

Opportunities for Cross-Strait Economic Cooperation

海峡两岸经济合作的机遇

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*本文仅代表作者个人意见, 并不必然反映与作者相关的各机构的观点。

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引言：

现时经济状况

- ◆ The Mainland economy continues to do well—It is expected to grow at 7.5% in 2013 and at least 7% per annum on average for the next decade or so.
- ◆ The Taiwan economy, being highly dependent on exports, has been seriously affected by the prolonged recession in the developed economies. Taiwan has an exports to GDP ratio in excess of 70 percent and its trade surpluses have been in recent years the major driver of its economy. There has been insufficient domestic investment and the stagnation of real household income has limited the growth of household consumption. Taiwan also faces strong competition from other economies such as South Korea. Its economy is expected to grow 2% in 2013 and at a moderately higher rate in 2014 and beyond.
- ◆ With the continuing robust growth of the Mainland economy and the rise of its domestic consumption market, Taiwan should now look to the Mainland as a large market for its final goods in addition to being an assembly base, for its exports to other countries, as well as a potential source of investment.

引言： 经济互补性

- ◆ The economies of the Mainland and Taiwan are at different stages of economic development. In 2012, Taiwan had a per capita GDP of US\$20,381, compared to US\$6,102 for the Mainland.
- ◆ Taiwan has relatively high real wage rates whereas the Mainland has relatively low real wage rates.
- ◆ Taiwan has a better educated labour force than the Mainland.
- ◆ The Mainland has a higher saving rate than Taiwan and more savings than can be productively invested on the Mainland itself.
- ◆ The Mainland has a huge domestic market whereas Taiwan depends heavily on exports.
- ◆ Taiwan and Mainland's exports are not competitive with each other.

引言：

经济互补性

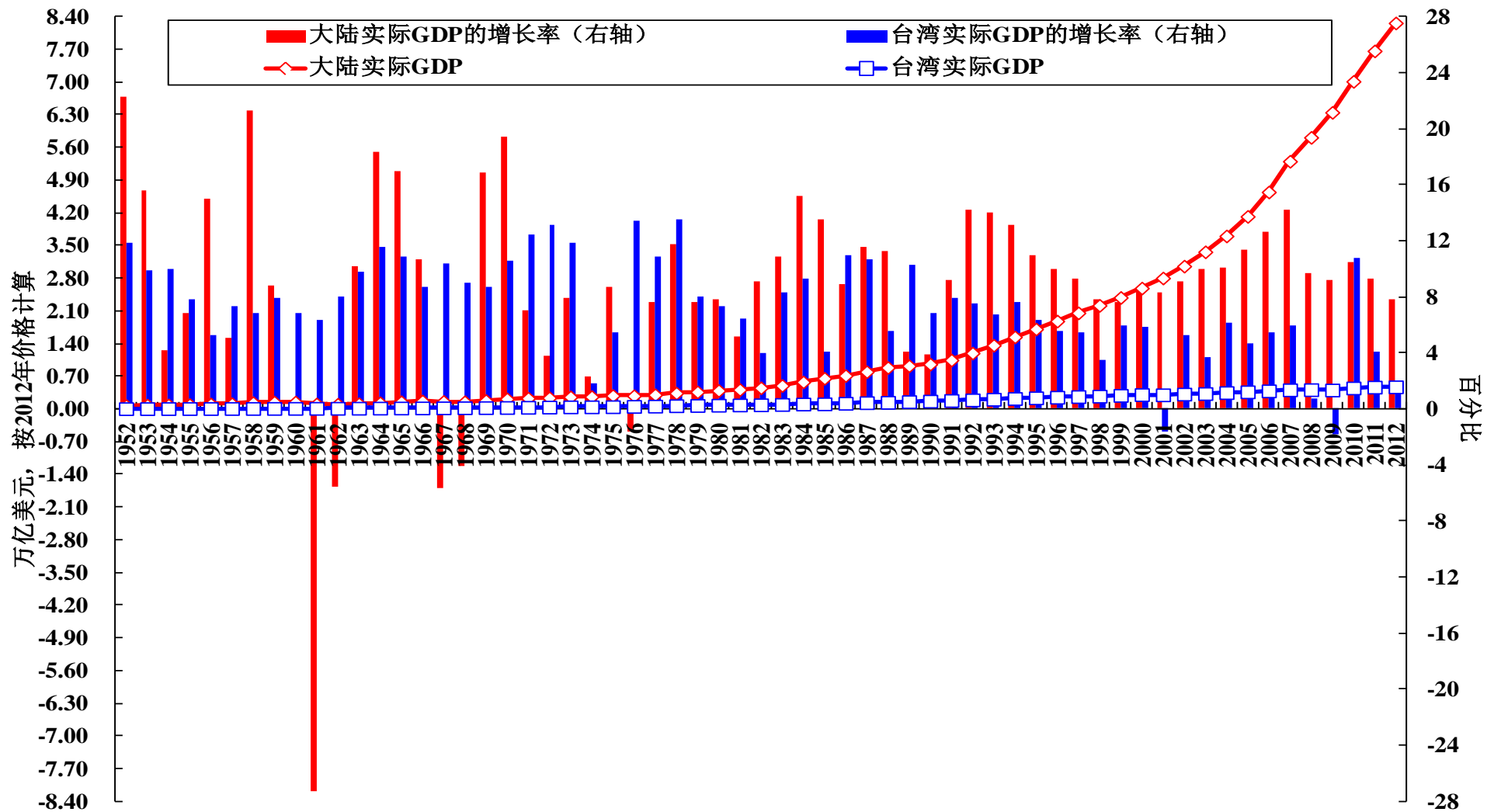
- ◆ Taiwan's comparative advantage is increasingly in knowledge-intensive and intellectual property-intensive industries and sectors (e.g., Taiwan Semiconductor Manufacturing Corporation is a major intellectual property producer and accounts for almost half of Taiwan's patents granted by the U.S. annually) whereas Mainland's comparative advantage remains in manufacturing even though it has recently begun to shift to more capital-intensive and technology-intensive manufacturing.
- ◆ The large domestic market of the Mainland also enhances the returns to R&D and other forms of intangible capital, including intellectual property and brand names. Economies of scale in the creation and utilization of intangible capital imply that the rate of return increases more than proportionally with the size of the market. The fixed development costs of innovative technologies and products or the promotion of a brand name can be more easily recovered from a large base of domestic demand. Taiwan firms can therefore profit by leveraging their intellectual property and brand names in the Mainland market.

大陆经济与台湾经济的比较

- ◆ It is useful to compare the economies of the Mainland and Taiwan over time.
- ◆ In 1952, the real GDP of the Mainland economy was only 10.1 times that of Taiwan (US\$ 72.16 billion versus US\$7.16 billion in 2012 prices). Today, it is 17.4 times (US\$8.26 trillion versus US\$474 billion). In terms of the average annual real rates of growth over the sixty-year period since 1952, the Mainland leads slightly with 8.2%, compared to 7.2% for Taiwan.
- ◆ However, in terms of real GDP per capita, Taiwan still leads the Mainland at 3.3 times in 2012 (US\$20,381 versus US\$6,102 in 2012 prices), but the gap has shrunk significantly from 7.1 times in 1952 (US\$890 versus US\$126). In terms of the average annual real rates of growth, the Mainland also leads slightly with 6.7%, compared to 5.4% for Taiwan, reflecting in part the Mainland's “one-child policy” since 1978.

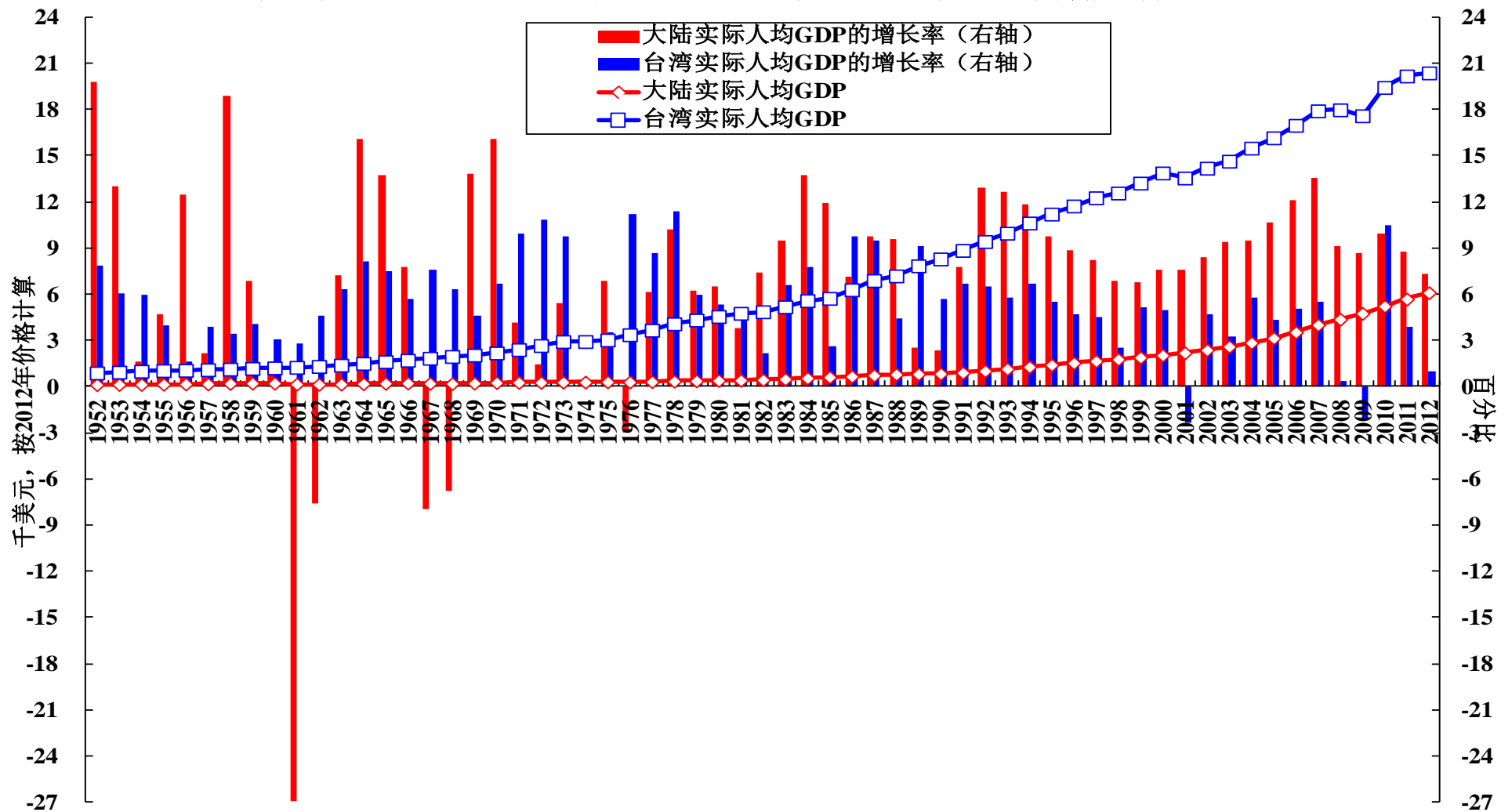
1952年以来大陆与台湾的实际GDP及其增长率的比较(按2012年价格计算)

