Business Models at Crossroads: A Tale of Two Recent Commercial Mergers in Taiwan and Its Lessons

Chien-Chung Lin

Available at: https://works.bepress.com/chien_chung_lin/7/
Business Models at Crossroads: A Tale of Two Recent Commercial Mergers in Taiwan and Its Lessons

Chien-Chung Lin

Associate Professor of Law, National Chiao-Tung University, Hsinchu, Taiwan & University of Pennsylvania Law School, S. J. D.

2014/5/11
Table

I. Introduction ........................................................................................................................................... 3
II. Case One: The Missed Opportunity for Chinatrust and Its Repercussion ............................. 4  
   A. The Background of Chinatrust ........................................................................................................ 4  
   B. The Second Financial Consolidation and “Red Fire Case” ....................................................... 5  
   C. The Fallout ...................................................................................................................................... 7  
III. Case Two: The Dream of Media Empire of Want Want Group/China Times ................ 7  
   A. The Rise of Want Want Group and Its Bid for China Times ..................................................... 8  
   B. Expansion to Cable TV .................................................................................................................... 9  
   C. The Bid for Apple Daily, Next TV and Next Magazine .............................................................. 10  
IV. Economic Policy When Values Clash ............................................................................................... 12  
   A. Economic Policy in Taiwan ............................................................................................................ 12  
       1. Road of Transformation Since the End of World War II ......................................................... 12  
       2. Past Formula ............................................................................................................................... 13  
       3. Taiwan’s Own Take: From Settlers to Farmers ...................................................................... 13  
   B. The Liaison ..................................................................................................................................... 14  
       1. Business to Politics ...................................................................................................................... 14  
       2. Politics to Business, and Its Limits ............................................................................................ 15  
   C. Case Review and Issues .................................................................................................................. 15  
       1. Key Industries? ............................................................................................................................. 15  
       2. “Nothing to Lose” as the Flip-Side of “Nothing to Win” ......................................................... 16  
       3. Problems Remained .................................................................................................................... 17  
V. Conclusion: The Source of Growth and the Search for Next Generation’s Economic Policy 18

Keywords:

Business Combination in Taiwan, Economic Policy, Development Strategy, Media Horizontal Merger, Hostile Takeover
I. Introduction

Economic development (or “growth”) has long been considered the life-blood of Taiwan over the latest sixty years. In particular, the policy of encouraging mid-size private enterprises has been the backbone of economic policy during this period, which is not only a key economic strategy, but also plays an important role in maintaining social stability as well as social mobility by sharing the fruit of growth more evenly among its constituents.

Past success has strengthened the belief that economic growth is the solution to many, if not all, social problems in Taiwan. This belief is shared by policy makers on the one hand, and on the other hand it implicitly becomes a widely accepted norm among the public of this island. However, as the low-hanging fruit are slowly been picked, growth started to plateau in the mid-1990s. The changing economic landscapes force us to question this old belief, and pose a refined but more difficult question to both policy makers and the general public: where should the next generation’s economic policy take us? And what will this new direction cost?

This article examines two recent failed business merger attempts; both mergers were motivated by rare opportunities to expand in two rather competitive domestic markets. The first was a merger between two super-size domestic banks; the second involved a China-leaning businessman entering Taiwanese media. Both mergers ended in failure under strong opposition. The bank merger ended with several criminal indictments with over 30 million USD in missing funds as the heir of the owning family of the bidding bank received a 9-year-plus in prison sentence without parole rendered by the Taiwan High Court in 2012.

The second case presents a different story. China Times, a daily newspaper which played an important role in the democratic transition in Taiwan in the 1980s and received support from many intellectuals during that period, passed its control in 2008 from the founding family to a Taiwan-born business man who made his fortune running a rice-cracker business in Mainland China. The transaction in 2008 was triggered by the exits of the previous owner and its failed management under the pressure of digital media. The change of management was followed by massive lay-offs and the exodus of a large number of highly-recognized journalists. In 2012, the new owner of China Times, teaming up with other Taiwanese wealthy families, launched an attempt to take over the Apple Daily, the largest newspaper in Taiwan which at that time was owned by an anti-communist Hong Kong millionaire, and its affiliate magazine and cable TV channel. The announcement of the on-going takeover negotiation raised much concern and triggered tremendous negative reaction from the public. Finally in early 2013, the Fair Trade Commission issued a new guideline which applied stricter rules on the combination of media companies, and eventually the National Communication Council blocked the deal.

Both cases triggered legal criticism. Their ad hoc approach showcases the role that public perception played in pressing the government to intervene and stop the proposed transactions. However, as both cases presented no obvious contradiction to the legal precedents at that time, the principle of the rule of law and the law’s stability was compromised. The failure also added
to the government’s frustration in promoting growth through allowing more business mergers over multiple industries.

