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# Poisoned Milk and the Poisoning of Democracy: Some Cautions about China Trade and Taiwan Sovereignty

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# Poisoned Milk and the Poisoning of Democracy: Some Cautions about China Trade and Taiwan Sovereignty

By David Kopel<sup>1</sup>

Over the last three decades, Taiwan has grown into a vibrant democracy; during this period, trade and investment restrictions with China were greatly loosened. The administration of Taiwan's new President Ma Ying-Jeou (馬英九) has begun further liberalization of economic relations with China. This Paper examines some of the benefits and dangers of Taiwan's deepening economic ties to China.

In brief, the expansion of cross-Strait economic relations has benefited Taiwan economically, but may pose serious dangers to Taiwan's democratic sovereignty. China's rising Comprehensive National Power—which aims to suppress Taiwan's sovereignty and self-government—has been significantly enhanced by investment from Taiwan itself. China's trade policies are directed for political purposes, particularly for drawing the people of Taiwan into a subordinate relationship with the Chinese dictatorship.

China's strategy has already succeeded in imposing self-censorship on many Taiwanese voices, including many businesses and more and more of the media, and in forcing Taiwan businesses with Chinese investments to support Beijing's agenda.

To address the problem, Taiwan should make sure that all trade policy decisions are made with long-term security considerations foremost. With security as the prime consideration, Taiwan should consider the following policy approaches:

- Continue to expand in-bound tourism from China, and follow through on plans to allow Chinese students to study in Taiwan. Both

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approaches can help the people of Taiwan change the hearts of the Chinese people—a crucial step towards Taiwan’s long-term survival.

- Do not expand the list of currently allowed imports of any Chinese products intended for human or animal consumption. The poisoning danger is too high, and no system of inspection can provide sufficient safety.
- Reform the new lobbying law so that it does not prevent face-to-face meetings between Taiwan government officials and non-Chinese foreign businesspeople.
- Take all possible steps to promote trade with Taiwan’s non-Chinese regional neighbors. Look for ways to orient Taiwan’s Foreign Direct Investment (FDI) away from China and towards India.
- Dramatically reform Taiwan’s overgrown regulatory system, which greatly impedes business formation in Taiwan.
- Require that all new Taiwanese FDI in China go exclusively to businesses which allow workers to elect members to a council which will present workers’ concerns to the management. This reform may help promote democracy and civil liberty within China, and thus enhance Taiwan’s security in the long run.

## **I. Cross-Straits Economic Relations and their Consequences**

### **President Ma’s liberalizations**

During the presidential election campaign of 2008, Kuomintang candidate Ma Ying-Jeou made the expansion of economic relations with China one of the key planks of his platform. Accordingly, the current reforms being implemented by the Ma government represent a legitimate choice of the freely-expressed will of the people of Taiwan.

In financial terms, perhaps the most significant change has been relaxation of investment limits in China. Previously, a Taiwan company had been allowed have no more than 40% of its net worth invested in China. The Ma government has raised that figure of 60%, effective August 1, 2008.<sup>2</sup> The

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<sup>2</sup> The previous cap was 40% for the first five billion New Taiwan dollars in capitalization, 30% for the capitalization from 5 to 10 billion, and 20% for any portion of capitalization above 10 billion. Pasha L. Hsieh, [\*China-Taiwan Trade Relations: Implications for the WTO and Asian\*](#)

cap was eliminated entirely for Taiwan-headquartered subsidiaries of multinational corporations.<sup>3</sup>

The loosening of restrictions on Taiwan companies which operate in China allows more companies to be publicly traded on the Taiwan Stock Exchange (TWSE), and to use the money from Taiwan equities for investment in China.<sup>4</sup> Liberalization advocates hope that the new policies will reduce the practice of setting up a new, ostensibly non-Taiwanese company in Hong Kong to raise money on the Hong Kong stock exchange.

In addition, the Executive Yuan Council (內閣) has approved a proposal to allow Taiwan mutual funds to invest up to 10% of their assets in China; there would be no limit on mutual fund ownership of Chinese companies which are traded on the Hong Kong Stock Exchange.<sup>5</sup>

Within Taiwan, the Taiwanese currency—the New Taiwan Dollar (NTD, 新臺幣)—and the Chinese Renminbi (RMB, 人民幣) are now fully convertible.

Some other items on the Ma liberalization agenda include ending certain restrictions on the use of Taiwanese technology in China, the relaxation of restrictions on Chinese investment in real property in Taiwan property, and efforts to negotiate direct shipping links between China and Taiwan.

From the viewpoint of the average citizen of Taiwan or China, the most visible change has been the inauguration of non-stop flights between China and Taiwan, aimed at expanding Chinese tourism in Taiwan. The tourism issue is discussed in more detail below, as are proposals for expanded student exchange between China and Taiwan.

Under the previous Taiwanese administrations of President Chen Shui-Bian (陳水) (Democratic Progressive Party, [DPP](#), 民主進步黨) and President Lee Teng-Hui (李登輝) (Kuomintang Party, [KMT](#)), the government had imposed relatively more restrictive policies because of “concern that overinvesting in China would hollow out Taiwan’s capital and result in the country’s losing its technological edge to China.”<sup>6</sup> This concern was not

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[Regionalism](#), in *TRADING ARRANGEMENTS IN THE PACIFIC RIM: ASEAN and APEC* (Paul Davidson, ed.) (New York: Oceana, 2008), p. 3, note 5. A New Taiwan Dollar trades for approximately 1/30<sup>th</sup> of a United States Dollar.

Some business lobbyists are pushing to eliminate the China holdings restrictions on Taiwan’s domestic asset management funds. Brian Asmus, *Can Taiwan be an Asset Management Center?* TAIWAN BUSINESS TOPICS, September 2008, p. 51 (interview with Schive Chi (薛琦), the new Chairman of the Taiwan Stock Exchange Corporation).

<sup>3</sup> Jane Rickards, *Business Restrictions with China Lifted*, TAIWAN BUSINESS TOPICS, August 2008, p. 10.

<sup>4</sup> *The Taiwan Stock Market—Beyond the Current Turbulence*, TAIWAN BUSINESS TOPICS, September 2008, pp. 47-48.

<sup>5</sup> The Cabinet plan has not yet been put into effect. The previous limits were 0.4% investment in China, and 10% for Hong Kong-traded Chinese companies. Jane Rickards, *Business Restrictions with China Lifted*, TAIWAN BUSINESS TOPICS, August 2008, p. 10.

<sup>6</sup> Hsieh, *China-Taiwan*, p. 3.

implausible,<sup>7</sup> but it does not represent the most serious danger of ever-deeper cross-Strait economic relations.

### **Free Trade is very important to Taiwan**

Taiwan's ratio of trade to gross domestic product is 109.8%, compared to the world average of 47.4%, or China's 63.8%.<sup>8</sup> Global research indicates that for every one percent increase in trade as a percentage of a nation's GDP, per capita income rises one percent.<sup>9</sup>

Long before the regime in China realized that communist autarky was a failure, Taiwan had learned the lesson taught by the Song Dynasty (and many other nations in world history): international trade is a crucial component to economic growth.<sup>10</sup> As President Ma observes, "Islands like Taiwan flourish in an open economy and wither in a closed one."<sup>11</sup>

### **Taiwan's investments and trade in China are large and growing**

The richest man in Taiwan, Terry Guo (郭臺銘), got rich by founding Hon Hai Precision Industry (鴻海精密) in Shenzhen (深圳), China, in 1988. His company now has nearly half a million employees in China, and sells to major global computer companies.<sup>12</sup> Thanks to production in China, Taiwan's Pou Chen Group (寶成) is a leading global shoe manufacturer; Pou Chen's

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<sup>7</sup> Products from China, often made thanks to investment from Taiwan, now compete with Taiwan's own home-made products in the global market. Hsieh, *China-Taiwan*, p. 1211. Taiwan banks are now Facing a capital shortage because of capital outflows to China. TAIWAN BUSINESS TOPICS, July 2008, p. 29. Over the last decade, much of Taiwan's low-end manufacturing has moved to lower-cost nations, particularly China. Jane Rickards, *Developing Around the Stations*, TAIWAN BUSINESS TOPICS, September 2008, p. 25.

