

Cross-Strait Economic Relations: Recent Development and Implications for Taiwan

Les relations économiques Trans-Détroit : développements récents et implications pour Taïwan

Las relaciones económicas Trans-Detroit : desarrollos recientes e implicaciones para Taiwán

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Introduction

- The Cross-Strait economic relations intensified when Taiwanese entrepreneurs began to invest massively in China since the early 1990s. The Mainland-based Taiwanese companies imported the intermediate goods and capital equipments from Taiwan, processed in China and exported finished goods to the world market, mainly to the US. China's abundant and less expensive labour force and huge landscape enabled Taiwanese companies to expand their operations, thus benefitting from economies of scale and keeping their products globally competitive. Over the last two decades, the well-established division of labour across the Strait allowed Taiwan from being the main exporter of labour-intensive manufactured goods to the leading producer of Information and Communication Technology (ICT) products in the world. At the same time, the export-oriented foreign direct investment (FDI), of which Taiwanese investment took a large share, was advantageous for China's economic development and for its integration into the regional production network. Since China's economic opening up at the end of the 1970s, Taiwan has been one of the most important foreign investors in China. In 2011, Taiwan, with US\$ 6.7 billion investments, was the second largest inward investment source for China, behind US\$77 billion from Hong Kong, according to Chinese official statistics. Taiwan also played an essential role in promoting China's trade development.

In 2009, among the top 10 exporting companies in China, 6 of them were subsidiaries of Taiwan enterprises. In particular, the three Taiwanese owned firms, Quanta Computer, Foxconn, and Compal, are the leading exporting companies in China (Ministry of Commerce of People's Republic of China).

- 2 The intensifying economic ties between Taiwan and China made the establishment of institutionalized economic relations a necessity. Several official contacts across the Taiwan Strait already started since the first half of the 1990s. However, in 1995, in order to protest against the visit of Taiwan's President Lee Teng-Hui to the US, the scheduled Cross-Strait negotiations were terminated unilaterally by China. During Chen Shui-bian's era (2000-2008), China refused any official talk with Taiwan mainly because Chen's pro-Taiwan independence appeal was unfavoured by Chinese leadership. Since Ma Ying-Jeou took office in 2008, the Cross-Strait talks, halted for 9 years, shortly resumed. Different from former President Chen, President Ma's emphasis on Chinese ethnicity and Chinese identity won much of China's applause. As a result, since 2008, the government-to-government cooperation on Cross-Strait affairs have been developed quickly and incorporated a variety of issues, from food security, joint crime fighting to more economic opening up between the two sides. Representative of the progress in institutionalized Cross-Strait economic relations was the signing of the Economic Cooperation Framework Agreement (ECFA) in June 2010, which aimed at eliminating barriers to trade and investment across the Strait.
- 3 Although the development of institutionalized economic relations seems beneficial for both sides, one critical question remains: Will Taiwan be able to maintain its political independence while taking advantage of economic benefits from China? It is generally believed that the growing economic interdependence between Taiwan and China will promote the peaceful political relations and further enhance the regional stability (Peng, 2002, p. 6). Others pointed out that in the absence of the mutual political understanding, the economic integration will be developed with constraints (Chang, 2004, p. 2; Crane, 1993, p. 715) From the current perspective, the political reconciliation between Taiwan and China is still a long term issue. Indeed, the Cross-Strait economic integration so far still relies largely on the world economy, particularly the investors and consumers in the developed countries (Breslin, 2004, pp. 18-20). In addition to Taiwan, China is also the largest trade partner for Association of Southeast Asian Nations (ASEAN), Japan, South Korea, Australia and India and the second largest trade partner for New Zealand. Therefore, at the regional level, Taiwan's signing of ECFA with China signified that the island is following the wave of "China-centred" regionalization. The conventional "market driven" and "China-centred" regionalization would be further supported by the different sorts of Free Trade Agreements (FTA) already implemented between China and other major economies in the region, such as Taiwan, Hong Kong, Macao and Association of Southeast Asian Nations (ASEAN).
- 4 The main objective of this article is to elucidate the recent progress of Cross-Strait economic integration and how that integration implies for Taiwan's economy and its political sovereignty. First, over the last two decades, Taiwan's massive investment has resulted in its de-industrialization. At the time when the manufacturing production has been relocated to China, Taiwan's small scale and domestic market oriented service sectors are not able to stimulate the economy. Second, though the political reunification is not yet possible, the recent economic rapprochement is likely to put Taiwan in a less advantageous position on the future negotiation table with China. While the importance

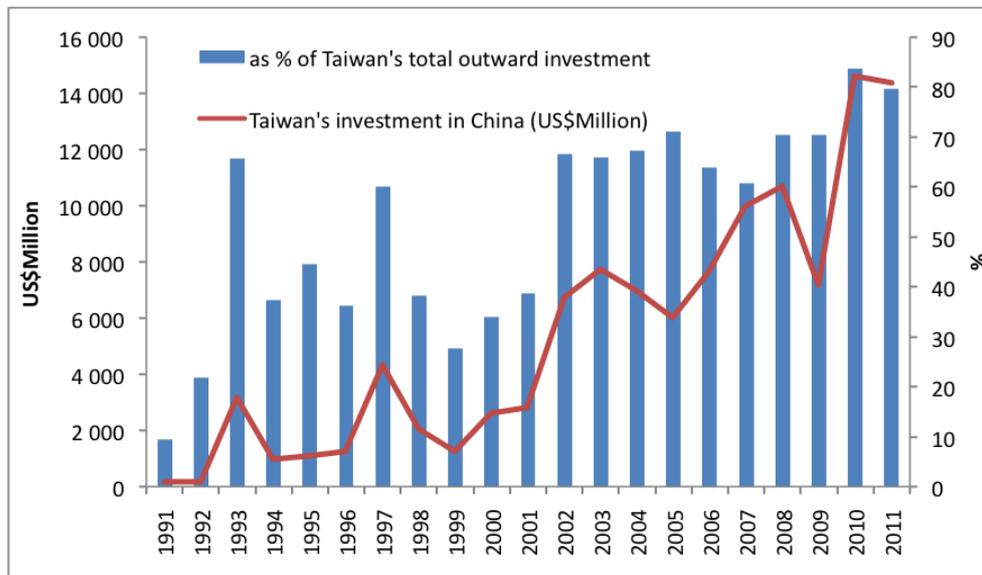
of China in Taiwan's overall trade has been growing, the Taiwan made products in China's market has showed a declining trend. In other words, China initially needed investment from Taiwan for its economic growth. When the division of labour across the Strait became mature, it is Taiwan that could no longer break this bilateral economic tie. Finally, in view of the rapid development of FTA between the Asian economies, Taiwan's minimal involvement in regional economic integration will push it to open more to China as it is the easiest short-term solution to Taiwan's lack of internal dynamics for economic growth.

