

## CHAPTER5

### Trade dependence between Taiwan and mainland China

“Environment for doing business in mainland China and Taiwan is different, especially business culture. Taiwan is more open for doing business. For example, still now, 50% of the businesses in mainland are state-run business; and only 40% refers to the private sphere. Of course, as we can observe, the private business in China (especially in China’s coastal provinces) is more active and effective. In China there are cheap manpower and cheap price for manufacturing – these factors attract investors. China start to work in business with the overseas Chinese only 20 years ago, but Taiwan is doing that already 50 years. From that, we can say that business culture in Taiwan is open, flexible, built on mutual business trust.”<sup>1</sup>

By identifying some of the structural characteristics and strategic dilemmas of countries trying to achieve mobility up into and up through the semi periphery, the world system theory helps explain some of the structural tensions within Taiwan’s economy and some of the economic policies adopted by the Nationalist (Kuomintang) state. In the early 1970s, Taiwan began to shift from a peripheral to semi peripheral status in the world economy. This shift was accomplished by moving from the export of low-wage, labor-intensive, light manufacturing to the export of

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<sup>1</sup> Interview with the Steven Yen, Managing director of the branch office in Singapore, from the trade company: “Longshine Technology Co.Ltd,” p.122

higher-wage, better technology, skill-intensive, and capitalist-intensive intermediate goods. It was also accomplished by Taiwan building up its own periphery, mostly in Southeast Asia, which was dependent on Taiwan for investment, foreign aid, and trade in capital-intensive intermediate goods (Lin 1973, 130 -33). An estimated US\$20 billion in Taiwan investment has migrated to mainland China's cheap labor markets, and unofficial conversations between Beijing and Taipei have become the rule, not the exception.<sup>2</sup> Taiwan has become a desirable member of international organizations dealing with copyright, trade and economic co-operation, including organizations or institutions like Asia-Pacific Economic Cooperation, GATT, and the OECD, the IMF, the UN's economic agencies and the South Pacific Forum.

The overseas Chinese are the third largest source of investment funds in Taiwan, and were particularly important in Taiwan's early period. Taiwan's Chineseness has been an important factor in the drive to attract Chinese-born and Western-trained scientists to return or contribute to Taiwan's science and technology base.<sup>3</sup>

In some industries, Overseas Chinese appear extremely competitive regardless of where they operate. For example, Overseas Chinese have proven extremely successful in property development and the hotel and resort investments that they make. However, Overseas Chinese frequently have trouble when they move into manufacturing industries. For example,

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<sup>2</sup> Tyler E.Patric "The China-And-Taiwan Problem."

<http://mbhs.bergtraum.k12.ny.us/cybereng/nyt/china-tw.htm>.

<sup>3</sup> Klintworth Gary (1995), "New Taiwan, New China - Taiwan's changing role in the Asia-Pacific region." Longman, p.98

New Asian Emperor Li Kai Shang, called superman in Hong Kong for his skill in manipulating the system, failed badly in two mid-1980s forays into Western markets (Asia, Inc. 5(12)). In Canada he bought Husky Oil Ltd. and had to swallow losses of US\$183 million before his acquisition finally turned a dollar in 1993. In Britain, his company Hutchinson set up a cordless phone operation called Rabbit that flopped and again had to take losses of US\$183 million before it cut the line. Similarly, Creative Technology, with a 60% market share worldwide in the sound card market has historically done poorly in the U.S. market. Overseas Chinese in Southeast Asia are now divided into pro-Beijing, pro-Taiwan, and neutral groups. However, any mainland China control of Taiwan would make this division disappear. This may happen under an interim period of “one state, two systems,” which would be short of complete control of Taiwan. Though mainland China may conceive the annexation of Taiwan to be merely an achievement of the final goal of Chinese nationalism, it may, however, be the beginning of a deadly, perhaps fatal, confrontation with world hegemony.<sup>4</sup>

In the late 1970s, when most of the developing countries were struggling with economic troubles, the economically vibrant countries of East Asia caught the international community’s attention. Taiwan is one of the economically developing “gang of four”, along with Singapore, Hong Kong, and South Korea (hereafter, Korea). All of these four countries achieved sustained economic development through export-led