For an argument that the move of production to China has not harmed Taiwan economically, see Doug Fuller, [\*Adversaries and Partners: The Impact of the Cross-Straits Economic Relationship on the Development of the Taiwanese and Chinese Economies\*](#), paper presented at the Center for International Cooperation and Security, Stanford University, Palo Alto, California, February 28, 2006.

<sup>8</sup> SALLY, p. 100

<sup>9</sup> Marta Noguer & Marc Siscart, *Trade Raises Income: A Precise and Robust Result*, 65 JOURNAL OF INTERNATIONAL ECONOMICS 447 (no.2, 2005); see also Douglas A. Irwin & Marko Tervio, [\*Does Trade Raise Income? Evidence from the Twentieth Century\*](#), 58 JOURNAL OF INTERNATIONAL ECONOMICS 1 (no. 1, 2002). The one percent figure is a general observation, not an inflexible rule. Even if Taiwan had zero international trade, its per capita income would presumably be more than zero.

<sup>10</sup> RAZEEN SALLY, NEW FRONTIERS IN FREE TRADE: GLOBALIZATION'S FUTURE AND ASIA'S RISING ROLE (Washington: Cato Institute, 2008), p. 117 (Song, ancient Greece, ancient Rome, Mauryas in India, Abbasids in Middle East, Europe in Middle Ages).

<sup>11</sup> Editorial, [\*Finding a Way Forward\*](#), TAIWAN REVIEW, October 2008, p. 1.

<sup>12</sup> ALEXANDRA HARNEY, THE CHINA PRICE: THE TRUE COST OF CHINESE COMPETITIVE ADVANTAGE (New York: Penguin Press, 2008), p. 31. One of the most famous of Hon Hai's operations is Foxconn.

subsidiary Yue Yuen Industrial Holdings (裕元工業) is the largest maker of athletic shoes on the planet.<sup>13</sup>

These well-known companies are the tip of an enormous iceberg. In 2006, exports to China accounted for 28% of total Taiwan exports; China receive 64% of Taiwan's total foreign investments.<sup>14</sup>

Taiwan's exports to China and Hong Kong rose 13.9% in August 2008, compared to a year before.<sup>15</sup> Taiwan's cement companies are doing a fabulous business in China currently, in part because of a Chinese law allowing them to set up wholly-owned subsidiaries. (Companies from other foreign nations must form joint ventures with Chinese businesses).<sup>16</sup>

### **Trade does not reduce China's designs on Taiwan**

Even the Cato Institute, a strong advocate of unilateral reduction in trade barriers, acknowledges that "ever-closer commercial ties" have not stopped China's "aggressive nationalism" directed at Taiwan and Japan.<sup>17</sup>

China has Free Trade Agreements (FTAs) concluded or in progress with Hong Kong, Macao, Chile, Australia, New Zealand, Pakistan, MERCOSUR (the Southern Common Market, covering most of South America), and the South African Customs Union.<sup>18</sup> At the same time, China warns nations and organizations not to enter into FTAs with Taiwan. The effect is to further isolate Taiwan internationally.

In the World Trade Organization (WTO, 世界貿易組織), China has generally played according to international rules—with the conspicuous exception of China's behavior toward Taiwan.<sup>19</sup> Indeed, Chinese rulers, including then-President Jiang Zemin (江澤民), have explicitly stated that the

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<sup>13</sup> HARNEY, p. 32.

Shenzhen is a large coastal port located in the southeastern province of Guangdong (廣, formerly known as Canton). Under both the Qing Dynasty and the Mao dictatorship, the central government allowed greater foreign trade in Guangdong/Canton than in other provinces.

<sup>14</sup> Pasha L. Hsieh, [\*China-Taiwan Trade Relations: Implications for the WTO and Asian Regionalism\*](#), in *TRADING ARRANGEMENTS IN THE PACIFIC RIM: ASEAN and APEC* (Paul Davidson, editor)(New York: Oceana, 2008)(citing data from Taiwan's Mainland Affairs Council).

<sup>15</sup> Jane Rickards, *Growth Forecasts Cut Amid Global Shocks*, TAIWAN BUSINESS TOPICS, September 2008, p. 10.

<sup>16</sup> Philip Liu, *Cement Companies Making Major Inroads in China*, TAIWAN BUSINESS TOPICS, August 2008, pp. 30-33.

<sup>17</sup> RAZEEN SALLY, *NEW FRONTIERS IN FREE TRADE: GLOBALIZATION'S FUTURE AND ASIA'S RISING ROLE* (Washington: Cato Institute, 2008), p. 132.

<sup>18</sup> SALLY, pp. 82-83.

<sup>19</sup> Margaret Pearson, *China in Geneva: Lessons from China's Early Years in the World Trade Organization*, in *NEW DIRECTIONS IN THE STUDY OF CHINA'S FOREIGN POLICY* (A.I. Johnston & R. Ross, editors)(Stanford, California: Stanford University Press), pp. 587-644.

WTO is merely an instrument of China's broader foreign policy objectives.<sup>20</sup> China does not even seek to redress many of Taiwan's violations of the WTO, because making the complaint would require China to address Taiwan as an equal within the WTO structure.<sup>21</sup>

Plainly the Chinese government does not believe that the trade issue is separate from the issue of international power.<sup>22</sup> Indeed, the political advantage of drawing Taiwan in China's orbit apparently outweighed—in the minds of the Chinese dictatorship—the large trade surpluses that Taiwan has had with China. Trade is part of China's preemptive strategy of *xianfa zhiren* (先发制人), “gaining mastery before the enemy has struck.” The ideal of free trade cannot overcome the reality of profound differences in national interest and “vast intercountry differences in economic structure, development, policies, and institutions.”<sup>23</sup>

Chinese trade behavior also indicates that Chinese government promises about good behavior should not be relied on when making investment decisions—let alone decisions which might endanger a nation's sovereignty. For example, in regards to promises about fixing the undervaluation of the Renminbi, “the flexibility promised by China's leaders has been more illusory than real.”<sup>24</sup> In general, “The political system...imposes no institutional constraints” on officials who “renege on their promises.”<sup>25</sup>

### Chinese “Comprehensive National Power”: Made in Taiwan

China's response to what it calls the “century of humiliation” (百年國恥) has been to imitate the nineteenth-century imperialists by attempting to humiliate Taiwan and eradicate its sovereignty.<sup>26</sup>

It would have been very foolish for the Austrian or Danish governments and people in 1935 to pretend that their commercial relations with the Third Reich (第三帝國) had no relation to their national security. It

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<sup>20</sup> Wei Liang, *Bureaucratic Politics, Interministerial Coordination and China's GATT/WTO Accession Negotiations*, in CHINA'S FOREIGN TRADE POLICY: THE NEW CONSTITUENCIES (Ka Zeng, editor)(New York: Routledge, 2007), pp. 35-36, citing H. Zong, *Visit to the United States*, 35 CHINESE LAW AND GOVERNMENT 36 (number 1, 2002).

<sup>21</sup> Hsieh, *China-Taiwan*, p. 1214.

<sup>22</sup> Liang, *Bureaucratic Politics*.

<sup>23</sup> SALLY, p. 88 (“This applies to East Asia, and it applies even more to south Asia.”)

