

On the Side Lines of the Changing East-Asian Region – The Case of Taiwan¹

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1. Preface

There is a significant dichotomy concerning the international (economic) position of Taiwan: though it is organically integrated into the mainstream of global and Asian continental economic cooperation, and especially trade, at the same time it is drifting to the sidelines and it must fight to preserve at least part of its earlier central position. When Taiwan commenced its economic development, it had rather favorable conditions in comparison to other political entities. However, during the last 2-3 decades these conditions have changed for the worse. Though the economic policy and strategy of the consecutive Taiwanese governments aimed at realistic goals, the economic position of the island has been weakened by both internal and external factors. Certain elements that contributed to the rapid industrialization, and especially to its rise as a technologically vanguard economy, lost their relevance, and some social and economic elements of the home economy made it more difficult for the local administration to keep pace with the development of Taiwan's 'natural competitors'. The most crucial element in the transformation of the set of conditions was the (re) establishment of economic ties with the Mainland. This event and the consequences seem to be blessings and curses and had serious impact on the general economic position of the island. The present tug-of-war with China further complicates these bilateral relations and exerts negative impact over the global and Asian cooperation of the island, and as its consequence, Taiwan's economic security is jeopardized.

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The paper makes an attempt to explore and clarify some of the basic factors related to the island's development, present problems and economic survival.

There is nothing permanent but change. This daft commonplace cannot be considered scholarly at all, but this does not contradict the fact that sometimes it points at reality. During the last decades, enormous transformation has taken place on the global scene in general, and in the eastern part of Asia in particular. What seemed to be constant one day, could be turned upside down by the next. Half a century ago observers proclaimed the 21st century to belong to Japan, and very few cared about a sleeping giant that was expected to remain quiet at least for another century. But the giant has awakened and became the epicenter of all the major (social, political, economic, but also cultural) tectonic moves of the last quarter of a century. This giant, the People's Republic of China, dictates the trends of the global, and especially the Asian scene.

And in this endurance of change, one can find one example for permanence and that is the inseparability of China and Taiwan.² Due to many elements, this is a 'Catch 22' situation. Regardless of their contingent intention these two parties cannot neglect each other. There is no power equilibrium between them and definitely the weaker party, namely the island is a subordinate actor. Nevertheless, an actor can be bigger and stronger than others but it does not mean that it is free to do simply what it wants.³ While many questions related to these strong bonds have been studied and dealt with by great many scholarly and other works, in this study attention is focused on the exploration of what can be the impact of the radical transformation going on in the local commercial arena, and what the impact of China's economic emergence is on the trade and commercial situation of Taiwan.

2. The Economy and the Economic Policy in the 'Early' Decades – Some Characteristics

By many major indicators, Taiwan belongs to the top class of economic entities. The present status of the island has been achieved, however, by covering a rather unique

² This paper is not about the legal and political status of Taiwan. In order to preserve objectivity, the author of this paper will refer to Taiwan either by this name or as 'the island', or in general, as 'the political entity'. Not even the name officially used by the island (Republic of China) will be used here unless it is connected to a source among the references and/or in the bibliography or mentioned by a third party in a quotation.

³ In simple terms, though China surpasses Taiwan practically in every respect, politically, economically, militarily, etc. Still, it is refrained in its actions by many motives that can be related to much wider international considerations.

and complex road of development. It is correct to state that Taiwan was relatively underdeveloped when it started to climb the economic ladder, but if it is compared to other former dependent territories either in Asia or on the global scene, then we can say that the island was much better off than either the colonial territories or the newly independent countries, including the Asian ones. It suffered comparatively less than most of the neighboring states (Korea, the Philippines, the other Southeast Asian entities) and it enjoyed rather peaceful and propitious conditions during the Japanese colonization. Naturally, the defeat of Japan and the island's return to the Mainland caused dramatic changes, and it would be correct to say that—at least economically and for a shorter run—not for the better.⁴ However, the events of the 1950s and the 1960s set the development of Taiwan on new tracks. While the economic policy followed by the Government of the island could not be separated from the conscious contribution of the KMT (and Chiang Kai-shek), it must be realized that within this initial period the set of conditions has been determined more by external events and actors. The military shield held over Taiwan by the USA, the American political commitment and economic-financial assistance were accompanied by some political pressure to modify at least the economic policy of the KMT, and that provided the proper background for the internal adjustment of the local economy.⁵

Still, during the politically most turbulent years of the 1940-1970s, the development of the economy (GDP) was exceptionally high, fluctuating between 7-10 percent annually between 1952 and 1990, and even between 1991-1996 the average growth rate was 6.3 percent. The gross domestic savings grew from ca. 15 percent above 25 percent, sometimes surpassing the 30 percent ratio. The unemployment rate had remained very low all through the first half-century, and the role of foreign trade in the creation of GDP increased exponentially (from 22 percent in the 1950s to 75-80 percent by the end of the century) (Tsai, 1999). Structural changes were also very remarkable as the weight of agriculture decreased from about 28-30 percent to 3.6 percent in the composition of the GDP, and the value of industrial output increased twofold (from 23.9 percent to 38-45 percent). Perhaps the most significant change was reflected by the composition of Taiwanese exports: the share of agricultural products dropped from 19.0 percent (1952-1960) of unprocessed and 65.8 percent of processed agricultural

⁴ Politically it might be a sensitive statement and scientifically it is difficult to verify, but the author claims that the arrival and the first years of the KMT rule caused more harm to the economy of the island than what a 'hostile occupation' could have done.

⁵ Analyzing the early phases of Taiwanese development, economists are inclined to forget about the decisive impact of political and military factors. However, if these are lost out of sight, then the level (the quality and quantity) of American (and Japanese, West-European, etc.) contribution to the fast East Asian transformation, the facilitation of rapid industrialization, including the adjustment of the industrial and trade policies of Taiwan cannot be properly understood.

products to 0.5 percent and 3.6 percent, respectively, between 1991 and 1996, while the ratio of industrial products rose from 15.2 percent to 95.9 percent for the same period. (Ibid.) Naturally, these developments could not be achieved in the absence of supporting economic and (foreign) trade policies. These data clearly show that the character of the Taiwanese economy was radically changed, and this once agricultural island has been turned into a (newly) industrialized economy where industrializations—after a relatively short phase of import substitution—have been started by hosting some flung away (light) industries of the leading industrial countries (USA, Japan), and relatively soon the production of technologically advanced products and goods was also started.

