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# New Approaches to Cross-Strait Integration and Its Impacts on Taiwan's Domestic Economy: An Emerging "Chaiwan"?

Gordon C. K. Cheung

**Abstract:** Taiwan's Legislative Yuan and Presidential elections in January and March 2008 respectively re-orientated cross-Strait relations from hostility to co-operation. On 4 November 2008, Chen Yunlin, head of the Association for Relations Across the Taiwan Straits (ARATS), and Chiang Pin-kun (Jiang Bingkun), chairman of Taiwan's Straits Exchange Foundation (SEF), meeting in the Second Chiang-Chen Talks in Taiwan, took a historical step in the further development of cross-Strait relations. Agreements were signed on direct air and sea transport, postal services and food-safety security. On 22 December 2009, the Fourth Chiang-Chen Talks took place in Taizhong and more substantial and technical agreements were signed on agriculture, inspection/ accreditation and fisheries. It seems that continuous integration between China and Taiwan is inevitable. To address the implications of this process for Taiwan's domestic economy, four dimensions of the current cross-Strait relationship are scrutinized: *guanxi*, plutocracy, legalism and the idea of a Chinese Common Market. It is argued that in order to intensify economic co-operation across the Taiwan Strait, more institutionalization of the cross-Strait relationship must be brought about.

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**Keywords:** "Chaiwan", Chinese Common Market, Economic Cooperation Framework Agreement (ECFA), *guanxi*, legalism and plutocracy

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## Introduction

When Sky News reported on the flooding in Taiwan and south China on 16 August 2009, Taiwan's news was put together with China's, and the pictures of the flooding in southern Taiwan were intermingled with shots of flooding in the southern part of China as well (Sky News 2009). To the general public, it was all just news coverage of areas affected by natural disasters, but for those who are concerned with cross-Strait relations, the implications were enormous: it appeared that the economic integration between Taiwan and China had gradually moulded the two nations together and that people increasingly thought there was no difference at all between China and Taiwan!

It is in this direction that the discussion of rapid integration between China and Taiwan has become an imperative, particularly with reference to studying the neologism of "Chaiwan" in order to diagnose the dynamics and changes of cross-Strait relations. The term "Chaiwan" (coined by combining the words "China" and "Taiwan") was first created by the Korean media in 2007 (*Yazhou Zhoukan* 2009: 26). The Korean government was afraid of the integration between Taiwan and China in the electronics industry and of the technological know-how developed by them, which may eventually threaten Korea's leadership in the electronic industry. Of course, whenever the term "Chaiwan" is used, it does not necessarily mean that cross-Strait relations are going to be smooth and economic and that political relations can be developed without any difficulty. On the contrary, cross-Strait relations will be conditioned and modified in the future by the economic integration between China and Taiwan. The neologism is an attempt at providing a way of seeing or generating a platform for further academic discussion and debate. In a similar fashion, it is like "Chimerica", which was coined by Niall Ferguson to describe the future relations between the United States of America and China. It hardly suggests that the USA and China will be harmonious, though! It may just indicate that they need each other in an interdependent way. Yet I would argue that the current economic co-operation across the Taiwan Strait is embedded with a number of uncertainties, such that a new approach is necessary to place the current economic and political relations in a perspective enabling one to understand the possible future direction of the cross-Strait relationship.

Taiwan's Legislative Yuan and Presidential elections in January and March 2008 respectively re-orientated cross-Strait relations from hostility to co-operation. On 12 January 2008, the Kuomintang (KMT) (Guomin-

dang) hugely defeated the Democratic Progressive Party (DPP) by winning 81 seats to 27 (out of 113 seats in total). More importantly, Ma Ying-jeou (Ma Yingjiu), the KMT presidential candidate, won a landslide victory during the presidential election on 22 March 2008. He obtained 7.65 million (58.45 per cent) of the votes, while his counterpart, Frank Hsieh (Xie Changting), “only” won 5.45 million (41.55 per cent). In his inaugural address on 20 May 2008, Ma Ying-jeou (Ma Yingjiu), President of Taiwan, said: “I sincerely hope that the two sides of the Taiwan Strait can seize this historic opportunity to achieve peace and co-prosperity” (*China Post* 2008). His presidency not only broke the political stalemate in cross-Strait relations, but also put the KMT back onto the front stage of Taiwan’s politics – very likely creating another problem that will be discussed in the third section of this paper.<sup>1</sup>

The first regular direct flight since 1949 was launched on 4 July 2008, operated by China Southern Airlines from Guangzhou, mainland China to Taipei. Cross-Strait social development is expected to recover gradually. Yet after a year in office, Ma’s leadership was brought into question because of external and internal factors. On the outside, the global financial crisis in 2008–2009 affected Taiwan’s export sector and slowed its economic growth down. Internally, the enormous flooding in August 2009 revealed Ma’s true administrative ability. Honouring the promise made during his presidential campaign (Ma and Siew 2007: 123) of bringing prosperity back to Taiwan increasingly appears to be a hercu-