1. The Changing Pattern of Taiwan's Investment in China

- 5 Since 1990 when Taiwan's Ministry of Economic Affairs (MOEA) lifted bans on indirect investment in China,¹ China soon emerged as the most important host country for Taiwan's outward investment. Taiwan's official figures showed that the investment amounted from merely US\$17 million in 1991 to about US\$14 billion in 2011 (Figure 1). During the same period, the weight of China in Taiwan's total outward investment also increased from 10% to 80%. In addition to the "China fever" that attracted many Taiwanese entrepreneurs to take advantage of cheap labour force, less expansive land cost and preferential policies for foreign investors, the increasing investment amounts could be reasoned as follows. First, as Taiwanese government strictly controlled the outward investment in China in the 1990s, many Taiwan business people invested in China through Hong Kong or their holding companies in British Central America, such as the Virgin Islands and Cayman Islands² in order to bypass the rules. Therefore, as the "allowed" investment was limited, the investment amounts recorded by the government were not substantial. After 2000, when Taiwan gradually deregulated the rules from indirect to direct investment and opened up more sectors for direct investment, the recorded investment amounts enlarged as a result.
- 6 Second, the dramatic change in the type of Taiwanese investment from small and medium enterprises (SMEs) to large enterprises with much financial resources also amplified the investment amounts. That shift from SME to large enterprises can be observed by the increase in the average amount of investment per project, from US\$ 0.7 US\$ million in 1991 to US\$16 million in 2011. Such can also be reflected in the changes by sector from traditional sectors to more high technology industries. In 1991, rubber, plastic and non-metallic mineral products (31% of Taiwan's investment in China) and textile related products (23% of Taiwan's investment in China) accounted for the majority of Taiwan's total investment in China. In 2011, the shares of these two sectors invested in China declined to 7% and 2% respectively. At the same time, the ICT sectors have emerged as Taiwan's major outward investment focus in China. In 2011 for example, 35% of Taiwan's total investment in China was in ICT sectors, including computer and electronic products. According to Taiwan's Investment Commission, Foxconn Technology and Compal Electronics, INC. Taiwan's two important ICT manufacturers, both made considerable investment in China in 2011, amounting to US\$700 million and US\$400 million, respectively. That shift of investment from SMEs to large enterprises and from labour intensive to high technology related sectors is still motivated by cost considerations, including China's less expansive labour force and land cost.

- 7 The rising importance of ICT sectors in Taiwan's investment profile in China is indeed a reflection of Taiwan's structural changes toward ICT manufacturing. Since 2006, the ICT industry has accounted for over 50% of Taiwan's overall manufacturing production. The employment in the ICT industry has also taken the largest share of Taiwan's total employment in manufacturing. Moving production to China appears to have helped Taiwanese ICT companies grow their global market share. For example, the notebook PCs made by Taiwanese firms increased from 56% of global market share in 2002 to 94% in 2010. The global share for motherboard also increased from 72% to 94% in the same period. While their subsidiaries in China were responsible for the final product assembly (such as for notebooks, digital cameras and motherboards), the island specialized in high value added manufacturing activities (such as IC foundry, IC testing and IC design). In recent years, due to the rising production cost in coastal regions of China, big Taiwanese manufacturing firms, such as Foxconn, Acer, Inventec, have moved some of their plants to the inland cities of China, such as Chendu, in Sichuan Province (Want China Times, 2012). The share of Taiwan's ICT investment in Southwest China thus increased from 1% in 2007 to 10% in 2011. Besides the migration of production to China's inland region, some Taiwanese leading ICT companies are also seeking to lower costs by operating Research and Development (R&D) centers in China. The R&D in China now plays a supplementary role on product improvement, especially product lines for the Chinese market (Straits Times, 2011; The China Post, 2012).

Figure 1. Taiwan's Investment in China 1991-2011



SOURCE: INVESTMENT COMMISSION, MOEA, TAIWAN.

2. Taiwan's de-industrialization and Difficulty in Transforming into a Service Oriented Economy

- 8 The immediate effect following the massive outward investment in manufacturing is the de-industrialization problem. In 2011, the service sector already accounted for 70% of Taiwan's total GDP while industry and agricultural sectors accounted for 29% and 1% respectively. This is very different from Taiwan's industrialization period during the

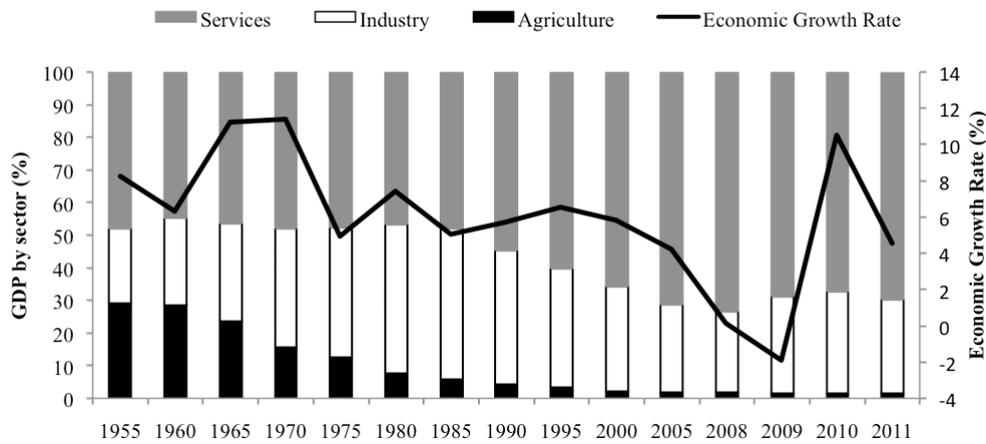
1980s, when 40% of its GDP was in industrial production. Same structural changes were also reflected in employment. During the 1980s, the development of the industrial sector successfully absorbed a large portion of the mass labour force released by the shrinking agricultural sector. However, the weight of employment in industry that once reached about 43% of the total employment in 1980 had diminished to 36% in 2011. Meanwhile, the share of employment in services increased from 38% to 59%.

