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Between Dependency and Autonomy – Taiwanese Entrepreneurs and Local Chinese Governments

Lee Chun-yi

Abstract: This paper focuses on the changing interaction between Taiwanese entrepreneurs and local Chinese governments. Through the analysis of this changing process, it can be seen that Taiwanese businesses are a special “asset” of Chinese governments. The main argument of this paper is that both central and local governments in China have strategic considerations in respect of Taiwanese businesses. The Chinese central government values Taiwanese businesses because more Taiwanese investment in China strengthens the Beijing government in negotiations with the Taipei government. Nevertheless, since the Kuomintang (KMT) (Guomindang) regained power in 2008, the strategic value of Taiwanese businesses in the cross-Strait relationship seems to have decreased. The central government has created a profitable macro-environment enabling local officials to give a warm welcome to Taiwanese businesses. Chinese local governments value Taiwanese businessmen not only because of the central government’s deliberate policy but also because they are pursuing their own self-interest. This paper firstly focuses on the changing interaction between Taiwanese businesses and Chinese local governments. It then further analyses the different but complementary interests of both central and local governments in China in relation to Taiwanese investors.

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Introduction

This paper includes six sections. The first provides background information on the three case-study cities: Tianjin is in the north, Kunshan is on the central east coast, and Dongguan lies in the south. The second section explains the main analytical framework of this paper. The third section discusses the strategic considerations that Chinese governments have in mind in terms of Taiwanese business people in China. Subsequently, the fourth section analyses the interaction between Taiwanese businesses and local Chinese governments over four distinct periods. Based on the changing pattern of interaction over these periods, the final section argues that Taiwanese businesses are useful “assets” for both central and local Chinese governments, and that the latter’s interaction with Taiwanese businesses is the result of rational choice.

Case-study Cities

This research does not focus on the statistics of cross-Strait trading volume; rather, it concentrates in depth on three case-study cities, Tianjin, Kunshan and Dongguan, and in so doing it aims to lay bare the mechanisms which are in place to deal with Taiwanese business people. The purpose of using three local governments as case studies is not for comparative analysis, but to show that under the central government’s broad policy of encouraging Taiwanese investment, different local governments have interacted with Taiwanese business people according to a coherent pattern; this has changed from a low to a high frequency of meetings, growing institutionalized interaction and Taiwanese investors’ increasing involvement in local politics. China is an enormous country; the reason for using these three cities as examples is to make this broad picture clearer. The cities are located in the north, east-central and south of China, but there are other specific reasons, apart from geographical location, that they have been chosen as the case studies in this research.

Tianjin is one of the four state municipalities in China under the direct jurisdiction of the central government. A neighbour to Beijing, it has always been known as the gateway to China’s capital. This unique geographical position has made Tianjin into the largest port city, a transportation hub, and a trade centre for the northern part of China (Tianjin People’s Government 2004). According to Rashid Malik’s research into local individual businessmen in 1991, the Tianjin officials at that time

actually acted conservatively towards entrepreneurs, and businessmen in Tianjin enjoyed few extra favours (Malik 1997: 12-13). As the director of the Tianjin Investment Promotion Bureau stated in 2004 (Interview November 11, 2004, Tianjin), the Tianjin government's policies towards both foreign and domestic investors completely follow the central government's stipulations. The reasons that the Tianjin government is less prone than other cities to offer businessmen benefits are that Tianjin is physically close to Beijing and that, because of Tianjin's provincial-level status directly under the central government's control, Tianjin officials are highly responsive to national policies (Duckett 1998: 52-53). As a result, the Tianjin government can be seen as a representative of the central government, and its interaction with Taiwanese investors hence has special significance. Taiwanese business people in Tianjin have mainly concentrated on manufacturing – for instance, electronics, engineering, food, furniture, rubber making, papermaking and bicycles – and they mainly focus on exporting. Total Taiwanese investment in Tianjin in 2009 was approximately 51 billion USD. Among all other foreign investments, Taiwanese investment is the fifth most important in Tianjin (Tianjin People's Government, Bureau of Taiwanese Affairs, Interview July 2, 2009, Tianjin).

Kunshan lies in the economic corridor between Shanghai and Nanjing and is well served by various means of transportation. It is sixty kilometres away from Shanghai Harbour (Kunshan People's Government 2004). As the city is situated so close to the municipality of Shanghai, the Kunshan government realized in the early 1980s that it was highly possible that Kunshan could be marginalized by the metropolitan Shanghai (Po and Pun 2003: 59-91). In order to compete with rather than be absorbed by the Shanghai municipality, the Kunshan government saw that it needed to offer investors even greater advantages. These "advantages" are cheap land and governmental service. The Kunshan government's basic approach towards business people is to "serve" rather than "govern" investors. As a result of the Kunshan officials' determination and enthusiasm with respect to attracting foreign investment, the small county developed a national economic zone of its own. Without national policy support and learning from the experience of the special economic zones (SEZs) in the southern provinces, the Kunshan government established the Kunshan Economic and Technological Development Zone (KETD) in 1985. In August 1992 the State Council upgraded the KETD to a national development zone, and so it became

the fifteenth SEZ in China (*Kunshan Ribao* 1994). For most Taiwanese business people, Kunshan still has great potential to compete with Shanghai, even though it is a small city, because of local officials' enthusiasm for collaborating with investors. Thus, the interaction between Taiwanese businesses and the Kunshan government demonstrates that the local government has used Taiwanese business people to fulfil its own interests, especially by cooperating with Taiwanese investors to promote the development of the whole locality. Taiwanese investment in Kunshan is largely concentrated in high-technology industries. Taiwanese investment accounted for 60.9 per cent of all foreign investment in the city in 2008. The registered Taiwanese investment in Kunshan until June 2009 was 170.9 billion USD (Kunshan People's Government, Bureau of Taiwanese Affairs, Interview July 8, 2009, Kunshan).

Dongguan is located in the Shenzhen-Guangzhou economic corridor in the Pearl River Delta of China. The Dongguan government benefited from its geographical location under two national economic development plans. The central government promulgated special measures for the Guangdong and Fujian provincial governments in order to attract foreign investment in 1979, and established SEZs in the Pearl River Delta, the Yangzi Delta, and the Minnan Delta in 1985. Under the central government's special policies, general foreign investment in these areas is tax-free for two years; following that period and once foreign investors start making profits, they receive a tax reduction of up to 50 per cent for the following three years. Specific investments, for instance, in high-technology industries or biological industries, and specific agricultural sectors enjoy even more tax benefits (Yeung 2001: 44). Due to these investment advantages, granted by the central government, the Dongguan government has benefited from waves of foreign investment from the mid-1980s on.

Due to the early economic openness in Dongguan, by October 2004 the number of Taiwanese commercial projects in the city had reached 5,258. Taiwanese companies in Dongguan represented 34.3 per cent of all foreign companies present. The joint Taiwanese capital and actual applied Taiwanese capital were 10 billion CNY and 6.76 billion CNY respectively. Taiwanese investment amounted to 27.3 per cent of all foreign economic investment in the city (Interview Dongguan People's Government December 20, 2004, all figures related to October 2004). According to official estimates, Taiwanese businesses in Dongguan accounted for one-tenth of all Taiwanese businesses in China, one-third of

Taiwanese businesses in Guangdong province, and one-third of all Dongguan foreign investors (Interview Dongguan People's Government December 20, 2004). Taiwanese businesses here focus on furniture and toy making, garments, plastics and general manufacturing. IT industries accounted for more than 70 per cent of Taiwanese investment. The amount of Taiwanese investment in the city was approximately 114 billion USD in 2008 (Dongguan People's Government, Bureau of Taiwanese Affairs, Interview July 22, 2009, Dongguan).