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1 The research for this paper was based on several research visits to Taiwan: the visiting programme of the British Academy-Academia Sinica in December 2007, the National Chengchi University in December 2008 and the Institution of Political Science of the Academia Sinica in December 2009. I thank them all. I would also like to thank Jean-Pierre Cabestan, William A. Callahan, Chao Chien-Min, Dafydd Fell, Hsu Szu-chien, Kao Charng, Keng Shu, Peter N. S. Lee, Leng Tse-Kang, Shih Chih-Yu, Wu Chung-li, Wu Yu-Shan and Norman Yin for their comments, interviews, discussion and research support at various points during the research process. I would like to thank Gunter Schubert for his invitation to contribute to this special issue and for reading my entire paper and making some very useful comments on it. My gratitude also goes to the editors of the *Journal of Current Chinese Affairs* and to two anonymous reviewers for their constructive comments concerning revisions. I would also like to thank the School of Government and International Affairs at Durham University for offering some financial support for the research. Thanks are also due to those people who kindly participated in interviews and discussion at the Mainland Affairs Council and the Straits Exchange Foundation as well as to various DPP members and many academic colleagues at the National Taiwan University, National Chengchi University, National Taiwan Normal University and Yuan Ze University.

lean task. In addition, the typhoon and flooding in August 2009 were a serious blow to Ma's administration as his skill at crisis management was severely criticized (*Zhongshi Dianzhi Bao* 2009).

In July 2008 when regular direct flights were again in operation after an absence of 59 years, more than a hundred mainland Chinese tourists set foot in Taiwan for the very first time. On the political front, institutionalized dialogue has been re-opened between ARATS of China and the SEF of Taiwan, a dialogue that had stopped after Lee Teng-hui's (Li Denghui) visit to his alma mater Cornell University in 1995 (see my argument in Cheung 2007: 113-116 as well). On 4 November 2008, Chen Yunlin, head of the ARATS, and Chiang Pin-kun (Jiang Bingkun), chairman of the SEF, met in Taiwan and took a historical step towards the future development of cross-Strait relations. In the second Chiang-Chen Talks, they signed agreements focusing on four issue areas: air transport, sea transport, postal services and food-safety security (MAC 2008a).

In terms of indirect trade and investment, Taiwan exported a total of 6,197 million USD in goods to mainland China from 1988 to May 2009 while importing only 1,848 million USD, resulting in a trade surplus of 4,349 million USD. In terms of investment, 37,311 cases of indirect investment from Taiwan to China were recorded from 1991 to May 2009 with an overall value of 771 million USD (MAC 2009b). Yet compared with trade with the United States of America, for instance, the trade balance between Taiwan and the United States witnessed a steady decrease. Trade between Taiwan and the USA amounted to 11 billion USD in 2008, for example, compared with the trade balance of 16 billion USD in 2000 (a drop of almost a third in eight years) (US Census Bureau 2009). So it can be argued that the decrease in Taiwan's trade with the United States of America was compensated by the concurrent increase of trade with China. In so doing, it appears that rapid economic integration across the Taiwan Strait needs to be looked at from an economic angle as well as a political one.

Across the Strait, during the Seventeenth National Congress of the Chinese Communist Party (NCCCCP) held from 15-21 October 2007, General Secretary Hu Jintao suggested that a peace agreement could be signed between China and Taiwan:

Here we would like to make a solemn appeal: On the basis of the one-China principle, let us discuss a formal end to the state of hostility between the two sides, reach a peace agreement, construct a framework for peaceful development of cross-Straits relations, and thus usher in

a new phase of peaceful development (Chinese Communist Party 2007: 43).

It was felt that Hu was trying to play a more active role in setting new rules of the game regarding cross-Strait impasses. Yet after Taiwan's Legislative Yuan election in January 2008 and the presidential election in March 2008, the "peaceful" relationship became more obvious, resulting in a gradual, upbeat development.

In terms of cross-Strait relations, however, there are two important catalysts of change that must not be neglected: Taiwanese identity and democratization. Identity searching and the notion of Taiwanese identity were often used during the DPP's administration before 2008 because the political party tried to make use of Taiwanese identities to reconstruct the political loyalty of the general public. Democratization in Taiwan also arouses a sense of national identity amongst the populace by using ethnicity as well as language to reconstruct a new political culture, which affects the political climate in Taiwan. The very notion of the meaning of identity is embedded in the country's history, colonization development, ethnic composition, cross-Strait relations, political development, democratization and nationalism (Cheung 2009a).

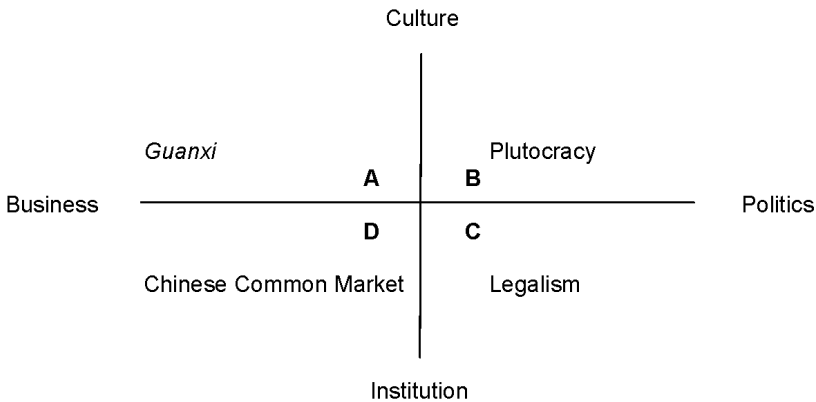
As for democratization, the voting behaviour and the result of elections will continue to re-define Taiwan's politics and help put cross-Strait relations in a constantly changing context. The local election in December 2009, for instance, was said to be an indicator that might reflect on the incumbent KMT, which was not doing well, either in terms of economics or politics. Although the KMT had gained 12 seats while the DPP only gained four, the percentage of votes for the KMT dropped significantly from 50.96 per cent in 2005 to 47.88 per cent in 2009, while the DPP, in contrast, increased from 41.95 per cent in 2005 to 45.32 per cent in 2009 (*Xin Xinwen* 2009: 13).