- 9 The percentage of industrial sectors in GDP decreased gradually and at the same time the economic growth rate decelerated (Figure 2). Similarly, although the share of employment in services is greater than before, Taiwan's unemployment rate increased, from nearly 2% in 1990 to about 6% in 2009 and 4% in 2011 (Figure 3). Hence, the rising shares of service in both GDP and employment are more a reflection of the decline in manufacturing activity in Taiwan rather than a strengthening of the service sector. While the service sector has not yet become the engine of economic growth, the industrial sector has already moved out of Taiwan quickly and largely to China. As new jobs created by the service sector is unable to replace the job losses resulting from the closure of factories, the number of those unemployed rose.
- 10 The main reason for the weak services in supporting Taiwan's economy is that Taiwan's service sectors have been mostly small scale and domestic oriented. This is very different from Hong Kong and Singapore, where an internationally competitive service sector contributes significantly to their economic development. In contrast, Taiwan's services have been mainly for domestic consumption, low value-added and non-tradable. The roles of Hong Kong and Singapore as important transit ports for the grand markets of China and Southeast Asia respectively are also essential reasons for their more significant development of trade in services.
- 11 Over the last two decades, Taiwan's relocation of manufacturing production to China allowed many service-related sectors (such as R&D, sales, product design etc.) to cluster in Taiwan. However, the traditional production relationship where "Taiwan takes orders and China produces" may change in the future. An official survey demonstrated that some Taiwanese firms, especially the traditional labour intensive industries, have already set up R&D departments in China. Some of their subsidiaries in China also began to take the role of "receiving orders" from foreign buyers (Liu, 2011, p. 39). Although China's R&D centers are less significant and more advanced technology is still kept in Taiwan, from a longer term perspective, the importance of China's R&D is likely to raise and even surpass Taiwan and thus upgrade China's position in the global production network. As a result, the Cross-Strait division of labour will be shifted from vertical integration to horizontal cooperation. More opening up in direct transportation and other economic exchanges between Taiwan and China will facilitate the Cross-Strait synergy in both manufacturing and R&D. Furthermore, owing to the weaker demand from Western countries and Chinese government's recent emphasis on spurring domestic consumption, more and more Taiwanese firms started to aim at China's domestic market. The services that support the manufacturing production is likely to move out from Taiwan in the future in order to have an accurate and quick respond to China's domestic demand. Therefore, the role China will no longer be as a simply assembling location for the manufactured goods. A comprehensive supply chain, including manufacturing, sales and after sales services will be constructed in China.
- 12 In addition to the considerable outward investment, the lack of inward investment in high value added sectors is another reason that worsens Taiwan's de-industrialization

problem. Since 1997 Taiwan's inward investments have been constantly less than the outward investment. Between 2002 and 2012, the outward investment amounted to nearly US\$ 151 billion, more than twice of the inward investment amounts (US\$72 billion). In fact, not only foreign investors but Taiwanese entrepreneurs also have no strong interests in investing on the island. According to MOEA's survey, in 2010, 86% of the Taiwanese companies that had already invested in other countries had no plans to invest in Taiwan in the next three years (Liu, 2011, p. 30). The main reason is that these Taiwanese companies have already established their production network overseas. As the current arrangement with upstream suppliers and downstream partners functioned well, any modification to the production site is regarded as disadvantageous to achieving "cost-efficiency".

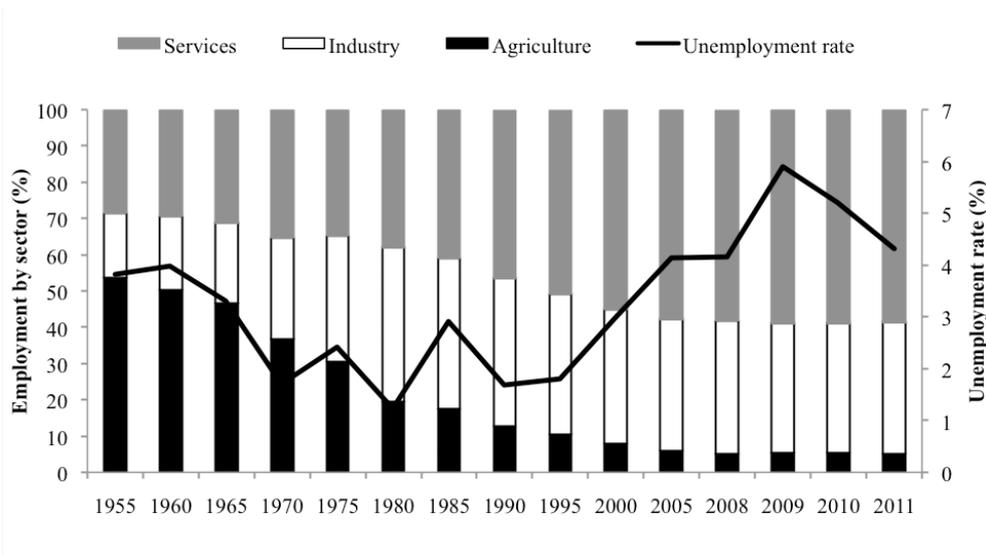
- 13 The rising labour cost and appreciation of New Taiwan dollar in the 1980s were often attributed as the reason behind Taiwan's less attractiveness for foreign investors. More recently, the reason could be attributed to the government inefficiency. According to the World Bank, the government's bureaucratic practices, including the long procedure needed to obtain construction permits, the weak contracts enforcement and protection for investors, the relatively higher tax and the less accessibility to credit are the main obstacles for foreign investors doing business in Taiwan. In order to promote investment inflow, several preferential policies, such as lower tax rates, incentives for lease and purchase of land in industrial parks and financial loans have been introduced by the government to attract foreign investors. Nonetheless, the result is not so satisfying. After the global financial crisis, the inward investment decreased from US\$ 15 billion in 2007 to US\$5 billion in 2009. The promotion measures then turned to attract Chinese investors. Since 2009, Taiwan has lifted the ban on investment from China. The Chinese citizens now can invest in a variety of sectors including manufacturing, services and public construction in Taiwan, except for some high technology sectors and some high value added service sectors. The Taiwan government hopes that the opening up of Chinese investment will be helpful in making up for Taiwan's deficiency in foreign investment. In 2012, among the US\$5 billion of inward investments, 24% was mostly from British overseas territories in the Caribbean, followed by investments from Holland (20%), Japan (7%), the US (7%), Samoa (7%) and China (6%). In fact, inward investment from British overseas territories in the Caribbean may be made by Taiwanese companies registered in British overseas territories in order to benefit from certain privileges aimed at attracting foreign investors. Like in the 1990s, many Taiwanese business people invested in China through their holding companies in British Central America, such as the Virgin Islands and Cayman Islands in order to bypass the outward investment constraint. The insignificant inflow of Chinese investments so far is probably because Taiwan's small market and the current sectors open to Chinese investors do not correspond with their interests. The high technology sectors that many Chinese investors are interested are still not deregulated for China to invest.

