
The Nature and Trend of Taiwanese Investment in China (1991–2014)

Business Orientation, Profit Seeking, and Depoliticization

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In January 1990, the Taiwanese government announced the “Measures on Indirect Investment and Technical Cooperation with the Mainland” (*Dui dalu diqu jianjie touzi huo jishu hezuo guanli banfa*) and officially lifted the ban on investing in China. Simultaneously in this era of change, Deng Xiaoping’s Southern Tour promoting economic reforms, and the adoption of a socialist market economic system in the Fourteenth National Party Congress, both in 1992, ensured a more business-friendly investment climate in China. Regardless, cross-Strait relations would continue to stumble over the next few years along with industrial restructuring in Taiwan and changing economic development in China respectively. In 1994, former president Lee Teng-hui (hereafter Lee) promoted a “southward policy” to redirect Taiwanese investment from China to Southeast Asia, and in 1996 he issued his motto, “Don’t rush, be patient” (*jieji yongren*), advocating a more gradual and careful approach to Taiwanese investment in China (TIC), accompanied by new regulations on such investment. In 2000, Lee’s successor Chen Shui-bian (hereafter Chen) won the election and the Democratic Progressive Party (DPP) became the ruling party. Chen’s hostile attitude toward China and the DPP’s proindependence stance made cross-Strait relations very difficult, and political exchanges were suspended. But after incumbent president Ma Ying-jeou (hereafter Ma) took power in 2008 the Taiwanese government reinitiated interaction with China and cross-Strait relations made great progress.

Against this background, this chapter aims to explore the following questions: Has the change of political authority affected the patterns and amount of Taiwanese investment in China (TIC)? How have Taiwanese businesspeople (*taishang*) responded to the changing political landscape? What has changed and what has not

about TIC since the 1990s? In general, what is the trend of TIC in the past two decades? Concerning data availability and the shifts of political power in Taiwan, this chapter focuses on TIC between 1991 and 2014 (under three Taiwanese presidents). Drawing on data from both Taiwan and China, this chapter argues that TIC has been driven mainly by economic motivations and is barely affected by tumultuous political situations. The depoliticization of business characterizes TIC. *Taishang* have continued to prosper despite political turbulence but have been excluded from the domestic policy-making process. In recent years, TIC has been gradually declining because of a deteriorating investment environment on the mainland.

This chapter demonstrates that while the amount of TIC has been generally increasing over the past twenty-five years, its composition has radically changed because of both endogenous constraints and exogenous factors. In terms of endogenous constraints, rising labor costs and shifting local preferential policies have degraded the benefits and forced *taishang* either to look for new sites with lower production costs or to devote themselves to technological and industrial upgrades. Regarding exogenous factors, volatile global markets and growing competitiveness from domestic enterprises have prompted Taiwanese companies to integrate themselves into China's local markets. These trends show that TIC has been heavily influenced by the macroeconomic environment in China and that political struggles between Taiwan and China have not led to changes in TIC.

The next section of this chapter begins by elaborating on Taiwanese investment in China over the past two decades and demonstrates how little impact unstable policies and power fluctuation across the Strait have had on it. The third section describes the role of Taiwanese entrepreneurs across the Strait. *Taishang* are neither political agents nor economic hostages. They are businesspeople who look for greater opportunities and higher returns and are no different from their counterparts conducting business in other countries. The fourth section examines the "go south" strategy as an alternative for *taishang* and TIC to diversify the risk of relying too heavily on China. The evidence shows that after having been implemented for twenty years, the policies are still struggling to encourage *taishang* to shift their investment to Southeast Asian countries. The chapter concludes with a discussion of the broader implications for TIC and its future. While China is now implementing its grand economic strategy, incorporating TIC as part of that strategy is a clear political tactic. Nonetheless, *taishang's* decisions on whether to invest in China have been driven primarily by economic motives, and this is especially the case now, since China has gradually withdrawn most of its policies that once favored Taiwanese investors.

GO WEST: TAIWANESE INVESTMENT IN CHINA

In Taiwan, it is commonly believed that in general the Kuomintang (the Nationalist Party, KMT) is pro-China and the DPP is anti-China and that the former is

more willing to facilitate economic interaction while the latter is reluctant to foster economic ties with China. Taiwanese society and media have focused on how the DPP's anti-China sentiment has had a spillover effect that has greatly influenced TIC, especially during the Chen administration. However, there is neither clear evidence nor statistical data to support this argument. The trend of TIC has not necessarily been closely linked to political administrations' orientation and fluctuation and is instead more related to business considerations and economic motivations. Statistical data released by the Taiwanese government show little clear impact of the turnovers of political power in 2000 and 2008 on the levels of TIC approved by the Taiwanese authorities. Contrary to the parties' orientations toward China as these are generally perceived, TIC increased in 2001, one year after the DPP took power in 2000, and declined in 2009, one year after the KMT took power in 2008. That is to say, the DPP government did not strictly regulate Taiwanese investment as it was expected or said to do. In fact, ongoing cross-strait economic integration has thrived under both parties.¹

The Taiwanese government lifted the ban on foreign exchange and facilitated capital outflow in July 1987; it removed restrictions on visiting China that November. These policy shifts initiated TIC. In January 1990, the Taiwanese government promulgated "Measures on Indirect Investment and Technical Cooperation with the Mainland" to promote TIC conditionally. At this early stage, most TIC was from Taiwanese entrepreneurs who owned small and medium-sized enterprises and moved their factories to China to seek competitive advantages and low wage costs. *Taishang* established joint venture enterprises and cooperative companies with their Chinese counterparts because wholly foreign-owned enterprises were not yet permitted. They used the productive pattern of taking orders in Taiwan, producing in China, and then exporting to the Western countries. This explains why Taiwanese investors sought to invest in sectors where the profit ratio was high instead of in resource-rich areas as their Japanese and Korean counterparts did. The initial TIC was small and cautious because of restrictions on the Taiwanese side. Figure 3, based on calculations by the Republic of China (ROC), shows that the amount of TIC approved by the Taiwanese government increased in 1992–93 and 1996–97.² The former was the positive response to Deng Xiaoping's Southern Tour and the establishment of a socialist market economy system in the Fourteenth National Party Congress in 1992. The latter trend demonstrates Taiwanese government's self-contradiction: the amount of TIC it approved in 1997 was 30% more than in the previous year, when Lee promoted the policy of "No haste, be patient" and imposed many new regulations on TIC. Ever since his visit to the United States in 1995, precipitating a missile crisis and freezing cross-strait talks, Lee had shown a tough attitude toward China, but the Taiwanese authorities remained generous with approved TIC. The amount of approved TIC significantly declined in 1998 and