By examining the difficult position faced by the government and its inconsistent handling, this article argues that the fundamental issue in Taiwan now, in terms of economic policy, is to clearly identify its development strategy and adjust legal rules and public perception to align all relevant interests. Contrasting with the heavy-handed approach that government often adopt, another possible strategy is to stay completely neutral and let the market forces play out by themselves. Both strategies pose challenges by themselves. The former requires the government to bear the responsibility of failure in the public eye, a problem exacerbated by the growing gap between the speed of changes in an increasingly digitized world, and the slow and cumbersome nature of government intervention. The latter, to the contrary, bears no social engineering cost as there is no implementation at all. The government could possibly take less political backfire as it withdraws from the economic arena and allows the market forces to decide. The downside of the light-handed approach is that business may grow large enough to threaten social infrastructures. This article argues that the current government in Taiwan is locked into a transition as the second approach slowly becomes the new de facto. Government officials in Taiwan will have to face the question of whether to return to the first more active approach, which has been the modus operandi in the past half century, and if it is even possible.

II. Case One: The Missed Opportunity for Chinatrust and Its Repercussion

A. The Background of Chinatrust

Established in 1966, Chinatrust Commercial Bank (currently “CTBC Bank”) is a private commercial bank that operates in Taiwan and is founded by Koo family.\(^1\) According to their website, at the end of 2012, CTBC Bank “had a total of 147 branches in Taiwan, and 68 overseas and a total of 4,996 ATMs located across the island. CTBC Bank boasts NT$1.53 trillion in

---

deposits and NT$1.93 trillion in total assets— the most of any privately-operated bank in Taiwan.”

Its founder Koo Chen-fu was heir of a famous Taiwanese family, which has more than two hundred years of history in Taiwan and has been notably influential since the Japanese ruling period (1895-1945). Koo Chen-fu himself, born in 1917, inherited Koo family’s economic power after Japan returned its ruling of Taiwan to Republic of China. He successfully maintained close tie with Kuomintang (KMT), the ruling party of Republic of China in Taiwan from 1949 until 2000, and its high ranking officials despite the fact that his family cooperated with Japan closely before WWII. In 1990, Koo Chen-fu took the position as the first president of Straits Exchange Foundation, a private foundation with public authorization to act on behalf of the ROC government to conduct negotiations with China through its counterpart in China, the Association for Relations Across the Taiwan Straits. Being the highest delegation of Taiwan to China responsible for negotiation clearly simply illustrated the influence Koo Chen-fu and his family enjoyed in Taiwan, both in politics and economic affairs.

As family extended its reach, Koo Chen-fu passed down Chinatrust’s control to Jeffrey Koo, Senior (born in 1933, nephew of Koo Chen-fu) and his son Jeffrey Koo, Junior. Following in his uncle’s footsteps, Jeffrey Koo, Sr. was a successful business man who steadily built Chinatrust into the crown jewel among the Koo family’s various assets. He also led many innovations in banking industry in Taiwan. Not surprisingly, Jeffrey Koo, Sr. and Jeffrey Koo, Jr. also involved themselves in politics, as part of the family tradition of fostering business through politics.

B. The Second Financial Consolidation and “Red Fire Case”
In late 2004, under Chen Shui-bian’s second presidency, the ruling party DPP (Democratic Progressive Party) and its government launched a wave of financial institutions consolidation. At the time, the government primarily focused on the relatively large number of small size financial institutions (including credit unions), over-competition among mid and large size institutions in local markets, and low interest rate which led to the low profit margin of financial institution. There was also the lingering problem of the declining economic growth rate in the background. The primary goals of this wave of consolidations were to create three large financial institutions holding a minimum ten percent market share, halve the number of banks owned by governments and financial holding companies, and encourage at least one financial company to

---


Knowing the government intention and sensing a rare business opportunity, Jeffrey Koo, Jr. (then the vice chairman of Chinatrust Financial Holding Company and anointed heir of the financial holding company) secretly set up a strategic group and planned a hostile takeover of the biggest state owned financial holding company: Mega Financial Holding Company.

Mega Financial Holding Company had a newly appointed chairman who began in 2003 and was close to then president Chen Shui-bian. Jeffrey Koo, Jr., who had spent much effort in developing a cozy relationship with Chen Shui-bian’s family even before Chen Shui-bian successfully won his presidency in 2000, quickly understood that the chance to expand his financial empire in an already crowded Taiwanese banking market had arrived. Starting from September 2005, Koo and company executives, through a Hong Kong branch of Chinatrust, purchase structured notes from Barclay Capital HK. Later Koo and his executives instructed Barclay Capital HK to lock these notes in Mega Financial Holding’s share. By doing that, they controlled a sizeable stake in Mega Financial without triggering much attention. However, this purchase was carried out without the approval of the Chinatrust board. Toward the turn of 2005 and 2006, Koo and several company executives used NT$27.5 billion to secretly buy a 9.9 percent stake in Mega Financial through Barclay Capital HK.

