

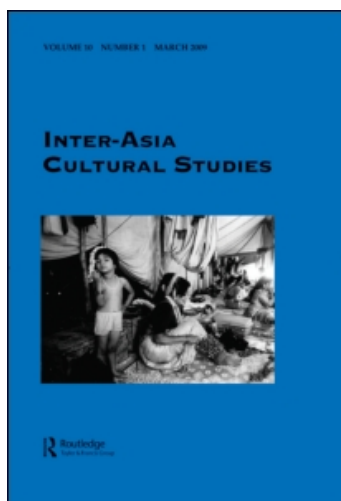
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Economic integration and the cross-Taiwan Strait reconciliation

Jinn-yuh HSU

ABSTRACT *In this paper, I aim to explain the puzzle of why economic integration leads to political separation in a cross-Strait exchange. Being a political economist heavily influenced by Marxist tenets, I argue two things here. First, the base structure, or the economy, is an indispensable element of the politics of cross-Strait integration. More importantly, I argue that the effect of economic integration is an issue of class-based analysis and, accordingly, the struggle between class alliances in varied sub-national regions. In fact, the prevailing model of cross-Strait economic integration resulted in both social and regional polarization in both Taiwan and China. Only a small number of people and regions benefit, and most of the rest, the people and regions, suffer. The arch criminal of the injustice was the zoning techniques, used as common practice in spatial selective disclosure in neo-liberal discourse on both sides of the Strait to attract inward investments. Finally, I argue that the solution to the cross-Strait reconciliation resides in fixing the state's failure. On the one hand, it has to allow the right hand of the state (capital accumulation) to function. Instead of subsidizing capital to stop it from sneaking to China, the state should render the implementation of globalization strategies easy for the capital. On the other hand, the state should design an institutional mechanism to render the trickle-down effect, both socially and geographically, possible and effective. Rather than following neo-liberal discourse and preferential policies to serve big businesses, the cross-Strait integration should take care of the interests of small and medium sized firms and obsolete regions with taxation and redistribution policies. Only by doing this can a sound and just economic integration infrastructure be expected for cross-Strait reconciliation. The real political reconciliation should be built on a class-cum-region base.*

The more economically integrated across the Taiwan Strait, the securer for Taiwan. Can you imagine China will launch missile at Taipei where lots of their business investments locate and people live? The Cross-Strait ECFA (Economic Cooperation Framework Agreement) will be an invigorator for our feeble economy. We, Taiwanese people, are the beneficiary of the integration. (A KMT [Kuomintang] delegate in the legislative forum, quoted from *United News*, 30 March 2009)

The ECFA will be a Trojan horse sent by China to swallow up Taiwan. It's a kind of poison with sugar coating. It's a prelude of 'One China Market', and will result in mass unemployment for Taiwanese people who are replaced by the cheap Chinese labor. The ultimate

goal of the ECFA is that China will take over Taiwan. (A DPP [Democratic Progressive Party] delegate, quoted from *United News*, 30 March 2009)

There is a puzzle in exploring cross-Taiwan Strait exchange. When Taiwan increased its reliance on China's manufacturing capacity and domestic market, the hostility towards China among the Taiwanese people did not reduce, and even rose abruptly in the Southern region. How can we interpret this phenomenon of 'the separation of the economic and the political'? Some commentators attribute it to the manipulation of the anti-China populist leaders, others just emphasize the relative autonomy of the political. Both are right. However, the puzzle still remains unsolved. Why did economic integration lead to political separation? Here, I am not arguing that the

economic will 'determine' the political, but proposing that the economy matters and that the prevailing pattern of cross-Strait integration over the past two decades deteriorates the infrastructure of cross-Strait reconciliation. In fact, both China-friendly and China-bashing politicians share an unexpected consensus; that is, the closer the economic integration, the more likely is political reconciliation. The only difference exists in the divergent attitudes from the two sides: while the China-friendly, or the pro-unification, side takes economic integration as a good, the anti-China, or the pro-independence, side takes it as a bad.

