

Rising China and Cross- Straits Relations

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Outline

- Rising China and its soft diplomacy since 1996
- Taiwan's domestic politics
- Taiwan's approaches to rising China: Engaging China or confronting China
- Current economic interactions between Taiwan and China
- Prospects for Cross-Straits Relations

Rising China

- **China today is the fourth-largest economy in the world, with a sustained average economic growth of over 9.5% for the past 26 years. Its total GDP was at US\$2.26 trillion in 2005 and almost doubled in 2008 (US\$4.2 trillion).**

- **Per capita GDP: US\$1,700 (2005); US\$3,180 now.**
- **China's total trade in 2005 surpassed \$1.4 trillion, making China the world's third-largest trading nation after the U.S. and Germany. Trade (2005): *Exports*--\$762.3 billion
Imports--\$660.2 billion**

China Emerges as the World 3rd Largest Economy in 2005

- **Economically, China's GDP has been growing at the annual rate of about 9% for the best part of 25 years. Its per capita income has increased 10 times since 1978. China's foreign trade has boomed from US\$20 billion to \$1 trillion in 2005 and its ranking in global trade has shot up from 32nd in 1979 to the third.**

World's 2nd largest economy in PPP terms

- **China is world's third largest trading power and is expected to replace Germany to become the second largest trading nation in the world, only next to the US this year. In 2006, China's total trade surplus reached US\$253.2 billion.**

China has the largest foreign reserves in the world

- **As a result, China is now the world's second largest economy in purchasing power parity terms (4th largest in exchange rate terms: US\$222,4.8 billion in 2005) . At present, China's foreign reserves is now approaching US\$2 trillion.**

- **Currently, China is Taiwan, South Korea, Japan, India and Australia's largest trading partner as well as Taiwan, South Korea and Japan's largest export market.**

China and WTO

- FDI inflows have surged since China joined the World Trade Organization in 2001. China replaced the U.S. as the world largest receiver of FDI in 2002. China received US\$609.9 billion in 2004.

China: the largest FDI recipient in Asia

- **In 2007, China received \$74.7 billion in foreign direct investment in non-financial sectors, ahead of all developing countries for the 15th successive year. Total foreign direct investment, including capital flows to the financial sector, hit \$82.7 billion in 2007, only next to the US, up 13.8 percent from a year earlier.**

China's soaring international competitiveness

- According to the Swiss International Institute for Management Development (IMD), China's international competitiveness dramatically increased twelve notches in 2005 to 19th out of 61 countries, only one notch behind Taiwan and 13 notches behind Australia.

Assertive Chinese Foreign Policy Behavior in 1995

- China conducted several nuclear tests in 1995 to upgrade its nuclear capability.
- China and the Philippines had military conflict over the Mischief Reef the same year.
- In response to the 1995 Taiwanese President Teng-huei Lee's U.S. visit, Beijing decided to give a warning signal to both Washington and Taipei by testing missiles against Taiwan.

Background to China's Act

- **In May 1995, the U.S. Government announced its decision to permit Lee Teng-hui to pay a private visit to the U.S. in June of the same year. Beijing expressed its strong opposition to the U.S. over such an act of interfering with China's internal affairs and infringing upon China's sovereignty. China also did not want to see Lee win the Taiwan's first direct presidential election in March 1996.**

China Policy Shift after the Post-1996 missiles-testing incident

- For the first time, Taiwan emerges as the first priority in China's foreign policy. China believed that Taiwan President Lee Teng-wei was determined to turn Taiwan as an independent state, so Beijing had to take it seriously. They also realized that the US is likely to involve if China decides to take over Taiwan.

Big Powers Diplomacy: A double-edged sword

- **Big Powers Diplomacy: 1) to form a Sino-US Condominium through Korea issue, Taiwan issue, India issue to maintain good relations with Washington, to enhance China's status equivalent to the US, to relegate Japan to the second rate power, to weaken US-Japan alliance, to prevent Taiwan independence.**

Big Powers Diplomacy

- 2) Big Powers Diplomacy is designed to strengthen relations with major powers other than the US. One of its primary goal is to prevent an emergence of unipolar system and unilateralism by the US.
- Soft Power Diplomacy is designed to respond to Asian financial crisis and regionalization of world economy; to replace Japan as the leader of Asian economic integration; to exclude the US and Taiwan from Asian economic integration.