A purchase of this size eventually attracted internal attention from Chinatrust. After discussing with their in-house counsel in order to avoid the grey zone of securities law and filing, Koo and other executives decided to transfer the holding of Barclay’s structured note to an unknown company “Red Fire,” which was controlled by Chinatrust HK staff and Koo’s brother-in-law, also an important executive of Chinatrust and right-hand man to Jeffrey Koo, Jr. To avoid attention, they completed this transaction through several layers of offshore subsidiaries. Later in January 2006 when Chinatrust’s board formally discussed and permitted a takeover action over Mega Financial, Koo and his company executives then instructed Red Fire to sell the holdings of Barclay’s structured note s, which forced Barclay to sell the corresponding stock of Mega Financial. In the meantime, Chinatrust started to buy Mega Financial’s stock off the open market. It happened to be the case at the time that Mega Financial’s stock was up slightly. By redeeming the structured notes, Red Fire was able to keep the difference in price of about NT$1 billion (US$30.47 million) after repaying the debt it owed to Chinatrust HK for the purchase of the Barclay notes. The profit was however left with Red Fire and was not shown in Chinatrust’s books or financial report.

As the news of the bid for Mega Financial surfaced slowly, magazines and newspapers started to question the creeping buy-in by Chinatrust and attack the close tie between Koo and Chen Shui-bian’s family, particularly Chen’s wife and son. Rumors began to spread which accused Koo of

---

using money left in Red Fire to bribe Chen’s wife and son. Under strong criticism, government agencies responded by initiating an investigation into the giant merger.

C. The Fallout
First in 2006 June, the agency charged with maintaining regulating authority over financial institutions, the FSC (Financial Supervision Commission), ordered a fine of NT$10 million to Chinatrust for violating the standard procedure in the series of transaction leading to the purchase of Mega Financial’s share. The FSC required Chinatrust’s board to pay back to Chinatrust the NT$1 billion loss suffered in the sale of Barclay’s notes to Red Fire. In late 2006, Koo fled to Japan to avoid criminal investigation and an arrest warrant was issued in response.

In 2007, the district prosecutor formally indicted Koo and his fellow managers. The charges in the criminal case were primarily the misuse of Chinatrust’s funds and the premature purchase of shares of rival Mega Financial Holdings. Red Fire and Koo made US$30.47 million in profit from the illegal trading and did not return the profit to the company’s shareholders, which harmed the Chinatrust and violated the principle of fairness in the local market. Despite some differing opinions in the legal nature, several criminal charges were pressed, including breach of fiduciary duty for personal profit, manipulating securities markets, and insider trading. The District court later in October 2008 found three Koo’s fellow managers guilty of breach of fiduciary duty and manipulation. The sentences that they received were seven years and two months, seven years and six months and eight years in prison respectively.

In 2008, after the guilty verdict of the three managers by the Taipei District Court, Koo returned to Taiwan. In October 2010, Koo was sentenced to nine years in prison by the Taipei District Court. During the trial, Koo admitted that he embezzled US$9.57 million out of Red Fire’s windfall to cover his financial donations to former President Chen Shui-bian and his wife in the period between 2002 and 2005 and remitted the remaining US$20.90 million to overseas units of Chinatrust Financial. In 2013 May, the Taiwan High Court also sentenced Jeffrey Koo Jr. to nine years and eight months in prison after finding him guilty of violating securities and banking laws, plus a NT$150 million fine, which mostly confirmed the ruling of district court.

III. Case Two: The Dream of Media Empire of Want Want Group/China Times
The story of Want Want group and its owner Tsai Eng-meng represented a different but equally interesting case which showcases the current political/economic situation in Taiwan and its changing dynamics with China in the latest fifteen years.

