Business over politics
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Focus

Business Over Politics

Growing commercial ties between China and Taiwan stand to benefit all firms in the region

Xiangming Chen

Taiwan has been the second-largest source of overseas capital in China throughout the 1990s, ahead of the United States and Japan and behind only Hong Kong. Even as Asian investment in China slowed during the deepening regional economic crisis, Taiwan investment in China has maintained momentum. According to Taiwan figures, annual contracted investment in China was up 72 percent in 1997. Strong commercial ties between Taiwan and China are critical to sustaining economic growth and market expansion in the world's most populous nation. The investment capital, manufacturing expertise, and middle-range technology of Taiwan firms complement China's shortage of capital and abundant low-cost labor.

According to Charng Kao, an economist at the Chung-hua Institution for Economic Research in Taipei, Taiwan investment as a share of China's total capital formation rose from 0.23 percent in 1990 to 1.32 percent in 1995. Taiwan-invested enterprises in China employed 2.8-3.9 million workers and produced $33.6 billion in industrial output in 1995, 3.1 percent of China's total. Taiwan-invested enterprises also accounted for 14.4 percent of China's total exports in 1995. Given the growing links between China- and Taiwan-based suppliers and US companies, US firms doing business in Greater China can only profit from a solid understanding of Taiwan investment patterns in the mainland.

Policy shifts in the 1990s

After years of only limited contact, the 1990s ushered in a new phase of Taiwan investment in China. Following the Kuomintang's 13th Party Congress in July 1988, which approved indirect trade with and investment in the mainland, Taiwan promulgated rules on indirect exports to China, setting the stage for cross-Strait trade. In October 1990, Taiwan announced a set of regulations governing indirect investment in and technological cooperation with the mainland. According to these rules, investment projects capitalized at less than $1 million must be reported to the Ministry of Economic Affairs within six months of signing, while projects involving more than $1 million require advance approval. These policies fostered a surge in commercial activity between Taiwan and the mainland in the first half of the 1990s.

But political and military tensions in cross-Strait relations in 1995-96 prompted new restrictions on Taiwan corporate investment in China. These regulations banned major investment in infrastructure, real estate, and insurance; limited single-pro-

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ject investment to $50 million; and reduced the permissible investment share of a Taiwan firm in a Taiwan-PRC joint venture from 40 percent to a maximum of 30 percent. Though this policy reversal stymied a $3.2 billion deal for the Formosa Plastics Group to build a power plant in Zhangzhou, Fujian Province, it did not halt the overall flow of Taiwan capital into China.

The policy pendulum has since swung back. In early 1998, China relaxed a number of investment policies, in part an attempt to attract larger Taiwan investors and those previously hindered by Taiwan's own restrictions. The PRC policies encourage Taiwan investment in a wider range of sectors, including agriculture, new and high-tech industries, basic industries, infrastructure, environmental protection, banking, and commercial services.

Further boosting investor and trader confidence was the resumption of cross-Strait talks in spring 1998. More progress was made in October, when the chairman of Taiwan's Straits Exchange Foundation, Koo Chen-fu, paid a five-day visit to China to meet Wang Daohan, his counterpart at the Association for Relations Across the Taiwan Strait, and PRC President Jiang Zemin. This political move was timed to coincide with the Taiwan government's relaxation of the $50 million ceiling for any single mainland investment project that facilitates interaction between China and Taiwan or Taiwan's economic development.

While the full impact of Taiwan's new policy has yet to be felt, a number of Taiwan firms have already taken advantage of it. For example, Taiwan Cement Corp., headed by Koo, announced it would invest in five plants in southern China to produce 5 million metric tons of cement per year beginning in mid-1999.

Trade leads the way

Since 1949, China-Taiwan trade has passed through three successively open periods of indirect trade, though Taiwan was not propelled into the ranks of China's top trade partners until the 1990s. Taiwan is now the PRC's fifth-largest trading partner, second-largest source of imports, and ninth-largest export market. China, now Taiwan's second-largest export destination, is the main contributor to its trade surplus. From 1981 to 1997, Taiwan's cumulative trade surplus with China amounted to $107 billion (*see* Table 1). Without this huge surplus, Taiwan would have recorded trade deficits in recent years.