It can be suggested that Taiwanese capital is vital to Dongguan's economic development. Due to the outstanding amount of Taiwanese investment in the city, Chinese central officials have visited Dongguan frequently since the end of the 1990s. The case of Dongguan can be seen as a typical example of how local officials use Taiwanese investment as an asset to attract the central government's attention.

In a nutshell, the characteristics of Taiwanese investment in these three Chinese cities are small and medium enterprises (SMEs), export-oriented and generally demanding a huge amount of cheap labour.

Three Analytical Dimensions

It is difficult to analyse the Chinese government's decision-making process. The mechanisms and the various processes leading to these decisions are difficult to scrutinize, or they lack the publicity that characterizes governments in more democratic states (Lieberthal and Oksenberg 1998: 4-11). Such a limitation does not invalidate other approaches; for instance, Zhao Suisheng has pointed to two approaches for analyzing decision-making process in China. One focuses on the informal dynamics of the regime, looking at policy disputes and power contests among a few individual elites. The other focuses on the institutional setting. Scholars of this approach look into formal government and party organizations and analyse how formal decisions are made and implemented through formal bureaucratic institutions (Zhao 1995: 233). Differently from these two approaches, this paper uses three observable parameters to gauge changes in the interaction between Taiwanese businesses and the Chinese government. The three different yet interrelated dimensions provide a tangible basis for analysing the Chinese government's policies on Taiwanese investment.

The first analytical dimension is the frequency of meetings. From 1987 onwards, interaction between the Taiwanese business community

and the Chinese government has gradually increased. The rapid increase in the amount of Taiwanese capital pouring into the Chinese market has been crucial in increasing the frequency of meetings between Taiwanese businesses and Chinese local governments. More Taiwanese capital entering China represents more Taiwanese business people coming to China. As the type of investment has ranged from the traditional manufacturing industries to hi-tech and even real estate businesses, more opportunities for Taiwanese businesses to interact with the Chinese government have resulted. The increasing number of Taiwanese businesses in China over time has triggered these businesses' desire for more institutionalized interaction with local Chinese officials. Therefore, Taiwanese businesses meet with local officials not only in frequent, informal meetings but also in institutional meetings organized by Taiwanese business associations (TBAs).

The second analytical dimension is this institutionalization of interactions and contacts. With the increased number of Taiwanese businesses in China in the early 1990s, more and more Taiwanese investors believed that they needed to establish interest-based organizations in order to be able to exert more influence in negotiations with local Chinese governments. The first TBA was inaugurated in Beijing in 1990. According to an official from the Strait Exchange Association (SEF) in Taipei, there are now 111 TBAs in China assisting Taiwanese people in negotiating with Chinese local governments (Interview January 7, 2010, Taipei). Chinese local governments are empowered to assign one or two local Taiwanese Affairs Office (TAO) staff to each TBA as a deputy chairman or general secretary (*Jingji Ribao* 1994c). Therefore, there is at least one Chinese local government officer working in each TBA in one of these capacities.

However, it cannot be denied that the role of *guanxi* (Nee 1992: 1-27; Yang 1994; Wu 1997; Wank 1999) in the relationship between Taiwanese businesses and local government is still significant. As most Taiwanese business people observe, official forums are simply a channel through which they can become familiar with local government. The definition of official forum here is group meetings and thus does not include business people's private visits to local officials. It is difficult to measure informal meetings between Taiwanese businesses and Chinese local governments, because informal meetings could constitute any set meal or karaoke party (Hsing 1998: 4). Nonetheless, Taiwanese businesses' problems can be solved more efficiently if they know the "key

man” in the relevant local government. The combination of *guanxi* and institutional channels results in an unstable equilibrium in the interaction between Taiwanese business and Chinese local government, which will be another focus of the subsequent discussion.

The third analytical dimension is the influence of Taiwanese businesses on local governments’ policy implementation. It would appear that it is very difficult for Taiwanese business people to influence the policy-making processes of the central Chinese government. However, the unique position of Taiwanese businesses in China gives them strength to negotiate with Chinese local governments. Due to their frequent and institutionalized contact, Taiwanese business people seem to have more channels through which to express their opinions about, and thus influence, local government policy.

In order to thoroughly understand the changing pattern of interaction between Taiwanese businesses and local Chinese governments, these three analytical dimensions will be used as benchmarks in the following investigation of four different time periods. The rationale for choosing these three dimensions is that through more frequent meetings, more institutionalized interaction can be established, resulting in Taiwanese business people’s enhanced ability to influence local governments’ policies. Nevertheless, as can be seen for each period, the changing interaction between the two parties has not always followed this logic; this is the reason that this paper incorporates cross-Strait politics as an important variable in the interaction between Taiwanese business people and local Chinese governments.

The Strategic Value of Taiwanese Business People in China

The Chinese central government’s main goal concerning the cross-Strait relationship is to absorb Taiwan into China’s territory. In order to achieve this, the central Chinese government has adopted a “carrot and stick” strategy regarding the Taiwan issue. As the former Chinese foreign minister and second deputy of the State Council, Qian Qichan, quoting Deng Xiaoping, stated,

China has two hands to deal with the Taiwan problem: the right hand is peaceful reunification; the left hand is military resolution. China will endeavour to use the right hand to solve this problem. However, if the strength of the right hand is not powerful enough, the Chinese

government won't exclude the possibility of using the left hand (Qian 2004).

In 2006 the People's Liberation Army (PLA) had more than seven hundred short-range missiles targeted at Taiwan, and this number has increased by a hundred per year (Un-represented Nations and Peoples Organization 2006). Furthermore, the Anti-Secession Law of March 2005 confirmed the Chinese government's firm adherence to the "One China principle: Taiwan is part of China" (RMRB 2005a). If the military deployment and the juristic declaration are the concrete expression of the left hand as the "stick strategy", what is the tangible representation of the "carrot strategy" or China's "right hand" on the Taiwan issue?

Since the economic reforms started in 1979, China's Taiwan policy has entered a stage of pursuing peaceful reunification. The "Message towards Taiwanese Compatriots" represented China's general policy regarding Taiwan. In this official declaration from 1979, the Chinese government urged the Taiwanese government to open the "Three Direct Links", namely, direct mail, trade, and transport services across the Strait (Xu 2001). It can be argued that the Chinese government has constantly insisted on the "One China Policy", alongside the promotion of more civic exchanges and governmental or non-governmental negotiation across the Strait, since then. The spirit of encouraging greater civic interaction or welcoming more Taiwanese investment across the Strait was presented clearly in President Hu Jintao's 2003 speech, "Four points regarding the Taiwan Issue under the New Circumstance". In this speech, he insisted on the unchanged "One China Principle", promised to protect the interests of Taiwanese business people in China, and further expected Taiwanese people to urge the Republic of China (ROC) government to undertake peaceful reunification (RMRB 2005b). According to Zheng and Fook, Hu has adopted a different strategy from previous leaders regarding the Taiwan issue. They argue that Hu has paid more attention to the needs of people and that the softer or friendlier Taiwan policy therefore represents the masses' aspirations to welcome more Taiwanese investment in China (Zheng and Fook 2007: 63).