---

A. The Rise of Want Want Group and Its Bid for China Times

Want Want group’s predecessor, I Lan Food industries Co., was first established in Yi Lan County, Taiwan in 1962. In 1976, the current owner Tsai Eng-meng and his father entered and overtook the company. In 1976 and 1983, Tsai successfully introduced “Hot-Kid” and a series of rice cracker products in Taiwan, using the brand name of “Want Want” which later became a household name in the snack market.7

Tsai began his investment in Mainland China in 1989 with the name “Want Want” as a trademark and company name. His product lines, later expanded to dairy products beverages and other products, were received well in China. Want Want group first listed in Singapore in 1996 (delisted in 2007) and then listed in Hong Kong again in 2008. According to its website, Want Want China Holdings Limited was selected by Forbes Magazine as “Asia’s Fabulous 50” for consecutive four years, the 50 best publicly traded companies in Asia-Pacific region.8 At this point, Want Want group had become a food complex with 3.36 billion USD in annual sale and 56,000 employees.9

On top of its success in China, Tsai Eng-meng also initiated a series of investments back in Taiwan. In 2007, Want Want group bought an insurance company “Union Insurance,” which was facing financial difficulties with its owner being charged with asset tunneling. With the purchase cost of 1.5 billion NTD, Tsai became its 75 percent owner.10 This company is the number six largest insurance company in Taiwan with a market share of 5.71 percent, according to the data in 2013.11

By the end of 2008, Tsai Eng-meng launched another bid for China Times Group for 20.4 billion NTD. At that time China Times Group had two major local newspapers (China Times and Commercial Times) and two TV channels (CTI Television and China Television (CTV)) as its most important asset.12 China Times Group was facing substantial losses at that time as part of a long-


9 Id.(Data as of 2013)


term decline in revenue from advertisement for traditional print. Similarly, television programming has also been dealing with intense competition in Taiwan since the 1990s, as many channels joined the market forcing others to reduce their budgets (as well as the quality of programming) in order to stay afloat. The fact that China Times was a respected newspaper with history of quality journalism and its important role in the mid-1980s democratic transition made itself a desired asset in particular.

The bid for China Times Group did face extensive opposition at first. Buying newspaper requires no governmental review. However, Tsai Eng-meng’s success in China and his tie with Chinese high ranked officials triggered concerns about China indirectly influencing, or even overtly controlling one of Taiwan’s most important newspapers. There was also doubt as to whether the skill in managing a snack company could successfully transfer to running two national newspapers and two television companies. In reviewing the transactions regarding cable television company, the NCC (National Communications Commission) eventually cleared two television transactions with conditions in May 2009. But Tsai Eng-meng openly criticized these conditions as unfair, and named three commissioners of the NCC as unduly discriminating against him and Want Want group.

B. Expansion to Cable TV
Becoming the new owner of China Times put Tsai Eng-meng in the national spotlight and allowed him a much larger voice in affecting Taiwan’s public opinion. However, the exodus of elite journalists and substantial layoffs, following by a steep decline of readership/viewership and its pro-China and pro-Want Want tendency in presenting their news, made the change of ownership at China Times and CTI Television a very negative case to many journalists and observers.

After having a taste of being the owner of major local newspaper, the second step of Tsai Eng-meng’s expansion of his media empire was to enter the cable communication industry in 2010. CNS (China Network Systems) is the second Multiple System Operators in Taiwan, which has


14 For discussion on this event, see WIKIPEDIA, http://zh.wikipedia.org/wiki/%E6%97%BA%E6%97%BA%E4%BD%B5%E8%B3%BC%E4%B8%AD%E6%99%82%E4%B8%AD%E5%A4%A9%E4%B8%AD%E8%A6%96%E4%BA%8B%E4%BB%B6. (in Chinese)
operations in regions within northern and southern Taiwan with one million cable television
subscribers.\textsuperscript{15} CNS’s major shareholder at that time is a private equity firm \textit{MBK Partners} from
Korea. As it was reported in October 2010, the deal was structured as a 60% stake in CNS from
MBK for US$ 2.4 billion.\textsuperscript{16} However, the release of the news about CNS/Want Want deal led to
massive criticism. In seeking regulatory approval, Want Want/CNS experienced much opposition
in 2011. Many scholars and opinions challenged Want Want in public hearings held by the NCC
and urged heightened reviews from agencies including the NCC, FTC and the Investment
Commission of MOEA. After a prolonged review, in July 2012, the NCC approved this deal, with
twenty-five commitments to be fulfilled by Want Want and related parties and three
conditions.\textsuperscript{17} Among the commitments, the most important ones are to divest CTI TV, to turn
CTV’s news channel to non-news channel, and to set up news room autonomy for CTV’s
remaining news program. Upon the rendering of this decision, Tsai Eng-meng originally showed
signs of complying but later changed his mind. Instead he filed litigation to overturn of the NCC’s
decision in October 2012, and trusted his ownership in CTI to his friends as a means to meet the
required commitment NCC demanded while simultaneously seeking opportunities to re-open
the review process in January 2013. However, as NCC toughened its stand and rejected the view
that financial trust can meet the need for divesture,\textsuperscript{18} Tsai’s expansion to one of the largest
cable MSO in Taiwan faced another hurdle.

