

2004 **Lloyd's List** International
Lloyd's List

November 8, 2004

SECTION: Issue #58783; The Back Page; Pg. 12

LENGTH: 398 words

HEADLINE: Taiwanese investment cultivates mainland relations

BODY:

RAPIDLY increasing economic integration between China and Taiwan is reducing the risk of violent conflict between the two countries, writes **Melissa Murphy**.

Economic ties between China and Taiwan are extensive and strengthening fast.

Even before Taiwan's government lifted its ban on direct investment on the mainland in 2001, businesses circumvented official policy and poured an estimated US\$ 60bn-\$ 100bn into China.

This total is rising by US\$ 5-\$ 10bn a year, with direct Taiwanese investment on the mainland up 47% year-on-year in the first nine months of 2004.

Early investment took advantage of China's low cost base, concentrating on labour intensive industries in Fujian. Today, 84% of Taiwan's direct investment on the mainland goes to Guangdong, Jiangsu and Zhejiang Provinces, and is increasingly focused on medium and high-tech manufacturing such as semiconductors and LCDs.

An estimated 750,000 to 1m Taiwanese businessmen and their families live on the mainland, and China recently made commuter travel across the Strait easier by granting long-term residence visas.

So far this year, Taiwan's exports to the mainland are up 33% year-on-year, and imports from China (about one-third as large in value terms) have increased by a massive 55%. China is becoming increasingly dependent on Taiwanese investment, expertise and trade to maintain its economic growth and reduce unemployment.

Forty percent of China's exports are produced by firms backed, at least in part, by Taiwanese capital. While China welcomes economic integration, the issue divides Taiwan.

The ruling alliance fears it will hollow out Taiwan's industrial base, the locus of its political support, creating an economic dependence that gives China too much leverage.

Taiwan's opposition alliance, supported by most businesspeople, sees the world's fastest

growing economy as a lucrative export market, and crucial to Taiwan's own economic future.

As the countries move closer together economically, the incentive to moderate behaviour on both sides of the Strait will intensify, reducing the risk of violent conflict.

As written for Lloyd's List by Exclusive Analysis (www.exclusive-analysis.com)