However, this paper argues that Hu's strategy is not totally innovative. His friendlier Taiwan policy has actually built upon his predecessors' ideological goal: peaceful reunification. Since the quest for peaceful reunification can be viewed as the Chinese government's unchanged "carrot strategy" on the Taiwan issue, the question that follows is why Taiwanese investors have been instrumental to this "carrot strategy". In

order to answer this question, we need to analyse how Taiwanese business people can enhance the central Chinese government's ability to achieve peaceful reunification across the Strait. In recent cross-Strait research, Booker Fann-Bey Liaw has defined the role of business people vis-à-vis government as having three aspects: surrogate, middleman and hindrance (Liaw 2003: 4). Liaw's research mainly focused on the mutual influence between Taiwanese business people and the Taipei government in terms of investment policy in China or South Asian countries. According to Parris Chang, the Chinese central government seeks peaceful reunification and emphasizes economic well-being. Chang further argues that Taiwanese investors in China are used as a political means by the central Chinese government (Chang 1995: 77). In accordance with the work of these authors, this paper would submit that the Chinese central government views Taiwanese business people as a source of foreign investment, a transmission belt between the Chinese central government and the Taipei government, and a pressure group with direct influence on the ROC's cross-Strait policy. The value of Taiwanese investors in these respects has informed the central Chinese government's strategy of using them to achieve its ultimate political goal.

As for the Chinese local governments, their uneven favours to Taiwanese investors have been described by an interviewee as follows:

If both an American company and a Taiwanese company violated the local government regulations, the officials will punish the American company immediately but for the Taiwanese company, maybe the officials are willing to negotiate (Interview November 11, 2004, Tianjin).

Hsing You-tien has discussed this flexible or tolerant attitude on the part of local Chinese officials towards Taiwanese businesses. She notes that local officials are willing to be more flexible in terms of policy implementation and are more eager to cooperate with overseas investors, especially those from Taiwan and Hong Kong (Hsing 1998: 128-141). But what are the interests driving local officials to offer much more beneficial opportunities for Taiwanese investors? It is argued that Taiwanese investment contributes substantially to local officials' interests in two respects: Taiwanese capital is an important fiscal and political asset for local governments.

Foreign investment, including Taiwanese capital, is valuable for local governments because of the evolving *de facto* economic federalism. China's fiscal decentralization was crucial to boosting local innovation to attract foreign investment and thereby accelerate market-oriented eco-

conomic reform (Chung 1995: 487-508; Solinger 1996; Breslin 1996; Hsu 2004: 568; Zeng 2007: 1-71). The reason fiscal decentralization is significant in this regard is because a system of separate contracting by the central and local governments was established through a reform of fiscal system in the 1980s: "Appointing revenues and expenditures between the central and local authorities while holding the latter responsible for their own profit and loss" was well known as the "divide-the-kitchen" policy of 1980 (Shirk 1993: 149-196). Unlike the previous system, which changed annually, this policy allowed provinces to determine themselves the amount of tax they would remit to the central government for five years (Oi 1992: 103). The whole system has gone through three phases of reform. The one which granted the local governments the most autonomy was launched in 1988 and allowed provinces, autonomous regions and self-governing cities (Shirk 1993: 167) to sign agreements with the Chinese central government regarding the percentage of foreign exchange retention (Minami 1994: 78). These policies created a revenue-sharing system and allowed local governments to negotiate a fixed amount due back to the central government. Different local governments had to remit different percentages of their revenue, depending on the status of local economic development. Not all the tax collected by the local governments needed to be shared with the central government; local governments were only required to share certain taxes (Oi 1992: 104-110). Nevertheless, the overall fiscal contracting system has led not only to a decline in the central government's fiscal capacity but also to a decline, to different degrees, in the local governments' financial and fiscal capacities. The central Chinese government therefore decided in 1994 to replace the fiscal contracting system with a tax-sharing system (Wang and Hu 2001: 215-236). This system included the taxes on state and collective industries. Local governments were permitted to keep all of the tax on private enterprises and non-tax revenues, such as their own numerous administrative fees. Local governments were able to use this part of revenue from enterprises freely. This is the reason that most Taiwanese businesses have from time to time experienced requests from local officials for donations for flood prevention and assistance following flooding or numerous administrative charges (Lin 1998).

Furthermore, the central Chinese government has granted special economic regulations for encouraging foreign investment to different local governments in different periods. The pioneers were the southern provinces, Guangdong and Fujian, in 1979; the next ones were the

coastal provinces in 1984. Then were the fourteen SEZs located in the Pearl River Delta, the Yangzi Delta and the Minnan Delta in 1985. The most recent ones were the inland cities and provinces in the 1990s (Cheung and Tang 2001: 97). Therefore, the central Chinese government has shared the responsibility of development with local officials by dividing the tax revenues and by granting preferential flexibilities, which have allowed the local governments more autonomy. To a large extent, it is the local government's own responsibility to promote local development. Those local governments that obtained preferential permissions from the central government at earlier dates welcomed more foreign investment because they could retain more tax. Those localities developed later are even more enthusiastic to attract foreign capital in order to reduce the development gaps. The competition among local authorities to attract foreign investment has become more and more intense. Many local governments have been willing to offer much better preferential policies than the central government's regulations in order to attract more investment. Because of this excessive competition among the provincial and county governments, local officials fulfilled Taiwanese investors' requests as much as they could in the early 1990s, especially in the southern part of China. For instance, an important Taiwanese businessman who invested in Dongguan says,

When we first arrived here in 1996, the road in front of our factory was very narrow, just two lanes. However, after we complained to the government, they broadened the road for us to four lanes. The local government also guaranteed to build us a hospital and post office around our factory (Interview December 22, 2004 Dongguan).

Even when local governments have needed to use local revenue to fulfil Taiwanese businesses' requests, they have usually still been willing to do so because in the long term the businesses' contributions have reciprocally benefited local government, in financial terms as well as in terms of political credit. This point leads to the next facet of the argument: Taiwanese investment has been transformed into a political asset for local government because of the growing importance of Taiwanese capital in supporting local economic development.

Economic development has been a benchmark for the central Chinese government to assess local officials' performance. As discussed in the previous section, the central government has granted preferential policies to different localities in different periods, a fact which also indicates that national policy support for local development has been dis-

tributed unevenly. For local governments, investment is also important in order to “make a good impression on the central government” (Interview November 30, 2004, Kunshan). Making a good impression on the central government is important for two reasons. Firstly, in terms of the broader public interest, it guarantees the whole locality, for instance, the county or the provincial government, a larger share of national resources, meaning the central government’s fiscal or administrative contributions to local development. Secondly, in terms of a narrower private interest, it supports local officials’ careers, that is, their progression into the central government.