\section{C. The Bid for Apple Daily, Next TV and Next Magazine}
In late 2012, another major event in the wave of consolidation of news industry in Taiwan began
to form. The Apple Daily newspaper, Apple TV and Next magazine, all owned by Hong Kong
media magnate Jimmy Lai (Lai Chee Ying), were rumored as the targets of sale.

Jimmy Lai, a Hong Kong borne anti-Communist business man who focused on clothes retailing
before the 1989 Tiananmen Square protests, sold his clothing business and began his adventure
in the news industry. In 1990, he founded Next Magazine Hong Kong. After the success of Next
Magazine Hong Kong, he launched Apple Daily, a daily newspaper in Hong Kong, in 1995. Both
Next Magazine and Apple Daily are tabloid-style publication, focusing on both tabloid

\textsuperscript{15} Ting-I Tsai, \textit{MBK to Sell 60\% Stake in CNS TV, WALL. ST. J.,(Oct. 26, 2010, 12:01 AM)},
\texttt{http://online.wsj.com/news/articles/SB30001424052702304248704575574363216045110}.

\textsuperscript{16} \textit{Id.}

\textsuperscript{17} \texttt{http://www.chinapost.com.tw/taiwannational/national-news/2012/07/26/348880/NCCapproves.htm}

\textsuperscript{18} In 2014 February, MBK sought to withdraw the application to NCC for approval to transfer its stake to
Want Want Group. NCC maintained the decision about the application had been made and rendered,
therefore there is no room for withdraw in legal sense. Shelley Shan, \textit{Ruling on Want Want Group to
Stand: NCC, TAIPEI TIMES, 3 (Feb 13, 2014)}. \textit{Available at http://www.taipeitimes.com/News/taiwan/archives/2014/02/13/2003583405}. 
sensationalism and hard-hitting political and business reporting.\(^{19}\) Similarly, both are highly popular and business-wise sound in the reporting in Hong Kong. Lai decided to transplant his experience to Taiwan as he faced Hong Kong’s transformation after 1997 when it was returned to China. In 2000, he started Next Magazine Taiwan and later in 2003 Apple Daily Taiwan. Both first introduced tabloid journalism to Taiwan and soon became the most popular daily newspaper and magazine in the local market.

With the success of Next Magazine and Apple Daily in Taiwan, Lai decided to expand his media empire to television. In July 2009, Lai decided to put his long hope of entering the multi-media arena into practice and established Next Television Taiwan. Next Television focused on 24-hour high definition programming and aimed to transfer its influence from Apple Daily and Next Magazine to several brand new TV channels. In the beginning, Lai planned to set up five different channels in his Next Television, but in applying for permission from the NCC, Lai encountered strict scrutiny as many criticized the quality and taste in stories reported by Next Magazine and Apple Daily. After long negotiations and explanations, Next Television finally received their news channel permission in July 2011. But facing boycott by almost all local MSOs even after NCC granted its cable TV license, Next Television could not get their programs aired for most cable subscribers in Taiwan. The huge expense in producing HD programming and the time spent in getting permission further worsened Next Television’s financial condition. Finally, Jimmy Lai decided to sell Next Television around July 2012.

At first, the deal only involved Next Television. However, the transaction later expanded to include Next Magazine and Apple Daily in Taiwan as a sign of an all-out retreat from Taiwan for Jimmy Lai. The buying side of this transaction was led by Tsai Eng-meng’s son and several other important business persons.\(^{20}\) In November 2012, the buying group signed a preliminary agreement with Next Media to pay 16 billion Taiwan dollars, or $534 million, to acquire the publications.

The news about the potential deal prompted much concern as (1) the consortium was formed by several pro-China businessmen, and (2) Apple Daily and Next Magazine have been critical to Chinese government and Taiwanese government’s policy orientation toward China. Tens of thousands of protesters took to the streets in early 2013, warning that liberal media was being threatened and urged government to stop the deal. Faced with vocal public opposition,

---


regulators in Taiwan examined the deal with extreme care and took a tough stance.\textsuperscript{21} Regulation preventing the growth of media monopolies was proposed in parliament.\textsuperscript{22} Facing the strong opposition, the consortium eventually dropped the deal in March 2013. Next Television was later sold to another local media tycoon Lien Tai-sheng in August with a bargain price of $47 million USD, and Next Magazine and Apple Daily remain in Jimmy Lai’s control.\textsuperscript{23}

IV. Economic Policy When Values Clash

A. Economic Policy in Taiwan

1. Road of Transformation Since the End of World War II

Taiwan, like many of its fellow East Asian neighbors including Korea, Hong Kong and Singapore, had started an amazing journey of its industrialization which brought it to from technologically backward to relatively modern and affluent in the short period since the end of World War II. This process is carried out by the efforts from both the micro/firm level and macro/state level. However, as globalization extends its reach, more newly industrializing economies (NIE) start to compete for larger market shares and countries like Taiwan, willing or not, need to find a different way to continue its growth in the 21st century.