Figure 2. Taiwan's GDP by Sector 1955-2011



Source: DGBAS, Executive Yuan, Taiwan.

Figure 3. Taiwan's Employment by Sector 1955-2011



Source: DGBAS, Executive Yuan, Taiwan.

3. Taiwan's Growing Trade Dependence on China

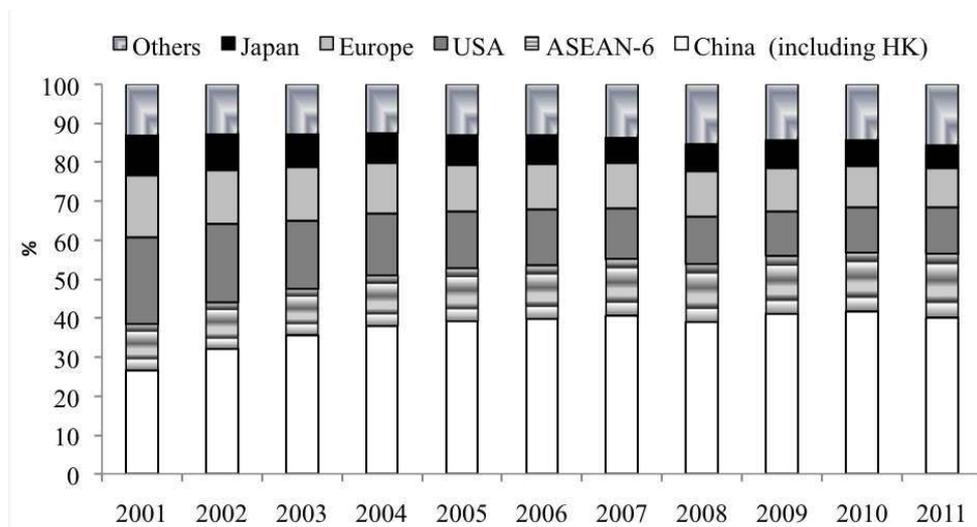
14 Taiwan's growing trade dependence on China can be accessed via two aspects. The first one is to compare Taiwan's trade with China and with other trade partners to see how importance of China in Taiwan's overall external trade. Since 2000, China and Hong Kong combined have surpassed the US to become Taiwan's largest export destination. As shown in Figure 4, in ten years, Taiwan's exports to China and Hong Kong as percentage of its total exports jumped from 27% in 2001 to 40% in 2011. While Taiwan's exports to China continued to take a great share of its total exports, Taiwan's exports to the US, Europe and Japan as shares of its total exports have declined significantly with the exception of Southeast Asian countries. As for imports, although Japan remains Taiwan's

largest import source, its share in Taiwan's total imports has already decreased considerably from 24% in 2001 to 19% in 2011. Imports from the US, Europe and ASEAN also decreased noticeably over the last decade. Meanwhile, the share of Taiwan's imports from China increased from 7% to 16% in the same period (Figure 5). In consideration of the rapid growth of imports from China in recent years, China will be likely to overtake Japan to become the largest source of imports for Taiwan in the next few years. However, China will not replace Japan as the main supplier of key component to Taiwan as Japan still holds more advanced technology. Indeed, one of the reasons for the rising share of Taiwan's imports from China is that some Taiwanese companies began to sell the industrial goods manufactured in China back to Taiwan. The Cross-Strait trade are increasingly towards to "intra-industry trade" in which the exchange of goods are similar and in the same industries. In 2011 for example, electrical machinery and equipments (HS Code 85), the most traded goods between Taiwan and China, accounted for 39% of Taiwan's total imports from and 31% of Taiwan's total exports to China.³

- 15 The second aspect is to compare the share of China and Taiwan in each other's total trade to see which one has more weight to the other. It is noteworthy that although China is increasingly important in Taiwan's external trade, Taiwan's importance in China's overall trade is decreasing. From 2001 to 2011, China's exports to Taiwan have remained at around 2% of total Chinese exports (Figure 6). The almost non-increase of Chinese exports to Taiwan as a share of its total indicates that Taiwan's small market provides only limited growth potential for China's products. Thus, while China is becoming a significant export destination for Taiwan, the small island has not yet been and will be less likely to become an interesting market for China. Meanwhile, China's imports from Taiwan as percentage of its total imports declined from 11% to 7% (Figure 7).
- 16 There are three reasons behind Taiwan's decreasing share in China's total imports. First, in recent years, the Mainland-based Taiwanese companies have shifted their preference for purchasing intermediate goods from China instead of importing from Taiwan. According to Taiwan's official survey, in 2002, only 15% of Mainland-based Taiwanese companies procured capital equipment and intermediate goods from local firms in China but this ratio increased to over 60% in 2010. During the same period, procurement for products from Taiwan decreased from 45% to around 23%~28% (Liu, 2003 and 2011). The shares of local procurement in China were especially high in traditional industries, such as food and chemical products. Second, the under-performance of Taiwanese companies in China subsequent to the rising labor cost in recent years also led to a reduction in their import of intermediate goods from Taiwan. According to Taiwan's National Security Bureau's report to the Legislative Yuan in September 2012, 30% of Taiwanese investors in China faced bankruptcy and another 30% were struggling for survival (The Epoch Times, 2012). Third, the reduction of Taiwan's share in China's total imports may also be a result of China's changing import structure. China's imports of mineral products increased from 8% in 2002 to 25% in 2011 while its imports of machinery (from 43% to 32%) and electrical equipment (from 25% to 20%) had decreased.⁴ This import structural changes from industrial goods to mineral products imply that as China's economy continues to upgrade, the demand for intermediate goods (eg, from Taiwan and South Korea) is likely to be less important. In the mean time, its demand for raw materials and natural resources (eg, from resource rich Southeast Asian countries) may continue to expand. Taiwan's high dependence on manufacturing goods exports to China is thus vulnerable not only to the global demand but also to China's industrial upgrading.