However, I am afraid the consensus is a partial truth, and will lead to unrealistic expectation and pointless crossfire. I will further argue that even though the China-friendly KMT President Ma Ying-jiu regained power in 2008, and resumed official cross-Strait talks and realized direct flight between Taiwan and China's coastal cities (such as Shanghai and Beijing) after six decades' prohibition, and that Ma's government has now turned its attention to push hard for the ECFA (Economic Cooperation Framework Agreement), the China-bashing will still occur if the government does not overhaul the old pattern of cross-Strait integration.

Being a political economist heavily influenced by Marxist tenets, I will argue two things here. First, the base structure, or the economy, is an indispensable element of the politics of cross-Strait integration. Ignoring the differentiated effects raised by economic integration will miss the possibilities of cross-Strait reconciliation. More importantly, I aim to argue that the effect of economic integration is an issue of class-based analysis and, accordingly, a struggle between class alliances in various sub-national regions. Without acknowledging the essence of class-based interest redistribution, both the China-friendly and China-bashing forces seemingly fish in troubled waters, and indeed engage in a war of class dispossession against the have-nots and produce windfalls for the predatory classes – in the same way as Harvey depicted the rise of

neo-liberalism in the capitalist economy (Harvey 2005).

Cross-Strait investment against the government's policy

In the late 1980s, the cross-Strait exchange was legalized by the Taiwanese government, which stubbornly implemented a 'no contact, no compromise, and no negotiation' policy after retreating from the mainland in 1949. After rapid economic growth for more than two decades, Taiwan suffered from an acute shortage of cheap labor and land in the 1980s. To meet this challenge, the government on the one hand initiated the industrial upgrading process by promoting high-technology industries in the northern region; on the other hand, it triggered the emigration of Taiwanese SMEs (small and medium-sized enterprises), mostly located in rural areas in the central region, in traditional sectors (such as garment, toy and shoe-making) to search of new cheap production factors. It was the first time that Taiwan grew from a foreign capital recipient to an outward investor in its postwar economic development. First, the investment went to Southeast Asian countries. However, Taiwanese FDI (Foreign Direct Investment) in China took off after 1987, and soon overshadowed its FDI in Southeast Asia.

However, the cross-Taiwan strait investments were not welcomed by the Taiwanese government. For political reasons, investing in China was not officially sanctioned. An explicit policy of 'don't rush, be patient' was stipulated by the then-president Lee Teng-hui (who was commonly recognized as a Taiwan-Independence sympathizer) in 1991 to discourage the expansion of cross-strait investments. Those investments that were not reported to the government would result in fines, and some of the investors were even sentenced to prison. Lee has been seen by the Chinese government as moving Taiwan's foreign policy away from the One-China policy, which resulted in a serious Taiwan Strait crisis, in which China fired

two sets of missiles in early 1996, allegedly intending to intimidate the Taiwanese electorate in the presidential re-election.

Lee's anti-China policy was followed by Shui-bian Chen, the DPP candidate who won the Presidential election in 2000. As the DPP was taken as being pro-Taiwan Independence, the cross-Strait relationship worsened. To ease the tension and clear the DPP of the anti-business charge, the Chen administration reviewed the laws and decrees related to cross-Strait investment, and posited relaxing the limitations. However, strong waves of opposition were initiated by Taiwan Independence fundamentalists who constituted the most active supporters in the election. In the meantime, the Chinese government rejected dialogue with the pro-Independence DPP government, and distrusted its goodwill. Consequently, Chen shrank back and did not reach anything progressive in the cross-Strait relationship until the end of his two terms in 2008.