It seems that the rise of China and the integration between China and Taiwan are now clear facts. One needs to think about the far-reaching consequences of the intense integration between China and Taiwan. With the notion of "Chaiwan" in mind, I am going to apply a model to examine the outcomes and requirements of closer economic and political relations between Taiwan and China by referring to four dimensions: politics, business, culture and institution. These factors collectively allow one to derive a quadrangular analysis to extend the meaning of "Chaiwan" and to further enquire about the challenges and opportunities of contemporary cross-Strait relations.

## The Model of “Chaiwan” and the Implications for Cross-Strait Relations

The economic platform between China and Taiwan has been built upon the economic rise of China as well as the flow of investment from Taiwan to China for the past two decades. China’s rise as a major economic and political player inevitably provides new possibilities for the future of cross-Strait relations (Naughton 1997; So, Lin, and Poston 2001; Callahan 2004; Sung 2005). Researchers who are looking at the economic integration between China and Taiwan particularly focus on Taiwanese investment, Taiwanese business people (*taishang*) and cross-Strait economic and social interactions (Leng 1995; Bolt 2001; Tung 2003; Tanner 2007).

Figure 1: A Model of “Chaiwan” in Cross-Strait Relations



Source: Author’s own compilation.

In the model, I am going to develop some possible approaches and areas of concern from the economic, social and cultural relations established between China and Taiwan. As a result of the rapid integration, it appears that, within the four dimensions just mentioned, there are four shaping factors that can help theorize the concept of “Chaiwan” by a quadrangular analysis of their interaction: *guanxi*, plutocracy, legalism and the Chinese Common Market. I shall attempt to demonstrate by this model that rapid economic integration between China and Taiwan will

be strongly affected by their cultural similarity as well as being challenged by their political differences. In order to enhance co-operation, it is argued, cross-Strait relations should be developed along the way of institutionalization to secure both sides' interests in future economic co-operation.

## Guanxi: Chinese Business Culture (Area A)

Area A indicates the correlation between business and culture. *Guanxi* is an obvious, but very abstract term in a Chinese business and cultural context. It is a very broad concept and its significance is continuously debated by scholars who try to pinpoint elements that can explain the interaction behind business activities between two very similar cultures in a better way. Taiwanese and Chinese are said to be able to manipulate some common Chinese cultural traits such as business networks, languages, education and traditional customs in order to facilitate better business activities. These elements are useful to create a cultural platform for business activities to take place within "Chaiwan". Yet, I argue that given the similarity of culture and the ability to speak the same language, the fact is that it is easy to generate *guanxi*, but increasingly difficult to develop trust in a close community such as "Chaiwan".

According to a comparative study on the investment strategies among *taishang*, Japanese businessmen and Korean businessmen in China, Chen Te-sheng pointed out that "Taishang have language, cultural and local knowledge, they are better in developing human networks and bridging relations with local government" (Chen 2008: 21). In so doing, speaking the same language – Mandarin – perpetuates the establishment of *guanxi*, or network-building, with Chinese local governments. His observation is very close to our conventional understanding of the notion of socially constructed business culture or Chinese capitalism (Thuno 2007).

Previous research on Chinese capitalism, among the Chinese diaspora especially, treats Chinese network-building as organic, suggesting the common cultural traits can facilitate such business network-building. Kao (1993) coined the concept of the "Chinese Commonwealth" to describe the business networks of this diaspora. In his survey of Chinese diaspora enterprises, 52 per cent of the respondents reported that more than half of their domestic working relations and 39 per cent of their international working relations were with co-ethnics. The study by Mak



and Kung on the formulation of Chinese diaspora networks indicated that such ties were multi-dimensional (Mak and Kung 1999), and they concluded that “the social network of the Chinese Diaspora works beyond a mere business-inducing medium [...] it also serves as a feeler of social-political stability” (Mak and Kung 1999: 15). Yeung, in a somewhat similar fashion, argues that “local institutions and social norms have strongly shaped the emergence of Chinese capitalism in Southeast Asia, giving it a distinctive peculiarity and set of practices” (Yeung 1999: 8).

A more recent approach on Chinese business studies is the attempt to reconcile two strands of theories of Chinese diaspora business studies: “cultural dependency”, involving Chinese networks and family business; and “administrative heritage” (de-colonization and the socio-political system), where the Chinese diaspora attempt to find their place in the socio-economic environment of the host country (Dieleman 2007: 27-28). This so-called “co-evolution theory” is an attempt to understand the balance that Chinese diaspora capitalists try to find between themselves, as ethnic minorities, and the socio-political environment they find themselves in. It is this balance that I intend to demonstrate with respect to the *taishang* and their business in China (see also Zhang 2007: 127-138). The notion of being Chinese provides an important condition for business to take place. However, we have to take the respective local conditions into consideration in order to understand their way of doing business on the mainland. For example, in the cases of family food enterprises in the United Kingdom, their business development and the inevitable linkage between Chinese and the catering industry were actually subordinated under broader social and economic changes in the United Kingdom after the Second World War when many male family members enlisted in the army. As a result, female members needed to join the job market to fill the gaps in manpower, leaving a burgeoning catering service industry to be filled by different ethnic groups, one of which was the Chinese group (Gomez and Cheung 2009). According to a DPP legislator’s assistant,

Taiwanese businesses and their concomitant investment behaviour, social relations and even extramarital affairs in China are somewhat a media-constructed topic. Due to the profit-making motive, they have to get along with the Chinese government, whether they like it or not (Interview, 13 December 2007, Taipei).