17 From the above interpretation, it is clear that while China is increasingly important for Taiwan’s overall external trade, its dependence on imports of industrial goods from Taiwan is failing. For an export-oriented economy like Taiwan, its high trade dependence on China means that Chinese economic shifts would be quite determinant for Taiwan’s economic up and down. Taiwan’s reliance on China implies that any political confrontation or economic change in China would result in a greater impact on Taiwan’s economy than *vice-versa*. Some viewed that Beijing’s economic sanction against Taiwan is less possible as it will also harm China’s economy given the close ties in the Cross-Strait division of labour (Tung, 2003, p. 143). However, although such an economic sanction against Taiwan’s imports may also damage Chinese economy, China’s greater economy can support better than small Taiwan for that economic crash. China’s larger domestic market can absorb the shock from economic break with Taiwan. Moreover, as mentioned previously, China is less dependent on trading with Taiwan. If there is any disagreement between Taiwan and China, China can switch its import sources from Taiwan to Japan and South Korea, which have similar export items as Taiwan. On the contrary, Taiwan will be unable to find a substitute for its exports immediately. In a nutshell, Taiwan will have less leverage to sustain China’s economic sanction if there is any.

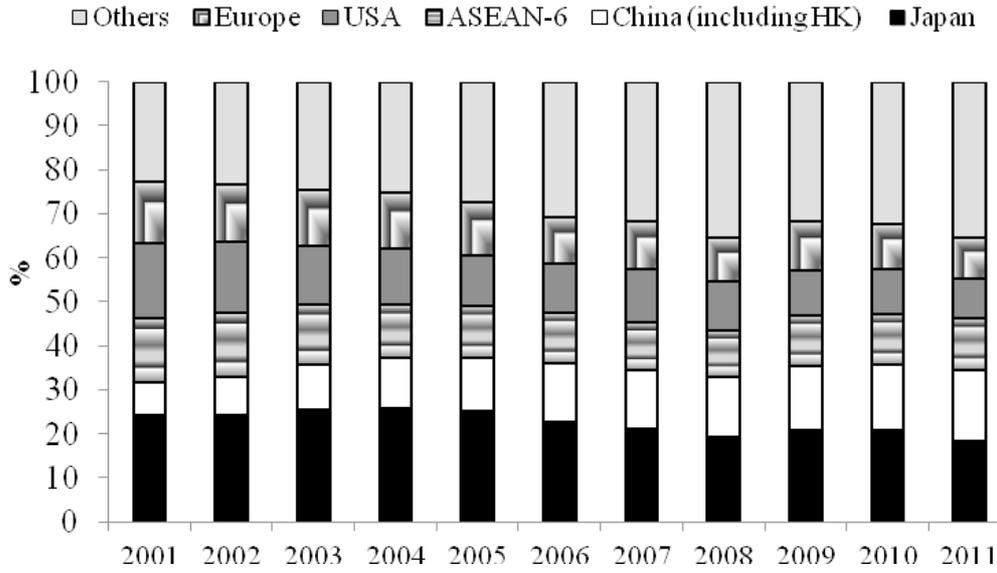
Figure 4. Share of Taiwan’s Export Destinations by Country/Region 2001-2011



Source: *Quarterly National Economic Trends*, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan, August 2011; Ministry of Finance, Taiwan.

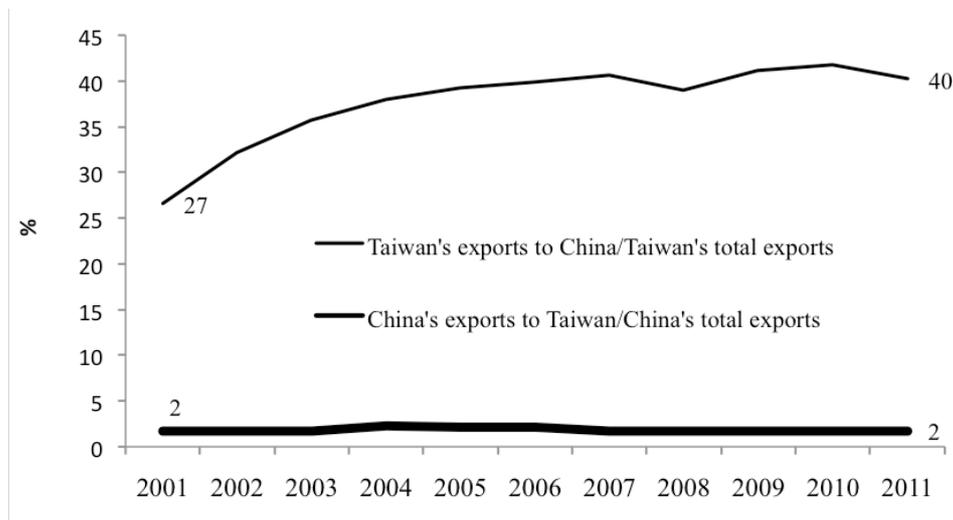
NOTE: ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN-6), INCLUDING BRUNEI DARUSSALAM, INDONESIA, MALAYSIA, PHILIPPINES, SINGAPORE AND THAILAND.

Figure 5. Share of Taiwan's Import Origins by Country/Region 2001-2011



Source: Quarterly National Economic Trends, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan, Aug 2011; Ministry of Finance, Taiwan.