Economic integration deepened, political confrontation widened

However, a new situation arose after 1997. Following the negotiation of membership into the WTO (World Trade Organization) and the opening up of China's market to foreign companies was assured, Taiwanese FDI in China shifted from labor-intensive and small-scale to technology-intensive and large-scale – e.g. Information Technology (IT) – firms. It is recounted that major Taiwanese PC motherboard and notebook producers rushed to cluster in East China. In contrast to Taiwanese investors' usual practices, as subcontracting partners for key PC buyers, China's local market imperative created the possibility of metamorphosing Taiwanese firms into becoming own brand-name makers after 2000. At the same time, over 85% of the top 100 IT Taiwanese firms started to set up R&D arms in China. Consequently, more and high-end, rather than less and low-end, Taiwanese FDI moved to China, against the will of the DPP's anti-China policy, which

aimed to hinder, rather than promote, the flow. This forced many Taiwanese investors to choose to register in a third country, such as the Cayman Islands, as foreign companies, in order to engage with their Chinese investments, rather than report to the Taiwanese government. Given the barricade set up by the anti-China government, China superseded the US and became the largest destination market for Taiwanese exports since 2002. Over 64% of listed Taiwanese companies were reported to be investing in China. In other words, despite the government attempting to cool down China fever, the fever spread from small labor-intensive to large technology-intensive sectors. Even financial sectors itched for a try. Economic integration deepened, and a disregard of political confrontation widened.

How should the separation of the political and the economic in the cross-Strait exchange be interpreted? No matter how diverging their political standings towards China, both the KMT and the DPP, as cited above, agreed with the idea that economic integration will produce political effects. The difference resides in the fact that the KMT expects the positive effect of economic prosperity and political reconciliation, while the DPP believes in the negative effect of economic disaster and political annexation.

Two scenarios of cross-Strait economic integration

Both are right! In fact, two scenarios of economic integration occurred in the past two decades. One is the equalization effect, predicted by conventional Neo-classic trade theory, which means cost convergence between the two sides for the free trade of production factors, such as capital, labor and materials. This leads to the decline of the economic well-being of the advanced side. In such a scenario, even the firms remaining in Taiwan will engage in a 'race to the bottom', unless they can upgrade their skills. Some small firms, particularly those family workshops in rural areas, are

forced to survive at a subsistence mode of production in thanks to the fierce competition in labor costs and quality of similar products made in China. Such an equalization scenario mostly hurt the labor-intensive sectors, such as the garment and plastic sectors, and their hosting regions, mainly in the non-metropolitan areas.

My own fieldwork in a hosiery district in Shetou Township in Central Taiwan illustrates this point well. It is clear that the sale volume of the hosiery products has decreased sharply in the past decade, due to the rise of cheap Chinese subcontractors. Figure 1 shows the values of imports from China and exports to China of the Taiwanese hosiery industry. Engaging in cut-throat competition with Chinese hosiery makers, Taiwanese firms faced huge pressure to cut wages and shrink orders after the mid-1990s. According to my fieldwork, subcontracting fees were cut from around NT\$80–100 per dozen at the peak, to NT\$42–56 in 1995 and have kept shrinking to around NT\$30–35 recently. The situation may well become devastating as the barriers

in cross-strait trade are gradually removed in accordance with the ECFA agreement. In fact, import custom duties on hosiery products decreased to 10% in 2007, and, under such circumstances, the domestic market, when opened to Chinese products, may be hurt after losing ground to the foreign market. Such a possible crisis has been amplified with the advent of towel imports from China in early 2006, which caused a panic among makers in Huwei, Yunlin County, and led to a protest and legal suit against dumping.