If this observation is true, as many people think, the generic cultural background, language advantage and local knowledge are one entity, but there is also a co-evolutionary notion of getting along with (or adapting to) the political system in China. In a similar fashion, Taiwanese business people, while adjusting themselves to the Chinese social and political environment through their business activities, have to maintain a different identity. This is because they do not want to fully integrate into the Chinese political system or lose their Taiwanese identity. According to another DPP member,

the identity of Taiwanese businessmen is very subtle. On the surface, they may seem to subordinate to the Chinese identity. But after a while, this Chinese identity can become a problem that may create a division between us (Taiwanese businessmen) and them (Chinese government officials). When they go back to Taiwan from Suzhou, for instance, they keep a low profile for fear of being labelled of speaking for China (Interview, 18 December 2007, Taipei).

Apparently, the *taishang* are a very special group of people. Their networks are conditioned by their identity as well as by their liminal status (they change their attitude between two places) (Cheung 2007: 87-90). To take another example, language is important in defining one's identity. Although Mandarin is used in mainland China as the formal language, many people actually use different dialects – in Guangdong and Shanghai, for example. Whenever I paid visits to my grandfather's village in Guangdong in the early 1980s, where people mainly spoke Cantonese, I remember seeing signs in stores that said *Tongzhibimen qing jiang putonghua* (Comrades please speak *Putonghua* [Mandarin]) (see Cheung 2007: 98). In other words, the dual-language identity allows one to deal with the government by the use of the formal language, but to communicate with one's local community in a dialect. In the case of Taiwan, according to Alan M. Wachman,

the arrival of the KMT in Taiwan after the defeat by the CCP in 1949 also brought the movement of purification of language, which meant Mandarin should be used as a formal language (Wachman 1994: 108).

In the following decades, there were twists and turns between the status of Mandarin and *taiyu* (the principal Taiwanese language, which was suppressed under the KMT's language policy). But after the late 1980s especially, Taiwan became more liberal and therefore the status of *taiyu* was re-established. In 1987, three of the state television stations began to use

*taiyu* to broadcast news. In the 2000s under Chen Shui-bian's (Chen Shuibian) administration, *taiyu* was given official status in connection with the rising of Taiwanese nationalism (Cheung 2007: 98-101).

The role of language in identity formation in Taiwan has not been fully understood by most mainland Chinese, even since 2008. To take just one example, the plan to bring *Cape No. 7* (a box-office hit Taiwanese film with lots of *taiyu*) to China was hugely delayed because the love affairs between a young Japanese publicist and a Taiwanese singer were considered to be "too Taiwanese" as well as idolizing Japanese colonization too much (*Financial Times* 2008: 4). As a matter of fact, *taiyu* is an element that creates a sense of community among Taiwanese business people. While *taishang* use the official language, Mandarin, to do business in China, their weak social and cultural entrenchment in mainland China (see below), except perhaps in Fujian, stands in opposition to the network-building argument.

## Plutocracy: Chinese Business and Politics (Area B)

Area B demonstrates the "coalition" between culture and politics between Taiwan and China. Interaction between the two countries has witnessed a general development regarding the possibility of plutocratic governance. The word plutocracy, or plutokratia in Greek, comes from ploutos (wealth) and kratein (to govern).<sup>2</sup> In its original meaning, it refers to "an elite of ruling class whose power derives from their wealth" (ODE 2003: 1356). Lien Chan's (Lian Zhan) meeting with Hu Jintao in 2005, for example, represented the elitist approach to the integration process as he was chairman of the KMT at the time. By the same token, Taiwan's business people, who have economic power, also play a dominant role in cross-Strait economic integration. Putting the wealthy and powerful Taiwanese together into a closed Chinese political system may generate outcomes that are not necessarily healthy because they can further translate their economic power to reinforce their political capital in China.

It is very likely that the rise of plutocracy in the process of increasing "Chaiwan's" integration is based on the "political business" relations

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2 Thanks to my former colleague Bob Dyson for informing me of the origins of these words.

between the governments on both sides of the Taiwan Strait and the *taishang*. Political business is a concept

which will be applied to analyse the various forms of links between politics and business that can have positive or negative impact on local economies and political systems (Gomez 2002: 3).

In a positive manner, government and business, through continuous cultivation of economic incentives, generate the linchpin of economic growth. In a negative fashion, politics and business relations may develop into “patron-client” relations, as Lucian Pye has shown (Pye 1985: 111-120).

