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The United States of China

How business is moving Taipei and Beijing together

By ALLEN T. CHENG

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Two years ago, Peter Yu was a soldier in Taiwan's army, patrolling the beaches to guard against invasion from mainland China. He marched to songs extolling battlefield valor and the re-conquest of the mainland. Today, Yu, 25, is one of 300,000 Taiwanese entrepreneurs leading an assault on China's markets instead. With \$100,000 in capital, Yu and his father last year founded Bo Bo Steakhouse in Kunshan, a Taiwanese industrial enclave on the edge of Shanghai. Last month, the Yus opened a second Bo Bo in Suzhou, another Taiwanese outpost near Shanghai. "I was so surprised to see the fast economic growth that I decided to make my career on the mainland," says Yu. "I'm telling all my friends in Taiwan that their future is in China."



Jim Tsinganos.

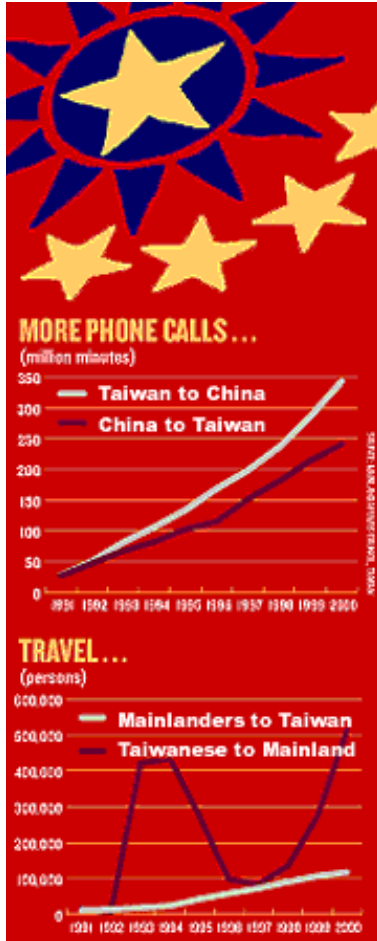
Sound the alarms. Taiwan's political leaders officially gave up the goal of retaking the mainland in 1987, but an economic assault by its businessmen is now in full swing. What's more, Beijing is welcoming the attack with open arms. Chinese officials are rolling out the red carpet for the 10,000 or so Taiwanese business people who enter the mainland daily. From China's point of view, such investments will not only enrich the country but also bind Taiwan economically to the mainland, preventing the "renegade" island-state from breaking away. It is the Taipei government that fears losing de facto independence. Strategists around the world still worry about the crisis that would erupt if Beijing attacks Taiwan. But the real story may be somewhat different: As Taiwan investors move into China, is the seven-decade long civil war quietly being resolved?

It sure looks that way in Kunshan. You could already call it part of the newly formed United States of China. More than 1,000 Taiwanese companies, including 30 publicly listed on the Taiwan Stock Exchange, have invested \$10 billion in the small city over the past 10 years. Ting Ling Road, the main drag, is 100% Taiwanese in appearance. Drawn by cheap labor and the huge market in the mainland, Taiwan manufacturers are ignoring Taipei's efforts to slow investment. A worsening global economy and policy blunders on the part of Taiwan's

PROMOTION

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government have accelerated the process: In the past 15 months alone, some \$20 billion has fled the island, most of it landing in China. Economists estimate Taiwanese capital in China crossed the \$100 billion mark last year, making Taiwan the fourth-largest investor in China.



the mainland. Last month, plastics tycoon Wang Yung-ching, one of Taiwan's most prominent businessmen, lashed out at President Chen's "go slow" policy toward trade and investment. "In the face of the unstoppable mainland heat, Taiwan simply can't run against the global trend of opening up the mainland market," Wang said. "Taiwan people should calmly accept the 'one China' principle, and from this position of equality, both sides can cooperate and enjoy long-lasting mutual benefits." Wang, who is believed to have invested as much as \$1 billion in 13 manufacturing projects in the mainland, with nine more planned, went on to say that he meant the "one China, separate interpretations" formulation agreed by the two sides in 1992. But Taiwan's business community increasingly view current policies as outdated.

Chen and his advisers may have good reason to be concerned about the velocity of the China wave. Taiwan's technology sector has largely picked up and moved to the mainland. Last year, only 49% of Taiwan's information technology products were made in Taiwan; much of the rest was produced in China. Often skirting Taiwan's investment limitations by going through third countries, most of Taiwan's hardware manufacturers already have moved their low-end assembly work across the Strait. "Many companies will do what they have to do to survive," says Victor Tsan, managing director of the Institute for Information Industry, a Taiwan government think tank.

