Abstract

Recent cross-Strait tensions following Taiwan’s more assertive attempts at international recognition have raised the question of the viability of Taiwan’s strategy of divorcing its policy of ‘pragmatic diplomacy’ from its economic ambitions to achieve the status of a middle-level industrialised economy. This paper analyses the impact of cross-Strait tensions in the lead-up to the 1996 presidential elections on Taiwan’s real economy, financial sector and on economic flows across the Strait. The seemingly widely-held perception that the PRC is considerably more dependent on cross-Strait economic flows than Taiwan is on the PRC is then assessed by examining the degree of the PRC’s reliance on Taiwan’s trade, investment and technology flows, their relative magnitude and characteristics. In doing so, we conclude that Taiwan’s economic future is irrevocably tied to the PRC: an economic dependence, rather than balanced interdependence, that would seem to place a constraint on the strategies of pursuing greater national identity and international recognition. The PRC will continue to dominate much of Taiwan’s trade and investment policy, and increasingly its transport and communications policy. Stable political and economic relations with the PRC will be crucial to Taiwan’s plans to successfully transform its economy into a service-oriented one and its hopes to attract US and European multinationals as a gateway to East Asian markets, especially the PRC.

ECONOMIC RELATIONS ACROSS THE STRAIT: INTERDEPENDENCE OR DEPENDENCE?

Cross-Strait relations: a shift in strategy

Since the easing of cross-Strait relations during 1987–88, economic flows and exchanges across the Taiwan Strait have grown rapidly. The People’s Republic of China (PRC) has quickly become the largest destination for Taiwan direct foreign investment and, together with Hong Kong, the largest market for its exports. Initially, Taiwan adopted a cautious approach to the burgeoning economic flows, fearing that the PRC would develop political leverage if Taiwan became too reliant on PRC trade. Approved manufacturers were required to retain investments in Taiwan, with investment projects in the PRC not permitted to exceed a designated proportion of domestic investment. The government then tried to keep exports to the PRC below an arbitrary figure of 10 per cent but this figure was already exceeded by 1992. And as trade and investment continued to grow, the distinction between direct and indirect dealings became increasingly