



# UNISCI Discussion Papers

## CHINA IS FLEXING ITS ECONOMIC MUSCLE AGAINST TAIWAN

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**DATE:**

**October 2005**

China has been growing its economy at an average rate of around 9 percent over the last 25 years and the rise of China has become a common concern among international community. Particularly, China would have more both economic and military resources to achieve its national agenda. Whether China with so rapid economic growth would become a benign power or a malignant power would have profound implication for the international system. Recently that China is flexing its economic muscle against Taiwan has posed further concerns about China's future assertive international behavior.

In the early 1990, Beijing succeeded in punishing one Hong Kong company for its chairman's political position. On August 8, 1994, Giordano, one of Hong Kong's most successful retailers in the China market, was forced to close its Beijing outlet because, Beijing said, certain licensing requirements had not been completed. However, many observers believe the real reason was because Jimmy Lai Chee-ying, chairman of Giordano Holdings, attacked Chinese Premier Li Peng in his *Next Magazine* calling him a "monster" and "the shame of the Communist Party" and criticizing him by saying "not only are you a bastard but you are also a bastard with zero IQ."<sup>3</sup>

Five days later, Jimmy Lai Chee-ying stepped down from his position as chairman of Giordano Holdings and relinquished his voting control over 36.5 percent of the group's shares to his trusted lieutenants, newly installed Chairman Peter Lau Kwok-kuen and two other directors. On September 8, the Giordano retail outlet in Beijing reopened for business. In this

<sup>1</sup> *Las opiniones expresadas en estos artículos son propias de sus autores. Estos artículos no reflejan necesariamente la opinión de UNISCI.* The views expressed in these articles are those of the authors. These articles do not necessarily reflect the views of UNISCI.

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<sup>3</sup> Lucas, Louise: "China Closes HK Store," *Financial Times*, 10 August 1994, p. 3. "China Snubs Businessman for Criticism of Li Peng; Daily," *Japan Economic Newswire*, 10 August 1994. Lim Soon Neo: "Giordano's Outspoken Chairman Quits," *Business Time* (Singapore), 12 August 1994, p. 1.



case, Beijing succeeded in punishing Lai for his criticism but did not permanently shut down the Beijing outlet of Giordano following Lai's resignation as chairman.<sup>4</sup>

In early 2001, the Credit Suisse First Boston (CSFB) helped organize meetings between Taiwan Finance Minister Yen Ching-chang and money managers at an international roadshow in Europe. Chinese officials were upset, and made accusations that the roadshow was simply a ploy aimed at increasing Taiwan's international recognition. As a result, China Unicom Ltd, China's second largest cellular carrier, dropped the CSFB from a multi-billion dollar underwriting deal to help raise funds. Only after CSFB head John Mack personally pledged to Beijing not to support Taiwan's future international bid did China stop blacklisting the CSFB from future deals in China. Beijing succeeded in acquiring concession from the CSFB and demonstrating its political resolve on the Taiwan issue to other foreign companies. Chinese Finance Minister Xiang Huaicheng said, "As long as it is not related to political matters, the (Chinese) government will not intervene."<sup>5</sup>

China has been increasingly using economic muscle against Taiwan. On March 10, 2000, Taiwan's Democratic Progressive Party's presidential candidate Chen Shui-bian revealed his list of advisors for national policies, including Stan Shih, chairman of the Acer Group; Shi Wen-lung, chairman of the Chi Mei Group; Chang Yung-fa, chairman of the Evergreen Group; and Ying Qi, president of the Continental Engineering Corporation. Couple days later, Chen was elected president of Taiwan. Zhang Zhiquan, director of Shanghai Taiwan Affairs Office, soon summoned representatives of these companies in Shanghai, and expressed China's concerns about their support for President Chen.

One month later, although reassuring Taiwan-invested enterprises (TIEs) in China that China would continue to protect their legitimate interests in China, Li Bingcai, TAO deputy director, said, "[V]ery particular individual important Taiwan businesspeople openly clamor for 'Taiwan independence' and advocate the 'Lee Teng-hui' line, which preaches the break up of the motherland. Meanwhile, they scabble for profits by engaging in business and economic operations on the Mainland. Such a situation will not be allowed to continue."<sup>6</sup>

Li Bincai's remarks incited anxiety among TIEs and Beijing tried to play down the anxiety of TIEs. On April 24, Vice Chairman Tang Shubei of China's Association of Relations Across the Taiwan Strait emphasized that for the majority of TIEs, Beijing welcomed and encouraged them to invest in China and protected their important interests. However, Tang pointed out, China had some opinions on only "very particular individual" TIEs, who publicly supported Taiwan independence.

On May 7, one month from his previous remarks, Li Bincai reassured TIEs that China would continue to obey "Jiang's eight-point proposal" and effectively protect all legitimate interests of TIEs. He also clarified that Beijing was concerned only with "very particular individual" TIEs, who publicly supported Taiwan independence. On September 23, Li Bincai reassured TIEs that cross-Strait political divergence should not interfere with economic

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<sup>4</sup> "No Special Deal for Giordano," *South China Morning Post*, 14 August 1994, p. 4. "Giordano Store Reopen," *South China Morning Post*, 9 September 1994, p. 2.

<sup>5</sup> Savadove, Bill: "China May Let CSFB in from the Cold, Official Says," *Reuters*, 19 October 2001, 2:23 am Eastern Time.

<sup>6</sup> "On the Current Development of Cross-Strait Economic Relations: Questions Answered by the Leader of the Central Taiwan Affairs Office and the State Council Taiwan Affairs Office," *Renmin Ribao* [People's Daily], 10 April 2000, p. 1.



exchange and cooperation. He promised that China put TIEs in a very important position and would protect various interests of TIEs under any circumstance.