Sino-US Condominium approach works

- President Clinton was re-elected in November 1996, his advisers were saying that repairing relations with China would be one of his top foreign policy priorities.
- Chinese President Jiang Zemin's visit to the U.S. autumn in 1997 highlighted the fact that the US viewed China, not Japan, as its most important strategic and economic partner in Asia.

- In June 1998, Clinton became the first US president to visit Beijing since the 1989 Tiananmen Square massacre.
- The powerful American business interests that see China primarily as a commercial opportunity hold sway in both parties. Whatever their professed outrage at possible national security lapses or human rights abuses, when it comes down to it, the Republicans agree with Mr Clinton.

Clinton's Beijing University speech on June 29, 1998

- **On Security in Asia:**
- **On the Korean Peninsula, where once we were adversaries, today we are working together for a permanent peace and a future freer of nuclear weapons.**

On the Indian subcontinent

- Just as most of the rest of the world is moving away from nuclear danger, India and Pakistan risk sparking a new arms race. **We are now pursuing a common strategy to move India and Pakistan away from further testing and toward a dialogue to resolve their differences.** In the 21st century, your generation must face the challenge of stopping the spread of deadlier nuclear, chemical, and biological weapons. In the wrong hands or the wrong places, these weapons can threaten the peace of nations large and small. Increasingly, **China and the US agree on the importance of stopping proliferation.** That is why we are beginning to act in concert to control the world's most dangerous weapons.

CLINTON REPEATED THE US 'S ADHERENCE TO THE THREE NOES

- US President Clinton's visit to China in June 1998 declared Washington's adherence to the "three no's" - no recognition of Taiwan independence, no two-China policy, no support for Taiwan's entry into international organizations reserved for sovereign nations.

Japan's Worst Scenario

- President Clinton's refusal to visit Tokyo, his public exaltation of the PRC as a stabilizing force, and attack on Japan for alleged inaction during the region's ongoing financial meltdown upset the geopolitical balance. Asia now perceived that Japan had been downgraded while China was to assume a more pivotal role in the region.

China's Policy Shift after the 1996 missiles-testing incident

- A change in China's foreign policy towards multilateralism
- Soft Power Diplomacy
- Sino-US Condominium approach to maintain good relations with Washington, to enhance China's status, to weaken US-Japan alliance, to prevent Taiwan independence

The new security concept

- **China put forward the initiative that countries in Asia Pacific region jointly cultivate a new concept of security focusing on enhancing trust through dialogue and promoting security through cooperation in 1996.**
- **The Shanghai Cooperation Organization: On 24 April 1997, the heads of state of China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan signed an agreement on the five countries reducing the troops along their borders.**

Learning the skills of the barbarians to counter the barbarians

- **During the Cold War period, China saw multilateral approach as foreign to it. Beijing viewed international organizations as a means employed by the U.S. and other Western countries to maintain their global domination and as a grand alliance designed to contain China.**

- **China has completely reversed its perceptions towards multilateralism since the mid 1990s, by moving from negative to positive, from passive defense to active leadership. It has learnt that the multilateral bodies could be very helpful in establishing its own position.**

- **It now actively uses them to counter its challengers. It wants to learn the skills which its challengers have used to contain China. This was exemplified by accepting multilateral mechanism to seek permanent peace on the Korean peninsula in the form of four party talks in 1996.**

Shanghai Five formed in 1996

- Originally called the Shanghai Five, the SCO formed in 1996 largely to demilitarize the border between China and the former Soviet Union. The Shanghai Cooperation Organization (SCO)—comprised of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—began in 2001 as a confidence-building mechanism to resolve border disputes.

- **In 2001, the organization added Uzbekistan and renamed itself the Shanghai Cooperation Organization.**
- **Mongolia won observer status in 2004; Iran, Pakistan, and India became observers the following year. The SCO has since risen in regional prominence, tackling issues of trade, counterterrorism, and drug trafficking.**

Boao Forum established in 2001

- Boao Forum for Asia (博鳌亚洲论坛), abbreviated as BFA, is a non-governmental, not-for-profit international organization modelled after the World Economic Forum in Davos, Switzerland.
- The founding of BFA was driven by the People's Republic of China and founded by 26 Australasian states on 27 February 2001. The organisation held its first meeting from April 12-13, 2002. It has its fixed address in Bo'ao, Hainan, China, although the Secretariat is based in Beijing.

Sino-US Condominium

- Chinese President Jiang Zemin attempted to form a Sino-US Condominium through the Korea issue (the Four-Party Talks) and South Asia nuclear proliferation issue (US-China joint effort to force India to give up nuclear weapons) bypassing Taiwan and Japan.
- Japan was relegated to the second rate power in Asia and the 1996 US-Japan Security Pact was neutralized.

