), no order" that prompted Mitac to embark upon the application of e-commerce. Today, Mitac is electronically linked with Compaq and its own suppliers. Sales forecasts from Compaq are transmitted to Mitac periodically with weekly adjustments, termed as a "rolling plan." On this basis, Mitac puts forwards its own manufacturing plans, inventory buffering and stock level requirements to its suppliers. Following these information flows, Mitac's international production and logistics networks in China, UK, US, Germany and Belgium assume their role in meeting tight production and delivery schedules and the variety of market demands.

Mitac has also set up a Collaborative Product Commerce (CPC) mechanism for online joint product design. It incorporates an intra-link that enables all the parties involved to use the same design tools for joint product design and development, ranging from product definition, to product R&D and product modularization. This not only helps to reduce the R&D cycle time for Mitac and its partners, it is also essential to the coordination of the production, assembly, delivery and repair and maintenance activities that follow.

Although driven by brand-named marketers, Mitac (and many more Taiwanese IT companies) has now electronically linked both its inter-firm and intra-firm value-chain activities. Over the electronics network, multilateral and timely information flows and sharing has, on balance, been greatly enhanced, facilitating effective synchronization both up and down the inter-organizational and international supply chain. By so doing, Mitac and its partners are now involved in design collaboration, commodity management, supplier rationalization and supply collaboration which strengthen not only their transaction efficiency but also their learning and innovative capabilities.

As this case study shows, there are many more factors that influence Taiwanese IT companies. The changing structure of the industry, global production networks, and vertical disintegration are the factors that the Taiwanese government

can not change. Businessmen have to follow general trends rather than governmental policy to survive in the fierce global competition. In case of the companies from other industrial sectors we may find such factors, too. The huge Chinese domestic market and cheap labor is something Taipei has to accept. There is no point fighting against facts.

## **Electorate**

Thomas "Tip" O'Neill - a longtime Speaker of the House in the U.S. Congress - once declared, "All politics is local." He was explaining how the problems and concerns of towns and cities around the country affect the actions of their representatives and senators in Washington, D.C. However, I agree with those who think that this principle is universal and can be well applied to democracies in general. Since the democratization process in Taiwan begun, every election day local politics takes center stage in another way - as voters choose candidates to represent them at the state, city, and community levels. In the case of Taiwan, these races for public office usually depend on huge campaign budgets, prime time television ads, or highly publicized debates. The higher the prize, the higher the campaign budget to get the electorate's blessing.

Normally, politics is about reallocation of values and power. And democracy is a form of popular participation in this process of reallocation. Yet, different countries tend to develop different types of democracy according to their history and culture. Taiwan is no exception. In Taiwan's case, three unique features stand out. First, there has been at least one election each year with only few exceptions. This is because, according to the Constitution, the ROC has four levels of government (central, provincial, county and village) until the end of 1998 and three (minus the provincial) since 1998. Each level has executive and legislative branches. And the central level had had, until 2000, two legislative bodies: the Legislative Yuan and

National Assembly. So, at its "highest" point, Taiwan's democracy had ten elections. Since each office has different lengths of term (three years for the LY Legislators, six years for the pre-1996 presidency and National Assembly, and four years for the rest), Taiwan's voters have to go to the voting booth nearly every year to register their preferences. And since Taiwan is relatively small in size, densely populated, and has a highly opinionated population, no election is considered too small and too local to be hotly contested. The high frequency of elections thus tends to permeate the otherwise "rational" policy-making process with a high degree of political content. The emotion-laden Mainland policy is particularly susceptible to this tendency.<sup>33</sup>

Second, until the Legislative Yuan elections in 2004, Taiwan used the single non-transferable vote under Multi-Member-District. This system was conducive to the survival of small parties and/or radical wings of the large parties. It radicalized the campaign debate because one needed perhaps only three percent of the total votes in a large district to win. It also undermined party discipline, because candidates competed not only with members of other parties but with their own comrades. As a result, negative campaigning was a norm, rather than the exception.<sup>34</sup> Rational debate was drowned out by simple sloganeering. Again, the Mainland policy, being at once highly complex, emotional and consequential, was a prime subject for campaign manipulation.

Third, and perhaps most important, has to do with the nature of the public political debate in Taiwan's democracy. Theoretically in any democracy, debates could take place on three levels. The highest level is that of boundary and identity of a state. The perennial debate over "reunification" and "independence" in Taiwan is a case in

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<sup>33</sup> Su Chi. May 23-25, 2002. Domestic Determinants of Taiwan's Mainland Policy. A paper presented at the Peace Across the Taiwan Strait Conference. (Oxford University, UK).

<sup>34</sup> Ibid.

point. The second level is over the political system, such as democracy versus dictatorship, the presidential system versus parliamentary government, etc. During the 1990s, the ROC went through six rounds of constitutional versions, each involving power redistribution among government organs. The third level concerns public policy, such as trade, environmental protection, war and peace, and Mainland policy, etc.<sup>35</sup> Most of the mature democracies have resolved the issues on the first and second levels and conduct political debates only on the third level. Some other countries, in the process of democratization, would debate over constitutional arrangements on the systemic level, but there always exists consensus on their status as nation-states.