Lien Chan’s (Lian Zhan) visit to China in 2005 unveiled his incipient plutocracy. In the following years, more and more high-level KMT leaders were able to go to China and visit top Chinese leaders, too. Prior to 2008, these visits were symbolic rather than structural, but, as previously mentioned, both the Legislative Yuan and the Presidency in Taiwan are now controlled by the KMT. The notion of symbolic meaning is very likely to be worked out with the incumbent government to formulate a collective force in driving at further policy and political initiatives. What I am trying to develop further here is that a wealthy KMT party leader paying a visit to China is deemed to be worrying, but not entirely troublesome. More importantly, the assets of the KMT as a whole are a problem as it has been characterized as “KMT, Inc.”. Party assets were accumulated, at least in part, “on a foundation of nepotism, insider trading, political patronage, and financial-sector abuse for vested political interests” (Fields 2002: 115). At some point during the 1990s, the KMT’s assets were valued at 36 billion NTD (1.44 billion USD) and Liu Taiying, chairman of KMT’s Party-Owned Enterprise Management Committee, admitted that “the actual market value of the KMT’s corporate holdings may be three times that of the book value” (Fields 2002: 123). Although Ma has been trying to clarify the legal status of the KMT’s assets, returning some of them to the government, his efforts have not been entirely successful; the legality of the KMT’s financial empire is still an issue. It is under such circumstances that the intermingling of KMT power and wealth with the interests of top Chinese leaders raises the question of whether a new cross-Strait plutocracy is emerging.

Second, Taiwanese business leaders play a role in nurturing such a plutocracy as well. For the past two decades, *taishang* investment in China has been repeatedly knocked as hollowing out the economic strength of Taiwan. In June 2005, for instance, *CommonWealth* magazine questioned

whether the *taishang* were still loyal to Taiwan (*CommonWealth* 2005). Six of the ten biggest foreign investors in mainland China were from Taiwan at the time. The fact is, as the magazine warned, that the very latest development of *taishang* engagement in China is the employment of Chinese bureaucrats; the *taishang* do not even rely on human capital from Taiwan any more (*CommonWealth* 2005: 86). Many policies, such as the “three mini links” (*xiaosantong*), were biased towards the *taishang* at the very beginning. The Act of Offshore Island Development (*Lidao jianshe tiaoli*) was promulgated in the Legislative Yuan on 21 March 2000. One of the key requirements of being able to use offshore islands – Jinmen, for instance – to travel to China was

being the responsible person or an employee of an enterprise that is permitted by the Ministry of Economic Affairs to invest in the Mainland Area, or the spouse or a lineal blood relative of the said responsible person or employee (Jiang 2007: 55).

From the point of view of Taiwanese society, as my previous interviewing in Taiwan has shown, the continuous investment by Taiwanese business people in China is very likely to divide the islanders into two groups: the haves and have-nots. The haves (i.e. the *taishang*) are those people who have been investing heavily in China and have attained economic as well as political capital. The have-nots are those people who do not or could not invest in China. These people feel that their economic opportunity and international space have been restrained. The only power they have is their political vote, which has very often led to nationalistic overtones in Taiwan’s political discourse since the mid-2000s. In addition, according to Wu, *taishang* investment in China has both positive and negative effects in terms of employment. Furthermore, as a result of their investment in China, *taishang* can create some middle-management jobs for Taiwanese, who can return to Taiwan later to work at the middle-management level. On the negative side, though, a large number of blue-collar jobs will be shifted to mainland China to be taken up by local manpower.

It thus appears that the idea of plutocracy has recently gained momentum. After the financial crisis erupted in September 2008 in Wall Street, for instance, Beijing immediately pledged 130 billion CNY (19 billion USD) in loans to Taiwanese business people to help China overcome the crisis (Clem 2008: 1). The director of the mainland’s Taiwan Affairs Office, Wang Yi, and the chairman of the Chinese People’s Political Consultative Conference, Jia Qingling, agreed on the impor-

tance of the help and the urgency of the loans (Clem 2008). This obviously served the Chinese “United Front” (*tongzhang*) strategy well, but more than that, it underlines the relevance of plutocracy in contemporary cross-Strait relations and has therefore caused observers to express a string of concerns (Gomez 2002). The formation of governmental plutocracy will require years to take shape. Since 2008, Taiwan’s media has become increasingly active in covering such topics as cross-Strait economic benefits, middle-of-the-range mainland officials coming to Taiwan and *nouveau riche* mainland tourists spending time in Taiwan (*Yuanjing Zazhi* 2009).

## Legalism: Institutionalization of Chinese Politics (Area C)

In area C of the diagram, the intermingling between a democratic Taiwan and an authoritarian one-party state in China creates tension and restraints. To promote healthy integration, it is necessary to promote legal institutionalization, which means interaction should be based on a clear, institutionalized structure. As mentioned before, the directors of the ARATS and SEF met in Taiwan on 4 November 2008, paving the way for deeper cross-Strait relations. After this meeting (known as the Second Chiang-Chen Talks), the Mainland Affairs Council in Taiwan came up with a comprehensive survey which showed that 75.1 per cent of the respondents agreed that both Taiwan and China should work on food safety and combating crime, 57.4 per cent said the Chinese government should protect *taishang*, 51.4 per cent supported the establishment of a common industrial standard, 46.4 per cent wanted to see cross-Strait finance, stocks and future markets developed further, 44.1 per cent found that more exchange with students and media workers should be encouraged and 39.4 per cent opted for the introduction of fishery co-operation (MAC 2008b: 6). In other words, the up-and-coming need in “Chaiwan” is to establish a better legal/ institutional framework for various exchanges and activities between Taiwan and China. This is to anchor and facilitate deeper co-operation between the two nations and to actually secure both sides’ interest by setting up a workable mechanism.