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<sup>4</sup> Okazaki Hisahiko (2003), “US-Japan-Taiwan Trilateral Strategic Dialogue.” Tokyo Round, on March 2

growth, but Taiwan's successful economic development attracted special interest from scholars of various disciplines. Both Singapore and Hong Kong are city-states; their experience can hardly be generalized and applied to other, larger developing countries. Korea's economic development came along with increasing inequality among the people.<sup>5</sup> After Japan, Taiwan is the most advanced economy in Asia in the area of electronics, telecommunications, integrated circuits and information technology. Taiwan is widely regarded as being "astoundingly successful in building a solid social and economic foundation for liberal democracy." It is a young dynamic nation, a model for the developing world and a model for mainland China. Mainland leaders also regard Taiwan as a model for the economic development of China's southern provinces. Overseas Chinese linkages give Taiwan important networks of influence that in many ways are more effective than orthodox levers of political and economic power, especially in Southeast Asia. Maintaining cultural solidarity with the 31million overseas Chinese in the Asia-Pacific region is an important priority for Taiwan's Overseas Chinese Affairs Commission.

Taiwanese businesses have key advantages in investing in ASEAN countries and China, including lower managerial costs, better understanding of the host country market, more appropriate technology, products that are better suited to host markets and better connections with local business. Taiwan also appeals because it is small, relatively innocuous country. Its businesses are mainly small to medium sized enterprises. In establishing offshore manufacturing operations and

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<sup>5</sup> Koo 1989; Bello and Rosenfeld 1990

industrial enclaves in Southeast Asia and China, the Taiwanese have enlisted the support of multinationals who in turn have sought alliances with leading Taiwanese corporations in their competition with each other. For example, Philips has a 27% share of Taiwan Semiconductor Manufacturing Corporation while Acer has a chip manufacturing deal with Texas Instruments. In a similar fashion, vehicle makers like Toyota, Honda, Ford, Renault, General Motors have formed local alliances to produce cars, motor cycles and engines for sale in Taiwan and for export within the region, including to China, North America and Australia.<sup>6</sup> At the same time, Taiwanese government and private interests have combined to develop export processing zones for labor-intensive industries such as plastic goods, textiles and electronics in Bandung in Indonesia and near Saigon in Vietnam. It helps preserve Taiwan's competitive edge in cheap labor manufacturing. Taiwan has assets such as its locations, international networks, global trading skills, management know-how, good technology and a proven modernization formula. As well, Taiwan retains close relations with the United States, Japan and Hong Kong, all virtually important contributors to China's modernization. Taiwan could become a manufacturing centre, a financial centre, and a transportation centre for the region, a perfect location choice for international enterprises as their Asia-Pacific regional base.<sup>7</sup> Taiwan's trading position has progressed in terms of total trade volume

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<sup>6</sup> Klintworth Gary (1995), "New Taiwan, New China - Taiwan's changing role in the Asia-Pacific region." Longman, p.144

<sup>7</sup> Kai Ma (2002), "Taiwan as the Asia-Pacific Regional operation centre: its significance and prospects." Centre of International Studies, Cambridge University, p.28

the twenty-fifth largest in 1976 to the fourteenth largest in 1995. Through export-oriented industrialization, Taiwan's rate of growth from 1981 to 1995 averaged 7.52 percent, a significant achievement by world standards.

As for international investment, until the late 1980s, Taiwan was a net receiver of foreign direct investments, particularly from overseas Chinese, Japanese and the United States. Starting from the late 1980s, however, its role in the international flow of direct investments has reversed. Direct investment flow from Taiwan to other countries grew from \$56.9 to \$1,356.9 million between 1986 and 1995. Most of these direct investments went to China and countries in South and East Asia.<sup>8</sup>

Taiwan has a long tradition of trade with the emigrant Chinese who have performed outstandingly in every country providing them legal protection. Through common cultural ties, and through economic success in their adopted countries, they have also constructed cross-national and dynamic networks of Chinese entrepreneurs who have played increasingly important roles in the development of economies in South and East Asia. These networks can also be expected to make a considerable contribution to the development of China and its integration into the world economy. Taiwan has not only traded actively through these networks in the past but also enhanced closer and broader ties among them via direct investment, joint ventures, financing and so on. The electronic industry is the most important industry for Taiwan with a 30.51% export share in 2003. Taiwan's per capita GNP in 2003 ranked