Multilateral Approach Extended to Trade from Security

Multilateralism was for the first time added in China's proposed new security concept in 1996.

China moved further from being a participant in multilateral settings to the position of convener in multilateral mechanism, exemplified by assuming the key position in the tri-party talks and later six-party talks in 2003.

Soft Power Diplomacy

- Soft power, according to Joseph Nye, "is the ability to get what you want by attracting and persuading others to adopt your goals".
- The 1997 Asian Financial Crisis provided China a chance to engage soft power diplomacy for the ASEAN countries changed their perceptions of China from negative to positive.

Economic diplomacy: WTO and FTA

- **WTO and FTA are the two pillars of China's soft diplomacy based on its rising economic power .**
- **China reached an agreement with the U.S. in the end of the 1990s which cleared the way for its admittance into WTO in 2001. The Chinese Premier Zhu Rongji actively proposed to the ASEAN to establish a FTA with China in November 2000.**

Hu Jintao's approach to Taiwan: sticks mixed with carrots

- Chinese President Hu Jintao promulgated the Anti-secession Law to legalize China's using force against Taiwan independence in March 2005.
- However, in the subsequent month he announced new beneficial policies for promoting economic and trade relations, proposed by Former KMT Chairman Lien Chan and People First Party Chairman James Soong who visited Beijing in April 2005.

Softened approach to Taiwan

- **China gives to Taiwanese visa with multiple entries.**
- **Taiwan investors are allowed to set up joint venture hospitals on the mainland with local partners, while retaining as much as 70 percent of the stake.**

Opening China's agricultural and fishery markets to Taiwan

- **China grants zero-tariff on imports of some selected Taiwanese fruits and vegetables and increases imports of aquatic products, with a zero-tax on some; and allowing Taiwan fishing boats to enjoy equality with mainland boats on sales of their catches.**
- **China is to set up a business zone for Taiwan farmers in eastern Fujian Province.**

On Educational Front

- China allows Taiwanese students to enjoy the same tuition as local Chinese students.
- China recognizes university diplomas issued in Taiwan, which generate job opportunities for Taiwan students, and Taiwanese will be allowed to get licenses for medical practice on the mainland.

Taiwan's Domestic Politics

- From KMT to DPP: President Chen Shui-bian taking power in May 2000
- Due to a lack of majority in the Legislative Yuan, DPP has to form an informal coalition with Taiwan Solidarity Union (TSU) and has actually become a hostage of the TSU (its supporters are in cabinet's key positions, Ministers of Education, Foreign Affairs, Economic Affairs and Mainland China Affairs Council)

Pan-Green VS. Pan-Blue

- **The ruling pan-green camp tends to focus on political approach such as identity issue, seeking independence and political and security threat from China, while the opposition pan-blue group on the importance of economic cooperation with China, views cross-strait relations as a matter of peace or war, and seeks to work out a modus vivendi with China.**

KMT stance on cross-strait trade

- **KMT Presidential candidate Ma Ying-jeou supports the opening of three links and proposes to turn Taiwan to ^{CC}Asia Pacific economic and trade hub.**
- **His running mate Vincent Shiaw proposes a common market of Cross-Strait.**

Pan Green Approach to China

- The pan-green camp denies the '1992 consensus', an informal agreement under which Beijing and Taipei acknowledge that both the mainland and Taiwan belong to one China with each side having different interpretations of its political meaning. While meeting KMT Chairman Ma Ying-jeou in April 2006, President Chen said the "1992 consensus" does not exist at all and should not be considered the basis for resuming cross-Straits talks.

DPP popularity is declining

With 88 seats, the main opposition Kuomintang (KMT) and the ruling Democratic Progressive Party (DPP) currently tie as the largest party in the Legislative Yuan.

- The KMT scored a landslide victory in the election of local county magistrates and city mayors in December 2005.

