The Relationship between Government and Enterprises in Globalization

– Take the Cross-Strait Economic Relationship as an example

Leng Zegang

Abstract: This research studies the importance of local incentive factors in the economic interactions across the Taiwan Straits. The author holds that globalization has transformed governmental power and the relationship between government and enterprises in the cross-strait economic exchange. Firstly, all analysis should differentiate government institutions at different levels and in different departments. Secondly, compared with earlier cross-strait economic exchange, Taiwan enterprises are now playing a more autonomous role in the global collective effort of exploring the mainland market. And thirdly, politics is still having a critical impact on the interactive relationship between the enterprises and the government.

（1） Global labor division and Taiwan enterprises in mainland: take the computer design and manufacturing industries as examples

The capital and technology of Taiwan in mainland is an integral part of global labor division which fully utilizes the comparative advantage of mainland and Taiwan to increase the economic efficiency so as to realize the most profit. Whether in labor-intensive industries like shoes-manufacturing sector, or in high-tech industries such as lap-top manufacturing, the situation is the same. Under the impact of the economic globalization starting from the 1990s, the identity of “Taiwan Enterprise” had become blurred. Many registered companies are foreign or foreign-invested. They are now engaging in real international operations. If the government continue to manage the strategic alliance of the enterprises by way of controlling its national economies, it will not be so effective.

As to the alliance between Taiwan enterprises and other international companies in terms of global operation and expansion of the mainland markets, we may see Quanta Computer Company as an example. Since the 90s, Quanta Company has been the contractor of some

world famous brands, such as Dell, Compact, Gateway, Apple, IBM, Sony, Sharp and so on. The brand Quanta was not so popular among the end-users. However, it passed Toshiba and became the biggest PC manufacturing company of the world in 2001. And in 2003, among the thirty seven million six hundred thousand laptop computers, nine million three hundred thousand were manufactured by Quanta, representing nearly 25% of the whole.

In order to compete with the magnates in computer industry in Korea and Japan, Taiwan enterprises have to adapt themselves to the changes in the computer industry and the shorter production cycle. The most common way is the famous American companies who provide the Taiwan manufacturers with maps so as to illustrate the specifications and functions of the products; while the Taiwan parts provide the technical blueprints, manufacture the products and then deliver the finished products to the American side. Through the highly interactive process with their Taiwan partners, the famous American companies can get a sample of the new type laptop in six to nine months.

As Taiwan enterprises increase their ability of designing laptops, this kind of international alliances has become mutually dependent. The strategy of Dell is to raise competition among its suppliers. In view of the danger in this kind of relationships, laptop manufacturers in Taiwan had always been endeavoring to reduce the risk hidden in the over-dependent relationships. For example, Quanta Company processes products for nine or ten big laptop manufacturers in the world at the same time. In the end of 2003, Quanta Company began to process products for Lenovo Company in China mainland and became one of its major partners. Because of the fact that fierce competition will finally result in lower profits, Quanta Company decided to diversify its products and to explore new markets, such as LCD television. In accordance with the operation plan of Quanta, non-computer products should account for at least one quarter of the whole range of products.

In view of the intense political situation between Taiwan and China mainland, multinational companies in IT industry try to be flexible when they do business with their Taiwan partners. Taiwan doesn’t agree to establish direct connection through navigation, so the International Business Deputy in Taiwan of Dell can’t monitor the operation of the mainland branches, while the expert of mainland who work in Taiwan are also discriminated in terms of salary and

occupation protection. However, the strategist of Dell is not partial to any part. In 2001, Dell established its first overseas R&D center in Shanghai. One year later, Dell reorganized its R&D department in China and intensified its R&D center in Taiwan. Dell R&D center in China mainland is responsible for developing low-ranking PC and software, while the Taiwan center mainly takes the responsibility of developing laptops and other accessorial products to personal digital products.