Sizing up Taiwan investment

Part of the recent trade growth can be attributed to rising Taiwan investment in China. In 1996, foreign-invested enterprises (FIEs) in China, most of which were Taiwan-PRC joint ventures, accounted for 67.3 percent of the total China-Taiwan trade—20 percentage points higher than FIEs' share of China's total foreign trade, according to economists at the Chinese Academy of Social Sciences. Processing-related trade accounted for almost three-quarters of total China-Taiwan trade in 1997—perhaps not surprising, since most Taiwan-invested enterprises engage in export-oriented processing.

Nevertheless, Taiwan investment in China has had its ups and downs. After officially sanctioning indirect investment, in 1990 Taiwan restricted investment in China to manufacturers of 3,353 products. Most of the listed products were in labor-intensive industries from apparel, footwear, and food to plastics and household electronics. The Taiwan government expanded this list to 4,895 items in 1996. In turn, the PRC opened the door to Taiwan investment when the State Council promulgated Regulations for Encouraging Investment by Taiwan Compatriots in July 1988 (the so-called "22 clauses"). In May 1989, the State Council approved the establishment of Taiwan investment zones in Fuzhou and Xiamen, which were selected because of their geographic proximity to Taiwan. In 1994, the National People's Congress passed a law specifically protecting Taiwan investment. These reciprocal and mutually reinforcing policies

Processing-related trade accounted for almost three-quarters of total China-Taiwan trade in 1997.

Table 1
Taiwan's Trade with China via Hong Kong, 1981-97 ($ million)

Year	Taiwan's exports to China*	Taiwan's imports from China	Estimated total Taiwan-China trade	Taiwan's export dependency on China**
1981	384.8	75.2	460.0	1.7
1982	194.5	84.0	278.5	0.9
1983	201.4	89.9	291.3	0.8
1984	425.5	127.8	553.3	1.4
1985	986.8	115.9	1,102.7	3.2
1986	811.3	144.2	955.5	2.0
1987	1,226.5	288.9	1,515.4	2.3
1988	2,242.2	478.7	2,720.9	3.7
1989	3,331.9	586.9	3,918.8	5.0
1990	4,394.6	765.4	5,160.0	6.5
1991	7,493.5	1,125.9	8,619.4	9.8
1992	10,547.6	1,119.0	11,666.6	13.0
1993	13,993.1	1,103.6	15,096.7	16.5
1994	16,022.5	1,858.7	17,881.2	17.2
1995	19,433.8	3,091.4	22,525.2	17.4
1996	20,727.3	3,059.8	23,787.1	17.9
1997	22,455.2	3,915.4	26,370.6	18.4

SOURCE: *Cross-Strait Economic Statistics Monthly*, January 1998, Mainland Affairs Council, Taiwan
* Estimated based on Taiwan and Hong Kong customs statistics
** Calculated as Taiwan's exports to China as a portion of Taiwan's total exports

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By the end of 1996, Jiangsu had surpassed Guangdong in terms of contracted investment from Taiwan.

created a more favorable environment for cross-Strait investment.

Between 1979 and 1986, Taiwan's total investment in China amounted to only $20 million, according to PRC figures. Starting in 1987, however, Taiwan investment picked up, and by 1990 had reached $890 million, with $222 million realized. In the 1990s, Taiwan investment surged to unprecedented levels. In 1993 alone, Taiwan investment exceeded the total for the entire 1979-92 period. According to PRC figures, between 1991 and 1997, contracted Taiwan investment in China, involving 38,485 ventures, reached $38 billion, with nearly half of the contracted investment utilized (*see* Table 2).

The large disparities between Taiwan's and China's statistics are likely the result of Taiwan companies' tendency to circumvent Taiwan restrictions by investing through third countries. In practice, many companies reinvest profits in China without reporting such investments to the Taiwan government, inflating the value of their assets and capital stock, in part so that Chinese authorities can satisfy their ambitious foreign investment goals.

Profiles of Taiwan Investment

Taiwan firms historically have concentrated on establishing labor-intensive manufacturing operations in China. By October 1995, manufacturing accounted for about 80 percent of total Taiwan investment in China. Of the total manufacturing investment, electrical goods (30 percent), food and beverages (17 percent), plastics and rubber (15 percent), and metal-making (14 percent) ranked as the top four industries. This focus on manufacturing reflects the fundamental motive behind Taiwan businesses' relocation to the mainland: to take advantage of China's abundant and cheap labor and land.