1952年以来大陆与台湾实际GDP及其增长率的比较（按2012年价格计算，万亿美元）

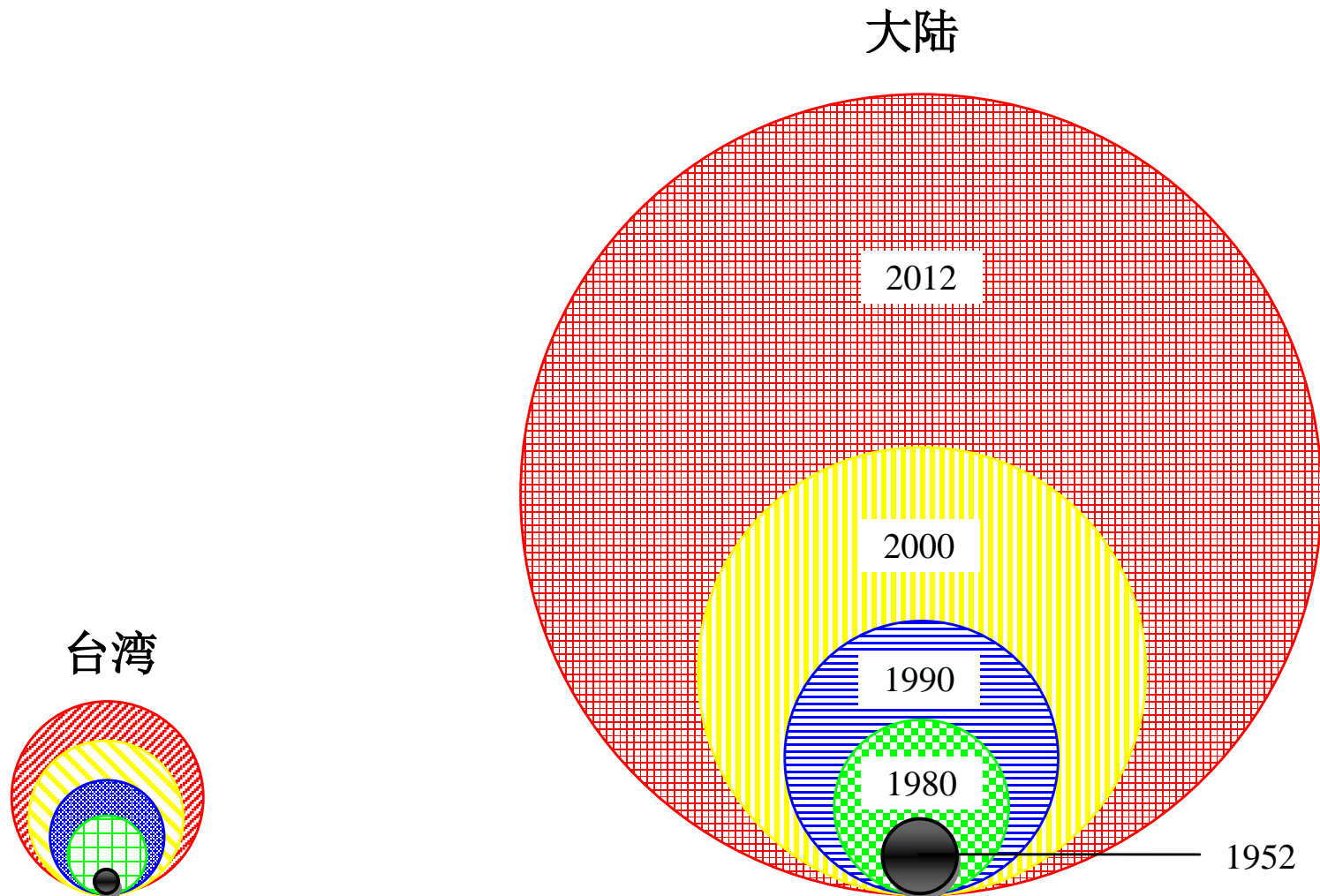


1952年以来大陆与台湾的实际人均GDP及其增长率的比较(按2012年价格计算)

1952年以来大陆与台湾实际人均GDP及其增长率的比较（按2012年价格计算，千美元）

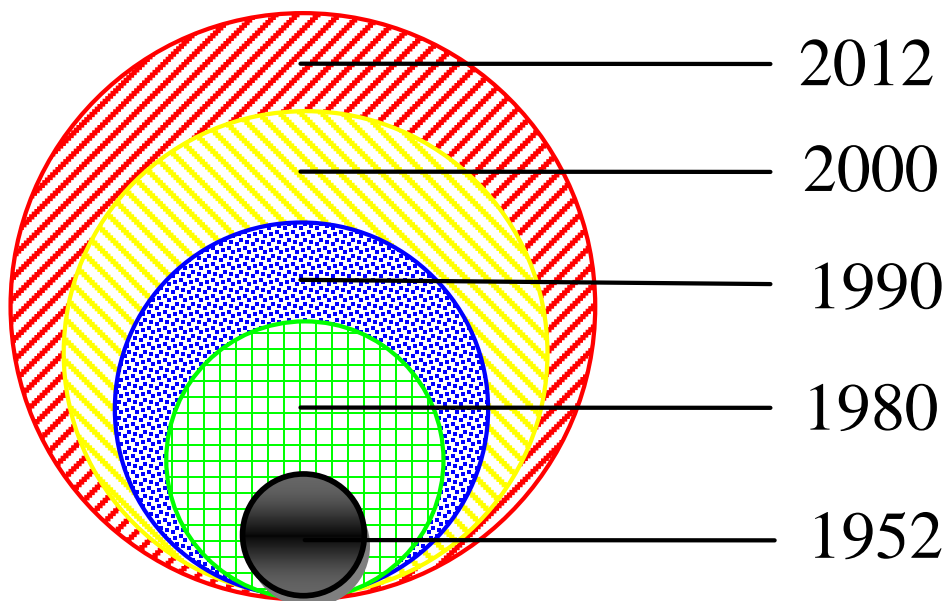


大陆与台湾实际GDP的比较（按2012年价格计算，十亿美元）

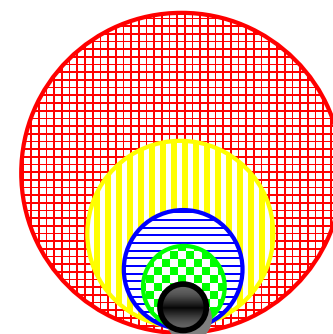


大陆与台湾实际人均GDP的比较（按2012年价格计算，美元）

台湾

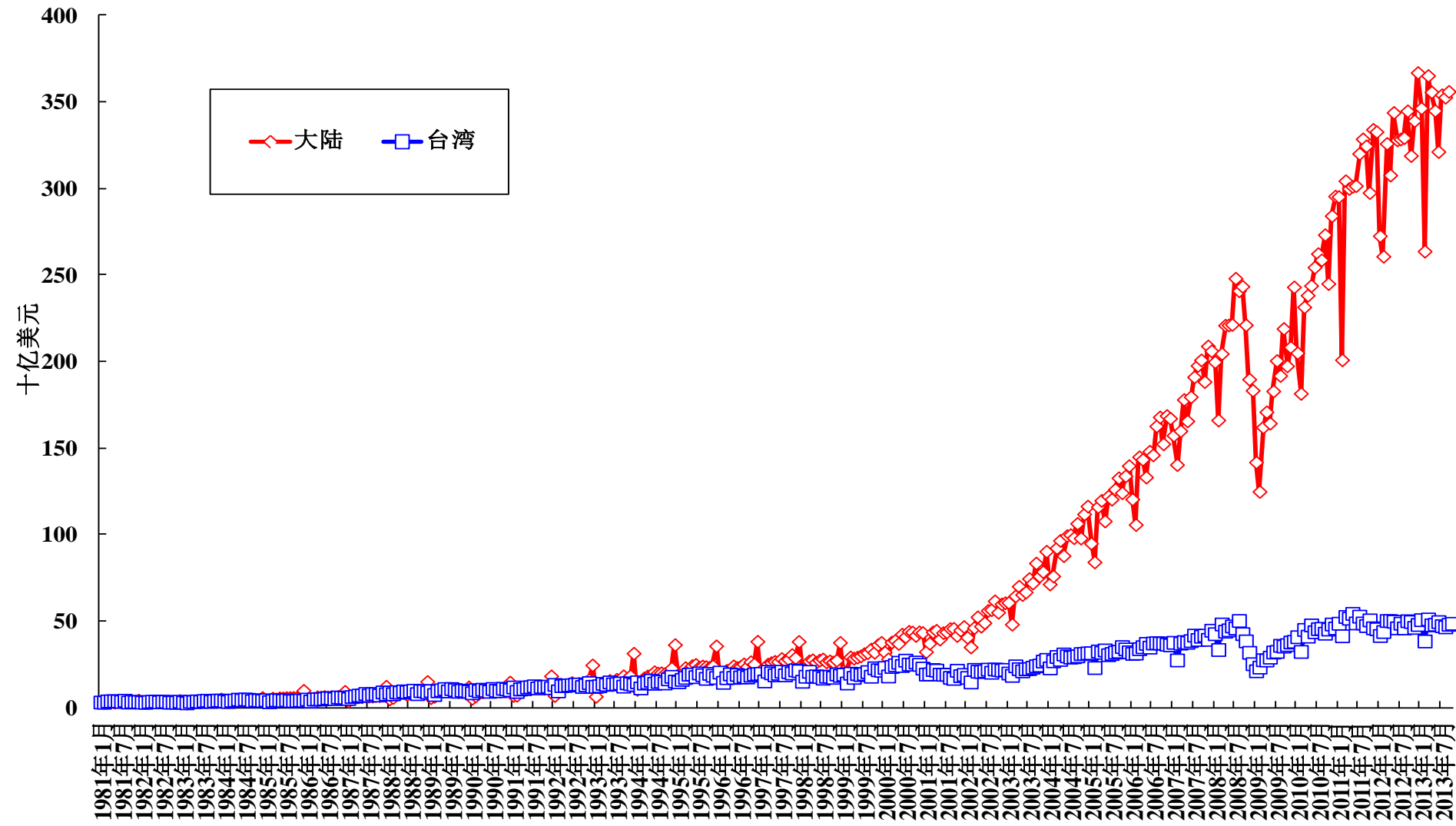


大陆



大陆与台湾境外贸易总额的比较

大陆与台湾贸易总额的比较

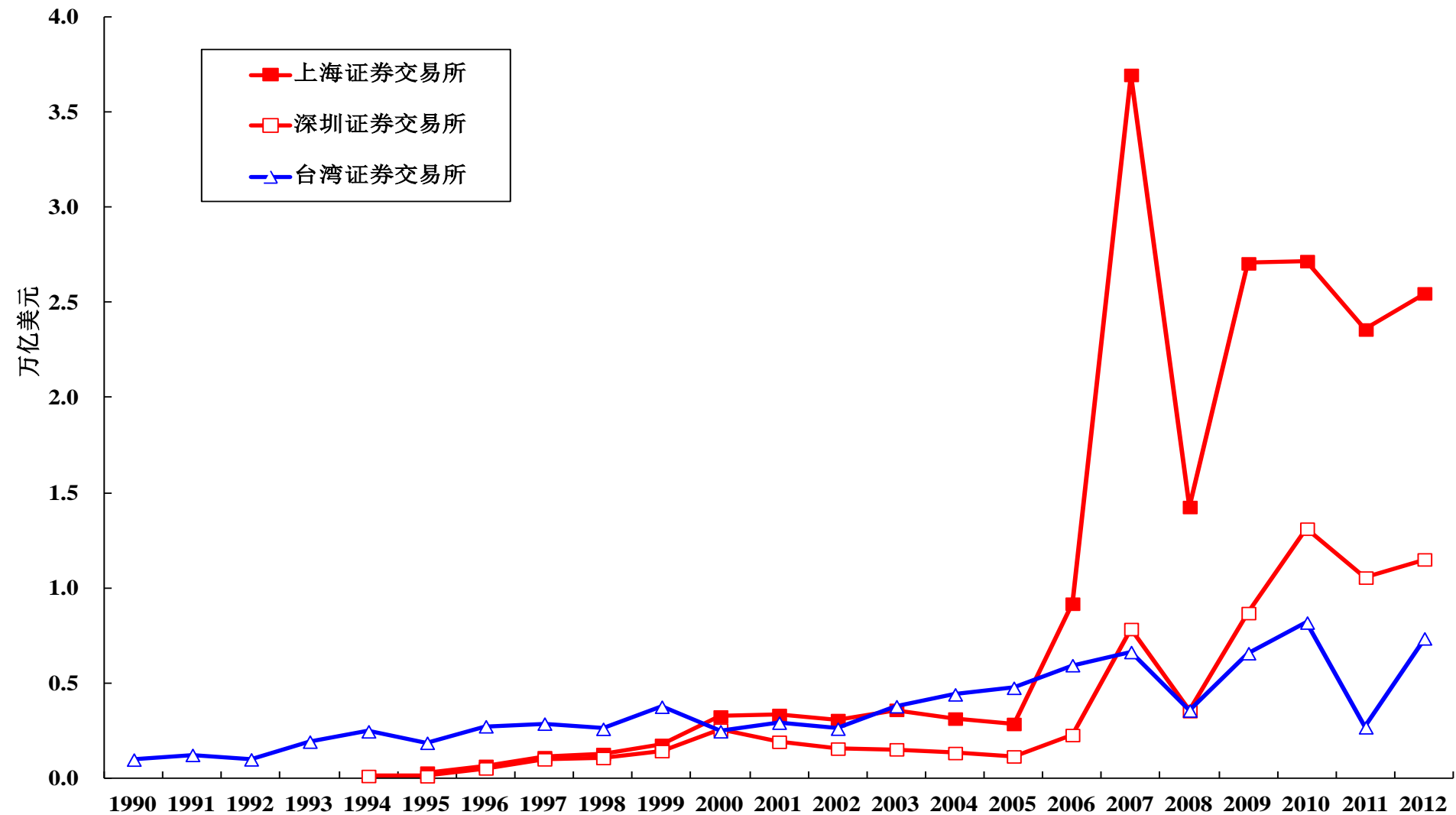


大陆经济与台湾经济的比较： 股票市场

- ◆ Stock exchanges on the Mainland were first established in the early 1990s, much later than the Taiwan Stock Exchange. However, in terms of total market capitalisation—the total value of all the companies listed on the stock exchange at the prevailing share prices of the market—the Shenzhen Stock Exchange alone is now larger than the Taiwan Stock Exchange.
- ◆ As there are many Taiwan-invested enterprises operating on the Mainland, there is a great deal of room for these Taiwan enterprises to go public on the Taiwan Stock Exchange, or for their parents to inject their Mainland assets into themselves in the future. If the parents are not yet listed, they can go for an Initial Public Offering in Taiwan, or if they are listed already, they can issue new stock in Taiwan.¹²