To understand the economic challenge Taiwan faces now or will face in the next decades and its solution, it is useful to review how it dealt with old challenges and achieved the economic growth it did in the past. What has worked in the old formula and why it worked may not only provide hints to the right answer, but also indicate how collectively people on this island will choose to act. By looking back, we may see more clearly the path through the future.


12
2. **Past Formula**

In terms of how or why Taiwan and other East Asian countries like Korea, Hong Kong and Singapore achieved their economic success during the period from the end of World War II to the turn of millennium, there are multiple theories. Two groups of theories are often cited. The first one, called “accumulation theory,” credits the high investment rate in both physical and human capital in East Asian countries and attributes the better economic growth to saving and investment in education. Low consumption and high investment lead to a larger total return, which paved the way to long term economic growth in this area.\(^{24}\)

The competing theory suggests that the economic growth derived from technology assimilation. Countries learn and acquire knowledge from more advanced countries and by doing that, they accelerate the learning process and related costs. Simply put, imitation was the driving force which led to growth in this period, and learning, entrepreneurship, and innovation that occurred in these countries are extremely important in bringing the economic growth in their own right.\(^{25}\)

Regardless of one’s theoretical alignment, the fundamental driving forces are likely to be interrelated. In a more detailed way, how open a country is to foreign knowledge and its learning ability, how responsive it is to competition for export markets, and how effectively the knowledge is disseminated and transformed to productivity, are all important to the outcome.\(^{26}\)

In reaching a conclusion, a country like Taiwan needs to review their past experience in a more careful way and avoid taking a one-sided view in indentifying how it achieved its past success.

3. **Taiwan’s Own Take: From Settlers to Farmers**

Despite many similarities, Taiwanese experience differed in several ways from other Asian nations. To begin with, the spirit in Taiwan was described (in a general sense) as “adventurous”, “descendants of pirate, rogues, and homeless” and “short-termism,” which can be traced back to around 1600 AD. People sometimes cite the success of Taiwanese small and medium enterprise after WWII to this attitude as small businesses quickly adapt to the fast-changing environment and are able to sell their products to any corner of the world even by going door-to-door.

In the Japanese era (1895-1945) the mentality of adventure was replaced. Social orders were strictly required by Japanese government and different opinions were suppressed. Under Japanese ruling, Taiwan experienced a relatively stable status. Production was re-focused to export-oriented agriculture, which took features from modern manufacturing to various extents but at the same time the maintained some important cultural aspects of traditional agriculture.

---

\(^{24}\) LINSU KIM & RICHARD. R. NELSON, INTRODUCTION, IN TECHNOLOGY, LEARNING, & INNOVATION: EXPERIENCE IN NEWLY INDUSTRIALIZING ECONOMIES 2 (2000).

\(^{25}\) Id. at 2-3.

Fifty years of effective ruling put part of this “desire for order” into the blood of the Taiwanese people, which dramatically departed from its old spirit.

Later on after the end of WWII, a very large number of government related people migrated from the mainland to Taiwan, which again changed the course of this country’s development and the perspectives of people thereof. On the one hand, the then mission to “re-unite” China exerted much emphasis on social stability, which eventually led to oppressing civil rights, political participation, and the free will of the people. On the other hand, as a small island without many natural resources, people were encouraged to focus their energy on the economic sector. The wall between politics and the economy–politics for mainlanders and economic affairs for non-mainlanders, to be specific–formed a distinctive feature in the mentality in Taiwan, which in turn determines the way people view politics, economic affairs, and their social life.

**B. The Liaison**

1. **Business to Politics**

For businesses, the applicable rule in Taiwan used to be rather simple: contracts are made by the consent of two sides and the highest bidder wins. In addition, some “silence” or “blessing” from high government officials or even the government head might be needed. As people enjoy a comparative larger room in the arena of business affairs, businesses basically focus more on making money for their own good. Public perception rarely plays any part in the formula. However, in the two cases aforementioned, public perception and the pressure it creates did play a determining factor in the failure of these commercial mergers. Interestingly, this tendency, if continues, may quietly change the mentality among Taiwanese business people and move business decisions into a grey zone where multiple factors must be effectively balanced in order to execute a deal.