But Taiwan investment has gradually been shifting from labor-intensive and low-value processing to more capital- and technology-intensive manufacturing such as automobiles, computers, machinery, and petrochemicals. This shift is also indicated by the rising average project size—from 1993 to 1996, the value of the average investment project rose from $340,000 to $3.21 million. By 1997, some 400 Taiwan-invested projects in China had an average capitalization of $10 million, with more than 10 of them exceeding $100 million. According to a recent *Wall Street Journal* report, Acer Inc., Taiwan's largest PC maker and one of the world's largest PC manufacturers, is building a $25 million plant in southern Guangdong Province to produce PCs and computer motherboards. The project will be expanded to include five additional plants, with investment reaching $300 million in three years. But the President Group boasts the largest Taiwan project, a $700 million investment in more than 30 food-processing and other factories spread across nearly 20 provinces and municipalities. President also exemplifies a more recent trend among larger Taiwan companies in China—producing low-cost products on the mainland for both export and sale within China.

Taiwan firms in China have tended to cluster in a few geographical areas, especially the southeast coastal region. In 1991, four cities in this region—Guangzhou and Shenzhen in Guangdong Province and Xiamen and Fuzhou in Fujian Province—accounted for 45 percent of Taiwan investment contracts and 44 percent of contracted capital from Taiwan in China.

More recently, Taiwan investment has begun to move north and west, focusing on the lower Yangtze River region, especially Jiangsu Province and Shanghai. Shenzhen's and Xiamen's shares of Taiwan's total investment in China dropped from 14.8 percent and 12.2 percent in 1991 to 9.6 percent and 6.9 percent in 1993, respectively—the latest years for which such figures are available. During the same period, Shanghai's share rose from 11.5 percent to 12.1 percent. By the end of 1996, Jiangsu had surpassed Guangdong in terms of contracted investment from Taiwan. Through 1996, the Yangtze River delta had absorbed more than one-third of Taiwan investment projects and half of its capital. The average capitalization of $1.6 million in the Yangtze delta was also higher than the national

Table 2
Taiwan's (In)direct Investment in China, 1991-97 ($ million)

	Taiwan Ministry of Economic Affairs		PRC Ministry of Foreign Trade and Economic Cooperation		
Year	Number of contracts	Amount contracted	Number of contracts	Amount contracted	Amount utilized
1991	237	174	3,884	3,536	863
1992	264	247	6,430	5,543	1,050
1993	9,329	3,168	10,948	9,965	3,139
1994	934	962	6,247	5,395	3,391
1995	490	1,093	4,778	5,777	3,162
1996	383	1,229	3,184	5,141	3,475
1997	8,725	4,334	3,014	2,815	3,295
1991-97	20,263	11,208	38,485	38,172	18,375

SOURCES: *Cross-Strait Economic Statistics Monthly*, January 1998, Mainland Affairs Council; PRC Ministry of Foreign Trade and Economic Cooperation
NOTE: PRC figures for 1991 are cumulative from 1983

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average ($1.5 million) for Taiwan investment projects. Despite its slow spread, the proportion of Taiwan investment in areas other than Guangdong, Fujian, Jiangsu, Zhejiang, and Shanghai rose from 22.4 percent during 1991-93 to 25.4 percent in 1994.

With regard to the investment vehicle of choice, Taiwan companies in China generally have preferred wholly foreign-owned enterprises (WFOEs). Three separate surveys conducted by Taiwan scholars have shown that about 55 percent of Taiwan-invested factories in China in the early 1990s involved 100 percent Taiwan capital. The extent of 100 percent ownership, however, varied by industry and locality, from a low of 33 percent of projects in the plastics sector in Shanghai to a high of 92 percent of garment ventures in Fujian. This preference for WFOEs stems from the often incompatible business values, company goals, management styles, and power sharing between Taiwan and potential mainland partners; Taiwan investors' lack of familiarity with specific mainland enterprises; and the fact that small and medium-sized Taiwan firms tend to have their own material inputs, production equipment, and access to export channels. At the same time, the common language and culture mitigates these disparities somewhat.