<sup>24</sup> John Greenwood, *The Costs and Implications of PBC Sterilization*, 28 CATO JOURNAL (number 2, Spring/Summer 2008), p. 205.

<sup>25</sup> YASHENG HUANG, CAPITALISM WITH CHINESE CHARACTERISTICS: ENTREPRENEURSHIP AND THE STATE (New York: Cambridge University Press, 2008), p. 34.

<sup>26</sup> China has no legitimate claim, in international law or in equity, to rule Taiwan. The two have developed separately during almost all of their long histories. China's colonization of the west coast of Taiwan during the 17<sup>th</sup>-19<sup>th</sup> centuries does not negate the modern right of the Taiwanese people to self-determination. See, e.g., THE “ONE CHINA” DILEMMA (Peter C.Y. Chow, editor)(New York, Palgrave Macmillan, 2008).

is contrary to all the lessons of history to believe that extensive trade relations will convince an aggressive nation not to attack a vulnerable one. The Soviet Union had a thriving trade with Nazi Germany until the minute that the Nazis began Operation Barbarossa (題名).

The rapid growth of China's Comprehensive National Power (綜合國力) is a mortal threat to Taiwan's democracy and sovereignty. To state the obvious, the growing wealth of the Chinese government, and the rising value of trade with China, has been used to pay Taiwan's diplomatic allies to break relations.<sup>27</sup> Japan's desire for "stability" in its economic relations with China has constrained Japan's ability to defend its historically close relationship with Taiwan.<sup>28</sup>

Greater wealth in China has been used to construct over a thousand ballistic missiles which are aimed at Taiwan, to build up the mis-named People's Liberation Army<sup>29</sup>—whose prime mission is the conquest of Taiwan. Within a few years, China may be able to credibly threaten a fast, successful invasion of Taiwan which the United States and Taiwan would not be able to thwart.

Who built China's Comprehensive National Power, which now endangers Taiwan's survival? Taiwan businessmen.

The economic rise of China began in the late 1970s in Special Economic Zones (SEZs) in Guangdong province. It was there that investors from Taiwan and Hong Kong began to build export-oriented light industry.<sup>30</sup> From 1985 to 1996, 66% of all Foreign Direct Investment (外人直接投資) in China was from Taiwan, Macao, or Hong Kong.<sup>31</sup> Overall, Taiwan has accounted for 15-20% of total inward foreign investment in China.<sup>32</sup>

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<sup>27</sup> Chong-Pin Lin (林中斌), [\*More Carrot Than Stick: Beijing's Emerging Taiwan Policy\*](#), 4 CHINA SECURITY (number 1, Winter 2008), p. 4 (published by the World Security Institute) ("Under Beijing's escalating diplomatic offensives, reinforced by an expanding war chest, the number of countries that recognize Taiwan has continued to dwindle.")

<sup>28</sup> June Teufel Dreyer, *Japan and the Security of the Taiwan Strait*, in THE "ONE CHINA" DILEMMA (Peter C.Y. Chow, editor) (New York: Palgrave MacMillan, 2008).

<sup>29</sup> The army is not controlled by the People, nor is the army's purpose liberation; rather the army is used to suppress the people's democratic aspirations, as the Tiananmen Square massacre illustrates.

<sup>30</sup> HARNEY, p. 15, 29, 282.

<sup>31</sup> Judith M. Dean, Mary E. Lovely, & Hua Wang, [\*Are Foreign Investors Attracted to Weak Environmental Regulations? Evaluating the Evidence from China\*](#), World Bank Policy Research Working Paper 3505 (February 2005), p. 7, citing John Henley, Colin Kilpatrick & Georgina Wilde, *Foreign Direct Investment in China: Recent Trends and Current Policy Issues*, 22 WORLD ECONOMY 223 (1999). The 1988 Regulations for Encouraging Investment by Taiwan Compatriots and the 1994 Taiwan Compatriot Investment Protection Law gave Taiwan investors in China better terms than were available to Chinese citizens, or to non-Taiwanese foreign citizens. Hsieh, *China-Taiwan*, p. 2.

<sup>32</sup> Peter C.Y. Chow, *An Overview on the Dilemma of "One China": Myth versus Reality*, in THE "ONE CHINA" DILEMMA, p. 14, n. 12.



To make matters all the worse, FDI in China has *impeded* democratization in China<sup>33</sup>—presenting Taiwan with the danger not only conquest by China, but of an *Anschluss* (德奧合併) into a dictatorship.

One method of conquest without war is economic blackmail. Chinese scholars have threatened that China now has the ability to paralyze Taiwan’s economy.<sup>34</sup> This is obviously a threat that would not exist if the United States were still Taiwan’s leading trade partner

The destruction of sovereignty does not need to be accomplished all at once. One scholar observes: “Using the EU experience as an example, the best way to achieve unification with lowest costs is via economic integration.”<sup>35</sup> Today, the people of the European Union (歐洲區域) have lost the sovereign right to make the majority of laws which affect them; that power has been usurped by a bureaucracy in Brussels. Notably, the people of Europe never voted to cede their sovereignty; they voted—on the relatively few occasions where they were allowed to vote—simply for a common currency, for eliminating intra-Europe trade barriers, and for other items of economic liberalization. But the Europeans ended up losing the majority of their sovereign law-making power, to an entity with a well-known “democratic deficit.”

To say the least, the democratic deficit is far worse in Beijing than in Brussels, and the dangers of sovereignty therefore loss all the greater.

### **Free to speak, as long as the dictators like what you say**

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<sup>33</sup> Mary Elizabeth Gallagher, “*Reform and Openness*”: *Why China’s Economic Reforms Have Delayed Democracy*, 54 *WORLD POLITICS* 338 (number 3, April 2002):

Most theories that seek to explain democratization look to changes in the economy as the precursor to significant political liberalization, locating the main causal factor in either severe economic crisis or rapid economic growth. In the Chinese context, by contrast, the Communist Party has extricated itself from the socialist social contract with the urban working class without losing its grip on political power. Moreover, China has maintained a rapid pace of economic growth for over twenty-five years without significant political liberalization. Comparative analysis of China’s post-1978 reform policies yields insights both across types of socialist transition, comparing China with Eastern Europe and Russia, and across time, comparing China with other high-growth East Asian economies. A key factor in China’s ability to reform the economy without sacrificing political control is the timing and sequencing of its foreign direct investment (FDI) liberalization....“Reform and openness” in this context resulted in a strengthened Chinese state, a weakened civil society (especially labor), and a delay in political liberalization.

<sup>34</sup> Pasha L. Hsieh, *Facing China: Taiwan’s Status as a Separate Customs Territory in the World Trade Organization*, 39 *JOURNAL OF WORLD TRADE* (number 6, 2005), p. 1209. One of the victims of retaliation was Chi Mei Group (奇美集團) chairman Shi Wen-long (許文龍), who supported the Democratic Progressive Party (DPP). *Id.*, p. 1209, note 100.

<sup>35</sup> Hsieh, *China-Taiwan*, p. 16.

The doctrine of the so-called “People’s Liberation Army” perceptively recognizes that war-fighting is not just the application of destructive physical force. Not all the stages of conquest are violent, and a nation must know how to fight the “three wars: psychological, legal, and on media.”<sup>36</sup>

For the Chinese people, the dictatorship has managed “to successfully create a Leninist climate for self-deterrence and self-censorship that is more powerful than active state repression.”<sup>37</sup> The same is increasingly true for foreigners under the influence of economic relations with the Chinese dictatorship.