Traditionally, Taiwan had a somewhat unspoken idea which encouraged the separation of politics and business. This idea is not only the product of political decision-making, but also has an economic rationale. For the political side, the KMT’s almost fifty years of one-party ruling, which successfully excluded local business owners from participating political decisions, had lead government to divorce itself of business’s influence, believing this separation can lead to a more neutral, unbiased decision making process. For the business side, separation allows for focus on economic activities and business competition only, which eventually leads to better efficiency and lower rent-seeking behavior. This understanding became mutual and successfully continued for a long period of time, until mid-1990s.

---

27 An useful illustration of Taiwan’s economic development strategy can be found in Tun-jen Cheng’s *Political Regimes and Development Strategies: South Korea and Taiwan*, in *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (ed. by Gary Gereffi & Donald L. Wyman) 139 (1990). Cheng in particular discusses the parallel of, and division between, politics and the economy in post War Taiwan, id. at 143.
What changed since the mid-1990s is the emergence of business people in political arena. Rent-seeking obviously is the most important motive for this behavior. Similarly, political leaders embraced this idea as they need business’s support in multiple elections as democracy spread. However, what we observed in the two cases mentioned were that the public perception (either anti-rich or anti-China, or both) directly or implicitly changed the political or judicial decision-making, and eventually led to the termination of deals, which might have been possible if both sides of the transactions could have reached agreement. But the introduction of public perception and its political impact into business transactions can be ambiguous, leaving more non-economic factors compounding in the economic decisions.

2. Politics to Business, and Its Limits

Political settings are deeply embedded in the business environment and its development, either at the micro/company level or the macro/industry level. This relevance becomes obvious when the modern state expands its reach to the various aspects of domestic economic activities. Consequently, state’s interference can change a company’s strategy.

This intervention serves several motivations. Often mentioned are policy maker’s determination (out of self-interest or public interest), public sentiments, pressure from business competitors, or even foreign government pressure. To business owners, intervention is often less welcome and is often considered unjustified. “Economic freedom” and “efficiency” are standard reasons cited by resistant owners. However, the verdict lies with the weight of competing interests. The result of the struggle, in a functioning democracy, will set the tone of policy.

Surely political interventions can backfire. However, if a country still possesses its comparative advantages, frustrated business owners will remain in the domestic market, though it may weaken the willingness of business owners to continue their commitment in the domestic market. Continuous investment is necessary to keep local economy moving, which in turn will spread the fruit of growth to a broader population base, and pave the foundation for future development. In sum, in a global economy where trade is liberalized and the financial system is efficient enough to help capital and physical asset move to escape domestic political interventions, political intervention face a heavy handicap in limiting business who wish to remain unregulated.

C. Case Review and Issues

1. Key Industries?

General observation aside, banking and media, as noted in this article, have several crucial features which distinguish them from other industries. Banks connect and support all economic activities, and therefore become indispensable to all business. Further, the sheer size of large bank holding groups makes themselves a formidable presence as economic participants. Media affects people in a more direct way by determining what information people receive, and by shaping public perception and opinion. Media is not only by itself a money-making machine when it succeeds, but the gigantic political influence it wields means it is coveted by many
capitalists who seek to translate political influence into cash. With these features in mind, the heightened scrutiny from the public and government over bank mergers or media consolidations are reasonably expected, as well as the fallouts of these two business takeovers. But when these two takeovers are stopped by governmental interventions as the public raises more questions, the real issue turns out to be: what will happen to these companies next?

Blocking pending mergers may be a great success to many. But two questions remain unsettled: first, are we going to stop any similar mergers regardless of who initiates these mergers and of the merits of these business decisions, or will we decide whether to bless a deal or not according to the identity (or social image) of the people who are involved in the deals? Second, if by the operation of the current reviewing process the subjective characteristics do matter, does it constitute discrimination and can it be justified by the “rule of law”?

From the government’s perspective, discerning the merit of a business deal can be an extremely difficult task. Moreover, when the power in deciding the make or break of a business deal concentrates in the hands of government, it could increase chances of either cronyism or arbitrariness, which are nightmares to the general public as they tie economic performance to owners’ political ties. The market solution again shows its appeal by the premise of better stability. The key issue then falls on the inertia of customers and how likely market forces and united citizens can adequately discipline business owners (for example, bad newspapers or news program). This ultimately relies on the self-awareness of citizens and the dynamics between the public and business in actual circumstances. To sum up, the ideal allocation of decision power and public participation in large scale business transactions is a function of market forces, which are to some extent equally unreliable and often in flux.