As Taiwan companies have become more familiar with China's business environment and as China's domestic market has become more open, the number of PRC-Taiwan joint ventures has increased. PRC laws that enable joint ventures to maintain management control and to sell 30 percent of what they manufacture in China have prompted some Taiwan firms to set up joint ventures to which they have contributed as much as 97 percent of the equity. And Taiwan companies already in China have begun to use more diversified ownership strategies, such as taking stakes in existing state-owned enterprises.

Going west vs. south

As mainland investment fever spread among Taiwan companies in the early 1990s, Taiwan authorities, hoping to reduce the risks of exposure in China, initiated a "go south" policy to encourage investment in Southeast Asia.

The primary argument against "going west"—investing in the mainland—according to both Taiwan government and business, is that too much trade with and investment in China is risky because of the PRC's potentially unstable economic policy and strong opposition to Taiwan's pursuit of greater international stature. Related to the "risky China" argument are the lack of legal protections for Taiwan investors in China (despite some legal improvements in 1994) and isolated instances in which Taiwan businessmen have been kidnapped or their factories robbed.

Others argue that Taiwan's exports to China have grown too fast and too large. In the 1980s, China was the destination for less than 5 percent of Taiwan's exports, compared to 18.4 percent in 1997.

Some analysts in Taiwan also worry that heavy manufacturing investment in China may lead to de-industrialization, or a "hollowing out," of Taiwan's industry. According to one Taiwan estimate, the shift of production to China has caused the loss of almost 20,000 manufacturing jobs and $10 billion in manufacturing output from the late 1980s through 1993. The "hollowing out" argument, however, has been countered by strong evidence that the Taiwan firms that have relocated most of their manufacturing activities to China are no longer competitive at home. The overwhelming majority of Taiwan firms with investment in China also keep more important functions such as research and development, product design and engineering, finance and accounting, sales and marketing, planning and inventory control, quality control, and after-sales service in Taiwan.

The Taiwan government sees less political risk in developing close business ties with Southeast Asia, as the ideologies and political systems of these countries are closer to Taiwan's. Most Association of Southeast Asian Nation (ASEAN) member countries also have bilateral investment-protection agreements with Taiwan. Further, though Southeast Asia is a smaller market than China, countries in this region, especially Indonesia, the Philippines, and Vietnam, have large populations—indicating a large market. Other conditions favoring "going south" include recently introduced policy incentives. Both Indonesia and the Philippines, for example, began in 1994 to allow foreign companies to take 100 percent equity ownership. With the possible exception of Malaysia, Southeast Asian countries also have few or no restrictions on the remittance of profits and foreign exchange. Significant Taiwan investment during 1987-96 flowed to Thailand ($9.5 billion), Indonesia ($9.3 billion), Malaysia ($7.9 billion), Vietnam ($4.4 billion), the Philippines ($969 million), and Singapore ($913 million). Though the Asian financial crisis has slowed the flow of Taiwan capital into Southeast Asia, funds to China have remained stable.

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The attractions of "going west" are based primarily on comparative economic advantage. Taiwan investors regard China's cheap and abundant labor and land, large domestic market, and strong engineering capacity in selected industries as complementary to Taiwan's abundant capital, manufacturing experience, management skills, and R&D capacities. This complementarity allows for a vertical division of labor, in which industries in China can specialize in low value-added manufacturing, while Taiwan firms accelerate the upgrading of their operations and the development of high- and new-technology industries. Even if China shifts slightly toward higher-end production, its labor and land resources are still more plentiful than those of ASEAN countries. Cultural affinity and linguistic similarity also strongly encourage Taiwan investors to go west.

Other disincentives to going south include Southeast Asia's higher enterprise taxes; higher—and rapidly rising—wages in Thailand and Malaysia; and transportation infrastructure no better than China's (also with the possible exception of Malaysia). Thailand and Malaysia, in particular, have been shifting away from labor-intensive industries in recent years. Cultural, religious, and language differences also pose greater

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barriers than are found in mainland China. And the ASEAN Free Trade Area has more stringent requirements for local content in manufacturing.