Not only in Taiwan, but even in the United States—the world’s great haven for freedom of speech—the China trade has led to suppression of the free expression of ideas and facts. According to some ideologues, Multi-National Corporations (MNCs) rule the world. But they cower before China. An American law professor testified:

You have multinational companies in China—I used to work for one, so I know—who are afraid of retaliation against their businesses so they often praise the Chinese government....these companies are being politically correct in the most politically incorrect country in the world.<sup>38</sup>

International businesses operating in China are afraid to speak out even in regards to the theft of their own intellectual property by provincial or local governments, for fear of retaliation by those governments.<sup>39</sup>

It is true that the central government in Beijing is not the one stealing the intellectual property. It is also true that the central government devotes enormous energy—and achieves considerable success—at suppressing political debate. The central government employs 15,000 people to censor the Internet and to spy on Internet users. Similar energy has not been expended on protecting the intellectual property of foreign companies (or other property rights), or in protecting the human rights of Chinese workers.<sup>40</sup>

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<sup>36</sup> Lin, p. 5

<sup>37</sup> James Mulvenon, *PRC Information Operations: Myths, Trends, and New Opportunities*, in *ASSESSING THE THREAT: THE CHINESE MILITARY AND TAIWAN’S SECURITY* (Micheal D. Swaine, Andrew N.D. Yang, Evan S. Medeiros, editors)(Washington: Carnegie Endowment for International Peace, 2007), p. 259.

<sup>38</sup> Daniel C.J. Chow, Oral presentation at hearing on Intellectual Property Rights Issues and Imported Counterfeit Goods, before the U.S.-China Economic and Security Review Commission, Washington, D.C., June 8, 2006, p. 217, [http://www.uscc.gov/hearings/2006hearings/transcripts/june7\\_8/06\\_06\\_7\\_8\\_trans.pdf](http://www.uscc.gov/hearings/2006hearings/transcripts/june7_8/06_06_7_8_trans.pdf).

<sup>39</sup> Andrew Mertha, *Putting Your Mouth Where Your Money Is: How US Companies’ Fear of Chinese Retaliation Influences US Trade Policy*, in *CHINA’S FOREIGN TRADE POLICY*, pp. 59-72.

<sup>40</sup> HARNEY, pp. 288-89.

Since companies are afraid to speak up even about the theft of their own property, there is almost no possibility that they would speak up to in opposition to violation of human rights, or against Chinese ploys to reduce their own nation's sovereignty.

As for Taiwan, the Chinese government has retaliated against “green businessmen” simply because they exercise their rights to participate in Taiwan's political process and to support one of Taiwan's major parties.<sup>41</sup>

As Taiwan's newspapers seek to expand into the China market, they have become increasingly afraid of offending the Beijing government. Even “pale-green” scholars have had their op-eds refused by Taiwan newspapers. Conversely, there are rumors that some Taiwan media is supported financially by Beijing, using Hong Kong or Taiwan businessmen as intermediaries.<sup>42</sup>

The future of Taiwan's free press, under the gradual tightening of Beijing's constriction, can be seen in Hong Kong. There, “one country, two systems” has preserved liberal flows of investment capital, but is leading to the erosion of press freedom.<sup>43</sup>

The global record is clear that business interests with foreign investment put their own economic needs ahead of human rights and the national interest. After General Wojciech Jaruzelski (賈魯塞斯基) repressed the workers' Solidarity movement in Poland in 1981, international bankers opposed sanctions on Poland. To the contrary, they supported the crackdown because they thought that greater “stability” (i.e., more effective tyranny) would aid the repayment of the Polish dictatorship's international loans.

Today in Germany, businesses with ties to Russia are providing powerful political opposition to Chancellor Angela Merkel's efforts to support Georgia and other targets of Russian imperialism.<sup>44</sup>

In the United States Congress, many of the lobbying needs of China are taken care of by Fortune 500 corporations who fear offending the gatekeepers to the China trade.<sup>45</sup>

Notoriously, after the Tiananmen Square murders (天安門虐殺), and the follow-on repression of civil society and democracy activists, Taiwan businessmen with China interests were among the strongest voices in Taiwan against Taiwan imposing sanctions on the Chinese government.

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<sup>41</sup> Pasha L. Hsieh, *Facing China: Taiwan's Status as a Separate Customs Territory in the World Trade Organization*, 39 JOURNAL OF WORLD TRADE 1195, 1209 (number 6, 2005). One of the victims of retaliation was Chi Mei Group chairman Shi Wen-long, who supported the Democratic Progressive Party (DPP). *Id.*, 1209, note 100.

<sup>42</sup> Lin, p. 28, note 10.

<sup>43</sup> Liu Lanchang (劉瀾昌), 香港在一國兩制下的新聞生態 (Taiwan: 秀威資訊, 2008)(ISBN 9789866732614).

<sup>44</sup> Nicholas Kulish, *Butter, Not Russian Guns, Worries Merkel's District*, NEW YORK TIMES, Sept. 1, 2008.

<sup>45</sup> EAMONN FINGLETON, *IN THE JAWS OF THE DRAGON* (New York: Thomas Dunne Books, 2008).

Their loyalty to profits was apparently greater than their loyalty to human rights or to Taiwan's political interests.

However, it should be acknowledged that trade may impose some deterrent on Chinese aggression against Taiwan. Especially in Chinese coastal provinces, there is an important constituency of business owners and workers which does not want to upset the profitable trade relationship with Taiwan. China's desire to maintain good relations with Taiwan businessmen in China (Taishang, 太上) will probably last until the Chinese government no longer considers them necessary to the government's objectives.

## II. Next Steps for Liberalization: Two Yeses and One No

It would be unrealistic in 2008 to suggest that Taiwan should sever its intricate relationship with China. Accordingly, this Paper simply urges that trade issues be evaluated first and foremost based on the question "What will make Taiwan more secure in the long run?" The best kinds of trade—from a security viewpoint—are those which expose the people of China to the principles and practices of freedom, and which allow them to see the contrast between freedom in Taiwan and repression in China. The rest of this Paper discusses some particular examples.

### Tourism and travel

Beginning July 18, 2008, there are now 36 non-stop charter passenger flights every weekend between China and Taiwan. Previously, direct flights had been allowed only on a few public holidays, and for the weeks of the lunar new year festival.<sup>46</sup>

Taiwan's domestic airlines, whose business was devastated by the completion of the high-speed rail line along Taiwan's west coast, are hoping to survive via increased cross-strait travel.<sup>47</sup>

After the initial surge in July, the numbers of Chinese tourists on charter flights may be less than some had predicted.<sup>48</sup> Chinese tourists tend

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<sup>46</sup> Hsieh, *China-Taiwan*, p. 5. Without direct flights, Taiwan to China air travel required a change of planes in Hong Kong.

Taiwan is seeking cabotage for Taiwan airlines that land in China and go on to other destinations. In other words, a Taipei to Beijing to Dehli flight on China Airlines or Eva Air could pick up passengers in Beijing and take them to Dehli. Like the United States, China protects its domestic airlines by generally forbidding foreign airlines from picking up new passengers during a multi-stop flight.

<sup>47</sup> Dennis Dupée, *Big Impact on Domestic Airlines*, TAIWAN BUSINESS TOPICS, September 2008, p. 30.