It must be pointed out that it was not historically unavoidable that Taiwan had followed the path covered, however, it must be also added that at a historically favorable juncture (in a politically and economically favorable situation, thanks to the radical—progressive—transformation of industry and science in these last decades of the 20th century, the constructive social, educational, labor, etc. conditions of the local society, etc.) the island's governments adopted more or less the correct economic policies. The island became increasingly open to the outside world, but all these were mostly the consequences of the elements mentioned and not of a spontaneous selection of one of the paths available.⁶ The 'state' promoted rural development, tried to avoid large-scale deficit situations. Furthermore, it increased budgetary surpluses, on the one hand, and created proper credit facilities for local firms in order to back up export and general liberalization, etc., thus paving the way for an international market-oriented, flexible and viable economy (Tsa, 1999; Ranis, 2007; Li, 2002). The areas where the government's role proved to be decisive were education and the scientific and technological fields. Preceding many competitors, Taiwan started to invest heavily in education at a very early stage, thus creating a labor force that was not simply cheap, but also trained. With its 'Chinese' background Taiwan was in a more favorable position than many other political entities as education has always been a central

⁶ With this—admittedly—simplified statement the paper does not wish to disregard the political and economic hardship the Taiwanese society had to endure. The paper 'only' wants to emphasize that—especially in comparison to many other political entities—Taiwan got the early chance to depart on a development path, and it could embrace the opportunities. One commentator (Ranis, 2007) states that besides the favorable conditions mentioned, secularism, egalitarianism and nationalism all contributed to the development of the island (Ranis, 2007, p. 38). However, the author questions the remark related to nationalism. Naturally, KMT considered itself a 'nationalist' party, the sole representative of the Chinese people, but in Taiwan the 'Great China' chauvinism could not gain ground during the KMT times, as the local people turned against the 'intruding mainlanders' relatively soon and disassociated themselves from them. Second, especially after the death of Chiang Kai-shek, the Taiwanese governments disengaged themselves from China in accelerated pace and tried to follow an independent, realistic, definitely pro-Taiwan, but never totally and openly non-Chinese line.

point in Chinese social life. At the same time, credit must be given to the local governments for encouraging the extension of public education and vocational training rather early (Vándor, 2017). In addition to education, and very strongly connected to it, Taiwanese governments and enterprises turned to technology-intensive productions and prepared the ground for high tech industries. Though it was not totally without precedent, and it was not very frequent either, that the government started to invest very heavily in research and development (R&D) and initiated the establishment of the scientific infrastructure, that has been serving the private and public technological activities ever since.

Through their prudent financial policies, the governments managed to achieve the sound international financial position of the island and, simultaneously, they also strongly supported local actors. The continuous trade surplus, the relatively high rate of domestic savings and not least the rather low level of foreign direct investments helped Taiwan to avoid the worst effects of the 1997-1998 Asian financial crisis.⁷ In spite of the fact that serious political changes occurred both by the end and also in the very early years of the new century,⁸ the economic attitude of the Taiwanese governments remained basically unchanged: the consecutive administrations tried to make adjustments to the changing global and Asian trends and, combining public and private efforts, they facilitated the strengthening of the Taiwanese firms that turned to external markets and especially to modern (technologically most advanced) industrial activities.

Approaching the end of the previous millennium, the Taiwanese economy did not change radically. The island had to face difficulties like all the other political entities of the global economy, but the economy could withstand the external pressures and

⁷ In the latter part of the 1990s, Taiwan's foreign exchange reserves stood at USD 86 billion, while South Korea stood at USD 17 billion. The island's foreign debt was only USD 100 million (!) while that of South Korea reached USD 230 billion (!) (Ranis, 2007, p. 47). Taiwan has always belonged to the political entities having the highest level of reserves both in relative terms and in real figures. The sound financial position contributed to the mitigating of the effects of the crisis. The financial situation of the island is still very strong but—as it will be indicated in the main text—the present problems differ very much from those of the late 1990s.

⁸ The last one and a half decades of the last century saw the democratization of the political system and the 'Taiwanization' of the political and economic scene. After fifty-five years the KMT—in peaceful and democratic elections—lost the power. Naturally, this event should not be considered as a 'simple replacement' of one political force by another, but the developmental state character of the administration did not change drastically. In reality, the transformation that occurred in those years could be attributed more to the consequences of the changes of the global and East Asian political and economic scene, and first and foremost to the radical reconsideration of Chinese (PRC) policies and strategies.

relatively easily fended them off.⁹ Nevertheless, as new developments occurred in the 1990s, both at home and in the external environment, the governments had to make adjustments. The changes originating from these adjustments were rooted in both the political and the economic areas. The process of democratization weakened the role and weight of the (earlier more autocratic) central executive power holder: the introduction of liberal political ideas and practices also contributed to the decrease of the government's ability to determine all or most of the factors of the economic life of Taiwan.¹⁰ This does not mean that the 'developmental state' character of Taiwan disappeared overnight, but the state's role and influence in the economy diminished. While on the island the role of the 'state' (the government) became internally more complex, the securing of a favorable environment for the functioning and the development of the economic players had to be implemented amongst worsening external conditions.

Considering the basic elements of Taiwanese economic policy in connection with economic growth and development, the export-oriented industrialization, with special emphasis on technological advancement remained the cornerstone of the economic policy of every Taiwanese government. Earlier elements of such endeavor (e.g. reduction of trade barriers in order to facilitate export, prudent fiscal policies, flexible labor regulations, etc.) were preserved. In a natural way, there were sporadic tensions that accompanied significant Taiwanese social and economic changes, however, by the turn of the century, the economy was in a relatively good shape, and the island's economic structure and social and political fabric were not endangered by serious upheavals. In the earlier decades, most of the Taiwanese could enjoy some of the fruits of development. Simultaneously with rapid growth, the living standard improved and private consumption also increased fast (Li, 2010, p. 30). Relative social tranquility could be to a great extent attributed to the peaceful transformation of the rural scene. In the previous decades, industrialization did not occur at the full expense of the countryside. On the contrary, the gradual and balanced modernization of the rural economy did prevent the emergence of social and political tensions and also annulled the negative effects of rural-urban migration (Booth, 2007, p. 80). These positive achievements did not contradict the trends whereby the agricultural sector is

⁹ Here reference is made to the Asian financial crisis of the late 1990s and to the more global economic crisis of the first decade of the century.

¹⁰ It is well-known that (liberal) democracy is 'not a cheap exercise', and the society has to pay its price. Liberal democrats claim that the positive elements compensate for and outweigh the negative impacts. Illiberal democrats, on the other side, consider their political system more efficient and competitive. This debate has indirect relevance in our case, as up till now no one could question the (liberal) democratic nature of the Taiwanese political system.

being replaced by the industry, which, is more sensitive to international competition. On the one hand, this competition increased class-consciousness so to speak, and on the other hand, it demanded the government to improve the local business environment for the export-oriented and high tech-based industries and to create conditions under which both the local and foreign economic players could satisfy their interests. (This was not a kind of 'altruistic' action on behalf of the Taiwanese leadership, but the consequence of the understanding that there was a fierce competition between the leading local actors /the NICs/ for luring external developed partners to cooperate with them.) The attempts to generate a 'win-win' situation between the different actors, including the government itself, could be clearly seen by the facilitation of the business climate on the home front that has resulted in making Taiwan one of the most business-friendly entities not only in Asia, but on the global scale as well.¹¹

Nevertheless, the restructuring of the economy and the more relaxed political climate encouraged the airing of social and political grievances on the part of both the emerging industrial labor force and the more vulnerable entrepreneurial strata. (One may recall that due to the increase of industrial production and the strengthening of the service sector, the composition of the labor force has changed significantly.¹² Still, labor strains would not be worth mentioning, if these did not concern cross-Strait relations, in concrete terms, the 'exodus' of the Taiwanese to the PRC since the late 1990s. This will be explored in a latter part of this paper.)

In this period of the turn-of-the-century, as far as the general economic policy of the Taiwanese governments was concerned, no drastic changes occurred in the long-term targets. Export promotion and technological development were still high on the agenda and led to the rapid expansion of foreign trade (and also to the fast increase in

11 According to the rankings of the World Bank, Taiwan scores among the best in providing favorable conditions for business activities (See: Vándor, 2017; and World Bank, 2017). It must be emphasized that this—and any similar—remark should not be understood as if there were no shortcomings or problems in the island's economic policy. The comment simply means that in international comparison, Taiwan offers better conditions for business activity than many of its partners or competitors. On the other hand, it must be also emphasized that—according to the relevant reports, in many respects the most important competitors, namely Singapore and Hong Kong are ahead of Taiwan.