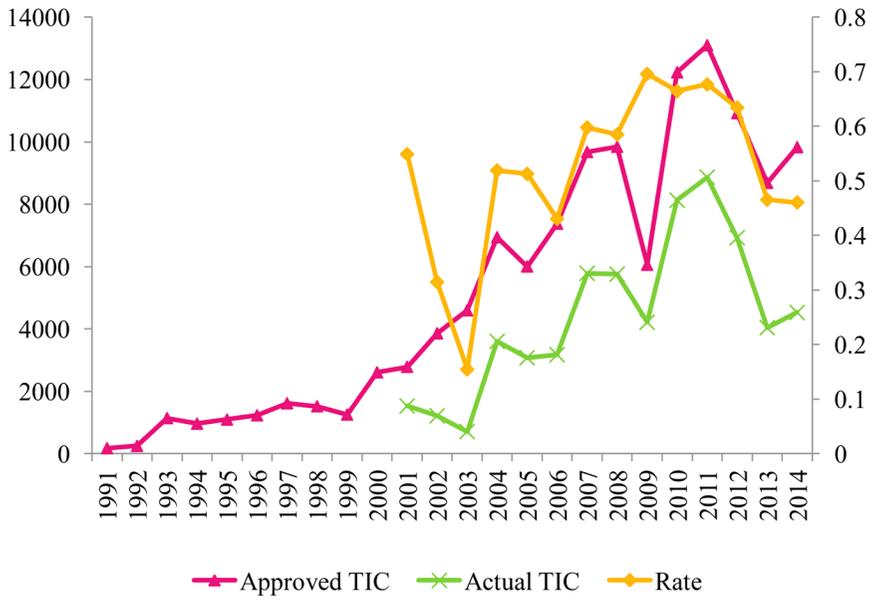


FIGURE 3. Approved TIC, actual TIC, and the rate (million US\$).

SOURCE: Investment Commission, Ministry of Economic Affairs, ROC, <https://www.moeaic.gov.tw>.

1999 because of the Asian financial crisis, and, despite some later, larger fluctuations, its overall tendency has been to rise since 2000. Surprisingly, the trend did not reflect the political turbulence evoked by Lee’s assertion, in July 1999, of the so-called “two-state theory” (*liangguo lun*) that Taiwan and China should engage in special state-to-state relationships—a controversial move to which China soon responded by canceling the third Koo-Wang talk, which had originally been scheduled in Taipei in the fall. In 2000, Chen won the presidential election and the DPP became the ruling party. The DPP government promoted an “invest in Taiwan” policy and provided a low-interest loan fund, tax breaks, and subsidies to incentivize Taiwanese companies to do so. Nonetheless, during Chen’s administration the approved amount of TIC only slightly decreased in 2004 and 2005. That is to say, the DPP government did not adopt effective policies to prevent *taishang* from investing in China or convince them to stay in Taiwan. Ironically, the amount of TIC dropped radically in 2009, one year after Ma took power, and then abruptly rose in 2010. Affected by shrinking demand resulting from the global financial crisis and rising labor costs in China, the

approved amount has lessened since 2011.³ Obviously the trend of the approved amount of TIC has not generally reflected power shifts in Taiwan.

On the China side, in 1979 the Chinese government released a “Message to Compatriots in Taiwan” (*gao Taiwan tongbao shu*) proposing an opening up of trade and economic exchanges; this was followed up by the Ministry of Foreign Trade’s promulgation of “Interim Provisions Concerning Trade with Taiwan” (*Guanyu kaizhan dui Taiwan maiyi de zhanshi guiding*). Later, China’s State Council passed the “Special Preferential Regulations on Taiwanese Patriots’ Investment in the Special Economic Zones” (*Guanyu Taiwan tongbao dao jingjitequ touzi de tebie youhui banfa*) to make it easier for Taiwanese entrepreneurs to invest in the special economic zones (Shenzhen, Zhuhai, Shantou, Xiamen) that had been established in 1979. The first wholly owned Taiwanese enterprise (TE) was established in Fuzhou in 1984 with the acquiescence of the local government and later received its first approval by the central state’s Ministry of Foreign Economic Relations and Trade (formerly the Ministry of Foreign Trade) in 1986. Two years later, the number of TEs grew to eighty with an investment of US\$100 million in 1986. By the end of 1989, there were two thousand TEs and the amount of TIC was over US\$1 billion. In general, TIC in the 1980s was initially limited because of China’s unclear investment environment and the Taiwanese government’s restrictions. It followed the development model of “two ends out” (*liangtou zaiwai*), referring to a pattern in which both the sources of raw materials and the ultimate products were nondomestic. The demand in the foreign market had been rocketing up but that in local market remained quite low. Obviously, for *taishang* in the 1980s and early 1990s political concerns were more important than economic considerations in their investment decisions. Once the macroeconomic climate had become stable and beneficial to TIC, TIC was less sensitive to political turbulence, and in the 1990s Taiwan’s investment rapidly became the second highest in China, second only to Hong Kong’s.