Such talks continued. On 26 April 2009, the Third Chiang-Chen Talks were held in China. Three major agreements were signed:

1. the Cross-Strait Joint Crime-Fighting and Judicial Mutual Assistance Agreement,
2. the Cross-Strait Financial Cooperation Agreement, and
3. the Cross-Strait Air Transport Supplementary Agreement.

These agreements collectively amount to a basis for further economic integration. However, it appears that all these agreements are based on “consensus”-building between Taiwan and mainland China. From the Taiwanese point of view, the SEF declared that:

The Taiwan side earnestly welcomes Mainland investment in Taiwan. It will as speedily as possible announce related regulations and ancillary measures, and in orderly sequence gradually expand the opening of investment spheres, continuing to carry out related tasks and helping solve problems stemming from investment, to facilitate Mainland investment in Taiwan (MAC 2009a: 31).

On the other side of the Strait, the mainland ARATS declared the following in a similar fashion, which is also a “consensus” understanding:

The Mainland side will actively support investment by Mainland enterprises in Taiwan. It will encourage qualified Mainland enterprises to carry out field investigations in Taiwan, to understand the investment environment and seek investment opportunities. On the basis as promulgated in related regulations, it will provide facilitation for strong and competitive Mainland enterprises to invest in Taiwan (MAC 2009a: 31-32).

As far as these two statements are concerned, they demonstrate that both governments are trying to establish an institutionalized way of building a consensus. The statement from mainland China obviously seems more cautious, though, which suggests a water-testing initiative. In other words, many detailed regulations are needed urgently in order to place their economic relations under a legal framework with strong protection and workable enforcement.

Given that Taiwan is enjoying more and more investment and trade with China, institutionalization should be strengthened to protect both sides. Private property rights were included in the amendment of the Chinese constitution in 2007, for example. This helped institutionalize the constitution’s legal basis and contractual agreements. But in many areas such as intellectual property rights (IPR), state-level and international agreements – most notably under Trade-Related Aspects of Intellectual Property Rights (TRIPS) with the World Trade Organization

(WTO) or World Intellectual Property Organization (WIPO) – have not been implemented properly in China (Cheung 2009b). Understandably, the extension of IPR protection covering Taiwan’s investment is a necessary step to place a standardized legal-protection framework within “Chaiwan”. Seeing as Taiwan and China are both members of the WTO, their IPR disputes (on copyrights especially) ought to be carried out within the framework of TRIPS (Liu 2002). There is, indeed, a need to develop a healthy contractual and legal basis to drive economic, cultural and social integration across the Taiwan Strait forward.

On 22 December 2009, the directors of the ARATS and SEF both took part in the Fourth Chiang-Chen Talks in Taizhong. Three major accords were signed as a result (the fourth agreement about double taxation was withdrawn at the last minute due to some technical details that were not fully understood). These were

1. the Cross-Strait Agreement on Cooperation of Agricultural Product Quarantine and Inspection,
2. the Cross-Strait Agreement on Cooperation in Respect of Standards, Metrology, Inspection and Accreditation, and
3. the Cross-Strait Agreement on Cooperation in Respect of Fishing Crew Affairs.

Although they are still agreements based on consensus, such details behind these legally binding documents further anchored a systematic mechanism that could be used between two governments to facilitate future legalization and institutionalization of cross-Strait relations (*Jingji Ribao* 2009: A2).

Speaking about the role of the *taishang* in cross-Strait relations, a well-known Taiwanese businessman indicated some new trends in *taishang* investment, which not only touched upon some obvious investment projects, but also some less obvious social and cultural investment developments. According to this person, Taiwanese business people are now trying to branch out, although they are not developing vertically or horizontally; they are actually moving into the hospital industry and the educational sector (Interview, 4 January 2009, Taipei).

This may not make much sense from a purely business point of view or from a Western business perspective, but actually the linkage between business and education is enormous within Taiwan. There are quite a number of private Taiwanese universities there (although the government subsidizes them) that are owned and funded by a number of



large businesses. Take I-Shou University, Yuan Ze University, Shih Hsin University, Tatung University and Chang Jung Christian University, for example. For those *taishang* who are now investing in primary or secondary schools in China, this is simply a way of helping their own children to study in China, as many of them do not want their children to study at local Chinese schools or they think these are not competitive enough (Yazhou Zhoukan 2004: 48-49). If this is something related to the Chinese Confucian tradition by linking up the economic sector with the social and cultural ones, then a more standardized legal requirement is needed to institutionalize the ways in which such practices can be translated into public policy with a certain level of governance.

Two very salient issues have come to the fore in Taiwan resulting from *taishang* investment: welfare and the family. Both must be tackled by legal institutionalization. In his research on the implementation of pension insurance in two Chinese cities, Kunshan and Wenzhou, where a large number of *taishang* reside, Chiou Ming Je has shown how the responsibility to provide for a comprehensive pension system to benefit workers was passed to local governments by the central authorities. In both cities, where Taiwanese business people are the main investors, this responsibility was shifted to the *taishang*. Yet the interlocking interest between the local governments of these two cities and the *taishang* eventually circumvented the implementation of a welfare system, either by substantially reducing the necessary coverage for the pension-insurance system or just paying lip-service to its importance (Chiou 2007: 53-58).