<sup>48</sup> *Taiwan's New Political Landscape*, [TAIWAN COMMUNIQUÉ](#) (international edition, number 120) September/October 2008, p. 2 (reporting 300 daily visitors since July, as opposed to predictions of 3,000).

to prefer relative short trips (often, 8 days) in which they visit various locations—including those on the scenic east side of Taiwan—by bus.<sup>49</sup>

Another travel liberalization under President Ma is that ferries from Kinmen and Matsu to Fujian province can now serve all citizens of Taiwan. Before, the ferries had only been allowed to carry residents of Kinmen and Matsu, or businessmen with special permission.<sup>50</sup>

The more Chinese tourism in Taiwan, the better. As Lin Chong-Pin has insightfully observed, Taiwan must “win over the hearts of the bulk of the Chinese population, more than 95 percent of whom are not Communist Party members.”<sup>51</sup>

Some Chinese tourists have toured the Presidential Office, and listened to a lectures on Taiwan’s democracy.<sup>52</sup> Almost every tourist will be able to see that Taiwan’s system of freedom has produced far greater prosperity—and happiness—than has China’s unfree system.<sup>53</sup> To the extent that Chinese tourists interact with Taiwanese, the Chinese will gain some understanding of why the Taiwanese are happy with their self-government, and why only a very small fringe of Taiwanese wishes to be unified into rule by a dictatorship.

## Student exchange

Taiwan’s Ministry of Education(教育部)has announced plans to recognize Chinese diplomas, and to allow Chinese students to study in Taiwan, starting no sooner than 2009.<sup>54</sup> The plan is controversial, as some Taiwanese students are worried that there will be fewer university slots for them.

However, liberalization for Chinese students in Taiwan makes strategic national security sense for the same reason that increased tourism makes sense. Winning the hearts of the Chinese people is one important long-term strategy to prevent an *Anschluss* (德奧合併).

Indeed, university students are more likely than are tourists to become opinion leaders. The opportunity to fully appreciate Taiwan’s freedoms is

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<sup>49</sup> Jane Rickards, *Money Challenges for the High Speed Rail*, TAIWAN BUSINESS TOPICS, September 2008, p. 23; Jane Rickards, *Chinese Tourists Come to Taiwan*, TAIWAN BUSINESS TOPICS, August 2008, p. 9.

<sup>50</sup> *Taiwan and China Hold Landmark Talks*, TAIWAN BUSINESS TOPICS, July 2008, pp. 8-9. The Kinmen ferry sails to Xiamen, and the Matsu ferry to Mawei City. Audrey Wang, *Heading Offshore*, TAIWAN REVIEW, October 2008, p. 9.

<sup>51</sup> Lin, p. 16.

<sup>52</sup> Jane Rickards, *Chinese Tourists Come to Taiwan*, TAIWAN BUSINESS TOPICS, August 2008, p. 9.

<sup>53</sup> Conversely, Taiwanese support for unification declined precipitously even when Taiwan was a one-party state, once Taiwanese were allowed to travel to visit relatives in China on holidays. Taiwanese visitors could see that, whatever the problems in Taiwan, living conditions were much worse in China.

<sup>54</sup> Flora Wang, *Tsai Warns of Chinese Students’ Impact*, TAIPEI TIMES, October 13, 2008, p. 3.

much greater over the course of one or two years studying at a Taiwan university, as opposed to eight days on a tour bus.

An argument against increased visitors from China is the danger of spies and saboteurs. Notably, the Nazis and the Japanese military dictatorship used tourists and businessmen as Fifth Columnists.<sup>55</sup> Taiwan is “acutely vulnerable to [Spetsnaz](#)-like (俄羅斯) or fifth-column operations, aided significantly by ethnic and linguistic homogeneity and significant cross-border flows, which facilitate entry and access to potential targets. In terms of civilian infrastructure, Taiwan’s telecommunications, electric power, and transportation infrastructure are all highly susceptible to sabotage.” Tourists could be used to assist with the seizure of Taiwan’s airfields and ports, allowing military landings, and for efforts to decapitate Taiwan’s democratic leadership.<sup>56</sup>

The Fifth Column danger could, however, be partially addressed by target hardening of critical facilities, which would also provide improved, and long overdue, protection against conventional PLA attacks.

The long-term danger to Taiwan’s survival is so grave that there must be strategy for ending the Chinese government’s desire to conquer Taiwan. One aspect of this strategy can be reducing that domestic political benefit that the Chinese government gains from its neo-imperialist policy towards Taiwan. Accordingly, Taiwan must do whatever it can to win the hearts of the Chinese people.

A related issue is restrictions on long-term residency by foreign businessmen. Taiwan currently imposes special restrictions on Chinese businessmen, and these restrictions may well violate the WTO.<sup>57</sup> (But as noted above, China will not raise this under the WTO, because raising the issue would require addressing Taiwan as an equal.) For the time being, the special restrictions should not be lifted—especially since closer commercial relationships with China are, in themselves, harmful to Taiwan’s sovereignty.

It could be argued that greater Chinese ownership of property and business in Taiwan would make the owning businessmen into opponents of Chinese aggression against Taiwan. The limitation is that Chinese businesses are under government control, and accordingly have relatively limited ability to influence government policy. Moreover, the Chinese government would presumably promise the Chinese businessmen that, post-

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<sup>55</sup> LOUIS L. SNYDER, *THE WAR: A CONCISE HISTORY 1939 - 1945* (1960); JOHN L. SPIVAK, [SECRET ARMIES: THE NEW TECHNIQUE OF NAZI WARFARE](#) (New York: Modern Age Books, 1939).

<sup>56</sup> James Mulvenon, *PRC Information Operations: Myths, Trends, and New Opportunities*, in *ASSESSING THE THREAT: THE CHINESE MILITARY AND TAIWAN’S Security* (Micheal D. Swaine, Andrew N.D. Yang, Evan S. Medeiros editors)(Washington: Carnegie Endowment for International Peace, 2007), pp. 247-48.

It is not unreasonable to acknowledge that there are some Taiwan citizens who would take the opportunity to serve as 21<sup>st</sup>-century [Quislings](#) (賣國賊).

<sup>57</sup> Hsieh, *China-Taiwan*, p. 1216.

*Anschluss*, their Taiwan holdings would be left intact. The government could also promise elimination of independent labor unions and the eradication of an independent press in Taiwan, thereby giving the Chinese business owners in Taiwan unchecked power over their employees

### **No new food imports: Poisoning is a “serious negative impact”**

China is now well-known as the world’s leading exporter of consumer products which kill their users. Such Chinese products include defective tires, and children’s toys with lead paint and small magnets.<sup>58</sup>

Any Chinese product intended for human consumption must be recognized as a potential poison.

The United States barred the importation of some farm-raised seafood because of drug and chemical contamination. Frozen green beans sold by China to Japan had 34,500 times the pesticide residues allowed by Japanese law.<sup>59</sup>

Over a hundred Panamanians were killed by cough syrup and toothpaste which contained Chinese-made diethylene glycol (a chemical used to make antifreeze). The diethylene glycol had been *intentionally* mislabeled as glycerine in China, and then used as an ingredient in the cough syrup or toothpaste.<sup>60</sup>

[Melamine](#) is a chemical used in the production of plastics and fertilizer. When added to food, it boosts the protein level.

In May 2007, the U.S. Food and Drug Administration discovered that melamine had been added to wheat protein and barley protein powder for pet food, resulting in the killing and sickening of pets in North America.<sup>61</sup> The melamine-poisoned food was also fed to hogs and birds, thus contaminating the human food supply.

Did all the bad publicity—and all the deaths—lead to improvement in Chinese product safety? To the contrary, Chinese food products with melamine are still being discovered.

A recent melamine poisoning scandal involves milk powder used in baby formula and many other foods. At least 22 Chinese companies, including major brands such as Sanlu Group, are involved. Children have died from the poisoned milk, tens of thousands have been sickened, and at least hundreds more will suffer long-lasting health problems from kidney stones. The

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<sup>58</sup> Mattel initiated a recall of some of these toys in August 2007.

<sup>59</sup> Editorial, [A Shameful Tradition of Tainted Food](#), TAIPEI TIMES, October 17, 2008, p. 8.