12 The ratio of agricultural employees has been reduced to a small segment of the total work-force. What can be considered important from the processes that had taken place is not only the increase in the employment in industry and services, but that unemployment has never been a real issue since the 1970s, and that employment was not only secured, but the work-force proved to be one of the best in East Asia. The average unemployment rate in Taiwan was 3.04 percent between 1978 and 2018, the highest level being 6.02 percent in 2009, and the lowest was reached in 1979. At present, the unemployment rate is at 3.8 percent (See: Trading Economics, [online] Available form: <https://tradingeconomics.com/taiwan/unemployment-rate>).

outward-bound FDI). The regularly surpluses on the foreign trade balance were characterized by relatively high import content. In a sense, it was a natural consequence of the island's objective conditions (small size, limited resources, etc.), but it had long-term effects, too. While it was profitable for Taiwan to be involved in the newest and most sophisticated form of international cooperation, namely the 'infiltration' into global and regional production and supply networks (generally known as Global Value Chains, /GVCs/), at the same time, this process resulted in the high-level dependence on external partners. This penetration into GVCs proved favorable for Taiwan in the last two decades, however, the recent international (and mainly PRC-related) changes raise questions concerning the attainability of the positive elements of this situation.

The other decisive factor that determined the external and internal position of Taiwan, namely its technological development, secured its economic strength and international acceptance for some 2.5-3 decades and facilitated its penetration into the GVCs.¹³ This pillar of the local economy, however, has also been weakened recently, and this process must be connected to the cross-Strait relations, as well. It was a simplification and exaggeration to remark that Taiwan has been relegated to a second-class industrial and technological power, but its further development is curtailed by the rapid rise of China in these areas and also the political means applied by the PRC in order to limit the international trade movements of Taipei. In a certain way, the island has become the 'prisoner' of its own ambitions—as can be observed through the development of the PRC-Taiwan ties, presented in the next part.

The general assessment of the achievements and shortcomings of the first 4-5 decades of Taiwan depends very much on the position and approaches of an observer. In a short paper it is impossible to provide a concise, objective depiction. This paper takes into consideration not only the 'local past' but also the position of other actors and the global situation in general. In this respect it concludes that Taiwan—not independent of the conditions created by external forces—has achieved more than most of political entities having been in similar position at the beginning of their independent development. In spite of the significant shortcomings, the island has proved to be capable of turning into a first class, sound economy that under rather harsh conditions became modern and competitive, managed to become one of the technologically most developed economic (production) entity, and, thanks to these developments, secured its place among the leading economies of the world.

¹³ On the general technological issue, including the R&D situation of the island see Vandor 2018.

3. The Small Versus Large Enterprise Dilemma

Because of the economic and social history of East Asia, the role of the family-based—using today's term small- and medium-sized—enterprises (SMEs) have always been playing a unique role.¹⁴ Their (negative) contribution to the prevention of revolutionary economic transformation in the earlier centuries and their (more positive) unique position in the economic governance of much of East Asia (and particularly Southeast Asia), the characteristics of such firms constitute questions that are explored in many works. The paper in this section intends to shed some light on their present position in Taiwan.

Some observers correctly consider Taiwan as a formerly SME-based economy, although the state lately has been providing ever strengthened role to the big ('national') companies. The small vs. large enterprise dilemma has its root in the old KMT economic policy. After consolidating its power on the island, the KMT promoted the creation of large public enterprises and commenced their privatization at a later stage. However, in the course of this privatization, mainly small and medium-sized enterprises were supported, and such smaller sized, generally family-owned and very numerous firms became the leading economic players on the island. In other words, during the early phases of the accelerated Taiwanese economic development the SMEs constituted the backbone of economic transformation, including industrialization.¹⁵ Larger private companies came into existence only in the later decades of the last century. This meant that many of the SMEs owed their existence to the government, and that also resulted in the relatively strong dependence on the assistance (sometimes also the political and economic 'goodwill') of the administration. When these SMEs managed to stand on their own feet, they still needed and kept governmental ties. The government was also interested in preserving relationship with private enterprises in order to direct these companies toward the fulfillment of 'national' objectives and also to exert certain control over them. (It should not be forgotten that Chiang Kai-shek /and KMT/ considered himself the depository of the Chinese nationhood and traditions and tried to preserve Chinese culture and values as much as possible.) In addition to the maintenance of traditional Chinese characteristics of family enterprises (ethnic and linguistic closeness, cultural similarities,

¹⁴ To be more precise, the role of these kinds of economic actors has been radically different from that of the European and North-American players.

¹⁵ It is known that while in South Korea the big—frequently family owned—conglomerates (*chaebols*) took the lead in development, in Taiwan family-owned, though in terms of their size, much smaller enterprises became the harbingers of economic progress. It requires deeper economic and social analysis to determine the pros and cons of *chaebols* v. SME conditions.

kinship relations, etc.), it seemed easier for the administration to help and also to control smaller companies.

By the end of the century, it became clear that the SMEs, in spite of the governments' support, could not keep pace with international competition. Some of the key Taiwanese players became aware of this situation and attempted to enforce 'internal growth', and some of them finally succeeded in growing into internationally recognized (global) enterprises. They still required the support of their home government but became capable to survive without basic government assistance and could also avoid being controlled by the administration. After a while, the dichotomy between SMEs and large firms created tension for the government, as the administration had to increase its preference for fast expanding large companies and for those who found their interest in direct external trade. It had to accept the continuation of opening up, the incorporation of the island into global production and trading networks but could not efficiently handle the repercussions on the more local-oriented SMEs, and the social tensions caused by deepening globalization.

Considering the characteristic features of Taiwanese SMEs, it is known that one of the strongest components of the traditional (family-connected) enterprises was their ethnic nature although—due to the internationalization of 'national' economies and to all its consequences—this characteristic has been fading. Hsiao, Kung and Wang (Hsiao et al., 2010) and many others argue that though ethnic affiliations are still prevalent in Taiwanese and Southeast Asian (Chinese) ties (and in this respect one might come to the conclusion that traditional—including kinship and family—features still prevail), they also emphasize that this 'taishang' relationship does not rest on the old ethnic foundation but responds to the new conditions of international cooperation. They dwell on the phenomenon of 'taishang', while others emphasize the relative importance of 'guanxi'¹⁶ (social relationship) that should not be totally separated and should not be equated with the ethnic and family relationship, either. The aim of these references is to point out that 'taishang' gradually replaces or overrides 'guanxi'. This is the consequence of many facts, including the one that the traditional family-led companies—though they could flexibly adjust to new, local conditions, and partially to lacking the required experiences—could not always make the necessary flexible

¹⁶ Both terms cover special types of relationship that cannot be simply explained. Nevertheless, they can be interpreted as follows. Taishang is unique in the sense that it relates to the group of Taiwanese doing business in China. Though not only SMEs, but big firms and also individuals can be covered by this term, the majority of the players concerned belong to the group of SMEs. Guanxi is a much more widely used term, and it can be understood as a complex system of social and private relationships that facilitates informal and formal business cooperation.

adaptation to international economic conditions. They are compelled to learn new rules of a new game, and in this respect 'guanxi' cannot serve their interest as it used to do. In addition, the rules are usually set by China and for this reason 'taishang' is the dominant feature of our time (Hsiao et al., 2010).

