

**Taiwan's economic diplomacy  
towards ASEAN**

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### *Taiwan's economic diplomacy*

Taiwan's economic diplomacy has been a function of its search for acceptance as a separate political entity from mainland China. This search for recognition and status was initiated while Lee Teng-hui was President from 1988-2000. Under President Lee Taiwan sought to exploit the margin of de facto independence Taiwan was allowed by the international community with the intention of either elevating its status into something more permanent, or acquiring greater bargaining power with Beijing.<sup>1</sup> The campaign for international space was one outcome of the democratisation process that had been set in train when Chiang Ching-kuo was president from 1975 until his death in 1987. With democratisation came a transformation of politics as the government was obliged to respond to majority or Taiwanese demands. The Taiwanese have called for international recognition of their identity which was suppressed under the mainlander rule of the Kuomintang until the Taiwanese Lee emerged as President in 1988.<sup>2</sup> Consistent with Lee's policy of gaining greater status for Taiwan his government in September 1993 announced the intention of joining the UN. The White Paper, released on 5 July 1994, stipulated that Taiwan would not compete with Beijing for the right to represent China but called for recognition of the existence of two political entities, each with a separate jurisdiction over China. It rejected the idea of subordinate status with Beijing as well as the "one country two systems" formula that had been applied in the case of Hong Kong.<sup>3</sup>

The ASEAN countries had a special place in Taiwan's campaign for greater international recognition, which deserves special mention. Taiwan targeted states that were dependent upon FDI and which were economically vulnerable in which case investment may enhance political influence. In 1994 only 28 countries recognised Taiwan but the number increased to 29 by October 2000. Countries that had recognised Taiwan like Guinea-Bissau until 1998, or Papua-New Guinea

until 1999 were distant from China and were willing to trade diplomatic recognition for economic assistance. Taiwan's economic diplomacy towards ASEAN was inaugurated when Premier Lien Chien in January 1994 visited Malaysia and Singapore in an attempt to obtain support against Beijing. In February 1994 President Lee visited the Philippines where he had lunch with President Ramos; in Bali he met Indonesian President Suharto and Research and Technology Minister Habibie but in Thailand Prime Minister Chuan Leekpai cancelled plans to meet him and he was met by Deputy Premier Amnuay Virawan.<sup>4</sup> Lee stressed that the mainland must accept the existence of "two political entities" which he avoided defining more clearly while Beijing accused him of adopting a two-China policy<sup>5</sup>. Certainly the Taiwanese hope was that ASEAN might be receptive to a political relationship which would allow Taiwan to become an ASEAN dialogue partner, following the path of Beijing, India, Russia and South Korea.<sup>6</sup> The objective was closer cooperative relations with ASEAN on the basis, as a Taiwanese commentary put it, that Taiwan is a force in East Asian commerce which has been "disenfranchised" from the East Asian international order, and should be involved in ASEAN dialogue.<sup>7</sup>

Taiwan's economic and investment relations with the region supported the political purpose of encouraging greater recognition of its status. The more extensive those relations the greater the political pressure that Taiwan's leaders may hope to bring to bear upon the region to accommodate the demand for recognition. Taiwan's economic links with the ASEAN region had developed as a consequence of a number of factors, the most salient being the appreciation of Taiwan's currency the New Taiwan Dollar in 1986 as the result of which some \$85 billion in overseas reserves had been accumulated.<sup>8</sup> To relieve the pressure for revaluation of its currency Taiwan was compelled to invest abroad while competitiveness had been weakened by high labour costs. Labour intensive industries were compelled to relocate to new production bases in Southeast Asia, a region which was regarded as having a complementary relationship with Taiwan.<sup>9</sup>

Taiwan has had a particular interest in the cheap labour resources of Thailand, Malaysia and Indonesia to the extent that concerns were raised about the "hollowing out" effect of Taiwanese companies.