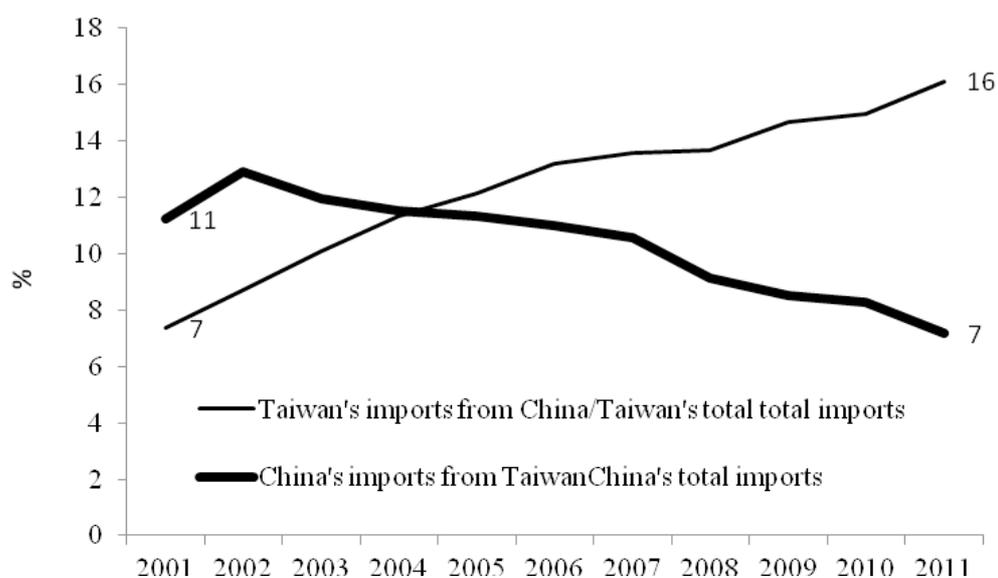
Figure 6. Shares of Taiwan's exports to China and China's exports to Taiwan 2001-2011



Source: Ministry of Finance, Taiwan; CEIC.

NOTE: CHINA INCLUDES HONG KONG.

Figure 7. Shares of Taiwan's imports from China and China's imports from Taiwan 2001-2011



Source: Ministry of Finance, Taiwan; CEIC.

NOTE: CHINA INCLUDES HONG KONG.

4. ECFA: Political and Economic Considerations

- 18 The institutionalized economic relations seem the best solution to secure Taiwan's economic interests. Since 2008, a number of agreements have been signed between the Straits Exchange Foundation (SEF, on behalf of Taiwan) and the Association for Relations across the Taiwan Straits (ARATS, on behalf on China), or during the Chiang-Chen Summit.⁵ With the implementation of the early harvest programme under ECFA on 1 January 2011, China has to lower tariffs on 539 items, ranging from agricultural to manufacturing products such as petrochemicals, machinery, transport equipment and textiles while Taiwan reduced tariffs on 267 items imported from the mainland since January 2011. The aim is to progressively reduce the tariffs of these items to zero by 2013. In terms of trade in services, China opens up 11 service sectors for Taiwanese investment while Taiwan opens 9 sectors in both financial and business services.
- 19 To facilitate follow-up negotiations, the Cross-Strait Economic Cooperation Committee (ECC), in its first meeting in February 2011, decided to establish six working groups, including those on trade in goods, trade in services, dispute settlement, investment, industrial cooperation and custom cooperation. In spite of the progress in cross-strait economic negotiations, the political debate on ECFA continued in Taiwan. The KMT argued that its economic opening up policy toward China is beneficial to the island's economy (Taiwan News, 2011). Nonetheless, the Democratic Progressive Party (DPP) continued to blame the KMT government's underestimation of the negative impact on Taiwan, such as the rising unemployment rate, Taiwan's wider trade deficit in agricultural products with China and the leakage of agricultural technology to the mainland (Asia Pulse, 2011). Some opine that an assessment of the effects of ECFA may be premature due to the relatively insignificant share of early harvest products in total trade. In 2009 for example, the products listed on the early harvest program of ECFA

accounted for only 14% of Taiwan's total imports from China and 11% of China's total imports from Taiwan. In fact, the political implication so far is more significant than its economic impact. China regards ECFA as a stepping stone toward reunification. The KMT expected ECFA to contribute to Taiwan's economic prosperity and further retain its political power on the island. The re-election of President Ma Ying-jeou in 2012 indicated that the KMT government's economic opening-up policy towards China during the first term of Ma's presidency (2008-2012) was generally supported by the majority of Taiwanese people, especially some prominent Taiwanese entrepreneurs, who publicly affirmed that the 1992 consensus⁶ is beneficial for Taiwan-China economic cooperation as well as Taiwan's economic development in the future.

- 20 Different from about two decades ago when Taiwanese government still tried hard to avoid its overdependence on China, the growing economic ties with China in terms of investment and trade have forced the government to make some changes. Due to the severe business competition in the Chinese market, the Taiwanese government is very keen on finalizing deals on commodity and services trade with China before China makes any further headway in FTA negotiations with Taiwan's competitors in the world market, such as South Korea. The Ma administration regards ECFA as an equivalent to FTA and as a means to promote the island's economic growth. It also aims to use China's huge market as a platform for the brand development of Taiwan's service sectors. The institutionalized economic relations is not to be seen as a move to further encourage cross-strait economic relationship, but rather, a passive reaction of the Taiwanese government towards its inevitable strengthening relationship with China.
- 21 At the same time, Taiwan is concerned that its heavy economic dependence on China may lead to a political compromise in the future. Hence, in addition to ECFA, the Ma administration has actively pursued FTAs with other economies. The negotiations on the Agreement of Singapore-Taiwan Economic Partnership (ASTEP) and Economic Cooperation Agreements (ECA) with New Zealand are in progress. Economic agreements with Israel, Indonesia, the Philippines, Malaysia and India are also under feasibility study. Nonetheless, compared to other East Asian countries, Taiwan lags behind in negotiating FTA with both individual economies and the economic blocs. Southeast Asian countries can freely access China's market via the Association of Southeast Asian Nations plus one (ASEAN+1). South Korea's FTA with the US and European Union has already taken effect. Singapore, Malaysia and Vietnam also want to consolidate their economic relations with America via the Trans-Pacific Partnership (TPP). The leaders from China, Japan and South Korea agreed to launch the first round of trilateral FTA negotiation in 2013. The three countries also joined ten ASEAN members, Australia, New Zealand and India in plans to launch negotiations on Regional Comprehensive Economic Partnership (RCEP) in 2013. The relaxation of Taiwan's restrictions on imports of US beef in July 2012 paved the way for the resumption of Taiwan-US Trade and Investment Framework Agreement (TIFA) and possibility to be part of TPP. However, as the US is likely to push for an agreement to liberalize Taiwan's services and agricultural sectors in favor of US business, protectionist forces in Taiwan may make it tough for the government to accept such proposed measures. Due to the unclear future of Taiwan's FTA with other economies and Taiwan's entry into TPP, the island is more likely to make efforts to secure the economic benefits gained from ECFA in order to counterbalance the impact from the rapidly developed regional economic integration.

