Taiwan’s Investment Policy in Mainland China
A Domestic Perspective

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INTRODUCTION

In recent years, the political tensions between the ROC and the PRC have complicated economic communication across the Taiwan strait. Taiwan’s over-dependence on trade and investment in mainland China has made it vulnerable to Beijing’s economic sanctions and military threats. As a result, whenever cross-Strait relations deteriorate, Taipei always worries about Beijing’s utilization of economic sanctions to endanger Taiwan’s economic development. Moreover, it is worth noting that Taiwan’s investment increase in mainland China will also likely result in great amounts of trade flow across the Strait, especially Taiwanese exports to mainland China. In this sense, trade and investment are becoming issues which cannot be separated by decision-makers in Taiwan. Thus, from Taipei’s point of view, economic and political factors are indeed intermingled in the development of cross-Strait relations, while Beijing insists these two factors can be dealt with separately. Above all, among those political factors, the issue of national security is of the deepest concern to Taipei’s decision-makers.

From the perspective of international political economy, politics and the economy are indeed interactive. With an analytical framework of political and economic interaction, or a competition between state and market, this paper assumes that the interaction of political and economic factors might have some impact on Taiwan’s investment policy in mainland China. While Taiwan government has insisted on its role in guiding its investment policy in mainland China, it has gradually encountered opposition from society. Thus, the interaction of politics and economics has always been a hot issue in Taiwan’s development of its investment policy towards mainland China since 1990. This paper attempts to analyze the four distinctive stages of Taiwan’s investment in mainland China: liberal market policy, the Southward policy, the Asia-Pacific Regional Operations Center (APROC) and the “Jie Je Yong Ren” policy. The paper then examines how
politics interacts with economics in each stage. Some implications will be discussed in the conclusion.

**POLITICAL AND ECONOMIC INTERACTION**

Theoretically, the interaction of politics and economics in international economy can be examined through two different perspectives: the liberal and the economic nationalist perspectives. Liberal economic theory is dedicated to free markets and minimal state intervention. It also argues that markets should be free from political interference. In essence, liberals believe that trade and economic communication are sources of peaceful relations among nations because the mutual benefits of trade and expanding interdependence among national economies tend to foster cooperative relations.¹

Economic nationalism advocates the primacy of politics over economics. It asserts that economic activities should be subordinate to the interests of the state. Benjamin Cohen thus views foreign economic policy as part of a country’s total foreign policy.² Economic nationalism also focuses on the state as the predominant actor in international relations and as an instrument of economic development. This perspective stresses the importance of security and national interests of a country in conducting a country’s foreign economic relations. In this sense, states tend to influence markets for their own interests.³

This paper argues for the importance of the coexistence and mutual interaction of the state and the market. Neither the state nor the market can be used alone in explaining international political economy, and their relationship is interactive. Although the state as the embodiment of politics and the market as the embodiment of economics are distinctive features of the modern world, they obviously cannot be totally separated. Internationally, the tendency of a government is to restrict and make economic activities serve the perceived national interests of the state. As a result, although the logic of the market is to locate economic activities where they are most productive and profitable, the logic of the state is to control the process of economic growth and capital accumulation, or to regulate those economic activities that might endanger a country’s national interests. The political economy thus represents a dynamic interaction in international economic relations.

The increasing role of the state in economic affairs is a key component in the study of domestic and international political economy. All the successful East