Taiwan's economic diplomacy towards ASEAN was also intended to avoid excessive dependence upon China and to diversify economic and commercial ties; in 1993 66.5% of Taiwan's investment went to China while 26% was directed towards ASEAN.<sup>10</sup> Nonetheless, as Taiwanese Vice Minister for Economic Affairs Lee Shu-jou predicted, Taiwanese investors could not avoid the attraction of China and investment in Southeast Asia declined in relative terms after 1994 as capital flowed to the mainland via Hong Kong.<sup>11</sup> In 1999 Taiwanese investment in ASEAN fell to 20% of total investment. ASEAN, however, remained an important market for Taiwan's products and in terms of textile and apparel exports was the third largest market, after Hong Kong and the US, taking 14% of Taiwan's textile exports.<sup>12</sup> When Taiwan's economic diplomacy was promulgated in 1994 ASEAN took 20% of Taiwan's exports of metal working machinery, slightly less than the US with 20.3%. ASEAN accounted for 22% of Taiwan's plastics processing machinery exports, and 12% of Taiwan's exports in general while the US share was 19%.<sup>13</sup> Small and medium sized firms were at the forefront of Taiwanese investment into the region each seeking individual benefit with little co-ordination, unlike the situation with Japanese companies. There was accordingly no overall strategy in Taiwanese FDI just a strategy of survival for the firms involved.<sup>14</sup>

Taiwan approved FDI in ASEAN				
	1952-96 US\$ billions	1997 US\$ millions	1998 US\$ millions	First half 1999 US\$ millions
Total	35.2	641	478	326
Indonesia	8.6	56	20	-
Malaysia	7.6	85	20	11
Thailand	6.8	56	131	19
Philippines	5.2	127	39	10
Vietnam	4.0	85	110	25
Singapore	3.0	320	158	260

Sources: *Business Times* 9 December 1996; *Statistics of Foreign Direct Investment in ASEAN*, 1999 edition, ASEAN Secretariat, Jakarta, 1999.

### ***Assessing Taiwan's economic diplomacy***

What has been the impact of Taiwan's economic diplomacy upon the region? The results of this study show that economics is subordinated to politics in state to state relations and that much depends upon the political relationship that individual countries have developed with Beijing. ASEAN countries strictly observe the "one China" principle as defined by Beijing and regard Beijing's dispute with Taiwan as a domestic Chinese issue for the most part. Proximity to the mainland has made the ASEAN countries extremely reluctant to challenge Beijing in any way and past history has made them wary of Chinese intervention. In cases where ASEAN countries have very close relations with the mainland or are in no position to challenge Beijing for whatever reason economic diplomacy has had few results. In these cases economics has been separated from politics and despite the evident economic benefits of the relationship they have not been translated into political gains for Taiwan. Thailand, Vietnam and Malaysia fall into this category. Outside this category are countries which have benefited from economic ties with Taiwan and may adopt a more accommodating position in relation to its de facto

separation from the mainland, each for different reasons. Amongst these countries Taiwan's economic diplomacy has had the effect of strengthening interest in the status quo which may undermine the practical implementation of the one China policy. These countries include Singapore, the Philippines and Indonesia

### **Thailand**

Thailand's trade with Taiwan has been consistently greater than with the PRC and Thailand has been one of the preferred destinations for Taiwanese FDI within ASEAN. Thailand was second in ASEAN in terms of FDI received from Taiwan in 1998, though investment levels have declined since that year. Taiwanese business has been attracted by Thailand's cheap labour and has targeted textiles and electrical appliances.<sup>15</sup> Nonetheless, in Thailand's case business and commercial ties have been clearly separated from the politics of the relationship with Beijing and have had a negligible impact upon the Thai government's attitude. Of all the ASEAN countries Thailand has had the most consistently pro Beijing policy which has roots in the country's past tributary relationship with China, and its recognition of China's significance for Thailand's security.

Thailand's trade with PRC and Taiwan							
US \$ billions							
	1993	1994	1995	1996	1997	1998	1999
Export to PRC	0.430	0.930	1.642	1.868	1.744	1.769	2.304
Imports	0.905	1.388	2.096	1.953	2.260	1.822	1.695
Total	1.335	2.318	3.738	3.831	4.004	3.591	3.999
Exports to Taiwan	0.738	0.983	1.354	1.421	1.565	1.743	2.280
Imports	2.336	2.759	3.421	2.950	2.861	2.240	2.469
Total	3.074	3.562	4.775	4.371	4.426	3.983	4.749

Source: *IMF Direction of Trade Statistics*.