In contrast, another scenario arises in other sectors and regions. The localization effect works well for increasing-return industries, and technological externality and a reduction in transaction cost will amplify the cluster effect. In other words, these sectors and their hosting regions will benefit from the expansion of a market caused by regional integration. As Figure 2 shows, the export values of Taiwanese semiconductor products to China keep rising steadily, with the exception of economic turmoil in 2008. Such a localization scenario

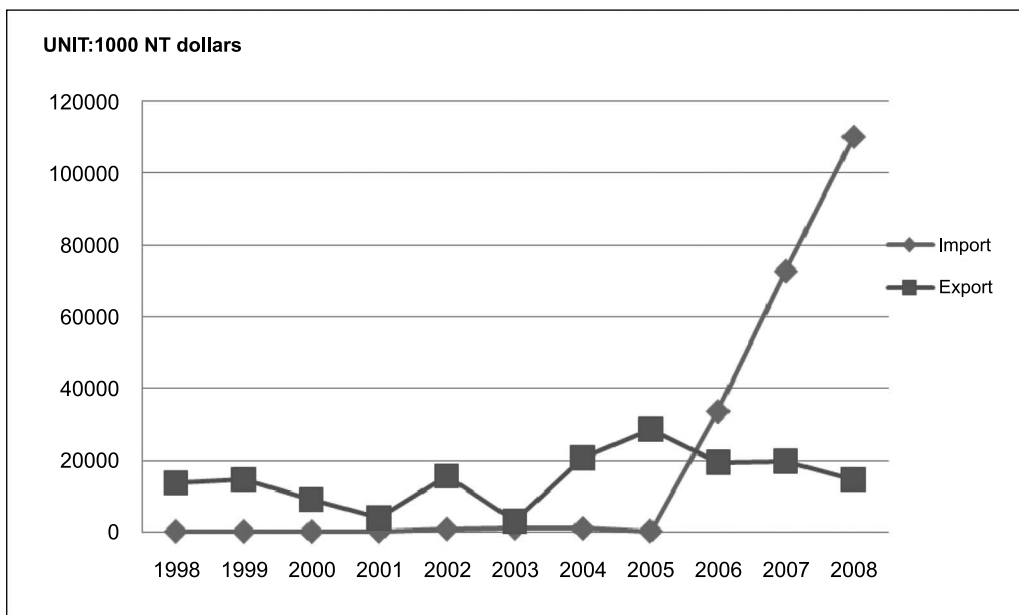


Figure 1. The values of imports from China and exports to China of the hosiery industry (Source: *Statistical Data of The Directorate General of Customs, Ministry of Finance* [various years]).

can be found in the IT industries and in the hosting Hsinchu-Taipei corridor, or in the North. The booming IT industries indeed increased their employment and enhanced the level of value creation in the past decade. In fact, the hi-tech corridor has taken advantage of its connection with Silicon Valley, the global technology hub, through talent and capital flow for more than a decade. The cross-border connection also extends to cover China's key coastal cities, such as Shenzhen, and Shanghai. It was widely believed that ethnic ties and cultural affinity between Taiwan and China enable cross-border investment and make exploring the market in China relatively easy (Hsing 1998).

The case of Acorn Campus is particularly illustrative here. The Campus was mainly established by a team of successful Taiwanese venture capitalists and engineers based in Silicon Valley. It plans to introduce the incubator model to Shanghai, and it focuses on semiconductor design, wireless infrastructure, and system and software development. It aims to exploit the best

resources from different locations: R&D, new product development and marketing in the US; high end logistics, design and manufacturing in Taiwan; and low cost engineering and manufacturing talent in China. Moreover, as China's market has been gradually open to Taiwanese, as well as foreign, investors, it has become the hot spot in the global economy. More importantly, the role of China's market is not just confined to Taiwanese investors' usual practices as subcontracting partners for key PC buyers, but also extends to the possibility of metamorphosing their own brand-name (OBN) makers. Becoming an OBN producer is a totally new and complex development for most Taiwanese PC investors, who are long known for their hidden OEM factories in global production networks. It becomes clear that Taiwanese high-technology firms take advantage of the emerging market, such as the 'selling household appliances to the countryside (*Jia-Dian-Xia-Xiang*)' policy, which was recently proposed by the Chinese government to expand domestic demand to attack the