TSU Delaying the Three links

- **The pro-independence opposition Taiwan Solidarity Union firmly objects to Taiwan setting up direct trade, transport and postal links -- the so-called "three links" -- with China. Among the three links, direct flights in particular have generated the most controversies, as China-based Taiwan businessmen want to cut time and expense for passenger and cargo transport across the strait.**

Tightening control on China investments

- **President Chen Shui-bian changed the official China investment policy from "active opening and effective management" in 2001 to "active management and effective opening" in earlier 2006.**
- **The change is seen as the government's move to tighten control on China investments against businesses' calls for further liberalization**

Cross-Strait Trade

- Despite hostile political situation, now more than ever, the cross-strait economy is booming. Total indirect trade between the two sides was only US\$3.9 billion in 1989, the first year business contact was officially permitted. In 2004, total trade was at US\$62 billion - a 16-fold increase in just a decade and a half and then up to US\$88.1 billion in 2006, with a trade surplus of US\$38.5 billion favorable to Taiwan.

Cross-Strait Trade: double-digital growth

- According to the ROC's Bureau of Foreign Trade, from January to June 2007, cross-Strait trade reached US\$46.49 billion, with a trade surplus of US\$20.21 billion, accounting for 21.4% of Taiwan's total foreign trade, a 13.3% growth compared with the same period in 2006.

Cross-strait trade up 15.3 percent in 2007

- Trade between the two sides of the Taiwan Strait in 2007 for the 11 months to November amounted to US\$92.68 billion. The figure made up 22 percent of Taiwan's foreign trade during the January-November period. Bilateral trade with China in 2007 is expected to generate a record surplus of US\$42 billion for Taiwan, up from the US\$38.55 billion for 2006.

China as an export platform for the rest of Asia

- **With China's huge trade deficits with Asian countries, WTO cites China as an export platform for the rest of Asia. Taiwan is China's largest source of trade surplus, followed by Korea and Japan. The three countries export components to China where they are assembled for export. The three countries, through investment, manufacturing and export in China, actually exported the trade surplus with the US and the EU to China.**

Driving forces behind trade boom

- **During the period, Taiwan's imports, exports and trade surplus with China were all at a two-digit growth rate. The reasons are as follows. First, the value of international purchase orders hit a new historical high to reach US\$28.7 billion. Secondly, the demands in laptops, panels and consumer-oriented electronic products increased significantly. Finally, Taiwanese companies kept obtaining OEM contracts.**

China: Taiwan's largest export market

- **China is now Taiwan's largest trading partner and the largest export market with largest trade surplus and second largest source of imports. Taiwan's export dependency on China has increased from 20.3% in 2001 (27.3 % in 2005), to more than 40% of Taiwan's exports are heading for China and Hong Kong now.**

Taiwan's Main Exports to China by Category

- From January to June 2007, Taiwan's top ten exports to China were: electrical equipment and components, optical instruments and parts, plastics and products thereof, mechanical appliances and parts, organic chemicals, iron and steel, copper and products thereof, synthetic fabrics, miscellaneous chemicals, and mineral fuels. Total exports of those commodities reached US\$29.04 billion, comprising 87.1% of Taiwan's total exports to China.

Declining of the market share of Taiwanese products in China

- According to Taiwan's Ministry of Economic Affairs, the market share of Taiwanese products in China in the first five months of this year (2007) has declined to a record low of 10.21%. Taiwan's exports to China are mainly driven by investment of Taiwanese enterprises in China. They import needed raw materials and crucial parts from Taiwan. The declining of the market share of Taiwanese products in China reveals that Taiwanese enterprises in China now tend to get raw materials and crucial parts from local rather from Taiwan.

Trade in agricultural products

- Taiwan's export of agricultural products to China totaled US\$430 million in 2006, almost 20% increase from the previous year. On the other hand, its imports of agricultural products from China totaled US\$560 million.

Taiwan's Main Imports from China by Category

- From January to June 2007, Taiwan's top ten imports from China were: electrical equipment and components; mechanical appliances and parts; iron and steel; optical instruments and parts; mineral fuels; organic chemicals; plastics and products thereof; miscellaneous chemicals; copper and products thereof; stones, lime and cement. Total imports of these commodities reached US\$10.07 billion, comprising 76.7% of Taiwan's total imports from China.

China's trade performance in 2006

- **With a trade surplus of US\$177.4 billion (a rise of 74% from 2005), China's foreign trade volume totaled US\$1.76 trillion in 2006, an increase of 23.8% from the previous year. A combination of Guangdong, Jiangsu and Shanghai accounted for 59% of the total trade volume.**

Taiwan's contribution to China's Trade

- The three provinces and cities happen to be the major focuses of the investment of Taiwanese businesses.
- Almost 70% of China's exporting notebooks are produced by Taiwanese enterprises in China.