<sup>60</sup> A Chinese manufacturer had falsely labeled [diethylene glycol](#) as [glycerine](#) (which is used as a sweetener and preservative). The falsely-labeled product was then mixed into toothpaste and cough syrup in Panama. Walt Bogdanich & Renwick McLean, [More poisoned products may have originated in China](#), NEW YORK TIMES, May 19, 2007; HARNEY, p. 14; Walt Bogdanich, [The Everyman Who Exposed Tainted Toothpaste](#), NEW YORK TIMES, October 1, 2007.

<sup>61</sup> Editorial, [A Shameful Tradition of Tainted Food](#), TAIPEI TIMES, October 17, 2008, p. 8.

preliminary reports of the poisoning were suppressed by local government, apparently in order to keep comply with the national government's prohibition of negative news before and during the Beijing Olympics.<sup>62</sup> In addition, melamine also appears to have been put into animal feed, thereby creating contaminated eggs, meat, and seafood.<sup>63</sup>

In Taiwan, the [Bureau of Foreign Trade](#) (國際貿易局) maintains a list of foods products which may not be imported from China. Given the widespread dangers of Chinese foods, this list should not be weakened.

Some members of the American Chamber of Commerce in Taiwan has been lobbying to allow the import of raw potatoes from China. They point out that Taiwan potatoes for manufacture of snack foods are available only part of the year; in July through November, potatoes have to be imported, sometimes even from North America.<sup>64</sup>

Supporters of expanded food imports suggest that inspections could take care of safety issues. But inspections in China have proven a failure. As detailed below, on-site inspections have grossly failed to ensure adherence to legal standards for safety and pay of workers in China. As for food, inspection was not able to prevent the entry into Taiwan of 25 tons of Chinese milk powder poisoned with melamine.<sup>65</sup> Four hundred tons of tainted ammonium bicarbonate (baking ammonia) were also imported.<sup>66</sup>

Accordingly, it is not appropriate to burden the Taiwan inspectors with even more Chinese food. To the contrary, it is time to consider whether to expand the list of Chinese foods which may not be imported. (A similar reform would make sense for the United States, too.)

The Chinese government has promised to improve the food inspection systems. Of course if food safety were as high a government priority as is Internet censorship, Chinese food would be the safest in the world—with state-of-the-art safety technology designed by the world's top corporations.

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<sup>62</sup> Gordeon Fairclough & Loretta Chao, *Chinese Formula Maker Hid Toxic Danger for Weeks*, WALL STREET JOURNAL, September 18, 2008, p. A13. The melamine was apparently added by dealers who bought milk from farmers and then resold it to companies such as Sanlu. Loretta Chao, *Chinese Dairies Face a Worsening Crisis*, WALL STREET JOURNAL, September 19, 2008, p. B1.

<sup>63</sup> David Barboza, [Hong Kong Finds Eggs From China Tainted](#), NEW YORK TIMES, October 27, 2008.

<sup>64</sup> *Dinnerware, Potatoes, and Import Restrictions*, TAIWAN BUSINESS TOPICS, September 2008, pp. 14-15. Pepsico owns farms in China, and argues at least for an exemption applying to Pepsico's farms, with the promise of strict quarantine procedures. Perhaps imports from company-owned farms should be considered, as long as Pepsico (unlike Sanlu) buys nothing in the food production chain from Chinese vendors.

<sup>65</sup> Flora Wang, Mo Yan-chih & Jerry Lin, [Taiwan bans products by Sanlu Group: Taiwanese authorities have located about 70 percent of the imported milk powder imported from China and ordered that it be destroyed](#), TAIPEI TIMES, September 15, 2008, p. 1.

<sup>66</sup> Shelly Huang, [Melamine discovered in Chinese fried bread sticks](#), TAIPEI TIMES, Oct. 21, 2008, p. 3. Melamine contamination has also been discovered in instant coffee and instant soup from China. *Id.*



But until the Chinese government can show *accomplishments*—and not just promises—in ending China’s role as the world’s top producer of poisoned food, Taiwan (and U.S.) consumers deserve protection.

At the least, consumers should be able to exercise the choice to not feed Chinese food exports to their families. Currently, Taiwan’s Commodity Labeling Act requires disclosure of the country of origin for food. The Act should be expanded to apply to restaurant or other cooked food which contains ingredients made in China. The Act should also require disclosure of sources of Chinese raw food, even if food is processed in Taiwan.

### III. Long-term Approaches

#### Fix the conflict of interest and lobbying laws

Trade liberalization negotiations should not be conducted by persons who have a personal financial interest in expanded China trade. In such cases, it is too difficult for a negotiator to objectively put his nation’s interest ahead of his personal interest. Unfortunately, KMT party officials who have financial interests in China trade have been allowed important roles in trade negotiation.<sup>67</sup>

A new Lobbying Law was enacted in Taiwan in August 2007. In general, the law is too restrictive, because it forbids foreign employees from direct lobbying, and requires that they speak to the government through a professional lobbyist. Meetings which could be arranged with a phone call in a few days will now take about a month to set up.<sup>68</sup>

Impeding government communication with foreign businessmen is a terrible idea; Taiwan already suffers from isolation. One cause of problems in Taiwan-American relations has been the U.S. State Department regulations which forbid direct high-level contacts between American and Taiwanese officials. As a result, a message from the American Secretary of State to Taiwan’s Minister of Foreign Affairs must be conveyed through a series of lower-level officials; the multiple steps impede frank communication and understanding. Taiwan government officials should not cut themselves off from being able to meet directly with foreign businessmen.

At the least, Taiwan should create an exemption to the lobbying law for nationals of any country which has a law similar to America’s [Foreign Corrupt Practices Act](#), which forbids the bribery of foreign government officials.

However, the lobbying law does make sense as applied to Chinese businessmen. China is an extremely corrupt nation, with a deeply ingrained culture of bribery. In Transparency International’s 2008 Corruption

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<sup>67</sup> Ker Chien-ming (柯建銘), [Who exactly is talking to whom?](#) TAIPEI TIMES, June 24, 2008, p. 8, (editorial by DPP legislator).

<sup>68</sup> *Coming to Grips with the Lobbying Act*, TAIWAN BUSINESS TOPICS, August 2008, p. 12.

Perceptions Index, was rated China 3.6.<sup>69</sup> (On a 1-10 scale, with one being the worst). Because a professional lobbyist might be less likely to endanger his career for the sake of one client, the risk of bribery is at least somewhat reduced when a Chinese businessman is prevented from meeting in person with a Taiwan government official.

## Reduce dependence on China

Multilateral economic organizations are important to the preservation and expansion of Taiwan's international space, both economically and diplomatically.

As the World Trade Organization degenerates towards a United Nations level of ineffectiveness, it has been suggested that Taiwan is one of the fifty leading nations which could help revive and strengthen the WTO.<sup>70</sup>

Taiwan has indicated its desire to enter into a Free Trade Agreement with the Asia-Pacific Economic Cooperation (APEC, 亞太經濟合作) forum, to which Taiwan already belongs. However, APEC nations are reluctant to proceed due to Chinese objections.<sup>71</sup>

The other major multilateral organization in the area is the Association of Southeast Asian Nations ([ASEAN](#), 支持单位). In 1992, Taiwan initiated a "Go South" policy to encourage investment in Taiwan's southern neighbors. However, huge amounts of investment continued to "Go West"—to the only nation which desires hegemonic destruction of the inherent human right of the Taiwanese people to self-determination.<sup>72</sup> As with APEC, the ASEAN countries are generally timid about FTA with Taiwan, for fear of offending China.<sup>73</sup>

Taiwan is not a member of ASEAN, but is attempting to find a way to participate. Discussions are underway for a ASEAN plus six (Australia, India, Japan, New Zealand, South Korea, and China) Free Trade Agreement. Should such an agreement exclude Taiwan, there could be a loss of billions to Taiwan's gross domestic product.