Figure 4 shows actual TIC as calculated by China’s National Statistical Bureau. The amount increased between 1989 and 1996, only slightly decreasing in 1995. This trend reflects the friendly investment environment that the Chinese government created in order to develop TIC. Actual TIC radically declined between 1997 and 2000 (figure 4), but the approved amount declined only slightly from 1997 to 1999 and increased from 1999 to 2000 (figure 3). We find that the deteriorating macroeconomic environment, namely the Asian financial crisis, has had greater impact on TIC than political fluctuations. Although Lee promoted his ideas about *jieji yongren*, the approved TIC remained relatively stable between 1996 and 1999. In 2001, China, by entering the World Trade Organization (WTO), greatly improved the institutional environment for investment, which strengthened *taishang* confidence in investing in China. This was reflected in the radically increased amount invested in 2001 and 2002, even though Chen had

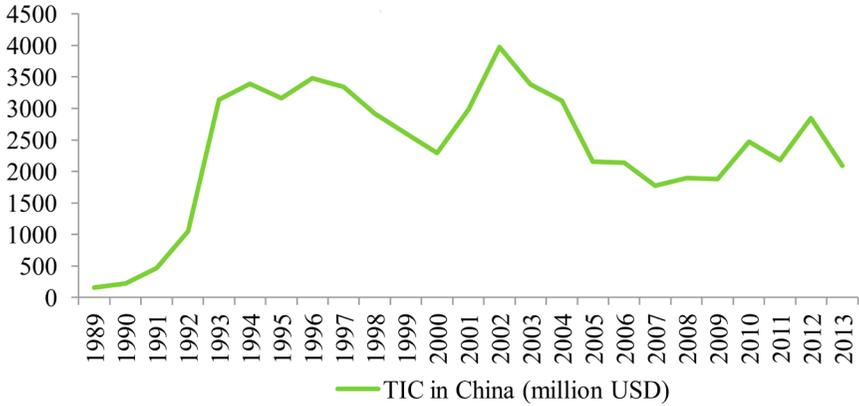


FIGURE 4. Taiwan's actual direct investment in China (million US\$).

SOURCE: China's National Statistical Bureau, "National Data," multiple years, <http://data.stats.gov.cn/>.

won the presidential election and had not yet presented clear mainland policies. Nonetheless, the amount of actual TIC declined between 2002 and 2007 while the approved amount rose in the same period. This suggests that what restricted TIC was neither the Taiwanese authorities nor the Chinese state but *taishang* themselves, who were suspicious of Chen's mainland policy and became more conservative about investing in China even though the door remained open. In August 2002, Chen asserted his "one country on each side of the strait" (*yibian yiguo*) stance (that the PRC and the ROC were two different countries rather than two political entities within the country of China) and declared that the Taiwanese people would consider holding a referendum to decide Taiwan's future. China rapidly responded with tough comments and suspended interaction with the Taiwanese government. In 2005 China passed the Anti-Secession Law, demonstrating its commitment to unification and adding tension to cross-Strait relations. The law proclaims that Taiwan is part of China and that China may take nonpeaceful action if Taiwanese proindependence forces push Taiwan to secede from China.⁴ Surprisingly, Hsu Wen-long, an important Taiwanese entrepreneur and founder of the Chi Mei Group, whose support for Chen had been crucial in the 2000 presidential election, published an open letter to support the law and mentioned that the law made him feel confident about investing in China.⁵ Although China could retaliate against Taiwan by imposing clear economic sanctions or issuing tougher regulations over TIC, there was no clear evidence of China taking substantial actions during Chen's tenure. Ironically, Chen's provocative

political statement did not inspire China's revenge but instead raised the alarm of *taishang*.

Nonetheless, China's entry into the WTO brought some challenges to TIC. More and more multinational companies started to invest in China. Meanwhile, China's own domestic enterprises gradually developed and became competitive after experiencing economic reform for two decades. With greater institutionalization and openness, the Chinese government has been pressured to create a level playing field in the marketplace. TIC originally benefited from many preferential policies exclusively provided to *taishang*, but these advantages lessened or even disappeared because of both WTO regulations and competition from local enterprises. Hence, the fluctuation of actual TIC in the 2000s can be attributed more to the shifting economic environment than to the changing political landscape.

In general, figures 3 and 4 present very different pictures of TIC in China. The amount of TIC approved by the Taiwanese government increased between 1999 and 2008, but the data of actual TIC gathered from Chinese authorities demonstrate a continuing decline between 2002 and 2008 and an increase afterwards. One may argue that the Chinese government obstructed TIC in order to pressure the DPP administration and promoted it during the KMT administration. But we found no clear evidence of this from either China's policies or interviews with *taishang*.⁶

As Taiwan has enhanced its involvement in China's economy, it has been said that Taiwan has been losing its economic autonomy and ceding leverage over its continued prosperity to China. With its rapid economic growth in the past two decades, China has surpassed Japan in 2010 to become the second-largest economy in the world.⁷ While China thus has increasing leverage over Taiwan's economy, and more than 50 percent of Taiwanese overseas investment is located in China, *taishang* and TIC have confronted more challenges from both inside and outside China, and we cannot simply attribute the fluctuation of TIC to shifting political power. In addition, the statistical data have exhibited a generally rising amount of TIC, and neither Taiwanese and Chinese governments have issued clear economic bans and sanctions on TIC. Economic factors play a key role in influencing TIC trends.

TRENDS CHARACTERIZING THE DEVELOPMENT OF TIC

At the earliest stage, TIC was concentrated in traditional labor-intensive industries, such as shoemaking, textiles, and plastic products. Later, it expanded to different industries in the manufacturing sector, such as consumer electronics, chemicals, and food and beverages. Over the years TIC evolved from small factories to large capital-intensive companies with advanced technology, such as electrical appliances, precision instruments, and computer hardware. Since 2008 TIC has

increasingly gone into all economic fields, including real estate, finance, tourism, media, and various service industries.⁸ Accordingly, the major Taiwanese investors have shifted from small and middle-scale enterprises to large exchange-listed and OTC-listed enterprises with investment projects involving amounts over US\$10 million. Unlike their predecessors who exported their products abroad, *taishang* are now targeting China's huge developing domestic market because they are encountering a shrinking global market. Moreover, Taiwanese enterprises have gradually increased their usage of raw materials and semifinished products purchased from local companies while reducing imports from Taiwan. Taiwanese companies have occupied a position in China's industrial chain and have closely linked themselves to China's economic development.