In early March, 2001, Chi Mei Group Chairman Shi Wen-lung's controversial comments about Taiwanese comfort women serving for Japanese military persons during the World War II were published in a comic book, *Taiwan Discourse*, by Japanese cartoonist Yohinori Kobayachi. As a result, on March 10, the Chi Mei petrochemical plant in Zhenjiang, Jiangsu Province, was reportedly forced to shut down under pressure from Beijing. In addition, China launched several rounds of tax probes at Chi Mei's Zhenjiang plant, which were widely seen as Beijing's retaliation for Shi's comments.

Nevertheless, on the same day, both the Chi Mei Group and Chinese authorities denied reports that the Chi Mei's plant in Zhenjiang had closed. In addition, China's Taiwan Affairs Office (TAO) of the State Council issued a statement that China would protect the legitimate rights of Taiwanese investors in China. The next day, a TAO spokesman reiterated China's opposition to anyone making money in China while at the same time advocating independence in Taiwan. However, he also said that China would protect the rights of Taiwanese companies in China, but would also take relevant measures against anyone who breaks the law.

Although Shi Wen-lung did not explicitly support President Chen's re-election campaign in 2003-2004, a TAO spokesman stated after the 2004 election that China did not welcome the "green Taiwanese businesspeople." He clarified that "we do not welcome those Taiwan businessmen who earn money from the mainland and support Taiwan independence when they return to Taiwan."<sup>7</sup> In editorial comments of the *Renmin Ribao* [People's Daily], China called Shi Wen-lung a "Big-shot for Taiwan independence." China accused that Shi was President Chen's major financial provider behind the scenes.<sup>8</sup>

By mid-2004, the Chi Mei group was the world's largest manufacturer of important plastic material ABS and China was its major market. It has established a petrochemical complex and invested US\$170 million in Zhenjiang of Jiangsu Province since 1996. After the completion of the expansion project in Zhenjiang, the total investment would reach US\$600 million and production capability would exceed the group's Taiwan facilities. In addition, the Chi Mei group planned to invest more in high-tech information industry in China. In short, the Chi Mei group had a very high stake of its investment interest in China.

As a matter of fact, the Chinese government has moderately sanctioned the Chi Mei group for Shi's Taiwan independence stance by constantly probing tax issues and harassing its cooperative companies in both upstream and downstream companies, including Motorola. Consequently, the Chi Mei group faced significant pressure to drop its political stance.

Finally, on March 26, 2005, right after China's passage of anti-secession law (ASL) toward Taiwan, Shi Wen-lung released a retirement statement indicating that he fell "comfortable" with the ASL. He further elaborated that Taiwan independence would only push Taiwan into war and bring disaster to people. He said in his statement that his ancestors came from China's southern Fujian Province and believed that "both Taiwan and the

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<sup>7</sup> "Beijing Taiwan Affairs Spokesman's News Conference on 24 May," *BBC Worldwide Monitoring*, 24 May, 2004.

<sup>8</sup> Gang Cheng, "We Do Not Welcome Green Taiwan Businesspeople," *Renmin Ribao* [People's Daily], overseas edition, 31 May 2004.



mainland belong to one China.”<sup>9</sup> Particularly, his statement was very significant by choosing the timing at the same day of Taiwan’s demonstration of one-million people against China’s legislation of the anti-secession law.

Shi Wen-lung’s case has created a strong impact on TIEs’ political stance with respect to cross-Strait relations, since Shi was regarded as an obstinate supporter for Taiwan independence in the past. For instance, following the “Shi Shock,” Stan Shih, founder of Taiwan’s Acer Group, declined to accept President Chen’s invitation as his advisor. He said, “I have kept politically neutral and refrained from choosing sides all along.” The declared excuse by Shih was to “avoid misunderstanding from the other side of the Taiwan Strait.”<sup>10</sup> Parenthetically, the Evergreen Group’s Chairman Chang Yung-fa has quitted the position as President Chen’s advisor as early as in May 2002.

In essence, China’s tactics was mainly economic inducement, not economic sanctions. Economic sanctions involve the threat or act by a sender to disrupt customary economic exchange with the target in order to punish the target or force change in the target’s policies. Economic inducements involve commercial concessions, technology transfers, and other economic carrots that are extended by a sender in exchange for political compliance on the part of a target. “Economic inducements” are also called “positive sanctions.”<sup>11</sup> Generally speaking, although punishing green Taiwan businesspeople by probing tax issues or other administration harassment from time to time, China mainly relied on its potential market and investment opportunities to induce TIEs to comply with China’s political stance.

To sum up, Beijing has successfully imposed moderate economic sanctions and inducements against TIEs over the past four years. Beijing has targeted very carefully against very particular TIEs who were pro-Taiwan independence to minimize the collateral damage. In the future, TIEs will keep a low profile in terms of their political stance on cross-Strait relations. Particularly, TIEs will not explicitly support Taiwan independence or pro-Taiwan independence political parties in Taiwan. Whether China will flex its economic muscle through economic sanctions or inducements against other foreign businesspeople would deserve our further intention.

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<sup>9</sup> “Taiwanese Tycoon Vows Support for Beijing’s One China Policy,” *China Post*, 26 March 2005.

<sup>10</sup> Xiou-ming Zou: “Stan Shih: No More State Advisor,” *Lienho Bao* [United Daily], 1 April 2005. p. A1.

<sup>11</sup> Chen-yuan Tung (2002): *China’s Economic Leverage and Taiwan’s Security Concerns With Respect to Cross-Strait Economic Relations*, PhD Dissertation. Baltimore, MD, Johns Hopkins University, pp. 97-98.