



T H E

Taiwan- China

C O N N E C T I O N

Democracy

and

Development

Across the

Taiwan Straits

TSE-KANG LENG

The Taiwan-China Connection



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Tse-Kang Leng

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To my parents



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Contents

<i>List of Tables and Figures</i>	xi
<i>Acknowledgments</i>	xiii

1	Introduction	1
	The Failure of State Intervention in Cross-Straits Economic Relations, 2	
	Cross-Straits Economic Policy as a Case Study, 3	
	Theoretical Framework, 4	
	An Overview, 11	
	Notes, 13	
2	Democratic Transition in Taiwan	16
	Theories of Democratic Transition, 17	
	Democratic Transition in Taiwan, 20	
	Conclusion, 33	
	Notes, 34	
3	An Overview of Taiwan's China Policy	37
	The PRC's Unification Policy, 38	
	The DPP's China Policy, 42	
	Taiwan's Official China Policy, 45	
	Conclusion, 51	
	Notes, 52	
4	Institutional Conflicts and Power Struggles	55
	Institutional Framework of Taiwan's China Policymaking, 57	
	The Straits Exchange Foundation and Institutional Conflicts, 64	
	Institutional Conflicts—The MAC Versus the Economic Bureaucracy, 70	

Conclusion, 74	
Notes, 76	
5 State-Business Relations and Taiwan's Cross-Straits Economic Policy	79
State-Business Relations in Taiwan's Authoritarian Era, 80	
State-Business Relations Since Democratization, 84	
Big Business and Taiwan's Cross-Straits Economic Policy, 89	
Conclusion, 99	
Notes, 101	
6 Governing Cross-Straits Economic Relations	105
Economic Regulations, 106	
Economic Activities of Taiwanese Businesspeople in China, 108	
Cross-Straits Economic Connections and the Prospects of a "Greater China Economic Circle," 115	
Conclusion, 126	
Notes, 128	
7 Conclusion	132
Reasons for the Failure of State Intervention in Cross-Straits Economic Relations, 132	
State and Society in Taiwan Revisited, 136	
Notes, 138	
<i>Selected Bibliography</i>	139
<i>About the Book and Author</i>	147
<i>Index</i>	149

Tables and Figures

Tables

3.1	Public Opinion Polls on Independence and Unification	50
4.1	Directors of MAC and SEF, 1990–1993	65
5.1	Distribution of Industrial Production by Ownership	81
6.1	Commodity Trade Between Taiwan and China via Hong Kong, 1981–1995	108
6.2	Adjusted Taiwan Exports to China, 1981–1995	110
6.3	Taiwanese Investment Projects in China, 1991–1994	111
6.4	Distribution of Taiwanese Enterprises in China	112
6.5	Economic Interdependence Between Taiwan and China, 1981–1995	120
6.6	Taiwan's Trade with China, the United States, and Japan as Percentage of Total Trade, 1981–1995	121
6.7	Taiwan's Trade Surplus with China and Total Trade Surplus, 1987–1995	122
6.8	Taiwan's Exports to China and the United States	122
6.9	The International Competitiveness of Taiwan and China in Manufacturing Sector	124
6.10	Market Shares of Taiwan and Chinese Products in the U.S. Market	124

Figures

2.1	Factional Politics and Factional Seats in DPP Central Standing Committee, 1986–1991	26
2.2	The Percentage of Popular Vote of KMT and DPP	28

4.1	Organizational System of China Policy in Taiwan	58
4.2	Mainland Affairs System of KMT, 1992	60
4.3	Adjusted Party and State Structure of Mainland Affairs Policy-making, June 1993	61
5.1	KMT Enterprises	88
5.2	Review Process for Mainland Investments	94
5.3	Review Process for Imports from China	95

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Tse-Kang Leng
Taipei, Taiwan

1

Introduction

Students of comparative politics and international relations will find the recent development of Taiwan an interesting case to test the validity of competing theories of social science. On the one hand, the process of democratization and the transformation of state-society relations challenge the “strong-state paradigm” that has been used to explain the political economy of Taiwan; on the other, Taiwan’s flourishing relationship with China¹ requires a new theoretical framework for foreign policy analysis.

The strong-state paradigm is a powerful tool for explaining Taiwan’s development over the past forty-some years. Although the neoliberal school of political economy stresses the advantage of laissez-faire policies and dependency theorists emphasize international constraints upon development, the focus of the statist approach is the state’s capacity and its autonomy in manipulating the state-society relationship and in initiating foreign economic policies. However, since the process of democratization began, the strong state’s dominant role in policymaking has been reduced. Academic works discussing the transitional role of the strong state in initiating economic policies are rare.