Another feature of the SMEs-large enterprises issue—and this can be again connected to the general changes in the internal and the external economic environment—is the trend of the rapid weakening position of SMEs. This is clearly reflected by the fact that while in the first decades of development, SMEs accounted for a significant part of GDP, lately their ratio was radically reduced.¹⁷ They did not disappear from the island and still constitute a significant economic and political force, but their position has been undermined by local economic processes triggered by global changes. In general, such a transformation could be considered as an internal issue, although in East and Southeast Asia it has deeper impacts. As a spill-over effect, the 'redefined' role of the ethnically identifiable SMSs introduced new elements in the wider regional cooperation. While traditional (ethnicity-based) factors can be still experienced in East- and Southeast Asia (mainly but not exclusively in the form of Chinese¹⁸ business relations), globalization and technological development have significantly disrupted their application and utility through their economic consequences. In fact, the traditional SME-system has already been at least partially shattered.¹⁹

The above facts must be supplemented by the claim that SMEs have not only been losing ground to big companies at home but have also become more dependent on 'international subcontracting networks' (Li, 2002, p. 20). Because of the need for capital accumulation and concentration, as well as the growth in size to increase competitiveness, (Taiwanese) SMEs usually cannot meet this requirement. The reverse

¹⁷ Lin Thung-hong states that since the 1990s the Taiwanese SMEs' share within the export of industrial goods went down from 76 percent to 18 percent. At the same time, the large enterprises' ratio rose to 82 percent. He also adds that the contribution of one single mega-company (Hon-Hai Group, that is Foxconn) to the GDP was 21 percent in 2013 (Lin, 2017).

¹⁸ While it would be a mistake to equate the Chinese and the Indian economic and business presence in Southeast Asia, as far as the ethnic (and cultural, religious, political etc.) factors of these two communities are concerned, they can be compared, and many similar characteristics can be found.

¹⁹ In spite of the weakening of the SMEs, they are still a force to be reckoned with, both socially and politically. That is the explanation why the government of President Tsai declared that it wants to strengthen their position within the framework of the New Southbound Policy (NSP), and it attaches great importance to their role in the implementation of NSP. In spite of this, scholars have pointed out that during the last decades—and not only years—the international business models made the reliance on family/ethnic ties and management less and less attainable. The author fully agrees with this observation despite the fact that most of the large Taiwanese enterprises are still managed by the founding families or founders.

situation, namely the fading of SMEs' position and the appearance and significant expansion of large, internationally considerable companies creates—up till now relatively unknown—social and political contradictions. Nevertheless, while it is clearly visible that the power relations between the large and small companies and the administration have somewhat, and mainly the big firms have acquired the upper hand in the open and liberalized international market, the SMEs are still present and can put heavy pressure on any Taiwanese government.

This is nowhere more visible than in the role of the SMEs and the private sector in general, in handling cross-Strait relations. Having received the chance to move to the Mainland, a rather familiar and supposedly easy and profitable territory, the Taiwanese SMEs pressurize the government to represent their interests, in other words, to open the borders, ease restrictions and facilitate—for them—an intra-Chinese collaboration. Thus, the SMEs played a decisive role on cross-Strait relations. (They were followed by the bigger companies, which later on took over the lead.)

4. The Watershed: Entering China

After four decades of close to total separation in the early 1990s, China and Taiwan met each other again—at least in the sphere of economic cooperation. Nevertheless, in spite of this separation, since 1949 the parties could never 'forget' about the other side, and the drift between the PRC and Taiwan has been always on the agenda. In the first decades the island (and Chiang Kai-shek) enjoyed American support. Still, after the USA-PRC rapprochement—and in spite of the diplomatic and political isolation—Taiwan could preserve, furthermore, strengthen its economic and scientific-technical cooperation with the major powers of the world. Nevertheless, when Beijing introduced its reforms, Taiwan was one of the very first to rush to make use of this opening. The implementation of Taiwanese interests and the consequences of the newly born cooperation cannot be neglected in the course of assessing of the island's present position and future.

Before exploring these ties, some remarks must be made. It must be repeated that Taiwan—not independent of the conditions created by external forces—has achieved more than most of political entities having been in similar position at the beginning of their independent development. In spite of the significant shortcomings, the island went through—the otherwise unavoidable—Western-type of capitalization, including the new stratification of economic actors, the rise of huge, 'global-size' enterprises and the weakening of traditional family-based SMEs. Thanks to heavy investments

and supportive plans concerning leading technologies, Taiwan has risen to a very high level. On the other hand, it could not become a real trailblazer in new technologies. It is capable of accommodating first class—in their narrow fields—globally recognized companies, but these enterprises are not in the frontline of general innovations. They are excellent and keep the pace with others within their limited technological realm, in segments of high tech productions, but it is an unanswerable question whether they can ensure the maintenance of the island's technological position, or due to the 'ageing' of their products they will gradually lose their position. In addition, in general economic terms, the rise of some giants created new demands, and most of these cannot be satisfied in Taiwan, but only on the global scene. These factors compelled these enterprises—and also many SMEs—to turn their attention to the global market, and first of all to China.

Though the Taiwanese leaders could feel and calculated with the challenges of the China-factor, they proved incapable of preventing the emergence of the one-sided dependence on the PRC that determines the present and the future fate of the island. It is a closely related question whether Taiwan or any other political entity in Asia including the global scene, could have followed a different line and whether they could have avoided this dependence on the Mainland.

By the turn of the century, Taiwan became a model for many high tech aspirant political entities. Though there were observers who warned the leaders of the islands of the shortcomings in development, the successes eclipsed the problems, the achievements were recognized and applauded and very few doubted the straightforward progress of Taiwan. Below the surface, however, processes had been set into motion that—gradually—undermined the economic, social, and not least the political position of the island. Though these trends materialized within a complex set of factors, it is clear that the basic and major original elements of these trends can be traced back not to the island but to the other side of the Taiwan Straits: to the PRC. Since the late 1980s, the fate and international standing of 'Formosa' has been determined by China unconsciously, and in Taipei through the China/PRC-policy of the Taiwanese governments.

Had China remained a self-excluded and inward-looking political entity, the island most probably could have maintained the position previously attained and could have remained the unquestionable and self-reliant vanguard technological power that it had been earlier. Awakening China, however, within the framework of cross-Strait ties, first managed to bring the profit-hungry and survival-conscious Taiwanese—public and private—actors into its own orbit, then made the ties and relationship

indispensable, and finally created the situation from where Taiwan cannot escape the direct and indirect heavy weight of the Mainland.