The struggle to obtain more resources from the central government initially drove local governments to accumulate more credits by attracting more foreign investment. The strategy of the Kunshan government is a good example here. Under the Chinese government’s administrative system, Kunshan is the smallest county government under the prefecture city Suzhou’s administration. Nevertheless, because of the rapidly growing Taiwanese investment in Kunshan since the 1990s, Kunshan’s tax income is much greater than that of Suzhou. In 2006 Kunshan, as a county government, remitted the most tax revenues to Jiangsu province of all the prefecture cities or county cities in the province (Shen 2006). According to the director of the Kunshan Taiwan Affairs Office (TAO), 90 per cent of Kunshan’s tax income is due to Taiwanese capital (Interview November 30, 2004, Kunshan). Therefore, it could be suggested that Taiwanese investment has created a brilliant record for Kunshan in comparison with other county governments or even provincial governments.

This brilliant record has helped the Kunshan government to attract more attention from the central government. In 2003, when the central government held its annual meeting with the chairmen of the TBAs in Beijing, the Kunshan TBA’s chairman was seated nearer to the central officials than the Suzhou TBA’s chairman. The seating arrangement indicated that the central government valued the county government more than the prefecture city government because of the former’s economic development (Interview November 30, 2004, Kunshan). Furthermore, high-level central government officials have visited Kunshan several times; for instance, Prime Minister Wen Jiabao visited Kunshan in March 2004 (*Kunshan Ribao* 2004). By attracting the central government’s attention, the Kunshan government’s long-term goal is to be upgraded from the county level to the prefecture level. Establishing a

positive image through an impressive amount of foreign (mainly Taiwanese) investment is one means to achieve this goal. As the director of the Kunshan TAO has stated, “without Taiwanese businesses’ contribution, we would not have contemporary Kunshan”. In saying so, she also implied that the local government’s dependence on Taiwanese businessmen’s contribution in order to build Kunshan’s future (Interview November 30, 2004, Kunshan).

The central government’s good opinion of Kunshan has also provided opportunities for local officials intending to seek promotion. Although there has never been an explicit indication from the central government regarding the amount of foreign capital required for local officials to be promoted, there was clear evidence that coastal elites were increasingly moving up to the central Politburo after Deng Xiaoping’s reform era. These coastal provinces were the main areas to attract foreign investment in China. Under Jiang Zeming’s leadership (Gilley 1998: 115-125; Baum 2000: 15-33), 13 of the 24 members of the Politburo originated from five coastal provinces (namely, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong) and two state municipalities (Tianjin and Shanghai) (Millier and Liu 2001: 125-128). This reflects the fact that for Chinese local officials seeking career advancement, attracting more foreign investment is generally a possible strategy.

Suffice to say that from both a fiscal and a political perspective, foreign capital has not only enhanced economic development but has also become an important political asset for Chinese local governments. Among the foreign (or at least non-domestic) sources of capital, Taiwanese investment is more valuable for Chinese local governments for two reasons. First of all, if attracting foreign investment is a means for local officials to make a good impression on the central government, then the local officials need to target that foreign investment that is most valuable to the central government. As discussed in the previous section, the amount of Taiwanese investment may not be at the top of the table of foreign investment in China. However, the importance of Taiwanese investment lies in the central Chinese government’s strategic calculations regarding cross-Strait reunification. From this point of view, the importance of Taiwanese businesses cannot be matched by other foreign investors; thus the special importance of Taiwanese investors in local governments’ calculations. According to a Hong Kong investor, the Beijing government has decided on local officials’ promotions according to the amount of Taiwanese investment in the locality. Thus, most Hong Kong

investors have registered as Taiwanese investors in China in order to obtain more beneficial conditions (*Jingji Ribao* 1998).

Furthermore, Taiwanese business people in China are in a limbo situation. Although all of the Chinese investment regulations have explicitly classified Taiwanese investors as being equal to foreign investors, the Chinese government has defined Taiwanese investment in China as a “special domestic investment”. This latter definition was implicit in The Law Protecting Taiwanese Compatriots’ Investment: 15 Articles of 1994. As a result, Taiwanese investors are, on the one hand, entitled to reap benefits as foreign investors. On the other hand, they are able to utilize the domestic standard; for instance, they don’t need to pay extra fees when buying train or domestic flight tickets. Taiwanese businesses have access to citizen treatment (*guo min dai yu*) in China (*Jingji Ribao* 1998). As “special domestic investors”, Taiwanese business people are the most convenient non-domestic investors for local government to attract because of cultural affinity and a shared language.

In short, Taiwanese investors’ contributions to local tax income and the resulting enhancement of benefits from the central government, either for the whole locality or in terms of personal promotion, are the key interests of local governments. This study argues that because of these interests and the central government’s encouragement, local officials’ interaction with Taiwanese businessmen changed over the period from 1987 to 2009. Accordingly, the next section aims to further illustrate how and why the different interests of the central and local Chinese governments with respect to Taiwanese businesses have complemented each other. Another focal point is how these entangled interests have influenced both central and local Chinese authorities’ interactions with Taiwanese business people.

Four Analytical Periods

In order to provide a thorough analysis, this paper not only chooses three cities as case studies but also divides the period from 1987 to 2009 into four separate ones. The first period is from 1987 to 1993; the second from 1994 to 1999; the third from 2000 to 2004; and the fourth from 2005 to 2009. This last period demonstrates the greatest change.

1987 to 1993

The financial contribution of Taiwanese investment was the main interest of both central and local Chinese governments in this period, and this was reflected in the interaction between Taiwanese investors and local governments. Local governments in this period preferred to interact with Taiwanese businesses informally. Taiwanese investors believed that to know the “key man” in local government was important when starting a business in China during this period. Taiwanese businesses had no influence on local governments’ policies. Most Taiwanese investors complained that numerous local administrative charges hampered their investment in this period. Local governments’ cautious attitude towards organized Taiwanese associations explain the slow rate of development of TBAs in this period.

For China’s central government, Taiwanese investment represented a source of non-domestic capital at the beginning of this period. The government did not consider the strategic value of Taiwanese businesses. However, under some regulations Taiwanese investors were entitled to some investment privileges. For instance, in the early 1990s Taiwanese business people enjoyed better benefits than other foreign investors in the SEZs in Guangdong. Another example was land rent, which could be waived for ten years in the case of Taiwanese business people, whereas foreign investors were only granted a six-year rent holiday. In terms of tax breaks, Taiwanese businesses enjoyed a tax break of six to ten years, while most foreign investors only enjoyed two years tax-free and three years’ tax deduction at half the usual percentage (*Jingji Ribao* 1990a). Although the central Chinese government designed the regulations stipulating that Taiwanese investors were entitled to more benefits than other foreign investors (*Jingji Ribao* 1990b; *Lianbe Bao* 1992c), it was in this period mainly focused on attracting Taiwanese capital rather than on using Taiwanese investors to accomplish the political goal of reunification. Because the number of Taiwanese investors was small, the central government insisted on negotiating with Taibei at the governmental level rather than via other channels and was wary of foreign investors’ influence on the political domain. In other words, Taiwanese businesses’ economic significance had not yet spilled over into the political sphere.

