

Trade Relations between Taiwan and China

Chen-yuan Tung

In Jing Luo (ed.), *China Today: An Encyclopedia of Life in the People's Republic* (Westport, CT: Greenwood Press, 2005), pp. 625-628.

Because of political and military hostilities, economic exchange between Taiwan and China was virtually nonexistent between 1949 and 1979. On 1 January 1979, after adopting reforms and open policy in late 1978, China proposed establishing the three links (direct trade, postal, and transportation links) between Taiwan and China. In 1980, China organized a mission to Hong Kong and purchased \$80 million worth of Taiwanese products. In the same year, to further encourage trade, China announced a tariff-free policy on Taiwan-made imported goods. However, the zero tariff policy lasted for only one year.

Beijing's initiatives received no response from Taipei until the mid-1980s. In 1985 Taiwan for the first time responded to China's request for cross-Strait trade by announcing the "Non-interference Principle of Indirect Exports to the Mainland." From then on, cross-Strait trade started to grow rapidly along with China's increasing economic reforms and Taiwan's gradual relaxation of limits on cross-Strait economic interaction. Nevertheless, Taiwan's imports from China are still under regulations. Only 53.9 percent (or 5,777 items) of 10,724 Harmonized Tariff Schedule (HS) system coded 10-digit trade commodities were permitted to be imported from China to Taiwan by December 2000 and 77.5 percent (or 8,306 items) by September 2003, respectively.

Statistics on trade between Taiwan and China should include the transit exports (re-exports) to China via Hong Kong, and other places, trans-shipment (goods are consigned directly from Taiwan to a buyer in China, though the goods are transported via Hong Kong), transit-shipment (goods do not change vessels and they just pass through Hong Kong on their way to China), direct trade (small-scale trade often conducted by fishermen, legal for China, but not for Taiwan), and smuggling (illegal for both Taiwan and China). Some portion of Taiwan's exports to northern China transit through Japan and Korea, in particular through Japan's Ishigaki-jima (Shiyuan Islands).

Taiwan's Mainland Affairs Council (MAC) estimates that Taiwan's exports to China are equal to transit trade plus the difference between Taiwan's exports to Hong Kong and Hong Kong's imports from Taiwan. This estimate should be better than the figures from China's customs service because China's figures do not take different types of Taiwan exports to China into account and thus underestimate the total amount. Because the MAC has provided a consistent series of estimates for bilateral trade between Taiwan and China since 1981, scholars usually adopt its estimated figures.

Based on MAC's estimates, Taiwan's indirect trade with China via Hong Kong was only

\$460 million in 1981 and \$279 million in 1982. Thereafter, cross-Strait trade increased tremendously to \$3.9 billion in 1989, \$17.9 billion in 1994, \$31.2 billion in 2000, and \$37.4 billion in 2002. Between 1981 and 2002, Taiwan's trade with China has increased 134 fold.

In addition, Taiwan has enjoyed a continuous and large trade surplus with China for the past two decades. In 1981, Taiwan ran a trade surplus of \$310 million, with \$385 million of exports to, and \$75 million of imports from, China. In 1989, Taiwan ran a trade surplus of \$2.7 billion, with \$3.3 billion of exports to, and \$587 million of imports from, China. In 2002, Taiwan ran a trade surplus of \$21.6 billion, with \$29.5 billion of exports to, and \$7.9 billion of imports from, China.

Since 1993 China has become Taiwan's third largest trading partner, after the United States and Japan. In 2002, Taiwan's trade with the United States, Japan, and China was \$44.9 billion, \$39.3 billion, and \$37.4 billion, respectively. In addition, since 1993 China has also become Taiwan's second largest export market, next to the United States. In 2002 China became Taiwan's largest export market for the first time. According to MAC's estimate, in 2002, Taiwan's exports to China (excluding Hong Kong), the United States, and Japan were \$29.4 billion, \$26.7 billion, and \$12 billion, respectively.

In comparison, between 1990 and 1999 Taiwan was China's fourth largest trading partner, next to Japan, the United States, and Hong Kong. Between 2000 and 2002 Taiwan was China's fifth largest trading partner, next to Japan, the United States, Hong Kong, and Korea. In 2002, China's trade with Japan, the United States, Hong Kong, Korea, and Taiwan was \$101.9 billion, \$97.2 billion, \$69.2 billion, \$44.1 billion, and \$37.4 billion, respectively. In addition, since 1993 Taiwan has also become China's second largest supplier (Japan has been its largest supplier). In 2002, China's imports from Japan and Taiwan were \$53.5 billion and \$29.5 billion, respectively.