In general, TIC has demonstrated a gradual spread from south to north, from east to west, and from coastal regions to interior areas. Since the early 1990s, the Pearl River Delta area in Guangdong and the Yangtze River Delta area in Jiangsu have attracted the most TIC because of their proximity to Hong Kong and to Shanghai respectively.⁹ In recent years, in order to respond to global financial crisis and promote industrial upgrading, Guangdong first promulgated the strategies of "clearing the cage and replacing the bird" (*tenglong huanniao*) and "transferring industries and labor" (*shuang zhuanyi*) in 2008. The local government plans to move low-margin, low-tech, labor-intensive industries out of the Pearl River Delta region and to introduce capital-intensive industry in its place. This desire to change the type of economic activities within the province has great impact on TIC because many Taiwanese factories were regarded as the "birds" that needed to be replaced. Similar policies were adopted in Zhejiang and Shanghai. Some Taiwanese entrepreneurs were encouraged to move their labor-intensive factories to Anhui Province, where the local government promised them more land.¹⁰ Some Taiwanese investors bargained to keep one building or a small piece of land in the original location so that they could retain a base there even while moving a majority of their assets out.

In figure 5 we see how the approved amount of TIC has increased from the early 1990s in Central and South China and especially in East China.¹¹ While Jiangsu and Guangdong have radically lost TIC since 2010, Shanghai and Fujian have attracted more TIC since 2009. North China and Southwest China have welcomed more TIC since 2005. Northwest China and Northeast China have long been left behind in periods of economic transition because of a lack of infrastructure, and the amount of TIC reflects this situation as well.

BENEFICIAL POLICIES AT CENTRAL AND LOCAL LEVELS

The central Chinese government has promulgated several preferential policies to promote TIC. As early as 1988 the State Council first issued the "Regulations on

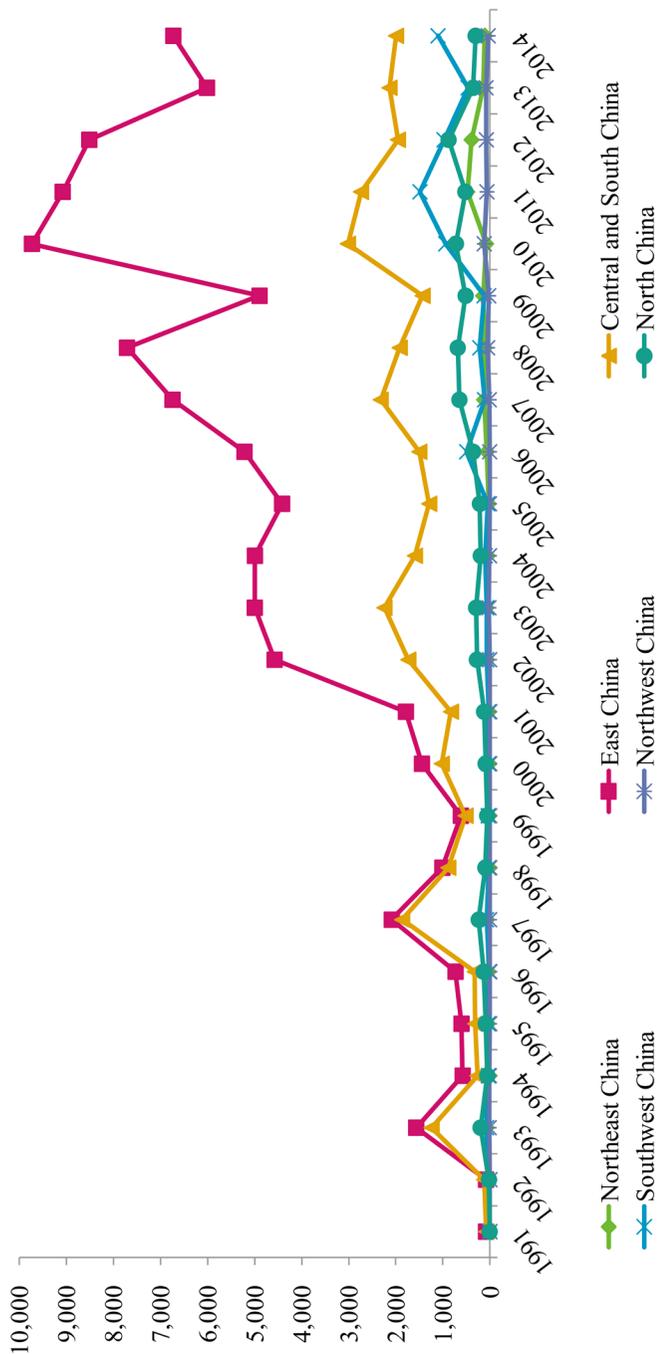


FIGURE 5. Taiwan's approved investment in mainland China by region (US\$).

SOURCE: Investment Commission, Ministry of Economic Affairs, ROC, <https://www.moeatc.gov.tw>. The demarcation of China's regions is different in Taiwan's statistical data. North China includes Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia. Northeast China refers to Jilin, Liaoning, and Heilongjiang. East China covers Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Shandong, and Jiangxi. Central and South China includes Henan, Hubei, Hunan, Guangdong, Guangxi, and Hainan. Southeast China includes Chongqing, Sichuan, Guizhou, Yunnan, and Tibet. Northwest China covers Xinjiang, Gansu, Ningxia, and Shaanxi.