### Vietnam

According to official statistics Vietnam's trade with Taiwan has regularly exceeded that with the mainland. Nonetheless these statistics do not take into account border trade and smuggling operations condoned by regional and local party officials between Vietnam's northern provinces and China's southern provinces. Imports from China should be markedly greater than what may be revealed by official statistics. Taiwanese investment which has, in the main, flowed into small and medium sized projects involving electronics and computer parts manufacturing in Ho Chi Minh City. The products of these projects have been exported to other ASEAN countries for the assembly of consumer goods. Once again, cheap labour and the low costs of supporting infrastructure were cited by Taiwanese business as the main reasons for investing in Vietnam.<sup>16</sup> Taiwanese investment has had little impact on Vietnam's relationship with the PRC which is a product of its geopolitical position and the constant necessity to take Beijing's

concerns into account. After a decade of conflict with the PRC over the Cambodian issue Vietnam normalised relations with Beijing in 1991 and its leadership has no intention of provoking its northern neighbour by supporting Taiwanese claims. For Vietnam as well economics and politics are separated in relation to Taiwan.

Vietnam's trade with PRC and Taiwan US \$ billions							
	1993	1994	1995	1996	1997	1998	1999
Exports to PRC	0.136	0.296	0.362	0.340	0.474	0.198	0.322
Imports	0.086	0.144	0.330	0.329	0.404	1.126	1.060
Total	0.422	0.440	0.692	0.669	0.878	1.324	1.382
Exports to Taiwan	0.142	0.220	0.439	0.540	0.815	0.312	0.353
Imports	0.218	0.396	0.901	1.263	1.485	1.335	1.476
Total	0.360	0.616	1.340	1.803	2.300	1.647	1.829

Sources: *IMF Direction of Trade Statistics*.

### Singapore

Singapore has been deeply engaged economically with both mainland China and Taiwan and has more at stake in these relationships than any other ASEAN country. Its endorsement of the one China policy is qualified accordingly. Singapore's predominantly Chinese community strongly identifies with the idea of "one China" and any effort to divide this civilisational entity is regarded with disbelief. Nonetheless, Singapore's economic relationship with Taiwan induces its leadership to accept the status quo of a divided China. Any effort by Beijing to terminate that division may bring with it the risk of conflict and would immediately have repercussions of the kind that Singapore would strive to avoid.

Singapore was the number one destination for Taiwanese investment in the region in 1997 and 1998 as Taiwanese companies searched for more secure investment areas. Singapore's trade with Taiwan has regularly exceeded that with the PRC and the mutual interest in high technology and information industries would bind the economies more closely in the future. Nonetheless, trade with the mainland is likely to become more important for Singapore, as high technology and computer industries are developed there. Trade with the PRC and Taiwan represented a small component of Singapore's total trade rising from 4% for mainland China and 6% for Taiwan in 1991 to around 7% for both in 1999.

In relation to the mainland former Prime Minister Lee Kuan Yew surmised that China's economic transformation would give Southeast Asia an additional 1-2% of economic growth which was an incentive for local business to develop commercial links with the mainland.<sup>17</sup> Singapore initially viewed itself as the gateway to mainland China with a Promotion and Protection of Investment Agreement [PPIA] which was signed with Beijing in 1985. The intention was that Western as well as Taiwanese firms could use a Singapore holding company to manage their investments in mainland China. Trade with the PRC grew rapidly after diplomatic relations were normalised in October 1990 and by 1997 Singapore's trade with the mainland accounted for around one third of ASEAN's trade with that country. Singapore in 1999 became mainland China's fourth most important investor after Hong Kong, the US and the tax haven Virgin Islands which sheltered Taiwanese firms; it was China's seventh largest trading partner, a tribute for a country of Singapore's size.