Actual level of Taiwanese FDI in China

- Due to the sensitive nature of cross-strait investment, most observers agree that the official figures drastically understate the actual level of Taiwanese FDI. Channeled through shell companies in ports of convenience such as the Bahamas, Taiwan-origin FDI in China could be over US\$120 billion.

Taiwanese investment in China

Taiwan's investment in China accounted for 71.4% of Taiwan's total overseas investment (US\$8.45 billion) in 2005. So far China is the top destination for Taiwanese outbound investment.

According to the Investment Commission, MOEA, approved investment to Mainland China by Taiwanese businesses reached a recorded high in 2006, with a total of US\$7.64 billion, an increase of 27.22% from the previous year due to the relaxing of Taiwan's government policy restraint on investment on high-tech.

Growing investment on high-tech

Taiwan's investment in China focuses on electronic component manufacturing such as computers, communication, audio and video equipment manufacturing. These categories represented 34.4% of its total investment in China in 2006.

high-tech investment

The leading five investment cases are all high-tech. Powerchip Semiconductor Corp. (力晶) and Promos Technologies (茂德) Incorporation plan to set up 8-inch made-to-order wafer fundries in China, using 0.25-micron manufacturing technology, Advanced Semiconductor Engineering Inc. (日月光) is to invest US\$ 60 million into Global Advanced Packaging Technologies.

Honghai's great leap forward

- In August this year (2007), Honghai Precision Co. (鴻海精密), Taiwan's largest corporation in private sector, decided to pour US\$406 million of 12 cases into China. The Longhua (龍華) factory in Shenzhen is flagstaff enterprise of the group. Altogether Honghai has 18 factories of more than 350 thousand employees.

Investment on accumulative basis

- **By the end of June, 2007,
Taiwan has invested an
accumulative US\$44.6 billion
on the mainland, taking a 6.2
percent share in the total
investment the mainland
received from overseas.**

Changing Taiwanese investment in China

- Over the years, as cross-strait economic development and the investment environment has changed, Taiwanese investment in China has gone from traditional labor-intensive industries to technology-intensive industries. A few major changes exist in investment in China. First, **the investment concentrates on the electronic and electric appliance industries in the last few years.** The size of investment seems growing and expanding.

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Metropolitan Shanghai: Taiwan's most favored

- **Second, the investment focuses in the metropolitan Shanghai. However, the area holds the most potential for future business investment is around the Bohai Sea coastal area.**

Jiangsu: the favorable place for Taiwan investors

- In the first nine months of 2006, Jiangsu Province took a lion's share of 40% of Taiwanese investment in China, making the favorable place for Taiwan investors, followed by Guangdong Province with a share of 18%. More than 20% of the investment value was focused on computer and communication products and 17% on electric parts, an increase over 40% compared with the same period in the previous year.

Suzhou and Kunshan emerge as the best cities for investment

- According to a survey on investment and risk in China in 2007 by Taiwan Electrical and Electronic Manufacturer's Association, cities including Suzhou, Kunshan, Langfang, Nanjing, Jiangming, Nanchang and the Suzhou Gongye region are highly recommended by Taiwanese businessmen in China as the best places to invest.

Changing motivations of Taiwanese business investment in China

- In the past, Taiwanese business investment in China was primarily drawn by the cheap and readily available land and labor. Nowadays, investment motivation has changed to the potential of large Chinese consumer market. In the eyes of Taiwanese investors, China has become the largest market of their products instead of the largest factory of their products. The change in export structure was led by investment.

Changing sectors of Taiwanese investment in China

- In early years Taiwan's investment in China focused on the livelihood industries. It has changed to the electronic and electric appliance industries in the last few years. As a result, it leads to the increase of the export of upstream electronic parts. The primary locales for investment have also gradually expanded from the Pearl River Delta to the Yangtze Delta, and the scale of investment has moved from small amounts by individuals or SMEs to large amounts by Taiwan stock market listed corporations.

Promising Service sectors

- With China's opening its service market, more and more Taiwanese investors have targeted at China's service sectors. Rising Taiwanese investors pour their money into hospitals through M&A and joint ventures. Investment in banking, education, tourism and insurance are increasing, too.

Changing operation of Taiwan-invested businesses

- Increasing localization of operation has been witnessed among Taiwan-invested businesses in China. This includes the large increases of local procurement of raw materials, unfinished products, and machinery and an incremental increase in the hiring of local managers instead of Taiwanese managers.

Taiwanese operational mode

- Most Taiwanese enterprises favor the operational mode of global division of labor, namely regarding China as their primary production base for its cheap labor and huge market, while Taiwan a hub for taking orders, advanced R&D, marketing, financial operation. This is due to Taiwanese have more creativity and innovation than mainlanders.