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<sup>8</sup> Importance of integrating China and Taiwan into WTO system, Wu, Rong-I, *Journal of Northeast Asian Studies*, Fall 96, Vol.15, Issue 3

in 28<sup>th</sup> among economies with a population exceeding one million people, while its foreign exchange reserves were third largest after those of Japan and mainland China. As global expansion quickened from 3.0 % to 3.9 %, world trade grew 4.5% in 2003, well above the 3.1 rate recorded in 2002.<sup>9</sup> In 2003, Taiwan shipped 19.7% and 14.9% of its exports to Hong Kong and mainland China, respectively, making them its largest and third largest export markets worldwide. Moreover, most of Hong Kong-bound exports are transshipped to the Chinese mainland, further underscoring the growing significance of cross-strait trade. The share of Taiwan's imports originating in ASEAN has gradually increased, from 8.9% in 1993 to 13.7%, while that from mainland China has jumped from 1.3% to 8.6%.

Taiwan manufacturers in southern Guangdong province alone produced almost 4% of China's total export in the year 2000. Across the mainland, they account for 60% of China's information technology exports. "China will be a 21<sup>st</sup> century superpower because it has Taiwan and Hong Kong," says George Liu, a Shanghai-based Taiwan businessman.

As liberalization and globalization became new watchwords worldwide during the 1990s, Taiwan's foreign direct investment in Asia-Pacific countries rose precipitously, making the island the second largest intra-regional investor after Japan. Having graduated from Original Equipment Manufacturing (OEM), to Original Design

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<sup>9</sup> Economic development - Taiwan, Republic of China 2004

<http://www.npf.org.tw/publication/ss/092/ss-r-092-066.htm>

Manufacturing (ODM), and on to Configure to Order (CTO) manufacturing, Taiwan's business enterprises now literally straddle the world, making the island's emergence as a key player in global logistics. Economists estimate Taiwanese capital in China crossed the \$ 100 billion mark in the year 2000, making Taiwan the fourth-largest investor in China. Approved outward investment in 2003 totaled US\$ 11.7 billions include backdated approvals of US\$3.1 billion in investments going to mainland China. Of this total, 23.4% went to the Americas, 66.0% to mainland China (just below its highest level of 66.6% in 2002), 9.1% to Asia (2.6% to ASEAN), and 0.7% to Europe.<sup>10</sup> In the year 2000, 49% of Taiwan's information technology products were made in Taiwan; much of the rest produced in China. Taiwanese businesses are flocking across the Strait to Fujien province as well as to Guangdong province, just north of Hong Kong in Guangdong's Dongguan County, 4000 Taiwan companies have invested more than \$ 10 billion. China has emerged as the world's third largest economy, according to a new ranking system by the International Monetary Fund,<sup>11</sup> and has Japan and the United States as its first and second largest trading partners.<sup>12</sup> In the first quarter of 1993, China's GNP grew at an annual rate of 14%. For three decades after the 1949 revolution, mainland China followed a policy of socialist economic development based primary on the centrally-directed allocation of resources through administrative means.

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<sup>10</sup> Economic development of Taiwan, <http://www.npf.org.tw>

<sup>11</sup> New York Times, May 23, 1993, p.13

<sup>12</sup> Wu Dunn, 1993, p.3



By the late 1970s, this approach was increasingly recognized as being untenable and unsustainable, and an overhaul of the economic system was initiated.<sup>13</sup> The PRC's export base has become diversified from an initial heavy reliance on textiles and other light manufacturing. The proportion of its exports represented by machinery and transport (which include electronics) increased from 17 % in 1993 to 41% in 2004, while the share of miscellaneous manufacturing declined from 42% to 28% (see [imf.org](http://imf.org)). The composition of imports reflects a high degree of vertical specialization of production within the Asia region.

Empirical analysis predicts moderate welfare gains for the world economy and a net impact on individual countries that depend on the degree of complementary between their trade patterns and mainland China's. Its labor market has undergone significant changes in the past twenty years. A more market-oriented labor market has emerged with a growing importance of the urban private sector, as state-owned enterprises are being down-sized. In the Fujian, Guandong, Shandong, and Zhejiang provinces, the private sector and foreign direct investment have flourished since the government opened up special economic zones in the early 1980s.