大陆与台湾证券交易所的市值比较

大陆与台湾证券交易所的市值比较

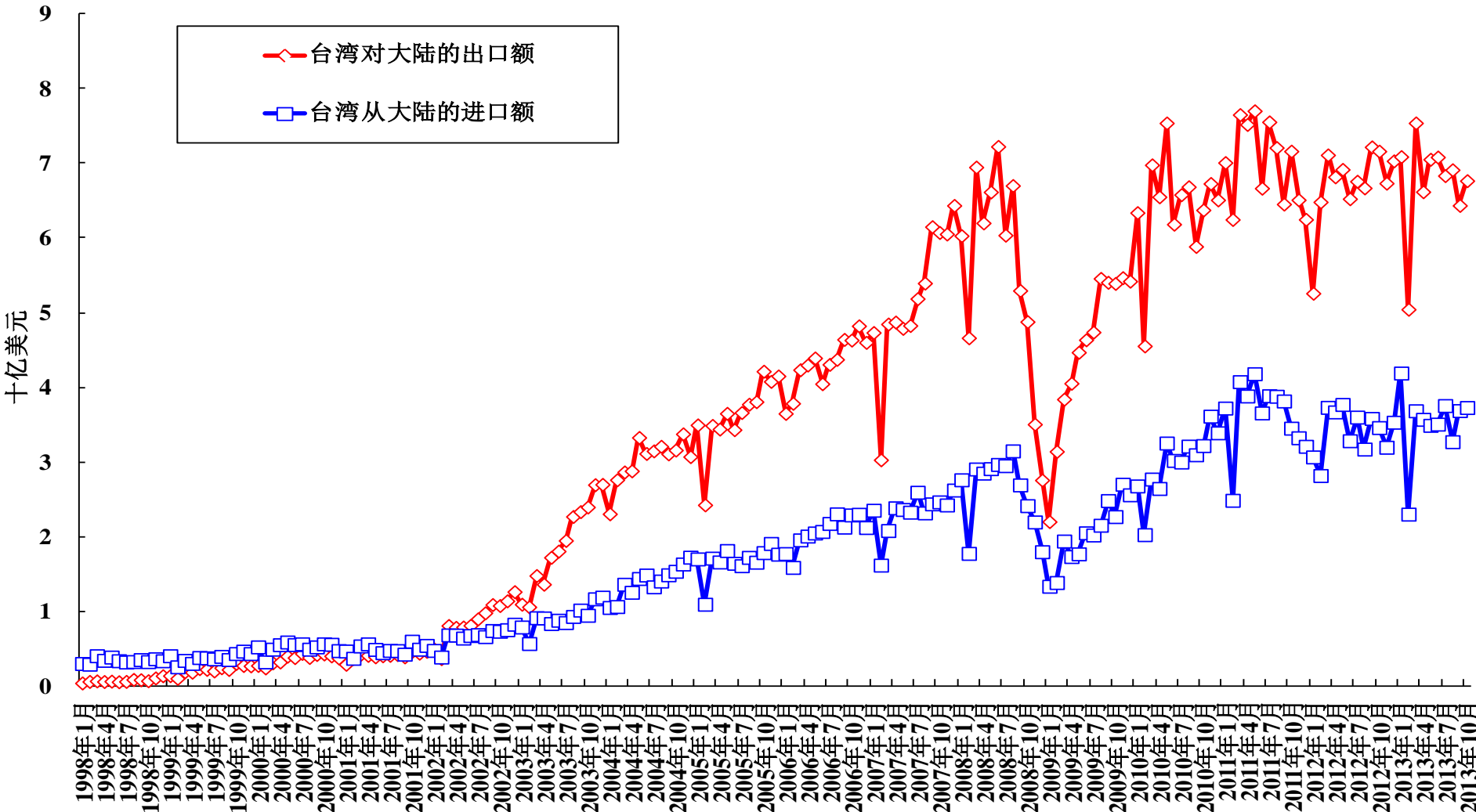


大陆与台湾的经济互动： 兩岸貿易

- ◆ Taiwan has been running a large trade surplus vis-a-vis the Mainland since 2002.
- ◆ The Mainland has become the most important trading partner of Taiwan. It is the most important destination for Taiwan exports, accounting for more than 25% of total Taiwan exports in 2012; however, it is believed that much of Taiwan exports to Hong Kong is finally destined for the Mainland as well. The Mainland is an important source of total Taiwan imports, accounting for approximately 15% in 2012.
- ◆ The Mainland market has recently become even more important to the Taiwan economy because of the economic problems in the United States and Europe since 2008.
- ◆ The advances in information and communication technology and globalisation have also meant that all jobs that can be moved away to a lower-cost location will be moved away. This has happened to the U.S., Japan, Taiwan, Hong Kong and even the Mainland.