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<sup>69</sup> 2008 Corruption Perceptions Index, [Regional Highlights: Asia-Pacific](#). Taiwan's rating was 5.7.

A good example of the lack of business ethics, even for the most prestigious Chinese firms, can be seen in the Bank of China, one of the Big Four banks in that nation. The Bank of China has been sued by terrorism victims for its role in laundering money for Hamas and Palestinian Islamic Jihad. James T. Areddy, *Israeli Terrorism Victims File Suit Against Bank of China*, WALL STREET JOURNAL, August 23-34, 2008, p. A5 (the suit was filed in Los Angeles Superior Court).

<sup>70</sup> "Japan, South Korea, Taiwan, Hong Kong, China, and the more advanced ASEAN members are in an outer core of about 50 countries...that need to be active to restore the WTO's longer-term fortunes." SALLY, p. 89.

<sup>71</sup> Hsieh, *China-Taiwan*, p. 12.

<sup>72</sup> Hsieh, *Taiwan's Status*, p. 1211 (citing Mainland Affairs Council data that trade with China increased from 5.1 billion US dollars in 1990 to 31.2 billion in 2000).

<sup>73</sup> Hsieh, *China-Taiwan*, p. 14.

If China were a nation which did not have territorial ambitions to rule Taiwan there would be little reason for concern about China becoming Taiwan's major trading partner. Taiwan has a comparative advantage in high-value goods and services, and China has the advantage in low-skill labor-intensive manufacturing and agricultural exports.<sup>74</sup>

But China *is* a determined enemy of Taiwan's sovereignty. Accordingly, Taiwan should build trading relationships with other nations which also have a comparative advantage in low-skill labor-intensive exports. Vietnam is an obvious example, and many Taiwan businessmen have already invested there. Taiwan and Vietnam have a common interest in preventing Chinese imperial expansionism.

Taiwan needs a major partner which not only fits well in terms of comparative advantage, but which is also brave and foresighted enough to resist Chinese bullying. The most plausible candidate is India. "Go Southwest" might be the slogan.

India has several disadvantages compared to China: distance from Taiwan, underdeveloped infrastructure, and the absence (thus far) of the manufacturing clusters which reduce costs in China. Nor do Taiwan business in India enjoy the inherent cultural and language advantage which they do in China.

However, Taiwan's businessmen can help India improve in all these categories, as they helped China improve, beginning in the late 1970s. Significantly, because India is a free nation, closer trade relations which India will not make Taiwan complicit in human rights violations of the workers. Most importantly, a stronger India complements Taiwan's security, while a stronger China endangers it. Expanding economic relations with India is already an objective of Taiwan's government, and the project should be carried out with the intensity and urgency of a major national security program.

### **China trade is fragile**

"Go Southwest" and other efforts to diversify Taiwan's trading relationships will enhance Taiwan's economic security in the long term. Despite all the propaganda and media credulity about "China rising," the Chinese economy is fragile; Taiwan needs to ensure that if the Chinese economy crashes, Taiwan does not tumble down with it.

Currently, the undervaluation of Renminbi—perhaps by as much as 40 percent—is substantially distorting the Chinese economy.<sup>75</sup> Efforts by The People's Bank of China to sterilize the balance of payments surplus paper over the problem in the short term, but make the necessary adjustment all

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<sup>74</sup> SALLY, p. 101.

<sup>75</sup> ALEXANDRA HARNEY, *THE CHINA PRICE: THE TRUE COST OF CHINESE COMPETITIVE ADVANTAGE* (New York: Penguin Press, 2008), p. 7.

the more difficult in the long term.<sup>76</sup> China also suffers from a serious inflation problem, compounded by government price controls on some items. The property and equity markets in China appear to be classic bubbles.<sup>77</sup>

Shanghai is fantastically impressive to foreign visitors. But the city is really “the world’s most successful Potemkin metropolis,” (波將金村莊) a city built not on economic vitality, but according to “the Latin American path, anchored on the prominence of statist interventions, huge urban biases, and distorted liberalization in favor of FDI at the expense of indigenous entrepreneurship.”<sup>78</sup>

The number of illiterate Chinese adults *rose* by nearly 30 million in recent years, from 85 million in 2000, to 114 million in 2005; the adult illiteracy rate grew from 6.7% to 11.0%. After years of declining illiteracy, “The abruptness and scale of the reversal are probably unprecedented in history anywhere else in the world.”<sup>79</sup> Rising illiteracy is not the mark of a rising power. A grossly distorted currency exchange is not a solid long-term basis of economic growth. Marx predicted that capitalism would be destroyed by its own inherent contradictions; George Kennan prophesied the same for the Soviet Union.<sup>80</sup>

Taiwanese foreign policy built around the assumption of an irreversible rise of Chinese power might be as naïve as American or Irish economic policy built around the assumption of an irreversible rise of housing prices. Prudent policy-makers should take into account the possibility of collapse.<sup>81</sup>

## Regulatory reform in Taiwan

Taiwan’s direct path to greater prosperity is not through trade with China. “The focus has been too much on China and not enough on overall reform,” observed one asset fund manager.<sup>82</sup> He was talking about financial regulation in particular, but the point has a broader application. The most important economic reforms are those within Taiwan. Small business is the great engine of economic development, and of jobs growth.

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<sup>76</sup> John Greenwood, [\*The Costs and Implications of PBC Sterilization\*](#), 28 CATO Journal 205 (number 2, Spring/Summer 2008).

<sup>77</sup> Fred Hu, [\*The Role of the Renminbi in the World Economy\*](#), 28 CATO JOURNAL 219 (number 2, Spring/Summer 2008).

<sup>78</sup> HUANG, p. 230-31.

<sup>79</sup> HUANG, p. 238, 244-45

<sup>80</sup> X (pseudonym for Kennan), [\*The Sources of Soviet conduct\*](#), 25 FOREIGN AFFAIRS (July 1947), pp. 575–576.

<sup>81</sup> SUSAN L. SHIRK, CHINA: FRAGILE SUPERPOWER (Oxford, England: Oxford University Press, 2007).

<sup>82</sup> Brian Asmus, *Can Taiwan be an Asset Management Center?* TAIWAN BUSINESS TOPICS, September 2008, p. 49.

The most powerful brake on economic growth in Taiwan is the government's regulatory regime. According to the World Bank's (世界銀行) "[Doing Business](#)" database, Taiwan's rank among world nations is:

- 50 in Doing business easily
- 103 in Starting a business
- 128 in Dealing with licensing
- 148 in Employing workers
- 91 in Paying taxes
- 92 in Enforcing contracts<sup>83</sup>

Compare Taiwan's ranking to Singapore, which ranks in the top 10 of every one of these categories, or to Japan, which ranks much higher than Taiwan in every category.<sup>84</sup> Even communist Vietnam scores notably better in Dealing with licenses, Employing workers, and Enforcing contracts.

Taiwan's low ranking in Enforcing contracts indicates the need for a larger, stronger judicial system, better able to handle commercial disputes expeditiously. Every other low ranking indicates a very large excess of government. There have been efforts in recent years to address the problem, but these amount to Band-Aids on a broken leg. Taiwan needs massive deregulation, so that starting a business and obtaining the requisite licenses becomes easy. Likewise, laws which make it difficult for business to fire lazy or poor employees discourage businesses from hiring workers in the first place—as the French have discovered.