Exploring this question from Taiwan's perspectives, it is clear that from the start there was a Taiwanese eagerness to enter China from the private sector's side. The governments showed high level of vigilance. In spite of this, there was a very fast and successful penetration of the island into the Mainland, which can be explained by many factors. Besides the 'natural' closeness of the two parties (in cultural, linguistic, etc. terms), the relative 'hospitality' of the Mainland towards the profit-interest of the 'islanders', or the Taiwanese was also decisive. Similarly, it seems to be unquestionable that Taiwan's unique international standing also played a role in the thinking of Taipei.²⁰ At first, the island managed to follow its independent (let us call it PRC-free) economic and social policy and then succeeded in riding on the initial waves of the Mainland's rising economy. Its companies—and through them Taiwan in general—made huge profits exploiting the opening up of China and the incomparable qualitative differences between the development levels of the two economies. This was the period when—seemingly—Beijing needed Taiwan more than the island needed the Mainland. In reality this was not the case, but it could not be seen clearly at that time. In the maintenance of the development edge of Taiwan, the penetration into the PRC market (both as a seller and as production partner) constituted not only a decisive, but a necessary factor. The economic, financial gains earned in China very

²⁰ As mentioned, by the time of the Chinese reforms, by the late 1980s, Taiwan had already been excluded from all the major international organizations, and this expulsion was not only politically painful but also brought some negative economic side-effects. True, the island could find its economic partners, but with the reforms in the PRC, the situation significantly changed—and not in a positive way for the island. Here one additional factor must be kept in mind: the importance of regional cooperation. International economic cooperation has never been as important and decisive as it is today. Regionalism has become one of the most determining factors of our time, and those who are left out of such schemes must face worsening conditions. Thus, the isolation for Taiwan became a very great challenge. Depending on the perception of Taiwanese behavior, the PRC tightens or loosens the ties. This is proved by the Chinese attitude towards Taiwan's FTA and other economic cooperation attempts with third parties. During the somewhat more PRC-friendly administration of President Ma Ying-jeou, China did not prevent Taiwan and Singapore to conclude an FTA. (It is also revealing that the title of this agreement was as follows: 'Agreement between Singapore and the separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership /ASTEP/.) China also closed its eyes to the Taiwan-New Zealand FTA-type cooperation. Since the coming into power of President Tsai, no such flexibility could be observed on China's side. The latest example for the impact of China's importance in the exclusion of Taiwan from international economic cooperation is indicative again. Though Washington withdrew from the Trans-Pacific Partnership (TPP) negotiations, the idea has been revived and pushed forward by 11 states. In the absence of China—and also the USA, but in this respect that is a secondary issue—Taipei could have made efforts to talk about its membership in the TPP, but the partners did not invite Taiwan to join. Probably they thought it wiser to keep Taiwan away instead of creating an imminent or future problem for themselves.

significantly contributed to the attainment of Taiwan's international position and internal—economic and social—solidness. At the turn of the century, however, the situation radically changed. Nevertheless, for some time it could be regarded as a win-win state of affairs. Gradually, however, it turned out that Taiwan is not a match for China and the PRC can—well, not easily swallow but on an ever-increasing scale—disregard and substitute the island. In the second decade of this century, it was already evident that Taiwan fell into the trap where it became a partner heavily dependent on the Mainland. The consecutive governments of the island have been making attempts to loosen this dependence, but now it is rather difficult to predict a positive outcome.

Looking back to the (now) origin of Cross-Strait ties, it can be considered a total coincidence that the Chinese reform-era and the Taiwanese democratization period, as well as its miraculous rise took place so close to each other.²¹ What seemingly served as a decisive element was the fact that, despite the shortcomings of the KMT's earlier economic policies, the island had at least some 25-35 years advantage over the Mainland. By the time of the Mainland's opening, Taiwan was already an open, export-led economy, a global player with a highly developed industrial sector, possessing strong economic and technological advantages over China. When Beijing started its catching-up, China was an impoverished, huge but underdeveloped country. Looking back to the past²² it seemed to be a great adventure to accept the invitation of the Chinese government to join its modernization program, and the Taiwanese companies were happy to start knocking on the door of China.

²¹ Chiang Kai-shek died in 1975, while Mao in 1976. Chiang was succeeded by his son, Chiang Ching-kuo, who followed his father's autocratic rule, but paid serious attention to economic development and significantly contributed to the transformation of Taiwan's economy. In the political sphere he incorporated more Taiwan-born politicians and experts into leadership position, and by the end of his rule he tolerated the introduction of democratic elements in the island's political life. He died in 1988. Deng managed to eliminate the remnants of the followers of (Mao's) Cultural Revolution and opened the road to 'socialist market economy' in the early 1980s. Though the Deng-reforms required certain easing in the political sphere, the crushing of the Tiananmen Square protests showed that he did not consider the relinquishment of the Party's rule and the strong control over the society acceptable. Performing a light comparison, it can be said that from the late 1970s till the mid-1990s in China, Deng Xiaoping directed the opening of the economic area, but stuck to the rigidity of the political system, while on the island Chiang Ching-kuo followed the liberalization of the economy and facilitated political democratization. Though the two parties closely followed each other's move, these trends and actions could hardly be connected, as during this period contacts between the two sides of the Strait were rendered more difficult or still forbidden. (It should not be forgotten that certain level of communication and personal contacts could be preserved and handled through informal contacts and overseas Chinese intermediators.)

²² It is well-known that after the proclamation of the PRC (still in the early 1950s), its leaders first encouraged the business companies to remain and help stabilize the economy, but after a while the leadership decided to eliminate the local 'bourgeoisie'.

In addition to the economic and business interests on the part of the island's politicians—just as in other parts of the world—there was the expectation that economic transformation will be also supplemented with political changes in the PRC. The Deng-reforms seemed to be pragmatic and forward-looking and, on the one hand, led to serious confusion in interpreting the situation, while on the other they deserved encouragement. From the perspective of this study, not the philosophical and ideological ideas and contradictions are important, but the simple fact that though China still used old 'socialist' terms in its political propaganda, it also introduced market-compatible practices (e.g. market conditions, competition, profitability and profit-making, wealth accumulation, private ownership, etc.) and encouraged foreign, including Taiwanese companies to come to the aid of the PRC. These newcomers helped it to get into the center of global economy and attain not simply a leading, but a determining position with old, ideologically sound and power-securing factors like state control, central regulations, etc.

Responding to this transformation of China, the Taiwanese were among the first who arrived at China and probably with the greatest vigor—and the biggest amount of investments. That was a seemingly good start after decades of separation and official prohibition on both sides. Looking back on these last decades, no unequivocal answer can be given to the question, who gave and who gained, profited more from this bilateral relationship. Today it would be difficult to reject the notion that though at the beginning it was more a win-win situation, at present there is no doubt that China seems to be the 'winner'. From the perspective of our study what deserves attention here is the fact that after a short while the external economic relations of Taiwan became dependent less on the 'classic trade policy' of the island's government and more decisively on the situation of the cross-Strait ties. While the Taiwanese administration's mildly shifting foci always followed the 'tested' liberal policies, the fate of Taiwanese prosperity has started to be strongly interlinked with these bilateral relations. It would be a simplification and exaggeration to claim that the island has become totally dependent on the Mainland but looking at the relatively static economic and trade policies of the successive governments, it is clear that the basic differences in strategies reflect nothing but the administrations' perception of China, of cross-Strait relations, and not least the political motives and targets behind these strategies.

In view of this dependence the question arises whether the Taiwanese governments can be held responsible for the creation of this situation and the rise of China. There are opinions that represent the views that for some time, external partners—among whom the Taiwanese—'dominated China's economy ...' but actually '... have brought

little actual technology and knowledge to China' (Fuller, 2008, p. 240²³). Refuting such position, Fuller himself rejects this notion and instead states that 'Taiwan has in fact played a critical role in boosting China's technological development ...' (Ibid). The previous position should be rejected outright. All through its history, the PRC was never dominated by external powers.²⁴ (Fuller's) second claim cannot be approved of, either. For the PRC the appearance of external investors, especially at the very beginning of the reform period was extremely important for many reasons, and the catching up with the developed countries in the area of industrial and technological achievements was one of the goals pursued. At the same time, Taiwan, just as all the other knowledge-holders, had no intention to share whatever technological knowledge it acquired. As a general characteristic of international networking (including GVCs, outsourcing and other types of cooperation) and science (knowledge, pattern, etc.), owners are ready to share their scientific assets as their interest dictates. Naturally, the arrival and the sharing of a higher level of knowledge, expertise and practices will facilitate the development of the 'beneficiaries', yet the impact of this kind of transfer of capabilities also depends on many other factors. As the general trends have determined the processes, Taiwanese companies (not the political entity itself, but its enterprises) also introduced 'modern technologies' on the Mainland only at the level and in the form that seemed literally profitable and necessary.