Because the Chinese central government had not specially favoured Taiwanese investors, local governments welcomed Taiwanese investors mainly with a view to financial benefits. From this perspective, it can be argued that the strategic interests of Chinese central and local govern-

ments regarding Taiwanese businesses were tightly interlinked. Only after the central government began to consider Taiwanese investors as an important means for pursuing political reunification did local officials start to realize that more Taiwanese investment in the locality brought about more possibilities for them to receive benefits themselves.

Recognizing that the increasing amount of Taiwanese investment could have a spillover effect on its pursuit of political reunification, the central Chinese government changed its strategy at the end of this period. This change can be seen in the remark made by one member of the central government's Taiwanese Union in 1992:

The main principle of Chinese government is "*Peaceful reunification; One country two system*" [...] the purpose of attracting Taiwanese investment is to use economic strength for urging political reunification and to use civic conversation for enhancing official communication (*Lianhe Bao* 1992b).

This quote suggests that the strategic value of Taiwanese businesses was suddenly emphasized by the central Chinese government. A more detailed explanation of the central government's change in strategy regarding Taiwanese investors' value is the main focus of the section on next period.

The central government's changing attitude was reflected directly in the interaction between Taiwanese business people and local governments. For instance, although the frequency of interaction between the Tianjin government and Taiwanese businesses was low at the end of the 1980s, after 1992 the Tianjing government regularly held internal seminars to discuss the strategic value of Taiwanese investment and the central leader's ideology regarding cross-Strait reunification. According to the director of the Tianjin Commission of Foreign Economic Relations and Trade, Taiwanese investment has never been the main source of foreign investment in Tianjin (Interview November 14, 2004, Tianjin). Therefore, the aim of these seminars was to educate the Tianjin officials about the value of Taiwanese businesses not only as foreign investors but also as strategic assets for political reunification. In Kunshan, the local government prohibited Taiwanese business people from organizing an association at the beginning of this period. However, with more and more Taiwanese investment in Kunshan, and stronger appeals to establish an association, the attitude of the Kunshan government in relation to the TBA changed dramatically in the following period from 1994-1999. In Dongguan, Taiwanese business people started to use their TBA to

create more channels for negotiating with the local government. The fact that this was successful can be seen as a sign of the increasing importance of Taiwanese investors to local governments. The role of Taiwanese businesses gradually expanded from them being pure capital contributors to them becoming more valuable to local officials' other interests: acquiring more central government resources and personal career promotion. Therefore, as the central government's clearer strategy of using Taiwanese businesses to pursue political interests emerged, local officials began to perceive Taiwanese business people as more than merely foreign investors.

In short, the period 1987 to 1993 marked the start of interaction between Taiwanese investors and local Chinese governments. By the end of 1993 the strategic value of Taiwanese businesses had become more and more apparent – as reflected in the increasing frequency of meetings – and the establishment of more institutional channels was being discussed. The realization on the part of both central and local governments that Taiwanese businesses had strategic value led to more frequent and institutionalized interaction between local governments and Taiwanese investors, thereby creating more space for Taiwanese business people to negotiate local policy implementation in the next period.

1994 to 1999

During this period both the central and local Chinese governments realized that the importance of Taiwanese investors was not only due to their financial contributions but also other strategic interests. For the central government, more Taiwanese investment in China meant increasing leverage in the cross-strait relationship. For the local governments, Taiwanese investment gradually brought not only prosperity but also more recognition from the central government; this enabled the locality to obtain more fiscal or administrative assistance from the central government in local development and often helped local officials to secure promotions. Although international pressure on the central government to stop favouring Taiwanese businesses increased in this period, Beijing still implicitly instructed local governments to keep favouring Taiwanese investors through special flexibility, which meant offering Taiwanese investors support on a “case-by-case” basis (*Jingji Ribao* 1994b; Interview November 14 and 18, 2004, Tianjin; November 30 and December 9, 2004, Kunshan; December 20 and 23, 2004, Dongguan). The international pressure mainly arose from the criticisms of other foreign inves-

tors in China. For instance, in order to enter the World Trade Organization (WTO) in 2001, China officially declared that all preferential tax regulations for foreign investors, including Taiwanese investors, would be decreased in stages as of 2000 (*Jingji Ribao* 1996). China had been granted “normal trade regulation” status in 1980, but this status was based on annual assessments and China had been longing to obtain permanent membership status since then. In order to become a permanent member, China was obliged to offer all WTO members equal trade privileges. This commitment meant that China could not grant special privileges to any specific investors, including Taiwanese investors. In fact, the biased conditions in favour of Taiwanese investment were noticed and criticized by Japanese investors, who accused the Chinese government of offering many more tax benefits to the Taiwanese, including waiving the import tariff for Taiwanese enterprises (*Jingji Ribao* 1990b).

Therefore, in this period the central government gradually reduced the preferential policies for Taiwanese investors, or these preferential policies were modified in stages to become more egalitarian (*Jingji Ribao* 1993, 1995; *Lianhe Bao* 1993). The more vibrant development of this period corresponds to the development of the paper’s second analytical dimension, which refers to institutionalized interaction between local governments and Taiwanese businessmen. Most of the TBAs were established in this period. Furthermore, more regular and institutionalized channels for interaction, created either by the TBAs or through the efforts of local governments, emerged in the localities. The previously conservative attitude towards Taiwanese capital or towards an organized Taiwanese association was transformed into one of actively using or controlling these institutional channels.

Local governments’ willingness to cooperate with the TBAs was the key action that allowed them to establish more institutionalized interaction in this period. Two factors can explain this change in attitude. The use of institutional power to attract more Taiwanese investment was the first one. Taiwanese businesses in China tended to have the “cluster investment” characteristic; in other words, Taiwanese investors preferred to invest in a place recommended by other Taiwanese investors (Interview November 11, 2004, Tianjin; November 26 and 29, December 1, 2004, Kunshan). From the early 1990s on, local Chinese governments gradually realized that an institutionalized TBA could be a useful tool for advertising local investment conditions. Secondly, local governments realized that it would be more convenient to have central control of an

organization rather than to regulate individual Taiwanese investors. Two examples illustrate this point. First, the vice chairman or general secretary in each TBA usually came from the staff of the local TAO. In other words, local government assigned someone to function as a supervisor in the TBA. Second, before the establishment of the TBAs, local governments considered irregular Taiwanese informal or private group meetings as an uncontrollable threat to their authority. Organizing routine meetings with local officials was one of the main duties of the TBAs. As one or two staff in the TBA were affiliated with local TAOs, local governments received details of every meeting organized by the TBA. Most of the time local officials attended these meetings. Local TAOs' deep involvement with the TBAs reassured local governments to a large extent. It could be suggested that in this period local governments began to comprehend that open involvement in the TBA's activities brought them greater benefits than opposing the TBAs did.

This new approach of local governments, encouraging more institutionalized interaction with Taiwanese businesses, can be viewed as a calculated action resulting from rational choice. If local officials were only interested in financial contributions, informal meetings or *guanxi* would have been sufficient for interacting with Taiwanese businessmen. However, the central government tacitly encouraged local officials to be partial towards Taiwanese investors, and local officials seized the opportunity to obtain more benefits from Taiwanese investment. Therefore, local governments endeavoured to organize more trade forums, even specific trade forums focusing on Taiwanese industries. They changed their previously sceptical attitude toward the TBAs, because by supporting Taiwanese businesses' activities they could reap more benefits for themselves – for instance, attracting more Taiwanese investment by using the TBA as a convenient advertiser. Furthermore, local governments' participation in the TBAs also reduced the risk of any organized activities in opposition to governmental authority.