Singapore's trade with PRC and Taiwan US \$ billions							
	1993	1994	1995	1996	1997	1998	1999
Exports to PRC	1.905	2.098	2.759	3.395	4.053	4.065	3.920
Imports	2.404	2.885	4.042	4.439	5.668	4.851	5.697
Total	4.309	4.983	6.801	7.834	9.721	8.961	9.617
Exports to Taiwan	1.876	3.894	4.813	4.872	5.627	4.739	5.594
Imports	3.381	3.936	5.116	5.267	5.548	3.893	4.452
Total	6.057	7.830	9.926	10.148	11.175	8.632	10.046

Sources: *Singapore's Trade Statistics: Imports and Exports*, Trade Development Board. *IMF Direction of Trade Statistics*

Singapore developed a number of industrial ventures in China utilising its advantage in managerial skills. Joint ventures were developed in Shandong, Hubei, Sichuan, Sanlin township in Shanghai, and Dalian container terminal. The most prominent project was the Suzhou Industrial Park which bound Singapore closely with the mainland and was intended to be a demonstration of how mainland development could be promoted. Operations commenced in 1994 requiring an eventual \$128 million of Singaporean investment with the intention of attracting Western and Japanese companies into manufacturing ventures in China. The venture faltered as it faced competition from the Suzhou New District which had been established in 1989 by local provincial authorities and who could offer land to foreign investors at cheaper rates. Singapore had negotiated directly with Beijing when establishing Suzhou and had neglected to involve provincial authorities on the assumption that central authorities would control provincial. It was a shock for Singaporeans to discover that Beijing could not control provincial authorities,

which according to Suzhou Mayor Chen Deming revealed the cultural differences between Chinese and Singaporeans.<sup>18</sup>

Singapore's investment relations with Taiwan were less ambitious. There was the dual listing of the stock exchanges to take advantage of the same time zone, which was announced in October 1998. Taiwanese holding companies had intended to set up a regional presence in Singapore by listing on the local stock market. Singapore hoped to be a replacement for Hong Kong after its return to the mainland on 1 July 1997 as Taiwanese firms used Hong Kong as a base to invest in China. The Taiwanese government was encouraging companies to move from Hong Kong to Singapore which held out the prospect of Singapore becoming the financial centre for Taiwanese companies operating in ASEAN. This hope was jeopardised by changes in Taiwanese tax regulations which induced many Taiwan firms to relocate in tax havens such as the Cayman and the Virgin Islands. Taiwanese firms had intended to benefit from Singapore's tax treaties with China which would eliminate the need for them to pay tax in Singapore. The Taiwanese finance ministry, however, levied new taxes on investments on the mainland which removed this advantage.<sup>19</sup>

### **Malaysia**

Malaysia under Mahathir has strongly supported the PRC which has been a product of the Prime Minister's ideological conflict with the West as well as a realistic assessment of China's future role in the region. Mahathir's ideological rebellion against the West related to his concern about the negative effects of globalisation and all the accompanying social ills which in Mahathir's view threatened to destroy Asian societies. Mahathir has forged an ideological alignment with China that in many respects was a product of his own personal animosities and may not reflect Malaysia's interests in the future. In recognition of the importance of Taiwan for Malaysia the rhetoric of alignment with Beijing may be toned down considerably after Mahathir steps down. In the future trade and

investment relations with Taiwan may pull Malaysia towards a more balanced position between Beijing and Taiwan within the parameters of the one China policy.

A discrepancy exists in Malaysia's case between its pro Beijing position and its economic relationship with Taiwan which has expanded over the years. Mahathir laid great stress upon economic and trade ties with China according to the idea that China was a "locomotive" of growth for the region. Despite these hopes and the many visits by Malaysian business delegations to China, Malaysia's trade with China has remained insignificant and has been outstripped by trade with Taiwan. Trade with China has hovered around the 2.6-2.8% of total trade and actually decreased slightly as Malaysian exports to the US and Europe increased.