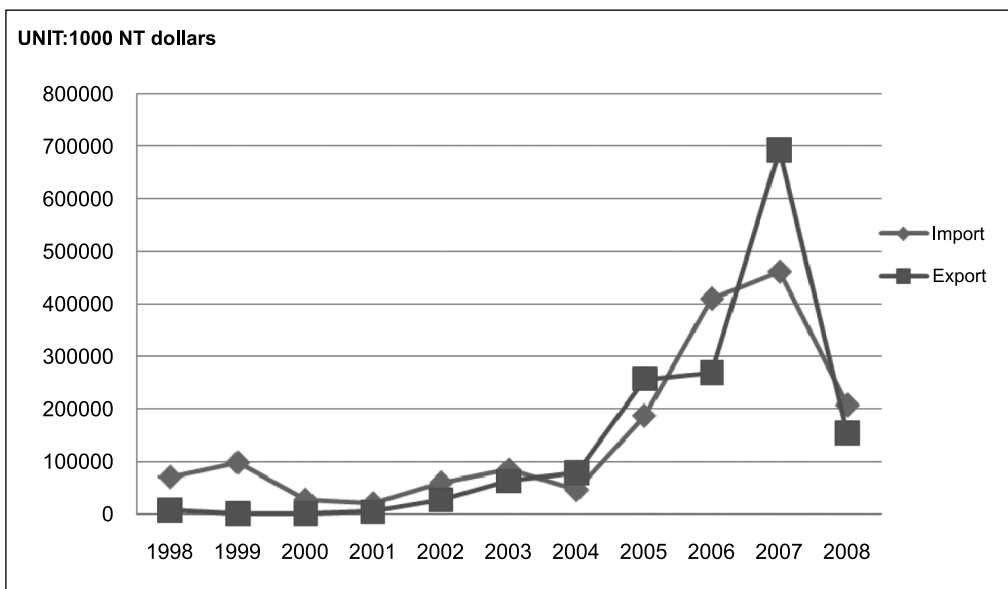


Figure 2. The values of imports from China and exports to China of the semiconductor industry (Source: *Statistical Data of The Directorate General of Customs, Ministry of Finance* [various years]).

crisis. As the market becomes more open, the benefit of hi-tech trade and investment increases.

While it is natural for Taiwanese people to worry about the erosion of competitiveness with the equalization effect, they should welcome the bright side of the cross-Strait investment in hi-tech sectors. However, the issue here is why the growth of hi-tech industries was not widely appreciated and welcomed by those who worry about the threat of economic integration. Why does the high-technology benefit not trickle down to the suffering traditional sectors? As argued by Hirschman, it hinges on the state policy towards the induced investments and trade (Hirschman 1958). As most of the hi-tech firms sneak to China, the taxes that should be levied by the government are conveniently dodged. Moreover, according to the 'Industry Promotion Law', the anti-China and inward-looking government exempts the hi-tech firms' tax on capital gain, and provides land subsidy to restrain their relocation to the mainland. Even their employees enjoy tax exemption from their stock benefit. According to the statistical data of the Ministry of Finance, the exempted tax of the hi-tech firms exceeded NT\$1000 billion in the past 10 years (1998–2007). In other words, the benefit accrued from the localization effect is concentrated within a small circle of hi-tech entrepreneurs and engineers. It leads to injustice in distribution. In fact, polarization also became a serious social issue in China, as Fan *et al.* (2009) observed.

