TAIWAN, MAINLAND CHINA AND THE UNITED STATES:  
ANOTHER GOLDEN TRIANGLE FOR BUSINESS

Presented to  
Technology’s Critical Triumvirate:  
US-Taiwan-China Integration

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One of the most intriguing phenomenon of the cross-strait relations is the ever growing economic and trade interaction between Taiwan and Mainland China. An equally intriguing issue is the effect of the economic, social and cultural interaction resulting from the exchange of visits by millions of people in the wake of the rapid transformation of China. A third intriguing issue is that U.S. market and U.S. companies are also playing a critical role and thus constitute a golden triangle in global supply chain management between and among Taiwan, Mainland China and the United States. At the present stage, with a variety of uncertainties regarding the future of the cross-strait relationship, it may be of some help to identify some of the advantages enjoyed by Taiwan (or simply referred to as Taiwan advantages):

**Taiwan Advantages**

*Abundant experience in the development of manufacturing sector as evidenced by the first economic miracle (1960's-1980's)*

During the past four decades, Taiwan has undergone rapid economic development. The 1960's was a period of export-oriented manufacturing industries. We witnessed the rapid development of contract manufacturing and then the development of petrochemicals, information technology, and other capital and technology intensive industries in the 1970's and 1980's.

Taiwan has cultivated herself to have a solid foundation of manufacturing industries to promote the growth and to meet the demands of globalization. Taiwan has transformed herself to be a major manufacturing and trading partner to western countries. Such experience has enabled Taiwan businesses to take the lead in setting up tens of thousands of manufacturing facilities across Asia, and particularly in China.

*Strong Entrepreneurship*

One of the characteristics of Taiwan's business sector is the daring entrepreneurship. A good indication of the strength of entrepreneurship is the growth in start-up companies. Start-up companies and small and medium enterprises have greatly contributed to Taiwan's economy. In the 1980’s and 1990’s, the growth of technology companies is of particular significance.

*Taiwan business network - how Taiwan businesses play the role of integrator of regional and global resources to become an important player in the global supply chain*

Taiwan has been accumulating unique expertise and capabilities in doing business worldwide. Taiwan business sector, distinguished by its manufacturing technology and management know-how, is now an integral part of the supply chain of many global products and is also beginning to serve as an integrator of global resources by expanding its operations worldwide, especially in most Asian countries, including mainland China.

Taiwan business sector owns expertise such as swift orders placement, flexible management, component sourcing capability and other core competence that make Taiwan sharply responsive to the global market.

After Mainland China opened her gate to the world two decades years ago, one can clearly see the unique supply chain being developed among companies in the U.S.A., Taiwan and Mainland China.
The following statistic may further explain the relationship illustrated above:

In 2002, according to the U.S. statistics, China had the largest trade surplus with the U.S., at around US$103 billion. Her exports to the U.S. reached around US$125.1 billion and imports, US$22.1 billion. However, according to the Mainland China statistics, her trade surplus against the U.S. was around US$42.7 billion, with exports to the U.S. amounted to US$69.9 billion and imports around US$27.2 billion. At the same time, China enjoyed a trade surplus of US$47.8 billion against Hong Kong in 2002. Moreover, last year, Taiwan's trade surplus against Mainland China reached US$21.5 billion. Given the huge differences between the statistics on the value of exports to the U.S., one may well wonder what role the cross-strait division of labor plays in it and without too much imagination, to understand why it is referred to as a golden triangle for business.

*Taiwan businesses' unique role in the vast China market*

In addition to the role of supply chain, the advantages in terms of geography, cultural background and language give Taiwan businesses sector a niche to play the role as an integrator of global business activities in the Greater China region.

It is clear that Taiwan's industry enjoys certain advantages in areas of management, operation, technology and marketing while Mainland China, on the other hand, offers low-cost labor and resources and a vast domestic market. These advantages plus the common cultural background give Taiwan business sector a great advantage to play the role as an integrator of activities in the supply chain of global products.

*Abundant resources in financial and capital market*

To Taiwan capital is not a problem, we have overseas reserve in the amount of US$190 billion (official). As of June 2003, Taiwan had 202 Venture Capital (VC) companies, with a total paid-in capital of US$4.74 billion. From 1996 to 2002, they have invested in 7560 projects with a total investment of US$4.27 billion.