2. "Nothing to Lose" as the Flip-Side of "Nothing to Win"

In contrast to the strong post-war faith in economic growth across almost all administrations in Taiwan, another trend has started to loom larger since the 1990s and has become apparent in the last decade. First, when facing a plateau of economic growth, people have begun to look at aspects other than growth, such as environment, culture and the quality of life in a general sense. These alternate values have begun to gain more weight and have slowly become part of the new ideology. This "anti-growth" sentiment develops into the main theme in the latest two decades in Taiwan.

Second, as the economy grew and economic order gradually solidified, the mobility of social classes came to a halt. Particularly, the high-tech boom faced its own adjustment in 2001, both liberal art students and science-technology students have been facing slow growth in salary and comparatively dismal prospects in their future career. For the middle stratum of the social pyramid, they seek consolation from things other than work as they deem their future as rather stagnant. For the bottom tier, long time dismay transforms into resistance and opposition. For

the top, however, diversification of investment globally and the ability to take advantage of their position to make more money out of the system are not only business as usual, but also a counter-measure to the resistance and apathy they encounter from the general society. No dialog or true deliberation is taking place. Nor is new social engineering of this time.

In that sense, the mentality of “nothing to lose” slowly takes root. The less resourceful class slowly gain support from the middle class as the middle class considers they are in a “middle” situation: roads are “ok”, tax are “ok”, energy bills are “ok”, education is “ok”, justice is “ok”, air and salary are less than fine but are still “ok”. Social welfare and safety nets are all in place and functional. Under these circumstances, people cannot find things “clearly” wrong to fight against and became inert. They on the other hand also lose direction in what to do next. This powerlessness is even truer in an economy measured by millisecond transactions and unprecedented connectedness among all governments and market participants than it ever before.

The lack of support from the public in the two cases discussed here thus becomes understandable. When social mobility is on the deficit, the middle class will shift their support and leave business owners fighting their battle alone, as the non-owner, non-salary class has nothing to lose in opposing any business change, which is not likely to be in their favor in most of the scenarios anyway. But what actually happened in Taiwan was that the middle class and public opinion clearly chose to side with the opposition in these two mergers and together opposed the rich preventing them from becoming even richer.

3. Problems Remained
From the perspective of economics, the inefficient business structure remains inefficient, if not getting more inefficiency, after the takeovers fell apart, as we generously assume the highest bidder represents either better economic resource allocation ability or the maximum wealth transferred to the seller. Put differently, when the deals failed, all participants of both businesses are still stuck in their original position without an exit they wish. Using the two largest but failed business takeovers in recent years, this article shows a standstill in Taiwan and its lessons. In searching for the next growth engine, expansion through traditional merger seems unlikely in Taiwan under the current social and political atmosphere, especially when the businesses involved are in the sensitive industries like media and finance. To that extent, a slower growth rate can be expected as the growth that can be achieved from innovation in production and its improved efficiency faces its limits. However, from business perspective, it is easier to grow from the scale of economy when the internal dimensions of growth, such as scientific development and population growth, faces stagnation. If this is true, the current path of expansion seems likely to continue in the foreseeable future before a substantial structural economic transformation can be completed in Taiwan.
V. Conclusion: The Source of Growth and the Search for Next Generation’s Economic Policy

As a whole, the outcomes of the two merger attempts discussed above are a small but telling piece of a larger puzzle of Taiwan’s economic future, and possibly its strategic plan. As the traditional method for economic growth tops out, the hope to maintain its old rate of GDP growth must either to be modified accordingly, or alternatively the state and the public must find a way to compensate the loss collaboratively. Innovation and economy of scale lead to economic efficiency, and as a result are generally considered main sources of economic growth. Logically innovation needs to fill the gap as in a traditional sense if economic expansion is low on the list of options.

The desire for economic growth, and the effort behind it, cannot be ignored in any society. Taiwan is clearly no exception, and it is obvious especially when considering its historical path. The competition between opposing values, as highlighted in the case studies presented here, challenges the old way of thinking, forcing the government to reassess its priorities even as it tries to balance the pressures of each side. By plan or accident, Taiwan has stepped onto a new path in its 400-year history of economic development, which focuses less on economic freedom and more on populist perception about what is correct for society. In particular, the role that government had take as a relatively passive player in these events, such as when it implemented a policy based on unfiltered public perception, is rather interesting. It is still early to see whether this approach will become a new mode in the future at this point.

If history does teach us a lesson, the inclination born out of the post-war development history of Taiwan, which shows a strong preference for growth, does tell a different story. With that in mind, a passive approach, along with a less clear industrial policy and indecisiveness, is not likely to stand through the next wave of challenges in the fast-changing economic world. Detailed policy aside, both citizens and government will still need to choose between a low but even economic growth and an uneven playground favoring big owners as an economic policy. This is a battle between two ideologies, and history will tell which side will triumph in the long run.