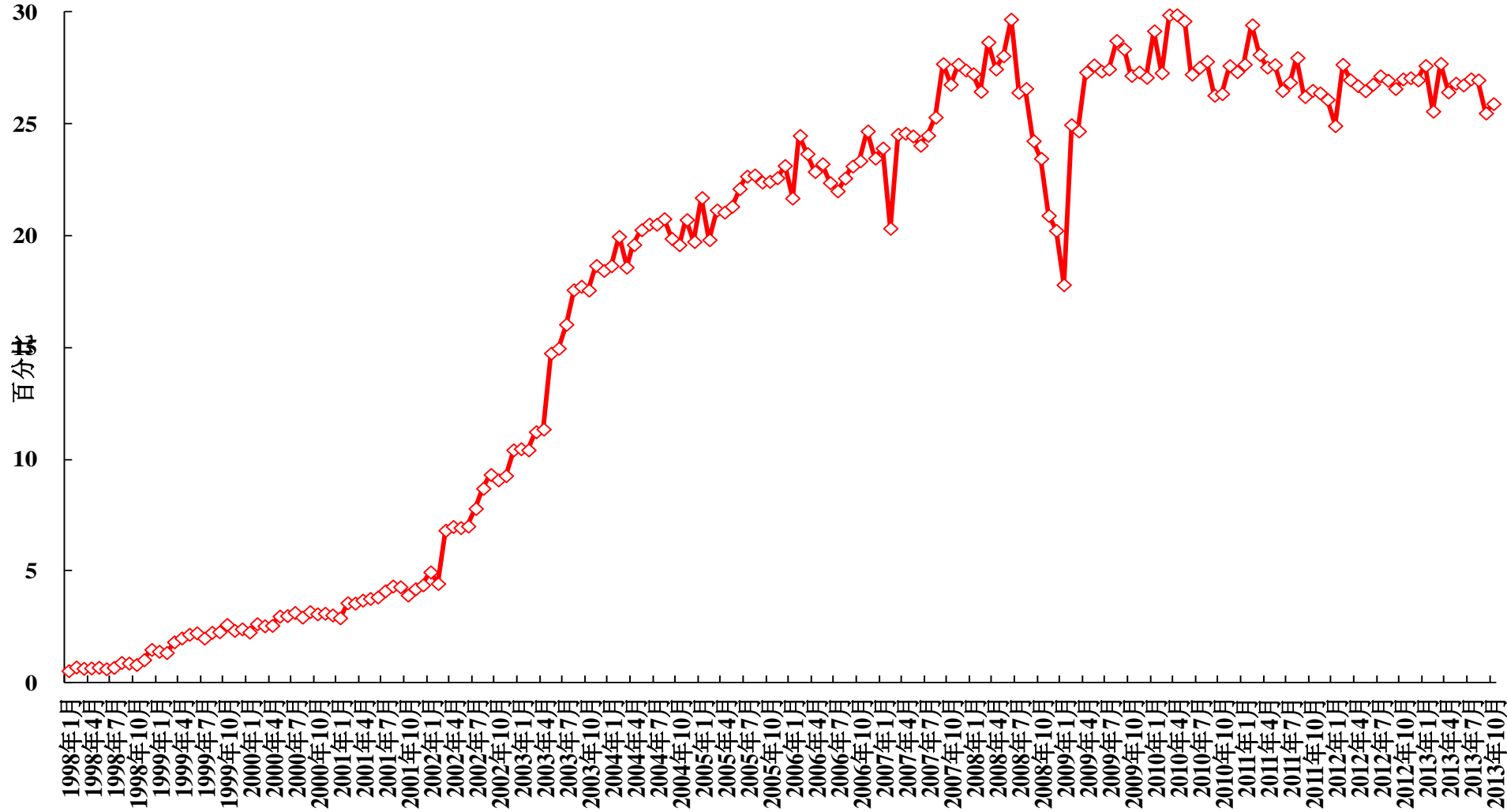
1998年来台湾对大陆的出口额与进口额

1998年来台湾对大陆的出口额与进口额



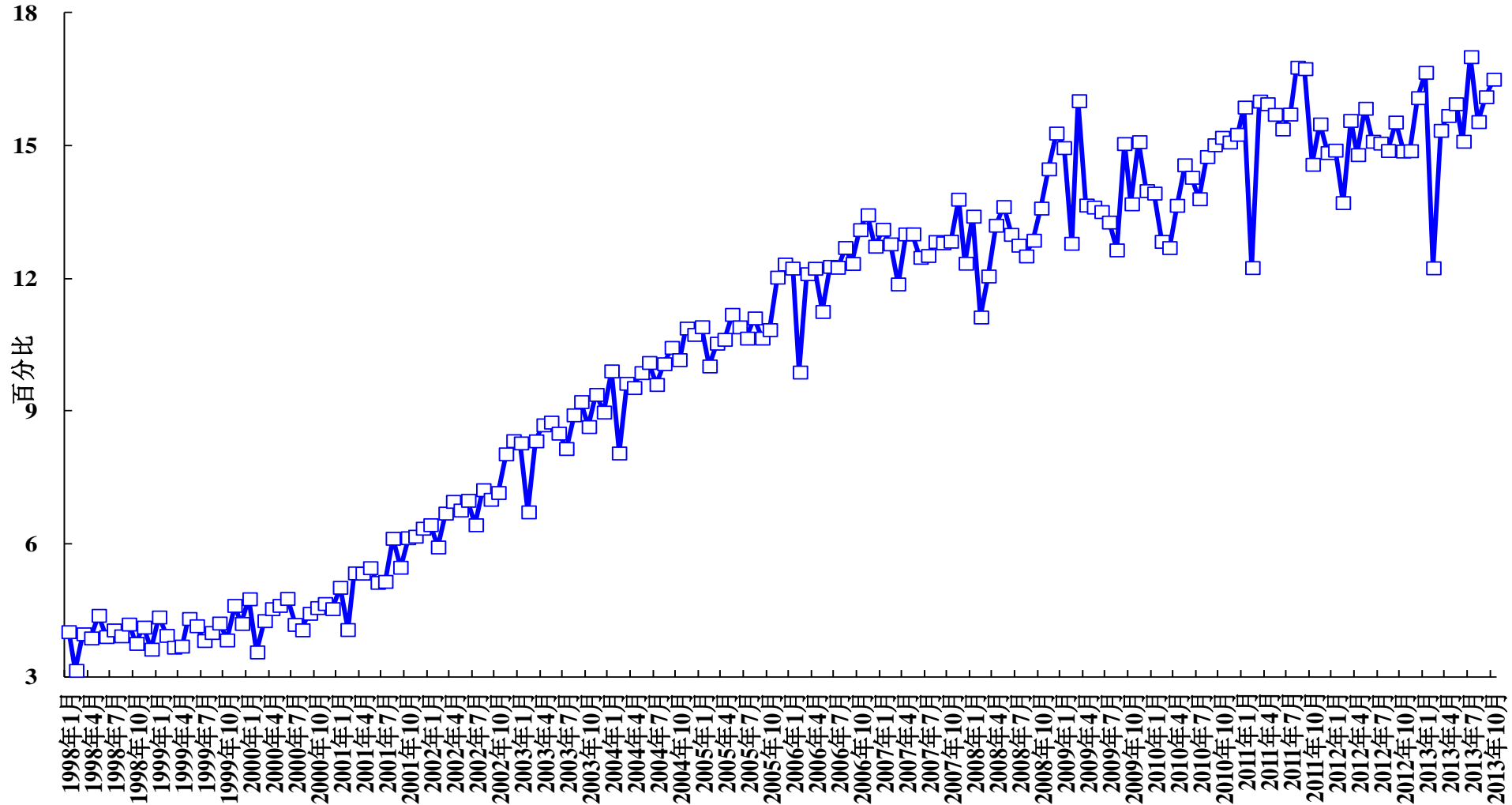
台湾对大陆的出口额占其出口总额的比例

台湾对大陆的出口额占其出口总额的比例



台湾从大陆的进口额占其进口总额的比例

台湾从大陆的进口额占其进口总额的比例



大陆与台湾的经济互动： 投资

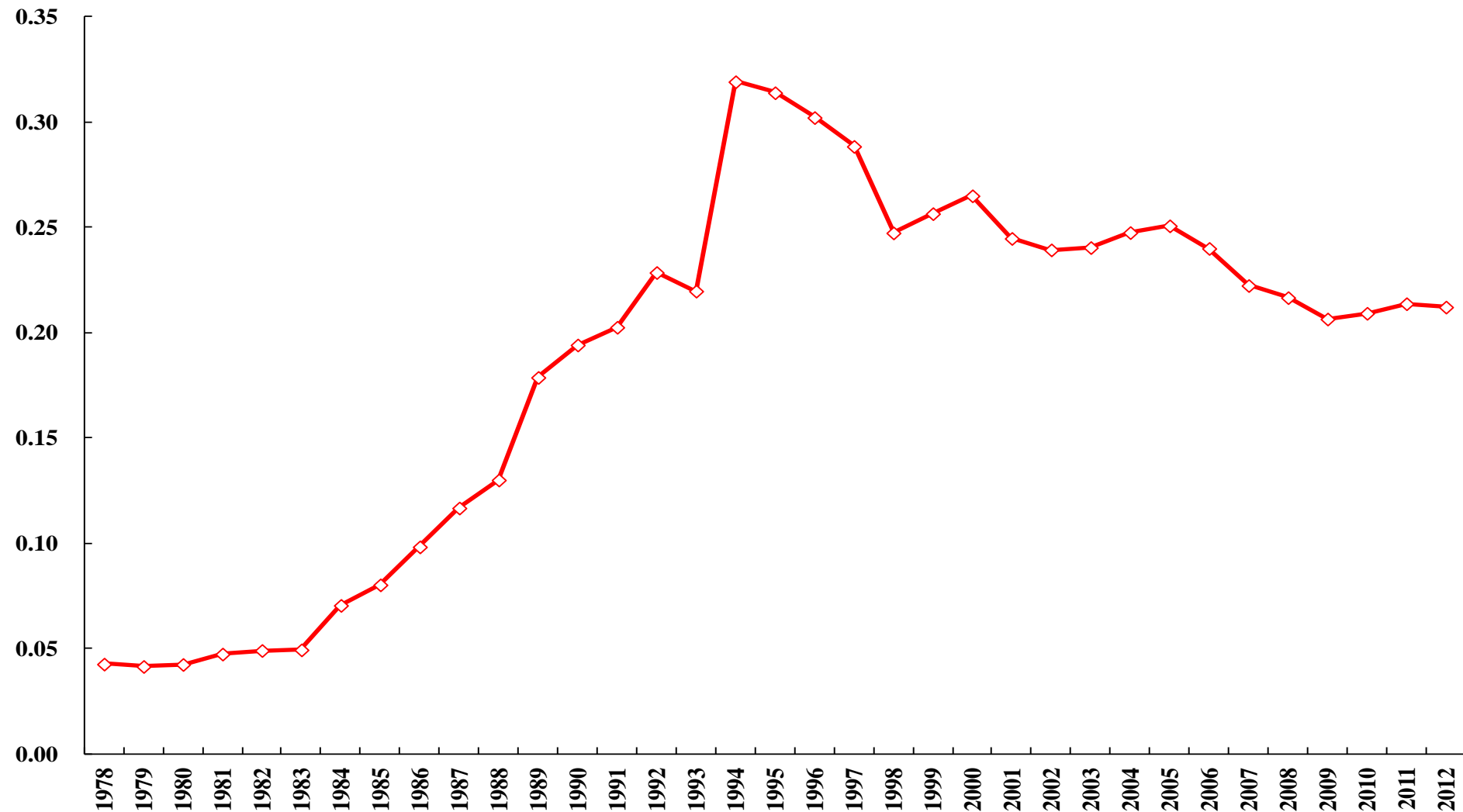
- ◆ Taiwan enterprises have been important direct investors on the Mainland, beginning in the early 1990s. This investment was critical to the initial success of the Mainland's economic reform and opening to the World.
- ◆ The exact data on direct investment from Taiwan to the Mainland are difficult to ascertain—the Mainland and Taiwan statistics are different, in part because many Taiwan enterprises invested on the Mainland without explicit approval from the government in Taiwan. Much of such direct investment is also undertaken through entities registered in the British Virgin Islands, Cayman Islands or Netherland Antilles. However, it has been estimated that more than half a million people from Taiwan are currently regular residents on the Mainland.
- ◆ Now is the time for the direct investment flow to be reversed, for enterprises on the Mainland, both state-owned and non-state-owned, to invest in Taiwan. Such direct investment will not only increase aggregate demand in Taiwan but also create a much more balanced “economic interdependence” between the two sides of the Taiwan Strait.

人民币兑新台币的名义汇率

- ◆ The Yuan-New Taiwan Dollar exchange rate also reflected the relative fortunes of the Mainland and Taiwan economies. The New Taiwan Dollar was worth 0.043 Yuan/NT\$ in 1978, reached a peak of 0.32 Yuan/NT\$ in 1994, when the Yuan became current accounts convertible. The Yuan then began to appreciate relative to the New Taiwan Dollar. The New Taiwan Dollar is now worth approximately 0.2 Yuan/NT\$.
- ◆ In the foreseeable future, the Yuan is not expected to devalue vis-a-vis the U.S. Dollar. It may continue to appreciate relative to the U. S. Dollar, but the degree of appreciation will likely be small.