Taiwan was the largest investor in Malaysia over 1990-91 as Taiwanese firms used Malaysia as a useful base for manufacturing computer component parts. Taiwanese investment in Malaysia in 1986 reached \$50 million, peaked at \$441 million in 1991 and declined to \$65 million in 1993 as Taiwanese business turned towards mainland China. Taiwanese investment in Malaysia went mainly to small business projects in electronics, basic metals, chemicals and textiles. The reasons given for investing in Malaysia included cheap labour, local market potential and the appreciation of the Taiwanese currency.<sup>20</sup> Malaysia introduced new rules that encouraged investment into high technology ventures and which were intended to direct investment away from labour intensive manufacturing. In particular, Malaysia intended to attract Taiwanese investment into the Multi Media Super Corridor [MSC] which was Malaysia's high technology venture. Taiwanese Premier Lien Chien visited Kuala Lumpur in March 1998 indicating an interest in expanding investment into Malaysia in the aftermath of the financial crisis. A devalued currency and a fall in property prices made Malaysia attractive and in certain areas, such as the Penang industrial parks, the Taiwanese presence has been dominant.<sup>21</sup> Taiwanese investment in Malaysia in 2000 outpaced US and Japanese investment and predictions were that Taiwan would become Malaysia's most important investor, particularly in electronics and computer related areas.

Malaysia's trade with PRC and Taiwan US \$ billions							
	1993	1994	1995	1996	1997	1998	1999
Exports to PRC	1.204	1.933	1.889	1.882	1.852	1.994	2.318
Imports	1.096	1.363	1.709	1.876	1.923	1.849	2.139
Total	2.300	3.356	3.598	3.758	3.775	3.843	4.457
Exports to Taiwan	1.511	1.754	2.280	3.212	3.471	3.018	3.858
Imports	2.447	3.043	3.952	3.905	3.785	2.975	3.489
Total	3.958	4.797	6.232	7.117	7.256	5.993	7.347

Sources: *External Trade Statistics; Tables and Summaries*, Department of Statistics, Malaysia; *IMF Direction of Trade Statistics*.

### The Philippines

The Philippine relationship with the PRC has been troubled by China's occupation of Mischief Reef in the South China Sea which was revealed in 1995. The Chinese intrusion into the Philippine claim area was seen as betrayal by Filipinos who had expected a harmonious relationship with Beijing after the closure of US bases in 1991-92. Since 1995 PRC structures on this and other reefs have been strengthened and augmented creating the impression of a well-prepared strategy to take advantage of Philippine weakness. Within the Philippine security establishment the notion of the "China threat" has taken hold and served as a justification for the Senate's approval of the Visiting Forces Agreement [VFA] with the US in May 1999. While VFA may not serve as a means to balance China in the South China Sea it will allow Philippine forces to train with their American counterparts on a regular basis. Under this arrangement the possibility of US

involvement in the South China Sea cannot be dismissed by the PRC, which may have a restraining effect upon Chinese moves.

If ever there was a conflict between the US and the PRC over Taiwan the Philippines may incline towards the US. The Philippines might conceivably side with their American allies should the US decide to support Taiwan against an aggressive move from the PRC. For the Philippines Taiwan has been considerably more important economically than mainland China and Filipinos have developed an appreciation of Taiwan's democratisation which is contrasted with the authoritarian regime on the mainland. The economic relationship with Taiwan and the PRC's perceived disrespect for human rights may strengthen the inclination to seek US support. This would be particularly so if the situation were cast in terms of the defence of Taiwanese democracy against the communist predator from across the Straits.

Philippine trade with mainland China has remained around 1.8% of the Philippine total trade while trade with Taiwan constituted around 5% of total trade. With both countries the Philippines maintained a slight trade deficit; the principal exports for China being fuel, natural gas and petroleum and for Taiwan semiconductors, electrical machinery, data processing equipment and computer parts. Taiwan was the number three export market for Philippine semiconductors, after the US and Japan, which accounted for 80% of total exports to Taiwan.<sup>22</sup> Taiwan, however, has been economically important for the Philippines for reasons other than trade. Taiwanese companies have shown an active interest in manufacturing ventures in the Philippines, particularly in Subic Bay Freeport taking 40% of total investment there or \$250 million since 1992.<sup>23</sup> Taiwanese companies that have established manufacturing ventures in Subic Bay include Acer Corporation and the plastics firm Hokei. On 1 October 1999 Taipei suspended Taipei-Manila flights because of a dispute over a bilateral air services pact. This dispute affected Taiwan's investment plans relating to a \$600 million joint venture oil refinery project which was an important factor in the resolution of the dispute in