Political infighting in Taiwan and bungled economic policies have led to a sharp

Taiwan's pro-independence President Chen Shui-bian and his predecessor, Lee Teng-hui, continue to stress the need for caution in dealing with Beijing. Taipei restricts investment in the mainland. Late last month, Taiwan test fired three U.S.-made Patriot antimissile missiles, as Beijing cranked up yet another round of saber-rattling war-games from Dongshan island in the Taiwan Strait. But economic reunification now seems irreversible. Some 50,000 Taiwan companies manufacture in the mainland, employing millions of workers. Taiwan manufacturers in southern Guangdong province alone produced almost 4% of China's total exports last year. Across the mainland, they account for 60% of China's information technology exports. "China will be a 21st century superpower because it has Taiwan and Hong Kong," says George Liu, a Shanghai-based Taiwan businessman and the son of a former Kuomintang general. "No one will be able to challenge Greater China, not Japan, not even the United States."

Taiwanese businessmen like Liu, who has invested \$140 million in real estate in Shanghai, increasingly take Beijing's side in the argument over the pace of economic integration with the

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increase in investments in the mainland. Chen's Democratic Progressive Party does not control Taiwan's legislature, and the party has been focusing on trying to win a majority of seats in the year-end legislative elections. Chen hopes he can avoid forming a coalition government and a power sharing with the KMT and other pro-unification forces, enabling the DPP to push through its pro-Taiwan agenda. But that might just exacerbate the situation.

The latest wave of Taiwanese investors began heading for China last summer when the DPP began a battle to shut down Taiwan's fourth nuclear plant. The DPP has long seen itself as pro-environment and considers nuclear energy hazardous. The island's business leaders, however, considered nuclear energy necessary to provide cheap power for their factories. Though eventually the DPP was forced to postpone its efforts to shelve the plant, its antinuclear push and other proposals, such as surtaxes on mainland investments, have only served to convince local businessmen that their future is on the mainland.

Andy Xie, chief economist for Morgan Stanley Dean Witter in Hong Kong, says Taiwan's anti-big business policies mean capital flight to China will only accelerate. He estimates that Taiwanese will invest an average of \$15 billion a year on the mainland for the foreseeable future. Some Taiwan analysts agree. "If the government continues like this, all of Taiwan's capital will flow out," says Sheen Ching-jing, chairman of Core Pacific Group, and vice-chairman of Yuanta-Core Pacific Securities, the island's largest securities house. "In the end, the government will lose, so will the average person."

One of the biggest beachheads of the Taiwanese investment invasion is Kunshan, just 50 km west of downtown Shanghai. "More than \$1 billion was committed to Kunshan alone since last October," says Chiu Dao-zuo, the general manager of the Kunshan factory of Hon Hai Electronics, one of Taiwan's largest personal computer component makers, and the chairman of the Kunshan Taiwan Enterprise Association. "Last year was Kunshan's year. It became famous in Taiwan."



Kunshan's rise as a Taiwanese industrial outpost has become a symbol of the island's political turmoil and economic decline — and of China's increasing sophistication when it comes to attracting investors. On Ting Ling Road, half a dozen Taiwanese-style wedding photo shops line the street. Taiwan pop songs blare from music shops. Fashion boutiques display the latest styles from Taipei — miniskirts, lingerie, cocktail dresses for the Taiwan factory managers' wives, or for the local mistresses many Taiwan businessmen keep. And while Taiwanese companies paid more than \$200 million in taxes last year to Kunshan, local officials plowed nearly \$100 million back into infrastructure and beautification. In the past two years, Kunshan has built an expressway, a convention center, a five-star hotel, parks, lakes and even golf courses just to cater to the Taiwan business community's needs.

Another of Kunshan's lures is its proximity to Shanghai, a city that has captured the imagination of Taiwanese of all ages. Many business people from the island

have bought villas, apartments, and entire blocks of city landscape to develop luxury housing for future Taiwanese immigrants. Even the Taiwan government's own magazine, Sinorama, this month featured "Shanghai or Bust," a cover story on the Taiwanese rush to Shanghai. Every night on selected channels, a new TV show teaches Taiwanese the Shanghai dialect.

Chen Pin, a Shanghai-based Taiwanese businessman, has become a star on the lecture circuit in Taiwan. He moved to Shanghai in 1990 to open a kitchenware plant, then wrote four books about Shanghai (including *Marching to Shanghai* and *Immigrating to Shanghai*). Chen is in such demand in Taipei that business associations have to wait for weeks to get him to speak. "The Taiwanese rush to Shanghai won't just be companies, but sooner or later retired white-collar workers," says Chen. "As Taiwan's economy continue to languish, more professionals are considering actually immigrating to Shanghai to start their own businesses." The idea of emigrating to China was once unthinkable in Taiwan. But according to Commonwealth, Taiwan's leading business magazine, nearly 8% of Taiwanese consider moving to the mainland as a viable option. "In fact, immigrating to Shanghai is now just behind immigrating to the U.S. and to Canada," says Chen.

Narrowing the strait		
Taiwan-approved investment in China by industry, 1991-2000 (\$ million and percentage)		
Electronic and electric appliances	4,796	28%
Basic metals and metal products	1,423	8%
Plastic products	1,340	8%
Food and beverage processing	1,280	7%
Chemicals	1,117	7%
Non-metallic minerals	950	6%
Precision instruments	857	5%
Other	5,340	31%

The Taiwanese presence in Shanghai is already substantial. While large companies are setting up billion-dollar high-tech plants, smaller firms are coming to dominate Shanghai's entertainment services. In the past three years, Taiwanese investors have opened hundreds of restaurants, pubs, karaokes, and saunas. Even the island's infamous Bamboo Union and Four Seas gangs have set up shop in Shanghai, where they operate some of the city's most upscale

nightclubs. "You're not trendy if you're not talking about Shanghai these days," says Daniel Juan, a Taiwanese real estate developer who recently sold half of the 80 luxury villas in Shanghai he spent \$20 million on building.