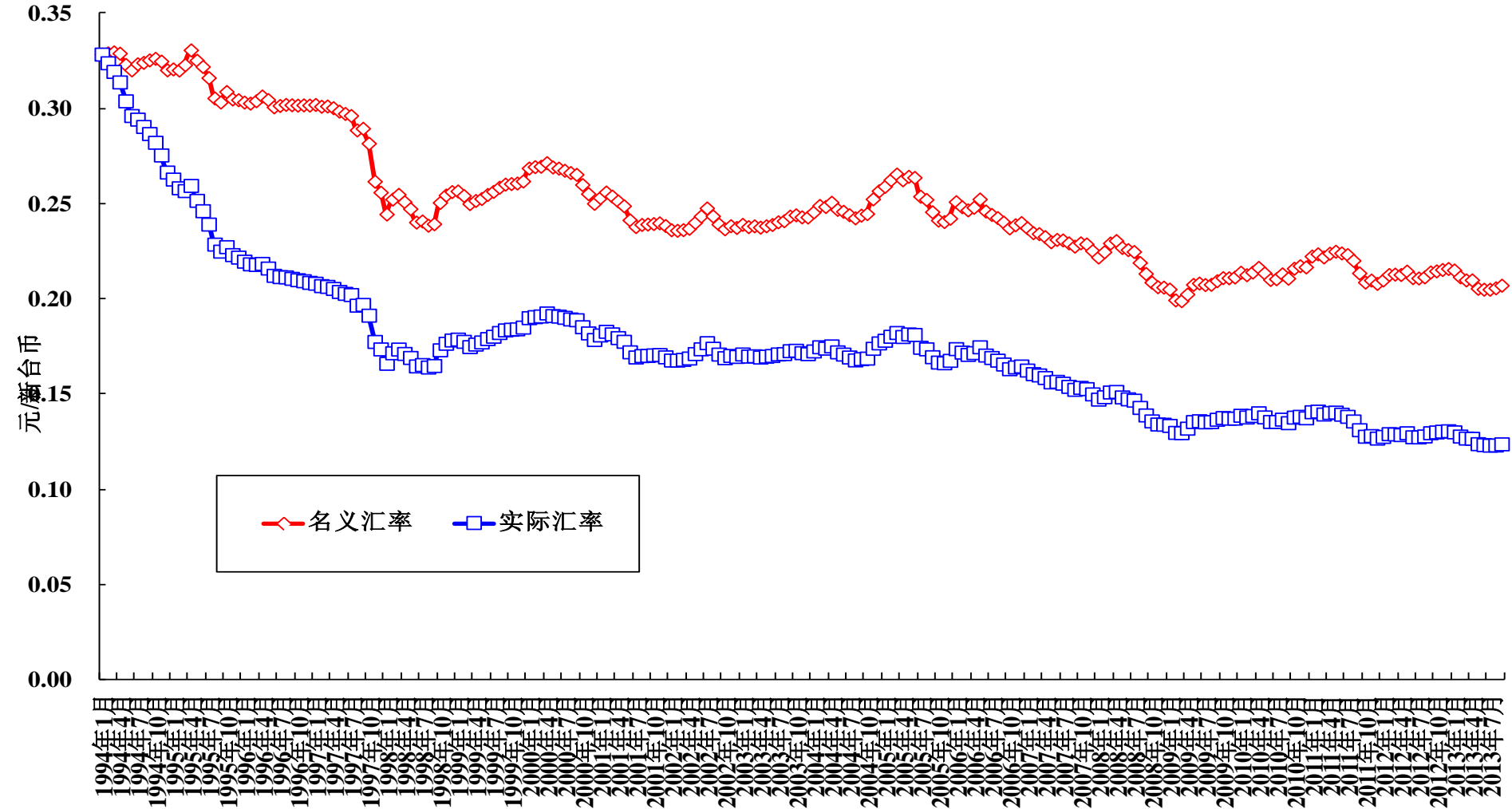
1978年以来人民币兑新台币的名义汇率，元/新台币

1978年以来人民币兑新台币的名义汇率，元/新台币



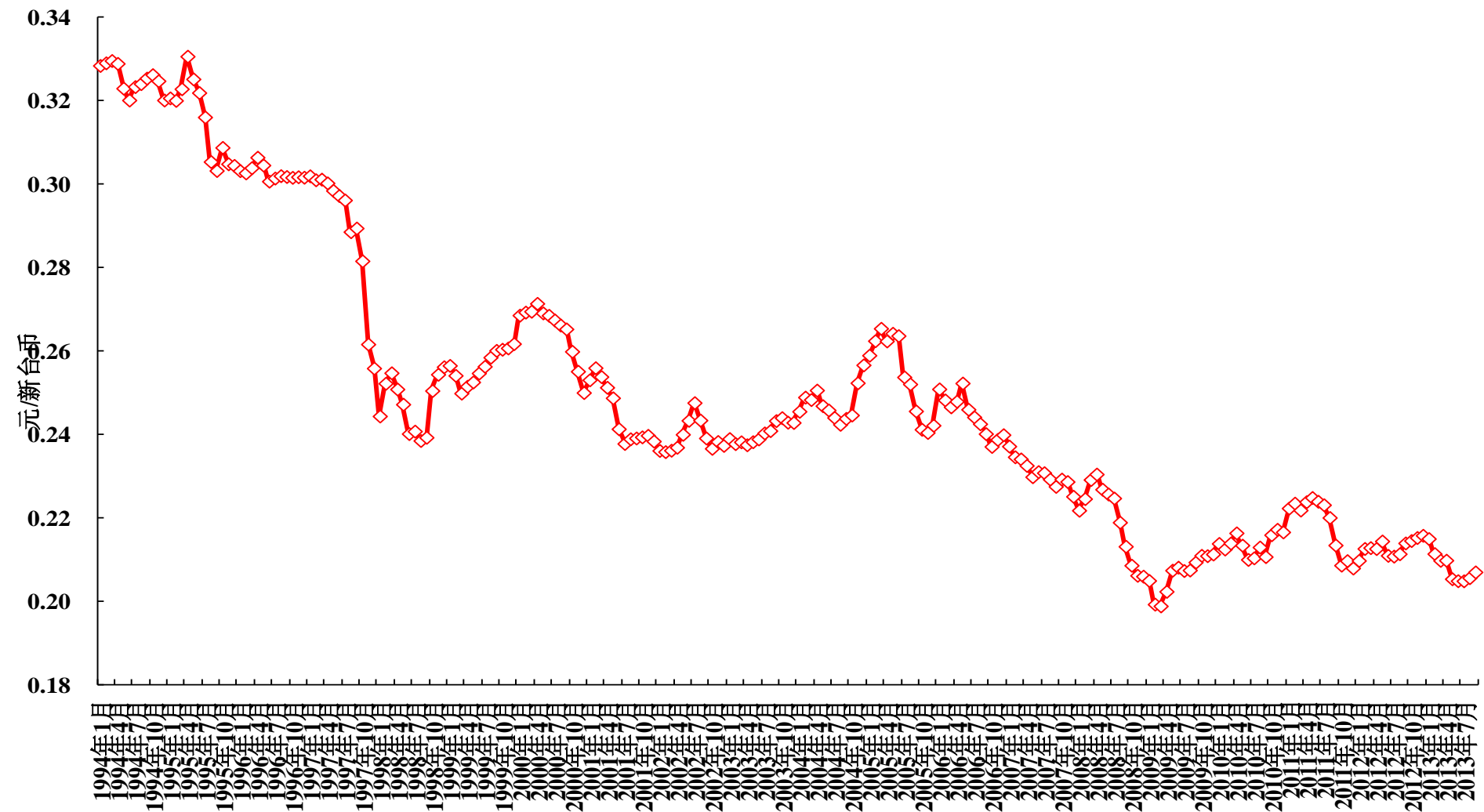
人民币兑新台币的名义和实际汇率（按1994年价格计算）

人民币兑新台币的名义和实际汇率（按1994年价格计算）



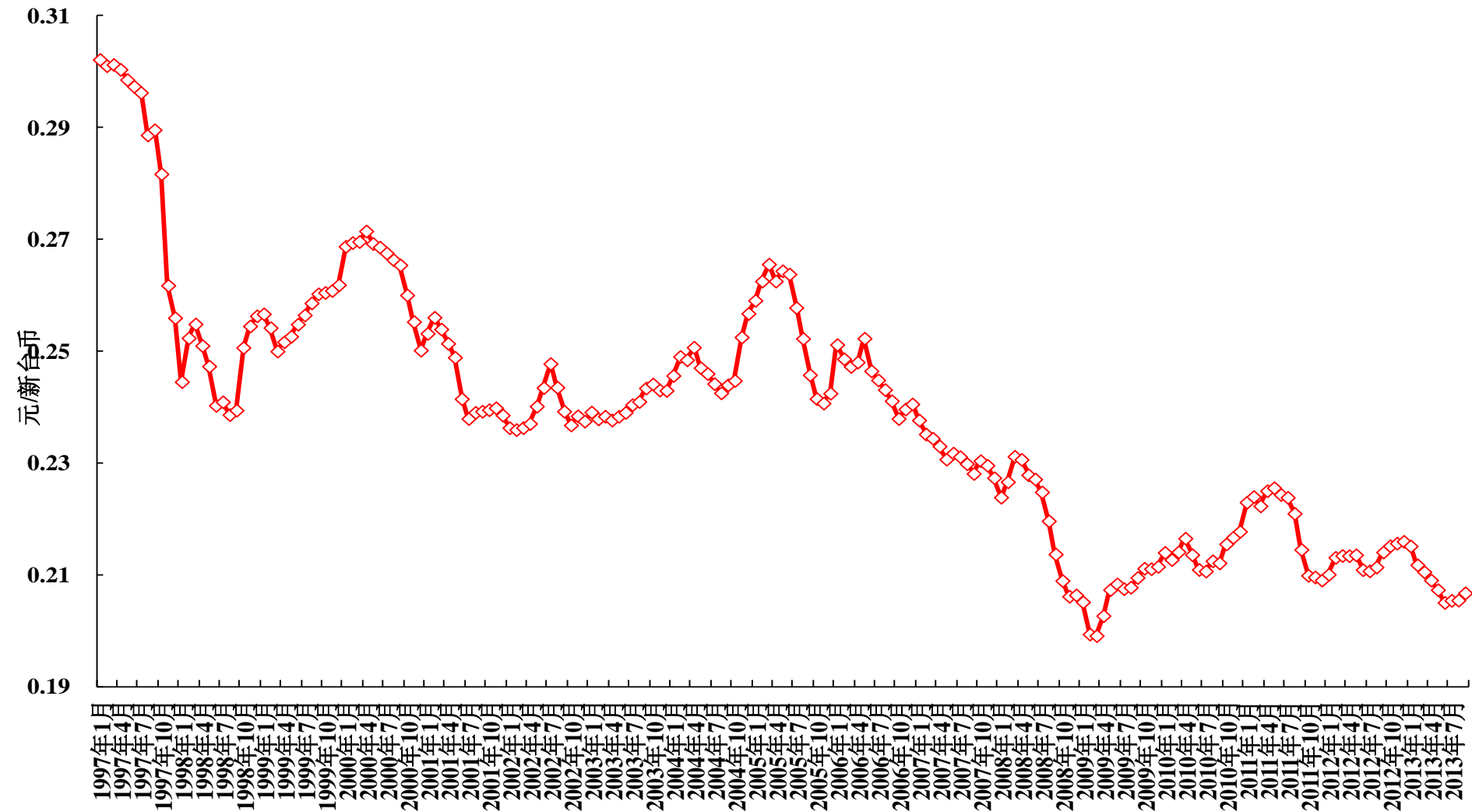
月末人民币兑新台币的汇率，元/新台币

月末人民币兑新台币的汇率，元/新台币



月均人民币兑新台币的汇率，元/新台币

月均人民币兑新台币的汇率，元/新台币



经济合作的机遇

- ◆ 两岸经济合作绝对应当也绝对可以互惠双赢
- ◆ 两岸贸易合作与再进一步自由化
- ◆ 教育合作
- ◆ 能源合作
- ◆ 金融部门合作
- ◆ 科技与智慧财产合作
- ◆ 电信部门合作
- ◆ 旅游业合作
- ◆ 交通运输部门合作
- ◆ 两岸投资协议
- ◆ 福建与台湾经济合作

两岸贸易合作与再进一步自由化

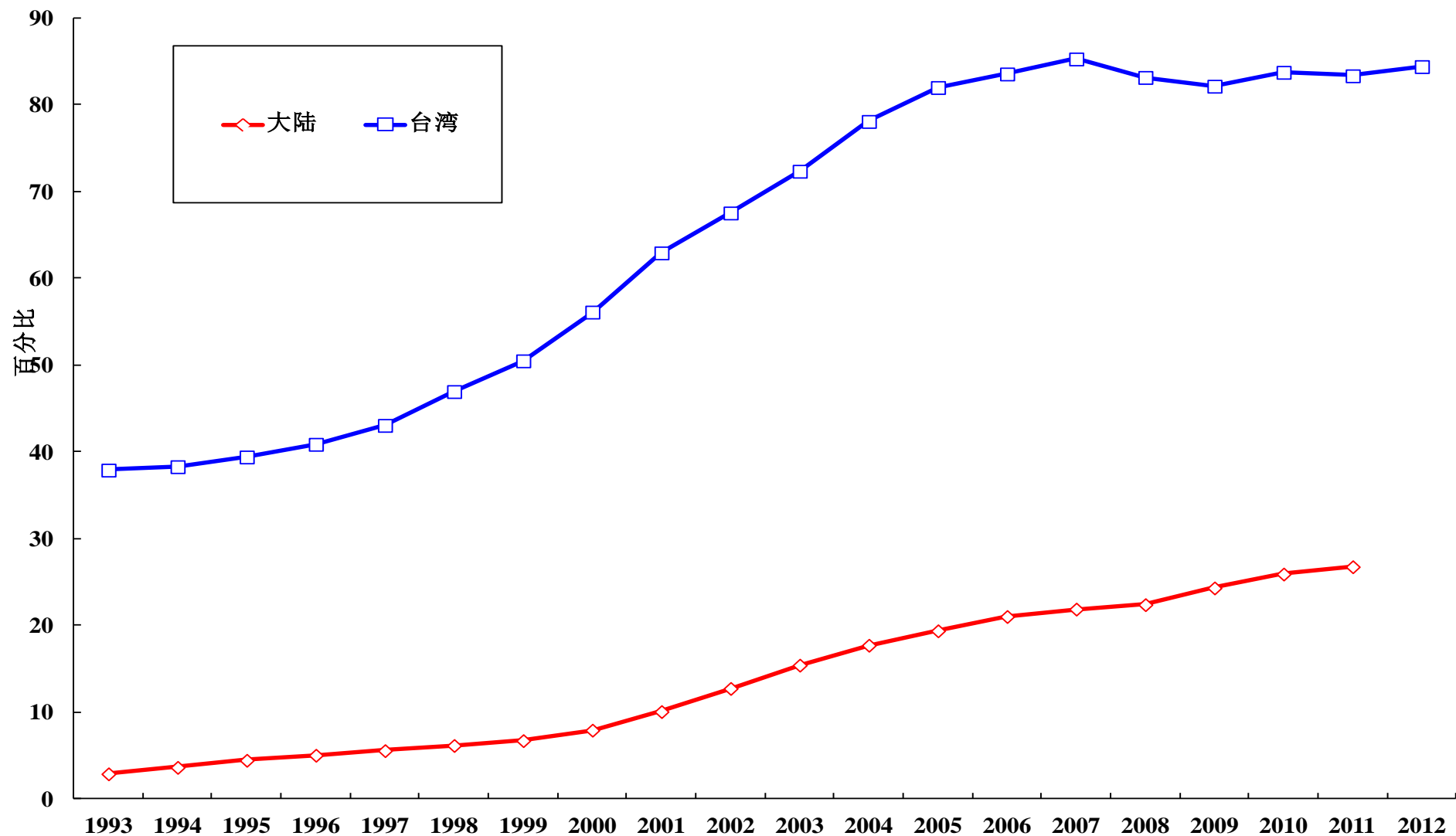
- ◆ There is a great deal of room for the expansion of trade in goods and services between the two sides of the Taiwan Strait.
- ◆ This can begin with a mutual reduction of tariffs and the use of separate negative lists for goods (and services). Goods and services not on the respective negative lists will be automatically permitted to be imported into the Mainland and Taiwan respectively. (The two negative lists do not necessarily have to be the same.)
- ◆ Multiple channels should be used for conducting cross-strait trade in certain categories of goods, such as agricultural commodities, so as to promote greater competition and prevent the creation of monopolies.
- ◆ One should work on establishing a “Cross-Strait Free Trade Area” and a “Cross-Strait Common Market”.
- ◆ Negotiations should begin on access to the “ASEAN + 3” Free Trade Area for Taiwan goods and services.
- ◆ The China (Shanghai) Pilot Free Trade Zone (自由贸易试验区) and the Free Economy Demonstration Zone (自由经济示范区) of Taiwan can work together and introduce new experiments for economic cooperation between the two sides of the Taiwan Strait.

教育合作

- ◆ There is a huge demand for university education on the Mainland, which has an enrolment rate of approximately 25% compared to almost 90% in Taiwan, and an excess supply of university places in Taiwan. So it is natural to consider the recruitment and admission of university students from the Mainland.
- ◆ The cost is not an issue for Mainland students as many self-financed Mainland students currently study overseas in the U.K., the U.S. and elsewhere. In fact, no subsidies from Taiwan should be required. In fact, with appropriate fees for non-resident students, on the margin, the net educational resources available per student in Taiwan may well be increased.
- ◆ Taiwan can also attract the top talents from the Mainland just as the U.S. has done from around the World for many years. However, it will probably require selective reciprocal recognition of degrees and diplomas and eventually of professional qualifications between the Mainland and Taiwan. There is also the small matter of the provision of health insurance for Mainland students in Taiwan which should be easily soluble on a no public subsidy basis.
- ◆ Taiwan has an additional advantage over Hong Kong in terms of recruitment of Mainland students because the same dialect (Putongua or Guoyu) is spoken in Taiwan.

大陆与台湾高等教育入学率的比较

大陆与台湾高等教育入学率的比较



能源合作

- ◆ The two sides should engage in joint exploration and production (勘探与开采) of oil and gas offshore. There are four possible sites in the East China Sea (near the Diaoyu Island) and in the South China Sea (near the Taiping Island—controlled by Taiwan—and Yongxing Island—controlled by the Mainland) as well as additional possible sites near the mid-line between the two sides of the Taiwan Strait.
- ◆ The joint exploration and production and subsequent sharing of the output and profit, possibly involving third parties, can enhance the energy security of and affordability for both the Mainland and Taiwan. They can also usher in a period of peace in the entire region.

金融部门合作

- ◆ Both sides should encourage and promote the denomination, settlement and clearing of cross-strait transactions in either Renminbi or the New Taiwan Dollar instead of a third currency such as the U.S. Dollar. Such a move reduces transactions costs as well as exchange rate risks.
- ◆ Direct exchange between the Renminbi and New Taiwan Dollar is already possible. In the future, perhaps there may be benefits for both sides if there is some degree of real exchange rate coordination. A stable real relative parity between the Renminbi and the New Taiwan Dollar is beneficial for both sides, given the significant trade and investment between them.
- ◆ Both sides should consider and encourage the provision of local-currency loans for direct investors from the other side as a natural exchange rate hedge.
- ◆ Renminbi business in Taiwan may be facilitated by opening more channels for Renminbi investment by Taiwan financial institutions on the Mainland and simplifying procedures. This should also enhance the speed of the internationalisation of the Renminbi.