- 22 Fully exposed to international competition and a high dependence on China's market, the Taiwan economy has been facing a prolonged period of de-industrialization, resulting in its sluggish economy. The Ma's government is more likely to deepen its economic dependence on China as it offers the easiest short-term solutions to Taiwan's lack of internal dynamics for economic growth. Meanwhile, the new Chinese leadership is unlikely to alter the current harmonious relation with Taiwan, the best they have had since 1949. Further advancement in cross-strait economic relations can be expected from the following aspects. First, Taiwan will accelerate its follow-up talks in ECFA, including trade in goods and services so as to counterbalance the impact of rapid regional economic integration. Second, the further opening up to Chinese tourists is expected as it will allow Taiwan's tourism sector to enjoy a boom in terms of tourism revenue and employment. Third, more deregulation of financial sectors across the strait is encouraging as it will bring more business opportunities to Taiwan's financial companies serving entrepreneurs between Taiwan and China. In fact, in order to enhance the prospects of the island's financial sectors, Taiwan has envisioned itself to become another Renminbi offshore centre after Hong Kong. As a result, cross-strait economic integration will become a comprehensive quasi-FTA that includes free movement between the people, goods and financial capital in the foreseeable future.
- 23 The Cross-Strait economic integration surely creates a good environment for the future political reconciliation. However, the current conditions are not mature for the reunification to be carried out. The opinions poll in 2013 indicates that only a small share of people in Taiwan support immediate reunification with China (3%). 9% of people in Taiwan support "status-quo now and reunification later". The majority of them wants to keep the "status quo forever" (28%) and "status quo now and decide independence or reunification later" (33%).⁷ Moreover, in spite of the improvement in cross-strait economic relations, another survey showed that the current mainstream view in Taiwan is that China acts more like a "business partner" (44%) and "friend" (18%), instead of "families" (8%) or "relatives" (5%). The majority of the Taiwanese people regard "reunification" an unnecessary option (66%) even if China is able to catch up with Taiwan in terms of GDP per capita, political freedom and social stability (Global Views Survey Research Center, 2010). As for China, the political relation with Taiwan is considered a long term issue. As long as Taiwan does not declare its independence *de jure*, in the next few years, the Cross-Strait relations will continue to be limited within the economic framework. In fact, there are many social problems and economic reforms that are even more urgent for Chinese leadership to deal with. In addition, China's frequent territorial disputes in recent years with its neighbouring countries along the island chain in East Asia, including with the Southeast Asian countries on the South China Sea issue and with Japan on Diaoyu Island, have made the peaceful relations with Taiwan quite essential. Despite the political tension with its neighbouring countries, China's active involvement in FTAs with many regional economies, including Taiwan, would help to ease the "China threat" concerns and facilitate China's "peaceful rise" policy in the region (Hsieh, 2011, p. 132). China will not be willing to break the image as a "peace defender" though the political goal for Taiwan continues to be one of China's vital national interests.

Conclusion

- 24 Different from the Cold War era when Taiwan depended on exporting final goods to the US market for its economic advancement, it has now changed to depend on China to sustain its economic growth. The impact for Taiwan after the deepened economic integration with China and prospect on the Cross-Strait relations can be summarized as follows. First, Taiwan's investment in China has transformed from labour-intensive industries led by SME to high technology sectors led by large enterprises. This is actually in line with the changes of Taiwan's industrial upgrading from labour intensive goods to higher technology products. Although China's current R&D is less significant as Taiwan retains ownership of the more advanced technology in the ICT industry, from a longer term perspective, the importance of China's R&D is likely to increase and even surpass Taiwan. Therefore, different from the vertical integration-Taiwan produces more value-added goods and China is specialized in labor intensive manufacturing, the cross-strait synergy in both manufacturing and R&D will be formulated. In other words, China will not be a simply final goods assembly location for Taiwan. There will be more cooperation or competition between the companies on the two sides in a variety of manufacturing sectors.
- 25 Second, following its massive investment in manufacturing sectors in China, Taiwan has experienced de-industrialization since a decade ago. While the weight of manufacturing in Taiwan's economy has decreased, Taiwan's economic growth has not progressed by as much and its unemployment rose progressively in recent years. In fact, the rising shares of services in both GDP and employment are due more to the decreasing manufacturing activity in Taiwan. The development of services to date has so far been constrained because of the small scale and domestic orientation of service companies, Taiwan's extensive dependence on manufactured exports and insufficient inward investment. In addition to its dependence on manufacturing production in China, the further development of Taiwan's service sectors will also have to depend on China, including Chinese tourists' spending and inflow of China's financial capital that is expected to revitalize both tourism and financial service sectors in Taiwan.
- 26 Third, the trade figures indicate Taiwan's growing dependence on China in its overall trade while the share of Taiwan in China's external trade is on the decline. Therefore, the harm from the loss of China's market for Taiwan would be greater than the loss of source of imports from Taiwan for China. Although many Asian economies have also turned their trade dependence from the US to China in recent years, the difference with Taiwan is that their dependence on China will not damage their political sovereignties. The establishment of institutionalized economic relations seems the unavoidable way to secure Taiwan's benefits in the Cross-Strait economic exchanges. But that institutionalized economic relations will in turn tie the economies between Taiwan and China more deeply. Although the political reconciliation is still a long term issue, Taiwan's rising economic and trade dependence on China will put the island in a disadvantageous position in the future negotiations.
- 27 In order to prevent from over-dependence on China, Taiwan has tried to diversify its external economic relations by proposing FTAs with other economies. However, the result is not yet satisfying. Given the its minimal involvement in the regional economic integration, Taiwan will be more likely to accelerate its follow-up trade talks with China

in order to counterbalance the potential impact from the rapid development of regional FTAs. In other words, the Ma government will deepen its economic dependence on China as it offers the easiest short-term solution to Taiwan's current economic sluggish. From a long term perspective, however, the most important work for Taiwan is probably to upgrade its domestic industries through innovation as a way to find an irreplaceable position in the region to avoid being marginalized from the rapidly developed regional economic integration.

- 28 The current peaceful Cross-Strait relations will surely allow Taiwan to enjoy benefits from China's booming economy at the time when the reunification is considered by both sides as a long term issue. But even from the economic perspective, it is not without risk for Taiwan. Chinese people's growing dissatisfaction with the corruptive government and the rising inequality between the rich and the poor is likely to make the social riot to arouse in anytime. Even if Chinese government was able to maintain its political stability, China's economy, which is at the juncture of transformation after 30 years of depending on labor-intensive manufacturing, is an uncertain variable to Taiwan's economic future. If China successfully upgraded its industry, its demand for intermediate goods from Taiwan may dip. On the other hand, should China failure to upgrade its industry, it will negatively impact on its economic prospect and the Chinese economic downturn that followed will hurt Taiwan as well.