On the other hand, it was natural that the Chinese governments always attempted to improve the technological level and competitiveness of their own companies and increase the value-added content of local products (Chan, 2015). In this respect, the Taiwanese companies were not different from the others. What made them special, was their 'Chineseness'²⁵, their relatively high number and economic presence.²⁶

²³ Fuller refers to Yasheng Huang (2003).

²⁴ This remark could be refuted by the reference to the Stalin-Mao period, although it should not be forgotten that that was a rather voluntary self-submission of Mao to the 'genius' of Stalin, and it did not survive the death of the Soviet ruler.

²⁵ It is natural that in areas where linguistic and cultural understanding still play an important role, this kind of sameness matters a lot. Furthermore, we can calculate with the strength of the traditional Chinese family and social relations (e.g. guanxi) that promoted ties but brought about also negative consequences. Through personal interviews, the author learnt from Taiwanese businessmen that Chinese authorities not only 'exploited' the political weakness of Taiwanese entrepreneurs (as they could not turn to anybody for real defense), but frequently used them as scapegoats whenever the 'need' arose. They frequently carried out actions against this group of companies in a manner that they did not dare to show in case of other external partners.

²⁶ Ever since the Chinese reforms, there have been a permanent influx of foreign investment into China and—especially in the early years—overseas Chinese capital took significant part of this FDI. In those years most of the capital arrived from or via Hong Kong—and Taiwan was following the city state. It can be assumed that already before the authorization of direct contacts between the PRC and the island, Taiwanese capital could be channeled to the PRC either through Hong Kong or the overseas

Though the Taiwanese entered the Chinese production and consumption markets relatively early, disregarding the non-official channels of contacts, they had to start from square One. At the start, they were welcomed by both the central and the provincial administrations, just as all the other FDI-providers, and managed to expand their activity and presence. Thus, within a relatively short time, the number of Taiwanese companies and the ratio of their investments increased significantly. At that stage, they proved to be useful and valuable for the PRC and profitable for themselves and the island, in general.

Already from a rather early period of the renewal of cross-Strait ties, the Taiwanese administration kept an eye on the cooperation and tried to use methods, mainly in the form of qualitative and quantitative restrictions or prohibition, to create a political and security wall around the island.²⁷ The Taiwanese were allowed to visit the Mainland from 1987, and the first trade permits were issued in 1989. At this time, all transactions over USD 1 million and involving technologically advanced products had to get a permit from the Ministry of Economic Affairs (MoEA), but later on such limits and the general conditions were 'liberalized'. In spite of some negative 'side-effects', no government could really stem the escalation of cross-channel cooperation.²⁸

Restrictions have been kept ever since, but the conditions changed (limits were raised, and conditions loosened), while the ever more liberal economic policy—which responded to the demand of the Taiwanese enterprises and also to the international market conditions—facilitated more than prevented the increase in cross-Strait economic and business relations. In order to make some order in cross-Strait relations, the two parties set up their 'informal' bodies that were entrusted to channel their communication into orderly manner. Taipei established (still under Chiang Ching-kuo) the Straits Exchange Foundation (SEF) attached to the Mainland Affairs Council,

Chinese of Southeast Asia. Data indicate that though in this period most of the enterprises in China were owned by local entrepreneurs, the technologically more advanced ones belonged to foreigners among whom the overseas Chinese, including Taiwanese, were represented by a high number (Anita Chan, 2015).

²⁷ In 1992, the 'Act Governing Relationships between Peoples of the Taiwan Area and the Mainland' entered into force and has been valid ever since. It underwent several amendments mainly due to the demands of the business circles of the island. In general, the purpose and the direction of the provisions have remained the same as in the original text. [online] Available form: https://www.mac.gov.tw/en/News_Content.aspx?n=4F2E0C155DF44564&sms=2C46F5E37DC2E1D2&s=1A530DDE8A245DC0

²⁸ Chin mentions that since the 1990s Taiwan's inward FDI (as a percentage of the GDP) increased from 5.8 percent (1980) to 12.7 percent (2007), while its outward FDI increased from 0.2 percent to 41.3 percent channeling funds mainly to the PRC. Furthermore, in spite of the administration's efforts, the companies managed to forward capital to the PRC either using offshore subsidiaries or holding companies (Chin, 2013, p. 7).

while Beijing created the Association for Relation Across the Taiwan Straits (ARATS), belonging to the Taiwan Affairs Office of the State Council of the PRC. Though the two institutions have been dealing mainly with general political issues, their coming into being had positive impact on the approach of private and commercial actors.

The formulation of the so-called 1992 Consensus made relations more tranquil, but the consequences, namely the rapid widening of relations and the great interest of the Taiwanese in the China-business, sent alarming signals to Taipei. Perceiving the danger stemming from the direct bilateral contacts, the then President of the island (Lee Tung-hui) proclaimed the 'no haste, be patient' policy (NHBP, 1996), which had to be replaced soon by different approaches (Chin, 2013). President Lee was the first top leader of the island who toyed relatively openly with the idea of Taiwanese independence. His successor's, Chen Shui-bian's attitude was the same, but for us what needs to be recalled is the fact that though President Chen was an ardent opponent of the Taiwan-China ties, he could not prevent the fast increase of Taiwanese attachment to the China market and to China itself, but on the contrary, had to accept it. Ma Ying-jeou followed a different line of policy. In the spirit of the 1992 Consensus, he preferred a lower tone Taiwan-policy and a higher level of economic cooperation. While his approach proved to be successful in improving economic ties and also guaranteed a kind of political rapprochement, he could not withstand the high and fast rise of the dependence-creating penetration of the Taiwanese into China.

All in all, ever since the opening up of bilateral contacts, it has been one of the most difficult and also sensitive issues in Taiwan's cross-channel policy how to balance between the economic and security considerations. The enterprises and companies always demanded the opening up and the reduction of the restrictions, while the public showed an ever-increasing intention to keep a distance from Beijing. This had to be done simultaneously with increased economic stability and rising living standards. In spite of the statistical data, that reflected the correlation between the development of the PRC-Taiwan economic collaboration, politicians usually refrained from explaining the essential elements of these relations, the strong and further strengthening connection between Beijing-Taipei cooperation and the one-sided inter-dependence. Very few references have been made to the fact that external conditions compelled the governments to get ever closer to the PRC.

5. Short Summary of Questions Related to the External Trade Position of Taiwan

Looking back to the trade policy history of Taiwan, it is clear that after the Chiang Kai-shek area, the last 40-45 years have been characterized by a liberal and export-oriented external economic policy. Different governments applied different tools, trying to adapt to specific conditions, but, in general, the economic and commercial targets have remained similar, and the economic political strategies also showed a high level of analogy. Naturally, Taipei also had to take into consideration its global and/or regional (power) position and was compelled to adjust its strategies and tactics to others, but it could do that on its own. In other words, it could afford to look around in the global market first and then consider the endeavors of the partners. However, since the turn of the century, it has had one permanent direction-indicator, the PRC. Whatever Taipei wants to do or achieve now, first it must consider the negative (or positive) implications vis-à-vis China, and then it can deal with the additional elements of its external economic relations.