Mainland China is emerging as a major market for e-commerce. The Chinese economy has been steadily growing for the last two decades, and by joining the WTO and its integration with the global economy, it is set to become an important global player. Mainland China is the world's fifth

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<sup>13</sup> Prasad Eswar, editor (2004), "China's Growth and Integration into the World Economy." <http://www.imf.org>,

largest PC market and Internet use in the country has jumped from 1600 in 1994 to an estimated six million in 2000. U.S. corporations have struck deals with Chinese companies – Yahoo!, the most popular portal in China, launched a Chinese site in 1998, while News Corporation has been involved in developing two websites, ChinaByte and CSeek.<sup>14</sup>

Statistics on Taiwan's investments in the PRC have been somewhat controversial, because the government in Taipei has often tried to discourage Taiwanese companies from investing there through various means. This policy has led some Taiwanese businesses to be less than direct in reporting their investments, which are often made through Hong Kong.

The large attraction of Taiwanese investors on the mainland – apart from ethnic affinities – is due to the abundance of cheap labor, cheap land and preferential tax treatment. Taiwanese investors in the PRC may enjoy a three-year tax holiday on business income tax, and pay 7.5% tax during the third to six years. After the seventh year, they must pay 10% tax for export businesses and 15% for others.<sup>15</sup>

In 1989 a Chinese State Council decree gave Taiwanese investors favorable treatment over other foreign investors. Overseas investments by Taiwanese firms, especially the growing trade between Taiwan and mainland China, have served to support critical domestic economic transitions; rather than “hollowing out” Taiwan's economy the investment and trade has served to upgrade its productive system and R&D infrastructure (Chen, 1993). In the beginning, Taiwan authorized

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<sup>14</sup> Daya, pp.232-233

<sup>15</sup> China daily portal

only labor intensive production with low degrees of processing to move to the mainland, and discouraged investment by industries that were still competitive in Taiwan. However, its trade and investment with mainland China continued to grow rapidly in 1991 and 1992.<sup>16</sup>

Taiwan's direct foreign investment (DFI) to mainland China has not only created a great amount of bilateral trade across the Taiwan Strait, but has also generated a significant impact on Taiwan's economic performance and its economic structure. While Taiwan's manufacturing sector has shrunk sharply since 1988, the service sector has risen quite quickly. The export structure has also shifted to high-tech products.<sup>17</sup> According to Taiwan's Investment Commission, MOEA, during the first month of 2003, the number of approved foreign investment totaled 1,117 cases and accrued US\$2.03 billion, of which US\$1.61 billion was approved for investment in mainland China. Mainland China has attracted 79.35% of Taiwan's total foreign investment such that it has become the foremost destination for Taiwan's foreign investment. Approved investment to mainland China accumulated 28,309 cases from 1991 to the end of January 2003, which has totaled US\$28.22 billion. Taiwan's investment is mainly concentrated in areas such as Jiangsu, Guangdong, Fujian, Zhejiang, and Hebei.

Despite the explosive investment by Taiwan in mainland China in recent years, by 1990 it amounted to less than 8% of Taiwanese investment in Hong Kong. This investment is largely in small-scale labor intensive operations producing light manufacturing for export. The

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<sup>16</sup> Sung, 1993:124

<sup>17</sup> Lin Chu-Chia, "Taiwan: investment in China and structure change," p.146

projects are concentrated in Fujian, Guandong, and particularly in the Xiamen region of Fujian.<sup>18</sup> However, Taiwanese investment has been increasing in size and sophistication, through an increasing number of more technology-intensive projects. Investment has diversified from manufacturing into real estate, finance, tourism, and agriculture and has begun to spread inland from the coast.

Since the early 1980s, Beijing, like Taipei, has been creating a battery of incentive to solicit Overseas Chinese DFI, in direct competition with Taiwan. It has adopted Special Economic Zones, tax holidays, and other benefits. Most capital has come from Hong Kong Chinese who sought political insurance against Hong Kong's 1997 return to Chinese sovereignty.<sup>19</sup> Transaction technology, such as contracts and legal systems, is imperfect and therefore any exchange is associated with transaction costs. The better the transaction cost technology is, the fewer transaction costs there are, and the more it pays to specialize further. The true problem for Taiwan's economy in its current stage of development is the topic of rising transaction costs.<sup>20</sup> In 2000, Taiwan's exports to the mainland market amounted to 16.9% of the island's total exports, a point which gives rise to considerable concern amongst some commentators in Taiwan.<sup>21</sup>

A large number of Taiwan's industries have set up factories in China to take advantage of cheap labor and low overhead costs. Many of these manufacturers receive orders in Taiwan, produce their goods in China,

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<sup>18</sup> Sung, 1993: 123

<sup>19</sup> Gold Thomas, "Entrepreneurs, multinationals, and the state," - Contending approached to the political economy of Taiwan p.199