However, this acknowledgement of the strategic value of Taiwanese business people had not resulted in increased influence for Taiwanese businesses with respect to local government policies. Because the Beijing and Taipei governments still relied on the established semi-official channels, that is, the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS), for bilateral negotiations in this period, Taiwanese business people had not yet gained much influence on Taiwan's China policy. Therefore, the interaction between

Taiwanese business people and Chinese local governments during this period only reached this paper's second analytical level, the institutionalized level.

Similarly to previous period, a change in the interaction between Taiwanese business people and local Chinese governments could be observed at the end of this period. After 1999 Taiwanese investors suggested numerous innovations on the part of local governments. For instance, the Kunshan government learned from Taiwanese business people about the experience of building an export-processing zone. As of the mid-1990s the Kunshan government realized that Taiwanese investment in Kunshan was an effective tool to attract more administrative resources from the central government. The establishment of the Kunshan Export Processing Zone (KEPZ) came from a suggestion made by Taiwanese businessmen. The KEPZ obtained permission to be officially put into operation among the fifteen EPZs in China. The Kunshan government was able to impress the central government due to Taiwanese businesses' involvement with the local development plan (Interview November 30, 2004, Kunshan).

In 1999 in Dongguan, after lengthy negotiations with the TBA, the Dongguan government approved the first Taiwanese school on the mainland. The Taiwan Businessmen's Dongguan School was the first school to extend Taiwan's educational system to China, which meant that the teaching materials in Dongguan were similar to those in Taiwan (only a small portion containing sensitive political ideologies in the subject of history were deleted at the request of the Chinese government), and most of the teachers came from Taiwan. The establishment of this school was very complicated; it involved all types of negotiation with local governments and even the central government because of the sensitive teaching material (Interview December 23, 2004 and July 14, 2009 Dongguan). Nevertheless, due to establishment of this unique school, the interaction between Taiwanese business people and the Dongguan city government took on a more frequent and more institutionalized pattern. This evolution paved the way for the third period, in which Taiwanese businesses became more involved in the formulation of local government policies.

Through the establishment of the Taiwan Businessmen's Dongguan School we can also see the Dongguan government's rational choice. Although the issue of teaching materials was very sensitive, the Dongguan government granted the school permission to use teaching content

from Taiwan and employ mainly Taiwanese teachers. While the local government gave in with respect to the teaching materials, it gained the advantage of attracting more Taiwanese investors, which resulted in more recognition from the central government. This school also gave the central government officials another channel through which to broadcast their political ideology. For instance, the former chairman of ARATS, Tang Shu-bei (Tang Shubei), visited the school several times, on one occasion giving a speech about his expectation that the students their would be a bridge across the Strait (*Lianhe Bao* 2002).

2000 to 2004

In this period the central government realized clearly that Taiwanese businesses could be an effective tool or asset for it to enhance the prospects for reunification. Consequently, local government officials also comprehended that whether for their own career prospects or for the benefit of the whole locality, attracting more Taiwanese investment was their guarantee of a better future. Three points reveal how, from 2000 to 2004, the combined interests of the central and local governments influenced the interaction between Taiwanese business people and local governments.

Firstly, in 1998 the central government discussed in depth the creation of a favourable environment for enhancing the quality of cross-Strait relations. As previously discussed in the section on Taiwanese business people's strategic value, President Hu Jintao's expectation of the Taiwanese people was and is actually a consistent principle of the central government. Local governments accordingly received the instruction to initiate as much interaction with Taiwanese people as possible. The emergence of multilateral interaction provided evidence that local governments had implemented the central government's principle of "widening civic interaction". Local governments started to organize more activities in relation to culture, living or education for Taiwanese investors. Local officials aimed to create a favourable environment that attracted not only Taiwanese capital but also Taiwanese peoples' hearts and minds. By so doing, local officials indirectly encouraged Taiwanese investors to settle down with their families in China. As one member of staff at the Tianjin TAO who was also engaged in organizing the Tianjin MaZu Cultural and Tourist Festival stated, "[t]his activity helped us [the Tianjin government] to become closer to Taiwanese people in Tianjin. We are aiming to create a 'home' for Taiwanese people in Tianjin" (In-

terview November 18, 2004, Tianjin). The same expression could also be heard in Dongguan. The director of the Dongguan TAO claimed,

The Taiwan Businessmen's Dongguan School is our pride. We believe that by creating a safe environment for Taiwanese investors' second generation, we could retain long term Taiwanese investment (Interview December 20, 2004, Dongguan).

Secondly, due to the increased economic interaction across the Strait, more and more Taiwanese politicians visited China. Vincent C. Siew's (Xiao Wanchang) visit to Kunshan in 2001 is just one of numerous examples (*Kunshan Ribao* 2001): as discussed with respect to the first analytical dimension, Taiwanese social or political groups constantly visited Kunshan. Until 2004 Taiwanese politicians visiting China mainly focused on viewing Taiwanese investment in China (*Lianhe Bao* 2004). The Chinese government in fact welcomed more Taiwanese politicians to visit China. It stated clearly, "Beijing welcomes Taiwanese politicians who recognize the 1992 consensus on the 'one China policy' to visit China for talks on improving cross-Strait relations" (Zheng and Fook 2007: 68). From this declaration, it is evident that the Chinese government changed its strategy on pursuing political talks with the Taipei government. As discussed in the section on the period 1987 to 1993, the Beijing government initially insisted on negotiating with the government of Taiwan rather than any other civic parties or individuals (RMRB 1990). In 2007, the main goal of the Chinese government had not changed: it still stuck to its "one China" principle. However, it had changed its approach. Instead of insisting on talking exclusively to the government in Taipei, Beijing opened up to welcome all levels of Taiwanese politicians as long as they accepted the "one China" principle. The change in the Chinese government's views on this point totally reflected its rational calculations. Because the "government-to-government" negotiations had been postponed after the end of the SEF-ARATS negotiations in 1999 and the Democratic Progressive Party (DPP) government completely rejected the "one China" principle, the Chinese government turned to the other levels of Taiwanese politicians. In order to dilute the importance of the "one China" principle, most Taiwanese politicians used the inspection of Taiwanese investment progress as an excuse to go to China. As a result, Taiwanese investment in China became a camouflage for politicians from both the KMT and the DPP to interact with the Chinese government.

Thirdly, the central and local governments allowed Taiwanese investors to attend the local People's Congress (PC) or People's Political Consultative Conference (PPCC) meetings; this decision also arose from rational calculation. Although these two institutions are consultative rather than policy-making bodies, Taiwanese investors still claimed that this gesture reassured them that the Chinese government would indeed endeavour to take Taiwanese investors' opinions into account. One Taiwanese businessman stated,

The Chinese government is very pragmatic about developing the economy. The local PPCC did not just pay us [Taiwanese businessmen] lip service but also fulfilled our demands efficiently. Therefore we can see the sincerity of the Chinese government from this (Interview December 1, 2004, Kunshan).