Interpreting the international trade position of Taiwan there is no doubt that earlier this used to be rather strong. As indicated in the first part of this paper, in spite of its size Taiwan was one of the most important merchandise trading entities on a global scale (both on the export and the import side). There was a continuously increasing external demand for Taiwanese goods, including high tech products, although since the beginning of this decade, the trends—both on the export and import side—indicate decreasing values.²⁹ The composition of the foreign trade was very positive all through the last decades, and it still seems to be very promising as manufactures take the biggest share in export (89%) but also in import (65.9%). On the other hand, however, the trade in electronic and other high-quality products has been stagnating. On the import side (concerning these merchandise groups again) also a declining trend can be experienced. Declining import sometimes can be considered a positive development but bearing in mind that in Taiwan the purchase and delivery of technologically advanced goods serve the basis of processing and re-export, this decline cannot be considered as an unequivocally favorable trend.

Approaching this issue from another angle, it is known that Taiwan has been a net exporter, and the permanent foreign trade surplus does not only refer to the relative

²⁹ The data mentioned originate from the World Bank Database ([online] Available form: http://stat.wto.org/CountryProfiles/TW_E.htm) unless otherwise indicated. According to the latest statistics found at WTO merchandise export—the most important area of Taiwanese export—decreased by 2 percent from 2015 to 2016, while the same figure for imports was 3 percent.

economic stability of the island, but also shows the ability to utilize the surplus capital to further its economic goals, including the extension of trade but also the facilitation of production cooperation abroad. The huge surplus capital allowed the island to become a major FDI-provider. All figures confirm that Taiwan is not simply a net FDI-player, but the outflow of FDI is close to three times higher than the inward-bound investments (WTO, 2014). With the approval and support of the governments, the island's companies—invested heavily in most of the countries of East Asia, however, China is still the most important destination. At the same time, FDI is again a double-edged sword. It really facilitates the expansion of political entities' and companies' activities abroad, and it can deepen their cooperation with third parties, introduce market products and through this process contribute to the acquirement of enough income and expertise to strengthen their overall competitiveness. On the other hand, FDI binds the investor to these third markets in a way that—among given circumstances—the FDI-provider might become more vulnerable than the recipient itself. If a recipient is relatively weak and there is no other potential investor to replace a dominant one, then this weak partner cannot do too much against the FDI-partner, and this foreign investor can negotiate with the recipient from the position of strength. If this is not the case, then either the situation is more balanced, and none of the parties can dictate the other one (that can be labeled as a more or less win-win situation), or the FDI-provider might become the hostage of its own investments. This latter situation occurs in the Taiwan-China case. While the heavy Taiwanese FDI in China had been very useful for many reasons during the 1990s and the very early 21st century for both parties, later on FDI became such a forceful connecting element, that it may complicate the isolation from the Mainland. Taiwan needs reliable markets so much that through concentrating FDI in China, the island weakens itself instead of strengthening its own position as an FDI-provider. This is taking place even though the spreading of Taiwanese capital over ever larger economic areas is no doubt a precondition for the island's independent economic and commercial survival. Though—theoretically—the internal investments (namely, keeping the capital at home) might produce several positive results economically and financially (and also technology-wise and socially in the labor market), the organic penetration of Taiwan into third countries' markets can be one of the best ways to overcome the island's international exclusion from the international trading blocs and to tackle any trade limitation originating from Taiwan's political-diplomatic subordination.

With the Taiwanese FDI in China worth between USD 150-200 billion, the island cannot escape dependence. Not only because the government itself cannot do too much against this situation, but due to the enterprises' intransigence to enjoy the benefits of the huge Chinese market. These companies are not ready to sacrifice their profits

as long as the government cannot come forward with viable alternatives. (The New Southbound Policy propagates the entrepreneurs to 'turn South', but the southern states cannot offer the same advantages as China.)

FDI is still one of the most important tools and one of the most efficient ways of breaking through the barriers of isolation. Nevertheless, it can balance the negative impact of being excluded from the community of states, at least partially. For the export-oriented Taiwan, the only way to secure its prosperity, its industrial (and technological) development—and not least the decrease of its dependence on China—is the expansion of its external economic relations. Its scope of action, however, is relatively limited. Concerning its bilateral economic contacts, in spite of its diplomatic seclusion,³⁰ Taipei succeeded in establishing trade cooperation with some 50 countries, including the most important economic and trading actors of the global market, such as the USA, Japan or the European Union. There are more than 60 Taiwanese trade representations acting as facilitators of bilateral economic cooperation.³¹ These trade offices efficiently handle the economic issues, but as most of the business and commercial activities of the island's companies are carried out go through direct channels their role is more supplementary than substantial. At the same time, the single most important partner and bilateral contact is, again, the PRC. In this case, the management of bilateral issues is handled not via such representations, but through 'informal' and officially controlled institutions.³²

The question of presence and absence in an international organization has been already mentioned here. It is clear that in the age of regional integrations (regionalism), 'simple' bilateral relations and individual ('national') actions cannot substitute the role played by multinational institutions. And here the position of the island is

³⁰ It is well-known that the island is recognized as an independent political entity (state) or as the representative of the Chinese people by about 20, mainly very small, internationally rather insignificant, economically 'valueless' countries. Economically and financially, probably, these partners cost Taiwan more than it can 'earn', but for political reasons the island cannot afford to break these ties.

³¹ These representations also act as quasi-diplomatic missions. These systems of trade representation clearly show a tacit understanding by Beijing and Taipei that the PRC acknowledges that its major political and economic partners are reluctant to easily sacrifice their interests and cut their ties with Taiwan, while the governments of the island note that these parties consider China the more important player and in this respect, again, the island's scope of action is relatively limited.

³² On the Taiwanese side, the Straits Exchange Foundation (SEF), while in Beijing the Association for Relations Across the Taiwan Straits (ARATS) are entrusted to handle the issues. As one can find the executive power-holders of both parties behind them, every move they make can be considered officially approved. SEF and ARATS are deeply involved in formulating bilateral ties, and in this respect, they are the decision-makers (actually the governments behind them), who set the framework for economic and trade collaboration, but the actual economic cooperation is realized through 'independent' public and private enterprises.

extremely weak,³³ as third parties' economic interests and political considerations overwrite their readiness to accept that Taiwan cannot make use of its economic and technological advantages, and yet the formerly close allies prefer to work with China rather than with the island. In practical terms, this means that Beijing prevents the entry of Taiwan into all the major economic (regional) blocks and thus deprives it of all the positive effects such blocks could offer to their members. There are very few international organizations where Taiwan managed to secure some kind of presence, mainly observer status. One of the otherwise very significant exceptions is the WTO. Taiwan entered the Organization on 1 January 2002.³⁴ In the WTO it has full membership and bears the same rights and obligations as all the other members, but it is clear that still within this body—in given cases—cannot rely on the support of others against the PRC, unless in the subjects concerned, the interests of others meet the interest of Taiwan. Its attachment to APEC and OECD are politically also a very significant element, which helps the island to preserve certain fragments of its earlier international position. But even this presence does not constitute full membership. In the OECD, Taiwan is only an observer, and China can easily step up against Taiwan's presence at meetings and debates.³⁵ These are the forums where it can appear on its own right and have its voice heard, but none of these—otherwise decisive—organizations are in the position to show Taiwan the way out of the very painful and expensive international exclusion.