<sup>20</sup> Gold Thomas, "Entrepreneurs..." p.199

<sup>21</sup> Kao H.C. and Lin C.C, p.268

and then ship the goods from China directly to their overseas buyers. As of the end of September 2003, the Investment Commission of the MOEA had approved 30,661 investment cases in China with a total value in excess of US\$32.97 billion. Statistics show that the most popular destinations for this investment were, in descending order, Jiangsu Province, Guangdong Province, and Fujian Province. Sectors receiving the most investment were the electronics and electrical appliance, food and beverage, and plastic product industries. Though a large range of countries will benefit from this new regime, mainland China has the highest predicted growth potential. Not only does it still have a sizeable and low cost labor force, it also has its own established textile industry and will benefit from Hong Kong's well-established financial and marketing expertise.

In order to be eligible for WTO membership, mainland China has made a great many promises and agreements to changes within, although the requirements for mainland China are lower than those for Taiwan. In mainland China's manufacturing sector, the average import tariff will be reduced from 24.6% in 1997 to 9.4% by 2005.<sup>22</sup> WTO membership is an encouraging development for both Taiwan and mainland China with one immediate impact being the requirement for the opening up of these two economies. WTO provides Taiwan and mainland China with a convenient rationale for liberalizing commerce without appearing to be capitulating to the wishes of the "other side." In the year 2003, Taiwan had a trade surplus of US\$24.4 billion from mainland China. The accumulated trade surplus from mainland China was US\$220.2 billion from 1979 to 2003,

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<sup>22</sup> The Changing Economic matrix.... p. 270

which is just a little smaller than that from the world, US\$245.6 billion.

Trade dependence across Taiwan Strait increase due to several factors:

- Firms on both side of the Taiwan Strait realize comparative advantages.
- The stage of economic development between Taiwan and mainland China is different (per capita GDP for Taiwan and mainland China is about US\$ 13,000 and US\$1000 in 2003, respectively).
- Both Taiwanese and Chinese share the same language (Mandarin Chinese language, which from the year 1949 became the national language for both sides of the Taiwan Strait); same customs and culture.

Since China and Taiwan share a common cultural heritage, many authoritarian features and a similar transitional mode, Taiwan democratization should have a greater impact on China transition towards democracy. The intensity of such an impact is growing daily with the completion of China market-oriented economic reform, the further integration of China into the world community, and the magnitude of economic, social and political transformations generated through its economic reforms and integration with the world community.<sup>23</sup>

Linguistic and other cultural similarities between Taiwanese and Chinese from Fukien province have facilitated the investment of Taiwanese firms in the Xiamen Special Economic Zone (Feer 9, May 1985)<sup>24</sup>. Many

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<sup>23</sup>Wang Yanlai “The Potential Impact of Taiwan Democratization on China Political Democratization,” Conference group on Taiwan Studies, University of Limerick, p.24

<sup>24</sup>Greenhalg Susan “Families and network in economic development ” – contending approaches to the

Taiwanese businesses are actively seeking the opportunity to expand investment in the mainland – largely to gain access to a low-cost labor pool that speaks the same language they do.<sup>25</sup>

More cross-Strait trade and investment in mainland China will quicken China modernization process, facilitate the transformation of its economy and society, raise people living standards, and prepare the society for a democratic transition.<sup>26</sup>

“If we can reduce the risk of investment in the mainland China market and clearly establish the division of labor in the global supply chain, then a new cross-strait economic and trade relations - both competitive and collaborative - can be gradually formed. Taiwan must expedite its economic transformation, promote development within Taiwan, reach out to the world, increase comprehensive strength, and disperse risks, so as to effectively utilize the opportunities of cross-strait economic development. It is their earnest hope that cross-strait consultations can begin as soon as possible, so as to seek further progress in the Three Link policy.”<sup>27</sup>

Cross-Strait exchange through the mini three links increased over the last four years. According to Taiwan’s statistics, the number of Taiwan’s ships to China increased from 137 in 2001 to 1,221 in 2004; the number of Taiwan’s people to China increased from 11,729 in 2001 to 202,371 in

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political economy of Taiwan, p.235

<sup>25</sup> Mastel Greg, “China, Taiwan, and WTO,” p.50

<sup>26</sup> Wang Yanlai “The Potential Impact of Taiwan Democratization on China Political Democratization,” Conference group on Taiwan Studies, University of Limerick, p.20

2004. In addition, the number of China's people to Taiwan increased from 45 in 2001 to 1,808 in 2004; the number of China's people to Taiwan increased from 1,041 in 2001 to 12,409 in 2004.