Based on Taiwan's customs statistics, Taiwan's exports to China were concentrated in four of the 22 sections in the HS system: section 7 (plastics and rubber); section 11 (textiles); section 15 (base metals); and section 16 (machinery, mechanical appliances, electrical equipment, parts, and accessories). These four sectors included 61 percent of Taiwan's total exports to China in 1992, 75 percent in 1994, 77 percent in 1996, and 79 percent in 1998. Moreover, between 1992 and 1998, the merchandise structure of Taiwan's exports to China was similar to that of Taiwan's total exports and these four sections were the same four largest sections of Taiwan's overall exports.

In particular, the share of both section 15 and section 16 has been increasing exponentially. In 1992, section 15 represented 5 percent of Taiwan's total exports to China and section 16 represented 25 percent. In 1998, section 15 represented 13 percent of Taiwan's total exports to China and section 16 represented 33 percent. These two sections accounted for about 46 percent of Taiwan's total exports to China in 1998. By contrast, section 12 (footwear, headgear, and artificial flowers) accounted for 16 percent of Taiwan's

total exports to China in 1992, but then declined dramatically to 2 percent by 1998.

This trend is closely related to Taiwan's investment in China. In the late 1980s and early 1990s, most of Taiwan's investment in China was in the shoe, textile, apparel, and plastics industries (sections 7 and 12). By the mid-1990s, the bulk of Taiwan's investment in China was concentrated in electronic and electric appliances, and basic metals industries (sections 15 and 16). As a matter of fact, Taiwan's exports were mostly driven by Taiwan's investment in China.

According to Taiwan's customs statistics, the merchandise structure of Taiwan's imports from China was also concentrated in four of 22 sections in the HS system: section 5 (mineral products); section 6 (products of chemical or allied industries); section 15 (base metals); and section 16 (machinery, mechanical appliance, electrical equipment, parts, and accessories). These four sectors accounted for 61 percent of Taiwan's total imports from China in 1992, 61 percent in 1994, 69 percent in 1996, and 73 percent in 1998. These four sections were also the same four largest sections of Taiwan's overall imports between 1992 and 1998.

In particular, section 16 (machinery, mechanical appliance, electrical equipment, parts, and accessories) has increased rapidly, from 0.3 percent of Taiwan's total imports from China in 1992 to 37 percent in 1998. In addition, section 15 and section 16 accounted for about 57 percent of Taiwan's total imports from China in 1998. By contrast, in 1992, section 2 (vegetable products) accounted for 15 percent of Taiwan's total imports from China, then declined sharply to 3 percent in 1998. Furthermore, section 5 (mineral products) also declined from 28 percent of Taiwan's total imports from China in 1992 to 9 percent in 1998. Overall, Taiwan's imports from China are no longer China's basic agricultural and industrial raw materials, but products closely related to Taiwan's investment in China (sections 15 and 16).

Finally, trade between Taiwan and China was characterized by intra-industry trade (IIT), which refers to simultaneous exports and imports of commodities in the same industry or production group during a given time. The IIT index measures the degree of intra-industry trade and varies between 0 (complete inter-industry trade) and 100 (complete intra-industry trade). Based on the HS classification, the IIT index for the manufacturing industry of trade between Taiwan and China increased from 16 in 1992 to 30.4 in 1998.

Chen-yuan Tung

National Chengchi University (Taiwan)

Bibliography

Chung-Hua Institution for Economic Research, *Dalu ji Liangan Jingji Qingshi Baogao (1997/1998)* [Report on the Economic Situation of Mainland China and the Two Sides of the

Taiwan Strait (1997/1998)], (Taipei: Mainland Affairs Council, 1999).

Naughton, Barry, *The China Circle: Economic and Technology in the PRC, Taiwan, and Hong Kong* (Washington, DC: Brookings Institution Press, 1997).

Taiwan Economic Research Institution (ed.), *Cross-Strait Economic Statistics Monthly* (Taipei), various issues.

Tung, Chen-yuan, *China's Economic Leverage and Taiwan's Security Concerns with Respect to Cross-Strait Economic Relations*, Ph.D. dissertation (Baltimore, MD: Johns Hopkins University, 2002), pp. 18-90.

Wang, Zhi, and G. Edward Schuh, "Economic Integration Among Taiwan, Hong Kong and China: A Computable General Equilibrium Analysis," *Pacific Economic Review*, vol. 5, no. 2 (June 2000), pp. 229-262.

Contributor's Bio:

Chen-yuan Tung, Ph.D., is assistant research fellow at the Institute of International Relations, National Chengchi University, director of China Economic Analysis project of the Cross-Strait Interflow Prospect Foundation, and adjunct assistant professor at the Department of Political Science, Soochow University, Taiwan.