From the Taiwan side, in order to reduce the costs, strengthen its competitive ability, and maintain their international production networks, the PC manufacturing companies have no other choice but to transfer their processing plants to mainland. The decision of transferring the plants to mainland and of doing business there is often made jointly by Taiwan enterprises and their international partners. As a matter of fact, most big manufacturers of IT industry in Taiwan have established upper-stream suppliers' networks. Most of the PC accessories suppliers in Taiwan in this production chain are the same. In the past, products made in Taiwan, China are mainly manufactured by labor-intensive industries. For example, the biggest shoes manufacturer-Taiwan Baocheng Company reached alliance with Nike Company in the production of sports shoes. Today, the same alliances are reached in IT industry in cross-strait markets by Taiwan PC manufacturers and their multinational partners in mainland, and they often set the centers of their alliances in big cities such as Shanghai. In the past decade, Taiwan enterprises have contributed a lot in helping mainland enlarge international market share. For example, among all the laptops produced and sold by Quanta in its international markets, 70% come from its Shanghai branches, while the number was only 25% in 2002. In the year 2003, Taiwan manufacturers produced twenty million laptops in mainland, while the total number of the laptops produced by Taiwan manufacturers were twenty five million.

Quanta Company is an example of Taiwan enterprises who try to carry out labor division across the strait. Taiwan enterprises ally with some multinational corporations so as to acquire top technologies and enhance their own R&D abilities. To acquire competitive advantage in the international networks, Taiwan government also has no other choice but to encourage this kind of alliance from financial aspect and to aid the Taiwan business communities in enhancing their competitive ability and in strengthening the R&D abilities within the island.

（2） From “Multinational Enterprise” to “Chinese Enterprise”: The localization of Taiwan IT enterprises.

The Taiwan IT enterprises in mainland are no longer purely “Taiwan-like”, instead, they have become half-blood. Those “half-blood” Taiwan enterprises are set as examples by mainland, and the Zhongxin International IC Manufacturing Company discussed in the next passage is a typical example. Taiwan multinational enterprises endeavor to get rid of the control of the Taiwan government through their localization in terms of technology, human resources, and the relationships between politics and business.

Zhongxin International Company, which was established in April 2000, locating in Zhangjiang high-tech Park, Shanghai, is a semiconductor manufacturing company with one billion four hundred and sixty million dollars asset. In order to avoid possible interference by Taiwan government, it registered as an American company. What it did, was not without reasons. Under the great pressure from the business community, Taiwan government finally loosened its control over the semiconductor manufacturing industry based on the principle of “active opening up and effective management”. However, Taiwan enterprises are only allowed to establish three silicon chip manufacturing plants and the technical skill is limited to the production of silicon chips whose size are below eight inch. Besides, all the Taiwan enterprises who have invested in mainland to produce silicon chips below eight inches shall also have new investment projects in Taiwan that produce silicon chips of 12 inches. Taiwan enterprises are forbidden to make investment in mainland to the production of high-tech semi-conductors; instead they are permitted to export to mainland microcircuits of 0.25 micron long which are not so advanced in technology. Since Zhongxin Company is registered as an American company, so it can adopt the 0.13 micron micro-production technology, leaving all its rivals behind. Apart from this, through its strategic alliance with other international IT tycoons, Zhongxin Company had become a multinational company.

Zhongxin International Company also plans to localize its employees, absorbing and training

the local professionals. Many high-ranking engineers of Taiwan have been replaced by engineers from mainland. In the next few years, the persons who take charge of the kernel management teams are possibly from mainland instead of Taiwan. In order to expand its business and lay a sound basis for its business in mainland, Zhongxin International also provides local undergraduates and postgraduates, especially those majoring in IT, with opportunities of internship. If the situation is appropriate, those talents can complete their MA and PhD thesis under the supervision of Zhongxin International Company.

Apart from the Shanghai base and Tianjin infrastructure, Zhongxin Company also establishes a branch in Beijing, which aims at strengthening the company's political and commercial networks and recruiting many fully-competent talents of some of the best Beijing Universities. The plan is to help power the two important bases in Shanghai and Beijing, and at the same time to ensure that major political problems will not be caused during its operation.