Even less cool mainland cities have benefited from the Taiwan wave. Taiwanese businesses are flocking across the Strait to Fujian province as well as to Guangdong province, just north of Hong Kong. In Guangdong's Dongguan county, some 4,000 Taiwan companies have invested more than \$10 billion and employ 3 million workers.

There is no sign the exodus will end anytime soon. Since Chen Shui-bian's election, the stock market has slid from a high of 10,000 to under 5,000 points. Taiwan's economic growth has slowed to just 1%, the most sluggish in nearly 26 years, driving unemployment to a record 4.22% in May. To rebuild Taiwan's slumping economy, Chen is likely to try to clamp down on the capital outflow — especially high-tech investments. He has been particularly concerned about reports that Wang Yung-ching's son Winston Wong (surname spelled differently from his father's) is building a \$1.6 billion semiconductor plant in Pudong with Jiang Mianheng, the son of Chinese President Jiang Zemin. Wong insists he is just the project's CEO and that the money isn't coming from Taiwan.

That's what most Taiwanese businessmen claim, because the government limits investments per project to no more than \$50 million and also forbids deals in most advanced high-tech industries. Taiwan also forbids real estate and basic infrastructure development. But local entrepreneurs have had a lot of practice finding ways around a meddlesome bureaucracy. Many send their money through third parties such as Hong Kong, Macau, Singapore, the U.S., and tax havens like the British Virgin Islands and the Bahamas.

Taipei's restrictions have done nothing to staunch the flow of capital and know-how to the mainland. Taiwan's second-largest-semiconductor maker, United Microelectronics Corp., plans to invest \$3.6 billion in a semiconductor fab in Singapore. But according to industry sources, \$2.5 billion of that will wind up in the China-Singapore Suzhou Industrial Park, about 90 minutes away from Shanghai by car. UMC officials deny such an investment, but Taiwan's United Daily News reported that UMC was investing in six assembly lines to make semiconductors and liquid crystal displays in the Shanghai area.

Sensing that the economic tide is turning in their favor, mainland officials have developed a "five Ps" policy toward reunification: pragmatism, patience, prudence, peace and prepare for the worst. "We believe that peace and economic momentum will exceed Taiwan's momentum for independence," says Yang Jiemian, the director of the Shanghai Institute for International Studies. Senior Chinese officials concede privately that they are considering options besides the "one country, two systems" formula that was used for the former colonies Hong Kong and Macau. "Behind the scenes we are discussing all sorts of things, such as the possibility of federation, confederation, common market," says a senior Chinese official in charge of Taiwan affairs.

Perhaps understandably, Chen and his DPP colleagues smell a rat. The administration is worried about what the stampede to the mainland will do to the island's interests, says John Deng, vice chairman of the Taiwan government's Mainland Affairs Council. "We don't want to stop them, but we urge them to be more careful, to be more restrained," Deng says. "China is China and Taiwan is Taiwan." The Chen administration has made small overtures, such as "mini-three links" — allowing direct communication with the mainland from three small islands Taiwan controls off China's shores. But Chen and his team are also trying to set up a political alliance to crush the opposition, especially those who promote reunification with China. Last week, Chen and former president Lee announced that they will work together in crucial year-end parliamentary polls. Lee, an ethnic Taiwanese who opposes reunification, plans to form a group of "Taiwan-first" legislators. These moves are reopening old divisions between descendants of mainlanders and "native" Taiwanese. "Taiwan (seems) like China in the 1960s. We have a Cultural Revolution and internal strife — this renders Taiwan very weak," says Steven Chang, a reporter for United Daily News. "In the end, China will be strong and Taiwan will quickly whittle away its strength and advantages."

But as economic ties across the Taiwan Strait grow, the likelihood of war fades. "If they attack, it's not good for China either," says the MAC's Deng. "I'm sure they will calculate the risks." Amid the risks, Taiwan has a historic opportunity, too. Says Jimmy Lai, a Hong Kong publisher who recently launched a Taiwan edition of his weekly magazine Next: "Economic integration also means you're playing a greater influence on China, an influence that will urge it toward democracy." Democracy in Taiwan, he argues, will protect the island from losing its political independence; when push comes to shove, the Taiwan people simply won't vote for reunification.

For now there is money to be made and markets to conquer. Six years ago, Peter Yu's father, Moses, founded a furniture plant in Kunshan to tap the China market.

Today, his business is booming. "Many skyscrapers have been built; they need new office furniture," he says. Peter is building his steakhouse business. "Here in China, they just love my steaks," he says. "I have plans to open Bo Bos all over the mainland." The invasion has only begun.

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