Finally, the moving of Taiwanese business people to China has placed considerable stress on family life in Taiwan. In a recent study, Shen Hsiu-hua carefully illustrated these tensions (Shen 2005). Given that cross-Strait economic integration is steadily intensifying, she argued:

What I emphasize here is that the larger gendered and sexualized process of the cross-Strait economic development is structurally unfriendly toward both Taiwanese and Chinese women (Shen 2005: 433).

It is expected that after direct linkage has been implemented, a clear-cut immigration policy will be developed regarding Taiwanese business people and their families. In addition, cross-Strait travelling can also be regulated in a more sophisticated manner.

The rapid rise of “Chaiwan” is mainly driven by top-down policies from both governments. Yet as Douglass North has mentioned,

although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies. These cultural constraints not only connect the past with the present and future but provide us with a key to explaining the path of historical change (North 1990: 6).

It is therefore undeniable that legal institutionalization between Taiwan and China requires time and appropriate policies to accomplish.

## The Chinese Common Market: Institutionalization of Chinese Business (Area D)

Area D refers to a situation that can be called an ideal type of environment in which business activities can be pursued normally and proper institutions are in place. This can be tentatively termed a Chinese “Common Market”. The legal system, commercial law and government regulations have reached a high standard. Such a Common Market allows foreign direct investment, joint ventures and even human movement between China and Taiwan to be conducted within a politically accepted framework. Therefore, if a Chinese Common Market can be worked out in such a way, a more institutionalized policy platform can be derived for cross-Strait relations.

The idea of creating a Chinese Common Market was originally suggested by Ma Ying-jeou (Ma Yingjiu), Taiwan’s President, and Vincent Siew (Xiao Wanchang), its Vice-President (Ma and Siew 2007). When asked about the idea of a Chinese Common Market, Siew replied:

The idea of a Chinese Common Market is based on an equal status to share the market that created between 23 million Taiwanese people and 1.3 billion Chinese people. It is based on the European Union’s idea of a Common Market, which means economic integration can be deepened while political autonomy can be maintained. Agreements could be based on negotiation [...] Alternatively, a Chinese Common Market could also refer to a Greater China Market, including Hong Kong and Macau (Ma and Siew 2007: 156-159).

Speaking about Taiwanese business people in this context, we may ask if institutionalized *taishang* activities work in favour of the establishment of a Chinese Common Market. Based on substantial fieldwork conducted between 2004 and 2007 by Keng Shu and Lin Rui-Hua on the roles and functions of Taiwanese business associations (TBAs) in China, the pic-

ture is not entirely promising. Contrary to many established ideas, their first main finding was that Taiwanese business associations are not strong organizations; they are actually quite weak and fragmented. Second, being a member of an association does not result in any direct benefits for the *taishang* businesses. It is necessary to build up *guanxi* further with some like-minded people inside the local governments in order to facilitate business operations. Third, the associations are actually at the mercy of the Chinese government, which does not want the associations to become too big or too vocal (Keng and Lin 2007: 115-124). The influence of *taishang* in strengthening the development of a Chinese Common Market is still minimal.

Let's now take a look at one recent example of the idea of creating an international financial centre in China. As far as financial globalization is concerned, money transcends geographical boundary and sometimes dissolves sovereignty. According to Benjamin Cohen,

currency spaces now are shaped not by political sovereignty but by the invisible hand of competition-governments interacting together with societal actors in the social spaces created by money's transactional networks (Cohen 1998: 5).

Financial globalization therefore constitutes a good basis for the development of a common market. As a result, the confirmation by the State Council in China to formally endorse Shanghai as China's international financial centre by 2020 will certainly affect economic relations across the Strait. This is a strategic move and part of the Chinese government's general strategy to secure more autonomy from the global financial leadership of the United States of America. In addition, this move gives rise to some new opportunities and challenges vis-à-vis Chinese societies, especially Hong Kong and Taiwan (Cheung 2010).

In the case of financial development and the cross-border movement of financial capital, Taiwan is hoping to be able to tap into the financial development arising from the opening up of the Chinese financial sector and the increasing economic integration across the Taiwan Strait. As soon as Shanghai had been confirmed as China's international financial centre, it began to recruit global talents in financial sectors as well as various managers and other professionals. For instance, two separate recruitment fairs were launched in November and December 2009 in the United States of America, Europe, Canada and Singapore respectively. As a result, more than 286 professionals were recruited (*Jingji Ri-*

bao 2009). In view of this, it is tempting for Taiwan to tap into the Chinese market by providing some human resources in these sectors.

According to the Global Financial Centres Index 5 (2009), Hong Kong, Shanghai, Beijing and Taipei were all considered as financial centres, but with a different emphasis and importance. Hong Kong was ranked fourth, Shanghai 35th, Taipei 41st and Beijing 51st (GFCI5 2009: 4). Interestingly, this is the first year that the Index has ever placed Taipei among other more established financial centres in mainland China. The growth of these cities reinforces the future rise of China in the international financial system, but complicates it at the same time. Their division of labour, functions and government-back-up style constitute a long-term future challenge to the current international financial system that is based on market force. Taipei has to play increasingly important roles with respect to Taiwanese business people, who have invested a great deal of time and money in China. Also, given the recent trade and economic talks between China and Taiwan, Taipei is trying to regain the market by offering financial products to Taiwanese business people and facilitating their investments. Yet academia still remains sceptical about Taipei's financial role and importance. Professor Norman Yin, who is Director of the Centre for Asia-Pacific Monetary Studies at National Chengchi University in Taiwan, commented on Taipei being a financial centre as follows:

After 1989, the discussion of Taiwan's financial roles emerged because of the increasing size of the capital in Taiwan due to its industrial development and export. Opening Taiwan's financial market and enhancing its financial centre were actually aimed at providing a framework for internal financial regulation for the local banking industries [...] Taipei is far from being an international financial centre. Taipei may be a regional financial centre, which very much depends on the co-ordination between Hong Kong and China. It may be able to perform a better role for Chinese financial and capital markets. But, traditionally, Taiwan has a very good financial relationship with Japan. Therefore, Taipei and Tokyo have already established a workable relationship in terms of financial matters (Interview, 5 January 2009, Taipei).