For both the central and local Chinese governments, inviting Taiwanese investors to attend the local political meetings was intended to encourage them to identify with China.

In fact, the attempt to create pro-China sentiments among Taiwanese investors was not a new strategy on the part of the Chinese government. The long-standing scheme for awarding "honorary citizenship" was an early instance of it. For instance, a Taiwanese businessman awarded the "honorary citizen certificate" by the Tianjin government in 1992 stated,

I am honoured to accept this award. This is a glorious and important responsibility. I would cherish this honour and contribute more to Tianjin's opening development and economic infrastructure (Interview December 1, 2004, Kunshan).

Local governments shared the responsibility for developing the local economy with Taiwanese investors through this award. From the point of view of local governments this award can be seen as a way of symbolically domesticating the identity of Taiwanese businessmen. After accepting this award, Taiwanese investors are no longer *wai* (outsiders) anymore; they are *nei* (citizens). From an investor's point of view, to accept this award does not necessarily benefit him or her in the sense of asserting a specific national identity, but it allows the investor to gain more concessions from local governments, either for their businesses or with respect to their living conditions in China (Interview November 3, 2004, Tianjin). Therefore, it can be suggested that offering an "honorary citizen certificate" and inviting Taiwanese investors to local PCs and

local PPCCs have served the same purpose: to win Taiwanese business people's support for the Chinese government.

2005 to 2009

The period between 2005 and 2009 saw the greatest change, not only in the cross-Strait relationship but also in the global economic structure. These changes directly affected Taiwanese business people's interactions with local officials. Most of them state that their position of "privilege" ended in this period. Although Taiwanese investment was still important to local governments, Taiwanese businesses seem not to have had such easy access to local officials anymore. There are several issues worthy of discussion for this period with respect to the changing pattern of interaction between Taiwanese business people and local Chinese governments; the most crucial are competition with emerging local enterprises; labour issues; the global economic recession; and finally, the KMT's return to power in Taiwan.

In the first period discussed above, from 1987 to 1993, many Taiwanese businesses enjoyed initial benefits from local governments, for instance, tax rebates and low-cost land rentals. However, by the period 2005-2009, most tax privileges had been suspended. The famous "three waive; two in half" meant that once an enterprise started to make profits, local government would waive the business tax for the first three years and charge half the business tax in the following two years. Therefore, from 2004 onwards most Taiwanese businesses had already utilized this tax break. As for the land rentals, at the beginning, in order to attract as much Taiwanese investment as possible, most local officials agreed to offer Taiwanese businesses unreasonably cheap rent. Nevertheless, their agreements were unreliable, as a Taiwanese businessman in Dongguan complained in 2009:

The one [local official] who offered us this cheap land rental is now retired. We didn't sign any formal contract for this cheap rental because this price was settled through informal *guanxi*. Therefore when the new official comes in, we will have the problem to sign another contract with him or pay him more "fees" (Interview July 23, 2009, Dongguan).

In other words, Taiwanese businesses were not only losing their tax benefits but also had to pay more for land rentals in this period. This is

very different from the first period. The current Dongguan People's Government's vice-director of municipal Taiwan affairs stated:

We still have very positive interaction with Taiwanese businesses. Taiwanese investment is the most important resource of foreign capital to Dongguan. Nevertheless, we have to be more regulated and follow the central government's policies. "Three waive and two in half" tax benefits have a time limit, and this is applied to not only Taiwanese businesses but also to all other foreign investors. As for the land rental, we would like to have a more systematic agreement with all investors; therefore, all old agreements should be reviewed according to the current value of land (Interview July 22, 2009, Dongguan).

Under the circumstances, Taiwanese businesses therefore have to compete equally not only with other foreign investors but also with domestic investors. Most Taiwanese business people remarked that in competition with other foreign investors they might gain some trifling benefits because of their shared language and culture, but in competition with domestic enterprises Taiwanese businesses didn't have any advantages. One Taiwanese businessman in Tianjin said:

We actually helped domestic enterprises to emerge. Many excellent local cadres in my enterprises, after acquiring knowledge and skill, left my enterprise and started their own businesses outside. Once they accumulated more capital, we could not compete with them because they are local people, they could have the lowest expenditure and they have great *guanxi* with the locality (Interview July 2, 2009, Tianjin).

Taiwanese business peoples' difficulty competing with domestic enterprises increased due to two new challenges in 2008: a new labour contract law and the global economic recession.

Around the end of the 1980s, Taiwanese investments were mainly in traditional manufacturing. However, since the 1990s Taiwanese investors in China have no longer focused only on the advantages of cheap Chinese labour or natural resources. More and more big Taiwanese companies have come to China because a more sophisticated industrial environment has been created. When the Law of the People's Republic of China on Employment Contracts (hereafter referred to as the new labour law) came into effect on 1 January 2008, many employers in China started to panic about their human resource expenditure as this new labour law provided detailed protection for labour (Baker and McKenzie 2007). For Taiwanese businesses, this was the worst possible timing. As discussed above, most tax benefits ceased around 2004 or 2005, and

Taiwanese businesses started to compete with domestic enterprises at the beginning of this period. The implementation of the new labour law meant that most Taiwanese SMEs, which were benefiting from cheap labour, now faced a rather challenging situation. A Taiwanese businessman in Dongguan explained:

This new labour law increased our management expenditure. After the economic recession, we have less orders to maintain the original number of employees. We cannot even lay off people because we have to pay employees pension retrospectively to the time he or she was hired. Most of us are struggling to get over this economic recession (Interview July 20, 2009, Dongguan).

The new labour law and the ensuing economic recession therefore struck most Taiwanese businesses heavily in 2008. This raises a question: As Taiwanese business people interacted rather smoothly with local officials from 1993 until 2004, why would they not ask for extra help from those officials? The following quote from the section chief of the Economic Department at the Dongguan TAO sheds some light on this issue:

We already gave a lot of help to Taiwanese businesses. Nevertheless, in the current situation, we think that the most important task for Taiwanese businesses is to upgrade their skill or transform their industries. We welcome industries which are high-technology and low pollution; if Taiwanese investors are qualified by our standard, surely we would offer more benefits (Interview July 22, 2009, Dongguan).

This statement shows that Taiwanese investors are having a difficult time in China today. It can be argued that due to the economic recession, businesses are having difficulties everywhere and hence that Taiwanese businesses in China are facing similar difficulties as global investors. In the case of the new labour law, it is applied to all investors in China, including domestic and foreign investors. Taiwanese businesses are again having problems similar to those of other employers in China. The point under discussion here is the attitude of local officials towards Taiwanese businesses in the face of these two challenges. In the previous two periods (1994-2004) local officials made exceptions to facilitate Taiwanese investment. From 2004 onwards Taiwanese businesses have gradually come to receive “equal treatment” vis-à-vis other investors; the strategic value of Taiwanese businesses seems to have decreased. It is quite difficult to find direct evidence of this, though a coincident development may illustrate the current strategic value of Taiwanese business people in China.