Some Taiwan companies are leveraging the advantages of both regions by creating links between investments in the PRC and Southeast Asia. Taiwan's S.T. Group, which had invested in Singapore's electronics industry early on, began to invest in China in 1985. From its Singapore-based holding company, S.T. has established and currently controls 17 subsidiary ventures in China, three in Singapore, two in Malaysia, and one in Hong Kong. Another large Taiwan conglomerate, the Tundex Group, has also been integrating its strategies. In Fuqing, Fujian Province, Tundex has set up a $3 million garment factory. Together with the Salim Group, headed by Soedono Salim (Liem Sioe Liong), the wealthiest overseas Chinese in Indonesia, Tundex built a huge petrochemical facility in Xiamen. Tundex also recently injected $77 million into its factory in Thailand to double its annual output to 600 tons.

While Taiwan companies may continue to invest in Southeast Asia, the Taiwan government is abandoning the "go south" policy, according to P.K. Chiang, chairman of the Council for Economic Planning and Development. The government will no longer encourage investment in Southeast Asia given the region's poor economic state. This official policy change may indirectly deepen Taiwan-China ties.

The China-Taiwan Supply Connection

Beyond forging intra-regional linkages, Taiwan investment in China has also formed a cross-Strait manufacturing nexus that is quickly becoming a feature of the regional and global supply chains of major US multinationals. The PC industry provides an illustrative example. Taiwan makes 40 percent of IBM Corp.'s and 60 percent of Dell Computer Corp.'s desktop computers. Although Taiwan was the world's third-largest PC maker in 1995 after the United States and Japan, it has always relied heavily on original equipment manufacturing (OEM) and, to a lesser degree, on original design manufacturing production of PC peripherals to supply global computer giants. Since an average of 60 percent of their products are exported to fiercely competitive international markets, Taiwan PC makers face constant pressure to lower production costs, which they have achieved by moving

Bridging the Taiwan Strait

The absence of direct sea and air links across the Taiwan Strait has certainly hindered the ability of Taiwan companies to profit from and expand their mainland investments. Nonetheless, the Taiwan Strait has, since 1997, been bridged by de facto links that come close to direct shipping. Whether these de facto links will evolve into formal direct sea transportation in the near future is open to question.

As with the trade and investment ties between Taiwan and China, transportation links between the two have evolved gradually. Discussions in the late 1970s and early 1980s eventually led to January 1986 regulations by Taiwan's Ministry of Transportation that enabled Hong Kong transshipment and third-port customs clearance for ships carrying bulk cargo across the Strait. In 1988, Taiwan authorities permitted, in principle, both foreign freight and passenger ships traveling between Hong Kong and Okinawa to ply the Strait. More recently, in 1995, Taiwan allowed mainland containers to enter Taiwan on foreign ships, lowering the transportation costs for Taiwan companies operating in China significantly. Taiwan also unveiled a plan at this time to establish an offshore transshipment center in Kaohsiung.

On April 19, 1997, the so-called "point-to-point" cargo transportation link across the Taiwan Strait formally began, with the first ships crossing between Kaohsiung and Xiamen (*see The CBR*, March-April 1997, p. 21). The Taiwan regulations designate only Kaohsiung in Taiwan and Xiamen and Fuzhou on the mainland as points of departure and destination. Thus far, six Taiwan shippers and five mainland carriers have been approved to use this link. The 1997 agreement permits foreign-registered vessels to travel directly between Kaohsiung, Xiamen, and Fuzhou, but their cargoes may not pass through Taiwan customs or enter Taiwan's markets. The cargo must be offloaded at a third port.

Initial and Potential Benefits

While not yet qualifying as direct shipping, the point-to-point link promises to reduce shipping costs between Taiwan and China. Researchers at the mainland's Chinese Academy of Social Sciences estimate that the annual cargo bound for Taiwan and China through Hong Kong since 1991 has averaged over 10 million tons, with more than 400 ships from Taiwan docking annually at over 30 mainland ports. A round trip via Hong Kong stretches more than 800 nautical miles and takes at least two full days to complete, whereas a straight sail from Taiwan to Xiamen covers only 150 nautical miles in only eight hours. Shipping a twenty-foot equivalent unit (TEU) container through Hong Kong costs roughly $1,400. The same container would cost less than $350 if shipped directly. The president of the Taiwan branch of Jardine, Matheson, & Co.'s shipping agency estimated that carriers must pay $5,000 to $6,000 each time they stop in Hong Kong, even when offloading is not required. According to one Taiwan government official estimate, direct cross-Strait shipping would yield an annual savings of $248 million (based on the 620,000 TEUs that crossed the Strait in 1996 and a savings of $400 per container).