Taiwan's favour.<sup>24</sup> Taiwan absorbs significant numbers of Philippine workers for temporary employment contributing to remittances upon which many Filipino families depend. Out of a total of 200,000 contract workers which have been sent abroad some 120,000 are located in Taiwan. Indeed, in Philippine Congress there is also a Taiwan lobby which during the Aquino presidency pushed for its own version of the Taiwan Relations Act to justify the development of beneficial trade and commercial ties with that country.<sup>25</sup>

Philippine trade with PRC and Taiwan US \$ billions							
	1992	1993	1994	1995	1996	1997	1998
Exports to PRC	0.114	0.167	0.164	0.209	0.328	0.244	0.344
Imports	0.184	0.182	0.320	0.660	0.653	0.972	1.326
Total	0.298	0.349	0.484	0.869	0.981	1.216	1.670
Exports to Taiwan	0.287	0.346	0.452	0.568	0.661	1.169	1.757
Imports	0.960	1.031	1.270	1.537	1.582	1.923	1.493
Total	1.247	1.377	1.722	2.105	2.243	3.412	3.250

Sources; *Foreign Trade Statistics*, National Statistics Office, Republic of The Philippines, Manila, *IMF Direction of Trade Statistics*.

### Indonesia

Indonesia has had a difficult relationship with the PRC since it was accused by the military of involvement in the attempted coup against Sukarno of October 1965. The Indonesian military regarded the PRC as a threat to the region and broke off diplomatic relations which were only restored in August 1990. For the Indonesian military Taiwan represented an acceptable non communist China that could be an ally rather than a threat. Though the political relationship between

Indonesia and the PRC improved subsequently residual suspicions remained on the Indonesian side. Indonesia continued to maintain relations with Taiwan and because of its size and regional weight was granted special consideration by Beijing which desisted from open criticism. For this reason Lee Teng-hui could meet President Suharto in Bali in February 1994 during his visit to the region to inaugurate Taiwan's economic diplomacy. Lee also met President Ramos of the Philippines during this tour while other ASEAN leaders were concerned about Beijing' reactions and avoided scheduling meetings.

Within Indonesia it has been claimed that Jakarta has followed a one China policy politically but a two China policy economically in view of the economic importance attached to Taiwan. Nonetheless trade with mainland China overtook trade with Taiwan in 1996 and China has emerged as an expanding market for Indonesian exports, particularly for plywood for which China has been Indonesia's second largest market. Taiwan remains Indonesia's 6<sup>th</sup> trading partner and has been Indonesia's third market for natural gas after Japan and Korea, and Indonesia's second market for coal; Taiwan has been Indonesia's fifth investor, after the Japan, UK, Singapore and Hong Kong, with an accumulated \$9 billion in 1999. Here the mainland cannot compete with Taiwan. Taiwanese investment has been directed to the pulp and paper production industries [\$10.6 billion], trade, real estate and fisheries [\$5 billion]. And textile and apparel industries [\$1.1 billion].<sup>26</sup> The main reasons for investing in Indonesia include cheap labour, good potential for expansion in the local market, and the comparatively low cost of land and energy resources.<sup>27</sup> Taiwanese investment in Indonesia fell by 76% in 1998 following the anti Chinese riots of May and the Taiwanese government advised businesses to consider closing their investments in that country.