³³ As indicated earlier, the international activities of Taiwan are heavily restricted by the PRC. This concerns both the political and also the economic movements of the island. It is clear that the island could enter or secure (different kind of) presence in a very small number of international organizations. Similarly, it managed to formalize its economic and trade cooperation with very few partners. Besides Singapore and New Zealand, Taipei signed an FTA with Panama, drafted one with Nicaragua and concluded a Close Strategic Economic Partnership (CSEP) framework with Paraguay. (MOEA) Apart from them El Salvador, Honduras, Guatemala are the other major collaborators. (The case of Panama is uncertain because of the termination of diplomatic ties and the withdrawal of the recognition of the 'Republic of China' by Panama.)

³⁴ China entered WTO on 11 December 2001, three weeks earlier than Taiwan. Naturally, the accession talks went on separately, and it is clear that China had to swallow a bitter pill with the acceptance of the island. A major victory for Beijing was the denomination of the island as 'The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu', which is always referred to as 'Chinese Taipei'. Practically, that is the only leading international economic organization where Taiwan could obtain full status. In all other cases, it was invited as observer with more limited rights.

³⁵ As one of the latest examples for annoying Taiwan, in 2016 China prevented the Taiwanese delegation to join an OECD steel talks because it was angered by the island. (See Associated Press Report: Taiwan protests ejection from OECD steel talks, blames China. April 19, 2016. [online] Available form: <https://www.seattletimes.com/business/taiwan-protests-ejection-from-oecd-steel-talks-blames-china/>). Though later on the delegation could participate in the meeting in the status of an observer, nevertheless, the case clearly shows how easily the PRC can 'punish' the island if it wants to.

It would be a mistake not to see that the PRC pulls the strings with relative ease and at its own discretion. When it feels that the government of the island remains within certain political limits and disregards the question of sovereignty, the PRC shows higher level of inclination to give Taiwan some leeway for strengthening its international cooperation. If cross-Strait relations get sour, China will harden its position and directly or indirectly prevent Taipei from joining universal or regional organizations.³⁶

6. Conclusions

Though in this research the focus is on Taiwan, in order to understand the conditions of the island, the observer must start and must also finish with the exploration of the China-Taiwan ties. For roughly four decades, Taiwan could relatively easily follow its own line of development, but since the 'grand opening' its fate has been inseparably bound with the Mainland. For some time, the Taiwanese could believe that they can keep the distance and preserve their individual scope of action, but that proved to be simple rainbow chasing. Today Taiwan still represents a significant power. It has enough military strength to withstand a violent assault, though only for a very few days. It has a strong economy with more and more weaknesses. It can determine its internal (democratic) policy and its own external economic and trade policy within shrinking frames. It can strive for preserving or further developing its own trade routes, partnership—but sailing between Scylla and Charybdis, between heavy subordination and gradual but unavoidable decline is not a comforting situation.

On the other side of the strait, China has become a kind of co-leader of the world. It succeeded in increasing its political leadership role, its economic weight, and simultaneously—and this can be considered the most dangerous and delicate issue for Taiwan—it successfully launched its rapid technological and industrial development and excellence. Technological and industrial development constituted the only areas where the island could be a match for the Mainland. These were the only spheres where the island could not only utilize its decade-long edges but could also rely on the direct assistance of its allies. Because of the very fast and extensive Chinese development in technological revolution, the island faces very tough competition and the odds are not the best. This tough competition can be felt in many areas, and it is more than indicative that China has also started to accelerate the development of

³⁶ During the Ma-administration, in 2010, Taiwan and China signed the Economic Cooperation Framework Agreement (ECFA) that was expected to boost bilateral trade. Later, in 2013, the two parties concluded the famous Cross-Strait Service Trade Agreement, that could not be ratified due to the protest not only of the opposition, but also as a consequence of the Sunflower Movement.

its semiconductor industry (one of the major areas of Taiwanese high-tech production capacity) and has also broadened the scope of its brain-drain, offering excellent job opportunities for Taiwanese specialists working in cutting-edge industries (Neszmélyi, 2017). Therefore, the preservation of the island's position is more and more complicated. It is not defenseless in this respect either, but it must find the best policy and the best means for achieving its targets.

Looking back on the political and economic history of the island, the last 7-7.5 decades can be classified in different manners. From the specific viewpoint of this study, the Author divides this period into two parts. In the first 4.5-5 decades, the internal and external conditions for the development of the island proved to be rather good, even favorable. Taiwan became prosperous, rich, advanced, and, at the same time, democratic. In this period, Taiwan could be considered a strong international actor who, in spite of its diplomatic expulsion, could not be subordinated.

The second phase, interestingly enough, started with the introduction of the Deng Xiaoping reforms in the PRC, with the emergence of the pro-Taiwan political forces on the island, the acceleration of technological development, and not least the transformation of the international economic and production cooperation. In this second phase, the international conditions have changed to the detriment of the island. The relative power balance and the balanced mutual interests, that had characterized the 1980s and the 1990s, gradually disappeared or were modified and replaced by the domination of Beijing. The internal political changes, including the strengthening of Taiwanese identity and the political line followed by DPP, made relationship with China tenser and less cooperative. These elements further complicated bilateral relations and contributed to the isolation of the island and the limitation of its international actions.³⁷ At the beginning, technological development proved to be decisive for the island, as its organic presence and mature penetration into global technological collaboration contributed to the reinforcement of Taiwan's global and Asian eminence and production capabilities. Taiwanese firms became not only significant contributors (suppliers or outsource centers) to the most innovative and leading high tech companies of the global market, but some Taiwanese companies have become lead firms on their own right.³⁸ This process, in general, could be considered positive, but in case of Taiwanese companies, the unfavorable political and economic conditions (seclusion

³⁷ This can be seen in the withdrawal of diplomatic recognition by Panama and the restrictive steps taken by Beijing concerning the presence of Taiwan in the international organizations.

³⁸ Such enterprises as Quanta, TSMC (Taiwan Semiconductor Manufacturing Co.) Hon Hai Precision Industry (Foxconn), Mediatek and others are among the top firms of high tech industries and some of them appear on the Forbes 500 lists.

from the international community, expulsion from regional trade integrations and all the economic and trade consequences that can be linked to such a situation) might compel these enterprises to leave their home base behind and move to third areas. These trends can be accompanied by more negative consequences, in a way at the will of China.

Since the late 1980s all the Taiwanese governments have been aware of the delicate nature of the PRC-Taiwan relationship. All of them attempted to handle the question but according to their own perception of the situation. Nevertheless, in spite of the differences in approaches, one trend can be easily observed: each of the island's administrations originally planned to extend the distance between Beijing and Taipei, but in the course of their governance all of them—without exception—became more closely bound to the Mainland than at the time they had started their governance. The Chen Shui-bian administration increased restrictions adopted by the Lee Teng-hui government, and by 2008 the presence of the PRC in Taiwanese economy redoubled. Ma Ying-jeou made an attempt to keep the ties at 'normal' political level hoping that this situation would create a *modus vivendi* whereby the PRC will refrain from taking harsh measures to speed up the (re)unification process. Though relations improved during this period, the dependence of the island further increased. Tsai Ing-wen's administration declared that it wanted to reduce the island's dependence 'on one single country' and—just like Chen Shui-bian—propagated the 'turn South' policy (New Southbound Policy). The achievements of the first ca. two years are rather meager. The developments demonstrate that, at present and in the foreseeable future, the economic and trade (as well as political and social) situation of Taiwan will not depend on the— basically uninterrupted, slightly modified—policies adopted in Taipei, but on the fluctuating cross-Strait situation. Governments in Taipei might ease tension or demonstrate their strength to Beijing, but the frameworks are set on the other side of the Straits.

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