In contrast, Taiwan experiences heated debate involving all three levels simultaneously. This is a unique phenomenon. It could be said that the fierce fighting on the first level is quasi-religious. The second and third levels tend to highlight struggles for power and a conflict of interest respectively. An open debate on one level alone is usually sufficient to fuel fierce partisanship among the general public. One can imagine how divisive a debate can be while involving all three levels state, system and public policy.

As has been seen above, the main player in Mainland policy however, is the President. So the debating about Mainland policy (trading with and invest in Mainland being an important issue) is especially fierce during presidential election campaign. Before and during the campaigns, the candidates read the public opinion quite intently and try to find the positions that impress most of population. Different public opinion polls, conducted by different research centers are useful tools for this. Unfortunately there is not much information available for this paper prior to the year

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<sup>35</sup> Ibid.

2000, but since then, the MAC has published quarterly polls. Here's a closer look at them.

First are some public reactions toward the Lee Teng-hui's "no haste, be patient policy." In May 1997, an MOEA poll indicated that 94% of the general public agreed that "national security should be the first priority in initiating economic policies toward Mainland China." 46% also agreed that the government should increase restrictions on investment in Mainland China" and 20% agreed that the "current restrictions should remain the same."<sup>36</sup> This research, however, may not be very objective as it was conducted by a government organization. More objective information about public opinion is available since 2001 when different non-governmental organizations (including National Chengchi University, Burke Marketing Research Ltd., China Credit Information Service Ltd., National Sun Yat-sen University, and National Chung-Cheng University) started to publish the results of public opinion research. Since then, people have been questioned on a regular basis and the results are available on the official MAC webpage.

The first question, people were asked was, "How should government handle Taiwanese investments in Mainland China?" (appendix III) Quite surprisingly, since December 2002, most of the people find that governments should increase the restrictions regulations. The highest percentage of people supporting increasing restriction regulations was in May 2003 when 64.5 % of questioned people agreed. We must keep in mind that this was after the relatively liberal period. Three mini-links were opened in 2001, Lee Teng-hui's "go slow, be patient" policy on Mainland investment was replaced with a policy of "active openness and effective management," Taiwan had joined the WTO, and it was expected that the regulations

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<sup>36</sup>Leng Tse-kang. May 1998. Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms. *Asian Survey*, Vol. 38, No. 5. p. 500.

would continue decreasing. It seems that for the majority of population, everything happened too fast. I am sure that Chen Shui-bian had all this information at that time and we may only guess the influence it had. However, we do know that after changing old policy, Chen soon adopted a more conservative approach. As more than 50% of the public was still supporting increasing restrictions, Chen stayed calm and no more remarkable reforms followed. The same can be said about his second term as president. As approximately half of the population supports increasing the restrictions and only roughly 30% supports reducing restrictions, there is no strong public pressure to reduce the restrictions. There is another interesting point about this poll. In the public's opinion, there seems to be no direct connection between the current political situation and investment restrictions. It would only be logical to predict that in March 2005, after the PRC launched its Anti-secession Law, the Taiwanese people would demand increasing restrictions. However, as seen in Appendix III, nothing like this happened. It is possible that the general public in Taiwan makes a clearer distinction between politics and economy than expected.

The second question was, "Should we open up direct transportation links with Mainland China?" This time only two choices were given: (a) should conditionally open up direct links and (b) should unconditionally open up direct links. Since 2002, there have been two clearly distinguishable groups. Approximately 70% of Taiwanese support conditional opening. The number has fluctuated from 69.3 % in April 2007 to 77.4 % in July 2004. The unconditional opening had the fewest supporters in August 2003 when only 6.2 % of Taiwanese agreed, and the most supporters in December 2006 when the same question received a positive answer from 16.4% respondents. Looking at the graph (appendix IV), one may easily see that the general trend, although slow, is to unconditionally opening up direct transportation links. It is quite

understandable, that in the globalizing world it becomes harder and harder to justify the lack of transportation links between Taiwan and its biggest trading partner.

Third question was about the pace of cross-strait exchanges. Possible answers were: (a) just right, (b) too slow, (c) too fast, and (d) don't know. This graph (appendix V) shows some rather interesting changes in public opinion. In August 2002, 36.5 % of respondents thought that it is just right, 32.9% had no opinion, 17.5 % thought it was too slow and 13.1% considered the pace too fast. Since December 2002, the number of people who have no opinion has decreased drastically. In April 2007, only 12.7 % could not express their attitude. At the same time, the percentage of Taiwanese who think it is too fast or too slow has grown. In April 2006, 34.5 % of respondents said that the pace is too slow, more than any other answer given. As we now know, the government eased the restrictions on IC technology soon after that, and in April 2007, 30.2 % still thought the pace was too slow. However, 34.5 % of Taiwanese now think that it is just fine. But there seems to be a paradox at work between this graph and the first one that considered Taiwanese investment on the Mainland. When in the case of investment, Taiwanese separated politics and economy, this graph shows us a direct connection between them. In May 2005, soon after the PRC's Anti-secession Law was announced, 25.7 % of the people thought the pace of cross-strait exchanges was too fast. This seems to have had a clear impact. Obviously Taiwanese people were not satisfied with the attitude of the PRC and the percentage of those who thought the connections between the two sides were developing too fast rose. Another point that is quite clear is that the polarization in Taiwanese society continues, as people who had no opinion join one or the other side.