Indonesia's trade with PRC and Taiwan US \$ billions							
	1993	1994	1995	1996	1997	1998	1999
Exports to PRC	1.249	1.322	1.742	2.057	2.229	1.832	2.774
Imports	0.936	1.369	1.495	1.598	1.518	0.906	1.957
Total	2.185	2.691	3.237	3.655	3.747	2.738	4.731
Exports to Taiwan	1.436	1.647	NA	1.609	1.797	1.725	2.083
Imports	1.316	1.455	NA	1.664	1.591	0.995	1.428
Total	2.752	3.102	NA	3.273	3.388	2.720	3.511

*IMF Direction of Trade Statistics.*

Taiwanese business groups have been restrained from moving into Indonesia by the anti-Chinese measures introduced in the late 1960s and called for an improvement of business conditions and adequate legal protection.<sup>28</sup> The anti Chinese riots of May 1998 were a shock to the Taiwanese who called for special security protection in Indonesia. Since 1998, however, Taiwanese business has become more optimistic about investment opportunities in Indonesia as currency depreciation made labour cheap, particularly in the electronics sector. President Abdurrahman Wahid's efforts to remove the discriminatory measures against the Chinese may result in an expansion of Taiwanese business interest in Indonesia and a corresponding increase in investment providing that Indonesia will implement the necessary reforms.

### ***Conclusions***

What have been the results of Taiwan's economic diplomacy towards ASEAN? In terms of intended effects the results have been unsurprisingly negligible as the Southeast Asian countries are in no position to accord Taiwan the

kind of status it has been seeking. From the outset it was clear that the regional countries would not provoke the wrath of Beijing in which case the Taiwanese government could expect little satisfaction from its approaches. Proximity to mainland China and the resultant importance attached to the maintenance of cordial relations with Beijing act as constraints upon regional policies in that respect. While there may be some appreciation of Lee Teng-hui's search for international status within pro Taiwanese circles in Indonesia and the Philippines an open challenge directed against Beijing's one China policy can be excluded.

Taiwan is, no doubt, of particular economic and commercial importance for the region. In most cases ASEAN countries trade more with Taiwan than with China, the Philippines and Malaysia being clear cases of greater trade dependency upon Taiwan despite the hopes attached to the mainland China market. Only in Indonesia's case, and perhaps in Vietnam's case as well, has trade with the PRC outstripped trade with Taiwan. Taiwanese investment particularly in the information industries and in semiconductor manufacturing is much in demand and as the information industries develop in these countries will become even more important. In certain investment areas and high technology parks such as Penang and the MSC in Malaysia, or in Singapore, Taiwanese participation has been stressed.

Taiwan's economic diplomacy has at least identified the discrepancy that has developed between its economic value and its formal relationship with the region. This discrepancy has become troubling as Taiwan is more important to the region than several existing economic dialogue partners of ASEAN, Russia and New Zealand for example. The most that Taiwan could hope for in terms of its economic diplomacy is that commercial benefit may incline ASEAN to allow Taiwan the status of an economic dialogue partner. A related possibility is the establishment of a negotiating mechanism with Taiwan commensurate with its economic importance to the region. ASEAN countries may be unwilling to grant the desired status to Taiwan individually but the adoption of the APEC formula, may be a

precedent for the future. The PRC and Taiwan were able to join APEC together under a formula negotiated in 1991 which allowed for participating economies. In the future when PRC and Taiwanese membership of the WTO has been decided ASEAN may venture to accord Taiwan a similar status as a dialogue economy. While regional governments are reluctant to negotiate directly with Taiwan for fear of offending the PRC collective negotiations at the regional level which would satisfy business needs would make sense. Taiwan's Foreign Minister Tien Hung-mao has stressed the need for "multilateral dialogue" with ASEAN and has called attention to the need to expand dialogue and co-operation with the ASEAN countries.<sup>29</sup> If Taiwan desisted from raising the issue of international status in its economic diplomacy and focussed more on functional economic and investment issues in its relations with ASEAN perhaps it would be more successful in establishing the desired dialogue mechanism.

## Endnotes

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- <sup>25</sup> Associate Professor Aileen Baviera, Asian Center, University of the Philippines, 27 July 2000.
- <sup>26</sup> Ibid.
- <sup>27</sup> Mari Pangestu, "Taiwanese Investment in Indonesia," in Tain-sy Chen [editor] *Taiwanese Firms in Southeast Asia: Networking Across Borders*.
- <sup>28</sup> *Jakarta Post*, 24 July 1992.
- <sup>29</sup> "Incoming Foreign Minister Wants Closer ASEAN Ties," *Taipei Times*, 12 May 2000 [at [www.taipeitimes.com](http://www.taipeitimes.com)]