**Table 6.** Mini Three Links between Taiwan and China

Period	2001	2002	2003	2004	Total
Taiwan's Ships to China	137	435	776	1,221	2,569
Taiwan's People to China	11,729	28,087	81,759	202,371	323,946
China's Ships to Taiwan	45	158	567	1,808	2,578
China's People to Taiwan	1,041	1,358	3,760	12,408	18,568

**Source:** Mainland Affairs Council (Taiwan), <http://www.mac.gov.tw> , accessed April 19, 2005

Not stopping with low-cost labor, mainland China has recently been bolstering its development of personnel trained in science and engineering. Technical universities are sending around 400,000 engineers out into the market every year. Ever since Hong Kong firms came to the Pearl River Delta region in the 1980s, mainland China has seen a growing inflow of companies from all over the world. At the same time, the comparative advantage lent to each region by their respective initial conditions have come to bear fruit, with assembly industries and parts industries each attracting the other and setting in motion a self-propelling development mechanism whereby clusters have fostered clusters while at



the same time broadening the product range. There is very visible trade dependence between China and Taiwan. Taiwan depends on mainland China (especially IT, and R&D sectors) from 45% to 55%.<sup>28</sup>

### **5.1 B2B e-commerce across the Taiwan Strait**

Advances in communication and information technologies in the late 20<sup>th</sup> century have greatly enhanced the scope of international communication – going beyond government-to-government and including business-to-business and people-to-people interactions at a global level and at speeds unimaginable even decades ago. China’s leaders have chosen to accept and welcome the Internet because they see it as part of the path to becoming competitive in the global economy. B2B e-commerce is accounting for the main share of electronic commerce. The main benefits companies undertaking B2B have: cost savings due to savings in electronic purchasing and sales, effective supply chain management increased global sourcing possibilities; innovation orientation for new products and services, due to the possibility for close interaction and cooperation with the customers and suppliers through technology partnership and collaborate commerce. B2B e-commerce is key to the vibrancy and success of the Internet in China. However, it is important to point out the barriers to e-commerce. Chinese are used to doing business on the basis of personal relationships. The adoption of

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<sup>28</sup> Steven Yen, Managing director of the branch office in Singapore, from the trade company: “Longshine Technology Co.Ltd,” p.124. All text of Interview in Appendix 1

B2B e-commerce in China both at an individual firm and at a national level depends on the interaction of top-down (governmental) and bottom-up (market) forces mediated by the interaction between Western and Chinese culture.<sup>29</sup>

**Table 7. E-commerce in Asia-Pacific**

	B-to-B trade in 2000 (US\$ million)	B-to-C trade in 2000 (US\$ million)	% Internet users who purchased. Online in past month 2000
<b>China</b>	<b>954.37</b>	<b>72.88</b>	<b>n.a</b>
<b>Hong Kong</b>	<b>1,773.28</b>	<b>135.42</b>	<b>7%</b>
<b>Singapore</b>	<b>1,097.84</b>	<b>83.84</b>	<b>5%</b>
<b>Taiwan</b>	<b>3,842.73</b>	<b>293.46</b>	<b>4%</b>

Source: Forrester Research Inc., Global eCommerce Model, 2000.

“B2B market is growing, booming in Southeast Asia. It helps to avoid government influence. Taiwan is a “Number one” in the South East Asia in e-commerce. From one hand, both governments in China and Taiwan don’t communicate with each other, but in spite of that B2B promote good business among both sides.”<sup>30</sup>

<sup>29</sup> Foster William, Goodman E.Seymour (2000), “The diffusion of the Internet in China,” Stanford University, <http://the-diffusion-of-the-internet.blogspot.com/>

<sup>30</sup> Steven Yen, Managing director of the branch office in Singapore, from the trade company: “Longshine Technology Co.Ltd,” p.123. All text of Interview in Appendix

## 5.2 Taiwanese and mainland China's SMEs

Rapid proliferation of small firms' networks in Taiwan was driven by the contingent actions of rural household entrepreneurs which culminated in tremendous rural industrialization, a phenomenon we observe so well in mainland China today. These industrial networks organized by small and medium firms were the unintended consequences of state policies rather than a creation by state-led development. A network<sup>31</sup> tends to arise in a certain type of industry, one whose product is comprised of a large number of discrete parts, each of which must be designed, prototyped, and produced. Taiwan have to operate an efficient "supply chain management" system to coordinate the production and shipping of components and parts in typical "just in time" fashion.<sup>32</sup> The trend towards globalization has created major challenges for Taiwan's small and medium enterprises (SMEs). As we enter the era of e-commerce, SMEs need to strengthen their IT capabilities, introduce Enterprise Resource Planning (ERP) systems, and incorporate inter-enterprise transactions within their company's information system so that transaction data can be exchanged rapidly.