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NOTES

1. In the 1990s, Taiwan government allowed only the indirect investment to China. The indirect investment channels included (1) a branch of a Taiwan company established in a third country; (2) another company located in a third country; (3) a company in a territory outside mainland China; (4) indirect remittance of their investment from a third country to China. (Lin, 1997, p. 29)
2. The investigation of Lin and Liang shows that there are 4 principal investment centers for Taiwanese firms to invest overseas: 34.5% of the firms through the Virgin Islands, 23.7% through Hong Kong, 15% via Singapore and 8.1% via the Caiman Islands. (Lin and Liang, 2003, p. 239).
3. Source of statistics: Bureau of Foreign Trade, MOEA, Taiwan.
4. Source of statistics: World Trade Atlas, Global Trade Information Services, Inc.
5. Chiang Pin-kung is the Chairman of SEF and Chen Yunlin is the Chairman of ARATS. The Chiang-Chen Summit followed the previous cross-strait talks, or Koo-Wang Summit which was suspended in 1999.
6. The 1992 Consensus specifies that there is one China and Taiwan is part of China, with "One China" subject to the different interpretations of both sides, be it one China under KMT or CPC leadership. Both KMT and CCP claim that this consensus is the result of political discussions between the two sides (the Taiwan-based Strait Exchange Foundation and China-based the Association for Relations across the Taiwan Strait) in Hong Kong in 1992. But some pro-independence politicians in Taiwan argue that there was no such political agreement between Taiwan and China in 1992.

7. 5% of people in Taiwan choose to have “immediate independence”, 16% want to have “status quo now and independence later” and 6% of them have no opinion. Source: Mainland Affairs Council, Taiwan.

ABSTRACTS

This article purports to elucidate the recent progress of the Cross-Strait economic relations and the implications for Taiwan's economy and its political sovereignty. There are three points made in this article. First, over the last decade, Taiwan's investment in China has changed from labour intensive manufacturing made mostly by small and medium companies to high technology led by large enterprises. Although Taiwanese firms benefitted from enlarging its economies of scale, the overdependence on manufacturing production in China has resulted in Taiwan's de-industrialization. Second, Taiwan's trade has been increasingly dependent on China rather than vice-versa. Even though the conditions for the political reconciliation are still not mature at present, Taiwan's relatively stronger economic dependence on China will put it in a disadvantageous position in the future negotiation. Third, in view of the intensified economic integration with China, the signing of Economic Cooperation Framework Agreement is unavoidable. However, Taiwan's minimal involvement in the economic integration with other regional economies will push it to open more to China as it offers the easiest short-term solution to Taiwan's lack of internal dynamics for economic growth. Cross-Strait economic integration for China is also encouraging as it will facilitate its “peaceful rise” policy as well as serve its long term political goal for Taiwan.

Cet article vise à éclairer les progrès récents des relations économiques Trans-Détroit et leurs implications pour la souveraineté économique et politique de Taïwan. Il comporte trois points. Premièrement, sur la dernière décennie, l'investissement de Taïwan en Chine est passé de la production manufacturée à forte intensité en travail effectuée principalement par des PME à de la production à haute technologie par des grandes entreprises. Bien que les firmes Taïwanaises ont bénéficié de l'accroissement de leurs économies d'échelle, la surdépendance à l'égard de la production manufacturée en Chine s'est traduite par la désindustrialisation de Taïwan. Deuxièmement, le commerce de Taïwan est devenu de plus en plus dépendant de la Chine plutôt que l'inverse. Même si les conditions d'une réconciliation politique ne sont toujours pas mûres aujourd'hui, la dépendance économique relativement plus forte de Taïwan à l'égard de la Chine va la mettre en situation désavantageuse dans la future négociation. Troisièmement, dans la perspective d'une intégration économique accrue avec la Chine, la signature de l'Accord cadre de coopération économique est inévitable. Néanmoins, l'implication minimale de Taïwan dans l'intégration économique avec les autres économies régionales va l'obliger à s'ouvrir encore plus à la Chine parce qu'elle offre la solution de court terme la plus facile au manque de dynamisme interne de Taïwan pour sa croissance économique. L'intégration économique Trans-Détroit est aussi intéressante pour la Chine car elle va faciliter sa politique de “montée pacifique” en même temps qu'elle sert ses buts politiques de long terme concernant Taïwan.

Este artículo se propone iluminar los progresos recientes de las relaciones económicas Trans-Detroit y sus implicaciones para la soberanía económica y política de Taiwán. Comprende tres puntos. Primeramente sobre la última década, la inversión de Taiwan en China pasó de la

producción manufacturera con una fuerte intensidad en fuerza de trabajo efectuada principalmente por PYMES, a la producción con una alta tecnología realizada por grandes empresas. A pesar de que las firmas taiwanesas se beneficiaron con el incremento de sus economías de escala, la sobredependencia respecto de la producción manufacturera en China se tradujo por una desindustrialización en Taiwán. En segundo lugar, el comercio de Taiwán se hizo cada vez más dependiente de China que lo contrario. Incluso si las condiciones de una reconciliación política no están aún maduras en la actualidad, la dependencia económica relativamente más fuerte de Taiwán respecto de China va a colocarla en una situación desventajosa cuando se haga una negociación en el futuro. En tercer lugar en la perspectiva de una acrecentada integración económica con China, la firma de un Acuerdo marco de cooperación económica es inevitable. Sin embargo, la escasa implicación de Taiwán en la integración económica con las otras economías regionales la va a obligar a abrir aún más el comercio hacia China porque ella le ofrece la solución de corto plazo más fácil por la falta dinamismo interno del crecimiento económico de Taiwán.

La integración económica Trans-Detroit es también interesante para China pues ello va a facilitar su política de incrementar su influencia en el Pacífico al mismo tiempo que sirve a los objetivos de largo plazo de Taiwán.

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Palabras claves: relaciones económicas Trans-Detroit, desindustrialización de Taiwán, Acuerdo marco de cooperación económica, acuerdo de libre cambio, soberanía política de Taiwán

Mots-clés: relations économiques Trans-Détroit, désindustrialisation de Taïwan, Accord cadre de coopération économique, accord de libre-échange, souveraineté politique de Taïwan

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