On 22 March 2008, the KMT won the twelfth presidential election in Taiwan. This victory dramatically changed the cross-Strait relationship. One very important breakthrough in the relationship after the KMT came into power was the resumption of cross-Strait negotiations involving SEF and ARATS. After almost a decade, the leaders of both organizations met again in Beijing on 12 June 2008 (*Cross-Strait News* 2008). The resumption of negotiations was very significant for the cross-Strait relationship and with respect to the strategic value of Taiwanese business people for the Chinese government. As discussed above, during the second period (1994-1999) the importance of Taiwanese business people was based on the potential of their role as envoys across the Strait. After SEF and ARATS ceased negotiations in 1999, cross-Strait government-to-government contact relied on Taiwanese business people. The reason Taiwanese business people were able to be potential envoys across the Strait was that as of 1994 the Mainland Affairs Council (MAC) and the Ministry of Economic Affairs (MOEA) in Taiwan envisaged more and more Taiwanese businesses investing in China; they had invited the chairmen of the TBAs back to Taiwan three times a year to discuss their investment situation in China (Hsing 1994). In concert with the gradually decreased interaction between the SEF and ARATS, both governments began to place more value on the informal but existing channel: the regular meetings between the Taipei government and Taiwanese business people. In order to run their businesses in China, Taiwanese investors spent much more time in China than in Taiwan. Most of them only came back to Taiwan to meet with the Taiwanese government three times a year. Therefore, it can be suggested that Taiwanese investors interacted more with the Chinese government than they did with the Taiwanese government. The deputy chairman of the ARATS, Tang Shu-bei, stated explicitly in 2000 that the Chinese central government relied on the Taiwanese investors as their bridge to the government in Taipei since the negotiations could not be conducted via official channels (Peng 2000).

From 2008 onwards, however, there has no longer been any need for Taiwanese investors to act as envoys across the Strait. One Taiwanese businessman in Kunshan declared,

In the past, the function of the TBA was similar to a local Taiwanese consulate because there were no governmental representatives in China. However, after the SEF and ARATS began to interact again, the TBA became more like a normal association, and any issues related to politics have been dealt with by the SEF (Interview July 8, 2009, Kunshan).

Since the strategic value of Taiwanese business people has decreased due to the new political landscape in Taiwan, the Chinese government has gradually started to treat Taiwanese businesses like any other investor.

Conclusion

This paper has argued that the evolution of the interaction between Taiwanese business people and the Chinese government has resulted from the different but complementary interests of both central and local Chinese governments. For the central Chinese government, Taiwanese businesses have at times represented a valuable asset for promoting cross-Strait reunification. In order to protect their existing investments in China, more and more Taiwanese investors became envoys across the Strait for the Chinese government after the semi-official channels, the SEF and ARATS, ceased high-level governmental negotiation in 1999. As for local Chinese governments, the reason they favoured Taiwanese investment was not simply to follow the central government's instructions: local governments could also be rewarded for attracting steadily increasing investment from Taiwan with career advancement for individuals or increased resources from the central government. Therefore, attracting more Taiwanese investment was a practical approach to satisfying both the central and local Chinese governments' interests. The changing pattern of Taiwanese business people's strategic value for both the central and local Chinese governments can be seen in Table 1.

This article's findings suggest two things. Firstly, the central and local Chinese governments did not plan to use Taiwanese investors for strategic purposes from the very beginning. Taiwanese businesses' multifaceted value increased due to the changing cross-Strait relationship and the consolidation of democracy in Taiwan. The Chinese central government gradually offered more privileges to Taiwanese investors in response to these changes. Which is to say, the Chinese government chose the pattern of interaction with Taiwanese businesses that best suited its interests at the time. As explained above, the strategic value of Taiwanese business people to local Chinese governments increased simultaneously with the increase in their strategic value to the central government. The development of interaction between Taiwanese investors and local governments was chiefly a matter of increasingly frequent meetings in the first period from 1987 to 1993. From 1994 to 1999 the main development was the establishment of more institutionalized interaction be-

tween the two sides. After 2000 Taiwanese business people became involved in local policy implementation. From 2004 onwards, when the strategic value of Taiwanese businesses decreased due to the changes in the cross-strait relationship, especially after the KMT took over in Taiwan in mid-2008, Taiwanese business people received “equal treatment” from the Chinese government and were no longer privileged vis-à-vis other investors in the Chinese market. Since this was a gradual process, the division into four periods is not entirely clear-cut. In other words, it would be more prudent to argue that the Chinese government’s strategic calculations changed gradually over the years. The four periods help to distinguish the main developments within particular periods of time, but the changing pattern of interaction was a continuing process.

Table 1: The Changing Pattern of Taiwanese Business People’s Strategic Value to Both Central and Local Chinese Governments

	1987-1993	1994-1999	2000-2004	2005-2009
Central Government	Financial interest	Political interest emerged but still focused more on financial interest	Political interest became more important than financial interest	Political and financial interest gradually decreased
Local Government	Financial interest for local development	Financial interest for local development; the amount of Taiwanese investment was also important for local officials’ self-interest	Financial interest for local development; the amount of Taiwanese investment was also important for local officials’ self-interest	Taiwanese investment was still important; but there were more foreign investors for local governments to woo

Source: Author’s own compilation.

Secondly, from the pattern of interaction between Taiwanese business people and local Chinese governments, it can be seen that the importance of Taiwanese business people to local Chinese governments has mainly depended on Taiwanese investors’ economic capacity. For the central Chinese government, the political value of Taiwanese investors was more important during two particular periods from 1994 to 2004. For local Chinese officials, investors’ (not only Taiwanese investors but also other foreign investors) economic capacity is always the priority. During the period in which the central Chinese government recognized Taiwanese investors’ political value, local Chinese officials were more

welcoming of Taiwanese investment because a high amount of Taiwanese investment could pave the former's way promotion or attract more central government resources.

Nevertheless, with the change in political parties in Taiwan, Taiwanese investors began to have less political value to the central Chinese government because the Taipei and Beijing governments reinitiated communication in 2008. For Taiwanese business people, the KMT's victory in 2008 has had both pros and cons. On the one hand, the KMT's mainland policies are generally fulfilling Taiwanese investors' expectations, for instance, the opening of three direct links and the preparations to sign a comprehensive trade agreement between China and Taiwan, known as the Economic Cooperation Framework Agreement (ECFA), in 2010. On the other hand, Taiwanese business people now receive fewer privileges from the central Chinese government because Taiwan's mainland policies need less of a push from Taiwanese investors. The Chinese investment environment has become more challenging. The implementation of the new labour law in 2008 increased the cost of human capital, which directly affected many labour-intensive Taiwanese enterprises. Furthermore, the 2008 financial crisis also forced most export-oriented Taiwanese businesses to upgrade their industries from low-tech processing work to more research and development-oriented innovation. Due to the declining export demand, Taiwanese business people also started to explore Chinese domestic market. Considering these challenges, this paper therefore suggests that Taiwanese investors have had to upgrade their industries or change their industry types in China because they are no longer the Chinese government's "favourite investors". The general demand on the part of local governments that they do this, especially in the Pearl River Delta, has been growing even more strongly since the outbreak of the 2008 financial crisis. Taiwanese business people in China now have to compete not only other foreign investors but also, and most importantly, with domestic Chinese businesses.

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