Certainly, government is making great effort in facilitating access to efficient capital markets. The recent abolition of the QFII (“Qualified Foreign Institutional Investors”) system is one of the indicators of the government’s efforts in eliminating investment obstacles to attract foreign investment into Taiwan’s capital market. At the same time, the government is also conducting research on the establishment of industrial holding companies and financing companies. We expect the government to expedite its financial reform programs to facilitate Taiwan in becoming a global funding center. With abundant financial resources vested
in and among Taiwan's business sector, Taiwan does have the potential to become one of the most promising capital markets in the region.

**Management and business experience for doing business in Asia**

Taiwan has sufficient talents in establishing and managing manufacturing operations in different geographic locations with diverse cultural backgrounds to meet the demands of globalization activities. By accumulating experience from doing business worldwide, especially in Southeast Asia, Taiwan business sector has established certain foundation of skills. Taiwan business sector knows how to train workers in different cultural environments and how to ensure prompt delivery of goods as well as quality control. They also know how to deal with buyers and markets and how to maintain worldwide distribution network. They have R&D capability as well as system integration capability.

**Opportunity for strategic alliance with Taiwan Business**

*Partnering with Taiwan's industries/business to enter the vast Asian market*

Taiwan's excellent relations with foreign manufacturing and service industries provide a good opportunity for cooperation with foreign investors and for access to the Asian market. Since Taiwan and Mainland China have both joined the WTO, Taiwan industries/business have become more eager to explore new business opportunities in Mainland China, either on their own or through joint venture with other international investors.

*Partnering with Taiwan industry for role in the global supply chain management*

As a result of the huge investment worldwide, Taiwan industries/business have built up remarkable networks around the world for manufacturing, distribution, marketing and logistic support. Businesses from other countries can tap into such networks through their strategic alliance with Taiwanese partners.

*Partnering with Taiwan business to develop a whole range of high value-added knowledge-based service industry in the Asian Market*

For the service industry, in addition to the financial reform that we mentioned previously, the government has come up with other measures to facilitate the introduction of new ideas and technologies to improve the quality of the service sector. Meanwhile, the government is also actively promoting the development of logistics and distribution business, human resource training, healthcare, communications and media, R&D and technology, information technology, cultural innovations, construction and manufacture engineering, environmental protection, product design as well as tourism.

I believe that tremendous new business opportunities will become available, especially in a new environment created by Taiwan's WTO accession. For example, in the case of Taiwan's agricultural sector, the government will assist farmers in upgrading their operations, improving the distribution system of agricultural products, and increasing the added value by integrating environmental protection, recreation and tourism with agriculture. Furthermore, Taiwan's agricultural technologies need to be commercialized by means of packaging such technologies for license to other areas where the cost of production is lower and more competitive.
Structure Issues

Structure issues examine how to stimulate sustainable economic growth in a country through building a sound legal, economic, political and social framework. It involves facilitating an environment that supports thriving entrepreneurship for economies to grow themselves and witness increased standards of living. Structure issues are also characterized by developing a highly educated, innovative, and creative populace that can apply those traits to businesses and continued economic growth.

Taiwan has experienced how economic development and openness contributed to political change. Taiwan's example proves that democracy and capitalism can successfully engage in Asian culture. Taiwan proposed the APEC Best Practice Guidelines for Entrepreneurship and Start-up Companies and the APEC Best Practice Guidelines for Enhancing Women’s Entrepreneurship and Start-up Companies and were endorsed by the Ministers at the APEC Ministerial Meeting in 2001 and 2002 respectively. In 2003, Taiwan continued to propose the APEC Best Practice Guidelines for Enhancing the Financing Chain for SMEs at Different Growing Stages at the 15th APEC Ministerial Meeting. The Guidelines were endorsed by the APEC Ministers again and serve as a model for future development of all Asian economies.

These are fine examples of how structure issues can be incorporated into the international policy forum for discussion.

Speculation of the future transformation of China

If we place the above-mentioned structure issues together with the future transformation of China for further pursuit, we will no doubt understand the vital importance on the direction of the future transformation of China.

Such transformation encompasses the social, cultural, legal, economic and eventually political changes. How the interaction between Taiwan and China affect such changes is an issue that deserves more attention from scholars, business executives, civil servants, as well as political leaders. For example, some of the pressing issues, such as the legal status of the private sector and the legal position of private property rights, have been subject to discussion quite openly, even within China. I am certain that in the years to come more and more issues will be surfacing to open discussion and our joint pursuit in this regard will provide many future opportunities for us to get together again.