This book focuses on the changing nature of the state in Taiwan and the making of its economic policy toward China. The case of Taiwan-China economic relations is selected because it is highly political and vital to Taiwan’s survival. This special kind of relationship reflects the domestic power constellation in Taiwan and has produced conflicts within the bureaucratic hierarchy and general public. Discussing the management of economic transactions across the Taiwan Straits can help us understand changing state capacity, state autonomy, and state-society relations in the democratization era.

The Failure of State Intervention in Cross-Straits Economic Relations

Taiwan's economic development over the past forty years is commonly characterized as state-led growth coupled with a fairly equal distribution of wealth. In the early stage of development, the state supported infant industries and established state-owned enterprises to achieve its economic goal of import substitution. In the take-off period of the 1960s and 1970s, the state promoted export-led growth. The state led and controlled the market mechanism by providing tax breaks, subsidizing strategic industries, and regulating business activities. The ultimate goal of the state was to achieve high economic growth through export-oriented small and medium-sized firms concentrated in labor-intensive industries.

State intervention in the authoritarian era was successful. The economic bureaucracy, controlled by Western-trained technocrats, was an efficient and coherent body. Under the authoritarian rule first of the supreme leader Chiang Kai-shek (1886–1975) and then his son Chiang Ching-kuo (1910–1988), the state suppressed any potential opposition forces and dominated the society. Domestic capitalists were divided after the February 28 Massacre of 1947. They began to ally with state officials and state enterprises and to develop a patron-client relationship with the state. Foreign economic policies, used as a tool to promote exports, were the outcome of autonomous state actions initiated by technocrats insulated from the penetration of social interests.

However, the three important factors contributing to the success of intervention by the strong Taiwanese state—a coherent body of technocrats, state dominance over society, and effective state control of business activities—gradually disappeared in the late 1980s, a time of transition in Taiwan. Along with the large-scale political reform, a new relationship with China began to emerge. Although official political contacts between the two sides are still prohibited, interaction in culture, sports, communications, and business has become closer over the past five years.

The Taiwanese government insists on indirect economic transactions with China. However, those sectors of the bureaucracies responsible for economic policies toward China have failed to coordinate the speed, form, and content of cross-Straits economic interaction. Political struggle and factional conflicts in the higher echelons of the ruling party and the state greatly impede cooperation and coordination among the political elite. The result is inconsistency and delay in initiating policies that are aimed at regulating business activities.

Taiwan's economic policy toward China is also influenced by the corporate interests of business groups. As big business groups begin to invest in China, they are using various means to forge both formal and informal

alliances with state bureaucrats at home to guarantee their business interests. On the other hand, small and medium-sized firms are rushing into the booming China market regardless of the state prohibition. Restrictive laws and macroeconomic policies have proved ineffective in regulating the activities of businesspeople eager for profit. The incompetent state bureaucracy, divided by factional and elite conflicts, is powerless to resist pressures from society and thus has failed to lead the market interests. The state has only partially legitimized the current situation of economic interaction with China. This is in sharp contrast to the state's dominant role in economic policymaking during Taiwan's authoritarian era.

Cross-Straits Economic Policy as a Case Study

The primary aim of this book is to explain the failure of the Taiwanese state's intervention in cross-Straits economic policy. It does not merely concern itself with the content of the policy but focuses on the policy-making process and state-society interaction on the issue of managing cross-Straits economic relations. The questions we will ask include: How does democratization influence elite coherence and the state-society relationship in Taiwan? What are the major controversies concerning the tempo and form of cross-Straits economic interaction? Why have the various sectors of the state bureaucracy failed to coordinate their policies? What influence does society, especially big business, exert on state policy? What is the real situation of cross-Straits economic interaction? To what degree has the state failed to discourage Taiwan businesses from entering the China market? How do Taiwanese businesspeople avoid legal restrictions and resist state intervention? What is the capacity of the state to regulate the market?

The strongest case studies start out with clearly identified theories that are expected to explain the event. This research challenges the strong-state paradigm, which dominates the study of Taiwan's political economy. By analyzing state autonomy and state capacities, a new form of state-society interaction in the democratization era can be identified. Moreover, this research will not merely analyze the inability of the Taiwanese state to implement a coherent economic policy toward China but will also attempt to identify the major actors and social interests involved in the policymaking process. The aim is to provide at least a partial answer to the broader question of the ability of the state to cooperate with society and achieve major changes in contemporary Taiwan.

The case study used in this research is an empirical one. As Robert Yin argues, a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, and in which multiple sources of evidence are used.² The data in this book come from the fol-