金融部门合作

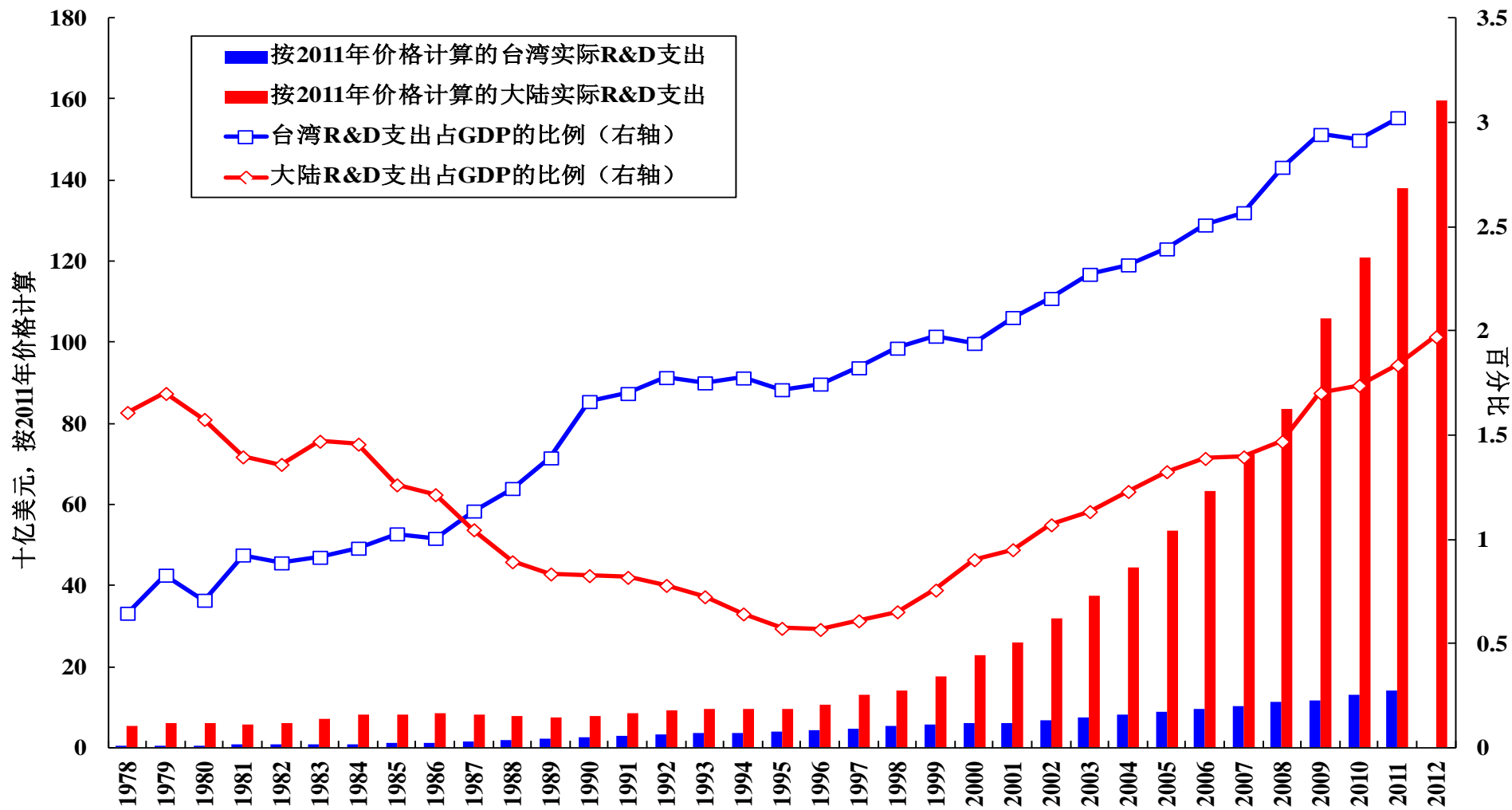
- ◆ The best enterprises of both sides, for example, China Mobile and Taiwan Semiconductor Manufacturing Corporation (TSMC), can be dually listed on both the Shanghai and Taiwan Stock Exchanges. This should allow these enterprises to raise additional capital more readily and allow their shareholders increased liquidity.
- ◆ Taiwan should consider the listing of Taiwan-invested and other enterprises on the Mainland on the Taiwan Stock Exchange. This will provide a new and additional channel for raising equity capital and exit of venture capital, especially for Taiwan-invested high-technology firms on the Mainland. The queue for IPO is too long in Shanghai—there are more than 600 enterprises waiting to be listed. There is already a large foreign portfolio investor presence in Taiwan and the Price/Earning ratio is higher in Taiwan than in Shanghai or Hong Kong.

科技与智慧财产合作

- ◆ The Mainland aims to become an innovation-driven economy.
- ◆ Innovation depends on R&D and the creation of intellectual property, including branding and goodwill, which enable the innovative enterprises to appropriate the largest share of the value-added.
- ◆ R&D, innovation and branding are some of Taiwan's comparative advantages (for example, TSMC, Giant, Kangshifu, and Wang Wang, to name only a few).
- ◆ In order to encourage innovation, the Mainland also needs to protect intellectual property rights vigorously.

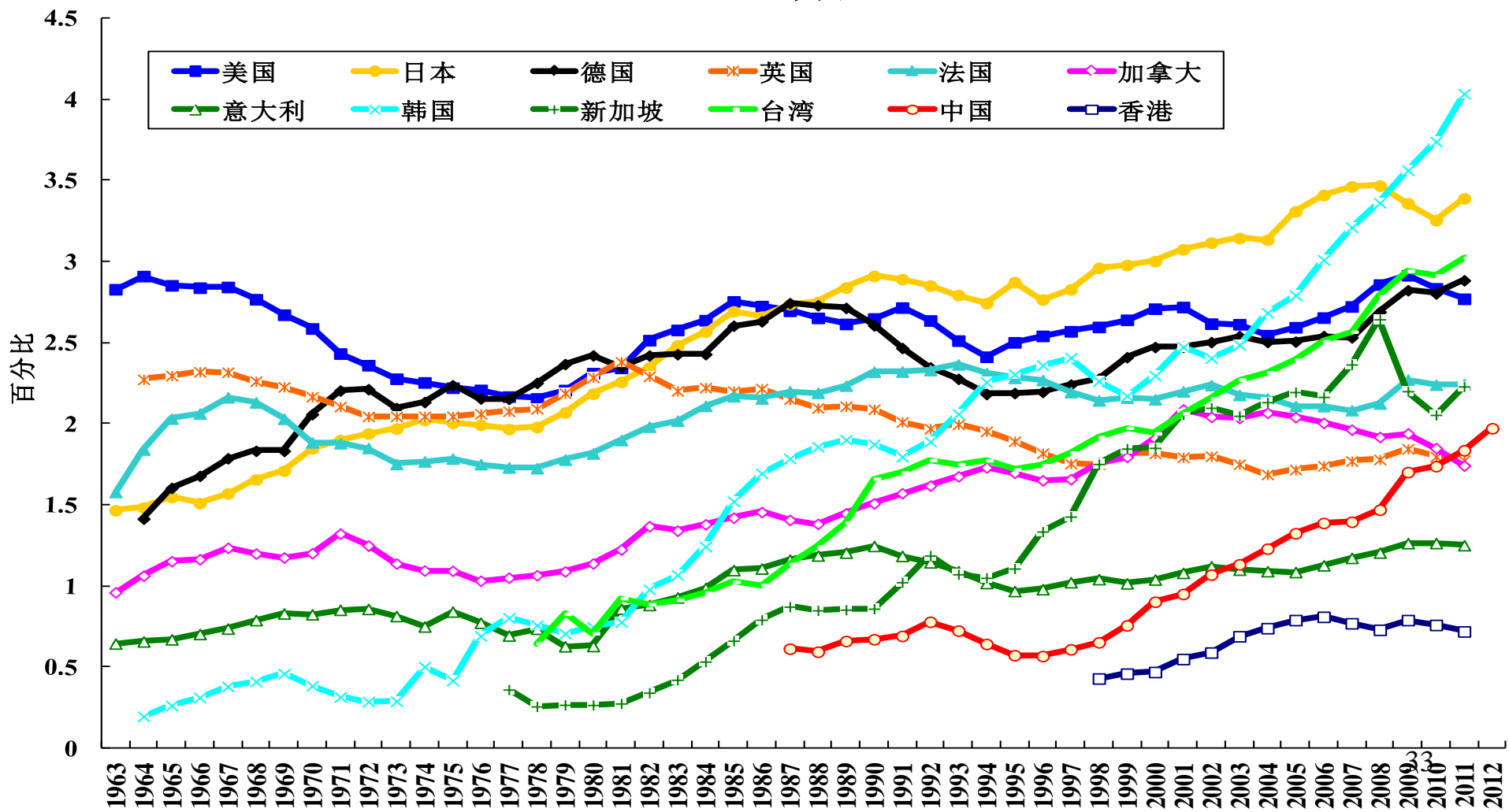
R&D支出及其占GDP的比例：大陆与台湾的比较

R&D支出及其占GDP的比例：大陆与台湾的比较



研究与开发 (R&D) 支出占GDP的比例: G-7国家, 四个东亚新兴工业化经济体和大陆

研究与开发 (R&D) 支出占GDP的比例: G-7国家, 四个东亚新兴工业化经济体和中国

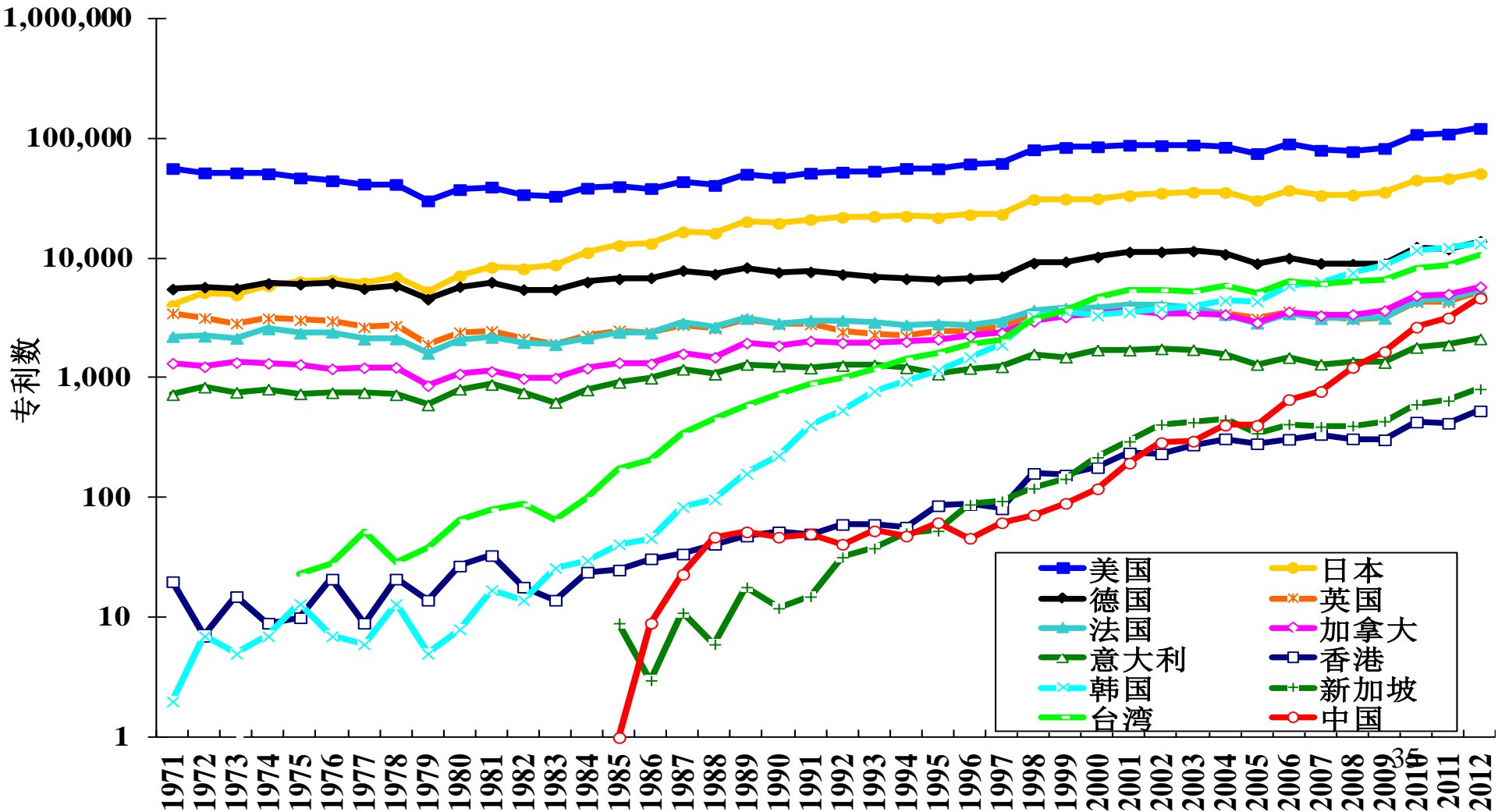


科技与智慧财产合作

- ◆ One indicator of the potential for technical progress (national innovative capacity) is the number of patents created each year. In the following chart, the number of patents granted in the United States each year to the nationals of different countries, including the U.S. itself, over time is presented.
- ◆ The U.S. is the undisputed champion over the past forty years, with 121,026 patents granted in 2012, followed by Japan, with 50,677. The number of patents granted to Mainland Chinese applicants each year has increased from 1 in 1985 to 4,637 in 2012.