Encouraging the Investments of Taiwan Compatriots” (*Guanyu guli Taiwan tongbao touzi de guiding*).¹² This document provided very comprehensive and detailed regulations on how Taiwanese entrepreneurs could invest in China. It had been less than a decade since China embarked on its economic transition, and the idea of regime change remained fraught with uncertainty and ambiguity. As a means to promote investment stability, China’s Taiwan investment regulations attempted to enhance investor confidence by specifying that “the state will not nationalize the investment of Taiwanese investors and other assets” and “the legal benefits the Taiwanese investors obtain can be remitted abroad according to relevant law.”¹³ In 1994 the Chinese government passed the “Law Regarding the Protection of Investment by Taiwan Compatriots” (*Taiwan tongbao touzi baohu fa*) and made it very clear that its purpose was to protect and encourage Taiwanese investment in China and to promote cross-Strait economic development.¹⁴ The law also permitted Taiwanese entrepreneurs to organize business associations. In the same year, the State Council announced the “Decision Concerning Further Development of Economic Issues across the Strait” (*Guowuyuan guanyu jinyibu fazhan haxialiang’an jingjiguanxi ruogan wenti de jueding*) and promoted the principles of “priority and relaxation” (*tongdeng youxian, shidang fangkuan*).¹⁵ After this law had been implemented for five years, the Chinese government approved the “Rules for Implementation of the Law on the Protection of Investment of Taiwan Compatriots” (*Taiwan tongbao touzi baohufa shishi xize*) to provide more detailed regulations in 1999. In 2012, the Jiangsu provincial government passed the “Regulation on the Protection and Promotion of Investment of Taiwan Compatriots” (*Baohu he cujin Taiwan tongbao touzi tiaoli*), which is the first and only legal document at the local level.¹⁶ These statutes have never been revised, so some of the articles are outdated. In 2009 China announced the launch of an amendment process for “Rules for Implementation of the Law on the Protection of Investment of Taiwan Compatriots,” but it has not made any substantial progress as yet.¹⁷

The major functions of Taiwanese business associations (TBAs) include protecting the legal rights of *taishang*, managing public relations with and taking care of Taiwanese people in China, and improving the local investment environment.¹⁸ The first TBA was registered in Shenzhen in 1990, and there are now 142 TBAs across China.¹⁹ To better manage TBAs, the Chinese government issued a notice entitled “Interim Measures on Administering Taiwanese Business Associations” (*Taiwan tongbao touzi qiye xiehui guanli zhanxing banfa*) in 2003. Nonetheless, TBAs are not official institutions and are not allowed to have national headquarters. Some TBAs worked together to establish a nonprofit organization, the Association of Taiwan Investment Enterprises on the Mainland (ATIEM, *quanguo Taiwan tongbao touzi qiye lianyihui*), in 2007. The ATIEM is supervised by both the Taiwan Affairs Office and the Ministry of Civil Affairs and is able to communicate with the central government directly. That is, it acts as a two-way channel

between TBAs and the Chinese government. It transmits *taishang*'s voices to the authorities and delivers central directives to the entrepreneurs.²⁰

At the local level, provincial and city governments have offered various forms of preferential treatment to attract Taiwanese investment, such as providing a wide range of tax incentives and reinvesting profits, facilitating cheap land acquisition, and reducing bureaucratic hurdles. For example, one of the most popular programs is called the Two Free, Three Half (*liangmian, sanjianban*), meaning that a Taiwanese firm scheduled to operate longer than ten years is qualified to enjoy a five-year concessionary tax term with two years of exemption and three years of paying only half the corporate income tax after its profit-making year.²¹ Nonetheless, in December 2014 the central government announced Notice No. 62, which requires ministries and local governments to clean up and regulate preferential policies that violate laws.²² Because Taiwanese investing firms have long enjoyed more incentives than other foreign companies from local governments in China, *taishang* will bear the brunt of the new requirements. In the press conference after the National People's Congress concluded in March 2015, Premier Li Keqiang stressed that China will continue to safeguard the legitimate rights and interests of Taiwanese-invested enterprises and will sustain appropriate preferential policies for them.²³

Contrary to this trend, in Taiwanese society the major debate is whether TIC is hollowing out Taiwan's economy. Those who disagree argue that the problem is a lack of investment opportunities instead of capital, so that industrial upgrading is key to reviving the economy. Those who agree contend that the rise of the unemployment rate and loss in domestic investment and the proportionate size of manufacturing gross domestic product (GDP) are attributable to increasing TIC. But there is no consensus yet.

THE ROLE OF *TAISHANG*: POLITICAL AGENTS OR ECONOMIC HOSTAGES

While cross-Strait political relations were suspended under the Chen administration, it was predicted that TIC would be affected and even prohibited by China. Theories of economic statecraft proposed that China might implement economic sanctions as a coercive political tactic to pressure Taiwan.²⁴ The possibility of economic warfare across the Strait is much greater than that of military warfare because China could not achieve its desired goals through military tactics.²⁵ Hence *taishang* are potential hostages or vulnerable victims if the Chinese government decides to launch economic sanctions as political retaliation.²⁶

But such a viewpoint does not take into account the complicated interaction between both governments and the commercial interests that Taiwanese businesspeople have pursued. Instead of wielding a big stick, the Hu administration

implemented a “carrots” policy of “counting on the Taiwanese people” to pressure the DPP administration. Nonetheless, this attempt to use *taishang* as political leverage over Taiwan was ineffective and showed that *taishang*’s political significance is rather limited.²⁷ During Chen’s tenure, while official interaction between the PRC and the ROC was generally suspended, Taiwanese businesspeople became implicitly a channel of information that helped the Chinese government understand Taiwan. *Taishang* had had no impact on the DPP’s mainland policies, nor were they able to communicate with the Taiwanese government. When President Ma took power in 2008 and cross-Strait relations dramatically improved, the role of *taishang* changed both politically and economically. The KMT administration would regularly host gatherings with *taishang* where President Ma would participate, listening to their advice. *Taishang* have more and more frequently taken part in cross-Strait interactions organized by both the Taiwanese government and the KMT. But the key officials of TBAs and the ATIEM see these activities as the KMT’s lip service and believe there has been no substantial progress in improving the *taishang*’s situation.²⁸ In general, *taishang* are vulnerable to volatile political situations but unable to participate in the policy-making process. In other words, they are influenced but not influencing in cross-Strait political interactions.

Voting for the KMT may be regarded as a passive reaction to Taiwanese politics: *taishang* rely on this party for a stable and predictable mainland policy. We should not interpret it to mean that *taishang* support China or further political progress toward unification. Ironically, they are the people who know how untrustworthy China is. The rising competitiveness of domestic enterprises and a lack of official support from the Taiwanese have left *taishang* struggling to do business in China. Quite often the Taiwan Affairs Offices in Beijing are too weak to help when dealing with other government bodies such as local governments, the Ministry of Commerce, and the State Administration for Industry and Commerce in China.²⁹ *Taishang* have played a less important role in cross-Strait relations than the public has generally believed. In short, *taishang* are neither political agents nor economic hostages. They are unable to make a positive contribution to policy, but they have not seriously suffered from political turbulence. They are businesspeople who look for commercial opportunities in China and hope for a stable political environment, as their counterparts would when investing in any other part of the world.