Regional polarization: graduated sovereignty of the zoning technique

In addition to social polarization, regional disparity was magnified in the process of cross-Strait integration. It became clearer that the northern region, which hosted the high-tech firms, benefited from the integration, while the southern and central regions, home to most of the traditional SMEs, suffered from the economic loss, due to the replacement effect of the competitors

from the mainland. It aggravated the existing regional disparity between the North (mostly the KMT turf), and the South (the DPP major base). As the anti-China government had to look after those supporters who suffered badly from unemployment in the southern and central regions, which hosted the traditional sectors before economic restructuring, and those who supported the pro-Taiwan Independency movement and who were quite antagonistic towards the 'going China' policy, the DPP government offered a package of tax and land concessions to compensate for the losses incurred because of its obstructing investments in China by the key business groups. Among other ideas, the idea of a 'Silicon Island', a plan to construct science parks around the island with huge tax and land subsidies, was raised to promote the industrial and regional competitiveness. As a result, three major science parks, as well as 19 small bio-parks, were planned and constructed on the small island. However, only the Hsinchu–Taipei corridor is commonly thought as successful in hosting major hi-tech firm headquarters and in building up cross-Strait connections.

Such regional polarization also beset China, where the 'special economic zones' and coastal cities gained from the inward FDI and left the inland regions obsolete, as argued by Wei (2000). In brief, the prevailing model of cross-Strait economic integration resulted in both social and regional polarization in both Taiwan and China. Only a small number of people and regions benefit, and most of the other people and regions suffer! The arch criminal of the injustice was the zoning techniques on both sides of the Strait. As Ong argued, the zoning techniques as the common practice of spatial selective disclosure in neo-liberal discourse were usually deployed by the state to attract inward investments (Ong 2004). Such strategies of graduated sovereignty were used by the Taiwanese government to obstruct the clandestine movement of hi-tech capital, and were mobilized by the Chinese government to create controlled spaces of economic experimentation.

The failure of the state

In the final analysis, the solution to the cross-Strait reconciliation resides in the remolding of the dominant pattern of exchange. It has to fix the failure of the both hands of the state (Bourdieu 1998), since politicians take advantage of the state failure to manipulate and raise tensions across the Strait. On one side, the solution has to allow the right hand of the state (capital accumulation) to function. Instead of playing a role of subsidizing capital to hinder it from going to China, the state should render the implementation of globalization strategies easy for capital. As a result, Taiwanese capital can then take advantage of, for example, China's talented engineers and domestic market, with R&D (research and development), strategic planning and financial planning departments remaining in Taiwan.

On the other side, it is not sufficient to have only one hand working. The failure of the left hand (redistribution) should be fixed. The state should design an institutional mechanism to render the trickle-down effect, both socially and geographically, possible and effective. Rather than following a neo-liberal discourse and preferential policies to serve big business groups, the cross-Strait integration should take care of the interests of the SMEs and obsolete regions through taxation and redistribution policies.

Just as in a zero-sum game, winners and losers come out equal in global integration. The case of cross-Strait economic integration is no exception. However, given the potential for military conflict and ethnic repression magnified under the populist Taiwanese government in the past two decades, the issue of cross-Strait integration has become very sensitive (Hsu 2009). Without a sound and mutually beneficial model of economic integration, it is hard to imagine the possibility of political reconciliation in the cross-Strait exchange. In other words, real reconciliation should be built on a class-cum-region base.

In light of the Marxist perspective of cross-Strait integration, I am afraid that

even if the new KMT president, Ma, adopts more friendly policies towards China, such as the opening of direct flight, the resumption of regular cross-Strait talks and the proposal of the ECFA, these policies cannot effectively put an end to cross-Strait hostility without adding new ideas to the policy packages. No doubt the Ma regime should normalize and legalize cross-Strait investment in order to grow and enhance the global reach of capital, but, at the same time, the new regime has to adopt more progressive policies towards the economic justice issue, and free itself from the dominant neo-liberal policies and take responsibility for compensating the vulnerable sectors and people, such as the SMEs and the unemployed. Only by doing so can a sound and just economic integration infrastructure be possible for cross-Strait reconciliation.

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Jinn-yuh Hsu, the former editor-in-chief of the Leftist journal *Taiwan: A Radical Quarterly* in

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