每年获美国批准的专利数量：G7国家、四个东亚新兴工业化经济体和中国

每年获美国批准的专利数量：G7 国家, 四东亚新兴工业化经济体和中国

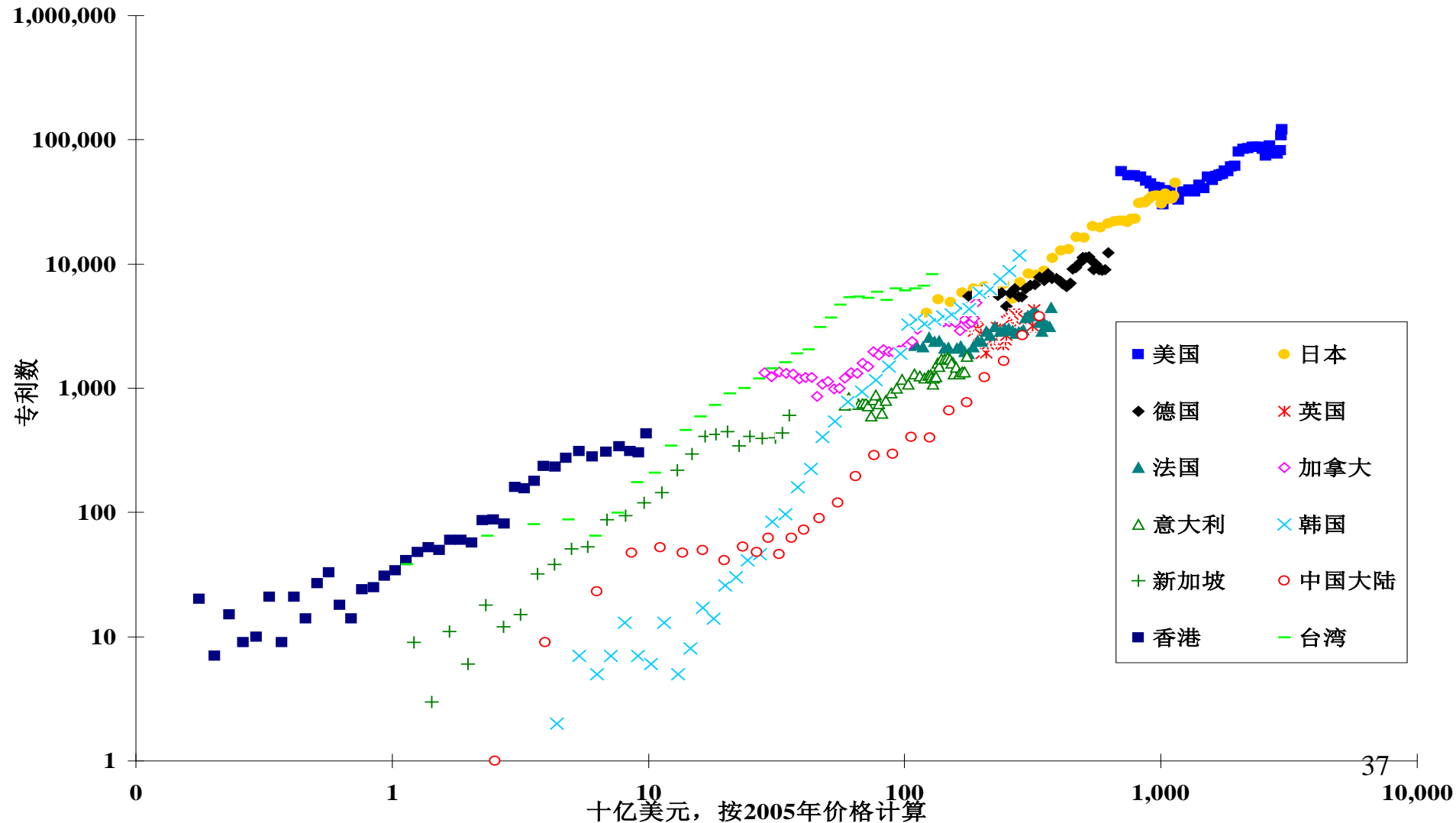


科技与智慧财产合作

- ◆ The stock of R&D capital, defined as the cumulative past real investment in R&D less depreciation of 10% per year, can be shown to have a direct causal relationship to the number of patents granted (see the following chart, in which the annual number of patents granted is plotted against the R&D capital stock of that year for each country or region).
- ◆ The chart shows that the higher the stock of R&D capital of an economy, the higher is the number of patents granted to it by the U.S.

获美国批准的专利数量和研究与开发 (R&D) 资本存量的关系

获美国批准的专利数量和研究与开发 (R&D) 资本存量之间的关系



科技与智慧财产合作

- ◆ At this time, Taiwan has the advantage of its intangible capital. We have already discussed the importance of R&D capital. However, Taiwan also has a significant lead in reputational capital (also known as goodwill). It should capitalise on it to build a lead especially in retail services on the Mainland (and elsewhere), taking advantage of the Economic Cooperation Framework Agreement (ECFA).
- ◆ Taiwan firms such as Kang Shifu, Wang Wang, Tianfu and Giant have been extraordinarily successful in building their brands in Mainland China, capturing large market shares, even though they started out as relatively small firms in Taiwan. Other Taiwan firms, especially those with their own unique products and technologies, should be able to do the same.

科技与智慧财产合作

- ◆ The huge potential Mainland market of 1.34 billion consumers not only enables the realisation of economies of scale but also greatly enhances the productivity of intangible capital (e.g., R&D capital, goodwill). The fixed research and development costs of a new product or process can be easily amortised over a large market. The benefits of investment in goodwill, e.g., brand-building, are also much greater in a large market.
- ◆ Active participation in the huge potential Mainland market by Taiwan firms also enables them to take part in the setting of product and technology standards, for example, fourth-generation (4-G) standards for telecommunication, and share the benefits of such standard-setting.

电信部门合作

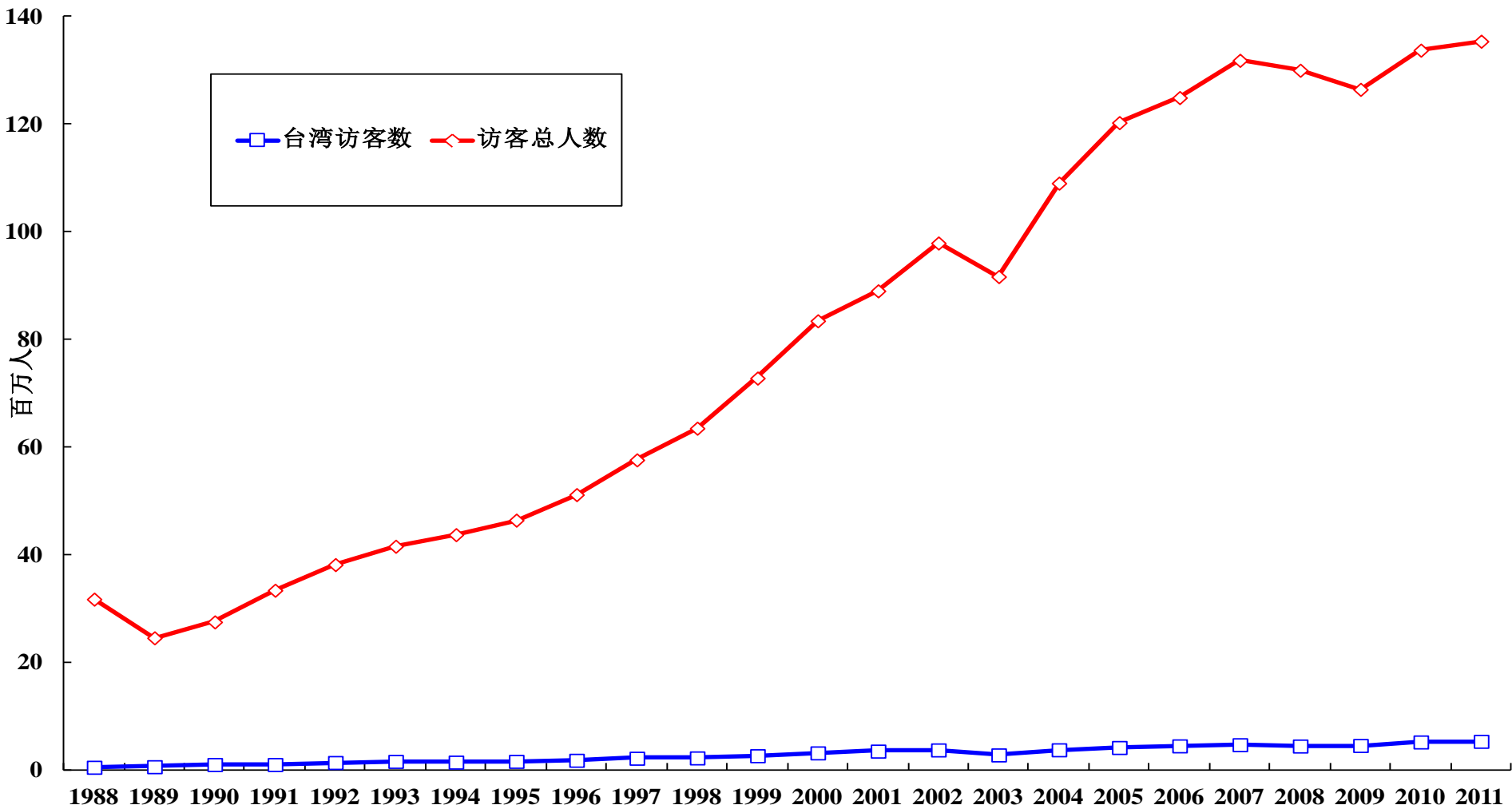
- ◆ Waiving or reducing roaming charges for cross-strait visitors from both sides. The impact on profits is not likely to be significant as the demand for paid long distance calls has fallen sharply in any case.
- ◆ Both sides can benefit by cooperating in the setting of future industry and sector standards.

旅游业合作

- ◆ Tourism creates jobs that cannot be moved away—all other jobs, manufacturing as well as service (for example, call centers) jobs can be moved away. Moreover, these are jobs for the unskilled, which are the most needed in the short term. For people who are over forty, education and re-training will take too long and may not ultimately help them very much. What they need are service sector jobs—hotels, restaurants, retail, and transportation—that do not require new skills to fill.
- ◆ The “Individual Visit Scheme” is the major generator of employment opportunities among the unskilled and low-skilled workers in Hong Kong. It should have the same effect in Taiwan.
- ◆ There should be cooperation in the organisation of tours from the U.S. and Europe that allow visitors to visit all four regions (Mainland, Taiwan, Hong Kong and Macau) of Greater China on the same trip.

1988年来入境大陆的台湾访客数和访客总人数

1988年来每年入境大陆的台湾访客数和访客总人数



交通运输部門合作

- ◆ Already the direct cross-strait flights have resulted in very large welfare gains for the people on both sides of the Taiwan Strait.
- ◆ Additional benefits can be forthcoming if the mid-line between the two sides can be re-defined and shortened. There is currently a prohibition by civilian aircrafts on both sides to cross the mid-line, which necessitates time-consuming and fuel-consuming diversions of flight path to the north and the south. The redefinition and shortening of the mid-line will, in one fell swoop, increase the capacity of cross-strait flights by shortening the flight time and thus greatly increasing the number of round-trips that can be made by a given aircraft, save large quantities of fuel, and potentially reduce the cost of cross-strait travel, not to mention carbon emission. This will also bring great benefits to the airline operators on both sides of the Taiwan Strait.⁴³

交通运输部門合作

- ◆ An alternative to redefining and shortening the mid-line is to open up the Taiwan to Kinmen (Quemoy) flight path for cross-strait flights. That should also result in significant time and fuel savings.
- ◆ Over-flight rights can be useful for the airlines on both sides, as can flight extension rights such as fifth and sixth freedoms.
- ◆ The two sides can cooperate in infrastructural investments, for example, the construction of a high speed railroad in Taiwan linking say Kaohsiung and Pingtung, or Taipei and Hualien; a bridge between Kinmen and Xiamen; the joint construction and operation of a common airport for both Kinmen and Xiamen.

两岸投资协议

- ◆ A Cross-Strait Investment Protection and Promotion Agreement was concluded in August 2012. The two sides should finalise and conclude a Double-Tax Avoidance Agreement alongside the Investment Agreement, under the Economic Cooperation Framework Agreement (兩岸經濟合作框架協議 (ECFA)). This should benefit prospective direct investors on both sides.
- ◆ With saving and investment rates in excess of 40%, and a huge foreign exchange reserves, Mainland China is poised to become a major capital-exporter because its domestic savings far exceed domestic investment that can be made profitably. Mainland enterprises and individuals may well be interested in investing in Taiwan, because of geographical proximity, and ethnic, cultural and linguistic affinity.

两岸投资协议

- ◆ Mainland direct investment in Taiwan can be a shot in the arm for the Taiwan economy. What would probably benefit Taiwan the most would be "green field" investments as opposed to the purchase of existing assets by Mainland or other entities. This is because the former creates additional aggregate demand and would increase employment directly whereas the latter only benefits the owners of the existing assets. This can justify a policy of encouraging greenfield direct investments from the Mainland to Taiwan.
- ◆ A Double-Tax Avoidance Agreement between Hong Kong and Taiwan can also encourage Mainland investment, especially private Mainland investment, in Taiwan.