GO SOUTH: TAIWANESE INVESTMENT IN SOUTHEAST ASIAN COUNTRIES AS AN ALTERNATIVE

The “go south” strategy was initiated in 1993 by former president Lee Teng-hui in order to diversify risks faced by Taiwanese investors and lessen their reliance on China.³⁰ The Taiwanese government issued its “Guidelines for Strengthening Economic and Trade Ties with Southeast Asia,” which are now in their seventh edition.

During the Asian financial crisis, the Taiwanese government further promulgated the “Measures on Strengthening the Promotion of Economic and Trade Relations with Southeast Asia” to help Taiwanese businesspeople with financing problems. Unfortunately these policies were not particularly effective, and most Taiwanese capital ended up leaving Thailand and Indonesia.³¹ In 2002 then-president Chen reannounced the “go south” strategy, declaring that China was just one part of the global market and that Taiwan should not depend on it too heavily. When incumbent president Ma took power in 2008, he reconfirmed the necessity for Taiwan to participate in regional economic integration in Southeast Asia.

Unlike his predecessors, Ma has considered “go south” (invest in Southeast Asia) and “go west” (invest in China) to be not zero-sum games but win-win games, and he has encouraged Taiwanese investment flow in both directions. Nonetheless, these initiatives have carried no new ideas and concrete plans to benefit Taiwanese investment.³² The amount of Taiwanese investment in Southeast Asia skyrocketed in 1994 when the policy was first initiated. But after the Asian financial crisis it decreased to the same levels as 1993 and remained there for the following eight years until 2006 (see figure 6). There was huge fluctuation between 2007 and 2009. In general, no matter what reasoning the government adopted to promote Taiwanese investment moving to Southeast Asian countries, we do not find a clear trend in capital flows. Additionally, many Southeast Asian countries set many constraints on FDI policies and typically sought out large-scale investments only, preventing many Taiwanese from investing in the region.³³ Because of the unstable political and economic environment, anti-Chinese movements, and fluctuating local policies, the future of investment in Southeast Asia remains unclear.³⁴ According to the Secretariat of ASEAN, Taiwan was not among top ten investor countries in ASEAN between 2008 and 2010.³⁵

In recent years, however, confronting rising labor costs, Taiwanese entrepreneurs started to move their factories from Shenzhen and Dongguan to Southeast Asian countries, especially Vietnam and Cambodia. Obviously, *taishang*'s profit-driven considerations do more than government policies to motivate them to “go south.” Moreover, in 2012 the Taiwanese government issued the “Measures on Promoting Taiwanese Entrepreneurs to Invest in Taiwan,” the so-called “salmon returns” policy, which includes a higher quota of foreign laborers and low interest rates for bank loans. It has been ineffective, however, because of high land costs and a lack of skilled laborers.³⁶ The amount of *taishang* investment returning to Taiwan decreased by 59 percent in 2014.³⁷

CONCLUSION

The Taiwanese government has been worrying about becoming increasingly irrelevant to the international market. Efforts by former presidents Lee and Chen

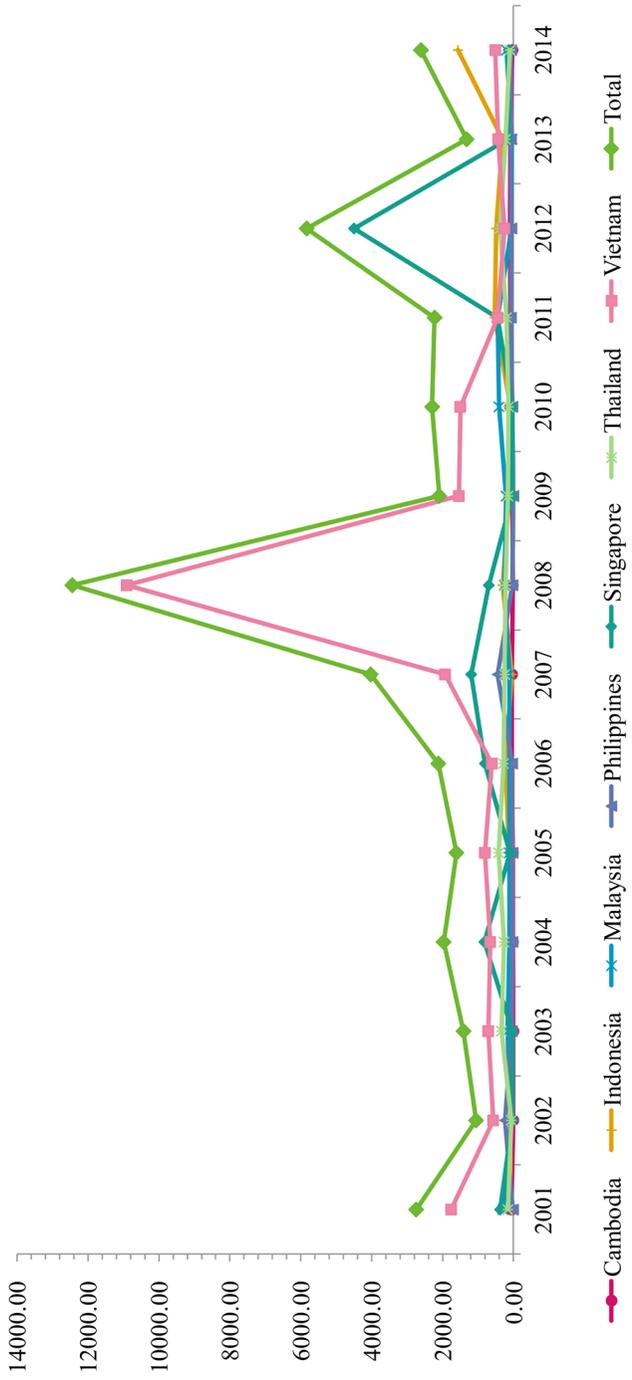


FIGURE 6. Taiwanese investment in seven Southeast Asian countries (million US\$).
 SOURCE: Investment Commission, Ministry of Economic Affairs, ROC, <https://www.moeaic.gov.tw>.