Taking orders domestically and manufacturing overseas

- **Currently, 45% of Taiwanese enterprises are taking overseas orders domestically and manufacturing products in overseas production bases. By sectors, 77% of IT and communication industries are operating in this fashion, followed by electric engineering (57%) and precision machinery (47%)**

One million Taiwan investors in China

- Dongwang City (東莞), Zhenjiang (鎮江) and Beihai (北海) are the less "attractive" cities for Taiwan investors. The survey encouraged the government to establish direct links with China in the hope that Taiwanese investors on the mainland maintain their relations with Taiwan in the future. The Mainland Affairs Council estimated that more than 750,000 Taiwan investors are operating on the mainland in 2006 while local media report the number has reached one million.

Vietnam : the best alternative

- But the survey also shows that investment risk has relatively increased in the past two years.
- As a result, it suggests that for eyeing global strategy, Taiwanese enterprises should not consider China alone. Vietnam is recommended as the best alternative.

Few Taiwanese enterprises interested in returning investment in Taiwan

- The survey indicated that 63 percent of the Taiwan's parent companies were planning to pour more capital into China, compared with 57 percent in 2006. At the same time, fewer Taiwan companies were willing to increase spending at home, with only 34 percent saying that they would continue to invest in Taiwan. Few responded Taiwanese enterprises are interested in returning investment in Taiwan. Its percentage has decreased from 4.10% in 2004 to 1.83% in 2007.

Cross-Strait economic interactions: Cooperation & Competition

- Hong Hai and Huawei (華為) work together in internet facilities in order to compete with transnational corporation such as Nokia.
- Acer and Lenovo Group Ltd. (聯想) are competing globally in personal computers.

Taiwan's Challenges from China

- In addition to cooperation, Taiwan is facing China's challenges as well. First, hollowing out of its industries; Second, losing markets, jobs and talents to China.

Hollowing out of Taiwan's industries

- **Notebook production lines no longer exist in Taiwan. Most of them have been shifted to China.**
- **Evergreen decides to set up a joint venture ship-building yard of a scale of 350,000 tons in Quanzhou, Fujian Province.**

Liquid Crystal Module

- Now, to further cut costs, Taiwan's production lines of LCM are on the way to China as well. AU Optronics Corp. (AUO, 友達) moved its LCM factories to Xiamen, while Taiwan's number two flat-screen maker Chi-Mei Optoelectronics Corp. (奇美電子) invested **US\$30 million** to set up LCM factories in Ningbo (寧波) in 2005 and Foshan (佛山) in 2007 and Chunghwa Picture Tubes Ltd (中華映管) in Shenzhen.

Taiwan is losing markets to China

- **The Chinese replacement of Taiwan's high-tech products has gradually increased. In the past Chinese products designed to replace Taiwan's products in major foreign markets are in the low-tech category.**

Brain drain?

- Many white collar Taiwanese have been recruited into China such as managers, civil pilots, skilled labor and now even professors.
- Against this background, now more than one million Taiwanese have migrated into China permanently. Metropolitan Shanghai alone has absorbed more than half a million Taiwanese.

Anti-dumping against China

- **Taiwan has taken anti-dumping measures against imported Chinese goods such as towels June 2006 and foot-wearings since 2007.**

Engagement or Confrontation

- **Given that China is a huge market of 1.3 billion people, China is Taiwan's largest source of trade surplus and 27.3 % of total Taiwan's exports went to China in 2005 (US\$51.8 billion), Taiwan can hardly have a choice not to engage China.**

Taiwan's rational choice

- As a minor power, it is not wise for Taiwan to confront China (waste limited resources), instead Taiwan should take advantage of China's soft diplomacy and build a peaceful coexistence mechanism.

Realistic Options

- Taiwan's power is primarily based on economic capacity. Maintaining economic competitiveness should be Taiwan's priority and the competitiveness has to be built on China's cheap labor and huge market. This is particularly true, given the regionalization of world economy and rapidly growing Asian economic integration (marginalized: More than 60% of Taiwan's trade is with ASEAN plus six, but Taiwan is not included in the mechanism).

Prospects of Cross-Strait Relations

- Consensus: No War
- Mutual Respect to nurture confidence-building measures
- Focusing on economic cooperation
- From economic cooperation to political reconciliation
- Status quo or unification : Let the nature take the course



THE END

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