In China mainland, the power of governments is expanded from the central government to local governments in coastal cities. At present, governments of Guangdong Province and Shanghai play extremely important roles in meeting the economic demands of the foreign investors, inferior only to the central government. In order to adapt themselves to this trend, many local governments have strengthened their R&D abilities, reaching alliances with Zhongxin Company to enhance the competitive ability of local IT departments. For example, the state-level IC design and production base located in Shenzhen is one of the seven bases established under the approval of relative governmental departments in December 2001. It began to function in April, 2003. The development of Zhongxin International Company in mainland had always something to do with such kinds of local backgrounds.

（3）Governmental Motives, Local Governments and Quasi-governmental Organization

Taiwan enterprises proposed a set of globalization and localization strategies when they began to tap the mainland market. Faced with those facts, Taiwan government has to abandon the traditional managing method and adapt its own role in managing the cross-strait economy. Just

as we have said above, those who advocate that China should transit to be a development-oriented country, say that governments should give full support to such a kind of international alliance so as to enhance the competitive ability in the international market. Governments of this kind engage themselves in facilitating the alliance between public service sectors and private sectors and in helping private sectors enter international markets through providence of necessary infrastructures and R&D conditions.

A good example is the plan carried out by Taiwan “Economic Department”. It plans to enhance the R&D ability of Taiwan enterprises and to form a comprehensive structure of labor division across strait in the process of designing and manufacturing. Economic Department of Taiwan plans to spend one hundred billion TWD (about two point nine billion dollars) in establishing six R&D groups in Taiwan within five years. This move aims at the formation of high-tech industrial center on the basis of those R&D groups. Economic Department estimates that by 2006, at least 30 multinational enterprises will establish regional R&D center in Taiwan and form R&D teams with local enterprises. Economic Departments, local enterprises as well as the multinational enterprises have jointly organized 15 R&D alliances, and plan to establish 60 more similar ones by 2006. Economic Department of Taiwan plans to encourage foreign and local enterprises to establish R&D centers through reduction on tariffs, subsidies to R&D, and providence of low interest debts.

Quanta Company, in order to strengthen its designing ability in Taiwan, applies to Taiwan government for support of its R&D activities. Quanta Company needs 100 acres for its new manufacturing plant, and the “National Science Committee” of Taiwan has found an appropriate site for it in Taoyuan.

Another example is the project carried out by Hon Hai in Tai Bei County. The importance of Hon Hai case lies in that we can see from it that Taiwan government tries its best to retain those companies with powerful R&D abilities within Taiwan. Hon Hai is one of the earliest electronic companies which explored mainland market. It is estimated that 90% of its net profits are acquired from its business in mainland at present. In the first half of the year 2003, the after-tax revenue of Hon Hai was ten billion TWD, 67% of which came from its mainland business. It is a necessary strategy that Taiwan government retains headquarter and R&D department of Hon

Hai in Taiwan.

In 2003, Hon Hai decided to establish its new global operating headquarter together with its R&D department in Taibei County. However, Hon Hai failed in its negotiation with local governors. At that time, Hon Hai intended to reduce and even cancel the original plan. But with the strong support from Economic Department, it finally fulfilled its plan and started to construct a scientific park. Because of the compromises made by both parties, both Economic Department and Taibei County didn't have to face the ambiguities brought by the withdrawal of Hon Hai.

It seems that the conditions provided by Shanghai government are more competitive, including a parcel of land for building with paved roads, free photon-cable, water, electricity, gas and other infrastructure. And also, Shanghai government had improved the conditions of a Golf playground near the site of Hon Hai. Compared with this, Taibei County only promised to give Hon Hai some preferential policies in terms of the duty. Shanghai is capable of offering companies like Hon Hai, more attractive conditions, which is a fierce challenge to Taiwan government who adopts such a policy as confining those enterprises within Taiwan.