两岸投资协议

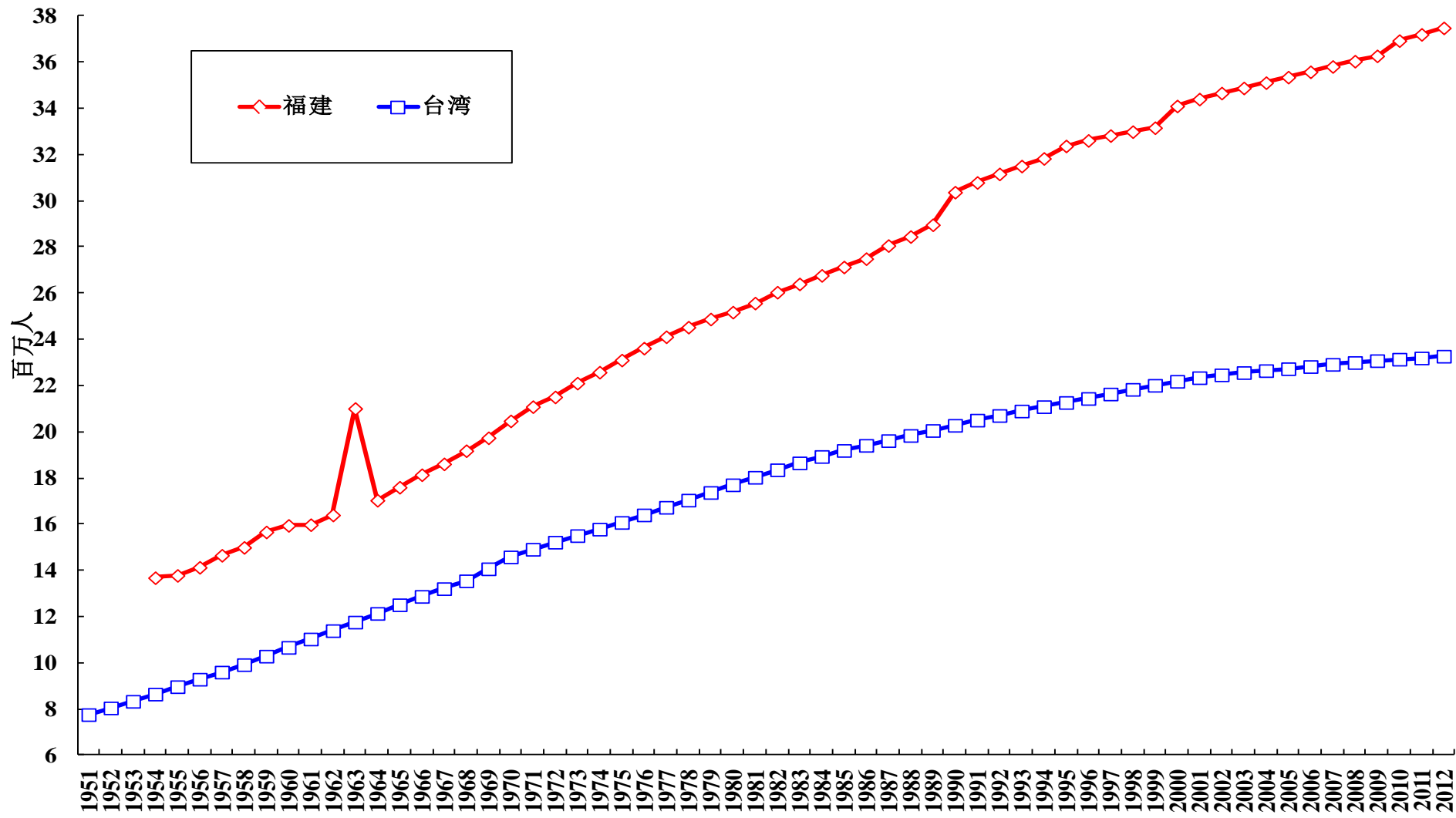
- ◆ Outbound investment and expansion by Taiwan enterprises on the Mainland—potentially the largest market in the World—should be promoted. For example, TSMC should be allowed to invest in the Mainland (so that it does not fall behind Samsung, which has made huge direct investment on the Mainland). And mergers, for example, between Lenovo and Acer should be allowed.
- ◆ Both sides should also welcome portfolio investment from the other side, in publicly listed companies, subject to restriction on the percentage owned.

福建与台湾经济合作

- ◆ Taiwan should consider intensifying economic cooperation with Fujian where Taiwan entrepreneurs have natural advantages: geographical proximity, and ethnic, cultural and linguistic affinity.
- ◆ Fujian is only a few hours away by sea and an hour by air from Taiwan. Fujian is located right on the coast and easily accessible by ships and planes. The wage rate in Fujian is lower than those in either the Pearl River Delta or the Yangtze River Delta. It is therefore the ideal successor location for export-oriented light manufacturing, in which Taiwan enterprises excel.
- ◆ Fujian has a population of 37.5 million, and Taiwan has 23.3 million, with a combined total of more than 60 million, the size of France and the U.K.
- ◆ The GDP of Fujian in 2012 was US\$313 billion whereas that of Taiwan was US\$474 billion.
- ◆ Thus, together, there is an economy that is bigger than South Korea, with a large consumer market and ample labour force. Fujian and Taiwan can become a regional economic powerhouse just like South Korea. Perhaps Fujian and Taiwan can start with a special free trade arrangement between them.

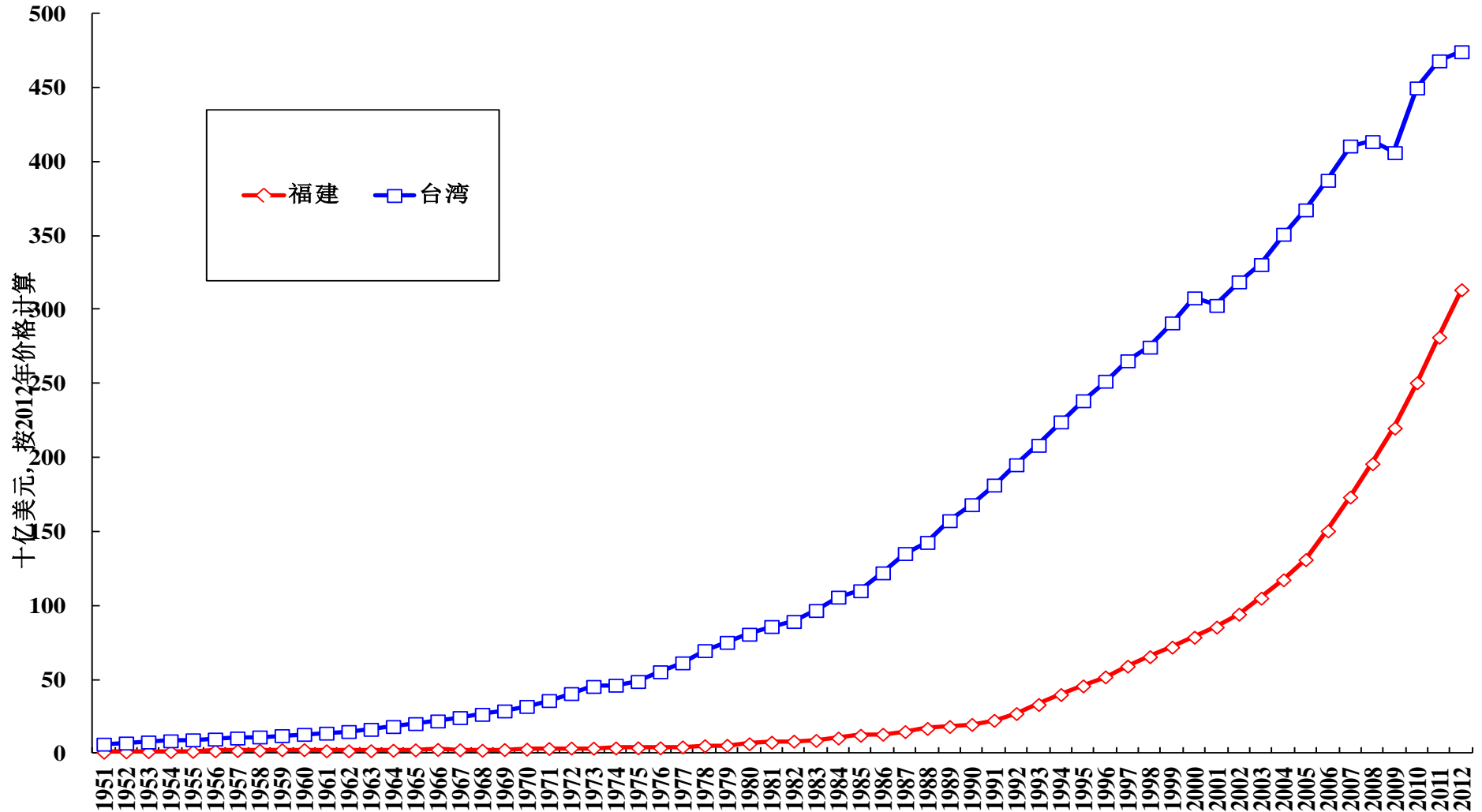
福建与台湾的人口总数（百万人口）

福建与台湾的人口总数（百万人口）



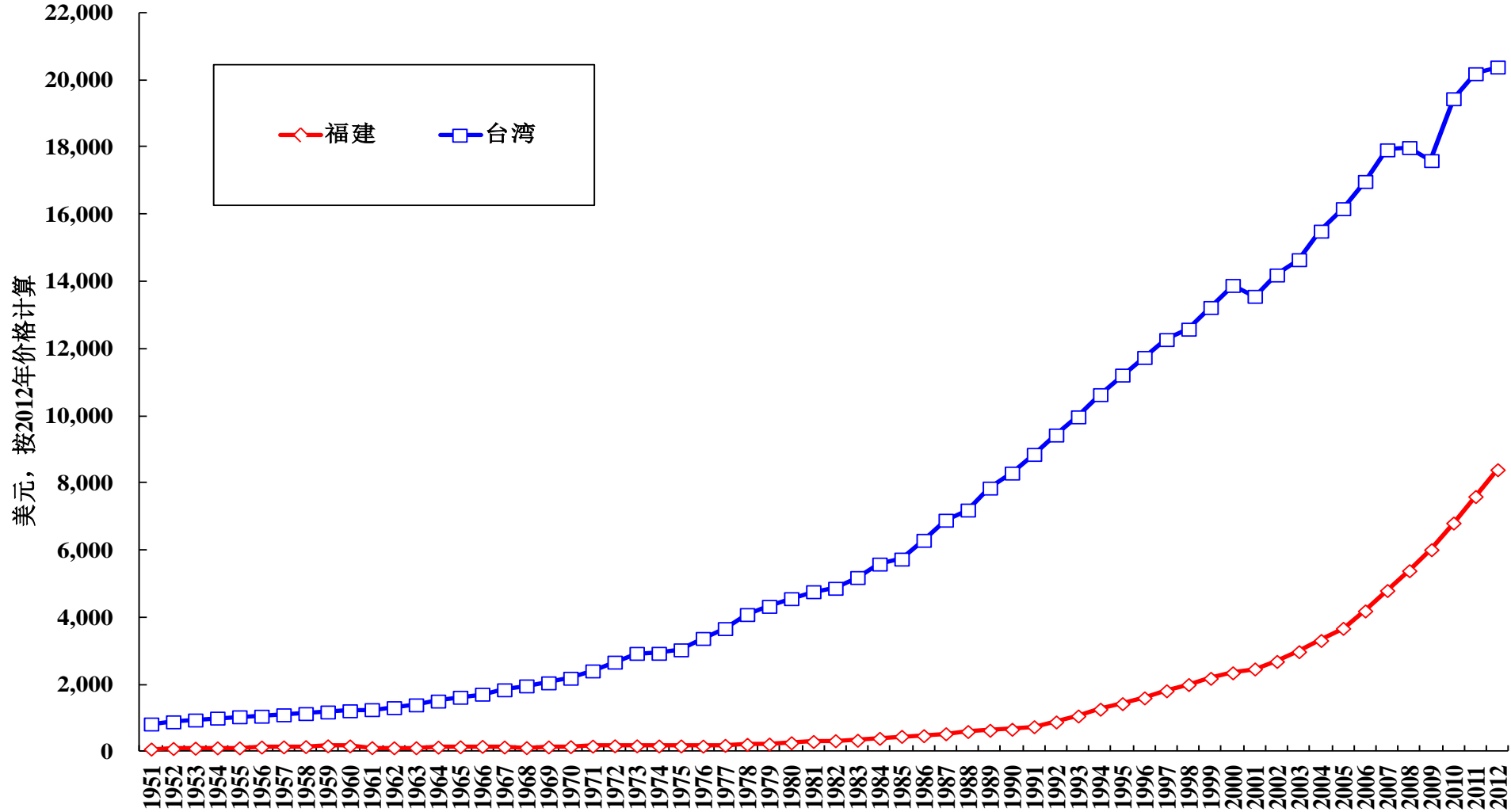
福建与台湾的实际GDP（按2012年价格计算，十亿美元）

福建与台湾的实际GDP（按2012年价格计算，十亿美元）



福建与台湾的实际人均GDP（按2012年价格计算，美元）

福建与台湾的实际人均GDP（按2012年价格计算，美元）



结语

- ◆ Economic cooperation between the Mainland and Taiwan should be and can be win-win.
- ◆ Ultimately the two sides will constitute a free trade area with free movement of goods and capital—free movement of labour may take a much longer time.
- ◆ Taiwan will specialise in R&D and upstream activities; Mainland will specialise in quantity manufacturing, provide the domestic market as well as supply manufactured consumer goods to Taiwan.
- ◆ In the long run Taiwan can be to the Mainland as the Silicon Valley is to the United States.