The six Taiwan and five PRC shippers that have been approved have already taken advantage of the point-to-point arrangement. Since April 1997, the Offshore Transshipment Center at Kaohsiung Harbor has handled 300,000 TEUs. Companies and shipping firms have reportedly cut their operating costs considerably, as the per-container cost has dropped from $500 to $300. International carriers expect accelerated cross-Strait investment, higher trade volumes, and continued economic growth as a result this link. According to David Arsenault, general manager of Sea-Land Service Inc.'s Taiwan branch, export-service delivery—in which partially manufactured goods are shipped from China to Taiwan for fi-

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a large segment of their production to China.

According to Chin Chung, an economist at Taipei's Chung-hua Institution, by 1993 China had already accounted for 34.6 percent of Taiwan's offshore production of PC hardware, surpassing Malaysia's 29.4 percent and Thailand's 27.3 percent. The number of Taiwan PC subsidiaries in China grew from 35 in 1993 to 41 in 1995. In 1993, China accounted for almost half of Taiwan's offshore production of motherboards, and produced some 2 million monitors—more than 50 percent of Taiwan's entire offshore monitor production.

Major monitor makers Kuo Feng and Shamrock Technology plan to move at least two-thirds of their monthly production of 60,000 and 50,000 monitors, respectively, to China in 1999. Chin Chung estimates that monitor production in China could save these companies roughly 3 percent on direct labor costs and another 5 percent on indirect costs, compared with a 5 percent cost savings by producing in an ASEAN country. Considering the continued, worldwide price declines and thin profit margins for computer monitors, motherboards, and mice, even limited cost savings could mean the difference between keeping or losing orders for Taiwan PC makers and components suppliers.

In 1997, IBM increased its purchase of OEM products from Taiwan by 50 percent. In 1998, it opened a $3 million logistics center in Taiwan to serve the domestic market and other Asian markets. IBM and other major US computer companies may benefit from moves by their Taiwan suppliers to move production to China. Suppliers may be able to deliver components faster, and buyers may benefit from lower manufacturing costs. Indeed, Taiwan computer manufacturers have clustered in Dongguan, Guangdong Province, solidifying the city's role as a favored location for computer parts and components sourcing.

Besides building supplier chains across the Taiwan Strait, many US multinationals have taken advantage of Taiwan's strong manufacturing experience by transferring their Taiwan-based managers to their mainland operations. With their advanced knowledge of international manufacturing practices and extensive business experience, coupled with a common language, Taiwan managers have become highly valued by US-invested enterprises in China. And some US multinationals have begun to send their local PRC executives to their well-established Tai-

nal assembly, then exported from Taiwan—may experience a boom.

Direct shipping is also critical to Taiwan's Asia-Pacific Regional Operational Centers (APROC) plan, which aims to make the island a logistics and distribution base from which Western multinationals may enter and serve mainland and regional markets. McKinsey & Co. estimates that over 80 percent of Taiwan's APROC distribution market will involve China. Thus, APROC's full potential will not be realized without direct cross-Strait shipping.

Problems and Prospects

Despite potential economic benefits, cross-Strait shipping continues to be plagued by both political and logistical problems. The key political constraint on true direct shipping is that China considers cross-Strait transit a domestic issue, while Taiwan views it as an international one. The location of the mainland ports also discourages shippers, as access to other parts of China from Xiamen and Fuzhou is limited. Many shippers prefer to ship their goods to other, more centrally located mainland ports. Researchers at the Chinese Academy of Social Sciences estimate that these difficulties force up to 15 million tons of cross-Strait trade cargo to be transshipped via third ports each year.

Recently, however, prospects for expanded shipping contacts have improved. In August 1998, the Keelung Harbor Bureau, in Taiwan, approved China Ocean Shipping Co., the mainland's largest cargo carrier, to use its foreign-registered vessels to operate a route from the mainland to Keelung, and on to Hong Kong, Manila, and Wellington, New Zealand. In September 1998, China reciprocated by allowing three Taiwan carriers to transport cross-Strait cargo via a third port. Evergreen Marine Corp (Taiwan) Ltd., for example, will operate a route from Shenzhen's Yantian port to Hong Kong, Kaohsiung, Los Angeles, Oakland, Tacoma, Tokyo, Osaka, and back to Yantian. This new agreement enables carriers to transport cargo from both sides of the Taiwan Strait to the United States via a third port, without reloading cargo onto a different vessel at an intermediate stop.