Apparently, if Taipei is working alone, it is not ready yet as far as the openness and financial infrastructure are concerned. Yet its regional financial function and roles in the greater China region may be very different if we take *taishang* and cross-Strait economic integration into

consideration. According to Kao Charng, Deputy Director of the Mainland Affairs Council of Taiwan,

Taiwan is expecting to be more active in international finance. But, in the Asian Pacific region, it has been challenged by Hong Kong, Tokyo and Singapore. Even Shanghai is moving very quickly. There are quite a number of successful *taishang*. They can be the targets of Taiwan's financial future [...] But, Taiwan remains weak in terms of liberalization and internationalization. It is too conservative (Interview, 18 December 2009, Taibei).

Neither the academic workers nor the policy-makers are entirely satisfied with Taibei's financial future, which is understandable given the challenges from many other financial cities. Nevertheless, a recent paper has suggested that the correlation between Taiwan's long-term economic growth and economic development is actually very positive. In a study of Taiwan's economic growth and economic development from 1962 to 1998 conducted by Chang Tsangyao and Steven Caudill using a four-variable VAR model, the authors conclude that

[t]here is a high degree of confidence that the development of the financial sector and the promotion of the exports are effective policies towards promoting Taiwan's economic growth (Chang and Caudill 2005: 1334).

The correlation, of course, is one thing that strongly indicates the economic trend for Taiwan.

However, a Chinese Common Market would need a framework to begin with. This is why the Economic Cooperation Framework Agreement (ECFA) became the talk of the town in Taiwan in 2009. Basically, this is a framework agreement between China and Taiwan over trade and economic affairs. Its aims are as follows:

1. Normalization of cross-Strait economic relations.
2. Prevention of Taiwan from being "marginalized" in the regionalization of East Asia. China is a rising economic power. It is good to use it as a platform to stay with the economic growth.
3. Internationalization of Taiwan and integration of Taiwan's economy in the world economy (*Liang'an Jingmou Yuekan* 2009: 10-12).

The Taiwanese business sectors are waiting for the ECFA to be signed because its contents include trade (tariff and non-tariff barrier reduction), early harvest, servicing, insurance, economic co-operation and dispute resolution (*Liang'an Jingmou Yuekan* 2009: 10-12). Yet the Taiwanese

government is concerned about the political consequences. Worse still, the DPP may even consider it to be having a negative impact on Taiwan's domestic economic sector. This is a hot potato in the current political/ economic relations between China and Taiwan. Understandably, the signing of the ECFA will have top priority at the Fifth Chiang-Chen Talks; its political impact will certainly be the main topic of debate between the KMT and the DPP in the immediate future. Together with the previous discussion over Taiwan's financial status in the greater China region, "Chaiwan" is making progress in terms of economic integration. This is partly due to the opening up of the Chinese market and the normalization of cross-Strait relations after 2008 as well as the increasing economic integration achieved in 2009. Yet the infancy of Taiwan's financial infrastructure is still hindering financial integration between China and Taiwan. The signing of the ECFA will be scrutinized carefully by both governments and the general public in China and Taiwan. To be realistic, it will take a very long time for the Chinese Common Market to take shape, not to mention facilitate further political integration across the Strait.

## Conclusion

From a historical viewpoint, economic integration between Taiwan and China has been established along a truncated path that has fluctuated between speculation, hostility and chaos (especially since the 1996 missile crisis). From a mainstream international relations perspective, the increasing importance of economic affairs in the Taiwan Strait can be understood in security terms, which means that economic power and relationships can be translated into ways of improving the state's capacity (Mastanduno 1998). Such an argument, which was frequently made in the 1990s, paints a negative picture of China hollowing out Taiwan's economy. Yet as William Callahan has maintained, the relations within Greater China

are not merely state-to-state diplomacy or patterns of international trade and investment, but involve less formal people-to-people relations, flows and disjunctures in a transnational political economy (Callahan 2004: xix).

Such an idea is especially useful in explaining *taishang* investment in mainland China. Their investment and their "Chineseness" combine to formulate their business identity.

By putting the neologism of “Chaiwan” in a conceptual context, this article has attempted to diagnose the current rapid economic integration between China and Taiwan so as to generate a better picture of it in four possible areas: *guanxi*, plutocracy, legalism and the Chinese Common Market. These areas are helpful in understanding the various outcomes of intensifying economic and political interaction between China and Taiwan. Communist China is being challenged by an open and democratic Taiwan, which is currently governed by the KMT. Besides taking the historical experiences of the CCP and the KMT into account, the rapid economic interaction between Taiwan and China is also a testing ground to probe the institutionalization process of their business and economic activities.

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