

Chapter VII

Conclusion

As mentioned many times before, the cross-Strait economic policy making of Taiwan is a complex process. Now, after following this process through 19 years, is it possible to explain the change and continuity of it.

What has changed? The first thing is the quantity of economic ties, of course. In 1987, Mainland China was just a small (and illegal) market for Taiwanese goods and investment. Today, it is the main target of Taiwanese investors and the largest trading partner of Taiwan. It has all happened gradually, notwithstanding the official restrictions and policies. 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 are the pulling factors. In the case of information technology, there is also a pushing factor. 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 changed structure of producing networks. Fighting against that demand means quitting business and is therefore unacceptable.

There has also been a huge change in the quality of cross-strait economic relations. Trade with, and investment in, the Mainland was illegal in 1987. Today, it is something that sets the status in the society. And this is true not only in the case of companies. According to the personal experience of the author, even common people in Taiwan see Mainland China as a great place to do business and work.

The attitude of Taiwanese politicians towards the Mainland has also changed quite a lot. In 1987, Chinese Communists were "bandits" and therefore unworthy

partners for negotiations. Today, it is the “bandits” who set the rules for negotiations. When in the eyes of the authoritarian KMT government, the best policy to deal with them was the “three noess” policy, today it is the opposition KMT party that is looking for every chance to have a meeting with them. Shaking hands and smiling while speaking sweet words to the Communist leaders would be something that would warrant capital punishment during the Chiangs’ rule.

Even the official policy considering investment in, and trade with, Mainland China has changed a lot. From Lee Teng-hui’s early reforms to Chen Shui-bian’s latest regulations, the trend is obvious. Relaxing the restrictions is the only possible way. In 1987 the circle of policy makers was rather small, whereas the policies have become less restrictive now. It is mainly due to the increased number of participants in the policy making process. Different governmental organizations have been established to manage the relations with the Mainland. Businessmen, as the sponsors of different parties and candidates, have far more an important say than they had 19 years ago. The parties on the other hand have to avoid extreme approaches in order to please public opinion. It all has led to a situation where it is rather difficult to imagine a government who would increase the restrictions on trading with, and investing in, Mainland China.

With so many changes in cross-strait economic relations, is there anything that has been continuous? The answer to this question is yes. Cross-strait economic relations are still placed on the axis that has national security on the other side. These two are not separated yet. As we have seen, no major change has ever been done without the acceptance of the security organs. Even the most powerful player in the game, the President, has sooner or later accepted the opinions of his security advisers. It is something that comes with the job as the first thing the President has to do is take

care of is national security. This kind of pattern has been there since the establishment of trading regimes in 1987.

As has been pointed out, there are some particular policies that can be explained by using Allison's Rational Actor Model or Organizational Behavior Model. However, in order to understand the whole picture and the reasons behind the changes and continuity, we have to explain cross-strait economic relations using the Governmental Politics Model. As we know, the main questions we have to ask are:

- Who plays?
- What factors shape each player's perceptions and stand on the issue?
- What is the game?

As mentioned before, the circle of the players has gradually increased since 1987. Today, the main players are the President, relevant governmental organizations with their leaders, political parties, business community, and electorate.

These players have rather different perceptions and stands. The first thing the President has to take care of is national security. Being the one responsible for national security, the President can not launch any policies that endanger it. In order to do this, he relies mainly on security organs such as the National Security Council and the National Security Bureau. On the other hand, the President has always been something more than just a protector of national security. Looking at how Lee Teng-hui and Chen Shui-bian have gained and managed power, it is clear that they have involved a complicated network of relations. They both have had very close connections with the business community. Lee needed it to strengthen his position in early 90s. When the time went by and he did not have to worry about re-election, the influence of businessmen on Lee's policies decreased. Chen also had early connections with the business community (especially with Evergreen as its legal adviser). Later on, some of the businessmen supportive of Taiwanese independence

sponsored his campaign in order to get advantages in cross-strait economic relations. There is no doubt that these connections have had influence on their decisions.

Governmental organizations do not have a united approach. Security organs have always been very cautious when it comes to relaxing the cross-strait economic restrictions. They see this as an extremely risky business due to the the PRC's hostility towards Taiwan. The dangers as they see them are both political and economical. According to Allison's *Where You Stand Depends on Where You Sit* principle, they have had a huge influence on the policy making as they sit just next to the President. They have direct access to the President and all the other government organizations have to get their approval for policies considering Mainland China.

MAC has also a seat that is close to the President, but not as close as the security organs. The MAC has officially been in charge of Taiwanese cross-strait relations and its purpose has been tightening cross-strait economic relations and to support Taiwanese businessmen. However, it seems that in reality, the MAC has mainly been following the instructions of the President and security organs rather than the suggestions of the business community.

The rest of the governmental organizations have been more open to the relaxing of restrictions on cross-strait trade and investment. On the national security vs. closer economical ties axis they have often preferred the latter. However, they have been unable to launch any regulations without the approval of the National Security Council or the MAC. This has greatly limited their role in policy making process.