Taiwan's world percentile rank for Control of corruption—70.4—is better than most of East and South Asia, but the business climate would be much better if the score were in the 90<sup>th</sup> percentile, as in Singapore and Japan.<sup>85</sup>

Taiwan should eliminate all price controls. Price controls on energy lead to over-use of foreign imports. Price controls on pharmaceutical drugs are imposed by relentless price-cutting demands from Bureau of National Health Insurance, in order to cover the problems with the government's single-payer health care system.<sup>86</sup> In Taiwan, as elsewhere, government-controlled health care is almost always a financial disaster for the government, but the solution is not to squeeze the manufacturers. Extorting money from pharmaceutical companies is antithetical to Taiwan's objective of becoming a biotechnology research and development center.

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<sup>83</sup> Cited in SALLY, p. 111.

<sup>84</sup> Except for Paying taxes (105).

<sup>85</sup> World Bank, "Worldwide Governance Indicators: 1996-2006," July 2007, in SALLY, p. 113.

<sup>86</sup> Don Shapiro, *Once Again, the Prospect of Price Cuts*, TAIWAN BUSINESS TOPICS, August 2008, pp. 46-47.

Price controls are now and always have been a sure path to economic disaster. The sooner they disappear, the better off Taiwan will be.<sup>87</sup>

## **Environment**

China is filled with “cancer villages” and “widow towns”—so named because of the high rates of death from pollution and unsafe workplaces. Since China is so blithe about the poisoning of its own people, it is unrealistic to expect that the government will be conscientious about protecting the health of foreigners who consume Chinese exports.

One study from the 1990s found that high-polluting joint ventures from Taiwan, Hong Kong, and Macao were found to have been attracted to provinces where environmental protection was weakest.<sup>88</sup> The results suggest that manufacturing from less-developed countries is more likely to seek lax pollution control, because of less sophisticated manufacturing equipment. Because Taiwan is now substantially more developed, the results from 1993-96 might not hold today.

Environmentalism is now an important value in Taiwan, which crosses party lines. Accordingly, the Taiwan government should create a commission to investigate whether current Taiwanese investment in China is more environmentally friendly than in the 1990s. If it is found that the problems of the 1990s persist, Taiwan’s government should impose environmental controls on investment in China.

## **Labor Rights**

Today, only a few nations still have slavery. The evil persists in Libya, Sudan, Saudi Arabia—and China.<sup>89</sup>

Besides the slaves in China, many more workers toil under conditions of peonage. Chinese factories that violate the human rights of workers are allowed to compete with Taiwanese factories that respect human rights, and therefore charge higher price than the Chinese exploiters.

Taiwan is a human rights exporter. Through its soft power and its example, it promotes economic freedom, including the freedom of employees to strike, and to collectively bargain with the employer. China represents the opposite.

Good-hearted Westerners have pressured multinational corporations to practice “social certification” in China, to verify that Chinese suppliers for

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<sup>87</sup> ROBERT LINDSAY SCHUETTINGER, FORTY CENTURIES OF WAGE AND PRICE CONTROLS: HOW NOT TO FIGHT INFLATION (Green Hill Pub., 1979).

<sup>88</sup> Judith M. Dean, Mary E. Lovely, & Hua Wang, [\*Are Foreign Investors Attracted to Weak Environmental Regulations? Evaluating the Evidence from China\*](#), World Bank Policy Research Working Paper 3505 (February 2005)(study of 1993-96, of 2,886 manufacturing joint ventures: study of water pollution).

<sup>89</sup> HUANG, p. 283.

multinational business pay their employees according to the law, and provide a safe workplace.

Unfortunately, social compliance certification is a failure, as detailed by *Financial Times* reporter Alexandra Harney in her book *The China Price*. Manufacturers use fake time cards, and set up ghost factories which are out of sight of inspectors. “Falsification engineers” who show business how to trick the social inspectors have become an important service industry for Chinese factories.<sup>90</sup>

Simple compliance with the nominal, underenforced laws already on the books in China—such as paying the minimum wage, and paying employees the full wages they have earned in a timely manner—would raise factory production costs by 10 to 77%.<sup>91</sup> China’s business model depends on artificial undervaluation of the Renminbi, and on artificial suppression of the wages of the working class.

China is a member of the International Labor Organization (國際勞工組織), but China flagrantly ignores its legal obligations as a member to respect the rights of working people.

In a country supposedly run for the benefit of the working class, the minimal social rights of [SA8000](#) (from Social Accountability International) ought to be respected. Workers of the world have the inherent human right of free association, including the right to form unions. In repressive nations such as China, where free unions are illegal, SA8000 requires that workers be allowed an alternative means to express their views and to bargain with their employer.<sup>92</sup>

The Taiwanese company Pou Chen is a great exemplar of treating Chinese workers fairly.<sup>93</sup> The Taiwanese company Foxconn is also exemplary for allowing journalists free access to its Chinese factories.<sup>94</sup>

Taiwan should build on the good record of its best companies, and should press China to allow Taiwanese non-government organizations (NGOs, 非政府機) which focus on workers rights to operate freely in China.

In addition, Taiwan should legally require that all new Taiwanese investment be in factories which have a workers council elected by the workers, and this requirement should be phased in to apply to existing investment as well. China does not allow the existence of independent, legitimate unions; instead, all unions must be part of a government-controlled lackey “union”, the ACFTU. In the absence of free unions, the recognition of workers councils is the only alternative for the expression of the interests of working people.

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<sup>90</sup> HARNEY, pp. 47, 191-220.

<sup>91</sup> HARNEY, pp. 212-23, citing Daniella Goulder, *The Problem with Supplier Audits*, CORPORATE RESPONSIBILITY MANAGEMENT, August/September 2005, p. 24.

<sup>92</sup> HARNEY, pp. 240-41.

<sup>93</sup> HARNEY, pp. 181-84.

<sup>94</sup> HARNEY, pp. 266-67.

The self-government of Calvinist churches by their congregants in the early stages of the Protestant Reformation served as an incubator of democracy in Western Europe; the experience with and desire for self-government in the churches spread into broader society. Perhaps the experience with the free election of representatives in workers councils could play a similar role in China. At the least, support for workers councils is a tactic worth trying.

It is a tactic based on the strategic recognition that Taiwan's economic relationship with China must be managed so that the relationship enhances, rather than harms, the long-term prospects for the survival of Taiwan's sovereign democracy.

### **Conclusion**

In retrospect, it might have been better if Taiwan (and other free nations, including the United States) had not made themselves into the tools by which China would build its Comprehensive National Power. But the past cannot be undone, and it is unrealistic to expect that free nations will economically disengage from China.

The best strategy for the future is to recognize that China has proven that economic growth does not necessarily lead to democracy; to the contrary, China's economic growth has led to the growing self-censorship in the Free World, and to the strengthening of genocidal African tyrannies supported by Chinese wealth. The proactive economic policy of free nations, including Taiwan should be to search for every opportunity to use economic ties to promote freedom in China.

In contrast, a trade policy which is not founded on democratic sovereignty and freedom may be profitable but suicidal.<sup>95</sup> Making short-term profits from one's long-term destruction is unwise.

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<sup>95</sup> Vladimir Ilich (Ulyanov) Lenin, the father of modern tyranny, once predicted that the capitalists "will furnish credits which will serve us for the support of the Communist Party in their countries and, by supplying us materials and technical equipment which we lack, will restore our military industry necessary for our future attacks against our suppliers. To put it in other words, they will work on the preparation of their own suicide." I. U. Annenkov, *Remembrances of Lenin*, NOVYI ZHURNAL (New Review), September 1961, p. 147, cited in [RESPECTFULLY QUOTED: A DICTIONARY OF QUOTATIONS REQUESTED FROM THE CONGRESSIONAL RESEARCH SERVICE](#) (Suzy Platt, editor)(Washington D.C.: Library of Congress, 1989; New York: Bartleby.com, 2003), number 246.