Over the past 50 years~ the SMEs have made an important contribution to Taiwan's rapid economic growthand the fast industrialization process. According to sales-tax data from the Ministry of

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<sup>31</sup> A locus of transactions among firms that are personal rather than anonymous

<sup>32</sup> Chow Peter C.Y, editor (2002), "Taiwan in the Global Economy; From an Agrarian Economy to an Exporter of High-Tech Products." Library of Congress, p.32

Finance~ there were over 1.14 million SMEs in Taiwan at the end of 2003~ accounting for 97.83% of all enterprises.

Taiwan's SMEs had total sales of NT\$8,707 billion, accounting for 31.47% of total sales of all enterprises. In the last few years, the internationalization and abroad transplanted of our enterprises had caused SMEs' direct exports share of Taiwan's total exports to fall slightly, accounted for 18.11% of total exports. SMEs' direct exports were approximately NT\$1.3 trillion. In Taiwan SMEs maintain co-members of supply chain of large enterprises. They manufacture components and semi-finished products for large enterprises to assemble customer-need goods and then export. Therefore the SMEs' indirect exports were estimated about 20% of total exports. There were 111 ~507 new SMEs started up in 2003~ with total sales of NT\$295.3 billion. This accounted for 3.39% of total SME sales. According to the industry~ commerce and service census in 2001, SMEs' gross production had accounted for 42.77% of total gross production.<sup>33</sup>

There are about 300 000 small and medium enterprises (SMEs) in Hong Kong. They constitute over 98% of our business establishments and employ about 60 % of our workforce in the private sector. Their vitality and business performance are of crucial importance to the development of our economy. To enhance the competitiveness of SMEs in Hong Kong, the Government and a number of industry support bodies and industrial and trade organizations have been providing a wide range of services to SMEs. For example, the Vocational Training Council runs a Business

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<sup>33</sup> The Small and Medium Enterprises Role in Taiwan. Small and Medium Enterprise Administration, MOEA, [http://www.moeasmea.gov.tw/eng/about\\_smea/a03.asp](http://www.moeasmea.gov.tw/eng/about_smea/a03.asp)

Start-up Center to provide office facilities and administrative assistance to business starters; the Hong Kong Productivity Council offers customized business solutions and management training to SMEs; and the Hong Kong Trade Development Council provides SMEs with useful market information and analysis. In collaboration with industrial and relevant organizations, the SMEO shall -

- develop policy initiatives and programmes of services to enhance the competitiveness of SMEs and their long term development;
- co-ordinate the efforts of the public sector and industry support organizations in supporting the development of SMEs and meeting their needs;
- e-stop information services on current services to SMEs provided by all the relevant organizations;
- provide a formal channel of communication between the Government and SMEs and organizations representing SMEs;
- support and serve the Small and Medium Enterprises Committee; and support Hong Kong, China's participation in activities under the aegis of the Asia Pacific Economic Cooperation;

“Hong Kong comparing with Taiwan is better for doing business, as for MNCs, as for SMEs, because Hong Kong is open duty free port. Shanghai have a high tariff policy, almost 30% is going for tax.”<sup>34</sup>

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<sup>34</sup> Steven Yen, Managing director of the branch office in Singapore, from the trade company: “Longshine Technology Co.Ltd,” p.123. All text of Interview in Appendix

### 5.3 Chinese business networks

The evolution of ethnic-Chinese business networks, which define Southeast Asia's political economy, constitutes a unique reaction to the pressures of globalization and has laid the basis for a distinct articulation of capitalism in the region. The non-contractual trust that characterizes business among Overseas Chinese communities is facilitated by shared understandings concerning the nature of kinship and has been tempered by the historic uncertainties of capitalism in Southeast Asia.<sup>35</sup>

Business networks are coordinated, entrepreneurial and, in some instances, a personal relationship that links various firms in integrated production networks.