Senior Taiwan government officials are also considering upgrading the Offshore Transshipment Center at Kaohsiung Harbor to a special economic and trade zone and expanding its warehousing and processing facilities. Under this plan, China could be regarded as a third area, like Hong Kong, and all ships (not just the foreign-registered vessels owned by the designated Taiwan and China carriers) could sail between Kaohsiung and mainland ports. If this plan is implemented, and low service rates remain in effect, cargo volume at Kaohsiung Harbor could double. According to one forecast, the PRC, Hong Kong, and Taiwan together could handle approximately 86 million TEUs by the year 2010, with China's share exceeding those of both Hong Kong and Taiwan. The combined total, much of which will come from increased cross-Strait cargo, would account for over 40 percent of Asia's total container cargo and about 20 percent of the world's total container cargo.

Cross-Strait politics may remain a hurdle to direct shipping, however. Plans to upgrade Kaohsiung Harbor, for example, depend on improved Taiwan-mainland relations. But pressure from companies involved in massive cross-Strait trade and investment will bring about true direct shipping sooner rather than later. High projected demand will require the opening of additional ports on both shores. It may not be long before the point-to-point shipping between Kaohsiung, Xiamen, and Fuzhou will become an extensive network of shipping nodes and nexuses involving Keelung, Taichung, and Hualian in Taiwan, and Shanghai, Tianjin, and Qingdao in China.

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wan subsidiaries to learn about advanced manufacturing management.

Greater China in the 21st Century

Though political tensions appear to be waning, challenges to a stable and business-friendly Greater China remain. The ongoing shift of production from Taiwan to China will continue to affect US multinationals' attempts to develop efficient production networks and supply chains across the Taiwan Strait.

From Taiwan's vantage point, Hong Kong, Taiwan, and China as an integrated business environment may facilitate implementation of the Asian-Pacific Regional Operational Center plan. Launched in January 1995, the plan aims to make Taiwan the hub for regional manufacturing, financial services, air and sea transshipping, telecommunications, and media, with China and Southeast Asia as vast hinterlands. Despite its obvious strength in manufacturing, Taiwan faces serious competition in financial services, telecommunications, and media from Hong Kong and Singapore.

Taiwan may have a competitive advantage in sea and air transshipping because of the island's central location in the Asia-Pacific region. It has the shortest average flying time to seven of the region's most important economic centers (Hong Kong, Manila, Seoul, Shanghai, Singapore, Sydney, Taipei, and Tokyo) and also the shortest shipping time to five of the region's main ports (Hong Kong, Manila, Shanghai, Singapore, and Tokyo). But when it comes to realizing these advantages, the absence of truly direct cross-Strait shipping links becomes a major barrier to efficient integration of transportation and logistic links critical to regional business operations (*see* p.12).

The success of US multinationals in Greater China will increasingly depend on their understanding of the important differences in the organizational cultures of the PRC, Taiwan, and Hong Kong. Taiwan managers running small, highly labor-intensive factories on the mainland tend to adopt an almost military management style, characterized by absolute control, rigid organization, and harsh discipline. This contrasts sharply with the more relaxed work place of China's state-owned enterprises.

With the establishment of larger factories that make more sophisticated products for export, Taiwan managers have been increasingly focusing on quality control and inspection, workforce training and development, and human-resource management, with an eye toward developing capable and effective mainland supervisors and managers. Although the shift from hierarchic, traditional Chinese management toward a more participatory management style may be slow, it will help US multinationals and Chinese companies on both sides of the Taiwan Strait to coordinate their organizations and operations in Greater China.

The expanding commercial links between Taiwan and China over the last decade have gone a long way toward economically integrating Hong Kong, Taiwan, and the PRC. As more US multinational corporations look to reorganize their operations to adapt to the Greater China environment, they face the inevitable question of how the political environment will evolve over the long term. So far, cross-Strait economic integration has unfolded as a gradual triumph of business over politics. 完

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