The fourth question, considering cross-strait trade and investment was; "Whether to develop foreign or cross-strait relations as a priority?" (appendix VI). Possible answers: (a) developing foreign relations is more important, (b) developing

Cross-Strait relations is more important, (c) both are equally important, (d) don't know. The first thing that one can notice is the huge jump in December 2004 when 42.1 % of respondents said that developing both is equally important. At the same time the number of supporters of developing foreign relations decreased drastically. The reasons for such a huge change remain unclear, because in May 2005, everything was basically as before. With all its ups and downs, the general picture, however, remains the same. In April 2007, support for foreign relations and cross-strait relations is equal, as both gained 34.2%. 22.4 % of respondents found both equally important and only 9.2 % had no opinion. However, this is a tricky question. For many people, the precondition to develop foreign relations is developing cross-strait relations. It is clear that it is very difficult for Taiwan to have good relations with foreign countries without at least silent approval from the Mainland. The way to the world goes through Mainland China and it is up to the government on how they are going to manage it.

The previous overview of the attitude of the Taiwanese electorate shows us nothing but already well known facts. The Taiwanese government has never done something that is clearly contradictory to the majority of the Taiwanese people. And although the Taiwanese people have the highest power (as it is in the case of democracies), they only have their chance to choose the President once in every 4 years. There is only one day when their vote really matters. When this day is over, their power to change the President's decisions almost equals zero. Although this is not directly related to cross-strait trade and investment, we can use Chen's corruption scandal as an example.

On September 1, 2006, political activist and former Chairman of the DPP, Shih Ming-te launched a campaign called "Million Voices against Corruption, President Chen Must Go". The movement accused Chen of corruption and asked for his resignation. By September 7, more than one million signatures were collected,

each with a donation of NT\$100 (approximately US\$3).<sup>37</sup> On September 9, tens of thousands of people demonstrated in the streets of Taipei, wearing red. According to organizers, around 200,000 to 300,000 people joined the protest outside the presidential offices. Although this is a huge number, it didn't change anything. The thing is that according to the Constitution, recalling the President needs to be approved by two-thirds of all lawmakers. And if the Legislative Yuan really backs a recall, the motion must be confirmed by an absolute majority in a referendum with at least 50 per cent turnout. In reality, this is highly unlikely, unless it is a matter of life and death.

This case shows well that the President, even being highly unpopular,<sup>38</sup> is almost untouchable during his term. Public opinion can not directly change the attitude and policies of the leadership, although it has a big influence on an election campaign.

The preceding analysis demonstrates that the private actors in cross-strait trade and investment really are “rational.” As we saw in the case of Taiwanese businessmen, the official policy of Taipei has only little to do with the real outcome and volume of economic affairs. Taiwanese companies have always found their way out. When they are not allowed to invest in the Mainland directly, they have gone through third countries. Another possibility is to invest just a small portion of the whole and raise funds in the Mainland using local or foreign capital. Investing through subsidiaries has also occurred quite often.

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<sup>37</sup> BBC News, 2006-09-07.

<sup>38</sup> In May 2006, his approval rating, as determined by the TSU, fell to a dismal 5.8%. Additional sources showed his approval rating at around 20%. Support from his own party has also dropped with a few members calling for his dismissal as he had a bad influence on his party.

One must of course, not forget that there have been some slowdowns in Taiwan's trade and investment in Mainland China. However, since 1996 when Lee announced his "no haste, be patient" policy, these slowdowns were rather due to the Mainland's policies rather than Taipei's official cross-strait policies as Taiwanese businessmen have to follow Beijing instead of Taipei. First, Beijing has gradually eliminated preferential treatment for Taiwanese entrepreneurs. Secondly, the cost of land, labor, parts, and raw materials on the Mainland has increased since "China fever" started. Thirdly, there have been many trade disputes that have had negative influence on Taiwanese investment. And last but not least, not every Taiwanese company has been successful in China. Losses suffered by some investors have made many Taiwanese cautious.

However, the reasons that pull Taiwanese firms to the Mainland overshadow the risks and official policy. China's cheap labor, huge domestic market and cultural proximity pull them there. There is also a pushing factor, especially for the companies in the IT sector. Taiwanese sub-contractors are demanded by their partners to move to Mainland China in order to follow the general trend of globalization, vertical disintegration and the changed structure of production networks. Disobeying that demand means quitting business and is therefore unacceptable.

In the case of the electorate, we may conclude that its direct influence is very limited. Once people have elected their leader, they give away their bargaining power. However, before the elections the candidates observe the general opinion very carefully and shape their platform accordingly. In the long run it pays off and the trends among the people become a part of the ruling leadership. However, we must again separate the official policy and the real outcome in terms of volume. The power of the people may influence the first but has very little to do with latter.