“The Chinese family firm is represented by a series of relationships that can be expanded or contracted depending upon time and place. The boundaries of what should be included in the firm are often ambiguous because they are not defined explicitly by property, ownership, or control. Instead, the boundaries are defined by networks of people linked together by social by social relationships.”<sup>36</sup> Chinese business networks, through their engagement with a variety of powerful international actor networks, are more complex identities and orientations; these are multiple identities increasingly shaped by the forces of global capitalism. Chinese capitalism has been argued of business organization in Asia (Hamilton 1996). This form of social and business organization of transnational production has

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<sup>35</sup> Crawford Darryl (2000), “Chinese capitalism: cultures, the Southeast Asian region and economic globalization.” *Third World Quarterly*, Vol. 21, p. 73

<sup>36</sup> Crawford Darryl, p.75

spearheaded the rapid diffusion of economic activities and intra-regional investments flows among various Asia-Pacific countries in which the Chinese have significant control in the economic realm. Examples of countries in which Chinese business networks play an influential role include Indonesia, Hong Kong, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Important group of actor networks with the capacity to reshape Chinese networks is the international business media (via newspapers, magazines, television and radio). A third group of international business actor networks with the capacity to reshape Chinese business networks run through multilateral institutions like the IMF and the World Bank. China's leaders have chosen to accept and welcome the Internet because they see it as part of the path to becoming competitive in the global economy. The question facing China is how to ensure that the Chinese Communist Party (CCP) and the government stay in control of the Internet even as they use it to pursue the path of economic prosperity.

Under the World Trade Organization (WTO) accession agreement negotiated with the United States, China agreed to open its telecommunications sector to foreign investment.

In China, all newspaper publications are government owned. In the early days of the Chinese Internet, some sites such as Sina.com included dispatches from foreign agencies, including Agence France-Presse and Reuters. Though B2C gets a great deal of attention, it is B2B electronic commerce that is expected to finance the Internet infrastructure and the national economy. If the Internet allows Chinese businesses to increase their exports while increasing the amount of value they provide, the

Internet could have a phenomenal effect on the country. If Chinese manufacturers and exporters invest in information technology and Internet connectivity, this not only will spur the growth of export industries but will have ramifications throughout domestic industries as well. As domestic industries become more IT efficient, they will be able to compete with the foreign firms that are gradually entering the Chinese market under the WTO process.

Virtually all large ethnic Chinese business groups have widened and deepened the scales of their operations, and their sources of operational capital in particular. They are expanding their operations and networks across national boundaries (East Asian Analytical Unit 1995) within East and Southeast Asia, and out of Asia into countries like Canada, Australia and England. Asia Netcom is a leading Asia-based telecommunications carrier operating Asia's only privately owned city-to-city fiber optic network - EAC. State-of-the-art platform includes a 19,500km submarine cable system; extensive terrestrial fiber backhaul links; and city-center telehouses in all key Asian markets. Asia Netcom delivers a full portfolio of connectivity, data communications and IP-based services to global and regional enterprises, ISPs and telecommunications operators in the region.

The company's products and services range from basic connectivity through International Private Lines, to fully-managed network solutions such as MPLS (multi-protocol label switching)-based IP VPNs.

Asia Netcom was established in October 2002 as a brand new company, but our expertise, support systems and customer base have been built over the past 9 years. When Asia Netcom acquired substantially all the assets,



staff and customers of Asia Global Crossing (AGC) in March 2003, the transaction gave the company a large customer base spanning various industries, including regional and global financial entities, multinational conglomerates and global service providers.

Asia Netcom was founded by a consortium led by China Netcom and became a wholly-owned subsidiary of the Chinese incumbent fixed carrier in December 2003. China Netcom is a publicly-listed corporation with shares trading on the New York Stock Exchange under the symbol 'CN' and on the Stock Exchange of Hong Kong with stock code (0906). China Netcom has local access networks in 10 northern Chinese provinces with 68 million access lines, local loops in 35 key southern Chinese cities and is connected to thousands of commercial buildings covering the majority of top enterprises operating in the PRC. In 2003, China Netcom generated US\$7.2 billion in revenue. As part of China Netcom, Asia Netcom provides customers with unprecedented access to China and is well-positioned as the ideal conduit to serve Chinese companies looking to expand to international markets. Asia Netcom has its headquarter in Hong Kong with offices in all major Asian markets, including mainland China, India, Australia as well as Europe and the US.