Political parties have very different stands on the issue, too. Opposition parties (DPP before 2000 and pan-blue parties since 2000) have always stressed closer economic ties with Mainland China. Ruling parties, on the contrary, have focused on national security rather than tightening economic ties with the Mainland. While

Mainland China's economy is booming, Taiwan's economy has not been doing so well lately. Under these circumstances it is quite understandable that both camps have used this issue during the elections in order to gain the support of the electorate.

The business community obviously has only one main goal – profit. Taiwanese businessmen are located on the other end of the national security vs. closer economical ties axis. Since the democratic reforms in the early 90s, their role in the policy making process has been continuously growing. Although the restrictions have not slowed down their “China fever,” there are still many changes they are fighting for. Easing the restrictions on investment in Mainland China and establishing three direct links are the most important among them.

The voice of the electorate has also been growing since the popular elections were put into practice. Today, every presidential candidate and political party has to consider it. Due to the weak performance of the Taiwanese economy, the public opinion is moving towards closer ties with the Mainland. It is expected among Taiwanese people that this is the only way Taiwan can benefit from Mainland China's rapid economical growth.

And the final question: what is the game? Taking all the previous information into consideration, we have to agree with Allison that the decision making process of Taiwan's cross-strait economic policy really is a series of ongoing bargaining between different players. The President, the one who has the most important role to play, is always between two contradictory opinions. On one hand there are security organs that insist on national security. They see closer economical ties between two sides of Taiwan Strait as a danger to country's sovereignty and do everything they can to slow down the process of tightening cross-strait economic relations. On the other hand, there is the business community insisting that the only way to re-vitalize country's economy is to have closer ties with Mainland China. Different governmental

organizations and political parties have found their place between these two opinions depending their particular approach and place in the hierarchy.

The President (keeping in mind their personalities and personal preferences) has to find the balance between these two contradictory opinions. During the peaceful days, the business community's approach seems to be the one that suits best. During the crises, however, security comes first. As the *Where You Stand Depends on Where You Sit* principle states, security organs take the closest seat to the President and the policies launched are very similar to their approach. But according to what we have seen, the position of business community keeps strengthening as public opinion shares their views. For example it becomes more and more difficult to explain, how the establishment of three links could possibly endanger Taiwan's sovereignty. And political parties and presidential candidates keep that in mind.

In perspective, it is clear that Taiwan should change its official policies. At the moment, the Taiwanese government is on the loser's side. Taiwanese capital keeps flowing into the Mainland, followed by Taiwanese specialists. This may lead to many problems, including "hollowing out." It is necessary to create a win-win situation so that Taiwan could benefit from its contacts with Mainland China. In my opinion, Taiwan must open direct trade, mail, and transportation links with mainland China as the first step. It is difficult to understand their necessity. The reason of national security seems weak because it is hard to believe that Mainland China's intelligence can not get the information they need because they have to come to Taiwan through Hong Kong or Macau. In the meantime, Taiwanese people and companies are feeding Hong Kong with hundreds of millions of dollars that could be spent in a much better way. As public opinion is also changing in favor of opening direct links, I think we will see that happening in the not very far future.

Taiwan's restrictive policy on imports and investment from the PRC is another

thing that should be changed. As a WTO member, Taiwan can no longer maintain the current unilateral policies that restrict cross-strait economic transition. Taipei should not fear Chinese capital as they can maintain control over Mainland China's firms exactly the same way Beijing has control over Taiwanese companies. After all, real challenges of economic dependence are not from potential economic statecraft from Mainland China, but rather due to the structural factor of institutionalized economic globalization and vertical disintegration.

Another thing is that Taiwanese companies should move from OEM/ODM production to brand management. This would help them to strengthen their positions in the global production network. Instead of following the rules, they should take the part of rule makers. The way Acer has done should be encouraging.

Most importantly, we have to understand that as a relatively small country, Taiwan can not compete with such a giant as Mainland China in terms of production. However, there are some examples when a small country can become very successful due to its knowledge-based economy. The cases of Finland (Nokia) and Sweden (Ericsson) show us that to be economically successful, a country does not necessarily need a huge population. This is the only way for Taiwan. Taiwan has to develop a knowledge-based economy as its priority. Hollowing out of low-value-added activity is not a critical concern. Hollowing out the future higher-value-added activity is the real concern. The government has to take the lead and drive the private sector in research and development of new technologies. There are at least two such technologies: nanotechnology and biotechnology.

Nanotechnology is expected to revolutionize science and consumer products over the next two decades the way computers and the Internet have over the past three. The Taiwanese government should regard the progress in that field as necessary in the face of China's increasing competition. Taiwan has designated nanotechnology as one

of the three industries they will focus on, and in fact Taiwan's nanotechnology industry has been catching up quickly with its peers worldwide in recent years. After all, Taiwan's future lies in innovation, not in confrontation with Mainland China.