to divert trade away from China have largely failed. Lower production costs in the competitive global economy and similarities in culture and languages have pulled Taiwanese entrepreneurs unavoidably into China's economic orbit. Such cross-strait interactions have not demonstrated the capacity of economic liberalization to promote peace, and the potential for political conflict remains. Taiwanese have accused Beijing of manipulating economic incentives to facilitate unification, but we have not found clear evidence of this from either statistical data or China's policies. Interestingly, discontent has broken out domestically within Taiwan rather than in blunt confrontation between Taiwan and the mainland. Examination of cross-strait interactions over the past two decades shows that economic integration has promoted peace and helped to constrain certain conflict-heightening pressures created by democratization in Taiwan.³⁸

Undoubtedly, TIC is a critical factor in cross-strait interactions, if not the most important one, and is characterized by three prominent trends. First, in terms of targeted industry, TIC has shifted from labor-intensive manufacturing of items such as consumer goods to high-technology electronics and precision products. Second, the scale of TIC has changed from small and medium-sized factories to large business conglomerates. Third, geographically speaking, TIC has moved from south to north and from east to west within China, and investors who have decided to leave China have moved to Southeast Asia.

Economic considerations have played a more important role than political concerns in determining approved and actual levels of TIC. Changes in political administrations have not resulted in bans on the further advance of TIC, and the Chinese government has not announced any concrete policy to prohibit TIC. *Taishang's* economic motivation and investor confidence, rather than politics, are the factors stopping them from pouring more money into China. Southeast Asian countries and Taiwan may not be the best investment locations for *taishang* at the moment, but the question of how to fully integrate them into the Chinese economy is becoming urgent.

The comparable phenomenon in China is Chinese investment in Taiwan (CIT). The Taiwanese government has lifted its ban on CIT and allowed Chinese entrepreneurs to invest in Taiwan since June 2009. As of 2016, 729 approved projects have been recorded and the total amount has been US\$1.3 billion.³⁹ Relatively speaking, the numbers and investment amounts are small when compared to TIC. Moreover, to some companies, especially state-owned enterprises, the scale of the Taiwanese market is too small to benefit their business. Unlike their Taiwanese counterparts, Chinese businesspeople are investing in order to carry out political tasks, such as promoting cross-strait relations.⁴⁰

While China has been proposing the grand strategy of "One Belt, One Road" (*yi dai, yi lu*; also known as the Silk Road Economic Belt, the Twenty-First-Century Maritime Silk Road, a plan to build economic corridors linking China to

Europe—both overland via West Asia and maritime via the South China Sea, the Indian Ocean and the Red Sea), the Chinese government seems to be incorporating TIC as part of the plan in order to prevent it from pulling out of China. The Taiwanese government is also trying to lure *taishang* back.⁴¹ It might be a good chance for TIC to move inland and reap the benefits of cheap land and low labor costs. On the other hand, while the Economic Cooperation Framework Agreement (ECFA) between Taiwan and China may make a positive contribution to TIC, Taiwan's domestic politics make the issue very controversial for the Taiwanese themselves. We still need time to watch how the issue develops before clarifying its impact on TIC.

NOTES

1. Douglas B. Fuller, "The Cross-Strait Economic Relationship's Impact on Development in Taiwan and China: Adversaries and Partners," *Asian Survey* 48, no. 2 (2008): 239–64; Kerry Brown, Justin Hempsom-Jones, and Jessica Pennisi, *Investment across the Taiwan Strait: How Taiwan's Relationship with China Affects Its Position in the Global Economy* (London: Chatham House, 2010), www.kerrybrown.co.uk/files/website-8.pdf.

2. Surges were reported for TIC in 1993, 1997, 2002, and 2003 because these years were deadlines for *taishang* to complete the procedure for their unregistered investment. The amounts are not included in figure 3 because they did not get permission in advance.

3. The minimum-wage system was implemented in China in 2004. From then to 2015 the amount was been tripled. For example, in Beijing, Shanghai, and Shenzhen, the minimum wage was ¥580, 690, and 690 in 2005 but ¥1,720, 2,020, and 2,030 in 2015.

4. See Articles 2 and 9.

5. "Hsu Wen-long of Chi Mei Supports Anti-secession Law," Huaxia Net, March 27, 2005, <http://big5.huaxia.com/zt/pl/05-015/600455.html>.

6. I made two field trips to Beijing and Shanghai respectively in 2013 and interviewed more than fifteen Taiwanese entrepreneurs, including officials in the Beijing TBA, the Shanghai TBA, and ATIEM. None of them felt substantial political pressure from the central or local governments in China during the DPP administration.

7. China overtook Germany in 2007 to become the third-largest economy in the world.

8. For example, Eslite is a famous bookstore in Taiwan and has not only opened branches in Suzhou and Shanghai but also invested in the real estate market; see "Eslite Eyes Home Sales in Suzhou," *Taipei Times*, May 16, 2014, http://money.udn.com/storypage.php?sub_id=5641&art_id_777297.

9. The Yangtze River Delta area is regarded as the best-targeted region for TIC. Seven of the best locations for TIC are all in this area, including Suzhou, Yuyao, Xiaoshan, Hangzhou, Fenghua, Yangzhou, and Jiading. See "Pearl River Delta Area and Yangtze River Delta Area Compete for Taiwanese Investment," Sina Net, June 5, 2012, <http://finance.sina.com.cn/g/20020605/217245.html>.

10. Taiwanese entrepreneurs in Taiwan, interviews by author, March 2013.

11. Dongguan in Guangdong and Suzhou in Jiangsu are two cities that have attracted the most TIC.

12. In the 1980s China passed a few laws to attract foreign investment, but these did not specifically target TIC. Examples are the Law on Economic Contracts Involving Foreign Interest (Shewai Jingji Hetong Fa; 1985), the Law on Foreign-Funded Enterprise (Waizi Qiye Fa; 1986), and the Law on Sino-Foreign Contractual Joint Ventures (Zhongwai Hezuo Jingying Qiye Fa; 1988).

13. See Articles 8 and 10.

14. See Article 1.
15. "Decision of the State Council on Several Issues Concerning the Further Development of Economic Relations across the Taiwan Straits," August 1, 1994, www.people.com.cn/zixun/flfgk/item/dwjf/falv/1-4-3.html.
16. "Jiangsu wanshan dui Taiwan tongbao touzi wushi youxiao baozhang cuoshi" [Jiangsu improved the regulations on Taiwanese investment], Sina Net, December 27, 2012, <http://finance.sina.com.cn/china/dfjj/20121227/185614136902.shtml>.
17. "Law Regarding the Protection of Investment by Taiwan Compatriots' Is Outdated and Planned to Be Amended," UDN Net, March 10, 2015, <http://udn.com/news/story/7334/754798>.
18. Shiu-hshen Chien and Litao Zhao, "Local Economic Transition in China: A Perspective on Taiwan Investment," in *China's Reform in Global Perspective*, ed. John Wong and Zhiyue Bo (Singapore: World Scientific, 2010), 254–55.
19. The complete list is published by the Straits Exchange Foundation; see "Taishang xiehui lianxi yilanbiao" [Contact information of Taiwanese business associations], Straits Exchange Foundation, November 1, 2016, www.seftb.org/mhpage.exe?HYPAGE=/01/01_1_2.asp. There are 116 TBAs listed on the Taiwan Affairs Office's website; see "Gedi taizi qiye xiehui huizongbiao" [Collections of Taiwanese business associations], Taiwan Affairs Office, January 11, 2011, www.gwytb.gov.cn/lajm/tsstzz/201101/t20110111_1690852.htm.
20. AEITM official in Beijing, interview by author, February 2013.
21. The program is based on the former Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises, enacted in 1991.
22. "Guowuyuan guanyu qingli guifan shuishou deng youhui zhengce de tongzhi" [Notice on reviewing and regulating preferential policies for taxation and other aspects], No. 62 (2014), State Council. The notice seeks to eliminate preferential terms, especially those issued by local governments that violate laws and central directives.
23. "Chinese Mainland to Maintain Appropriate Preferential Policies to Taiwan," Xinhua Net, March 15, 2015, http://news.xinhuanet.com/english/2015-03/15/c_134067977.htm.
24. See David Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985); James M. Lindsay, "Trade Sanction as Policy Instruments: A Re-examination," *International Studies Quarterly* 30, no. 2 (1986): 153–73; Tse-kang Leng, "A Political Analysis of Taiwan's Economic Dependence on Mainland China," *Issues and Studies* 34, no. 8 (1998): 132–54.
25. Quansheng Zhao, "Beijing's Dilemma with Taiwan: War or Peace?" *Pacific Review* 18, no. 2 (2005): 217–42.
26. See Murray Tanner, *Chinese Economic Coercion against Taiwan: A Tricky Weapon to Use* (Santa Monica, CA: RAND Corporation, 2007); Paul J. Bolt, "Economic Ties across the Taiwan Strait: Buying Time for Compromise," *Issues and Studies* 37, no. 2 (2001): 80–105; Chen-Yuan Tung, "Cross-Strait Economic Relations: China's Leverage and Taiwan's Vulnerability," *Issues and Studies* 39, no. 3 (2003): 137–75; Seanon S. Wong, "Economic Statecraft across the Strait: Business Influence in Taiwan's Mainland Policy," *Asian Perspective* 29, no. 2 (2005): 41–72; and Scott L. Kastner, *Political Conflict and Economic Interdependence across the Taiwan Strait and Beyond* (Stanford, CA: Stanford University Press, 2009).
27. Shu Keng and Gunter Schubert, "Agents of Taiwan-China Unification? The Political Roles of Taiwanese Business People in the Process of Cross-Strait Integration," *Asian Survey* 50, no. 2 (2010): 287–310.
28. TBA official in Tianjin, interview by author, February 2013.
29. TBA official in Beijing, interview by author, February 2013.
30. Xiangming Chen, "Taiwan Investments in China and Southeast Asia: 'Go West, but Also Go South,'" *Asian Survey* 36, no. 5 (May 1996): 447–67.
31. Taiwanese investment in Singapore and Vietnam has been quite stable in the past two decades.

32. Chao-jen Huang and Haw Ju, "An Analysis of Economic Interactions between Taiwan and the ASEAN-6," *Taiwan International Studies Quarterly* 8, no. 3 (Fall 2012): 185–204.
33. Taiwan Institute of Economic Research, *Analysis of Investment Location Choice and Strategy under New Go South Policy* (Taipei: Council for Economic Planning and Development, Executive Yuan, 2003), 62–68, http://ebooks.lib.ntu.edu.tw/1_file/CEPD/152/south@664854.7334842238@.pdf.
34. In May 2014 there was a large-scale anti-Chinese movement in central and southern Vietnam that involved Taiwanese factories.
35. Zunci Hsu, "Our Economic and Trade Relationship with ASEAN," Special Report, World Trade Organization and Regional Trade Agreements Center, January 11, 2013, www.aseancenter.org.tw/CenStudyDetail.aspx?studyid=13&natstudyid=2.
36. Official of Straits Exchange Foundation in Taipei, interview by author, June 2014.
37. "Taiwanese Investment Returning to Taiwan Decreased by Half," *Now News*, April 23, 2014, <http://legacy.nownews.com/2014/04/23/320-3021684.htm>.
38. Patrick McDonald, *The Invisible Hand of Peace: Capitalism, the War Machine, and International Relations Theory* (New York: Cambridge University Press, 2009), 233–63.
39. Investment Commission, Ministry of Economic Affairs, ROC, "Monthly Press Release," October 20, 2015, www.moeaic.gov.tw/system_external/ctrl?PRO=NewsLoad&id=1072.
40. Official of State-Owned Assets Supervision and Administration Commission, interview by author, Beijing, July 2014.
41. "The Ministry of Economic Affairs Urges Taiwanese Entrepreneurs to Return to Taiwan," *China Times*, September 30, 2015, www.chinatimes.com/newspapers/20150930000086-260203.